Payables Finance

A guide to working capital optimisation
Payables Finance
A guide to working capital optimisation

In recent years, economic volatility and the lengthening of supply chains through globalisation has increased the challenge for corporates to remain financially sustainable. Effective working capital management has become critical to business success. But how can corporates optimise their cash conversion cycle without disadvantaging their supply chain partners? How can working capital metrics be improved without threatening the steady flow of goods? This guide defines and explains payables finance – a supply chain finance technique that is revolutionising the face of international trade by balancing these seemingly conflicting demands.
Foreword

It was not just the Global Financial Crisis that, from 2008, put pressure on corporate treasurers to increase days payable outstanding.

When faced with the choice of cash to fund a corporate finance strategy or cash to meet a 30-day supplier schedule, the revenue-generating activity will obviously be more alluring. However, while extending payment terms makes it possible to grow cash mountains, what happens if the supplier goes out of business while they wait?

Enter supply chain finance (SCF)

In the late 1990s and early 2000s, bank revenues from SCF services only represented a very small proportion of our total trade finance business. And the wider SCF landscape comprised only a handful of banks implementing payables finance programmes as a working capital solution for their largest corporate buyers in the retail and manufacturing sectors – characterised by high-volume and low-ticket transactions.

Two decades later, the picture is quite different

At Deutsche Bank, SCF now makes a significant contribution to our total trade finance business – with the payables finance business having grown by 20–30% over the past few years. Corporate buyers look a little different now too. Today, we help corporates of all shapes and sizes, from a plethora of industry segments. While in the early days banks had to knock on their clients’ doors and explain the benefits of SCF techniques such as payables finance, corporate treasurers are now approaching their providers and demanding payables finance solutions tailored to their specific business challenges.

This is not limited to the traditional developed world markets of Europe and the US. Demand for payables finance is growing just as rapidly across Asia and Latin America. In fact, many of our clients now expect programmes that offer not only cross-border but also cross-regional capabilities.

While working capital management has traditionally been the primary objective of many payables finance programmes, other benefits include the ability to strengthen trading relationships and shore up certain points of vulnerability in the supply chain. For some corporate buyers, extending payment terms may no longer be a consideration at all, with protecting the supply chain the number one priority instead.

In addition, corporates now have a choice of a whole host of alternative SCF techniques – extending beyond traditional payables finance – and a whole host of providers. While SCF dominance still largely resides with five or six banks, a new generation of non-bank platform providers have increased their share of the market – advertising enhanced digital interfaces, simplified implementation processes, and new business models (such as those focusing on smaller suppliers, offering auction-based solutions, and those incorporating dynamic discounting).

Yet, in today’s increasingly competitive market, how can relatively new providers ensure that they balance innovation and efficiency with safety, soundness and sustainability? Where is the SCF industry heading, and what does the future look like? In addition, what does this all mean for the purchaser and the supplier?

This guide sets out to explain the progress of SCF and the payables finance business to its current position as a core working capital and supply chain management tool, and to address its potential going forward.
Key contributors

Daniel Schmand
Global Head of Trade Finance, Global Transaction Banking, Deutsche Bank, and Chairman of the ICC Banking Commission

Venkatesh Somanathan
Global Head of Supplier Finance/Confirmed Payables, Global Transaction Banking, Deutsche Bank

Anil Walia
Head of Financial Supply Chain, EMEA, Global Transaction Banking, Deutsche Bank

Christian Hausherr
Product Manager, Supply Chain Finance, EMEA, Global Transaction Banking, Deutsche Bank

Jonathan Richman
Head of Trade and Financial Supply Chain, Americas, Global Transaction Banking, Deutsche Bank

Oliver Belin
Chief Marketing Officer at TradeIX, and co-author of Supply Chain Finance Solutions

Joerg Hoerster
Managing Director & CEO, TrustBills

Alexander Malaket
CITP, CTFP, ICC Banking Commission Executive

Anand Pande
Global Product Chair, Trade and Supply Chain Finance, iGTB, and Founder, GPP

Geoffrey Wynne
Head of Trade and Export Finance, Sullivan & Worcester (London)
What is supply chain finance, what is payables finance?

1.1 Definition
Broadly speaking, and in line with the International Chamber of Commerce’s (ICC’s) Standard Definitions for Techniques of Supply Chain Finance (see appendix), supply chain finance (SCF) can be defined as the use of financing and risk management techniques to optimise the management of working capital and liquidity, and support the financial supply chain.¹

The term encompasses a range of financing and risk mitigation practices – from payables finance, to pre-shipment finance. The need for SCF is usually triggered by supply chain events, such as purchase orders, invoices, receivables and other related pre-shipment and post-shipment processes. One major aim of SCF is to decrease the cash conversion cycle (see Figure 1).

Figure 1: The cash conversion cycle (CCC)
The CCC is the flow of cash as it is converted through inventory and accounts payable (AP), sales and accounts receivable (AR) and back into cash.

This is measured by days payables outstanding (the time it takes to pay suppliers), days sales outstanding (the time between selling and being paid by buyers) and days inventory outstanding (the time to turn inventory into sales), meaning $CCC = DSO + DIO - DPO$.

The shorter the cycle, the more efficient a corporate’s operations, so treasurers must seek to increase DPO (extending the payment conversion period) and reduce DSO (ensuring incoming payments are received and processed as quickly as possible) if they are to unlock previously idle pools of liquidity.

Source: Deutsche Bank Financial Supply Chain Whitepaper 2015

1.2 Payables finance
This guide focuses specifically on payables finance, a buyer-led supply chain finance technique through which sellers in a buyer’s supply chain can access liquidity by means of receivable purchase (selling their trade receivables held against the buyer).²

Using payables finance, a seller of goods is provided with the option of receiving the discounted value of its receivables (represented by outstanding invoices) before the due date, and typically at a more attractive rate than it could normally obtain, given that the financing cost is aligned with the higher credit rating of the buyer.

Today, payables finance, which was introduced into mainstream banking channels in the early 2000s, is one of the most commonly used SCF techniques.
1.3. Payables finance in practice: Jumbo Supermarkten

An example of a successful payables finance programme in action is the one set up by Jumbo Supermarkten, the second largest supermarket in the Netherlands.

As is the case with many multi-national companies (MNCs), a key objective for Jumbo was (and still is) optimising its cash conversion cycle. But how could the company extend payment terms without disadvantaging smaller suppliers for which bank credit has either been very expensive or simply not available? How could its working capital metrics be improved without threatening the stability of its entire supply chain and the steady flow of goods?

<table>
<thead>
<tr>
<th>Jumbo Supermarkten – a winning formula that speaks volumes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jumbo Supermarkten (hereafter Jumbo) had its beginnings in 1921 with the entrepreneurial Van Eerd family – a wholesaler in colonial goods. The first shops were set up in the 1970s, and the number of shops grew until father Karel and his children Colette, Frits and Monique opened a new, unique store in 1996 (in the belief that business could be done more efficiently).</td>
</tr>
<tr>
<td>Jumbo’s unique store was a resounding success. It made possible what appeared impossible: a store that combines the largest selection, lowest prices and best service. Jumbo decided to expand what it saw as a winning formula.</td>
</tr>
<tr>
<td>Now, some 21 years after the first store opened, Jumbo has become the second largest supermarket chain in the Netherlands. It has acquired two major competitors: Super de Boer in 2009, and C1000 in 2012. Moreover, with the acquisition of the La Pace restaurant business (announced at the end of January 2016), Jumbo has expanded its reach beyond the Netherlands – into the markets of Belgium, Indonesia, Germany and the US.</td>
</tr>
</tbody>
</table>

Managing high volumes, maintaining a steady flow of goods

Retail business models are characterised by high-volume, low-ticket transactions in a business-to-consumer market – something very different from, say, the aviation industry. Everything happens fast, and so to ensure a steady flow of goods, customer satisfaction and, in turn, a healthy bottom line, Jumbo needs a healthy supply chain.

While inventory optimisation, cost and quality control, and end-to-end visibility are all invaluable management disciplines, Jumbo also wanted a solution that helped its suppliers reduce their dependence on traditional bank financing (since bank credit is often expensive or unavailable to these companies).

The Deutsche Bank/Jumbo partnership

Deutsche Bank won the mandate to provide the finance – working closely with Jumbo’s own technical teams to design a tailored solution that allows the supermarket giant to process up to 40,000 invoices in a week (without sacrificing any richness of data or required information).

Once a suitable platform had been designed, clear targets, and a personal approach (with the help of Deutsche Bank’s programme managers on the ground), resulted in the swift on-boarding of all Jumbo’s target suppliers within 12 months. For example, to ensure Jumbo’s suppliers were fully engaged in the on-boarding process, and understood the value of off-balance sheet liquidity, Deutsche Bank held a series of ‘on the ground’ meetings with Jumbo’s suppliers in the run-up to programme launch. In addition, Deutsche Bank worked with Jumbo’s procurement staff, to ensure they too understood the programme’s role in the management of the supply chain.

Today, 35,000 invoices approved by Jumbo are discounted every week on the Deutsche Bank platform. Jumbo has met its working capital objectives, and hundreds of its suppliers have access to quick, efficient liquidity.

In February 2017, the partnership between Deutsche Bank and Jumbo won a Global Finance Award for the ‘Best Customer Implementation of a Supply Chain Financing Solution’.
Figure 2: The Jumbo payables finance platform – how does it actually function?

Source: Deutsche Bank

Step 1-2: Supplier delivers goods and invoice to Jumbo

Step 3-4: Jumbo uploads approved invoices on to Deutsche Bank’s payables finance portal, which automatically notifies the supplier

Step 5: Supplier submits an online request to discount the invoice

Step 6: Deutsche Bank pays the supplier in an automated process

Step 7: Jumbo repays the invoice on maturity

Deutsche Bank operates as the fronting and agent bank, and the funding consortium includes three other banks.

1.4. What makes a payables finance programme successful?

Well-executed implementation

The underlying driver for setting up a payables finance programme is working capital optimisation. If the buyer has to set up extra infrastructure or change operating procedures to interact with suppliers, the essence of ‘optimisation’ is lost. Therefore, a well-executed implementation is the first step towards a successful programme. Ideally, a payables finance programme should be delivered in straight-through processing (STP) mode for all three parties – the buyer, the supplier, and the provider.
In addition, a well-implemented payables finance programme helps ensure that payments due to the funding bank are settled in a timely manner.

“If the funding bank receives his funds one or two days after due date, the bank will create an overdraft against the buyer for the time it is out of funds and the bank and buyer will be required to exchange lists of unpaid amounts,” explains Anil Walia, Head of Financial Supply Chain, EMEA, Global Transaction Banking, Deutsche Bank. He continues, “We settle more than 100,000 invoices per day in one of our largest programmes, you can only imagine the administrative effort required by both buyer and bank to continuously sort out the ensuing reconciliation backlog.”

The level of supplier acceptance

A good measure of a successful payables finance programme is the level of supplier acceptance. A well-executed programme will: clearly communicate to the supplier base the working capital benefits; enrol them quickly and in number; and put little burden on suppliers in order to create a positive outcome for all.

Safety, soundness and sustainability

In addition, SCF providers and corporate buyers need to ensure they balance efficiency and nimbleness with programme safety, soundness and sustainability (see Section 5 on safety, soundness and sustainability for more information). This also means keeping a close eye on the transaction to ensure that trade payables do not deviate from that definition.

“Crucially, the structure of the payables finance programme, the documentation, the processing and operational steps, and legal set-up should be geared to one goal – ensuring trade payables remain as trade payables on the buyer’s balance sheet, and an off-balance-sheet source of liquidity is created for the supplier,” reflects Walia.

“An effective on-boarding process is about more than just systems and technology. It is about the people you put in front of the suppliers and the service you provide to them. Small and medium-sized suppliers in particular want to talk to a person in their own country and in their own language”

Venkatesh Somanathan, Global Head, Supplier Finance/Confirmed Payables, Global Transaction Banking, Deutsche Bank
Demand for payables finance

Since the 1990s, demand for payables finance has risen dramatically

Industry segments including oil and gas, utilities, industrial housing, aviation and pharmaceutical companies (to name but a few) are now increasingly buying into payables finance, and there is more variety in terms of the type of solution offered, and the size and scope of the programmes executed.

At Deutsche Bank, we now have more than 600 active payables finance programmes, processing €22bn worth of transactions, and 2.6 million invoices annually.

2.1. Early drivers of growth

Although payables finance has existed since the 1990s, the global financial crisis of 2008-2009 shone a new spotlight on the method of financing, and its value with respect to effective working capital management.

The global financial crisis put many manufacturers, retailers, and suppliers at risk of insolvency. As money from traditional bank-supplied credit lines dried up, companies increasingly looked to working capital management as an important tool to unlock previously idle pools of liquidity in their supply chains. Procurement teams began to scrutinise their supplier payment terms with more rigour, and worked on lengthening them.

In addition, supplier disruptions grew as a concern for many large corporates during the crisis. Recognising the negative impact that the bankruptcy of a strategic supplier could have on their own future growth prospects, many began to think more seriously about the stability of the entire supply base – looking for new ways to aid selected suppliers as needed.

It was in this context that demand for bank-funded payables finance programmes surged. Using payables finance, large corporate buyers can extend or maintain existing supply payment terms, without threatening supply chain stability, and suppliers can access financing at a rate that reflects the risk of the better-rated entity in the supply chain.4

“We started to consider SCF in 2009. At this time, several of our suppliers were struggling to finance their production (and the sourcing of their raw materials) and were insisting on early payments. By using SCF we were able to offer our suppliers a low-cost source of funding (the risk for this funding was on us), while avoiding any adverse impact on our working capital”

Auchan Retail – French multinational hypermarket chain and SCF client of Deutsche Bank

"We started to consider SCF in 2009. At this time, several of our suppliers were struggling to finance their production (and the sourcing of their raw materials) and were insisting on early payments. By using SCF we were able to offer our suppliers a low-cost source of funding (the risk for this funding was on us), while avoiding any adverse impact on our working capital”

Auchan Retail – French multinational hypermarket chain and SCF client of Deutsche Bank
2.2. Drivers of continued growth
Demand for sustainable working capital

Today, the working capital advantages of payables finance remain a key attraction for corporate buyers. PwC’s “Global Working Capital Survey” valued the total cash opportunity from working capital at more than €195bn for the retail and consumer sector, €147bn for the energy, utilities and mining industry, and €138bn for the industrial manufacturing sector (see Figure 3).5

On average, large MNC buyers can yield US$200m in added cash flow by implementing a payables finance programme – and all without threatening cash-strapped suppliers.6

---

**Figure 3: Cash opportunities from working capital per sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total cash opportunity (€bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail and consumer</td>
<td>195.0</td>
</tr>
<tr>
<td>Energies, utilities and mining</td>
<td>147.0</td>
</tr>
<tr>
<td>Industrial manufacturing</td>
<td>138.4</td>
</tr>
<tr>
<td>Engineering and construction</td>
<td>76.8</td>
</tr>
<tr>
<td>Automotive</td>
<td>62.3</td>
</tr>
<tr>
<td>Metals</td>
<td>43.7</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>35.9</td>
</tr>
<tr>
<td>Chemicals</td>
<td>35.1</td>
</tr>
</tbody>
</table>


The rise of open account trade

The rise of payables finance is also, in part, reflective of the expansion of trade on open account terms – referring to trade transactions where the buyer is directly responsible for meeting the payment obligation in relation to the underlying transaction.

Today, open account trading is no longer reserved for trading relationships in, or with, low-risk markets where counterparties have a long history of dealing with each other. It now represents around 80% of trade transactions by volume – and is expected to rise further with time.7

The transition to a situation where the vast majority of trade takes place on open account terms has challenged the utility of traditional trade finance instruments (such as letters of credit) and fuelled the expansion of SCF.

The rise of corporate responsibility and the growing prioritisation of long-term sustainability

Payables finance is not only about managing working capital and mitigating supply chain risk – but also about managing a corporate buyer’s reputation. The notion of company values and long-term commercial sustainability, shoring-up points of vulnerability, and treating suppliers fairly all have reputational benefits. In fact, for some, extending payment terms may no longer be the reason for utilising SCF.

The Addis Ababa Agenda on Financing for Development, set out in the resolution adopted by the United Nations General Assembly on 27 July 2015, highlighted that micro, small and medium-sized enterprises, “particularly those that are women-owned”, often “have difficulty in obtaining financing”. The resolution document commits the UN to “work to strengthen the capacity of financial institutions to undertake cost-effective credit evaluation”.8
One of the strategies to make this happen is the development of SCF programmes in partnerships between development and commercial banks to release liquidity to SMEs. An example of this is the deal announced on 22 November 2017 by Deutsche Bank and Asian Development Bank to provide more than US$200m a year in financing to Asian SMEs located mainly in Bangladesh, China, India, Sri Lanka and Vietnam.  

Another example of SCF improving environmental and social compliance is Levi Strauss & Co’s use of the International Finance Corporation’s (IFC) US$500m Global Trade Supplier Finance Programme, in which they provided financial incentives to suppliers that scored better under the global apparel giant’s evaluation scheme for labour, health, safety and environmental performance. “In the intensely competitive garment industry, access to lower cost financing is an advantage to suppliers. And the benefits go beyond money. Suppliers can differentiate themselves from competitors through the validation of the environment and social ratings,” said Farzin Mirmotahari, IFC Lead Officer for Supply Chain Development in 2014 when the deal was announced.
3.
An increasingly complex ecosystem

As the market has matured and grown, new complexities, challenges, and opportunities have emerged

These include inconsistent language and terminology, demand for diversified funding sources, the necessity of global coverage, and a revolution in enabling technologies.

3.1 Inconsistent language and terminology

Before the publication of the ICC Banking Commission’s Standard Definitions for Techniques of Supply Chain Finance\(^{11}\) (hereafter Standard Definitions), inconsistent, and even contradictory, language was used to describe payables finance (and SCF more broadly) – a product of the market’s rapid evolution.

For example, while some used the term “supply chain finance” simply in reference to payables finance, others used the term (as the ICC Banking Commission and we have done) to reference a collection of financing techniques under a single umbrella. In addition, a whole host of different terms have been used to describe what the Standard Definitions label “payables finance” – including reverse factoring, confirming, confirmed payables, supplier payments, vendor pre-pay, and trade payables management (to name a few).

Such inconsistencies, states the Standard Definitions, have both complicated advocacy efforts, and diluted the effectiveness of communication aimed at fairly articulating the value proposition of SCF programmes in a complex ecosystem of providers, clients, accountants, legal professionals, and regulatory authorities. In particular, explains the Standard Definitions, the lack of standardisation appears to have had a negative impact on the accounting and regulatory treatment of SCF techniques. At present, the risk-based capital allocation rules applicable to SCF (and payables finance) are still evolving, and there is a lack of alignment on accounting standards and practices across jurisdictions.

The Standard Definitions – a problem solved?

Launched in 2016, the Standard Definitions were developed as a means to remove the uncertainty and ambiguity surrounding industry terminology.

Executed by a team of senior practitioners – including Deutsche Bank’s Christian Hausherr, Product Manager, Supply Chain Finance, EMEA – and incorporating the views of bank and non-bank contributors from five continents\(^{12}\), the Standard Definitions offer a set of commonly agreed definitions for both SCF and the individual SCF techniques. They provide clear guidance on how each individual technique works, the legal parties involved, their contractual relationships, as well as the implied risks and how the involved parties can mitigate them. It also compares the techniques against a range of commercial, financial and legal characteristics (see Appendix).

“There was often a different set of terminology and a different understanding of what SCF actually was, depending on the industry, the region, and the SCF provider – affecting uptake and engagement”

Alexander Malaket, CITP, CTFP, ICC Banking Commission Executive

“The Standard Definitions were not an attempt to reinvent the wheel. The intention was rather to put together a fresh pair of wheels that will allow us to ride the vehicle of SCF in a safer and more efficient manner”

Christian Hausherr, Product Manager, Supply Chain Finance, EMEA, Global Transaction Banking, Deutsche Bank
It is still early days, but the potential impact of the Standard Definitions is clear. Armed with global standards, the industry can measure, understand and ultimately manage its payables finance business in a safer and more efficient way. Finance providers can improve their communication with end-clients and the client can better understand the different solutions on offer, and subsequently engage in a more relevant dialogue with their finance providers.

Moreover, a consistent and widely accepted set of definitions may also help advance the development of appropriate regulatory and accounting standards for the SCF industry – particularly for payables finance.

However, the realisation of these advantages is dependent on the adoption and use of the Standard Definitions terminology by market participants.

“We are at the beginning of having a common understanding of what SCF should and could be in response to market need. Part of that ongoing global process involves the adoption and use of standard terminology and definitions.

To date, we have had excellent reports of the Standard Definitions across financial institutions, SCF providers and fintechs. Use of the definitions among compliance, legal, accounting specialists, and other industry stakeholders is gaining momentum, and we are increasingly seeing them used alongside providers’ existing branded product definitions.”

Alexander Malaket, CITP, CTFP, ICC Banking Commission Executive

3.2 Diversified funding sources

With the publication of the Standard Definitions, the SCF industry has reached a new age of maturity. Yet, the industry still has a number of other challenges to navigate.

One of these is the multi-funder dimension. As the market has grown, so has the size of payables finance deals demanded by corporates. Some programmes (particularly those of the largest MNCs) have become so enormous that they now outstrip the funding capacity of a single bank.

Leading banks have created capacity for these enormous programmes by forming syndicates with other banks (usually with the clients’ other relationship banks). However, only a handful of players currently have the capabilities and expertise to lead such syndicates.

As Deutsche Bank’s Anil Walia states, “Managing a multi-bank payables finance solution introduces new challenges for the lead bank. You need to take account of the technical and data compatibility issues, reporting requirements, and risk and compliance needs of all participants.”

In addition, it is essential that the transfer of the asset is legally watertight. IFRS 9 (effective from January 2018), which specifies how an entity should classify and measure financial assets – and differentiates between assets to be held on one’s own books and those to be sold – has added a new layer of complexity to the equation.\(^\text{13}\)

Moving forward, it is hoped that further financing capacity can be created through new linkages with the capital markets and the development of a deep secondary market for trade finance assets. However, in practice, this will take some years to crystallise. The Euro Banking Association observes that, at present, these “assets are not well understood by potential institutional investors.”\(^\text{14}\)
3.3 Global coverage

Today, in order to remain competitive, payables finance providers must offer seamless global capabilities that reflect the global nature of their client’s business and supplier relationships (see Section 3.7, Payables finance in practice: Electrolux).

There are additional layers of complexity involved – in terms of regulatory, legal and operational challenges – if a buyer and its suppliers are located cross-border and cross-region.

A successful global provider will need to have people on the ground who understand the local environment – in particular the regulatory environment (see Section 5: Safety, Soundness and Sustainability) – and who can respond to the supplier in the same time zone and the same language.

In addition, a successful provider will need a global-friendly platform, and a cross-border funding model.

3.4 Enabling technologies

While much has changed in the SCF landscape since the early 1990s, the underpinning technology behind payables finance platforms has remained largely unchanged. Platforms today, as in the 1990s, remain located on the owner’s server and cloud-based (to access information, users go online and log in to access).

However, as Jonathan Richman, Deutsche Bank’s Head of Trade Finance and Financial Supply Chain Americas, explains, “While there have been no transformational changes made to the technical infrastructure established in the 1990s, refinements to the existing architecture have been made.” This development is outlined in Figure 4 below.

“Today, when payables finance providers approach us, I look for evidence of global coverage. Can the provider support our global needs? Can the provider support our buying entity in North America and our suppliers in Asia? Can they respond in the same time zone and in the same language? This is very important to us”

Electrolux – Swedish multinational home appliance manufacturer and SCF client of Deutsche Bank
Figure 4: A short developmental history of the technology behind the payables finance platform

Buyer-led platforms

During the early 1990s, German retail giant Metro Group set up a supplier financing platform with its in-house financing entity MIAG in Switzerland. This platform is still operating today and is web-based.\(^{15}\)

French retail group, Carrefour, soon followed – setting up a similar platform connected to its in-house financing entity, FINIFAC, in 2000.\(^{16}\)

Bank-led proprietary platforms

By the early 2000s, a number of leading banks had established their own proprietary payables finance platforms, often sold to clients as part of a wider portfolio of banking solutions.

These platforms were integrated with the buyer’s ERP system through host-to-host connectivity solutions. FTP servers were commonly used as a means of secure data transmission. However, the process of implementing these secure data channels could take up to three months.

Increased competition, third-party platforms, and platform refinements

By 2010, the payables finance market was flooded with platform providers – including a number of third-party providers (providers that separated the funding from the technological platform). With increased competition came a number of platform innovations and refinements. These include:

1) **Plug-and-play technology:** Today, a number of providers, including banks, offer a “plug and play” model, where the payables finance platform is connected to the buyer’s ERP system and automatically extracts the required data. Such features have significantly reduced the time and effort required by a corporate buyer to initiate a programme.

2) **Digital documentation:** To reduce the burden on suppliers, and speed up the on-boarding process, many platforms now offer suppliers the option to upload or fill in the required documentation online. As legal frameworks on digital signatures are established – in Europe and beyond – this is fast becoming a new global standard.\(^{17}\)

3) **Global capabilities:** Until recently, large suppliers could be included on 20 different payables finance platforms, depending on their buyers and scope of geographical operations. The administrative burden could be enormous. This has changed: for example, today, suppliers signed up to the payables finance programmes of several Deutsche Bank clients are able to access all their global programmes through a single access point.

4) **Electronic invoicing (e-invoicing):** Historically, invoicing has largely been a paper-based process. E-invoicing (or the lack thereof) does not alter the effectiveness of a payables finance programme directly. However, it does have an impact on the client’s broader working capital objectives (a 2017 report published by Billentis indicated that the incurred costs of receiving an invoice could be reduced by an average of €10 by moving to e-invoicing).\(^{18}\) In response, some providers now offer e-invoicing solutions as an add-on to their SCF platforms. While take-up rate by corporate buyers has been relatively low (the treatment of e-invoices in legal and tax terms remains un-standardised across countries and security remains a key concern), the landscape is beginning to change. For example, in 2014, the EU issued a new European standard for e-invoicing.\(^{19}\)

Source: Oliver Belin, Chief Marketing Officer at TradeIX and co-author of *Supply Chain Finance Solutions*, and Anil Walia, Head of Financial Supply Chain, EMEA, Global Transaction Banking, Deutsche Bank.
3.5 The blockchain revolution?

Blockchain, underpinned by distributed ledger technology, or DLT, could prove a truly transformational technology for payables finance (and SCF more broadly).

A blockchain-enabled system could allow all members of a supply chain – the various sellers, buyers, shippers, insurers, inspectors, banks and even investors – to share the same ledger (see Figure 5). Proprietary, centralised databases would be replaced with one single master database – all but eliminating the need to reconcile inconsistent records.

Substituting large numbers of proprietary systems with one open-source, relatively simple, protocol could dramatically drive down infrastructure costs. It would make the payables finance platform accessible to a far greater number of companies and make it easier to eliminate paper-based processes. Moreover, because blockchain transactions are direct and settled almost instantaneously, they are not only faster, they virtually eliminate counterparty risk. This could in turn, free up more capital for other uses. Other theoretical benefits include: reduced chance of fraud; a more holistic and real-time view of supply chain flows; increased data points and better decisions; and the opportunity to implement efficiencies such as “smart contracts”.

The R3 Consortium (the largest consortium of global financial institutions working on developing commercial applications for DLT) estimates that blockchain could reduce operational and compliance costs associated with traditional financing by 10–15%.

However, there are a number of building blocks still required to make a blockchain-enabled payables finance solution a practical reality:

1) Industry-wide collaboration

Collaboration is fundamental. Lines of enquiry need to look beyond ‘sterile technology tests’ to include a practical view on integration into the real world. This can only be achieved through ongoing dialogue between banks, fintechs, regulators and other participants in the payables finance ecosystem.

Recognising the importance of industry-wide collaboration, Deutsche Bank has invested in the R3 Consortium, now comprising more than 80 members,
including banks, clearing houses, exchanges, market infrastructure providers, asset managers, central banks, regulators and professional service firms.

In January 2017, Deutsche Bank also signed a collaborative agreement with KBC, Natixis, Rabobank, Société Générale, and UniCredit, committing to develop and commercialise the “Digital Trade Chain” (DTC) solution (now we.trade) – a new cross-border trade finance platform for SMEs based on distributed ledger technology. Live from December 2017, the platform represents a significant step forward for the trade finance industry – connecting all parties involved in a trade deal in one place, helping SMEs initiate new trading relationships and providing easy access to financing.

2) Strong and secure legal frameworks
As noted by Daniel Schmand, Deutsche Bank’s Global Head of Trade Finance, in the keynote address at the sixth Supply Chain Finance Summit in London, the biggest remaining challenge when it comes to developing blockchain-enabled solutions is the lack of defined regulation regarding its usage.22 While there are localised examples of governments and regulators acting to facilitate the practical implementation of new technologies such as blockchain (in Singapore, for example), a business that is inherently cross-border, like payables finance, requires common, global, standards to generate critical mass.

3.6 Artificial intelligence
One could be forgiven for thinking blockchain is the only new technology with the potential to transform the payables finance business and its processes. However, other innovations – such as artificial intelligence (AI) and enhanced data intelligence – could actually have a more significant impact in the near term.

1) Using AI to enhance KYC/AML processes
A number of providers are now exploring how AI could be used to enhance KYC and risk management processes. For example, while existing supplier on-boarding processes often enforce rigid, static and one-size-fits-all checklists for collecting KYC information, an AI-enabled system could, in theory:

- provide a dynamic questionnaire that could adapt to customer responses;
- allow for real-time KYC anomaly detection; and
- improve overall process speed and cost-efficiency.

In addition, an AI-enabled system that had learned money-laundering typologies could, in theory, proactively ascertain when and where risks are likely to emerge based on past trends. It could also intelligently analyse high numbers of contextual data points (such as account profile data from CRM, non-transactional behaviour from web login activity, and other unstructured data sources) to create a highly refined risk score, and help ensure strong risk controls.

“When it comes to blockchain, there is only so much you can learn on your own. Working collaboratively is the logical and practical way to make DLT happen”
Matthaeus Sielecki, Head of Disruptive Technologies & Client Innovation, Trade Finance & Cash Management Corporates, Global Transaction Banking, Deutsche Bank

“It takes more than a village. The whole supply chain ecosystem needs to collaborate to a degree. You need to develop common standards, common rules and common methodologies”
Rick Striano, Managing Director, Digital Product Development, Global Transaction Banking, Deutsche Bank

“Blockchain technologies need to move from disparate standards towards either interoperability or a uniform standard. Clarification from governments as to the legal enforceability and validity of smart contracts is another pre-requisite for building critical mass – and one which needs to be resolved on an urgent basis”
Anand Pande, Global Product Chair, Trade and Supply Chain Finance, iGTB, and Founder, GPP
2) Using AI to determine optimum payment terms

Providers are also exploring the use of AI and historical data on invoice payments to help determine the optimum payment terms for a particular buyer and their supplier based on their specific circumstances.

However, Oliver Belin, CMO of TradeIX, notes, “to be accurate using artificial intelligence, you need vast amounts of historical data on every single commodity and every single product. You need a trading history, and a procurement history on every specific product – a machine does not have that data yet.”

3.7 Payables finance in practice: Electrolux

Electrolux – plugging in a global supply chain finance programme

AB Electrolux (commonly known as Electrolux) is a global household name. The Swedish-based corporate, established in 1919, today ranks as one of the world’s leading appliance manufacturers. In 2016 alone, Electrolux sold more than 60 million household and professional products in more than 150 markets.

For a business that places “the consumer at the heart of everything it does”, a healthy supply chain is of fundamental importance. To meet customer expectations and ensure service quality, Electrolux depends on a supply chain that is both sustainable, and resilient to disruption. However, with a global network of more than 1,000 strategic suppliers, the management of this is no easy feat.

It is for this reason that Electrolux has invested heavily in making its supply chains more transparent, flexible and responsive. The company employs a combination of techniques – from inventory optimisation to electronic invoicing solutions. However, payables finance, in particular, has become an increasingly prominent technique used by the company.

The SCF early years

Electrolux launched its first regional payables finance programme almost 30 years ago for its Italian suppliers. The programme proved popular with Electrolux’s Italian suppliers, so Electrolux decided to replicate a similar structure, first in Brazil, and subsequently in North America.

The attraction? As Johan Werme, Manager, Supply Chain Financing at Electrolux, says, “We started our payables finance programme to support our suppliers when we extended payment terms; we wanted to improve their cash-flow, and ensure they could grow in line with our ambitious business objectives.” Payables finance has played a significant role in strengthening supplier relationships and providing the foundation for long-term sustainable partnerships.

Going global

Until 2011, Electrolux ran a series of localised and regionalised payables finance programmes: one in Europe, one run by Deutsche Bank in North America, one in Chile, and one in Brazil.

Pricing is important, according to Werme, “Our choice of providers in those early days often came down to pricing – we wanted to be able to deliver the most competitively priced working capital to our suppliers.”

By 2012, Electrolux had more ambitious plans. Building on the success of its regional programmes in North America and Europe, Electrolux sought a global payables programme. Initially focused on cross border flows for its Asian suppliers, the programme quickly expanded to cover all regions and flows. The company wanted its buying entities and its suppliers to be supported (both in an operational and legal sense) locally, even when, for example, the buying entity was located in North America, and the supplier in Asia. “We wanted to build a global programme, with global capabilities,” reflects Werme.

Deutsche Bank won the mandate to provide this service on the grounds of effective programme reach in North America and evidence of global coverage.
**Key success factors**

To make a cross-regional programme successful, and ensure the successful on-boarding of suppliers, providers need to invest in strong local capabilities.

What does this mean? “You need a strong understanding of the local environment and local regulations in all the locations in which suppliers are situated, and you need the resources to support suppliers promptly, in their own language, and in the same time-zone,” says Anil Walia, Head of Financial Supply Chain, EMEA, Global Transaction Banking, Deutsche Bank.

Alessio Gallazzi, Electrolux’s Global Supply Chain Finance Manager, from Deutsche Bank adds, “To keep the client satisfied, you also need a centrally coordinated global strategy, and you need to ensure there remains a clear structure of communication. We provide Electrolux’s head office with monthly reports on global on-boarding progress across the different regions, and have established a centrally coordinated global team to integrate the multifarious IT systems Electrolux has to account for in its global operations.”

Werme concludes, “Moving forward, what I would really like to see, is access to a more interactive platform – a platform that would provide real-time data on how many invoices have been discounted, or how many suppliers have been on-boarded in APAC, compared to the US this year.”

**Figure 6: The global platform architecture**

The Electrolux platform operates in much the same way as the Jumbo platform.

---

**Supplier finance – workflow and platform**

1 – 2  Supplier delivers goods and invoice to Electrolux

3 – 4  Electrolux uploads approved invoices onto Deutsche Bank’s payables finance portal which automatically notifies the supplier

5  Supplier submits an online request to discount the invoice

6  Deutsche Bank pays the supplier in an automated process

7  Electrolux repays the invoice on maturity

**Results**

Today, Deutsche Bank’s programme with Electrolux covers almost all of Electrolux’s cross-regional flows – with an 80% success rate of target suppliers joining the programme. In addition, while Electrolux’s target suppliers initially opted for selective discounting on their invoices, five years on, the majority of suppliers have selected automatic discounting for their invoices, indicating the popularity of the programme.
Nufarm Limited is an established global agricultural inputs company, specialising in crop protection and seed technologies. Headquartered in Melbourne, Australia, various acquisitions and organic growth has fuelled rapid expansion since its foundation in the 1950s. Operations span North America, Latin America, Europe and Australasia. At US$3.1bn (according to its 2017 Annual Report from the year ending 31 July 2017), Nufarm is currently the ninth largest crop protection corporate in the world.

In 2013, when the company was grappling with weak Australian earnings and a modest decline in EBITDA, supply chain finance caught the interest of the Nufarm board. Its working capital inefficiencies – in particular the imbalance between payment terms for payables and receivables – did little for its market position with credit ratings agencies.

Building a best-fit programme
With a fragmented supplier base – spread across China, India, Australia and the US – and its buying entities based in different geographies, but connected through a procurement hub based in Malaysia, Nufarm needed a payables finance platform able to support and sustain its cross-border supplier base.

“Building a best-fit programme for a truly multi-national corporation such as Nufarm requires more than just a tech-savvy platform,” says Venkatesh Somanathan, Global Head, Supplier Finance/Confirmed Payables, Global Transaction Banking, Deutsche Bank. “Cross-border resources, and a cross-border funding model, are essential.”

In addition, given that payments to Nufarm’s suppliers are made through a procurement hub in Malaysia (rather than directly through the separate buying entities), the legal framework – and the programme’s structure – had to cover the agent while booking exposures on the buying and operating entities.

Deutsche Bank was selected as a partner bank. “Our understanding of local markets, regulatory restrictions, and our ability to offer one platform that spanned Nufarm’s global supplier base, made us an attractive option,” notes Somanathan.

On-boarding support
To optimise supplier on-boarding across multiple geographies, Deutsche Bank devised a targeted approach. This included holding supplier roadshows in suppliers’ respective locations, providing them with an alternate source of un-secured financing, and offering flexible options on the discounting of receivables.

With a successful strategy in place, Nufarm was able to negotiate extended payment terms of 180–225 days with more than 20 key suppliers (covering 90% of its total suppliers by volume). In turn, it was able to better align its receivables and payables payment terms and in turn strengthen its working capital management. In fact, Nufarm’s net working capital to sales ratio has been reduced from 48% in 2014, to 37% today (see Figure 7).

In addition, with suppliers now able to access immediate upfront payment (rather than the traditional cash-on-delivery paradigm), Nufarm’s global supply chain and supply chain relationships are much stronger.

Figure 7: Nufarm’s Net Working Capital to Sales Ratio (2014-2017)

Source: Nufarm 2017 Financial Year Results
3.9. Payables finance in practice: Auchan Retail

**Auchan Retail – supporting suppliers, delivering quality**

Auchan Retail (hereafter Auchan) is a France-based, international food retail giant. With an established presence in 17 countries across Europe, Asia and Africa, 3,715 stores to its name, and consolidated 2016 revenues of €52.8bn, Auchan has grown over its 55 years of trading to become the world’s 11th largest food retailer.27

For a retailer whose ethos is focused on the selection and delivery of “quality products” (it points out that it is “not a distributor”), the effective management of supply chains is of fundamental importance. SCF has become one of the critical means through which Auchan is able to support its supplier bases, secure long-term supply chain sustainability, and in turn, ensure the continued provision of quality goods, and long-term revenue growth.

**Supporting suppliers post-crisis**

Auchan started its SCF programme in 2009, in response to growing liquidity difficulties faced by smaller suppliers in the wake of the global financial crisis.

As François Verrodde, General Manager of asap (Auchan Suppliers Advanced Platform) explains, “In 2009, several of our suppliers were struggling to finance their production (and the sourcing of their raw materials) and, in view of their difficult positions, were demanding early payments. SCF allowed us to offer our suppliers a low-cost source of funding (the risk for this funding was on us), while avoiding any adverse impact on our working capital.”

Deutsche Bank was not one of Auchan’s senior relationship banks at the time. Rather, Auchan’s rationale for choosing Deutsche Bank was the need for a bank with global capabilities that could accommodate its plans to expand to other countries and regions. “You need to imagine the scope and requirements of the programme three or four years down the line,” explains Verrodde. Auchan needed smooth implementation, rapid supplier onboarding, and fair pricing across the numerous markets in which it operated.

Flexibility was also important. Verrodde adds, “We also appreciated the fact that Deutsche Bank never imposed their platform on us – they were open to exploring a unique technical solution that combined our own electronic invoicing platform with the processes of the bank.”

Importantly, the corporate confirmed that the SCF programme has had “a positive impact on supplier relationships” and, in addition, has assisted the implementation of parallel projects with suppliers – such as electronic invoicing and automatic invoice approval.

**Implementing an effective cross-border SCF programme**

Auchan first set up an SCF programme for its French suppliers. However, since then its scope has widened to other European suppliers – including those from Poland and Portugal – and, most recently, to Chinese suppliers.

While there are additional challenges involved if the buyer and its suppliers are located cross-border – both in terms of regulatory and operational challenges (for example, you need higher flexibility in terms of currencies in which you offer financing) – these are not insurmountable obstacles with a global partner.

“Deutsche Bank’s offering is global, and together we have developed sufficient experience in implementing SCF programmes to be able to roll out seamlessly. Suppliers are routinely asked about the quality of the bank’s interactions and delivery – and feedback has been very positive,” concludes Verrodde.
The fintech revolution – what is the reality?

The fintech revolution is transforming the entire banking industry and the payables finance business is no exception.

In their Harvard Business Review article ‘The Rise of FinTech in Supply Chains’, Dale Rogers, Rudolf Leuschner and Thomas Y Choi, positioned fintechs as brokers, given that “their relationships with an entire network of different banks or financial institutions allow them to obtain the best funding solutions for their customers”.

4.1 Defining the landscape

While global banks have traditionally dominated the payables finance landscape, holding more than 95% of programmes in 2005, over the past few years, third-party platform providers have significantly increased their share of the market. According to a PwC/Supply Chain Finance Community SCF Barometer published in December 2017, fintech platform suppliers now hold 14% of payables finance programmes.

What differentiates third-party providers?

Broadly speaking, third-party providers place emphasis on their funder-agnostic digital interfaces and tools, simplified implementation and on-boarding processes, and altered business models. They typically offer products such as auction-based digital solutions, solutions incorporating dynamic discounting (a variant of payables finance whereby the buyer may utilise its own funds to pay an invoice or account payable prior to the original due date), and platforms for smaller suppliers.

However, not all third-party fintechs are the same – there are multiple providers, all of which offer slightly different solutions, with slightly different key strengths (see Figure 8).

<table>
<thead>
<tr>
<th>Third-party provider</th>
<th>Key advertised strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>TrustBills <a href="http://www.trustbills.com">www.trustbills.com</a></td>
<td>TrustBills is the first online auction platform for national and international trade receivables sold in true sale</td>
</tr>
<tr>
<td>TradeIX <a href="https://tradeix.com">https://tradeix.com</a></td>
<td>TradeIX, launched in 2017, offers end-user SCF applications, with open APIs connecting multiple partners and core infrastructure supported by distributed ledger technology</td>
</tr>
<tr>
<td>Kyriba <a href="http://www.kyriba.com">http://www.kyriba.com</a></td>
<td>Kyriba offers a 100% SaaS (Software as a Service) solution for payables finance and dynamic discounting</td>
</tr>
<tr>
<td>Demica <a href="http://www.demica.com">http://www.demica.com</a></td>
<td>Demica provides payables finance platforms for non-investment-grade, as well as investment-grade corporates</td>
</tr>
<tr>
<td>Taulia <a href="https://taulia.com">https://taulia.com</a></td>
<td>Taulia began as a dynamic discounting platform provider. It has now also introduced a payables finance platform</td>
</tr>
<tr>
<td>Tungsten <a href="https://www.tungsten-network.com">https://www.tungsten-network.com</a></td>
<td>Tungsten is primarily an e-invoicing platform</td>
</tr>
</tbody>
</table>
### Third-party provider

<table>
<thead>
<tr>
<th>Third-party provider</th>
<th>Key advertised strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orbian</td>
<td>Orbian uses a bank-agnostic funding model that makes use of the capital markets. Each payables finance programme is funded through a separate Orbian SPE which, in turn, funds itself through the issue of notes sold to banks and non-bank investors</td>
</tr>
<tr>
<td>Prime Revenue</td>
<td>Prime Revenue uses a bank-agnostic funding model for its payables finance platform</td>
</tr>
</tbody>
</table>

*this table provides a simplified view of offerings

### 4.2 The bank advantage

There is ongoing speculation that a combination of new technology, corporate balance-sheet muscle and the emergence of new funding sources will eventually lead to significant bank disintermediation in the SCF market. However, this seems unlikely. The emergence of new business models and an evolving competitive landscape may even prove to be an opportunity for banks.

There are a number of reasons why banks will remain key players in the payables finance business:

1) Long-standing relationships

   Most large corporates still view their payables finance programmes as a core banking product, and part of their trade finance portfolio, which they allocate to their key relationship bank. Why? Trust. Setting up a payables finance programme is a strategic move that profoundly changes corporates’ interactions with suppliers. In this context, corporates rely on trusted and long-standing providers (as well as those that are able to offer them access to a range of investment and transaction banking services, should they require it).

2) Balance sheet

   The majority of third-party providers do not claim to sell holistic payables finance solutions. Indeed, most focus their business models on offering technology platforms and software solutions, rather than on the provision of balance sheet capabilities (as highlighted by Figure 8). In most cases, even when a corporate does approach a third-party provider, it is larger financial institutions that underpin this offering with capital provision.

3) The short tail versus the long tail

   In the early years, banks, as well as corporate buyers, focused their efforts on what is known as the ‘short tail’ of the SCF market (the top 20-30% of the supplier portfolio, typically covering more than 70% of the procurement volume). In contrast, many third-party providers concentrated their efforts on small-to-mid-sized suppliers.

   However, as corporate views on the benefits of payables finance programmes have matured (programmes are increasingly being set-up to create sustainable supply chain relationships – see section 2.2), the major banking players are now responding – acting to extend their business proposition to incorporate smaller players and the long tail (often through the establishment of partnerships with new third-party providers).

4) Safety and soundness

   There remains a market perception that the on-boarding process can be slower when managed by a banking partner. However, experienced players realise that only by doing the necessary due diligence can banks ensure that a corporates SCF programme is compliant and risk-aware (see Section 5: Safety, soundness and sustainability).
4.3 Competition versus collaboration

Given their complementary strengths, the focus moving forward should be on how banks and fintechs can work better together.

There are various models of collaboration. Banks for example could choose to finance (or acquire) promising fintechs, or the two parties could form partnerships – for example, where the bank contributes its historical knowledge and expertise, and the fintech agrees that the bank may use the solution once developed.

No matter the nature of the relationship, transaction banks need to ensure that any solutions developed match the bank’s standards in terms of quality, security and integrity. They need to screen partners for quality and long-term viability, and work closely together to ensure an enhanced experience for the end client.

Deutsche Bank’s acquisition of a 12.5% share interest in receivables auction platform TrustBills is an example of such strategic collaboration. TrustBills provides Deutsche Bank with an important value-add to its current offering, while Deutsche Bank’s position as one of the world’s largest trade finance banks can help facilitate the international roll-out of TrustBills.

4.4 Partnership in practice: TrustBills

Deutsche Bank and TrustBills – a bank-fintech partnership

In April 2017, Deutsche Bank announced its acquisition of a 12.5% share interest in TrustBills, the first online auction platform for selling and buying domestic and international trade receivables. Why did this particular fintech choose to collaborate with Deutsche Bank? Moreover, why did Deutsche Bank choose to invest in TrustBills?

Benefits for suppliers

With TrustBills, suppliers decide freely if, how and when they sell their trade receivables. The platform connects receivable sellers to a wider pool of investors – including institutional investors, banks, and other corporations – with receivables sold to the highest bidder. Suppliers can set a start price and they can request an irrevocable payment undertaking from the receivables debtor, but they do not have to.

The process of uploading trade receivables onto the online platform is simple and efficient for suppliers. The initial registration and KYC-based verification can be completed within two weeks.

Opportunities for institutional investors

In the past, institutional investors could only gain access to trade receivables by an asset-backed commercial paper programme. While potential earnings for investors were low (an intermediary in the form of a bank or SPV would be required for the securitisation), this was viewed as the only means of managing large numbers of heterogeneous trade receivables (if you buy 1,000 trade receivables, you buy 1,000 different financial invoices).

However, TrustBills has bypassed this traditional dilemma. To navigate the administrative complexity of managing large volumes of trade receivables securitisation has been replaced with automation. This involves an integrated auto/algo-bidding function for those wishing to run large receivable funds with, for instance, only one or two portfolio managers, and offers post-trade, automated custody reporting and risk management capabilities.

“We need to make sure that things are done, and done properly. We need to remain accountable. We cannot expect less because we are working with a third-party”

Venkatesh Somanathan, Global Head, Supplier Finance/Confirmed Payables, Global Transaction Banking, Deutsche Bank
**Figure 9: the auction process**

<table>
<thead>
<tr>
<th>Process for receivable seller</th>
<th>Process for receivable buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upload and verification</strong></td>
<td><strong>Filter</strong></td>
</tr>
<tr>
<td>Upload trade receivable onto platform. Wait for TrustBills to verify and accept receivable</td>
<td>The buyer first filters the pool of uploaded trade receivables based on individual risk appetite and return requirements</td>
</tr>
</tbody>
</table>

![ERP](https://example.com/erp.png) ![Excel](https://example.com/excel.png) ![Manual](https://example.com/manual.png)

<table>
<thead>
<tr>
<th><strong>Tailor</strong></th>
<th><strong>Bid</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Set auction parameters: seller sets start price, start date and auction duration (debtor IPU-confirmation is optional)</td>
<td>The buyer can choose between different degrees of automation, from manual bids to algorithm trade functionality</td>
</tr>
</tbody>
</table>

![Start price](https://example.com/start-price.png) ![Duration](https://example.com/duration.png) ![Start date](https://example.com/start-date.png) ![Manual](https://example.com/manual.png) ![Auto-fill](https://example.com/auto-fill.png) ![Autobidding](https://example.com/autobidding.png)

<table>
<thead>
<tr>
<th><strong>Auction and assignment</strong></th>
<th><strong>Purchase and payment</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction takes place. The seller then receives a digital purchase and assignment agreement and simultaneously, the auction price is automatically transferred to the seller’s account</td>
<td>Auction takes place. Buyer then receives a digital purchase and assignment agreement, and the auction price is automatically transferred from the buyer’s account to the seller’s account</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Payment on due date</strong></th>
<th><strong>Payment on due date</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>TrustBills automatically detects when the debtor pays the supplier for the specific trade receivable, and initiates the transfer of that amount to the receivable buyer’s account. In cases where the debtor has been notified about the assignment, direct payment to the buyer’s (not the seller’s) account is also possible</td>
<td>The buyer will receive the entire amount paid by the debtor immediately after payment</td>
</tr>
</tbody>
</table>

**Partnership in action**

The TrustBills online auction platform for trade receivables is a new concept that connects sellers of trade receivables with institutional investors. The partnership with DZ BANK and Deutsche Bank (as equity stakeholders as well as cooperation partners) is mutually beneficial. For TrustBills, the partnership offers access to a wide range of client segments in Germany and on an international scale. For the banks, the partnership with TrustBills offers the opportunity to provide clients with an innovative and unique offer in the working capital finance space.

As the name suggests, TrustBills wants receivable buyers to feel secure on their auction-based platform. To ensure this, TrustBills only accepts companies on the online platform that have been in business for at least three years and have been identified by a partner bank during the account opening process.

*Sources: Joerg Hoerster, TrustBills CEO, and Markus Wohlgeschaffen, Senior Vice President Client Solutions.*
Safety, soundness and sustainability

Given the sheer scale of today’s payables finance networks, corporates and providers have to keep on top of safety, soundness and sustainability and be sure that the contractual framework is legally robust.

What do we mean by this?

1) Is the payables finance programme well-structured from a legal perspective? Has ownership of the receivable been perfected and has a true sale been made?

2) Does the programme structure follow the requirements of the applicable accounting standards? Are measures in place to prevent the trade payable being reclassified as debt?

3) Has the provider fulfilled their KYC and AML obligations in the on-boarding process?

5.1 Is the payables finance programme well-structured from a legal perspective?

To make a programme effective, payables finance providers and their corporate buyers must ensure the required legal obligations are fulfilled during supplier on-boarding.

Contractually, before an early payment can be made, the supplier (and financier) must sign a Receivable Purchase Agreement (RPA), under which the supplier agrees to transfer all its rights (or title) to the trade receivable to the financier.

When drafting this document, providers (and their lawyers) must take care to ensure the assignment of receivables is “perfected” according to jurisdictional requirements. This means ensuring it will be recognised by the relevant local transaction courts as a “true sale” – crucial in case of a default, since otherwise it will be deemed not as a sale, but rather as a loan secured by the receivable.

Reaching perfection is not always easy. Indeed, even within the EU, the rules relating to perfect assignment are different in almost every country and far from simple.

However, the potential consequences of failing to meet perfection are more serious than a mere administrative burden – and not just for the financial provider. For example, in the event of a supplier’s insolvency, if the liquidators do not perceive a true sale to have been made, the buyer could find itself in a situation where it has to pay the same invoice twice. The supplier would still have a claim against the buyer under the original invoice, and the financier (often protected by some form of irrevocable payment undertaking) could theoretically still claim the value underlying the discounted receivable from a buyer.

“Perfecting title to the receivable is important. We have to ensure we take over the receivable exactly as it was originally committed. Shortcuts create risk”

Anil Walia, Head of Financial Supply Chain, EMEA, Global Transaction Banking, Deutsche Bank

“If a German supplier is selling to a French buyer – and I am an English SCF provider – theoretically, every time I buy a trade receivable, I must make sure it was validly sold to me under German law, French law, and English law”

Geoffrey Wynne, Head of Trade and Export Finance, Sullivan & Worcester (London)
Figure 10: The legal structure of a payables finance programme

Source: Sullivan & Worcester LLP

5.2 Does the programme structure follow the requirements of the applicable accounting standards?

Payables finance programmes also need to be structured in a way that meets accounting standards – and prevents the reclassification of trade payables as bank debt on the balance sheet.

Why is preventing reclassification so important?

Although in pure cash terms, there is no difference between having a trade payable due in 60 days, and having a bank debt due in 60 days, there are important perception differences between the two. Put simply, while trade payables are considered “good debt” (in the sense these payment obligations relate to a corporates’ core business operations), bank debt is considered “bad debt” (it is the type of debt that could, in the view of some analysts, lead companies to bankruptcy). As such, a reclassification could have negative implications for a corporate buyer’s loan covenants, its leverage, and its access to additional credit.

“The reclassification of trade payables as debt on the balance sheet matters. It can have serious implications for corporate buyers’ loan covenants”

Geoffrey Wynne, Head of Trade and Export Finance, Sullivan & Worcester (London)

So how can payables finance be structured to avoid a reclassification of trade payables?

The overarching requirement is that the financier obtains the exact same rights to receive payment that the supplier had. The bank must not, for example, have any greater certainty of being paid, and paid on time, than the vendor had. They must not get any corporate guarantee or additional security from the buyer – elements a buyer would not agree to in an ordinary vendor relationship.
5.3 Fulfilling Know-Your-Customer (KYC) and Anti-Money Laundering (AML) obligations in the on-boarding process

Relative to third-party competitors, banks are somewhat encumbered by the various regulatory requirements they have to manage when on-boarding suppliers to their programmes.

However, KYC/AML processes are part of providing a sustainable, long-term payables finance solution – and, as such, an essential part of a holistic offering. Non-performance or underperformance of KYC and AML obligations when on-boarding suppliers would not only put banks at financial and reputational risk, but also compromise their role within the entire trade ecosystem. By proxy, it would raise the same reputational concerns for those companies involved in the payables finance programme.

With trade-based money laundering on the rise – particularly in Asia – these regulatory obligations cannot be compromised. Instead, the emphasis moving forward should be on enhancing the efficiency of compliance processes through the use of new technology and utilities such as SWIFT’s KYC Registry and IBM’s solution, rather than advocating solutions that are light on compliance, or providers that are willing to take shortcuts in the process.

“When it comes to fulfilling KYC/AML requirements, the interest is around protecting the interest of society at large. We don’t try to compete based on regulatory differences between banks and fintechs – we try to uphold our regulatory standards and ensure safety for our organisation, and society at large”

Jonathan Richman, Head of Trade and Financial Supply Chain Americas, Global Transaction Banking, Deutsche Bank

“Ensuring our programmes are structured properly is very important to us – because of the accounting risk. Non-bank providers are more creative, and while their solutions may prove more innovative and responsive to market demands, I fear that their creativity could jeopardise the accounting treatment of payables finance”

Johan Werme, Customer and Supply Chain Financing Manager, Electrolux
Meet the need

Once, the selection of a payables finance programme would have been simple

Now, new providers and new funders are drastically broadening the offering available to corporate treasurers and CFOs, while demanding them to assess new risks and challenges. Suppliers are on-boarded in thousands, rather than hundreds – and in half the time it would have taken historically.

So, where does this leave corporates? How should they decide which model is right for them? In short, the key questions they must ask remain the same:

1) Is it easy to set up a payables finance programme?
2) Can the provider meet my needs in the geographies where I do business?
3) Can my provider efficiently on-board suppliers to make the programme a safe and sound success?
4) Do I trust my provider as a long-term partner that will not exit the business for economic or regulatory reasons?

Ultimately, it is essential that corporates implement a payables finance programme that meets the exact needs of their business. With the size of deals growing significantly – some beyond the scope of what a single provider can offer – and with cross-regional deals becoming the norm, scale is crucial.

Most corporates tend to mandate one provider and use them for four to five years minimum. Given this long-term approach, speed, size and scale should not be the only considerations. The fourth “s” of ‘security’ is now perhaps the most important consideration when enacting a payables finance programme. Corporates have to be completely sure that their funding structure meets appropriate accounting standards. They need to be sure that the legal documentation is secure and enshrines all rights, duties and obligations of the provider. And last, but not least, they need to be sure that their programme is compliant with global, national and regional regulation, and in a reputable manner.

Given how far payables finance has come since its humble beginnings more than 30 years ago, it will be interesting to see how new technologies and ever evolving global supply chains shape this transformational form of working capital management in the future. Developments in blockchain technology and AI are certainly areas to watch. But for now, the focus is on ensuring that all suppliers, large and small, have positive on-boarding experiences and receive their payments through a system that makes it possible for everyone to be a winner.
All contributors

Daniel Schmand, Global Head of Trade Finance, Global Transaction Banking, Deutsche Bank, and Chairman of the ICC Banking Commission

Venkatesh Somanathan, Global Head, Supplier Finance/Confirmed Payables, Global Transaction Banking, Deutsche Bank

Christian Hausherr, Product Manager, Supply Chain Finance EMEA, Global Transaction Banking, Deutsche Bank

Anil Walia, Head of Financial Supply Chain, EMEA, Global Transaction Banking, Deutsche Bank

Jonathan Richman, Head of Trade and Financial Supply Chain, Americas, Global Transaction Banking, Deutsche Bank

Joerg Obermueller, Director, Financial Supply Chain Sales, Americas, Global Transaction Banking, Deutsche Bank

Rick Striano, Managing Director, Digital Product Development, Global Transaction Banking, Deutsche Bank

Matthaeus Sielecki, Head of Disruptive Technologies & Client Innovation, Trade Finance & Cash Management Corporates, Global Transaction Banking, Deutsche Bank

Clarissa Dann, Editorial Director, Global Transaction Banking Marketing (Cash Management and Trade Finance), Deutsche Bank

Oliver Belin, Chief Marketing Officer at TradeIX, and co-author of Supply Chain Finance Solutions

Joerg Hoerster, Managing Director & CEO, TrustBills

Alexander Malaket, ICC Banking Commission Executive Committee

Anand Pande, Global Product Chair, Trade and Supply Chain Finance, iGTB, and Founder, GPP

Francois Verrodde, Directeur Général, Auchan Suppliers Advanced Platform

Johan Werme, Director, Trade, Customer and Supply Chain Financing at Electrolux

Markus Wohlgenschaffen, Senior Vice President Client Solutions

Geoffrey Wynne, Head of Trade and Export Finance, Sullivan & Worcester (London)
## Appendix

### Standard definitions for techniques of supply chain finance (as defined by the ICC):

1. **Receivables Discounting**: sellers of goods and services sell individual or multiple receivables (represented by outstanding invoices) to a finance provider at a discount (synonyms include Receivables Finance, Receivables Purchase, Invoice Discounting).

2. **Forfaiting**: the without recourse purchase of future payment obligations represented by financial instruments or payment obligations (normally in negotiable or transferable form), at a discount or at face value in return for a financing charge (synonyms include Without Recourse Financing, Discounting of Promissory notes/bills of exchange).

3. **Factoring**: sellers of goods and services sell their receivables (represented by outstanding invoices) at a discount to a finance provider (commonly known as the ‘factor’). A key differentiator of Factoring is that typically the finance provider becomes responsible for managing the debtor portfolio and collecting the payment of the underlying receivables (synonyms include Receivables Finance, Invoice Discounting, Debtor Finance).

4. **Payables Finance**: a buyer-led programme within which sellers in the buyer’s supply chain are able to access finance by means of Receivables Purchase. The technique provides a seller with the option of receiving the discounted value of receivables prior to the actual due date and typically at a financing cost aligned with the credit risk of the buyer.

5. **Loan or Advance against Receivables**: financing made available to a party involved in a supply chain on the expectation of repayment from funds generated from current or future trade receivables (synonyms include Receivables Lending, Receivables Finance, Trade Receivable Loans).

6. **Distributor Finance**: financing for a distributor of a large manufacturer to cover the holding of goods for re-sale and to bridge the liquidity gap until the receipt of funds from receivables following the sale of goods to a retailer or end-customer (synonyms include Buyer Finance, Dealer Finance, Channel Finance).

7. **Loan or Advance against Inventory**: financing provided to a buyer or seller involved in a supply chain for the holding or warehousing of goods (either pre-sold, un-sold, or hedged) and over which the finance provider usually takes a security interest or assignment of rights and exercises a measure of control (synonyms include Inventory Finance, Warehouse Finance, Financing against Warehouse Receipts).

8. **Pre-shipment Finance**: a loan provided by a finance provider to a seller of goods and/or services for the sourcing, manufacture or conversion of raw materials or semi-finished goods into finished goods and/or services, which are then delivered to a buyer (synonyms include Purchase Order Finance, Packing Credit Finance).

*Source: ICC’s Standard Definitions for Techniques on Supply Chain Finance.*
2. Ibid.
5. See https://pwc.to/1Oi8nwE.
7. See https://accntu.re/2mf66xE, “Trade finance: the landscape is changing – are you”.
12. Ibid.
21. See https://www.we-trade.com/ for more information.
24. Ibid.
25. Ibid.
26. Ibid.
30. See https://pwc.to/2FqEnmk.