FCI is the Global Representative Body for Factoring and Financing of Open Account Domestic and International Trade Receivables. With close to 400 member companies in more than 90 countries, FCI offers a unique network for cooperation in cross-border factoring.

FCI is building bridges:
- To global business opportunities
- To new markets
- To new partnerships
- To innovative products and services
- To know-how and leading expertise

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We are Living in Disruptive Times

The times we live through are indeed something not witnessed in many years. We face the starkest moment in our 52-year history in FCI. From the start of the Trade War, brunt of BREXIT, upcoming US Elections, and many other regional geo-political events, these times are not for the weak hearted! But then came the Coronavirus. As the title of this article states, we are living in disruptive times. And ironically, it was to be the theme of the 52nd Annual Meeting that was to be held 21-25 June 2020 in Washington DC, long before the spread of the virus. It is difficult not to mention in this 2020 Annual Review article something about the future and the impact this Covid-19 health crisis will have on our industry.

Let’s first admit we don’t really know what’s in front of us. This health crisis is different from anything before. Different by its nature, different by its duration and different by its consequences. Since the beginning of April 2020, lots of us see a significant drop in turnover. Tomorrow, when the growth comes back again, the need for cash and risk mitigation services will be greater than any time before. Globally, Open Account trade volumes reached US$ 5 Trillion in 2019, approximately 6% of global GDP. If our Industry wants to continue playing a major role in the future, we need to fulfill three mandatory conditions 1) return back to basics: focus on risk mitigation, best practices, and investment in new technologies 2) deliver new solutions, new innovations for tomorrow and 3) the need to concentrate on targeting SMEs, the engine of economic growth all around the world.

5-Year Strategic Plan

As announced last year in Ho Chi Minh, FCI has developed a 5-year strategic plan through many iterations. Analyzing the current crisis, we concluded that many objectives couldn’t be launched or reached until a return to some form of normalcy. Therefore, our plan will be repositioned and submitted during our Annual Meeting to be held 20-24 June 2021 in Washington DC in order to be rolled out. Yet, four main elements of this plan will need to be boosted in the next 12 months:

1. Invest in Education: FCI has a powerful Academy with 10 e-learning courses on every aspect of factoring. Last year, FCI rolled out its first series of webinars. Our visibility has incredibly increased, providing webinars to over one thousand of our members, staff and management.

2. Invest further in Decentralization: More and more, FCI will rely on its regional presence, regional directors helped by EXCOM members’ sponsorship. We expect to hire a new Africa Director by next Summer. All this organization is being managed through ambitious objectives and strong KPIs to ensure it meets expectations.

3. Invest in Advocacy: In this field, FCI should be more visible and more present, especially in emerging factoring markets. In that respect, we would like to hire a part-time specialist and continue to invest in lobbying, working closely with our partners: the IFC/World Bank, AfreximBank, European Bank for Reconstruction and Development (EBRD), Asia Development Bank (ADB), IDB Invest for the Americas, the ICC Banking Commission and many other national factoring associations.

4. Invest in Technologies: In the long term, this means transforming FCI into a modern, digital technology hub, embracing all kinds of technologies (AI, Cloud, Blockchain, APIs, cybersecurity), creating ecosystems and new platforms, connecting buyers and sellers. As a result, we announced in Ho Chi Minh City last June that we would invest in a new technology platform, that will create a modern look-and-feel, embedded with the most modern and sophisticated software, with multiple new functions, including buyer/seller on-boarding tool, AI (artificial intelligence) capability for dilution control, driven by a powerful community-based app, that would be blockchain ready. The contract has been signed and we expect the roll out of this new system latest by October 2021. The current factoring platform will continue to be usable for all members, until such time the new system is ready and a migration can be achieved.

For sure, FCI will remain at your service during the crucial period to come. Together, we need to reinvent our business. More than ever, we need to be proactive and mix a top-down / bottom-up approach. In the next steps, we have to continue boosting the Chain and onboarding new members in emerging countries and 2) promote Factoring for SMEs all over the world. Our Industry is the solution to help them get out of risk.

Decentralization

As was reported last year, the overall volume in edifactoring two-factor business increased 1% in the first half of 2019. But the volume dropped tremendously in the 2H2019, stemming solely from a steep decline in volume out of Turkey and the greater China region (the two largest export factoring markets in FCI). This severely impacted volumes as recorded in edifactoring in 2019, a precipitous decline of -19% compared to 2018. But as the Chinese say, with challenges come opportunities. Based on the reduction in cross border volume as reported in edifactoring, we were anticipating a reduction in domestic factoring volumes as well. But this did not happen. As we know, domestic volume grew 3% in the first half of 2019, the fastest pace since the great recession. Europe accounts for two thirds of global volume, and domestic factoring accounts for 80% of total factoring volume, so we were feeling a bit more relieved. Although things softened somewhat in the second half of 2019, the Industry overall did quite well. In fact, the world factoring statistics indicates a continued positive trend in 2019, a growth rate of 4%. That is on top of a 10-year average 3%. CAGR since the start of the great recession since 2009! Europe, Africa and the Americas indicate positive trends, in Asia there was a drop of just under 2%, mainly stemming from the impact of the trade war between the US and China. We already know that the positive trend will stop in 2020 as we can already see a drop in volume in the 2nd quarter 2020!

Conclusion

One would think that the Factoring Industry has some significant forces to be able to repel the growing tide of disruption around the world. As you can see, we are living in disruptive times. However, as you will hear in the coming months, FCI will roll out a new 5-year strategic plan to address many of these issues and attempt to steer the association into a brighter future! And for those who are reading this Annual Review for the first time, we hope that this important annual publication will give you an in depth view of the magnitude and importance that our Industry holds today, and the opportunities for you to help spread the seeds of factoring to all corners of the world.

Patrick de Villepin, FCI Chairman
Peter Mulroy,
FCI Secretary General

Advocacy

FCI has also invested in capacity building and advocacy in numerous countries. We support the creation of sound policy and good regulatory framework for the healthy development of factoring. But we also want to ensure that the increase in regulations impacting the industry do not have unintended consequences. Unfortunately, most emerging countries do not yet have proper assignment laws and central bank policies in place to instil confidence for the banking and entrepreneurial community, to invest in factoring and receivables finance as an asset class. However, FCI continues to support the development of assignment laws, protections of rights of parties, and the promotion of good governance, compliance, and proper central bank policies that create a sensible regulatory framework to support the health growth of our industry.

Factoring Law in Nigeria: In Nigeria, led by our partners/ members, the Afee Xenimbank and the Nigerian Export Import Bank, we organised awareness seminars and meetings with stakeholders to promote and introduce factoring. FCI was invited to attend a congressional hearing on the law. It is now sitting with the Senate Banking Committee and is close to passage. This will be a game changer for Nigeria and the Continent, considering Nigeria is the largest economy in Africa and is expected to become the 4th most populous nation by 2060 per United Nations projections. And with the creation of the Africa Free Trade Agreement (AFTA) to be launched in July 2020, we anticipate Nigeria will be a leader in factoring in the future.

Central Bank Policy on Factoring in Bangladesh: Also, the Bangladesh Bank has drafted a new policy on international factoring, permitting banks to finance against assignments of export receivables. FCI has made numerous sensitization training sessions to the government. In October 2019, FCI held a conference together with the Bangladesh Bank, where they announced that the policy would soon be launched. In fact, the Central Bank announced on the 24th November the new policy, recognizing the importance of supporting Bangladeshi exporters and their shift to open account trade.

Supply Chain Finance (SCF)/Reverse Factoring: There have been a number of attempts to suily the good reputation of reverse factoring. The negative reporting from the rating agencies and in to the negative press that followed really has caused a backlash. Moody’s released late last year an article entitled “Reverse factoring is increasingly popular but can weaken liquidity at a time of stress”. The US accounting board FASB has taken the matter up to review issues like terms extension and financial reporting of SCF programs. Just look at the following headline news from around the world over the past few months:

- US: Securities Exchange Commission (SEC) backs more reverse factoring disclosure
- US: 90% of all global trade is more work needs to be done as 90%
- Canada, wounded Dix and a Treasury staff. Moody’s warns of the use of confirming as covert debt. Telefonica changes the way of its accounting reporting for reverse factoring to give transparency

Language used for SCF/Reverse factoring (RF) is rather aggressive in tone with words used like “bullying”, “weapon”, “unfair” and many more. We have seen the rise of regulations as reported in our newsletter In-Sight. New regulations/legislation have been launched in the EU like the Director of the European Parliament on Unfair Trading Practices in B2B relationships in the food supply chain, limiting terms to 30 days. The EU has also created the Late Payments Directive that limits all credit terms for public and private companies to 60 days.

National governments in Poland, Netherlands, France, and soon Australia and other countries are not only enacting laws/ regulations but ones with teeth! The market always figures it out, but governments create unnecessary hurdles due to a lack of understanding of the product, and do not appreciate the benefits of the low-cost liquidity such programs generate for SMEs. In response to this, the GSCFF, a joint initiative that includes the ICC, EBA, BAFT, ITFA and FCI issued a paper that was sent to the public, and also to our membership this past week, discussing its benefits. You can find the paper on the FCI website.

We hope these efforts will help counter some of the negative publicity generated over the past six months.

Other Advocacy Projects: Recently, the US Senate approved the Convention on the Assignment of Receivables, a document that was a great development led by the late Freddy Salinger, a past member of the FCI Legal Committee together with Spiros Bazanas, retired leader from UNCTITRAL. The convention will soon become a proper treaty and globally recognized as the standard for assignment language and rights of ownership in receivables, once it has been ratified by five countries and becomes a formal treaty. FCI sent a letter in support for the creation of a new Factoring Model Law, to be launched and spearheaded by the UNIDROIT in Rome. We recognize that much more work needs to be done as 90% of all global trade is estimated to be conducted on open account terms.

Projects & New Partnerships

FCIReverse: FCI also made investments into building a new global reverse factoring platform, what we call FCI Reverse. This will not only allow members to access an operating platform to onboard both anchor buyers and their domestic...
and foreign suppliers, but it will also allow the use of export factors around the world to support this effort, by educating the supplier on the many benefits reverse factoring offers, including education of the supplier, signing a local factoring contract under local jurisdiction, providing Know Your Customer (KYC)/ Anti-Money Laundering (AML) guidance, and potentially even funding the assigned receivables, if requested, by the anchor buyer’s financial institution. The platform went live on the 1st January 2019.

FCI Factoring Funds: FCI also witnessed a rise of factoring funds, as more and more companies engaged in providing debt capital to the factoring industry are considering joining FCI. We have on-boarded three such companies in the past year and more to follow. These funds raise capital from investors (hedge funds, sovereign wealth funds, pension funds, and others) and the funds are distributed to finance companies/factors engaged in factoring, ABL, reverse factoring, and receivables securitizations, etc. Improved funding rates, preferred accounting, risk mitigation, cross-border flexibility, and funding diversification is a major motivating factor for the increase in these types of funds. FCI is also engaged in an initiative led by the ICC Banking Commission on the topic “Trade and Receivables Finance as an Investible Asset Class”. We will see where this goes, but so far, the track record in terms of performance/returns and supporting a factor’s liquidity needs have tremendous upside potential.

Credit Insurers: The majority of our members use credit insurance to mitigate their commercial and political risk against the client’s customer/debtor. We estimate that over half of the factoring volume estimated at close to EUR 3 Trillion is backed by some form of credit insurance. Credit insurance and factoring have a symbiotic relationship, as they rely on one another to provide capital solutions for SMEs. As a result, FCI launched a joint factoring/credit insurance working group that includes senior executives from the big three credit insurance companies, along with the associations Berne Union and ICISA. We organized our fifth meeting this past January to discuss how to increase coverage in the emerging markets. Most credit insurance activity is conducted via the public sector via multilateral institutions and Export Credit Agencies (ECAs). There is clear recognition that more needs to be done to combat the inability to underwrite the client’s customers, especially in emerging markets due to: 1) Lack of buyer/debtor information 2) Political instability 3) Transparency and quality of data. Our recent meeting focused on the needs in Africa, and together with the African Export-Import Bank, an agreement was reached to build a new pan-African repository of payment data focused on SMEs. This will allow the industry to grow in markets where credible trade and payment data is sorely lacking.

Fintechs: Every day we see the creation of new Fintech companies and the launch of new projects, together witnessing an increased level of cooperation between financial institutions. The evolution and importance of services like credit insurance, payables finance, reverse factoring and other Supply Chain Finance (SCF) programs, including traditional factoring has resulted in a dynamic shift in usage, and we only anticipate this to increase in this post-Covid era. Opportunities for the industry include the rise of technologies to enable the accumulation of data from ERP systems direct to factoring platforms, the use of artificial intelligence to determine fraud and dilution risk, and the rise in e-invoicing will also have an important impact on the evolution of our industry. In fact, digitization will bring many new players into the industry, and result in a much larger playing field globally.

Islamic Factoring: FCI developed, together with members located in the Middle East and our new partner, the Islamic Trade Finance Corporation (ITFC) a new set of rules governing Islamic Factoring. In June 2019, FCI signed a Memorandum of Understanding (MOU) with ITFC to create the new Islamic Factoring Chapter. This caps a three year effort to 1) develop new rules on Islamic Factoring 2) on-board Islamic Banks and NBFIs and 3) create a new Islamic Factoring Chapter. We anticipate that this will help spur membership in FCI and in turn lead to significant growth in Islamic factoring around the world. We are excited about this initiative and anticipate seeing many new Islamic banks and non bank financial institutions to join FCI and the new Chapter and to develop Islamic factoring around the world.

Other new projects: FCI also invested in a new CRM system, which will allow members to obtain reports on their performance and improve service quality. FCI also launched the new e-learning course on Introduction to Factoring and Receivables Finance, which was rolled out in H22020. And stemming from the Covid-19 crisis, FCI in the 2nd quarter 2020 launched a series of free webinars on a range of topics important to our industry that was attended by over 2,000 managers and executives representing members from 87 countries.

Conclusion

After a very successful 2019, FCI entered 2020 with great hope and optimism. However, the Covid-19 crisis has certainly adversely impacted the factoring industry, as well as FCI, with reduced memberships in comparison to budget. However, this is offset by reduced travel and committee costs. The FCI Annual Meeting has also been postponed and moved to next year, which will not take place 20-24 June 2021. FCI is in the process of preparing a new 5-year strategic plan that will be rolled out during next year’s annual meeting, however a 2020-2021 interim strategic plan has been developed and will be highlighted during the upcoming virtual membership forum and council meeting, scheduled for 23 September 2020. As a result, FCI will pair down its expectations for 2020, as a result of the extremely challenging macro-economic environment. However, we cannot lose sight of our accomplishments. In the past five years, FCI absorbed the biggest merger in its history, survived a challenging geo-political and economic environment, developed the new Supply Chain Finance service called FCIreverse, signed the MOU with the Islamic Trade Finance Corporation due create the first Islamic Factoring Chapter, further decentralized and expanded our regional footprint with new consultants in Africa, CEE/SEE, Middle East, and South/SE Asia, finalized the largest arbitration cases in FCI’s history, and celebrated 50 years, our golden anniversary. And in 2020 FCI will launch the next evolution of our platform, a blockchain-ready trading system, what we refer to as E Factoring 2.0. FCI enters this 2021 year with cautious optimism about our future, and considering these extremely challenging times, FCI is well positioned to weather the storm and to pass on our legacy of success to the next generation!
FCI Vision Statement & Mission Statement

FCI Vision Statement
FCI’s Vision is to be the Global Association for the Open Account Receivables Finance Industry.

FCI Mission Statement
Receivables Finance is the core focus of the association and includes Factoring, Invoice Discounting and other Supply Chain Finance solutions.

FCI is the Global Voice for Open Account Receivables Finance:
- FCI facilitates and promotes International Factoring through a Correspondent Factoring platform.
- FCI actively supports the growth of the Industry and works jointly with policy makers and stakeholders worldwide
- FCI promotes best Industry practices through education
- FCI publishes Information & Statistics about the Industry
- FCI endorses financial stability, the prevention of financial crime and respect for regulatory compliance and conduct

Roundtable | Building a Bright Future in Disruptive Times

The impact of the pandemic has been epochal. The disruption of supply chains and evaporation of demand caused by global lockdowns has fundamentally affected cashflow cycles, liquidity and counterparty risk. This would have been harmful enough without the added overhang of trade wars, protectionism, and other threats to globalization.

How then are factoring companies globally dealing with today’s crisis and tomorrow’s prospects? Will Covid-19 accelerate digitization of trade documents and processes? Is remote-working workable for international factors? Is diversification of global sourcing an opportunity to develop new factoring business in emerging markets? To answer these questions, Tony Brown (TB), President of The Trade Advisory, based in New York, has been talking to:

- Liu Yunfei (LYF) DGM, Global Transaction Banking, Bank of China, China
- Michelle Knowles (MK) Head of Trade Finance Product, ABSA, South Africa
- Luis Carrera Sarmiento (LCS) Tribe Leader, Wholesale Products & Services, Banco de Credito BCP, Peru
- Stuart Brister (SB) Head of Global Receivables & Trade Finance, Wells Fargo Commercial Capital, USA
- Miranda Stokkingreef (MS) CEO, ABN AMRO Asset Based Finance, Netherlands

TB: Will Covid-19 change how you conduct trade and international factoring?

LYF: Yes, for sure. More activities have been moved online with fewer paper documents required. Almost every step of the factoring could be done online: uploading of and discounting of digitized invoices, buyer acceptance of delivered goods, and disbursement of funds.

We’ve also accelerated technology to monitor the physical supply chain logistics pertaining to factored transactions but that only works if goods are moving – and the recent lockdown resulted in a complete freeze of all movement of goods.

Another big issue is whether, as a result of supply chain disruption, overseas importers will diversify their sourcing away from China. We’re already seeing Chinese exporters collapsing. It might be still too early to tell how we could adjust but it’s sure that change is coming.

MK: First, trade remains a paper-intensive business across financial and physical supply chains. The impact of Covid-19 now requires a rapid acceptance by regulators and banks of digital authentication and delivery of documents.

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MK: First, trade remains a paper-intensive business across financial and physical supply chains. The impact of Covid-19 now requires a rapid acceptance by regulators and banks of digital authentication and delivery of documents.
Second, in our markets we are seeing various impacts: delays in receipt or loss of trade documents, or non-delivery of documents due to lockdown and reduction of courier services. Because people are working remotely, we have to accept electronic signatures for lack of printers and scanners.

**LCS**: The imperative to rapidly embrace digital transformation will accelerate and must be accomplished in the next year.

**SB**: Recent events have taught us the need to have optionality, diversification, liquidity, and “out of the box” thinking. Traditional products aren’t obsolete, to the contrary they just need to adapt. We are spending more on digitization and on items from operational efficiency (e.g. digital signatures, electronic presentation of documents, OCR and AI), to risk mitigation tools to improve market liquidity. My assessment is that Trade and Factoring products will be sought after in a volatile market and the value proposition highlighted.

**MS**: Covid-19 social distancing and ongoing testing will drive clients and factors into working remotely. This will boost video conferencing, conference calling and other digital communications. Other technologies like blockchain will become more common while local strategic production will converge constituting a powerful competitor to factors.

**LYF**: Compared to other risk mitigation tools like LCS, import factor PUGs are predicated on the absence/settlement of commercial disputes. The pandemic triggered disputes between traders as to order cancellation, late/non-delivery of goods, etc. Buyers refused payment for goods they alleged (often wrongly) that the exporter failed to ship. In short, when the recent crisis caused extreme scenarios, the risk mitigation function of factoring seemed to fall short of expectations.

We see more exporters resorting to export credit insurance and the Chinese government has launched policies to help exporters by providing subsidies and enhanced funding of Sinosure, the state-owned export insurance company.

**MK**: We see an increasing demand for products such as loans against Receivables in our market where Receivables finance is not yet available. Factoring and other Receivables Finance solutions allow access to working capital finance through the purchase of debtors, releasing money tied up in their sales ledger to fund business growth and overhead without the need for the more traditional forms of collateral required by banks.

**LCS**: During this crisis, International Factoring will be perfect since exporters desperately seek non-recourse post-shipment financing outside of their banks’ export credit lines (to preserve these for any liquidity emergency). Export Factors will seek higher Import Factor debtor limits but there is a real risk that credit risk appetite on importers could be restricted by import factors and credit insurers, thus reducing the attractiveness of International Factoring.

**SB**: As risk and assets get re-priced, the risk mitigation of factoring will intuitively appeal to more market participants who might not have normally sought out the product due to margin compression or perception of counter-party risk. Education and market investment will be key as the knowledge set is limited. Additionally, it will take time for supply chains to reset and demand to return.

**MS**: As an import factor our risk appetite will be very limited but as an export factor it may be used as a risk mitigation tool. However, the value of the risk mitigation benefit could be undermined if import factors face stress in maintaining/increasing buyer credit limits. Furthermore, the risk appetite of credit insurers will play an important role in the ability of the import factor to provide sufficient cover.

**LYF**: Yes, it’s been quite obvious for several years that such convergence constitutes a powerful competitor to factors. “Core Enterprises” in supply chains place orders to thousands of upstream suppliers, whereas factors stand at the periphery. So such Core Enterprises “know their customer” and “know their business” better than factors when deciding whether or not to provide financing to their suppliers. Because of their intensive involvement in the underlying transaction, they require fewer documents than factors when extending financing. Banks on the other hand still have the competitive edge in low funding cost. Nevertheless, banks are paving the new way of cooperating with these emerging peers.

**MK**: I do not think this convergence is a threat but rather an opportunity to achieve end-to-end digitization, thereby allowing traditional lenders to offer more innovative solutions. This relies on regulatory support to facilitate standardization. Trade is global so the significant number of documents and players (banks, customs authorities, shippers, and insurers, among others) involved in trade finance transactions makes it difficult for the industry to digitalize quickly. Covid-19 will accelerate the removal of legal barriers to digital trade.

**LCS**: SCF initiatives leveraging blockchain IT and run by group banks, insurance companies, customs, etc., such as R3, Marco Polo, IBM, We Trade, etc. will accelerate convergence, disrupt conventional trade financiers, and provide a more efficient SCF ecosystem.

**SB**: I think you will see continued cooperation and technologies to bridge these groups, but the all-in-one solution is years away. Banks will focus on digitization and financial efficiencies, and will wait for global standards to develop in logistics and streamlined supply chains.

**MS**: Convergence of trade, finance and logistics will make the supply chain more efficient and will provide integrated solutions – even for SMEs. However, self-registration for buyers, suppliers and transporters may create KYC issues for banks as regulatory gatekeepers. The challenge will be for international factoring to participate in this convergence, or lose out.

**LYF**: For decades, factoring has focused manufactured goods rather than services, which are capturing a larger share of international trade. So, there is huge potential in service trade, even though technical issues have to be overcome – e.g. verification of service delivery and corresponding accounts receivable.

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**MS**: As an import factor our risk appetite will be very limited but as an export factor it may be used as a risk mitigation tool. However, the value of the risk mitigation benefit could be undermined if import factors face stress in maintaining/increasing buyer credit limits. Furthermore, the risk appetite of credit insurers will play an important role in the ability of the import factor to provide sufficient cover.

**LYF**: Yes, it’s been quite obvious for several years that such convergence constitutes a powerful competitor to factors. “Core Enterprises” in supply chains place orders to thousands of upstream suppliers, whereas factors stand at the periphery. So such Core Enterprises “know their customer” and “know their business” better than factors when deciding whether or not to provide financing to their suppliers. Because of their intensive involvement in the underlying transaction, they require fewer documents than factors when extending financing. Banks on the other hand still have the competitive edge in low funding cost. Nevertheless, banks are paving the new way of cooperating with these emerging peers.

**MK**: I do not think this convergence is a threat but rather an opportunity to achieve end-to-end digitization, thereby allowing traditional lenders to offer more innovative solutions. This relies on regulatory support to facilitate standardization. Trade is global so the significant number of documents and players (banks, customs authorities, shippers, and insurers, among others) involved in trade finance transactions makes it difficult for the industry to digitalize quickly. Covid-19 will accelerate the removal of legal barriers to digital trade.

**LCS**: SCF initiatives leveraging blockchain IT and run by group banks, insurance companies, customs, etc., such as R3, Marco Polo, IBM, We Trade, etc. will accelerate convergence, disrupt conventional trade financiers, and provide a more efficient SCF ecosystem.

**SB**: I think you will see continued cooperation and technologies to bridge these groups, but the all-in-one solution is years away. Banks will focus on digitization and financial efficiencies, and will wait for global standards to develop in logistics and streamlined supply chains.

**MS**: Convergence of trade, finance and logistics will make the supply chain more efficient and will provide integrated solutions – even for SMEs. However, self-registration for buyers, suppliers and transporters may create KYC issues for banks as regulatory gatekeepers. The challenge will be for international factoring to participate in this convergence, or lose out.

**LYF**: For decades, factoring has focused manufactured goods rather than services, which are capturing a larger share of international trade. So, there is huge potential in service trade, even though technical issues have to be overcome – e.g. verification of service delivery and corresponding accounts receivable.
TB: What is the most disruptive challenge your institution faces in the next 12 months?

LYF: With the overall Covid-19 situation under control in China, many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly. Unfortunately, the virus is now spreading internationally and it seems that many expect the economy will pick up quickly.

MK: The impact of Covid-19 on the economy, our business and our staff and clients. Our immediate focus is to ensure the stability of our trade operations and to manage the challenges caused by disrupted supply chains and teams working remotely. We are also seeking requests for extensions of maturity dates on certain product lines and are actively monitoring increased claims under guarantees. We see opportunities to support critical sectors such as PPE, pharmaceuticals etc.

LCS: The new normal once the current crisis is over will be extremely digital, and this situation has increased the need for that transformation – in months, not years! The cultural change for financial institutions will be formidable.

SB: The pandemic taught us that things can change instantaneously. This only proves that capital is precious, balance sheets matter and technology investment is vital. The adaptability of our customer-centric service is paramount. Risk will be repriced and in the long run will equilibrate demand and supply. As capital gets distributed more efficiently the balance between growth and risk will be measured more closely. "Outside the box" thinkers who solve customer needs through great customer experience will be the winners.

MS: These are unprecedented times. It will be a challenge to continue to support our complete client base if the pandemic continues for a long period of time. Payment holidays and special measures will support clients on the short run, however invoices expire and then do no longer count as eligible collateral, reducing the availability of financing. We rely heavily on our credit insurer partners to help us navigate the best way forward on a case by case basis. Still we remain committed in our mission to support as many of our clients as we can.

TB: Thanks to everyone for their insights.

My five takeaways:

(1) The pandemic will accelerate digitization of trade processes (with implications for factoring);
(2) Remote-working is here to stay;
(3) Debtor risk will be repriced as credit insurers get cold feet;
(4) Procurement diversification will increase non-China sourcing, boosting factoring in emerging markets;
(5) Supply Chain transparency will be imperative, leading to greater convergence between traders, shippers and lenders.

There will be great opportunities for factoring but the road will be bumpy. Hold on!

Kanayo Awan

North East Asia
The North East Asia region, representing 23% of global volume with EUR 683 billion indicates a drop of just under 2% from 2018’s EUR 693 billion. China’s volume declined by 2% followed by Hong Kong’s -10%, mainly due to the Trade War and the challenging political environment in Hong Kong. Taiwan increased by 3%, Japan, along with Korea, remain on a par level with the previous year.

Françoise Palle-Guillabert

South and South East Asia
It is undeniable that members in APAC countries were in general affected by this trade war as China required a lower volume of raw materials and thus imported less. For Oceania, Australia was basically flat in 2019 but New Zealand reported, for the first time, EUR 35 million volume. In ASEAN, many members in this region observed marginal fluctuations in overall volume except for Singapore where FCI has its majority of SSEA memberships. While APAC in general dropped 11% in volume, Singapore was heavily impacted and saw a negative growth of 10%.

For South Asian countries like India and Sri Lanka, the former increased 12.3% and the latter reported EUR 200 million compared to none in 2018. Despite the fact that overall factoring figures were slightly down in 2019, risks evolved from international trade increased and the need for factoring grows steadily. Thompson Lui

CCEE, SEE and the Middle East
The CEE region represents 10% of the total FCI membership. We can see a consistent growth trend over the years on the total factoring turnover of the CEE region. Poland, being the largest market in the region, is maintaining its steady growth over the last five years with a growth rate of 17% in 2019. Whereas, we can see that Russia, being the second biggest market in the region, has grown 2.9% percent. Hungary recorded a growth of 23.7%, while Estonia of 8.3% and the Czech Republic of 6.8%.

The SEE region represents 10% of the total FCI membership. Turkey is the leading country in terms of both the share in the FCI turnover and the number of FCI members. However, due to economic shrinkage, the country has been experiencing slowdown over the last years, with 18.3% drop to 22 billion in 2019. Therefore, in local currency the reported figure is 10%. The second biggest market in the region, Romania, has recorded a 3% shrinkage. While on the contrary, we see a 10% growth in Bulgaria, 42% in Slovenia and 33% in Serbia.

The Middle East represents 0.3% of the FCI turnover and 3% of the FCI membership. The Middle East also grew by 12%, to reach a figure close to 10 billion mainly thanks to United Arab Emirates, which experienced a 17% growth and Israel’s rebound (+2% increase). We are expecting this growth rate to affect the total turnover positively in the coming years. Betül Kurtulus

European Union
Data collated by the EUF shows that in 2019, factoring and commercial finance volumes in the EU grew overall by 7.9%, reaching EUR 1.91 trillion. As before, 80% of this represented domestic business and the balance international. This rate of growth, which equaled that seen in 2018, again clearly outpaces the increase in GDP in Europe. Funding of EUR 275 billion is supporting around 280,000 European clients, helping them to deliver growth, employment and business success. With factoring and commercial finance now representing around 11.3% of EU GDP, this is an increasingly powerful and vital contribution to economic development in Europe.

The high level of concentration shown by the EU factoring market remains unchanged, with the top five countries in 2019 representing 73.6% of the total EU market: France (18.3%), United Kingdom (17.5%), Germany (14.5%), Italy (13.8%), and Spain (9.7%).

Françoise Palle-Guillabert
Afreximbank working with FCI continued to support legal and regulatory reforms to enable factoring throughout 2019. There were several developments as well as engagements with regulators and law makers in different African countries:

● OHADA: Participation in the semi-annual meeting of the OHADA Council of Ministers to continue discussions on the proposed OHADA Uniform Act on Factoring that is expected to be implemented in 17 OHADA Member States.

● Botswana: Engagements with Regulators in Botswana who expressed interest in adopting a targeted regulatory framework for factoring and for which a Sensitisation Forum is being planned.

● Nigeria: Afreximbank, FCI and members of the Nigerian Factoring Working Group continued with advocacy efforts and engagements with Senators and Members of the House of Representatives of the Nigerian Parliament on the introduction and enactment of the Factoring Bill.

● Egypt: Executive Decrees by the Financial Regulatory Authority to implement the Financial Leasing and Factoring Authority to implement the Financial Leasing and Factoring Agreement issued by Export Credit Guarantee (i) Financial Leasing Guarantee Agreement and (ii) Factoring Agreement provided OHADA Uniform Act on Factoring that is expected to be implemented in 17 OHADA Member States.


● Durban, South Africa, November 2019: The theme of the workshop was “Promoting Factoring in Support of Intra-African Trade and the African Continental Free Trade Area” and it was attended by around 125 participants from across the continent.

● Nairobi, Kenya, December 2019: The theme of the workshop was “Importing Factoring in Support of Intra-African Trade and the African Continental Free Trade Area” and it was attended by around 125 participants from across the continent.

South and South East Asia

In SEA markets, Vietnam is considered one of the earlier exporting nations to acknowledge the importance of helping exporters and therefore embracing international factoring at a rather early stage. Despite this early adoption, law perfection is still ongoing. For instance, under Law No. 47/2010 on Credit institutions, addition of without recourse definitions shall further bolster transparency amongst service providers and users. While in South Asia, Bangladesh, The Bangladesh Bank had swiftly filled a gap related to assigning rights, namely circular no. 43 dated November 2019. These might not be the quantum leaps for global trade, but are essential steps for international factoring to thrive.

Thompson Lui

CCEE, SEE and the Middle East

Besides global political uncertainty, the effects of the trade war and possible impacts of the Brexit will contribute to the economic slowdown in all of the countries in the region. In most countries, the decline is concentrated on exports, but other industries are also feeling the effects. This has been the case in the Czech Republic and Hungary. One of the major economies in the CEE region, the Greek market, has been taxed with an amount that affected the whole sector in 2019. However, for this year, the tax will be exempted. In 2019, Greece had a growth of 2.8%.

Betiul Kurtulus

European Union

In 2019, the European Factoring and Commercial Finance industry had many developments to track: an upcoming report on supply chain finance from the European Commission, the law applicable to the third-party effects on assignments of claims, the implementation of Basel III, an assessment of the late payment directive.

From a political perspective, the European elections were an opportunity to raise awareness about factoring and to promote its benefits for the economy. To this end, the EUP White Paper had been updated. It demonstrated that the European Factoring and Commercial Finance industry is a resilient sector, providing flexible funding with very low levels of loss given default. This form of finance should be associated with a lower risk weighting and a lower cost of capital.

With the prospect of Brexit, we modified the EUF Rules of Membership. A new status of Partners was introduced into the Rules of Membership. It opens the doors of the Federation to European countries which are not EU members at a reduced partnership fee. Accordingly, in March 2020, UK Finance joined the Federation as Partner. Françoise Palle-Guillabert

Africa

Afreximbank, in collaboration with FCI and other partners, held a series of factoring promotion and awareness campaigns in Africa in 2019. These included:

● Gabon, Bata, March 2019: The workshop “Domestic and International Factoring: Alternative tools for SME financing in Africa” brought together more than 180 participants from Africa.


● Durban, South Africa, November 2019: The theme of the workshop was “Promoting Factoring in Support of Intra-African Trade and the African Continental Free Trade Area” and it was attended by around 125 participants from across the continent.

● Nairobi, Kenya, December 2019: The theme of the workshop was “Importing Factoring in Support of Intra-African Trade and the African Continental Free Trade Area” and it was attended by around 125 participants from across the continent.

Lin Hui

South and South East Asia

FCI collaborated with other parties to promote factoring in SEA in 2019. We organised a Workshop on Factoring in Dhaka, Bangladesh with BBM and supported by Bangladesh Central Bank in September and another Workshop on Factoring and Supply Chain Finance in Phnom Penh, Cambodia with IFIC in October. The FCI Annual Meeting took place in June in Ho Chi Minh City, Vietnam. The SSEA Regional Director was invited as a speaker to other organisations’ events such as ICC Academy, HPD Landscape, SCHF Forum Asia 2019 and Financial Infrastructure Development Network Forum. In addition, FCI supported the Japanese members to promote export factoring in Japan, for the third time in three years. Today, there is no better time to raise awareness towards how we deal with various risks. FCI is progressing with an online effort to support the raising of awareness about our Industry in the region.

Thompson Lui

CCEE, SEE and the Middle East

In 2019, we organised various promotional, educational & sales events, as well as workshops with many of our business partners, promoting international factoring, reverse factoring and Islamic international factoring.

FCI participated in GTR meetings in Mena, Istanbul, and Moscow. During these meetings, we had the opportunity to discuss the services we offer with FCI members and clients. We organized a workshop on the subject of “Factoring as an alternative tool for financing SMEs”, jointly with the EBIRD and the Association of Banks in Jordan. We also attended the Kafalah SME Financing Conference to promote awareness of factoring in Saudi Arabia, in cooperation with the World Bank Group. Furthermore, together with Factortrust and USAID, we organized in North Macedonia the 2019 Regional Conference on “Factoring as an alternative tool for financing SMEs”. We also held our yearly SEE & CCEE conference in Belgrade in cooperation with the Serbian Factoring Association.

Betiul Kurtulus

European Union

Thanks to the impressive results of 2019, the European Factoring and Commerial Finance market represents two thirds of the world total. It is very rewarding to see our efforts deliver such important benefits for European businesses. We also work to reinforce these key messages with our regulators and lawmakers and to improve the way that we provide our services for the benefit of all.

In March 2019, the EIF and FCI organised a EU Factoring and Commercial Finance Summit in Lisbon. The EIF and other partners hosted a series of events and exhibitions that focused on the importance of factoring in Europe and beyond.

Françoise Palle-Guillabert
Africa
Seven new members joined FCI in 2019. These were, Bayt El Khedra for Factoring (Techno Factoring) Egypt, SBM Factors Ltd Mauritius, Banque Nationale Pour Le Development Economique Senegal (BNDE), Financial Access Commerce and Trade Services Uganda Limited (FACTS), Financial Access Commerce and Trade Services Kenya Limited (FACTS), Woodhall Capital International Limited, Nigeria, and Al Tameer Leasing Finance Factoring Co. (Al Oula), Egypt. So far in 2020, one new Factor has joined FCI (Mamakka Capital Partners, Kenya) and there are currently prospects from East and West Africa in the pipeline. Kanayo Awani

Americas
At the end of 2019 we had 40 members in the Region, 10 of them in the US and Canada and 30 in the rest of LACB. Although we suffered unfortunately the loss of a couple of members in the US and another in LACB, 6 new members have luckily joined our region. One of those is Banco LAFISE in Nicaragua, with a wide presence in most Central American countries and in Colombia. While we need to grow in membership, growth in the US and Canada must be emphasized and our growth in LACB must be balanced. Almost 50% of our members are in two countries: Chile and Peru.

It will be key to increase our members in Brazil, Mexico, Colombia and Argentina and consolidate our presence in the rest of the countries. Alberto Wyderka

North East Asia
We have 86 members in the North East Asia Region, representing 22% of the total FCI membership. Five new members joined FCI during the past year. The North East Asia region has a high concentration of banking members. In the Greater China area, our banking members cover at least 90% of the business accounts as well as their domestic or international trade and payment settlement. We have no shortage of ingredients, but just need the correct cooking method. During the past decade, a “lending” mentality prevails amongst the banks for provision of receivable finance facility or services in the region. This is obviously an incorrect approach which causes destructive competions and leads to the occurrence of some fraudulent cases. It must be upgraded into a real “trade finance” model based on cooperation by two-factors with KYCs on both sides. We have members realizing the difference and taking measures to transform. Lin Hui

South and South East Asia
SESEA represent 10% of the total FCI membership. FCI SESEA region had 5 terminations in 2019 compared to only 1 in 2018. SSEA will need to grow memberships in order to expand. In 2019, the membership in SSEA increased with three new members in Bangladesh, one in Indonesia, two in Singapore and one in Indonesia. Members, banks and trade finance service providers all have endured the trade war and pandemic related disruptions, unfortunately, the impacts may go beyond what retailers are suffering now and radiate like ripples and affect factors, banks and credit insurance providers. Thompson Lui

CEE, SEE and the Middle East
The foregoing developments translated into 13 new members: 2 in CEE (Hungary and Greece), 8 in SEE (Slovenia, Turkey, North Macedonia, Moldova), 3 in the Middle East (United Arab Emirates and Saudi Arabia), which joined FCI during 2019. We expect to see an increase in the turnover of FCI’s product “Islamic International Factoring”, especially in Turkey and in the Middle East. Betül Kurtulus

European Union
For the EUF, following the policy to enlarge the membership, Norway has become a new member. For FCI, their membership grew with a new western European members: one each in Switzerland, France, Germany and Austria.

The FCI ExCom met in Paris in September and whilst there took the opportunity to meet with the French members and discuss the evolution of the industry. François Palle-Guillabert

Africa
Despite the growth in factoring volumes, there remain several challenges which include:

- Insufficient knowledge about the product and the industry hence the need for continued capacity building and advocacy.
- Uncertainty around FX risks given dominance of domestic factoring.
- Difficulties in procuring credit insurance.
- Absence of credit bureaux and reliable credit information on buyers.
- Difficulties in securing competitively priced funding.

Kanayo Awani

Americas
In a Region like the Americas and especially in the LABC Sub-region, the challenges are multiple and varied, and its evolutionary state of business, always in the same Sub-region, has a very wide growth space.

My first challenges have been to generate proactive actions with financial institutions to add factoring to their commercial business, as well as aligning Country Factoring Associations with FCI. Also, my efforts were centered in enhancing communications with country regulators and lawmakers in order to facilitate factoring business expansion, and to consolidate FCI’s presence through the growth of its members in the Region. Alberto Wyderka

North East Asia
Trade uncertainty is rising caused by the spread of Covid-19, trade frictions and geopolitical issues. North East Asia is one of the regions with the most negative impacts. In comparison, domestic market and intra-regional trade might be the glimmer in the dark.

Trade efficiency: for many years, FCI two-factor scheme has been expected by the banks in the region as the new standard for global trade finance business after documentary credit. But it needs to improve its efficiency to meet the demand and pattern of trade today. This downturn of economic cycle currently gives us an opportunity to make up the shortcomings. Lin Hui

South and South East Asia
Travel restrictions suspended businessmen from traveling, pandemic disrupted supply chain logistics and ultimately derailed international trade. Both are vital in our factoring world of receivables. Without trade and receivables, our members suffer a decrease in volume but an increase in risks. All these can lead to higher credit costs and therefore less appetite from import factors to offer much needed credits as buyers face massive disruptions in their business models.

Thompson Lui

CEE, SEE and the Middle East
Unfortunately, our turnover expectations for the year 2020 will far from surpass the 2019 figures. Covid-19, which has caused a pandemic around the globe, will cause a reduction in almost the whole world’s economies. Despite its volatility, the constantly changing situation surrounding the coronavirus leaves no doubt about its massive impact on the economy as a whole.

Betül Kurtulus

European Union
The EUF was affected by the Covid-19 crisis. The European Factoring and Commercial Finance Summit which was scheduled to be held on 30-31 March by the EUF and FCI in Rome had to be postponed.

The international Covid-19 pandemic is shaking the whole world. This is an unprecedented health crisis that affects us all. The impact on our economy is tougher than in 2008 and will have devastating economic, social and maybe political consequences across Europe.

Since the beginning of this crisis, the EU Federation has organized itself to protect its people and ensure continuity of service. We are in close contact, both with the European economic authorities and European sister federations, in order to monitor, review and seek appropriate support for business. New European regulations on non-performing loans (NPL) and the definition of default (DUR) are about to be enforced in the Union. In the context of the Covid-19 crisis, they will have a powerful impact on businesses and on European economic growth. It might be wise to postpone their entry into force.

In the international area, we welcome the announcement of the Basel Committee to postpone the implementation of Basel 3 regulation. Generally speaking, all banks need softer regulatory constraints. François Palle-Guillabert
Africa
Overall, the general outlook for most African economies in 2020 is tipping southwards. A recent McKinsey Report (April 2020) has noted that after two decades of steady economic growth, the Covid-19 Pandemic could tip Africa into its first recession in 25 years. This prognosis has an implication for the overall business landscape. African countries are likely to experience major negative impacts in trade and business volumes due to the adverse effect of the pandemic on business activity globally. Specifically, restrictions on movement are seeing business volumes drop as logistic operations are constrained and supply chains disrupted. Within this context, the solvency of buyers is likely to impact payment on invoices. It is expected though that a Post-Covid-19 environment will present a new paradigm for business in general and factoring specifically in Africa with shifts expected towards food, health care and medical equipment manufactures and value chains.

Kanayo Awani

Americas
It is very difficult to forecast future expectations due to the impact that Covid-19 will have on the economies of all countries. Let’s hope those almost certain falls will be as low as possible. However, we are facing a very disruptive year and in my opinion a threat to globalization. I believe that two-factor volumes can become a growing business depending on the response of our Import Factors.

What is also to be expected is that payment terms will be lengthened affecting not only domestic transactions, but also condition the approval of new risks in international operations. The challenges faced in 2019 that I mentioned before will continue to be present in the current year. Alberto Wyderka

North East Asia
The evolution of the global pandemic makes the 2020 outlook highly uncertain. Supply chain is disrupted. The global and regional economic growth are set to decline. Business delinquencies and defaults will rise. FCI has implemented an emergency contingency plan requiring the cooperation between export factor and import factor in response to the dynamic situations. Strong and coordinated efforts are needed to contain the pandemic and minimize its impact on all of us. North East Asia is probably the first region to rebound after the crisis. China, where the outbreak began, is resuming its business close to a normal level though export is still in a doldrum due to the weak demand from the US and Europe. Given the strong incentives to investment and consumption, there is reason to believe it will be in favor of factoring and SCP business development in the domestic and intra-regional market.

Lin Hui

South and South East Asia
Non-performing assets, bad debts and credit costs will increase and bring temporary negativeities to our eco-system. Nevertheless, despite the fact that trade and factored volume may decline, an increase in risk mitigation awareness is expected and thus interests and demand in FCI’s education and memberships are both expected to remain positive in 2020, especially in SSEA markets. Last but not least, both US and Japan governments have publicly stated to their manufacturers to consider moving out of PRC after the outbreak. The question is where to go? While moving back to homeland is an option, is SSEA an alternative worth mentioning? Is SSEA ready to embrace this possible movement? Thompson Lui

CEE, SEE and the Middle East
For the year 2020, for which we have lowered growth expectations to below zero, we expect to see the most significant influences of this economic contraction on the developing markets themselves. In addition to their very high sensitivity to falling developed markets’ demand for manufactured goods and commodities, disruption on the supply chains, SEE and CEE countries will most likely experience a significant tightening in financial conditions. However, we expect an improvement in the economies at the end of 2020. It is inevitable for this to cause shrinkage in total factoring volume, as it does in all cases of crisis. Betül Kurtulus

European Union
In this unprecedentedly challenging time, European Factors are giving particular attention to the needs of businesses, from micro to SME, from merchant to large corporate. All of them are exposed to the consequences of this exceptional crisis. Indeed, the European Factoring Industry confirms its complete commitment both to protect its people and to give full support to all its clients whose activities have been so dramatically affected.

The European factoring statistics are generally good for the first quarter of 2020. However, with the economy coming to a sudden halt, and in the absence of new invoices to finance, we expect them to deteriorate in April and May.

More than ever, the Factoring and Commercial Finance Industry has a key role to play in supporting economic growth, employment and wealth creation in Europe. Françoise Paille-Guillaud

The Importance of Training
How best to meet these training needs? Even in an open-office environment, it is hard to coherently share knowledge between immediate teams. Experienced staff may not even know exactly what it is that they need to explain. That is why formal training programmes, such as those offered by specialist organisations like The London Institute for Banking and Finance (LIBF), are needed. LIBF has a faculty of industry experts who lead programmes that deliver demonstrable and quantifiable results.

LIBF also recognises suitable learning programmes that relate to banking and finance – even if they do not exactly match units in our awards. These endorsements mean the participants can be confident of the quality of the course they are undertaking.

Alex Gray

London Institute of Banking & Finance (LIBF) - Head of Trade Finance

Trade finance is a fundamental part of corporate banking, underpinning approximately 80% of world trade. It has been at the heart of the global economy for hundreds of years: surviving many wars, crises and pandemics. However, the Covid-19 pandemic has left markets scrambling and global supply chains have been severely disrupted. The WTO estimates a potential decline in global merchandise trade in the order of 13%–24% in 2020.

Resilient Business Models
The economic effects of locking down major economies for an extended period are an unknown. But, as economies start to re-open, banks are beginning to prepare their staff and systems for the anticipated bounce-back: i.e. the hoped for ‘V-shaped recovery’.

Digitisation is a ‘must do’ in the ‘new operating normal’, but for trade it will only be part of the solution. Automation will not eliminate the need for skilled staff to oversee transaction processes. Machines will not be able to replicate the relationships that trade finance professionals build across the market. In fact, relationships are likely to be more important in an uncertain future as global trade practices evolve and new operating processes are adopted.

One thing is certain: there will regulatory pressure on banks to show that their businesses really are resilient. This won’t just mean ‘can you show that your core systems are backed-up?’ or ‘how do you operate remotely?’. It will go much deeper and wider to encompass resilience in its broadest context.

Regulators will want to see that individual bank employees are knowledgeable and can function well with minimal direct supervision. There should be no ‘key man’ risk, no breakpoints in institutional knowledge and expertise. That means having all staff carefully trained and supported in a fast-moving environment.

Conclusion
Training in trade finance will be decisive in the years ahead for these main reasons:

– First, being able to show you have the right, trained staff gives regulators comfort – and that cuts compliance costs.
– Second, good staff want access to training and expert qualifications. Providing it boosts employee satisfaction, loyalty and operational efficiency.
– Finally, and perhaps most importantly, customers pay for trustworthy, tailored expertise. No-one really quibbles about the bill for a fine meal at a good restaurant – they understand that it takes judgement, skill and training. Just don’t try charging the same for a burger.

For example, the FCI Academy “Career Path” programme is endorsed by LIBF. This is because it is a cohesive, multi-level development process that supports FCI members as they become highly qualified professionals in factoring and receivables finance.

That sort of outside expertise relieves senior managers from the burden of trying to share their knowledge while grappling with other business and regulatory challenges. It can also help banks make sure that essentials are not overlooked in the day-to-day whirl. For example, ensuring that trade documentation is correct is not a glamorous role, but it is critical. Do a bank’s document checkers hold recognized qualifications, in the same way that other professionals do? They should.

Just as importantly firms develop internal cultures – both good and bad. But professional standards should not be left to ‘how we do things round here’. In sales, for instance, a miss-sold product or solution can prove very costly, both financially and reputationally. External training helps set the right norms.

At the same time, firms have to change to compete. That can leave a gap between staff acquiring a new skillset and keeping up to date with the latest developments. The way to bridge that is with modular training (associated with CPD credits). Think, for example, of digitisation and sustainability. What questions do you want your people to ask and be able to answer?

Now is the time to redouble the focus on training and be prepared.

Betül Kurtulus

The Importance of Education

Liberec, Czech Republic – 20th April 2020

Resilience in the face of the Covid-19 pandemic is becoming a key theme of the educational provision of the Liberec Faculty of Business, Economics and Management of the Tomas Bata University in Zlin (FTBUZ). The Liberec Faculty has a faculty of nearly 1,000 staff, and is a leading university in the Liberec region and in the Czech Republic.

Professor Jiří Fiala, the rector of FTBUZ, wrote in a recent interview: ‘We have to be resilient in dealing with this pandemic. We need to be ready for a sudden halt, and in the absence of new invoices to finance, we expect them to deteriorate in April and May. That is why we need to think about training and developing our students. The FFI, along with the Czech Business School, is a leading university in terms of resilience and digitisation. As a university, we have to be ready for the future, and in that context we need to think about how we can help our students in these times. We need to think about the future of the whole of Czech business, and how we can help our students to be resilient in the face of this pandemic. We need to be ready for a sudden halt, and in the absence of new invoices to finance, we expect them to deteriorate in April and May. That is why we need to think about training and developing our students. The FFI, along with the Czech Business School, is a leading university in terms of resilience and digitisation. As a university, we have to be ready for the future, and in that context we need to think about how we can help our students in these times. We need to think about the future of the whole of Czech business, and how we can help our students to be resilient in the face of this pandemic. We need to be ready for a sudden halt, and in the absence of new invoices to finance, we expect them to deteriorate in April and May. That is why we need to think about training and developing our students. The FFI, along with the Czech Business School, is a leading university in terms of resilience and digitisation. As a university, we have to be ready for the future, and in that context we need to think about how we can help our students in these times. We need to think about the future of the whole of Czech business, and how we can help our students to be resilient in the face of this pandemic. We need to be ready for a sudden halt, and in the absence of new invoices to finance, we expect them to deteriorate in April and May.

For more information on the Liberec Faculty of Business, Economics and Management of the Tomas Bata University in Zlin (FTBUZ), visit www.libercobem.cz.

Regional Updates | Outlook 2020

FCI Annual Review 2020
As the sun set on the last day of 2019, a new dawn began for global economic prosperity, after months of uncertainty, divergences, and an era of protectionism. However, in the midst of this new sunrise an unexpected shadow arose, a protagonist for 2020 named Covid-19.

Economists have learned since the unpredictable financial crisis in 2008-2009 how to establish future economic projections. However, they could not foresee that the world was about to face an unimaginable challenge. The invisible enemy knows no economic or political boundary, nor does it respect any border. The Covid-19 is the new example of an erratic globalized world.

The IMF’s World Economic Outlook (WEO) initially projected a growth rate up to 2.5% in 2020, a considerably small and insignificant rise from the post-crisis low of 2.4% registered in 2019, amongst a backdrop of weak trade and investment and a limited forecast. This time, as the Covid-19 had first hit China, the second largest global economy in January, the fiscal disruption and its global impact took all economists to evaluate and revise projections, resulting in a sharp contraction in global GDP estimated in those early days of the crisis at -5.0% to -8.0% in 2020, a severe retrenchment since the last financial crisis.

Thus, assuming that containment actions and proper policy support are met during this crisis in the second half of 2020, projections of growth to 5.8% is expected in 2021 after expected normalization of economic activities.

However, the World Health Organization (WHO) later expressed concerns about the global social and economic impact, far from the optimistic views from various global economists. The same concerns have been also expressed by The IMF Managing Director, Kristalina Georgieva.

“Today we are confronted with a crisis like no other. In fact, we anticipate the worst economic fallout since the Great Depression.”

Consequently, the WEO has now predicted a contraction growth of -6.3% for 2020 and a relatively small rebound of 2.4% in 2021, according to the latest economic effect registered in the first quarter.

The output for advanced economies is projected at -7.7% in 2020 and 2.9% growth in 2021, with the United States contracting -7.9% in 2020 and 3.0% growth in 2021, the European Union -8.8% to a growth of 3.3% in 2021, and Japan to contract -5.9% in 2020 and an expected positive result growth of 2.1%.

Moreover, the outlook for emerging economies is projected to contract at a rate of -5.4% in 2020 and a positive 2.0% growth in 2021, that is assuming China growth rate sticks at -4.8% in 2020 and 3.3% in 2021, Brazil with -7.5% in 2020 and 0.6% in 2021, India with -3.9% in 2020 and 0.5% in 2021 and the Middle East and Central Asia with -5.6% in 2020 and 0.8% in 2021. See Graph 1.

In face of the current events and the global economic projections, we can obtain adjacent predictions how the factoring industry will respond in 2020 and 2021. However, despite the parallel results compared to previous years, we can see a significant spike in 2010, right after the financial crisis. Hence, we may exceed our expectations once again in part dependent on economic incentives being reached. See Graph 2.

Although economists are likely to be more accurate, in reality the projections to countries such as the United States, the European Union, China and other developing economies may have a far worse result than expected for 2020, due to confused policies, inconsistent political/government response, and the threat of a second wave in the second half of 2020.

The Organization for Economic Cooperation and Development (OECD) has articulated more serious apprehensions, as cautioned by OECD’s Secretary General, indicating that advanced economies should expect the worse. If the correct measure is taken, the economic disruption may last some years, yet if not, it might not have a proper recovery for many years to come.

The containment from further disruption already expected for the second half of 2020 is to establish a grounded fiscal stimulus, so confidence and aggregate demand can be elevated avoiding further depression in the near years. The monetary and liquidity incentives harmonized by central banks shall reduce the economic stress by ensuring a proper and synchronized recovery. Banks should also engage in negotiated cooperation with SME’s, by providing capital facility loans, as well as extending incentives on open accounts receivables finance, lastly and most importantly the creation of a transparent multilateral cooperation, circumventing other economic risks.

Perhaps complex, but necessary to heal the pain for the new dawn...

Kyle Mota, FCI Director of Administration

Sources:
The World Bank Group; IMF International Monetary Fund; OECD Organization for Economic Cooperation and Development; McKinsey & Company; Brookings; WEF World Economic Forum.
2019 Global Industry Activity Report

Introduction
Keeping up with the good tradition from past Annual Reviews, we once again present you with the 2019 Global Industry Annual Review (GIAR). Although similar to past reports, we attempt to focus on the outcome of the member survey, the impact the results provide us, and include some additional new data sets, but ultimately providing an overall compelling powerful report on the factoring industry.

This Report has its origins dating back to 2009 and includes data derived from the material captured within the FCI survey that FCI members have kindly completed. The GIAR’s scope is to provide a unique analysis of our Industry having two different angles: the first being the quantitative and numeric aspects of the global business and another is the usage of a wide range of qualitative elements which provides an opportunity to assess the general sentiments and opinions of its key participants.

Quantitative Analysis
One thing for certain is the fact that the basis of our analysis for 2019 does not incorporate all data. So as a disclaimer, this outcome is the closest to reality that can be generated as of now, based on the figures we have received to date (approximately 75% response rate from our members).

As ever, the principal challenge for the survey continues to be the fact that in many countries the infrastructure and capability to collect and analyze data varies dramatically. Some countries have limited capability for collating market information, while others have sophisticated centralized methods. Hence, we rely upon the best estimates of experts within those markets. Therefore the level of detail that individual markets are able to provide remains highly variable. One of the real challenges for the RF Industry is to help people everywhere to understand the importance, value and power of information in our advocacy discussions and the key requirement consequently of collating accurate information at country levels.

So, here we are then; the initial findings of the 2019 GIAR Report...

Product analysis: This year we thought that it would be interesting to present to you the way volumes are split by products based on the data we received from our members. There will be no comparison to 2018 because of the differences in the data sets that were used in last year’s report. Since each member provides different products related to their own market, this cannot be denoted as a marker for a specific country.

Past studies show that there has been a substantial increase in non-recourse and supply chain finance business at the proportionate expense of recourse and invoice discounting. In fact, if you look back ten years to 2010, the global non-recourse figure stood at 28% compared to 2019 at 46%, indicating a sharp increase in demand for non-recourse factoring. This stems from non-recourse factoring’s risk mitigation benefit, its substantial value as a means to decrease cost of capital under Basel requirements, and the increase in usage of off-balance sheet treatment by corporates.

Of course, the relative proportions in individual countries continue to vary and the individual figures will reflect the local market conditions, as well as the legal and regulatory environment; this chart shows what a “typical” country distribution looks like. Whilst it should be noted that for example many countries do not yet record any reverse factoring type business, for Spain it represents around half of the total market. Similarly, in the UK, one of the largest individual global factoring markets, invoice discounting represents around 90% of the volume.

It appears that Reverse Factoring (also known as SCF/ Confirming/ Payables Finance) may have decreased as a proportion of the total reverse factoring market globally. FCI formally entered the reverse factoring market with the launch of our new solution, FCI Reverse in 2019. We are excited to help support the growth of this important service to our members today and in the coming years ahead!

Industry Dynamics
Below you can see how things changed in relation to last year. It appears that this year we reached 4.05% of GDP penetration for the industry, a slight improvement compared to what we had witnessed last year (3.95%). Europe increased to 11% penetration keeping in mind the fact that our Industry is still well established. We used current estimates and thus not finalized GDP figures from the IMF for 2019.

Quickly looking at the figures:
- Client numbers are estimated to have reached around 770,000 and the debtor numbers to have reached an estimated level of 18.8 million. Enough to say that these figures have a relatively high level of uncertainty because it combines both whole turnover and spot level types of relationships, highly sensitive to market structure and conditions.
- Companies active in the Industry that serve the pool of clients and debtors is estimated to be around 2,460.
- Direct employment is estimated to be around 103,000.
- The annual turnover per client remained close to EUR 3.8 million; so, in the Industry we continue to be dealing in large numbers with mainly SME businesses based on the smaller end of the spectrum. Our data shows that our members’ data on their clients’ portfolio is mainly SME, over 60% as shown below:


<table>
<thead>
<tr>
<th>Total Number of Active Sellers</th>
<th>35% Small enterprise</th>
<th>26% Medium-sized enterprise</th>
<th>39% Corporate</th>
</tr>
</thead>
</table>

The Industry continues to demonstrate a very high level of factoring supplier concentration, like last year. Where the figures are available, the top five concentration ratio (CR5) was reported as 82% of the market (82% in 2018 and 2017, 84% in 2016). Bank divisions lost ground to 39% (from 45%, 45%, 46%) in 2019. Bank owned subsidiaries continue their growth to 35% (from 32%, 35%, 27%) whilst Independents recovered a bit to 7% (from 6%, 13% and 11%) respectively. The domination of banks at the expense of independents is keeping its strong position in the Industry.

Qualitative Analysis
One of the things that makes the GIAR survey unique is it provides an ongoing record and analysis of the perceptions within the Industry on a wide range of topics and trends and their potential effects on the Industry and its future development. Our sample data for this analysis includes members’ views from 52 countries that have responded to the FCI survey.

The first and key element to consider is Factoring Awareness & Acceptance. The responses show that in general there continues to be considerable opportunity to build and develop on past success within the Industry. The position has rather significantly deteriorated compared to last year’s survey which showed 72% medium awareness compared to 62% and acceptance of the product has also declined, from 68% medium acceptance to 58% (although a high level of acceptance improved from 10% to 23% in the survey).

As can be seen below, respondents continue to demonstrate a high level of confidence and optimism that the Industry has the capacity to continue to support SMEs and grow its important role in supporting the real economy on a global scale. As for demand, there seems to be a continued strong support. However compared to 2018, it is somewhat lower, most likely stemming from the geo-political challenges experienced last year. Nevertheless, on a cautionary note, with the weak demand outlook in 2020 stemming from Covid-19, combined with the continued trade war and these other barriers to trade growth, the overall picture appears rather alarming.

The trends from last year are showing once again a reduction in confidence stemming from both reports connected to turnover and profitability, indicating an adverse impact to margins and hence a decrease in profitability. These responses suggest that respondents remain overall weary about future prospects and
recognize that there are potential issues facing their operations in the current global climate.

As always, risk management continues to be a key focus for providers, so the participants’ responses to questions on their outlook for client and debtor risk in their markets are important. We can see a slight improvement in the outlook of client risk but with little change in debtor risk in 2019. We anticipate this will only worsen in 2020, stemming again from the global pandemic and continued trade tensions.

Over the past few years, FCI has extended the range of questions for respondents in cooperation with the Asian Development Bank, which annually organizes a study on trade finance. Their report, “Trade Finance Gap, Growth, and Job Survey” reports a USD 1.5 Trillion trade finance gap, and looks at its impact on SMEs, the engine of economic growth and future employment in most economies. The two organizations have a common interest in looking at the impact of regulation, credit and capital issues and the role technology will play in developing the industry, especially in this post-Covid-19 world!

We also looked at a number of variables impacting financing on Graph 1 page 25. The results are quite revealing, of which three stand out. The responses this year suggest that participants view the effect of AML/KYC regulations significantly less in comparison to the previous year, a drop from a high of 37% to 25% in 2019. However, regarding the view on lack of liquidity the situation has improved somewhat increasing from a low impact of 27% to 31%. And the Basel capital impact increased, from a high of 21% to 31% this year, indicating the significant effect Basel is having on the factoring industry, mainly coming from the bank factors. During the financial crisis in 2008-2009, governments around the world who for years boasted about the self-evident benefits of limited regulation had to sink trillions of dollars to prevent the global banking system from collapsing.

The current Covid-19 inspired crisis, which is much worse in terms of its impact on the global economy, is different since governments are more prepared, benefiting from the increase in capital stemming from these Basel requirements over the past decade. This is witnessed by the numerous positive stress tests that governments have undertaken on the banking sector, leading to a much healthier financial system that so far has been able to weather the storm. So, the impediments seem to have shifted somewhat since 2018, as indicated by our responders.

There was little change in the views of members relating to the shortfall of factoring. The increase of concerns regarding the rise in protectionism and specifically the US - China trade war resulted in our members being more aware of the impact but unsure of how will it affect the industry in the future.

As always, risk management continues to be a key focus for providers, so the participants’ responses to questions on their outlook for client and debtor risk in their markets are important. We can see a slight improvement in the outlook of client risk but with little change in debtor risk in 2019. We anticipate this will only worsen in 2020, stemming again from the global pandemic and continued trade tensions.

What is interesting is the rise of Fintechs and the success that they have experienced over these past few years. Like in years past, we asked for respondents’ perceptions regarding the potential impact of Fintechs on industry. The survey results show an enhanced perception that Fintechs are more likely to facilitate KYC enhancements, with a high potential response rate from 39% to 53%, a significant rise. This could be a greater acceptance of Fintechs’ abilities. Their potential use for client risk assessment remained relatively unchanged year over year. However, it is expected that numerous Fintechs will be adversely impacted by the Covid-19 crisis, which could likely lead to many Fintechs going out of business, stemming from credit losses, risk in fraudulent transactions and an increased challenge to raise capital: see Graph 2 on page 25.

Conclusion

This year’s GIAR once again provides an overview of the global factoring industry and makes some considerable changes compared to the previous year, both in terms of quantitative and qualitative analysis. Although 2019 seems like a century ago, considering the abrupt consequence this crisis has had on the global economy, it is still nonetheless imperative that we take the opportunity to provide an in-depth analysis of the data provided by our members. From the responses, we can gain a compelling and broad picture of the

FCI Expressed in Figures

In 2019, the number of members who contributed to the FCI Survey was in close proximity to the previous year, representing almost seven times (70% in 2018) in number and their total volume added up to EUR 1,420 billion.

FICI Annual Review 2020

2019 Quantitative and Qualitative Report

Industry, however, it is not lost on us that the factoring industry in comparison from market to market is much different, especially when comparing developed to developing markets. This makes it very challenging to assess their true performance, to develop sensible estimates and derive information that we consider credible. In many countries the infrastructure is not yet sufficiently developed in order to fully address the questions in our survey. Hence FICI attempts to assess the data from multiple sources in order to best estimate each market performance.

In putting together this review, we collect, consider and manage a very large number of data sets, and its collation is a significant task. We would like to thank all country respondents for their hard work in gathering this data on behalf of their countries. We could never do this without you!
Export factoring is similar to last year, accounting for 15% of the total. 9% of the total export factoring volume relates to two-factor business.

Import factoring accounted for 2% where 5% representing two-factor business.

As for special factoring business, Direct export invoice discounting accounted for 3% while Reverse factoring accounted for the remaining 1%.

The charts are the result of the actual contributions received from the Members together with the estimates for 2019.

When breaking down the volumes of FCI Members Countries/Territories International Factoring volume, we find the "Top Ten" adding up to 79% of the total volume, having Italy in first position with 16% followed by Taiwan (13%), China (9%), The Netherlands, Spain and Germany (8%), Austria, Singapore and Belgium (5%), and France (4%).

Share of 2019 FCI International Factoring Volume

Country (Companies) Domestic International Total
Egypt (10) 484 125 549
Mauritius (2) 217 39 256
Morocco (2) 2,484 108 2,592
South Africa (10) 71,662 3,611 75,273
Tunisia (5) 345 19 364
Total Africa (154) 20,702 3,860 24,562

Country (Companies) Domestic International Total
Lithuania (5) 1,610 125 1,745
Luxembourg (1) 329 – 329
Malta (5) 282 414 696
Moldova (3) 9 5 14
Netherlands (5) 93,718 22,430 116,148
Norway (4) 23,797 2,644 26,441
Poland (3) 15,499 12,622 28,121
Portugal (7) 29,062 4,738 33,800
Romania (5) 4,938 816 5,754
Russia (3) 44,820 315 45,135
Serbia (3) 791 9 800
Slovakia (1) 1,280 752 2,032
Slovenia (2) 1,200 200 1,400
Spain (4) 162,473 25,086 187,559
Sweden (6) 20,056 679 20,735
Switzerland(2) 495 98 593
Turkey (79) 19,420 2,437 21,857
Ukraine (3) 218 – 218
United Kingdom (54) 313,946 25,020 338,966
Total Europe (888) 1,593,794 353,446 1,947,239

Total Asia-Pacific (2,201) 546,428 161,166 707,594

Total Middle East (23) 7,118 2,819 9,937

Total North America (323) 86,291 6,431 92,722

Total South America (847) 128,055 3,976 132,031

Share of 2019 FCI Factoring Volume

Country (Companies) Domestic International Total
China (66) 22,505 5,712 28,217
Denmark (9) 9,787 9,051 18,838
Estonia (11) 3,869 318 3,900
Finland (5) 25,000 3,000 28,000
France (8) 32,817 7,540 39,357
Germany (8) 14,458 3,789 18,247
Ireland (6) 22,770 16,830 39,600
Italy (14) 1,280 752 2,032
Japan (4) 60 90 150
Latvia (6) 420 385 805
Luxembourg (1) 13,952 54,768 48,419
Malta (3) 282 414 696
New Zealand (1) 35 – 35
Norway (4) 23,797 2,644 26,441
Poland (24) 55,469 10,672 66,141
Portugal (7) 29,062 4,738 33,800
Romania (5) 4,938 816 5,754
Russia (3) 44,820 315 45,135
Serbia (3) 791 9 800
Slovakia (1) 1,280 752 2,032
Slovenia (2) 1,200 200 1,400
Spain (4) 162,473 25,086 187,559
Sweden (6) 20,056 679 20,735
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Total Middle East (23) 7,118 2,819 9,937

Total North America (323) 86,291 6,431 92,722

Total South America (847) 128,055 3,976 132,031

Total (4,236) 2,375,406 541,699 2,917,105

Export Turnover by Country/Territory in 2019
### Total Factoring Volume by Country/Territory in the Last 7 Years

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Asia Pacific</strong></td>
<td>634,641</td>
<td>648,716</td>
<td>596,633</td>
<td>555,559</td>
<td>657,189</td>
<td>695,582</td>
<td>681,594</td>
<td>-1.9%</td>
</tr>
<tr>
<td><strong>Total Europe</strong></td>
<td>1,353,742</td>
<td>1,462,510</td>
<td>1,556,977</td>
<td>1,592,988</td>
<td>1,701,939</td>
<td>1,829,142</td>
<td>1,976,239</td>
<td>8.0%</td>
</tr>
<tr>
<td><strong>Total Middle East</strong></td>
<td>5,000</td>
<td>8,498</td>
<td>8,208</td>
<td>7,593</td>
<td>8,019</td>
<td>8,840</td>
<td>9,537</td>
<td>12.4%</td>
</tr>
<tr>
<td><strong>Total South America</strong></td>
<td>101,412</td>
<td>103,124</td>
<td>86,826</td>
<td>104,396</td>
<td>117,088</td>
<td>121,248</td>
<td>132,031</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>Total World</strong></td>
<td>2,208,372</td>
<td>2,347,513</td>
<td>2,375,790</td>
<td>2,375,967</td>
<td>2,392,298</td>
<td>2,362,042</td>
<td>2,317,104</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

**Menara Malaysia (Malaysia)**

**Corinna Bridge, Cannery Wharf, Hong Kong.**

**Charilaos Trikoupis Bridge, Patras, Greece.**