Whitepaper

Supply Chain Finance: A Digital Transition

Abstract

Supply chain finance is a cash flow solution aimed at helping businesses free up working capital blocked in end-to-end supply chain. It is a win-win solution designed to generate working capital benefits for both buyers and sellers. While a consistent and continued cash flow helps a business achieve sustainable growth over time; an uncertain cash flow could possibly destroy a business. To ensure smooth cash flow, almost all businesses rely on some form of credit, guarantee, insurance etc. to facilitate trade currently.

According to the Mckinsey Global Payments Report1, 93% of supply- chain leaders plan to increase level of resilience across supply chain

Also, businesses of late have been looking for simpler flexible short-term financing options than the traditional ones to meet their working capital needs. The advancement of technology enables us to provide resilient and innovative solutions to address the expectations of all entities involved in the supply chain. It is imperative for banks to recognize this shift in business expectations and tap this potential opportunity by offering innovative and robust supply chain solutions to their clients, that could help them achieve better growth and gains with minimal risk.

In this whitepaper, we will delve into the current key trends driving the adaptability of supply chain finance across organizations, key challenges faced by banks in meeting the changing demand and expectations of their customers towards supply chain financing. Further, we will also understand the various Tech Mahindra's solutions in supply chain finance, that can help bank transform their supply chain ecosystem to help achieve continued and sustainable growth for their customers.

Key Takeaways

- Key trends driving the growth of supply chain finance globally.
- Key challenges in supply chain finance.
- Innovations in digital supply chain finance and opportunities for financial institutions.
- Tech Mahindra's solutions and expertise in digital supply chain finance.

Key Trends

According to the World Supply Chain Finance Report 2023[2], supply chain finance fund volumes globally rose by over 20% to nearly $2bn and funds in use by 20% (approx.) YoY to nearly $850bn. With the growth in supply chain finance quite strong and further expected to accelerate with it emerging as a flexible and effective short term financing option for businesses, let us look at some of the key trends emerging in this space.

Globalization: One of the key trends driving growth of SCF is globalization. The pandemic and trade sanctions emanating from the Russia-Ukraine exposed over dependence of businesses on 1-2 vendors or regions, causing major disruption to their operations and revenues. Hence, businesses are focused on establishing a resilient supply chain and de-risk any major disruptions to their operations by expanding vendor base across regions and look to adopt direct sourcing in addition to relying on intermediaries. Such expanded supply chains have resulted in increased number of suppliers, creating new opportunities to provide financing and liquidity support to businesses throughout the supply chain.

Expanded Scope: Traditionally, the definition of supply chain finance was limited to buyer driven products like reverse factoring, dynamic discounting. But of late, this has evolved into a much broader scope that considers all financing opportunities across a supply chain. This enhanced scope offers more opportunities for financial institutions to provide innovative and customized products to a broader segment, that includes large corporates as well SMEs.

Flexible Product Options: The Basel II capital accord has resulted in harsher treatment for trade finance with a minimum duration of one year for loans and focus on counterparty risk than performance risk. With lower and flexible payment terms and duration, SCF solutions present a more lucrative and flexible financing option over traditional trade finance products for businesses.

Cost of Capital and Payment Cycle: All businesses would like to have a combination of reduced cost of capital and longer payment cycles. The cost of capital due to liquidity crisis post pandemic resulted in widening of spread between investment-grade and non-investment grade borrowers. This created an opportunity for businesses, particularly those who engaged with suppliers having lower credit ratings to explore SCF programs leveraging their higher credit rating to provide better rates to their suppliers as well negotiate longer payment cycles with their suppliers.

Key Challenges

Supplier Onboarding: Onboarding suppliers onto SCF platform seamlessly and quickly has always been a key challenge for banks. This is because each supplier may have different requirements to meet their working capital needs, systems, creditworthiness, operational processes, and technology capabilities. In a live poll conducted by DBS in 2020, 55% of participants voted that onboarding has been a significant barrier to entry. This statistic further highlights the importance of this challenge that financial institutions need to solve.

Risk Assessment: In supply chain finance, the relationships between buyers, suppliers and the bank are closely interlinked. If a supplier defaults, it can possibly impact the overall supply chain including the ability of buyer to keep up their commitment. As such, banks need to assess creditworthiness of suppliers as well. However, obtaining up-to-date information about suppliers to perform credit assessment can be difficult and time consuming, particularly for small and medium-sized enterprises (SMEs) with limited credit history or transparency.

Technology Integration: Supply chains can be complex, involving multiple participants, diverse products, and global operations. Also, an effective supply chain finance ecosystem requires seamless and timely sharing of data across various participants in supply chain without compromising on data security and privacy. Hence, integrating the diverse systems and operations to ensure a smooth and seamless experience to all stakeholders in supply chain can be complex and costly, particularly if legacy systems are involved.

Legal and Regulatory Compliance: Banks engaged in SCF solutions must comply with various legal and regulatory requirements, both locally and globally. Compliance with know your customer (KYC), anti-money laundering (AML), data protection laws and other financial regulations specific to each country can be an arduous task. Also, staying up to date and being compliant with constantly evolving regulations could be quite challenging.

Persona Based Funding: Due to diverse nature of participants in supply chain, funding requirements may vary from one participant to another. For example, an OEM could require funds to purchase raw materials from its suppliers to produce product based on confirmed purchase order received from its customer whereas a dealer could be in need for a working capital limit that could be utilized to pay off invoices from its suppliers on a timely manner. As such, one product fits all principle doesn't work, making it a challenge for banks to provide suitable financing products based on each customer need.

Solutions and Benefits

Tech Mahindra has helped various banks across the globe to improve their supply chain offerings and grow significantly by developing end to end bespoke solutions or implementing white labelled partner solution across origination, servicing and reporting based on customer requirement. **Tech Mahindra's end to end bespoke SCF solution for a global financial institution resulted in growth of transaction volumes by 40% per year as well growth of dealers and vendors from 1000+ to 40000+ over a decade.** Some of the key features of Tech Mahindra's SCF solution is highlighted in the below diagram.

Challenges	Supplier Onboarding	Risk Assessment	Technology Integration	Legal and Regulatory Compliance	Persona Based Funding
Solutions	**Digital Onboarding and Documentation** • Corporate and Counterparty Digital Onboarding • KYC/Dedupe Checks • Automated Data Ingest using OCR/ICR • Configurable Workflow • Documentation (e-signing)	**Automated Credit Underwriting** • Credit Scoring - Traditional and Alternate Datasets • Configurable Digital Scorecard • Advanced Risk Scoring Models using AI/ML • Automated Credit Assessment Report • Automated Approval workflows	**Transaction Processing and Account Servicing** • Invoice Uploads and e-Authorizations • Automated Disbursements • Posting and Settlement • Account Management and Servicing • Account Reconciliation	**API Banking and Integration** • Open Banking API Integration for ID&V • Integration with Credit Bureaus for Credit Scoring • Integration with Payment Networks for Automated Payments and Settlements • Corporate ERP Integration • Foster Innovation	**Reporting and Analytics** • MIS Reports and Dashboards • KPI/Performance Metrics • Transaction based analytics • Trend Analysis/ Forecasts/ Projections • Insights for Cross/ Up sell

Benefits:
- Faster GTM (New Features)
- Reduced Operational Expenses
- Business Growth
- Increased Customer Satisfaction

Digital Onboarding:

Onboarding of corporate customer and their suppliers is a complex and time-consuming process that involves various activities like keying in company & financial details, performing KYC verification, obtaining necessary documents to review and approve, generating and signing of contracts etc. With Tech Mahindra's digital onboarding solution that comes with comprehensive features such as open banking APIs (where permissible), OCR/ICR, e-sign, configurable workflows using open-source tools like JBPM or third-party tools like PEGA, integration with external agency systems via APIs to fetch company data/financial data/credit scores etc., banks can ensure seamless digital onboarding of their customers and suppliers resulting in growth in business and more satisfied customers.

Automated Credit Underwriting:

With recent spurt in growth and complexity of supply chains, efficient credit underwriting has become a key focus area for banks to facilitate smooth cash flow and mitigate financial risks. Traditional manual credit underwriting process is often fraught with inefficiencies and inconsistencies. However, leveraging automation and advanced data analytics to automate this process can help banks achieve better efficiency while reducing costs. Some of the key features of Tech Mahindra's automated credit underwriting solution include consideration of alternate datasets for credit scoring, configurable digital risk scorecards, risk scoring models and algorithms driven by AI and ML, real time integration, generation of comprehensive credit assessment report for underwriters to make informed decision, automated approval workflows. By implementing Tech Mahindra's automated credit underwriting solution, banks can streamline their credit assessment process with more accurate and consistent decisions supported by robust risk management capabilities and establish stronger relationships with suppliers and buyers.

Transaction Processing and Account Servicing:

An important feature of any SCF solution is to provide seamless processing of transactions and a comprehensive account servicing functionalities for all participants in the supply chain finance ecosystem. In this regard, Tech Mahindra's SCF solution would help facilitate end to end tracking of transactions, seamless transfer of invoices and e-authorizations for automated disbursements, real time integration with different payment networks to provide diverse payment options and posting. Tech Mahindra's solution provides robust account reconciliation capabilities between buyers, sellers, and financial institutions to reconcile the transactions, payments, and balances transparently without any errors. Strong account management and servicing capabilities are other salient features of Tech Mahindra's solution from an end-to-end account servicing perspective. **Tech Mahindra's digitization of transaction processing and account servicing process for a leading private bank in India helped in reduction of manual efforts by 40%, resulting in significant cost savings for the bank.**

API Banking and Integration:

API banking and integration solutions from Tech Mahindra enable secure and standardized data exchange between various parties involved in supply chain finance. Tech Mahindra's integration solution allows financial institutions to leverage third-party services such as credit rating bureaus, OCR/ICR platforms, payment networks, e-sign platforms, data analytics platforms, and more. This in turn leads to faster onboarding, approvals, automated disbursements resulting in faster access to working capital and improved cash flow for business. Tech Mahindra's API integration solution also help drive strong collaboration among SCF participants encouraging innovation and launch of new financial products and services in a fast manner.

Reporting and Analytics:

Tech Mahindra's strong reporting and analytics solution, using modeling techniques and data driven continuous improvement approach would help business gain valuable insights around their operations and risk management processes. Financial Institutions need to be wary of various risks such as business default, supplier default, late payments, inventory obsolescence, currency fluctuation. As is, a detailed insight around these metrics using Tech Mahindra's analytics solution would help them proactively manage risks and better prepare for growth or downturns in the market.

Conclusion

Despite the disruption caused by pandemic and economic downturns, the growth opportunity in supply chain finance is immense and presents corporate banks with a potential opportunity to leverage and accelerate their growth by digitizing their supply chain offerings. With companies shifting their focus on digital solutions, banks having robust end to end digital Supply Chain Finance platform could emerge as winners.

Tech Mahindra, with its strong consultancy, technological expertise, partner relationships in supply chain finance can help banks in identifying gaps and inefficiencies within their current supply chain ecosystem and processes and provide valuable insight and recommendations to transform the same, thereby accelerating their growth in a short period.

Author

Seshadre Ramakrishnan

Principal Consultant, Lending

Seshadre Ramakrishnan is Principal Consultant with Tech Mahindra. He has been involved in analysis and designing of solutions for over 19 years across global banks and financial institutions. He has extensive experience in consulting, business analysis and product development with a deep understanding of technology as well domain.

References

1. https://www.mckinsey.com/~/media/mcKinsey/Industries/financial%20services/Our%20insights/Accelerating%20winds%20of%20change%20in%20global%20payments/Chapter-3-Supply-chain-finance-a-case-of-convergent-evolution.pdf. (n.d.). www.mckinsey.com. Retrieved March 6, 2024, from https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/accelerating%20winds%20of%20change%20in%20global%20payments/chapter-3-supply-chain-finance-a-case-of-convergent-evolution.pdf
2. World Supply Chain Finance Report 2023 | BCR Publishing. (n.d.-b). https://bcrpub.com/world-supply-chain-finance-report-2023