



INTO BATTLE

While third-party platform providers have proved their value in enabling multi-bank supply chain finance programmes, some banks are increasingly seeing this as their territory alone. **Liz Salecka** reports.

As corporate demand for ever-larger supply chain finance programmes spanning several countries grows, the need for multiple banks to participate in such financings has become paramount.

Third-party vendors have taken a lead in helping to resolve the challenges this presents by offering bank-neutral supply chain finance platforms that bring multiple banks together for large programmes.

However, while many banks realise the value of participating in such deals, some also recognise a need to protect the investments they have made in their own proprietary technologies.

This has given rise to further debate over whether – and when – bank-independent platforms or proprietary solutions are best suited to the job.

“In a syndicated supply chain finance facility, where three or more banks are involved, a multi-bank technology solution may be best,” says Paul Johnson, director, senior product manager, global trade and supply chain products at Bank of America Merrill Lynch (BoFAML), explaining that the bank offers a proprietary supply chain finance platform, but also supports multi-bank supply chain finance programmes, working with a third-party vendor’s platform.

“I see the provision of supply chain finance platforms playing out in much the same way as witnessed with proprietary versus multi-bank solutions for trade,” he continues. “Over the longer term, the market will decide on the way forward.”

However, some of the largest banks operating in the supply chain finance space are increasingly looking to ensure that only their platforms are used for programmes which they help to fund.

“The large global banks have spent a lot of money on their platforms and they need to justify this spending. There have been deals in the past where corporates have wanted to use independent platforms but global banks have preferred them to use their own platforms,” says Phillip Kerle, CEO of Demica, which offers solutions to banks as well as directly to corporates.

He adds: “Some of the global banks are now insisting that if a corporate does not use their platform, they won’t fund the programme.”

This is confirmed by a senior banker in the supply chain finance market: “One thing that independents can no longer do so easily is attract funding participation to their platforms from the largest four banks operating in this space, which are no longer prepared to join multi-bank programmes that use a third-party platform.

“These top banks are also less willing to work with each other on multi-bank programmes – although they will work with other banks outside this space. We expect this will be the ‘next frontier’ in supply chain finance funding strategies.”

The viability of this ‘one platform’ approach is however questioned by many third-party providers, which argue that the choice of technology should be up to the corporate buyer.

“Some banks have invested in their own platforms, but what they should be doing is providing solutions



Paul Johnson, BofAML



Kitt Carswell, CGI

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based on the needs of the corporate clients they are working with," says Kitt Carswell, senior offering manager, trade and supply chain at CGI.

He adds that large corporates in particular often approach independent platform providers directly. "Many large corporates do not want to be dependent on one bank for a programme. They want to choose the banks they work with and be in control – they want to be in the driving seat."

Similarly, at PrimeRevenue, which offers its OpenSci supply chain finance solution set directly to corporates, Bob Kramer, senior vice-president of working capital solutions, explains: "Banks can still use their technology in certain situations but their objective should be to meet client needs, not stick with a specific technology solution because they have invested in it."

However, he adds that a wider variety of partnership models are now being exploited by banks and independent platform providers, and that more specific bank and vendor partnerships are emerging.

"At PrimeRevenue we have over 40 bank partnerships, and in some of these we are the only supply chain platform they work with," he says.

Forming alliances

Some banks are seeking to meet corporate buyers' growing needs for large multi-bank financed programmes by collaborating amongst themselves – and using their own proprietary technologies.

According to Michael McDonough, global head of supply chain at JP Morgan, one of the biggest changes of the last three years is that banks themselves have proved very capable of arranging multi-bank finance programmes, which are run on one of their own platforms. He estimates that in the multinational corporation (MNC) market more than 90% of the supply chain finance programmes rolled out over the last three years have been on bank-owned platforms.

"In the past, third-party providers did put forward a value-added proposition by saying that they could bring multiple funding providers into programmes run on their platforms. However, this core advantage – the ability to source funding from multiple banks – has eroded because banks now have the ability to do this themselves," he says, noting that JP Morgan currently works with between 15 and 20 banks as participant funders in programmes that use the JP Morgan supply chain finance platform. "This means banks have been able to provide liquidity well over and above what they could do on their own in the past. Five years ago, this type of activity was in its infancy – but today it is

core to what we do."

He adds that certain banks are now approaching JP Morgan directly if they need a bank to help them finance a programme: "It may be the case that they have reached their credit appetite for a particular client or that there is a currency issue."

Corporate buyers too are also having a bigger say in which banks get involved in multi-bank programmes run on bank proprietary platforms. "They often want to give right of first choice to a core relationship bank. They feel more comfortable that the funding they are offered will be long-term and consistent when a core relationship bank is involved," says McDonough.

The greater movement towards multi-bank programmes, based on bank proprietary technologies, is acknowledged among independent platform providers.

PrimeRevenue's Kramer recognises that single bank-led supply chain finance syndication models, which rely on bank technology, are emerging – but notes that this model can also have its drawbacks. All of the bank participants have to follow rules in relation to which suppliers can participate, including supplier documentation, the jurisdictions the programme covers, and pricing – meaning the corporate buyer has less control over the programme.

Bank participants themselves may also get a lesser deal. "Co-operation has been much more prevalent among banks working with a bank-independent platform than with banks working with proprietary bank platforms," Kramer claims, noting that whereas the use of a third-party platform allows all banks to gain total visibility into a programme, only the lead bank has access to all information, including pricing, in a syndicated programme run on a bank platform.

"Banks participating in a supply chain finance programme through a bank-independent platform can also have a direct relationship with the large corporate running the supply chain finance programme," he adds. "With syndication they don't get that relationship."

Price wars

Pricing is another area of contention between banks leading multi-bank programmes on their own platforms and independent solution providers.

"In the case of a third-party provider, the same metrics apply. For banks brought into the programme, there is cost of funds and risk pricing. However, on top of this, the third-party provider layers in the cost of running the programme," says JP Morgan's McDonough.

However, Kramer at PrimeRevenue argues that

independent providers do not add unnecessary costs. "Supply chain finance services, like programme design, supplier analysis and supplier onboarding, have to be performed by someone – either by the buyer, the bank or a bank-independent platform provider," he says.

He believes that bank proprietary platforms do not necessarily offer a cheaper option, and points out that competition between banks looking to participate in an independent platform-based programme can help to keep pricing down.

"In cross-border supply chain finance programmes, a bank-independent platform also allows use of the most cost-effective funding in each currency. It is just not possible for a single bank or bank-led syndicate to offer the best price in each currency and geography."

Combat skills

When it comes to technological prowess, third-party supply chain finance platform providers are recognised as having the edge and the ability to meet corporate requests for software enhancements.

"Large bank IT departments have all sorts of requirements placed on them," explains Demica's Kerle. "Independent providers react quickly to feedback on their platforms and pressures to upgrade them. Many banks – once they have invested in a platform – usually think that that is it, and they don't have to make new changes."

"In banks, any relevant technology requests have to go through a complex authorisation process. An independent provider's framework is quite different as this is their business – it is what they are set up to do," adds Carswell at CGI.

This is also confirmed by McDonough: "Independent platform providers are very good at what they do in terms of deploying leading edge technology in the supply chain finance platform space. They can also be much nimbler in the way they work, and do have a first-mover advantage," he says, but notes: "On the flip side, banks can offer corporates ease of integration into their wider suite of banking solutions."

There is recognition that both banks and third-party

platform providers have a major future role to play in the supply chain finance space.

McDonough points out that independent providers may be better suited to facilitating programmes for mid-market corporates.

"The relationship banks that these mid-market corporates work with may be happy to provide the funding as participants but not have a supply chain finance platform of their own. In this scenario, the relationship bank may want to be as flexible as it can be, and using a third-party vendor's platform alongside bank platforms may allow them to do so," he says.

This is confirmed by Kerle, who also believes that there is an opportunity for third-party providers to attract business from corporates rolling out programmes in countries where their traditional bank partners may not have a strong presence.

"There is often a gap in what banks say they can do – and actually can do. If you have suppliers in, say, China, Liberia or Chile, a global bank will often say that they have the network in place to onboard those suppliers. However, the reality is often different."

He adds that Demica's platform was selected recently for an Eastern European supply chain finance programme rolled out for a Nordic company, which decided to source funding from Eastern European banks as opposed to its regular Nordic banking partners.

"In this case, the CEE banks involved did not have their own supply chain finance platform, but could provide funding in the local currency. The Nordic banks did not have this capability [to fund in the local currencies required] and there were also foreign language issues," he says.

Meanwhile, Carswell notes that banks also have concerns about supporting suppliers in certain jurisdictions where ensuring the "true sale" of receivables can prove difficult under local market regulations.

"In some countries, it is difficult to get a good solid contract for the receivables involved – meaning there is much more risk involved," he says. **GTR**

Bank-independent versus proprietary solutions

There are five key areas where the use of bank-independent platforms is considered to bring advantages over bank proprietary solutions:

- **Supplier penetration:** Corporate buyers can choose the bank funding partners, most suited to suppliers in the programme and their location. In single bank-led programmes, an individual bank may not be comfortable with some supplier credit profiles and other criteria such as the size of suppliers and the legal and regulatory infrastructure of their home countries;
- **Single-bank risk:** With a bank-neutral platform, other banks can be brought into a supply chain

finance programme should an existing bank funder pull out or reach its credit capacity for the client. However, this advantage may erode as banks collaborate – and develop relationships among each other – to fund multi-bank programmes on their own platforms.

- **Pricing:** A bank-independent platform enables the corporates buyer to foster competition among banks looking to participate in the programme, thus helping to keep pricing down;
- **Innovation:** Third-party platforms providers are at the forefront of technological innovation;
- **Relationships:** Corporates can easily bring their relationship banks into third-party platform-based programmes – although many banks too are now looking to address this need when arranging multi-bank financings.