NEWSLETTER / NOVEMBER 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 the newsletter In-Sight!

The newsletter starts with the Chairman's welcome that reports on the latest evolutions but insists on FCI's support and is willing to bring its members and the Industry.

In words from the Secretary-General, Peter Mulroy highlights some impact of FCI's crisis and priorities in advocacy such as credit insurance shield in the US, the New Definition of Default in Europe, and the controversial reverse factoring industry. He also introduces a new project of FCI regarding networking that will be launched in 2021.

Betül Kurtulus interviews senior executives about Islamic factoring: the product, its future, the market potential, the next step for FCI members, and the contribution of this product to increase international business volume.

A report on the recent EUF and FCI First Virtual EU Factoring Summit is afterwards presented, followed by some words about the webinar on International Factoring as a tool for Receivables Management and Financing in Bangladesh.

The new members are presented: Avuna Ltd (Nigeria), Santader Peru, BRCI (Romania), Morabaha Marina Finance Company (Saudi Arabia), and Eastern Bank Ltd (Bangladesh).

Aysen Cetintas, FCI Education Director, is sharing the collaboration with the EBRD regarding two webinars organized for their partner banks in Ukraine and Jordan.

Spyros Tsolis explains another cooperation with the Afreximbank on the Certificate of Finance in International Trade. He also shares the online training experience on risk management organized for the Latin American and Caribbean audience.

Oussama Limem, Business and Application Expert at Codix, explains how factoring supports the Covid crisis's economy from a French perspective.

Hui Wang, Q&X Credit Rating and Underwriting Co describe digital data on SME credit risk underwriting and monitoring.

Finally, the section on FCI spreading the wings reports on collaboration but also participation in other organizations' webinars during the last three months.

Enjoy the reading!

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WELCOME FROM PATRICK DE VILLEPIN
Chairman of FCI

PATRICK DE VILLEPIN
Chairman of FCI

Dear Friends,

2020 has been a year that was different from any other. In 2019 at this time, we couldn't expect what is happening now. The world changed, the economies were affected and now we are expecting a vaccine early 2021 to defeat the virus and go back to "normal".

Last year for the same edition, I spoke about the 5-year plan that was aimed to be launched in June at the Annual Meeting. But that was without counting on this virus. During the first quarter of 2020, all our habits had been reviewed, and life had changed. In September, I announced during the Annual Meeting that the 5-year strategic plan had been postponed to June 2021 for presentation to the Council. We hope to be able to organise our Annual Meeting in Washington in June 2021 and not to again have to held it virtually.

Meanwhile, we have focused on what was urgent and also needed for the members. Education is at the core of our plans as capacity building is a need to pass crisis. During that particular time, some could be tempted to try fraud to avoid financial trouble, so you, FCI members, have to pay attention to all the signs more than ever and reduce risks.

Another pillar that we are focusing on is decentralization. In building regional centers, I am pleased to announce that FCI, jointly with our partner AfreximBank, will bring on a new Africa Regional Manager to join us on the 1st January 2021.

Advocacy is also one of our central pillars. FCI should be more visible and work closely with our regional partners and stakeholders: AfreximBank, African Development Bank, EBRD, the Asia Development Bank (ADB), and IDB Invest in the Americas. More visibility is mostly required for emerging factoring markets. Recently, we've had notable success in Bangladesh, Nigeria, Cambodia and many others.

Technology is also a core focus. Edifactoring will become Blockchain-ready, with a new look-and-feel, embedded with the most modern and sophisticated software, multiple new functions, future capabilities such as a buyer/seller on-boarding tool, A-I (artificial intelligence) capability for dilution control, and driven by a powerful community-based app. We expect to have the roll-out of this new system latest by October 2021.

Finally, the last pillar is Correspondent Factoring: We must focus on training, technology, and service quality to build a strong network, improved service levels, enhanced credit response times, and more robust collection efforts/dilution analysis. The rise in risk is a significant opportunity for FCI members, as more and more companies will want the security, protection, and liquidity that international factoring affords.

Networking is still core for FCI, in 2021 we will organise online networking events, Peter will elaborate on this in the next article.

I can reassure you that FCI will continue to support our Industry's future by enhancing the network, investments in technology, advocacy, education, promotion, and providing thought leadership.

Best regards,

Patrick

PETER MULROY
Secretary General

A WORD FROM THE SECRETARY GENERAL

A few weeks ago, FCI organized its first-ever Virtual Annual Meeting on the 23rd of September. The online conference was attended by over 400 participants, representing 73 countries. The meeting kicked off with an update from the FCI Chairman, Patrick de Villepin, followed by a report by the chief economist from Atradius, and including the Year in Review, technical committee reports, and regional updates, including a report from the EUF Chairman, Francoise Palle-Guillabert. 2020 revised and 2021 annual budgets were approved, along with the 2019 FCI audited BDO annual report. A recording of the event can be downloaded by going to https://vimeo.com/461847273.

As you know, the 5-year strategic plan was postponed, to be rolled out in 2021 due to the pandemic. Since this milestone event, we are in the midst of a second wave in many parts of the world. Hence, outcomes today are harder to predict, but we are optimistic about the new year with the coming vaccines!

The impact of the crisis

As we are about to enter 2021, I wanted to reflect on some of the current challenges facing our industry, our members, and our clients. I have spoken with many of you and have heard of the industry's tremendous stress stemming from reduced demand and increased risk, resulting in a reduction in trade credit and hence access to finance for SMEs. I had reported in the last Insight that the industry had shown a decline in factoring volume for the first half of 2020 of approximately -6% in Europe, -10% in the Americas, and a – 10% in Asia. As reported by the China Banking Association (CBA), China showed a decline of -11% in the 1H2020, with domestic volume down by -4% but international down by -46%. FCI's cross-border two-factor business was down by 25% in transaction volume for the first half of 2020 as well. Hence, based on both trends, I anticipate international factoring business has experienced a far greater decline overall in the first half of 2020, anywhere between -35-45% globally. I did hear that although some large reverse factoring programs were reduced or eliminated due to bankruptcies, fraud cases, and financial conditions, some of our largest group members experienced an increase in reverse factoring business in the 1H2020. But besides this outlier, most business in our industry is down. Although business volume improved in the 3rd quarter across the board, the public lockdowns resulting from the second wave in the 4th quarter will harm the business overall. This period is normally the busiest quarter of the calendar year for the factoring sector.

I ANTICIPATE INTERNATIONAL FACTORING BUSINESS HAS EXPERIENCED A FAR GREATER DECLINE OVERALL IN THE FIRST HALF OF 2020, ANYWHERE BETWEEN -35-45% GLOBALLY

Besides the impact COVID-19 has had on business, there are some other challenges that the factoring industry is facing. As the EU accounts for over 60% of global volume, Europe truly impacts the factoring sector globally. In the previous Insight, I had mentioned that the creation of credit insurance shields in Europe helped support, at least temporarily, through this worst of this crisis, the factoring community and ultimately SMEs in Europe. The continuous flow of trade credit insured lines supported by these large shields helped ease the pain for companies who use the credit backed receivables to obtain liquidity from the factoring market. Even if these programs have limited effect, as their support will only last through the lockdown period or until the end of the year, we can acknowledge that these important players' reductions and cancellations of credit limits have remained acceptable until now. However, that same sentiment is not shared in North America and elsewhere, where no investments in such shields have been achieved. That is why FCI joined forces with the largest credit insurers Atradius, Coface, Euler-Hermes, and ICISA, the global credit insurance association based in the Netherlands, to advocate and lobby the US government/US Treasury to create a similar credit insurance shield. As this took place during a presidential election year, the reality is there will be little done. However, we at least shared with them the success stories that their European counterparts achieved.

New Definition of Default

THE NDOD, AS IT'S CURRENTLY WRITTEN, WILL RESULT IN A SIGNIFICANT ADVERSE IMPACT ON THE FACTORING INDUSTRY

However, it wasn't all sunshine and roses in the EU. The launch of the New Definition of Default (NDOD) has sewed great concerns across the factoring sector. The NDOD was introduced to the European Parliament in 2016 and is regulated by the European Banking Authority (EBA), which is expected to go into effect on the 1st of January 2021. The EUF together with FCI have been in discussion with the EBA for the past few years on this topic, as it represents a great example of the unintended consequences when regulations impacting the banking sector are affected, especially when regulators do not take into account the special nuances and unique characteristics of what factoring is all about. The NDOD, as it's currently written, will result in a significant adverse impact on the Factoring Industry. In some markets, this will increase provisions and potential losses when, in fact, the likelihood of factoring leads to default is very remote. We believe the issue stems from a lack of understanding of what factoring is at the government level.

The underlying issue stems from the legal differences between factoring and commercial loans. Trade receivables under a non-recourse factoring transaction must be differentiated from commercial loans. A loan is a legally binding agreement that a borrower undertakes and commits to make repayment at a particular date in the future. In the loan agreement, there are typically no conditions stipulated that would impact the loan's repayment. On the other hand, factoring, as we all know, is an agreement between the Factor (the assignee) and its client (the supplier/assignor) to assign or purchase a non-financial trade receivable normally on a non-recourse basis in lieu of disbursement of cash to the supplier. The client's debtor (the underlying buyer/customer and the ultimate obligor, who is in charge of paying the invoice) generally does not enter into any contractual relationship with the Factor. Hence, these trade receivables' collectability is instead subject to contractual clauses setting conditions for payment (just the opposite as compared to a traditional loan). The due date of an invoice cannot be considered as fully mandatory for the obligor to make payment as in the supply contract there are usually some commercial clauses (terms of delivery, service level conditions, certain compliance standards in terms of the goods or services provided, etc.) that limit the possibility to enforce payment of the invoice even if the due date has expired.

As a consequence, payment by the buyer is always subject to operational procedures as well as procurement conditions that can cause delays compared to the due date of the obligation. Hence, it is impossible to create regulations to define definitions of default against commercial transactions when so many variables haven't been taken into consideration! In other words, the application of factoring and specifically trade-based receivables against loan-based principles as the EBA has done unfortunately just not well thought out.

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As a result, we had organized a meeting with the new Executive Director and his staff from the EBA last week. We emphasized that the NDOD will result in a significant increase in provisions and losses when, in fact, the likelihood of factoring leads to default is remote. To automatically identify the buyers' default based on the due date of invoices is misleading at best and ultimately creates unreasonably high levels of default exposures, which are inconsistent with the obligor's true financial condition. We have asked for a derogation against the rules as they apply to the factoring industry or at a minimum and following the example of the Basel Committee, which postponed by two years the implementation of Basel III due to the crisis, to defer implementation for at least the next 24 months of the date of application of the new materiality threshold and the guidelines on the definition of default.

WE HAD ORGANIZED A MEETING WITH THE NEW EXECUTIVE DIRECTOR FROM THE EBA. WE EMPHASIZED THAT THE NDOD WILL RESULT IN A SIGNIFICANT INCREASE IN PROVISIONS AND LOSSES

SCF: Reverse Factoring/Payables Finance

The other important topic of discussion has been the rise in very critical media reports on the state of the reverse factoring industry. When used appropriately, reverse factoring enables buyers and suppliers to optimize their working capital and strengthen their relationships with each other. However, reports relating to the misuse of payables finance, notably around suppliers being forced into accepting unfavorable terms (also referred to as "bullying" by the media), are extremely worrying. With Abengoa and Carillion's bankruptcies, which spotlighted the poor accounting practices related to the lack of financial disclosure of such programs, additional scrutiny has been targeted against the industry. And the extension of trade terms for the buyer to improve their cash conversion cycle, which adversely impacted SMEs' financial well-being (stemming from aggressive tactics used by larger Corporate Buyers to convent suppliers into these programs), damaged the reputation of the industry. We have all seen numerous articles over the past year (including some from Fitch and Moodys), which have negatively portrayed the industry's practices. And finally, with the decision by the IFRS and FATF, two of the leading accounting standards boards globally are contemplating to consider changes concerning how issues like reporting/transparency by corporate buyers should be conducted and how payables on the balance sheet of the buyer should be treated from an accounting perspective, whether as trade payables or actual debt. As a result of these issues, FCI together with the Global Supply Chain Finance Forum (GSCFF) has helped lead the discussion on how this rhetoric has hurt the industry, and a campaign was waged to help bring awareness and understanding to the industry to the public, focusing on four primary themes:

FCI TOGETHER WITH THE GSCFF HAS HELPED LEAD THE DISCUSSION ON HOW THIS RHETORIC HAS HURT THE INDUSTRY, AND A CAMPAIGN WAS WAGED TO HELP BRING AWARENESS AND UNDERSTANDING TO THE INDUSTRY TO THE PUBLIC

- Regarding the extension of trade terms when implementing such contracts, the industry agrees that SMEs should never be "bullied" to join such programs. Reports of such practices are highly concerning. However, they ignore the positive attributes that can be achieved through well-structured reverse factoring programs, which help buyers and therefore assure the health of the overall supply chain and provide prompt access to suppliers on an affordable basis addressing the systemic SME cashflow challenge.

- Suppliers should feel that there is absolutely no obligation to participate in such programs. If they are not in urgent need of cash, they can opt to receive payment in full on the original due date. The report strongly encourages finance providers to follow accepted industry practice in considering extensions of terms.
- Liabilities rising from SCF programs do not create additional financial risk above and beyond those that arise from trade between a buyer and a seller. Negative outcomes can be avoided by implementing a strong credit analysis of a corporate balance sheet before engaging in an SCF program.
- Transparency of financial reporting relating to the usage of reverse factoring is desirable but requires developing parameters for disclosure incorporates financial statements in coordination with accounting standards bodies.

We are hearing that the accounting boards will first deal with this issue of transparency, with some initial commentary about this coming out of their most recent meeting. It seems the topic of accounting treatment will not be dealt with at this stage and potentially considered in the future.

Conclusion

As the new year approaches, FCI will launch a new series of events, referred to as Virtual Regional Networking E-vents. The concept is to organize a two-hour webinar to update the members on the industry's most impactful issues today. This will follow a networking event, whereby members in each region will showcase their company to the entire membership. So members will set up a short, 15-minute meeting with those members from that particular region. Members in each region will be able to have the time and spotlight to showcase their business and get to know their counterparts better. We plan to launch them over the next six months:

- Europe: 26-27 January
- Asia: 2-3 March
- Africa & Middle East: 23-24 March
- Americas: 20-21 April

FCI WILL LAUNCH A NEW SERIES OF EVENTS, REFERRED TO AS VIRTUAL REGIONAL NETWORKING E-VENTS

As 2020 has been such a challenge on the industry as a whole, we are delighted to share the news with you that FCI received the "Financial Innovation Award 2020: Best Trade Finance Innovator Global" by CFI, a global publishing house focused on trade and global development. You can find the link here: https://fci.nl/en/news/press-release-fci-best-trade-finance-innovator-global-2020.

We hope other good news will follow, like the successful roll-out of the vaccine, which will certainly provide a significant boost to the correspondent relationships globally, increase new business opportunities between members, and ultimately a rise in cross border factoring volumes in the years to come.

CONNECT

COUNT DOWN FOR ISLAMIC INTERNATIONAL FACTORING

BETÜL KURTULUS

Regional Director CEE, SEE and the Middle East

During the Annual Meeting in Vietnam in June 2019, we announced the kickoff of creating a new Islamic Factoring Chapter within FCI. FCI Chairman, Mr. Cagatay Baydar, and FCI Secretary General ,Mr. Peter Mulroy, signed an MOU with the Islamic Trade Finance Corporation (ITFC) to lead the chapter on behalf of FCI. To understand the way ahead of the International Islamic factoring, Betül Kurtulus (BK), FCI Regional Director CEE, SEE and the Middle East questions experts to understand the new product's potential.

Cagatay Baydar, FCI Executive Committee Member, General Manager TEB Factoring

BK: How is Islamic International factoring developed in FCI? What is the importance of this product for SMEs, which are the essential parts of the economies under pandemic conditions?

If we go back a little further to remember the studies on International Islamic factoring, FCI has established a working group with the FCI Legal Committee members and FCI members doing Islamic Banking. This group created a supplementary agreement that would enable the existing FCI members to cooperate with Islamic financial institutions. The GRIF has been revised for this purpose, and signing the Supplemental Agreement for Islamic International Factoring will eliminate the deviations.

After the FCI Council approval of this Supplemental Agreement in 2018, FCI would have active members doing Islamic banking. Following this study, FCI increased the number of its members doing Islamic Banking.

I want to remind you that Shari'a allows trade with people from other regions, which means international transactions between one Islamic and one non-Islamic factor is possible.

Islamic factoring is an increasingly important contributor to the financing of international trade, specially for SMEs, which is the vulnerable and most important part of our economies contracting with the effect of Covid-19; factoring offers solutions as an alternative. Islamic international factoring is a product developed to support SMEs and increase financing opportunities for domestic and international trade. It presents SME's and supply chains worldwide with new funding needed in emerging and developing economies.

BK: International factoring and ıslamic international factoring aren't that different from each other. What does this mean for our membership?

Traditional international factoring is in full conformity with Islamic Shari'a. FCI members can do business together with Shari'a applying financial institutions through a supplementary agreement. Moreover, Islamic Factoring is not limited to just OIC (Organization of Islamic Cooperation) countries. Still, it has enormous potential for companies around the world.

This is a new product for the Islamic world and FCI membership. Over time and as the product enlarges, Islamic Factoring will become a better-understood financing model that is as inclusive as empowering for SMEs of all shapes and sizes. As FCI, we are

"OUR NEW PRODUCT, ISLAMIC INTERNATIONAL FACTORING, IS READY FOR ALL OUR MEMBERS"

ready to support the product for business between our members and regulators. We support the product through regional online meetings and physical meetings.

Our new product, Islamic international factoring, is ready for all our members. It is technically the same but has slight differences in its usage principles. The new product will introduce all of us to the market we have never touched until today.

Yüce Uyanık, Member of the Legal committee

BK: Traditional international factoring is in full conformity with Islamic Shari'a. FCI members may easily get into a correspondent relationship and act together with Shari'a-applying financial institutions through a supplemental agreement. In this sense, how do you think about the market potential of Islamic İnternational Factoring within FCI? What should be the next step for FCI members?

FCI is continuously looking for new horizons to promote and develop receivables financing. On the other hand, "*Islamic finance is proliferating and has enormous potential for further growth*". The latter is a quote from a report of the International Monetary Fund (IMF).

Indeed, Islamic Finance Assets reached 2.4 trillion US$ in 2017 and is expected to grow up to 4 trillion dollars in a few years.

Of course, as applied in UAE, Malaysia, and Turkey, Islamic factoring has different rules than conventional factoring financing. However, in international factoring, especially in the General Rules for International Factoring (GRIF), we do not discuss correspondent factors' financing. The GRIF deals only with factoring of approved or unapproved receivables.

This facilitates factoring transactions between Islamic Financial Institutions (IFI) and conventional factors as there is no rule (except very few covered in the supplemental agreement) in the GRIF conflicting with Islamic Law.

"IT IS DEFINITELY A FRUITFUL NEW HORIZON FOR EVERYBODY"

The only restriction may be the sales contract's goods, as Islamic contracts may not include some products' trade. This cannot be called a problem in two-factor business as the Islamic IF may easily reject approval when there is an application concerning a non-permitted trade. For the rest of the rules, GRIF is fully applicable. The only extra work will be the signing of the Supplemental Agreement of Islamic International Factoring.

Will it worth doing this? I think Islamic International Factoring will take FCI's two-factor volume to very high levels. Regarding the 2016 trade figures of 57 Organisation of Islamic Cooperation (OIC) countries with other countries, we can see a substantial potential trade volume for the future.

Following this table created using World Bank statistics, OIC countries' trade volume mainly comes from their trade with non-Islamic countries.

FCI Members	Country	Total Volume with OIC	Imports from OIC	Exports to OIC	OIC
47	China	327.194.784,09	89.245.126,77	237.949.657,32	
9	United States	183.886.036,78	78.110.489,49	105.775.547,29	
8	Germany	121.723.996,89	37.400.792,71	84.323.204,18	
8	India	119.871.677,76	57.512.140,12	62.359.537,64	
3	Japan	117.279.997,41	49.423.734,00	67.856.263,41	
5	United Arab Emirates	107.516.287,28	37.127.150,49	70.389.136,79	1
11	Italy	106.342.985,79	54.650.729,52	51.692.256,27	
8	Singapore	94.024.066,89	50.906.668,66	43.117.398,23	
4	France	87.440.168,58	37.696.061,31	49.744.107,27	
2	Korea, Rep.	80.893.998,07	26.819.490,07	54.074.508,00	
14	United Kingdom	60.354.336,65	32.344.210,46	28.010.126,19	
6	Spain	59.713.576,24	30.730.179,96	28.983.396,28	
2	Thailand	54.985.222,08	20.901.883,55	34.083.338,53	
11	Russian Federation	51.330.786,02	10.729.534,23	40.601.251,79	
5	Netherlands	50.101.166,54	28.924.927,71	21.176.238,83	
0	Saudi Arabia	48.201.664,58	19.701.653,70	28.500.010,88	1
20	Turkey	47.507.325,53	17.564.362,96	29.942.962,57	1
1	Switzerland	40.576.565,88	21.482.165,45	19.094.400,43	
4	Belgium	37.510.140,00	16.870.617,45	20.639.522,55	
3	Malaysia	31.621.772,38	12.289.630,78	19.332.141,60	1
171	Total 1st 20	1.828.076.555,44	730.431.549,39	1.097.645.006,05	4
179	Others (201)	683.392.396,69	327.853.210,66	355.539.186,03	52

The first 20 countries listed above are also very active in FCI two-factor transactions. Therefore, I think, not 10 percent or 1 percent of this 2.5 trillion dollar trade volume, if FCI can involve in 0.1 percent of the volume, it makes 2.5 billion US dollars two-factor business volume a year. It is definitely a fruitful new horizon for everybody.

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Fatma Çınar, International Relations Manager, Participation Banks Association of Turkey

BK: Could you please give brief information about TKBB and describe your cooperation with FCI?

The Participation Banks Association of Turkey (TKBB) is a professional public institution acting as a non-governmental organization (NGO) established by the Banking Law's relevant provision. The TKBB is the primary representative of Turkey's participation banking sector and works with the government, regulators, and other stakeholders to increase public awareness and understanding of its contribution to the Turkish economy. The TKBB has a range of working committees to support member banks' priority issues and conduct extensive training programs. All participation banks in Turkey must be a member of the TKBB within one month of obtaining a banking license. Today, six participation banks are members of the TKBB. As one of the primary missions of TKBB is to develop and improve product range and service quality for ensuring a healthy and sustainable development of participation banking in Turkey, we do significantly consider our cooperation with FCI to enhance product and service coverage of participation banks. We organized a joint workshop with FCI in September 2020 to inform our member banks about FCI, its activities globally and opportunities for the Turkish market. After this, we are delighted that some of our member arranged bilateral meetings with the Regional Director of FCI to onboarding the product and enhancing their service coverage for Turkish foreign trade companies.

WE DO SIGNIFICANTLY CONSIDER OUR COOPERATION WITH FCI TO ENHANCE PRODUCT AND SERVICE COVERAGE OF PARTICIPATION BANKS

BK: What is the role and importance of Turkey for the International Islamic Factoring Market?

THE TKBB HAS THE VISION TO RAISE THE MARKET SHARE OF THE PARTICIPATION BANKING SECTOR TO 15% BY 2025 AND TO DELIVER WORLD-CLASS FINANCIAL PRODUCTS AND SERVICES.

The TKBB has the vision to raise the market share of the participation banking sector to 15% by 2025 and to deliver world-class financial products and services. Considering this global vision, with the drives of the strategic position of Turkey as a cross point at the network of international trade and well-deserved reputation and gradual success performance of Turkey at FCI, we believe that Turkey will also be a role model country for International Islamic Factoring with its professionally organized, strong and eligible participation banks. This will enable us to increase our market share domestically and internationally among banking and FCI industries. We can foresee that International Islamic Factoring will play a significant role in developing trade finance activities of participation banks globally and increasing their trade finance customers. It is also agreed that this product will be easily adapted to participation banks' supply chain activities, which has a symbiotic relationship with the current product range of participation banks.

Eşref Said Unlü, Manager of Foreign Trade and Treasury Operations, Kuveyt Turk Participation Bank

BK: How do you define the international Islamic factoring product within your other trade solutions?

Kuveyt Türk is the leading participation bank in Turkey, the largest asset size, operating with over 400 branches and 7.000 employees. The major shareholder

KFH, Kuwait Finance House, based in Kuwait, is the second-largest Islamic bank globally.

In the most general sense, we define conventional finance products and Islamic finance products are technically similar, principally different, but peacefully co-existing. Suppose we should talk about especially FCI Islamic Factoring product. In that case, as we noticed during the design phase of the product in our bank, the transaction flow complies with Islamic finance principles.

TECHNICALLY SIMILAR, PRINCIPALLY DIFFERENT, BUT PEACEFULLY CO-EXISTING

Mainly the whole turn over the principle of factoring will enable us to be at the center of our customers' trade and support the growth of trade, and as such, FCI Islamic factoring product will open a new window into our trade finance solutions.

BK: How do you see the contribution of this product in increasing your international business volume?

Within our current products, we offer our customers export financing through LCs, bills of exchanges, also pre-shipment export financing. The open account exports were missing under this scene since our bank, and the other Islamic Financial Institutions don't have any structured product for our clients. However, it is the most commonly used method in Turkey's export share.

We think that the FCI Islamic Factoring for open account exports is an area of development for the Islamic Finance sector and Islamic finance products end-users. FCI Islamic factoring product will have an important place in our bank's trade finance solutions and will contribute tremendously to our trade finance volumes in this field.

Finally, it should be added that there will be a trade finance volume increase for Kuveyt Türk, Turkey's pioneer Islamic bank, and the entire Islamic banking sector in Turkey over time.

Erkan Coplugil, Fidens Consulting

BK: What are the differences between conventional banking and Islamic Banking in terms of receivable finance? Do you think Islamic Banks have disadvantages compared to conventional banks in terms of international factoring?

The classical conventional banking is mainly focused on financing the clients, based on its creditworthiness and financials. Interest-free banking is also based on the client's credibility. Instead of financing the clients directly, the workflow and documentation are based on the client's sales/supplies where the bank is involved in the trade, which makes the process very similar to the receivable finance scheme.

So, it is much easier for the Islamic Banks to understand international factoring basics and adapt their organization and processes to FCI transaction flows and rules.

IT IS MUCH EASIER FOR THE ISLAMIC BANKS TO UNDERSTAND INTERNATIONAL FACTORING BASICS AND ADAPT THEIR ORGANIZATION AND PROCESSES TO FCI TRANSACTION FLOWS AND RULES

BK: What does Islamic Factoring mean to conventional banking and FCI members?

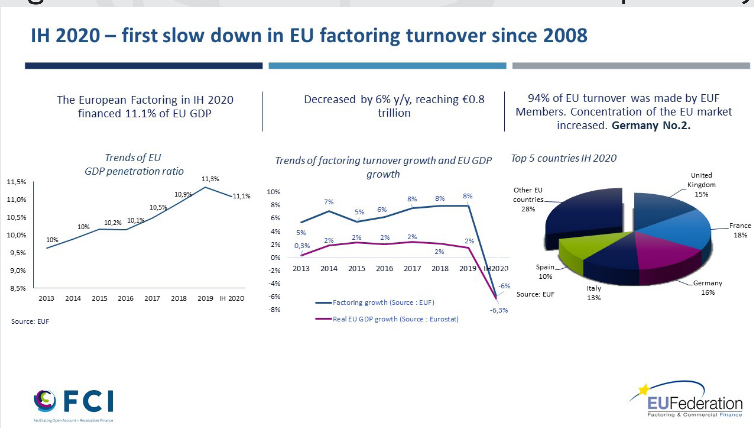
Islamic Factoring scheme in FCI, with its legal structure and rules, can be a bridge for current members, a door to access the Islamic banking world, serving new clients which have not met the FCI services before and cooperating with new factoring companies especially in countries where we have just a few or no members yet.

EUF AND FCI HELD THEIR FIRST VIRTUAL EU FACTORING SUMMIT

GWENDOLINE DE VIRON
Head of Marketing and Communication

On 6 November, the EU Federation and FCI held their first online EU Factoring Summit in the COVID World. The webinar was attended by over 200 participants from around the world.

Françoise Palle-Guillabert, EUF Chairperson, introduced the webinar and highlighted the accomplishments of the EUF since she started her mandate as Chairman in 2018. EUF has numerous achievements including a significant reduction in long term liquidity requirements, NPL (Non-Performing Loans) with a more granular approach to factoring, and AnaCredit for which the EUF obtained some modifications. The association is still working on many advocacy activities including the EBA guidelines on loan origination and monitoring, an effective prohibition of ban on assignment, promotion of factoring as a response to the late payment initiative, implementation of Basel III for which new definition of default and credit insurance will remain sensitive topics. Françoise Palle-Guillabert concludes by highlighting "A great challenge still awaits us for the years to come with sustainable finance. Factoring has a role to play in promoting sustainable growth and development throughout the choice of activities to be accompanied by factors".

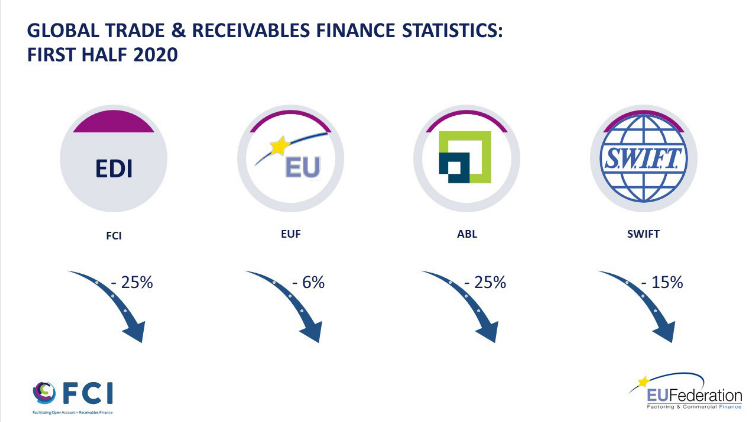


Magdalena Barczak, Chair of EUF Economic and Statistics Committee presented the 2019 final statistics and first half 2020. The final 2019 statistics can be found on EUF website. As expected, 1H 2020 shows the first slow down in EU factoring statistics since 2008 with a drop of -6%. Leading countries in the EU suffered a big slump. Nevertheless, some countries like Germany, Denmark, the Netherlands, Norway, and Poland showed an increase during the first half 2020.

A GREAT CHALLENGE STILL AWAITS US FOR THE YEARS TO COME WITH SUSTAINABLE FINANCE. FACTORING HAS A ROLE TO PLAY IN PROMOTING SUSTAINABLE GROWTH AND DEVELOPMENT THROUGHOUT THE CHOICE OF ACTIVITIES TO BE ACCOMPANIED BY FACTORS

Peter Mulroy, FCI Secretary General presented the global picture of the Factoring Industry, reporting a 5.4% increase in global volume in 2019. However, the figures are much more challenged in 2020. In comparison to the situation of factoring in the EU, the rest of the world seems to be experiencing more difficulties. Besides the 6% decline in the EU for the first half 2020, FCI also reported a drop of -25% in transaction volume in their EDI platform in the same period, including a drop in Asset Based Lending activity with the same negative figure of -25% as reported by the SFNet in the 2nd quarter 2020.

Patrick de Villepin, FCI Chairman, moderated a panel on the impact of COVID-19 in the EU. Different regions were represented with Magdalena Wessel (DKF,



Germany), Fausto Galmarini (Assifact, Italy), Søren S. Larsen (Midt Factoring A/S, Denmark), Andrzej Zbikowski (Polish Factor Association, Poland) and Louis-Marie Durand (Euralia, the public affairs agency of the EUF, representing EU). The panellists agreed that the situation in 2020 is difficult for the factoring industry even if Germany shows better results. The various government initiatives to support the financing of SMEs helped the economies in the EU during these difficult times. The future will depend on how the Coronavirus evolves so none of the panellist risked to give a clear vision of the of the future. But the outlook for 2021 is seen more positively for the global economic situation.

Diego Tavecchia, EUF Chairman of the Prudential and Risk Committee presented the more relevant issues facing the factoring industry in 2020/2021 namely the EBA Guidelines on loan origination and monitoring, the new definition of default and Basel III.

Magdalena Wessel, EUF Chairman of Legal Committee reported on the main legal advocacy issues being "EUNIFICATION" of AML (anti-money laundering), the EU Supply Chain Finance study, the regulatory gap in Rome I-regulation and the review of the late payment directive.

After a short Q&A, Patrick de Villepin finished the online Summit highlighting the important role the EUF plays for our industry today more than ever and confirming FCI's support regarding the lobbying of the new definition of default with the EBA. He concluded by saying "Even though we will experience a bumpy year ahead, Factoring will be in high demand once the crisis subsides. In such a difficult environment, companies will look to mitigate the risk of their receivables."

Discover some testimonials about the online event:

"An example of how to share experiences and researches while we feel close each other thanks to digital services. Stay safe and connected!" Ferrarotto Pasqualino, UniCredit Factoring SpA

"A comprehensive and uptated view of factoring industry in our days." Iliadi Aspassia, ABC FACTORS

"Very interesting event with high quality content an all levels (statistics, review on legal and compliance developments etc) and very good discussion on Covid impact along with state initiatives for supporting corporates through factoring and credit insurance in EU state members" Alexandros Kontopoulos, NBG Factors/ Hellenic Factors Association

"A very good event that helped me better understand the current context, the difficulties of each country but also those common to all as well as the specific measures taken by each country as well as those at EU level" Camelia Stan, Instant Factoring

As always, EUF / FCI meetings are of a great support to better understand the underlying/ fundamental trends in the economy. Laurent Gourévich, Coface

CONNECT

INTERNATIONAL FACTORING AS A TOOL FOR RECEIVABLES MANAGEMENT AND FINANCING IN BANGLADESH

THOMPSON LUI

Regional Manager South and Southeast Asia

The webinar was organized on 8 September with the Bangladesh Institute of Bank Management (BIBM). Ahmed Jamal, Deputy Governor of Bangladesh Bank, was present in the program as the chief guest. Dr. Md. Akhtaruzzaman, Director General of BIBM, Chaired the Program.

Ali Reza Iftekhar, Chairman of Association of Bankers, Bangladesh Ltd., and Managing Director and CEO of EBL; Peter Mulroy, Secretary General of FCI; Thompson Lui, Regional Manager South and South East Asia of FCI; Dr. Prashanta Kumar Banerjee, Professor and Director (Research, Development & Consultancy) of BIBM spoke among others at the event.

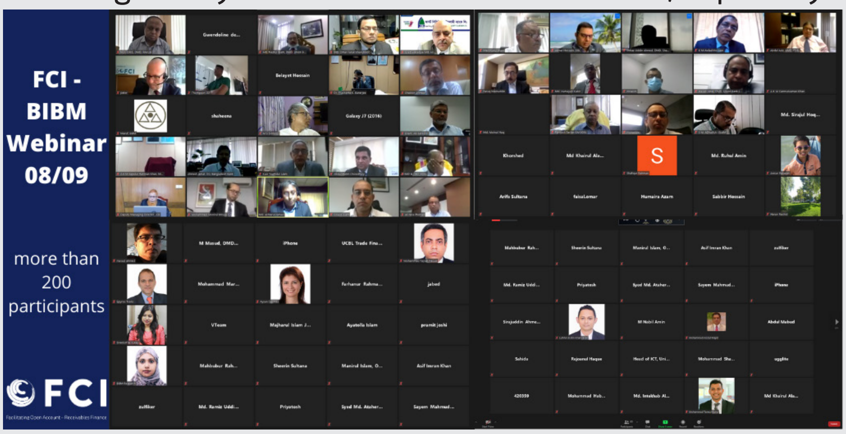
More than 200 participants, including senior bank executives, academicians, media representatives, faculty members of BIBM, took part in the International Webinar.

Addressing the event, Mr. Mulroy said, "International factoring is a $600-billion market popular in the European Union and North American countries than the South and South Asian region."

FCI Secretary-General took the example of India, where the Factoring Regulation Act passed in 2016. Since then, its factoring market volume has grown by double-digit every year, and its economy ballooned. Bangladeshi companies, especially apparel exporters, can benefit from services like factoring, while financial institutions with good track records can also help those companies thrive further. Highlighting factoring risks, Mr. Mulroy said, "Fraud is the biggest killer of any companies doing factoring. When a company buys receivables, there are contract risk, dilution risk, default risk, etc. But the point is a service provider can manage risks looking into the company's dilution history and getting support from an import factor to negotiate with the buyer about dilution issue."

On challenges towards popularising factoring here, Dr. Banerjee said lack of capacity building in both supply and demand side, unawareness among businesses and financial service providers, and scarcity of learned professionals are key challenges. Sometimes foreign buyers do not come to Bangladesh because of the absence of factoring, which reduces complexity in international transactions, he observed. It takes time for local firms to get payments against their invoices through traditional means like letters of credit or documentary collection, Mr. Banerjee said.

Mr. Lui suggested Bangladeshi banks and other financial institutions invest in education on factoring as FCI will provide its platform for networking with global factoring companies. He said factoring is very common in certain industries, especially in the clothing industry, where long receivables are part of the business cycle. FCI can help Bangladeshi companies get a membership and connect with relevant global leaders, Mr. Lui added.



This webinar was organized following the Bangladesh Bank issued a circular allowing the 'factoring' mechanism in Bangladesh on 30 June.

Introduction to Factoring and Receivables Finance
Fundamentals on Domestic and International Factoring
e-Learning
FCI
Facilitating Open Account – Receivables Finance
Learn from the Leaders of the Receivables Finance Industry
Join the 10,000 students that have successfully followed the FCI Education Programmes!
FCI Academy
Learn from the Global Leaders of Receivables Finance
10,250
students followed FCI online courses
9 courses for members, 2 courses open-to-all
2,500
delegates joined FCI workshops and seminars
Topics such as Sales, Risk, Legal, Operations
52
years of accumulated knowledge
to create a complete education offer
www.fci.nl/en/academy
FCI Career Path 3-level professional development programme
Specialised Courses: Risk Prevention Sales & Marketing Legal
Certificate Programmes: Sales & Marketing Legal Aspects Risk Management

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

AVUNA
IDEAS . INNOVATION . INVESTMENT

AFFILIATE

NIGERIA

Founded in 2019 in Lagos, Nigeria, by Anire Ojuyah, Avuna Trade is dedicated to improving cross-border business and driving growth in export. Avuna Team looks forward to provide the much needed support for businesses involved in export, to see them thrive and scale. This is a cause which they are passionate about. Cross-border trade has its challenges but with vast experience in this space they have modeled processes to provide ease to facilitate global trade. Armed with market intelligence and data Avuna Trade provides a wide range of solutions which include finance/credit availability, logistics and compliance providing necessary information, legal and documentation support.

More information on their website: https://avuna.xyz

Santander

ASSOCIATE

PERU

Santander Peru is part of Banco Santander Group, one of the biggest banking corporations in the world, with a meaningful market share in 10 core markets in Europe and the Americas and the largest bank in the euro zone by market capitalization.

Santander Group currently counts with 203 thousands employees, 4.1 million shareholders and are one of the top 3 banks in customer satisfaction in 7 countries.

Santander Perú was founded in 2007 committed to working in a simple, personal and fair way. Santander Perú is focused on serving wholesale banking clients with turnover levels above 10 million dollars. They currently have a level of assets of USD 1,730 million and closed the last period with a net profit of USD 30 million.

Locally, Santander Perú is currently ranked eighth in corporate banking, count with 142 employees, USD 2,734 million credit to customers and USD 1,655 million deposits to customers.

For further details, please visit https://www.santander.com.pe

ASSOCIATE

ROMANIA

BRCI - Banca Română de Credite şi Investiţii is of the youngest banks in Romania, created at the beginning of 2014.

We target corporates, financial institutions, public sector and retail clients. We build safe and rewarding investment solutions for our private banking clients.

We focus on fast delivery, advanced digital technology and remote transactional solutions for 360º accessibility. Our flexible and efficient infrastructure ensures fair operating prices.

On February 28, 2020 Mr. Sanjeev Gupta became the new majority shareholder of the Bank.

The business lines and product services are listed as under:

- Corporate Banking
- Plain deposits standard & non standard conditions
- Online account opening, internet banking and phone transactions
- Entire array of bank products, in personalized conditions

The Bank has a valid and fully functional MasterCard issuing license for credit cards and multicurrency debit cards, as well as entire operational framework in place; currently there are no active cards in the market

More information on their website: https://www.brci.ro

ASSOCIATE

SAUDI ARABIA

Morabaha Marina Finance Company ('MMFC") is considered one of the leading finance companies in Saudi Arabia that provides financing solutions to Retail and SME's, offering Sharia complaint products such as Tawarruq and Ijarah.

MMFC, who is regulated by Saudi Arabia Monetary Authority, was established in 2012, in Riyadh, with the objective to take a progressive grow throughout the Kingdom of Saudi Arabia and abroad.

Our commitment is to facilitate a wide range of Islamic financing products that are tailored to personal needs and business development. In personal finance, we have managed to reach out many different individuals all over the country through our branch network to support their social needs and commercial investment. With SME's, we have contributed well in transforming their aspirations into real opportunity to assist in their growth and expansion, dealing with various industries such as commercial, service, entertainment, transportation and industrial. This approach has been mainly in line with the Saudi Vision 2030 and the other government initiatives.

MMFC is well equipped with professional and skilled employees who are of high qualifications and have experience in the national and international markets especially in the financial and banking sector.

The company is continuously exploring the opportunities in the benefit of utilizing technologies within the finance sector, and in the delivery of newly structured products that meet clients' needs.

More information on their website: https://mmfco.net/en

Eastern Bank Ltd.

ASSOCIATE

BANGLADESH

With a vision to become the most valuable financial brand in Bangladesh, Eastern Bank Limited (EBL) began its journey in 1992. Over the years EBL has established itself as a leading private commercial bank in the country with undisputed leadership in corporate banking, international business, a strong Consumer and SME growth engines. EBL's ambition is to be the number one financial services provider, creating lasting value for its clientele, shareholder, employees and above all for the community it operates in.

Today EBL stands for service excellence, product innovation and world class banking experience. With highly skilled professionals, EBL is a leader in corporate banking having capacity to finance from long scale infrastructure and manufacturing projects to complex transactions. EBL is acclaimed for its one-stop service for local and foreign investors for its great culture, strong relationship with regulators, central bank, development financial institutions and global banks.

After establishing successful operations in Hong Kong, Myanmar and China, with plans to open banking wings in India, EBL is aspiring to become a regional bank. EBL as a leading Bank in Bangladesh continues funding international trade business, infrastructural, sustainable and environment focused projects nationwide through strong support from 594 correspondents around the globe and major DFI partners. Strong monitoring, quality customer base and foreign DFI partners have made EBL one of the vibrant brands in the banking industry. EBL is having strong relationship with world's largest banks and DFIs including Asian Development Bank (ADB), International Finance Corporation (IFC) – sister concern of World Bank, DEG – German Development Finance Institution, FMO – Dutch Development Bank, PROPARCO – French Development Financial Institution, OPEC Fund for international Development (OFID), OeEB – Development bank of Austria etc. besides global banks to support international trade business, short and long term requirements of local corporates and SMEs. With strong asset quality and capital base EBL is a pioneer in providing financial solution to its clients in both local and international arena.

More information on their website: https://www.ebl.com.bd

We wish them lots of success!

Other Members who joined more recently will be included in the next issue of In-Sight.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网址：www.ccb.com

AYSEN ÇETINTAS
Education Director

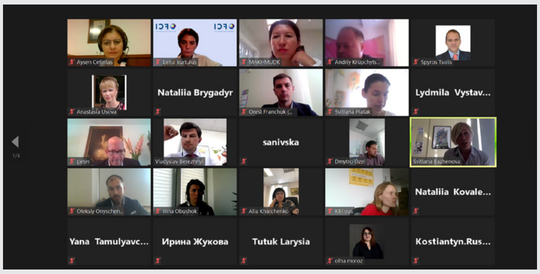
EDUCATE

ONLINE TRAINING WORKSHOP ON FACTORING & RECEIVABLES FINANCE FOR UKRAINIAN FINANCIAL INSTITUTIONS

24-25 September 2020

UKRAINE NEEDS TO DEVELOP AN EFFECTIVE REGULATORY POLICY GOVERNING THE FACTORING BUSINESS AND TO ADOPT A FACTORING LAW

The two-day virtual training event, organized by EBRD and FCI jointly, called for sound policy and a suitable regulatory framework to enable the healthy development of factoring, to expand access to finance for small and medium-sized enterprises (SMEs), and to strengthen their financial resilience.



The workshop brought together more than 100 trade professionals, bankers, and international experts and was delivered by the factoring working group at the National Banking Association of Ukraine. The factoring working group includes representatives of Ukrainian banks and non-banking financial institutions, aiming to address the current market gap.

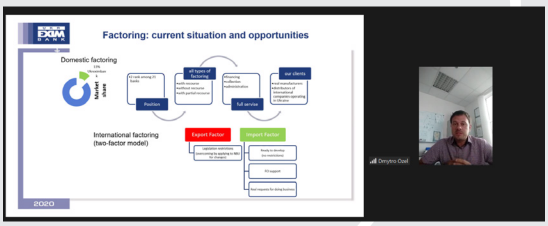
In Ukraine, receivables finance represents only 0.1 percent of the country's GDP, compared to 8 percent of output in neighboring Poland, where the factoring market remains the fastest-growing financial sector, worth €66.1 billion and serving more than 18,000 businesses.

FCI expressed a strong view that Ukraine needs to develop an effective regulatory policy governing the factoring business and to adopt a factoring law.

Drawing on the experience of Greece, Poland, Turkey, the United Kingdom, and the United States of America, the working group and the National Bank of Ukraine agreed on the next steps in reforming the sector.

These include the separation of factoring from debt collection; business education and marketing of factoring; the promotion of paperless and automated document flows; the protection of creditors' rights; the rethinking of factoring-related risk assessment; the establishment of a factoring risk insurance framework; and improved legislative regulation.

Factoring is experiencing a market revival due to the arrival of more sophisticated legal and technical solutions. It is particularly useful for providing SMEs with access to working capital.



SECRETS OF FACTORING DEMYSTIFIED FOR JORDAN

22 October 2020

- *Legislation and regulatory framework to help establish factoring operations in Jordan*
- *Factoring is a financing tool for the growth of small and medium-sized enterprises*
- *First virtual conference on Factoring and Receivables Finance in Jordan*

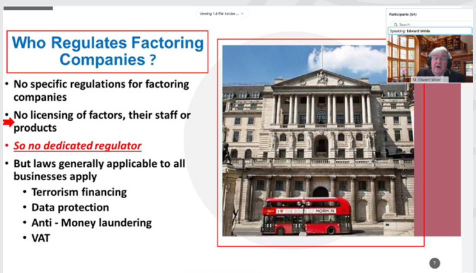
The European Bank for Reconstruction and Development (EBRD) and FCI joined forces to develop the factoring industry in Jordan, which will play a key role in supporting small and medium-sized enterprises' (SMEs) growth and financial resilience. Factoring continues to grow successfully both in mature and in emerging markets.

Companies use factoring as a flexible source of financing across the world as it facilitates the much-needed access to finance by corporates and SMEs. It continues to grow successfully in mature and emerging markets. Factoring companies or factoring divisions in banks can provide outstanding financing than traditional lenders to SMEs while limiting their credit risk to acceptable levels.

During the first virtual conference on "Secrets of Factoring demystified for Jordan", attended by the Central Bank and over 60 participants form Jordanian financial institutions, FCI and the guest speakers presented the fundamentals of factoring needed to establish factoring operations in the country and gave practical advice as to how SMEs can access financing and receivables management services.

Discussions focused on the advantages of factoring and the positive impact on the economy compared to traditional trade finance products, especially in the light of the coronavirus pandemic. The local experts highlighted that SMEs and MMEs represent over 80% of domestic trading in Jordan.

Majority of these companies widely use post-dated checks instead of bank credits, and during the pandemic, over 50% of these checks return with insufficient balance. Receivable finance could be a solution for a secure way of managing collection and payments. Advantages of factoring for SMEs also include improved liquidity, improved working capital and balance sheet performance, opportunity to offer better terms for buyers (such as extended payment terms).



An analysis of the required changes in banking regulation and the country's legislation was presented to representatives of the regulatory authority, issuing banks, and industry stakeholders. The participants also discussed the potential risk-sharing under receivable finance between banks and banks' cooperation areas with factoring companies under back-to-back receivable finance.

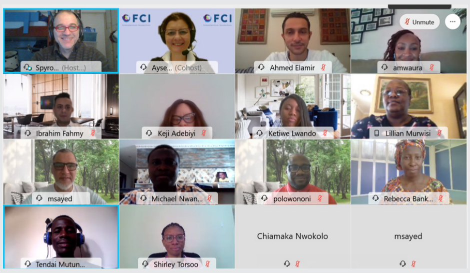
EDUCATE

COFIT 2020-2021

SPYROS TSOLIS
Deputy Education Director

COVID-19 pandemic has not only changed the way business is performed but also changed the way of learning. Most of us are often – if not every day – using online platforms for communicating with our colleagues and attending webinars & e-conferences.

COFIT (Certificate of Finance in International Trade), a training program developed by the University of Malta, Quarterback & FCI in cooperation with Afreximbank, focusing on all aspects of International Trade, was no exception. The 2020-2021 program, originally planned to be delivered in Malta & Egypt, is now delivered online, using the new online learning management tools.



"Module I – Products & practical applications of Trade Finance" was successfully delivered by Quarterback on 7-18 September 2020. FCI Academy continued with "Module II – Commercial Finance," delivering it between 26 October & 6 November 2020.

"Module II – Commercial Finance" is a very comprehensive program that describes all modern methods of Commercial Finance, focusing on operational & risk aspects and introducing to students the latest developments in legal & technology fields. FCI Education Team acted as presenters complemented by a team of experts in the industry, sharing their knowledge & best practices. All 14 students of this year's program, coming from regional & commercial banks and regulators, highly valued all deliverables, expressing their satisfaction in their testimonials.

We had the opportunity to invite for opening the program Mr. Peter Mulroy, FCI Secretary General, presenting on the current global receivables finance industry. Reverse Factoring & Supply Chain were in-depth analyzed by Mrs. Monica Martin Blanco, FCI SCF Consultant. The latest developments in the legal frameworks were presented by Mr. Christian Faber, Lawyer, Bette-Westenberger-Brink, while Mrs. Doaa Hafez, General Manager in Egypt Factors, described a successful factoring operation from A to Z. Last. Still, all students had the opportunity to listen from Mr. Daniel Huszar, Sales Manager, Efcom, the new trends on digital developments related to our industry. FCI would like to thank all the above-distinguished experts for their valuable contribution.

"COFIT Training program exceeded my expectation. Especially with my previous experience and background, I got the opportunity to understand more about trade finance and to be able to apply for a different opportunity/role within my organization.

Thank you, FCI team". Ahmed Elamir, Afreximbank

"I thoroughly enjoyed the COFIT Program, especially factoring as FCI equipped us with real-life and easy- to -understand experiences in the Receivables Finance industry. _The business simulations were top-notch, and they allowed participants to work in teams and provide financing solutions to clients." Tendai Mutungwazi, Stanbic Bank, Zimbabwe

"The program facilitators professionally delivered their contents. The lecture materials were adequate and explanatory. The facilitators were able to answer all questions, and the business cases were engaging and brought out a lot of skills in the students. I gained a lot and hope to recommend the program to my other colleagues." Elizabeth Ayobami Akeredolu, Central Bank of Nigeria

Finally, a 3-day business game was held that, besides the "digital" fun, also helped students better understand and practice the knowledge received during all days in a simulation exercise.

COFIT is planned to continue on a digital environment in the 2021-2022 term, hoping to deliver again in a classroom – or a hybrid structure – from 2022 onwards.

More information: https://www.afreximbank.com/registration-opens-for-2021-certificate-of-finance-in-international-trade-programme/

REMARKABLE ONLINE EVENT OF FCI ACADEMY

Online Training Program on Risk Management in Factoring & Receivables Finance for Latin America & the Caribbean

With all the Trade Finance world, our industry's risk management policies are always challenged, nowadays more than ever. The need for continually adjusting to the new trade norms is imperative, but, at the same time, it is equally important to follow the fundamentals.

Recognizing and meeting this need, FCI Academy introduced a comprehensive series of four online sessions on Risk Management in Factoring & Receivables Finance. This training program focuses on the main risk principles in Factoring & Receivables Finance (theory, real cases). Also, it discusses the synergies built over the years with credit insurance in supporting the growth of our industry. Experienced industry experts complement this training by sharing their knowledge and best practices and, especially during this disruptive period, on the policy changes that need to be implemented to protect our business ecosystem.

The first series was held on 7-10 September 2020, targeting the Latin America & Caribbean regions. Once more, the receivables finance industry in the region reacted positively, and a record number of participants joined all sessions. Close to 600 professionals from the region attended, receiving valuable knowledge and sharing their views in an extremely interactive environment. This figure is the highest among all single FCI Online events.

Distinguished industry experts shared their experience in specific topics, adding value to our business's standard risk principles. Mrs. Marina Azzara (Banco Supervielle - Argentina) shared her expertise on seller risks management, Mr. Julio Nielsen (Euro capital SA – Chile) elaborated on the synergies of Factoring & Credit Insurance, and Mrs. Daniela Bonzanini (Banca IFIS – Italy) presented her company's new risk management approach. What was exciting, which also caused tremendous audience participation, was the panel discussion with all the above experts, moderated by Mr. Alberto Wyderka. FCI would like to thank all distinguished experts for their contribution warmly.

FCI Academy is planning its next series for Q1 2021, this time targeting EMEA & Asia regions.

"Thank you all for this excellent opportunity for Latam Members to involve our commercial teams in this Webinar. It's hard to put so much knowledge in 4 days, and you have successfully made it!!" Cesar Hurtado, PRIMUS Capital, Chile

"Thank you very much for sharing your knowledge and experiences." Eduardo Santillan, Banco Pichincha, Peru

FACTORING IS A TOOL TO SUPPORT THE ECONOMY IN THE COVID CRISIS, A PERSPECTIVE FROM FRANCE

OUSSAMA LIMEM
Business and Application Expert, Codix

Coronavirus pandemic is a word that was quite far from most of everyone's concern in the past but has now become part of our daily life through COVID 19.

This pandemic has and will have a very major impact on the economy, which can affect the world's stability during the next few years.

According to the World Bank, the global GDP will decline by 5.2% during this year which is considered as the sharpest global recession since the Second World War.

According to the same source, the economic activity for the major advanced economies will decline by 7% and 2.5% for the group of emerging market economies.

To alleviate this 'dramatic' situation, all the governments have put in place robust measures. These measures include tax and economic stimulus actions, along with a recovery plan overview.

The French 'package' rolled-out (in 2 phases) will be presented in this paper to outline some of the measures and solutions adopted by the French government. These steps are designed to address the harmful effects of the pandemic on the economy.

1- Employment-related measures

Compared to other countries, France is a country that has helped the French employees the most by the allocation of 20 billion euros for the following measures:

A) Partial activity scheme:

A minimum compensatory payment of 70% of the prior gross remuneration; this can be increased by the employer and will be paid to the employees in case of contract suspension. The maximum percentage of compensation is 95%.

B) Social security contributions:

This involves social security contributions that do not apply to the partial activity allowance paid to employees. A large number of other measures were adopted, including mandatory and voluntary profit-sharing schemes, professional training, and contributions exempted overtime hours.

2- Customs Measures:

ACCORDING TO THE INSEE, THE GDP HAS DECLINED BY 13.8% DURING THE SECOND QUARTER OF 2020

Payment facilities and measures concerning the temporary storage of goods under suspension of duties and taxes, Duty-free and tax-free importation of sanitary equipment, Exemption of the Sea grant duties on sanitary equipment

3- The Economic stimulus measures:

Qualified as historical, the economic stimulus plan proposed by the French government is estimated to be around €100 billion. The European Union's Recovery Fund will provide 40% of the stimulus package.

The State's finances and the Public Bank of Investment (BPI) will finance the remaining 60%.

All of these efforts were made to face the expected GDP shrink during 2020. According to the INSEE, the GDP has declined by 13.8% during the second quarter of 2020.

Also, there is €460 billion that was already announced by the French Minister of Economy and Finance; this was allocated for urgent measures such as state-guaranteed loans, solidarity fund and the Capacity Building Scheme for factoring funding. There is also the capped turnover loss indemnity for the entities such as the most fragile SME's.

The volumes of Factoring in France, as in many countries in the world, decreased substantially during the first six months of 2020. According to the ASF (Association Française des Sociétés financières), the Factoring activity has reduced by 10.2% (purchased amount) compared with the first semester of 2019, or in numbers €152 716 million in S1 of 2020 compared to €170 080 million in S2 2019.

THE FUNDING OUTSTANDING HAS ALSO DECREASED BY 16.7% BETWEEN THE TWO SEMESTERS

The funding outstanding has also decreased by 16.7% between the two semesters, €45 170 million in S1 of 2020 compared to €54 226 in 2019.

THE NUMBER OF CLIENTS HAS WITNESSED A 4.9% DECREASE

In the same way, the number of clients has witnessed a 4.9% decrease slightly down from 37 280 on S1 2019 to 35 445 clients on S1 2020.

The French government and National Assembly proposed and adopted this last measure of the Capacity Building Scheme for factoring funding in July 2020.

« This strengthening mechanism of financing by factoring comes as a complement to the tools that the government brings to companies to help them face the crisis. It will allow them to benefit from specialized funding as soon as the order is placed, useful to finance the economy recovery. This is an innovative response to help businesses resume their activity." Translation from the original text of Bruno LEMAIRE, Minister of Economy and Finance, France.

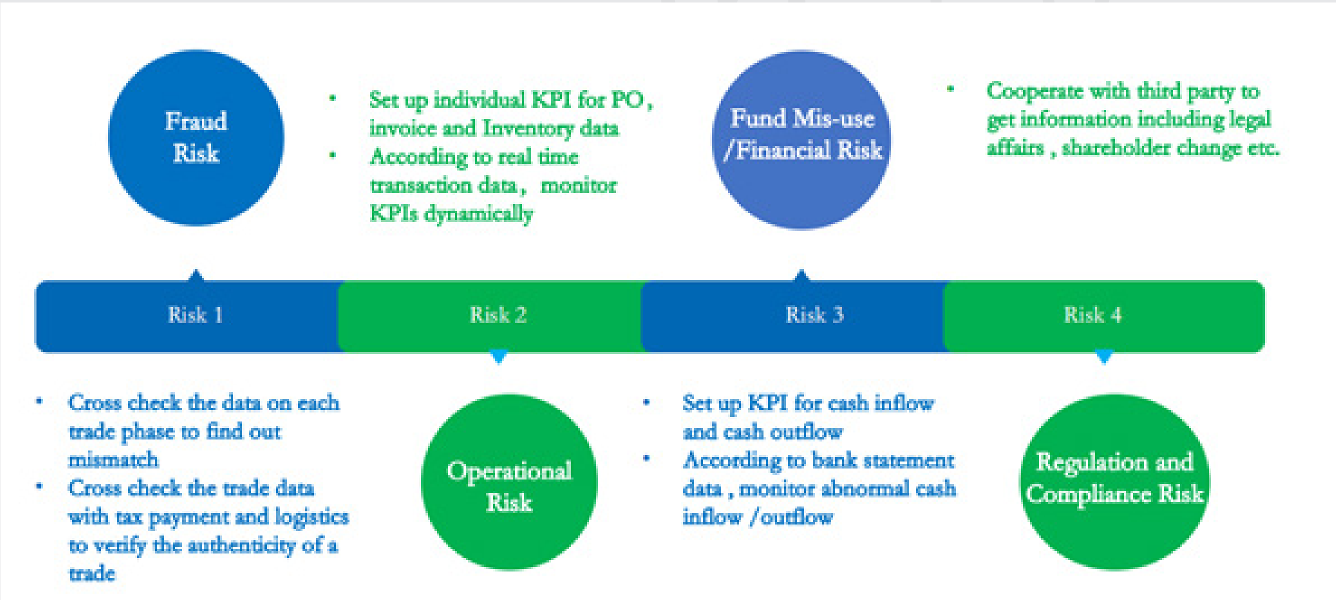
This measure concerns classical factoring and will allow companies which belong to industry and construction sectors to be financed as soon as the order is confirmed. This can occur without waiting for delivery and invoice emission. The measure has already come into force since this past summer and will be applicable until 31/12/2020. The funding will also object to a State-guaranteed loans measure, which will, without a doubt, boost the adoption.

It is clear to all that the expensive measures will require payback hopefully sooner than later. However, with the perspective of vaccines on the horizon, it looks possible (even likely) that the situation will improve by the middle of 2021. This should be before the global economy sinks into a swirling abyss, avoiding an endless wave of defaults. The governments, and especially the French ones, have bet on the capacity of our pharmaceutical engineers to come with a cure to the virus quickly. In doing so, they (our governments) will have managed to counter the spread of a deadly plague to our economies. Fingers crossed this is an accurate forecast.

APPLICATION OF DIGITAL DATA ON SME CREDIT RISK UNDERWRITING AND MONITORING

HUI WANG
Q&X Credit Rating and Underwriting Co.

When we talk about receivable finance/factoring, supply chain finance, distribution finance, etc., SME credit risks have always been seen as challenging, and to assess SME credit risks, financiers or insurers focus more on the negative side and easily make rejection decisions. However, from a risk underwriting perspective, we should see SMEs' vulnerabilities and see SMEs' positives --individually small exposure, risk well spread on a portfolio basis, mono-line of business, and operational flexibility. The critical thing to resolve is to make SME risk transparent, foreseeable, and controllable. From a credit risk perspective, we summarize the significant risks of SMEs as below:



How could we achieve good assessments and manage SME credit risks? We have the following suggested approaches.

FOR SME RISKS WE SUGGEST BUILDING A RISK UNDERWRITING MODEL BY COMBINING FINANCIAL WITH NON-FINANCIAL FACTORS

1) For SME risks, we should not use the traditional way of risk underwriting -- balance sheet underwriting cannot fully reflect SMEs' actual financial status. The balance sheet underwriting results will lead to the problems we are facing now -- either we will reject granting credit to SMEs, or we can only support a small portion of SMEs' credit needs. We suggest building a risk underwriting model by combining financial with non-financial factors such as SMEs' intellectual properties, management experience, know-how, industry certificates, trading partners and market potential, length since foundation, etc. We should give non-financial factors at least 50% of the weighting.

2) Underwriting is just a starting point to control SMEs' risks well, and we should monitor SMEs' risks on a "real-time" basis by collecting and analyzing trade-related data digitally. Below is the sample of data we collect and analyze, and we raise risk alerts on various pre-set risk indicators.

	PO	Invoice	Inventory	AR/AP Reconciliation	Bank Statement	Business Tax Data	Logistics	SME Owner Monitor	Public Information
Risk KPI	PO Amount Frequency and Variance	Invoice Amount and Variance	Inventory Level and Turnover and Variance	AR and AP Matching / Variance	Cash Inflox and Cash Outflow	Various Tax Payment	Logistics Documents and Ship Tracking	Credit Report / Business and Social Behaviors	Business Registration and Shareholder Change / Legal / Compliance etc
Monitoring Objectives	Business Operational Risks	Business Operational Risks	Business Operational Risks	Commercial Disputes, Goods Return, Data Accuracy	Abnormal Cash Outflow and Transfer, Undiscovered Borrow and Investment	Trade Data and Profitability Verification	Trade Authenticity Verification	Owner Financial Status and Business Activities	Compliance Risks, Regulation Violation, Legal Risks, Business Continuity etc

We are applying the above approaches with credit insurance to cover the credit risks of buyers or borrowers. However, both insurers and financiers can deal with large buyers or borrowers and may not need each other so much on large ones. For SMEs, both parties need more collaboration, and we start to do this with credit insurers first as risk carriers, which can then share the risks with funding providers. But for sure, financiers like banks, factoring companies, supply chain finance companies, etc., are also encouraged to build such a risk model and system to underwrite and monitor the risks online by using digital data instead of only financials.

WE SHOULD MONITOR SMES' RISKS ON A "REAL-TIME" BASIS BY COLLECTING AND ANALYZING TRADE-RELATED DATA DIGITALLY

BOTH INSURERS AND FINANCIERS NEED MORE COLLABORATION FOR SMES

About the Author:

Mr. Hui Wang, the founder of Q&X Credit Rating and Underwriting Co., Ltd based in Beijing, which is an insurtech company specializing in SME credit risk underwriting and real-time monitoring by applying digital trade and non-trade data, has been working in the credit insurance industry for almost 20 years internationally and domestically in China. Before setting up Q&X Credit, Mr. Wang hold various senior positions as international insurance brokers at Aon, JLT, and AU Group. Currently, Mr. Wang is a member of the academic committee of China CFEC (Commercial Factoring Expertise Committee) and the head of the working group "Digital Credit Risk Management" within CFEC.

FCI SPREADING THE WINGS:
E-MEETING WITH PARTNERS, PROSPECTS, ORGANISATIONS

More than ever, FCI is partnering with several organisations to promote factoring and defend the industry during these special times. FCI was also invited to be a speaker at several other organizations' webinar. Below you can read about what happened.

FCI is part of the **Global Supply Chain Finance Forum (GSCFF)**. As such, Peter Mulroy, FCI Secretary-General, was interviewed by Trade Finance Global (TFG), including Stacey Facter (BAFT) and Christian Hausherr (Deutsche Bank and Chairman of the working group). The industry regards the supply chain finance technique of payables finance as a useful and beneficial tool for both buyers and suppliers. Yet recently, it's come under significant scrutiny by the press, financial Ombudsman, and various regulators around the world. Add to this the financial distress wrought by the Covid-19 pandemic, with SMEs tending to be the first to feel the effects of financial crises.

More information:
https://www.linkedin.com/feed/update/urn:li:activity:6706827716739563520/

24 September: Peter Mulroy, FCI Secretary-General, was invited to speak at the **GNEXID Annual General Assembly**. He reported on FCI and global factoring volume, including a comparison with Letters of credit. He highlighted some recent fraud cases and insisted on the need to train employees to allow them to detect early risks. He reported on the recent development of FCI platform edifactoring that is being upgraded to be blockchain-ready to keep up with technology.

29 September: Participation Banks Association of Turkey (TKBB) and FCI organized a joint meeting. FCI Team provided comprehensive presentations about its organization and activities. They introduced Islamic International factoring to participants.

Albaraka Türk Katılım Bankası A.Ş, Ziraat Participation Bank, Vakif Participation Bank, Emlak Participation Bank, Türkiye Finans Katılım Bankası, and Kuveyt Turk Participation Bank we represented.

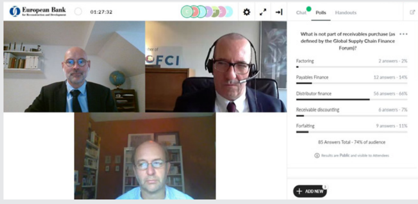
Islamic international factoring opens the door to FCI members to cooperate with Islamic Financial institutions via international transactions. It offers a new solution to Islamic banks and financial institutions located in countries with an export-oriented growth model.

We believe that this meeting is an essential step for organizations engaged in participation banks in Turkey.

Participation Banks Association of Turkey is the primary representative of Turkey's participation banking sector and works with the government, regulators, and other stakeholders to increase public awareness and understanding of the sector's contribution to the Turkish economy.

Kuveyt Turk Participation Bank (a subsidiary of Kuwait Finance House) is the first member bank of FCI from Turkey's Participation Banking sector.

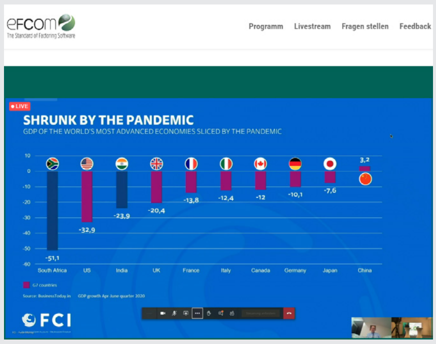
29 September: FCI Secretary-General was invited to discuss with Sean Edwards (ITFA) and Christian Hausherr (Deutsche Bank) at **EBRD webinar "Fundamentals of Factoring and Payable Finance"**. This webinar is part of the ten webinars organized for banks and factoring companies across the EBRD regions to introduce and manage factoring and payable finance.

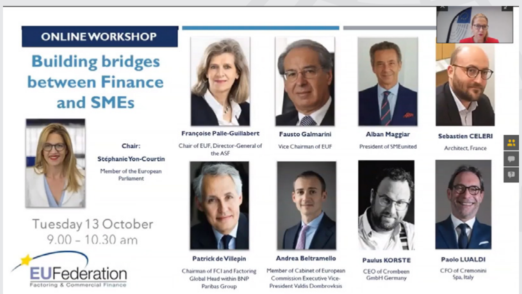


1 October: Peter Mulroy spoke at the **SCHUMANN Digital Credit Risk Management Conference**. He discussed from an FCI perspective on the current state of the Factoring and Receivables Finance industry, as well as provide his thoughts for what could be in stock for the remainder of 2020-2021.

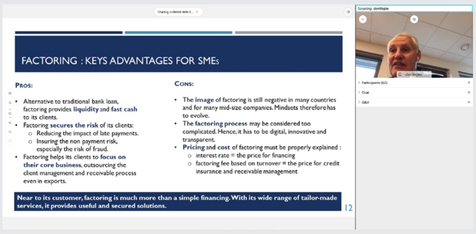
- How history repeats itself: the evolution of factoring and receivables finance in recessionary times
- The impact of this COVID-19 crisis versus others: how will the industry fare during and after it ends?
- What are the tea leaves telling us from the perspective of credit, commerce and cash: Ten predictions in this post-COVID-19 world

8 October: Efcom, an FCI sponsor member, celebrated its 20th Anniversary Symposium. Peter Mulroy, invited as a speaker, reminded the industry's history, presented the figures, and highlighted the pandemic's effects and what is expected to happen afterward, taking into account the experience from previous recessions. Figures include figures from the first half of 2020 of EUFederation for the Factoring and Commercial Finance Industry.





13 October: EU Federation, the Associations of Factoring Associations in Europe, FCI being a member, organized an **online workshop on building bridges between Finance and SMEs.** Patrick de Villepin, FCI Chairman, was invited to speak and share his experience. The workshop was chaired by Stephanie Yon-Courtin, Member of the European Parliament and Vice-Chair of the Economic and monetary affairs committee (ECON). She recalled the commitment of the Renew Europe towards the SMEs and asked for more ambition from the EU institutions. Andrea Beltramello, a cabinet member of Executive Vice-President Valdis Dombrovskis, presented the EU Commission's initiatives to foster liquidity and ensure production



capacity in tough economic times, which is essential for SMEs' staff. Alban Maggiar, President of SMEunited, tackled the difficulties EU SMEs are currently experiencing.

The workshop was welcomed by Françoise Palle Guillabert, Chair of the EUF, and moderated by Fausto Galmarini.

These interventions were then tested against the real-world experience of three SMEs or Companies operating with SMEs, coming from Germany (Paulus Korste - Crombeen GMBH), France (Sebastien Celeri - Architect), and Italy (Paolo Lualdi – CFO Cremonini SpA).

21-22 October, Lin Hui, FCI Regional Director North East Asia, participated at the **8th China Commercial Factors Summit** organized by the CFEC. He presented on Back to Basic, Post-Covid trend of factoring industry. More than 400 delegates relative to commercial factoring industry attended this event in Tianjin.

28 October: CFI.CO awarded FCI Best Trade Finance Innovator Global 2020

Highlights of the judging panel's findings include:

FCI is the global representative body for the factoring and open-account domestic and international trade receivables finance industry, with nearly 400 members worldwide and an active presence in 94 countries.

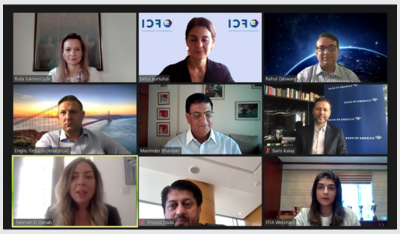
The cross-border platform relies on a two-factor system connecting FCI members through import-export Interfactor Agreements. FCI's cross-border offering supports exporters to increase working capital by eliminating the need to dip into existing credit lines and supports importers by offering factor guarantee facilities creating additional new sources of trade credit, allowing the buyer to purchase on open account trade terms and eliminate the need to issue letters of credit for sourcing purposes.

FCI membership is advantageous for anyone interested in factoring financial institutions, industry suppliers, and companies active in receivables finance — with its trading, consulting, mentorship opportunities, legal advisory, and educational outreach.

3-4 November: Peter Mulroy, FCI Secretary-General, and Lin Hui, FCI Regional Director North-East Asia, were invited to speak at the **2nd Shenzhen Factoring and SCF Conference** organized by Shenzhen Factors Association and the CFEC. Mr. Mulroy joined virtually to report on global factoring industry and FCI initiatives.

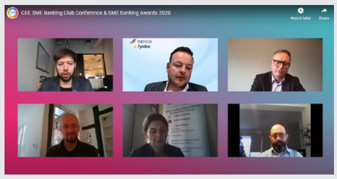
4-5 November: TXF Global Commodity Finance Virtual 2020 aims to bring together key players of the commodity finance sector in a secure environment to discuss all the changes and challenges the market has been facing in the last six months. Betül Kurtulus, FCI Regional Director, was invited to speak in a panel on Fighting commodity finance fraud with Technology.

5 November: Betül Kurtulus, FCI Regional Director CEE, SEE and the Middle East, was invited to moderate a panel on Factoring–Opening Potential for Banks and Corporations to Increase their Market Share at UZBEKISTAN: TRADE FINANCE 2020. The webinar was organised to promote trade Finance in the country.



17 November: Betül Kurtulus, FCI Regional Director CEE, SEE, and the Middle East was invited by the **ITFA** to a panel on Regional dynamics and MENA trade - comparative advantage and an altered trade-finance ecosystem, Digital Trade – a lasting transformation with scalable adoption by users in the region being a myth or reality, ESG - the new buzz word or more in the Middle East?

25 November: Betül Kurtulus, FCI Regional Director CEE, SEE and the Middle East participated in the Webinar CEE'20 Conference organized by SME Banking Club. She spoke on how factoring is vital to SMEs to access finance, highlighted the low level of risk of the Industry but also the advantages of international factoring. She was also part of a panel with two other members, Daniel Huszar from efcom and George Koukis from Neurosoft.



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]

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