Finding the cutting edge in Asia

Alexander R. Malaket explores some of the preliminary developments in the state of trade and supply chain finance in the Asia-Pacific region.

The global balance of economic power is shifting, and the Asia-Pacific region is one of the major points to which power is shifting, and from which increasing economic influence now emanates. The region is rife with creative energy and innovative spirit. Trade, and the finance of international trade, is an area where the Asia-Pacific region can lead, and supply chain finance is the most potentially transformational opportunity available to enable that leadership.

Supply chain finance: next-generation trade finance?

Supply chain finance (SCF) continues to garner interest and investment across the globe, as trade financiers and their clients continue to debate the nature and viability of supply chain finance as an evolution of traditional trade finance products and services.

Senior bankers still comment that definitions of SCF vary, and some continue to debate whether SCF is anything more than the repackaging and technology-enablement of basic financing solutions. At the other end of the spectrum, a number of banks perceive SCF as a near-transformational evolution of the trade finance business, a source of tremendous opportunity, and a clear extension of the value proposition around trade finance.

There is also of course, the happy anticipation of 're-intermediation' – banks and trade financiers carving out a value-added (and therefore, one hopes profitable) role in the context of open account trade and supply chain.

Even those at the centre of the spectrum, who concede that SCF involves some fairly fundamental and well-know financing mechanisms, point out that certain features of the evolving SCF model – in particular, visibility related to the physical supply chain and the link to financing triggers – offer compelling opportunities to financiers and clients alike.

Certain banks and companies engaged in international trade and trade finance continue to hold back on action related to SCF, while others have already made significant technology and staffing investments in response to the perceived opportunity. Some global banks are looking at options to develop end-to-end solutions in the supply chain space, covering both the procurement and the distribution halves of the supply chain, while others seek partnership models. Some trade specialists are developing business models around the provision of technology and processing services (specifically targeted at supply chain finance) to other banks.

Leading trade technology providers have invested significantly in the development of SCF platforms, and as some senior bankers have been describing, the business model is evolving beyond the original/typical one – a US or European retailer anchoring a group of business partners in Asia – to variations which point to momentum in south/south trade, and see trade finance supporting supply chains between Asia and the Middle East, or China and Africa, as well as intra-Asia, for example.

SCF: the leading edge

There can be no doubt that parts of Asia are at a critical point in their development on numerous levels, including trade and trade finance. While one trade executive notes that the local banks are 'dabbling' in supply chain finance, the observation is followed quickly by a note that China already holds a position of global leadership in terms of bank size by market capitalization, and that the pace of change is significant across the region. Indeed, another banker noted that several banks in India and China are acquiring and successfully deploying some of the most advanced SCF technology in the world today, and are getting, as he described it, "...very good at this business".

Another view points out that Asia is very much at the forefront of product and service development in SCF – contrasting specifically with the US and➤

➤European models which are viewed as much more traditional, focused on payables financing and discounting.

Although it should be noted that several of the leaders in developing SCF solutions in Asia-Pacific are foreign-headquartered financial institutions, those same banks whose reach spreads across the region have a long-standing history and presence in key markets across Asia-Pacific.

The argument that Asia-Pacific is at the leading edge of developments in SCF is based on a number of factors, including the core role of companies on the supply side, the dynamic growth of economies such as India, China and others following in their wake, the expanding influence of these markets in other regions such as the Middle East and Africa – all factors which point to an environment seeking a competitive edge and open to creative solutions.

Shivkumar (Shiv) Seerapu, director and trade product management head, Asia-Pacific at Deutsche Bank in Singapore speaks compellingly about an R&D mindset at Deutsche as relates to trade finance, and SCF in particular. Notes Shiv: "We have identified numerous opportunities in the area of supply chain finance, and are engaging very closely with our clients in Asia-Pacific and globally to identify and respond to their needs. Deutsche Bank will look at opportunities beyond those based purely on finance, to increase our value-add to clients, their suppliers, distributors and also to other banks whose reach may be limited to a certain region. We believe SCF will evolve due to advances in technology platforms and the increasing skills and appetite to provide financing across clients' supply chains."

SCF as a technology play

Most agree that technology – developed in-house, acquired from a provider, or accessed through an outsourcing arrangement – is a critical element in the development of a sustainable SCF business model.

Kah Chye Tan at Standard Chartered in Singapore

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While some argue that the cost and complexity of the technology necessary to support a viable SCF business is keeping local banks in Asia-Pacific out of the business, others point to the advantages of developing economies in being able to bypass expensive legacy systems, thus 'leapfrogging' to current solutions. As well, technology has evolved in a way which allows the effective outsourcing or even white labeling of SCF solutions by providers such as CGI, or banks such as Citi and Bank of New York Mellon.

Michael McDonough, head of global trade product group and Jerry Sheridan, managing director, international payments and trade services – Asia, at the Bank of New York Mellon, note that the bank is looking at SCF very much in terms of an opportunity to leverage the bank's strategic reach, as well as it's competitive position, technology strengths and experience in support of other banks.

Jerry Sheridan observes: "SCF is still evolving. There has been some uptake by importers and exporters; however, the complexities and costs around selection of the 'right' technology or platform and implementation across different regions and countries creates an opportunity for us to add value for our bank clients on the transaction processing side."

Concurs McDonough: "No matter where a particular bank may be in the supply chain process, Bank of New York Mellon has the expertise, technology, and reach in the Asia-Pacific region and elsewhere, to support SCF activities effectively."

Some months ago, a senior executive in trade banking technology indicated that the conversation around SCF was a difficult one to initiate with bankers, partly due to the divergent views between sales and operations, and partly due to the challenges in defining the nature and value of SCF. The dialogue has clearly evolved and matured in a very short period, and technology as one of the salient dimensions of the conversation today. Equally truly, SCF has extended into trade bank operations, and is no longer the exclusive interest or domain of the product development groups.

Relationship business or transaction model: revisiting a familiar debate

Thought leaders in the area of SCF position its nature and definition as a holistic business solution, involving an ecosystem of corporates supported and serviced by trade financiers. While traditional trade finance products could be (and have been) described as being primarily transactional in nature, SCF – in its most ambitious incarnation – counts on relationships at the most fundamental level. Certain banks will accept to finance a (relatively unknown) supplier of one of their corporate clients based primarily on the due diligence and assurances of that corporate client. "You tell us who you wish to finance, and if it is important to you, we will provide the financing required." While this is undoubtedly an oversimplification, there is the reality in some markets, including parts of Asia, where financial statements can be created almost instantly to meet the requirements of a banker – that credit assessments are difficult to undertake using established practices and techniques.

Kah Chye Tan, managing director, transaction banking and global head of trade finance at Standard Chartered in Singapore observes: "Supply chain finance is a business solution which might incorporate any of the traditional trade finance products, new technology platforms, foreign exchange, cash management and numerous outside the box features, bundled together and tailored to respond to the needs of a client. There is a significant opportunity here: even the largest players in the largest markets, on their own, can only scratch the surface, however, in partnership, the value of SCF can be unlocked and delivered across Asia-Pacific and globally."

While the debate about process, technology platforms and operating models continues to evolve, several bankers speak of a return to fundamentals – both in terms of credit and risk assessments, and in terms of client relationship management – worrying less about re-intermediation, and focused more, now that a value proposition is at hand, on successful engagement with the market.

Wayne Jobson, head of funding and supply chain products, working capital at ANZ notes: "We are definitely seeing opportunities for significant growth in SCF, though these opportunities require focus and a commitment to add clear value: this is not low-hanging fruit. Our approach has been to develop a very open solution, which our clients can take up or exit according to their needs. For ANZ, trade finance and SCF are fundamentally a service business, and we prefer to offer our clients maximum flexibility, rather than to try to lock them in to a platform."

SCF as a sustainable value proposition

It is clear that local, regional and global banks have all perceived an opportunity in the business of SCF. For Mark Evans, head of trade and supply chain, Asia-Pacific (ex Greater China) at HSBC in Hong Kong: "Supply chain finance is next-generation trade finance, whether the latest technology is leveraged, or whether solution delivery involves manual, paper-based processes. SCF is about unleashing the value which already exists in global supply chains, hidden between company departments, or between buyer and seller, but which has not been targeted or extracted. SCF is far more collegial, working to the benefit of all parties."

Several bankers have observed that building SCF solutions and business models strictly in response to the needs of the largest corporates leaves a lot of opportunity untapped. The SCF value proposition is extending slowly but surely into local financing, and into the SME segment of the global trade finance market.

For Pravin Advani, regional trade head – Asia-Pacific, global transaction services, RBS, it is important to respond to the needs of large global clients, as well as to "bank the SMEs". Says Advani, "Technology is an important element of an SCF delivery capability, as is the ability to engage in a variety of delivery models – end-to-end, or in partnership, foreign counterparty or local client in local currency. In the end however, the most important differentiator will be risk appetite and the ability to make this a scale business."

Despite a few voices of dissent, it appears that SCF has evolved sufficiently and attracted sufficient attention and investment, to represent an opportunity of substance and a sustainable value proposition – both in the old US or EU-anchored large retailer model, and in the latest iteration which involves intra-Asia SCF, or trade between South/South markets such as India, China and the Middle East.

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Geoff Cox, general manager supply chain finance, working capital services at National Australia Bank (NAB) in Sydney sums up the view from Asia-Pacific as relates to SCF: "The Asian market continues to be dominated by emergence of China and India; there are still opportunities for global players with the right product suite, as well as niche players looking to leverage off their client flows. The challenge for NAB is to leverage these flows further through partnerships with other FI's active in the region and tap into end to end solutions and opportunities around cross border SCF. The successful banks will be those that take a partnership or consultative approach with their clients to better understand their businesses and develop working capital solutions aligned with the clients' objectives and strategies."

The United States and Europe remain critical players on the stage of global trade, however, there is an undeniable momentum in Asia-Pacific on several fronts – and evolving models in the financing of international trade are no exception. Asia-Pacific at the forefront of SCF: the closing of a perfect circle. ■