Views

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What is going on in the receivables financing sector of the supply chain?

Banks are mainly focused on different markets with too many directions. They try to offer receivables and payables financing services without a specific, realistic long-term strategy, focusing on basic structures, exaggerated returns, and anything that can potentially be operated "factory style".

FinTechs in this field are not developing very well. They started by offering services mainly in supply chain financing (single-buyer payables-based), then some moved into receivables offerings with a variety of options, but without effectively targeting any of the different specific setups. Then, they performed poorly over time, and many failed completely. Despite this outcome, some FinTechs are being kept going and mainly by their users in consideration that they have no other alternative for operating their receivables and payables initiatives.

Along the way, one notices the appearance of large investors, mainly private equity companies, who take over providers in the hope of entering the sector without having to understand it as they should. The acquired entities are often diluted or destroyed. There are many examples in the press of acquisitions and destructions in recent years. Poor examples can also be seen in transactions led by originators or large manufacturing companies that select a funding partner without understanding its operational risk or showing much interest in the funder's syndication strategy. They simply judge based on the size of the provider and its balance sheet strength. Who is right, and who is wrong? Basically, they are both, right and wrong.

All want the business, but organizations do not dedicate sufficient time to understand all details. The result is that simple solutions are implemented and complex ones are ignored. Is complexity an issue? Of course it is. Committees either do not want to, or are unable to, understand what needs to be done for their employers to succeed. Paying attention to and finding technical solutions for the complex issues is too cumbersome.

Recently, we spoke with a senior banker in the trade financing space and heard the comment; "I love the business (trade financing) and can talk about it well, also sell the service, although I don't understand how it's really administered." Great! Are we surprised? Not really. Because of this and other aspects more related to pricing greed and credit ignorance, there have been many failed programs, such as Greensill Capital (credit insurance triggered), Wirecard (fraudulent receivables), Carillion (hiding debt over reverse factoring), First Brands (opaque disclosure and structure of reverse factoring), etc. Will there be more? It's quite possible. Especially with the changing shape of markets, businesses, and concentrations.

Can technology sustain the resilience of a well-structured program? Yes, of course. Artificial Intelligence (AI) can also support this, but it should not be at all the basis for processing, credit decisions, or defining eligibility. Banks should develop their own systems and rely less on external parties. Why? Why not? If the ultimate funder can handle the processing job and have full control over the processes and overall

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servicing functions, the risk of outsourcing or needing to count with the original seller of receivables for servicing their receivables is greatly reduced, ultimately providing much more stability to the overall receivables and payables processing and financing programs. However, technology alone is not enough!

All instruments must synchronize to create a trade financing “orchestra”. The "director" is the party that defines the program's path and structure. The "violin" processes the eligibility strings. The "flute" maintains communication and sound amongst all parties. The "drums and bells" manage notifications and alerts. This could sound wonderful. Now, let’s take a closer look at the orchestra. The "director" is the head of trade financing within a financial institution, supported by the respective committees; the "violin" is the technical design and support, defining the processes and handling the implementation of the required technology; the "flute" is the operations team; and the "drums and bells" are a combination of manual and automated operations, which will eventually reverse, i.e., with time a combination of automated and manual operations. What really needs to be worked on is getting the "director" to synchronize with the "flute." The rest are looking sad at times, and anxious to perform. They should be given a chance.

Kendall Stevens, President & CEO of KS-TF AG

After having built reputable and sustainable trade financing operations which became market leading, KS-TF AG, Switzerland based, was created as a consulting company. Today it consists of a team of professionals with expertise in the design and development of software, covering receivables/payables processing, credit and compliance. KS-TF AG software is licensed to specific clients in the relevant sector and can be customized.