One step beyond: taking supply chain finance to the next level

Citi, which won this year's GTR Leaders in Trade Award for Best Supply Chain Finance Bank, has stayed ahead of the competition by responding to corporates' need for global supplier programmes, writes *John Monaghan*, global head of supply chain finance at the bank.

In the past five years, use of supply chain finance (SCF) has dramatically increased. The unsettled macro-economic and financial environment have highlighted the importance of working capital while changes to bank regulation – most notably Basel III – have increased the cost, and reduced the supply, of working capital finance to small and medium-sized enterprises (SMEs). In order to support their supply chains, and potentially lower costs, many multinational corporates have turned to SCF.

Initially, corporates focused on country- or region-based SCF programmes, often addressing suppliers working with a single subsidiary, for example. However, the success of these solutions has encouraged multinationals to become more ambitious in terms of the benefit and scope of their SCF programmes. Some now include suppliers in multiple regions or those working with more than one of their subsidiaries. As a result, the complexity of SCF programmes has significantly increased.

Taking a global approach to SCF has several benefits for corporates. Most obviously, it reflects the reality of doing business: most multinationals have suppliers in multiple countries and regions. Assuming a global SCF programme is managed by a single provider, it also offers the benefit of consistency in terms of technology, systems and programme support (both for the buyer and suppliers) and the potential to lower costs.

Working with the right provider

Choosing the right provider is critical to the success of an SCF programme. Many local and regional banks (as well as technology vendors) have developed products in recent years to tap into the growing popularity of SCF among corporates. Such providers are necessarily limited by their geography and cannot meet the requirements of a global SCF programme. Instead, a global provider is required to reach subsidiaries and suppliers around the world.

To deliver an effective global SCF

John Monaghan, Citi

"CORPORATE – AND SUPPLIER APPETITE – FOR SCF WILL CONTINUE TO INCREASE IN THE COMING YEARS."

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programme, it is not enough simply to be global. To be effective, a finance provider must have a robust technology platform that leverages the benefits of its globality. Ideally, this platform should be integrated into its other cash management, payments and collections, and trade solutions in order to improve a corporate's visibility and control and enable it to use data to make informed decisions.

Banks providing global SCF should have a service model that reflects the requirements of their corporate clients. A global SCF programme requires a single point of contact at a bank. That individual should be able to draw on the bank's local resources to provide up-to-date information about the programme – in every country where it operates – to the client's headquarters. Equally, local bank staff, interacting with a corporate's subsidiaries, for example, should offer a consistent message and level of service.

While the scope of SCF programmes is increasingly global, each country has different laws, regulations and complexities, regarding supplier onboarding, for example. These challenges require a bank with local knowledge (and language capabilities) if a solution is to be effective. Consequently, a bank offering global SCF must have an on-the-ground presence, a deep understanding of local risks, opportunities and regulations in key markets.

Why Citi is different

Citi was one of the first banks to offer SCF and has capabilities in over 70 countries worldwide. The bank's scale enables it to meet the requirements of its most global clients, which have supply chains that reach into tens or even hundreds of countries.

Citi's reach means that it can onboard suppliers easily, ensuring a successful SCF programme. It has multilingual supplier onboarding in 16 cities, supplemented by support in more than 100 countries so that local suppliers are approached consistently. Citi works with clients to segment and target suppliers using appropriate strategies and messages – aiming to maximise both a corporate buyer and its suppliers' working capital benefits, for example – so that uptake of the SCF programmes is optimised.

Citi has consistently invested and innovated to develop global SCF capabilities that facilitate standardisation, automation and greater efficiency – matching the objectives of multinational companies. As a result, multinationals are able to achieve consistency around the world.

Citi's SCF product suite is accessed through the CitiDirect BE electronic banking platform, an award-winning cash and trade management solution. New capabilities include Citi Supplier Finance Mobile, which is powered by CitiDirect BE Mobile and allows suppliers to inquire about the status of payments and discount requests from almost any mobile device, without requiring them to be clients of the bank.

Exploring new ground

The scale and growth of many global corporates means that their SCF programmes may require participation from other banks to ensure credit availability and liquidity. To provide greater capacity, Citi is at the forefront of multi-bank securitisation and asset distribution initiatives. Rather than holding all SCF assets on its balance sheet – as was the case with past SCF programmes – Citi distributes SCF assets, with both relationship and non-relationship banks. As a result, liquidity is enhanced and pricing optimised.

Citi continues to innovate in asset distribution. In December 2013, Trade MAPS, a multi-bank asset participation programme jointly deployed by Citi and another bank, issued US$1bn of three-year rated asset-backed securities of trade finance assets originated by the two banks.

Citi is also participating in the recent initiative by the International Chamber of Commerce to standardise SCF terminology, which could open up new opportunities to make SCF assets more marketable and therefore increase liquidity.

Citi also works to bring the benefits of SCF to a wider range of companies. In the UK, Citi has created the first public sector supply chain finance programme in EMEA. The Department of Health programme is available to pharmacies that fulfil £10bn of drug prescriptions. Over 1,000 pharmacies use the programme, many of which are SMEs: they are now paid in just eight days rather than 30 days as in the past.

Citi is also looking at other opportunities to benefit smaller suppliers, by using electronic invoices to facilitate early pay discounts, for example. One possible opportunity is President Obama's SupplierPay initiative, which seeks to strengthen small businesses by increasing their working capital. This partnership involves 47 private sector companies that have pledged to pay their small suppliers faster or enable a financing solution to help their suppliers to access working capital at a lower cost.

A bright outlook

Corporate – and supplier appetite – for SCF will continue to increase in the coming years. The changing regulatory environment for banks is putting further pressure on the availability of working capital finance for SMEs. Corporates that want to ensure the stability of their supply chain around the world will increasingly offer SCF to their suppliers – and strategic suppliers will increasingly expect it to be offered.

SCF also aligns with corporates' goals of centralisation (through shared service centres) and automation (of reconciliation, for example). By digitising information – through the use of electronic invoices – SCF has an important role to play in further improving treasury efficiency. For Citi, SCF is a core product. The bank intends to remain at the forefront of supplier finance by investing in technology, leveraging its scale and global footprint, and listening – and responding – to its clients' needs.