Technology Powering the Trade Finance Client Experience

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Alternative financing options – particularly those which provide companies with flexible arrangements – are becoming increasingly popular with S&P 500 companies. Next generation technologies are making these financing arrangements ever more possible.

Despite all the recent news headlines on economic growth, a different story seems to emerge when looking at corporate balance sheets. For most large multinationals, corporate top-line growth appears to have slowed. While profit margins may have improved, profit growth for most companies does not appear to be keeping pace with growth in invested capital. As a result, return on invested capital (ROIC), a vitally important performance metric for many companies and their investors, is under pressure.

With corporate cash flows increasingly in demand and yet less available, more than 66% of S&P 500 companies have sought alternative financing. This is critical in order to cover strategically important cash spends such as CapEx, dividends, share buybacks and M&A activities[1]. In 2016, roughly half of U.S. companies generated less discretionary free cash flow (FCF) relative to operating cash flow than in 2011. Now more than ever, generating FCF is vital in helping to address this ROIC dilemma as companies increasingly rely on external capital to finance strategic initiatives. Of course, as less FCF is being retained by companies, greater amounts of net debt are being carried by them, thus increasing the risk of corporate leverage.

All of this points to the importance of external financing options with the flexibility to propel growth.

[1] FactSet and company filings; as of 12/01/2016

Digitization enabling flexible financing

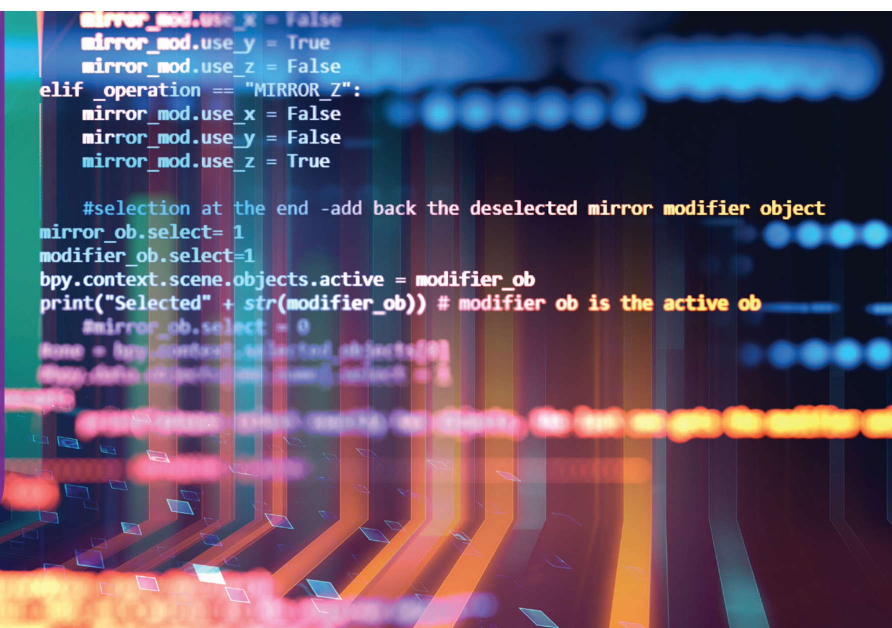
In the current economic environment, many corporates seem to be placing greater emphasis on improving working capital management while focusing more on strategies tied to their commercial flows. Supplier financing structures, in a traditional sense, were initially embraced as an effective means to enhance working capital. Corporates have previously relied on supplier financing to improve their days payable outstanding (DPO), which provided much needed working capital relief. This reliance on supplier financing led to a wave of corporates investing significantly in enterprise resource planning (ERP) and other technologies to serve their large numbers of suppliers, many of whom were often located across different regions and jurisdictions. While traditional supplier financing was, and still is, an effective tool for helping to address corporate challenges related to generating FCF, these strategies may not have kept up with the expanding global economy.

Digitization has led to a shift towards consideration of new strategies such as receivables, sales or distribution finance. In the case of distribution finance, credit risk is largely based on a corporate's portfolio of clients, which in many cases is composed of a complex, diversified pool of small-to-medium enterprises (SMEs). With the high volume of counterparties involved, technology can offer a greater level of monitoring, data collection as well as reconciliation capabilities for clients. This can allow for more effective performance tracking of a portfolio – from a high-level aggregated view down to an invoice-level detail. Making back-end data available to the front office has helped to improve the client experience through increased visibility and insight into cash flows, forecasting and working capital needs.

By leveraging technology, Citi's new Sales Finance programs are examples of how innovation is extending our current working capital capabilities to distribution finance. By offering buyers and distribution networks alternative sources of liquidity via extended payment terms or direct bank lending, sales finance strategies can help corporates reach increasing growth targets. These new programs are responsive to client sales demand and can offer corporates the chance to gain market share, and increase sales in regional and global markets while reducing counterparty risk and strengthening relationships. This can be especially advantageous in emerging markets where sales are often constrained by limitations on available credit.

Another good example where innovation is making a difference is in trade loans. These loans, unlike sales finance solutions, are considered debt on a company's balance sheet and also serve to increase working capital, providing the business with greater liquidity and financial flexibility to drive business growth. Trade loans are viewed as a higher quality form of debt, thus lowering negative corporate leverage impact. In light of Basel III, which favors short-term trade-related financing, these types of loans can reduce capital allocated against such financing. Of course, one of the biggest challenges presented by trade loans is the enormous burden of managing the required documentation. Citi has recognized this challenge and is working towards fully digitizing the trade loans process via its CitiDirect BE® mobile platform. Electronic strategies are helping to significantly reduce the amount of physical paper-based loan documentation, streamlining the disbursement process, as well as operational workflow to improve the client experience.

By building on existing optical character recognition (OCR), and automated invoice matching technology, the future of trade finance brings new technologies such as artificial intelligence (AI), robotic process automation (RPA) and machine learning.

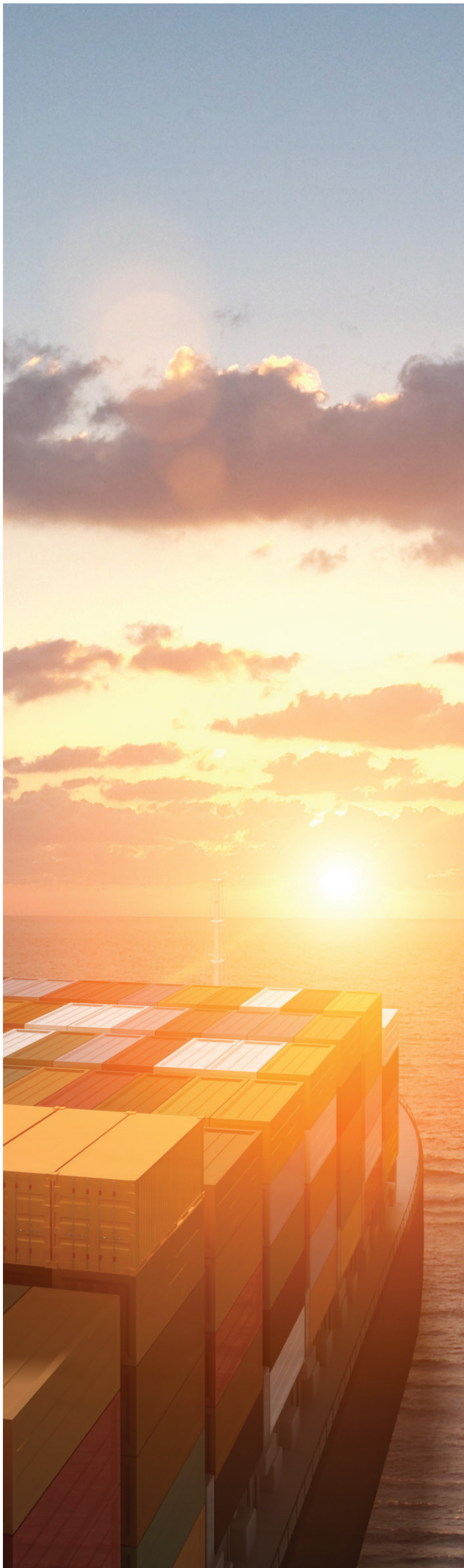


Integration creates a seamless "one bank" experience

As more diverse product offerings are made available on digital platforms, it also aids in unifying the various stages of financing from receivables collections, reconciliation and financing in a more continuous spectrum. New innovations such as mobile banking, application programming interfaces (APIs) and data analytics have also emerged to help increase connectivity in payments and collections. This has helped enable global companies, who are increasingly focused on standardization and centralization, to more effectively manage treasury processes on a large scale more consistently.

With digitization, clients also have more access to a "one bank" view consisting of collective information across product groups or geographic locations. Through integration of receivables and trade finance, corporates are able to optimize and automate aspects of previously manual accounts receivable processes – assisting in saving valuable time and money.

The overlying trend towards state-of-the-art "self-service" platforms can also provide treasurers, chief financial officers, risk managers and stakeholders with the ability to obtain transaction information directly. This helps break down silos so clients can more proactively plan their unique financial goals with information readily available to them.



The next frontier of trade finance technology

New technologies in trade finance are helping to usher in a brighter future for the client experience. Through innovation, clients can take advantage of improved transparency, greater efficiency and streamlining of critical processes. This shift towards digitization can offer a far better engagement through a more intuitive, paperless approach to portfolio monitoring by delivering visualization and real-time insights. These can add value into processing trade transactions, such as analytics dashboards, which in turn can help empower more effective decision-making.

By building on existing optical character recognition (OCR), and automated invoice matching technology, the future of trade finance brings new technologies such as artificial intelligence (AI), robotic process automation (RPA) and machine learning. To take the client experience to the next level, next generation technologies are already enabling corporates to expedite cash flow application and improve cash flow efficiency. As banks look internally to address their own complex operational challenges, new strategies are simultaneously helping to simplify financing processes while keeping the needs of clients front and center. These advancements strive to reduce processing time, lower costs and simplify the overall client experience. ■

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