**Interview by Michael Bickers of** **Matt Wreford, CEO, Demica re. Mastercard Project**

**Michael:**

Matt Wreford, welcome to BCI Webcasting. And Matt is CEO of Demica. I think most people know that. Today, we're going to be talking to Matt about Demica's recent arrangement and tie with MasterCard. Congratulations on that, Matt. I'm assuming that's a fairly big piece of business for Demica, and an important cooperative arrangement. Can you tell us a bit more about it? How did it actually start off and how does it work?

**Matt:**

Yeah, of course. Well, thank you, Michael, for the opportunity to talk to you and your audience about this. So MasterCard has been working on a service called MasterCard Track BPS. This is a project that's been underway for at least 18 months at MasterCard. They see a huge opportunity in the B2B payment space. MasterCard is obviously very well known as a credit card company focusing on B2C. And the B2C market is about $50 trillion of annual payments a year. B2B, however, is $125 trillion of payments, so two and a half times the size. MasterCard obviously has some presence in there with virtual cards, which are used in the P card space. And that's currently about 2% of the $125 trillion. There's clearly room for growth. It's a high growth area - P cards. And many in the industry believe it could potentially get to as high as 6 to 8% of total B2B spend. But still in the context of 125 trillion, the vast majority of B2B spend is on account to account rails, you know, ACH in the States or Backs or Swift, etc. So Mastercard is looking for its long term growth. The Head of Strategy, Craig Vosburg, described it in an interview with the FT recently as a multi-decade opportunity for MasterCard. It's within their top five strategy initiatives for the next few years. And so, the question for MasterCard was how do you penetrate into the B2B space? And how do you create enough value to be able to really make a decent revenue stream that moves the needle for companies larger as MasterCard? So Track BPS is effectively creating a network - what's called an open loop network. So you can have many different banks and fintechs all joining and connecting to track. And the objective here is to gather from suppliers using the supplier payment agents, banks and fintechs working with hundreds of thousands to millions of suppliers. And what they want to get from suppliers is to register in the central business directory, their payment and price preferences. So this would be 'Pay my dollars into this bank account; my sterling into that account; I'm willing to take virtual card but only if the price was, say, the payment was less than this value; I would take early payment, say on a supply chain finance programme with the cost of funds is lower than x....' Right? So these are all payment and price preferences that have been stored in Track at the moment. And then on the other side buyer payment agents, this is banks and fintechs, working with people making payments, are enabling them to submit not only current payments, but also reconciliation data to those payments. So with the invoices and credit notes that associate with them, and also put those payments out into the future. So a bit like how payment factories work. And so this means that there will be payment and price to invoice data, and reconciliation data coming in from buyers and Track. And the supplier preference is coming the other way. And this is the core of the Track BPS network. If you go and look at MasterCards announcements over the last 12 to 18 months, they've signed up, you know, probably 40 or 50, buyer payment agents so far, and a similar number of supplier payment agents. This is a massive initiative for MasterCard. And so once that data is flowing in to Track BPS, if there is a future payment coming in that meets the supplier's desire for early payment, they will be matched and pushed into Demica. And we will then run an automated distribution process that will first of all give the buyer payment agent - the bank that originated the transaction the opportunity to fund it because it's obviously its deal. But there'll be many times where the buyer payment agent doesn't wish to finance. It could be because they are a FinTech, right, who doesn't have any balance sheets, just working with that on a procure-to-pay network process. But it could also be that it's a bank, but the suppliers in a jurisdiction that they don't transact with. Many reasons. And so all of that flow will then go out to other financial institutions that wish to finance. So that's the general principle of Track BPS with Supply Chain Finance embedded within it.

We think that it has a really important part to play within the market. Right? If we think about normal supply chain finance, the banks, our bank partners focus typically on the top 20 to 50 suppliers, maybe about half the spend in a big supply chain. Beyond that point, it becomes quite challenging to justify to get a return on signing up and onboarding of suppliers. And at the other end of the supply chain, the very small end, you'll see virtual cards and P cards taking routes, but the cost of funding on an implied basis is quite high. And so the middle of the supply chain is very underserved by the traditional supply chain finance. And that's where Track comes into its own high, you know, for the mid market space, the smaller mid sized suppliers.

**Michael:**

Okay, so it's obviously a very automated process. And if the parameters match correctly, then you have the opportunity of coming in and providing finance to suppliers within this whole system. And so your system is presumably fully integrated with MasterCard's TBPS system, and very much on both sides as an automated process.

**Matt:**

Yes, we've obviously completed the integration work with MasterCard Track. As you imagine MasterCard is using the API's in our platform to be able to call functionality from Demica, it'll trigger payments automatically to the banks we are integrated in. So we anticipate this to be very high volumes and numbers of payments and building through really significant size. But over the long term this is a market changing type project, right? Because you're trying to, you know, build a network around this ecosystem.

**Michael:**

Sure. And this is a white labelled service essentially, so Demica will be in the background in terms of provision.

**Matt:**

Interestingly not, and the reason is that, even though we're the only piece of technology in the MasterCard network for Track that they haven't built themselves, which I think is a pretty big vote of confidence in the case of Demica, right? MasterCard is a massive FinTech in its own, right, normally builds everything. In this case, it recognised that it was unable to build or replicate the functionality our platform has. And the reason it's not truly white labelled - first of all, the user experiences built within MasterCard itself calling our API's so they can have their own functionality they want; but also because we are responsible for signing up the banks that will finance the flow we needed to be visible, right? MasterCard wanted to delegate to us to build the financing network. And so that's why they've announced the partnership and say that we're able to talk to anybody in the market about it and sign them up.

**Michael:**

And am I right in saying that you haven't partnered on this kind of basis before with anyone?

**Matt:**

No, this is unique. This is the first time any major payments business like MasterCard, Visa, Amex, and PayPal has really attempted to build a B2B network of this nature. There'd be many other initiatives in virtual cards, right, in the market. But this is the first and clearly the largest opportunity that we've seen in this space.

**Michael:**

So will this open up new doors for you? Do you think this will open up new opportunities in this kind of marketplace?

**Matt:**

Yeah, we think so. I mean, as you know, Demica's perspective is that it's open architecture, and that you know, we're very happy to have other people using our platform to finance their own clients, right. So just as Demica works with MasterCard, and its network of banks and fintechs to open up supply chain to the world, that we have a similar perspective on that. So I think we'll see other transactions coming in of a comparable nature. You know, as an example, in the receivables finance space, we recently announced a $215 million receivables financing for a B2B payments business called TrivialPay. That does receivables finance and payments in the North American market. So I'll see lots more collaborative things, projects and partnerships with companies in the sector in the future.

**Michael:**

Okay, so exciting times for Demica. And I guess, you know, from a political point of view, the fact that you can get financed to SMEs in particular, is very positive point. And that's not always easy to do - financing the long term suppliers, as everybody knows. So that's a very positive aspect of what you're offering.

**Matt:**

Very much so. I mean if you think about why others have struggled and why they should succeed with those SMEs, right? The challenge has always been that each bank, sitting alone, has to do the cost benefit analysis of signing up a small supplier, one by one in that supply chain programme. And so you amortise the cost just on that little payment flow for that one buyer. Right? And therefore they stop. They can't get further than a certain size. In the case of an open loop network like this, the supply payment agent who's talking to the supplier to get their payment preferences is doing it once, recording it centrally. And then it's made available to anybody that wishes to pay that supplier. Right? So then the cost benefit analysis can be shared across a wide range of banks. And from the bank's perspective that have the buyer, they no longer have to guess whether they can put the effort in for marketing, right? They don't have to do lots of outreach to get a limited return. They can look in the directory and say, 'Ah, this small SME in Australia will want early payments and will pay up to this price.' And I think that's a massive game changer because then suddenly the cost of customer acquisition and supplier onboarding collapses. So you can get much deeper into the supply chain. The other thing that I think, from an ESG perspective, that's so attractive about this is that it's basically being driven by the supplier. The supplier is electing to join these programmes, saying 'I'd love this and I'd like to pay up to x.' So there's no coercion. There's no pressure. It's a supplier-driven or supplier-orientated initiative, but with the benefit of the buyer data.

**Michael:**

Sure. And as in most supply chain finance arrangements, the supplier can choose as when he wishes to make use of the arrangement.

**Matt:**

Yes, that's absolutely correct.

**Michael:**

Yeah. Okay. And Demica is not using their own balance sheet for any of this, are they? Demica never takes credit risk. So your finance partners, who are with you on board already and working with you - they're obviously also no doubt delighted with this arrangement.

**Matt:**

Yeah, there's been really significant inband inquiry both into MasterCard at every level, including up to the CEO. Some of them are very senior relationships and have expressed a lot of interest. And Demica itself received a lot of interest from, you know, the Heads of Trade and Heads of Products to the big trade banks that we partner with and some that we do not. So now this is very much an opportunity for the market. And as you're probably aware, we have an investor network of about 200 different banks and non-bank financial institutions looking at transactions on our platform. And so we think, you know, there should be a funder for everything in that network. And that's one of the other things, the value-add other than the technology that MasterCard wanted to tap into with us.

**Michael:**

Well, Matt, congratulations and we shall look forward to watching the space and watching everything progress. This is a fantastic deal that you have with MasterCard. Well done!

**Matt:**

Well, thank you very much, Michael.

**Michael:**

And thanks for joining us today. Thank you!