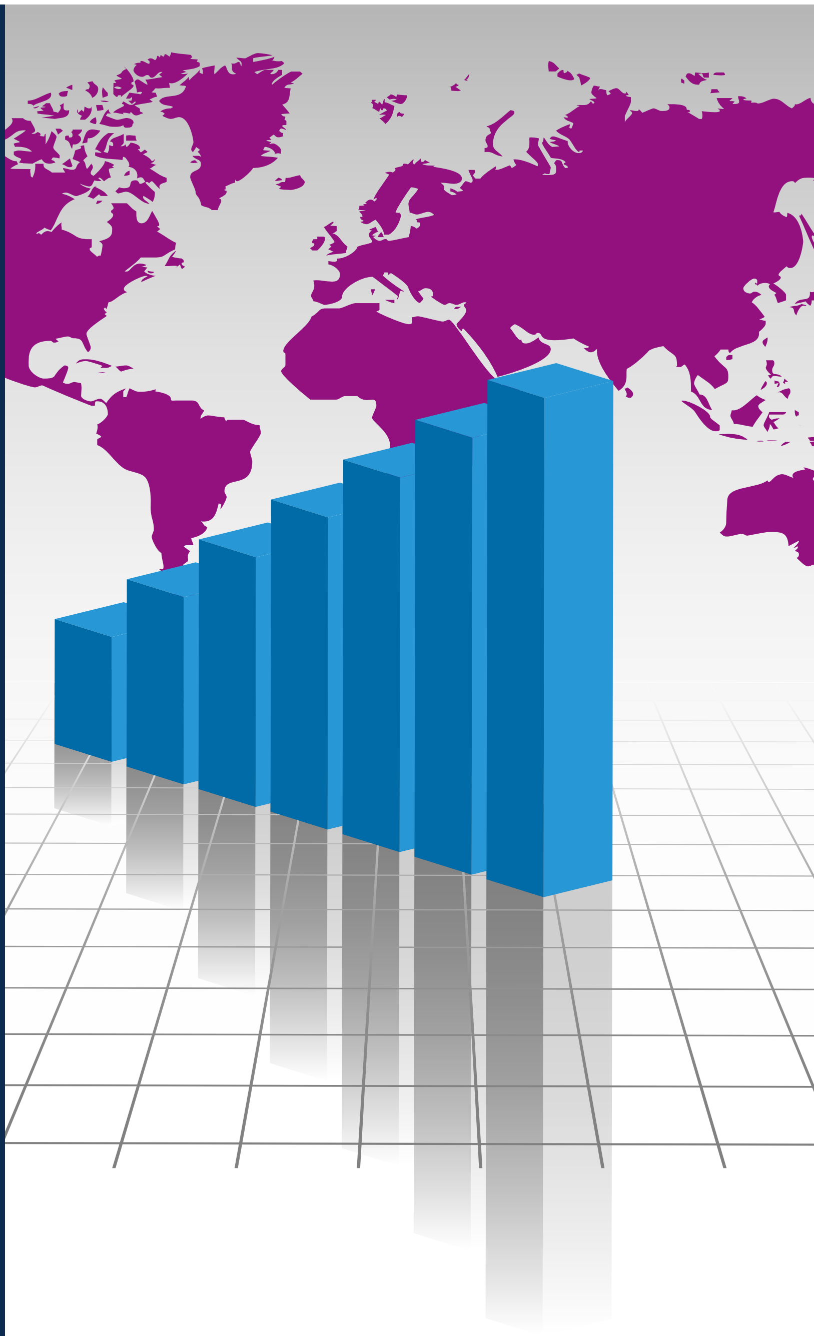
NEWSLETTER / NOVEMBER 2018

CONNECT. EDUCATE. INFLUENCE.

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 this latest issue of our quarterly newsletter!

The last three months have been incredibly busy as you can read in Çagatay Baydar welcome. FCI Chairman reports on most of the important meetings and conference of the last quarter.

Peter Mulroy, FCI Secretary General, inform us of his experiences and findings at SIBOS: blockchain is more than ever on the top of mind of industry people. His article takes us to the new blockchain initiatives, visually not different than our traditional system but the difference is that the database can be shared with anyone.

The “Connect” sections starts with an interview by FCI Asia Chapter Director, Lee Kheng Leong, with Mr. Han Jiaping, CFEC Director, on the success of commercial factors in China. The increase of those kind of companies was amazing lately and it now represents one third of the total China factoring volume. Spyros Tsolis follows with his experience at the joint conference with EFA and Afreximbank on “Factoring as a tool for financing SMEs” in Africa. You will have the opportunity to read on the International Regional Factoring Conference in CEE, SEE and Middle East that took place in Istanbul, Turkey. To go on with feedback on conferences, Aysen Cetintas reports on the Conference on Legal Issues in Factoring, organised with CBA on 17 October. The Southeast Asia Conference and workshop is presented afterwards. It takes place on 28 November in Manila, The Philippines. The conference is the last of 2018. The Connect section continues with an update of FCIreverse project, Josep Selles, Chairman of FCI SCF Committee, confirms that the process is moving forward and should be live in a few weeks. The new members presentation finishes the “Connect” section: Absa (South Africa), Cimfinance (Mauritius), EFG Hermes Factoring (Egypt) and Sberbank Factoring (Russia).

Going forward, the “Education” section presents a report by the FCI Education Director on the recent Training on “Risk Management and Legal Considerations in Factoring and Receivables Finance”, Beijing, China. Spyros Tsolis tells of the successful launch of FCI Webinar. The webinar will be repeated early December for Asia and Pacific region. The Education officer goes on with the feedback on the Factoring Training Workshop in Cairo.

The “Influence” section starts with a new sub-area “FCI Spreading the Wings”. It includes short feedbacks on FCI meetings with partners, organisations, prospects but also on joint initiatives. It begins with a short update on the Model Law on Factoring in Nigeria and passes around the world. A great section to have a general overview of what happened and is not included in the other sections. The influence section finishes with an article taken from EUF newsletter on “Artificial intelligence: from Tech to Factoring” written by Diego Tavecchia, Chairman of EUF PRC Committee. A quite interesting article that can be linked to the article of Peter at the start of the newsletter. Diego highlights the idea that the explosion of Fintech results in new alternatives to traditional approaches.

The newsletter finishes with its traditional “Advocacy” section. John Brehcist, FCI Advocacy Director reminds us how important it is to measure the growth of the market to support the influence on legislation and rules. He presents the first half 2018 figures in Europe (from EUF). The figures have increased 6.5% since last year which is much higher than expected, taking into account the GDP growth. More information in this really interesting article.

Welcome to our latest edition!

Gwendoline

WELCOME FROM ÇAGATAY BAYDAR
Chairman of FCI

ÇAGATAY BAYDAR
Chairman of FCI

Dear Colleagues,

While preparing this newsletter, I am attending the FELABAN Annual Meeting in Punta Cana, Dominican Republic with Alberto Wyderka, FCI Latin America and Caribbean Chapter Director. We are meeting with many prospects here and are trying to promote FCI in this region of the world.

The last three months have been very busy for FCI and for me as Chairman of FCI. Since September, FCI is everywhere on the globe, starting with participation at several partners events as from the first days of September, such as ITFA Annual Conference for Peter Mulroy (FCI Secretary General) and GTR Trade and Treasury Week in Singapore for Lee Kheng Leong (FCI Asia Chapter Director). Peter attended the global ITC annual meeting, sponsored by the Zambia government, which included meetings with the Development Bank of Zambia organized by our partner, GNEXID. He also met with numerous prospects and government officials from throughout Sub Saharian Africa. The month of September finished with the FCI Executive Committee Meeting held in North Africa, in Cairo which was followed by a Promotion Conference organised with the Egyptian Factoring Association (EFA) together with Afreximbank with the participation of some ExCom Members as speakers. The week concluded with a Factoring Training Workshop together with nearly 200 executives from Egypt and the region. Both were a great success and I was really pleased to see the progress we are making in Africa, a continent which is one of the key markets for the future development of Receivables Finance.

In October, Lee Kheng Leong was a speaker at BCR Supply Chain Finance Forum in Singapore while Peter was in Saudi Arabia to discuss with Islamic banks our recent rules for Islamic factoring jointly developed with the support of the Islamic Development Bank/ITFC. We can expect at least two banks from Saudi to join along with the linkage and formation of a future Islamic Chapter headed by our good partner, the Islamic Development Bank/ITFC. The successful joint conference "Turkey: Bridging the Continents" organised with the EBRD and Turkish Financial Institution Association was organised the week after. Long in the making, FCI organised together with our partner, the China Banking Association (CBA) a Legal Conference for Lawyers and Judges to promote factoring and its impact from a legal perspective in China. This was followed by a Training Session on Legal Rules and Risk Management in Factoring and Receivables Finance where both FCI Education Committee and Legal Committee members acted as presenters. During that week I was myself in Tbilisi, Georgia, to represent FCI at EBRD TFP Annual Meeting. Afterwards Peter joined the annual meeting of SIBOS in Sidney while Alberto Wyderka was in Antigua, Guatemala, to participate in a workshop on MEMEs in Latin America and the Caribbean.

November is still busy with the FELEBAN conference and the joint conference with IFC in the Philippines to promote factoring as the legal environment just changed recently in the country and is expected to facilitate the growth of factoring there. This is followed by a special workshop organised with ADB on Supply Chain Finance. Those two events are organised along with the Marketing Committee Meeting.

As you have seen, FCI cooperated again with many different organisations. You have already read in the previous version of this publication that I believe cooperation with multinationals and other important stakeholders is vitally important for FCI. More details on all these partnerships and events can be found further in this publication.

Now we are reaching the end of the calendar year and things will begin to slow down for the seasonal festivities, but I can assure you that we have numerous activities planned for 2019 with lots of new projects and new partnerships to be explored. In addition, FCI decided to invest in the regions by recruiting Regional Directors for Africa; CEE, SEE & Middle East and NE Asia.

I look forward to seeing you again in 2019 and wish you all a wonderful upcoming holiday season.

Kind regards, Çagatay

A WORD FROM THE SECRETARY GENERAL

PETER MULROY
Secretary General

Blockchain Advances in Receivables Finance

Introduction

I attended the SIBOS conference this past week in Sydney. It had been over 15 years since my last SIBOS event. For those who are not familiar with SIBOS, it is the annual conference on SWIFT Interbank activity, founded in 1973 to support the growth of cross border trade finance. The factoring and receivables finance industry is highly dependent on SWIFT, for processing of cross border remittances used as the source of repayment for advances made against receivables balances around the world. SWIFT has evolved into so much more since those early days, a testament to what I experienced in Sydney this past week.

The purpose of this article is to share my experiences from this intriguing event, but also to provide you with my own view of the evolution and development of blockchain technology and its potential impact for the factoring and receivables finance industry. At FCI we have been analyzing the potential application of Blockchain/Distributed Ledger Technology (DLT). In fact, the FCI Executive Committee has agreed to launch a new effort to look at the potential for the deployment of DLT to potentially replace the edifactoring.com environment. FCI recently announced its intention to hire a new Technology Director, as Harry Biletta will retire in 2019. So we anticipate that this new Director will help lead FCI's investment in this fascinating green field and help augment and lead our members into the future.

The conference was held at the ICC Convention Center in downtown Sydney, and hosted more than 6,000 people from many of the 12,000 members of SWIFT from over 200 countries and territories worldwide. What was striking about the scenery was that the conference was basically split between two camps: the ground floor was the location for most of the major banks globally, where numerous bilateral meetings were taking place throughout the conference; and the upper floor, where the Technology/Innovation firms were located. There they held numerous seminars, demonstrations and presentations impacting the trade and receivables finance industry on such topics as (A) Artificial Intelligence, (B) Blockchain/Distributed Ledger Technology, (C) Cloud Computing, and (D) Big Data. Over the past few years, we have witnessed a number of break throughs with the speed of change in technology and its potential for the trade and receivables finance industries, addressing many of the critical requirements necessary for the DLT to potentially achieve industry wide adoption.

What is blockchain?

Blockchain is a new type of database, invented in 2008 for bitcoin, that can be easily shared with anyone. The advantage is a distributed database, locked down by cryptography that enhances the security of the records. Transactions can therefore be verified and processed independently by multiple nodes, with the blockchain acting as a consensus mechanism to ensure those nodes stay in sync. Transactions are less vulnerable, more robust and extreme fault tolerance due to the notes that connect peer to peer.

BLOCKCHAIN IS A NEW TYPE OF DATABASE THAT CAN BE EASILY SHARED WITH ANYONE

The downside risk in comparing this with the traditional databases is confidentiality and performance. Confidentiality is by design absent (the platform is open based system for all parties to participate in) but is in development. And performance of the database is slower than traditional databases due to the peer to peer setup and complex nature of cryptography schemes and digital signatures.

Blockchain innovators:

The two parties that seem furthest along in the development of blockchain technology are R3 and IBM. R3 has cooperation agreements together with CryptoBLK and TradeIX under de names of Voltron and Marco Polo respectively. We.Trade and Batavia work together with IBM.

Below you will find a summary of these community platforms and associated banks that have joined these networks:

- **Voltron**

Voltron is led by R3 and CryptoBLK with tech supported by Microsoft's cloud platform Azure. Voltron has onboarded 12 partner banks including Bangkok Bank, BBVA, BNP Paribas, HSBC, ING, Intesa Sanpaolo, Mizuho, RBS, Scotiabank, SEB, and U.S. Bank.

- **Marco Polo**

A collaboration between TradeIX and R3 that has partnered with 14 major financial institutions including RBS's NatWest, BNP Paribas, Commerzbank, ING, DNB, OP Financial, Bangkok Bank, SMBC, Standard Chartered, and Natixis.

The collaboration combines R3's Corda Enterprise solution and TradeIX's TIX Core, an open infrastructure powered by DLT. The goal is to streamline accounting for businesses to track payment guarantees and expedite receivable discounting.

- **Batavia**

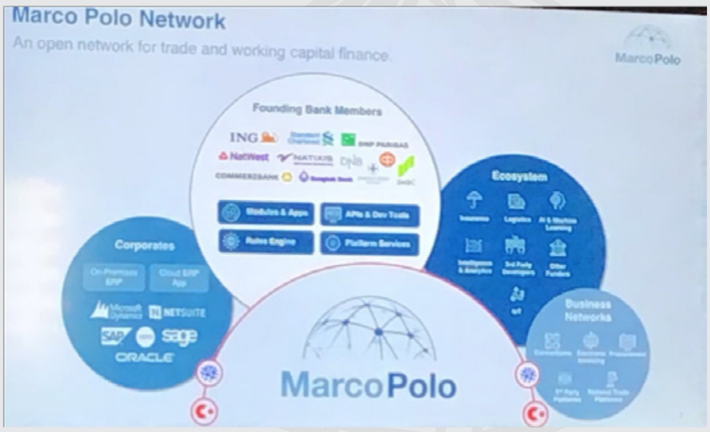
A consortium between 5 banks (UBS, Bank of Montreal, CaixaBank, Commerzbank, and Erste Group) that is built on the IBM Blockchain Platform.

Batavia has broader applications than the other projects and uses smart contracts to help all participants in a cross-border trade to track and monitor their open transactions.

- **We.Trade**

A consortium between 9 banks including Rabobank, Deutsche Bank, HSBC, KBC, Natixis, Societé Generale, UniCredit, Nordea, and Santander. The platform is built on the IBM blockchain using Hyperledger Fabric.

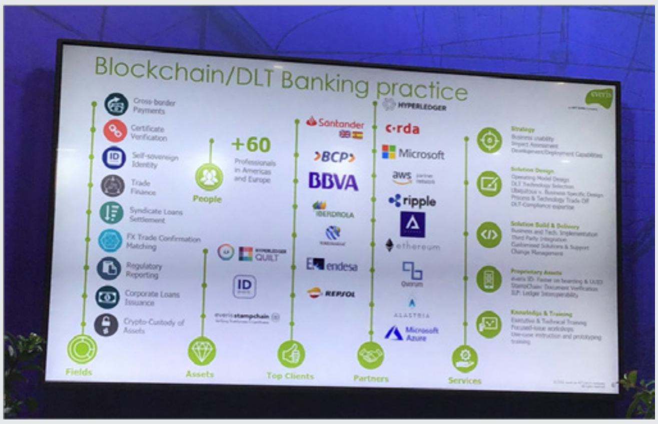
Targeted at SMEs in Europe, the platform offers suppliers faster factoring (or partial invoice financing), by using smart contracts (a protocol on the Ethereum blockchain) in place of a letter of credit.



I had sat through two demonstrations during SIBOS, the first one with *Marco Polo*. They had decided early on to build its first functionality based on a factoring/ receivables finance platform. I have sat through numerous factoring system demos in the past two decades, and quite frankly I was expecting to witness something from the Jetsons (a futuristic animated sitcom about a family who lived in a comical version of the future, with elaborate robotic contraptions, aliens, holograms, and incredible inventions, made popular in the 1960s). You get the point, and I am certainly dating

myself, however I did honestly expect a sea change in how such a futuristic platform is presented). However, I was brought down to earth, as I felt like I was looking at any other typical factoring system, with invoice processing, dispute management functions, collections data/ageing, receivables reports, and other typical functionality that you find in any other factoring software today. What I was told was that the difference in a blockchain based platform versus a traditional factoring database system is the term "open". What "open" really means is that *multiple parties can connect with each other through an "open source" approach.* Proprietary software refers to a commercial product licensed by a vendor to a customer normally for a fee. No one but the original publisher is allowed to see or touch the code. On the other hand, open source is software that anyone can download, view and alter. So it creates greater interconnectivity with businesses, building an open network. So from a factoring perspective, where you have multiple software points that have to be created through linkages, the idea of an open source is to connect these various software points together. So the idea of credit, collections, and invoice factoring functionality coupled with clients and their customers accounting software all in essence talking to each other on an open platform concept is quite visionary. The Blockchain makes these opportunities possible, and my point about the Jetsons becomes a reality!

The second demo was from *TradeIX*, a new Hyperledger technology. This works on an open DLT platform, but *restricts data replication to only permissioned parties, creating data integrity and non-repudiation of transactions, without compromising data security*. In the Hyperledger Fabric, it leverages the peer-to-peer strength of blockchain, as one party can insert transaction details for the other party to verify. So for example, in a factoring scenario, if the system pulls invoices from the seller's accounting software onto the platform, it would go through a verification process whereby buyers could validate the authenticity and legitimacy of the transaction and the invoices themselves. *So the potential for fraud is nearly eliminated* (unless of course there is seller and debtor collusion). It also helps Small to Medium Sized Enterprises (SMEs), as banks and factors would have an increased appetite if such risk controls could be enhanced as a result of this open network. And you can imagine how this could be elevated in buyer-centric programs applicable within SCF/reverse factoring/payables finance software solutions. When we were looking at building SCF models in the US at the turn of the century, IT companies were so far ahead of themselves, looking at bridging this important gap by marrying logistics data with finance. I remember one example, UPS Capital was one of the first to develop a platform to provide PO Financing and Factoring finance to companies based on logistical data used by their clients within in their supply chain. Unfortunately, blockchain/DLT technology was not available then and the technology could not really support such ideas. But they had this vision, which if you can authenticate the delivery of the product, track the shipment from port of destination to delivery, and can effectively track the assets and control ownership, you can greatly enhance the legitimacy and authenticity of the transaction, and banks/non-bank financial institutions would be more willing to finance into potentially the entire supply chain. For banks, this also enhances the compliance effort, as they would know at all times the evolution of the trade itself!



The third presentation that I saw on the Blockchain was a presentation made by a company called *Everis*. It has a group of mostly Spanish and Latin American banks that have engaged them to build a Blockchain/DLT system. It is being built using Hyperledger as well. However, of the three, I must say from a factoring perspective *R3 is ahead of the curve and is ready to bring to market a new way of transacting receivables finance business via the Blockchain.*

Blockchain: is it just hype or the future?

Blockchain is the future because it is a hype. Blockchain is a new database architecture that is not fully developed and introducing it as a potential replacement for edifactoring would certainly make FCI an early adaptor. As you can see from these demos, there is still a lot of testing (proof of concept) going on and using it will result in risks by adopting unproven technology. If you truly look at the advantages and disadvantages of blockchain, you don't necessarily need the technology because you can build the feature into traditional databases. However, as you can also see from the above, the economies of scale, the interconnectivity with an open source system, and the authenticity/legitimacy of the Blockchain truly makes it an investment worth considering.

Migrating edifactoring to blockchain is from a technology perspective very challenging and unaffordable for many of the national banks/non-banks around the world. But this is already starting to change, as these platforms are being built and subsidized by the global banks. And it is possible to integrate blockchain in small incremental steps, together with edifactoring, and expand it over time. Having members on DLT would create efficiencies in conducting correspondent factoring business. And the big advantage here is the financial impact would be less burdensome in the short term and it would certainly demonstrate *FCI's intention to innovate and prepare the membership for this new capability.* Also, if FCI does not move forward, these new communities that have been created by R3, IBM and others could create their own global networks that could potentially make the FCI network redundant. But with FCI's 50 years of history, robust education and experiences, and the strength of the General Rules of International Factoring (GRIF) and Rules of Arbitration, FCI has the confidence of the membership to lead in this new technology effort as well. And with FCI's recent announcement of FCIreverse, the new SCF/payables finance platform being rolled out to the members in 2019, the integration of this new DLT could have major benefits in the payables space as well. Thanks to SIBOS for providing the industry with so much knowledge and vision in terms of the future impact of technology on the trade and receivables finance industry. FCI will continue to collaborate with the global factoring industry to investigate this open source blockchain technology and potentially build a new foundation for the cross border open account receivables finance industry for tomorrow!

THE ECONOMIES OF SCALE, THE INTERCONNECTIVITY WITH AN OPEN SOURCE SYSTEM, AND THE AUTHENTICITY/LEGITIMACY OF THE BLOCKCHAIN TRULY MAKES IT AN INVESTMENT WORTH CONSIDERING

COMMERCIAL FACTORS- THE LITTLE DRAGONS NOW A SHOWCASE FOR INDEPENDENT FACTORS IN ASIA

LEE KHENG LEONG
Asia Chapter Director

HAN JIAPING
CFEC Director

Asia Chapter dialogue with Director of Commercial Factoring Expertise Committee (CFEC) of China, Mr. Han Jiaping

Once considered a novice and irrelevant bunch of money lenders, commercial factors are now a force to be reckoned with. They now contribute to one third of the total China factoring volume and helped China propelled back to become the number one factoring country in the world in 2017. This development did not happen by chance. It is due to a team of dedicated people from CFEC who worked with the relevant government authorities in China, and training, seminars and workshops for the commercial factors. Commercial factors provide conducted factoring to MSMEs which are shied away by banks. Their success has not gone unnoticed and is now under the supervision of the China Banking and Insurance Regulatory Commission (CBIRC) which will result in a more orderly growth of commercial factors. The success of the commercial factors is a good showcase for independent factors in Asia. The Asia Chapter Director, Lee Kheng Leong (KL) interviewed the Director of CFEC, Mr. Han Jiaping (HJ).

KL: When was the law allowing commercial factor in China passed?

HJ: In 2012, for the purpose of actively exploring new ways to optimize the utilization of foreign capital, promote credit sales and develop the credit service industry, the Ministry of Commerce (MOFCOM) launched a pilot project in Tianjin Binhai New Area and Pudong New Area, Shanghai, to find ways for commercial factoring in supporting MSMEs expanding export and commodity circulation.

KL: Are there any criteria for the license?

HJ: Yes, however there are no uniform criteria for license released on national level. At present time, registration of commercial factoring companies is allowed in almost all provinces in China. The main differences are pre-registration approval or post-registration approval. With regard to capital requirement, it could be paid-in capital or a pledged capital. The requirements for share holders and legal persons may be different from province to province.

KL: Can you describe the growth of commercial factors? (in terms of number of companies) How many of them are active?

HJ: By the end of 2017, there were 8,261 registered commercial factoring companies, about 90 times the number in 2012 when commercial factoring was piloted in China. Among them, about 1,500 factoring companies are in operation, and 600 of them are very active.

The volume of the Commercial Factors is about one third of the total factoring volume of China

KL: The commercial factors volume is now 136 billion EUR and form 1/3 of the China volume! What accounted for this growth?

HJ: The volume of the Commercial Factors is about one third of the total factoring volume of China. This rapid growth is driven from three main sources: 1) government supports, 2) China's huge volume of accounts receivable and 3) wide application of Fintech. The Chinese government attaches great importance to the development of MSMEs, and commercial factoring is becoming very popular as the accounts receivable finance solutions. Besides, the Chinese market offers a great potential. According to official statistics reports, the accounts receivable of big industrial enterprises alone was about 1.82 trillion EUR in 2017. Last but not least, Fintech has been widely used in Supply Chain Finance and has empowered China's commercial factoring substantially.

KL: I heard that there are real estate factoring and e-commerce factoring. What are these forms of factoring?

HJ : According to the CFEC's 2017 annual report, construction and e-commerce ranked at the front of the raplidly growing sectors and benefitted more from commercial factoring which ventures into financing these sectors.

The clients of real estate (construction) factoring are the contractors and sub-contractors of the real estate projects and the real estate developers are the debtors.

For e-commerce factoring, the clients are suppliers who provide commodities to the online sales companies who are debtors.

Contrary to the misconception, this is normal factoring.

KL: What is the role played by CFEC in helping the commercial factors?

HJ: As a national self-discipline organization, aimed at building a high-end exchange and cooperation platform, CFEC has organized a series of important activities such as meeting, forum, seminars, workshops, conferences, research and training courses to support the development of the commercial factoring industry. In fact, CFEC launched the first National Certificate course on factoring. In July of 2018, over 2000 of students has obtained certificates from this course. Besides, CFEC actively keeps close relations with regulatory or supervisory institutions, so as to create a favorable law and business environment for commercial factors. In addition, CFEC worked with like-minded international factoring and receivable finance organizations such as FCI and IFA to promote factoring education in China.

This year, CFEC has set up CFI service platform to promote the cooperation among commercial factors and tries its best to make accounts receivable financing easier through the platform.

KL: Commercial factors will come under the supervision of CBIRC. Will this be good or bad for the commercial factors?

CFEC actively keeps close relation with regulatory or supervisory institutions, so as to create a favorable law and business environment for commercial factors

HJ: Yes, the regulatory authority of the commercial factoring industry has been transferred from MOFCOM to the China Banking and Insurance Regulatory Commission (CBIRC). This shows that the government attaches more importance to this Industry, and this is good for the sound development of the commercial

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factoring industry. Like all changes, it also brings some uncertainties. It is not known whether the standard of the commercial factoring is completely unified with the bank's factoring business, nor how to take into account the characteristics of the commercial factoring industry to take more targeted measures. The adjustment may occur in the next two to three years. By then, the number of commercial factoring companies may drop to 2000, while the proportion of companies in operation will increase to over 90%. However, one thing is certain, the turnover of the commercial factoring industry will continue to grow.

KL: What is the future of commercial factors? Will they go into international factoring and will their volume overtake the bank?

HJ: With the CBIRC becoming the new regulatory authority, the commercial factoring industry will be well regulated and foreign exchange barrier is expected to be removed in the near future. This will pave the way for commercial factors to play an important role in the international factoring business. I think in the long run, commercial factoring volume may reach the bank level and even surpass the banks' factoring volume.

KL: Thank you Mr Han for your interesting answers that give us a better understanding on commercial factors situation in China.

E-learning course on

"INTRODUCTION TO FACTORING AND RECEIVABLES FINANCE"

Keep an eye on the FCI website!

An introductory level training programme for anybody who wants to learn the basics of factoring and receivables finance.

9
MINI
E-LEARNING
MODULES

- NON-MEMBERS COMPANIES
- THIRD PARTIES
- INDIVIDUALS

SPYROS TSOLIS
Education Officer

FCI PROMOTIONAL EVENT IN CAIRO, EGYPT

Feedback from Factoring as a tool for financing SMEs, 26 September 2018

The importance of factoring financing to support SMEs growth and, consequently, the growth of an economy has been thoroughly highlighted by referring to the *World Trade Organization study on the positive correlation between Factoring finance & SME growth*.

Additionally, on a regional level, *Africa & Middle East are now among the fastest growing regions in Factoring & Receivables Finance*, experiencing considerable investments and being on the focus of many financial institutions that are investing in this line of business.

Egypt, being at the cross-roads of these regions is also experiencing a *considerable growth*, both in the number of market players as well as in volumes. This, along with the recent and ongoing reforms taken by the government aimed at restoring macroeconomic stability, promoting growth and employment, has created a stable and more dynamic economic environment for the factoring industry.

FCI, being consistent in its mission to promote and support the growth of Factoring & Receivables Finance worldwide, organized, in cooperation with the *Egyptian Factoring Association (EFA)*, the *GIZ* and *AFREXIMBANK*, a Promotion Conference in Cairo, Egypt, on 26 September 2018.

The Conference was attended by *more than 250 delegates* coming from banks, factoring companies as well as from industry associations and regulatory bodies. Along with the valuable information on relevant topics shared by presenters, it also provided an excellent opportunity for networking among participants, sharing also best practices and exchanging views on current topics.

Industry experts with vast experience in factoring and receivables finance presented and discussed the developments and prospects of factoring, receivables and supply chain finance in the African and Middle East region. In addition, international best practices were shared with participants, focusing on how factoring has supported economic growth and SMEs. The topics presented and discussed included:

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- Global Factoring & Receivables Market overview
- FCI and its core offerings with a special reference to "FCIreverse", FCI's new reverse factoring product
- Support of Factoring in Egypt and in the Region, role and actions of the Egyptian Factoring Association, the GIZ and AfreximBank.
- Movable Assets as Collaterals
- International Best Practices, presented by members of the FCI Executive Committee
- Factoring & Supply Chain IT solutions, presented by event sponsors

The conference also witnessed the *signing of a memorandum of understanding (MoU)* between the *Egyptian Factoring Association* and the *Small and Medium Enterprises Development Agency* to support the Egyptian factoring industry through the granting of loans at a low interest rate.

The post-event feedback was very positive, as participants highly valued it. It proved that it was an *excellent occasion and a perfect timing for such an event*. FCI will be continuously supporting all efforts in the region by dedicating resources and by establishing and further strengthening partnerships at local and regional levels.

EGYPT, BEING AT THE CROSS-ROADS OF THESE REGIONS IS ALSO EXPERIENCING A CONSIDERABLE GROWTH, ALONG WITH THE RECENT AND ONGOING REFORMS TAKEN BY THE GOVERNMENT AIMED AT RESTORING MACROECONOMIC STABILITY, PROMOTING GROWTH AND EMPLOYMENT HAVE CREATED A STABLE AND MORE DYNAMIC ECONOMIC ENVIRONMENT FOR THE FACTORING INDUSTRY.

REPORT FROM "TURKEY: BRIDGING THE CONTINENTS" CONFERENCE

International Regional Factoring Conference for the CEE, SEE and Middle East

On 8-9 October, more than 200 people gathered in Istanbul, Turkey for the jointly organised conference "Turkey Bridging the Continents: International Regional Factoring Conference for the CEE, SEE and the Middle East". The conference was organised by the Financial Services Institution Association from Turkey (FIA), the EBRD and FCI. It was the first conference of this kind and the results showed a great success. Participants had the opportunity to listen to speakers such as Çagatay Baydar (FCI Chairman), Adem Duman (Chairman of FIA), Marco Nindl (EBRD), Peter Mulroy (FCI) and many others great speakers. One of the best hit panels was the one about risk, related to the cooperation between credit insurance and factoring. The lively panel moderated by Çagatay Baydar was really interesting to understand the points of view of the insurers, factors, and clients. Other panels such as on factoring in the region, the opportunities and threats in developing factoring business in emerging markets, islamic factoring, and the importance of digitalisation were also well received. The conference offered as well the opportunities to be updated on the FCIreverse project and to hear about the Trade Chain Finance Platform in Turkey, FCI Education offer and the economy in emerging markets.

The conference was also an important moment for the regional industry to network and discuss the situation of factoring in their region with their correspondents and peers.

We especially thank FCI's sponsor members who sponsored the conference: Codix, HPD Software and Demica but also the other sponsors of the conference: Cybersoft, TEB Faktoring, IS Faktoring, Creditwest, Garanti Factoring, DenizFactoring, Novabase, Ulusal Faktoring, Vakif Faktoring, QNB Finansfaktoring, Kredi Kayit Burosi, YapiKredit Faktoring, Coface, Fiba Faktoring, Lider Faktoring and MNG Faktoring.

"Beside the fact that we find out the most important evolutions both from the financial and factoring point of view there, it's important to straighten the relationship and share the experiences with people who have the same passion and interest." Bancpost Romania

"A conference brought together continents at which institutions exhausted options for issues that can boost the sector to the better." TEB Faktoring A.S. Turkey

CONNECT

IMPRESSIONS FROM THE CONFERENCE ON LEGAL ISSUES IN FACTORING

Beijing, 17 October, 2018

AYSEN ÇETINTAS
Education Director

The China Banking Association (CBA), FCI and the China Postal Savings Bank successfully organized the Conference on "Legal Issues in Factoring", in Beijing, China on 17 October 2018.

The event was attended by nearly seventy (70) participants, including experts from the Supreme People's Court of China, the local High-level People's Court, Commercial banks, members of the FCI Legal & Education Committees, delegates from the China Service Trade Association Commercial Factoring Committee, as well as senior industry lawyers from China and abroad.

The Conference focused on the legal framework and its role in the development of domestic and international Factoring in China. The topic was addressed and analyzed in depth.

Mr. Pan Guangwei, full-time Vice Chairman of the China Banking Association, Mrs. Yao Hong, Vice President of the China Postal Savings Bank, Mr. Peter Mulroy FCI Secretary General delivered speeches highlighting the importance of a factoring legal framework to further support the development of factoring in China. Mr. Bai Ruiming, Deputy Secretary General of the China Banking Association, presided at the meeting.

In his speech, Mr. Pan Guangwei pointed out that after more than 20 years of development, the factoring business of China's banking industry has expanded from pure international factoring to domestic factoring and the service area has also extended from commodity trade to the service industry. The business volume of the factoring industry, based on incomplete statistics, in the first half of 2018 and the banks' factoring business volume reached 1.17 trillion RMB, an increase of 3.5% year-on-year. Among them, the domestic factoring business volume was 873 billion RMB, the same as last year, and the international factoring business volume was 44.5 billion USD, up 14.84% year-on-year. It is estimated that the business volume for commercial factoring has reached 700 billion. In the first half of 2018, the business volume for factoring nationwide had reached 1.87 trillion, sustaining the momentum for steady increase.

He stated that the development of factoring business in China in the new era is also faced with new opportunities and challenges.

- First, legal-compliance awareness is yet to be strengthened and improved.
- Second, there has been a major change to the regulatory environment of the factoring business.
- Third, the development of Fintech raises new requirements for the innovation of factoring business and products.

Mr. Pan added that at present, China's "One Belt, One Road" initiative plays an important role in effectively connecting regional resources, stimulating market vitality, cultivating new economic growth points and promoting economic development. In the phase of development opportunities he made three suggestions on how to promote the redevelopment of the factoring industry. First, factoring should return to the origin, satisfy the financing needs of SMEs in particular and serve the real economy. Second, new models should be created to make Supply Chain Finance smarter through technological innovation. Third, international cooperation should be strengthened.

In his speech, Mr. Peter Mulroy, FCI Secretary General pointed out that in the past two decades, the factoring business has continued to grow, with a compound annual growth rate of 10%. In 2017, China's factoring business volume and international transaction volume ranked first in the world. He said that the factoring business has a greater role in promoting the entry of SMEs into international trade. The study found that the global factoring business volume increased by 10%, the actual trade flow will increase by 1%. Factoring plays an important role in the development of the international economy. He hopes that in this context, global factoring companies will have to accept challenges, seize opportunities, improve factoring business processes, and promote the role of factoring in economic development.

At the meeting, Mr. Edward Wilde, Director and Solicitor of Squire Patton Boggs Law Firm gave a speech on "writing the law on factoring issues". He stated that factoring laws need to define the definition of the rationale, the powers and obligations of the factor, supplier, debtor and other parties. The certainty of factoring law plays a vital role in the development of the factoring business, which can effectively restrict the emergence of fraudulent behavior in factoring business, promote the standard flow of funds, and promote the healthy development of the real economy and the long-term business of factoring.

During the conference, panel discussions were moderated on the topics "Legal Difficulties in the Cases of Factoring Disputes" and "Identification and Prevention of False Transactions and False Documents", respectively, by Zhang Chenyuan, Senior Legal Counsel of HSBC (China), and Liu Yunfei, Deputy General Manager of Bank of China. The discussions were attended by the Chinese and foreign experts from the local banks and FCI Technical Committees.

SOUTHEAST ASIA CONFERENCE AND WORKSHOP

Innovating and providing more financing product alternatives to MSMEs

FCI in cooperation with *IFC* and its member in the Philippines, *Acudeen*, is organising a *promotion conference on factoring and receivables finance* in order to promote the Industry in the Southeast Asia.

With the recently approved R.A. 11057 or the *Personal Property Security Act (PPSA) that facilitates factoring as one of the ways to use movable assets as collateral*, this is the perfect time to learn more about the innovations factoring has introduced in financing and how to take advantage of it in growing both the portfolio of the financial sector and the MSMEs.

The World Trade Organization has already confirmed the *strong positive correlation between factoring finance and SME growth on a global level* using relevant data obtained from FCI and International Trade Associations.

During the conference, Industry experts with vast experience in factoring & receivables finance (including members of the FCI Marketing Committee) will present and discuss factoring, receivables finance: how it works, how to sell it, how to get started, risk management, IT solutions...

The conference is followed by a *Special Workshop on Supply Chain Finance* organised with *ADB*. With the recent market acknowledgement that *Supply Chain Finance (SCF) is becoming increasingly important* and is supporting the growth of SMEs, coupled with the recent launch of *FCIreverse*, FCI and ADB will hold a special workshop on SCF, and how these two institutions can support the growth of reverse factoring/payables finance programs within your institutions, both domestically and globally.

THE AUDIENCE

The Conference is aimed at an audience of professionals from the Southeast Asia Region and beyond, and particularly the leaders of factoring companies, Supply Chain Finance companies, specialized banks and financial institutions, consulting firms, official organizations and companies offering their services to the world of factoring (lawyers, insurers, IT providers).

More information on the **conference**: https://fci.nl/en/event/SouthEast%20Asia%20Factoring%20and%20Receivables%20Finance%20Promotion%20Conference/5206
More information on the **workshop**: https://fci.nl/en/event/Special%20Supply%20Chain%20Finance%20Workshop%20Manila%20The%20Philippines/5302

THINGS ARE MOVING FORWARD WITH FCIREVERSE

In the right direction

JOSEP SELLES
Chairman of FCI SCF Committee

Well, things about FCIreverse are moving forward since our meeting in Amsterdam.

Demica is almost ready to end its works on the platform and we will be *ready to go live within a very few weeks*, as expected.

In parallel we are contacting potential pilot members to start the test phase, essential before opening the door to all the interested companies, actually a big number.

To start offering FCIreverse supposes for the financial company to have to face some *adjustments in different departments*. It's not only the *IT department* that will be involved. Also, and very important, for instance, the *risk department*.

For companies which are a department of a bank it can be easier. I will explain you why.

For a risk analyst used to work only in factoring, Reverse supposes a change in his way of analysing the files. FCIreverse, reverse in general, is closer to a credit than to a discount, as factoring is.

In factoring you must analyse the risk of the seller, your client, but knowing that first of all, the one who will pay is the debtor. If it fails, you use to be protected by a credit insurer. And if the non-payment results from a dispute or credit note, then is when you will have to be attend to the seller risk, to your client risk.

In the reverse you don't have this parachute.

You run the risk of the buyer, the debtor in this story, and you will pay in advance the approved invoices to the suppliers, without recourse, so you won't be able to claim for a return of the funds to them if the buyer, your client, fails to pay.

DEMICA PLATFORM WE WILL BE READY TO GO LIVE WITHIN A VERY FEW WEEKS, AS EXPECTED

This is clearly an important difference if the risk approach and you must be ready to look at the deals through this new prism. Reverse is like a short credit facility but completely and uniquely based on your client's risk, the buyer.

As said, a factoring department of a bank, sharing the risk department with other units, probably will have an easier risk approach. But if the risk department has been, during its whole life, analysing factoring deals, it will require a training to the analysts to avoid that most of the deals should be rejected.

But IT and risk departments are not the only ones affected. *Your sales staff will also need to be trained*, for two reasons:

-an obvious one: to be instructed about how the product works and what one is weak and strong points.

FCI REVERSE POWERED BY DEMICA

-but also: in the selection of the prospects. It's very frustrating to visit a prospect with the idea to sell reverse and then discover that its financials do not resist the risk.

Sales people will have to check, before the meeting, if the prospect fulfils the minimal risk requirements.

Why I am explaining you all this process? Because what we have found is that we have members potentially interested in FCIreverse, but the interest comes from the people of the factoring department. They are enthusiastic on the project. But now that *the product is almost ready to go life is when they have started to explore, internally, the implementation of the product in their company*, and now is when they have found *problems in the other departments that do not depend on them*. With the consequence that the project will have to wait, sometimes for some months. The worst is IT, as sometimes the list of projects in IT departments is very long and reverse is the last in landing, so it's the last on the list.

I suggest, to the *members interested in the product to start exploring internally how difficult it may be to implement the product, which are the requirements, barriers of other departments, budgets, etc., before going forward*.

But this is not a different thing than implementing a new product inside a structure.

FCIreverse is a profitable business reverse is growing in many countries and you are in the privileged position of being capable to develop the product without having to make an important investment upfront, and when you do not ask for money, in all the organizations, you find more doors opened.

YOUR
SALES STAFF
WILL NEED TO BE
TRAINED FOR TWO
REASONS:
-TO BE INSTRUCTED ABOUT
HOW THE PRODUCT WORK AND
ITS WEAK AND STRONG
POINTS.
-IN THE SELECTION OF THE
PROSPECTS.
(FINANCIALS RISKS)

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 addition of the following Members:

ASSOCIATE

SOUTH AFRICA

As a leading corporate and investment bank in and for Africa, we have deep experience and data-driven insights and a thorough understanding of investment flows, market participants, sector trends and regulations wherever we operate. Our industry leaders work in key sectors to bring our clients' possibilities to life, across a comprehensive suite of corporate and investment banking services.

We also offer the market dynamic, specialised teams with years of experience and knowledge in the trade industry. We have enjoyed a long term partnership with Prime Revenue, a global leader in financial technology solutions to offer supply chain finance solutions and we are currently managing the largest supply chain finance program in sub Saharan Africa. We have further partnered with Codix to offer a receivables finance solution across South Africa. Our partnerships with global industry leaders have provided digital solutions for our clients and this has resulted in effective automation, efficiencies and improved operations for all.

As an African bank with a differentiated local proposition, we also offer global connectivity to our clients. We know the value of providing expertise where decision making happens, and we offer our clients seamless execution through a single point of contact. Our expansion into global markets is a key priority of our strategy, and puts Absa Corporate and Investment Banking where our clients need us to be. Most recently we announced the official opening of our London office, trading as Absa Securities UK.

We are proud to be consistently recognised by industry leaders through numerous award wins. Some of our recent achievements include the African deal of the year award from Global Capital (2017), Best Investment Bank in East and Southern Africa by The Banker Africa and EMEA Finance (2017) as well as the best Securitisation House in Africa by EMEA Finance (2017).
www.absa.co.za

ASSOCIATE

MAURITIUS

Cim Financial Services Ltd (Cim Group) is the largest non-banking financial institution in Mauritius. It is listed on the Stock Exchange of Mauritius, with over 700 employees. Cim Group and its subsidiaries operate across three clusters.

Cim Finance has been offering financial solutions to consumers, SMEs and large corporates since 1987 and currently has close to 100 retail points-of-sale (counters) across Mauritius. Cim Finance's main business units are Consumer Finance, Cards & Payments, Leasing & Factoring.
Cim Property holds a diversified portfolio in Mauritius comprising office, commercial and industrial properties as well as significant land assets held for development.

The investment cluster includes Cim Finance Kenya and a significant stake in iVeri Payment

Technologies, a pan-African electronic payment solutions provider based in Johannesburg. Cim Finance Kenya is a recently launched Fintech Consumer Finance business based in Nairobi. Cim Finance launched its factoring business in 2004 offering recourse factoring to its domestic customers and launched its non-recourse product in 2006. Its specialised, professional and dynamic team has more than ten years of experience in the factoring industry. Its credit insurer is Coface. In close partnership with them, Coface advises at every stage of the business life cycle, helping Cim Finance to anticipate and evaluate the risks and helping Cim Finance to make the right decisions.
https://www.cimfinance.mu

EFG HERMES FACTORING

ASSOCIATE

EGYPT

With a current footprint spanning eleven countries across four continents, EFG Hermes started in Egypt and has grown over 30 years of success to become a leading financial services corporation with access to emerging and frontier markets. Drawing on our proven track-record & a team of more than 2,900 talented employees, we provide a wide spectrum of financial services that include investment banking, asset management, securities brokerage, research and private equity to the entire region. EFG Hermes launched the NBFI Platform, EFG Hermes Finance, which will overlook activities in the non-banking finance field through EFG Hermes Leasing and Tanmeyah Microfinance. This comes in light of the Firm's strategy to focus on two main pillars: product diversification and geographic expansion into frontier markets — which has seen the firm establish a physical presence in Pakistan, Kenya, Bangladesh and the United States.

We offer the full spectrum of investment banking products and services structured around the following lines of business:- Securities Brokerage, Investment Banking, Asset Management, Private Equity, Research, Leasing, Micro Finance, Value, Factoring.

https://www.efghermes.com

SBERBANK FACTORING

ASSOCIATE

RUSSIA

Sberbank Factoring Limited is the fastest growing factor in Russia in 2018. The company is in the TOP-3 of the factoring market in Russia with a factoring volume over 3 billion EUR for 9million in 2018. Sberbank Factoring is a 100% subsidiary of Sberbank and provides factoring services for enterprises of all sectors of the economy.

https://www.sberbank.ru/en/

We wish them lots of success!

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

EDUCATE

REPORT ON THE TRAINING ON "RISK MANAGEMENT AND LEGAL CONSIDERATIONS IN FACTORING AND RECEIVABLES FINANCE"

Beijing, 18-19 October, 2018

AYSEN ÇETINTAS
Education Director

The FCI Education and Legal Committees collaborated and produced a new training, addressing all key areas in risk management and related legal considerations with a special focus on the respective GRIF articles.

The first FCI Training on "Risk Management and Legal Considerations in Factoring and Receivables Finance" took place at Beijing, China, on 18 and 19 October 2019. More than fifty participants from China, Belarus, India, Hong Kong, Taiwan, Thailand, Indonesia and United States learned and practiced on all current risk and legal aspects of our industry.

The format of the training combined a blended delivery of presentations and case study discussions facilitated by the FCI Education Team, and Mr. Yuce Uyanik and Mr Harvey Guberman, members of the FCI Legal Committee. Moreover, participants actively shared their views and best (local and international) practices, thus providing additional value to the event.

A confirmation of the event success is the below testimonial from an Indian colleague who said that "It was indeed the best training session attended by me. Our compliments to the team including legal for making all sessions so interactive and informative. Specially the case studies and GRIF Q&A were brilliantly made. You all made learning fun. There was not even a single dull moment".

A similar training event is planned for April 2019 to be held in Europe. Please follow our events section on the website for more information.

SPYROS TSOLIS
Education Officer

SUCCESSFUL INTRODUCTION OF FCI WEBINARS

FCI has introduced a new, on-line, education program, available to all involved in the Factoring and Receivables Finance industry. *FCI Webinars* are now available as a highly effective education tool for maximizing knowledge delivery on all Factoring & Receivables Finance topics.

The first series of FCI Webinars, "*FCI Essentials*" has been held between 10-13 September and targeted participants from *Europe, Middle East and Africa*. "FCI Essentials" includes three 90 minute sessions, focusing on FCI and its core offerings, highlighting the basic principles of FCI and of its Legal and Operational Frameworks.

28 participants from seventeen companies (twelve FCI members and five non members) had the opportunity to learn and interact with FCI experts, gaining valuable knowledge on the latest industry developments and FCI. Moreover, they actively interacted and chatted with each other, sharing best practices from their experience and local markets.

Webinar facilitators were Mrs. Aysen Cetintas, FCI Education Director, Mr. Harry Biletta, FCI Director Planning and Development and Mr. Spyros Tsolis, FCI Education Officer.

The feedback received was extremely positive and encouraging for the future, highlighting the effective learning nature of this webinar:

- *"it was an excellent experience and we are looking forward for the next one..."*
- *"The session was very informative and well explained…"*
- *"A very well-organized webinar, alternating the types of information provided…."*
- *"I feel like I now understand factoring topics and FCI framework much better…."*

The next "FCI Essentials" Webinar shall be held on *4-7 December 2018*, this time targeting participants from *Asia and Pacific regions. This webinar benefits especially new members, new staff at all levels from experienced FCI members as well as any financial institution looking for more information on FCI and its value proposition*.

As webinars are also an excellent means for promoting new ideas and concepts, FCI will soon hold a special webinar on "*FCIreverse*", FCI's Supply Chain Finance buyer centric solution, which is based on reverse factoring.

For 2019, FCI will offer, along with the "FCI Essentials", a new series of webinar sessions on everything you need to know about "*Risks in Factoring and Receivables Finance*", more information to be shared soon.

EDUCATE

FEEDBACK FROM FCI FACTORING TRAINING WORKSHOP IN CAIRO, EGYPT, 27 SEPTEMBER 2018

SPYROS TSOLIS
Education Officer

As Factoring and Receivables Finance is now holding a significant share of world trade financing, experiencing a remarkable growth year by year, banks and financial institutions started showing more interest into this business line and now, include factoring in their core offering to support the working capital needs of their clients who are engaged in trade transactions, at the same time feeling more secured due to the monitoring processes of this facility.

The Egyptian factoring market is a promising one with high potentials and, in line with the above, the market is experiencing a nice growth figure in the number of new factoring units established. FCI has now seven members, many of them already engaged in the two-factor business and others to introduce it in the near future.

Education and training are amongst the most important aspects to focus upon when introducing factoring and in this respect, FCI, with the kind endorsement of the *Egyptian Financial Regulatory Authority (FRA)* and the *Financial Services Institute*, organized a one-day *"Factoring Training Workshop", in Cairo, Egypt, on 27 September 2018*, that focused on all relevant issues in factoring and receivables finance.

Factors, banks and other interested parties from Egypt and the African region registered their staff to acquire valuable knowledge on factoring related topics, including:

- Legal Issues in Factoring
- Industry Suitability
- Risk Management
- Accounting and taxation
- FCI's core offerings (Two-factor system, FCIreverse, Islamic Factoring).

Mr. Peter Mulroy, FCI Secretary General and Mr. Spyros Tsolis, FCI Education Officer, both with extensive experience in the factoring and receivables finance industry acted as presenters/ facilitators of this workshop.

More than 90 delegates with a variety of professional backgrounds and areas of business functions, actively participated and facilitated the smooth and effective spread of knowledge during the workshop sessions. Additionally, many delegates shared best practices that brought

additional value for all participants, making the event a success.

Dr. Shahinaz Rashad, Executive Director of EFSA/FSI provided delegates with important information on local factoring regulations according to the new Egyptian Factoring Law in an effort to achieve the integration between international and local basics.

Feedback shared after the event is very positive, confirming the benefits received by the participants, examples of testimonials include:

"A very well-organized event with very respectable calibers who have broadened my factoring knowledge substantially"

"Very informative & insightful workshop that I would definitely recommend to anyone who would want to get a deeper understanding and knowledge about factoring".

FCI is continuously supporting the growth of factoring & receivables finance, with its education offerings being at the front line of every effort.

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

Updates from Afreximbank on the Implementation of the Model Law on Factoring in Nigeria

In the May edition of In-Sight, you could read the work done by Afreximbank and FCI to help local stakeholders to implement model law in Nigeria. With the help of Nigerian Export Import Bank (NEXIM) we met with Nigerian Legislators and Regulators and advocated for the implementation of the law in Nigeria. A few months later, the situation is the following:

The National Assembly Business Environment Roundtable (NASSBER) reviewed and addressed comments on the revised Factoring Bill during the roundtable meeting. The revised comments to the Bill was sent to the House Banking Committee.

Following the above, Afreximbank and NEXIM are continuing to follow up with the National Assembly especially with the Chairman of the Banking Committee of the House of Representatives.

Çagatay Baydar and Alberto Wyderka participated in the FELABAN Annual Assembly, Punta Cana, Dominican Republic, 11-14 November 2018

FCI participated again in the FELABAN Annual Assembly, the Latin American Bank Federation annual conference. Çagatay Baydar, FCI Chairman, accompanied for the second time Alberto Wyderka, FCI Latin America and Caribbean Director. FCI had secured a desk to organise meetings with members and prospects. During four days, Çagatay and Alberto held 32 fruitful meetings. FCI representatives came back with very positive feedback as the discussions showed a high interest from the region. They both hope that it will drive to an expansion in all Americas and Caribbeans and hopefuly also in countries not covered by the membership today.

Report from Aysen Cetintas on Asian Development Bank (ADB) Seminar on Trade & Supply Chain Finance, Istanbul, 12 November 2018

The global trade landscape is facing new and ever increasing challenges. Faint voices of protectionism have evolved into direct trade friction, if not a trade war, between the largest trading nations in the world. The pace of change is astounding. Countries that were seen as the darlings of the trade finance industry are seeing credit lines evaporate amid currency turmoil. Geo-political risks are mounting.

Technology has promised great advancement for burdensome documentary-based and intensive trade finance, but has the potential been realised? Is blockchain unfolding as a disruptor

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and enabler across the international trade and finance landscape? Is compliance at a tipping point for the trade finance industry or are we only seeing the tip of the iceberg? Is sustainability sustainable?

During the ADB seminar in Istanbul on 12th November, nearly 100 bankers and trade finance experts from Central Asia, the Caucasus, Mongolia, Pakistan and Turkey discussed the practical aspects of international trade and supply chain finance, where key issues and innovations within the industry is presented.

The seminar started with a panel discussion that provided an up-to-date analysis of compliance challenges facing the trade finance industry and some solutions. After the panel discussion, speakers from ICC Banking Commission, ADB, Convergence Capital Group, Xacbank Mongolia and FCI delivered presentations about trade finance and supply chain finance solutions. FCI was represented with a presentation about "The Growth of Open Account Receivables Finance and SCF Solutions "FCIreverse" by Aysen Cetintas, Education Director.

Report from Alberto Wyderka on Seminar - Workshop on Financial Inclusion of Micro, Small and Medium-sized Enterprises (MSMEs) in the Latin America and the Caribbean, Antigua, Guatemala, 30-31 October 2018

FCI was invited by the SELA (Latin America and Caribbean Economic System) to participate in their workshop on "Financial Inclusions of MSMEs in the Latin America and the Caribbean". The workshop was organised in collaboration with the Ministry of Economy (MINECO) of Guatemala. This event enabled participants to gain knowledge about the advances and prospects of financial inclusion in Latin America and the Caribbean and promoted the recent initiatives that the governments of the region have implemented to enhance and support financing options, such as fintech, and the innovative mechanisms for financing, guarantees, factoring and other financial services with a view to strengthening MSMEs. In addition, this Seminar-Workshop promoted successful cases and best practices that are being developed with the participation of MSMEs, regional organizations and service providers to achieve a broader and more comprehensive financial inclusion.

The workshop was attendeed by governmental representatives having MSMEs as central scope of work and other experts of the financial area that are knowledgable on the subject. Alberto Wyderka, as representative of FCI, presented the benefits and technicalities of the Open Account Financing for MSMEs. Following the presentation, Alberto had the chance to answer questions and discuss with high rank govermental members. It openend the gate for future contact and to expand the knowledge of FCI and the Open Account financial industry and its benefits.

Report from Uwe Müller on WTO members' meeting, 25 October 2018

The World Trade Organization (WTO), via Mr. Marc Auboin, Economic Counsellor, invited FCI to join a meeting of WTO Members on trade finance on 25 October and to present on FCI. FCI's Vice Chairman, Uwe Müller, represented FCI at this meeting. The meeting gathered WTO delegations to take stock of their ongoing work on trade finance. The demand came from before the meeting, when some delegations (in particular delegations from developing countries) asked to be informed about Supply Chain Finance opportunities. Receivable financing is not very well known by WTO membership. Given WTO's current focus on SME access to trade financing, FCI presentation was most welcome.

The meeting was attended by more than 50 delegates and the presentation on FCI was well received. The questions after the presentation indicated great interest in this form of financing. We thank WTO for this invitation to help us spread the knowledge about our Industry

Çagatay Baydar and Betül Kurtulus participated in the 2018 EBRD Trade Finance Forum, hosted by the EBRD and ICC Banking Commission, in Tbilisi, Georgia, on 17-18 October

Demonstrating FCI presence and support to CEE countries factoring and trade finance operation, Mr. Çagatay Baydar, Chairman of FCI and Ms. Betül Kurtulus, member of the MarCom participated in this well–attended event.

More than 240 representatives, from over 100 financial institutions and trade finance organizations in more than 40 countries, gathered to discuss the latest trends, developments, challenges and opportunities in the trade finance industry.

FCI aimed at extending its activities in the CEE and SEE area with the support of EBRD in the countries of the region. During the panel of development of trade finance in EBRD countries of operation in Eastern Europe, the CIS, the Southern and Eastern Mediterranean, Mr. Baydar delivered a speech on FCI's latest developments. And during the session on Supply Chain and Factoring Finance update, practical solutions and legal frameworks, Çagatay Baydar presented the FCIreverse, about which many questions were asked during the question and answer session.

We have had the pleasure to participate in the event and discussed fantastic collaboration opportunities in between trade finance negotiations with existing and potential members of FCI.

The European Bank for Reconstruction and Development's (EBRD) Trade Facilitation Programme has been running since 1999. The programme aims to promote foreign trade to, from and amongst the EBRD countries of operations and offers a range of products to facilitate such trade.

Through the programme, the EBRD provides guarantees to international confirming banks, taking the political and commercial payment risk of international trade transactions undertaken by banks in the countries of operations, as well as short-term loans to selected banks and factoring companies for lending to local exporters, importers and distributors.

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The program mainly guarantees to cover the obligations of import factor towards export factor in various currencies, including local currencies where available.

The program also supports the national factoring operations and provides funding for financing of factoring transactions as well as re-financing of the existing factoring portfolio (USD, EUR and local currency where available); up to 6 months, and on a revolving basis.

Factoring facilities are already approved in Armenia, Bulgaria, Georgia, Ukraine and Romania.

Report from Peter Mulroy on WETF Meeting, Lusaka, Zambia, 11-12 September 2018

The 18th World Export Trade Forum (WETF), a flagship event of the International Trade Centre (ITC) together with the Zambia's Ministry of Commerce, Trade and Industry, jointly organized a two-day event explored how trade can work for the 99% and be made more inclusive, especially for youth and women. It was attended by 1600 executives in trade and trade finance companies from over 50 countries, mainly from sub-Sahara Africa. The Africa Continental Free Trade Agreement (AfCFTA) that has been signed by nearly every country in sub Saharah Africa was a highlight of the event, which will help eventually create a single common market in Africa, reducing barriers to trade. It complements the trade and market integration that has been promoted through the regional economic communities like COMESA.

The highlights of the event was adequately summarized by ITC Executive Director Arancha González in her closing remarks:

- That trade facilitation at the border is only really effective if all parties modernize, increase transparency and cut down on red tape.
- That placing women and youth at the centre of trade and development policy – including the AfCFTA – is critical if Africa is to create inclusive growth.
- That adding value to goods and services, in particular in agriculture, and increasing the capacity to develop and extend value chains in Africa must be part of the Continental strategy.
- That the voice of youth matter. They will take forward tomorrow for what we are putting in place today.
- That supporting the competitiveness of MSMEs must be at the centre of the Continental development trajectory. From ensuring financial literacy to meeting quality standards and packaging to supporting trade and investment data and intelligence to moving to automation and the digital economy- this is where the cursor must be placed; competitiveness rather than protectionism.
- That the future is green. Greening value chains, incorporating sustainability into production methods and promoting green financing.

I was particularly impressed with the attention that was paid to the African youth. They held two seminars that included budding young entrepreneurs, giving them an opportunity to talk about the successes they have encountered from around Africa. And on the second day, they honoured six young entrepreneurs, but awarded one with a significant cash prize and tremendous press coverage!

Our good partner, GNEXID (the global association for the EximBanks around the world) helped organize a joint meeting as well that was hosted by the Development Bank of Zambia, a government institution created to promote business and trade. Besides FCI, other companies were represented, including our good partner AfreximBank, African Development Bank, and the ATI (a regional development organization focusing on credit insurance), all to discuss how we can support the growth of trade in Zambia. We were all given an opportunity to provide DBZ an overview of what our respective organizations do, and of course the concept of factoring and receivables finance was of great interest to them, with its positive impact on SMEs.

The event was in part sponsored by Huawei Technologies, building its telecommunication market throughout the African market.

Updates from The 45th ITFA conference held in Cape Town, South Africa, 4-6 September 2018

Source: ITFA newsletter

The 45th annual International Trade and Forfaiting Association's (ITFA) conference held in Cape Town, South Africa from 4-6 September 2018 welcomed more than 200 delegates from 33 countries at the Table Bay Hotel at the V&A Waterfront.

This was the first time the conference has been held in Africa, and the continent's opportunities, along with hunger for information on how to manage associated risks was clearly a big draw – many delegates had travelled from Europe and China to meet existing and potential African clients and learn more about the market first-hand rather than from research reports.

According to the African Development Bank's (AfDB) second trade finance survey report, 'Overcoming Challenges', the African continent suffers from a US$91bn trade finance gap (2014 data – the gap is generally agreed to be around US$100bn a year now). Irfan Afzal, Director of Syndications and Agency at Afreximbank, said that his organization sees its association with ITFA as part of its strategy to address this gap. Several factors, he said, have created this gap, such as "withdrawal of correspondent banking services by some international banks in the continent's trade finance space". He highlighted the lending concentration issue pointing out that the AfDB estimates that the 10 largest trade finance customers on the continent account for around 58% of the leading financial institutions' total trade finance assets. Another speaker had commented that the banks are "awash with capital", so the issue is hardly one of liquidity. Afreximbank, said Afzal, sees forfaiting as "an innovative financing instrument to address trade finance needs of SMEs in Africa" because it is characterised by "the elimination of non-payment to the exporter and addressing risks posed by FX or interest rate charges".

Peter Mulroy, Secretary General of FCI had the opportunity to present on Supply Chain Finance subject to discuss FCI new FCIreverse project. The presentation was well received by the audience and his participation was greatly appreciated. FCI was very happy to be there and discuss with peers from a close industry.

ARTIFICIAL INTELLIGENCE: FROM TECH TO FACTORING?

DIEGO TAVECCHIA
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(you can find the original article and register to EUF newsletter here)

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When thinking about the banking industry, one of the most important inputs it has is "information". Yet, at the same time, information is also one of its most valuable outputs.

Indeed, academic literature suggests that an information asymmetry is the basis of financial intermediation theory and explains the very existence of banks.

Such institutions have a significant competitive advantage over other actors, that being the opportunity to ask their clients for confidential credit information and an ability to generate new information through carrying out their clients' day to day business.

Factoring makes no exception. On the contrary, underwriting a factoring agreement requires a perhaps even deeper analysis of the business, of its own clients and of the trade relationships between them. The relationship with a factoring client allows the factor to "invade" the client's business even beyond the banks' capacity, through the daily monitoring of new invoices and payments collected, which help identify non-performing situations long before the situation bursts. The reader may have the feeling he/she has already read the above lines in the past, and rightly so, as it is basic knowledge within the Industry, handed down from one generation to another of factoring professionals.

During the latter years, credit assessment has not been forgotten by digitalization and therefore has been more and more transferred from the underwriter mind to the machine. In particular, the information has been organized and implemented into credit scoring systems, at the foundation of internal rating models.

Credit scoring methods normally consider information provided by the client, and by public registers and/or credit bureaus, weighted through an algorithm into a single number ("score"), which is used to infer the probability of default of the client, traditionally through established statistical tools such as e.g. regression, decision trees. But the explosion of "FinTech" is proposing new and interesting alternatives to traditional approaches, exploiting the potential of other sources to integrate the credit assessment, namely the so called "big data" (According to the EBA report on prudential risks and opportunities arising for institutions from FinTech: "These models may use customer data from a variety of sources, such as social media data, data from other lenders, enterprise customer data, publicly available data, location data, mobile data, web data and behavioural data"), as well as new computational techniques, such as Machine learning and Artificial Intelligence, to improve credit scoring, reduce the need for human intervention and speed up the lending decision process. The Financial Stability Board, in its report on "Artificial intelligence and machine learning in financial services", "defines AI as the theory and development of computer systems able to perform tasks that traditionally have required human intelligence. AI is a broad field, of which 'machine learning' is a sub-category. Machine learning may be defined as a method of designing a sequence of actions to solveproblem, known as algorithms, which optimise automatically through experience and with limited or no human intervention. These techniques can be used to find patterns in large amounts of data (big data analytics) from increasingly diverse and innovative sources"

THE EXPLOSION OF "FINTECH" IS PROPOSING NEW AND INTERESTING ALTERNATIVES TO TRADITIONAL APPROACHES, EXPLOITING THE POTENTIAL OF OTHER SOURCES TO INTEGRATE THE CREDIT ASSESSMENT, AS WELL AS NEW COMPUTATIONAL TECHNIQUES TO IMPROVE CREDIT SCORING, REDUCE THE NEED FOR HUMAN INTERVENTION AND SPEED UP THE LENDING DECISION PROCESS.

The FSB provides, in the same report, an interesting list of possible applications of AI, that "could be used for anticipating and detecting fraud, suspicious transactions, default, and the risk of cyber-attacks, which could result in better risk management". To make some examples, algorithms could use image processing to detect fraud risk by verifying if the prospect's headquarter is really where he/she said it is (through "Google Maps") or if the prospect is a hooligan (through his/her Facebook profile) or to find out if an invoice is false or manipulated. Of course, on the other side of the coin, exploiting AI has its risks…for example, the decision process may become opaque to the client and even to the bank (or factor). And what if the AI takes bad decisions? Who will be responsible of those losses? …and so on.

Coming back to factoring, what will be the impact of such new analytic tools? Will the man be overcome by the machine? My personal answer is: it depends. The natural application of AI credit scoring is in the online digital platforms, where new clients, normally small and possibly facing difficulties in accessing bank lending, approach the platform to sell their receivables, usually to -again- small businesses with opaque credit history. Such advanced tools may allow a thorough but prompt assessment of the credit worthiness of the transaction, using unconventional data sources to supplement unavailable credit information and limiting the need for human intervention. The possibility to scale the algorithms is almost limitless: a large number of clients and debtors might be analysed quickly and without absorbing resources (other than computational power), independently from their location and willingness to provide credit information. One could even dare say that quick and reliable credit scoring models are essential for the digital platform to work properly and fulfil the client's expectations (which, not surprisingly, most of times can be summarised with "gimme the money, now").

But would it work just as well with corporate, where most of the volumes of the factoring industry comes from? I respectfully doubt it, as in that case the demand for automation of the underwriting process (which is driven by numbers and demand for speed) is lower and information is normally available.

A proper conclusion for this contribution might be drawn from the above-mentioned EBA report: "The large amount of variables that could potentially be exploited using big data and machine learning may lead to better customer screening and financial inclusion, by increasing the accessibility of financial products to consumers, especially for borrowers who do not generally have access to credit because of limited credit information data, although this remains speculative in the absence of evidence". That appears to be the case of small businesses approaching factoring through online digital, much less the case of larger companies. That being said, even in the former case, in the experience where AI credit scoring are already implemented, I must say that currently I am not aware of situations in which the final credit decision is not made by a human.

ADVOCACY: MEASURING GROWTH IN OUR MARKETS

JOHN BREHCIST
FCI Advocacy Director

In our role as advocates for the Industry, we are often *interacting with regulators and lawmakers to try to influence them to ensure that legislation and rules recognise the specific nature and strengths of factoring and receivables finance*. Often we have been seen by such bodies as just another element of financial services with no special status - and we have to demonstrate that **our type of monitored and secured finance is a win: win for all**.

One of the first questions we tend to get is “So if you are different, where is the data to support these claims?”

Historically the Industry was not well prepared to answer such questions. In Europe, where there is a constant stream of developments in the legal and regulatory environments, over the last few years we have worked hard to improve our capability to respond.

The *EU Federation for Factoring and Commercial Finance*, part of FCI, is an organisation which comprises 14 National Associations across Europe and their members represent around 97% of the volume of the Industry. Its purpose is exactly as described above; to lobby the regulatory and law-making bodies of Europe to ensure that our Industry is treated fairly and appropriately when new rules and regulations are envisaged.

One of the key elements in being able to undertake this role is to be able to communicate effectively the size and shape of the Industry’s activities. We’ve worked hard to develop and improve the reporting capability of the organisation and as time has gone by, we have improved and now have an in-depth and wide-ranging set of data and analysis which is expanding in sophistication through a process of kaizen continuous improvement.

So if you are different, where is the data to support these claims?

EUF purpose is to lobby the regulatory and law-making bodies of Europe

...to ensure that our Industry is treated fairly and appropriately when new rules and regulations are envisaged

And I’m therefore pleased to share with you an update of the *half year performance of the European Industry* which shows us both the client turnover and GDP penetration figures for the key markets:

Notes for table on next page:
1) Pct variation has been corrected in order to avoid biases due to exchange rates fluctuation.
2) Turnover estimates on the basis of the available information
3) GDP estimates on the basis of the available information

30 June 2018	Notes	Total Turnover	Pct var. on the previous year (Total)	GDP Penetration
Austria*		11,060	11.1%	5.9%
Belgium*		37,127	7.2%	16.8%
Czech Republic*	(1)	3,285	12.1%	3.3%
Denmark*	(1)	8,734	22.5%	6.1%
France*		153,232	9.9%	13.2%
Germany*		118,807	4.9%	7.1%
Greece*		6,972	10.1%	8.0%
Ireland*	(3) / (4)	12,560	7.7%	8.2%
Italy*		109,997	0.4%	12.7%
Netherlands*		49,803	13.8%	13.0%
Poland*	(1)	25,110	31.0%	10.7%
Portugal*		14,000	9.6%	14.3%
Spain*	(4)	77,936	13.1%	13.1%
Sweden*	(1)	10,047	2.8%	4.3%
United Kingdom*	(1)	158,215	0.5%	13.4%
EUF Members (*)	(1)	796.884	6,4%	10,9%
Other EU countries	(2)	25.564	na	5,6%
EU Total Turnover	(1) / (2) / (3)	822.448	6,5%	10,6%

Source: EUF Members

Remember that these volumes are six-month figures, but the % growth is period on period and the penetration is of 2017 GDP.

Although I am writing this piece as Advocacy Director of FCI and Co-ordinator of the EUF, those of you who know me may remember that externally I have demonstrated that over the last twelve years there has been a statistically *significant positive correlation relationship between GDP and Receivables Finance (RF) which is visible at country, European and global levels*. If GDP increases, then RF increases (and vice versa) with a multiplier factor (in Europe) of *around 2.2 or so*.

Last month, Eurostat, the EU's economic statistics agency published in its "News release - Euro indicators" series an update on GDP growth in the region. It noted that, at the end of Q2 2018, the *EU28 had experienced an imputed annual 2.1% growth rate compared with the position in Q2 2017*.

If our correlation relationship holds true and we apply the multiplier effect, then that suggests *we should expect Receivables Finance growth to be in the order of 2.1 x 2.2%, or about 4.6% based on this level of economic growth*. The fact that it has grown at 6.5% suggest a period of particularly strong development which must be supported by drivers other than that which would be expected from simple GDP expansion.

What those drivers are however is at this stage open to debate. *Is it a result of better marketing maybe? Are our messages about factoring gaining a wider audience? Is there at last a better understanding of the benefits in comparison to other forms of funding?* Whatever the answers, this growth is in any case good news - and let's keep looking to see where that growth is coming from!

FCI Staff in front of FCI Secretariat in Amsterdam, The Netherlands

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