FCI

Facilitating Open Account – Receivables Finance

Annual Review 2017

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 approximately 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

Annual Review 2017

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Welcome

Letter by Çagatay Baydar, FCI Chairman

FCI has become the Voice of the global open account receivables finance association and network in the world today. The past 49 years of FCI's existence have seen a phenomenal growth as the world economy and global trade have prospered. However, we are certainly at a cross roads, as 2016 was a year which showed no growth in the global factoring statistics, after growing nearly 10% p.a. the past 20 years. What has caused this slowdown? In part this results from the reduction in global trade. For the first time in decades, the growth of cross-border trade was slower than global GDP growth. Many of our largest markets experienced quite challenging economic and political periods, especially in Asia. In fact, the Asian region declined by nearly 15% last year, due to the slowdown in China. And the rise in protectionism hasn't helped matters. But even so, all other regions of the world grew nicely, including Europe (nearly 3%), Americas (nearly 10%) and Africa (nearly 48%). And for 2017, the good news is that the global factoring industry continues to persevere, as cross-border activity is up with nearly 6% in the 1Q2017.

The Union between FCI and IFG was completed last year, and we entered 2016 as one institution, under the banner of FCI. We were able to incorporate all of the good DNA and best practices from IFG, including the addition of over 100 additional members and 12 new markets. And with the Union, we now have close to 400 members located in approximately 90 countries. The Union has received strong reviews by the outside world, with members, external stakeholders, the development banks, and other quasi-governmental organisations all taking notice of this rising organisation. It raised the profile of FCI as the voice for the global Receivables Finance Industry and positioned FCI as a visible force to be taken seriously regarding open account trade finance. We created a sound organisational structure, more professional, and with resources to support the needs of our members in all corners of the world.

Jacques Cartier Bridge, Montreal, Quebec Province, Canada.

FCI's voice was heard more loudly and professionally than at any time in our history. If people did not know who FCI was yesterday, they certainly know who FCI is today. Working with the help of Bloom and working alongside our Marketing Committee and Head of Marketing, we helped raise FCI's brand awareness globally. Even with the evolution of the Union, we held two major promotion conferences in Ulaanbaatar, Mongolia (where we added 3 new members) and Ho Chi Minh City, Vietnam (where we added 1 new member). We also organised an event in Dubai, our first major regional conference in the Middle East, and, FCI also organised a small workshop in Istanbul, Turkey, to promote the Union but also to update members on FCI's developments (which led to two new memberships). We also organised a promotion conference in Buenos Aires, Argentina alongside the FELABAN meeting, the largest gathering of trade finance bankers in Latin America, to promote FCI but to also encourage attendance at our annual meeting in Lima in June 2017. You will continue to see FCI raise the flag and plant the seeds in the emerging markets to develop the service or to expand the offering. And with the support of our regional directors, we will continue to support the development of factoring in numerous emerging markets. While aligning our activities with the support of the regional development banks and IFC/World Bank, we increase the penetration rate of our events significantly.

FCI held its 48th Annual Meeting in Cape Town, South Africa in October 2016. FCI organised the largest gathering of executives in our history, and our first annual meeting on African soil. President FW de Klerk, Nobel prize winner alongside Nelson Mandela, was the best keynote speaker in the history of our annual meetings. The meetings were appreciated by the members. The rollout of the SCF project and the branding project were also well received. We had very strong feedback from almost every attendee.

FCI launched a number of projects in the area of advocacy in 2016, which can be summarised below:

1 **Credit insurance**: FCI had organised the first meeting between the credit insurance industry in September 2016 which led to a rather high profile 2nd meeting in March 2017, which could have a positive effect on the industry from the standpoint of Basel treatment of non-recourse factoring backed by credit insurance, along with many other initiatives including education, promotion, and advocacy (creation of a joint report on open account trade finance)

2 **WTO report**: FCI worked closely with Marc Auboin, Economic Counsellor, WTO to create a report on the benefits of factoring for SMEs and its multiplier effect on the growth of trade. The report resulted in enhanced attention by regulators and policy makers about the ties between factoring and its strategic placement with SMEs, the drivers of trade and employment around the world.

3 The Secretary General attended the **WTO High-Level Expert Group on Trade Finance meeting** last year, bringing together the leaders in Trade Finance, to discuss issues of importance regarding policy in trade finance. We brought forward issues impacting the industry like the actions taken under the CRR regarding the positive derogation under the LCR, and soon to be released NSFR for the factoring industry, creeping regulations regarding KYCC, increased compliance, and other important barriers to growth. The concept of the development of a Receivables Registry, similar to the Trade Finance registry was discussed as an area the WTO would support FCI in developing in 2017.

4 **Introduction of the Islamic Development Bank**: We had met the head of trade finance for the Islamic Development Bank (IDB) at the WTO conference on Exporters on Trade Finance Committee in Geneva last year, which led to further talks about the development of a sharia compliant GRIF, and hence FCI has established a working group together with the IDB on this Islamic factoring project, along with developing deeper ties in the Middle East region.

Advocacy is extremely important to the industry, and its economic benefits to members, but in the end it will not encourage most members to remain a member in FCI, with few exceptions, and it will certainly not be the primary reason for factoring companies to join FCI in the future. The network is the glue that binds the members together, and continuous improvement in the trading network must remain a key priority for FCI into the future.

So what is next for FCI? We have a number of initiatives in the pipeline that we hope to finalise in the coming years ahead including:

- **FCI's 50th anniversary 10-15 June 2018**: FCI will re-publish and distribute to our members the book on the history of the factoring industry written by our founding father, Mr. Claes Olof Livijn.

- **Invest in education**: We will establish a program to provide factoring education with a major Chinese university. We will continue to provide the COFIT program together with the Afreximbank for students in Africa. And after doubling the number of students enrolled in the FCI online courses, we anticipate continued growth, especially as we roll out our foundation course in Chinese, Spanish, French and Russian languages.

- **Increase the level of thought leadership**: you will see more in depth articles, speeches during our annual meetings and analysis from FCI on such topics as the impact of prudential risk, legal impediments, and innovation. And you will see us aligned with other thought leaders in global trade finance.

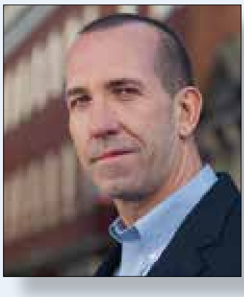
- **Increase awareness in compliance**: FCI will roll out a new compliance charter, which will guide FCI's members to ensure they meet certain minimum standards.

- Expand FCI's capabilities further into the **supply chain finance**.

- **URIF project** or minimum GRIF endorsement? FCI has been in talks with the ICC for a number of years to develop a joint set of rules for the industry. The ICC has given its initial agreement to approve a full endorsement of the GRIF. There will be on-going discussions about the idea to create the Uniform Rules for International Factoring (URIF) which could take a number of years to complete.

So many challenges with advocacy, partnership, education… ahead as you have seen. The coming years will be very interesting for the Receivables Finance Industry and I am very confident with recent developments. The start of 2017 saw very positive signs and I hope that the seeds planted will go on flourishing.

Introduction



By Peter Mulroy, FCI Secretary General

FCI has evolved into one of the most unique associations in the field of open account trade finance as it has helped propel the factoring industry globally to new heights. When FCI was founded in 1968, its mandate was to promote the growth of factoring around the world, develop uniform factoring techniques and best practices for cross-border business and help solve the legal, regulatory and technical issues arising in international factoring transactions. As a result of the many investments FCI and its members have made over the years, factoring has grown into one of the most sought after financial services today. The industry registered over EUR 2.35 trillion in volume in 2016, and for the past 20 years has grown over 9 percent per annum on a CAGR basis. This is in part stemming from the many seeds that FCI has planted globally, especially in such developing markets in greater China, Eastern Europe, South and Southeast Asia, MENA and Latin America regions.

As a result, the seeds were sewn for the eventual union between the two largest trade associations, International Factors Group (IFG) and FCI. Both councils approved the Union and on 1st January 2016, the two organisations became one, under the banner of FCI, but bringing in the DNA and best of both worlds, to form the largest non-profit association dedicated to the growth and interests of the receivables finance industry today. We are already seeing the benefits of the Union, from a reduction in redundant costs, increased resources that can better tackle the needs of the industry, and together a vast increase in our country demographic and membership, increasing from 73 to approximately 90 countries and from 275 members to close to 400 members today. Our combination allows FCI to focus on continuing to expand into new markets and add new members and business to the chain. In fact just in 2016 alone, FCI added 8 new countries, the most in any single year. But it also allows us to commit more resources to raise awareness of the many benefits that factoring affords, especially from the perspective of regulators and policy makers, that the industry represents the safest and most secure means of financing businesses today, with a very low historical default rate and an industry that caters to the financing of small to medium enterprises (SMEs). FCI's aim is to translate this reality into capital reduction benefits for the industry and to cut through the red tape that some regulations and their unintended consequences have on our industry. As a result of the Union, FCI has more resources to help educate on the importance that factoring plays, especially during times of economic turbulence.

FCI provides four primary pillars of services to our members: cross-border factoring platform to reduce risk and generate business, education to support the healthy growth of our members, advocacy to raise awareness of the benefits of factoring, and networking of our members at events organised

George Washington Bridge, Hudson River, New York, USA.

by FCI. FCI is a business network first, by providing our members a global framework to conduct cross-border factoring business using a correspondent platform. The General Rules of International Factoring (GRIF) form the legal basis under which nearly all cross-border transactions are conducted. FCI also uses a global correspondent factoring system called edifactoring.com, which similar to SWIFT is a messaging system whereby members can exchange data on a secure network, by issuing factor guarantees, remitting invoice data, dispute notices, and payment messages. FCI requires all members to follow certain standards, including the requirement to enroll their employees in various e-learning courses and attend physical seminars, and to follow the FCI Constitution. FCI also has a dispute resolution mechanism under the FCI Rules of Arbitration, whereby members can resolve their differences.

FCI has a unique advantage as our members are our ambassadors for factoring and receivables finance around the world. FCI has educated nearly 10,000 students coming from these 400 members over the past decade, all under FCI's proprietary education system, so they all are speaking from the same book, and can provide factoring services to SMEs and large corporates alike, whether they are based in a developing or developed market. In fact, FCI wants to build an even larger network of high quality banks and privately held companies dedicated to the growth of factoring and receivables finance around the world. We can easily see FCI having more than 600 members in over 100 countries in the next five years. This gives us a stronger platform for growth, a focus on providing state of the art education, advocacy, and to tell the story that cross-border factoring is the fastest growth engine in trade finance over the past decade. We also want to inform those thinking of joining FCI that everyone who participates benefits. The network aspect of FCI is important, as it provides an economic means to generate business, but also supports their client's cross-border needs by accessing a global network. FCI encourages our members to capitalise on the 50 years of learning and education that FCI possesses and to follow the lessons that our experience dictates to ensure a strong, prudent path to a healthy and long lasting business model.

There are many opportunities and challenges facing the industry today in part due to the rise in technological disruptions like Fintechs, which have the ability to seamlessly fund SMEs via an electronic format. Blockchain and distributed ledger technology have the opportunity to help speed up the flow of capital and enhance the speed and efficiency in trade finance. The trend of e-invoicing continues to gain steam. Today approximately 10% of all invoicing is done on an electronic basis. However, with the evolution in e-commerce increasing, and the deployment of government initiatives to require most businesses to operate in an e-commerce environment, especially for government procurement purposes, by issuing electronic invoices, we anticipate this will be a significant game changer for the industry. FCI members are investigating the opportunity to invest in payables finance/reverse factoring programs. In fact, FCI is looking into these new technologies to help support our members including the investment in our own SCF programs, ultimately allowing our members to access an operating platform to on-board both anchor buyers and their domestic and international suppliers, but also providing the use of export factors around the world to support this effort, by educating the supplier on the benefits of SCF, signing a local factoring contract with the supplier, proving KYC/AML guidance, and potentially financing the confirmed receivables.
And although more regulations will certainly impact the factoring industry, FCI will need to ensure that the interests of our stakeholders are protected, by lobbying to convince regulators and others that factoring should be given the recognition it deserves as an asset class, with the objective of ultimately lowering the capital required by factoring companies to set aside against their exposures. FCI has been the undisputed leader in providing factoring data for decades, and has a strong reputation for the quality of its data. Obtaining loss data from factoring companies from around the world will be quite challenging, however we believe it is in the economic interest of our members to do so. Hence, and with the support of our partners the ICC and WTO, we anticipate we will be able to achieve this objective in the near term.

In 2018, FCI will celebrate its 50th anniversary milestone, after that very first formal annual meeting in Stockholm in 1968. But in fact, the seeds were planted four years earlier in 1964, when a predecessor of Factors Chain International was established, as a result of visionary leaders from Svenska Handelsbanken in Sweden and Shield Factors in the UK. Since those early pioneering days, FCI has achieved incredible success and has resulted in the expansion of receivables finance from just a handful of countries to supporting its growth in almost 90 countries today. With the advent of globalisation starting in earnest in the late 1990s, the push to offer open account terms on a global scale, the positive impact that the factoring industry played during the financial crisis starting in 2008, the lower capital reserve requirements that factoring benefits from, and coupled with the union between the two largest chains, FCI has evolved into the undisputed leader in open account receivables finance and factoring services throughout the world today.

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

Sultan Abdul Halim Mu'adzam Shah Bridge, also called the Second Penang Bridge, Penang, Malaysia.

Roundtable: Factoring Industry Regulation and Law – The role of FCI

Legal and Regulatory supervision of our Industry is not always consistent on a regional let alone global basis. John Brehcist, FCI Advocacy Director asks a panel of prominent Industry players for their thoughts on the issues that this raises, and importantly the implications for FCI. The group explore the opportunities and challenges for the Industry which are created or affected by the various legal and regulatory regimes, and consider whether there is a need/opportunity/benefit for a clear identity and separate treatment for an industry that finances the real economy at low risk for the financial institution.

John Brehcist (JB): In around two thirds of countries globally, factoring is a regulated activity; do you see this is an advantage, a challenge or a simple fact of life?

Andrés Arredondo (AA): We believe that regulation is an advantage as the rules guide the business and ensure the players operate correctly within the same framework.

Patrick de Villepin (PDV): Regulation is an advantage when it is monitored and harmonised with the same principles and constraints everywhere. If it's not, it's an open door to unfair competition.
Worldwide, regulation is, or is applied very differently from one country/continent to another. Within the EU, ECB regulation is doubled up by national regulation and practically, you can find many differences from country to country.

Stuart Brister (SB): Factoring in the USA is not a separately regulated industry. Factoring conducted by bank-owned operations is subject to banking industry regulations and non bank-owned factors are unregulated. There are advantages to both structures: the banks benefit from lower costs of funds and perceived government support, the independents from much more flexibility and far less oversight/ red tape. I don't see either condition changing, although at some point the non-regulated factoring activities may draw the interest of the regulators trying to manage the "shadow banking" industry.

Joachim Secker (JS): It is a little of everything. An advantage, because it sets standards you have to cope with and, if we want to be recognised as a serious industry, that helps. It is a challenge as we have not a bank mindset, but one of traders who understand the flow of goods and money. It is a fact of life, as the political climate clearly speaks for more rather than less regulation.

Ilyas Khan (IK): We see factoring regulation as an advantage and beneficial to developing the market. A legal framework sets the minimum standards of the Industry, controls conduct and behaviour of all parties, opens up the financing for SMEs, provides transparency and makes trade easier for all parties, reduces the possible disputes and gives confidence in the industry and products.

JB: Around one third of countries have a specific factoring law. Is this of benefit or not material to developing the market? How do we share best practice?

AA: In our country it is partially regulated, especially for the banking industry and through a set of rules from the Peruvian Superintendency of Banking and Insurance. So in this market there are other players as companies and entities which are not supervised by this authority – and they do not follow the same rules.

PDV: In France, there isn't any factoring law and I don't believe we need one to guide or develop the business. Adding regulation & law as in Italy and Germany would generate useless constraints. In France, factoring companies are financial institutions or assimilated in banks and are known as "établissement de crédit spécialisé" (ECS) if they need to have their own EU Passport or to benefit from direct refinancing by the ECB. Most of the French factors are ECSs and are considered to have deposits and accordingly contribute to a deposit guarantee fund. Such a constraint costs them a lot and so they are seeking derogation to avoid such a huge contribution in the future. If they fail, most French factors will suffer compared with European competitors.

SB: Factoring activities in the USA are generally covered by the same laws that apply to all asset-secured lending activities and are subject to the UCC. I believe it is one of the reasons the factoring business in many respects looks a lot like the ABL industry. On a positive note, the laws regarding secured lending had been tested through time and are generally reliable and predictable. Having the laws tied to secured lending in general makes it easy for non-bank and non-traditional competitors to compete in the market.

JS: Germany has none, but I would be happy if we had one. However, the business is regulated (so called light for non-bank factors) and licensed since 2009. The sharing of best practice is one of the tasks of our new body, FCI.

IK: There is no specific factoring law in Singapore. But financial institutions in Singapore are highly regulated. All the factoring companies are properly licensed and regulated. Looking at Asia, most countries have factoring regulations e.g. India, China, Hong Kong, Taiwan, Korea etc.

JB: Does the Industry have a coherent voice towards international prudential regulation? Is it an issue? Does it need one? Is there sufficient appetite to seek to achieve this?

PDV: The Industry does not have a coherent voice towards international prudential regulation. Within the EU, players don't always share the same interests: within EUF, British, French, German or Italian factors often disagree on principles or target (Anacredit recently) even if they sometimes reach consensus on important key issues (KYC for debtors in 2015/2016 required by Italian regulator). BREXIT won't help in that respect to find alignment and compromise.

AA: In our opinion, it would be better if we had an international framework for this business through working with a recognised international authority, such as the ICC.

SB: I don't see any specific energy around international factoring issues and the need to unify for specific legislative or regulatory reform/addition. In general, the US secured lending industry does work with the CFA and some of the regulatory bodies to ensure international trading laws are predictable, reasonable, and enforceable. I believe working with the ICC and similar bodies to codify and unify the laws would be beneficial for many of the various trade tools and products offered by banks to their internationally-minded clients.

JS: Unfortunately it has not had one so far, but would need it. In my eyes, it's one of the most important "must haves" for the future.

IK: We see the needs of having an international prudential regulation for factoring. A unified and standard rule across the globe will make factoring easier, faster and more accessible for all parties. It will also add comfort to seller/buyer/factor to enter into new markets, which will further promote factoring business.

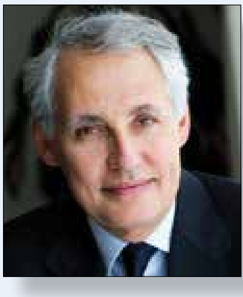
There might be challenges of having such international regulation. For example, recognition of cross-border regulations is difficult when countries are at different stages of development and adopting different law systems. And it might be difficult to get consensus on the treatment of topics like Bans on Assignment, validity of payment to sellers etc.

JB: Is it realistic to seek a separate treatment specifically for factoring when generally the overwhelming majority of the industry is bank owned and operated?

AA: This is not a simple product and its payments under FCI are also subject to the buyer´s decision not to raise a dispute and order the payment of the invoice. But, there are countries, (like mine) where factoring is done under non-recourse basis. Therefore, we think it is realistic to seek a separate international treatment specifically for international factoring.

PDV: Yes, it is not only realistic but also mandatory because factoring is a short term business, committed to the real economy and at the same time pretty much secured. The specificities of our industry have to be better recognised, mainly for liquidity (for instance, NSFR calculation for a factoring company consolidated within a Bank to be confirmed) and solvency purposes (in particular, risk weighted assets associated to our activity are disproportionate compared to our low cost of risk).

SB: In the USA most factors are not bank owned. There is perhaps a half dozen bank-owned operations and a couple of thousand non-bank owned factors. However by volume, the banks control approximately 80% of the $100Bn industry here. I believe it likely the regulations and laws will remain the same for the bank-owned operations but I also believe the


From left to right:
Andrés Arredondo
Patrick de Villepin
Stuart Brister

Government will continue to monitor (and encroach) on the unregulated operators in the future. I don't see the need for factoring-industry specific treatment in terms of regulations and laws.

JS: Yes; look at the recent terrible case study on Factoring from the ECB created for the ANA-Credit proposals. Being bank owned should not make a difference in this respect.

JB: How should we co-operate to communicate the need for regulatory or legal change? Can this be done on a global basis or does it need to be regional?

AA: Quite simply, it should be on a global basis.

SB: I would love to see it be on a global basis rather than regional. It is very important for the laws to be uniform and well understood. We are seeking regulations which are fair, reasonable, predictable, and enforceable. I think enlisting the assistance of ICC to codify, simplify and enact these regulations in critical. I would hope that getting the ICC endorsement at a global level will "trickle downhill" and satisfy the needs of the regional and local regulatory bodies.

JS: The "how" is a challenging task for FCI going forward. Global is difficult, but there should be coordination between the various poles.

PDV: Cooperation is mandatory and should be organised on a regional basis, with a global coordination undertaken through FCI. In Europe and especially in the EU, there is a specific need for a better alignment between countries and factoring companies. In that perspective, the EU Federation should be reinforced in its governance (entry of Top European players in the board), its budget and means of action. Forums of alignment on major topics should be organised in order to be more efficient and to avoid major disagreements and conflict of interests between members, especially in the BREXIT environment. If such a work is not done in the short term, the lobbying arm of factoring in Europe may struggle to maintain its roles & unity.

JB: What's the role of FCI in all this? What does it need to do?

PDV: FCI should have a global role of coordination and alignment in order to ensure that any regional regulation or legal framework is sufficiently coherent and harmonised to avoid unfair competition. Common rules should prevail in order to keep the game open and acceptable for everyone. Annual meetings could play such a role in the future, notably in respect to compliance rules.

IK: FCI as an international organisation of factoring industry shall take up the responsibility of setting up a minimum regulatory / legal requirement agreed by all the members. This should be done on a global basis unless it's a regionally specific issue.

AA: FCI should promote international standardisation of international rules as was done years ago for trade finance through the ICC. FCI should convince all its members of the importance of this standardisation of rules and continue working with the ICC as our industry evolves.

SB: Work with the FCI partners to make sure we are all on the same page and cooperate with ICC to write and enact these policies on a global basis to ensure uniformity and consistency.

JS: In my view, FCI has to become the voice of the industry; that was one of the reasons to merge with IFG. A role only as marketplace for IM/Export and education is clearly not enough.

JB: Thank you all for these insights; there's clearly much to be done to harmonise our approaches as the industry develops and evolves. Your observations make it clear there's a key role for FCI in acting as a voice and leader of the Industry in addressing these issues of strategic change.

From left to right:
Joachim Secker
Ilyas Khan
John Brehcist

EMEA region – the EU continues to show the way

By Erik Timmermans, FCI Deputy Secretary General,
in charge of membership and stakeholders development in Europe, Middle East and Africa

1 European Union

The 28 EU countries realised in 2016 a total factoring turnover of EUR 1,501 billion which represents an impressive share of 64% of the total world factoring volume. With an annual growth percentage of 6.06% in 2016 and a penetration ratio (factoring turnover related to GDP) of 10.13%, the EU performed much better than the total of world factoring. The growth of 6.06% is even more impressive when one takes into account that the biggest EU market, the UK, showed a decrease in turnover of –13%, expressed in EUR (the real turnover in GBP increased with 1.25%). The most important markets in the EU are UK (EUR 327 billion), France (EUR 268 billion), Germany (EUR 219 billion), Italy (EUR 209 billion) and Spain (EUR 131 billion).

FCI is very well represented in the EU with members in all EU countries, except Ireland, Latvia and Estonia.

There is a growing importance of regulation coming from different EU instances. To defend the interests of the factoring industry in the EU, FCI has an important division, steered from the Brussels office: the EUF (EU Federation for Factoring & Commercial Finance: see *www.euf.eu.com*). All 14 important national associations in Europe are represented in the EUF and 97% of the factoring industry is represented in the EUF, which gives full relevance to the platform when interacting with different stakeholders.

Factoring & Receivables Finance is now on the table and on the radar of the EU Parliament, the EU Commission, the EBA… which gives us a window of opportunity to increase further awareness about our Industry and about its specific benefits. The factoring industry in Europe supports SME Lending, supports the real economy and therefore also employment and does this at a low financial risk for the financial system. Our recently published White paper on the factoring industry in Europe has demonstrated that the expected losses in case of factoring finance are 4 times lower than in the case of traditional non-secured Bank lending.

2 Central East Europe

This region consists basically of that part of Europe which was "behind the iron curtain" after World War 2. In some countries that are now part of the EU such as Poland or Croatia, factoring has reached a level of maturity with penetration rates higher than the world average. But in most countries of Central East Europe, there is still important room for development of best practices in factoring and for improvement of legal and/or regulatory environments. This is the reason FCI puts a specific focus on this region through its Central East European Chapter. FCI also cooperates with EBRD (European Bank for Reconstruction & Development) to increase awareness about factoring through regional meetings.

3 Africa-Middle East

Our Africa Chapter will report separately on the Africa region which offers great potential for development for FCI. In the Middle East we see an important increase of interest in factoring in many countries. During our first regional conference in Dubai in 2016, many regional banks expressed interest in developing a "Sharia Compliant framework" for international factoring. The successful deployment of such a "regional deviation" could offer important growth potential for two-factor business and additional members in the Middle East region, but also in some other African and Asian countries.

Zeeland Bridge, The Netherlands.

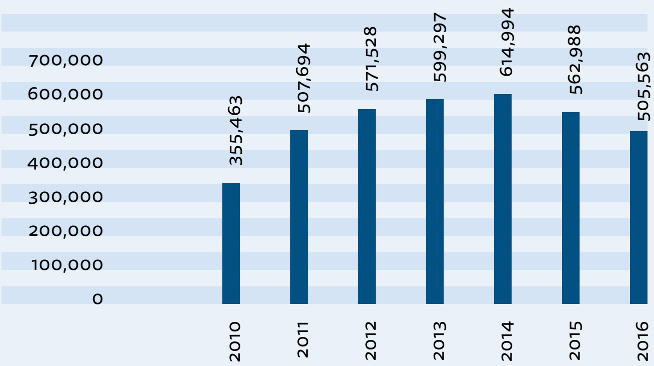
Asia – A new normal

By Lee Kheng Leong, FCI Asia Chapter Director

Asian factoring growth takes another breather

Asian factoring volume, which declined by 8.46% in 2015, suffered another decline of 8.47% in 2016 to EUR 508 billion. This was caused mainly by China, which saw a further decline of 14.5%. Japan and Taiwan, two other major Asian countries also suffered decline in volume, albeit at a lower rate 8.7% and 10.45% respectively. Nonetheless, the growth in two other major Asian factoring countries, Hong Kong (27.7%) and Singapore (4.1%) as well as interesting growth in the emerging Asian markets Malaysia (362.7%), Thailand (20%) and Vietnam (96.4 %) helped to cushion the decline somewhat.
Notwithstanding the reduction in 2016, Asia continued to be the second largest factoring region accounting for 22% of the world factoring volume. China continued to be the world's second largest factoring country after The United Kingdom.

Asia Factoring Volume 2010 – 2016



Factoring promotion conference

One of FCI's goals is to help members to increase their factoring business. Towards this end we have conducted factoring conferences in Bangkok and Phnom Penh on 6th and 10th February respectively. These conferences were very well attended by the exporters and have successfully generated new business for our members.

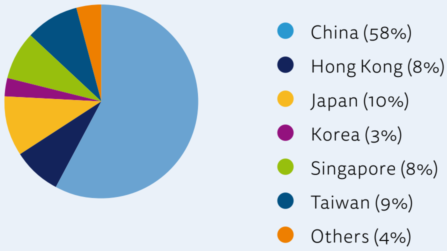
Working with like-minded organisations

The period under review was also a busy period for FCI as it continued to work actively with the following like-minded organisations to promote awareness of factoring in this region, as well as to build alliance with the said organisations:

- CFEC
- APEC Finance minister process
- IFC
- ADB
- ICC
- Association of Commerce of India
- Indonesia Financial Services Association
- SCF Community Forum,
- Beijing/Tianjin Factoring Association.

Asian Factoring Market composition

Factoring in Asia continued to be dominated by six countries as shown below:



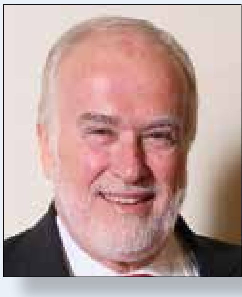
Emerging countries will fuel the growth

The Chinese economy is expected to grow at a new normal with a growth rate of about 6.5% for 2017. In view of this, its factoring growth rate is not expected to experience the high growth as seen in the past.

However, four South East Asian countries, (Malaysia, Indonesia, Thailand, Vietnam) and India are expected to fuel the growth of factoring in Asia as there are signs of increase in factoring activity. In South Asia, India's factoring volume will increase as the Government has allowed banks to engage in non-recourse factoring. The Indian Government has also set up a receivables platform which will increase factoring to the MSME. China, which has a similar platform, has seen increased factoring to MSMEs as well.

IFC has also been working with countries such as Vietnam, Thailand, Laos, Cambodia, Mongolia and the Philippines to introduce secured property transaction law as well as registry for movable property financing which include factoring. This will make it easier and safer for factoring companies and will consequently increase factoring in these countries.
Hence despite the initial gloom brought about by the US pulling out of Trans Pacific Partnership, the China "one belt-one road" strategy, as well as the expected improvement in the law and financial infrastructure for receivable financing in many Asian countries, Asia will see a new growth in the coming years.

Wake up Latin America!



By Alberto Wyderka, FCI Latin America Chapter Director

I would like to start this report by quoting an illustrative paragraph from the book written by Mr. Alberto Padilla, one of the most renowned and important economic and financial journalists of the Spanish-speaking TV world of our continent: "El Continente Dormido" (The Sleeping Continent).

"In the middle of the second decade of the 21st century, while the world is talking about drones ready for home deliveries, cars with the ability to handle themselves, space tourism and the internet of things, Latin America lives at the mercy of the price of its commodities: Corn, wheat, soy, coffee, copper, petroleum. In fact, for several centuries we have depended on the same thing to survive; our continent sleeps in a slumber that rests on its natural resources and to which economic development seems to be eternally elusive. When the exploitation of raw materials no longer guarantees anything, the challenge is to quickly transform stability into growth and growth in development".

Although it is a comment that makes us think, what does it have to do with factoring and more precisely with cross-border factoring? It does. And it applies entirely to our Industry too.

After almost 50 years of the existence of FCI, our chain has 30 members in the Latin American and Caribbean Region, with around 50% having ongoing two-factor business; and this turnover represents slightly over 1% of the total two-factor turnover of FCI. It is still a virgin Region…a Sleeping Continent.

Why is that? Why is the development, the expansion of our cross-border industry at such a slow pace? And I'm focusing my question on cross-border rather than on local factoring, because in the local field, factoring has achieved – in general – greater growth; some countries like Chile, Colombia, Peru and Mexico could be considered matured markets. The development of platforms and the increasing effectiveness of the electronic invoice, has facilitated the consolidation of domestic factoring. However, cross-border is still lagging behind.

My perception is that in LA, export companies in general, and SMEs in particular, are not well served by banks. And I'm focusing on banks, because in general there are not too many factoring companies in the Region either specialised or having the will to be active in financing international trade, at least today, with the exception of companies in Chile, to some extent in Brazil and a few in some Central American Countries.

There is a shallow culture in financing open-account international sales, as opposed to a deep culture in financing working capital. In other words, banks in general, are accustomed to and prefer providing working capital (which might end in international trade) rather than financing international sales in themselves.

This is not a play on words, it is a conceptual issue. And unfortunately, this is one of the core reasons why it is so hard to get banks into cross-border factoring. Such barriers militate against the desired expansion and penetration of our product. However, those banks willing to enlarge their services in favour of export clients, and which understand that cross-border factoring is a tool that allows them to serve exporters in general and SMEs in particular by financing their exports in open account with mitigated risk, are the ones that incorporate the service more quickly.

So, should we forget the LA Region? Absolutely not. I'm convinced and very optimistic because we are on a good path. As FCI, we are giving support with education to those members who still haven't set up the service yet, providing follow-up and "mentoring"; and by continuing the promotion of our industry and by seeding, meeting prospects, by promoting best practices among members and the prevention of financial delinquency and respect for compliance and normative behavior. All this will contribute to retain current members and to stabilise the region by providing the knowledge and showing the benefits of cross-border factoring. This will facilitate stable growth.

In addition, it should be mentioned that there is a perception in the region of a sort of reluctance or unwillingness from some members of other regions, to accept risk coverage offered by LA banks, but also in providing credit cover to them. The main reason is "compliance", which should be understood.

It is true that this year the "Panama papers affair" has raised the alarm, but this issue has mainly affected prominent persons not only from some LA countries, but also from many European and Far East countries.

All our LA member banks have their "Compliance policy" in place. Should it be reviewed by its correspondent members? Absolutely yes. But **how many of our LA members** were suspected of being involved or even facilitating corruption or money laundering? **NONE**. So where should the concern be?

Certainly, the growth of cross-border factoring in the region will also require more willingness from banks of other regions to establish a correspondent relationship, of course subject to appropriate due diligence between them.

Africa on the Rise in 2016

By Kanayo Awani, FCI Africa Chapter Chair, Managing Director, Intra-African Trade Initiative, African Export-Import Bank

Africa enjoyed remarkable growth in factoring volumes in 2016 to reach EUR 27.6 billion. While global volumes declined, it recorded 47.6% growth outperforming other regions such as Europe (+2.5%), Americas (+9.4%), Australia (+14.1%) and Asia (–14.9%).

Notwithstanding this boost, we note that Africa's factoring volumes are growing from a very low base and its ranking in the global business in 2016 was just 1.17%. Also, most growth resulted from a 60% rise in South Africa's volumes considered the leader in factoring in Africa representing 85% of the region's volumes. South Africa was followed by Morocco with 10%, Egypt 2% and then Kenya, Mauritius and Tunisia at 1% each of Africa's factoring volumes.

However, we remain upbeat about Africa's prospects as market information not only reveals steady growth in these six factoring markets but also in the emerging ones, notably Cameroon, Nigeria, Ghana, Gabon, Côte d'Ivoire, Botswana, Zimbabwe, Zambia, Mozambique and Senegal.

Similar but Different Patterns Across Africa

Domestic factoring remained dominant in Africa and drove growth in 2016 but country experiences were different as some examples show below.

Domestic factoring *with recourse* was dominant in South Africa especially in the steel and ICT sectors and also in Tunisia where *with recourse* represented about 95% of total factoring volumes in the country. The main sectors were telecom, agribusiness, and food/beverages. In **Egypt**, the situation was similar as focus on domestic factoring was accentuated by stiff competition from banks, in international financing, offering more attractive terms to exporters to enable collection of their foreign currency export proceeds due to the challenges in the market. The most growth was recorded in retail, textiles, chemicals, processed food, ICT and packaging industries. **Kenya** was different as international factoring grew despite the bulk of business remaining in domestic factoring (retail). The opportunities in export factoring were tied to Agriculture/ Agri-business (flowers / fruits) driven by demand for open account products to support exports to Europe and the Middle East. For **Zimbabwe**, domestic factoring *with recourse* inevitably showed better growth prospects due to the introduction of legislative directives by the government that sought to improve the country's balance of trade by restricting imports of non-essential goods. Notably though, the outlook is positive for export oriented factoring largely due to the introduction of export incentive schemes by the government. In **Cameroon** and **Senegal**, growth witnessed in domestic factoring was *without recourse*. In Cameroon in particular, market information suggests factoring volumes were in excess of EUR 40 million in 2016 largely shared among 6 market players and mainly in Services. **Gabon** also reported growth in *both with and without recourse* domestic factoring, in distribution, retail, construction and services sectors. In **Nigeria**, Factoring & Supply Chain Limited obtained its finance company license from the central bank and started factoring business. There were also significant developments in advancing the adoption of Afreximbank's Model Law by Nigerian Export Import Bank (NEXIM) working with FSS2020 and a new Nigerian Factoring Working Group.

Support from Afreximbank

The common challenges hindering growth of factoring in the continent around the lack of product awareness, absence of reliable credit information, inadequacy of effective trade finance, the current economic difficulties and foreign currency shortages, and the weak or unavailable legal and regulatory infrastructure, remained but with improvements.

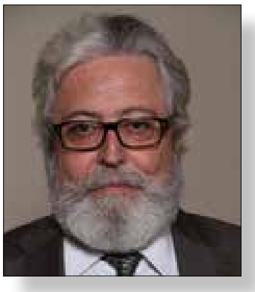
Afreximbank, continued to play leading roles in tackling some of them – finance, education and capacity building, raising awareness and advocacy. Most notably in the area of enabling legal and regulatory environment, the Bank launched a Model Law on Factoring for Africa in October on the sidelines of the FCI Annual Meeting in Cape Town, South Africa. This was preceded by targeted seminars for Regulators, Law Makers, Factors and various other stakeholders in Nigeria and Côte d'Ivoire to develop road maps and advance implementation in those jurisdictions.

On product promotion and education, in 2016 the Bank in collaboration with FCI organised a factoring promotion conference in Tanzania and undertook marketing and mobilisation campaigns in Nigeria and Côte d'Ivoire. Afreximbank also organised a factoring workshop in Mauritius in November and collaborated with the Egyptian Factoring Association (EFA) in organising and sponsoring a seminar in Egypt.

Furthermore, in December 2016, the Bank approved a new strategy for financing African Factors.

References:
- FCI Preliminary Statistics
- Factoring Companies: Tunisie Factoring, Unifactor (Tunisia), QNB Al Ahli Factoring, Export Credit Guarantee of Egypt (Egypt), Standard Bank (South Africa), Umati Capital (Kenya), BGFI Bank (Gabon), FBC Bank (Zimbabwe), Locafrique (Senegal), BICEC-Groupe BPCE (Cameroon).

FCI Expressed in Figures



By Harry Biletta, FCI Planning and Development Director

The factoring volume growth during 2016 remained stable and once again the trend is practically flat.

Total Factoring Volume 2010–2016

in millions of Euros

	2010	2011	2012	2013	2014	2015	2016	Variation 2015/2016
World Domestic Factoring	1,402,331	1,750,899	1,779,785	1,827,680	1,857,410	1,838,366	**1,868,855**	1.66%
World International Factoring	245,898	264,108	352,446	402,798	490,114	529,379	**507,112**	–4.21%
World Total	**1,648,229**	**2,015,007**	**2,132,231**	**2,230,478**	**2,347,524**	**2,367,745**	**2,375,967**	**0.35%**

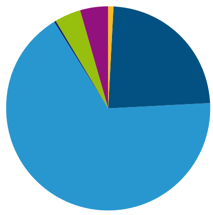
The growth of the factoring volume which had showed a constant upward trend until 2014 has apparently stopped and the 2016 figures reported indicate that the numbers differ very little from those of 2015: EUR 2,375 billion versus 2,367. The same can be said for the Domestic and International volumes which maintained their proportions of just less than 80% and just over 20%.

The breakdown by continent, the individual variation over the previous year and the share of the total can be found in the below chart which confirms the further drop in Asia where some slight improvement is being noted in the first quarter of 2017 and hopes are for a prompt recovery.

Global Factoring Volumes by Region

in millions of Euros

Continent	2015	2016	var	2016 share
Africa	18,721	20,393	8.93%	0.86%
Asia-Pacific	596,633	555,550	– 6.89%	23.38%
Europe	1,557,052	1,592,974	2.31%	67.05%
Middle East	8,028	7,583	– 5.54%	0.32%
North America	100,530	95,072	–5.43%	4.00%
South America	86,826	104,396	20.24%	4.39%
Grand Total	**2,367,790**	**2,375,967**	**0.35%**	



The volumes of business handled by the Members of FCI followed the Industry trend in figures and this pause is mainly attributable to the decrease in factoring volumes out of Asia. The entire Asia region declined by a further 8 percent, all affected in part from the contagion effect stemming from the slowdown in China (partly neutralised by the support offered by the many commercial banks whose volumes account for over 20% of the market) and the overall effect from the slowdown continues to be felt going into 2017. Japan did not reach the 2015 volumes and nor did Taiwan; on the contrary Hong Kong, Singapore, India and Thailand showed positive variations.

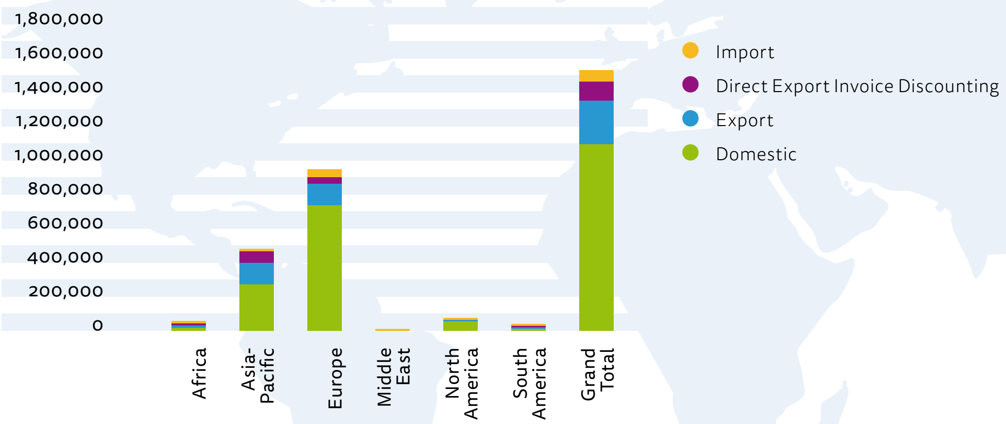
In Europe, the traditional factoring countries France, Germany, Italy and Spain recorded a growth whilst Turkey stepped back with a decrease of over 10%. Russia had impressive results also considering the complicated environment and Netherlands had a remarkable growth. The UK figures are strongly influenced by the fluctuation of their currency and an adjustment had to be made to the variation to account for it.

In the Americas, the Latin block (Brazil, Chile, Mexico and Argentina) contributed to the positive end result covering the negative figure of the north American countries.

Africa continues in its slow and steady upwards trend mainly thanks to South Africa, but also with the contribution of the newer countries.

FCI Members 2016 Volume Breakdown by Continent

in millions of Euros



The breakdown by product confirmed the shares of previous year including the “with” and “without recourse” domestic factoring where we notice again a shift towards the latter.

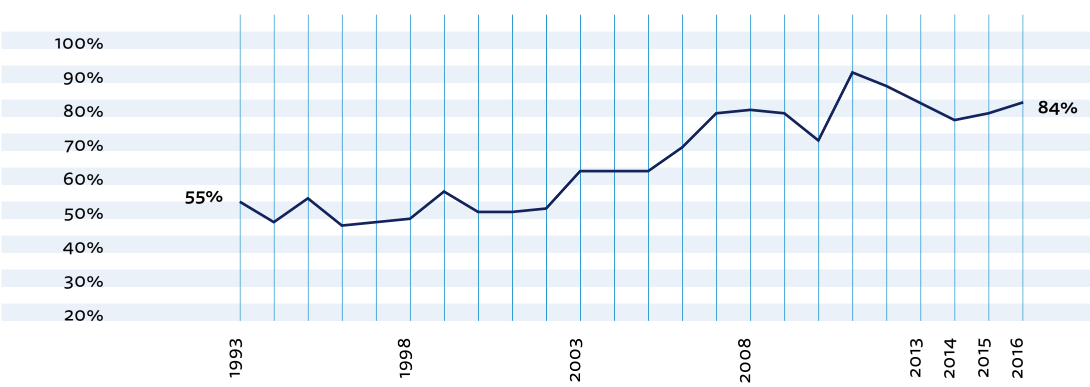
Accumulative FCI Factoring Turnover

in millions of Euros

	2010	2011	2012	2013	2014	2015	2016	Variation 2015/2016
Invoice Discounting	204,527	279,113	302,030	330,518	299,930	310,313	333,544	7.49%
Recourse Factoring	234,889	267,523	306,187	339,644	356,058	301,948	236,613	– 21.64%
Non-Recourse Factoring	283,198	331,257	352,353	344,863	372,115	434,456	481,172	10.75%
Collections	23,394	26,018	27,786	31,399	40,123	57,725	47,472	– 17.76%
Total Domestic Factoring FCI	**746,008**	**903,912**	**988,529**	**1,046,425**	**1,068,226**	**1,104,441**	**1,098,800**	**– 0.51%**
Export Factoring	126,032	162,972	192,573	219,285	242,472	261,214	256,551	– 1.78%
Import Factoring	23,584	30,943	36,707	50,481	54,081	66,612	63,446	– 4,75%
Export Invoice Discounting	29,818	51,069	85,163	87,447	89,025	96,871	108,038	9%
Total International Factoring FCI	**179,434**	**244,983**	**314,442**	**357,213**	**385,579**	**424,697**	**428,035**	**0.79%**
Grand Total FCI	**925,442**	**1,148,895**	**1,302,971**	**1,403,638**	**1,453,804**	**1,529,138**	**1,526,836**	**– 0.15%**

Figures for international factoring also show an increase in the offer of credit protection in the direct business, with a subsequent decrease of cross-border two-factor business, more noticeable in import factoring.

FCI’s Share of World International Cross-border Factoring



Global Economic Prospects

John Brehcist, FCI Advocacy Director, takes a look at the future for the global economy

In the last Annual Review, I shared with you my scepticism regarding the efficacy of economic forecasting and my concern that the future is essentially unknowable. That said, we know there are armies of economists and raconteurs who are required to feed the natural and necessary imperative to try to understand and plan for the future. And the depth of the challenge we face in trying to consider that which might be coming our way has again been clearly exposed over the previous twelve months.

We are all acutely aware it's been a year of quite substantial unanticipated change. The new order in the USA, with a very different feel to the presidency, is one which came against many expectations. The more assertive stance in East Asia, the changing relationship with Russia and the Middle East, particularly with Syria and Iran, as well as closer to home with Mexico, are all creating question marks on economic and social issues.

The disruption in Europe caused by the Brexit decision perhaps understandably led expert bodies like the IMF to predict immediate and profoundly negative effects; yet already they have admitted that this was wrong or at least premature. But the uncertainty remains with, at the time of writing, opening skirmishes around what appear likely to be difficult and protracted discussions on trade and free movement. And in any case, irrespective of the relationship with UK, the fundamental economic issues within the European union and its concerns about financial stability still have not gone away.

China continued its path of a gradual deceleration of growth and its structural rebalancing; whilst this was foreseen as a likely outcome of the national policies being adopted, it also may be seen to lie behind the lower than anticipated volumes experienced by our Industry in this key market.

Tyne Bridge spanning the River Tyne between Newcastle upon Tyne and Gateshead, United Kingdom.

Perhaps the most concerning trend for our Industry is the developing potential for increasing protectionism that both the USA and European situations bring; the possibility of new trade barriers, higher tariffs, greater administrative burdens are all significant concerns that could directly affect our business.

Whilst it's quite true that the world never stands still, these events have meant that again we remain in an environment of high levels of political and economic uncertainty. They are drivers that create greater ambiguity and uncertainty in forecasting than might have been anticipated in what otherwise in general continues to be a period of low growth, relatively benign commodity prices and mostly low interest rates.

Last year the World Bank, OECD or IMF had been forecasting global growth in the range 2.4 – 3.2% for 2016.

As the World Bank rather coolly put it *"Stalling global trade, weak investment, and heightened policy uncertainty have depressed world economic activity. Global growth is estimated to have fallen to 2.3 percent in 2016 — the weakest performance since the global financial crisis."*

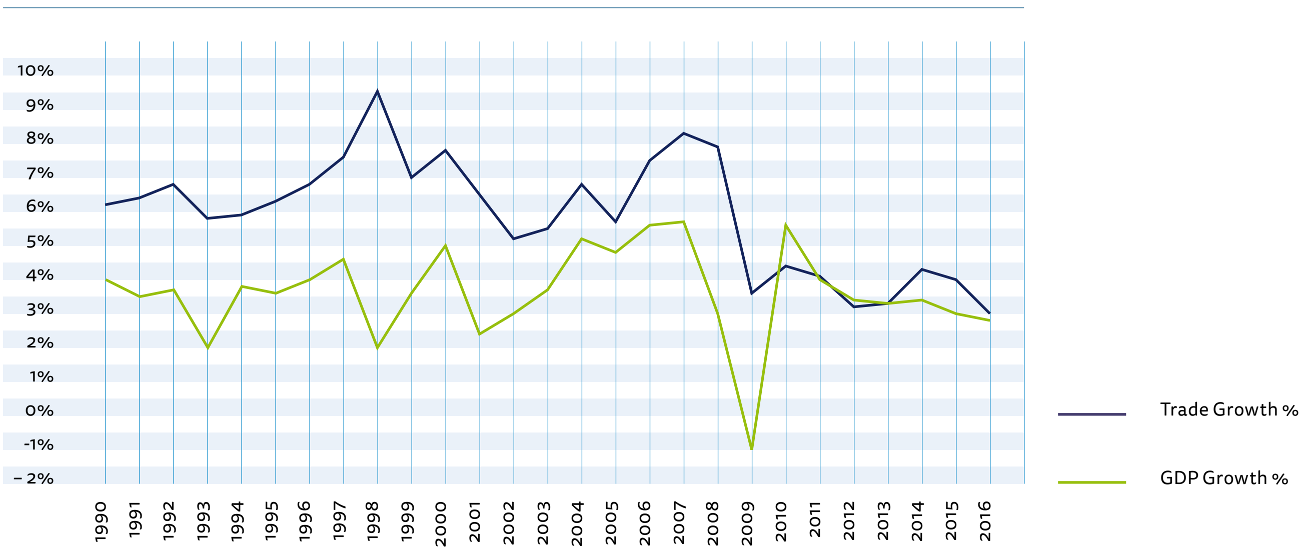
The OECD and IMF are more sanguine, suggesting the overall final figure would be 3.0% or 3.1%. But there nonetheless has been a general tightening in the expectations for last year from original forecasts.

Despite what broadly was a relatively anaemic performance in advanced economies, emerging and developing economies generally fared rather better with estimates of 3.4 – 4.1% growth. This disparity continued the position of 2015 and for now looks well embedded.

Last year in this article I demonstrated the very close positive correlation between rates of change in economic growth and factoring industry development; it's therefore not too surprising that initial data does not support an overall surging factoring industry performance this year. As the FCI Secretary General put it in the Press Release announcing the draft global figures: *"Preliminary world factoring statistics indicate that the Industry has overall held its pace with many markets showing significant continued growth. These advances have however been offset by a continued reduction of volume from China, where the downturn has also affected international figures of trade counterparty countries such as the USA - although in this case the reduction appears to have mitigated with an increase in domestic business, at least in respect of FCI Members."*

Let's look at a similar correlation to this growth/ factoring relationship which can be seen between GDP growth and long term average global trade volume growth. The following graph demonstrates the alignment which is closely similar to that demonstrated by GDP and factoring:

Trade growth (average 5y) % vs GDP growth %



Source: OECD November 2016 Economic Outlook database / Author's own research

Of course, it seems reasonable (and perhaps indeed it might be expected) that trade and GDP would be closely associated; although I think this graph does confirm and reinforce the point quite well.

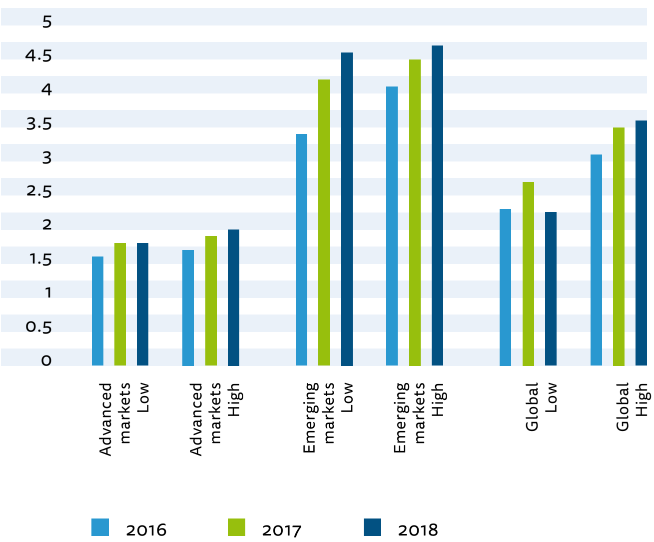
The not too controversial implication is that trade and factoring volumes (especially international) are also likely be closely associated.

The divergence between the advanced and the developing economies reported over recent years looks set to continue. Forecasts for 2017 and 2018 all foresee a significant disparity with emerging markets strongly outperforming the established.

Estimates from the key forecast sources continue to show variation in their detail but broadly agree that there will continue to be some general weakness in prospects, with slow growth in advanced economies and a slightly firmer position in the emerging markets. All tend to believe that the overall position will slowly improve over the next two years.

From my own analysis of a selection of these published forecasts, I would propose the following ranges of expectation:

Low to high predictions for % GDP growth rates



http://www.worldbank.org/en/publication/global-economic-prospects

And so, reiterating the point made earlier from the assessment of the correlation between GDP and Trade, and GDP with Factoring, significant percentage growth in our Industry is more likely to be associated with the emerging economies. Given the concern that FCI members express in the FCI GIAR Survey (see report in the next article) regarding the risks of increasing protectionism, such growth cannot be taken for granted.

And in any case, such growth is not automatic; it requires awareness, understanding, a supportive legal and regulatory environment, and an informed, educated infrastructure. And as we know too well, these criteria do not as yet always exist in the emerging economies. It's clear that factoring growth is associated with GDP and trade growth; the challenge and opportunity for FCI is to help develop the opportunity through enhancing capability and capacity. The FCI pillar roles of Connect, Educate and Influence are key to achieving this.

Global Industry Activity Report for 2016

By John Brehcist, FCI Advocacy Director

The FCI Global Industry Annual Report GIAR for 2016 continues to build upon the annual effort undertaken earlier in the year to collect data on country turnovers. The GIAR project has now been running since 2009 and provides us a unique opportunity to look at the development of the Industry through time.

What makes it different from many other surveys is that, as well as investigating the quantitative and numeric aspects of the Industry, in this project we also consider a wide range of the qualitative elements and try to assess the general sentiment of its key participants.

Quantitative Analysis

Let's follow the pattern of last year's review and first look at some of the numeric information and consider the deductions we can make from this wide-ranging set of data.

At the time of writing this analysis, data collection is still not completely finalised but we do have information that relates to around 80% of the global volume of the factoring and invoice finance industry, so we can draw some reasonable conclusions, recognising that the absolute values in some categories may yet change a little. The results we have can be considered indicative of the world wide overall position.

A continuing challenge for the survey remains the fact that the capability of infrastructure in various countries to collect and analyse data varies - and so the levels of detail that individual markets are able to provide - is still highly variable. Some countries have sophisticated centralised methods for collating market information, others have little provision and we then have to rely upon the best estimates of experts within those markets.

There is still a need for better information. However, within the survey and to meet this challenge, we can use some techniques to help inform where information is either limited or it is not possible to acquire directly.

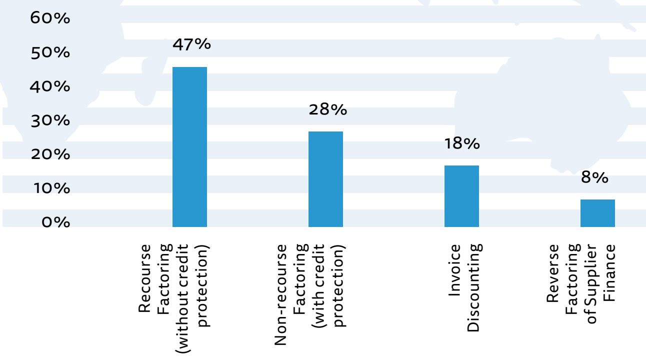
So, what does the survey tell us?

Let's look at some of this key information and how we have collated it.

Product Analysis

Information received indicates that the main product solutions continue to be (ranked by importance) recourse factoring, non-recourse factoring, invoice discounting and reverse factoring.

Product distribution – Market average



This chart represents the overall average distribution picture where respondents have been able to provide a breakdown of product splits; this information is not available in all countries.

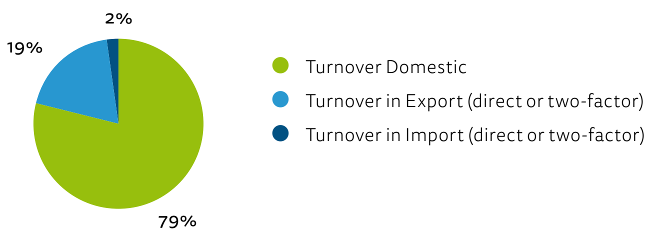
The relative proportions in individual countries vary and reflect the local market conditions, as well as the legal and regulatory environments; this chart shows what the "typical" country distribution looks like.

Of course, individual countries will vary; for example, many countries do not record any reverse factoring type business, but for Spain it represents half the market; similarly, in the UK and Ireland, the single largest global factoring market, invoice discounting is 93% of the volume.

Domestic and International Business

The survey also looks at the breakdown between domestic and international business. Where reported, the proportion of export factoring was given as a mean 19% of individual country turnover and import factoring 2.5% by country – so, as discussed above, a typical country would present these levels. These proportions are virtually unchanged from those reported in 2015.

Domestic and International Business



Industry dynamics

2016 GDP figures remain to be fully finalised and so it is a little premature to be able to state for sure the GDP penetration of the Industry; however, it seems unlikely that the figure of circa 3.8% measured for 2015 will be substantially different this year.

Advances against invoices were estimated to be in the order of EUR 360 billion at the end of the year - this figure is drawn from actual reported advances where they are available and from imputed average days outstanding calculations. Again, this is broadly the same as last year's figure.

Client numbers are estimated to have reached around 670k; again, this figure is derived from actual reported numbers and assumed turnover per client ratios for developing and mature markets. It has grown somewhat from the 2015 number, largely as a result of higher estimates for Brazil, China and USA.

The estimated number of debtors is around 15 million; this figure is derived from both the actual numbers reported and imputation from actual debtor number to turnover ratios. Of the estimates, this one has a higher degree of uncertainty, as debtor numbers are highly sensitive to market structure and conditions.

Employee numbers are estimated to be around 60,000. This figure is derived by looking at the actual client to staff ratios in both emerging and developed markets where known and applying these on a mean basis to the countries where staff data is not currently available.

The total number of companies active in the Industry is estimated at around 2,800. This figure is slightly higher than was reported in 2015 and reflects the inclusion this year of entrepreneurial USA factors. It is derived from actuals and turnover per client averages for developed and emerging markets.

Average turnover per client which is estimated from actual and derived figures suggest the scale remains in the order of EUR 4 million, so we clearly continue mainly to deal by number with SME business.

Asset Based Lending advances totalling around EUR 95 billion were reported from only five countries, with still far and away the largest market being the USA, representing an estimated EUR 85 billion of this total. The relatively marginal growth and increased penetration in ABL within the Industry portfolio demonstrates the challenge of expanding this type of multi asset business.

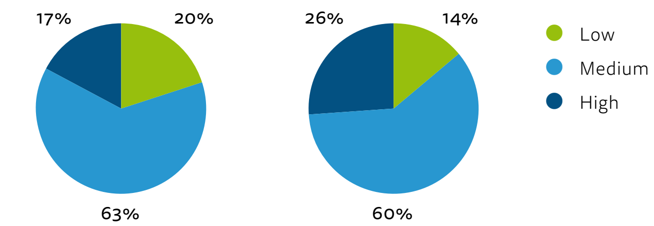
The Industry continues to demonstrate a high (and possibly increasing) level of concentration. Where the figures are available, the top five concentration ratio (CR5) is 84% of the market (82% in 2015). Bank divisions represent 46%, bank owned subsidiaries 27% and Independents 11% respectively.

Qualitative Analysis

The GIAR survey is unique in providing 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 development. Each year we ask respondents to give their view on the status and direction of the Industry in their own country.

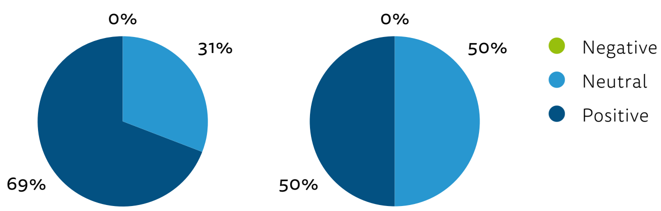
Let's look first at Awareness and Acceptance: The responses show that in general there remains considerable opportunity to build and develop the impact of the Industry but that there has also been a significant improvement in sentiment from last year amongst the respondents so far received (last year's sample was 42 countries, this year to date 35).

Awareness Level **Acceptance Level**



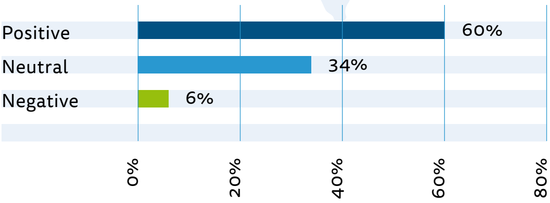
At the same time respondents also demonstrate that there is significant confidence and optimism amongst providers that the Industry has the capacity to continue to grow its role in supporting the real economy on a global scale. However, whilst this year no respondent was negative, the proportion of positive to neutral has fallen slightly, possibly indicating a slight pause in confidence about continuing demand growth. That said, the Industry retains a high level of long term confidence on the development of the Industry.

Demand Level Outlook **Development Outlook**

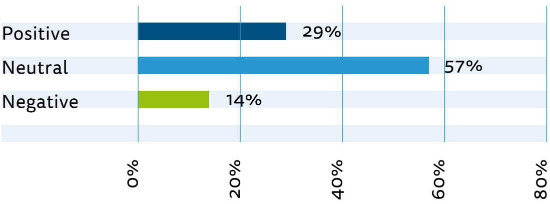


From an internal Industry perspective, the responses also suggest a confidence about turnover levels, where volumes are expected by a strong majority to grow. There has also been a general but subtle improvement in expectations regarding profitability:

Turnover Level Outlook

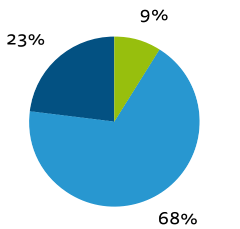


Profitability Level Outlook

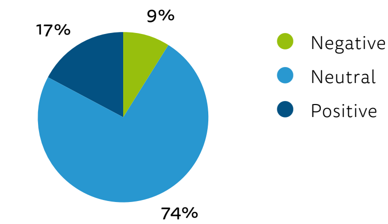


Risk management continues to be a key focus for providers and respondents were asked about their perceptions of risk in their markets. The responses indicate a mixed picture; an increase in confidence regarding the risks associated with the clients but also a reduction in the outlook for debtor risk.

Client Risk Outlook



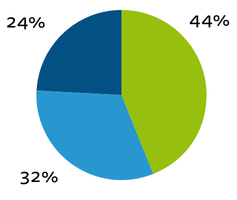
Debtor Risk Outlook



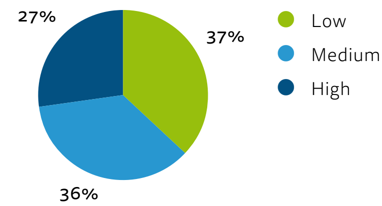
This year we have also extended the range of questions for respondents in co-operation with the Asian Development Bank. We have a common interest in looking at the impact of regulation, credit and capital issues and the role of technology in developing the Industry.

First, we looked at some perceptions regarding external regulatory requirements which can impact on business and its development.

Impact on Development: AML/KYC Requirements



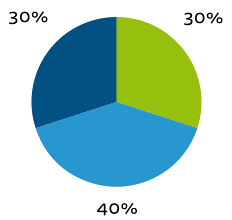
Impact on Development: Basel Regulations



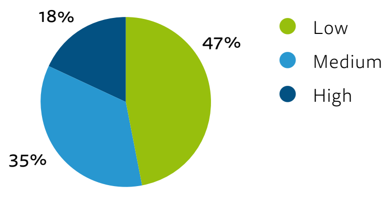
In both cases a majority feel that these control areas have a high or medium level impact on their operations. The reported impact of Basel was noticeable given that this is not strictly speaking a global regime.

Similarly, we asked respondents to consider the impact of capital constraints and access to liquidity. Perhaps reflecting the reality that the Industry is largely bank owned (as mentioned above in the concentration issue) capital constraints are perceived as a high or medium issue for a large majority, whilst liquidity access also remains a concern for a smaller majority.

Impact on Development: Capital Constraints

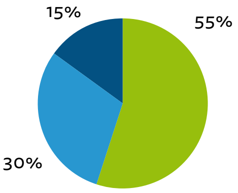


Impact on Development: Lack of Liquidity

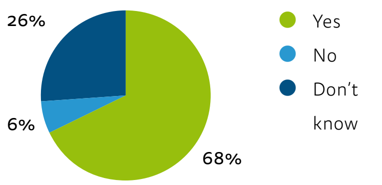


Two issues that were covered appear to have some significant implications for FCI and its members in the current international trading environment.

Is there a Shortfall of Factoring to fund International Business?



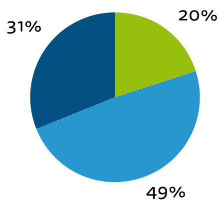
Could Protectionism widen any Trade Finance Gap even more?



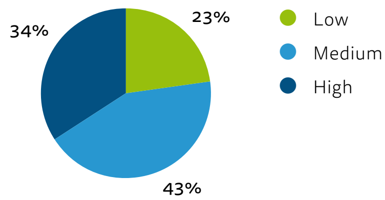
Respondents already believe there is a shortfall of factoring to fund international business; this in itself represents an opportunity for FCI members. However, it's also clear that respondents are seriously concerned about the potential effect on trade of a rise in protectionism which, in the current political environment, looks increasingly likely.

Finally, let's look at respondents' perceptions regarding the potential impact of fintech on the industry.

Fintech: Potential to improve Small Client Risk Assessment



Fintech: Potential to facilitate Due Diligence



These distributions are very similar and appear to demonstrate that there's a considerable belief that fintech can and will be able to assist in enhancing capability in these areas – but equally there's still work to be done to actually identify how and where these advantages will lie.

Summary

This year's GIAR again provides a centralised picture of the global factoring industry in a way which is unique and distinctive. It demonstrates some considerable similarities in the structure and delivery of the products but also highlights how parameters such as awareness and acceptance, regulation and law, penetration and prospects are not homogenous.

We are able to gain a broad picture of the Industry from the survey but it's also the case that we have to estimate and derive information as the infrastructures in many countries are not yet sufficiently developed or robust. Nonetheless the work that the survey does is important in helping us continue to develop impact and improve our ability to discuss what we do with regulators and lawmakers from an informed perspective.

For FCI, these survey results help our work with members and stakeholders through the Committees and Chapters locally and globally to enhance knowledge, opportunity and capability. They provide a real window of insight into the continuing success of the Industry.

I'd like to thank all the respondents for their sterling efforts in collating this information for their countries, and everyone who has been involved in gathering together the responses.

Notes for page 23

(*) Total UK figure recalculated using the growth rate in GBP volume

(°) For the USA the figures related to the "big 9" were used as in the previous years

(+) No feedback received - used same figure as 2015

(#) Estimate

Note for page 24

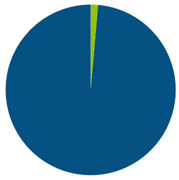
(*) UK – Pct variation has been corrected in order to avoid biases due to exchange rates fluctuation

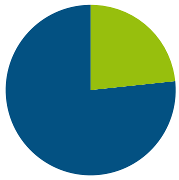
Factoring Turnover by Country in 2016

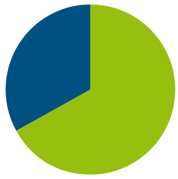
in millions of Euros

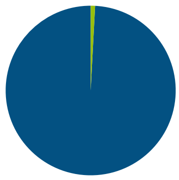
Country	Domestic	International	Total	Companies
Egypt	476	74	550	7
(+) Kenya	193	22	215	5
Mauritius	223	33	256	3
(+) Morocco	2,603	105	2,708	5
South Africa	15,215	1,076	16,291	13
Tunisia	360	13	373	5
Africa Total	**19,070**	**1,323**	**20,393**	**38**
Australia	47,648	10	47,658	6
China	237,216	64,419	301,635	5615
Hong Kong	11,029	31,647	42,676	17
India	3,493	388	3,881	11
(+)Indonesia	680	2	682	2
Japan	48,584	882	49,466	3
(#) Korea	8,413	5,728	14,142	16
Malaysia	870	657	1,527	4
Singapore	19,500	21,000	40,500	9
(+) Sri Lanka	100	16	116	1
Taiwan	13,986	33,203	47,189	22
Thailand	5,150	150	5,300	19
Vietnam	166	492	658	4
Asia-Pacific Total	**396,835**	**158,595**	**555,430**	**5729**
Armenia	40	60	100	6
Austria	11,373	8,248	19,621	4
Azerbaijan	56	–	56	1
Belarus	130	200	330	6
Belgium	31,946	30,900	62,846	5
Bulgaria	1,558	389	1,947	8
Croatia	2,688	137	2,825	1
Cyprus	2,900	25	2,925	2
Czech Republic	3,062	1,786	4,848	6
Denmark	7,194	6,043	13,237	9
Estonia	2,065	430	2,495	6
Finland	20,000	2,000	22,000	5
France	189,499	78,661	268,160	13
Georgia	14		14	3
Germany	148,914	67,964	216,878	186
Greece	10,975	1,807	12,782	7
Hungary	3,317	318	3,635	15
Ireland	22,515	1,437	23,952	6
Italy	159,550	49,092	208,642	40
(+) Kazakhstan	106	–	106	21
(+) Latvia	651	216	867	6
Lithuania	1,500	1,600	3,100	9
(+) Luxembourg	339	–	339	1
(+) Malta	70	205	275	3
(+) Moldova	10	7	17	17
Netherlands	66,655	16,193	82,848	5
Norway	19,041	2,826	21,867	4
Poland	32,239	7,157	39,396	21
Portugal	21,068	3,449	24,517	14
Romania	3,205	832	4,037	12
Russia	27,808	196	28,004	46
Serbia	500	55	555	14
Slovakia	1,637	9	1,646	10
Slovenia	550	450	1,000	6
Spain	109,042	21,614	130,656	20
(#) Sweden	19,903	578	20,481	12
(+) Switzerland	3,750	82	3,832	6
Turkey	29,026	6,059	35,085	62
(*) UK	301,541	25,337	326,878	46
Ukraine	294	1	295	19
Europe Total	**1,256,731**	**336,363**	**1,593,094**	**694**
Israel	2,750	330	3,080	10
Lebanon	490	120	610	3
(+) Qatar	62	–	62	1
UAE	3,493	338	3,831	4
Middle East Total	**6,795**	**788**	**7,583**	**18**
Canada	4,979	630	5,609	65
(°) USA	82,231	7,232	89,463	700
North America Total	**87,210**	**7,862**	**95,072**	**765**
Argentina	1,853	38	1,891	5
(+) Bolivia	27	17	44	1
Brazil	45,262	117	45,379	594
Chile	23,950	1,100	25,050	150
Colombia	7,550	80	7,630	18
Costa Rica	230	1	231	34
Honduras	17	10	27	2
Mexico	22,050	460	22,510	18
Peru	1,200	350	1,550	8
Uruguay	75	9	84	2
South America Total	**102,214**	**2,182**	**104,396**	**832**
Grand Total	**1,868,855**	**507,112**	**2,375,967,32**	**8,076**

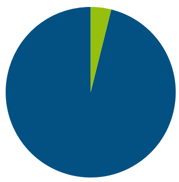
Total Factoring Volume

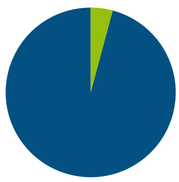

Africa 0.86%


Asia-Pacific 23.38%


Europe 67.05%


Middle East 0.32%


North America 4.00%


South America 4.39%

Total Factoring Volume by Country in the Last 7 Years

in millions of Euros

	2010	2011	2012	2013	2014	2015	2016	Var
Egypt	200	200	220	450	435	537	550	2.42%
Kenya						215	215	0.00%
Mauritius	125	127	128	145	206	235	256	8.94%
Morocco	1,071	1,406	1,844	2,755	4,200	2,708	2,708	0.00%
South Africa	15,120	21,378	21,378	19,400	15,898	14,672	16,291	11.03%
Tunisia	295	340	357	373	355	354	373	5.37%
Total Africa	**16,811**	**23,451**	**23,928**	**23,123**	**21,094**	**18,721**	**20,393**	**8.93%**
Australia	44,915	57,491	49,606	40,206	42,290	41,761	47,658	14.12%
China	154,550	273,690	343,759	378,128	406,102	352,879	301,635	-14.52%
Georgia				0	5	14	14	0.00%
Hong Kong	14,400	17,388	29,344	32,250	30,800	33,425	42,676	27.68%
India	2,750	2,800	3,650	5,240	4,340	3,700	3,881	4.89%
Indonesia		3	3	819	810	682	682	0.00%
Japan	98,500	111,245	97,210	77,255	51,072	54,184	49,466	-8.71%
Kazakhstan						106	106	0.00%
Korea	5,079	8,087	8,000	12,343	12,713	13,094	14,142	8.00%
Malaysia	1,058	1,050	1,782	1,782	1,782	330	1,527	362.73%
Singapore	5,800	6,670	8,670	9,970	37,840	38,900	40,500	4.11%
Sri Lanka					38	116	116	0.00%
Taiwan	67,000	79,800	70,000	73,000	56,680	52,693	47,189	-10.45%
Thailand	2,095	3,080	4,339	3,348	4,144	4,414	5,300	20.06%
Vietnam	65	67	61	100	100	335	658	96.42%
Total Asia-Pacific	**396,212**	**561,371**	**616,424**	**634,441**	**648,716**	**596,633**	**555,550**	**-6.89%**
Armenia	14	14	0	62	70	75	100	33.33%
Austria	8,307	8,986	10,969	14,110	16,400	18,264	19,621	7.43%
Azerbaijan						13	56	
Belarus						320	330	3.13%
Belgium	32,203	38,204	42,352	47,684	55,374	61,169	62,846	2.74%
Bulgaria	550	1,010	1,500	1,600	1,728	1,820	1,947	6.98%
Croatia	2,793	2,269	2,269	3,146	2,498	2,885	2,825	-2.08%
Cyprus	3,450	3,758	3,350	2,823	2,671	2,414	2,925	21.17%
Czech Republic	4,410	5,115	5,196	5,302	5,912	5,064	4,848	-4.27%
Denmark	8,000	9,160	8,800	8,932	10,463	12,606	13,237	5.01%
Estonia	1,227	1,164	1,877	1,899	2,010	2,010	2,495	24.13%
Finland	12,400	13,000	17,000	17,699	20,554	23,095	22,000	-4.74%
France	153,252	174,580	186,494	200,459	226,598	248,193	268,160	8.04%
Germany	129,536	158,034	157,420	171,290	189,880	209,001	216,878	3.77%
Greece	14,715	14,731	12,761	12,094	13,017	12,869	12,782	-0.68%
Hungary	3,339	2,817	2,676	2,661	2,827	3,779	3,635	-3.81%
Ireland	20,197	18,330	19,956	21,206	25,476	25,978	23,952	-7.80%
Italy	143,745	175,182	181,878	178,002	183,004	190,488	208,642	9.53%
Latvia	328	371	542	592	680	867	867	0.00%
Lithuania	1,540	2,134	2,488	2,763	5,550	3,150	3,100	-1.59%
Luxembourg	321	180	299	407	339	339	339	0.00%
Malta	136	200	240	178	296	275	275	0.00%
Moldova					13	17	17	0.00%
Netherlands	35,000	46,000	50,000	52,000	53,378	65,698	82,848	26.10%
Norway	15,075	16,395	18,115	16,296	17,182	18,476	21,867	18.35%
Poland	16,210	17,900	24,510	31,588	33,497	35,020	39,396	12.50%
Portugal	20,756	27,879	22,948	22,303	21,404	22,921	24,517	6.96%
Romania	1,800	2,582	2,920	2,713	2,700	3,651	4,037	10.57%
Russia	12,163	21,174	35,176	41,960	29,170	23,332	28,004	20.02%
Serbia	500	926	950	679	306	445	555	24.72%
Slovakia	981	1,171	1,024	1,068	1,036	1,036	1,646	58.88%
Slovenia	650	550	650	626	563	329	1,000	203.95%
Spain	112,909	122,125	124,036	116,546	112,976	115,220	130,656	13.40%
Sweden	18,760	29,259	33,149	30,544	28,290	26,078	20,481	-21.46%
Switzerland	4,000	3,450	3,000	3,100	3,832	3,832	3,832	0.00%
Turkey	38,988	30,869	31,702	32,036	41,229	39,310	35,085	-10.75%
Ukraine	540	955	1,233	1,340	1,035	442	295	-33.26%
UK (*)	226,243	268,080	291,200	308,096	350,622	376,571	326,878	1.25%
Total Europe	**1,045,038**	**1,218,554**	**1,298,680**	**1,353,804**	**1,462,580**	**1,557,052**	**1,592,974**	**2.31%**
Israel	1,650	1,650	1,422	1,060	3,000	2,108	3,080	46.11%
Lebanon	450	327	301	352	416	508	610	20.08%
Qatar	23	75	75	88	62	62	62	0.00%
UAE	2,000	1,750	2,900	3,500	5,020	5,350	3,831	-28.39%
Total Middle East	**4,123**	**3,802**	**4,698**	**5,000**	**8,498**	**8,028**	**7,583**	**-5.54%**
Canada	3,723	5,284	7,100	5,680	5,831	5,530	5,609	1.43%
USA	95,000	105,000	77,543	83,739	97,670	95,000	89,463	-5.83%
Total North America	**98,723**	**110,284**	**84,643**	**89,419**	**103,501**	**100,530**	**95,072**	**-5.43%**
Argentina	350	475	614	856	1,299	1,551	1,891	21.92%
Bolivia	18	35	35	31	22	44	44	0.00%
Brazil	49,050	45,623	43,627	31,552	31,782	28,965	45,379	56.67%
Caribean						45		
Chile	16,422	21,500	24,000	25,500	24,850	22,300	25,050	12.33%
Colombia	2,784	4,990	4,562	7,076	8,985	10,333	7,630	-26.16%
Costa Rica	160	30	180	115	2,337	2,710	231	-91.48%
Honduras						22	27	22.73%
Mexico	14,538	21,074	26,130	28,061	25,486	19,291	22,510	16.69%
Peru	2,712	2,461	2,310	8,163	8,293	1,475	1,550	5.08%
Uruguay			61	58	70	90	84	-6.67%
Total South America	**86,034**	**96,188**	**101,519**	**101,412**	**103,124**	**86,826**	**104,396**	**20.24%**
Total World	**1,648,330**	**2,014,978**	**2,132,186**	**2,208,372**	**2,347,513**	**2,367,790**	**2,375,967**	**0.35%**

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