FCI

NEWSLETTER / AUGUST 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 publication starts with the welcome from FCI Chairman, Patrick de Villepin.

Then the FCI Secretary-General, Peter Mulroy, is going to go over what happened in the last few months, including advocacy work that showed results since the latest In-Sight.

This medium brings to the next point, the update of edifactoring. Ciprian Radu reports on work being done by Centric, FCI ComCom, and himself to upgrade the platform to be live in October 2021.

The next article is on Latin America, Alberto Wyderka tells about the negative consequence of COVID-19 in the region.

Afterwards, Thompson Lui focuses his article on the region he is in charge of, South and Southeast Asia.

To follow, the centre of interest is digitalization. Deniz Kizilkaya (Turkey) explains how digitalization help to grow the two-factor business. Betül Kurtulus interviews Karim H. Labadi (UAE) about the effect of COVID-19 on digitalization in his region.

Going further, I have the privilege to report on FCI online and social media presence.

The Influence section finishes with the traditional new member's section: Hellenic Bank, Mamlaka Capital Partners and Mutual Trust Bank Limited.

The Education section starts an interview with Michael Shang on how the FCI Career Path completion helped him to contribute to his factoring career.

Aysen Cetintas tells about Education in the post-COVID era and the new image of FCI Academy.

Finally, Spyros Tsolis reports on the FCI webinar series.

The Influence section starts with the influence of the civil code on China's Factoring Industry by Frank Wan and Scarlett Xu.

It is then followed by an article from Michael Ellis on the rise of portfolio-level management during COVID-19.

Finally, Kevin Day explains fraud in factoring, highlighting the circumstantial and premeditated fraud.

Enjoy the reading!

Gwendoline

WELCOME FROM PATRICK DE VILLEPIN
Chairman of FCI

PATRICK DE VILLEPIN
Chairman of FCI

Dear Friends,

Welcome to this August newsletter!

The summer in Europe was different as we use to live: travel is restricted, people are working from home, business is slowing down. But it's also time for *more collaboration between members*. More than ever, FCI correspondent cross-border solution proves its efficiency. In this challenging time, it's the role of FCI to promote factoring as a reliable financial tool but also to remind members and prospects about FCI and the advantages of being a member such as our efficient platform, legal foundation, and the unity of our network. In this sense, we are preparing an *institutional campaign* that will start in September and will probably last for a few months. We hope that this will make a difference!

Also, FCI is going on with *collaboration with different associations and other organizations*. You will read in Peter's article more details about our recent participation in UNIDROIT but also our joint paper about credit insurance.

FCI recently launched a *new website and a new App*. We want to show to the entire world that *FCI and Factoring are modern financing tools but also be able to educate more people about factoring*. Following the update of the website, the number of visitors increased by 30%, which means more people have access to the information. The site is also better referenced and was completed by more details for non-factoring users so that they can understand what is factoring, its advantages, risk, etc. The App is aimed at members to allow them to get quick access to information they need from their mobile, including documents from the library. It also allows members to chat together. In a global association such as FCI, it's important to facilitate contacts between members, and we know it's not always easy. Now we are all on one platform where we can quickly exchange messages.

Early June, FCI released the *final statistics that confirmed the growth of over 5%*, reaching 2.917 billion euro. We know it was probably the last year in the row before a decline, but we have seen some markets performed well during the first quarter.

FCI has published its *yearly Annual Review*, the globally recognized publication in the world of Factoring and Receivables Finance. In addition to publishing the final statistics for the Industry, it includes the highly appreciated Global Industry Annual Report (GIAR) analysis that reports on quantitative but also qualitative data. I believe it of utmost importance to publish our Annual Review as planned as the receivables finance world needs today more than ever before to read about the current state of our Industry. Preparing the publication in this particular time has been a challenge as it reported in 2019, but we could not avoid writing about COVID-19 and its impact on our business. I trust that our existing prospective members, multilateral organizations, development institutions, national factoring associations, and other stakeholders will be interested in reading how factoring has reached a 4.05% GDP penetration globally, increasing from 3.95% last year, even in this challenging geopolitical environment we live in today!

Kind regards,

Patrick

PETER MULROY
Secretary General

A WORD FROM THE SECRETARY GENERAL

The Summer months here in Europe usually slow down due to Summer holidays. And if you add on top of that the implication of COVID-19, working mostly from home, and dealing with the impact on a slowing economy, you would think this would be no different. But I must say, this has been the most hectic summer since I became Secretary-General in 2013. Between the increase in legal questions, the FCI webinars we have been organizing weekly, and the numerous projects that we have launched (some listed below), I must admit it has been an eventful period. Even though we have been struggling with the advent of COVID-19, there have been ***many success stories during this summer***. FCI has been very busy, supporting numerous projects, none more important than the launch of the UNDROIT Model Law on Factoring. But after nearly 15 years of visitations, sensitization seminars, submission of suggested draft policies, the Bangladesh Bank approved this summer the policy on factoring, a significant leap and one that we believe will carry considerable positive consequences for the growth of factoring in South Asia.

Regarding the impact of credit insurance in these difficult times, as you know, numerous European governments have created credit insurance shields to help support the local credit insurance sector, which in turn benefits factoring. The U.S. Government is also considering the adoption of such a shield, and FCI acted, sending a letter to the Secretary of the Treasury, encouraging them to approve such a program. As a result, we go into September with the wind behind our back, even though we have great concerns about the future.

Bangladesh Bank Policy on Factoring

On 30th June 2020, the Foreign Exchange Policy Department of Bangladesh Bank published the F.E. Circular No 25 that authorizes International Factoring. FCI has assisted the Bangladesh Bank for the development of this policy. It also recognizes the role of FCI and other similar organizations. The policy includes the easy access to finance by exporters: Authorized Dealers (ADs) may allow exporters to ship goods on sales contracts under open account credit terms within the statutory period, if otherwise not extended, from the date of shipment, subject to compliance with the following instructions:

(a) Exports shall be executed against payment undertaking/payment risk coverage for settlement of export bills/receivables within the permissible statutory period by international factoring companies/foreign banks/foreign financial institutions/trade financiers/insurance entities (hereinafter referred to as designated institutions) arranged in association with importers and/or exporters.

CENTRAL BANK OF BANGLADESH AUTHORIZE THE USE OF INTERNATIONAL FACTORING

(b) Payment undertaking/payment risk coverage by designated institutions abroad shall be, in case of default by importers, received in such a way so as to be ensured of payment on priority basis in accordance with appropriate underlying arrangements for settlement on the basis of physical/electronic presentation of export invoices/bills/documents.

(c) Payment undertaking/payment risk coverage from designated

institutions abroad may contain option for early payment arrangement before maturity against the relative export bills/receivables. Early payment shall be arranged on non-recourse basis from designated institutions or designated financiers based on the payment undertaking/ payment risk coverage.

FCI is delighted to see the Central bank authorize the use of international factoring. We anticipate Bangladesh becoming a significant export factoring market being one of the largest exports of wearing apparel in the world today.

FCI, together with our partner ***BIBM***, the training arm of the Bangladesh Bank, will be hosting a ***webinar on the 8th September 2020 for the Bangladesh financial community entitled Factoring as a tool for Receivables Management and Financing***. Our keynote speaker will be Mr. Ahmad Jamal, Deputy Governor of the Central Bank of Bangladesh, who helped spearhead the launch of the policy in Bangladesh.

UNIDROIT Factoring Model Law

THE PROCESS OF CREATING THE MODEL LAW ON FACTORING WILL TAKE APPROXIMATELY TWO YEARS TO COMPLETE

FCI joined with the UNIDROIT on the 1st to 3rd July 2020 for the very first session of the development on the UNIDROIT Model Law on Factoring. FCI was represented at this three-day virtual meeting by three members of the FCI Legal Committee, including Ulrich Brink (Germany), Edward Wilde (U.K.), Jin Saibo (China), and myself. This meeting is the ***first attempt to develop a model law on factoring by the UNIDROIT***, which was successfully launched in Ottawa in 1988 as the Convention on International Factoring. Pushed by the World Bank, FCI supported the model law's creation by way of a letter to the UNIDROIT back in May 2019, encouraging them to lead this initiative as one of the leading bodies on the harmonization of international trade law.

Established in 1926 as an auxiliary organ of the League of Nations, the UNIDROIT is an ***intergovernmental organization whose objective is to harmonize international private law across countries through uniform rules, international conventions, the production of model laws, sets of principles, guides and guidelines***. As expected, the process of creating the Model Law on Factoring will take approximately two years to complete.

Credit Insurance Shield

At the encouragement of our credit insurance members Coface, Euler-Hermes and Atradius, FCI, together with our partner ICISA, the global association of private credit insurers recently wrote to the U.S. Department of Treasury, U.S. Department of Commerce and U.S. Federal Reserve Bank, to request the U.S. Government to establish an emergency, ***temporary federal trade credit insurance backstop program to help protect and support suppliers of goods and services and their buyers that rely on trade credit insurance during this challenging time***.

FCI notes that the factoring industry in 2019 funded over $3.2 trillion in invoices issued by mainly SMEs worldwide. If you include asset-based lending, reverse factoring/supply chain finance, and receivables securitizations, that figure increases to well over U.S. $ 5.0 trillion, accounting for over 6% of global GDP. FCI estimates that the U.S. component of this total receivables finance volume figure represents well over U.S. $1.5 trillion, equivalent to 7% of U.S. GDP.

As we all know, the receivables finance sector is tremendously reliant on the trade credit insurance sector. In a recent survey conducted by FCI, we concluded that ***nearly half of all factoring activity globally is backed by some form of risk mitigation product*** like trade credit

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insurance. In addition, according to another study conducted by the European Union Federation (EUF), over 70% of the clients of the factoring industry are defined as SMEs. Hence, it is imperative to provide support to the trade credit insurance sector during this challenging period, which ultimately supports the receivables finance sector, directly benefiting SMEs throughout the United States.

In a recent poll of our members, it got estimated that ***15-20% of insured buyer lines of credit supporting the factoring and receivables finance industry have globally been adversely impacted by COVID-19, reducing the availability of "eligible receivables" to fund SMEs***. This poll had a direct impact on the liquidity available to the SME sector. If looking just at the factoring and ABL sector in the U.S., it got estimated that over U.S. $500 billion in funding was generated in 2019. However, if we estimate that due to the reduction or elimination in credit lines from the trade credit insurance sector in the U.S. during the COVID-19 crisis, the correlation leads to a negative impact, estimated at approximately U.S. $50-100 billion loss of capital to SMEs.

We already see a significant rise in insolvencies/bankruptcies in the U.S., especially in the retail sector, which FCI estimates contributes over half of the total factoring and ABL volume in the U.S. today. Hence, what happens to retail has a direct correlation to the reduction in capital allocation to SMEs in the U.S. and to a decrease in trade credit insurance provided to protect businesses from non-payment or delayed payment of commercial trade debt. Without such insurance, companies may be reluctant to buy or sell goods or services to others and require advance payment for goods and services, further squeezing companies' liquidity.

THE GOVERNMENT PROVIDES REINSURANCE TO ENSURE TRADE CREDIT INSURERS CONTINUE TO SUPPORT VENDORS AND BUYERS WHO MIGHT BE SUFFERING AND IN DISTRESS DUE TO COVID-19

Hence, FCI believes that it is in the interest of the U.S. government and economy to create a trade credit insurance government backstop program, whereby the government provides reinsurance to ensure trade credit insurers continue to support vendors and buyers who might be suffering and in distress due to COVID-19. Governments, especially in Europe, today are providing reinsurance to trade credit insurers to help revive the economy after COVID-19 disrupted supply chains and increased the risk of bankruptcies.

Conclusion

FCI will be holding its 52nd annual meeting as a half-day virtual event on 23rd September. All of these topics will be discussed further in length, and the chief economist for Atradius, John Lorie will be our keynote speaker, who will also touch on this topic. We will also have the head of the UNIDROIT Factoring Model Law project, Mr. William Brydie-Watson speaks as well. We hope you will join us for this big event, our first virtual FCI council meeting ever to take place.

CIPRIAN RADU
Business Development Manager

EDIFACTORING – WHAT'S NEXT?

Dear reader,

I want to share in this article some news and thoughts about the digital bridge that helps FCI members to successfully communicate with each other: edifactoring. With the help of this digital bridge, Export and Import factors exchange and do business in a common language and set of rules having messages built specifically for each step needed for a successful business. The pillars on which this bridge got built are, to name the most important ones: trust, safety, reliability.

Most likely, you have heard by now about a significant investment FCI has initiated regarding edifactoring that was presented last year during the Annual Meeting June 2019 in Vietnam. The main drivers of this change result from the numerous suggestions received from the members/users during internal surveys that the ComCom conducted over the past two years but also due to the advanced age and foundation of edifactoring to which I would like to share some key points in the following lines.

Long story short, all of this began in 2000 when Deloitte Consulting BV developed the star of this article in 2 years. In 2002 the current edifactoring.com platform was launched and was enhanced step by step in the following years.

One milestone was in 2014 when a required update was needed to be done for edifactoring: replacement of the components built with the language Visual Basic 6, which already lost its support from its developer. The main reason for this change was that it became increasingly hard to maintain these old components but also because of the lack of support leading to unacceptable security risks for FCI.

Until the present day, edifactoring received several updates in the messages area, but not only. I want to mention some message additions from the original system, including RESCUE, Purchase Order Management (POM), Invoice Verification, and EDI Reverse.

> TO START THE PREPARATIONS FOR CHANGE AND NOT WAIT FOR THINGS TO BECOME OBSOLETE AND RISKIER

In 2019 the topic of the upgrade was initiated as "mission-critical" due to edifactoring complexity, as this software has multiple components that have been built using different techniques, development environments, and various programming languages to address specific zones of usage. Having this complexity in mind, maintaining edifactoring requires knowledge of a multitude of environments and technologies. While things have been well maintained over the past few years, it was considered wise to start the preparations for change and not wait for things to become obsolete and riskier as it happened in 2014.

2020 came, and with the Final Go decision from the Executive committee received in April, the Project EDI 2.0 officially started. The main scopes of this project are:

- To rebuild edifactoring with a *new, more scalable, and adaptable architecture and modernized technology stack* in such a way that maintenance and support can be guaranteed for the

>Continued on page 8

coming years, at a minimum for the next seven years.

- To transform edifactoring into a *new user interface and unique web services*, improving user experience, and safer connectivity with the systems used by the members. The basis for the redesign will be Google's material design, as implemented in the Angular framework.
- *To strengthen edifactoring with an improved security and privacy profile* (e.g., integrity, availability, and confidentiality of data). The automatic interface will have improved security for username/password exchange.
- *To prepare edifactoring for evolution in future extensions*, if decided, like Blockchain security, seller-buyer module, etc.

The finalization of this project and its phased approach is expected to be next year in October 2021, according to the current plan.

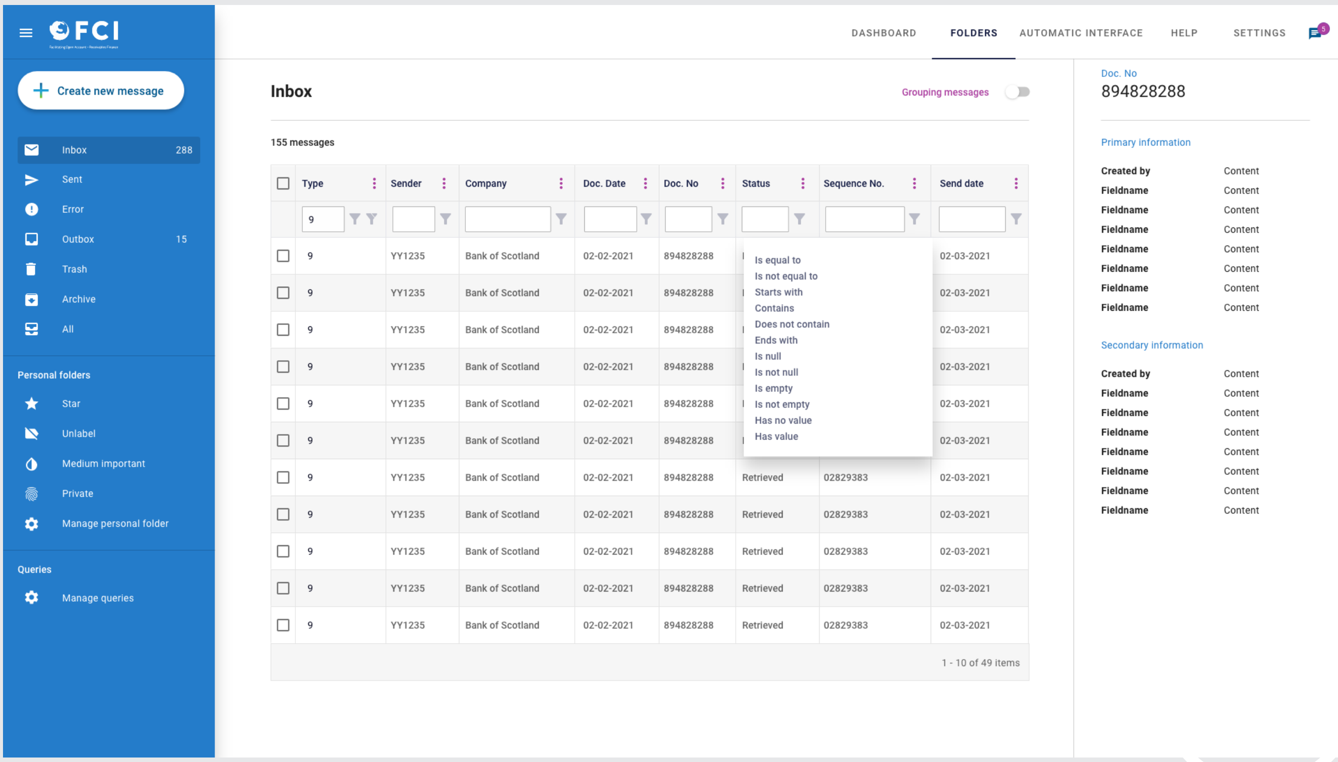
A crucial aspect of this project is the fact that *the current messages will not be subject to change*, this means that everything that is currently existing in edifactoring will remain in the same structure as it is today but the look, interaction, work and touch will be transformed into a modern and evolved edifactoring having its source renewed with new technologies, ready for the future.

The "Design and Definition Phase" just closed a few days ago by the time of this article release. Based on the current prototype in shape I can provide a few new updates:

- drag and drop feature for the messages within folders,
- columns to be added to users personal view,
- filters on each column, auto-retrieval of messages,
- marking a new message not viewed yet will be available,
- a revamped dashboard, and raising support tickets.

Please, regard this as an initial prototype, and of course, the fact that this might not be what gets finally delivered in October 2021.

To give a hint, this is the prototype of future EDI 2.0 Inbox display:



More pleasant surprises are there, and I do hope I made you curious and excited.

Dear user of edifactoring, I would like to use the final words as a personal plea as you are an essential part of FCI. If you think *you can & want to contribute now to the current project and not only, please respond to the call for new members in the ComCom technical committee.* Or next year, when we are going to be close to the release of the new platform but not too close, *we will need your power and time to help us test everything that we have thought of and could do within the existing limits of the project*. At that moment in time, we will need you. Please say Yes to our call. Rest assured that we have, by that time, tested and fine-tuned the final form you will be testing, and this will not be the last news you will hear from me regarding this unique project. Please follow the Circulars and news related to this project. Thank you.

Until next time, please take care & stay safe.

EVERYTHING THAT IS CURRENTLY EXISTING IN EDIFACTORING WILL REMAIN IN THE SAME STRUCTURE AS IT IS TODAY BUT THE LOOK, INTERACTION, WORK AND TOUCH WILL BE TRANSFORMED

DO YOU WANT TO ADVERTISE HERE?

The FCI newsletter - In-Sight - is sent to more than 8000 contacts in the Receivables Finance Industry; to FCI members but also to non-members, associations and service providers.

The newsletter gives information on what FCI has to offer in terms of education and networking and updating you on advocacy initiatives. The FCI newsletter is recognised as one of the leading periodic publications in the industry.

The newsletter is published quarterly in February, May, August and November.

The conditions are available [here]

CONNECT

DO WE SEE "GREEN SHOOTS" IN LATIN AMÉRICA?

ALBERTO WYDERKA
Regional Director Americas

It has been ten months since this virus decided to appear in the world and has driven us to a pandemic that has cost many lives and produced severe economic effects. And it's not over yet. Its consequences are well known to all, so it is not necessary to repeat them.

So much so, that it is difficult to predict when the countries´ economies will resume a sustained rate of growth and even more so when they will return to pre-pandemic levels.

The negative consequences were observed throughout the region, although perhaps with varying degrees of severity, that affected our industry.

The economic activity in the US, Mexico, Brazil, Argentina, and Chile felt the impact very strongly, perhaps more than the rest of the countries, however not all governments applied the same policies.

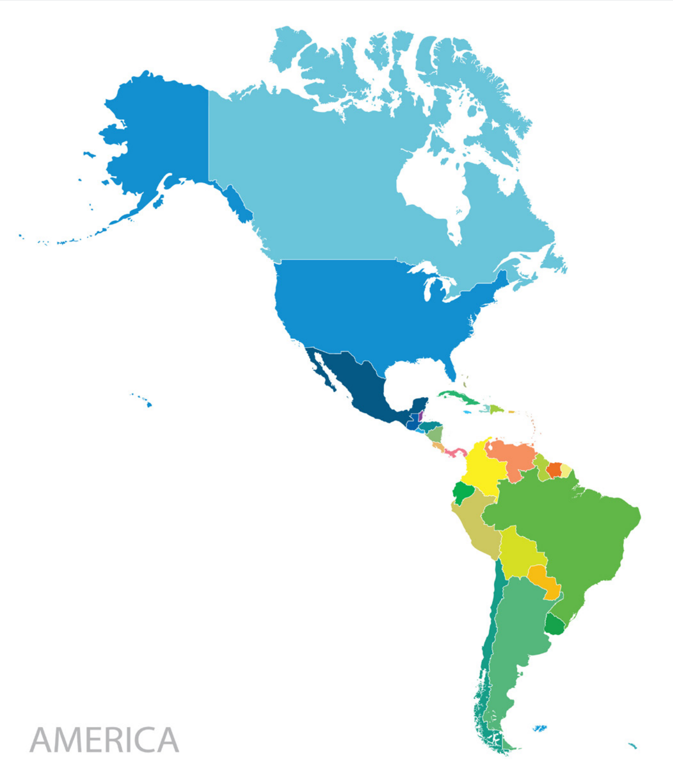
The US, Mexico, and Brazil were more open and prone to sustaining economic activity. In contrast, the others took measures more focused on the health field, assuming in a certain way the economic deterioration, which occurred in an obvious way.

Our industry followed the ups and downs that occurred as a result of the drop in sales, the lengthening of collection terms, and the deterioration of risk. At the same time, Credit Insurers decreased or canceled their limits and included more restrictive clauses, all of which impacted on the efficiency of this tool for both exporters and factors.

The food and pharmaceutical industries were perhaps the least affected in their level of activity.

In the US, the retail segment suffered a drop of such magnitude that it caused significant problems for our industry, both in the local and international markets.

However, despite what has been said, *in Latin America*, it must be mentioned that *our activity ratios, in general terms, did not deteriorate worryingly*.



Except in Chile, the increase in disputes was irrelevant. Collection arrears increased by 25% in Peru, 19% in Brazil, and the remainder did not have significant changes. Appetite to take risks was tightened, but continued to be approved, most of the time, obviously, on a case by case basis.

In other words, medium and small companies, in general, *did not take advantage of the circumstance to dishonor their obligations, they did agree to re-schedule, but they were cooperative and acted in good faith*. And the big companies mostly fulfilled their duties on time.

But fortunately, there is light at the end of the tunnel. As we usually say in Argentina, you know that I am Argentine, and most probably in other countries ¨EVERY CLOUD

IN LATIN AMERICA, IT MUST BE MENTIONED THAT OUR ACTIVITY RATIOS DID NOT DETERIORATE WORRYINGLY

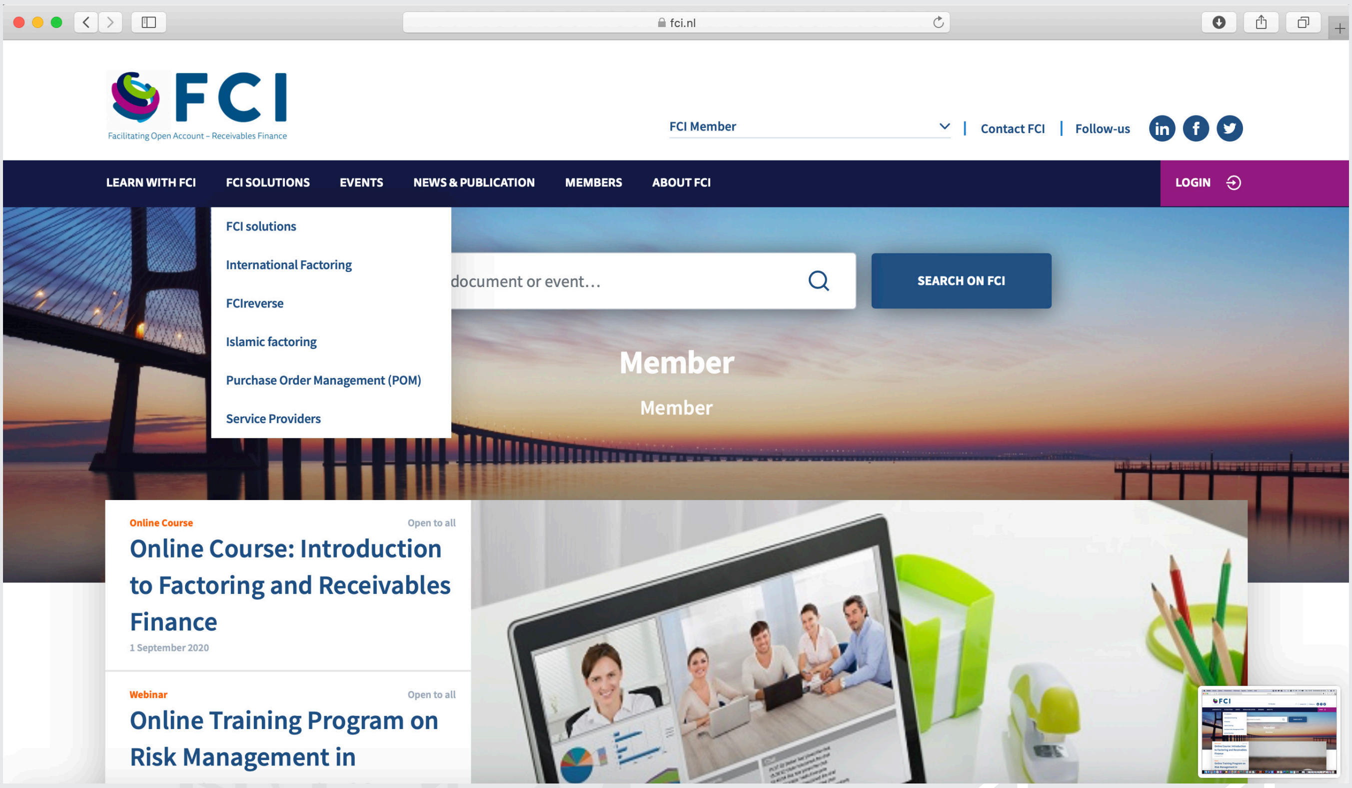
HAS A SILVER LINING¨ or if you prefer *¨THERE IS NO EVIL THAT LASTS A HUNDRED YEARS, NOR A BODY THAT CAN RESIST¨*.

The activities in the last month began to grow. Peru that reached a level of 40% today, is at 70% or more. The same is observed in Central America and most Latin American countries, as Brazil, México, and Colombia, and to a lesser degree in Chile and Argentina. Anyway, there is still a long way to go, but let's do it with hope. The coincidence in the region is that the reactivation will come from the export side.

For that reason, I want to have a positive vision without ignoring the tremendous effects of this pandemic. In these last 6 or 7 months, we have been mired in bad news, and we have lived in an almost tragic environment, if not dreadful.

Gradually our industry is being reactivated, which leads me to think that "green shoots" are beginning to appear. Hopefully, it will be like that.

FCI HAS A NEW WEBSITE!



Discover the webiste on https://fci.nl

CONNECT
SOUTH AND SOUTHEAST ASIA

THOMPSON LUI
Regional Manager South and Southeast Asia

Though most countries in the South and Southeast Asian (SSEA) and Oceanic markets lagged their counterparts in the Northern hemisphere towards discovering infected cases within their borders. Sufferings originated from COVID-19 pandemics have not stopped but keep haunting us in different areas, changing the way we live and work.

The only aspect we are sure of at this moment is that we are now collectively better equipped with more measures to fight and contain the spread like wearing facial masks, keeping our social distance, and working from home if at all possible. We have attended numerous webinars in place of seminars in the past few months, and many have spoken on ways to move forward in a post-COVID-19 world. Realistically we are all still in this pandemic, at least economic data is not suggesting otherwise.

China's economy is recovering. That's good news for Southeast Asia

"*While numerous challenges remain, the uptick would rekindle hopes that China's economy can help to pull others along*" Wellian Wiranto, an economist at OCBC Bank.[1]

PRC economy reportedly grew by 3.2% in the second quarter, and that was a huge gap compared to her southern neighbors where single digits' percentage growth in the negative zone is considered the expectation ever since the pandemic hits. What Wellian stated has some sense for most exporting countries in the region sell one third if not higher of their total exports to PRC (depends on the products and countries). Amid the devastation COVID-19 brings us, it brings changes as well. Some may argue these changes were supposedly planned before the outbreak, but the pandemic expedites implementation. Let us pick a few key nations that have pro-actively (or otherwise) positioned their countries to embrace these changes.

More opportunities for Singapore as companies prefer a shift to Southeast Asia: McKinsey

"*Singapore could attract further investments and create more jobs as global supply chains continue to shift, with many companies now preferring Southeast Asia," says McKinsey Asia chairman Oliver Tonby who adds that ongoing geopolitical tensions and the coronavirus pandemic have intensified this phenomenon.*[2]

Singapore has been the financial hub as well as a pioneer of international factoring in the Southeast Asian market for decades. Although COVID-19 has put its dents on Singapore's economic output (contracted 12.6% Q2 2020)[3], McKinsey and others positively view this financial hub of Southeast Asian region is well-positioned to take advantage of how recent geopolitical tensions plus the effects coronavirus pandemic have transformed the mindsets of global supply chain executives toward diversifying their logistics and financial operations in the future. Singapore has, at the time of writing this article, 8 FCI members with a healthy mix of 3 NBFIs and five banks, ready to transact with both export and import factoring functions. Not only can we reasonably expect robust growth in the number of financial institutions relocating

1 https://www.cnbc.com/2020/07/17/chinas-economy-is-recovering-thats-good-news-for-southeast-asia.html
CHINA ECONOMY, PUBLISHED THU, JUL 16 20209:10 PM EDT UPDATED FRI, JUL 17 202012:15 AM EDT
2 https://www.cnbc.com/video/2020/07/13/more-opportunities-for-singapore-as-supply-chains-shift-mckinsey.html
MON, JUL 13 20203:09 AM EDT
3 https://www.singstat.gov.sg/-/media/files/news/advgdp2q2020.pdf

their regional Headquarters to Singapore, but we can also envision global buyers and sellers alike looking to this SEA financial hub for solutions catering to their relatively complex needs.

Just comparing the number of FCI members in one country in the SSEA market, India and Singapore share the same magic number: EIGHT. The significant difference is all Indian members focus on export factoring for the time being. Will there be more members? I will say yes, according to what the Indian government has laid out in the past three months.

Bloomberg: **India** *is developing a huge land pool to lure firms moving out of China and looking to translocate elsewhere. The report further states that according to people in the know of things speaking on the condition of anonymity, a total area of 461,589 hectares has already been identified across the country in a bid to attract Multi-national Companies (MNCs) that will be looking for new sites once they shift their operations out of China.*[4]

To put over 460 thousand hectares into perspective, imagine in front of you 862,587 football fields, this gives us a hint of how determined the Indian government is towards attracting foreign manufacturers from her northeastern neighbor. Wait, you think the incentives stop there?

"India is reducing corporate tax to 15 percent for new companies in the manufacturing sector."

"Finally, India's jump to 63rd position in the World Bank's Ease of Doing Business 2020 report, from 77th place the previous year."[5]

Reducing corporate tax to 15% lifts the overall competitiveness in the tax bracket to amongst the world's lowest. This initiative almost dwarfs the number of football fields one government can put together. These administrative and financial incentives compliment the relatively young and promising demographics India can present to foreign investors as a potential domestic market. Land, investment, talents, markets all present, how about financial services? Will our existing FCI members be able to digest the growing pie. I cannot give a definite answer without a crystal ball, but I urge all of you to check out the number of FCI members now in PRC, and you may have a glimpse of the potential moving forward.

INDIA IS NOT THE ONLY COUNTRY TAKING A BIG LEAP; HER NEIGHBOR BANGLADESH ALSO IS TAKING INITIATIVES TO RAISE HER COMPETITIVENESS TO COMPETE AND ALLOW BANKS AND NBFIS TO OFFER FACTORING

India is not the only country taking a big leap; her neighbor Bangladesh also is taking initiatives to raise her competitiveness to compete and allow banks and NBFIs to offer factoring and supply chain finance related products. The Central Bank of Bangladesh[6] has released on the last day of June this year, a circular giving guidance to financial institutions conducting factoring and supply chain finance-related business. The industry regards that as a "green light" and FCI is right here to provide education, platform, and networking means to facilitate this exciting development and provide a window to all fellow members there to the world of factoring. The initial response has been positive; existing and prospective members are actively responding to this great opportunity ahead.

4 https://tfipost.com/2020/05/we-are-ready-india-identifies-land-pool-twice-the-size-of-luxembourg-to-welcome-companies-leaving-china/

5 https://www.scmp.com/comment/opinion/article/3084700/india-rolls-out-welcome-mat-manufacturers-looking-leave-china-what Rahul Nath Choudhury and Moinak Maiti, Published: 11:00 am, 18 May 2020

6 https://www.bb.org.bd/mediaroom/circulars/circulars.php#

CAN DIGITALIZATION HELP US GROW TWO-FACTOR BUSINESS?

DENIZ KIZILKAYA
Int. Factoring & Correspondent Relations Manager, İş Faktoring A.Ş.

The unexpected pandemic, named by the scientists as COVID-19, left no country and no business unaffected. The largest economies of the world have shrunk, and "hope" for growth expected not earlier than 2021. As world trade declined and domestic demand also shrank, it sure affected the factoring industry too. Even though the word is being carefully avoided, we may say we are experiencing an economic crisis.

The etymology of the word "crisis" reveals a fascinating meaning: "vitally important or decisive state of things, the point at which change must come, for better or worse." One of the rapid changes we are experiencing how inevitable digitalization is.

Regardless of the sector, if we ask CEOs the following question: Do you want to increase productivity and efficiency while reducing costs?

No doubt, every one of them will say yes. So, it can be a good idea to remind ourselves what "digitalization" refers to:

DIGITALIZATION INCREASES PRODUCTIVITY AND EFFICIENCY, WHILE REDUCING COSTS

Digitalization refers to enabling or improving processes by leveraging digital technologies and digitized data. Digitalization *increases productivity and efficiency, while reducing costs.* It improves existing processes.

So, in an attempt to draft a road map, let's start by asking ourselves some basic questions on digitalization.

Where to start?

In FCI, we have a well-established data exchange platform, Edifactoring. Even so, during two-factor operations, members still exchange countless e-mails with each other. Simultaneously, there came a time where we need to reconsider how we can decrease paperwork on the seller and buyer's side, thus increase the user-friendliness of the two-factor product.

Supply Chain finance platforms are doing the best they can to smooth the processes on both sellers and the buyers' side. It is no secret that in the last few years, we see big international buyers shifting to supply chain finance, which means a loss of business for the two-factor system. Indeed, the two-factor system is not only about financing; however, factoring being a driver in SME financing, we also need to consider how we can keep and grow our position.

Below are the primary documents that are exchanged in the two-factor system. As far as regulations allow us, it would be a smart move to consider which one we can digitalize and make factoring operations smoother for four parties involved.

1. KYC/AML forms
2. Interfactor agreements
3. Introductory Letter (mostly exchanged as hardcopy among seller and buyer)
4. Exchange of image of invoices and shipment documents
5. Assignment labels (continue to be affixed on invoices)

When?

Digitalization is not a "nice to have" plan anymore, and this is a must. Covid-19 showed us that companies and institutions that are digitalized already are more resilient. Amazon is a perfect example.

So the answer is now.

To succeed, setting a digitalization target, architecturing a road map, and following up with a designated team is a must.

What are the biggest challenges?

1. *Digital fraud:*

Financing trade remains to be the least fraudulent of all. Even so, in the path of digitalization, this is an agenda item to consider.

On this topic, Turkey sets a good example as there is a successfully running Receivables Recording Center (RRC) since 2015. The RRC enables factoring companies to verify e-invoices and prevents double assignments and financing. By the end of 2019, 740,000 receivables had been blocked.

2. *Deviating regulations by country and regulatory authority's resistance to change:*

After lockdowns started, it became impossible to circulate "hardcopy" documents. We have witnessed government authorities' immediate actions to digitalize the economy. This is the best time in the history of the digital revolution that the governments will consider adopting regulations to digitalization.

We have also seen international organizations such as the European Commission, ICC, UN's favorable statements on the topic.

As an example, the United Nations Division for Public Institutions and Digital Government released a policy brief this year stating that: "The COVID-19 pandemic is forcing governments and societies to turn toward digital technologies to respond to the crisis in the short-term, resolve socio-economic repercussions in the mid-term and reinvent existing policies and tools in the long-term. In the long-term, governments need to accelerate the implementation of innovative digital technologies such as AI-powered technology, blockchain, and drones."

3. *Cybersecurity:*

This item accepts no compromises. Today, some 79% of global executives rank cyber-attacks and threats as one of their organization's highest risk management priorities in 2020, according to a Marsh & McLennan survey of 1,500 executives.

Will digitalization mean there will be less need for human labor?

Digitalization results in people concentrating their efforts and daily work on more productive areas. More digitalization means we will have more time for business development, for marketing and have more time for correspondent relations within the FCI network.

Digitalization can only be done with joint and simultaneous efforts of governments and enterprises.

Recently, on 22nd July, the Secretary-General of ICC issues an open letter to G20 ministers responsible for the digital economy. Calling responsible ministers to act. A virtual Digital Economy Ministerial Meeting Virtual meeting is held on 30 April 2020, and quotes from the press release: "*We, the G20 Ministers responsible for the digital economy, emphasize the promising role of digital technologies and relevant digital policies to strengthen and accelerate our collective response to the COVID-19 pandemic as well as to enhance our ability to prevent and mitigate future crises. We will work together to deliver on the commitment to leverage digital technologies made at the G20 Leaders' Extraordinary Summit on March 26.*"

Governments become more and more aware of the fact that digitalization is a must. There has not been a better time for collaboration on digitalization among government, private sector companies, and international organizations. FCI, being the voice of the worldwide factoring industry, it's role as an "influencer" will be undeniable towards policymakers.

EFFECTS OF DIGITIZATION IN THE MIDDLE EAST

KARIM H. LABADI
Global Head of Transaction Banking, Mashreq

Betül Kurtulus (BK), FCI Regional Director CEE, SEE and the Middle East, interviewed Karim H. Labadi (KL) about the effect of digitization in the Middle East and in his bank (Mashreq)

BK: With the effect of COVID 19; What are the digitization steps that accelerate in your region and your bank?

KL: As a result of COVID-19, many banks in the region have found themselves having to rethink their strategies and either initiate or accelerate their digital transformation programs. Digitization of products and services has emerged as a top priority. To be successful requires technological transformation across multiple streams together with a willingness to adopt the agile design, development, and delivery methodologies. Additionally, new architectural frameworks are necessary for the technical front, as is the ability to re-shape operational and functional workflows.

During the pandemic, digitization has proven itself to be the most efficient weapon in a bank's arsenal in sustaining and improving the share of the business and maintaining business continuity. Most importantly is the need to enhance "contactless" transactions, this requires an increased focus on delivery channels to facilitate document management, digital scanning, OCR technologies, and AI / ML-based solutions. The opportunities are sizable if you consider the advancements in digital document processing, robotic process automation (RPA), trade document preparation, digital bill of lading, tracking solutions, and e-signature solutions for signing documents electronically. Let us not forget the various fintech solutions that have emerged in the areas of trade and payments that can help banks achieve their objectives faster.

DURING THE PANDEMIC, DIGITIZATION HAS PROVEN ITSELF TO BE THE MOST EFFICIENT WEAPON IN A BANK'S ARSENAL IN SUSTAINING AND IMPROVING THE SHARE OF THE BUSINESS AND MAINTAINING BUSINESS CONTINUITY

The reality is that different banks are at various stages of digitization, as expected to be. *Early adopters will most likely have found themselves in a more favorable position simply because they have experience of providing their customers with seamless banking*. I believe Mashreq is one of them. Our legacy got built upon innovation, and we began developing digital solutions many years ago, enabling us to address the challenges of the virus with minimal disruption. All of the digital solutions I mentioned above have been implemented across the bank. Additionally, we are running one of the largest digital transformation programs in the Middle East region, redefining our products and services in an entirely new way.

BK: Will policymakers be able to adapt to these developments?

KL: Banking today is witnessing an unprecedented pace of change due to digitization. *Digitization is no longer an achievement; it is a requirement*. In my opinion, it is not a question of whether policymakers will be able to adopt it, but a question of how soon they will adapt to the changing dynamics. Policymakers are moving forward and there are multiple

public private partnership (PPP) initiatives currently underway. The next challenge is how regulations and policies developed in different geographies and trade corridors will merge into standard ones, something which is needed to ensure the full integration and seamless connectivity of transactional flows.

BK: What will be the effect of these changes in the Middle East receivable finance industry?

KL: We anticipate that both the receivable finance (RF) industry and the associated risks will improve due to the effects of these changes. *Digitization will undoubtedly prove useful in developing new products, services, and controls that will ultimately attract more clients to RF products*. For example, solutions such as UAE Trade Connect (a blockchain platform) are anticipated to help identify double financing and fraudulent invoices, assisting the banks to improve the quality of the risks they take.

BK: If we digitalize, will it be possible to avoid significant frauds?

KL: *We believe it is possible to mitigate large scale fraud*. There is a big difference between an invoice processed manually, versus one that is being processed digitally through a platform that will instantly and accurately check and validate it, consistently against a vast array of predefined parameters such as compliance, limits, KYC, or a blacklist. As a result of ML, these platforms are continually learning, improving, developing efficiencies, and getting better with time.

WITH DIGITALIZATION IT IS POSSIBLE TO MITIGATE LARGE SCALE FRAUD, THESE PLATFORMS ARE CONTINUALLY LEARNING, IMPROVING, DEVELOPING EFFICIENCIES, AND GETTING BETTER WITH TIME

BK: How will be the client adaptability to new technologies?

KL: *COVID-19 has transformed clients' views and attitudes towards new technology*. Those who were previously apprehensive about adopting new technologies could not do business and became isolated.

Conversely, clients who had previously engaged with new technology were able to maintain business continuity. *It was a wakeup call*. Since the pandemic, we have had the largest number of new subscribers to our digital channels ever. In an attempt to better understand our customers, we have nurtured this demand by conducting several customer engagement programs that included design thinking workshops and hackathons. This has had a direct influence on the development of our new digital product offerings and is continuing to guide us towards building unique customer experience.

CONNECT

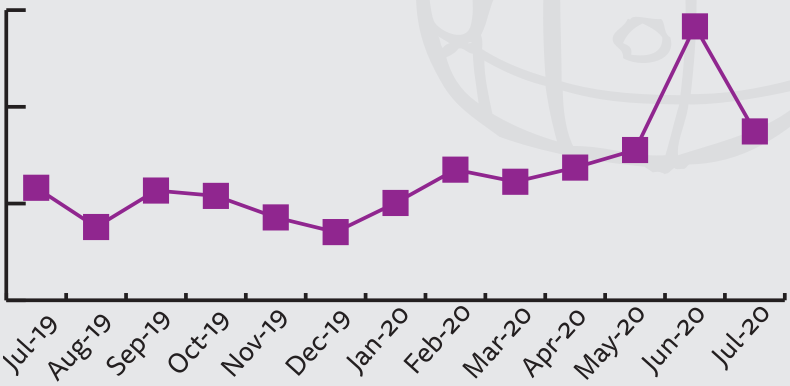
EVOLUTION OF FCI'S ONLINE PRESENCE

GWENDOLINE DE VIRON
Head of Marketing and Communication

As you know, FCI has improved its online presence over the last few months. I would like to share with you the results.

Website

FCI launched its new website on 27th May. Since then, the number of visitors increased. While developing the new site, FCI Marketing and Communication Committee and FCI Secretariat decided to create different experiences depending on the profile of the visitors. It enables us to display the right information to the right visitor. For example, a potential factoring user wants to learn what factoring is. At the same time, a member already knows what it is and is more interested in FCI Academy, FCI circulars, and members' files. The following graph shows the evolution of the sessions on the website over the last 12 months.

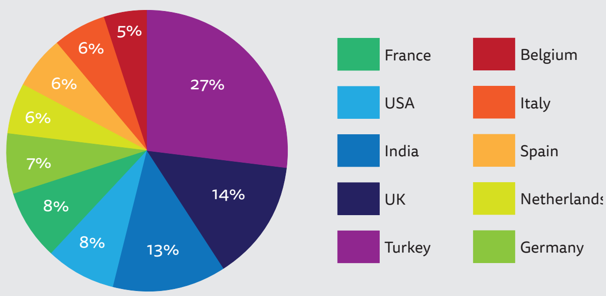


FCI also launched its new app in early July. Traffic is not available yet.

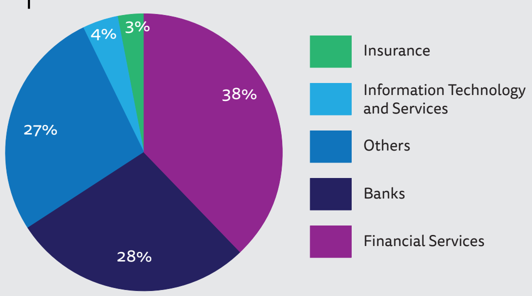
FCI is also active on *social media*:

1. LinkedIn

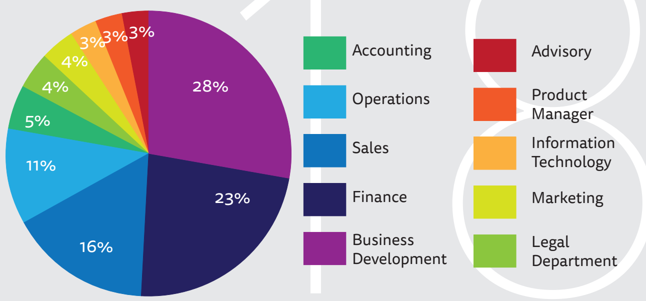
FCI has a LinkedIn Page and a LinkedIn Group. The page introduces FCI and is open to everyone. It's a showcase for FCI to the world, the Industry, and members' news. FCI is also happy to share news from members on the page. Top 10 followers are from:



Followers are coming from the following top 5 sectors:



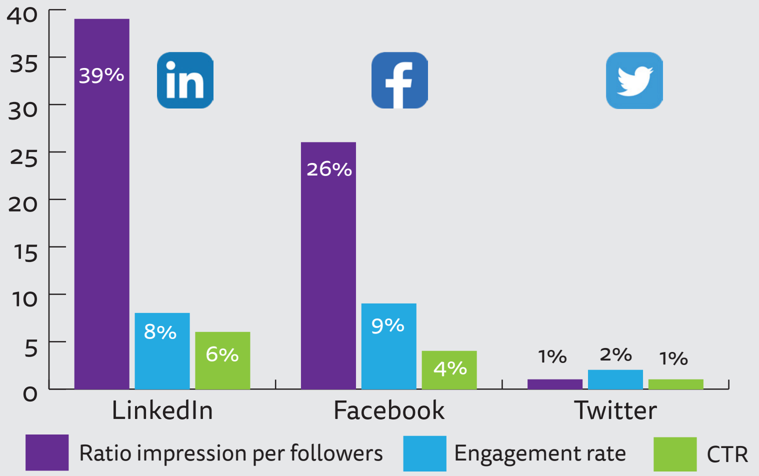
Followers work in the following departments:



In average, reactions to posts are as follow:

This graph shows that on average, 39% of our followers see our posts. 8% of the audience that has seen a post usually click, share, like or comment on the posts. 75% of them click on the link.

Today the page has 2886 followers, an increase of 37% since the 1st January.



In the LinkedIn Group, 2225 members can discuss and share information. We do not have any statistics available about the evolution and spread of the group members.

2. WeChat (group)

Currently, we have a WeChat group for FCI members to discuss different matters and share news. The group has 189 members, a 26% increase since 1st January. A majority of the members are Chinese. If you wish to join the group, please contact FCI Secretariat or Mr Lin Hui, Regional Director North-East Asia.

The plan is to have an FCI page to promote our offer in China. We are currently working on this.

3. Twitter

The twitter account of FCI has 548 followers, a 7% increase since January. On twitter, we published short posts with hashtags. On average, the engagement rate is much lower than on LinkedIn (2%), but we see that the top articles are the ones about Africa and the Middle East.

4. Facebook

FCI has a Facebook page with 602 followers (an increase of 7% since January). On average, 26% of FCI followers see the posts on the page. The engagement rate is slightly higher than for LinkedIn, with 9%, while the CTR is lower (6%).

Previously, FCI also has a private group, but it will be closed at the end of the month: members are not using the group, so it is hence overlapping the Facebook page which is our public showcase.

IF YOU ARE ACTIVE ON ANY SOCIAL MEDIA PLATFORM AND ARE YET TO FOLLOW US FOR UPDATES, PLEASE DO FOLLOW US

In conclusion, the online presence of FCI over the last few months has improved. Thanks to the analysis, we can make decisions about the future use of our online presence. We will adapt our communication depending on the channels. If you are active on any social media platform and are yet to follow us for updates, please do follow us. We share more contents on our social media platforms than the website.

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 **377 members**! We still have a lot of prospects that will soon join FCI.

HELLENIC BANK

ASSOCIATE

CYPRUS

Hellenic Bank is one of the leading financial institutions in Cyprus with strong capital position and ample liquidity. According to the Bank's 2019 financial results its Capital Adequacy Ratio stands at 22,56% which is significantly above minimum regulatory requirements, while its Liquidity Coverage Ratio stands at 512%.

The Bank provides both to SMEs and households a full spectrum of banking products and services and is at the forefront of financing the growth and transformation of the island's most important industries and businesses.

Furthermore, Hellenic Bank is one of the leading banks in Cyprus in the areas of international payments and trade finance. Its product portfolio comprises of all the traditional trade finance products and has been offering factoring solutions for over two decades.

The Bank's success in all disciplines is based on the customer centric, personal approach, the wide range of competitive products and services it offers and the use of advanced technology, information and control systems.

More information on their website: www.hellenicbank.com

MAMLAKA CAPITAL PARTNERS
CORPORATE ADVISORY SERVICES

AFFILIATE

KENYA

Mamlaka is a fintech firm in the SME finance space based in Nairobi, Kenya operating a supply Chain Finance platform (ePayit) that provides alternative funding options to Small Medium Enterprise (SMEs) to optimize working capital.

The trade platform gives access to Buyers, Suppliers and Financial institutions (Domestic and Foreign) for inclusiveness in a supply chain that is fragmented and challenged.

Service Offering: Provision of SCF dynamic platform to automate the reverse factoring process & provide more efficient business solutions. Mamlaka on boards the clients end to end for a clean smooth process. Guaranteed SLA, real time Reports, & credit insurance to mitigate against market failures.

The platforms makes the whole process more transparent where transactions are visible to all the involved parties and are in sync with the transaction. This inclusiveness, automation, simplicity & transparency provides perfect business solutions to buyers & sellers.

Provides users with fewer conditions than comparable traditional methods of funding through reverse factoring.

For further details, please visit www.mam-laka.com

মিউচুয়াল ট্রাস্ট ব্যাংক লিমিটেড
Mutual Trust Bank Ltd.
you can bank on us

ASSOCIATE

BANGLADESH

Mutual Trust Bank Limited (MTB) is one of the leading third generation private sector commercial banks in Bangladesh.

Over the years, through dedicated customer services, creating a team of highly skilled professional bankers, expansion of the branch network and developing a strong IT platform, the bank has gradually emerged as a highly reputed bank in the country. It aspires to be one of the most admired and compliant banks in the country and recognized as an innovative and client-focused company. The Bank is managed by professional bankers with decades of experience in local and multi-national commercial banks both in Bangladesh and abroad.

With the asset size of over USD 3.00 billion, MTB operates with a network of 118 branches and 140 Agent Banking Centers and serving more than one million customers across the country.

In order to facilitate businesses of customers of special zones and extending foreign currency credit facilities to corporate clients, MTB has its own Offshore Banking Unit with a Balance Sheet size of over USD175 million. Moreover, With a view to rendering dedicated service to a local multinational companies and to provide one stop services to attract Foreign Direct Investment (FDI), MTB has its unique MNC Banking Unit.

Being a trade focus bank, MTB is currently availing credit lines over 65 foreign correspondent banks and operating its trade service with the global network of over 600 correspondent banks. Moreover, MTB is currently acting as "participating issuing banks" of Asian Development Bank (ADB) under their Trade Finance Program (TFP), which is currently renamed as "Trade and Supply Chain Finance Program (TSCFP).

Besides, MTB is currently enjoying USD12.50 million revolving credit line facility from ADB along with USD20.00 million long terms foreign currency credit loan facilities from the DEG KFW and NORFUND – A German and Norwegian based Multilateral Development Finance Agencies respectively. NORFUND has also made an equity investment of USD20.52 million and currently holding 9.5281% of equity stock of the Bank with one board seat.

More information on their website: www.mutualtrustbank.com

We wish them lots of success!

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

INTERVIEW: FCI CAREER PATH CONTRIBUTION TO A FACTORING CAREER

Spyros Tsolis (ST), FCI Deputy Education Director, interviewed Michael Shang (MS) about his use of FCI Academy. Michael completed the FCI Career Path (Foundation, Intermediate & Advanced Courses).

ST: How each course benefited you in your daily operations also as in other aspects of your business?

MS: I joined the Trade Finance Department of Bank of China Head Office in 2009 and began my career working in Factoring Division, mainly that specialize in the import factoring. At that point, I don't have the approach to the "FCI Career Path" education program. I got some studying materials from my mentor and mainly learning by doing. After transferring to New Zealand subsidiary in 2014, I grew a solid trade finance clients base in dairy, forestry, food & beverage and other sectors for our bank. At an equivalent time, I found there are quite strong financing demands from Kiwi companies for OA receivables. And pity that local banks don't do two-factor export factoring which is common and widespread in China. So, I applied the FCI membership for Bank of China (New Zealand) Limited to be the primary FCI member in New Zealand, enabling our bank to supply export factoring services to local clients, with the assistance of on the brink of 400 FCI member all-round the globe.

THE WELL-DESIGNED 3-LEVEL CURRICULUM RENEWED MY KNOWLEDGE DOMAIN AND SHARPENED THE SAW ON BEHALF OF ME AS KNOWLEDGE MUST BE IMPROVED, UPGRADED AND CONTINUOUSLY INCREASED

The "FCI Career Path" education program is a sort of beneficial to reinforce my understanding of factoring, albeit I even have years of practical experiences. The well-designed *3-level curriculum renewed my knowledge domain and sharpened the saw on behalf of me as knowledge must be improved, upgraded and continuously increased*. Foundation Course provides excellent online learning experiences, and it's a fast entry into factoring; the Intermediate Course provides the training for detailed Operating & basic legal rules, which is encountered generally in my daily activity; Advanced Course teaches about Seller selection & control, Buyer risk control, Dispute prevention & handling, during which I found Seller selection & control quite useful because it provides *very concrete skills about the way to search, identify, approach and prospective onboard clients*. As our banks just entered the local market six years ago, we still got to enlarge the customer base rapidly. *I also got some inspirations of fantastic marketing ideas, the icing on the cake*.

ST: How does each course using FCI Academy programmes fit into your Company's overall approach to non-public development and training?

MS: As the trade finance business proliferates (the trade settlement volume exceeds USD 12 billion in 2019), our trade finance team keeps growing. The difficulty outstands in new employee orientation is the way *to train them for open account receivable financing*. LC is comparatively a typical product and straightforward to know while OA financing is sort of different. *FCI Academy Program demonstrates its advantage in training my teammates about the open account receivable financing*. I found *after obtaining the Foundation Course Certificate, and* *my teammate becomes quite familiar for nearly all types of receivables financing* which quite surprised me. I think it's thanks to the well-designed curriculum structure and interactive online learning function, which makes *learning fun instead of pain*. It's of critical importance to our bank's staff development scheme.

ST: We understand that Bank of China sees FCI Academy programmes as something central in contributing to its continued success. As long as view, is FCI Academy programs are something you would recommend to other members; and if so why?

MS: Yes. I like to recommend the FCI Academy Program to all or any FCI members, especially during this exceptional time after COVID-19 outbreak. There is an excessive amount of uncertainty and challenges for each bank and financial organization. As Lao Tzu, the founder of Taoism mentioned that *luck follows upon disaster*; Disaster lurks within a chance. It's like When God closes a door. He opens a window. *Export factoring will play a vital role in the post-COVID period*, thanks to the well-established FCI rules, business models and global membership networks. *It's the proper time for each bank back to the foundation, enhance the training and specialize in staff development. The FCI Academy Program is the right choice for other FCI members*.

IT'S THE PROPER TIME FOR EACH BANK BACK TO THE FOUNDATION, ENHANCE THE TRAINING AND SPECIALIZE IN STAFF DEVELOPMENT. THE FCI ACADEMY PROGRAM IS THE RIGHT CHOICE!

ST: In FCI, we are continually looking to create and develop our education solutions; what needs to be done to form them even better at meeting your needs?

MS: I found the interactive e-learning of Foundation Course is an excellent way to learn. If FCI could make the Intermediate Course and Advanced Course live online, it will be fabulous. And digital banking is on its way. It's excellent if FCI could explore courses on block-chain, digital banking and open banking etc. I also noticed that there are several Online Specialized courses like Selling and Marketing Factoring Course, Pre-Sales and Seller On-Boarding Course, which interests me, I'm more than happy to undertake these courses. I'm sure that it'll benefit me significantly in my future career development.

FCI'S EDUCATION IN THE POST-COVID ERA AND THE NEW IMAGE OF FCI ACADEMY

AYSEN ÇETINTAS
Education Director

FCI Academy
Centre of Knowledge for Receivables Finance

Training and capacity building have been critical pillars in this recent outbreak. FCI's long-standing training program has developed new solutions in a short time *to meet the demands of members and industry stakeholders to ensure that all responders can meet their learning skills development needs*.

As an immediate response to COVID-19, FCI organized several webinars on various relevant topics. Also, *we continue to build new e-learning courses* that are currently in development and, where possible, explore options for remote delivery.

Recently, FCI has converted the traditional onsite tailor-made trainings and seminars on risk management, fraud management, legal matters, and sales technics in the online mode to ensure that all FCI members - regardless of expertise- can access the best training resources available for them.

Strategically FCI has been investing in digital learning even long before the pandemic, which gives both management and employees more flexibility to complete necessary "just-in-time" training as requirements change.

New brand positioning of FCI Academy

Every business needs a brand strategy, especially in the digital age. The digital landscape can quickly become fragmented if you are putting your branding secondary to your digital plan. Having this in mind, we worked on a new brand positioning strategy by using the method of 'brand archetypes' to define the characteristics, advantages, and identity of the FCI Academy.

FCI ACADEMY FALLS UNDER THE SAGE ARCHETYPE! THE MENTOR SUB-ARCHETYPE FITS TO WHAT FCI ACADEMY REFLECTS

The concept of 'brand archetypes' began as an idea belonging to Carl Jung, a psychologist working with Sigmund Freud. He believed that all people have basic human desires that are both primitive and instinctive. Each of the desires has a link to a specific archetype. The idea is that by embracing a particular personality, companies can show their customers that they understand their needs, expectations, and pain points.

FCI Academy falls under the SAGE Archetype!

The Mentor sub-archetype fits to what FCI Academy reflects

- The Mentor's very existence is devoted to sharing wisdom for the benefit and support of others.
- The ability to remain objective and be a good judge of character serves the Mentor well and ups the level of trustworthiness.
- Everything the Mentor does is based on a desire to make sure the right outcomes get reached.

Mizrahi Tefahot Bank Ltd., (UMTB) is incorporated under the laws of the State of Israel and established as a public company on June, 1923. UMTB shares were first traded on the Tel-Aviv Stock Exchange in 1963.

UMTB is the one of the largest banks in Israel and offers a complete range of international, commercial, domestic and personal banking services.

UMTB's rate by Moody's is A1-Counterparty Risk Assessment and A2 – Long Term.

UMTB has been a member of FCI since 2012, Winner of FCI best service quality performance improvement as an import factor for 2018.

We offer you a different kind of banking. We regard you as an exclusive client who has the right to expect a quick and personal service tailored exactly to your needs. We provide courteous attention, efficient service, interest and understanding, competitive pricing, initiative and clarity.

The Factoring department is part of the Bank's Trade Finance Sector.

As an Import Factor, Mizrahi Tefahot Bank Ltd. provides credit cover Approvals for registered companies located in Israel. Our high quality service and efficient department will grant credit responses in the shortest possible time. We are experts in transactions which cover all kinds of goods.

We cover our bank's domestic costumers and costumers of other Israeli's banks.

Our Trade Finance Sector provides a variety of financial tools and tailored solutions according to business requirements and transactions:

- ✓ Documentary collections
- ✓ Letters of Credit (Import and Export)
- ✓ Discounting Promissory notes / Bills of Exchange
- ✓ Discounting Invoices
- ✓ Incoming and Outgoing Guarantees – Bid Bonds, Advance Payment, Performance and Financial Guarantees.

<u>As part of our Factoring services we offer:</u>

- ✓ Credit cover for factoring lines.
- ✓ Domestic discounting.
- ✓ Import and Export discounting.
- ✓ Reverse Factoring.
- ✓ Collection services only.
- ✓ Non-notification Factoring.
- ✓ Recourse and non-recourse transactions.

EDUCATE

FCI WEBINAR SERIES

SPYROS TSOLIS
Deputy Education Director

In our May In-Sight edition, we reported on the webinars held since 1 April 2020, as our immediate response to the impacts that our industry was experiencing in tackling this unprecedented situation of COVID-19 outbreak. Additionally, we continued educating all industry stakeholders on receivables finance-related aspects, enhancing their knowledge.

Until mid-May 2020, 6 webinars took place, mostly concerning COVID-19 Impact on Supply Chains. Yet, topics like Blockchain & Fraud Management were also part of our program, all well-received & attended by *more than 2,000 participants*.

The Webinar series continued in June & July as well, *this time focusing on the "next day"* and on the policies that could support the growth of our industry as well as on the role Factoring could play in the stabilization of Supply Chains during the post-COVID-19 period.

Supply Chain Finance Trends, Challenges, and Opportunities in the post-COVID-19 era

Held on 9 June 2020 and led by FCI SCF Consultant Mrs. Monica Martin Blanco, this webinar focused on the trends of SCF market in response to the current situation, on the challenges for the future resilience of the supply chains as well as on the opportunities that appear under this field. Close to 400 participants listened to experts analysing and commenting from their perspective, as they represented different fields of interest like the academic community, SCF practitioners, World Bank experts & technology providers. Participants' interaction was at high levels, and we received exciting outcomes from our poll. Some conclusions, *most are willing to introduce new SCF programs* (after COVID-19 support programs are completed), many are looking for state support in order to promote such programs, at the same time being sceptical about implementation as they see various obstacles in establishing such schemes (complexity, supplier appetite, technology, reaching SC in all locations).

Navigating the Legal Landscape in Receivables Finance

In a follow-up of the extensive work performed by the FCI Legal Committee and the issuance of the related circulars no.5235 & no.5240, we held, on 18 June 2020, an online event focusing on the general legal issues surrounding the factoring and the receivables finance in the recent months, as well as the questions related to the GRIF and the circulars.

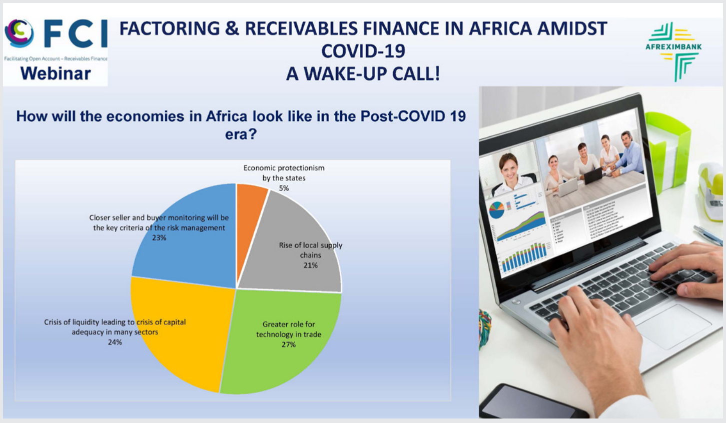
FCI Secretary-General Mr. Peter Mulroy led it. Panelists were Mr. Wilde & Mr. Uyanik, both members of the FCI Legal Committee, complemented by Mr. Christian Faber, Attorney at Law, Bette-Westenberger-Brink. He gave valuable insight on the current *challenges that Factors face not only from a business but also a legal perspective*. The webinar was mostly attended by FCI members. However, professionals from financial institutions in the receivables finance area participated. All 250 attendees had the opportunity to understand better the implications of the Legal circulars issued by the Legal Committee and also to hear from frontline legal experts their views on the current challenges. This was the first of a webinar series on the subject, and we intend to repeat it in due course.

FCI Executive Committee Virtual Roundtable – Emerging Markets - "How to Build a Bright Future in Disruptive Times - Improve the Present to Reach the Future"

This time our FCI Chairman, Mr. Patrick de Villepin, led a very insightful discussion with a focus on emerging markets. Prof. Benedict Oramah & Mr. Julio Nielsen represented Africa & Latin America respectively and shared their views on the current situation in their regions and also discussed on policies implemented to support local economies and the factoring industry. Again, more than 150 attendees actively participated and shared their views during the poll presented during the event: a lot view late payments & requests for payment extensions by buyers being an important issue, most believe that our industry will go through an essential digital transformation, at the same time the absolute majority believes that our industry should "return back to basics." Also, there is a widespread view that strict risk management policies should also be implemented to minimize losses and dilutions.

Factoring and Receivable Finance in Africa amidst COVID-19 – A Wake-up Call!

The last webinar for July was the one held on 7 July 2020 in cooperation with Afreximbank, on "Factoring and Receivables Finance in Africa amidst COVID-19 – A Wake-up Call!". The event gave an overview of the Factoring Industry in Africa and the Impact of COVID-19 as well as Afreximbank's Response to COVID-19 in Support of Factoring, highlighting the specific policies & initiatives taken. Besides the insightful presentations delivered by the distinguished guests, a team of 5 panellists representing different countries provided an excellent overview of the industry in their regions and shared their concerns but also positive expectations for the growth of the factoring industry. Valuable feedback was received during the poll, again late payments and requests for term extensions were essential concerns along with the opinion that the digital transformation of the receivables finance industry is coming closer and more evident than ever.



Coming in September…

FCI Academy Online Training Program on Risk Management in Factoring & Receivables Finance, 7 - 10 September 2020

During this disruptive time, risk management policies are critically challenged and measured. It is of paramount importance that we are all aligned with and strictly follow our risk management procedures to ensure minimum exposure in the various risks of our business.

This training program will focus on the main risk principles in Factoring & Receivables Finance and how these can be best applied in daily business. It will also focus on topics like "Credit Insurance & Factoring relationship" and will discuss on real fraud & dispute cases. We will also hear from industry experts their views on the current disruptive pandemic situation and how risk management policies are implemented.

The training will include 4 sessions of 120 min each, in a total of 8 hours of training on the topic. This is the first series of this program, targeting mostly Latin America & the Caribbean region, one session is planned to be held in Spanish. We intend to launch the second series quite soon, targeting other regions as well.

More information on our website

INFLUENCE

THE INFLUENCE OF THE CIVIL CODE ON CHINA'S FACTORING INDUSTRY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Five years after the Commission of Legislative Affairs of the National People's Congress (NPC) Standing Committee, started the work of compiling China's first Civil Code, on 28 May this year. The NPC deputies voted and passed that Code, which established a milestone in the development of China's legal system.

One of the highlights of the *Civil Code is the inclusion of the Factoring Contract as a separate chapter in the contract part*. Before the implementation of the Civil Code, since the transfer of accounts receivable is the core and premise of factoring, the legal basis for factoring was based mostly on the provisions on the transfer of creditor's rights in the Contract Law of the People's Republic of China. The Factoring Contract chapter legislation greatly standardizes and provides the trial basis for courts to have lawful grounds in judging similar cases. Meanwhile, *the legislative recognition of factoring provides basic legal framework support for the development of the factoring business*, which will contribute to the healthy development of the whole factoring industry.

THE LEGISLATIVE RECOGNITION OF FACTORING PROVIDES BASIC LEGAL FRAMEWORK SUPPORT FOR THE DEVELOPMENT OF THE FACTORING BUSINESS

In general, although there are only nine clauses (761-769) in the factoring contracts chapter, which still have many points worthy of further clarification, it has already presented some advantages from the perspective of the factor.

For instance, where the creditor and the debtor of the accounts receivable fabricate that accounts receivable, as the subject matter of transfer and enter into a factoring contract with a factor, *the debtor of the accounts receivable shall not cite non-existence of accounts receivable as a defense against the factor*, except where the factor is well aware that the accounts receivable are fabricated (Article 763). Previously, following the general civil law rules, where the basis for the formation of the factoring relationship was fictitious, the factor and the creditor lost the factual basis for the establishment of the contract, and the factoring contract was deemed to be invalid. Or in the situation that the debtor and the creditor of accounts receivable conspired to defraud the factor, the contract can be revoked in accordance with Article 54 of the Contract Law. If the contract were invalid or revoked, the factor could not claim the debtor's rights to the account receivable because the account receivable did not exist. At the time that the factor asks the creditor and/or the debtor to pay compensation in a tort suit, it will face the problem of the assignment of liability for negligence in the contract, which may lead the factor not to be able to repay the principal and interest in full. After the implementation of the Civil Code, in the case of a factor in good faith, even if the accounts receivable is forged, *factors are entitled to claim full principal and interest from debtors in accordance with this article, which significantly benefits factors and reflects the law's*

protection of bona fide factors.

Another example is what has been regulated in Article 765, that is, upon receipt of a notice of assignment of accounts receivable by the debtor of accounts receivable, where the creditor and the debtor of accounts receivable negotiate on alteration or termination of the underlying transaction contract without justified reasons, which has an adverse impact on the factor, the contract shall not be binding on the factor. Since the Civil Code has stipulated that future accounts receivable can be factored, the underlying transaction contract on which the transferred accounts receivable is based may still be in the process of continued performance. *The provision mentioned above protects the rights and interests of the factor to the debtor to a greater extent, restrict the contract modification and termination rights of the parties to the primary transaction contract, and require that such modification and termination shall not adversely affect the factor*, on the realization of the factor's assigned accounts receivable claims, otherwise, must prove the existence of a valid reason.

And *the Civil Code requires a registration of the assigned accounts receivable*, which is more conducive to the factor to avoid the risk that the creditor of accounts receivable repeatedly transfers the same accounts receivable for financing. Obviously, in addition to the Factoring Contract chapter, the Civil Code embodies the rules for the establishment of a unified registration system in many articles, such as Article 414 of the Civil Code, concerning the priority rule for a double mortgage of the same property and provision of Article 745 "The lessor's ownership of the leased property shall not be against bona fide third party without registration." These clauses all reflect *China's efforts to integrate China's secured transaction rules with international rules such as Model Law on Secured Transactions*.

CHINA'S EFFORTS TO INTEGRATE CHINA'S SECURED TRANSACTION RULES WITH INTERNATIONAL RULES SUCH AS MODEL LAW ON SECURED TRANSACTIONS

Other advantages for the factor include that the *factor has the right to send a notice of assignment of accounts receivable to the debtor by itself other than relying on the creditor*.

Since 2012, China's commercial factoring has shown tremendous development trends and high potentials, which is why the factoring contracts in the Civil Code are compiled as a special chapter. Even from a global perspective, this piece of legislation in China is advanced and representative. Overall, the promulgation of the Civil Code is good news for the factor. Still, it also means that the supervision of the factoring industry may be gradually strengthened in the nearest future, which requires continuous attention from our practitioners.

THE PROMULGATION OF THE CIVIL CODE IS GOOD NEWS FOR THE FACTOR. STILL, IT ALSO MEANS THAT THE SUPERVISION OF THE FACTORING INDUSTRY MAY BE GRADUALLY STRENGTHENED

THE RISE OF PORTFOLIO LEVEL MANAGEMENT DURING COVID-19

MICHAEL ELLIS
Managing Director, EQ Riskfactor & KYC solutions

COVID-19's initial impact rippled across the globe six month ago. The readiness of SME clients to return to 'normal' trading varies enormously, with a huge range of considerations determining their preparedness such as their local regions, sectors, customer demographics, appetite to risk and own leadership skills. With so much inconsistency, it may seem impossible to accurately assess and understand the makeup of their portfolios. However, the subsequent value can be immense in what will continue to remain a competitive funding marketplace.

Where to begin

A good first step is to apply *dynamic risk scoring against your clients*. From here you can progress to a thorough review of your portfolio, assessing combined debtor exposure. As part of your portfolio review, while it is vital that you know the level of exposure to direct sectors of clients, it is also critical that you know how this is impacted across your debtor base.

A thorough overhaul of current reporting systems with a view to building a new COVID-ready suite of reports will help to give a more in-depth understanding of your portfolio. This, combined with a new rhythm of communication and collaboration with your senior team members, will greatly enhance risk monitoring. It is a time for your teams to embrace change and you need to encourage this whilst ensuring revisions of policy are adhered to.

Actions to prioritise

A priority for your business is *to reset risk parameters and covenants which are no longer appropriate in the current climate*. For example, client and debtor limits may be reassessed. By creating soft limits that trigger a review due to material change, you can be both proactive and transparent with clients as part of your strategy to support SMEs.

Other actions to consider include:
- Setting processes and policy against risk scoring.
- Use software and systems to drive adoption through AI, automation and workflows.
- Create focus lists to prioritise time on client level plans.

Lift the fog created by COVID-19

SWITCH FROM PERIODIC TO SYSTEM DRIVEN AUDIT TRIGGERS FOR EARLY INTERVENTION

Understandably, you want a clearer view of your portfolio. This can be achieved using additional data sources to enrich your monitoring and lending decisions. Face to face audits are challenging, so embrace digital alternatives such as video calls and remote audit tools for traditional verification.

Switch from periodic to system driven audit triggers for early intervention. For a 360-degree view of your more concerning clients, combine accounting data with banking and tax, which corroborates to provide a single source of truth and provides the strongest defence against both deliberate outset and circumstantial fraud.

Obtain support and advice from experts

There are a range of industry specialists who can provide services to assist during these challenging times. It may be the ideal time *to upgrade existing systems or seek advice on current process vulnerabilities*. Some businesses have used the pandemic as a catalyst for digital transformation and the design of a stronger target operating model. Recently, our consultants have assisted in detailed portfolio reviews from both lenders, and on occasion their own institutional funders.

SOME BUSINESSES HAVE USED THE PANDEMIC AS A CATALYST FOR DIGITAL TRANSFORMATION AND THE DESIGN OF A STRONGER TARGET OPERATING MODEL

As ever in receivables finance, there is risk in every advance you make. Your strength may come in your ability to maximise those recoveries. Many of our strongest clients achieve this through collaboration with external auditors, collections experts and, where sadly needed, administration specialists. Whilst this may seem a negative step that you wish to avoid, there is a degree of responsibility to our SME clients in ensuring that they obtain professional advice.

IT IS NOT THE STRONGEST OR THE MOST INTELLIGENT WHO THRIVE, BUT THOSE WHO CAN BEST REACT AND ADAPT TO CHANGE

Our experience working with clients of varying size, maturity and across global locations has seen that these steps can be adopted by all, in pursuit of a more efficient, yet lower risk target operating model.

The measures we implement today will not just be of temporary benefit. Our ability to handle change, adapt to remote working and embrace technology has proven that we can respond to the gravest of challenges. It is not the strongest or the most intelligent who thrive, but those who can best react and adapt to change.

KEVIN DAY
CEO, HPD Lendscape

FRAUD IN FACTORING / INVOICE FINANCE.

All forms of lending fall into two basic types: *secured and unsecured*. If a loan is unsecured, there is no underlying asset that the lender can get their hands on should the borrower default on the repayments. If a loan is secured, there is an underlying asset that is being used as collateral for the loan. If the borrower defaults on the loan repayments, the lender takes possession of the asset and converts it into money to repay the loan. A classic example is a mortgage on a property. If the mortgage holder is unable to repay the mortgage, the lender will take possession of the property. Another example is a hire purchase arrangement to buy a car. If you fail to make the repayments, you can wave goodbye to the car!

When it comes to *factoring/invoice finance, the asset is the outstanding invoice(s)*. The "loan" in this case is the Funds in Use balance, which increases when advances (out-payments) are made to the client for approved invoices assigned to the factoring company. *The loan is repaid when the customer of the client (the debtor), pays the invoice*, thus reducing the Funds in Use balance. At any point in time, the value of the outstanding approved invoices should be higher than the Funds in Use. If all else fails, the factoring company should be able to repay the Funds in Use by collecting all of the outstanding invoices - the asset that secures the loan.

How secure are factoring companies that they will get their money back? There are three negative scenarios when it comes to the debtor paying back the invoice: Won't pay, can't pay, nothing to pay.

Won't Pay: If a debtor refuses to pay an otherwise legitimate invoice, this is generally some sort of dispute which needs to be resolved by the client with its customer.

Can't Pay: If a debtor can't pay due to financial difficulties, this begins as overdue invoices, but eventually leads to bad debts. These are covered by the factoring company (a non-recourse agreement, bad debt protection), or client-risk, (recourse agreement) meaning the factor assigns the debt back to the client and offsets it against other, good invoices, assigned by the client (new good collateral, replaces the old bad collateral). Credit insurance may also have its part to play in this scenario.

Nothing to Pay: This is when we get into the realms of **fraud**. *If the client has fabricated a fake invoice*, the factoring company may advance money to the client, but there is no underlying real asset to secure that advance of funds (the loan). Invoices have due dates, which are generally at least a month after the invoice was raised, sometimes several months. *The first indication that the invoice was fake would occur when the factoring company tries to get paid by the debtor*, which could be several months after the invoice was financed. Another possibility is that the invoice wasn't fake, and the debtor did pay the invoice. However, rather than the money paid to the factoring company, the funds were directed elsewhere, typically to the client. Still, there is also the possibility that a criminal intercepted the invoice and overrode the bank details. When the factoring company seeks payment from the debtor, the debtor responds, "but I've already paid the invoice!".

In some countries, factoring agreements are exclusive (one factor only) and whole turnover (i.e., all invoices must be assigned to the factoring company), Which is good for the factoring company as it increases the amount of collateral. It also reduces the risk of "double factoring." In factoring environments where the client can choose to factor its invoices with multiple factoring companies, the temptation is to factor the same invoice multiple times. The debtor is only going to pay once, so somebody is going to lose. Countries where this is a problem often create central registries of invoices so that a factoring company can check to see if another factoring company has already factored the invoice.

Factoring companies must be aware of the likelihood of fraud occurring and protect themselves through a range of defensive measures. The factoring industry broadly groups fraud into two categories: circumstantial and premeditated.

- **Circumstantial:**

In the first case, we have a business that is struggling and needs cash urgently - e.g., to pay the employees. There is insufficient availability on their factoring facility, so the client is in trouble. Business owners are optimists and of course, things will always improve! There may be a sales order that is processed, and delivery is due to occur in a couple of weeks. *Why not produce the invoice a little bit earlier, submit it to the factoring company, receive an advance payment, and the urgent cash problem is fixed*! Even better, push the due date by a couple of weeks, so it matches what the date would have been if the invoice was produced at the proper time. This pre-invoicing may go through the factoring company's systems without any material problems for the factoring company as a real invoice will be raised, and the debtor will pay it - no harm done -right?

The problem with pre-invoicing is that *it potentially puts the client on a slippery slope*. Pre-invoicing can quickly evolve into optimistic invoicing. The business is even more profound in trouble now, **but** there is a big order expected any day now from one of its customers. No harm in getting the invoice prepared and assigned to the factoring company for pre-payment currently, is there? Of course, the order never materialises, and now the business has a real hole in its finances. Credit notes can be issued to cover the tracks on invoices that will never be collectable. Fake or "fresh air" invoices can be created to keep the factoring company happy. Before long, there is a vicious circle of invoices, credit notes, disputes, excuses and general confusion. The factoring client may collude with its customers to keep the pretence going. Meanwhile, the legitimate, collectable invoices, the collateral for the factoring facility, are dwindling. When the whole situation is discovered, the factoring company may find it very difficult to recover the Funds in Use position and losses will occur.

The related problem is that the client may try to direct the proceeds of the invoice (i.e., the debtor payments) away from the factoring company. With physical payment, for example, cash and cheques, these may come directly to the client, who should then bank the money into the bank account of the factoring company (or lockbox in the US). Instead, the client may hold onto the money, perhaps with the intent to forward the payment to the factoring company later, which may or may not happen. Even worse, the client may instruct the debtor to pay directly, rather than pay the factoring company, perhaps with some discount to induce the debtor to "play ball."

- **Premeditated**

With the above examples of circumstantial fraud, the circumstances of business under pressure lead to fraudulent behaviour,

FACTORING COMPANIES MUST BE AWARE OF THE LIKELIHOOD OF FRAUD OCCURRING AND PROTECT THEMSELVES THROUGH A RANGE OF DEFENSIVE MEASURES

with the business owner trying to "game the system" to deal with short terms situations. In contrast, intentional fraud is where *organised criminals deliberately target a factoring company to steal money*. Fake businesses are established to represent the supplier and its customers. There may even be legitimate trading carried out to create a business track record, before obtaining the factoring facility. Once the factoring facility is in place, the fraudster uses the advance payments from the factoring company to settle the invoices, thus creating an illusion of legitimate cash flows, effectively recycling the factoring company's cash. As each month goes by, the sales (new invoices) are growing a friendly business, but as the turnover of the business increases, so does the Funds in Use, in this case, the amount of money in the pockets of the fraudsters! As soon as the fraudster thinks that they have pushed the fraud as far as it can go or senses that the "game is up," they "disappear," leaving the factoring company with nothing to repay the Funds in Use.

Collusion between the client and its customers or, even worse, between the client and an employee of the factoring company can occur and make detection of fraud more difficult. The factoring company must scrutinise all parties involved. Increasingly, KYC (Know your Customer) due diligence and employee background checks are becoming more stringent to ensure that all parties are trustworthy. But fraudsters are clever, experts at social engineering and manipulating untruths to convince everyone that all is legitimate and above aboard. The nicest people you will ever meet!

With all fraud, it is worth considering Donald Cressey's "Fraud Triangle." He says that three things create an environment for fraud: Pressure, Opportunity and Rationalisation. The potential fraudster feels financial **pressure**, like our struggling business needing to pay the wages. There is an **opportunity**, like the ability to "game the system" with factoring. The **rationalisation** is how the person justifies his or her actions. "It's only a temporary fix and I will correct it later," "It's a big bank they deserve to help me out," "I'm only doing it so my staff can get paid" etc. All said and done, a line is crossed, and the person creates a criminal act.

In this document, we have focused on fraud related to factoring - financing of invoices. Asset-Based Lending is where the **assets** can include inventory, plant, machinery, intellectual property, as well as receivables (invoices). Fraud can occur here too but can be on a larger scale and harder to detect due to the reliance on the client to determine the value of the assets, backed up by periodic audits to check that the asset value is correct. Similarly, any facility managed on a bulk receivables basis (i.e., no detailed invoices) is more difficult to identify fraud, in particular, if it is a confidential facility. In this case, "confidential" means disclosure of the financing facility to the debtors is prohibited; this hampers the ability to verify that debts are legitimate.

All kinds of fraud have tell-tale signs that factoring companies can use to defend themselves. Right processes, sophisticated computer systems, and well-trained employees are vital to this defence. Unfortunately, this is often portrayed as a victimless crime. Factoring companies are reluctant to pursue fraudsters or publicise fraudulent activity. If a person is prosecuted for fraud, the process can take years, and the penalties may be minor.

As in most things, *in life prevention is always better than cure*.

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