Greensill Unpacked

MOTIVE INSIGHTS

Banks have risen to the occasion and played a critical role in supporting society and the economy

No one could have missed the collapse of supplier invoice financing firm, Greensill, during the pandemic. The unravelling of a large financial services firm with legal charges continuing to unfold has historically tended to follow one narrative; that financial institutions were at the heart of an economic downturn, such as the Global Financial Crisis in 2008.

However, leaning on the lessons from this current crisis, banks have risen to the occasion and played a critical role in supporting society and the economy. Throughout the pandemic, banks have acted as the distribution mechanism for the stimulus packages and syndicated loans together with governments to support small businesses. The robustness of the financial system to act as a stabiliser rather than an accelerator was also crucial in stopping Greensill early on before **any ripple effects** would impact the entire supply chain financing industry.

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Supply chain financing is an age-old need for small businesses and suppliers. Nearly 90% of **world trade relies** on some form of trade financing and with an increase in **median payable days** on invoices from 35 days to 53 days, suppliers are in dire need of easier access to working capital. The global supply chain finance market was **valued at $7 trillion in 2020** and is projected to reach $9.6 trillion by 2027, at a CAGR of 5.2% during the forecasted period. However, with thousands of trade financing firms, the growing market is incredibly fragmented.

Greensill stood out from the competitors because in two years from 2018 to 2020 it had managed to raise close to $2 billion from prominent investors and according to their own website financed $143 billion to 10 million customers in the nine years since its founding in 2011. It was a staggering growth trajectory in an industry known for its intense and low margin competition. But it was, in the end, the connection with one client, **Global Finance Group Alliance**, which employs 50,000 steelworkers that led banks, insurers and regulators to put the rapid expansion to a halt. At the time of Greensill's collapse in March, the supply chain finance group had lent GFG Alliance **as much as $5 billion**, which were not shown as receivables in the balance sheet to hide the exposure to GFG.

The Greensill fallout provides important lessons for taking financial risks

The global financial gatekeepers - the Bank of England, Germany's financial watchdog, BaFin, and all the involved financial institutions came together to secure the stability of the financial system by invoking a lending ban, removing the debt insurance and liquidating the lending funds whilst working to ensure the survival of the small businesses impacted.

Rather than bruising the financial ecosystem of the UK and Europe, it was strengthened with fast and succinct actions by all stakeholders. Today, as the case continues, the UK Chancellor and the FCA have taken steps to implement the recent **Kalifa Review** and the **Lord Hill Review**, which emphasise new listing rules to attract FinTech companies to the UK and a comprehensive digital FinTech strategy for the UK government to rationalise financial and cross-sectoral regulation. Both reviews facilitated the needed roadmap and dialogue between regulators and the fast-growing financial technology companies to restore trust in the industry.

With the regulators' engagement and enthusiasm for FinTech innovation with the appropriate regulatory frameworks, the Greensill fallout will unlikely hamper the sector's momentum but once again provides important lessons for taking financial risks.