NEWSLETTER / AUGUST 2021

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FCI

Facilitating Open Account – Receivables Finance

IN-SIGHT

Connecting and Supporting the Open Account Receivables Finance Industry Worldwide

Contents:

EXECUTIVE SUMMARY

GWENDOLINE DE VIRON
Head of Marketing and Communication

Dear Reader,

Welcome to the latest edition of In-Sight!

In this edition, FCI Chairman, Patrick de Villepin, reflects on his time as chairman and shares the adaptions FCI made during the pandemic.

Peter Mulroy presents an analysis of the 2020 Industry figures, highlighting the rise of zombie companies in the current environment and the changes in the behaviour that arose.

Lin Hui interviews Philip Cheng and John Beaney (HSBC) about the introduction by HSBC of factoring practice in the UK as well as their experience of the FCI member benefits.

Josep Selles gives us an overview of the development of FCIreverse and where we stand now.

Yüce Uyanik explains the rules developed in facilitating Islamic International Factoring as well as the webinar organised on this subject to help members to understand more on how to create agreements with Islamic correspondents.

Nassourou Aminou explains how to set up factoring activity within a bank in Africa.

FCI's latest members, Facevalue, GlobalCorp, Kapitalbank and OTP Bank Moldova are introduced.

Aysen Çetintas presents the new upcoming Supply Chain Finance and Reverse Factoring E-learning Course that will be available soon.

Spyros Tsolis highlights the upcoming webinars of FCI Academy, covering a large range of knowledge for the industry.

The work carried out by the Central Bank of West African States (BCEAO) to diversify the financing instruments including the Draft Uniform Lax relating to the factoring activity and promoting the financial tool is explained.

Betül Kurtulus explains the lower impact of the Delta variant on economies in the emerging markets.

Souvik Chakraborty explains the reason for Edifactoring messages and the ongoing innovations in the field proposed and how it facilitates the role of EF and IF.

Finally, we remember Joy Zhu, a member of the FCI Executive Committee who passed away in July. She was a part of FCI family since 2006.

This edition is packed full of interesting articles and key industry insights, we hope you enjoy the reading.

Gwendoline

PATRICK DE VILLEPIN
Chairman of FCI

WELCOME FROM PATRICK DE VILLEPIN
Chairman of FCI

Dear Friends,

Welcome to the latest edition of in-sight. As a new Chair will be elected during the Council Meeting later this month, this will be the last FCI newsletter from me. I will be moveing onto new horizons in a couple of weeks and will be changing position in my Group after 18 years in our Industry.

With such an unimaginable pandemic, history will recall that I was the Chairman of FCI during very strange times. When I was elected in June 2019 in Ho Chi Minh City, Vietnam, I was told that my implication in FCI would be limited to a few travels, joining meetings and regular contacts with the FCI Secretary General. A few months later, in March 2020, the COVID-19 crisis started and the entire environment changed. Between members needing more support from FCI and the adaptation of rules, I dedicated more time to FCI.

Therefore, my 5-year strategic plan, announced when I was elected, had to be postponed as priorities changed. We were expecting a back to normal a few months later but, this didn't happen. We are actually living in a new normal, where COVID-19 is part of our life for 18 months now. With the members of the Executive Committee, we have decided to create a short interim plan, a brief vision of the future, and to ask the newly elected (in September) Executive Committee to launch this plan.

Focus on education and the vision of growth for membership and advocacy are still very important, it was part of our plan and it remains in our top priorities.

I want to thank all of our Executive Committee members for the tremendous work achieved together during the last two years. Nobody could expect what happened but I am proud of how FCI has handled this and the direction it takes.

Kind regards,

Patrick

A WORD FROM THE SG

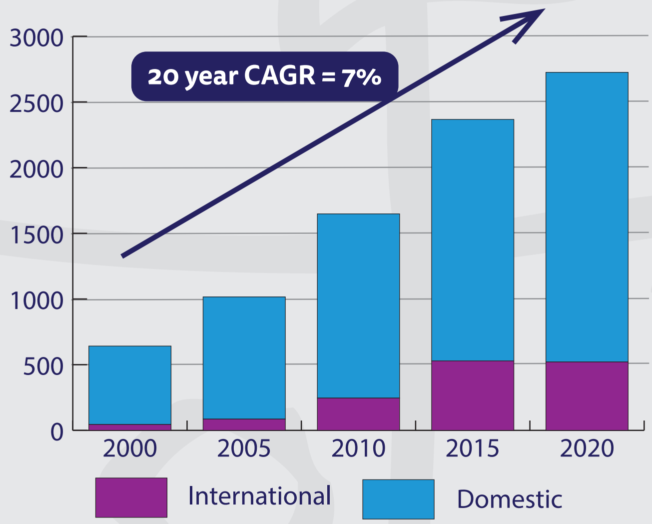
AN ANALYSIS OF THE 2020 INDUSTRY FIGURES AND BEYOND

PETER MULROY
Secretary General

This past year has been one for the record books. FCI recently published its 2021 Annual Review, a comprehensive report on the global factoring industry, including statistics and a `special global industry activity report (GIAR) on the quantitative and qualitative results from the FCI Member Survey. We have also received various reports from members and industry bodies on the industry's performance for the 1H2021 and can take some measures from them. Based on this data, we can certainly get a better appreciation for what has transpired in 2020 and the 1H2021. Based on this data and the information from various member surveys conducted over the past year, we can also guestimate what could transpire down the road. In summary, we can state that the response to the pandemic and the resulting forced shutdown of businesses globally last year did not adversely impact our industry as many had initially feared. However, there were a number of notable effects that I would like to focus on in this article.

Impact of the Pandemic on the Industry

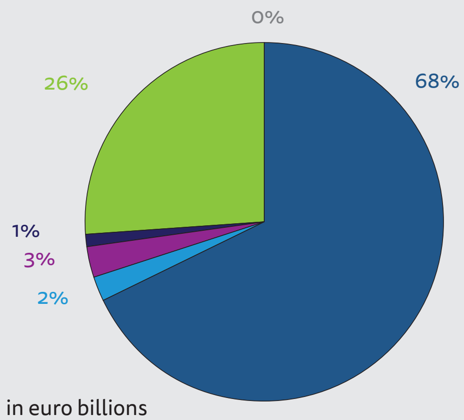
GLOBAL FACTORING VOLUME 2000-2020
in euro billions



2020 was a very challenging year for FCI members and the Receivables Finance industry in general. We entered the new year with the continued lingering effects of the trade war, major geopolitical issues, and the finalization of BREXIT. However, the most significant event, Covid-19, was waiting just around the corner. It brought destabilizing forces impacting all areas of business. FCI reported recently that the industry declined in volume in 2020 by -6.5%. In 2009, during the global financial crisis, the factoring industry declined by 3%. However, in volume terms, the decline was nearly six times greater in 2020 in comparison, representing the biggest drop in factoring volume ever recorded. Dilution, fraud, and credit risk increased in 2020, and cash flows were severely affected, especially in the year's first half. Despite these challenges, the industry got through the worst of it. We can see this from the significant turnaround in business volume in the 1H2021, especially in the developed markets. Technology was also an incredible enabler of this progress.

As you can see below, the pain of the pandemic was not felt the same way in each country but varied based on their response to the pandemic, government regulations (like, for instance, the moratorium on bankruptcy filings), the size and magnitude of the stimulus programs, and the reaction of the financial sector. The sector was also more impacted depending on the industries those communities supported. For example, those that had a greater reliance on leisure, auto, and hospitality were much harder hit than those who concentrated on foodstuffs, medical supplies, and technology. Europe declined by only 6.7%, Asia grew slightly by 1.4%, but the real impact of the crisis was felt especially hard in the Americas. The region declined by nearly 30%, the north by 23%, and the South by 37%. Part of this decline can be explained by the depreciation of most currencies against the EURO, in which all FCI statistics are reported. But it doesn't explain the entire story. Many countries in the Americas were severely impacted by the shutdown, more than most compared with other countries globally.

FCI 2020 GLOBAL FACTORING STATISTICS AND MARKET SHARE BY REGION



in euro billions

Source: FCI

	2019	2020	Groupe rate % change
Europe	1,976.2	1,844.7	-6.7%
North America	86.7	66.6	-23.2%
South America	132.0	83.6	-36.7%
Africa	24.6	25.2	+2.8%
Asia-Pacifique	687.6	697.1	+1.4%
Middle East	9.9	9.5	-4.2%
Total	2,917.11	2,726.73	-6.5%

The impact of the pandemic was also in part artificially stimulated by the government relief programs. In the US, for example, under the Payment Protection Plan (PPP), the IFA, in a recent survey, reported that over 80% of respondents lost up to 20% of their client base due to this and other government-based funding programs. I heard similar reports in the UK as well. In fact, Business Money reported that almost all had recorded a decrease in volume from a range of negative 5-25% for nearly every factor who reported figures. There was an even larger decrease in advances/funds in use (FIU) reported by them. This shows once again the severity that not only the pandemic had on the industry in terms of volume but also the adverse effect the government stimulus had on the industry as well. Granted, the support did reduce the risk of insolvency, but it also created an unexpected competitor in the government's markets! It's difficult to say what would have been the impact had these programs not been put in place. Certainly, many more bankruptcy filings would have occurred, which ultimately would have been far worse of an impact.

In summary, the stimulus programs globally seem to have averted an acute bankruptcy crisis coupled with endemic long-term unemployment. However, it has had a significant effect on the factoring industry as a substitute for industry liquidity.

THE SUPPORT DID REDUCE THE RISK OF INSOLVENCY, BUT IT ALSO CREATED AN UNEXPECTED COMPETITOR IN THE GOVERNMENT'S MARKETS

Rise of Zombie Companies and the Rise of Debt

One of the obvious risks for the factoring industry wading in the background is the rise of zombie companies. The stimulus programs in their various forms have protected such companies from COVID-19 related insolvency, companies defined as being "unable to cover debt servicing costs from current profits over an extended period." Given the number of zombie companies supported by artificial government stimulus, organizations such as the Berne Union and ICISA representing the credit insurance sector have predicted a "surge in claims towards the end of 2021 into 2022" as these programs end.

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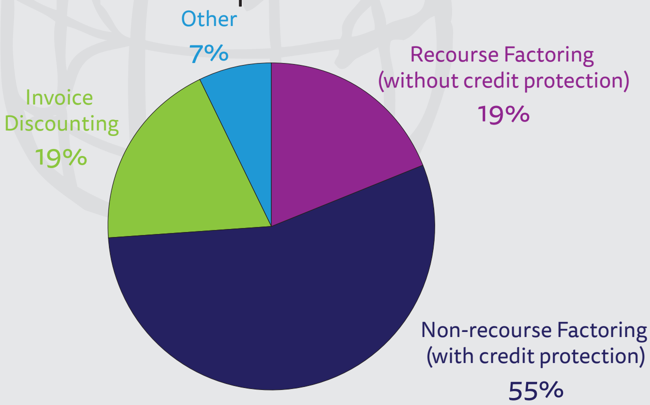
As stated in a recent FT article entitled "Borrowing boom triggers warning over corporate defaults", sale of low rated speculative grade debt is on a path to surpass all-time borrowing records in 2021. Funds searching for higher yield in an environment of low interest rates played a role. While they expect bankruptcies to remain low, they believe there could be a future debt crisis as a result of these easy lending terms targeting less credit worthy companies. This stands in contrast to the current "bullish" mood in corporate credit markets. However, as an S&P report recently indicated "low interest rates have enabled these fragile businesses to accumulate more debt, thus increasing the risks that more of these unprofitable businesses become zombie firms."

As such, many of these companies may be unable to repay their obligations as liquidity dries up, resulting in increased provisions by the financial sector, including the factoring community. Once emergency fiscal measures start being lifted in earnest, rising interest rates could impact the refinancing costs and thus profitability of zombie SMEs. As stated in the article, as inflationary pressure increases the chance of higher interest rates, for those SMEs being financed against variable rates are more prone to financial stress. And for those that have short term fixed facilities in place, when up for renewal they may be faced with a threat of pull back from their financiers.

Other Changes in Behaviour

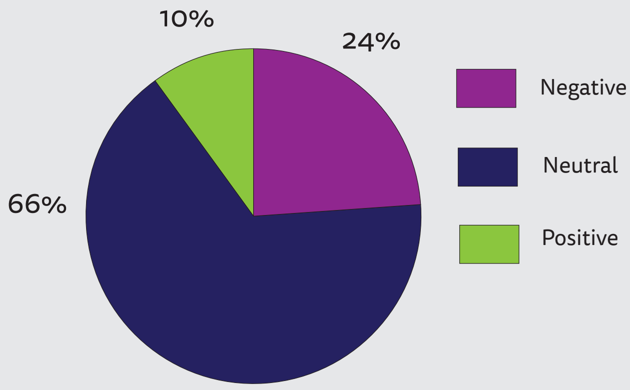
We can certainly see in the FCI statistics that this perceived increase in risk is causing both the factoring community and the clients to become more conservative. One such behavior can be seen in the rise of non-recourse factoring: If you compare the figure from the previous year, the share percentage of non-recourse factoring increased from 42% in 2019 to 55% In 2020, the biggest single increase ever reported.



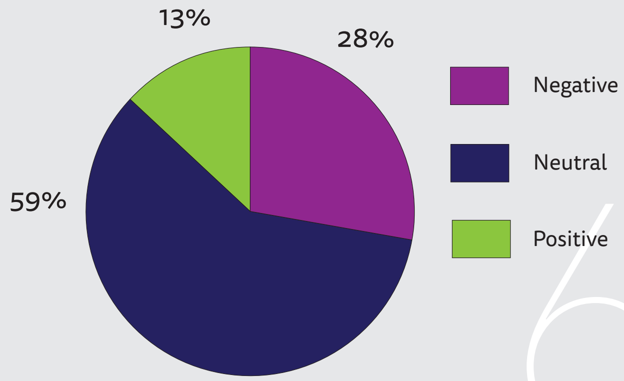
The Covid-19 Pandemic impact on global business increased the perception that commercial risk is on the rise and that risk mitigation is necessary to protect client's receivables exposure. It is understandable that such a swing occurs when you compare such products as recourse factoring and invoice discounting. Its substantial value might also explain another important reason for non-recourse demand as a mechanism to decrease cost of capital under Basel capital rules and the increase in usage of off-balance sheet treatment by corporates.

One other stark outlook that we gleaned from the FCI member survey was the precipitous rise in risk outlook. For client and customer/debtor risk outlook, as you can see below, both saw a

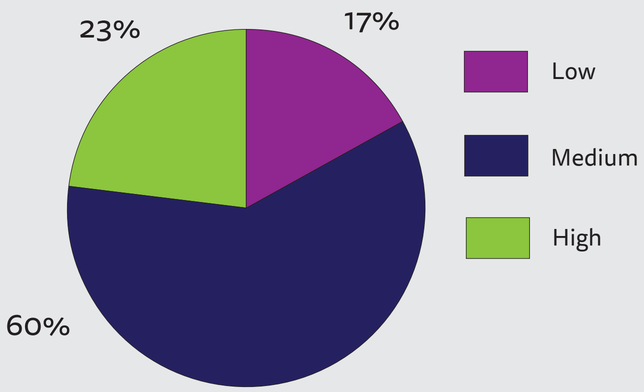
CLIENT RISK OUTLOOK



DEBTOR RISK OUTLOOK



AWARENESS LEVEL



significant increase in negative perception. Regarding the former, the negative perception of client risk increased from 12% in 2019 to over 24% in 2020 globally. Regarding the latter, the negative perception of customer/debtor risk increased from 12% in 2019 to 28% in 2020.

The other behavior to note from a survey of FCI members back in the 2H2020 shows a significant increase in the level of awareness and trust in industry resilience. After a hard hit year economically, we can observe from the respondents a high level of confidence and optimism that the industry has the capacity to continue to support the real economy on a global scale.

Rise of Fraud

Fraud raised its ugly head last year, led by the commodity trading companies in Singapore, the largest being Hin Leong, a home-grown operation founded in Singapore in 1963 that grew to become one of Asia's largest fuel trading houses. The company had become dependent on fake trades, forged documents, and dubious financing to help cover up vast accumulated losses. Police say their CEO demanded employees to forge documents purportedly issued by an oil terminal that the same Group-owned. The company had become reliant on fraudulent transactions and forging documents "on a massive scale" to keep repaying earlier debts. It was these kinds of fraudulent activities that resulted in accumulated losses of over $3.5 B. Some of the Singapore banks had factoring exposures in this company. But the losses were concentrated outside of the receivables finance space and more in the traditional trade finance sector. FCI members escaped major fraud damage from factoring activities this past year, as the case is a great example of how factoring, when conducted prudently, is a means to escape losses, as all of the factoring exposures were repaid.

However, this environment of boom and bust economies driven by the pandemic is the perfect scenario for the rise in fraud. There are generally considered two major types of fraud risk: circumstantial and premeditated. Circumstantial fraud happens when struggling businesses need cash urgently, but the necessary funding cannot be made available. As a result, opportunistic business owners may produce an invoice slightly early and submit it to their factor for an advance payment. This kind of fraudulent 'pre-invoicing' behavior can be incredibly difficult for factors to identify. And while it may be committed by a client intending to legitimately raise the invoice, it can quickly evolve into a much greater problem of 'fresh air' invoicing.

THIS ENVIRONMENT OF BOOM AND BUST ECONOMIES DRIVEN BY THE PANDEMIC IS THE PERFECT SCENARIO FOR THE RISE IN FRAUD

Unlike circumstantial fraud, the latter occurs when fraudulent intent is a "proven" predetermined, premeditated action that contradicts a truth. In this case, criminals target factoring companies by creating fake businesses (the supplier client and their customers). To portray these businesses as legitimate, fraudsters create fake invoices to extract advances from the factor; they then use this money to pay off the invoices, effectively recycling the factor's cash, thereby generating the

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appearance of real cash flow and a growing business. This all seems fine until the fraudster goes for "the juggler," takes the money, and runs.

It may be that fraud is more likely to be discovered during times of economic stress. When business is good, people don't tend to question anomalies as thoroughly, and small frauds might even be dismissed in an effort to maintain focus on growth, not problems. It is in these environments that we can see more premeditated fraud occur.

But where are we today? Well we have come off the heals of another large bankruptcy, Greensill that had conducted some questionable practices relating to its reverse and traditional factoring business. But unfortunately it did not cause any systemic risk in our industry. In fact, factoring is in high demand right now, as this crisis dissipates. We are hearing this from our members globally. Companies will look to find alternative funding sources, and factors will attempt to mitigate the risk of the receivables. You can be rest assured that circumstantial fraud had already occurred last year, and many of you are not even aware it took place! This is why we have been encouraging all of our members to ensure they return "back to basics" during this period, focusing on maximizing ALL risk controls. This is hard to do when you can't even visit a client due to COVID. But there are many ways to prepare yourself in terms of monitoring behavior, observing anomalies in your client's business, and being proactive by questioning everything.

Conclusion

As you can see, there are so many interesting takeaways from the 2021 Annual Review. After 20 years of an unparalleled growth story, the pandemic hit the breaks on this run-away train. After a nearly 20 year run, it was bound to happen. However, all signs point to a very strong recovery in 2021, albeit with some potential dark credit clouds on the horizon. We know that when factoring is conducted based on FCI's best practices, members do not suffer. And in times of economic upheaval, we can expect a bumpy ride as we are in today. However, the factoring industry's secured nature and the controls that it affords make this particular asset class much more attractive to investors globally. And as we see the rebound occurring as reported by some of our members, and based on the strong track record of our industry from past crises, we can expect solid growth over the following years, unless hampered by a continuing and relentless pandemic. Nonetheless, factoring is an extremely resilient industry, and I would anticipate bright skies for our future!

You can click here to obtain a copy of the full 2021 FCI Annual Review.

LIN HUI
Regional Director North East Asia

CONNECT

FACTORING IN NORTH EAST ASIA COMPARED TO UNITED KINGDOM

Lin Hui, FCI Regional Director, interviews Philip Cheng (PC), Consultant and previously leading the establishment of factoring by HSBC in Hong Kong, and John Beaney (JB), Director, Global Product Management for HSBC. Lin addressed three questions.

Please share the experience of HSBC Hong Kong in introducing factoring practices from the UK successfully.

JB: I had the privilege of working with Philip to determine whether HSBC should establish a factoring business in Hong Kong (HK) and, if so, then develop a plan. Philip was a commercial banking expert, and the first step was to bring him to the UK, where the bank has its successful SME factoring business so he could see how the business should operate and what it can deliver to clients and the bank. We then went back to Hong Kong and conducted extensive research, including 75 customer interviews. After a rigorous process, the decision to proceed was made. Two of my team were seconded to HK to support Philip, and the local team built the business.

HSBC customers were seeking support for their open account sales. They needed access to liquidity plus mitigation of buyer credit risk and payment delay. The bank had tried to address that with a factoring business in the 1980s but suffered fraud losses because we lacked expertise, had not adopted appropriate practices, and could not pursue it. The bank saw a new opportunity to support customers by learning from its newly acquired UK factoring business. That business was delivering for customers and managing the credit risks safely, so had a lot of experience to share. I still remember the guidance I received from the then group CEO, the brilliant Sir William Purves: "don't lose money laddie."

I believe the subsequent success of what we call the Receivables Finance (RF) business is down to a combination of global policies, an effective systems platform, the development of local talent, and adaptation to the local market needs. We have specifically been able to build deep expertise in understanding the value and collectability of receivables and align that to the bank's credit assessment methods. I would also stress that it has been a "two-way street" with the Group learning a lot from the Hong Kong and subsequent Asian RF businesses, including most recently with solutions for clients with online portals and in support of infrastructure and longer terms receivables. We are also learning from some local factors that have adopted smart debt verification techniques, building upon structured invoice and shipment data availability.

SUCCESS OF THE RECEIVABLES FINANCE BUSINESS IS DOWN TO A COMBINATION OF GLOBAL POLICIES, AN EFFECTIVE SYSTEMS PLATFORM, THE DEVELOPMENT OF LOCAL TALENT, AND ADAPTATION TO THE LOCAL MARKET NEEDS

PC: John has already mentioned the key issues that are crucial to a successful launch of the business.

Let us put aside the situation of HSBC, where HSBC Hong Kong at the time had all the expertise and know-how in supporting its launch, which is not a luxury that most other new entrants in this part of the world have. I

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believe, first and foremost, anyone who has the desire to launch this business should have a complete and good understanding of the "product," which means its function and service scope, benefits (to different parties), risks (from assessment to management), return, etc.

ANYONE TO LAUNCH THIS BUSINESS SHOULD HAVE A COMPLETE AND GOOD UNDERSTANDING OF THE "PRODUCT," WHICH MEANS ITS FUNCTION AND SERVICE SCOPE, BENEFITS, RISKS, RETURN, ETC

For the service to be effectively rolled out to meet the providers' business objectives and users' expectations, it has to be supported by an efficient and well-trained dedicated team. The risk evaluation and operations management process is different from other trade finance or lending products. Thus a different skill set needs to be developed. Effective operation has to be complemented by an appropriate operating system platform to facilitate the offer of services to clients and, very importantly, to the risk management operation of the financing party.

Different providers aim for a different market segment to launch the service. It is important to note that countries have different legal systems and requirements when it comes to the effective assignment of receivables, so all these have to be structured and adapted accordingly.

In the case of HSBC Hong Kong at the time of launch in 1994, the focus was on the mid-market segment, where the credit risk profile was considered to be better than the SME segment, which accounted for most of HSBC UK's factoring finance portfolio, thus certain credit control disciplines were modified accordingly.

What insights do you gain from a comparison of the world's two major factoring markets, the UK and China?

JB: The UK receivables finance market is very material, equivalent to c 11% of GDP. It is relatively large compared to China, although in absolute size, it is smaller. Unlike in China, the market size reduced in the last year because of the pandemic (at the time of writing, it is rebounding). There is probably a greater proportion of SME clients served within the UK market, achieved with a low Loss Given Default. Like in China, there is a wide range of RF providers, including banks and non-bank financial institutions. The banks have the greatest size, but the NBFIs make a valued contribution, especially to SMEs. The market is largely recourse post-shipment financing (90% recourse) but with a significant proportion value on a limited recourse basis (known locally as non-recourse).

IN UK SELLERS GENERALLY ASSIGN ALL SALES TO ALL BUYERS TO ONE FINANCIER, UNLIKE IN ASIA, WHERE ASSIGNMENT OF SALES TO SPECIFIED BUYERS IS THE NORM

The UK market benefits from a supportive legal environment in which the assignment is well recognized and can be officially recorded to mitigate against double finance. Ban on Assignment contractual provisions do exist but are not a barrier to assignment either. The UK requires a high level of public disclosure of audited financial statements, which makes buyer credit assessment materially easier and means that the RF provider can include all of a seller's buyers and not just those who "bank" with the provider. A key feature of the market is that sellers generally assign all sales to all buyers to one financier, unlike in Asia, where assignment of sales to specified buyers is the norm. This provides a spread of buyers and good mitigation against performance and concentration risk.


Left Mr. Philip Cheng, right Mr. John Beaney

An important area of growth in the past ten years mirrors that in China, banks providing limited recourse facilities to larger corporates, enabling them to sell down their receivables to boost Free Cash Flow and reduce gearing.

The UK also contains a strong "Asset Based Lending" segment, this mirrors practices in the US and is largely focused upon finance of receivables and inventory, but it does extend to fixed assets too.

The UK market benefits from a large pool of experienced receivables finance professionals, including business development managers dedicated to the product. That skill base is developed through the training provided by the UK industry association. That training is very comprehensive, covering every aspect of receivables finance operation. (This is clearly an opportunity for FCI).

PC: At the moment, the contrast is substantial, of course, the history is also far apart:

CHINA DOES NOT HAVE A LARGE AND DEVELOPED POOL OF EXPERTISE TO DEVELOP AND MANAGE THIS BUSINESS, IT IS VULNERABLE TO A NUMBER OF RISK FACTORS

In the UK, it has been a successful and useful financing tool to support the SME market segment for many years.

In China, in recent years, factoring is widely launched by banks and non-bank commercial factoring companies, and a substantial volume of business has been recorded, mostly on the domestic front. However, as China does not have a large and developed pool of expertise to develop and manage this business, it is vulnerable to a number of risk factors. For many providers, the risk management disciplines need to be better understood and embedded as it is possible to rely upon the security of the receivables and not just the seller's credit risk profile. Providers also feel that the operation is cumbersome, this creates a tendency to focus on the larger deals. This leaves the SME market underserved. As we learn from the UK, SMEs value access to receivables finance products. The challenge to solve is how to streamline the controls so that SMEs can be supported cost-effectively. There is innovation emerging from suppliers and practitioners to help with that challenge.

WE CONTINUE TO SEE REAL VALUE IN HAVING EXPERTISE LOCAL TO BOTH SELLER AND BUYER WHEN UNDERTAKING EXPORT RF AND INDEED IN FAST-GROWING PAYABLES FINANCE.

My view is that China may consider refocusing on the basics and re-examine the market needs and direction. With the government pushing for support for SME financing and the substantial trade volumes locally and internationally, which are on open account terms, there remains a big working capital gap that can be meaningfully serviced by the use of receivable finance/factoring service.

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How would you describe the relevance of FCI member benefits and FCIs two-factor model to the current situation for the Chinese and global market?

JB: The two-factor system was very important to the fast and safe growth of our businesses in Asia. They are strongly export-oriented and benefited hugely from our partnerships with Import Factors in Europe and North America. Our business has evolved to enable more risk management within our Group and in partnership with the group's insurance program, and so our use of correspondent factors in the two-factor system has reduced. However, we continue to see real value in having expertise local to both seller and buyer when undertaking export RF and indeed in fast-growing payables finance.

I would also highlight that HSBC works with many FCI members through the funded risk participation programs that have expanded significantly in the past five years as client demand for programs of $100m and above has increased materially. This may be a future route to enable NBFIs to access liquidity to support well-structured RF programs.

FCI HELPED IN THE OPENING UP OF THE EXPORT RECEIVABLES FINANCE MARKET

FCI's advocacy work is increasingly important. Regulators need to hear from the industry to gain reassurance when allowing these techniques or proving a sound legal environment to enable us to operate safely. FCI helped in the opening up of the export receivables finance market in Bangladesh, for example.

FCI's education program is hugely relevant. I was lucky enough to participate in this year's fraud prevention and management webinar. At HSBC, we value such opportunities to learn from a wide range of experiences. The particular challenge we have in managing our larger corporate client risk is that there have been very few defaults, and so colleagues do not have the experience of managing difficult situations plus it is a challenge to distinguish the occasional rogue from the many really good businesses that we strive daily to keep satisfied in a fiercely competitive market.

PC: The advantage of using the two-factor model is obvious and is well known. While we understand the limitations (number of factors available in certain countries and their desire of ability to conduct import factoring, country risk, etc.) and perhaps the higher cost (as perceived by many but overlooking the impact that using an IF can bring), it is especially relevant to EF who are new in the business to engage IF to assist with a smooth operation of the transactions, and from a risk perspective certainly will reduce some of the basic risks that are associated with open account trade - e.g., buyer contact to verify debt, understand payment pattern, early notification of dispute, payment control, and follow-up. I should emphasize, however, that even for experienced practitioners, there is a lot of value in having a partner who is local to the buyer, operating in the same time zone, and with the ability to verify and, if necessary, recover in the event that buyer or seller gets into distress. Emerging from the pandemic, the risk environment is actually heightened, and so definitely time to get the best from those FCI partnerships.

EMERGING FROM THE PANDEMIC, THE RISK ENVIRONMENT IS ACTUALLY HEIGHTENED, AND SO DEFINITELY TIME TO GET THE BEST FROM THOSE FCI PARTNERSHIPS

JOSEP SELLES
Chairman SCF Committee

HOW FCIREVERSE BECAME FCIREVERSE

Some years ago, when Daniela was Chairman of FCI, she called me asking to set up a reverse product to allow FCI to disembark into a business area growing year after year around the world. And still grows.

We considered that FCI had to be part of it because reverse is a variety of factoring. Reverse, buyer's payable, supply chain finance, confirming called as you wish, but we are talking about the same thing with very lightweight variations.

WE HAD TO START FROM ZERO. WE HAD NOT THE POSSIBILITY OF COPYING WHAT OTHERS WERE DOING BECAUSE NOTHING SIMILAR EXISTED

We had to start from zero. We had not the possibility of copying what others were doing because nothing similar existed. We had nothing but the strong determination to create a valuable and competitive product accessible to our members to facilitate them to make the step towards reverse in their Institutions.

We needed technology. FCI was not going to develop a reverse platform: we had not the knowledge, the money, the means.

We started looking for a technological partner, and the road led us to Demica, one of the top technological suppliers of the industry.

We had to negotiate with them. It took time, in many cases, because we, as an association, needed that certain decisions should be validated by our Council once a year. But finally, we succeeded and reached an agreement with Demica. As a result, we could offer a state of the art reverse platform and, probably the best, without the need that the member had to buy one. It only will pay for use. Accessible.

Since we were ready to launch the product FCIreverse, things have not been easy at all. We suffered and still suffer a pandemic that has radically stopped travel possibilities, and many companies have frozen their investment pro- jects, and to set up a reverse product in a Financial Institution requires an investment. The product involves different areas in an Institution.

Actually, under normal conditions, we could only work some months, less than one year.

FCIreverse will not be like other FCI products that, unfortunately, haven't had almost any success. The maturation of the product, the usual time required for a company to decide starting the new product, use to take about 2 or 3 years and this is more or less the time since we started (actually, we have not reached the 3 years since the launching), and I'm very happy to announce that we are collecting very positive and exciting results. We have users and also a list of potential ones. I shall give you more details in my presentation in the coming AM.

But to walk the road till today, I've needed the help of some people, the members of the SCF committee, and Peter, of course. The work hasn't been easy because we were creating something new and received internal or external criticism. But the boat had to sail also through these troubled waters.

THIS IS ONE OF THE MAGIC OF FCI: COMPETITORS IN THEIR MARKETS WORKING TOGETHER TO REACH A GOAL IN FCI

Allow me to mention a person that has been key for the achievement of the success: Mónica Martin Blanco.

It's funny that we were competitors in Spain working for different banks, but in FCI, we worked shoulder to shoulder to create the product. This is one of the magic of FCI: competitors in their markets working together to reach a goal in FCI.

>Continued on page 14

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She has done and is doing an excellent job even considering the circumstances, not only selling the product, but also in advocacy (Peter and myself too), sowing the market by cooperating with Multilateral banks that cover many different countries that may be today are not ready for developing the product, but they will do it in the future. Education, legal aspects, marketing the same that Jeroen Kohnstamm did in the past with the factoring.

FCI IS BECOMING A REFERENT AND A REFERENCE IN THE REVERSE FACTORING INDUSTRY AROUND THE WORLD

And another important achievement is that FCI is becoming a referent and a reference in the reverse factoring industry around the world. We are exploring the possibility of structuring a kind of competence center to cover this demand of assessment. Today nothing similar exist.

FCI is a reference for the factoring industry around the world. We want to make FCI also a reference for the reverse industry.

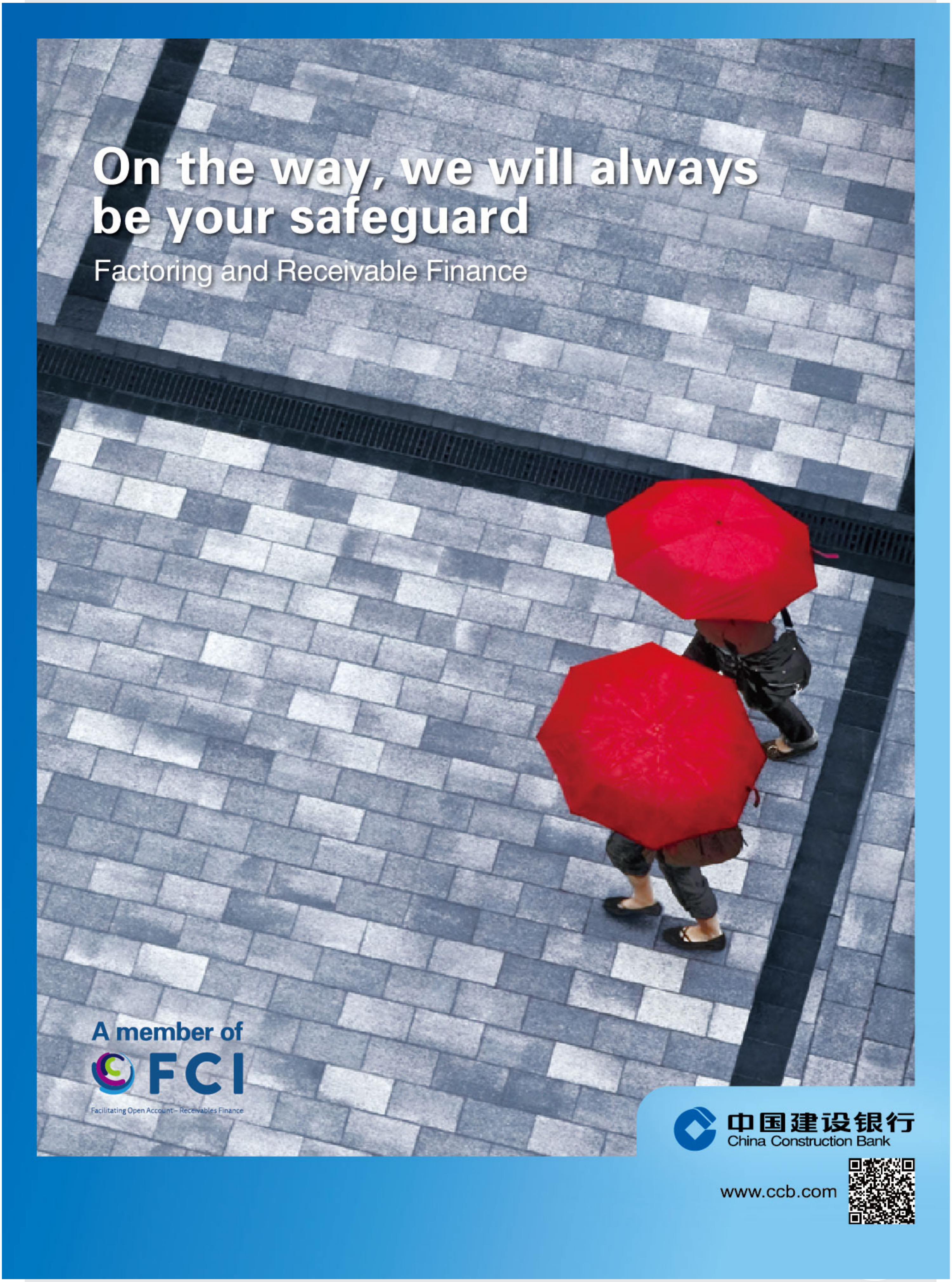
Farewells always have a certain portion of sadness, and I must confess I also have this feeling. Many years sharing moments with all of you while working to make FCI better.

I can't complain. In my many years being a member of the ExCom, also as Vice Chairman, I've participated in important decisions not only for FCI but for the industry: Foundation of EUFederation; change of FCI structure opening it to the different regions in the word; to manage the replacement of the Secretary-General; put Africa in the agenda of FCI, till then completely ignored except Magreb and South Africa; merger with IFG; and more that I don't list to avoid boring you.

And the last, the creation of FCIreverse, and I'm very happy to realize that the product will continue without me. It's some kind of footprint.

But every beginning leads to an end, and my time in FCI is ended. Do not hesitate in being a volunteer to push FCI forward. It worth.

See you somewhere, sometime.


On the way, we will always be your safeguard
Factoring and Receivable Finance
A member of
FCI
Facilitating Open Account – Receivables Finance
中国建设银行
China Construction Bank
www.ccb.com

CONNECT

ISLAMIC FACTORING MEETS INTERNATIONAL FACTORING

YÜCE UYANIK
Member of the Legal Committee

Since Shariah allows trade with people from other religions, it is important that countries adapt their regulatory, supervisory, and consumer protection frameworks to address the unique risks in Islamic finance and take further steps to develop Shariah-compliant financial markets monetary instruments and strengthen the international architecture for growing cross-border operations.

Selling in an international marketplace is a challenge for many companies. Different currency systems, legislation, and languages are still barriers to international trade even though we can place orders across the globe within seconds.

In cooperation with Islamic scholars, FCI prepared a contract facilitating Islamic international factoring transactions in 2018: the Supplemental Agreement for Islamic International Factoring. The Council has finally approved of FCI during its 50th Annual meeting in Amsterdam in 2018.

The Supplemental Agreement for Islamic International Factoring has only three important deviations from the GRIF:

1. As interest is prohibited in Islam, any late payments by the export or import factors will be subject to a 'late payment amount' to be agreed on by the parties, not to 'interest.'
2. As the trade of some goods and services is prohibited in Islam, the product or service related to the receivable must be approved by the other party before the first assignment by the export factor.
3. Transactions with the prohibition of the assignment are not acceptable.

Since there is no reference to financing between the export and import factors in the GRIF, all the other terms and conditions of the GRIF are applicable in an Islamic International Factoring transaction in terms of a 'wakalah/ tamleek' (assignment). It should also be noted that there is no restriction in Islam to prevent trade between a Muslim and a non-Muslim. Therefore this new opportunity is open to all FCI members.

FCI, in partnership with the ITFC, has organized a webinar on International Islamic Factoring to build capacity on the topic. The webinar, taking place on **13 September at 11:00 KSA time**, will allow attendees to understand the following questions:

- Why do import factors need to sign supplementary agreements for Islamic International factoring if they are not Islamic Financial Institutions (IFIs)
- How do the Import factors work with importers in the Islamic international factoring? Are there any additional workload or actions to be done?
- What does Sharia compliant mean?

FREE REGISTRATION HERE BEFORE 9 SEPTEMBER

AMINOU NASSOUROU
Regional Manager Africa

HOW TO SET UP A FACTORING ACTIVITY WITHIN A BANK IN AFRICA

Due to the lack of knowledge of the concept and the factoring product, several banks and Factors are considering setting up this activity by starting from an “erroneous” conception of factoring. This “erroneous” conception is linked to the fact that banks confuse factoring with several banking and financial products such as draft discount, invoice discount, overdraft, advance on invoice, purchase order financing. Or worse, the repurchase of overdue receivables or debt.

Hence the importance of knowing the approach and process for setting up this activity within banks or independent factoring companies.

Unfortunately in African countries, there is no published data on market players just because the industry is embryonic. Most banks think of doing a market and feasibility study first. Then, the studies are carried out by resources who have little experience and information about the business and the product. Finally, banks end up with studies that are not very interesting or even relevant. Consequently, decision-makers find themselves in a “no go” situation.

It is therefore essential to note, without being exhaustive, the various important stages for the implementation of this activity, namely:

1. **Know the market potential**: by knowing the players and similar products on the market such as overdraft, discount, spot, letter of credit, advances on invoices. Then, make an opportunity study and a business plan to know: the approaches, the investments, the costs and the gains, the deployment planning, and the risks incurred to give visibility to the management for decision-making.
2. **The definition of the product and the type of organizational structure, the choice of the flagship product** for example: factoring with recourse, factoring without recourse, invoice level finance, reverse factoring, international factoring as well as all services incidental to these products, which may be launched. The important point is to choose a standard product that is easy to deploy and has to develop over time.
3. **The type of organization** depends on whether it is a bank, for example, to decide to constitute this product in a bank department and manage it like any other product, or to create a separate entity for flexibility needs outsource this activity.

   As soon as the choice is made, decide on the organizational and operational structure of the services to be set up, the resources to be allocated, recruited, and trained, namely: administration, finance, operations, control, management of customers and buyers, collections, audit, sales and marketing, risk and international service. All of this will result in a flowchart in place as long as there are resources in the market who have knowledge of the product.
4. **The choice of the information system for factoring**: this step is crucial because the management tool is essential for operational management. Will the entity develop its tool or acquire a tool that exists on the market that has proven itself? The mistake to not do, is to develop his own system or to use the core banking system to operate factoring operations. This phase will include the investment cost, training on the tool, deployment, and user handling of the system.
5. **Put in place the tools, legal instruments, and operational procedures**, namely: the types of

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FCI RECOMMENDS THIS PROCESS IS TO BE ACCOMPANIED BY AN EXPERIENCED CONSULTANT WHO WILL CARRY OUT THIS DEPLOYMENT WITH THE BANK'S PROJECT TEAM

contracts, the type of legal transfer, the points specific to the contract, management, risk procedures (KYC, AML, BASEL II, etc.), operational management procedures, marketing, type of letter and letters, audit of prospects, credit report, the enrollment process and the start of contracts, management of disputes and litigation, the accounting scheme and integrations, credit insurance, training, and business development, product positioning and the role of associations like FCI.

In the end, to set up a factoring business, it takes three to six months if a bank has competent and experienced resources, and this could extend to more than nine months or more.

This is why FCI, through FCI Academy, recommends in this process to be accompanied by an experienced consultant who will carry out this deployment with the bank's project team.

Likewise, FCI Academy has the resources and consultants for its members and non-members to help them build their capacities to enable their business to grow through the Tailor-Made Training program, Mentoring program, Seminars, and Workshops, specialized courses in Factoring and certification programs.

It is important for newcomers to take this opportunity to help them gain efficiency in specific areas of their interests.

MORE INFORMATION ABOUT FCI TAILORMADE TRAININGS AND MENTORING HERE

NEW MEMBERS

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

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

FACEVALUE AFFILIATE NETHERLANDS

Facevalue is a Dutch FinTech platform that provides working capital solutions and specializes in global accounts receivable and payable finance to SMEs and mid-market corporations.

Our multi-investor platform utilises demand-based economies of scale and leverages collaboration with large digital user communities that facilitate efficient exchange of financial statements, invoice and procurement data.

Facevalue is well supported by institutional bank and non-bank investors that finance the accounts receivables and payables it purchases. As a platform operator we perform a pivotal role between businesses and investors that rely on the integrity of our systems and operations to manage risk and enforce governance. Facevalue acts as a direct lender and master servicer and collaborates with global transaction banks that prefer to contract directly with clients and only use our systems and appoint us as master servicer.

Our end-to-end serving function includes origination and compliance on-boarding, credit analysis data handling, transaction ledgers, matching and reconciliation of transactions, legal, assignment and perfection, credit insurance management and collections.

Facevalue provides transparent standardised reporting and visualisation that analyses credit and concentration risk on the performance of the underlying receivables and payables relative to each investor's eligibility criteria, thresholds and limits accessible via our secure online portal and via API, or secure transfer.

"We are delighted to join the FCI fraternity. Facevalue respects and acknowledge the complexities of open account international trade finance and view FCI as an indispensable organisation to facilitate and standardise the trade in accounts receivables and payables. As an international non-bank participant we hope to benefit from the collective wisdom of the members and the organisation and hope to make a meaningful contribution by sharing our knowledge and insights around technology and the development of accounts receivables as an asset class." – Neels Bornman, Chief Executive of Facevalue

To find more about Facevalue, see www.fcvl.com

GlobalCorp Financial Services

ASSOCIATE

EGYPT

GCFS was established in 2015 as a leasing company, previously named "Global Leasing Company", through a collaboration between Mr. Hatem Samir (a leasing industry veteran and CEO of GCFS), Wadi Degla Holding (an Egyptian real estate conglomerate), and SANAD Fund. In 2018, Ezdehar acquired Wadi Degla's 60% stake

The company has developed into a key player in the NBFI sector in Egypt. Since establishment, it has grown its product portfolio to include leasing and factoring with plans to expand into auto-finance and potential to include mortgage financing.

GCFS serves a wide range of industries and clients, including corporates and SMEs through an offering that currently includes financial and operating leases, factoring and structured finance solutions. The company offers a range of factoring services to assist clients in improving their financial position and increasing their cash flow by transforming their accounts receivable into cash, offering access to fast cash transfer services, and facilitating international trade by handling collections on behalf of clients.

To find more about GCFS, see www.globalcorp-fin.com

KAPITALBANK

ASSOCIATE

UZBEKISTAN

JSCB Kapitalbank was founded in 2001 as a Private Joint-Stock Commercial Bank. Since its establishment, Kapitalbank has been demonstrating high growth rates in the spheres of corporate and retail banking. The solid list of innovations has allowed the bank to take the leading positions in the domestic market, which gave a chance to deliver high-quality services to a greater number of customers and to become one of the most reliable and financially stable banks of Uzbekistan.

Within the past several years, the bank has become one of the leading private banks of Uzbekistan and entered into the list of the Top 10 largest banks of the country. The bank provides services to 32 235 corporate and 944 172 retail clients. The bank employs more than 1 700 qualified specialists. As of June 1, 2021, the volume of total assets is USD 950 mln., equity is USD 100,9 mln. and loan portfolio of the bank is USD 510,3 mln.

The Bank has been actively expanding its regional presence in the past years. The current infrastructure of the bank comprises Head Office, 18 branches, and 24 mini banks in Tashkent and around the country.

To find out more, visit their website here: www.kapitalbank.uz/uz/welcome.php

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ASSOCIATE

MOLDOVA

OTP Bank Moldova is a subsidiary of the Hungarian Bank OTP, the largest financial service provider in Hungary and the leading banking group in Central and Eastern Europe.

It is a reference bank in the country, being a pioneer of Moldova banking sector since 1990. A universal commercial bank, which offers a wide range of products and qualitative, digital services, for more than 165 000 clients - businesses and individuals, through a dedicated, motivated and competent team consisting of more than 800 employees.

In 2019, after the successful completion the bank's acquisition by the Hungarian OTP Bank Nyrt (owner of the 98.26% of the bank's shares), the bank became a streamliner in digitalization and IT developments in the country, providing high quality financial solutions to meet and set the trends for the needs of its customers through 52 branches and alternative digital channels.

OTP Bank offers innovative financial solutions to its customers and is an IFI's solid partner in the Republic of Moldova due to a good cooperation and active promotion of the international financial projects.

Through its FCI membership, OTP Bank Moldova extends the range of its financial solutions and offers a valuable market momentum and expertise for its clients.

This membership also comes to emphasize OTP Bank's group-wide durable corporate relationships in the regions marked by OTP Group presence.

We wish them lots of success!

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

EDUCATE

FCI ACADEMY LAUNCHES THE NEW SUPPLY CHAIN FINANCE AND REVERSE FACTORING E-LEARNING COURSE

AYSEN ÇETINTAS
Education Director

The certification programme is designed for trade finance professionals and all stakeholders in the industry

This supply chain finance and reverse factoring fundamentals course has been written to provide the trade finance professionals and all stakeholders in the industry with an understanding of global trade, the client and their place in their supply chain, and the financing solutions which may be applicable to them, including those that incorporate the Payables Finance, Purchase Order Management Service and FCIreverse tools provided by FCI.

The programme is built around six core modules:

Module 1 – Understanding the Supply Chain
Module 2 – Global Trade, and the increased role of Open Account solutions
Module 3 – A briefing on Reverse Factoring and its Variations
Module 4 – Reverse Factoring – The Role of the Buyer
Module 5 – Establishing a Reverse Factoring Programme
Module 6– FCIreverse

TO PROVIDE PARTICIPANTS WITH AN UNDERSTANDING OF GLOBAL TRADE, THE CLIENT AND THEIR PLACE IN THEIR SUPPLY CHAIN, AND THE FINANCING SOLUTIONS WHICH MAY BE APPLICABLE TO THEM

By the end of the course, the participants will

- have an understanding of physical, financial and information supply chains;
- recognise the use of different supply chain finance solutions when mapped to a trade cycle, including an appreciation of pre-shipment and purchase order-based finance solutions and the Purchase Order Management Service offered by FCI;
- recognise the differences between Receivables Finance and Reverse Factoring;
- understand the different approaches to Reverse Factoring and those developments which are prevalent in the market;
- understand the concept of Reverse Factoring and its applicability to different customer segments; understand how to establish a Reverse Factoring Programme; and,
- recognise the role that FCI Reverse plays in supporting the implementation and management of a Reverse Factoring Programme.

Commenting on the launch of the new programme, FCI Secretary-General, Peter Mulroy said: *"We are excited to provide our members and the industry one of the most comprehensive course on Supply Chain Finance."*

The curriculum will be delivered via the FCI Academy's innovative digital learning platform, which can be used on multiple devices.

About the Authors

Trade Advisory Network

Trade Advisory Network is a trade, supply chain and invoice finance consultancy that is at the forefront of the practice and developments impacting working capital finance solutions. Their founders, John Bugeja and Lionel Taylor, are highly experienced trade, supply chain and invoice finance practitioners with 40 years of professional experience in senior leadership roles with major international financial institutions.

EDUCATE

FCI ACADEMY UPCOMING WEBINARS

SPYROS TSOLIS
Deputy Education Director

FCI Academy has introduced webinar training since 2018, accelerated though during the Covid-19 pandemic. Since then, thousands of participants from all regions have had the opportunity to receive online training on industry-related topics, organized either by FCI Academy or in cooperation with other industry stakeholders.

We are delighted to organize a series of webinars targeting most regions and focusing on topics that were strongly demanded by our members and the industry during the coming period.

We invite you to visit the links provided, learn more, and register for the event(s) that interest you!

1. Sales & Business Development "Let's make our Potential Clients become True Generators of Profitable Businesses - This is your Factoring Sales Toolkit," 15-16 September 2021

This webinar aims to provide all participants with sufficient knowledge on domestic and international factoring, how best to sell it, industry suitability, and seller selection. It will also include reverse marketing, regional challenges & opportunities, and a panel discussion on the best practices to promote factoring.

The webinar is designed for the banks and factoring institutions in the Americas. However, participants from other regions are also welcomed. Most sessions will be held in Spanish, as this is a topic strongly demanded by our Latin American & Caribbean members.

The objective of the training is to get familiarized with all aspects of sales of factoring. The attendees will get a better understanding of the positioning of factoring and receivables finance, promotion of factoring, finding the needs of prospective customers, and closing the deals.

More information and registration

2. "The FCI Two-Factor Scheme: The Secured Framework for Open Account Trade," 28 September 2021

The Two-Factor Model is the cornerstone of the factoring business started in Greater China and the spark that ignited three decades of dynamic growth in the Greater China market. Today, thirty years later, the Greater China market has evolved into a globally important factoring market and a vital region for the global supply chain system.

Experts on Greater China market and key industry players will gather online to discuss key issues in the development of the industry in the region. Some of the issues refer to:

- How do we assess the development of the Greater China factoring market over the past three decades? What are the problems? What is the path forward?
- What is the fundamental significance and role of the Two-Factor Model for the emerging global supply chain finance ecosystem? How can the efficiency and security advantages of the Two-Factor Model be exploited?
- What are the best practices of the Two-Factor Model globally? What are the differences between the respective practices in the region? What are the drawbacks and pitfalls, and how do they need to be improved?
- What are the current trends in the factoring and supply chain finance market in the region? How can Two-Factor Model evolve with the times?

More information and registration

3. FCI-BCR Rebooting Your Factoring Practice for the Post COVID-19 "New Normal," 29 September 2021

To say that it has been an interesting and challenging last 12 months for the global factoring industry is an understatement. COVID-19 has challenged the industry in many ways almost impossible to imagine: SMEs being forced to close and or operate due to government-imposed restrictions, overnight drop in demand in the B2B sector, remote working ramifications, and a very uncertain near term for SME sectors globally. As we look to a new normal, what does the future hold for the global factoring industry? Opportunity? Threats? Or both? This session explores the opportunities for and barriers to the sector's growth and what we can expect to see in the new normal SME environment.

This webinar is designed to educate and challenge leaders in the global factoring industry to think about how they can successfully lead the "rebooting" of their professional factoring and receivables finance practices in a post-COVID-19 environment. Four unique areas of leading-edge programming will be covered in this session.

More information and registration

4. FCI-GTR Webinar on Factoring and Receivables Finance Training for Saudi Arabia, "Factoring as an alternative tool for financing SMEs and Big Corporates, Boosting the potential of Trade Finance for Banks and NBFI," 6 October 2021

FCI & GTR are joining forces for an online conference to present Factoring and Receivable Finance. Factoring continues to grow successfully both in mature and emerging markets. Through their control methods and permanent monitoring of the receivables of their clients, factoring companies or factoring divisions/departments of banks can provide more financing than traditional lenders to Small and Medium-sized Enterprises (SMEs) and Big Corporates while, at the same time, limit their credit risk to acceptable levels.

Companies use Factoring as a flexible source of financing as it facilitates the much-needed access to finance by corporates and SMEs, thereby improving their competitiveness based on the focus on Open Account Trade, which has proven to be the most effective system during periods of financial and economic challenges.

This webinar will address all the above topics, including a session on Legal Issues on Conventional & Islamic Factoring, and focus on the challenges that our market is facing during this period of pandemic regionally & globally. Definitely a "not-to-miss" event.

Keep an eye on FCI website to register

5. FCI & IFC Webinar for Factoring and Receivables Finance Conference (Supported by the UAE Ministry of Finance), Factoring as an alternative tool for financing, Impediments of Trade finance & opening potential for Banks and NBFI, 7 October 2021

For this webinar, IFC and FCI joined their forces to promote factoring in the United Arab Emirates.

The objective of the training is to get participants familiarized with all aspects of factoring as an alternative tool for financing, especially in the UAE region. Industry experts from the region will explain the legal and regulatory framework for factoring in the UAE and educate on the Emirates Development Banks' National Supply Chain Finance Program, the challenges, and the latest developments in the UAE's factoring industry.

Keep an eye on FCI website to register.

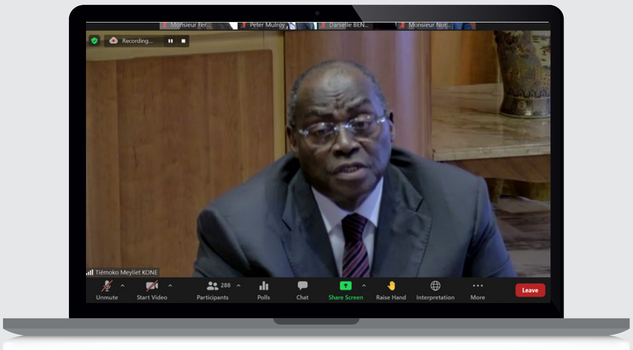
THE CENTRAL BANK OF WEST AFRICAN STATES HELPS TO INCREASE AND IMPROVE THE FINANCING OF THE WEST AFRICAN MONETARY UNION

Through its training center, the Central Bank of West African States (BCEAO), the West African Center for Training and Banking Studies (COFEB), in partnership with AFREXIMBANK and FCI, joined their forces to increase and improve the financing of the West African Monetary Union. It is within this framework that the BCEAO continues to promote various financing instruments, in particular factoring.

The work carried out by the BCEAO to diversify the financing instruments allowed the adoption of the Draft Uniform Law relating to the factoring activity in the WAMU member states by the Council of Ministers on the 1st of December 2020.

Factoring particularly targets SMEs facing cash flow difficulties to finance their operating cycle or to meet their current operating expenses and have difficulty accessing conventional loans due to a lack of sufficient guarantees.

In this context, the West African Center for Training and Banking Studies (COFEB), in partnership with AFREXIMBANK and FCI, has undertaken actions aimed at popularizing alternative financing instruments and facilitating the adoption of the Uniform Law on factoring, adopted by the Council of Ministers on the 10th of December, 2020.



In this regard, a series of webinars, chaired by the Governor of the BCEAO, Mr. Tiémoko Meyliet KONE, started on Tuesday the 13th of July 2021. As part of his opening address, Governor KONE was delighted to this joint COFEB-AFREXIMBANK-FCI initiative to organize a series of training webinars, the central theme of which is in the search for appropriate solutions for the adequate financing of economies in a context characterized by limited access to bank credit the private sector, especially SMEs.

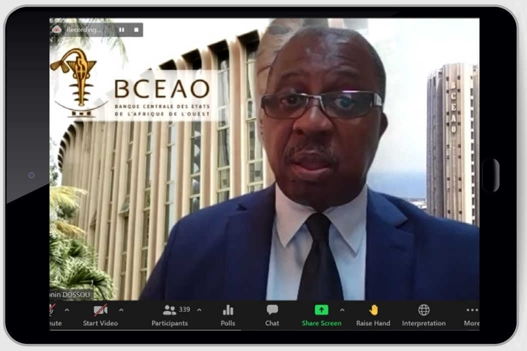
"This is like a hidden gem and its the right time to partner with Afreximbank to bring factoring to Africa." - David Meek Jah, CADAP World Incorporated Company

"I recommend this webinar to anyone in the financial industry" - Atakoui Samson, BCEAO

The first session, dedicated to central banks, took place on Tuesday, the 13th of July 2021. It will be followed on Wednesday the 14th of July 2021 by training for banks and financial institutions. Finally, on the 15th of July 2021, a final session reserved for microfinance institutions will also be organized.

The topics of these webinars relate in particular to the opportunities and challenges of factoring, the techniques of structuring factoring operations, and their conditions for success. These sessions, which will take place online via the Zoom platform, in French and English (with simultaneous translation), offer credit and microfinance institutions the opportunity to understand better and take ownership of the key provisions of the Uniform Law on factoring in the UMOA.

Nearly 700 participants from all walks of life take part in these meetings. Among them, the agents of the central banks of ECOWAS, Maghreb, Southern Africa, and the Bank of Central African States, executives of banking and financial systems, and microfinance institutions of the continent. Several high-ranking officials of partner institutions also participate, particularly the Secretary-General of FCI and the General Director of the Intra-African Commercial Initiative of AFREXIMBANK, President of the Africa Section of FCI.



"Quite Insightful and the timing of the Webinar couldn't have been better than now for SMEs who need ground breaking products like factoring , to come out stronger after Covid and remain the backbone of most African economies and worldwide "
- Sethunya Toro Gaolebogwe , National Development Bank Botswana

"This webinar has the great advantage of showing, with theoretical and practical foundations, the importance of factoring in Africa to support SMEs. It added knowledge from its historical evolution and perspectives for the future. It also clearly illustrated the key success elements of factoring activities and the appropriate regulatory environment for its operation." - Francisco Muanda, BNA

"This was a worthy, ambitious and engaging series of subjects on factoring with lots of useful advice and guidance for financiers and investors thinking of developing receivables finance. Well done!"
- Peter Brinsley - consultant to the worldwide factoring industry, Point Forward

INFLUENCE

ADAPTABILITY OF THE ECONOMIES IN EMERGING MARKET TO THE DELTA VARIANT

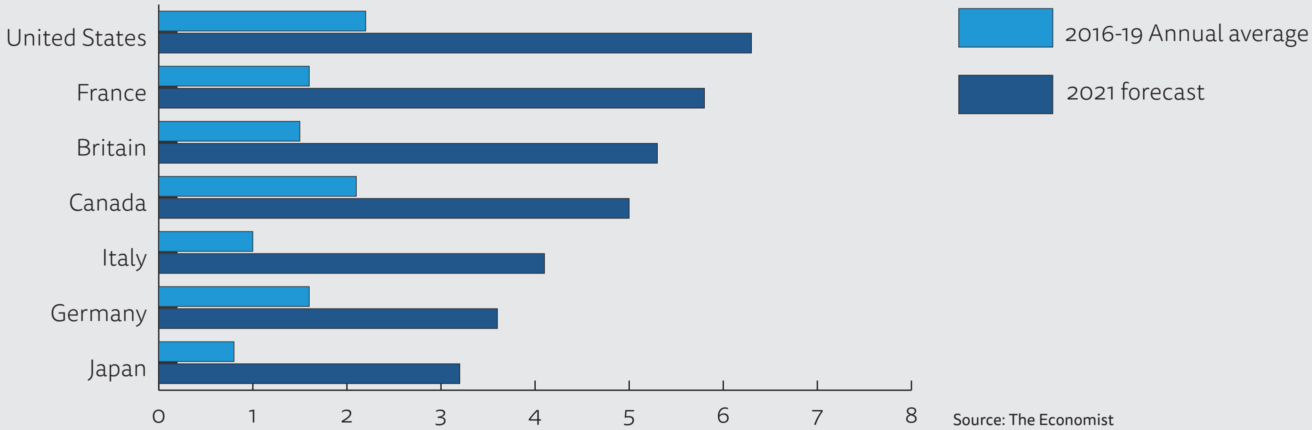
BETÜL KURTULUS
Regional Manager CEE, SEE and the Middle East

The delta variant remains the most imminent threat to the emerging markets' potential growth, which sees a three-quarter rebound. However, the overall impact of the delta wave on economic activity for the emerging markets is more limited than earlier waves. Governments are less willing to apply to full lockdowns even the same level of cases loads or hospitalizations is seen comparing to prior waves. The pace of vaccination is picking up in many countries but not enough to offset rates of spreading. Lower vaccine effectiveness and vaccine hesitancy in most of the countries are increasing the risk of the countries.

In addition, we see that the travel restriction is lifted in many countries but still is far from returning to new normal yet. In some countries where travel restrictions are lifted, we see surprising declines in the Covid 19 Cases. Still, on the contrary, Several governments have already tightened restrictions in response to rising cases. The higher vaccination rate decreases the link between the virus and mobility. Many emerging markets have made progress in lowering new cases and raising mobility, as we see in Turkey and Israel.

However, the adaptability of economies to new waves, the unwillingness of governments to impose wide lockdowns, and ongoing efforts are supporting the economic activities of the EM. It may be early to back to the new normal, but this will not stop near-term GDP bounce back.

GDP, % increase on a year earlier



Source: The Economist

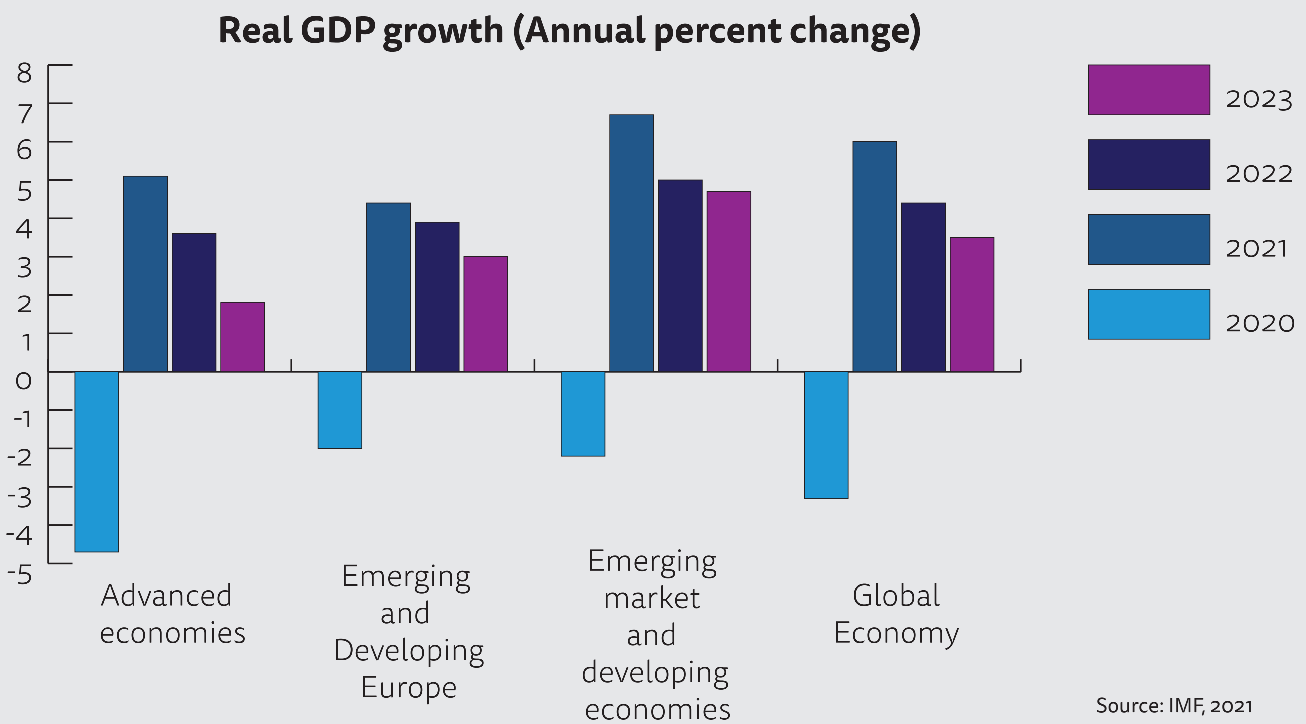
The graph shows the growth expectation very well. If we need an example, growth expectations are very high for specific countries - developed European countries. The economies of emerging countries are also affected by this growth.

In summary, we can say that in the emerging market of Europe, economic recovery remains on track despite the COVID-19 surge. We already witnessed a better-than-expected 2Q growth rate. But of course, this doesn't mean that we will see the same immunity on the growth rate in the second half of the year.

Coming to the companies side, many international companies in different sectors such as technology, health, and textile announced their quarterly reports. According to the reports, the companies' revenues exceeded expectations and completed their periods with high increases. We see the reflection of this on the two-factor turnover of the CEE, SEE region.

By the end of 2020, A decrease in factoring turnover of Europe (-5.4%) was in line with the decrease of GDP of EU countries (-6.4%). The GDP penetration ratio for 2020 was slightly lower than in 2019 (11.1% comparing to 11.3%). It appears that this year we reached 4.24 % of GDP penetration for the industry, a slight improvement compared to what we had witnessed in the previous year (4.05%).

IN THE EMERGING MARKET OF EUROPE, ECONOMIC RECOVERY REMAINS ON TRACK DESPITE THE COVID-19 SURGE



Europe is around its 10% penetration rate, always considering that the industry is quite mature. When we come to the developing countries of Europe, the penetration of GDP is still shallow, around 1-4%. We see a sharp recovery on the half-year data of Edifactoring both on the turnover and the other statistics, like PUA (-65%), average delays in days of Payment (-65%), dilution (-48 %), and disputed invoice (-39%). In CEE/SEE/ME region, the increase in the turnover from 2020 to 2021 is 21%. It has the highest increase compared to other regions. The increasing trend will continue the second half of the year and reflect this effect on the company balance sheets as of the end of this year.

IN CEE/SEE/ ME REGION, THE INCREASE IN THE TURNOVER FROM 2020 TO 2021 IS 21%

And lastly, Our return scenarios to our offices are still not fully clarified but are included in our future plans.

EDIFACTORING: WHAT, WHY, AND FOR WHOM?

SOUVIK CHAKRABORTY
Oracle Financial Services Software Limited

IKIGAI is a Japanese word, which means "reason for being". Through this article, we are trying to arrive at the IKIGAI for Edifactoring messages and the ongoing innovations in the field proposed and worked upon by FCI in the Supply Chain Finance industry. Is the ongoing interest and excitement over edifactoring a rational, business-focused development or is just like a complex kryptonite?

EDI stands for Electronic Data Interchange, using which companies can exchange information in electronic format rather than on paper. The same concept has been applied in factoring as well wherein factors can communicate with each other as well as perform or initiate some interdependent tasks, thereby simplifying the factoring process. FCI is a non-profit global representative body set up in 1968 for factoring and financing of open account domestic and international trade receivables. In 2002, FCI launched the edifactoring.com platform and has been continuously innovating and enhancing it over the years. At the 2020 Annual Meeting held virtually, FCI members witnessed increasing interest in the edifactoring model. FCI was also recognized as the Best Trade Finance Global Innovator for 2020 by cfi.co.

We, at Oracle, have also recognized the significant steps taken by FCI and are working towards FCI integration with the Oracle Banking Supply Chain Finance solution.

What Factoring Means!

Factoring is a globally accepted financial transaction wherein the sellers of goods or services sell their outstanding receivables (outstanding invoices) at a discount to a financial institution known as a "Factor". Sellers generally assign the receivables to the factors and may or may not notify the same to buyers. Factors at the seller side are termed as export factors (EFs) and the factors at buyer side are known as import factors (IFs).

The differentiating aspect of factoring is that the ownership of the receivables lies with the EFs who are responsible for collecting the debt from the buyer and can also provide protection to the sellers against the buyer's insolvency. Hence, the EFs first need to protect their exposure, which requires them to take up due diligence to validate the credit worthiness and reliability of the buyers. Such due diligence can be performed easily for domestic factoring where buyer and seller are from the same country but can become extremely complex for international factoring.

Edifactoring: The next step in the factoring process

Edifactoring helps resolve this complexity by leveraging a two-way communication channel. The EFs can directly connect with IFs through various message types developed and deployed in the edifactoring channel and can establish a contractual or correspondent relationship to serve the buyer and seller respectively, paving the way for a digital "two-factor system". This communication channel reduces the complexity of cross-border transactions and also reduces the risk of fraud and disputes resulting from the assigned receivables. For IFs, it serves as a method to reduce buyer risk.

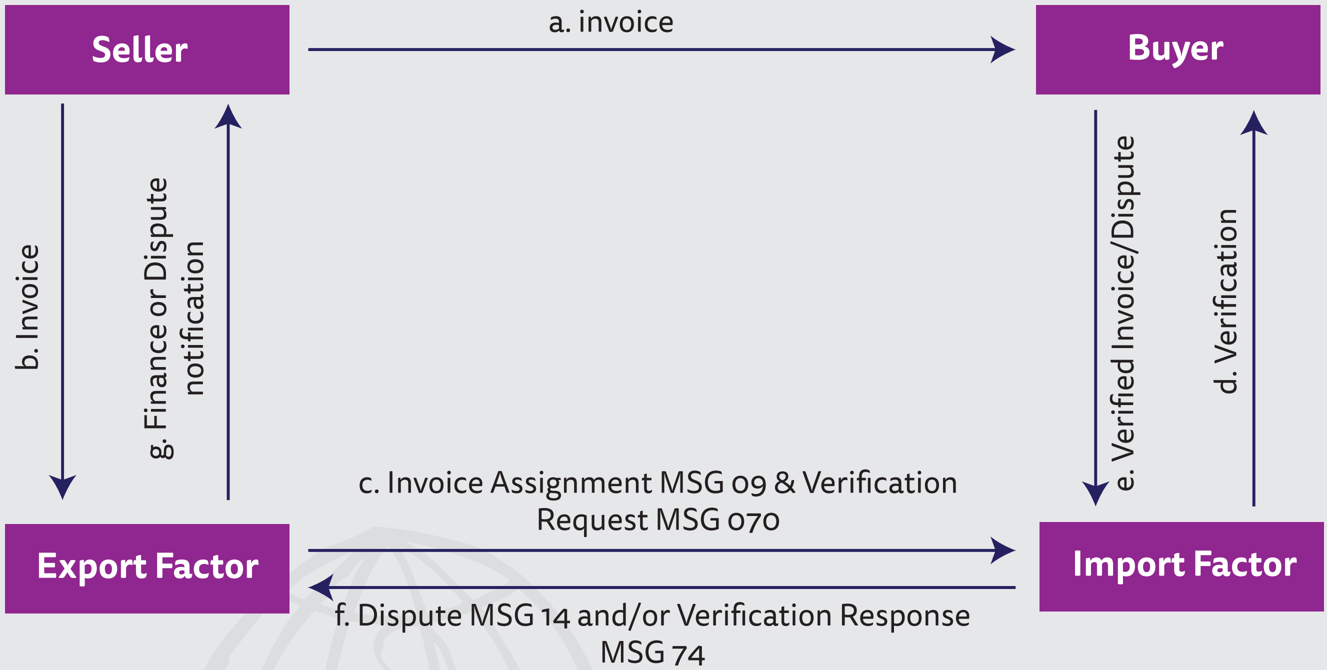
IKIGAI for Edifactoring

Coming back to IKIGAI, or the reason for being, of the edifactoring portal – it serves to support the two-factor business model of FCI members through a set of electronic document interchange (EDI) messages Some of them include invoice & credit notes (MSG 9), adjustment/cancellation of invoice & credit notes (MSG 10), payment (MSG 11), invoice verification request (MSG 70), invoice verification response (MSG 74) etc. There are around 40 messages that have been developed and deployed so far on the edifactoring.com platform to facilitate factoring.

Invoice verification can be accomplished in the edifactoring platform using digital messages. The EFs can validate the receivables presented before them by the sellers. Customers who can either play the role of an EF or IF should facilitate the invoice verification process through the following steps with the aid of edifactoring messages.

- MSG21 Free Text Message can be utilized for a bilateral agreement between EF and IF
- EF will inform the IF about the verification requirement through MSG01 Seller's Information
- Additionally, EF can trigger MSG02 Preliminary Credit Assessment Request along with MSG05 Request for Credit Cover allowing the IF to contact the buyer directly
- EF will assign the receivables or invoices to IF through MSG09 Invoices & Credit Notes
- EF can send MSG70 Invoice Verification Request to IF and will equip IF with the buyer's contact details
- IF will notify the EF with the verification outcome through MSG74 Invoice Verification Response
- If any dispute arises, then MSG14 Dispute can be triggered along with MSG74 Invoice Verification Response

Invoice Verification Request & Response through Edifactoring



Oracle's journey in adapting edifactoring messages through FCI integration is no longer a distant goal. The Oracle Banking SCF solution is getting accoutered gradually with an integrated factoring solution coupled with the Oracle Banking Digital Experience. With a solution embedded with factoring capability, customers need not look outside for an additional vendor to manage their factoring business. Oracle's focus on continuous investments towards disruptive concepts such as edifactoring as well as OCR/ICR, ML etc. enables customers to become market leaders in the SCF business. So, be it standard SCF products or standalone factoring, Oracle has got you covered.

To know more about the Oracle Banking Supply Chain Finance offering, click here or drop a note to Souvik Chakraborty.

IN MEMORIUM

MRS. JOY ZHU

It is with great regret to announce the passing of Joy Zhu, Director of International Commercial Services for CIT Group, USA and member of the FCI Executive Committee. Joy passed away peacefully at her home in Atlanta last Wednesday 14th July with her family by her side following a long battle with cancer.

Joy led a rich life and career. Born in Beijing, China on August 30, 1963, where she was also raised and educated, Joy graduated from the famous Beijing University in 1985, rebranded as the Capital University of Economics and Business, a prestigious and premier business school in China. Joy relocated to the US to earn her MBA from Georgia State University in Atlanta in 1993. Joy returned to China to work at Continental Grain in their poultry division, before returning back to the US to begin her factoring career with Bank of America's factoring company. She later joined SunTrust Bank in 2000, running the international factoring operations there. SunTrust factoring unit would be later sold to CIT in 2005, and she was promoted to Director of International Factoring with CIT in 2012. Joy served on the FCI Education Committee for over a decade between 2006 and 2015, and also was promoted as Chairman of the Education Committee in 2013. Joy was elected to the FCI Executive Committee in 2015 during the FCI Annual Meeting in Singapore.

Joy was diligent, dedicated and beloved by her team, by her fellow colleagues on the FCI Executive Committee, by the staff of the FCI Secretariat, and her family of factoring friends globally. With over 30 years of experience, Joy helped members around the world become educated on the benefits of receivables finance in general, and international factoring in particular, especially in her native China.

Mr Patrick de Villepin, President, BNP Factoring Group and FCI Chairman stated *"As all of you, I am astonished and completely shocked by this terrible news. We knew Joy was at the hospital during our last Executive Committee meeting held on the 6th of July. Until the end, Joy remained committed to her work and to our association. What courage, what an example! FCI is in mourning. On behalf of the FCI Family, please express our sincere and deepest condolences to Joy's family."*

Ms Sun Jianbo, General Manager, China Construction Bank and Vice Chairman, FCI Executive Committee stated *"I and all the Chinese members were shocked to hear this sad news...more than 200 people are mourning her in the Chinese Factoring WeChat group. This is a big loss for FCI, for the industry and for her Chinese friends. We share a lot of memories with her, her image as an explorer and a warrior in factoring will always be with us. Also, she is a great contributor to China's factoring industry, and I believe she will keep impacting us with her tremendous legacy and achievements. Our thoughts and prayers are with her family."*

Ms Daniela Bonzanini, CEO Banca IFIS Poland and Romania and International Manager, Banca IFIS Italy, FCI Vice Chairman of the FCI Executive Committee and Chairman of the Education Committee stated *"I spoke to Joy a week before our Executive Committee meeting last week, I was very impressed she attended our board meeting under such circumstances, a true testament to her commitment to FCI. I am deeply shocked. I have known Joy for many years, we cooperated as correspondents and we worked together in the Education Committee and in the Executive Committee. I always appreciated her contribution and loyalty to FCI. I will miss her. Over the years I had the opportunity to know her husband and daughters, a very nice and gentle family. May she rest in peace."*

Mr Jeroen Kohnstamm, previous FCI Secretary-General, Amsterdam stated: *"What sad news! I was aware that Joy had health problems, but I did not know how serious the situation was. She was a remarkable woman and we always had very friendly relations, in particular during the FCI Annual Meetings when very often she would attend together with her husband and two adorable daughters."*

Mr Marc Heller, President, CIT Commercial Services US stated *"Joy persevered and led the international factoring team even during the most challenging of times. Joy's tenacity was not only evident in business, but also in the way she battled for her life. We will miss her more than words can express. Our prayers go out to Joy's support system, her husband Min Zhang, and her two daughters, Mimi Zhang and Lily Zhang. Please keep them in your thoughts as they go through this difficult period."*

On a personal note, I had the opportunity to work with Joy for nearly two decades in the US at SunTrust Bank, CIT Commercial Services and also in her role as a member of the FCI Executive Committee. Joy was both a friend, a confidante and a person with whom everyone could rely on. For me, Joy represented the greatest attributes you could find in a person: compassionate, smart, determined, resilient, and accepting of others, a true global citizen. Joy was a class act, a person of character, and I was always amazed at her tenacity and perseverance, even until the very end. Joy cherished her time in FCI and was so loyal to our association, to her friends and colleagues everywhere. She will be severely missed.

Joy with her colleagues from CIT, Marc Heller and Mary Farley, along with Peter Mulroy

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