



**REFLECTIONS FROM THE FOUNDER:
COMPANY HISTORY & MARKET TRENDS**

Market developments and trends

When the company Global Supply Chain Finance Ltd. (GSCF) was founded, the world was a very different place. If I have to mention the aspects in the supply chain finance market that have evolved the most since then, I would certainly highlight the following:

Innovation in the structure of programs: The shape and form of programs have greatly evolved over the years from plain, bank-driven factoring (particularly in Europe) and reverse factoring in the late 90's and early 2000's, to more tailored structures that adjust to specific requirements from companies engaged in cross-border trades. Considerations in balance sheet management have been a major driver of innovation in the supply chain finance space, influencing the set-up of structures that allow companies to take advantage of the different accounting treatments. In this sector, liquidity is progressively becoming a commodity with servicing and credit risk mitigants gaining more importance over time.

Rise of alternative funders: Banks have been losing their dominant position in supply chain financing. The increasing regulation and capital requirements imposed on banks by the various Basel dictated regulations, have reduced their ability to cover entirely the working capital financing needs of companies and prompted the emergence of alternative funding sources eager to close the gap and bring forward less traditional product structures. We have noticed substantial interest from private equity investors in the trade financing space.

Credit insurance's engagement: The tightening of banks' capital regulations and their consequent risk-averse approach, in addition to the appearance of new funders and the increasing complexity of program, fueled the need for credit risk mitigants such as those provided by credit insurance companies. However, credit insurers have struggled to keep up with the increasing demand for more innovative structures and for coverage in less common jurisdictions, at times preventing the market to develop to its full potential. Typically, credit insurers view premium income and long standing relationships as the basis for accepting new structures, but these have proven not to drive innovation. Credit insurers will have to act promptly to avoid market players lacking support from insurers, being forced to look for alternative options such as layering the risk profile of receivable portfolios and placing the resulting tranches with different investors.

Increasing importance of technology: Technology is essential for processing complex programs in a flexible manner. Banks have often tried to develop their own technology resulting in the limitation of their overall service to all parties involved or the failure to reach a stable and flexible environment. Some banks have managed well the outsourcing of the servicing of their

supply chain finance business, particularly for the payables-based programs known as supplier financing or reverse factoring. Receivables-based programs are more difficult to process, as the platform servicing such programs must be sufficiently credit sensitive and able to manage the necessary notifications and alerts. This type of platforms are rare or seldom developed with enough flexibility, justifying the banks' outsourcing decision. The nucleus of a well performing receivables finance program is having the right holistic set-up formed by the servicing combined with the financing and risk coverage.

Company history & vision

I am proud to say that GSCF has been able to adapt to these changes and in many cases, has even driven transformation itself by continuously pushing innovation boundaries. Below are some milestones within the GSCF Group's history that reflect how it has dealt with the challenges:

- GSCF has been significantly growing the number of banks which use its processing services. With the creation of its own funding entity Alternative Distribution Financing Ltd. (ADF) a couple of years ago, GSCF enabled alternative investors, i.e. pension funds, insurance companies and partner banks, to participate in the supply chain finance market by using ADF as fronting funder and asset aggregator. ADF arranges all program activation requirements prior to approaching the investor according to a clearly defined investment criteria. Moreover, by developing a system to process investments from participants, GSCF also prompted the banks' use of partner banks and investors, allowing them to front the financing of large syndicated programs.
- Product development has always been a major part of GSCF's strategy, coming up with innovative structures and processes to adjust to the developing market requirements. All these innovative products have been very well accepted, becoming market driving solutions.
- Credit risk management has been one of GSCF's pillars at all times, developing advanced grading systems for obligors that incorporate payment behavior and trigger automated notifications to the relevant parties. GSCF has established close partnerships with some credit insurers, setting up ground-breaking insurance policies. In this field, as mentioned above, more work still needs to be achieved with some credit insurance companies.
- GSCF has always adopted the latest technology available and applicable to the industry, whereas market players that have not invested in appropriate systems have been losing importance and in some cases, disappearing. GSCF's proprietary processing platform has been regularly upgraded, with the main objectives being: transparency, flexibility and security. Moreover, in early days GSCF already prompted the technical integration with partners' systems; i.e. credit insurers, banks and mainly with clients' ERP systems.

I believe that GSCF is well positioned to remain as the leading service provider in the Supply Chain Finance space, particularly due to its commitment to innovation and quality, coupled with its profound understanding of the market fundamentals and thanks to the great workforce that the company has built throughout these years.

Kendall Stevens

Founder & President of the Board of Directors

GSCF Group

