FCI

NEWSLETTER / MAY 2020

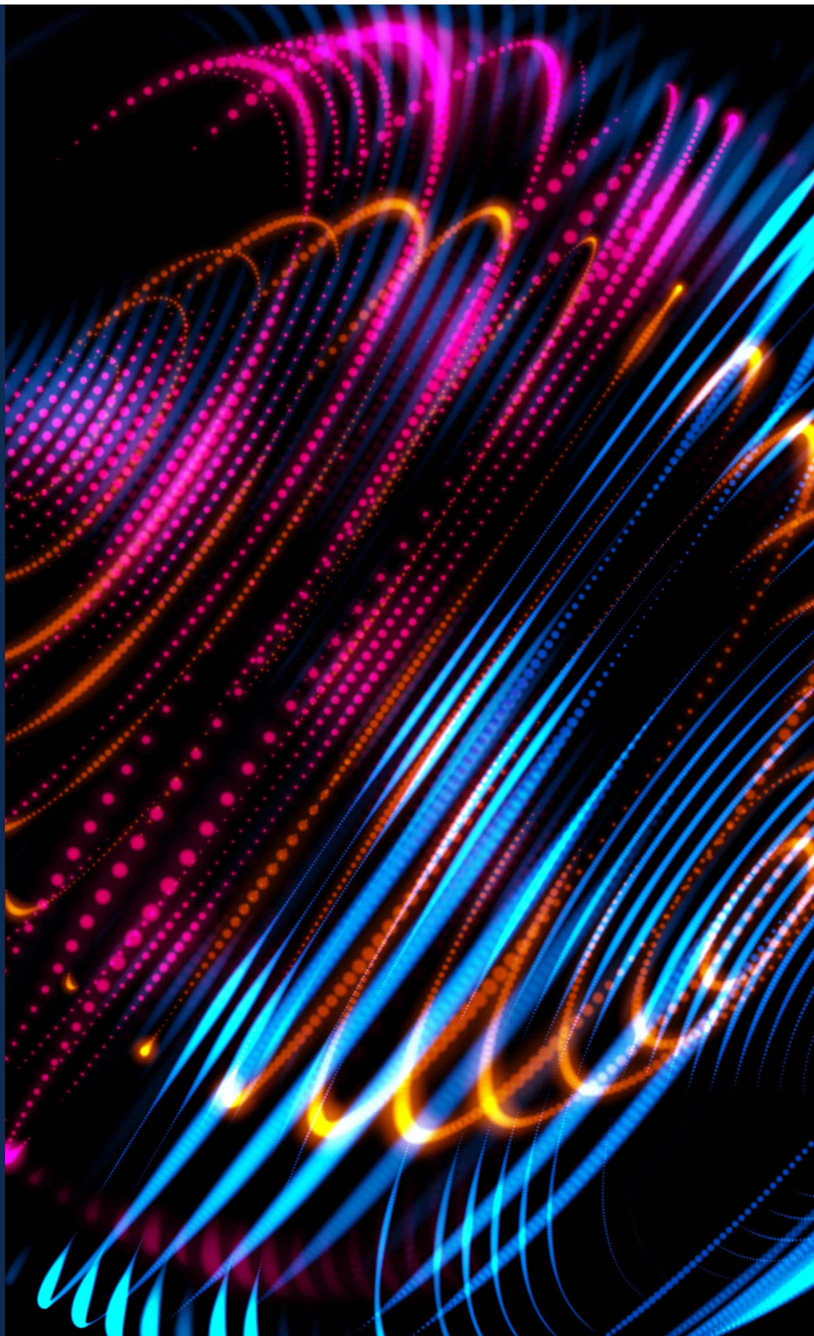
CONNECT. EDUCATE. INFLUENCE.

Facilitating Open Account – Receivables Finance

IN-SIGHT

Connecting and Supporting the Open Account Receivables Finance Industry Worldwide

Contents:



GWENDOLINE DE VIRON
Head of Marketing and Communication

EXECUTIVE SUMMARY

Dear Readers,

Welcome to the latest edition of In-Sight!

The newsletter starts with the welcome from the FCI Chairman reporting on the challenging times we are living in and gives update on some of the recent activities at FCI.

Peter Mulroy looks at the past as an indication for the future and enlightens on the differences with previous crisis but also sharing his predictions for the future.

Thompsons Lui reports on the situation on South and South East Asia.

Avarina Miller reminds how supply chains finance and FCIreverse can support working capital during the COVID-19 crisis.

Going further, Lin Hui shares his concluding speech of the fraud webinar held in Chinese earlier this month. He highlights the two-factor model as a system that facilitate the prevention or fraud or other risks.

Alberto Wyderka shares his vision for the Americas in the future including the challenges for the region.

Betül Kurtulus updates us on the situation in Central East Europe, South East Europe and the Middle East. She sees supply chain disruption and falling demands.

The connect section finishes with the traditional new members presentation: BPS-Sberbank (Belarus) and Yueda Commercial Factoring (Shenzhen) CO (China).

In the education section, Aysen Çetintas reminds the need to continue capacity building even in the time of crisis. In that respect FCI has reinforced its online offer for education.

Spyros Tsolis reports on the webinar series that was organised by FCI in response to the current crisis. More than 1200 participants joined the 6 webinars organised until today.

Françoise Palle-Guillabert presents how EUF has been shaken by the COVID-19 crisis and the commitment of the organisation to continue to defend the factoring industry even more during this time. She also presents the EU Factoring figures of 2019, 11 years of growth.

Joyce Yao explains how works construction factoring in China and its potential expansion to international factoring.

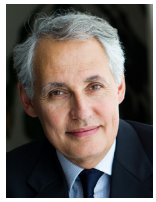
Some latest evolutions of the factoring in Africa are presented including FCI and Afreximbank regional conference in East Africa and the recent update on factoring assignments bill in Nigeria.

Finally, we honour Liliana Innocenti and Rolf Svirsky that passed away last month and were both important for FCI and the Industry.

Enjoy the reading!

Gwendoline

WELCOME FROM PATRICK DE VILLEPIN
Chairman of FCI



PATRICK DE VILLEPIN
Chairman of FCI

Dear Friends,

Welcome to this May 2020 newsletter that is published in very challenging times. Since I last communicated with you in the In-Sight February edition, a lot has changed. Although we could see the challenges that our Chinese counterparts were experiencing earlier in the year, at the time we really did not know just how bad things would get for the rest of us. And let's admit, we don't really know what's in front of us today either. This health crisis is different from anything we have witnessed before. Different by its nature, different by its duration & different by its consequences:

1. *Different by nature*: The 2008 recession has been driven by a collapse in the financial sector, revealing liquidity & equity issues. At that time, governments had to sink trillions of dollars to prevent the world bank system from collapse. Thanks to regulation improvements & to Basel II or III requirements, Banks today are more prepared: they have increased capital & undertaken numerous stress tests. Today, our Banking System is also much stronger. Hopefully, it should prove its capacity to weather the storm.

2. *Different in its duration*: For sure, this crisis will last much longer than expected. We won't have any vaccine before at least 1 year to 18 months (best case scenario). Our economy will need time to recover. No one believes any more in a "V" or "U" scenario. We should fear an "L " or "W" curve, synonymous to a double-dip recession. This crisis reminds me of the "Phoney war" at the very beginning of WW2 (September 1939-May 1940): the war was declared but almost nothing happened. Even if we see a strong impact on trade and employment, the dramatic consequences of this crisis in terms of bankruptcies are still to come.

3. *Different in its consequences:* In 2008, we experienced a financial crisis, not a credit crisis. Not so many companies failed. In most geographies, our cost of risk didn't increase. On the contrary, it has been constantly decreasing during the last decade. This one will be different. For the first time since the mid-1990s, we will have to support companies & sectors in great difficulty. A number of losers will come out of this dark period, especially SMEs & retailers. As world trade itself will be more fragile, beware of any additional shocks (trade war between US & China, Brexit or other geopolitical issues…) at the origin of a double or triple-dip. For the very first time in half a century, the Factoring & Commercial Finance Industry could experience a huge increase in costs due to the Great Return of Risk. Yet, I feel that we have also a lot to gain: opportunities being more significant than any constraint.

Since the beginning of this crisis, FCI has taken action & strengthened the links with its members, together with the support of the Legal & Executive Committees. Four important circulars were issued over the past 90 days, the first dated 15 February, the first warning signs to the factoring community, the others touching on:

- *Payment term extensions:* they are rising, up to 90 days, sometimes 180 days. FCI has adopted a 3 phase approach (green, orange and red) to guide our members during this disruptive period. After entering the orange phase in March, the Legal Committee drafted a new "model deviating agreement" that allows members, if all parties agree, to extend the terms of trade.
- *Q&A*: At the request of our members, we issued a Q&A, detailing various questions received by the Secretariat, dealing with term extensions, force majeure as well as impact on credit

limits by credit insurers.

- *Webinars*: FCI launched six over the past eight weeks, three on Covid-19, one on Blockchain, one on Fraud and just this past week representatives from the FCI Executive Committee gave their insights, all free & for the benefit of our members during these difficult days. We will be organizing three more webinars in June, one on SCF/Reverse Factoring scheduled for , on Legal Issues in Factoring in this COVID-19 era, and on the Impact of COVID-19 on the Emerging Markets.
- *FCI Annual Meeting*: we had to cancel the June 2020 annual meeting for the very first time in 52 years. However, it will still be held in Washington DC, next year, same dates, 20-25th June 2021.

FCI WILL ORGANIZE A VIRTUAL ONLINE MEMBERSHIP FORUM AND COUNCIL MEETING ON 23 SEPTEMBER 2020

As you know, FCI is required to organize a council meeting every year. In lieu of this, FCI will organize a virtual online membership forum and council meeting to be organised on *Wednesday 23 September 2020*. The Secretariat will send out more details shortly. It will allow us to report to you our activities during the past year, but equally important how we are dealing with and managing the current crisis, and also to vote on some important matters as required by the FCI Constitution. As you know, this will be the very first virtual council meeting in FCI's history. Our constitution does not allow for such virtual meetings however the Dutch government recently approved a special law and waiver to override in-person meetings stemming from the COVID-19 virus. We hope you will all join us for this special and unique experience in September.

Despite these challenging times, FCI has *added 18 new memberships this year* already. It's a positive message and it confirms that factoring and international factoring have a significant hand to play in this special period. FCI is working on a global marketing campaign to promote factoring as an industry but also to reach out to governments, policy makers and legislators. We are also working on two additional advocacy projects, a position paper on Credit Insurance and its importance to the factoring industry, as well as an industry white paper targeted to the emerging markets to highlight the importance factoring plays in helping to rebuild of an economy but especially to support SMEs who become severely impacted during economic stress periods like the one we are facing today.

FCI will also release its final global statistics, which shows the world factoring volume increased by 5% in 2020. FCI is preparing its 2020 Annual Review, which will not only include these statistics but also an in-depth analysis of the global factoring industry, especially in these difficult times. The Review will be made available by end of June 2020.

For the European members, the EUF with its 16 national association members together with FCI are working harder than ever on lobbying at the European parliament level. The recent EU factoring figures of 2019 show a sustained upward trend confirming that in continental Europe factoring is a big game changer, represented by a *GDP penetration ratio of 11.3%*.

Lastly, I just want to honor two people who recently passed away: Mr. Rolf Svirsky, the first Secretary General of FCI and Mrs. Liliana Innocenti, one of the early pioneers of international factoring in Italy. An "in-memoriam" is presented at the end of the publication to thank them for their tremendous support and recognition of their dedication to the global factoring industry.

Kind regards,

Patrick

PETER MULROY
Secretary General

A WORD FROM THE SECRETARY GENERAL

Considering the times, its only appropriate to share some views regarding the impact the COVID-19 crisis is having on our members globally and provide some insight into the future. We have all heard many different views about its potential impact, so I don't necessarily want to take a guess on what will come, but instead look back in time as a means to determine what tomorrow will bring. History does have a way of repeating itself and if it is any indication, factoring should see a significant rebound in 2021 and the years that will follow. One just has to look at the past as an indication of the future.

The Great Depression 1929-1939

The Great Depression was a worldwide economic event which began on "Black Thursday," October 24, 1929 when stock prices fell 22% within four days. Factoring at the time was predominantly practiced in the US. A notable and interesting story is that of my previous employer, SunTrust Bank, which established its factoring business in 1939 at the tail end of the great depression. This was a time when we saw the first major rise in new forms of secured lending including factoring, as it became clear that *receivables were appreciably better collateral than mortgages due to its short term and "self-liquidating" nature*.

At SunTrust, the bank management saw the great depression as an opportunity to "finance small businesses through the collateralization of their accounts receivables". Others also led the charge. James Talcott, one of the largest players at the time (later to be acquired by CIT) expanded rapidly in the 1930s. Just a few months after the notorious stock market crash of 1929, CIT invested and built its first factoring operation. Consumer spending rose dramatically and CIT prospered due to its secured finance business in factoring, consumer appliance, furniture, and automobile financing.

This period also marked a time of consolidation of the early factoring industry in the US, who were forced to diversify their clientele, expanding beyond their traditional base in textiles, apparel and woolens. Around 1930, CIT expanded its receivables financing by buying five well-known factoring companies in the space of four years, including Morton H Meinhard & Company and William Iselin & Co, two well known brands at the time. By the start of the war, new factored markets included chemicals, cosmetics, electronics, furniture, glassware, home furnishing, and many more. During this period, factoring volume boomed (certainly supported by the economy during the war years). Between *1935 and 1948, the US factoring industry grew by an unprecedented 13% CAGR,* a four-fold increase during this 13 year period.

The Great Depression had gutted the nation in the 1930s and its effect cast a long shadow that can still be seen today. One economist, Miguel Faria-e-Castro of the Federal Reserve Bank of St. Louis recently raised eyebrows when he estimated that the unemployment rate could increase up to 30% by the end of the second quarter 2020 in the US, far

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exceeding the record held during the peak period of 25% in 1933. Europe has fared much better with an expected increase of 9% this month. At the time of this article, the official unemployment rate in the US stood at nearly 15%.

The Great Recession 2008-2009

Now, let's look at the great recession and its impact on the global economy between 2008-2019.

Not since the great depression had the financial community witnessed a period of time quite like it. First Bear Stearns collapsed in March 2008 and was ultimately rescued by the US Government. They received an emergency bail-out from the Federal Reserve and was then taken over by JP Morgan Chase. Lehman Brothers filed for bankruptcy protection in September 2008, which within six months led to a domino effect, adversely impacting such giants as Merrill Lynch, AIG, CIT, Freddie Mac, Fannie Mae, RBS, Fortis and others, all coming perilously close to following Lehman's demise, most rescued through large bail outs by their respective governments.

THE FACTORING INDUSTRY ONLY DECLINED MODESTLY IN 2009 BY 3%

Risk increased dramatically and global trade was severely affected. SMEs were particularly hard hit as banks pulled back funding. Large bank-led SCF programs concentrated in Spain and the US began to witness numerous reductions or complete program shut downs, impacting the continuous liquidity needs for SMEs. Unemployment peaked during this period in the US to 10.0%. This was much lower than during the great depression and the current COVID-19 inspired recession. The factoring industry only declined modestly in 2009 by -3%, generating EUR 1.3 Trillion in volume that year. However, a decade later, this figure would rise to nearly EUR 3.0 Trillion, a more than two-fold increase, growing by an staggering 9% CAGR, similar to the surge experienced after the great depression.

The extreme global economic and political volatility since the Great Recession in 2009 has given rise in nationalism and protectionism. Trade wars that have since arisen, which has contributed to a slow-down in global trade. Despite all of this, factoring has remained resilient during this period. Throughout the past ten years, and especially during and after the financial crisis, the factoring community took up the slack left behind as banks pulled out of financing arrangements. In fact, *the receivables finance industry played an important role in the continued health and eventual growth in global trade, particularly by continuing to finance SMEs during this challenging period.*

COVID-19 Recession 2020 - ?

There are the stark differences today as compared to the other two crises. This crash has been driven by the mandatory cessation of business due to the shutdown in most countries, and has not yet been driven by a collapse in the financial sector. Unlike the great depression, banks in the US had either been shut down or placed on "bank holiday" by closing the banks for a three-day cooling off period. The most memorable line from the President Roosevelt's speech was directed during the banking crisis, "The only thing we have to fear is fear itself."

In the last crisis, governments around the world who for years boasted about the self-evident benefits of limited regulation had to sink trillions of dollars to prevent the global banking system from collapse. However, this crisis is different as governments are more prepared, due to the increase in capital stemming from the requirements of Basel II-III, including the numerous stress tests that both US and European banks had undertaken, leading to a system that so far has been able to weather the storm. Also, governments this time have injected trillions of dollars into the system in the form of economic stimulus via direct payments to consumers, low interest loans to SMEs, targeted bail out funds to economically hard hit industries such as travel, leisure, hospitality, etc… In the US alone, the government has directly or indirectly pumped in over $9 Trillion into the economy over the past two months, a historical record accounting for nearly half of annual US GDP. This all bodes well for a potential recovery in 2021.

There will certainly be winners and losers coming out of this dark period. Sadly SMEs and consumers will be the most impacted by this crisis. Retailers who have already undergone great strain from the evolution to e-commerce are already feeling the pain. Some have begun to file for bankruptcy protection, including such brand names in the US like JC Penneys, Pier 1 Imports, J Crew, Hertz, and Neiman Marcus. Over a third of those large restaurant and retail chains are under "watch" by the rating agencies as likely candidates for bankruptcy. The "mall" culture around the world is in for a big shock, stemming from this crisis. If there were any doubts about their eventual demise, the impact of the pandemic will likely dispel them.

THE NEED FOR LIQUIDITY AND RISK MITIGATION WILL BE GREATER IN THE COMING MONTHS THAN AT ANY TIME BEFORE. AND THIS GETS BACK TO WHY THE FACTORING AND RECEIVABLES FINANCE INDUSTRY MATTERS NOW MORE THAN EVER

This disruption will have a significant impact on the industry. However, the need for liquidity and risk mitigation will be greater in the coming months than at any time before. And this gets back to why the factoring and receivables finance industry matters now more than ever. I had estimated last year that the combined open account trade volumes financed by such means like traditional factoring, reverse factoring, asset based lending and other forms of receivables finance accounts for well over US$5 Trillion globally, representing approximately 6% of global GDP. A significant portion of this figure is targeted to SMEs, the engine of economic growth and employment around the world. And as history has shown us repeatedly, we can count on a surge of growth in receivables finance, as indicated in the past two major economic calamities over the past century. But for those who do invest must do so carefully, ensuring they implement strong operational controls, proper underwriting procedures, increased awareness of potential fraud (always an enhanced risk in times such as these) and heightened analysis of dilution risk in these sensitive times. As such, even though volumes will be challenged due to the recession, the demand for secured finance in the form of factoring will only increase. If these past two economic events are any indication, I estimate that the industry could excel this decade, potentially achieving US$10 Trillion in volume globally by 2030, increasing by a 7% CAGR.

As we have seen, this recession has unique characteristics that can take a page from almost every economic calamity mentioned above. From it, we can make some predictions for the future:

1. Expect commercial banks to become much more conservative, pulling lines especially on SMEs. This will create a significant uptick in *new business opportunities for the industry,*

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which we are already beginning to hear from our members.

2. *Liquidity will be not as abundant as before*. Non-Bank Financial Institutions (NBFIs) and Commercial Factors will feel the pinch most, with reduced liquidity to support SMEs. And corporates will want to diversify their funding sources to ensure stability.
3. *Collections will continue to slow* and ageing portfolios will increase due to delinquency, breaching eligibility ratios and covenants with funders which will lead to the cancelation of committed lines. We have already seen by FCI members a 160% increase in past due invoices assigned via edifactoring as of 30th April 2020 compared to 31st December 2019
4. *Term extensions will rise*, demanded by debtors around the world. One of our larger members report that they are seeing over 30% of their outstanding portfolio of receivables extended for a period of up to 90 days, others seeing extensions as far out as 180 days.
5. *Credit insured lines will be affected*, impacting customer/debtor credit availability, both underwritten in-house or by the credit insurance community. We hear this already from a number of members that lines are being cancelled or reduced.
6. Expect to see *dilution to increase*, as supply chains become disrupted due to increased geo political uncertainty. Just this year, FCI has witnessed amongst its members a 40% increase in dilution as reported in edifactoring as of 30th April 2020 compared to 31st December 2019.
7. *Business volumes will be severely impacted*, especially in the 2Q2020. Volume will dry up, as new invoices contract in part due to the declining economy, in part due to plummeting commodity prices. However, we expect that inflation is inevitable, which will have a positive affect on volumes in the coming year. However, we can certainly predict a significant drop in global volumes in 2020, more than the 3% drop experienced in 2009.
8. *Businesses are borrowing less* due to increased efficiency and inventory management, and the ability to borrow cheaper from banks. However, with the crisis, we anticipate an increase in the percentage of advances to factoring accounts, even though we expect volume to decline.
9. What is interesting is *the rise of fintechs* and their success that they have experienced over these past years. However, I predict that you will see numerous fintechs go out of business, stemming from losses, frauds and an increased challenge to raise capital.
10. *SCF/Reverse Factoring users will feel the pinch*. Most SCF/Reverse programs are uncommitted and will most likely be frozen or eliminated in their entirety, in particular impacting programs from non-investment grade companies BB+ or lower. We are already seeing this in the auto sector around the world, a repeat of the great recession, resulting in long term memories of corporates to ensure their liquidity sources are diversified.

FACTORING WILL BE IN HIGH DEMAND DURING AND AFTER THIS CRISIS

Conclusion

Factoring will be in high demand during and after this crisis, as banks pull out of credit facilities, especially SMEs and companies looking for new alternative sources of working capital financing. With the significant increased volatile environment, companies will look to mitigate the risk of their receivables. However, receivables as an asset class will be tested like never before. Nonetheless their secured nature and the controls that factoring affords will make them more attractive. And for those using history as a milestone, we certainly have the wind in our sails. As the Oracle of Omaha recently quipped, "don't bet against" factoring as it will continue to surprise and support companies around the world, especially SMEs!

THOMPSON LUI
Regional Manager SSEA

SOUTH AND SOUTH EAST ASIA

Many countries are affected by COVID-19 pandemic, dozen plus nations in South and Southeast Asia are not exempted but given the fact that majority is still considered developing and emerging; the depth of impact may be tremendously different. While short term impact will be changes in social practices; restrictions imposed on communal activities; businesses have adapted contingency plans to allow employees to work remotely or even alternatively to mitigate risks associated with possible spreading in work areas; regional travels were all put to a halt due to shutting down of borders and mandatory quarantine procedures to curb influx of possible carriers. All these undoubtedly put strains towards growth and inevitably *affected economic activities in negative ways* though some nations in Southeast Asia are already showing signs of recovery or positive indications such as drastic reduction in confirmed new cases like Thailand and Vietnam. South Asia, however, most recent updates[1] suggested otherwise as there are still thousands of new confirmed cases reported daily from member nations (Bangladesh and India).

The above-mentioned impacts may mainly affect SSEA economies in the short term as consumer spending and exports plummet. Nevertheless, one can expect considerable recoveries following a two-quarters lag once this pandemic weakens. Are there any significant long-run implications to be drawn? Will this COIVD-19 pandemic trigger a restructure of Asian economic order as we are already seeing changes in how the consumer behaves? There are vast numbers of articles and studies exploring the trends of manufacturing in APAC given a clear and present concentration in North and Northeast Asia diluting due to cost concerns. It is no secret *factories move from high-cost areas to developing nations to maintain pricing competitiveness*: Japan as first wave and we witnessed the "four tigers", namely, Hong Kong; Singapore; South Korea and Taiwan as the second wave. Manufacturing costs in China and wages also have also been on the rise due to these massive influxes.

The other side of the coin is that neighboring countries in APAC gaining attention as an alternative with reference to cost concerns alone. Incidents like Sino American trade war started in 2018 and COVID pandemic started in 2019 may just be the compelling reasons why manufacturers in China need to reconsider relocations to mitigate concentration and disruption risks in their supply chain[2]. Reshoring Index supports the argument that *smaller countries like Vietnam and Thailand benefit from this move*. While risk mitigation is a big factor, simple cost accounting figures tell the difference in mid-tech labor costs. According to JLL (a fortune 500 company), labor costs in the mid-tech section in Malaysia and Thailand are 60% lower that of China's compared to 30% in 2010[3]. Malaysia and Thailand are not the only countries that benefited from this change / movement, Vietnam is also a top contender in winning market shares in manufacturing and exports growth. According to Financial Times, US imported 40% more from Vietnam in 2019 year on year compared to a decline of 20% from China[4]. Despite this spike, no one can conclude this exodus will continue for SSEA emerging countries like Bangladesh, Malaysia and Vietnam who need to demonstrate their willingness and readiness to compete against the dragon's market size and industrious efficiency in both supply chain and financial services eco systems.

1 https://www.aseanbriefing.com/news/coronavirus-asia-asean-live-updates-by-country/#singaporeHeader
2 https://www.forbes.com/sites/kenrapoza/2020/04/07/new-data-shows-us-companies-are-definitely-leaving-china/#53727e0040fe
3 https://www.jll.co.th/en/newsroom/more-manufacturers-to-relocate-from-china-to-southeast-asia
4 https://www.ft.com/content/c33e95f4-6acc-11ea-a6ac-9122541af204

FCIREVERSE: SUPPORTING WORKING CAPITAL DURING THE COVID-19 CRISIS

AVARINA MILLER
Director, Demica

Supply chains are experiencing major challenges during the Covid-19 pandemic, with both buyers and suppliers experiencing considerable pressure on their working capital. As FCI members work to support their clients through this crisis, there's a clear focus on increasing the resilience of supply chains and protecting strategic supply. So how can FCIreverse help members achieve this?

Supply chains in flux

In recent weeks, both suppliers and buyers have experienced major challenges – although the nature of these challenges varies considerably from business to business.

Some suppliers have seen demand for their goods and services plummet, with the most agile acting quickly to redefine their markets – such as restaurant suppliers which have begun selling to supermarkets. Others have seen a steep increase in demand and are seeking credit to help them speed up the conversion of inventory into sales.

Buyers, meanwhile, are reassessing practices like offshoring and just-in-time supply and are looking to work more closely with local suppliers. And with many companies lacking reserves of cash to draw upon at this challenging time, widening credit spreads are leading to further challenges where funding is concerned.

It's worth noting that government-backed lending is enabling many businesses globally to access the working capital they need to continue operating. Looking ahead, further challenges may arise as different countries begin to release lockdown measures, with many companies expected to seek refinancing at this point.

Supporting buyers and suppliers

Against this backdrop, *buyers are working to reduce the risk of disruption within their supply chains*, with buyers and suppliers alike looking for ways to *maximise their working capital.*

Reverse factoring has much to offer both buyers and suppliers at this time. Even in normal, stable markets, buyers seek to generate working capital by extending their supplier payments terms. This benefits the buyer's cashflows and working capital position – but it effectively transfers cashflow pressures to suppliers and can increase supplier pricing to buyers.

REVERSE FACTORING HAS MUCH TO OFFER BOTH BUYERS AND SUPPLIERS AT THIS TIME. BUYERS SEEK TO GENERATE WORKING CAPITAL BY EXTENDING THEIR SUPPLIER PAYMENTS TERMS. THIS BENEFITS THE BUYER'S CASHFLOWS AND WORKING CAPITAL POSITION

Current circumstances have increased pressures on the working capital of buyers and suppliers alike. Reverse factoring *relieves the pressures on working capital positions* of both buyers and suppliers without the need for price increases.

Enter FCIreverse powered by Demica

While reverse factoring has much to recommend it in the current market, not all reverse factoring solutions are alike. *FCIreverse*, which is much simpler to implement than other reverse factoring solutions, enables FCI members to provide much-needed liquidity for their clients, while also helping them manage and monitor risks. With governments injecting money into banks to support supply chains affected by Covid-19, FCIreverse is also an effective way of deploying those funds to benefit businesses.

FCIreverse is available both as a three-corner model (including buyer, supplier and bank), which allows members to set up local programmes quickly and easily, and as a four-corner model which includes banks in both the buyer's and suppliers' markets. FCI members can use the four-corner model to support their clients' supply chains wherever their suppliers are located, thanks to the FCI network, the inter-factor agreement and the General Rules for FCIreverse legal framework.

FCIREVERSE IS AVAILABLE BOTH AS A THREE-CORNER MODEL, WHICH ALLOWS MEMBERS TO SET UP LOCAL PROGRAMMES QUICKLY AND EASILY, AND AS A FOUR-CORNER MODEL WHICH INCLUDES BANKS IN BOTH THE BUYER'S AND SUPPLIERS' MARKETS

FCIreverse offers several attractive benefits compared to other reverse factoring solutions:

- *Fast and simple implementation*. With FCIreverse, members can set up reverse factoring programmes quickly and easily. The standard integration model means there's no need for a lengthy implementation.
- *No minimum volume requirements*. The solution has no minimum volume requirements, making it suitable for both large and small programmes. FCIreverse can therefore be used to complement an existing programme or set up a new programme from scratch.
- *Easier to onboard overseas suppliers*. Supplier onboarding in overseas jurisdictions can be challenging. But with FCIreverse, FCI members in different countries can onboard suppliers for each other, thereby overcoming common challenges such as local language and legal requirements and KYC procedures.
- *Minimal costs*. What's more, FCIreverse is typically cheaper to implement than other reverse factoring solutions. For example, it avoids the need for substantial investment in IT tools.
- *Co-origination support*. A team focused on helping the FCI members in identifying trade flows, helping to optimize the country flows, the sector or the client flows to assist in the on-boarding process of the buyers or of critical suppliers.

In summary, as buyers and suppliers focus on optimising their liquidity and working capital during this crisis, FCIreverse offers members an attractive way of supporting their clients' goals.

To find out more, call +34 0615 908 840 or write blanco@fci.nl to Mónica Blanco to find out more and how to assist you in implementing FCIreverse.

FRAUD IN RECEIVABLES FINANCE

LIN HUI
Regional Director North East Asia

On May 12, FCI held a webinar in Chinese on Fraud in Receivables Finance. More than 220 participants from Singapore, Taiwan, Hong Kong, and Mainland China joined the webinar. The speakers, Mr. Zhao Yongjun of Fortune International Factoring, Mr. Typhoon Wen of Vteam Financial, and Mr. King Tak Fung of Stephenson Harwood analyzed typical fraud cases in the region during the recent years. Mr. LIN Hui, FCI NE Asia Director moderated the event and concluded with a speech as follows.

Restructuring receivable finance within the framework of trade finance

Accounts receivable relates to transactions, payments and settlements between two businesses. *As a third party, you must have a good understanding of both the buyer and the seller, or you risk being the most vulnerable one within this triangle of relations*. Not only do you have to know both sides, you have to be able to know the seller better than the buyer, or the buyer better than the seller – depending on the arrangement, which is the reason and value of your participation. This is a trade finance relationship, and a core requirement is to be able to effect KYC on both sides simultaneously.

However, most of the current receivable financing models on the market do not provide for KYC on both sides. In fact, they are pseudo trade finance structures which is in essence a lending structure. It's fine if a financial institution treats it just as pure lending business. But a pseudo trade finance structure always creates a false impression to financial institutions, which can be exploited by the unscrupulous.

A lending business can be seen like driving on land, while trade finance is sailing on the sea. Not only do you need to look out for the *icebergs on the surface of the sea (KYC), but you also need to detect the shape of the iceberg under the surface (KYCC)*. Over 70 per cent of our planet is water. Trade finance does allow us to reach out to a wider market. But, to conquer the oceans, we must restructure our receivable financing model with a trade finance framework, supporting not only liquidity management for clients, but also *risk mitigating solutions* for them; *managing not only client risk, but also counter-party risk; having not only solid KYC on both sides, but also sound KYT (know your transactions)*. Trade finance means advances based on the settlement of transactions, rather than just lending money.

The Two-factor model as the standard structure for trade finance frameworks

In the context of the globalization of supply chains, it is not easy for a bank to achieve KYC for both buyers and sellers. Although technology has brought things closer, there are still geographic limits to practicing due diligence and field audits. In the complex market environment of supply chain shocks caused by the coronavirus epidemic, *we need to strengthen the two-factor cooperation mechanism to control the spread of risk*.

In police movies, we see the police patrolling in pairs. In a dangerous situation, they both stand back to back holding their guns in opposite directions. This is because human physiology dictates that our maximum field of view is only 180 degrees - you can never see what's going on behind you. With two people against each other's backs, it's the safest position in a complex environment.

It is in this way that the *two-factor model ensures that in a complex market environment, both financial institutions are able to keep a close watch on their respective clients*, ensuring that the payment of transactions between the two companies remain within the normal orbital range, and acting immediately on any deviations to prevent fraud or other risks.

The two-factor scheme advocates a cooperative mechanism of global financial institutions, and avoids a one-man battle or unhealthy competition.

This doesn't necessarily mean that single factoring is the wrong model. Just like the square vs. rectangle relationship, single factoring is a special form of two-factoring and is only established if one financial institution can meet the conditions for simultaneous KYC of the buyer and seller.

The global supply chain is a multidimensional B2B complex system

Businesses from different countries, regions, cultures, races, industries, and sizes are like countless stars, planets, moons, and asteroids scattered throughout the vast universe of global supply chains. The relationships between these supply chains are complex and multidimensional, and it is simply not possible for one financial institution to provide a total solution for all businesses in the supply chain on the same plane. *However, it is possible for two financial institutions to link any two businesses in different dimensions through a standardized cooperation mechanism. This is the value of the two-factor scheme in the complex global supply chain system*, providing financial support to supply chains by structuring in a way that allows for synergistic risk control in the most efficient manner.

Digital synergy is at the heart of supply chain finance

In the ecosphere of digital supply chain finance, the outer circle includes

- *Fintech*: Financial technology service providers providing technology infrastructure for supply chain financial institutions.
- *Logistech*: The digitalization of logistics, through the Internet of Things, to provide supply chain financial institutions with more visible and accurate logistics data, to control supply chain risks.
- *Regtech*: Enables the compliance of financial institutions accurately with dynamic regulatory data to ensure the healthy operation of the whole receivable finance industry and reduce systemic risks and costs.

The core component in the ecosphere includes two value chains:

- One is the *B2B value chain* (SUPPLY CHAIN), which, in simplified terms, includes the chain from suppliers to the anchor business, and to distributors.
- The other is the *financial value chain*, which is exactly the role of FCI (created 52 years ago as Factors *Chain* International), in that it is composed of the financial institutions with the closest KYC radius to the businesses respectively on the SUPPLY CHAIN.

These financial institutions are in fact acting as the financial factors for the B2B value chain. Through these FACTORs, the B2B value chain is matched with the financial value chain by providing liquidity support and risk mitigation for each supply chain business. A supply chain financier can be a trade finance bank or a commercial factoring company. Whether a bank or commercial factoring company, the reason for being accepted into this chain of factors is because you know your customers better than any other financial institution. Secondly, you agree to abide by the standardized rules of the chain, and be able to take responsibility and finally, to be accepted by all the financial institutions peers in the chain. Such a synergistic supply chain financial ecosystem is the global trade finance system for the post letter of credit era. The FCI GRIF rules provide global trade financiers with a solid two-factor framework. We just need to integrate financial technology, logistics technology, regulatory technology, and jointly establish a much more digital two-factor business environment, so that we can have our system play out it's magic market efficiency.

CONNECT

AMERICAS TODAY AND IN THE NEAR FUTURE: A VISION

ALBERTO WYDERKA
Regional Director
Americas

In a way, it is difficult for me to write this article referring to our Americas Region.

Currently, anything that one says or writes will necessarily be influenced by this scourge that we are suffering, which is the Coronavirus. So I wonder, what can be written that the one who reads the article does not know or has not listened to before.

I never liked filling a space with just words, I think it is a lack of respect for the person who endeavours to read what has been written. So I want to comment on things that may attract the attention of those who read it, such as some figures for 2019 in our Region, what challenges I see for the development of our industry and what could be expected for the rest of the year, precisely after the influence and outcome that this pandemic will surely have on people's health and worldwide economy.

2019 Americas global figures

Americas showed a global growth of 3.5%, or in absolute terms, about € 7,4 bn.

NORTH AMERICAS
-3.7%
THE LATIN AMERICA & CARIBBEAN
+8,9%

If we split the Region between the US and Canada, let´s call the North Americas Sub-region and the Latin America & Caribbean (LA & C) Sub-region, the first one showed a negative growth of -3.7%, where Canada grew 30.9% and the US had a fall of 4.6%.

The Sub-region negative growth is explained because the reported US volume is 28 times greater than that of Canada, which clearly makes it difficult to balance a drop in US volumes.

Regarding the AL&C sub-region, the result was growth of 8.9%, where the countries with the highest growth were Argentina, Chile, and Peru, while Brazil with the highest volume in the Sub-region, experienced a drop of 1.2%.

Comparing the reported volumes for each of the two Sub-regions, LA&C is one and a half times larger.

What has been done in the 1Q2020

In March, together with Monica Martín Blanco, member of the SCF Committee, we toured LA and C visiting 5 countries and 16 members, with the aim of *presenting and promoting our new solution, the FCIreverse*.

The result was more than positive, where our members actively participated in meetings that on average exceeded two hours.

Our satisfaction was to verify the very positive opinions expressed by the participants and the assessment they gave to our FCIreverse, highlighting its consistency and its comprehensiveness in the supply chain finance.

The next step will be to start with the operational demonstrations of the product that will begin in this second quarter of the year.

Main challenges in the Americas Region

The challenges are multiple and varied and they all involve me directly. The good news is that this evolutionary state of business, has a very wide growth space.

The first challenge is the need of *proactive actions with financial institutions to add a factoring offer to their commercial business, as well as aligning Country Factoring Associations with FCI*.

The members who joined our community in the last three years and who have been unable to launch the product yet for one reason or another are a significant challenge, since their frustration and possible stepping aside of our Organization is latent.

Additionally, *communication with country regulators and lawmakers needs to be enhanced*.in order to facilitate factoring business expansion.

Likewise, FCI's presence through the growth of its members in the Region needs to be consolidated.

These are in my opinion the four challenges to embrace in the region. It does not mean that they are the only ones, but I do believe that they should be highlighted since they require continuous action.

The rest of the year, the near future.

It is very difficult to forecast future expectations due to the impact that COVID 19 will have on the economies of all countries. It will strongly condition the 2020 Regional outlook. Let's trust those almost certain falls to be as low as possible.

However, we are facing a very disruptive year and in my opinion a threat to globalization. Reaching the end of 2020 with more business volume, more members, as well as willingness and time dedicated by governments in strengthening factoring legislation, etc., is unlikely to occur. I believe that two-factor volumes can become a growing business depending on the response of our Import Factors.

What is also to be expected, and we are seeing it, is that payment terms will be lengthened affecting not only domestic transactions, but also condition the approval of new risks in international operations.

These will be conditioned by the aftermath of this pandemic.

The challenges that I mentioned above will be present in the current year.

Unfortunately, and again, due to the scourge of COVID 19, and I regret to link any opinion with its consequences, our focus, as well as our members', companies and all economic actors, will undoubtedly go through other priorities. I think that taking advantage of these times where tasks and activities will be carried out mainly from home, education in terms of participation in the webinars that are being scheduled, is an affordable challenge.

My task will be to maintain our volume levels attained in 2019, keeping closer contacts and links with our members, organizations and Associations connected to our business, using methods, tools and communication channels available and within my reach.

CONNECT

CENTRAL EAST EUROPE, SOUTH EAST EUROPE AND THE MIDDLE EAST

BETUL KURTULUS
Regional Director CEE, SEE and the Middle East

Bridge over troubled waters....

As the virus spreads rapidly across the globe, all of our members, especially in the region of CEE&SEE and the Middle East, have also been adjusting their estimates of the impact on the 2020 growth.

According to the outcomes of the adjusted forecasts, the expected GDP declines represent the most prominent quarterly narrowing recorded over the past 50 years, at least. These narrowing will be sufficient to tip 2020 global GDP growth down a minimum of 1.1% on a yearly average basis.

Economic activities

The slowdown in March is likely sufficient to tip on the economies of all EM and developed markets in CEE&SEE and the Middle East. All those economies experienced narrowing this quarter, but the shock's impact is expected to concentrate in the second and third quarters. The magnitude of the economic losses will depend on how the outbreak evolves, which remains highly uncertain.

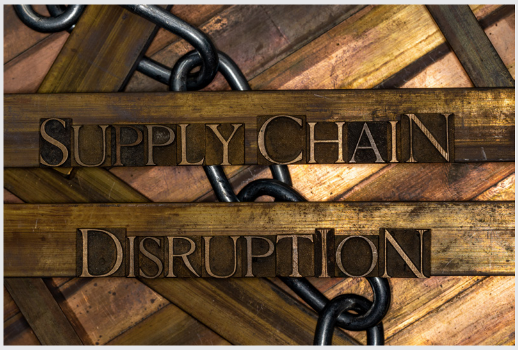
Work stoppages and restricted travel will hamper manufacturing and trade in a growing number of industries. *I see two main problems* in all three regions, *supply chain disruption and falling demand*.

While the COVID-19 shock is moving through EM countries outside Asia, the vulnerability of emerging countries of CEE&SEE's is increasing.

In addition to their very high sensitivity to falling developed markets demand for manufactured goods and commodities, most likely, they will experience significant difficulties in financial conditions. *Governments need to provide more confidence in both the financial system and the general economy during this period*. Even if this is achieved, I expect that banks' risk appetite to decrease.

Low-interest rates in developed and developing countries prevent us from having a liquidity problem in this crisis until now. As we can see from the monetary policies of all developed and emerging markets, the money supply is expanding. If governments and the financial system ensure that the money supply goes to the right places, this will generally prevent bankruptcies for the short term. So far, fiscal support has been more aggressive where there is more space, such as in the current-account-surplus economies in CEE, like Poland and the Czech Republic, announced large fiscal measures that exceeded expectations. These inflationary policies give financial institutions time to manage the crisis properly.

But on the other hand, in some of the region’s countries, the scarcity of finance will itself will be a barrier to trade taking place. For this reason, as FCI members, we have a crucial task to support the system.



Supply chain disruptions

My expectation is, there will be changes in supply chain management after Covid19. These systems were managed with low cost, minimum inventory, and focused on speed and efficiency. After COVID, *supply chains will focus on sustainability, predictability, and reliability*. Changing these priorities will lead to changes in the road maps of global supply chains...

The closure of factories in China disrupted many of the supply chains, especially in Textile, affecting the delivery of apparel to European retailers. Many clothing manufacturers utilize components such as textiles, zippers, and buttons from around China, and containment measures have caused production bottlenecks. Brands have reported delivery delays of between 25 to 45 days. However, some countries’ textile-to-garment industries have taken advantage of delayed shipments from China. *COVID-19 may also result in shifting supply chains with fashion firms sourcing more textiles from manufacturers closer to home*. As an example, I think that Turkey, in terms of success in employment related to COVID 19, will take a significant share of the global supply of the changing preferences.

The Middle East and oil prices

Oil producers are experiencing concentrated terms-of-trade losses.

I think that especially our members in Russia and the Middle East will be affected by this contraction in terms of slowing demand and credit risk in their domestic markets. Especially in some of the countries in the MENA region, the revenue coming from the oil industries is almost over 80% ans will be profoundly affected by the *slowing demand*. In the coming period, the commodity trade will become more important in those markets, especially for the trade hubs in the region like UAE.

I SEE TWO MAIN PROBLEMS IN ALL THREE REGIONS, SUPPLY CHAIN DISRUPTION AND FALLING DEMAND

CONNECT

NEW MEMBERS

One of the key reasons we exist is to connect people in the Industry – creating opportunities for business, networking, creating relationships that last.

Since the last newsletter, the FCI family grew with the following Members. Today FCI counts **385 members**! We still have a lot of prospects that will soon join FCI.

BPS-SBERBANK ASSOCIATE BELARUS

BPS-Sberbank is the largest bank with foreign capital in the Republic of Belarus and one of the top 4 banks of the country in terms of assets.

The Bank has a wide and stable client base. It serves:

- more than 9% of legal entities and individual entrepreneurs registered in the Republic of Belarus, including ca. 75% of the largest clients of the country;
- nearly 15% of the economically active population of Belarus.

BPS-Sberbank is a subsidiary of Sberbank of Russia, the largest bank in Eastern Europe. The share of Sberbank of Russia in the authorized capital of the Bank makes 98.43%.

The Bank uses every advantage of wide geographical coverage of Sberbank Group and offers its clients vast opportunities of international trade support. About 100 banks all over the world are among BPS-Sberbank's continuous partners.

In the previous years the Bank obtained the prestigious Operational Excellence Award for strong performance in EUR international settlements.

That was not the first acknowledgement of excellent cooperation with international financial leaders. Besides the awards from Deutsche Bank AG, the Bank was praised by Citibank N.A., Commerzbank AG and Sberbank of Russia in different areas of international cooperation.

The principles of long-term partnership, mutually beneficial cooperation and tailored approach to each client lie in the foundation of the Banks client-focused business management policy. Main drivers of the client base increase are fast decision-making process in offering banking services, use of contemporary IT solutions, affordable fees, and good quality of service.

For further details, please visit www.bps-sberbank.by

悦达商业保理（深圳）有限公司
Yueda commercial factoring (Shenzhen) co.ltd

AFFILIATE

CHINA

Yueda Commercial Factoring (Shenzhen) CO., Ltd. was founded in August 2017, registered in Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen City, with a registered capital of 400 million yuan. Actual controller of the company is Jiangsu Yueda Group Co., Ltd.

The business scope of the company is: Trade Financing; Sales Ledger Administration; Credit Investigation and Evaluation; Receivables Management and Collection; Credit Risks Guarantee; Supply Chain Management and Related Supporting Services.

Yueda Commercial Factoring (Shenzhen) CO., Ltd. implements the organizational structure of general manager responsibility system under the leadership of the board of directors. The management organization is mainly divided into five departments: Finance and Financing Department, Business Development Department, Risk Compliance Department, Product R&D Department and Administrative Department. At the same time, In order to highlight the role of risk control in the supervision and prevention of commercial factoring business, Yueda Commercial Factoring (Shenzhen) CO., Ltd. has established a risk management and internal control committee under the board of directors, which is directly responsible to the board of directors and is responsible for the comprehensive risk system management of the company.

Yueda Commercial Factoring (Shenzhen) CO., Ltd. has credibility of the state-owned background, strong platform strength and perfect risk control system. The company always adheres to the principle of "risk control first" to expand business and the concept of "risk first" to manage assets. Business scale of the company continues to grow, and its asset quality and asset management level are leading the industry.

For further details, please visit

We wish them lots of success!

Other Members who joined more recently will be included in the next issue of In-Sight.

EDUCATE

THE RISE OF ONLINE LEARNING DURING THE COVID-19 PANDEMIC FCI'S IMMEDIATE RESPONSE: DIGITAL LEARNING STRATEGY

AYSEN ÇETINTAS
Education Director

Managers can't push the pause button on capacity building, so the moment belongs to virtual learning.

As businesses around the world postpone and cancel in-person meetings in response to the COVID-19 outbreak, workplace learning has emerged as one of the earliest and hardest-hit business activities. Based on our observations as of early March, roughly almost all in-person learning programmes through September have been postponed or cancelled in all continents.

However, businesses can't afford to put capacity building on hold. Digital and virtual learning programs were already on the rise before COVID-19 struck, and we already see a marked increase in such learning programs.

3 Reasons why Learning is essential during a downturn

- Increase Collaboration
- Increase Engagement Remotely
- Enable A More Resilient Workforce

BUSINESSES CAN'T AFFORD TO PUT CAPACITY BUILDING ON HOLD

In times of uncertainty, we need to band together.

Today, FCI delivers truly effective and engaging learning experiences that amplify the success of your organization.

It's in times like these where we must stress the importance of staying connected and making sure our people have access to relevant information, when and where they need it most.

In learning and development, change has guided an evolution from formal training blocks to a merger of working and learning, and now is the time to continue to evolve. That's where it becomes so integral for companies to provide the tools that support more dynamic ways of learning, especially from remote work environments.

FCI has a robust digital learning strategy

With the Corona outbreak, FCI has immediately worked on the digital transformation of the planned onsite training meetings and implemented the new digital learning strategy comprising the e-learning courses, webinars, online training and master classes.

We believe the crisis is also an opportunity to increase the level of education and to take advantage of the time that the staff of our members will have during this slow-down, either working from their offices or homes, in order to register for the various FCI Academy education offerings.

This is a time to "go back to basics" for all of us! And it starts with a robust education to prepare ourselves with FCI Academy online courses and training events.

For FCI members only

- 3 level FCI Career Path Programme: Foundation, Intermediate, Advanced
- 3 Certificate Programmes on Sales, Risk Management and Legal
- 6 Specialised courses on key areas within the factoring and receivables finance

Open to All Courses and online Events

- Introduction to Factoring and Receivables Finance – Entry level NEW
- Fundamentals on Domestic and International Factoring – Foundation level

Online Training Classes

Online Master Classes

Webinars

For making the most of the COVID times, register for FCI Academy online Courses, Certificate Programmes and online Events.

Please visit FCI website for more information or download the FCI Academy online Courses & Certificate Programmes Third Term 2020 Circular.

EDUCATE

FCI WEBINARS

SPYROS TSOLIS
Deputy Education Director

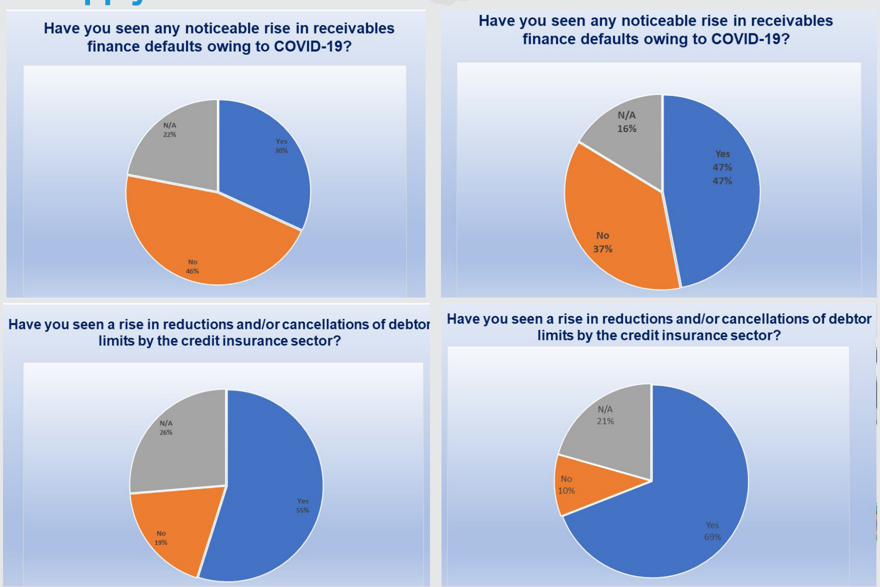
On 16 March 2020, the FCI Secretary General updated all FCI members on the COVID-19 pandemic and its impact on the Receivables Finance industry, stressing the immediate actions that FCI would take responding to the changing environment. One of the main actions was education and the specific tools FCI will use to reach out to its members. FCI Secretary General wrote "*We believe this is also an opportunity to increase the level of education and to take advantage of the time that the staff of our members will have during this slow down, either working from their offices or homes in order to register for the various FCI e-learning courses available and webinars that FCI will organize over the coming months ahead*".

As an immediate response, we lead the effort of keeping the industry informed on the impacts that our community was experiencing in tackling this unprecedented situation as well as educating the stakeholders on receivables finance related aspects. In this respect, among other actions we took, we decided to plan and organize a series of free webinars on various subjects, the first ones being on the effects of the pandemic on Supply Chains.

Since 2 April 2020, we have organized ***6 webinars***, 3 in relation to the COVID-19, one for Blockchain technology, one on Fraud in Receivables Finance and the latest one being an FCI Executive Committee Roundtable.

Impact of COVID-19 outbreak on Supply Chains

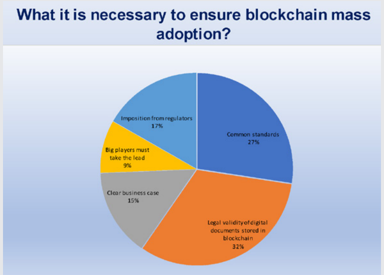
The series of webinars on the "Impact of COVID-19 outbreak on Supply Chains" commenced on 2 April 2020, targeting the EMEA region, followed by 2 more sessions, one on 9 April 2020, targeting the Americas and another one on 23 April 2020 targeting Asia/Pacific. *These 3 webinars were nicely attended by more than 600 professionals from 84 countries*, mostly representing our members (65%) as well as other professionals from Local Factoring Associations, Central Banks (Nigeria, Mongolia), Regional Development Banks (EBRD, Afreximbank, Asian Development Bank), Ministries of Finance (Botswana), IFC/World Bank group, Berne Union, to name some. The specific series has proved to be of great value for all attendees as they not only had the unique opportunity to hear from the first-line industry players their experiences on this disruptive situation but also to share their best-practices on policies and remedies implemented to tackle the effects of this pandemic in their markets.

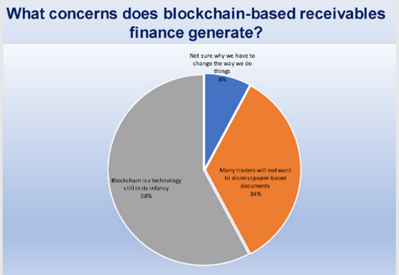


Results from the poll of 9 April and 23 April

Blockchain technology in Receivables Finance

At the same time, being consistent with our mission to enrich the knowledge of our members on receivables finance related aspects, on 5 May 2020 we held a webinar on "Blockchain technology in Receivables Finance". *More than 250 attendees from 74 countries representing 220 financial*



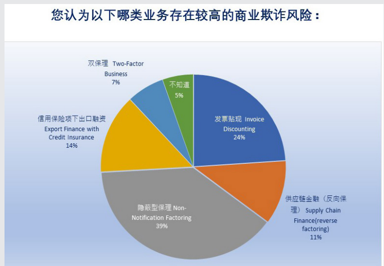


Results from the poll

institutions got acquainted with this new concept, the opportunities and challenges that exist for our industry in a highly interactive session. Valuable feedback was also received from a poll whereby participants stressed the importance of common standards and legal validity of digital documents. Moreover, it was generally admitted that most financial institutions already invest in such technology, however, the majority of participants stated that Blockchain technology is still in its infancy.

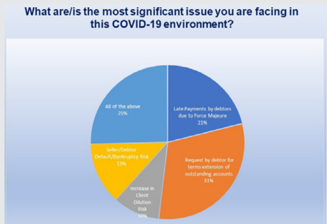
Fraud in Receivables Finance

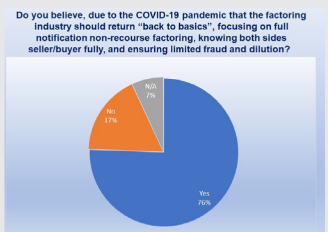
Furthermore, on 12 May 2020 a new webinar series started, focusing on "Fraud in Receivables Finance". The session was held in the Chinese language, led successfully by Mr. Lin Hui, FCI Regional Director North East Asia, meeting the demand from our Chinese members to receive more education and expertise on this very "hot" topic that has become a major challenge for the Chinese Factoring market during the last years. *More than 230 attendees representing 70 Factoring companies from China and neighboring countries as well as Chinese speaking professionals from Europe & the US*, had the opportunity to listen to our distinguished panelists sharing their views and experience on the topic both from a business and a legal perspective. Our future webinar plans include a similar event about Fraud, this time targeting the EMEA and the Americas, as this has been demanded by our membership.



FCI Executive Committee Virtual Roundtable

Our latest online event was an "FCI Executive Committee Virtual Roundtable". Led by FCI Chairman, Mr. Patrick de Villepin, this thought-leadership online discussion among FCI Executive Committee members addressed not only the latest developments and how these have affected FCI & our industry but also concentrated on the future of our business and the new strategies & policies that should be implemented in order to navigate safely in the future. *More than 200 attendees appreciated the valuable input from all panelists describing the challenges they have faced* during this period and sharing their thoughts and views for the future of factoring & receivables finance. A major part of this Roundtable was dedicated to FCI strategy, not only the immediate actions performed during the last 2 months to support our members & the industry but also to the future plans which include a series of investments in many fields, including technology & education.





Our webinar planning is aligned with a new digital education strategy that will be implemented in the coming period. In this context, a series of new webinars is planned for June & July 2020, topics include:

- Supply Chain Finance & FCIreverse, 9 June 2020
- Webinar on Legal aspects (COVID-19 & GRIF), June 2020
- Executive Committee Virtual Roundtable" (Americas), June 2020
- Risk Management in Factoring, Latin America, July 2020

FRANÇOISE PALLE-GUILLABERT
EUF Chair

The EUF shaken by the COVID-19 crisis

The European factoring and commercial finance Summit scheduled on 30-31 March by the EUF and FCI in Rome, in Italy, had to be postponed.

Despite this, the EUF Executive Committee met by audio conference on March 30th and re-elected Françoise Palle Guillabert (French ASF) as Chair, Fausto Galmarini (Italian ASSIFACT) as Vice Chair, and elected Magdalena Wessel from Germany as Vice Chair as well. For the Association hosted by FCI, this is a strong and united team for the difficult times to come.

Fausto Galmarini (ASSIFACT)

Magdalena Wessel (Deutscher Factoring -Verband)

2020 : Deal with a tremendously difficult situation

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

Since the beginning of this crisis, the EU Federation has organized itself to protect its people and ensure continuity of service. We are in close contact, both with the European economic authorities and European sister federations, in order to *monitor, review and seek appropriate support for business*.

New European regulations on non-performing loans (NPL) and the definition of default (DoD) are about to be enforced in the Union. In the context of the Covid-19 crisis, they will have a powerful impact on businesses and on European economic growth. *It might be wise to postpone their entry into force.*

In the international area, we welcome the announcement of the Basel Committee to postpone the implementation of Basel 3 regulation. Generally speaking, all banks need softer regulatory constraints

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

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

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

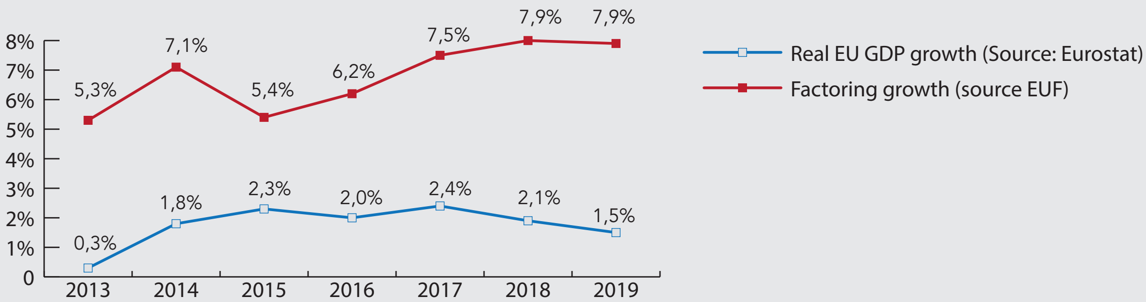
THE FACTORING AND COMMERCIAL FINANCE INDUSTRY HAS A KEY ROLE TO PLAY IN SUPPORTING ECONOMIC GROWTH, EMPLOYMENT AND WEALTH CREATION IN EUROPE

2019 figures for EU Factoring: 11 years of growth

Data collated by the EUF shows that in 2019, factoring and commercial finance volumes in the EU grew overall by *7.9% to reach EUR 1.91 trillion*. As before, 80% of this represented domestic business and the balance international.

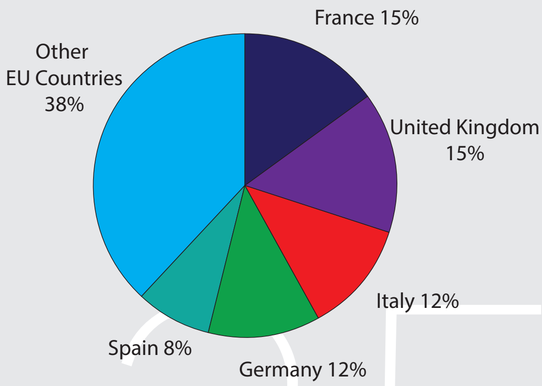
This rate of growth, which equaled that seen in 2018, *again clearly outpaces the increase in GDP in Europe*. Funding of *EUR 275 billion is supporting around 280,000 European clients*, helping them to deliver growth, employment and business success. With factoring and commercial finance now representing around *11.3% of EU GDP*, this is an increasingly powerful and vital contribution to economic development in Europe.

Trends of factoring turnover growth and EU GDP growth



The high level of concentration shown by the EU factoring market remains unchanged, with the top five countries in 2019 representing 73.6 % of the total EU market: France (18.3%), United Kingdom (17.3%), Germany (14.5%), Italy (13.8%), and Spain (9.7%).

Top 5 Countries



In conclusion, statistics collated by the EU Federation for 2019 shows that *factoring is still developing much faster than the EU economy*. It is a source of funding for a growing number of companies and also provides them additional benefits – such as popular risk coverage (in case of non-recourse factoring), accounts receivables portfolio management and a soft collection service.

CONSTRUCTION FACTORING IN CHINA

JOYCE YAO
China Minsheng Bank
Member of FCI MarCom

INTRODUCTION

In the conventional sense, factoring should be adapted for the industry like international or domestic commodity trade which payment terms are relatively short and goods delivery is quite certain. However, along with rapid development of large-scale engineering and construction industry in China, there are a lot of business demands arisen from construction industry. *In the whole supply chain of construction projects, there are huge amounts of accounts receivable which brought the factoring business opportunities*. The payment terms in construction industry are usually long, so most of the suppliers and construction companies have great financial pressure. This presents tremendous business opportunity for factors to provide 'Construction Factoring'.

CHINA'S DOMESTIC FACTORING IN THE CONSTRUCTION INDUSTRY

Factoring in China was shown to be the appropriate financial product for engineering and construction industry.

The participants in engineering and construction projects will constitute a very complicated supply chain. There are great number of participants involved in the whole supply chain, which include raw material suppliers, subcontractors, general contractors, project owner and others. *Accounts receivable are existing in each link of the chain, and each participant might be the applicant of factoring business*. Factoring can be based on the accounts receivables between suppliers and buyers involved in the purchase of raw materials, accounts receivable between subcontractors and contractors, and accounts receivable between general contractors and project owners.

Suppliers → **Contractors** → **Project owner**

The payment stage involved in the construction project is relatively complicated. Usually, the payment can be divided into 4 stages, advance payment, progress payments, completion acceptance payment, and retention. Advance payment and quality retention are not fit for factoring, while *the progress payment and completion acceptance payment are suitable*. The construction project usually takes years to complete. The project supervisor assesses the value of the work each month or at the set period. The buyer issues the invoice in stages for the construction progress that the seller has done according to schedule, and will agree in the contract to pay at a specified date in future. Then those kinds of accounts receivable can be assigned to factors and get factoring service.

ACCOUNTS RECEIVABLE ARE EXISTING IN EACH LINK OF THE CHAIN, AND EACH PARTICIPANT MIGHT BE THE APPLICANT OF FACTORING BUSINESS

Stage	Project payment schedule	% of total amount	Can do factoring or not
Stage 1	Advance payment	Around 10%-30%	No
Stage 2	Progress payment	Around 50%-70%	Yes
Stage 3	Completion acceptance payment	Around 20%-30%	Yes
Stage 4	Quality Retention payment	Less than 5%	No

The factoring products applied in the construction industry are diversified. The classic mode is *recourse factoring*, that is, the construction company (the seller) will assign the receivables of progress payment or completion acceptance payment to the factor, and the factor will provide recourse factoring service to the seller, including advance payment and collection of A/R. If the debtor has a very good credit rating, the factor could be able to approve the credit line for the debtor, and provide *non-recourse factoring* to the seller. In addition, *reverse factoring* is widely used in the construction industry to meet the financing needs from suppliers. In this case, factoring business is initiated from the debtor. Based on the debtor's confirmation of accounts payable, the suppliers could sign the factoring agreement with the factor, assign the receivables and then get advance payment financing.

INNOVATION OF FACTORING IN ONE BELT ONE ROAD

Since the "one belt and one road" strategy, the total accounts receivable of overseas construction projects of Chinese enterprises have been increasing. *Cross-border construction factoring is an important way to solve the financing problem of overseas project contractors.* Overseas construction projects are having more uncertainty. On the one hand, the bank factors are *cooperating with Sinosure* (China Export and Credit Insurance Insurance Corporation) *to cover country risk and buyer credit risk*. On the other hand, the bank factors also set a high entry criteria for those contractors, who need to have a very strong qualification and contractual capacity.

CROSS-BORDER CONSTRUCTION FACTORING IS AN IMPORTANT WAY TO SOLVE THE FINANCING PROBLEM OF OVERSEAS PROJECT CONTRACTORS

CONCLUSION

China's practical experience in construction factoring might have significance to the expansion of international factoring. Chinese factors are also making efforts on continuous innovation, such as factoring in financial leasing business and other industries. It is hoped that global financial institutions can participate in the innovative business and develop more opportunities together.

FACTORING IN AFRICA

Receivables Finance Can Help Close Africa's $90 Billion SME Financing Gap, Says Kenya Central Bank Governor

Receivables finance is an important tool that can help to close the $90 billion funding gap faced by small and medium-sized enterprises (SMEs) in Africa, Dr. Patrick Njoroge, Governor of Central Bank of Kenya, has said.

Dr. Njoroge was speaking in Nairobi on 27 February during the opening of a two-day Regional Conference on Factoring and Receivables Finance organised by the African Export-Import Bank (Afreximbank) and FCI to promote the use of factoring to address the challenge of access to financing for SMEs in East Africa.

He told the audience that the *funding gap could not be filled by traditional banking and described the conference as a timely initiative that would support the efforts to sustain the SME sector in Kenya and East Africa*.

According to the Governor, receivables finance is important for Kenya where SMEs are the backbone of the economy.

Also speaking, Kudakwashe Matereke, Afreximbank Regional Chief Operating Officer in East Africa, said that the Bank had placed a premium on the promotion of factoring as a strategic priority as it would stimulate growth in many African economies and increase intra-African trade while expanding value chains for export development.

He stated that, over the last 10 years, Afreximbank had made enormous progress in promoting factoring in Africa through mechanisms such as the launch in 2016 of the *Afreximbank Factoring Model Law* which was being used by some African countries as a guide to develop their own national laws on factoring.

Mr. Matereke also listed other mechanisms to include the provision of finance and guarantees, training and capacity building sessions in partnership with FCI as well as awareness-raising and strategic partnerships with FCI, the Nigerian Export-Import Bank, the Making Finance Work for Africa Partnership, the African Development Bank's Fund for African Private Sector Assistance and the African Capacity Building Foundation.

Eric Intong, Afreximbank Senior Manager, Financial Institutions, Sovereigns and Corporates, stressed Afreximbank's commitment to continue to promote factoring in Africa.

He said that factoring was an alternative form of finance for SMEs, highlighting the role SMEs play in economic development.

Mr. Intong urged the conference participants to contribute to Africa's development by engaging in factoring activities, either as financial institutions (commercial banks) or as standalone factoring companies, and encouraged them to leverage the support provided by Afreximbank, FCI and other partners.

Commenting on the conference, Peter Mulroy, Secretary General of FCI, said, "We had significant interest from the participants to the conference with over 125 Executives from the region. There were Q&As to better understand factoring mechanics, risk management, the legal perspectives, and the role of Import Factor and Export Factor… In summary it was one of the best conferences we ever held in Africa to date, with *tremendous enthusiasm for the development of factoring in the region*. I believe it brought an added value to the Receivables Finance industry in East Africa."

Topics covered during the conference include: The evolution of factoring in the regions, opportunities and challenges faced; New horizons: the One-Belt-One-Road from Fuzhou to Nairobi; Legal and Regulatory Environment in East Africa and Regulatory Obstacles; and challenges and opportunities on credit insurance in Africa.

Factoring Assignments Bill in Nigeria

On 11 March 2020, through a letter to the Governor of Nigeria, Afeximbank and FCI are renewing their commitment to provide technical and other material support on the collaboration with financial system regulatory institutions, including NEXIM, on the passage of the "Factoring Assignments (Establishment, Etc.) Bill".

To this end Afreximbank (Intra-African Trade Initiative), FCI, and NEXIM met with the Trade & Exchange Department of the CBN on 26th January 2020 to develop a robust "market-driven" regulatory framework that will facilitate implementing the Bill when it becomes law. The team also participated in an interactive session with the Senate Committee on Banking, Insurance and Other Financial Institutions on 27th January 2020 to explore options of expedited passage of the Bill by the legislature. This highlighted the need for further simultaneous "market driven" stakeholder engagement as well as with the 9th Session of NASS on the legislative processes that requires stakeholder input.

In view of the corona virus pandemic, the Deputy Governor CS and Coordinator suggest to wait on an "all clear health notice" to convene the stakeholder engagement. However, he wishes to proceed with all the required preparations for the stakeholder engagement as well as transmit the Bill to the Senate and House Standing Committees on Banking, Insurance and Other Financial Institutions so that legislative processes could continue on the Bill. Deputy Governor CS and Coordinator asked the Governor to consider and to approve that:

(a) The Factoring & Receivables Financing Bill be transmitted to the 9th Session of National Assembly, and

(b) A stakeholder engagement on the Bill be convened immediately once the public health hazard alert on corona virus is lifted.

IN MEMORIUM

IN MEMORIUM

Mrs. Liliana Innocenti

Mrs. Liliana Innocenti, one of the pioneers of International Factoring, passed away on 17 April at the age of 77 after contracting the coronavirus. Her previous colleagues and other industry executives share some testimonials on her:

"When a person suddenly leaves us in such a sad way, moments shared with her come to mind. It is difficult to enclose 30 years in a few words. I met Liana in my first days of employment in ifitalia as she was my Manager. She was always enthusiastic about her job activities and certainly she taught me the importance of interpersonal relationships and to consider international activities as the essence of professional expectations. Her generous and dedicated disposition to share travel and cultural experiences with others has taught me to understand the role of each of us in life both professionally and personally. Nobody like Her has experienced a so deep sense of belonging to the international world. I will never forget you Liana!" Rosa Cilino Ifitalia

"I first met Liana in 2001 when she came to Moscow to attend the founding conference of the East European Factoring Association. Very soon, we realized together the first ever import factoring transaction in Russia – finance and credit cover was offered to a famous Italian manufacturer of jeans clothing. Liana was a true enthusiast of international factoring, she believed very much in the potential of new markets and helped many factors to start their 2-factor operations." Corneliu Robu, VTB

"After a long and successful career at Ifitalia, Liana joined BNP Paribas Factor as a consultant with a variety of missions related to international factoring, including the implementation of IFG. Not surprisingly, Liana proved successful being herself: a unique combination of professionalism, dedication, stubbornness and sheer passion for international factoring. She always knew the right answer or the right person to contact, and shared her feelings on the spot. The ones who worked with her keep a vivid memory of a kind and caring person, with one-of-a-kind phrases and a charming accent that still linger in our premises. Grazie e ciao, cara Liana! " Patrick de Villepin and Philippe Gresta, BNP Paribas Factor

"It seems impossible, even in these hard and difficult times, to speak of Liana in the past tense, as she always was so lively, contemporary and full of energy, ready for new projects. She strongly loved her job and demonstrated, in advance on times, how a woman could be highly professional, performing and successful. She definitely contributed in developing the international factoring activities in our company and inside the Group, with her knowledge, experience and dedication. And she also was a lovely person, fond of music, opera, theatre and travels, and many friends and colleagues could enjoy her smart and funny wit. We all already miss you, Liana"
Marisa Vendramini - Ifitalia

« Li(li)ana, ché grande donna sei ! » These are the words (paraphrasing Eros Ramazotti) which immediately come to my mind when thinking of my dear friend Liliana. "Grande" because of her natural elegance, beauty and nobility combined with the child's soul she succeeded in keeping during her whole life. "Grande" because of the sincere interest she brought to any being crossing her road. "Grande" also by her devotion to her work, which seemed to be at the center of her life.
I first met Liliana in 1978, when she was a member of IFG's EDP-Committee. And since then, all over the years, we have been maintaining a friendship, meeting only from time to time all over the world, but talking regularly over the phone. .. . I mostly remember her as a hard worker, unable to indulge herself with more than one single free day during certain summers, and also unable to quit working… We will miss you my friend, we will miss your radiant smile, but you will stay forever in my heart as one of the best memories of my professional life. Michèle Cardoens, FCI

I have had the good fortune to meet Liana in many years of professional collaboration and personal friendship. Liana has always been to me the first example of what a citizen of the world means to be, not that much because of her famous passion for traveling, but for her open-mindedness, her curiosity and her sincere and unconditioned interest for places, cultures, but most of all for the people. We will miss you Liana, we will miss you a lot, and we'll always try to respect your legacy, loving the world as you did it in your whole life. Marco Cleva – Ifitalia

IN MEMORIUM
Mr. Rolf Svirsky

Mr. Rolf Svirsky, the first Secretary General of FCI from January 1969 until December 1971 passed away on 16 April at the age of 80. Under his leadership, Rolf helped establish the Secretariat in the Netherlands in January 1969 after FCI had been formally established the previous year during the first annual meeting held in Stockholm in November 1968. Rolf played a very important role in organizing the basic structure of FCI, with technical committees, legal rules, and the creation of a standard communication platform. A native of Sweden, Rolf was employed by Svenska Finans AB in Stockholm, one of six founding members of the chain. As you know, FCI got its initial start in 1964, thanks to the vision of Mr. Claes-Olof Livijn, President of Svenska Finans A.B. under the informal heading Factors Chain". Five years later, Claes-Olof would go on to tap Rolf as the first Secretary General, to help formally establish "Factors Chain International" in the Netherlands, on loan from Svenska Finans. Rolf would eventually relocate to Amsterdam to help establish the FCI Secretariat in January 1969.

Sandra Gerlach, who was hired by Rolf in April 1969 as his assistant and went on to serve in this role for 35 years, stated "On the 1st April 1969, FCI had its official opening of the Secretariat in the city center of Amsterdam. Rolf was very driven, enthusiastic and sharing. Rolf had a marvellous sense of humour and it was a real pleasure to work with him."

According to Jeroen Kohnstamm, Rolf's successor who joined the association as the second Secretary General, stated "When I joined FCI in October 1972, I soon discovered that Rolf Svirsky and Sandra Gerlach had developed a particularly good infrastructure for the new FCI association. The registration under Dutch association law had been done in record time, three technical committees had been established to deal with 'communication', 'marketing' and 'legal affairs', the committees had been made responsible for supporting the Secretariat with the organization of quarterly seminars, and an excellent framework for Annual Meetings had been developed. Rolf 's vision that 'communication' was essential for turning a relatively loose association into a true 'network', resulting in a series of standardized forms and reports, which facilitated a successful start for the two-factor business."

The FCI Chairman, Patrick de Villepin stated "Rolf's leadership at a time when FCI was just taking its first initial steps left an important historical legacy towards the birth of FCI and factoring around the world. We want to thank Rolf and his family for his many contributions, especially during those crucial early days and for his professionalism and dedication to the growth of our industry."

After leaving FCI, Rolf continued his career as a successful and prominent management consultant in his native Sweden. Rolf is survived by his wife Hedy, children Liv and Pia, as well as partners and grandchildren, Noah, Klas, Theo and Lea. Due to the COVID-19 virus, a funeral was organized last month together with his family. "

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