NEWSLETTER / AUGUST 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!

In this edition, you can read a welcome from Cagatay Baydar, FCI's Chairman, giving us the latest update on the Association. Peter Mulroy's "Word from the Secretary General" follows with a short highlight review of the FCI Annual Meeting and the upcoming events organised for the remaining part of the year.

Kheng Leong Lee interviews three FCI members in Singapore who all work for independent factors. They highlight the role of FCI as creator of factoring awareness and the need for education to help SMEs to increase their exports.

Next is an interview with Çagatay Baydar conducted by Bob Lefroy, Business Money Group Editor during the FCI Annual Meeting. Discover here his views on the future of the Industry and FCI.

Alberto Wyderka updates us on the Latin America and Caribbean Region, both on the chalenges in the region but also highlighting the "good example" members. He focuses on some of the prejudices and preconceptions that prospect members may encounter in the region.

We showcase the new FCI App; launched at the Annual Meeting it is now available for all members to use, and for example includes a great chat function that allows users to contact correspondents globally.

New members continue to join us; those that have signed up in the last 3 months are introduced: Acudeen, Bandex, Banque Postale du Congo, Commercial International Bank, Credit Bank of Moscow, Eurivex, Harare Receivables Exchange, Olympia Factors Commerciale and Standard Charted Bank Bahrain. A great line up of new talent!

Aysen Cetintas, FCI Education Director presents the rebranding of FCI Education as "FCI Academy – Centre of Knowledge for Receivables Finance". She is followed by her colleague Spyros Tsolis, FCI Education Officer, who shares the new education offerings, webinars and the promotional and training event in Cairo (26-27 September). Aysen finishes the Education section with an article on the Chinese factoring market noting that FCI will organize two events in Beijing; the first (in cooperation with the Chinese Banking Association) a Legal Conference (17 October) and this followed by a training session on Risk Management and Legal Considerations in Factoring and Receivables Finance (18-19 October).

The Influence section starts with an article from Probin Dass, a partner of a Singapore Law firm about the use of Credit insurance by factors, giving several examples where there had been discussions between the factor and the credit insurer. In some cases, the factor wasn't interpreting the contract the same way as the credit insurer…

Harry Biletta, FCI Director of Planning and Development presents the figures of edifactoring for the first half 2018. A general fall of 10% is reported. More details per region can be found in the article.

John Brehcist presents the Advocacy section and shares two examples where FCI involvement is helping to address legal and regulatory issues, one in Europe and one in China.

The publication ends with a special article on blockchain published with kind permission of Mc Kinsey & Co. "Blockchain beyond the Hype: what is the Strategic Business Value" gives the nuts and bolts of blockchain but also demonstrates its strategic value and suggests the approach companies should take in its adoption.

Welcome to our latest edition!

WELCOME FROM ÇAGATAY BAYDAR
Chairman of FCI

ÇAGATAY BAYDAR
Chairman of FCI

Dear Colleagues,

We start now the last part of our jubilee year. So far we have seen *several important developments* for FCI and this trend will continue, as the last four months of the year will be very busy, as you will see it in the coming pages.

At the Annual Meeting, many new initiatives were launched. You can find an entire report on the Conference in the special edition of In-Sight but I would like to highlight some of the key elements.

FCI created a *movie on the history of FCI and of factoring*, which will allow us to help the promotion of factoring around the world. FCI launched our *"FCI network" App*, an App that will allow members to speak together but also to access information on FCI from everywhere (see more info on page 13).

Two books were (re)launched (see Peter's article next page). The Uniform Rules for Islamic international factoring and FCIreverse legal rules were approved by the council.

Those of you who were at the Anniversary Conference heard that *cooperation is very important* for us. Indeed, we have seen numerous positive developments achieved through cooperation.

For example, I can mention the development of the *factoring law in Nigeria with the cooperation of Afreximbank and the Nigerian Export Import Bank* (We are now waiting for the law to be approved, hopefully still in 2018). Another example is with *Chinese Banking Association*, where we are organizing together a legal conference for judges and lawyers (see further information on next page).

Meanwhile in Latin America, we will participate at the *FELABAAN* and organise there a special conference. At the same moment in Europe, the *EUF* has convinced the European Parliament of the nonsense of applying the Net Stable Funding Ratio to factoring; an important step in seeking a derogation (see more information in the advocacy article page 30).

Another cooperation is with the *EBRD and Turkish Financial Institution Association*. FCI, in cooperation with both organizations is organizing on 8-9 October in Istanbul, a conference called *"Turkey Bridging Continents" International Regional Factoring Conference in CEE, SEE and Middle East*. The strategic situation of the country makes the conference a "not-to-miss" for Central East European, South East European and Middle East members and prospects. The Conference will have press coverage in Turkey to support continued development of awareness of factoring and will focus on both new FCI projects, FCIreverse and Islamic Factoring, as well as on the wider regional situation and need.

It's also, as with all FCI conferences, a great place to network with peers in the region!

Best regards,

Çagatay

A WORD FROM THE SECRETARY GENERAL

PETER MULROY
Secretary General

Its challenging to move on after experiencing such an amazing annual meeting held this past June in Amsterdam, celebrating 50 years, honouring our founding members from 1968, commemorating our past Secretary General, Jeroen Kohnstamm, and releasing two very authoritative books on the wide breadth of our industry, Factors & Actors, led by Patrick de Villepin, and reprinting the original book written by our founding father, Claes Olof Livijn from Svenska Handelsbanken (SHB) in 1972 retitled The Factoring Journey. If you haven't seen it, please download the special *FCI movie commemoration on the 5,000 year history of our industry*, by clicking the link:

https://vimeo.com/276279961

After one of the most memorable annual meetings, we are getting back to business, with a litany of special events planned for the 2H2018. We wanted to ensure FCI comes closer to you, our members, so we have arranged a number of conferences and educational seminars in the Americas, EMEA and Asia regions over the next three months. Please see below some of the highlights:

FCI COMES CLOSER TO YOU, OUR MEMBERS

Asia Region:

Beijing, China: We are organizing a big event in China, the first ever *Legal Conference* in Beijing China 17 October 2018, followed by a *two-day education seminar* organized by FCI on the concept of Legal and Commercial Risk in Factoring Operations. China operates under a continental legal system, top down, based on legal policies as enacted by the National Peoples Congress and interpreted by the Peoples Supreme Court. Factoring, specifically the rules relating to assignment, prioritization and third party effectiveness are embedded under contract, property and securities laws in China. Today, t*here is no centralized codified law on factoring or policy that has been handed down by the People's Supreme Court*. Instead nearly every provincial court in China has over time had to create their own policies based on their own experiences from past judgements. The challenges the country faced during the economic slowdown in 2014-2016, where they witnessed thousands of cases brought before the courts relating to factoring disputes and fraudulent activity, the system had challenged the legal framework. Within this backdrop, the *China Banking Association* (CBA) together with FCI agreed of the necessity to formalize a legal workshop targeting the legal infrastructure within China: the target audience includes judges, members and representatives from the Peoples Congress, China Supreme Court, Regional District and Local Courts. There will be two panels, an English speaking one represented by members of the FCI Legal Committee, including Mr. Edward Wilde, from Squire Patton Boggs UK, who will be introducing the benefits of developing a factoring law for the country. There will also be a Chinese panel made up of lawyers and factoring executives. The idea is to look at the three major areas impacting factoring: the law, disputes, and fraud.

Manila, Philippines: FCI will also organize a Southeast Regional Factoring Promotion Conference on the 28th November, co sponsored by the World Bank/IFC. We have developed our first member in Philippines, and the economy is growing significantly, so we thought it was the right time to organize such an event there. The event will focus on the challenges facing factoring in the region, and will spotlight commercial and legal risks in factoring, look at how other markets have developed, and introduce new concepts such as SCF/FCIreverse. The conference will be open to existing and prospective members in Southeast Asia.

EMEA Region

Cairo, Egypt: FCI together with the Egyptian Factoring Association and the African Export-Import Bank is organizing a promotion conference on 26 September entitled "*Factoring as a tool for financing SMEs*". Speakers will include government officials and representatives from the Financial Regulatory Authority, and members from the FCI Executive Committee. The focus will be North and Sub-Sahara Africa but existing and prospective members from the region are invited to attend as well. FCI will also hold a *one-day seminar on the 27th September in Cairo on legal issues*, industry sustainability and risk management topics including issues such as accounting and taxation impacting the industry.

Istanbul, Turkey: FCI together with the Turkish factoring association and the EBRD will together organize a regional conference on 8-9 October entitled "Turkey Bridging the Continents: International Regional Factoring Conference for the CEE, SEE and Middle East". Topics to be covered include challenges conducting cross border factoring, SCF/FCI reverse and Islamic Factoring. There will also be panels on regional issues in the CEE, Balkans and Middle East regions.

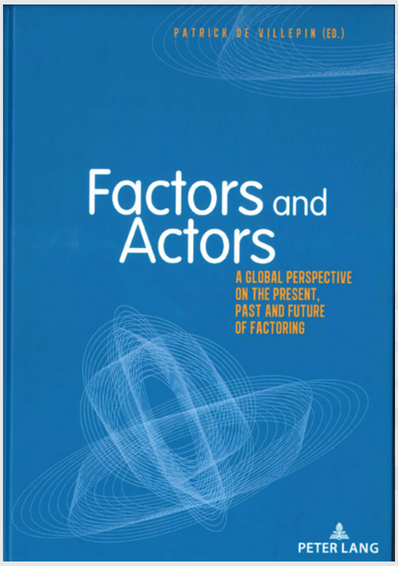
Americas

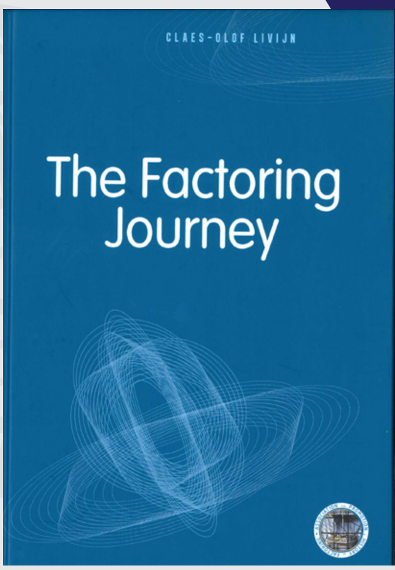
Punta Cana, Dominican Republic: FCI together with the Interamerican Development Bank and will hold a regional conference on the "Development of Open Account Trade Finance in the Caribbean and Central America: Evolution of Factoring and Supply Chain Finance", 13-14th November held adjacent to the FELABAN Conference.

For more information on all of these upcoming events, please go to the FCI website www.fci.nl

FCI MOVIE COMMEMORATION ON THE 5,000 YEAR HISTORY OF OUR INDUSTRY:

https://vimeo.com/276279961





THE ROLE OF INDEPENDENT FACTORS IN SINGAPORE

Resurgence of non-bank factors in Singapore

When factoring was introduced to Singapore in the mid 1980s, it was dominated by non-bank factors. Following the consolidation of the banking and financial sector in early 2000s, factoring was dominated by banks. However, recently there has been a resurgence of Independent factors and Fintech invoice finance companies in Singapore. Presently there are about 15 independent factors in Singapore. The independent factors serve the needs of the 300,000 MSMEs in Singapore who are underserved by the banks. The Asia Chapter Director, Lee Kheng Leong, interviewed the CEO of our three members which are non-bank factor to find out the reasons for this phenomenon. They are Mr. Randy Sim (RS) , CEO IFS Capital Singapore, Mr Alan Wong (AW),MD Bibby Financial Services (Singapore) Pte Limited and Dimitri Kouchnirenko (DK), Director Incomlend Pte Ltd.

KL: The Singapore factoring volume grew by 9% to Euro 44 billion and it is now the 4th largest factoring country in Asia after China, Taiwan and Hong Kong. What do you think accounted for this growth?

RS: I think there are a few forces at work – namely healthy 2017 trade growth, increasing preference for open account trade, larger number of active factoring-based financiers and consequently the higher market awareness as a result of the increased marketing and educational efforts by the industry. A FedEx-commissioned study highlighted strong 2017 export growth projections (in the range of 25 – 28%) by Singapore MSMEs with export business in sectors such as manufacturing, wholesale/retail trade and consumer products. There has also been a noticeable increase in Government engagement and interest in promoting factoring as a sustainable financing solution for MSMEs.

AW: The growth could be coming from more trade conducted on open account basis as well as contribution from larger enterprise in the Corporate Banking segment.

DK: There are many factors that can explain this trend, most obvious ones being Singapore's largely net export trade position and a dynamic manufacturing sector requiring high working capital needs. In addition to that, a recently strong growing number of alternative and independent factors such as invoice trading platforms in Singapore are contributing to enlarging factoring possibilities and the pool of funding available.

KL: The MSME share is estimated to be about 15%. Why is this so?

RS: This is likely reflective of the make-up of the Singapore economy and the relative access to financing by large corporations and MSMEs.

AW:The larger share of the volume were accounted by bigger corporates under the corporate




Dimitri Kouchnirenko, Director Incomlend; Mr. Randy Sim, CEO IFS Capital Singapore; Mr Alan Wong,MD Bibby Financial Services (Singapore) and Kheng Leong Lee, FCI Asia Chapter Director banking segment. These are mainly for non-recourse factoring. For MSMEs, there are other loan products in the market which they may be more familiar with such as term loans, trade financing and overdraft.

DK: MSMEs in Singapore are the most dynamic economic tissue driving sales growth. When before MSMEs had poor access to working capital finance due to their limited borrowing capacity, today the market has changed with the arrival of alternative finance providers improving MSME's access to funding. However, this is still in its infancy and the MSMEs needs are largely uncovered with the current funding available on the market, especially on the exports side where alternative factors possibilities are limited (large majority is capable to cover for domestic operations only).

KL: There was a study by PWC together with the former Spring Singapore which showed that there is a liquidity gap of MSMEs S$8.7 billion. This will represent a potential for receivable financing for MSMEs. Can the share of the MSMEs be increased?

RS: Certainly. I believe that there is room for increased penetration of receivable financing within the MSMEs segment. I am especially optimistic that ongoing technological developments, which we have been actively studying and experimenting with, will meaningfully reduce the friction inherent in receivable financing.

AW: If they are in factorable industry, there are definitely opportunities that share of MSMEs can be increased. However there is always the competing products from the bank such as loans, trade financing, etc. For the less bankable MSMEs, Fintechs are also in the space providing loans and non-traditional factoring.

DK: We strongly believe it can, as this is one of the major financing gaps we observe today for Singapore. To do that, it is important to raise awareness among MSMEs on the alternative finance options available, as well as raise awareness among private institutional investors on the attractiveness and interest of providing funding to the MSMEs sector.

KL: According to a study by Visa and Deloitte Digital SME bank study, 4 in 10 SMEs do not have access to banking facilities. Would this present opportunity to you ?

RS: Apart from the unserved, there also exists a harder-to-measure group of underserved MSMEs. Both of these segments in Singapore and throughout the region represent tremendous opportunities for practitioners of responsible financing such as IFS Capital.

AW: Yes, but not all SMEs are in factorable industry. There are also rising number of Fintechs (crowd funders/peer to peer lenders) coming into the lending space targeting at non-bankable SMEs with spot factoring and non-traditional factoring.

DK: Absolutely. While it is always paramount to mitigate the different risks, the ultimate objective of an alternative finance provider such as us is to improve financial inclusion, reduce the finance gap and contribute to powering the MSMEs growth.

KL: China is now the world's largest factoring market with a volume of Euro 405 billion. This was partly powered by the commercial factors which now formed one third of the Chinese market. Can independent factors in Singapore play a similar role ?

RS : Independent factors can certainly play a role in driving the growth of the local factoring market. However, it is also important to note that the Chinese market is much more fragmented and geographically dispersed.

> ...independent factors can play an active role in cultivating entrepreneurial spirit by supporting younger and less established enterprises.

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AW: That is always a question of competition with banks and Finance Companies. My view is independent factors come in to fill the gap of underserved SMEs by the banks such as newer set ups and companies with lesser credit strength. Hence independent factors can play an active role in cultivating entrepreneurial spirit by supporting younger and less established enterprises.

Singapore can still achieve a significant increase of factoring volumes by focusing on the exports sector.

DK: Yes, independent factors in Singapore can contribute to increase Singapore's share of the global factoring market. Although the volume size is different, Singapore can still achieve a significant increase of factoring volumes by focusing on the exports sector.

KL: What is your view of export factoring in Singapore as Singapore is the world 15th largest export country with an export volume of S$373 billion?

RS: The export volume of Singapore is largely dominated by MNCs and large corporations and this trend will likely continue due to the size of these companies and the underlying products. It has been estimated that the average annual export revenue of MSMEs (with export business) in Singapore is around US$2.2 million. There is a strong impetus for MSMEs in Singapore to tap regional and global markets and I expect that the average export revenue to continue growing over the mid-to-long term even if there may be volatility each year. We are also likely to see a gradually growing percentage of MSMEs starting to export their products and services. This underlying trend bodes well for export factoring in Singapore.

AW: The international volume of SGD29.4 billion (as per FCI data) formed 8% of Singapore's export volume, which is already quite decent figure, considering the fact there are different terms of trade (i.e. LCs, DP, TT in advance) exporter could use.

DK: Our view is that the export sector in Singapore is largely under served in terms of factoring and when this is improved, Singapore's factoring share in global volumes will dramatically increase. Improving export factoring in Singapore means raising awareness of exporting companies about non-Bank options available, ensuring that the export factors have the appropriate risk management and collection procedures in place on a global scale to be able to disburse funding.

KL: What do you think FCI export factoring can help SME to increase their export

RS: Export factoring requires a robust global infrastructure and continued education of the stakeholders in order to build competence and trust. FCI plays a key role in growing this global network of factors that is essential for international factoring to scale.

AW: FCI could help by providing education on international trade and market awareness. Credit coverage and collection capability will further boost SME's confidence in increasing their export into foreign territories.

DK: We think it is important for FCI to raise SME/MSME awareness about its capabilities in partnership with alternative finance providers focused on export factoring, allowing to create synergies in marketing for more powerful outreach. FCI's key benefits are to provide a network of cross boarder partners that can help an SME understand the foreign market, avoid legal mistakes, better secure payments. FCI has a key role to play in consultancy/training that can help the SMEs bridge the export gap.

FCI plays a key role in growing this global network of factors that is essential for international factoring to scale.

BOB LEFROY
Group Editor, Business Money

INTERVIEW OF CAGATAY BAYDAR: CHAIRMAN OF FCI

Extract from the special anniversary edition of Business Money (June-July) Interview conducted during FCI 50th Annual Meeting in Amsterdam in June

I have interviewed more senior executives in invoice finance than most, yet nothing matches the buzz of establishing a rapport with a leader in the financing of business. It is not just about the bottom line, risk management, developing the loan portfolio. The great ones have a broader vision, striving to spur business growth, new employment and community prosperity, seizing opportunity when it is offered. Creating opportunity when it is not.

Çagatay Baydar exudes *the insightful instinct of the natural business lender*, allied to the boundless energy that is found in most of the leaders in business finance, but here too is the global vision. The need for the world view, promoting factoring as a mainstream product and to see it employed more widely.

Intelligent, friendly, enthusiastic and always looking to develop or improve, he leads a major Turkish invoice finance business, TEB Faktoring, which has 110,000 clients. He has still found the time to claim two-and-one-half stints as chairman of FCI. The half stint was stepping into the gap when the incumbent unexpectedly departed. His first formal appointment, following his election to the select committee in Japan at the 2008 gathering, was made in 2011 in San Francisco. He was elected chairman once more at the 49th FCI Annual General Meeting in Lima, Peru, in 2017.

If FCI means a great deal to him, it is the immense opportunity he sees for invoice finance in opening up developing countries. The only cloud that drifted across a cheerful and entrepreneurial demeanour during a lively and warm interview was when we discussed the prospects for the world economy. He confessed to some misgivings over burdensome tax and compliance issues.

Çagatay Baydar and his wife Nuray at the farewell dinner in Amsterdam

In Turkey it has impacted TEB's business growth as much as 25%, and he is not alone in highlighting the degree to which the failures of the world's governments and police forces has been visited upon the business finance sector in such a damaging way.

Developing nations offer huge opportunity for growth, though central governments need educating and not just on the challenges of compliance and money laundering but on new opportunities too, such as blockchain and the potential of FCIreverse, if invoice finance is to progress.

He singles out the *potential in both China and Africa as their needs are mostly related to exports to readily assessable debtors in developed nations* but by no means exclusively. Intra Africa business is also growing fast and he lauded Afreximbank and its management's tireless efforts supporting and developing business there.

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Çagatay believes that great future opportunity lies too in Malaysia, Indonesia and the Philippines, and he is excited about the *evolution of FCI's Islamic finance product* to finance growth here. The 2019 FCI annual conference in Ho Chi Minh City, Vietnam, seems a clear signal of intent.

By happy coincidence, for much of the FCI 50th Anniversary meeting in Amsterdam, I was seated next to Ben Hosh and was pleasantly surprised to see the number of people from all over the world who told me that Ben gave them their first job in factoring when they greeted him. He recruited Çagatay in this manner, little dreaming I guess that one day he would not only lead one of the world's biggest invoice finance companies but would also chair the organisation that seeks to deliver and develop invoice and trade finance across the world.

Where does the present chairman see FCI in 10 years' time? Here we had another expression of *both his enthusiasm and his commitment* as he told me that *1,000 FCI members was his target and emerging countries*, of course, are in focus with a target of *90% of world factoring volumes*. The world may be a much better place, way beyond just the invoice finance sector, for many more people if this aim is achieved.

WHERE DOES THE PRESENT CHAIRMAN SEE FCI IN 10 YEARS' TIME? ... HE TOLD ME THAT 1,000 FCI MEMBERS WAS HIS TARGET AND EMERGING COUNTRIES, OF COURSE, ARE IN FOCUS WITH A TARGET OF 90% OF WORLD FACTORING VOLUMES. THE WORLD MAY BE A MUCH BETTER PLACE, WAY BEYOND JUST THE INVOICE FINANCE SECTOR, FOR MANY MORE PEOPLE IF THIS AIM IS ACHIEVED.

As part of FCI advantages, FCI Members have free access to the online edition of Business Money. To get credentials, please send an email to subscriptions@business-money.com

ALBERTO WYDERKA
FCI Latin America and Caribbean Director

DON´T LOSE HOPE

Latin America and The Caribbean Region

No doubt that Latin America and The Caribbeans (LA & C) have a huge potential cross-border and domestic factoring growth. But let´s focus on international factoring.

Countries' balance of trade, in general, shows a stable or slight growth in exports and same picture is seen on the imports side.

Based on 2017 Two-Factor System (2FS) statistics, exports flow 56.5% from LA & C countries to North America (US & Canada), 27.2% to Europe and only 15.5% are intra-regional flows.

On the other side, import flows to LA & C countries originate from Asia-Pacific countries at a rate of 26.7%; 67.8% is intra-regional trade and only 5.6% comes into being from Europe.

If we examine the total 2FS in the region, exports reach EUR 578.8 MM and imports EUR 132.4 MM. Undoubtedly, such meagre figures show that *there is a large space of growth*, but what is *now missing is the momentum to make the business boost*.

Another matter to highlight is that members from only three countries (*Peru, Mexico and Brazil*) concentrate *78.6 % of the total volume*, and only the members that stand out are Banco Crédito del Perú, (the largest volume in the Region by far), Bancomext, (México) and Exicon (Brazil).

In LA & C countries, Exporters are supported mainly by traditional banking and lending products, and consequently they set-up their cross-border transactions by taking all the risks. The region fulfills its exports majorly on Open Account terms without a tool that can help exporters mitigate their counterparty risk. Likewise, importers are compelled to pay larger costs by opening LCs, or reduce their working capital flows if requested to make advance payments.

Such depicted landscape is avid and open to new forms of financing. Contrary to that, banks and factoring companies do not seem to react to such needs just by offering factoring in its 2FS version, which would allow them to increase their levels of financing and earnings, with very limited and mitigated counterparty risk. What´s more, with a 2FS-offer, Banks and factoring companies could target new clients and segments, traditionally viewed as higher risks, since the 2FS would allow them allocate their counterparty risk on an FCI member that has assessed and assumed risk on the debtor of the business, rather than on the seller that has been financed in the transaction.

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Our successful members in LA (those mentioned above), have surpassed the rest in the region because they have wisely *combined strategy and education*, and they have focused their sales` force on the 2FS business. Additionally they benefit from the tail wind that helps them place domestic factoring on the table, either by *promotion efforts or by the existence of a factoring law*.

But the Region needs more members prepared to offer cross-border factoring.

FCI is really doing significant and deep efforts in promoting, educating and expanding the network. However what we notice among prospects in the Region is that they are first attracted to the business, but the decision in becoming an FCI member sometimes "is kept in the drawer" for many months, even years. Likewise, new members (after application to FCI membership) take too much time in launching the business. Why is that?

From my viewpoint, and after many visits, presentations and training programs to new members and prospects, some of the reasons for their lagging behind in the business are listed below. But the good news is that all these companies and Banks can quickly succeed in shortening the launching of the business if they appoint the right people and commit them to take all FCI training programs, in the understanding that *education is an investment and not an expense*. On top of that, they can always receive support from the Regional Chapter, the Education and Communication Directos and from experienced mentors within the Region.

Let's mention some of the *PREJUDICES* of prospect members of the Region against which I always deal with, when helping them to join our community and launching the service:

- Lack of acceptance of this new business by the market
- Doubts on the success of this business and in finding new clients
- Lack of a factoring law in most of the countries
- The easiest way of financing companies are traditional banking products: pre-export and post-import financing
- Long and tiring manuals to read
- Education linked to budget and seen as a cost and not as an investment
- Inconsistent support from Senior Management
- Difficulties in communicating in English language
- This new type of business cannot be applied to the region's core business: exports of fresh fruit and fish
- Risk management very conservative that matches the risks of factoring to any traditional lending product

COMPANIES AND BANKS CAN QUICKLY SUCCEED IN SHORTENING THE LAUNCHING OF THE BUSINESS IF THEY APPOINT THE RIGHT PEOPLE AND COMMIT THEM TO TAKE ALL FCI TRAINING PROGRAMS

We acknowlege at FCI that a start-up process in any new business is not child's play, and obviously factoring is not an exception. Our 2FS requires many efforts from the members' side but at FCI we always make great efforts in making such process as smooth as possible.

FCI is not an empty box, on the contrary, the association has concrete added value to give to all its members, and not just plain promises: a commited business community of 400 members in 90 countries, the best education offer in cross-border factoring, an operative platform to safely interchange transactions, transparent rules, an arbitration code, best practices, advocacy and now our new product FCIreverse. We never leave our members on their own, but *strong commitment from all of them is a must*. We never lose hope: the Region will surely boost in new members, volumes and new businesses soon.

FCI APP

The participants of our FCI 50th Annual Meeting have already seen the brand *new FCI App* which we launched at our anniversary conference. The App is the result both of demand from the members and discussions of the Marketing and Communication Committee (MarCom). After evaluation of a number of options, it was decided to develop the App with the existing FCI website supplier to maximise the operating efficiency, both in set up and ongoing maintenance. This approach would also ensure we avoid overload the Secretariat with additional work whilst giving members the opportunity to access important information from their mobile phones.

The development considered member feedback received over the last four years seeking to create an App that would *allow members to speak together without sending an email* or calling and one which also allow people to check the same information as on the desktop from their mobile phone.

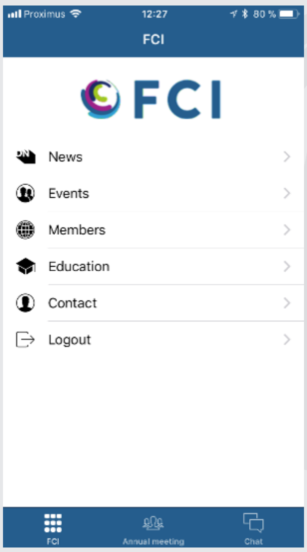
The "**FCI network**" App is available to every FCI member. It can be downloaded from both Apple and Google stores. *Access to the App is made through the personal credentials* of the private net (and just to remind you, those credentials are yours personally and cannot be shared with a colleague; remember that The General Correspondent has the right to create additional access for colleagues) and gives you access to part of the website as well as the chat function and a list of events (just at the moment titled "Annual Meeting").

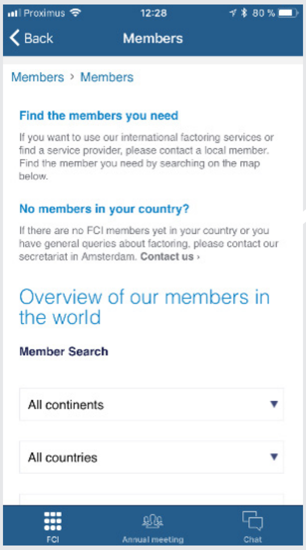
The App is available now in its first version; *improvements and update will be made in the future*. A survey has recently been conducted among ambassadors to get their feedback on the App to help plan its further development. The MarCom is now evaluating this feedback to set enhancement priorities. We can already tell you that in the future a group chat option will be available, together with access to the library and an extended education section.

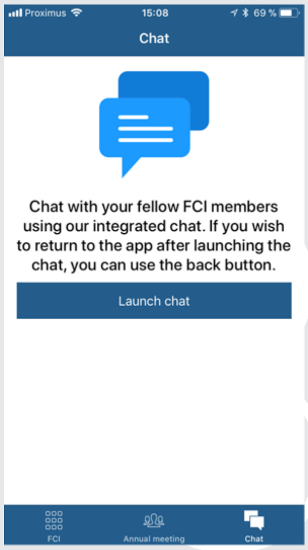
The FCI App is also seen as a future source of revenue as it is planned to have an advertising area. More information will follow but if you are interested to advertise here, please don't hesitate to contact the FCI Secretariat to discuss your interest with us.

So for now, if you haven't already, please download the App and log in to it. You can see the *latest news, coming events, members list*… and start to use the *chat function* when you have a quick question for a correspondent or a potential new contact…

If you have any trouble in using it, don't hesitate to contact FCI Secretariat and we'll be pleased to help.







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 as we added the following Members:

ACUDEEN

AFFILIATE

PHILIPPINE

Acudeen started off in 2016 in the Philippines and has since then helped micro, small and medium-sized entities (MSMEs) to finance their 30-120 day receivables ahead of time. In less than two years, invoices totaling over US $6m have been factored and provided liquidity to over 400 SMEs. Individuals and corporates purchasing those invoices benefited from attractive returns for short-term cash.

The company has earned multiple accolades from the finance, technology and business sectors, which include being the Global winner of Seedstars in 2017, 2017 Founder Institute's Best Global Fintech, and one of IDC's Top 10 Fastest Growing Fintechs. With recent market entry into Myanmar, Acudeen embarked on an ambitious expansion plan.

Acudeen was inspired by its founder's personal experience running a medium-sized business and the frustrating process to survive as an entrepreneur due to the poor payment behaviour of its clients. This translated into the vision of building a leading marketplace for SMEs to turn movable assets into cash in a matter of 3-5 days when needed. Leveraging blockchain technology, the existing platform, which focuses on invoices, will be expanded to other movable assets, such as cars, warehouse receipts, etc.

www.acudeen.com

BANDEX
BANCO NACIONAL DE LAS EXPORTACIONES

ASSOCIATE

DOMINICAN REPUBLIC

Based in the Dominican Republic BANDEX is a young export bank created on July 17th, 2015 through Law No.126-15. The law transformed the former National Housing and Production Bank (BNV) into the National Exports Bank (BANDEX) as a public mixed equity financial intermediary, with juridical personality and autonomous management, which has the subsidiary and unlimited guarantee of the Dominican State.

BANDEX's Purpose is "Supporting the country's export capability by offering financial services to contribute to the development and well-being of Dominican society" while its Mission is to "Offer financial products and services that strengthen the export sector, through innovative and specialized alternatives to boost the exportable supply of the Dominican Republic."

As shown in our logo, BANDEX is the motor that enables a business to move, propelling it to grow and expand into new markets. The continuous movement of the propellers in our logo represents our aspiration to become a key ally for the export sector.

http://www.bandex.gob.do

AFFILIATE

CONGO

The Postal Bank of Congo is a public retail bank created on March 3rd, 2012. It has started its activities in January 2013.

It is a limited company which has a board of directors with a share capital of FCFA 18.125.000.000 (EUR 27 631 380) and a network of 23 agencies through the Republic of Congo.

The Postal Bank of Congo was created to reach two objectives: the financial inclusion and the financing of the economy. On this second objective, the bank intends to rely on factoring activities to develop itself but also contribute to the development of SMEs.

http://www.banquepostale-congo.com

ASSOCIATE

EGYPT

Commercial International Bank was established in 1975 as a joint venture between the National Bank of Egypt (51%) and the ChaseManhattan Bank (49%) under the name "Chase National Bank of Egypt".

Following Chase's decision to divest its equity stake in 1987, National Bank of Egypt (further NBE) increased its shareholding to 99.9%, and the Bank changed its name to Commercial International Bank (Egypt) S.A.E. (CIB). NBE's stake gradually decreased through several public offerings. In 2006, a Consortium led by Ripplewood Holdings acquired the NBE stake. In July 2009, Actis a leading emerging markets private equity firm, invested to acquire 50% of the stake held by the Consortium led by Ripplewood Holdings. Five months later, Ripplewood sold its remaining position of 4.7% in CIB. This move marked the successful transition of strategic partnership to be with Actis, who then became the largest shareholder in CIB with a 9.1% stake. In March 2014, Actis sold a portion of its holding in CIB. Later in the year, Actis, has successfully realised its investment in CIB and has sold its remaining 6.5% to Subsidiaries wholly owned by Fairfax Financial Holdings Ltd Fairfax in May 2014.

Commercial International Bank (Egypt) SAE is the leading private sector bank in Egypt, offering a broad range of financial products and services to its customers, which include enterprises of all sizes, institutions, households and high-net worth individuals. The Bank strives to provide clients with superior financial solutions to meet all of their financial needs. Having the strongest brand equity rightfully places CIB as the bank of choice for over 500 of Egypt's largest corporations. Moreover, CIB shows tremendous upside potential within the bourgeoning Retail and SME Banking markets. Through its superior management, high operating standards, corporate governance best practices and premier training programs, CIB has succeeded in becoming the most profitable commercial bank operating in Egypt for more than 40 years.

https://www.cibeg.com

ASSOCIATE

RUSSIA

Credit Bank of Moscow is a universal commercial privately-owned bank providing the full range of banking services to corporate and retail customers and financial institutions.

The Bank was founded in 1992 and successfully closed its initial public offering on the Moscow Exchange in June 2015. The Bank is included in the CBR`s list of systemically important banks.

The Bank was ranked as a top-3 privately-owned bank by total assets in INTERFAX-100 as at 1Q2018. It reaches its clients through 102 additional offices, over 1,100 ATMs and circa 6,300 payment terminals in Moscow and Moscow Region.

The Bank is currently rated 'Ba3' with a stable outlook by Moody's; 'BB-' with a stable outlook by Fitch; 'BB-' with a stable outlook by S&P; 'A (RU)' with a stable outlook by ACRA; 'ru A-' with a stable outlook by Expert RA.
The Bank has a proven track record in the international capital markets with a debut Eurobond issue placed in 2006. https://mkb.ru/en/

AFFILIATE

CYPRUS

Eurivex Ltd is an EU Investment Firm regulated by the Cyprus Securities & Exchange Commission (CySEC), licensed to provide investment services and safe-keeping of client financial instruments.

Eurivex has expanded into trade finance investing and acts as the bridge between trade finance investing and companies looking for trade finance solutions. We have invested heavily in technology and developed our own proprietary platform, through which we service our clients.

The introduction of responsible investing to trade finance investing, will help our company grow and record satisfactory growth in business.

Our target markets for providing both domestic and international trade financing solutions are Cyprus, Greece, UK, Middle East and North Africa. We also facilitate trade transactions on behalf of EU exporters to Iraq, Libya and other North African countries, subject to and in line with EU Sanctions list regulations.

Eurivex facilitates international trade with Cyprus and Greece by offering pre/post-shipment finance, collection and credit insurance through collaborations with credit insurers and other factoring companies. http://eurivex.com

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AFFILIATE

ZIMBABWE

Harare Receivables Exchange ("HRE") is a non-banking financial services company that offers trade and supply chain finance with a specific focus on receivables financing.
HRE is the only receivables-focused, trading company in Zimbabwe. They improve access to financial markets for a wide spectrum of clients including individuals, SMEs and corporates, governmental organisations, NGO's and financial institutions.

HRE provides Investors with a secure, efficient and transparent way to trade short term receivables. At the same time they provide their clients with a cost-effective way to liquidate receivables to grow their businesses. http://www.harare-receivables-exchange.co.zw

AFFILIATE

BOTSWANA

Olympia Factors Commerciale (Pty) Ltd ("Olympia Factors") is a factoring business intent on using innovative financial facilities to ensure the growth of business trade in Africa using debt factoring, supply chain finance, Invoice discounting, purchase order finance and structured trade finance.

Olympia Factors hopes to use its factoring business to finance business in Agriculture, LPG Energy and Petroleum, Tourism, structured trade finance and project finance for infrastructure projects.

Olympia Factors is registered in Botswana but intends to use Botswana as its base to enter neighbouring countries, while enjoying Botswana's conducive business environment and sovereign credit rating to access credit line. In pursuit of its Vision Olympia Factors will in the fourth quarter of 2018 open an Office in South Africa, which will be followed next year by Namibia.

The promoters of Olympia Factors have among them a vast wealth of experience and skills in business advisory, financial consulting, insurance and financial accounting. The company has an established network of professionals, through which it can deliver on its mandates if needed.
https://ofcfactors.com

AFFILIATE

BAHRAIN

Standard Chartered Bank is the first bank in Bahrain, having started in 1920 and played a pivotal role in establishing Bahrain as a key financial centre. Over 90 years, the Bank enjoys the position of having the most extensive branch network amongst international banks in Bahrain with 7 branches.

In Bahrain, Standard Chartered Bank is one of the leading banks, offering an extensive range of conventional and Shariah-compliant products and services to corporate, commercial and retail clients. Its main objective is to offer outstanding value to its customers by providing a knowledgeable, efficient and reliable service in a personal, helpful and responsive manner. Central to this service philosophy is the professional consultative approach the bank takes with each customer. By getting to know them better, Standard Chartered Bank can identify their needs and match them with quality products which suit them best.
https://www.sc.com/bh/

We wish them lots of success!

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

EDUCATE

REBRANDING OF THE FCI EDUCATION PROGRAMME

AYSEN ÇETINTAS
Education Director

The Education Committee has initiated the implementation of the "*Rebranding and Restructuring Project*" of the FCI Education Programme under a new concept called "*FCI Academy - Centre of Knowledge for Receivables Finance*".

FCI Academy will offer, under one roof, a wide range of Educational methods that include the existing programs (individual e-learning courses, seminars & workshops, tailor made trainings) enriched with new, modern and flexible learning tools like *Professional Certification Programmes, Webinars & Tailor-made Online Sessions, Mentoring Programmes* and the new e-learning "Introduction to Factoring and Receivables Finance" course addressed to individual students and other parties.

The first step of the project was successfully completed, *Online Webinars* are introduced in September 2018. The official launch of the program is expected in the second semester of 2019.

FCI Academy will be the most complete source of knowledge in the Factoring & Receivables Finance Industry, offering a comprehensive and coherent Education program for the Industry and its members, globally delivered with all available learning methods (physical/online).

SPYROS TSOLIS
Education Officer

EDUCATE

FCI WEBINARS:

Discover the new Education Offering of FCI

Webinars and online learning events are nowadays among the most *popular and effective education tools for maximizing knowledge delivery* while at the same time minimizing costs, as participants can learn and interact with peers from other countries as well as share the best practices from their local business and international business, without leaving their desks.

Moreover, webinars are also an excellent means for the promotion of new ideas and concepts, creating awareness on a global level.

Both webinar advantages are exploited by FCI, as we are, on the one hand, introducing *FCI Webinars as our new Education offering* while at the same time we shall be *promoting our new core offerings "FCIReverse" and "Islamic International Factoring"* to the Receivables Finance industry.

Online trainings have been part of our Education offering for a long time, benefiting members who highly appreciated them and recognized their added value during their set-up & onboarding process.

FCI is now going one step forward and is introducing its new FCI Webinar "*FCI Essentials*", a comprehensive series of three (3) on-line sessions, specially designed for new members, for junior and newly joined employees of experienced members as well as for all who wish to learn more about FCI and its principal value proposition. "FCI Essentials" is the first step of new members to start their international factoring business in a safe and effective operational framework.

The "FCI Essentials" Webinar sessions include:

- *Session 1 - Introduction to Factoring, FCI & the Two-Factor System*
- *Session 2 - Basics of Operations of the Two-Factor System*
- *Session 3 - Basics of Legal Aspects in International Factoring & the GRIF*

During the "FCI Essentials" webinar, participants will have a unique opportunity, *without leaving their office*, to familiarize themselves with FCI, its legal rules and operational procedures. Moreover, *active interaction with other participants* under the guidance of FCI facilitators, will further enhance knowledge & best practice sharing.

FCI Webinars will be, each time, aligned with regional time zones to ensure that participants join at the most convenient time for them. The *first "FCI Essentials" webinar* shall take place between *10-13 September 2018*, targeting participants from *Europe, Middle East and Africa*.

The webinar will be repeated in *October 2018 for Asia*, with the other regions to follow in due course.

The sessions are delivered by the FCI Education Team and the FCI Director of Planning & Development, all highly experienced professionals in Factoring and Receivables Finance.

More information : https://fci.nl/en/event/FCI%20Essentials%20Webinar%20September%202018/5131

EDUCATE

FCI PROMOTIONAL & TRAINING EVENTS IN CAIRO, EGYPT

SPYROS TSOLIS
Education Officer

• Factoring as a Tool for Financing SMEs, 26 September 2018
• Factoring Training Workshop, 27 September 2018

Factoring financing has proved to be highly beneficial for all types of companies but especially for SMEs which, in many countries, are regarded to constitute the "*backbones of the economy*". The latter is not just another theoretical statement as 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*. As Mr. Marc Auboin, WTO executive, stated during the FCI Annual Meeting in Cape Town in 2016 "The growth of factoring has a positive significant impact on global trade of SMEs. Relatively conservative estimates indicate that a 10% increase in factoring would result in 1% in additional SME trade". This statement could constitute the starting point for developing regions to invest on and promote factoring and receivables finance services.

As the regions of *Africa and Middle East* are becoming major players in global trade, Factoring and Receivables Finance is expected to play a significant role in supporting, via the combination of its valuable services, the growth and development of SMEs engaged in trading. It is strongly felt that the WTO research findings will be also confirmed in many countries in these regions, as SMEs are showing great demand for flexible working capital solutions, factoring being the most suited one.

Egypt is one of the African countries where factoring is becoming popular, as Factoring and Receivables Finance services are demanded by local companies, especially SMEs, to support their growth. Additionally, the recent and ongoing reforms taken by the government aimed at restoring macroeconomic stability, promoting growth and employment, have created a stronger economy and a more dynamic environment for the factoring industry. Moreover, factoring is strongly supported by local government, regulators, the industry associations as well as strongly promoted and included in the core offering of Banks and Financial Institutions. These actions have resulted in a stable growth of factoring volumes on a yearly basis. Currently, *FCI has already seven (7) members in Egypt*, all highly reputable financial institutions, most of them already active in FCI Two-Factor business.

FCI, being the Global Association for Open Accounts Receivable Finance Industry, stands by such efforts by offering its support in all areas of its activities, namely *Connecting, Educating and Influencing*. In this respect, after having supported, in terms of *Influence*, via its Africa Chapter along with the Egyptian Factoring Association and Afreximbank, the introduction of the new factoring – and leasing – law (yet to be ratified in Parliament) in Egypt in 2017, FCI is now organizing two (2) regional back-to-back events in Cairo, a *Promotion Conference on "Factoring as a tool for financing SMEs"* (Wednesday 26 September 2018) and a *Factoring Training Workshop* (Thursday 27 September 2018).

> *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*

The Promotion Conference is organized in cooperation with the *Egyptian Factoring Association (EFA)*, the *GIZ* and *AFREXIMBANK*. It shall be a remarkable event where Industry Experts with vast experience in Factoring & Receivables Finance (including members of the FCI Executive Committee) will present and discuss on the developments and prospects of Factoring, Receivables & Supply Chain Finance in the African and Middle East region. In addition, International best practice will be shared with participants, focusing on how factoring has supported economic growth and SMEs.

The Factoring Training Workshop, which is endorsed by the *Egyptian Financial Regulatory Authority and Financial Services Institute* is focusing on all relevant issues in Factoring and Receivables Finance, including Legal Issues, Industry Suitability & Risk Management topics, Accounting & Taxation as well as FCI's core offerings (Two-Factor System, FCI Reverse, Islamic International Factoring). Mr. Peter Mulroy, FCI Secretary General and Mr. Spyros Tsolis, FCI Education Officer, will act as presenters/facilitators of this Workshop.

Both events are expected to attract delegates from Banks, Factoring companies, Financial Institutions and other interested parties, located in *Africa and Middle East*. It will be a great opportunity to meet and network with Senior staff from the factoring industry, exchange views and share best practices from different markets.

More information and registration to the Promotion conference here

More information and registration to the Factoring Training Workshop here

Testimonials from past FCI training in Africa:

"I am new to factoring. These sessions organised by FCI mean it will be near to impossible to get it wrong in the business. Thank you FCI & Afreximbank"

"Very instructive. Could be a solution for SMEs in difficulties" COFINA

"A very interactive program, full of knowledge and the message clearly spoken and presented"

FCI TRAINING EVENTS IN BEIJING, CHINA

AYSEN ÇETINTAS
Education Director

- ***CBA and FCI Legal Conference, 17 October 2018***
- ***Training on Risk Management and Legal Considerations in Factoring & Receivables Finance, 18-19 October 2018***

Strategic Considerations: The Chinese factoring market is on track to reach USD 700bio by 2021 with growth focused on small to mid-sized enterprises. Frost & Sullivan predicts that China will have more than 538,400 small and medium-enterprises by 2020, partly due to Chinese policies that encourage entrepreneurship.

Since 2012, the number of registered commercial factoring companies in China has increased from 45 to over 7000 in 2018.

In 2017, China's factoring volume accounts for 3,68% of GDP and international factoring accounts for 1,76% of the foreign trade volume.

THE CHINESE FACTORING MARKET IS ON TRACK TO REACH USD 700BIO BY 2021 WITH GROWTH FOCUSED ON SMALL TO MID-SIZED ENTERPRISES

As most of you know, the factoring industry in China declined in 2016 by 15%, and if you include the decline in 2015, the market has seen a reduction of close to 28% since the industry's peak in 2014. The market experienced a dramatic increase in fraudulent activity, and nearly every member in China was impacted. Some banks experienced large fines in their overseas branch stemming from KYC/ AML issues.

As a result, *many banks have invested heavily to upgrade their systems and procedures to protect against money laundering*. But the biggest impact to the industry was the rise in defaults stemming from fraud. One finding is that the market experienced over USD 15 billion in losses stemming from fraudulent activity in the past two years. Domestic factoring in China has more inherent risks due to the limited transparency compared to cross border trade, as there is no official third-party verification such as a customs check neither is there any kind of shipment investigation in the domestic market, therefore it is difficult to prove the authenticity of the underlying transaction, increasing the risk of fraud domestically. It was reported that there were at one time *over 400 domestic fraud cases sitting in the lower courts in China*.

IN 2017, CHINA'S FACTORING VOLUME ACCOUNTS FOR 3,68% OF GDP AND INTERNATIONAL FACTORING ACCOUNTS FOR 1,76% OF THE FOREIGN TRADE VOLUME.

FCI is working closely with the Chinese Banking Association (CBA) and some of the other newer regional factoring associations in a concerted effort to support the development of a healthy industry backed by a strong legal framework and by several training and advocacy initiatives for all stakeholders in the factoring market.

CBA and FCI will jointly organize a Legal Conference, Wednesday 17th October targeting *the judges from high courts and the lawyers from banks and law firms*. The event shall be attended by the FCI Legal Committee members, FCI industry experts as well as by select Chinese legal and factoring experts as speakers. During the conference the panelists will share their views and best practice about the following topics in three main discussion sessions.

- The international (domestic) factoring industry development trend and the impact of the latest regulatory policies.
- The main legal problems faced by the court in the trial of factoring disputes.
- Identification and prevention of false transaction and false documents in factoring transactions.

Training on Risk Management and Legal Considerations in Factoring & Receivables Finance, Thursday and Friday, 18-19 October 2018.

The FCI Education and Legal Committees are pleased to offer a new training in a combined structure, addressing all key areas in risk management and related legal considerations with a special focus on the respective GRIF articles.

The Training is primarily meant for all FCI members and "observers" in Asia, but will also be open, as usual, for attendants from other parts of the world. Because of the scope of the Training, attendants should have a direct interest in understanding risk management and the legal considerations thereof.

This training will benefit those involved in new businesses, operations, risk monitoring, legal, litigation departments, credit underwriting, compliance and external lawyers if appropriate, who wish to develop their existing knowledge of risk management and the legal ramifications.

More information and registration here

Testimonials from past FCI training in Asia:

"Thank you for the lectures to provide useful knowledge and experience. It will help us to improve our skill in factoring." NGUYEN THUY Nhung, Vietcom Bank

"Expertise training, networking building, experience unforgettable" LUO Mei Wei, CCB, HCMC

PROBIN DASS
Partner, Shook Lin & Bok

USE OF CREDIT INSURANCE BY FACTORS - ITS USEFULNESS AND SOME PITFALLS

With the growth in factoring business credit insurance is now an integral part of many factoring companies to help them to mitigate credit risks. While credit insurance is useful, some factors experienced some difficulties in claiming from insurance companies.

In this issue we invite Mr. Probin Dass, a Partner of Shook Lin & Bok, to share some insights on claims with Insurance companies.

Shook Lin & Bok is a leading Singapore Law firm with a unique appreciation of complex and regulatory challenges by enterprises in Singapore and the rest of Asia. They have good experience in factoring and credit insurance.

In 2018, FCI reported in their World Factoring Statistics that the global factoring market expanded by 9% in the previous year, with the worldwide market being valued at EUR 2,598,298 million. Much of the growth was observed in the Asian factoring markets, with the region exhibiting an 18% overall increase in factoring volume. By contrast, other statistical regions saw single-digit growth in the given year. The Asian factoring market's remarkable rate of growth, along with the fact that it contributes to a quarter of the world's total factoring volume, underscores the significance of the region to the wider global market.

With factoring volume in Asia reaching in excess of EUR 650,000 in 2017, credit insurance providers have become an indispensable aspect of the industry. With the exposure factors face in the regular course of their business, it comes as no surprise that *a reliable credit insurance market is essential to the growth of the industry*. Its stability will undoubtedly have an immense bearing on the trajectory of the factoring market in the years ahead. Yet there remain doubts as regards the degree of coverage a factor may in fact enjoy. As the rest of the article will seek to highlight, factors may in fact be exposed to a greater degree of exposure than they may otherwise believe.

Credit insurers serve as the reinsurer for factors, constituting their risk allocation for the accounts receivable purchased by them. The contractual relationship between the parties is therefore of paramount importance when assessing the relative exposure of either party in the event of non-payment by a debtor. Disputes between factors and credit insurers over their contractual relationship can result in protracted lawsuits. More significantly perhaps, a misunderstanding between the parties can lead to factors being exposed to unanticipated risks.

Factors take rights against debtors pursuant to assignments of such rights from the debtors' counterparty as assignors to the factors as assignees. One issue for factors to consider is whether or not there is prohibition on assignment in the relevant contract. In the English case of First Abu Dhabi Bank PJSC v BP Oil International Limited, the court reaffirmed the rule that an attempted assignment of contractual rights in breach of a contractual prohibition is ineffective to transfer such contractual rights.

Therefore, it is important *to first ensure that there are no prohibitions on assignment or that all requisite consents are first obtained*. No doubt credit insurers would be loath to extend cover over debts where they cannot directly enforce rights against the debtors.

Whenever there is a dispute between factor and credit insurer the answer is usually found in the *correct interpretation of the relevant terms of the credit insurance policy*. However, as credit insurance policies are drafted by the insurers, this could throw up surprises for an unsuspecting factor when a claim is made. If a credit insurer does not want to pay on a claim

>Continued on page 26

<Continued from page 25

there are potentially many objections that could be raised. One objection is lack of disclosure. Reliance may be made on widely drafted disclosure obligations to endlessly ask for more documents and information. This would be problematic for a factor who does not have direct access to information on the debtor and the underlying contractual arrangements.

In one case, the factor was in possession of bills of exchange which had been duly accepted by debtors in India. The debtors defaulted and the factor claimed against its credit insurer. The insurer inquired if stamp duty had been paid on the bills of exchange as required under Indian law. The factor's first difficulty was in obtaining information on this inquiry as its customer had gone into judicial management and the directors had absconded. This led to a consideration of the disclosure term in the policy and whether it was wide enough to justify the insurer's inquiry. Given the manner the term was drafted the answer was not clear. In any case, with no evidence that stamp duty had been paid the insurer assumed that it was not paid. The policy did not expressly require that stamp duty had to be paid. It simply required that rights under bills of exchange had to be duly protected. This would obviously cover such formalities as noting and protesting the dishonour of the bills as well as giving notice of dishonour. However, the insurer insisted that paying stamp duty was also required under the policy.

On the facts and the terms of the policy, the insurer's position was weak. Indian lawyers confirmed that the position in India is similar to the position in Singapore which is that the omission to pay stamp duty does not invalidate the bills. It merely activates a rule of evidence which disallows the admission of unstamped bills in court. However, this can be remedied by paying the outstanding stamp duty and perhaps a penalty for late payment.

Most credit insurance policies contain a clause excluding cover if the debt is disputed. This has been a fertile source of contention between insureds and insurers. It would be fair to expect that if there was some disagreement over whether the right goods had been supplied or whether the correct quantity was delivered, the credit insurer could say that it was not paying the claim until the dispute was settled in the insured's favour. Were this not the case, the insurer would be uncertain of whether it could recover the debt from the debtor who may have a valid reason not to pay. However, such dispute-exclusion clauses in insurance policies may not be well drafted and give the insurer reason to purport to exclude cover even where the dispute raised by the debtor is not genuine.

In one case, the dispute-exclusion clause expressly said that the dispute must be documented and genuine. Apart from a few letters from the debtor there was no documentation to substantiate the dispute. Further, there was clear evidence that the dispute was not genuine and even if genuine related to other transactions. The debtor was simply attempting to set off against its liability under the transaction which was the subject of the insurance claim against liabilities allegedly owed to it under other transactions with the same counterparty. The insurer should not have regarded the dispute as genuine because any set-off rights the debtor may have been hoping to rely on was expressly excluded in the contract. The debtor was required to pay any invoice in full and without set off or deductions whatsoever and the benefit of this obligation was clearly assigned to the factor. Further, the debtor was notified that the rights had been assigned to the factor and it is trite law that any rights accruing to the debtor after it receives notice of the assignment does not bind the assignee and affect the assigned rights.

The insurer had taken a very blunt approach to the assessment of whether the dispute raised by the debtor was genuine. A more nuanced approach would have shown that the dispute could not fairly be said to be genuine.

It is therefore fairly useful if a debtor has expressly relinquished any rights of set off against its counter party. The benefit of such agreement to give up set-off rights can be assigned to the factor and the factor can rely on and enforce this term. Likewise, credit insurers should not regard set off arguments as being valid in such circumstances.

In many transactions parties rely on bills of exchange as the means to ensure payment by the buyer to the seller. Once the seller has sold the debt to the factor, it should also transfer its rights in any bill of exchange to the factor. The benefit of having a bill of exchange is that the payee or indorsee may sue on this instrument quite independently of the underlying contract which gave rise to the issue and acceptance of the bill of exchange.

This was recently reiterated in the Singapore case of Rals International Pte Ltd v Cassa di Risparmio di Parma e Piacenza SpA [2016] SGCA 53 where the judge at first instance highlighted the commercial purpose of a bill of exchange as a payment mechanism which was to function as a substitute for cash. Bills of exchange evidence a contract separate and distinct from the original and underlying contract in pursuance of which the bill is executed. It does not depend on its enforcement on the performance of the original contract. A bill of exchange, once given, should be treated as cash. Therefore, a beneficiary is entitled to ignore any underlying contractual disputes and frame its claim as resting on the bill alone and to seek and secure summary judgement for that claim. The only qualifications to these principles are where the bill is affected with fraud or illegality or if there has been a total failure of consideration or a quantified partial failure of consideration that a payee, exceptionally, cannot rely on the cash equivalence principle.

> A CREDIT INSURER SHOULD HAVE NO HESITATION IN PAYING A CLAIM EVEN WHERE THERE IS A DISPUTE AND A DISPUTE-EXCLUSION CLAUSE WHERE THERE IS A VALID BILL OF EXCHANGE

Leaving aside these uncommon situations which qualify the general principles, a credit insurer should have no hesitation in paying a claim even where there is a dispute and a dispute-exclusion clause where there is a valid bill of exchange. It may simply subrogate itself to the rights of the factor to claim under the bill of exchange and recover the debt from the debtor. *Any dispute over the performance of the contract is unlikely to affect the recovery of the debt under the bill of exchange*. Further, in Singapore at least, such claims are handled very expeditiously by the courts and judgment may be granted summarily. Similarly, in a recent Indian case the court was surprisingly quick to dismiss the debtor's defences to claims under bills of exchange and granted judgment to the factor summarily.

Clearly, *there are many issues to consider when reviewing the terms of a credit insurer's policy and it is always prudent to seek legal advice*. There may not be much room to negotiate such terms but at least the factor would be aware of the potential pitfalls. One such pitfall is the reliance by insurers on arbitration clauses. While this may appear to be a fair way to resolve a dispute the cloak of confidentiality and the private nature of such proceedings allows insurers the liberty to rely on defences which they may not otherwise be willing to do, for commercial and reputational reasons, in a public forum such as a court of law.

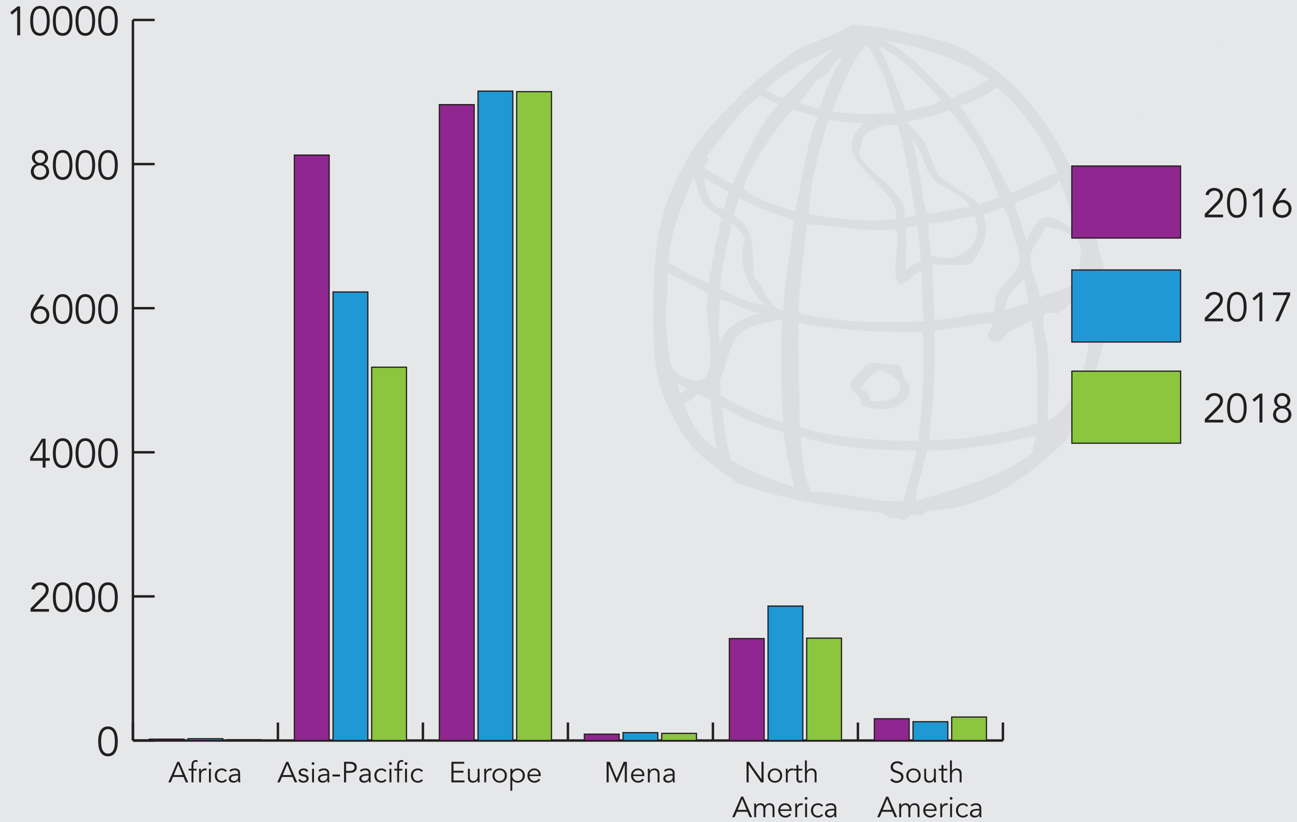
INFLUENCE

EDIFACTORING FIGURES

First Half 2018

HARRY BILETTA
FCI Director Planning and Development

In Euro million



When comparing the first half year two-factor volumes we must report a drop of 10% overall, all regions showing a decrease in two-factor-cross-border business handled through edifactoring, the only exception being Europe where the figure remained unchanged.

This result in Europe was obtained with the contributions from Cyprus 40%, Bulgaria 34%, Poland 11%, Turkey 7%, Italy 6%, to balance Russia's -69%, France's -18% and UK's -14%.

The Asia Pacific region continues its negative trend and the 71% increase in Korea can obviously do little to make up for the plunges in Hong Kong -119%, Taiwan -32% and Japan -25%. China's volumes remained practically unchanged leading to positive expectations for the rest of the year.

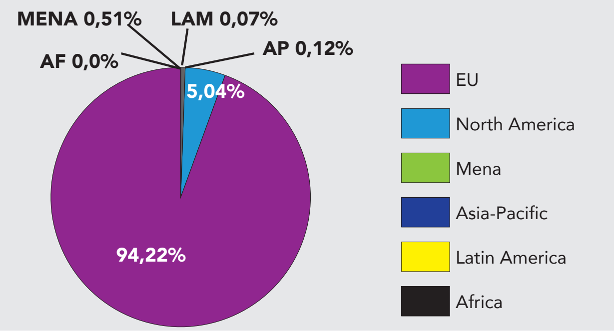
The American continent overall drop of 27% is attributable to North America for 31% and to Central and South America for 11%. There is no easily identifiable reason, is is to be sought probably in the unstable economical situation in some countries, changes in management and loss of experiences staff. Possible, the regular client turnover, which is normal for all factoring providers elsewhere, has a greater impact in the "new" areas where making a new client is difficult, let alone replacing a lost one.

For Africa and MENA regions, unfortunately the figures are still small and the loss of even a minor deal as well as currency fluctuations have a large effect on the overall result.

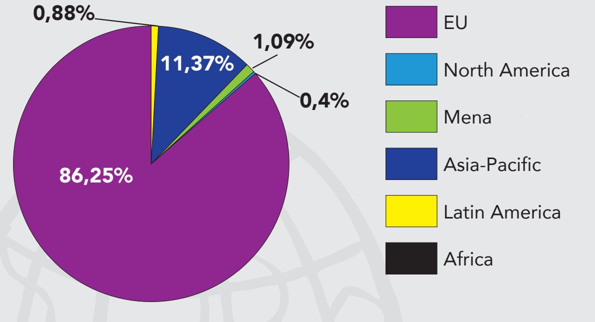
TWO FACTOR FLOWS FIRST SEMESTER 2018

Unfortunately, the figures extracted from edifactoring relate (as everybody knows) to the flow between Import Factor and Export Factor countries and the concentration of the activities in one country decided by a number of larger Members could be misleading, but this should not have much effect of the aggregate continent figures.

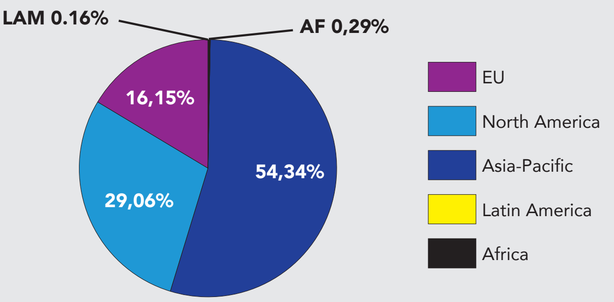
Exports from EU



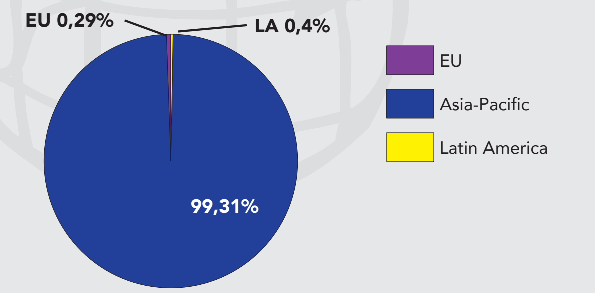
Imports to EU



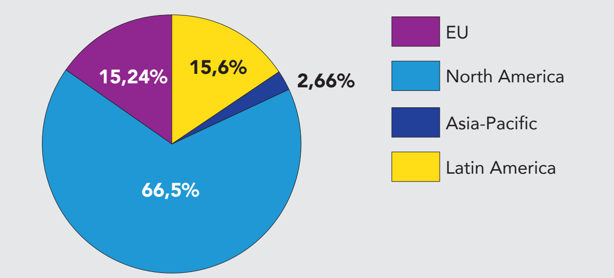
Exports from Asia-Pacific



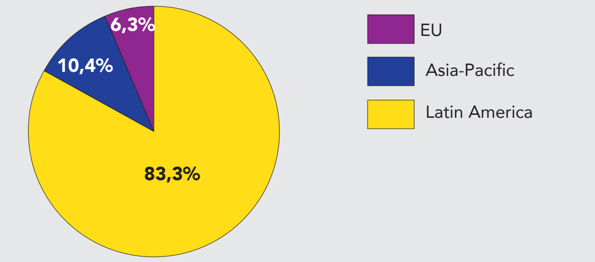
Imports to Asia-Pacific



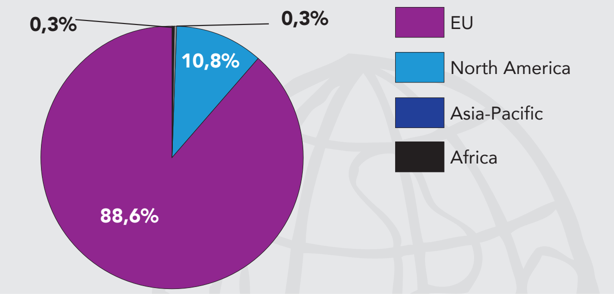
Exports from Latin America



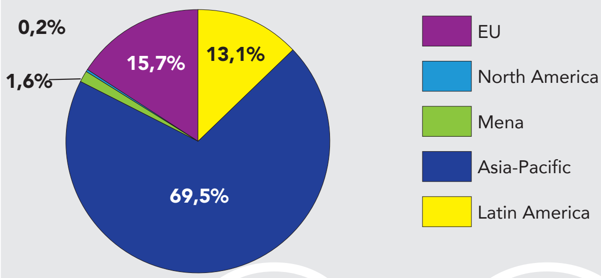
Imports to Latin America



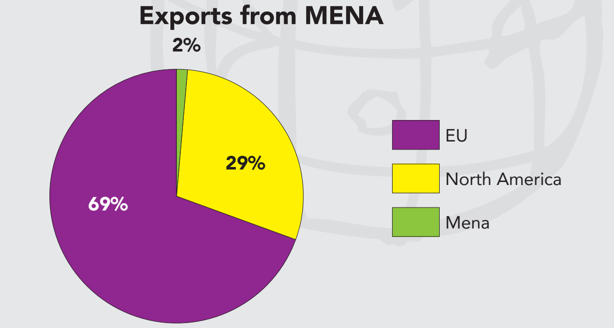
Exports from North America



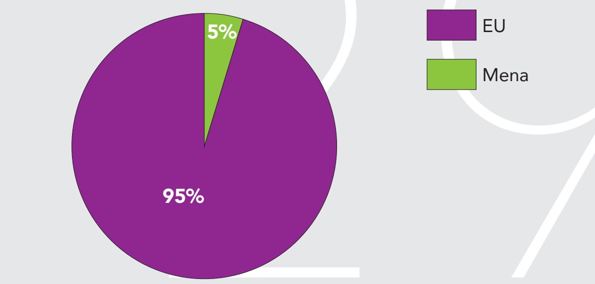
Imports to North America



Exports from MENA



Imports to MENA



CREATING A LEVEL PLAYING FIELD... GETTING REGULATION RIGHT.

JOHN BREHCIST
FCI Advocacy Director

In this latest article on FCI's Advocacy activity I'd like to share with you two examples of where FCI involvement is helping to address *legal and regulatory issues* which, if left unchallenged, could seriously impact the provision of factoring services in the affected regions.

Each instance has in common the application of regulation which we believe was not primarily intended to affect our markets but which in both cases has led to potential impact that was unforeseen, unintended and which is almost certainly not appropriate.

Let's look first at the *European example*. Readers may be already aware that the *EUF has scored a significant success in lobbying for and obtaining a derogation from the demands of the Capital Requirement Regulation (CRR2) Liquidity Coverage Ratio (LCR)*.

The idea behind LCR makes absolute sense from a traditional banking perspective; short term assets are required to be in place to cover short term liabilities, in order to ensure appropriate time-based liquidity. But for factoring, with its self-liquidating advances, it makes no sense at all to insist on holding extra near cash assets. Debts are paid rapidly and provide a continuous stream of funds to meet short term liabilities.

This derogation means that there is no longer any requirement for factors to hold high quality liquid asset cover for such short-term liabilities; something that would not only have been a logical nonsense but more importantly would have created huge cost and operational pressure, reducing the attractiveness of factoring as a source of funding. *The EU was persuaded by the EUF's arguments and a derogation was granted* (which treats factoring in a similar vein to trade finance).

there is no longer any requirement for factors to hold high quality liquid asset cover for such short-term liabilities

Having successfully resolved that debate, we now face another challenge with the implementation of another element of the CRR/CRD IV regulations; *we are now having to start again and move on to the next element that can adversely affect us, the Net Stable Funding Ratio (NSFR)*. Like LCR, this requirement makes perfect sense from a traditional banking perspective; long term liabilities must be supported by long term asset liquidity. It's about ensuring assets and liabilities are time balanced right across the portfolio and I think that no-one would reasonably argue that this "old fashioned" approach to maturity balance was not a sensible idea.

EUF has already persuaded the European Parliament of the nonsense of applying this regulation to our Industry

However, again *it is not relevant to Factoring*. The EUF has already persuaded the European Parliament of the nonsense of applying this regulation to our Industry; we are not deposit takers and do not need to be able to fund/ repay such liabilities. But getting the European Parliament on board has proven not to be enough; *we now need to persuade the European Council*.

So the EUF has just met with the Financial Attaché of Austria, the body that is currently in charge of the negotiations on the review of the CRR 2.

Austria is currently holding the European Council Presidency and is a key country in the upcoming interinstitutional negotiations ("trialogues") with the European Parliament. Indeed, it sets the Council's agenda and negotiates on behalf of it with the European Parliament. Accordingly, it's critical that we have them onside in our arguments.

We have explained that the EUF's main goal is to obtain a specific treatment for factoring when it comes to of the Net Stable Funding Ratio (NSFR) implementation in the EU (and countries where EU rules are applied!) which is appropriate for the particular characteristics of our form of funding (in the same vein as we did for LCR).

The Financial Attaché seemed to respond positively to the main arguments, especially the mismatch between long-term liquidity ratio and the main characteristic of factoring being a short-term funding activity with maturity usually less than three months. He also understood the need for us to clarify the treatment for factoring within CRR, to gain certainty on the future interpretation of the text by EU and national regulators/supervisors.

An important element in persuading the regulator to take the argument forward was that he had asked what the European Parliament position on this issue was. Only when we were able to answer that we had already managed to get European Parliament's support did he advise that without this earlier success, it would not have been possible to raise this topic during the trialogues!

I will not make comment on the bureaucratic circularity that this implies.

That said, as a result, *he has committed to provide the EUF his services and to work with the other Member States to achieve the goal*. However, he also underlined the need for us *to lobby the Member States separately*. At this stage the EUF has already met with seven of the Member States, but it now looks like we will have to pursue our action further with others in September, both at the EUF and at the European National Association levels.

Talks on the NSFR at the Council should take place in October and eventually we hope to be able to achieve the same positive outcome as with the LCR. Please wish the EUF and its team working on this good luck!

So much for challenges in the developed markets; *similar issues of regulation are becoming more frequent as emerging markets* grapple with the challenge of creating controlled environments for their rapidly evolving financial services.

In China we have been advised that there has recently been implemented a set of regulations designed to address issues related to the insurance of platform-based transactions

In China we have been advised that there has recently been implemented *a set of regulations designed to address issues related to the insurance of platform-based transactions*. In isolation the introduction makes good sense, putting some controls into a (until now) unregulated area of developing business.

However, the interpretation and application on the ground appears to have stretched into our traditional industry and attaching to the assignment of domestic insured debt.

The bottom line is that such interpretation makes it impossible to insure domestic factoring business. Not

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only is this against good practice, it also is going *to have a negative effect on the development of the industry*, together with limiting the provision of and access to funding for SMEs in the real economy. Quite clearly, such a constraint would never have been the intention of the regulation.

At the time of writing, FCI is working with its members and other interested stakeholders to *seek to quantify the problem and its potential impact*. We are also seeking to *engage with the relevant regulator to try to ensure there is a derogation put in place that recognises and ameliorates the potential damage to funding availability and industry growth that this scope extension creates.*

We believe that a simple clarification is required to ensure that the focus and scope of these regulations remains solely on the originally targeted areas. A modest and minor rewording of the measures – which can be achieved by making clear that all trade credit default insurance backing for receivables finance is allowable and appropriate -would provide the necessary comfort to correct the position.

Both these above examples demonstrate how well-intentioned and important legislative and regulatory approaches that are designed to make financial services safer and more reliable can *have implications which were not necessarily intended for our Industry*.

From an Advocacy perspective it is important that *FCI monitors and intervenes to ensure that there are not unintended consequences* which may unwittingly jeopardise the RF Industry's undoubted support for economic growth, wealth creation and employment.

We believe it is important to distinguish between measures which are intended to bring necessary and targeted control to new models of finance and those which are appropriate for globally proven solutions like factoring that provide effective support for business.

In future articles I'll update you with progress on these two important regulatory matters.

We believe it is important to distinguish between measures which are intended to bring necessary and targeted control to new models of finance and those which are appropriate for globally proven solutions like factoring that provide effective support for business

GRANT CARSON
Partner, McKinsey & Co

FEATURE ARTICLE

BLOCKCHAIN BEYOND THE HYPE: WHAT IS THE STRATEGIC BUSINESS VALUE?

Companies can determine whether they should invest in blockchain by focusing on specific use cases and their market position.

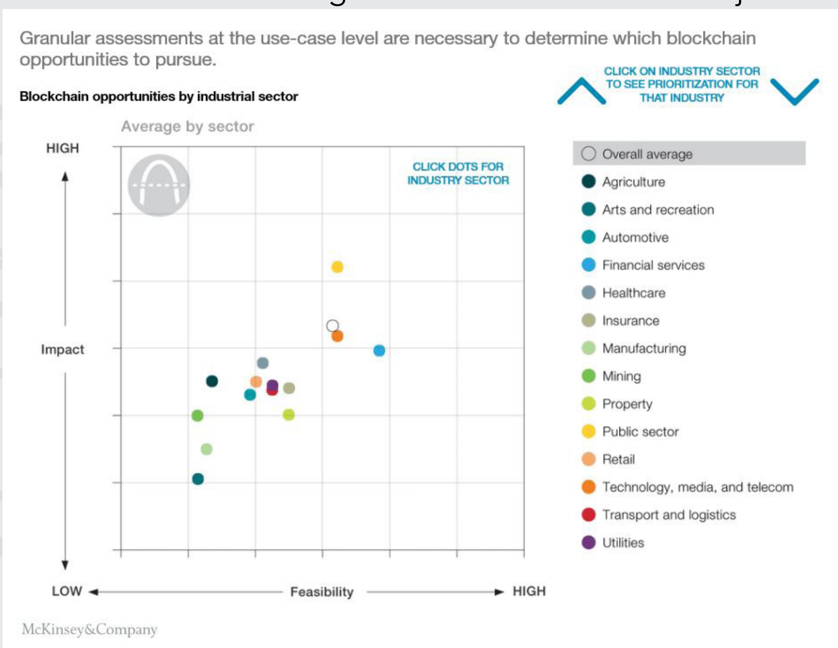
Speculation on the value of blockchain is rife, with Bitcoin—the first and most infamous application of blockchain—grabbing headlines for its rocketing price and volatility. That the focus of blockchain is wrapped up with Bitcoin is not surprising given that its market value surged from less than $20 billion to more than $200 billion over the course of 2017.1 Yet Bitcoin is only the first application of blockchain technology that has captured the attention of government and industry.

Blockchain was a priority topic at Davos; a World Economic Forum survey suggested that 10 percent of global GDP will be stored on blockchain by 2027.2 Multiple governments have published reports on the potential implications of blockchain, and the past two years alone have seen more than half a million new publications on and 3.7 million Google search results for blockchain.

Most tellingly, large investments in blockchain are being made. Venture-capital funding for blockchain start-ups consistently grew and were up to $1 billion in 2017.3 The blockchain-specific investment model of initial coin offerings (ICOs), the sale of cryptocurrency tokens in a new venture, has skyrocketed to $5 billion. Leading technology players are also heavily investing in blockchain: IBM has more than 1,000 staff and $200 million invested in the blockchain-powered Internet of Things (IoT).4

Despite the hype, blockchain is still an immature technology, with a market that is still nascent and a clear recipe for success that has not yet emerged. Unstructured experimentation of blockchain solutions without strategic evaluation of the value at stake or the feasibility of capturing it means that many companies will not see a return on their investments. With this in mind, how can companies determine if there is strategic value in blockchain that justifies major investments?

Our research seeks to answer this question by evaluating not only the strategic importance of blockchain to major industries but also who can capture what type of value through what type of approach. In-depth, industry-by-industry analysis combined with expert and company interviews revealed more than 90 discrete use cases of varying maturity for blockchain across major industries (see here =>).



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We evaluated and stress tested the impact and feasibility of each of these use cases to understand better blockchain's overall strategic value and how to capture it.

Our analysis suggests the following three key insights on the strategic value of blockchain:

- Blockchain does not have to be a disintermediator to generate value, a fact that encourages permissioned commercial applications.
- Blockchain's short-term value will be predominantly in reducing cost before creating transformative business models.
- Blockchain is still three to five years away from feasibility at scale, primarily because of the difficulty of resolving the "coopetition" paradox to establish common standards.

Companies should take the following structured approach in their blockchain strategies:

1. Identify value by pragmatically and skeptically assessing impact and feasibility at a granular level and focusing on addressing true pain points with specific use cases within select industries.
2. Capture value by tailoring strategic approaches to blockchain to their market position, with consideration of measures such as ability to shape the ecosystem, establish standards, and address regulatory barriers.

With the right strategic approach, companies can start extracting value in the short term. Dominant players who can establish their blockchains as the market solutions should make big bets now.

The nuts and bolts of blockchain

With all the hype around blockchain, it can be hard to nail down the facts (Exhibit 1). Blockchain is a distributed ledger, or database, shared across a public or private computing network. Each computer node in the network holds a copy of the ledger, so there is no single point of failure. Every piece of information is mathematically encrypted and added as a new "block" to the chain of historical records. Various consensus protocols are used to validate a new block with other participants before it can be added to the chain. This prevents fraud or double spending without requiring a central authority. The ledger can also be programmed with "smart

Exhibit 1

Five common blockchain myths create misconceptions about the advantages and limitations of the technology.

	Myth	Reality	
1	Blockchain is Bitcoin	Bitcoin is just one crypto-currency application of blockchain	Blockchain technology can be used and configured for many other applications
2	Blockchain is better than traditional databases	Blockchain's advantages come with significant technical trade-offs that mean traditional databases often still perform better	Blockchain is particularly valuable in low-trust environments where participants can't trade directly or lack an intermediary
3	Blockchain is immutable or tamper-proof	Blockchain data structure is append only, so data can't be removed	Blockchain could be tampered with if >50% of the network-computing power is controlled and all previous transactions are rewritten—which is largely impractical
4	Blockchain is 100% secure	Blockchain uses immutable data structures, such as protected cryptography	Overall blockchain system security depends on the adjacent applications—which have been attacked and breached
5	Blockchain is a "truth machine"	Blockchain can verify all transactions and data entirely contained on and native to blockchain (eg, Bitcoin)	Blockchain cannot assess whether an external input is accurate or "truthful"—this applies to all off-chain assets and data digitally represented on blockchain

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contracts," a set of conditions recorded on the blockchain, so that transactions automatically trigger when the conditions are met. For example, smart contracts could be used to automate insurance-claim payouts.

Blockchain's core advantages are decentralization, cryptographic security, transparency, and immutability. It allows information to be verified and value to be exchanged without having to rely on a third-party authority. Rather than there being a singular form of blockchain, the technology can be configured in multiple ways to meet the objectives and commercial requirements of a particular use case.

To bring some clarity to the variety of blockchain applications, we structured blockchain use cases into six categories across its two fundamental functions—record keeping and transacting (Exhibit 2). Some industries have applications across multiple categories, while others are concentrated on only one or two. This framework, along with further industry and use-case level analysis, led to our key insights on the nature and accessibility of the strategic value of blockchain.

Exhibit 2

There are six distinct categories of blockchain use cases addressing two major needs.

Record keeping: storage of static information			**Transactions:** registry of tradeable information		
1 Static registry	**2 Identity**	**3 Smart contracts**	**4 Dynamic registry**	**5 Payments infrastructure**	**6 Other**
• Distributed database for storing reference data	• Distributed database with identity-related information • Particular case of static registry treated as a separate group of use cases due to extensive set of identity-specific use cases	• Set of conditions recorded on a blockchain triggering automated, self-executing actions when these predefined conditions are met	• Dynamic distributed database that updates as assets are exchanged on the digital platform	• Dynamic distributed database that updates as cash or cryptocurrency payments are made among participants	• Use case composed of several of the previous groups • Standalone use case not fitting any of the previous categories
Example • Land title • Food safety and origin • Patent	**Example** • Identity fraud • Civil-registry and identity records • Voting	**Example** • Insurance-claim payout • Cash-equity trading • New-music release	**Example** • Fractional investing • Drug supply chain	**Example** • Cross-border peer-to-peer payment • Insurance claim	**Example** • Initial coin offering • Blockchain as a service

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Three core insights about the strategic value of blockchain

Our analysis revealed some key takeaways about blockchain.

Blockchain does not need to be a disintermediator to generate value

Benefits from reductions in transaction complexity and cost, as well as improvements in transparency and fraud controls can be captured by existing institutions and multiparty transactions using appropriate blockchain architecture. The economic incentives to capture value opportunities are driving incumbents to harness blockchain rather than be overtaken by it. Therefore, the commercial model that is most likely to succeed in the short term is permissioned rather than public blockchain. Public blockchains, like Bitcoin, have no central authority and are regarded as enablers of total disruptive disintermediation. Permissioned blockchains are hosted on private computing networks, with controlled access and editing rights (Exhibit 3).

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Exhibit 3

Most commercial blockchain will use private, permissioned architecture to optimize network openness and scalability.

Blockchain-architecture options

Architecure based on read, write, or commit permissions granted to the participants

Architecture based on ownership of the data infrastructure

	Permissionless	Permissioned
Public	Anyone can join, read, write, and commit Hosted on public servers Anonymous, highly resilient Low scalability	Anyone can join and read Only authorized and known participants can write and commit Medium scalability
Private	Only authorized participants can join, read, and write Hosted on private servers High scalability	Only authorized participants can join and read Only the network operator can write and commit Very high scalability

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Private, permissioned blockchain allows businesses both large and small to start extracting commercial value from blockchain implementations. Dominant players can maintain their positions as central authorities or join forces with other industry players to capture and share value. Participants can get the value of securely sharing data while automating control of what is shared, with whom, and when.

For all companies, permissioned blockchains enable distinctive value propositions to be developed in commercial confidence, with small-scale experimentation before being scaled up. Current use cases include the Australian Securities Exchange, for which a blockchain system is being deployed for equities clearing to reduce back-office reconciliation work for its member brokers.[5] IBM and Maersk Line, the world's largest shipping company, are establishing a joint venture to bring to market a blockchain trade platform. The platform's aim is to provide the users and actors involved in global shipping transactions with a secure, real-time exchange of supply-chain data and paperwork.[6]

The potential for blockchain to become a new open-standard protocol for trusted records, identity, and transactions cannot be simply dismissed. Blockchain technology can solve the need for an entity to be in charge of managing, storing, and funding a database. True peer-to-peer models can become commercially viable due to blockchain's ability to compensate participants for their contributions with "tokens" (application-specific cryptoassets) as well as give them a stake in any future increases in the value. However, the mentality shift required and the commercial disruption such a model would entail are immense.

If industry players have already adapted their operating models to extract much of the value from blockchain and, crucially, passed on these benefits to their consumers, then the aperture for radical new entrants will be small. The degree to which incumbents adapt and integrate blockchain technology will be the determining factor on the scale of disintermediation in the long term.

In the short term, blockchain's strategic value is mainly in cost reduction

Blockchain might have the disruptive potential to be the basis of new operating models, but its initial impact will be to drive operational efficiencies. Cost can be taken out of existing processes by removing intermediaries or the administrative effort of record keeping and transaction reconciliation. This can shift the flow of value by capturing lost revenues and creating new revenues for blockchain-service providers. Based on our quantification of the monetary impact of the more than 90 use cases we analyzed, we estimate approximately 70 percent of the value at stake in the short term is in cost reduction, followed by revenue generation and capital relief (Exhibit 4).

Exhibit 4

The value at stake from blockchain varies across industries.

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Certain industries' fundamental functions are inherently more suited to blockchain solutions, with the following sectors capturing the greatest value: financial services, government, and healthcare. Financial services' core functions of verifying and transferring financial information and assets very closely align with blockchain's core transformative impact. Major current pain points, particularly in cross-border payments and trade finance, can be solved by blockchain-based solutions, which reduce the number of necessary intermediaries and are geographically agnostic. Further savings can be realized in capital markets post-trade settlement and in regulatory reporting. These value opportunities are reflected in the fact that approximately 90 percent of major Australian, European, and North American banks are already experimenting or investing in blockchain.

As with banks, governments' key record-keeping and verifying functions can be enabled by blockchain infrastructure to achieve large administrative savings. Public data is often siloed as well as opaque among government agencies and across businesses, citizens, and watchdogs. In dealing with data from birth certificates to taxes, blockchain-based records and smart contracts can simplify interactions with citizens while increasing data security. Many public-sector applications, such as blockchain-based identity records, would serve as key enabling solutions and standards for the wider economy. More than 25 governments are actively running blockchain pilots supported by start-ups.

Within healthcare, blockchain could be the key to unlocking the value of data availability and exchange across providers, patients, insurers, and researchers. Blockchain-based healthcare records can not only facilitate increased administrative efficiency, but also give researchers access to the historical, non–patient-identifiable data sets crucial for advancements in medical research. Smart contracts could give patients more control over their data and even the ability to commercialize data access. For example, patients could charge pharmaceutical companies to access or use their data in drug research. Blockchain is also being combined with IoT sensors to ensure the integrity of the cold chain (logistics of storage and distribution at low temperatures) for drugs, blood, and organs.

Over time, the value of blockchain will shift from driving cost reduction to enabling entirely new business models and revenue streams. One of the most promising and transformative use cases is the creation of a distributed, secure digital identity—for both consumer identity and the commercial know-your-customer process—and the services associated with it. However, the new business models this would create are a longer-term possibility due to current feasibility constraints.

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FEATURE ARTICLE

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Feasibility at scale is likely to be three to five years away

The strategic value of blockchain will only be realized if commercially viable solutions can be deployed at scale. Our analysis evaluated each of the more than 90 potential use cases against the four key factors that determine a use case's feasibility in a given industry: standards and regulations, technology, asset, and ecosystem (Exhibit 5). While many companies are already experimenting, meaningful scale remains three to five years away for several key reasons.

Exhibit 5

Blockchain feasibility in each industry will depend on the type of asset, technology maturity, standards and regulation, and the ecosystem.

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Common standards are essential

The lack of common standards and clear regulations is a major limitation on blockchain applications' ability to scale. However, where there is strong demand and commitment, work is already under way to resolve this issue. Standards can be established with relative ease if there is a single dominant player or a government agency that can mandate the legal standing. For example, governments could make blockchain land registries legal records.

When cooperation between multiple players is necessary, establishing such standards becomes more complex but also more essential. Strong headway has already been made by industry consortiums, as seen with the R3 consortium of more than 70 global banks that collaborated to develop the financial-grade open-source Corda blockchain platform. Such platforms could establish the common standards needed for blockchain systems.

Globally, regulators have taken varying positions, but most are engaged rather than opposed. For example, the US Securities and Exchange Commission's recognition of ICOs as securities brought ICOs under the agency's regulation and into the mainstream.7 In 2017, Standards Australia took a leadership position in developing a road map of priorities on behalf on the International Organization for Standardization and helping establish common terminology as a key first step.8 So far, many governments are following a technologically neutral regulatory approach—not promoting or banning specific technologies like blockchain.

Technology must advance

The relative immaturity of blockchain technology is a limitation to its current viability. The misconception that blockchain is not viable at scale due to its energy consumption and transaction speed is a conflation of Bitcoin with blockchain. In reality, the technical configurations are a series of design choices in which the levers on speed (size of block), security (consensus protocol), and storage (number of notaries) can be selected to make most use cases commercially viable. As an example, health records in Estonia are still in databases "off chain" (meaning not stored on blockchain), but blockchain is used to identify, connect, and monitor these health records as well as who can access and alter them. These trade-offs mean blockchain performance might be suboptimal to traditional databases at this stage, but the constraints are diminishing as the technology rapidly develops.

The immaturity of blockchain technology also increases the switching costs, which are considerable given all the other system components. Organizations need a trusted enterprise solution, particularly because most cost benefits will not be realized until old systems are decommissioned. Currently, few start-ups have sufficient credibility and technology stability for government or industry deployment at scale. Major technology players are strongly positioning themselves to address this gap with their own blockchain as a service (BaaS) offerings in a model similar to cloud-based storage.

Assets must be able to be digitized

Asset type determines the feasibility of improving record keeping or transacting via blockchain and whether end-to-end solutions require the integration of other technologies. The key factor here is the digitization potential of the asset; assets like equities, which are digitally recorded and transacted, can be simply managed end to end on a blockchain system or integrated through application programming interfaces (APIs) with existing systems.

However, connecting and securing physical goods to a blockchain requires enabling technologies like IoT and biometrics. This connection can be a vulnerability in the security of a blockchain ledger because while the blockchain record might be immutable, the physical item or IoT sensor can still be tampered with. For example, certifying the chain of custody of commodities like grain or milk would require a tagging system like radio-frequency identification that would increase the assurance being provided but not deliver absolute provenance.

The coopetition paradox must be resolved

The nature of the ecosystem is the fourth key factor because it defines the critical mass required for a use case to be feasible. Blockchain’s major advantage is the network effect, but while the potential benefits increase with the size of the network, so does the coordination complexity. For example, a blockchain solution for digital media, licenses, and royalty payments would require a massive amount of coordination across the various producers and consumers of digital content.

Natural competitors need to cooperate, and it is resolving this coopetition paradox that is proving the hardest element to solve in the path to adoption at scale. The issue is not identifying the network—or even getting initial buy-in—but agreeing on the governance decisions around how the system, data, and investment will be led and managed. Overcoming this issue often requires a sponsor, such as a regulator or industry body, to take the lead. Furthermore, it is essential that the strategic incentives of the players are aligned, a task that can be particularly difficult in highly fragmented markets. Critical mass is much lower in some industries and applications than in others, while in some cases, networks need to be established across industries to achieve material benefits.

What strategic approach should companies take?

Our research and emerging insights suggests following a structured approach to answer the classic questions of blockchain business strategy.

Where to compete: Focus on specific, promising use cases

There is a plethora of use cases for blockchain; companies face a difficult task when deciding which opportunities to pursue. However, they can narrow their options by taking a structured approach through a lens of pragmatic skepticism. The first step involves determining whether there is sufficient accessible value at stake for a given use case. Companies can only avoid the trap of developing a solution without a problem by rigorously investigating true pain points—the frictions for customers that blockchain could eliminate.

Identification of specific pain points enables granular analysis of the potential commercial value within the constraints of the overall feasibility of the blockchain solution. Overall industry

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characteristics as well as a company's expertise and capabilities will further influence this decision, as companies need to understand the nuances of all these components to decide which use case will generate a solid return on investment. If a use case does not meet a minimum level of feasibility and potential return, then companies do not even have to consider the second step of which blockchain strategy to adopt.

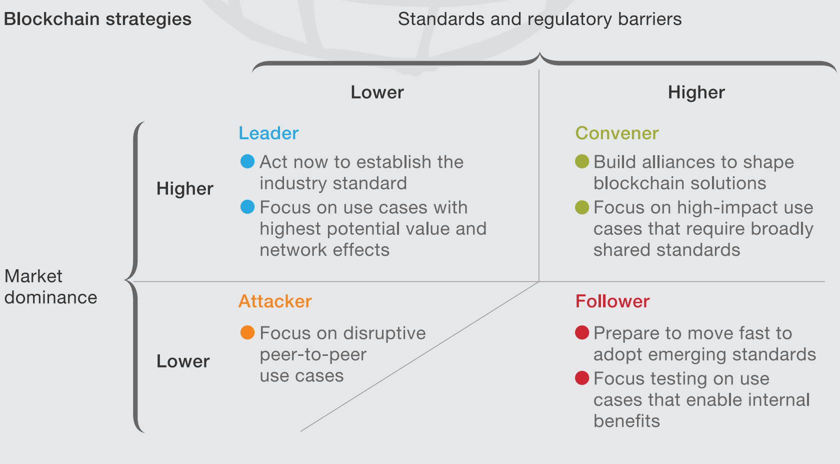
How to compete: Optimize blockchain strategy based on market position

Once companies have identified promising use cases, they must develop their strategies based on consideration of their market positions relative to their target use cases. Many of the feasibility factors already discussed are within a business's sphere of influence; even technology and asset constraints can be managed through trade-offs and a series of design choices to shape a viable solution. Therefore, a company's optimal strategic approach to blockchain will fundamentally be defined by the following two market factors, which are those they can least affect:

- market dominance—the ability of a player to influence the key parties of a use case
- standardization and regulatory barriers—the requirement for regulatory approvals or coordination on standards

Exhibit 6

Optimal blockchain strategy for each use case is dependent on market position and ability to influence standards and regulatory barriers.



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These two factors are critical in determining a company's optimal strategic approach because they are integral to achieving the coordination required (Exhibit 6). Blockchain's value comes from its network effects and interoperability, and all parties need to agree on a common standard to realize this value—multiple siloed blockchains provide little advantage over multiple siloed databases. As the technology develops, a market standard will emerge, and investments into the nondominant standard will be wasted. This consideration of a company's market position will inform which of four distinct strategic approaches to blockchain should be deployed and, in fact, further refine which type of use cases to focus on first.

Leaders

Leaders should act now to maintain their market positions and take advantage of the opportunity to set industry standards. As dominant players pursuing use cases with fewer requirements for coordination and regulatory approval, they can establish market solutions.

The greatest risk for these companies is inaction, which would cause them to lose the opportunity to strengthen their competitive advantages compared to competitors. An example of a leader following this strategy is Change Healthcare, one of the largest independent healthcare IT companies in the United States, when it launched an enterprise-scale healthcare blockchain for claims processing and payment.9

Conveners

Conveners need to be driving the conversations and consortiums that are shaping the new standards that will disrupt their current businesses. Despite being dominant players, they cannot single handedly direct blockchain adoption as they face greater regulatory and standardization barriers. Instead, they can position themselves to shape and capture the value of new blockchain standards.

Convening tactics should be deployed for high-value use cases—like trade finance—that cannot be realized without a broadly shared set of standards. An example of a convener following this strategy is Toyota, whose Research Institute set up the Blockchain Mobility Consortium with four global partners to focus on blockchain solutions for critical accelerators of autonomous vehicles: data sharing, peer-to-peer transaction, and usage-based insurance.10

Followers

Followers should also carefully consider and implement an appropriate blockchain strategy. Most companies do not have the capability to influence all necessary parties, especially when applications of blockchain require high standardization or regulatory approval. Such companies cannot be unaware of market innovations—they should keep a watching brief on blockchain developments and be prepared to move fast to adopt emerging standards. Just as businesses have developed risk and legal frameworks for adopting cloud-based services, they should focus on developing a strategy for how they will implement and deploy blockchain technology.

Followership is a particularly risky strategy for blockchain, given the likelihood of select players in an industry establishing private-permissioned networks, as in freight, for example. A follower, no matter how fast, might already be locked out of the exclusive club that established the initial proof of concept. Companies can mitigate this risk by joining select existing and emerging consortia early, when the short-term investment costs of membership are outweighed by the long-term costs of getting left behind.

Attackers

Attackers are often new market entrants without an existing market share to protect, so they need to seek disruptive or transformative business models and blockchain solutions. Attacker approaches are suited to use cases with the highest disruptive potential through offering a service to the market that would disintermediate existing players. Most peer-to-peer applications, from finance to insurance to property, fall into this category. An example of an attacker following this strategy is Australian start-up PowerLedger, a peer-to-peer marketplace for renewable energy that raised 34 million Australian dollars through its ICO.11

Incumbents should deploy an attacker blockchain strategy in a separate noncore digital business. Blockchain as a service (BaaS) providers often adopt an attack strategy because they are selling the services into—and disrupting—industries in which they are not currently participants. Companies pursuing an attacker strategy often seek partnership with a dominant company in the market to leverage their leadership influence.

The insights from our analysis suggest that, beyond the hype, blockchain has strategic value for companies by enabling both cost reduction without disintermediation as well as, in the longer term, the creation of new business models. Existing digital infrastructure and the growth of blockchain as a service (BaaS) offerings have lowered the costs of experimentation, and many companies are testing the waters. However, fundamental feasibility factors delimit what can be scaled and when as well as the realistic time scales for return on investment on proof of concepts.

Assessing these factors with pragmatic skepticism about the scale of impact and speed to market will reveal the correct strategic approach on where and how to compete to enable companies to start extracting value in the short term. Indeed, those dominant players who can establish their blockchain as the market solution should be making the moves—and making them now.

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