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Cashing in on supply chain finance

As more and more corporates look towards supply chain finance (SCF) to safeguard the future of their suppliers, technology companies are breaking new grounds with a range of products and services. *Liz Salecka* reports.

Increasingly, hosted services, which eliminate the need to purchase and install software, are catching on with organisations seeking to capitalise on supply chain finance at a time of tightening IT budgets.

"The Application Service Provider (ASP) model is growing for two main reasons – one of which is cost," says Olivier Berthier, solutions director, transaction banking at Misys. "As no up-front capital investment is required, it represents a very affordable model.

"The traditional, in-house model, pursued by several banks setting up SCF solutions, requires significant capital investment. In these days of restricted and more careful spending, the ASP model represents a very good option."

Although the outsourcing of business applications has not reached the heights once anticipated, Berthier is confident that the tide has turned, and that ASP-delivered services are gaining in popularity in today's more difficult market conditions.

"It is not only the current economic climate that is driving the movement towards ASP solutions," he continues. "A lot of ASPs have been successful in delivering hosted business applications in areas such as customer relationship management, and they have now proved the value of this model."

Cutting costs and time to market

Banks that use ASPs to deliver supply chain finance programmes and services to their corporate clients can eliminate the costs involved in developing or purchasing the software required, as well as the cost of software installation, maintenance and development – all of which are managed by the ASP.

Their financial outlay is thus limited to payments for transactions made via the hosted platform and, in some cases, an upfront set-up fee, meaning that they benefit from a variable cost structure.

Equally importantly, by deploying hosted solutions, banks also benefit from speed to market when launching new SCF programmes for their corporate clients, and offering them enhanced services.

"One of the biggest benefits of the ASP model is time to market – the speed at which you can roll out the services. It is much quicker than starting from scratch," says Berthier.

He explains that Misys offers Trade Portal for Multi-Bank (MTP for Multi-Bank), a front-end solution for trade transactions, as an ASP service to both banks and corporates looking for speed and ease of implementation. For corporates, the hosted solution provides a consolidated online view of all their trade transactions with multiple banks. Banks, meanwhile, can offer this capability to their top trade finance customers at no great cost to themselves.

As MTP for Multi-Bank is regularly upgraded by Misys in line with regulatory changes, users do not have to worry about compliance issues. The software is also updated at least twice a year by Misys to provide access to enhanced services and features.

Quickly tailored to suit

Phillip Kerle, CEO of Demica, whose Citadel offering includes outsourced solutions for supply chain finance, invoice discounting and trade receivables securitisation, also identifies speed to market as a key benefit of ASP-delivered solutions.

He describes the Citadel supply chain finance solution, which is made available directly to corporates as well as banks, as a "generic product" that can be quickly tailored to meet different corporates' programme needs, and then rolled out across multiple geographies. "Effectively, we offer a generic product that is rules-based in relation to currencies, products, acceptable invoices and other features, and users then adapt those rules to suit. They can also add more countries or currencies over time to address their changing needs," he says.

Kerle believes that ASPs' awareness of market developments and their involvement with a broad spectrum of clients also puts them in a strong position to quickly introduce valuable software enhancements to their SCF platforms.

"Third-party ASP products benefit from fast, ongoing enhancements to their software – based on feedback from a wide range of users in the marketplace as a whole – rather than just one bank's corporate clients," he explains.

"When a client makes a request for an upgrade, we ask other clients if they would like the same type of enhancement – and then go ahead with it. Our most recent software update stemmed from a client's request for additional reporting."

A move in the right direction

Meanwhile, Bob Kramer, vice-president of working capital solutions at PrimeRevenue, believes that banks should take advantage of ASP-delivered SCF services immediately – even if they already have their own platforms.

"We have seen some banks, which have their own existing supply chain finance technologies, using third-party ASPs to support them. Given the current corporate client demand, and the fact that supply chain finance is becoming more complex on the technology and services side, banks are asking themselves whether it makes sense to continue supporting their own solutions," he says.

"Working with us allows banks to speed up their time to market with supply chain finance programmes and reduce technology development expenses. If a bank already has a supply chain finance technology solution, working with PrimeRevenue will allow them to reduce their ongoing operating expenses since we update our software at least four times a year."

Kramer describes PrimeRevenue's approach to supply chain finance as a "technology enabled service", whereby the ASP-delivered technology is central to the total solution and the buyer, suppliers and bank/s are all business partners.

Working in this way not only enables banks to cut the costs and overheads involved in running their own installed solutions but can help them generate new opportunities for lending because, by collaborating with an ASP, they can quickly satisfy corporate clients' requests for transaction-specific, on-demand SCF services. Banks can also boost their revenues by providing new clients with supply chain services at no extra cost to themselves.

Kramer adds that aside from hosting the software, PrimeRevenue can play a much bigger role in the establishment of SCF programmes by helping buyers to prioritise which suppliers should be included, and determining programme parameters in terms of liquidity, currencies and geographies. Buyers can also take advantage of PrimeRevenue's working capital advisory services to optimise their working capital.

Suppliers, meanwhile, are offered a range of SCF enablement and education services to ensure that they understand the value of financing provided and are trained in the platform's use. The technology is leveraged so that suppliers can register for SCF and obtain online, on-demand training.

"We are always very much involved in the entire roll-out of a programme from satisfying the procurement needs of the buyer to working with the suppliers, educating them and enabling them to get settled on the system," says Kramer.

"We advise buyers on their working capital, and which suppliers they should prioritise in a supply chain finance programme, which means that we have to look at the value offered by different suppliers. We also provide buyers with a detailed analysis of their supply chains."

Corporate benefits

While third-party hosted platforms can provide corporates with a quick means of setting up SCF programmes, they also offer the added benefit of being bank-neutral, and capable of supporting all of their activities globally.

By using an ASP, corporates are not tied to one particular bank's platform, and can select and change their bank funding providers as required – without having to change the technology used.

Kramer believes that this is vital for corporates rolling out SCF programmes to numerous suppliers in different countries, where several local bank funding partners may be required. It is also the case for corporates with particularly large programmes, many of which are now finding that they need to use multiple banks to meet their funding needs.

"With respect to individual supply chain finance programmes, the larger and/or more complex the programme is, the more sense it makes to utilise a third-party provider," says Kramer. "Third-party technology providers tend to outperform on the technology and service aspects of a supply chain finance programme, and they usually make it easier for multiple banks to participate."

He adds that among its clients, PrimeRevenue counts automotive manufacturer Volvo, whose SCF programme spans 30 countries and 10 different currencies.

Demica's Kerle identifies bank-independence as one of the biggest benefits corporates can derive from deploying hosted solutions. "If you lock into one bank's platform, you also have to accept their pricing. This way, you can easily bring in another bank if you chose to do so.," he suggests.

Drawbacks

While the movement towards cost-cutting within banks may make hosted trade and SCF services a more affordable option, there is still some reluctance on the part of banks to use ASPs.

Raphael Barisaac, director, customer account management/head of trade finance products at Surecomp, believes that this is particularly the case with trade finance solutions, and attributes this to both security concerns and the limited systems integration achievable with outsourced solutions.

"In my experience, banks are not interested in trade finance as an ASP solution – even though there may be one or two ASP solutions becoming available," he says, pointing out that Surecomp offers three trade finance back-office solutions: IMEX, allTRA and IBSnet, and an internet trade finance front-end – allNETT – all of which are offered on an installed software basis alone. Only its receivables management product – allFAC – which provides invoice discounting, invoice level funding, reverse factoring and asset-based lending capabilities, is made available as an outsourced service.

"With ASP solutions, security will always be a major issue as banks are worried about information being held on a server which is not theirs. If a bank installs the software at its own end, then the information held will be protected by its own corporate security systems and firewalls."

Misys' Berthier, nevertheless, argues that the level of information security offered by hosted solutions is now at acceptable levels – particularly for SCF.

"I do think security is still an issue for some hosted services, but this is not the case with supply chain finance because of the type and level of information contained in purchase orders and invoices, and because the instructions sent do not automatically trigger a credit into an account," he says. "For these reasons, the level of security offered is sufficient."

Both Barisaac and Berthier nevertheless concur that many banks do still prefer to install software on their premises so that their new solutions can be fully integrated with their internal systems.

"When you are installing a trade finance solution, this is a very sophisticated solution, and needs to be fully integrated with a bank's existing core banking systems," says Barisaac.

And Berthier adds: "The main reason why banks still prefer to install software is so that they can offer supply chain finance alongside their other banking services to corporate customers and provide them with a unified view of their banking services," he says. "For example, by integrating supply chain finance with their cash management solution, banks can offer a one-stop shop service to corporate customers."

Aside from the security and systems integration issues presented by ASP solutions, Kerle argues that organisations, which opt for the hosted model, must also make sure that they select their provider carefully:

"Both banks and corporations need to feel comfortable that their ASP has the financial resources to grow, and will be around to service their needs in the future," he says. And he warns: "In the current economic climate, some providers have fallen."

ANZ banks on ASP services

Despite many banks' preference to develop their own platforms for trade and SCF, Australia New Zealand Bank (ANZ) is firmly committed to the ASP model.

The bank has been using the hosted solution Proponix360 for nearly 10 years, and has relied on it entirely for the development of its trade finance activities, which now span Europe, North America and the Asia Pacific region.

"We use the same platform for every geography, and have used it to build up a global trade business," says Mark Evans, global head of trade and supply chain at ANZ.

To a certain extent, however, it is ANZ's active involvement in the development of the original Proponix solution that explains its long-standing dependence on the hosted platform.

"About 10 to 15 years ago, banks became more focused on where they could get the best return on investment – many were also risk adverse and providing trade finance contained an element of operational risk," explains Evans. "This really affected a lot of domestic banks trying to differentiate themselves. Their customers were bringing international trade transactions to them but there was an operational risk along with a capital investment required to meet their customers' trade needs."

For ANZ, Bank of Montreal and Barclays Bank, the solution was to collaborate on the creation of a single trade finance platform which they could all use, and in 2000 they formed a joint venture with technology solutions and services provider AMS to achieve this.

"Proponix was the name of the joint venture," says Evans, who explains that under the agreement the three banks took all their trade volumes to AMS, which delivered the trade finance technology and services they required on an ASP basis. "As the ASP provided all the technology, this diluted the banks' initial investment requirements.

"It meant that, although there was an element of fixed costs, most of our costs were variable."

While certain original participants in the joint venture have now developed their own solutions, ANZ remains committed to Proponix (now known as Proponix360), which became part of CGI Group following its acquisition of AMS in 2004. "We ended up in the current arrangement, and it is different to how our relationship started with CGI and Proponix," says Evans. "But it is a solution that makes business sense."

He explains that while many banks cite the difficulties faced in systems integration as a disadvantage of hosted platforms, this has not been the case for ANZ.

"As we were involved with the platform from the very start, this gave us an opportunity to shape how the ASP would serve us," explains Evans.

"It is one standard platform that sits within CGI, which is integrated with our core banking systems, thereby providing us with visibility into payments, limits and other core activities."

ANZ's active involvement in the platform's development has also left it confident that the level of information security provided is not compromised in any way.

"In the same way that we were effectively co-shareholders in Proponix, and because we conduct due diligence on the regulatory side of our business, we were able to put an amount of work into the security aspects of the solution," says Evans. "How CGI maintains that security is achieved by working closely with us."

He explains that ANZ also benefits from regular software updates to Proponix360 – based on both business requirements and regulatory changes such as sanctions issues or account domiciles.

“It is also very important to us that CGI, as a technology solutions provider, has visibility into the other software enhancements that are taking place in the market as a whole,” adds Evans. “If we had our own standalone solution, we would not know about these other developments. This means that we have the opportunity to keep abreast of our competitors in this arena.”

ANZ itself has also continued to play a major role in the ongoing development of Proponix360.

“We have the ability to turn to CGI and ask them to modify the solution or to roll out new products for us – even for individual clients,” says Evans. “We are hence developing our solution on an ongoing basis with more efficiency than if it was done by a bank.”

ANZ has signed a seven-year agreement with CGI to use the enhanced platform, which now provides end users with the capabilities to make domestic, bulk and international payments; transfer funds between accounts; and make balance inquiries via the same portal they currently use for trade finance.

“We are an important and growing trade and supply chain finance bank and it really pays for us to be able to provide a cash management offering as well,” he concludes.