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Breaking down barriers and joining the party - supply chain finance for the next generation of SMEs

A lot of information is very relevant and meaningful but does not get captured just because of disparate systems and applications and lack of connectivity.

A company's understanding of risk—across partnerships and operations—is becoming the primary defence in times of heightened uncertainty. For trade finance, this plays out most acutely in the supply chain. From Ukraine to the South China Sea, ongoing cyber and wartime security threats mean that the supply chain finance market feels the full weight of geopolitical unrest.

"Trade finance is complex," Surecomp's Global Solution Consulting Director **Suchi Guharoy** summarised. "*There are just so many disparate parties across the whole ecosystem, disparate geographies, differing regulations.*"

Ahead of Sibos 2024 in Beijing, the capital city of the world's largest exporter, Guharoy and Trade Finance Editorial Director Deepesh Patel got together to discuss how these contemporary challenges will shape the supply chain finance industry.

This year's Sibos theme is connecting the future of finance. Guharoy talks us through how her team is taking a diversification-led approach to modernising the supply chain finance (SCF) industry, as the market hopes to secure itself against a volatile macroeconomic outlook (though not unpromising).

Diversification

After over two decades in banking, through the ups and downs of the early noughties, Suchi Guharoy is chiefly focused on future-proofing the new generation of trade finance.

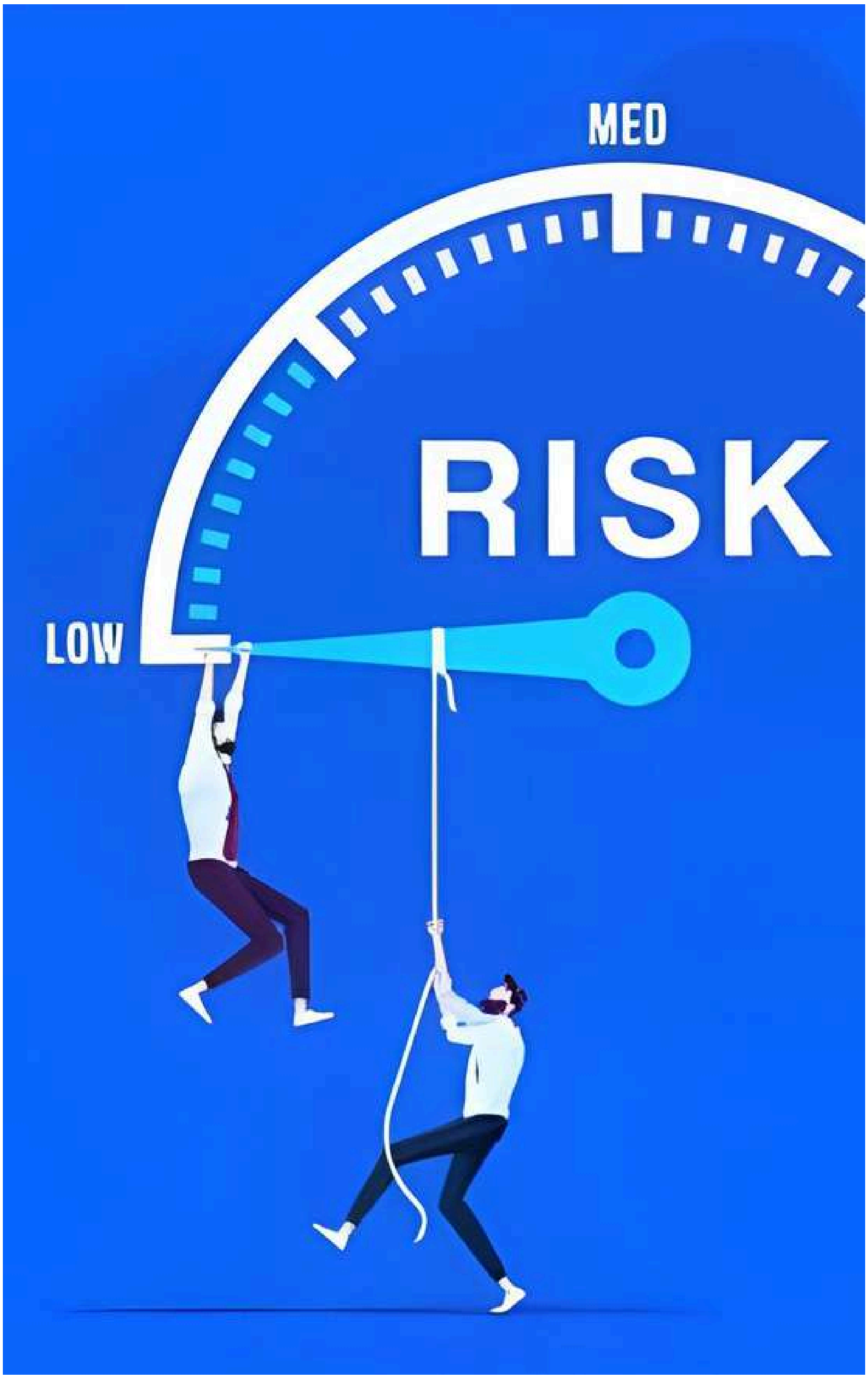
Risk mitigation and effective compliance are at the centre of Surecomp's ethos. It is forwardly focused on diversifying and supporting smaller stakeholders through the scaling up of deep-tier supply chains.

"*There is a growing intent of bridging the SME gap… We want to help banks fund the small-medium enterprises in a way that is meaningful,*" said Guharoy, who sees the contemporary challenges in logistics and regulation as a real opportunity for SMEs to use their strength in a locality to partner with key stakeholders and foster a growth-minded industry, one that is both resilient and compliant.

"*[Larger buyers] might know their Tier 1 suppliers, but they have absolutely no clue about their Tier 2, Tier 3 suppliers, leave alone which geographies, what regulations, etc.*"

The power of these larger, traditional buyers lies in their financial health and their weight against a volatile market. The consequences, then, might be barriers to adaptability and *gaps in local knowledge*.

To adapt to such dynamic shifts, these smaller players (such as regional banks and local suppliers) need to bridge the financing gap.



Working with banks, lenders, and trade stalwarts, there is an opportunity to leverage the credit of larger players, facilitating receivables financing. With access to the right information tools for these partnerships, Guharoy believes smaller suppliers can access previously inaccessible levels of working capital.

These relationships, with the potential for enhanced risk assessment and adaptable infrastructures, need next-generation support systems.

While Surecomp works closely with the fintech industry leaders working hard to digitise as much of the SCF operation as possible, there is a long way to go.

"There is a great disparity in the interpretation of the information that flows through the ecosystem, in how it is consumed, understood and analysed by different parties. There's a lot of information which is very relevant and meaningful but does not get captured because of disparate systems, applications and a lack of connectivity."

Digitisation

Know Your Customer (KYC) procedures are a great example of the growing gap in digitisation in SCF. KYC best practice involves a series of processes to verify a customer's identity and assess their risk. In its best form, it is the surest failsafe against the risk of financial service misuse; and even at its worst, it is an essential part of **extensive due diligence (EDD)**.

KYC processes vary in rigour, regulation, and modernisation across the supply chain industry, but they all share one common challenge: **cost.**

Criticism of KYC can be broken into three parts:

1. **Time:** For some larger companies it can take months to fully onboard regional suppliers. This extended time frame can delay access to finance.
2. **Price:** Thorough, compliant KYC checks can cost you, often running into the millions, and steadily rising due to increasing regulatory demands such as Anti-Money Laundering (AML) directives.
3. **System fragmentation:** Many organisations still rely on manual processes or outdated systems. It's an area of supply chain compliance that lags behind in automation.

Guharoy is keen on the prospect of standardising the onboarding process for new SCF businesses. Given the outsize costs, KYC procedures as they stand are a major challenge for smaller players, with similar levels of scrutiny and liabilities placed on SMEs to those accepted by banks and lenders.

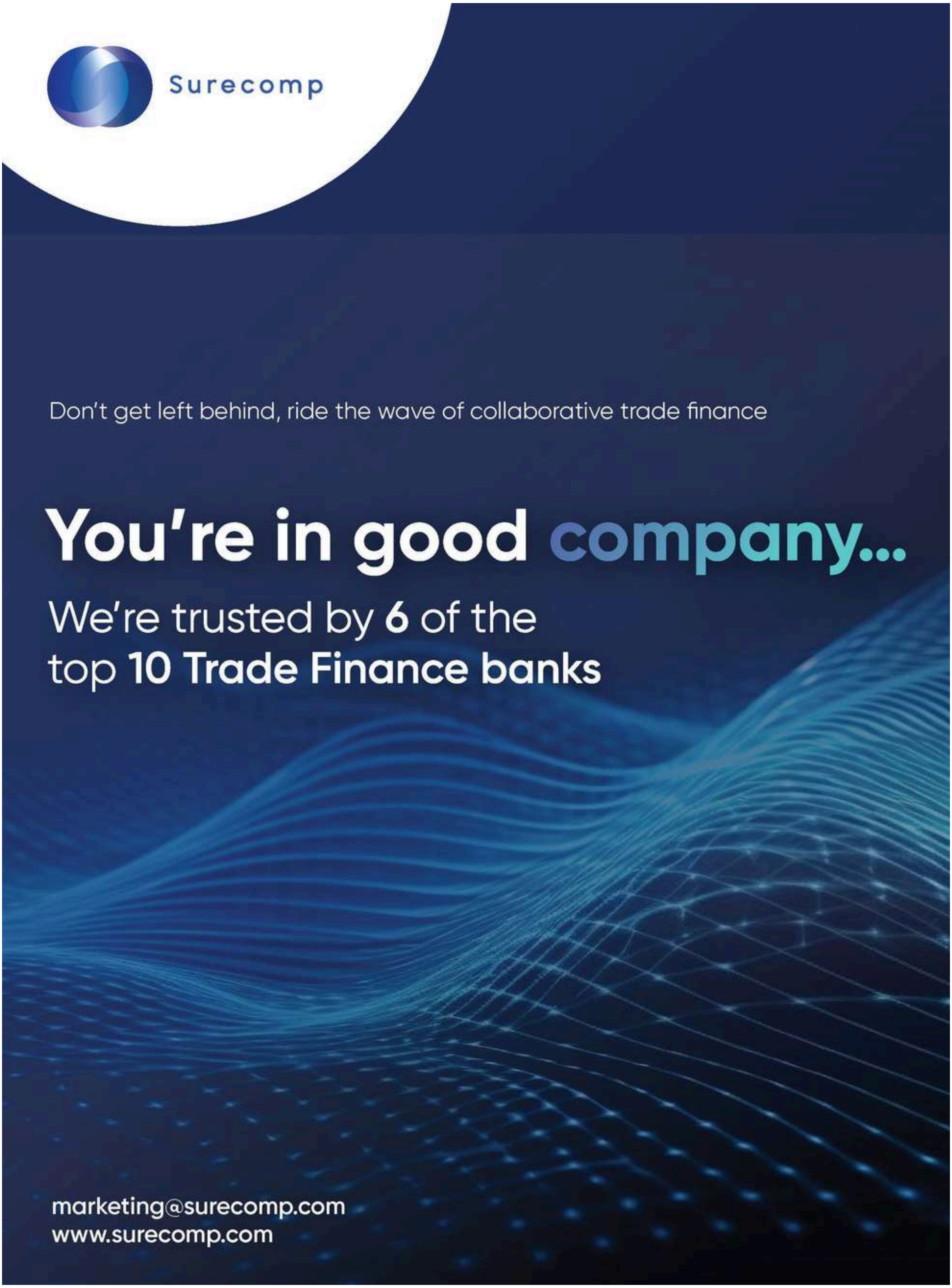
To address this, many in the industry wonder if there might be a need for some sort of standardised framework - for the benefit of regulators and financial institutions alike.

As we look forward, and despite a heightened sense of risk, Guharoy and the Surecomp team are optimistic about the potential for a much more streamlined approach to supply chain finance.

"We ultimately want to reach a zero-touch experience … bringing in intelligent automation to further enhance operational workflow, help improve turnaround time, and optimise customer satisfaction."

For Surecomp this means partnering with leading fintech providers to introduce considerate, compliant automation to simplify those risk assessment processes like KYC and AML.

Not without its challenges, the strategy will be welcome news for the next generation of trade finance industry, especially for those smaller and younger players, their challenges yet unknown.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