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MEDIA BRIEFING

Digitalisation key to unlocking finance

Buyers and suppliers alike can benefit from the greater transparency and coordination facilitated by the digitalisation of supply chain finance platforms

Digitalisation will be key in encouraging the adoption of supply chain finance solutions in the near-term, according to Reda Ezzat, senior vice-president – head of trade and structured finance at Mashreq Bank.

"With optimisation and transparency as key objectives, digitalisation has allowed us to make a stronger case for the need to adopt supply chain finance," says Ezzat.

AT A GLANCE

- Global study indicates $1tn gap between available supply chain finance and funds in use.
- Digitalisation of supply chain finance solutions can help unlock opportunities for both buyers and suppliers
- It enhances visibility and transparency for all those involved, creating greater trust
- Key drivers of such solutions include lenders, fintech providers and buyers
- Digital supply chain finance solutions are expected to constantly evolve in keeping with market requirements

Driven by both banks and corporate businesses, digital supply chain finance solutions have risen in relevance in recent years.

Studies conducted by McKinsey Global Company in 2020 highlight that more than 60 per cent of the total addressable trade finance market is concentrated in supply chain finance, both supplier-led and buyer-led.

McKinsey further estimates that the potential market for supply-chain finance stands at $17tn. The global gap in trade finance, however, further widened by the Covid-19 pandemic, could hamper access to this pool.

Tapping into supply chain finance

Across 2020-2021, the pandemic has affected the liquidity of businesses. Small and medium-sized enterprises (SMEs) have struggled, given their limited access to multiple financing options.

Operational costs rose during this period, while delays in the supply chain only added to the woes.

In such a setting, the relevance of supply chain finance has multiplied. Treasurers have turned to trade finance instruments to improve working capital for both themselves and their suppliers.

Supply chain finance allows corporate buyers to secure inventory and improve cash conversion cycles by extending payment terms. And it enables greater certainty for suppliers, who can leverage their buyers' relationship with banks to their benefit.

The progression of supply chain finance involves several steps, people and processes, which if left to manual routes

BANKS	• Profitable product underpinned by technology • Requires fewer resources (time, cost, manpower) to manage processes • Easier to on-board suppliers, monitor, analyse credit risk, etc. • Competitive advantage
BUYERS	• Ease of on-boarding and processing a multitude of suppliers and invoices • Real-time visibility • Integration with ERP systems
SUPPLIERS	• Self-onboarding • Removal of paper-based processes • Rapid access to funding (if approved)

Digital supply chain finance platform benefits for banks, buyers and suppliers (Source: MEED, Mashreq) can prove to be time-consuming and rigid.

"A manual approach to supply chain finance can quickly become entrenched in doing things 'the same old way'," says Ezzat. "It leaves little room for innovation, especially for larger organisations that already have a lot to deal with and may not want to invest efforts in exploring other avenues."

Like its impact on digital technologies in nearly all sectors, Covid-19 has contributed to the ramping up of digitalisation in supply chain finance.

"Supply chain finance has been around for a while, but it's really digitalisation of the process that has been the gamechanger," says Ezzat. "The technology has managed to make the product much more viable, especially for corporates with deep and diversified supply chains."

Nearly $1.8tn of supply chain finance is available globally, while only $713bn is currently in use.

"There is a clear gap that we think can be diminished through the use of digital solutions in optimising the access to and implementation of supply chain finance products," says Ezzat.

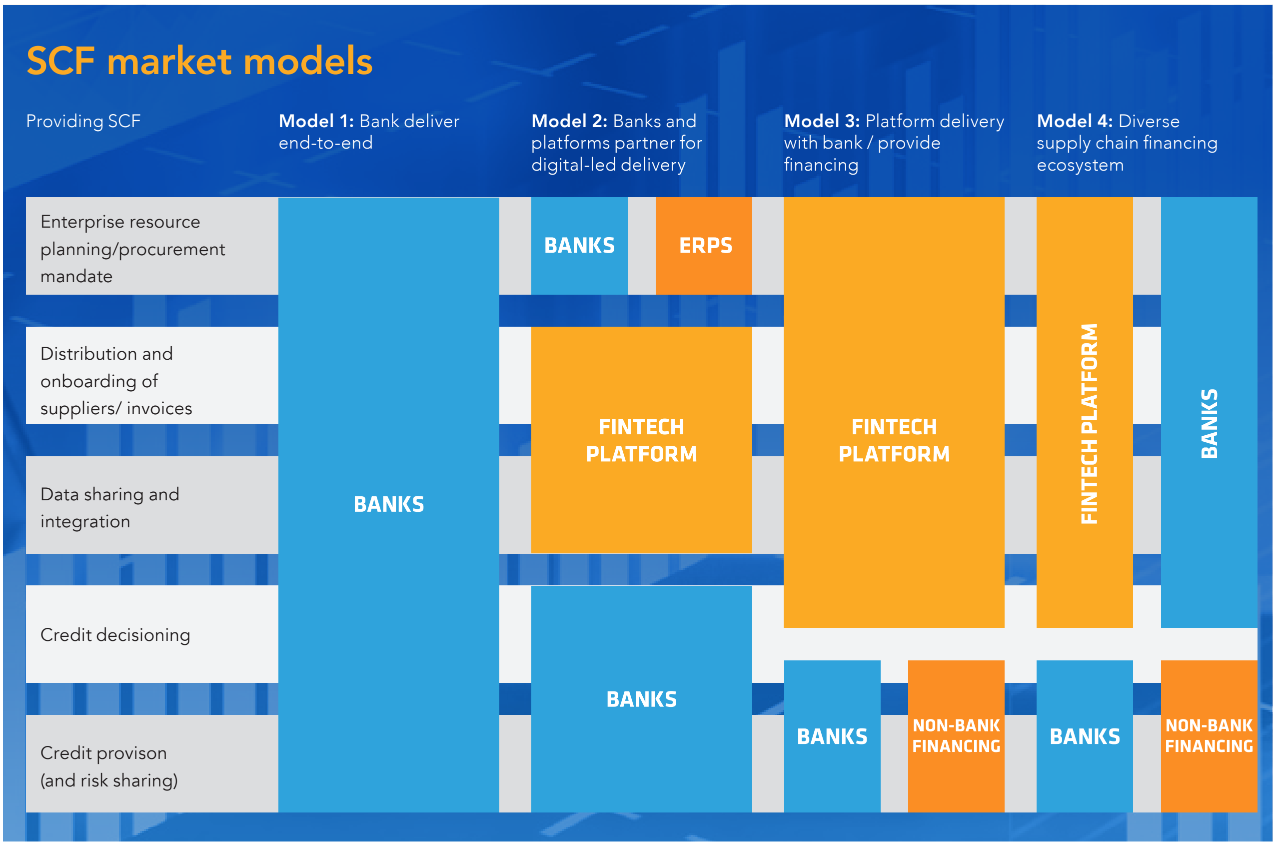
By introducing a technology platform as part of the larger product, financial organisations are now able to provide a lot more solutions than just extended payment terms.

"Technology provides visibility and connectivity to all those involved," says Ezzat. "It allows for smooth processing of multiple invoices of multiple suppliers – which could range in thousands for some buyers."

Ezzat attributes the rapid scaling up of digital supply chain finance solutions to banks and corporates, while also emphasising the role of financial technology or fintech providers.

"Fintechs have made it possible for both buyers and suppliers to be part of this ecosystem," he says. "Together with lenders, they have brought more cost-effective and easily scalable digital solutions to the market."

Equally important when transitioning to digital is to ensure the solution remains accessible even to those companies that may be hesitant or unskilled in adapting to technology platforms.



What will create transformative change	• Reinvest in technology platform • Reimagine onboarding and set-up of customers and credit-decisioning process to increase efficiency, decrease risk, reduce cycle time	• Better integrate bank and fintech systems and processes • Invest in end-to-end customer journey redesign • Widen scope of platform to bring full set of SCF products to corporates	• Increase platform investment and accelerate coverage for full value chains in key geographies • Develop secondary market for SCF assets to increase penetration of non-bank lending	• Industry-wide support for common standards and approaches (including API libraries, data sharing) • Develop secondary market for SCF assets to increase penetration of non-bank lending

Source: McKinsey Global Payments Practice

Why the supply chain finance story is different post Covid-19

The drivers of supply chain finance have been significantly altered post the pandemic, including:

- Shift in mindsets in adopting supply chain finance solutions
- Ease of on-boarding, by simplifying the steps
- Risk-averse approach adopted by lenders
- Greater diversification of supply chains and sources
- Increased focus on end-to-end digitalisation and innovation Defragmentation of supply chains
- Data-driven lending
- Rising competitive forces for banks – eg: fintechs
- Innovation in credit decision making, streamlined through supply chain finance platforms

Dynamic discounting:

Buyer-led solution that allows suppliers the flexibility to choose when they would like to be paid, in exchange for a discount granted to a buyer. The discount is 'dynamic' as it varies based on payment dates.

"At Mashreq, we provide the option of onboarding even non-digital users – a semi-online approach."

Countries including the UAE remain at the forefront of the global digital drive, but Ezzat notes that the issue of mindsets towards digitalisation is still prevalent, especially among some of the older companies. But this is expected to change rapidly.

"As businesses in general go through a shifting cycle, and a younger workforce – not just in age, but in terms of their expectations of speed, resilience, accuracy – takes over, the shift will happen."

What's next?

Ezzat recognises the transformative value that steady supply chain financing can bring to the economy, and notes that the solution must keep evolving in tandem with market requirements.

"We have to remain competitive and at top of our game," he says. "Innovation is the only way we can achieve that, and we're committed to making the necessary investment to do so."

Banks can further expand services offerings on the platform to include solutions such as dynamic discounting, integration with client ERP systems, and self-onboarding.

Meanwhile, technologies including blockchain and artificial intelligence can be integrated to enable secure transactions and predictive insights.

"We could also look into aspects such as enabling more sustainable practices among suppliers, by providing those with better 'green ratings' more attractive payment conditions," says Ezzat. "There's plenty of scope to innovate."

This briefing is brought to you by the MEED-Mashreq Global Transaction Banking Partnership

For more details on suppy chain finance, reach out on: SCF@mashreq.com
Find more insights: www.meedmashreqindustryinsight.com