

**David Houghton, Regional Director, Global Transaction Services,
The Royal Bank of Scotland**

There has been much debate recently within the banking industry around “The Financial Supply Chain” and the benefits to businesses if it were to become more integrated with the Physical Supply Chain. Banks are currently developing new initiatives that offer solutions that meet the finance requirements of both the supplier and buyer by delivering access to lowest cost funding through the supply chain.

Demand for these new trade finance solutions is now increasing across the Midlands as more and more companies are becoming “global”. Innovative solutions that leverage the stronger credit party in the supply chain by linking the physical goods to the financial flows will increasingly deliver greater gains through the supply chain than the more traditional trade finance products.

These solutions allow both buyers and suppliers to optimise their working capital strategies: for suppliers, early settlement at advantageous rates, reducing receivables Days Sales Outstanding; and for buyers, later settlement and longer cash holdings, extending Days Payable Outstanding with debt to suppliers remaining as payables on the balance sheet.

Within RBS we have focused on enhancing our supply chain offering by making it easier for our customers to finance both their purchasing and sales. The development of our web enabled Trade services platform has at its simplest level enabled our customers to have multiple access around the world, from the office, at home or in a hotel to manage their traditional trade banking needs.

Over the last few years we have worked with larger customers to help finance their trading partners. This has been achieved by effectively reversing a typical factoring scenario to provide selected suppliers with immediate settlement of their invoices at a discount, following buyer approval but prior to the credit term previously agreed between the two trading partners.

Working in partnership with some of our major customers, we have recently successfully launched our fully integrated Supplier Finance web service to compliment our existing Supply Chain Finance proposition. RBS Supplier Finance is a comprehensive solution that maximises the strength of the buyer to provide competitive financing through its global supply chain. In a time of tightening monetary conditions especially in developing areas such as China, this proposition provides a real boost to supply chain relationships.

The main benefit for the customer/buyer is that Supplier Finance increases supplier acceptance of open account programmes and maintains balance sheet metrics such as days payables outstanding and working capital retention. For a supplier, it is a real win as they receive earlier cash settlement of the buyer’s related receivable after invoice approval by the buyer, often at a much lower charge than their normal cost of funds. In addition, they also have online visibility as to which invoices have been approved by the buyer and therefore knowledge of those invoices that require additional chasing.

The “post approval” finance solution as explained above, whilst attractive to most suppliers, does not however meet the demand for those trading partners domiciled in emerging markets who are seeking finance earlier in the order cycle. At RBS, our

objective is the provision of finance starting against a purchase order and supplemented by further tranches as the transaction progresses to the post approval stage.

In this regard, our preference is to expand our already successful partnership with strong regional banks in these emerging markets that are respected and trusted locally. An example of such cooperation is with Bank of China (BoC). RBS and BoC have already worked closely together on various trade related opportunities and we continue to investigate how together we can act as a bridge between our global customers and their trading partners.

Challenges still remain as we work with our customers to extend financing solutions through their supply chain. Whether we provide end to end finance solutions across a supply chain or work with strong regional banking partners, the need to match and reconcile data from order to payment is vital. A practical example of this is the matching of the final supplier invoice to the purchase order and/or other documents (e.g. shipping) that have been raised as the transaction progresses.

Any bank wishing to remain active in supply chain will need to remain innovative and ready to invest in the quick changing world of global trade.