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For most, supply chain finance is defined as an approved payables program. It is designed to meet the working capital retention needs of major corporate buyers who are looking for a bank to intermediate, by providing accelerated payment to their suppliers. This process facilitates an extension of payment terms for the buyer, who repays the bank at the end of that term.

Such programs have often been described as "win win", because the major corporate achieves their goal and the supplier receives a cash flow benefit at a reduced cost (relative to their normal cost of funds). The jury is still out as to whether the banks are truly making the desired net return from such programs. The return against the buyer's credit rating is appreciably higher than the bank would be able to achieve by directly providing debt facilities. However, these returns have been eroded by set up costs and the "slow burn" nature of establishing a program; as well as buyer demands for a rebate (which, in effect, amounts to a sharing of the bank's revenue), and the ever increasing cost of supplier on-boarding and compliance.

It would seem that the development of platforms such as Prime Revenue and Orbian tend to appeal to the major corporate buyer who does not wish to be dependent on any one financial institution. This development can also be attractive to the supplier; because if they have a number of buyers on the same common platform, then they do not need to access multiple bank platforms. Yet questions remain as to whether such independent platforms alone really do make the level of return required by their shareholders. Adoption is also hampered by the banks who are resistant to allowing third parties to enjoy a relationship with their customers; coupled with a stubborn view that a proprietary, bank-specific solution will always be preferable. However, for a bank looking to access the market more rapidly, it makes sense to either white label one of these third party platforms and/or become a funding partner for one of their programs.

In a climate of high liquidity, some major corporate buyers have started to disintermediate the banks by utilising their own cash reserves, and creating dynamic discounting programs with such platforms as Taulia and C2FO. In essence, these platforms use technology to facilitate an electronic version of a settlement discount, whereby the system calculates the best possible return for the buyer with suppliers, using the buyer's available cash. Banks are now partnering with the dynamic discounters, ready to step in with their approved payables program as and when the buyers' free cash dries up (or is better utilised elsewhere).

For some years now, electronic invoice platforms have been cited as the route that major buyers will take in the future, to increase efficiency. E-invoicing based solutions are definitely gaining more traction, especially in the Nordics. Indeed, there is a certain logic to the assumption that, by linking the electronic invoicing to an approved payables finance program, more benefits will be produced for suppliers.

During the last few years, there has been a lot of comment about the growth of FinTech and alternative finance. Not a day goes by without some bank or institution announcing plans to provide an accelerator or incubator program to encourage the growth of such enterprises. Some of these programs are involved in bringing approved payables financing programmes to the the sub-investment and SME sectors. Many utilise credit insurance to provide a back stop on the buyer repayment. Therefore, either through the conventions of their platform, or by using bills of exchange or promissory notes; the program will legally ensure that the supplier's failure to perform as requested will not affect the buyer's commitment to settle with the funder, once they have approved the seller's invoice.

It is early days in the development of these non bank platforms and solutions but those involved cite the simplicity of a model which does not involve any need to worry about balance sheet treatment for the buyer and which is able to achieve high level of returns attractive to the many funds looking for increased yield.

Gazing through an admittedly hazy crystal ball, I do believe that the future growth of approved payables finance programmes will be maintained by a push of such solutions to the sub-investment grade sectors. However, real opportunity will come when this form of open account financing expands into a full pre to post shipment funding model.

Traditional trade solutions include the provision of pre and post shipment finance. Here the funders exercise a high level of transactional control and security, and as such, default levels have historically been low. However, this control has been achieved at a cost to efficiency, as the banks have to manage, check and validate a variety of documents from various sources. In an environment where the world is becoming fast paced and digitally enabled, such processes are deemed costly and inefficient, hence the growth in open account.

Currently, funders do not have the data, visibility or control that is provided in traditional trade, and are therefore restricted to financing the post invoice phase in the trade cycle with invoice finance, receivables purchase and approved payables solutions, most of which are provided on a program basis.

New technologies such as 'blockchain' (or distributed ledger technology), which creates a single ledger of transactions on the internet, has the potential to provide funders with the means to have a sufficient level of data to develop end to end finance solutions in an open account environment. Here, the data capture and matching of data at all points in the supply chain- from purchase order to acceptance of goods- should drive an algorithm that sets the level of 'availability' relative to the value outstanding at various points in the trade cycle.

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