The Value of Data for Supply Chain Finance

Several trends are driving the availability of finance and the opportunities for the application of Supply Chain Finance. Most of these trends evolve around the amount of data accessible to banks and other funders, allowing them to base their financing decisions on more and higher quality information.

Buyers and sellers collaborate in various ways, and to be more efficient they digitize at least part of their supply chain movements, allowing for a more efficient data transfer. For banks to benefit from this data, they need connectivity between the corporate systems in use and their own internal systems. With the fast shift towards storing relevant business and trade data in the cloud, openness of these systems is becoming the new standard. With a diversified landscape of technological solutions available, Fintechs are dominating this space of the market, as their core business is around connecting and extracting data.

At **Capital Chains**, we believe it is not so much about how you get access to this data, but one should ask themselves what they can do with the data. More importantly, any solution that involves the use of 'big data' should solve a business problem and answer the question for a corporate: *what is in it for me?*

Digitization of Trade Flows

The digitization of trade flows is key to optimizing supply chain finance. As data transfers get more efficient, physical supply chain trigger events can be better utilized to offer financing solutions to parties in the supply chain if and when they need it.

E-invoicing is the most well-known form of digital data exchange and even though adoption rates are increasing, we are still a long way from having one standard in the market. Although adoption rates in for instance Europe are higher compared to other regions around the world, having a consensus on standards would allow for an accelerator effect. Next to E-invoicing, there is a major shift towards B2B-platforms and E-procurement tools allowing for the digitization of end-to-end supply chain flows in various industries. These systems are becoming more modular and have a degree of openness that allows for easier data exchange between the various parties in those supply chains.

Blockchain has the potential to have a huge impact and to result in concrete use cases for financing, smart contracts, and e-identity solutions. Experts share the vision of having the first signs of mainstream adoption as early as 2020. However, so far it has mainly been banks and other financial service providers that have been actively exploring Blockchain for trade finance and supply chain management solutions, offering potentially lower costs, better products and faster time to market. While Blockchain holds a promise for the future, not involving the corporate side and offering them compelling advantages, creates a situation in which the real potential of this 'new' technology is yet to be unveiled.

Digitization of trade flows is crucial for the ability to offer tailored supply chain finance solutions, but is very much dependent on the willingness of the corporate side to share proprietary data and their perceived (individual) benefits.

Connectivity between Different Systems

With corporates investing resources and time in their abilities to share real time data on supply chain flows, there is an opportunity for financial service providers to use this data for funding decisions. The only downside is, they need to connect to a wide variety of systems used in the market.

Many banks are joining the B2B (cloud) platforms, such as Tradeshift, and work with API's/EDI to connect to numerous ERP systems and other applications. This allows for automated and easier extraction of the relevant data which in turn allows for better and faster financing decisions. But, with the diversified landscape of technological solutions available, banks acknowledge the need to create platform agnostic connections. It is in this space that the Fintechs are really pushing forward, using whatever system the corporate is using as a reference database. They take it upon themselves to become the user interface, generating insights previously hidden in the vast amount of data stored. Where previously banks would have looked at acquisition of these 'new' players in the market, we now see a shift towards collaboration and incubator programs. Fostering more innovation and using each other's strengths to offer an enhanced customer experience.

With the increased frequency of data transfers between all parties involved, the efficiency of data sharing, and the connectivity between the various systems (internally as well as externally) is crucial, but also poses an important question: what do you do with all that data?

Increasing Data Availability

Large amounts of (anonymized) data becomes available when multiple parties in a supply chain decide to share data reference points. There is a need to standardize database structures to enable the creation of useful insights, as well as to govern the rights to usage.

These endless data points, also known as big data, pose the question of who owns all that data, but also what you can do with it for which purpose. The increasing availability of data needs regulation to ensure that it is stored in a safe and sound way. The most prominent new regulation hitting the market in May 2018 is the GDPR (General Data Protection Regulation) that sets out to allow individuals to control their personal data as well as to simplify the regulatory environment for businesses. These regulations on privacy rulings will impact the way IT-systems need to be implemented and how data is obtained/maintained and kept private. With the mainstream introduction of Internet-of-Things (IoT), we are bound to see the next industrial revolution. Having an infinite number of connected devices with one central source of truth. The DLT (distributed ledger technology) offered by Blockchain technology fosters the authenticity and reliability check on data from all these connected devices and decision making will be changed by means of machine learning. Artificial Intelligence applications are already in use ranging from fraud prevention, loan approval/underwriting, risk assessment and autonomous decision making. Without machine learning, handling the vast amount of available data will soon no longer be feasible.

Having access to more data is only the right step forward, if you have clear identified goals on what to use the data for. But banks need to find ways to ensure that the corporate clients, who are the providers of this data, have a clear value add of providing the data besides making it cheaper or more efficient for the banks to fund.

Conclusion

There is a major trend in the creation of data, digitizing physical supply chain trigger events to offer 'new' financing solutions to parties in the supply chain if and when they need it. To aggregate this data, or to have access to it, there is a need to create connectivity between the various systems in use at the corporate side of this and the internal systems in use by banks. For banks, having the right (Fintech) collaboration partners ensures the ability to track real time data on supply chain flows. The main question for all the financial service providers is however, what do we do with all the data that is being aggregated, analyzed and stored.

Capital Chains sees the abundance of data as a major opportunity for financial service providers (both banks and non-banks) as it allows for a better and faster assessment of their client's characteristics and needs. Typically, regulation and compliance aspects are said to be stumbling stones and the main reason why certain segments of the market have limited to no access to finance. Although regulation such as GDPR puts additional pressure on the process of handling data, using this data creates new opportunities. Having a better understanding of the physical supply chain trigger events combined with a closer collaboration with corporate counterparties, ensures that the typical KYC hurdles are becoming lower. Corporates already perform many checks on their supply chain, using that data and enriching it with other market information should allow for automatic processing of KYC requirements in the short-medium term.

With all of the current movements in the digitization of trade, it is of major importance however that banks are constantly reminded who provided them with the data in the first place. Just utilizing this data for internal efficiency gains is not the way forward, they need to provide added value to the corporates. Rapid uptake of new technologies such as Blockchain, an area almost all financial institutions invest in heavily, will only happen if the financial services industry answers the "what is in it for me" question for corporates to a satisfactory degree. We believe that the aggregated supply chain data creates a tremendous opportunity for supply chain finance, as corporates and the financial institution work together and create added value for all participants in the supply chain and its eco-system. It is exactly in this space that Capital Chains supports corporates and financial institutions in setting up, or improving, their supply chain finance capabilities. ***In the end, it is all about turning financial supply chains into value creators.***

www.capitalchains.com

Steven van der Hooft | CEO
+31 652 064 423 | steven@capitalchains.com

Anke Horseling | Business Analyst
+31 619 827 467 | anke@capitalchains.com