



Factors Chain International

Annual Review 2015



The factoring industry is exploring new horizons, both in geographical terms and in functionality.

Factors Chain International plays a very important role in that process, introducing the factoring concept in more and more markets and by extending the range of services typically offered by its members.

The world economy is still in turmoil but the factoring industry has shown to be an excellent service provider, even in difficult times, supporting and facilitating domestic and international trade.

International trade in particular is heavily relying on ocean transportation, and lighthouses have played for many centuries an essential role in providing ships with safe passage. Lighthouses symbolise, both at night and during day time, the guiding hand in this process. Found all around the world, lighthouses and horizons are inseparable, like factoring and trade.





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Annual Review 2015

Letter from the Chairman	3
Introduction	5
The Latest Developments in FCI	6
The Mission of Factors Chain International	9
A Growing Industry	10
A Global Network	11
The Role of Factoring in International Trade	12
How Export Factoring Works with FCI	13
Case study : International Factoring	14
Selling More Competitively Overseas	15
Invoice Verification	16
Case study : Supply Chain Finance	18
Spotlight on FCI Education Programme	20
FCI Expressed in Figures	21
Factoring Turnover by Country in 2014	23
Total Factoring Volume by Country in the Last 7 Years	24

Factoring – Exploring new horizons

Gibraltar, Europa Point Light



Gibraltar, Europa Point Light



Letter from the Chairman

By Daniela Bonzanini, FCI Chairman

The Global Factoring Industry and FCI are moving forward!



The weak recovery which began in 2014 has continued even if at a different pace at different regional levels. The global outlook for 2015 remains moderately positive and the risks appear more balanced than they did at the end of 2014. In many countries, foreign orders are on the upswing, exports continue to be one of the main drivers for the growth and renewed confidence has started showing positive indicators for investment.

The improved economic environment has already generated some benefits: lending to companies has increased, cost of funds for banks has decreased, and in general terms the credit environment has improved. However, this positive story remains differentiated based on the size and the economic sector of the borrower's industry. There is still inadequate financing for a number of SMEs, limiting their ability to borrow, which adversely impacts their competitiveness. SMEs form the backbone of the world's economies and account for the vast majority of enterprises; they remain the engine for development of worldwide economies.

While still below the growth rates achieved before the crisis, the global factoring industry continued to grow in 2014 reaching 2.35 trillion euros which represents a 6% increase compared to the previous year. Cross border factoring growth has been more robust exceeding 22% increase in the same period.

With the aim of being one of the actors of the economic recovery, FCI has already undertaken a path which will lead to important results. Two important projects have been opened aiming at: implementing the Supply Chain product and offering a modular solution to better meet the different needs of its members; and investigating the Union with IFG in order to create a stronger organisation.

In addition, discussions with the ICC Banking Commission concerning the GRIF endorsement have progressed. Cooperation has also been extended to other areas such as the organisation of joint events focused on international factoring and participation in the Steering Committee on Supply Chain Terminology, the Secretary General and myself

being members. Positive relations have been established with development banks, including the European Bank for Reconstruction and Development (EBRD), the Inter-American Investment Corporation (IIC), the African Export Import Bank (Afrexim) and the Islamic Development Bank, mainly focused on education, industry promotion, and participation in their guarantee programmes in order to mitigate Import Factors' risks in emerging markets.

The Prudential Risk Committee (PRC) of the European Union Federation (EUF), chaired by our Secretary General has further strengthened cooperation with the EUF. This will enable FCI to influence the representative bodies of regulators and governments proving the value of factoring and its less risky nature. Recently, a great success has been achieved by influencing the Italian Central Bank on KYCC procedures.

The investments on education programmes continue, the large range of qualitative training courses will be enhanced, as well as the topics covered during the different seminars in order to better meet the needs of the members. FCI courses are no longer restricted to only FCI members but are now available to non-member financial institutions as well and very soon courses in Mandarin and Spanish will be released. The high level of education has been appreciated by EBRD with which FCI has entered into a partnership agreement to launch a joint e-learning offering on factoring.

Network extension is a must because of the new trade corridors, and new regions and countries are being explored, in particular the ones where factoring is yet to blossom in order to increase the awareness of the attractive benefits it offers such as Africa and most recently Bangladesh. These markets will demonstrate their potential in the near future.

In order to help our organisation move forward and become the worldwide reference for factoring and receivables finance changes and innovation are needed. 2015 will be a very important year in the history of FCI, with new strategies to be implemented to make our organisation bigger and stronger and have our industry flourishing globally.

United States of America, Marblehead Lighthouse, Ohio



Singapore, Johor Strait Lighthouse, Raffles Marina



Introduction

By Peter Mulroy, FCI Secretary General

The Winds of Change Continue to Blow in Favour of Factoring!



2014 was another impressive year for the factoring industry. In fact, it continues this amazing trajectory of growth, as evidenced in the doubling in size of the industry since the start of the financial crisis in 2009. Even as international trade softens due to the uneven economic recovery and as we witnessed the plummeting of commodity prices, along with quite a volatile foreign exchange environment, the factoring industry grew by 6% in 2014, surpassing EUR 2.35 trillion in global annual volume. Cross border international factoring grew at an even faster pace, generating over of € 490 billion in volume last year, representing a 22% increase! This continued strong emerging market-led rebound marks a significant milestone for trade finance in general and factoring in particular.

Founded in Stockholm, Sweden in 1968, FCI was created at the initiative of just 6 relatively young and unrelated factoring companies located in Northern Europe and the US. Today, with its headquarters in Amsterdam, FCI boasts 271 members in 73 countries and acts as a bridge between banks and factoring companies located in different markets. FCI offers members a 'correspondent factoring' platform, enabling an exporter to obtain working capital against their open account foreign receivables from an Export Factor by using the services of an Import Factor in the country of the buyer to provide collection service and credit protection against debtor default or bankruptcy risk. This 'bridge' allows exporters to obtain financing against their foreign receivables and offers them the comfort and knowledge that the invoices are protected and collected locally by a member of FCI in the buyer's market.

FCI maintains a high level of service excellence by requiring all members to follow certain standards, including the requirement to enroll their employees in various e-learning courses and seminars, which are offered to all FCI members upon admittance, and to follow all rules as stipulated in the FCI Constitution, the General Rules of International Factoring (GRIF), and the Rules of Arbitration. FCI now also offers non-members access to our foundation e-learning course on factoring.

FCI has an exciting agenda for change, to expand our mandate through alliances with development banks and the ICC, incorporate a wider view of supply chain finance, increase promotion of our industry in developing markets, enhance the awareness of the many benefits the service offers to SMEs, and take a more assertive role in lobbying to reduce the sometimes adverse impact prudential regulations can have on our industry. However, FCI will continue to focus on our core mandate, the continuous delivery of a highly reliable and user friendly correspondent factoring system.

As open account trade continues to expand, FCI has become the platform and method of choice for most financial institutions to offer their local clients cross border open account solutions as an alternative to traditional letters of credit and documentary collections. However, FCI is more than just a bridge between its members, but also a vehicle for change, by representing the interests of the receivables finance industry through promotion, education and lobbying efforts targeted to those institutions that can influence and effect change in their home markets, including ministries of trade, central banks, trade associations, and leaders in trade finance around the world. They have come to understand and appreciate that factoring is a secure and reliable method of financing trade and an invaluable means to provide liquidity to SMEs, the engine of growth in most economies. It is my hope that this publication will contribute to a better understanding of our industry and the important role international factoring plays in providing solutions in a more globalised marketplace.

The Latest Developments in FCI

FCI has been developing a number of new initiatives to elevate factoring and prepare the industry for growth, with a focus in the emerging markets! We have partnered with development banks to help us penetrate these markets. We have joined forces with the ICC Banking Commission, to help elevate and further strengthen our outreach to financial institutions that may appreciate the benefits of factoring. While factoring is still most suited for clients from the SME sector, the trend continues that large corporations seek factoring services as well, often unbundled, allowing the client to make a choice from the three basic elements: working capital finance, customer credit risk protection and professional collection services. As such, the industry has experienced a significant increase in volume, in part to take advantage of the off-balance sheet treatment that factoring provides, but also stemming from the realisation that factoring is an important risk management tool, resulting in a shift from traditional unsecured overdraft lending to receivables financing through a factoring service.

Geographical Coverage

FCI has steadily extended its physical presence to all the major trading markets of the world, but where FCI will continue to grow is in the emerging markets. China is ahead of all others, both in terms of domestic and international factoring volume, however we continue to see growth in new memberships and interest in emerging markets such as Central America, South Asia, Africa and Eastern Europe. Hence, great expectations are placed for the further development of factoring and receivables finance in these markets. Europe still accounts for over 63% of the global factoring market, and Asia now represents over 25%. However, 95% of FCI members are located in newly developed or developed countries. In fact, FCI has made progress in planting seeds in many of these developing markets this past year, including in Africa (Ghana and Morocco with the support of the EBRD), South Asia (Bangladesh and Sri Lanka with the support of the Asia Development Bank and the ICC), Southeast Asia (Indonesia

and the Philippines), Latin America (Panama and later this year Mexico with the Inter-American Development Bank), and Eastern Europe (Georgia in conjunction with the EBRD).

For instance in Africa, new members have reinforced our position in North Africa and FCI's first two promotion conferences were held in Ghana and Morocco recently. Also, work is being done in sub-Saharan Africa to develop a uniform law on factoring in conjunction with the OHADA and the African Export-Import Bank. As such, FCI has developed promising contacts for further expansion in all of these markets. In addition, new laws on factoring have been established in Cameroon, India, Russia and Serbia, which will make it easier for companies interested in investing there and should result in increased membership for FCI in the future.

FCI 46th Annual Meeting, Vancouver, Canada, June 2014.





Bangladesh Factoring Promotion Conference, April 2015.

Business Promotion

The FCI Marketing Committee initiated ambitious plans last year, including the launch of our new website and a new service called invoice verification (further outlined in this annual review). The committee also organised sales seminars in China and Taiwan (and one planned for the Philippines later this year). And of course the committee spent time increasing awareness through industry promotion. The market needs to be informed about the true nature of factoring, its procedures and the commercial application in both domestic and international trade. Conferences to promote factoring are often sponsored jointly by FCI with local members and usually attract considerable interest from the business community and media. In addition, FCI sponsored the publication of the eighteenth edition of the authoritative BCR World Factoring Yearbook, containing in-depth articles from more than fifty different countries. FCI officials accepted many speaking engagements at national

factoring association meetings, ICC banking conferences, IT user meetings, and the annual BCR factoring conference, all in an effort to promote the concept of international factoring.

Education

FCI Education Committee, in conjunction with the Education Director, have developed a series of educational programmes which provide for a transfer of know-how from seasoned factoring professionals to less experienced staff members. All of the material developed for our e-learning programmes and seminars are based on proprietary information, collected both internally and from our members. Regular seminars, covering all aspects of factoring, are organised throughout the world. In addition to the seminar programmes, FCI offers its members the possibility to enrol staff in a series of e-learning courses, logically following a career path approach. Now in its twenty-eighth year and currently based

Jakarta Factoring Promotion Conference, February 2015.



The Latest Developments in FCI



Legal Seminar Shenzhen, April 2015.



Chinese trade delegation, September 2014.



FCI Secretariat, Amsterdam.

on a state-of-the-art interactive programme accessible via the internet, enrolment has nearly reached 8,000 students from 65 countries (of which over 2,000 come from China alone). For new member companies, FCI endeavours to arrange various forms of on-the-job training, either by a comprehensive visit by the FCI Education Director or by internships with foreign FCI correspondents. And most recently, FCI offers prospective members the opportunity to enrol in the new e-learning course on the basics of international factoring.



Sales Seminar Panama, October 2014.

Legal Framework

The FCI General Rules for International Factoring (GRIF), developed and monitored by the FCI Legal Committee, have become the world's most widely recognised legal framework for international factoring. The GRIF is the standard for correspondent factoring relationships and probably close to 95% of the world's cross border factoring volume has been governed by these rules, since the GRIF's introduction in July 2002. The FCI Legal Committee offers on a continuous basis, assistance to FCI members in answering questions of a legal nature, or relating in particular issues pertaining to the GRIF. For problem resolution between Export Factors and Import Factors, a more formal FCI Arbitration process is available, even though most conflicts are settled in an amicable manner, based on the strong ties which exist between FCI members. As already mentioned in the 'Introduction', the

FCI Legal Committee has started very interesting discussions with the ICC Banking Commission, promoting the General Rules for International Factoring (GRIF) as the universal rules for correspondent factoring. The project will require extensive presentations to the ICC banking community and a commitment to maintain the highest standards of transparency and cross-industry cooperation.

Communications

The strength of the FCI network is determined not only by geographical presence, but also by efficient communications between the individual correspondent factors. Today, 'communication' in FCI means a state-of-the-art application of EDI technology. The investments in the EDI infrastructure have been substantial over the previous years and the FCI Communication Committee has recently launched the latest edition of an upgraded Internet-based communication system, capable of meeting the requirements of an e-commerce environment. The system was originally introduced in 2002, but with regular upgrades, the system enjoys excellent user-friendliness and superior cost-efficiency.

FCI Secretariat

The FCI Secretariat, based in Amsterdam, continues to play a crucial role in initiating and coordinating the global activities which directly or indirectly affects the scope and strength of the FCI network. Numerous projects are acted upon in close cooperation with the FCI Executive Committee and with the technical committees. The invoice verification project is a perfect example, originally spearheaded by the Marketing Committee, then subsequently adopted by the other technical committees. FCI members also frequently seek advice from the Secretariat in a wide variety of situations. The full-time FCI staff has been responding to these needs for more than four decades. As an experienced, professional team they enjoy supporting FCI members and look forward to welcoming new members to the chain.

The Mission of Factors Chain International

FCI is a global network of leading companies, whose common aim is to facilitate international trade through factoring and related financial services.

FCI's mission is to become the worldwide standard for international factoring.

FCI helps its members achieve competitive advantage in international trade finance services through:

- A global network of first-class factoring companies
- Modern and effective communication systems, to enable them to conduct their businesses in a cost-efficient way
- A reliable legal framework to protect exporters and importers
- Standard procedures, aimed at maintaining a universal quality
- A package of training programmes
- Worldwide promotion aimed at positioning international factoring as the preferred method of trade finance

FCI will always have a flexible and market oriented attitude. It will remain an open chain, encouraging quality factoring companies to join its ranks. As an open chain, FCI will view competition as a stimulus for superior service to exporters.

FCI: The *standard* in international factoring



France, La Vieille Light, Pointe du Raz, Brittany

A Growing Industry

A growing number of companies offer factoring services and many of these work internationally. Most factors are either owned by, or associated with, well-known international banking or other financial institutions as well as insurance companies or industrial organisations.

Factoring is now universally accepted as vital to the financial needs of small and medium-sized businesses. It has the support of government offices and central banks throughout the world.

As international trade continues to increase, so too do the opportunities for the factoring industry. Because international factoring works in a similar way to domestic factoring, exporters have realised that it can help them to become more competitive in complex world markets.

Many businesses that turn to factoring companies are reassured that the industry is closely related to banking. Although factoring companies remain highly specialised institutions, nearly all major banks now have factoring subsidiaries. This has enabled the industry to promote its services with great success and to work for businesses of every size.

Factoring has become well established in developing countries as well as those that are highly industrialised. In various Asian countries, the growth of factoring has been dramatic while in Latin America, financial institutions continue to join the industry. Similar growth has occurred in Eastern Europe, the Middle East and North Africa. A new and potential region for factoring is in sub-Saharan Africa, where FCI counts only two members today.

Almost every industry can profit from factoring. Textiles, apparel and consumer electronics are the most popular, but manufacturers of industrial and office equipment, processed food and even agricultural commodities are increasingly turning to factoring.

FCI members report that more service industries and large corporates have become clients. There is also plenty of evidence to suggest that fast-growing, sales-driven organisations appreciate the improved cash flow, efficiency and profitability that factoring can offer.



A Global Network

Factors Chain International was established in 1968 to represent the interests of factoring companies around the world. With member companies offering domestic and international factoring services in countries across all five continents, FCI is by far the world's largest factoring network. Member transactions represent nearly 80% of the world's international factoring volume.

When FCI was founded, domestic factoring services were only available in North America and a few European countries. At the time the idea of international factoring was new, yet FCI members could see its potential.

They realised that they needed to do two things:

- Introduce the concept of factoring into countries where the service was not available.
- Develop a framework for international factoring that would allow factors in the country of both the exporter and importer to work closely together.

This framework has been built around the availability of local expertise and sensitivity to national cultures together with an understanding of the economic and commercial influences affecting each country.

FCI also believes that global alliances require flexibility. Members can maintain their preferred methods of operation as long as they are compatible with FCI's standard methods of communication.

Membership in FCI is popular but an application to join does not automatically mean acceptance. Members must meet strict admission standards which apply to financial strength and an established reputation for quality and service.



The Role of Factoring in International Trade

For many companies, selling in an international market place is the ultimate challenge. While the rewards can be substantial, success can also bring its share of problems. Different customs, currency systems, laws and languages still create barriers to trade in a world where sophisticated computer technology allows orders abroad to be placed within seconds.

One of the greatest problems facing exporters is the increasing insistence by importers that trade be conducted on open account terms. This often means that payment is received many weeks or even months after delivery. Unsurprisingly, many organisations find that giving buyers credit in this way can cause severe cash flow problems. Further problems can arise if the importer delays payment beyond originally agreed terms or makes no payment at all because of financial failure.

International factoring provides a simple solution regardless of whether the exporter is a small organisation or a major corporation.

The role of the factor is to collect money owed from abroad by approaching importers in their own country, in their own language and in the locally accepted manner. As a result, distances and cultural differences cease to be a problem. A factor can also provide exporters with 100% protection against the importer's inability to pay.

The advantages of export factoring have proved to be very attractive to international traders. It is now seen as an excellent alternative to other forms of trade finance and the role of the letter of credit is gradually diminishing as a consequence.

This means that the prospects for international factoring can be seen as favourable in all countries. Not only those that are highly industrialised, but also those that are still developing. In the future though, the real challenge for factoring companies will be to maintain their flexibility, so that they can react quickly to changing market circumstances.



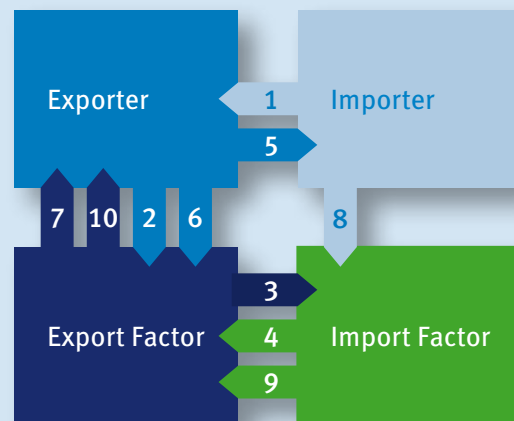
How Export Factoring Works with FCI

There is nothing complex about factoring. It is simply a unique package of services designed to ease the traditional problems of selling on open account. Typical services include investigating the creditworthiness of buyers, assuming credit risk and giving 100% protection against write-offs, collection and management of receivables and provision of finance through immediate cash advances against outstanding receivables.

When export factoring is carried out by members of FCI, the service normally involves a six-stage operation.

- The exporter signs a factoring contract assigning all agreed receivables to an Export Factor. The factor then becomes responsible for all aspects of the factoring operation.
- The Export Factor chooses an FCI correspondent to serve as an Import Factor in the country where goods are to be shipped. The receivables are then reassigned to the Import Factor.
- At the same time, the Import Factor investigates the credit standing of the buyer of the exporter's goods and establishes lines of credit. This allows the buyer to place an order on open account terms without opening letters of credit.
- Once the goods have been shipped, the Export Factor may advance up to 80% of the invoice value to the exporter.
- Once the sale has taken place, the Import Factor collects the full invoice value at maturity and is responsible for the swift transmission of funds to the Export Factor who then pays the exporter the outstanding balance.
- If after 90 days past due date an approved invoice remains unpaid, the Import Factor will pay 100% of the invoice value under guarantee.

Not only is each stage designed to ensure risk-free export sales, it lets the exporter offer more attractive terms to overseas customers. Both the exporter and the customer also benefit by spending less time and money on administration and documentation.



- 1 Exporter receives purchase order
- 2 Exporter sends importer's information for credit approval
- 3 Export Factor checks the importer's credit worthiness through FCI partner
- 4 Import Factor evaluates the importer and approves a credit limit
- 5 Exporter makes shipment to importer
- 6 Exporter submits invoice details and supporting documents
- 7 Export Factor makes cash advance up to 80% of factored invoices
- 8 Collections are carried out by the Import Factor
- 9 Import Factor remits funds to Export Factor
- 10 Export Factor remits 20% remaining Balance to Exporter's account less any charges

In all cases, exporters are assured of the best deal in each country. This is because Export Factors never appoint an Import Factor solely because the company is a fellow member of FCI. Import Factors are invited to compete for business and those with superior services are selected.

In some situations, FCI members handle their client's business without involving another factor. This is becoming more common in the European Community where national boundaries are disappearing. However, when FCI members conduct their business, one thing remains certain. Their aim is to make selling in the complex world of open account cross border trade as easy for clients as dealing with local customers.

Case study : International Factoring

Supporting the conversion of a client's sales from traditional letters of credit to open account

For an exporter, changing payment terms from letter of credit to open account will never be an easy decision to take. In the case of a Taiwanese leading manufacturer of stainless steel products, Taipei Fubon Bank (TFB) provides a one-stop shop of financial services including international factoring, thereby helping the company successfully open many new markets for business and extend business relationships with more than 30 importers/debtors under open account terms.

The company was founded in the 1970's, producing stainless steel coil, stainless steel welded pipe and tube. As in the midstream sector of the industry, the company's products are sold to the downstream steel manufacturers, equipment & machinery producers, distributors, and trading companies; widely used in petrochemical, machinery, food and the construction industry.

Since Taiwan's local market is very small, the company changed its strategy, focusing on overseas markets in the recent decade. Today, 80% of their sales are generated from international trade, while 90% of its raw materials are purchased locally. Since the stainless steel industry is very competitive and the industrial average margin is less than 10%, funding costs, FX risk, and controlling the quality of the account receivable are always the top agenda of the CFO of the company. In the past, a usance letter of credit was commonly used in the international trade of stainless steel products, so the CFO never worried about the importers credit risk and they could easily obtain working capital at a low cost through LC discounting with banks. However, due to the global trend towards open account, more and more importers, even in a traditional industry like stainless steel, are requested to change payment terms from letters of credit to open account terms. This not only reduces the importer's

funding costs under LC transactions, but also improves the flexibility and efficiency of the delivery of goods. The CFO had distress on committing open account terms to the importers, due to their non-transparent financial statements and past payment record. The CFO encountered a significant business challenge and urged to find ways to tackle it. At the time, TFB introduced international factoring services to the company.

Through TFB's strategic partnership with FCI members in each region, TFB developed an inter-factor arrangement with seven Import Factors located in the major markets of the importers, to help the company transfer the credit risk of the importers and to support the global collection effort required. In the meantime, TFB offers a flexible financing solution for the Exporter. Under such a programme, the company can enjoy a low funding cost with flexibility in funding currency (USD/EUR/TWD), timing and amount (advance ratio up to 90%) to optimise the company's working capital, resolve its concerns on currency exchange risk, and also improve the leverage ratio on its balance sheet. Without their concerns of the inability of the importer to pay, working capital shortage, and FX risk, the company can fully concentrate on its marketing activities and expansion in overseas markets. Since utilising international factoring facilities provided by TFB, the company has converted 30 more new buyers in Oceania, Europe, North America and Africa. Furthermore, its turnover from open account trade has experienced a tremendous increase from USD 2 million in 2010 to USD 1 billion in 2014, and the ratio of open account trade compared to its total international trade is up to 15% in 2014.

This satisfactory result has strengthened the partnership between the company and the bank, and we are now looking to extend this international factoring programme to more new markets and buyers in the company's race to expand sales globally.



Selling More Competitively Overseas

One of the greatest advantages of international factoring is that it allows both exporters and importers to trade on open account terms without risk.

FCI services to exporters

A member of FCI can offer three types of service to exporters that will give complete security, ensure administration is simpler and make a positive contribution towards cash flow:

- Export factoring establishes the credit-worthiness of existing and prospective customers and provides up to 100% credit protection.
- Sales ledger administration reduces non-productive overheads and frees up valuable management time.
- An agreed level of finance can be advanced once the goods have been shipped. The balance, less the factor's charges, is paid when the invoice is settled in full.

The advantages for exporters are

- They can expand sales abroad by offering competitive terms and conditions.
- They can offer open account terms by invoicing the importer and granting deferred payment terms, usually 30-90 days.
- They are fully covered against credit losses.
- They avoid the delays often encountered when arranging letters of credit.
- Speedy collection and remittance improves cash flow.
- Administration costs are reduced.
- They have access to a flexible source of working capital to help increase export sales.

FCI services to importers

A letter of credit is the most internationally accepted method of guaranteeing payment. Yet, while this method does have some merit, it is outdated and cumbersome plus it places financial burdens on both the exporters and the importers.

The alternative is for FCI members to guarantee payment to the exporter through an arrangement with a local factor. No letter of credit is necessary. All that is required is for a revolving credit limit to be established on the importer's business. When invoices are due for payment, the importer pays the Import Factor member who sends the funds on to the corresponding Export Factor.

The advantages for importers are

- They can buy on open account terms.
- They do not need to open letters of credit.
- They can expand their purchasing power without using existing lines of credit.
- They can purchase goods without incurring delays.
- They will find it easier to generate new sources of supply.



United States of America, Milwaukee Pierhead Lighthouse, Wisconsin

Invoice Verification

Invoice Verification can be considered as a very important tool used to prevent fraud in factoring transactions. While it creates a more secure approach to conduct factoring, it also facilitates expeditious payments. We as Teb Faktoring A.Ş. (5 times awarded as 'Best Export Factor') are very keen to offer this service as this will allow us to provide wider opportunities to our clients while keeping ourselves and Import Factors under reduced risk.

Invoice Verification has been a very important topic for both Export Factors and Import Factors. By allowing Export Factors to provide more secure decisions while financing their Clients as well as enabling Import Factors to be in touch with the Debtor more frequently helps to allow disputes to be notified to all parties earlier and settled between the parties more expeditiously. Additionally, this service will be an important contributor for the reinforcement of fraud. With the release of Invoice Verification both the Export and Import Factors have been able to follow the communications between the Seller and their Buyers/Debtors from a neutral perspective and act on them before this might have any negative effects. As Teb Faktoring A.Ş. we are also in favour of more frequent communication with the Debtor starting from the establishment of the debtor credit line by the Import Factor, as this will reduce the risk of fraud and provide an enhanced assurance that our source of repayment from the Debtors for advances made to the Seller will be made.

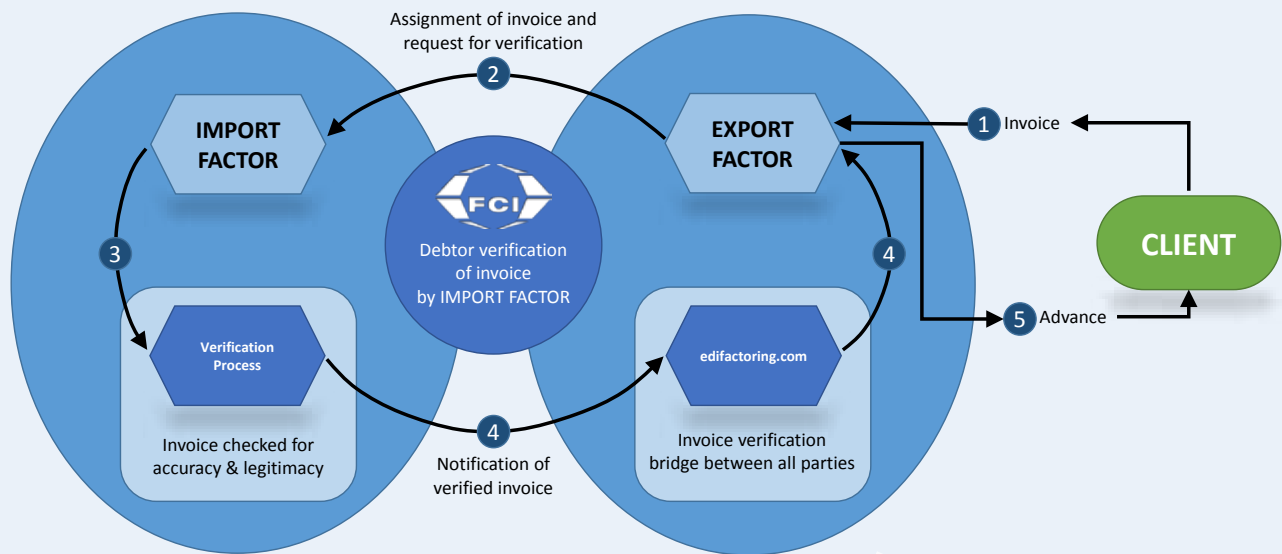
The Invoice Verification service begins with the simple signing of a Supplemental Agreement between the Import and Export Factor which includes all the necessary guidelines for both parties. This arrangement also provides a certain amount of flexibility that allows the Export Factor to

decide which type of service will best suit their needs, which prevents needless operational work for the Import Factor. This flexibility also defines the pricing for the service which is very important as clients are naturally price sensitive. So by reducing the operational load, the Import Factor can offer a lower price while keeping their operation requirements to a minimum. As Teb Faktoring A.Ş., we find this flexibility for the service very important, as our experience over the years concludes that the client is sensitive on pricing so with the ability to provide different levels of service, we can offer the client exactly what they need.

With the latest implementation of Invoice Verification within FCI, the service runs more smoothly and securely through the edifactoring.com system. This allows Import Factors more confidence on granting debtor credit limits while allowing Export Factors to make financing decisions with greater controls to reduce the risk of fraud. With the additional support of this service, we are hoping to provide a wider service to both sellers and buyers with the extra protection obtained. With the inclusion of this Invoice Verification service offered by FCI, we as Export Factor can now grant client credit limits that we may have considered a higher risk before.



Invoice Verification



Advantages

- Prevents fraud by verifying invoices and shipment with the Debtor/Importer in the early stages of the sourcing process
- Enables invoice/order confirmation in cases with longer shipment procedures
- Identifies disputes in the early stages of the shipment process:
 - allows the Export Factor to decide more effectively on financing options for the seller and allows the Seller to act upon the settlement of the disputes sooner
 - reduces operational load for the Import Factor in later stages of the payment process
 - ensures that the seller will receive their payments earlier which allows them to have a more efficient cash flow and decrease their days sales outstanding (DSO)
- Allows the Import Factor to create greater control and reduce debtor risk through the receipt of the seller's Introductory Letter and the acknowledgement of the agreed Payment Terms which creates greater certainty of buyer payment
- Provides the Import Factor the opportunity to communicate with the Debtor earlier in the sourcing stage
- The procedure can be used for all or randomly chosen invoices of the Debtor which gives all four parties flexibility and provides a more economic and efficient means to control costs
- Allows the Import Factor to observe the Debtor more closely in cases where the Debtor encounters financial difficulties

Disadvantages

- The related report is not binding such as Invoice Confirming
- Additional service increases the overall cost of the transaction
- Enhances the operational work load of the Import Factor and Debtor
- Not every Debtor will agree to adhere to the invoice verification service

Case study : Supply Chain Finance

Funding is vital for the growth of small companies. Many times, the small companies are not able to obtain funding based on their credit fundamentals alone. In such a scenario, these small companies can benefit if they are selling to large companies that in turn have sound relationships with banks. Through Standard Chartered's Supply Chain Proposition, which leverages the financial strength of these buyers and certain performance criteria of the sellers, these small companies can now obtain funding once the buyer accepts these invoices and the final payment obligation is on these buyers. The below case study illustrates a classic example of the application of Supply Chain Finance.

Company brief

ABC Logistics Company is a leading global player that offers customised solutions for managing and transporting physical documents and goods. ABC's international network includes more than 150 countries. It offers expertise in air and ocean freight, overland transport, contract logistics and international courier services. The Group gathered revenues in excess of USD 20 billion in 2014.

The Group has a large number of small suppliers in most of the markets that it operates for sourcing raw material and information communication technology (ICT) services. The company has a policy to source raw materials in the markets it operates in order to align with the goal of just in time delivery schedules. This requires the company to maintain

a large number of suppliers in individual markets to ensure constant supply of key raw materials and available at a short notice.

Supply Chain Management is critical to the success of the business model of a logistics company. In the field of logistics, the company with the most cost effective and efficient supply chain management has a competitive advantage over its peers in the industry.

Client requirements

ABC faced high procurement costs and unfavourable credit terms from its small suppliers in China. The company had ten small size suppliers that provide packing materials and ICT related services. The main pain points were as follows:

Suppliers need early payments

- Pressure on working capital which affects the growth of the buyer
- If the supplier agrees to extend terms then the growth of supplier is impacted

High procurement cost for the buyer

- Higher borrowing costs to suppliers translates to higher procurement costs for the suppliers
- Affects buyers' profitability and hence the growth of the buyer

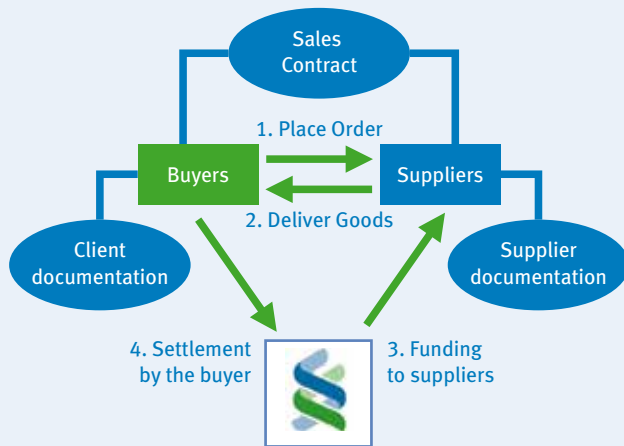
Buyer–Seller relationship impact

- Late payments by buyers affects relationship with suppliers
- This could lead to lack of supplier loyalty

Manual paper based processing

- This leads to increased cost due to manually intensive processes
- This leads to reduced efficiency

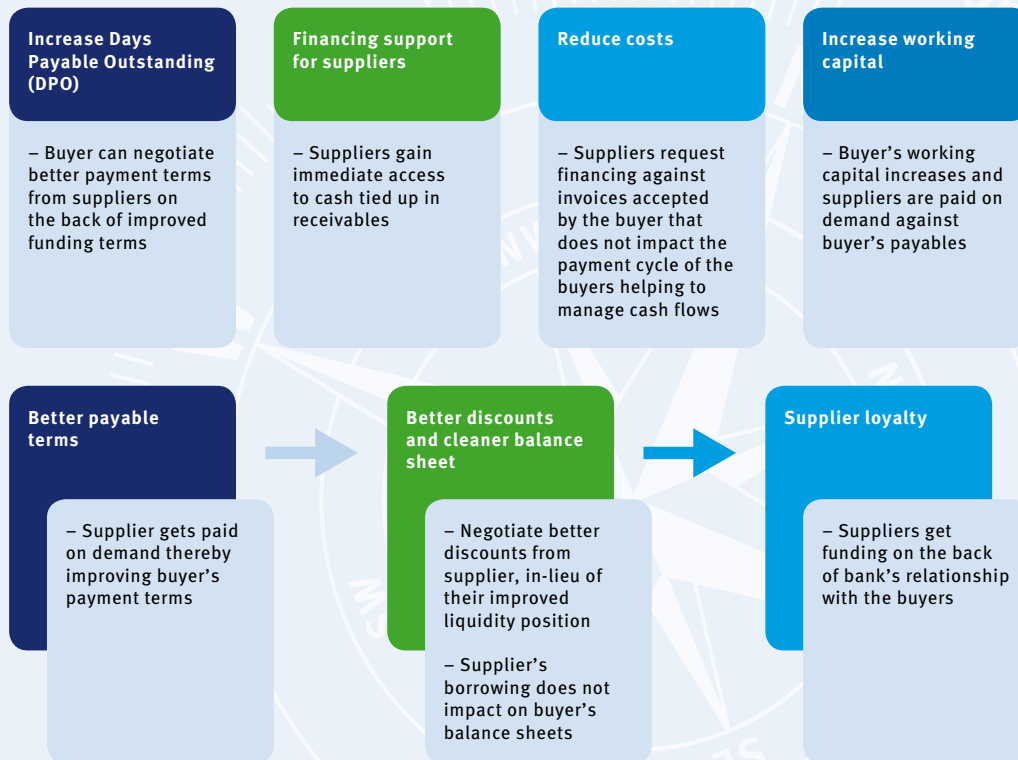
Case study : Supply Chain Finance



Standard Chartered Supply Chain Solution

Standard Chartered offered its value added Supply Chain Finance solution to address client needs. The diagram shows the process flow of the solution.

This solution has resulted in several benefits for both the suppliers (small companies) and the buyer (large companies):



Additionally, SCB provides an online platform through which the suppliers can request funding and also view reconciliation information on invoices. This online platform provides an efficient solution to the clients and helps them time their funding requests. The reporting tool helps the suppliers to manage their cash flows more efficiently.

SCB has replicated the Supply Chain Management solution for the same buyer in various geographies across

the ASEAN region, thereby providing a holistic Supply Chain Management solution to the client across multiple geographies.

This case study illustrates that Supply Chain Finance provides an innovative and value added solution that can be used by financial providers to actively play a role in meeting end to end clients' needs.

Spotlight on FCI Education Programme

2015 promises to be another busy and successful year for the FCI Education Programme, with new and exciting topics being added to the seminars and to the e-learning courses.

Wealth of Knowledge

47 years of knowledge and experience that has culminated into a key USP (Unique Selling Point), which has already supported the development of thousands of factoring professionals within our membership and from prospective members, providing everything from knowledge of basic factoring skills to technical disciplines to supporting new products and creating opportunities for our members and non-members to foster learning within their own business environment.

The exciting thing about education is that it is never ending. The first education programme within FCI was introduced in 1987, one course, *'The Correspondence Course'* which today equates to our Foundation and Intermediate courses. Since then we have gone from strength to strength providing an education process which covers all aspects of the factoring cycle.

Importance of the Service Quality

Our aim is to give our members and the prospective members the know-how for offering their clients a truly professional factoring service with a superior level of service quality.

In 2014, about 600 students participated in 9 different distance learning courses and more than 300 delegates attended different FCI seminars, workshops and educational events in three continents.

Today FCI offers 9 courses and 7 seminars on the following topics:

Proficiency Courses:

- Foundation Course on Factoring for members
- Foundation Course on Factoring for non-members
- Buyer Risk Control
- Seller Selection and Control
- Dispute Prevention and Handling
- Legal

Diploma Courses:

- Intermediate Course on International Factoring
- Advanced Course on International Factoring
- Selling Export Factoring

Seminars:

- Marketing and Sales
- Client Selection and Control
- Risk Management in Factoring
- Fraud Detection and Prevention
- Buyer Risk Control and Dispute Prevention & Handling
- Legal-General Rules on International Factoring
- International Pathway with FCI

By linking the Foundation Course with the Intermediate and Advanced Courses we create the 'FCI Career Path', a cohesive three stage development process which supports your staff from a first stage as, 'Career Entrants' through to 'Seasoned Professionals'.

The Education Committee members regularly meet with students and their managers in order to gain feedback on course suitability and content, information which helps us to determine the seminars we need to run and the topics we need to consider to keep our courses fully up to date.

Experience tells us that there is a direct correlation between service quality, sustainable volume growth and education. Winners of the prestigious awards, *'Export Factor of the Year'* and *'Import Factor of the Year'*, are members who year after year, enrol students to the education programme. Knowledge, accuracy, and efficiency, delivered in a timely and professional manner are the main attributes we all seek from our partners so, it is equally important that we ensure that we can reciprocate fully and maintain the competitive spirit of FCI to the highest standards possible!

Details about all FCI courses and seminars can be found on FCI website www.fci.nl



Taipei Risk Seminar, April 2015: Group with certificates.

FCI Expressed in Figures

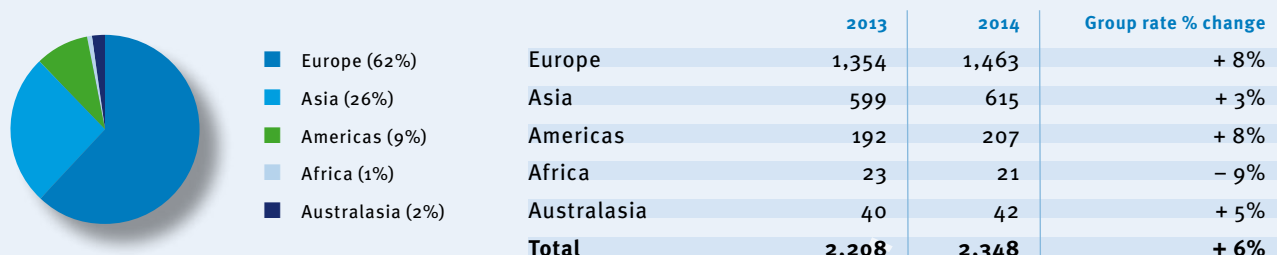
Source: Factors Chain International

FCI: A Catalyst for Growth in the Open Account Trade Finance Space

In 2014, global factoring surpassed EUR 2.35 trillion in annual volume, an increase of 6% over 2013. Domestic and international factoring accounted for 79% and 21% of the

overall volume respectively. Regionally, Europe accounts for 62% of the global factoring volume, whereas Asia is the second largest, accounting for 26%, as indicated below:

Table 1: FCI Global Factoring Statistics 2014 by Region (all figures given in billions of Euros)



Since the start of the financial crisis in 2009, domestic and international factoring has been growing at a rate of 11% and 24% per annum respectively, adding over One Trillion Euro in annual factoring volume. As can be seen

below, international increased twice the pace compared to domestic. The industry practically doubled in size during this period, a substantial feat considering the modern era of factoring began over a century ago in the United States.

Table 2: Total domestic factoring volume 2009-2014 (in millions of Euros)

2009	2010	2011	2012	2013	2014	CAGR
1,118,100	1,402,331	1,750,899	1,779,785	1,827,680	1,857,410	11%

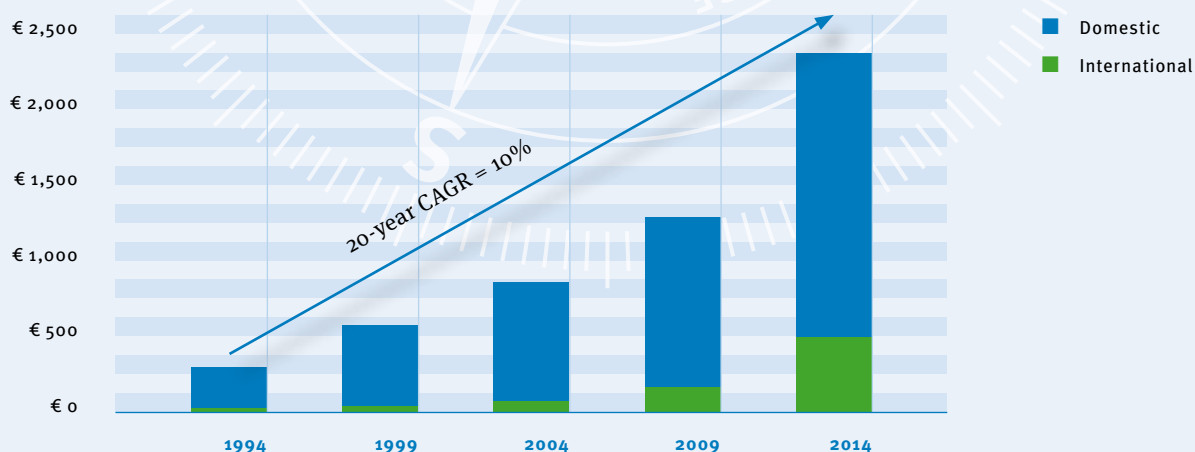
Total international cross-border factoring volumes 2009-2014 (in millions of Euros)

2009	2010	2011	2012	2013	2014	CAGR
165,459	245,370	264,108	354,840	402,753	490,114	24%

Since 1994, the global factoring industry has been growing at a relatively fast pace, increasing on average 10% per annum, driven in part by the expansion in open account

trade in general and the expansion of factoring in the emerging markets, especially in the greater China Region, in particular.

Table 3: Total Global Factoring Volume 1994-2014 (in billions of Euros)



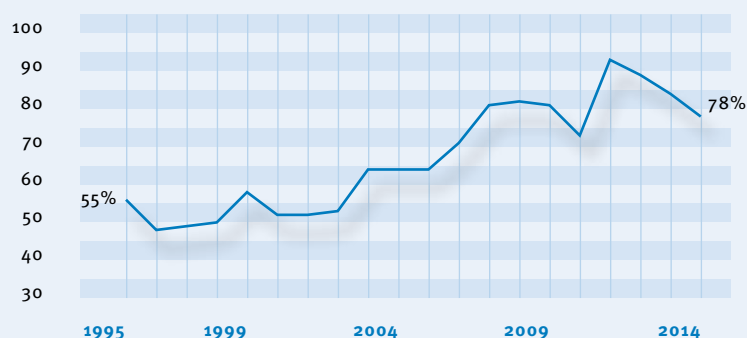
FCI Expressed in Figures

Source: Factors Chain International

The share of international factoring volume generated by FCI members as a percentage of the total has increased substantially over the past 20 years, from 55% in 1994 to 78% in 2014. This is in line with the increase in membership of

FCI over this period, as more and more factoring business is channeled through our members, and today accounts for the majority of the total cross border figure, as depicted in Table 4:

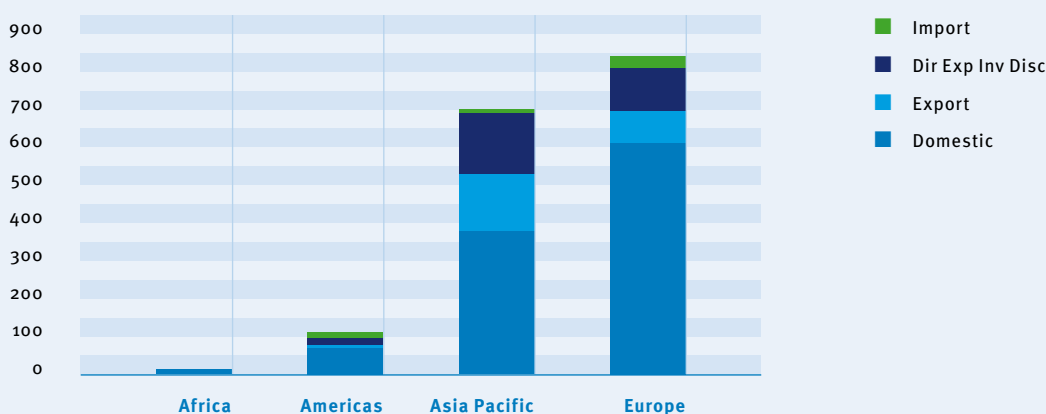
Table 4: FCI's % Share of World International Factoring Volumes 1995-2014



2014 FCI Member turnover shows that the vast majority are primarily focused on domestic business. However, as mentioned previously, 21% of total volume is generated from international business, of which 85% is considered export and 15% import. Not surprising, Asia Pacific region

shows a much larger percentage of international business, accounting for 46% of their total volume (of which export factoring and direct export invoice discounting business accounts for 97% of their total international volume, while only 3% is considered import).

Table 5: FCI Member's Turnover 2014 (in billions of Euros)



The factoring industry has changed dramatically over the past 20 years. This significant increase in world factoring volume has been driven by a systematic growth in factoring throughout most of the developed and developing world, led by commercial bank-owned factoring companies or divisions of banks, especially in Europe and Asia. In Europe alone, over 90% of the factoring industry is made up of bank subsidiaries owned by commercial banks. In most of Asia, banks control the vast majority of the factoring activities there. Only until recently, banks in China were the only parties permitted to operate a factoring activity. But in other markets, like

the United States and Brazil, factoring is unregulated, and therefore most players in these markets are considered non-bank financial institutions (NBFIs). Nonetheless, the explosive growth of the industry, especially since the start of the financial crisis, is in large part inspired by the enhanced perception of risk of factoring globally, but also stemming from the shift from overdraft/unsecured credit facilities to receivables-based factoring/invoice-discounting. This shift is also enhanced by the introduction of Basel II/III rules impacting capital requirements but also based on the understanding that factoring is simply a more prudent form of financing.

Factoring Turnover by Country in 2014

in millions of Euros

Nr. of Companies			Domestic	International	Total
Europe					
4	Austria		11,816	4,595	16,400
5	Belgium		41,531	13,844	55,374
7	Bulgaria		1,315	413	1,728
17	Croatia		2,440	58	2,498
2	Cyprus		2,655	16	2,671
6	Czech Republic		4,205	1,707	5,912
6	Denmark		4,963	5,500	10,463
4	Estonia		1,729	281	2,010
5	Finland		17,420	3,134	20,554
14	France		169,625	56,973	226,598
190	Germany		141,780	48,100	189,880
6	Greece		10,863	2,154	13,017
18	Hungary		2,552	275	2,827
6	Ireland		23,947	1,529	25,476
40	Italy		142,505	40,499	183,004
6	Latvia		580	100	680
7	Lithuania		2,198	3,352	5,550
1	Luxembourg		331	8	339
2	Malta		148	148	296
1	Moldova		3	10	13
5	Netherlands		45,278	8,100	53,378
6	Norway		14,765	2,417	17,182
35	Poland		29,797	3,700	33,497
14	Portugal		18,602	2,802	21,404
16	Romania		2,025	675	2,700
64	Russia		28,711	459	29,170
12	Serbia		264	42	306
5	Slovakia		621	415	1,036
3	Slovenia		322	241	563
18	Spain		97,409	15,567	112,976
30	Sweden		27,441	849	28,290
6	Switzerland		3,760	72	3,832
76	Turkey		33,633	7,596	41,229
23	Ukraine		1,021	14	1,035
40	United Kingdom		328,614	22,008	350,622
695	Total Europe		1,214,868	247,652	1,462,510
Americas					
5	Argentina		1,245	54	1,299
1	Bolivia		4	18	22
1,142	Brazil		31,717	65	31,782
57	Canada		5,456	375	5,831
60	Chile		23,600	1,250	24,850
33	Colombia		8,668	317	8,985
7	Costa Rica		2,337	0	2,337
18	Mexico		25,140	345	25,486
9	Peru		7,798	495	8,293
110	United States		81,670	16,000	97,670
2	Uruguay		68	2	70
1,444	Total Americas		187,703	18,921	206,625
Africa					
6	Egypt		326	109	435
2	Mauritius		200	6	206
5	Morocco		4,100	100	4,200
13	South Africa		15,859	39	15,898
3	Tunisia		330	25	355
29	Total Africa		20,815	279	21,094
Asia					
5	Armenia		55	15	70
25	China		261,573	144,529	406,102
2	Georgia		4	1	5
16	Hong Kong		9,800	21,000	30,800
6	India		3,500	840	4,340
1	Indonesia		800	10	810
8	Israel		2,700	300	3,000
4	Japan		50,412	660	51,072
19	Korea		7,563	5,150	12,713
2	Lebanon		401	15	416
5	Malaysia		1,425	357	1,782
1	Qatar		62	0	62
9	Singapore		29,754	8,086	37,840
1	Sri Lanka		19	19	38
22	Taiwan		14,590	42,090	56,680
15	Thailand		4,100	44	4,144
6	United Arab Emirates		5,000	20	5,020
8	Vietnam		20	80	100
155	Total Asia		391,778	223,216	614,994
Australasia					
7	Australia		42,245	45	42,290
7	Total Australasia		42,245	45	42,290
2,330	Total world		1,857,410	490,114	2,347,513

Total factoring volume



Europe 62%



Americas 9%



Africa 1%



Asia 26%



Australasia 2%

Total Factoring Volume by Country in the Last 7 Years

in millions of Euros

		2008	2009	2010	2011	2012	2013	2014
Europe	Austria	6,350	6,630	8,307	8,986	10,969	14,110	16,400
	Belgium	22,500	23,921	32,203	38,204	42,352	47,684	55,374
	Bulgaria	450	340	550	1,010	1,500	1,600	1,728
	Croatia	2,100	2,450	2,793	2,269	2,269	3,146	2,498
	Cyprus	3,255	3,350	3,450	3,758	3,350	2,823	2,671
	Czech Republic	5,000	3,760	4,410	5,115	5,196	5,302	5,912
	Denmark	5,500	7,100	8,000	9,160	8,800	8,932	10,463
	Estonia	1,427	1,000	1,227	1,164	1,877	1,899	2,010
	Finland	12,650	10,752	12,400	13,000	17,000	17,699	20,554
	France	135,000	128,182	153,252	174,580	186,494	200,459	226,598
	Germany	106,000	96,200	129,536	158,034	157,420	171,290	189,880
	Greece	10,200	12,300	14,715	14,731	12,761	12,094	13,017
	Hungary	3,200	2,520	3,339	2,817	2,676	2,661	2,827
	Ireland	24,000	19,364	20,197	18,330	19,956	21,206	25,476
	Italy	128,200	124,250	143,745	175,182	181,878	178,002	183,004
	Latvia	1,520	900	328	371	542	592	680
	Lithuania	3,350	1,755	1,540	2,134	2,488	2,763	5,550
	Luxembourg	600	349	321	180	299	407	339
	Malta	52	105	136	200	240	178	296
	Moldova							13
	Netherlands	30,000	30,000	35,000	46,000	50,000	52,000	53,378
	Norway	15,000	15,100	15,075	16,395	18,115	16,296	17,182
	Poland	7,800	12,000	16,210	17,900	24,510	31,588	33,497
	Portugal	18,000	17,711	20,756	27,879	22,948	22,303	21,404
	Romania	1,650	1,400	1,800	2,582	2,920	2,713	2,700
	Russia	16,150	8,580	12,163	21,174	35,176	41,960	29,170
	Serbia	370	410	500	926	950	679	306
	Slovakia	1,600	1,130	981	1,171	1,024	1,068	1,036
	Slovenia	650	650	650	550	650	626	563
	Spain	100,000	104,222	112,909	122,125	124,036	116,546	112,976
	Sweden	16,000	18,760	18,760	29,259	33,149	30,544	28,290
	Switzerland	2,590	5,000	4,000	3,450	3,000	3,100	3,832
	Turkey	18,050	20,280	38,988	30,869	31,702	32,036	41,229
	Ukraine	1,314	530	540	955	1,233	1,340	1,035
	United Kingdom	188,000	195,613	226,243	268,080	291,200	308,096	350,622
Total Europe		888,528	876,614	1,045,024	1,218,540	1,298,680	1,354,192	1,462,510
Americas	Argentina	355	335	350	475	614	856	1,299
	Bolivia		18	18	35	35	31	22
	Brazil	22,055	29,640	49,050	45,623	43,627	31,552	31,782
	Canada	3,000	3,250	3,723	5,284	7,100	5,680	5,831
	Chile	15,800	14,500	16,422	21,500	24,000	25,500	24,850
	Colombia	2,100	2,392	2,784	4,990	4,562	7,076	8,985
	Costa Rica			160	30	180	115	2,337
	Mexico	9,550	2,120	14,538	21,074	26,130	28,061	25,486
	Peru	875	758	2,712	2,461	2,310	8,163	8,293
	United States	100,000	88,500	95,000	105,000	77,543	83,739	97,670
	Uruguay					61	58	70
Total Americas		154,195	142,013	185,517	207,202	187,844	191,555	206,625
Africa	Egypt	50	110	200	200	220	450	435
	Mauritius		121	125	127	128	145	206
	Morocco	850	910	1,071	1,406	1,844	2,755	4,200
	South Africa	12,110	13,500	15,120	21,378	21,378	19,400	15,898
	Tunisia	253	276	295	340	357	373	355
Total Africa		13,263	14,917	16,811	23,451	23,928	23,123	21,094
Asia	Armenia	7	7	14	14	0	62	70
	China	55,000	67,300	154,550	273,690	343,759	378,128	406,102
	Georgia						0	5
	Hong Kong	8,500	8,079	14,400	17,388	29,344	32,250	30,800
	India	5,200	2,650	2,750	2,800	3,650	5,240	4,340
	Indonesia				3	3	819	810
	Israel	1,400	1,400	1,650	1,650	1,422	1,060	3,000
	Japan	106,500	83,700	98,500	111,245	97,210	77,255	51,072
	Korea	900	2,937	5,079	8,087	8,000	12,343	12,713
	Lebanon	306	420	450	327	301	352	416
	Malaysia	550	700	1,058	1,050	1,782	1,782	1,782
	Qatar		23	23	75	75	88	62
	Singapore	4,000	4,700	5,800	6,670	8,670	9,970	37,840
	Sri Lanka							38
	Taiwan	48,750	33,800	67,000	79,800	70,000	73,000	56,680
	Thailand	2,367	2,107	2,095	3,080	4,339	3,348	4,144
	United Arab Emirates	1,860	1,910	2,000	1,750	2,900	3,500	5,020
	Vietnam	85	95	65	67	61	100	100
Total Asia		235,418	209,863	355,463	507,694	571,528	599,297	614,994
Australasia	Australia	32,546	39,410	44,915	57,491	49,606	40,206	42,290
	Total Australasia	33,246	40,110	45,515	58,091	50,206	40,206	42,290
Total world		1,324,650	1,283,517	1,648,330	2,014,978	2,132,186	2,208,372	2,347,513



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