Standard Chartered

Banking the ecosystem

The changing nature of industrial supply chains, and the banking services that support them

by Alex Manson, Global Head of Transaction Banking

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> Global competition, squeezed margins, geopolitical challenges, industry disruption and the need for environmental and social sustainability are placing unprecedented strains on industrial supply chains. How are corporations responding to these challenges, and what does this mean for the banks that support them?

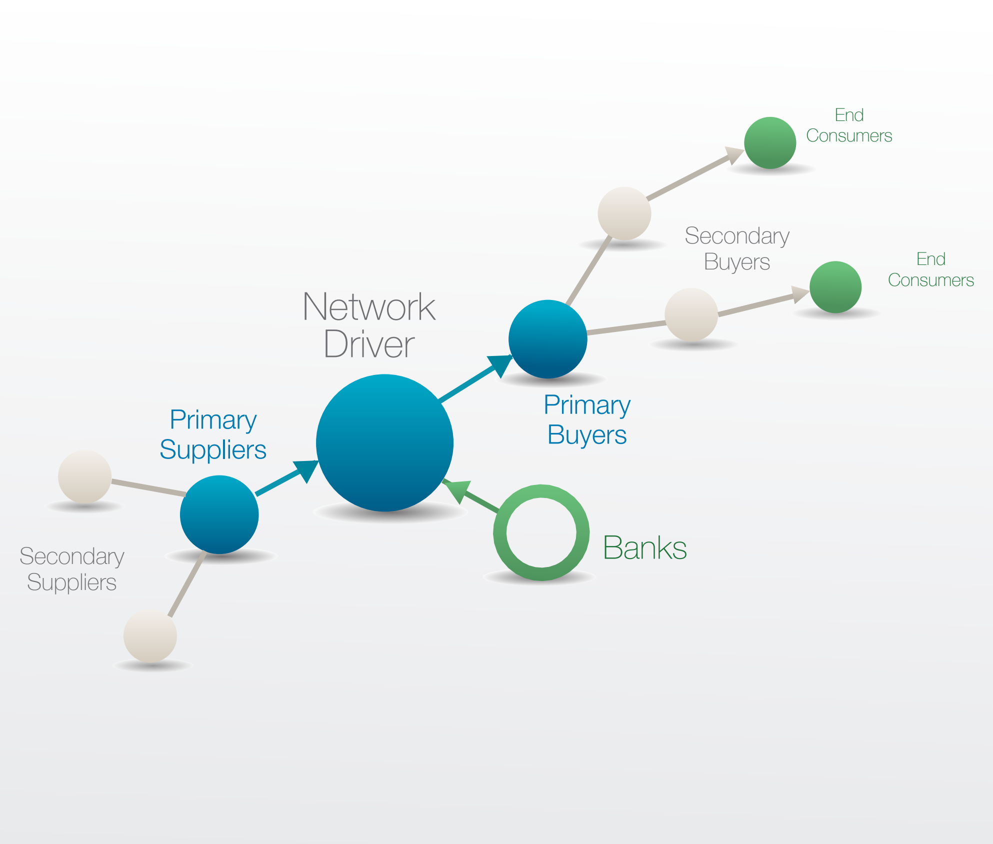
Introduction

Multinational corporations have built their businesses around sophisticated supply chains to achieve stable production volumes on one hand, and robust sales and distribution channels on the other. These supply chains have become increasingly complex over recent years as production opportunities in lower cost economies of Southeast Asia and Africa emerge and patterns of global demand evolve. In this environment of both complexity and opportunity, companies need to respond quickly to the demands of an evolving marketplace. Innovation is critical to this, not only in the way that products are designed and manufactured, but the supply chain model that supports them. This includes relationships between participants, and the flow of transactions and information that underpins these relationships.

As supply chains evolve, so do the banking services that companies require to mitigate risk, maintain liquidity across the supply chain and facilitate growth. This report, commissioned by Standard Chartered Bank, considers how supply chains are changing, based on the experience of sample industries, and features direct insights from treasurers on the implications of these changes. The report concludes with a vision of transaction banking in the future to support the new generation of supply chain ecosystems.

A view of the ecosystem

The supply chain is a familiar concept, referring to the connected thread of suppliers and wholesalers that ultimately create a company's products and services, and the distributors, agents and retailers that sell them. However, as these networks of commercial counterparties have extended and become more complex and intertwined, the concept of a 'supply chain' has become outdated. Instead, the concept of the 'ecosystem' better reflects the complexity and mutual dependencies that exist, from individuals and small family producers through to the world's largest multinationals. These different entities have different banking needs, but as banks take a holistic approach to providing liquidity, managing risk and facilitating transactions, the ecosystem becomes more resilient and financially efficient, and is positioned for growth.



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Industry 1. FMCG and Retail

To compensate for the sluggish growth in Europe and ongoing uncertainty in parts of the Middle East, retailers and fast moving consumer goods (FMCG) companies continue to expand their international footprint into the faster growing markets of China and India, but also in markets such as Indonesia and Vietnam,. However, competition is very active. As Paul Polman, CEO of Unilever outlines in the 2015 Annual Report,

"Driven by advances in technology, whole industry sectors are being disrupted. Companies that have been around for decades can suddenly find themselves obsolete, while – at the other end of the spectrum – relatively young companies are being valued at billions of euros even before they start to generate much in the way of revenue.

For the fast moving consumer goods sector, these changes manifest themselves in a number of ways. They give rise, for example, to much more formidable local competitors. With their agile business models and proximity to consumers, these businesses are gaining share in many markets.

Companies are therefore looking at new ways to increase margins by reducing costs while maintaining product quality, availability and sustainability. As a result of this, restructuring the supply chain is becoming a greater priority for leading international retailers and FMCG companies. As one treasurer of a major retailer in the Middle East explains,

In the past, we used to purchase textiles from third party wholesalers – effectively middlemen – who purchased on our behalf based on our specifications. While this approach was convenient, we had little control over the quality of goods, and it was difficult to ensure that production took place in line with our rigorous environmental and social responsibility standards. Today, we have our own sourcing team that purchases directly, selecting the factories that meet our standards, and reducing costs by shortening the supply chain and cutting out the middleman."

Reducing or consolidating layers of middlemen is the most common strategy corporates use to centralise purchasing activities, particularly for direct spends such as components and raw materials. Whether production is carried in-house or out-sourced, corporates need to work closely with suppliers to ensure they produce and deliver the right quality and quantities of materials on time to designated factories. E-placement and e-confirmation of orders have thus gained wide popularity, seen in the high adoption of EDI (Electronic Data Interchange) solution in the world of supply chain. The latest development is to integrate logistic data to a central platform that enables the e-monitoring of the order to delivery status, achieving real time end-to-end visibility.

The strategy of reducing the length and complexity of the supply chain poses particular challenges for goods with a short shelf life, such as fresh produce. As Tesco plc's Annual Report 2016 outlines,

> Together [with our supplier partners], we have moved to a more efficient and sustainable way of working, helping us to further reduce prices for customers. In total, in the year we have brought down the cost of an average weekly shop by over 3%. In addition, by removing inefficiencies in the supply chain, we have been able to provide up to two days' more freshness in our fruit and vegetables.

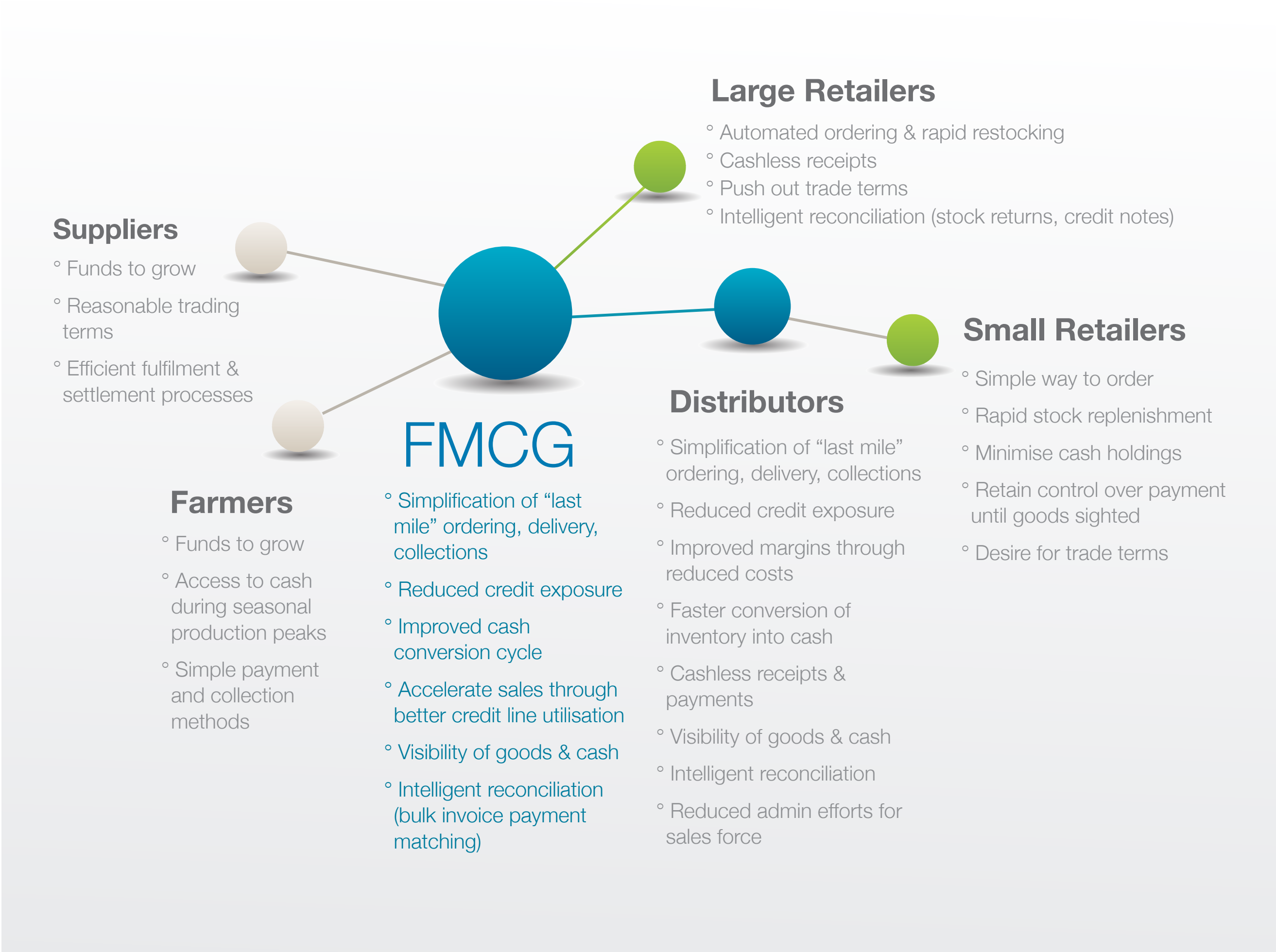
A treasurer from a major international retailer discusses how his company is achieving this, and the implications from a banking perspective,

> We are rolling out a programme of buying direct from farmers and producers rather than through a wholesaler. This gives us better control over the freshness and quality of our products, and reduces costs as we no longer need to pay a wholesaler. This brings specific new challenges from a banking perspective. For example, while we could pay our wholesalers electronically, some of our farmers and producers are not banked, while others are not reachable through our international banking relationships. As a result, we need to explore alternative payment methods without compromising security, efficiency or auditability of payment.
>
> Many of these farmers and producers operate effectively on a subsistence basis, so payment terms of 30 days or more are neither feasible nor fair. Instead, we need to pay these suppliers on 1, 3 or 5 day terms, which has operational and working capital implications. In addition, we need to understand and ask our banks to help support their financing needs to maintain production levels, quality, price and environmental and social sustainability.

The desire for FMCG companies to add clarity and simplicity is also apparent in the way that they distribute products. Although fast-growing e-commerce and m-commerce models are increasingly complementing existing sales models, companies need banks to provide a regional or global multi-channel collection solution that supports mobile wallets, debit cards, credit cards, virtual cards, pre-paid cards, etc and remove the need to connect multi-service providers.

Distributor financing is becoming increasingly important amongst FMCG companies to provide liquidity and reduce the impact of delays in receiving funds from dealers, agents and retailers. At the same time, they are also seeking to address the reasons for these delays. With far more small, family-run retailers in Asian countries compared with the large retail chains that are more familiar in western economies, the use of inefficient, often slow and insecure payment methods such as cash and cheques is far more common, particularly as many lack ready access to a bank branch. Consequently, by introducing efficient, convenient and immediate payment methods such as mobile wallets, the cash cycle is accelerated, credit limits are freed up quickly, and ultimately every participant benefits from the ability to sell more.

Figure 1. FMCG example



To facilitate changing supply chains from producers and suppliers through to distributors and retailers, FMCG companies and retailers are seeking to redefine their relationship with banks to finance a new generation of shorter, more accountable supply chains, and optimise the flow of cash, and therefore of goods. Figure 1 illustrates the complexity and diversity of many FMCG companies' supply chain, with each type of commercial counterparty and intermediary having a different liquidity and risk profile. Banks may not always have more in-depth knowledge about the financial health or credit worthiness of these parties than Corporates, in fact it is Corporates that hold more information about their supply chain partners such as transaction history, behavioural pattern, reasons to delay payments, seasonal stock up, etc. Some even developed data-driven credit analytics to institutionalise such knowledge. If banks could factor these insights into their credit assessment process, they would be able to structure more flexible, valuable and cost-effective ecosystem solutions.

The complexity is also apparent in the potentially diverging agendas of supply chain participants: for instance global FMCG companies may be interested in unlocking more sales by injecting credit further down the chain but because of the nature and the size of their businesses, small retailers are more focused on optimising limited shelf space with best selling product mix and obtaining financing to order more would be secondary if they had no storage space. Banks need to adjust their solutions as a function of circumstances when designing integrated banking solutions to support the needs of clients' ecosystems.

By introducing greater flexibility through better liquidity and risk management across the supply chain, corporations can also combine it with traditional ways to attract customers and enhance their experience, such as seasonal promotions, flash sales and special events. Under normal circumstances, these bring additional challenges for supply chain participants, such as increasing production to support these activities and financing sale on promotional goods, but more bespoke financing options and greater mobility of cash makes it easier to support growth initiatives.

Industry 2. Clothing and Fashion

Clothing manufacture and retail is an example of an industry with a highly diversified supply chain that sources products or components across many geographies. While diversification of origin is an important means of managing geopolitical and supplier risks and responding quickly to changes in demand, it considerably increases the complexity of supply chains. There are, however, differences across companies and product lines. One contributor in the clothing industry noted that the company sources around half of its products from Europe and North Africa and half from different countries in Asia while another noted that they source only from Bangladesh and China. Similarly, product volumes vary: for example, one company that raises fewer, large purchase orders for a limited number of products or seasonal ranges will have different cash management and trade finance demands than a company that issues a larger number of smaller purchase orders for numerous product ranges.

Some companies attempt to ease margin compression through global diversification. As they grow their supplier base internationally, they need to simplify operations by standardising payment methods, payment terms, transaction currencies, and pricing mechanism. For others, the intent is to grow a select few of strategic supplier partnerships. These suppliers may not be the most well-known in the market, but possess critical expertise that is scarce, difficult to develop internally, and much needed to scale. These suppliers, usually small and medium enterprises, have limited access to financing and higher working capital pressures. Sometimes, they reach out to the corporates for support. At other times, it is corporates that use supplier financing to mitigate procurement risks, in which case it is more a risk solution to them than a financing solution for the suppliers.

The fashion and clothing industry is one of the most mature when it comes to supply chain finance, and some have well-established reverse factoring (post-shipment financing or supplier financing) programmes, either regionally or globally. As a treasurer of a global fashion corporation headquartered in Europe noted,

> We established our global programme more than a decade ago, and we invite vendors in all geographies from which we source textiles or finished goods to participate. This includes vendors that we pay on open account or using letters of credit. This is good for our suppliers, but it also means that we can discount all payments, which supports our working capital objectives, and reduce our procurement risk.

As these programmes are often large and operate across geographies, companies engage multiple banks, but again, standardising pricing, terms and financing processes is essential to minimise complexity. For large programmes in particular, companies may prefer to manage the programme in-house, using a proprietary or third party bank-agnostic platform. While these platforms offer the advantage of bank-neutrality and can adopt the most recent technical innovations, their focus is primarily on delivering processing efficiency and are ideally suited for simple financing requirements such as letters of credit, bank guarantees or discount financing.

The success of supply chain financing programmes resides essentially in the speed to scale which is determined by how quickly banks can on-board the suppliers. In some countries, local jurisdictions require banks to conduct full due diligence on suppliers before on-boarding them. Furthermore, ongoing compliance requirements create challenges for banks to support those suppliers located outside their footprint so that increasingly, banks partner with each other to co-deliver larger supply chain financing programmes.

Evolving requirements

There are a number of coinciding developments that are changing the supply chain dynamics for apparel companies with complex and diversified supply chains, not least as competition from both existing and emerging players increases, putting greater pressure on margins. In some cases, companies are seeking to reduce their dependence on China as a sourcing market. For example, China holds by far the largest share of the apparel trade, at 41 per cent. However, we are seeing rising costs, a greater focus on higher-value manufacturing, and fewer people willing to work in factories, so that procurement managers are looking to diversify their sourcing to ease margin compression. This brings risks and challenges, not least because lower cost countries often do not have the same factory base, transparent infrastructure, experience and ecosystem required to support the industry. This in turn leads to concerns about the quality, lead time and reliability of products, and producers' ability to meet social compliance and sustainability expectations. From a financial supply chain perspective, suppliers in these markets are less familiar and so risks are perceived to be higher. Their ability to use efficient, electronic payment methods may be more limited.

As companies expand their business and increase their purchase size, they have concerns about the financial stress this may place on suppliers, who will need financing to invest in increasing production, beyond what existing programmes can offer. This may be less of an issue for larger suppliers in a low rate environment but will be as interest rates rise, while smaller, often family businesses further down the supply chain typically always have more restricted access to credit.

Supply chain visibility and integration

Banks have a crucial role to play in overcoming these challenges and connecting the supply chain ecosystem. However, few are equipped to do so. For example, clients need their banks to provide financing to their suppliers, both in established and new sourcing markets. International banks will rarely have a relationship with these smaller suppliers while the corporation itself may not have a relationship (or a desire for one) with local banks. This leads to a loss of control and visibility over financing and supply chain stability, so companies cannot be confident in their suppliers' ability to increase production or fulfil new contracts. As one treasurer of a leading fashion company noted,

> If you want to strengthen the supply chain, you have to have visibility across it. While a great deal of data and intelligence exists, this is not useful unless it can be collated and communicated in a meaningful way. Working with a single bank across key parts of our supply chain, and building the right reporting tool, could make a significant difference to visibility and confidence in our supply chain, and therefore our ability to grow.

Large buyers effectively depend on their whole supply chain and should ideally ensure that every participant fulfils their quality, reliability and social compliance and responsibility obligations. It is however very difficult to accomplish in practice as visibility across the supply chain varies across countries, a particular challenge in developing markets. Therefore, in addition to their financing role, banks need to support corporates with efficient and auditable payment methods across the supply chain. This includes electronic payment services but also tools for smaller suppliers that may lack access to electronic banking systems and/or be located a long way from a bank branch.

Mobile wallets are an innovative solution which can be integrated into the banking platform: companies are able to pay directly into mobile numbers owned by supply chain partners who have the flexibility to use, top-up or encash the balances stored in their mobile wallets, which in turn promotes the development of an e-wallet ecosystem. Corporates hence achieve straight-through-processing and digitise transaction flows at the same time. Efficient and secure payment tools are also crucial to pay the local workforce, whether a company owns its own factories and therefore pays employees directly, or whether factories are owned by a third party company.

According to the "2016 Trade Finance Gaps, Growth, and Jobs Survey" published by ADB: 43% of global trade finance gaps ($1.6 trillion) is in developing Asia and 25% more trade finance would enable to hire 20% more people. If banks and other financial services providers could fulfil this gap, more jobs would be created, productivity would be increased and a boost in growth should be expected. The connection between global trade and development is strongly apparent in the fashion and clothing industry, particularly with a large female workforce. As H&M comments in its Annual Report 2015,

> H&M does not have any factories of its own but instead outsources manufacturing to independent suppliers, which together employ around 1.6 million people. The majority of the suppliers' employees are women. For many women this is their first job that provides an income, their first work outside the home and so a first step to independence.
>
> In Bangladesh, which has been an important sourcing market for H&M for many years, the export-led growth in the textile industry is said by the World Bank to be the main contributory factor to poverty having been halved in the country since 1990. The World Bank also states that in Cambodia, the textile industry has helped bring about higher wages for women. In a number of countries, development has shown that over time, the jobs in the textile industry lead to further industrial development – resulting in increased productivity, a higher level of knowledge, greater specialisation and higher wages. The continued presence of long-term, responsible buyers is therefore vital to the future of these countries.

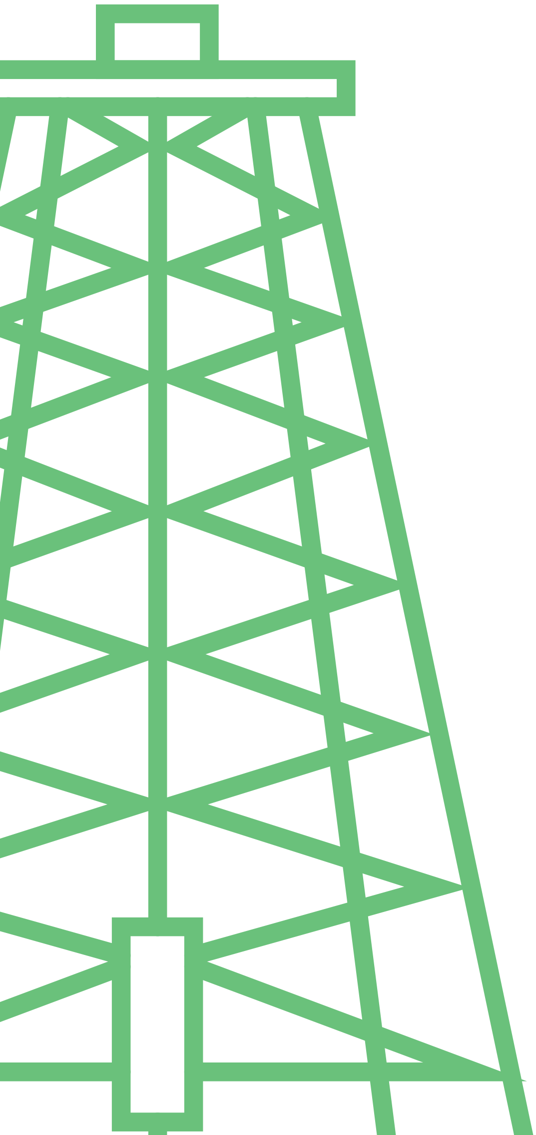
Industry 3. Commodities: power, energy and mining

Commodities producers such as oil and gas producers and mining companies are at a critical juncture with the impact of lower commodity prices combined with depressed demand from China. As PWC's 2016 Oil & Gas Report illustrates, in the third quarter of 2014 alone, when oil prices were still above $100 per barrel, the world's largest oil and gas supermajors posted aggregate net income of $22.9 billion (source: Bloomberg). Twelve months later, upstream profits had been wiped out. Many have made huge investments in projects that have subsequently been delayed or cancelled, and balance sheets are overloaded.

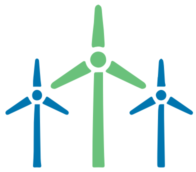
In this environment, company boards are taking drastic measures to reshape and refocus the business by selling assets (some less strategic, others more so), cutting capital expenditure and workforces, negotiating aggressively with suppliers, and restructuring debt.

Others are expanding their activities to conduct more secondary processing. For example, mining companies are working with their networks to source third party materials and increase the value of their sales.

Many commodities producers have experienced a rating downgrade to reflect the challenging environment, which in turn has raised the cost of debt. These corporations are now focusing on working capital in a way that they would not have done two years ago. Treasurers are now analysing every element of working capital and seeking to unlock the cash tied up in group procurement activities. However, traditional working capital techniques, such as receivables financing and invoice discounting are often of more value to commodities producers for risk management rather than working capital purposes as payment terms are already short. Notwithstanding this, maintaining access to liquidity across the supply chain is becoming a higher priority, particularly for mining companies, for example where they are doing more secondary processing so that more suppliers are engaged.



Faced with such a difficult environment, some companies are considering partnering with their suppliers, customers or even other players in the industry. Each participant in the supply chain has their importance; therefore, companies need to monitor these relationships and their financial performance closely. Sometimes, for strategic reasons, they will step in and back up suppliers that own critical raw materials as they can't afford disruptions to supply. The business is capital intensive; hence, they need banks that can support them in the long run. Banking relationships matter in this regard and it is often about how much risk banks can assume. Trade finance instruments such as performance bonds and guarantees are available, but increasingly treasurers are looking for more bespoke financing options and are inviting banks to participate in risk sharing financing structures that cover more complex performance risks,



"We need our banks to act as financiers but our partnerships with key banks are now more important than ever before, not only for financing but also risk sharing, so we are developing closer ties with banks that are willing to work with us on this basis.

Treasurer, International mining company

While cost cutting and delays in capital projects are understandable in the current climate, corporations need to ensure that both their own business, and the wider supply chain are equipped to respond to changing conditions. Furthermore, while investment in existing commodity production may have stalled, now is the time either to invest in more efficient extraction and processing technologies, and/or to diversify (oil and gas companies, for example, are motivated to invest in renewable energy). This retargeting of corporate strategy has significant supply chain implications, in terms of financing requirements, increasing complexity and the number of supply chain participants.

Industry 4: Automotive

A paradigm shift to mobility as a service, along with new entrants, will inevitably force traditional car manufacturers to compete on multiple fronts. Mobility providers (e.g. Uber), tech giants (such as Apple and Google) and specialty OEMs (Tesla, for instance) increase the complexity of the competitive landscape. Traditional automotive players are under continuous pressure to reduce costs, improve fuel efficiency, reduce emissions and become more capital-efficient will feel the squeeze, likely leading to shifting market positions in the evolving automotive and mobility industries.

Paul Gao, Hans-Werner Kaas,
Detlev Mohr & Dominik Wee,
McKinsey & Company
Report: “Disruptive trends that will transform the auto industry”.
January 2016

The past five years have brought their fair share of difficulties to the automotive industry, and with ongoing competitive and potentially disruptive challenges as well as changing regional dynamics ahead, auto manufacturers have to adapt their supply chains as well as product portfolios.

The automotive sector is a key example of an industry where the sustainability and growth potential of the ecosystem as a whole is critical to success. On the supply side, companies need their suppliers to be able to tool up to support new product launches and changing demand. From a distribution standpoint, dealerships and service centers have a crucial role to play in securing vehicle sales, ongoing revenues through parts and service, and ultimately the quality of the customer experience. Increasingly, companies are enhancing their aftersales portfolio to boost customer relationships: for example, this market is growing rapidly in China, where vehicle sales also remain strong. However, to do this successfully, relationships across the ecosystem, both on the supply and distribution/aftersales side are key.

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Porsche After Sales serviced over 1.3 million vehicles worldwide in financial year 2015 following the successful launch of the Macan. Revenue from spare parts also rose significantly compared to the previous year. Internal structures were optimised in order to ensure the highest professional standards. The service was also extremely well positioned in China despite the economically slower year.

Porsche AG. Annual Report 2015

A rocky five years have taken their toll not only on auto manufacturers themselves, but their entire supply chain. As one treasurer explains, “over this period, we have had frequent requests for support from across our supply chain.”
He continues,

Our suppliers’ financial stress impacts on us too, as they are critical to the value chain as a whole, so our supply chain work closely with them to understand their financial pressure points better.

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Automotive companies were amongst the first to adopt large-scale post-invoice supplier financing programmes to support suppliers whilst also optimising working capital. Take up amongst suppliers is high, typically with only government-owned entities and large multinationals choosing not to join these programmes. What has become increasingly clear, however, is that these programmes are not enough. Leading automotive manufacturers are therefore going beyond supplier financing to introduce bill of exchange/invoice discounting programmes that allow suppliers to access funds by discounting bills. One treasurer describes,

As part of our bill marketing scheme, we accept the bill of exchange and the vendor then has a limit with the bank to discount the bill. Previously, these were physical bills of exchange, but this has since been developed into an electronic solution with supplier credit and electronic authorization through our host-to-host connection with Standard Chartered.

However, he emphasises that introducing programmes to further support vendors has important implications in their choice of partner banks,

A key consideration when we choose which banks to work with is how they can support our vendors: we do not expect the risk solely to be covered by us. Therefore, we expect the bank to provide capex loans, cash management services etc. to allow them to manage cash and liquidity and invest in growth. Our bill of exchange programme means the bank can see the commercial flows that take place between our vendors and us, which should provide some reassurance to the bank.

Another treasurer states,

A key criterion is that a partner bank should be capable and willing to support our suppliers, many of which are small companies without a large balance sheet. This means that they need the right network and segment coverage, but also the ability to work with commercial customers as well as large corporate customers, which very few banks can do in reality.

Similar considerations apply when looking at how to support dealerships and service centres. One treasurer of a large commercial vehicle corporation describes,

We have two models in the way that we work with our dealerships and service centres. The first is 'cash and carry'. This used to involve physical collection of cash in some countries, which was then credited to our account in one or two business days, with high costs and high risk. Now we have replaced this with an e-collection programme that is far more convenient for both parties, and allows same-day, low risk payment. The second model is channel finance. We work with our bank to set a limit for our dealers each day, which are reflected in our systems, helping us to decide which dealers we can supply. This is a very positive way of providing working capital to dealerships and facilitating business.

For automotive corporations, the concept of 'banking the ecosystem' is becoming key to success. If a bank has visibility of flows across the ecosystem by providing banking services to every participant (not only tier one suppliers and distributors, but also tier two and beyond), it is able to leverage this knowledge to facilitate growth through financing, working capital and cash management solutions. It is also well-placed to provide 'early warnings' of potential issues that could affect the ecosystem as a whole by disrupting production, quality and growth. Porsche's Annual Report 2015 states,

> The Company's focus in the past year was again on achieving optimal purchased parts quality for all models. In 2015, procurement therefore expanded and fine-tuned the initiative to optimise its sub-supplier management system, which was launched in financial year 2014. The improved transparency enabled the Company to identify risks at an early stage and continue to optimise long-term quality.

Looking ahead, automotive companies and therefore their wider ecosystem need to invest in innovation and respond to changing consumption trends in order to counter increased competition. In some cases, companies are responding to competitive threats by acquiring businesses that allow them to manage innovation directly. In other cases, it involves working with new, often small, innovative suppliers and partners with which they have not had relationships historically: these too are likely to need financing and working capital support.


June

Evolving banking requirements

Bank partnerships

One of the most common demands amongst companies is that their banks need to be better co-ordinated internally. One contributor noted that if they ask for a quote to take a customer exposure off the balance sheet, they may get two different prices from branches of the same bank. Similarly, as global businesses, treasurers hate having to spend weeks trying to find the appropriate person to deal with in each country. As the same contributor highlighted, “we treat a bank as one relationship, we need the bank do to the same.”

Technology

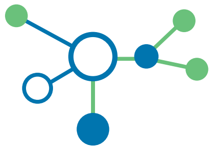
An area which treasurers in these industries emphasised is the potential for technology innovation in the future to streamline, automate and accelerate the supply chain; however, as one treasurer of a leading commodities producer noted,

> We have attempted to use tools such as eDocumentation, but so far without success, but this relies on a common legal framework and better industry collaboration. However, we are expecting to see significant progress in this area, which will offer significant benefits to our business.

Common themes

While every industry has a distinctive ecosystem and specific supply chain strategies, the examples above illustrate three common themes:

Banking relationships need to be redefined - The right bank partnerships are critical to facilitate liquidity and risk objectives and growth, including supporting emerging business models. This increasingly requires banks to take a broader view of a corporation's business than we have seen in the past, looking beyond the client's own business both to its suppliers on one side of the chain and distributors/customers on the other.



Banking the ecosystem is key - Although post-shipment financing (supplier financing) programmes are familiar and in many cases well-established, treasurers are looking for additional ways to support suppliers and distributors/sales channels in order to increase resilience across the wider ecosystem, adapt to changing demand and invest in social and environmental sustainability.

Payments and collections methods continue to evolve - As the reach of the ecosystem extends and corporations source directly from suppliers rather than through intermediaries, their payment requirements become more complex. For example, companies may need to shorten payment terms to small suppliers, for whom supplier financing programmes are less likely to be accessible, and explore a variety of payment methods, including payments to unbanked producers in some cases. By ensuring efficient and convenient payment methods across sales channels, which may be very small retail outlets for industries such as FMCG, the cash cycle would be accelerated and obstacles to increasing sales would be removed.

These themes are closely related:

> As companies adapt their distribution and sales models, the credit and working capital dynamics change. If a distributor's credit line is fully utilized, which is often the result of delays in receiving funds from dealers, agents or retailers, they cannot do more business, which in turn hampers growth. However, by easing the working capital burden of the distributor, and therefore facilitating more business, whilst also encouraging the use of more efficient payment and collection methods across the supply chain, companies can accelerate the financial supply chain, and therefore also the physical supply chain.

Victor Penna,
Head of Network Sales
and Treasury Solutions,
Transaction Banking

Banks will need to respond in a proactive way to these evolving requirements in order to remain relevant. The difficulty, however, is that few banks are in a position to do so for a variety of reasons. Looking at the issues highlighted above, for example:

- Most international banks work only with large multinational corporations outside their home markets, and therefore do not have direct knowledge of, or relationships with, local suppliers, and therefore do not have the coverage, capacity or credit appetite to provide financing to them.

- Local banks, on the other hand, are more likely to have relationships with smaller and mid-sized suppliers; but engaging multiple banks, particularly if these are not the corporation's partner banks, reduces visibility over the wider ecosystem and makes it difficult to identify and manage risk.

- Banks that serve the whole spectrum of ecosystem participants often do so through distinct business segments, such as corporate & institutional banking for large corporate clients, and commercial and retail banking for smaller suppliers and their employees. It has proved very difficult in the past for banks to align the different parts of their business to create a full risk and liquidity picture of the ecosystem, and therefore to offer integrated solutions across it.

On payments and collections:

- While most corporations can pay larger suppliers and intermediaries using electronic payment methods through international banks, these banks typically lack the reach and depth of in-country solutions to support the range of payment methods required to pay smaller suppliers and local employees, and collect cash from smaller distributors and retailers.

- Conversely, local banks can support local payment methods, but often lack the technology to allow corporations to make cross-border payments through a single channel or via a regional or global payments factory or shared service centre.

Delivering the banking model of the future: Banking the ecosystem

There is inevitably no single – and certainly no easy – way to address these diverse and complex needs, but banks need to leverage existing characteristics, or develop new ones, whether independently or in partnership, to remain relevant and responsive to clients' ecosystem needs.

Increase visibility and insights over the ecosystem, particularly in low-cost manufacturing countries of Asia and Africa. In reality, only a very few banks are in a position to do this, as this relies on a bank being able to bank their clients' entire ecosystem.

Banking the ecosystem is not enough if the divisions of the bank that support each client segment are not working together. Consequently, banks need to **align different divisions** to enhance visibility and develop creative solutions for both large corporate clients and the wider ecosystem.

Develop new, bespoke financing tools that facilitate future growth rather than simply accelerate payment of purchase orders or invoices. In recent years, a large number of third party bank-agnostic financing platforms have emerged, but these platforms are not designed to deliver clients' bespoke financing requirements. Consequently, banks need to take a more innovative approach to financing, including pre-shipment, post-shipment, post-acceptance and distributor financing across tier one but also tier two suppliers and buyers of all sizes. This is only feasible amongst banks that can leverage visibility and knowledge of the ecosystem to inform their credit risk decisions, recognising the depth, complexity and mutual dependencies of the ecosystem.

Leverage innovation in payments and mobile technology. Banks need to deliver solutions to corporate clients that allow them to standardise payment and collection processes, controls and technology across a variety of payment methods, whether payments are made or received locally or centralised into a payments/collections factory or shared service centre. This includes well-established cross-border and domestic electronic payments, but also innovative payment methods that are appropriate to each market, such as mobile wallets, virtual card payments and prepaid cards, as well as efficient cash and cheque processing.

At Standard Chartered, we are creating a new generation of banking that encompasses the entire ecosystem rather than single points in the supply chain. Our business extends from retail customers through to microbusinesses, small and medium sized enterprises and the world's largest multinationals, which gives us a distinctive presence in the markets where we operate. Thanks to our relationships across the ecosystem, we can build a comprehensive picture of the strategic and operational objectives, constraints and opportunities of each participant and develop solutions accordingly.

Banking solutions should integrate financial, informational and physical flows within clients' ecosystems with a fully integrated offering ranging from plain vanilla cash, trade, and FX to complex supply chain and structured financing solutions. Standard Chartered also continues to explore the applications of data analytics on generating client insights and has invested in mobility as well as distributed ledger technology as part of its digitisation agenda.

Our role as a bank is to facilitate trade, commerce and investment and as we support our clients' ecosystems and enable the most vulnerable participants to access funds quickly and securely, we connect business communities and can contribute to improving living standards and raising people out of poverty.

Alex Manson,
Global Head of Transaction Banking,
Standard Chartered Bank

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