



## Financial Supply Chain — the Time is Now



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While interest in the financial supply chain had been growing for some years, the recent economic crisis saw these solutions come into their own. Difficulties in accessing capital markets, and the heightened premium that was therefore placed on efficient working capital and liquidity management, have led to a surge in corporate enthusiasm for this discipline — something that has not abated since the return of relatively stable economic conditions.

Coupled with these developments has been the inexorable rise of global sourcing as physical geography has become less of a barrier to trade, as well as the trend away from using documentary methods — such as letters of credit (LCs) — of trade-risk mitigation. And these factors have all combined to make this an ideal time for corporates to take a more holistic and integrated approach to their financial supply chains.

### **Growing Take-up**

As well as the circumstances described above, adoption is also being driven by the breakdown of many of the traditional barriers to take-up. For example, financial supply chain solutions now receive much more favourable legal and accounting treatment in many jurisdictions, and a certain amount of cynicism regarding their effectiveness has been removed by evidence that they performed well under the recent poor economic conditions.

A perceived difficulty in implementing such programmes has presented problems. Effective financial supply chain management often requires the explicit buy-in of a range of actors — both within the corporate in question and external — and achieving this can be daunting. However, specialist providers such as Deutsche Bank have years of experience in implementing such solutions and can assist in negotiating between stakeholders and eliminating potential conflicts of interest as early in the process as possible.

With regards to external actors — such as suppliers — achieving buy-in frequently revolves around the ability to offer sufficient benefits to persuade corporates to move away from existing systems. Indeed, as the sophistication of these solutions has increased, so have

the potential benefits to trading partners — often based on interest rate arbitrage, leveraging the disparity in credit rating between large buyers and their smaller suppliers. In this respect, banks and their clients are now much more able to make a cogent business case for trading partners to integrate financial supply chain solutions into their value chain.

### **Specialist Providers**

From a provider's perspective, financial supply chain remains an exciting practice area, as the sophistication of solutions continues to develop and new developments in IT broaden the horizons of what is possible. Progress is continually being made — Deutsche Bank, for example, has recently made the onboarding process quicker and easier — as new products are brought to market and more innovative structures developed to bring a broader range of investors into this rapidly growing sector. In this context, scalability and efficient implementation are key for the overall success.

However, remaining at the forefront of this market comes at a cost. Such a rapidly changing and IT-driven discipline demands continual investment in systems and expertise, something that is likely to be beyond the reach of many providers.

For example, Deutsche Bank is currently developing a new generation of its own platform for the financial supply chain that uses key "trigger points" to initiate offers of financial and bespoke risk-mitigation services. Additionally, a new streamlined legal FSC documentation will be introduced covering both supplier financing and account receivable financing programmes. This documentation has been built in a modular structure and can be customised on client's needs and applicable jurisdictions. It's another milestone toward implementing comprehensive international cash and trade solutions efficiently.

Size and scale remain key to this business, allowing providers to invest in new systems which can service clients' global trade needs and to generate sufficient economies of scale so that they can offer these products and solutions to clients at a competitive price.