The Outlook for Supply Chain Finance

Many efforts have been deployed by GVC anchors and other GVC participants over the past few years to extract as much cash as possible from accounts receivables, accounts payables and inventory. As a result, and in light of the tentativeness of the economic recovery, further use of conventional (i.e. non-SCF) approaches by GVC members to improve their cash conversion cycle appears impractical. This was confirmed in a survey conducted in 2010 where sixty-three per cent of European corporations believed that some of their key suppliers would not be able to sustain a further lengthening of payment terms.[31] The demand for SCF is therefore expected to grow in the future based, in large part, on the ability that SCF solutions provide to improve the cash conversion cycle of GVC anchors without bringing about detrimental cost shifting within the value chain.

Supply-side issues may unfortunately make it difficult to meet this expected rise in SCF demand. Financial institutions remain very cautious when deploying their capital in the current post-crisis environment. The new, more stringent, Basel III capital requirements will almost certainly add to this caution. These factors, combined with the relatively low risk-adjusted rates of return that SCF solutions generate, may therefore make it difficult for banks to meet the increased demand for SCF.

Over the coming years, the priority of banks that offer SCF solutions will likely be on servicing existing corporations, on trying to acquire new investment grade accounts and, for those with proprietary SCF platforms, on competing with technology service providers. Although the reach of the latter should continue to expand in the future, their ability to grow will ultimately depend on how much credit capacity banks are willing to dedicate to SCF. In this context, non-bank financial institutions are expected to play a more active role in responding to rising SCF demand. A rise in the offer of new short-term financing solutions, such as The Receivables Exchange, is also to be expected.[32]

Concerning technology, the presence in the market of non-compatible SCF platforms (i.e. those offered by banks and technology service providers or developed in-house by GVC anchors) is expected to continue over the short to medium term. Many corporations and global banks have made significant investments in SCF technology that they will want to recover. Over time, however, it may become difficult for these organizations to justify spending considerable sums of money to maintain, develop and upgrade their in-house applications when state-of-the-art technology can be purchased or obtained as a managed service at a lower cost. The recent rise in popularity of "bank neutral" SCF platforms (i.e. not funded and operated by a single financial institution) offered by technology service providers should also help reduce the number of different platforms available on the market. Some GVC anchors appreciate these SCF platforms as they allow them to spread

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It was a signatory to a letter issued on the same day as the news release which expressed the concerns of many BAFT-IFSA members over the impact of new Basel III capital requirements on the availability and cost of trade finance.

[31] Demica, June 2010 report, *op. cit.*, p. 7.

[32] The Receivables Exchange (www.receivablesxchange.com) is an online marketplace for real-time trading of accounts receivable that was created in 2007. Receivables on the Exchange are sold by American companies (typically small and medium-sized enterprises) and purchased by a global network of accredited institutional investors. Just like SCF, the Exchange constitutes an alternative to traditional trade finance methods that can help provide liquidity to GVC participants through a cost-effective mechanism. Unlike SCF, however, the Exchange only allows accounts receivable (and not buyer-approved invoices or purchase orders) to be sold and does not help strengthen ties between GVC participants.