FCI

Facilitating Open Account – Receivables Finance

NEWSLETTER / AUGUST 2017

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

Hello everyone! Once again, it's my great pleasure to introduce FCI's latest Newsletter and share with you all the latest news and updates in our Community.

Coming up in this edition: We open with FCI Chairman Cagatay Baydar offering his welcome and thoughts on the coming challenges for the Association.

Peter Mulroy, Secretary General then gives us a comprehensive round up of *recent and planned developments*, covering topics from the innovative FCIreverse solution to central bank advocacy, promotional events in Bulgaria and India, and an educational legal seminar in Miami.

The make-up of the *Executive Committee* changed significantly at the elections at the Annual Meeting in Lima with *five new members*; John Brehcist, FCI Advocacy Director, speaks with three of the new group members and asks them to share their thoughts on how they see their roles and the future direction of FCI.

FCI continues to see a transition of Associates becoming *Full Members*; we are delighted to have the opportunity to introduce you to the latest cohort who have made this step: Brasil Factors, Bank of Cyprus, SBI Global Factors, India Factoring, SRM Peru, BZ WBK Faktor and SCB Sri Lanka. Find out more about all these companies within!

We've got a great feature that highlights all you ever wanted to know about *FCIreverse*, our new solution for supporting reverse factoring operations. You'll learn more about how this innovative approach can help build volumes of revenue generating new businesses.

It's great news too to be able to see more *new members* joining the group; here we introduce you to AK Factoring, Chang'an Inkasso, Demica, Invex Finance, OTP Bank Romania, NAB, Premium Technology, Société Générale Marocaine and SAI Bank. A warm welcome to them all!

Société Générale Bulgaria's General Manager Frederika Priporska talks with John Brehcist and shares her thoughts about the *importance of FCI Education in supporting her business*, her people and their development.

Following this inspiring example, Aysen Cetintas, FCI Education Director offers a *Q and A* approach on how FCI Education can support members in building knowledge and capability, while Spyros Tsolis, Education Officer, posts the use of *webinars* to develop our distribution capability.

Lee Kheng Leong talks with Mandy Chien of Taipei Fubon Bank about *developments in the globally important Taiwanese market*.

We also hear from Erik Timmermans, FCI Deputy Secretary General and Chairman of the *EUF,* about the role of the Federation - part of FCI - in representing the interest of the Industry with regulators and lawmakers in the EU 28 Region.

Madeleine Best from Euler Hermes shares her thoughts on the role effective *Trade Credit Insurance* can play in the support of Risk Weighted Asset Optimisation, while last but not least, we have insights from Gert Dimminck of Philip Sydney on the challenges and issues the industry faces in the field of *governance and regulatory compliance*.

Once again we have a content packed edition of InSight; please enjoy!

Welcome from Çagatay Baydar
Chairman FCI

ÇAGATAY BAYDAR
Chairman of FCI

Dear Friends,

We start the last part of the year with plenty of challenging projects for FCI.

First, I would like to welcome the new ExCom team that was elected in June in Lima. We also welcome new members in the Education Committee and Marketing Committee. We have a lot of projects coming up (including FCI's 50th Annual Meeting in June in Amsterdam).

As you will read further in this publication, FCIreverse should start the pilot period before the end of the year, advocacy is developed pretty much and FCI is promoting factoring more and more globally. We also count many new members recently, added one more country to the country coverage and seven full members to the member list.

Education is also core for the association, as you will see FCI is developing webinars and is working hard to prepare training for the new service FCIreverse. Not to forget to mention the Foundation Course for both members and non-members is now available in Spanish and in Chinese. FCI representatives and Committees travel around the world to promote Factoring, train on Receivables Finance, Legal and basics of factoring. During the next three months, FCI organises a Legal Training on GRIF in Miami, a workshop on Solutions for Open account Receivables Finance in Vietnam and a Factoring Workshop in cooperation with Afreximank in Cape Verde.

Credit Insurance and Compliance are in the core of a lot of discussions lately. You will discover an article on each subject at the end of the publication. Not to forget to mention the achievements of EUF (that FCI is part of) and the development of the Taiwanese market.

Best regards,

Çagatay Baydar

Erratum: In July Special Edition, there was a misprint on page 14, Ms. Joy Zhu (Director International of The CIT Commercial Services, ~~China~~ USA)

A Word from the Secretary General

PETER MULROY
Secretary General

As many of you had been updated about most of FCI's major initiatives in the special edition of In-Sight last month, covering the Lima annual meeting, I wanted to take this opportunity to discuss some of the next steps as it relates to these projects, and update for you what you can expect in the coming days, weeks and months ahead.

Innovate

- *FCIreverse*: FCI announced the coming launch of FCIreverse, the three corner SCF model during the Lima annual meeting. BCR interviewed myself and the Chairman of the SCF Committee, Josep SELLES about the project last month, which can be found on our website. A meeting was scheduled with Demica, our FCIreverse platform provider, on the 24th August to discuss all of the details relating to the contract, legal issues and aspects relating to the platform and member participation. Also, in support of our global Ambassadors, FCI has put together a Q&A about FCI reverse and the 4-corner model, to give the reader a much more in-depth insight into what to expect and to answer questions you may have about the platform and its benefits. We expect to have this out to you by early September including additional information to those members who want to become pilot users during our trial period, scheduled to begin by the Q4-2017. So more information to follow shortly. If you are interested to become a pilot program member, please send an email to the Secretariat expressing your interest.

Advocate

BANGLADESH: SHORTLY AN ANNOUNCEMENT REGARDING A NEW POLICY ON FACTORING

- *Central Banks:* We were recently informed that the Indonesian Central Bank (IB) has declined the application from two of our Asian members to grant a license to operate international factoring activities in the market. We have also been informed by the central bank of Bangladesh (BB), the that we should expect to hear shortly an announcement regarding a new policy on factoring, after they, along with a delegation of CEOs from many of the largest banks in Bangladesh, had visited the FCI Secretariat in Amsterdam last February for a training session. To encourage both central banks to approve applications to launch factoring in these markets, the Asian Development Bank (ADB), together with FCI have agreed to partner to invite representatives from both central banks to attend the joint FCI-IFC Receivables Finance Seminar, to be held in Ho Chi Minh City, Vietnam, scheduled for the 10-12 October 2017. The ADB will cover the costs of representatives from each central bank to attend the FCI seminar. I want to thank both the IFC for helping FCI organize this seminar, and the ADB for agreeing to partner with FCI to support our effort to educate and advocate targeting these central banks on behalf of the receivables finance industry.
- *Potential Data & Advocacy Committee*: FCI organized a preliminary data committee meeting on 23 August, 2017 held at the offices of our new member, D&B, along with Euler Information Services, in order to brainstorm on the potential formation of a Data &

Advocacy committee. Both John Brehcist and Harry Biletta were in attendance to brainstorm together to determine what FCI can do more in terms of the valuable data in our possession, and what other data we could potentially obtain from the members to support our advocacy efforts. More news on this to follow.

- *Third Credit Insurance Forum*: FCI has organized the third joint factoring and credit insurance industry meeting, together with the Secretary General of the Berne Union and ICISA, the senior executives from the credit insurance sector including Coface, Euler Hermes and Atradius. The meeting was held in Brussels on the 1st September. Topics to be discussed include education and the potential development of a joint e-learning course on the symbiotic relationship between credit insurance and factoring. Our education director, Aysen Cetintas will lead this discussion. We also plan to further discuss the importance to develop a CRR Basel compliance credit insurance policy that all factors and banks can benefit from. More information to follow.

Promote

- The *Marketing and Communication Committee* will organize two events in the coming months. First, the need to increase our exposure in the *Balkan region*, which has been inflicted with issues over the past few years, so the decision was taken to hold the Marketing Committee meeting in Sofia, Bulgaria. We will organize a one day workshop with our members and representatives from the industry during that week of the 24th October. The committee, together with the support of our Indian members, and with the aid of Mr. Tushar Buch, SBI and Chairman of the Factoring Assocation of India (and a newly elected member of the FCI Executive Committee) will help us launch *promotion conferences* in two or three cities in *India* the week of 24 January 2018. This is in part due to the recent announcement by the Reserve Bank of India about the promulgation of the factoring law, and the banks support of the growth of SME financing via factoring. More news to follow on both the Bulgarian and Indian events.
- We are also planning a Regional Conference in Dubai tentatively scheduled for the 29-30 January 2018.
- Lastly, the *FCI Executive Committee will hold its next physical meeting in Shanghai*, China from 9-11 October. FCI will hold a dinner for senior executives from our members in China, on the evening of Tuesday, 10 October, together hosted by the China Banking Association (CBA) for the purpose to update the Chinese executives on the developments within FCI.

Educate

- The Legal Committee will hold a *Legal seminar in Miami on the 19-21 September*, right after their Legal Committee meeting. The FCI Executive Committee recently approved adding one additional observer to the Legal Committee. Mr. JIN Saibo, a senior legal advisor representing the Bank of China and many others of our members in China, who specialized in trade and receivables finance. With the challenges that the China factoring community has faced the past few years, we believe the addition of a senior legal specialist from China to the Legal Committee will benefit both FCI in general and our members in China in particular. The seminar will be led by Matthew Irvine from HSBC UK and Yuce Uyanik, legal consultant from Turkey. Mr. Jin will also be in attendance, so we believe this will be quite a special Legal Seminar with many interesting legal topics to discuss.

JOHN BREHCIST
Advocacy Director

MEET THE EXECUTIVE COMMITTEE MEMBERS

At the FCI Annual Meeting in Lima, the elections brought a number of fresh faces to the Executive Committee. Of these new members, Ms Jianbo SUN, Vice Chairman (China Construction Bank) and Mr Tushar BUCH (SBI Global Factors Limited) have recently been interviewed in the last two editions of In- Sight. We are therefore now delighted to have the opportunity to introduce you to the other new members:

- Vice Chairman Mr. Uwe MÜLLER (UM), Managing Director, Deutsche Factoring Bank GmbH & Co. KG,
- Mr. Andrzej ZBIKOWSKI (AZ) , Advisor to the Board, ING Commercial Finance Polska SA and
- Mr. Vijay VASHIST (VV), Managing Director-Trade SCF&Trade Risk, DBS Bank Ltd., Singapore

John Brehcist (JB), FCI Advocacy Director caught up with them to find out a bit more about their background, as well as their thoughts and expectations in their new roles.

JB: Gentlemen, it's great to be able to talk with you; please each tell us a little about your background and your involvement with the Factoring Industry. Uwe, perhaps you could start?

UM: At the very beginning it was the traditional way of a German banker – I started my professional career with an apprenticeship and a trainee program in a private bank. Subsequently followed by a university study of business administration with the focus on auditing and tax law – interrupted by a longer stay at a bank in the USA. Before joining the factoring industry, I was the managing director of a public savings bank. For five years now, I am the Managing Director of Deutsche Factoring Bank.

AZ: I've been in the factoring industry for 22 years now; I started 1995 in mFaktoring. We became an FCI member in 1996 and were the first Polish factoring company to join the network. In 2002, I became CEO of Handlowy-Heller which was taken over by ING Group in 2006 and became ING Commercial Finance Poland. We are a full member of FCI.

VV: I started my banking career in India as Management the Trainee with State Bank. Thereafter I moved to a few countries in Asia & middle-east and for the last 10 years in Singapore. Over 25 years in International Banking covering areas of Sales, Product Management, Relationship Management and Credit & Risk.

My first contact with Factoring Industry and FCI was in the year 1997 and it has been a close engagement since then. I have had opportunities of setting-up and growing Receivable and Supply Chain Finance business internationally and with multiple Institutions.

Since 2011, I am with DBS Bank contributing as MD & Group Head of Open Account Trade, SCF and Trade Risk Distribution, based at the head office in Singapore.

JB: Thanks for that! And about your current company; what's its role in the factoring market both domestically and internationally? Andrzej, could we begin with you?

AZ: ING Commercial Finance Poland is both the oldest factoring company on the Polish factoring market (est. 1994) and for two years in a row now it's been the largest. Last year our volumes reached 23,36 bn PLN (5.5 bn EUR) leaving the competition far behind. According to the FCI Import Factor of the Year 2016 Award, we were ranked no 10 worldwide and the best among the Polish FCI-Members. On behalf of the Polish Factoring Association (PZF) I'm also an Executive Committee member of the European Federation for the Factoring and Commercial Finance Industry since February 2009.

UM: Deutsche Factoring Bank was founded in 1971 and since then we have been a full member of FCI.

Our Factoring turnover of 15,5 bn EUR in 2016 means we are currently number 6 of the 190 Factoring Companies in Germany. The share of international factoring (Export and Import) is relatively stable at 25% of turnover. We would like to support our export-oriented customers all over the world.

We are the first contact and centre of competence for factoring for the approximately 400 public saving banks in Germany.

We are a strong believer in the Two-Factor-System and international factoring is a strategic pillar in the product offer of our Bank.

VV: DBS Bank has over three decades of experience and a leading provider of Receivable & Supply Chain Finance in Asia. Our clients in this business range across SMEs to large & global corporates and from multiple industry segments. We have been accorded multiple market recognitions, the most recent being Best Supply Chain Finance Provider (Asia-Pacific).

JB: Tell us a little about your personal aims and goals as new members of the FCI Executive Committee? Vijay, could you begin?

VV: I envision towards a next-gen FCI finding itself at the forefront of international trade. Given that a predominant portion of world trade is conducted on Open Account terms, the further opportunity for us is significant. World Trade and client needs are constantly evolving. Digitisation and coordinated usage of big data are beginning to disrupt traditional ways. These are producing new opportunities.



From left to right Mr. Andrzej ZBIKOWSKI, Mr. Uwe MÜLLER and Mr. Vijay VASHIST

UM: I would like to focus on two particular topics. The first is Know Your Member. FCI has to better understand and facilitate the different needs and requirements of the members. This can create an added value. The second is what I call "FCI 4.0". This means FCI has to be fit for the future and support the members with modern communication tools and digital solutions.

AZ: I'm a strong supporter of changes we as a Chain, have to take on in order to expand our business and to be in the middle of the international trade flows. E-invoicing, Fintechs are happening all around us, let's take part in it! I'd like to focus as well on the further development of FCI membership in the Central East European countries. Emerging markets are developing fast and play a more and more important role in our business. I'm representing one of those regions. Data management and reporting, survey results analysis and advocacy would be on my agenda as well.

JB: What do you see as perhaps the greatest opportunity for FCI and the Industry – and what should we in FCI be doing about it? As Vice-Chairman, Uwe, perhaps you could start?

UM: For me, the digitalization of the entire financial sector will be the biggest challenge of the industry. Whether Fintechs will be partners or competitors, we decide! In any case, this topic is strategically crucial for the future viability of our industry. This is why, as a first step, we must closely monitor the development of this sector in all FCI countries and share best practices.

AZ: We live in a time where digitalization and a "customer in the middle" approach is changing the way companies and people are doing business. E-commerce is growing rapidly and creating new directions. Big e-shops like Amazon and Ali Baba are entering areas which, until now, had been the preserve of banks and factors, so we have to do the opposite. We have to go to the marketplace with our offer in order to survive! Our offer has to be easy to understand and easy to use, as is the rule in on-line factoring services.

VV: Perhaps the greatest opportunity for us is to be at the forefront of all forms of Open Account Trade services. This would require promoting innovations, connectivity, develop newer solutions to enable building competitive advantage for FCI members. Emerging economies are becoming strong users of trade finance which magnifies the need to promote factoring & SCF as a viable means of working capital management for all spectrums of companies. By extension, FCI can capitalize on its current market position. Large scale digitisation and big data, in the financial sector and technology firms in the coming years, will redefine the industry leaders and survivors and it's equally relevant for us.

JB: Thank you all of you for sharing your views with our readers; on behalf of all FCI members, congratulations again at your election to the Executive Committee - and best wishes in your new roles!

NEW FULL MEMBERS

Depending on the volume of two-factors activities through edifactoring, associate members can become full members. In 2017 we have already 7 new full members. We congratulate them, you can find their own reactions below:

BR00600 **BRASILFACTORS**

Brasilfactors team, and our shareholders (China Construction Bank and FIMBank), are extremely proud to see Brasilfactors upgrade to FCI full member. Brasilfactors started business in Brazil in 2012 and immediately joined FCI to promote international factoring in the country. International factoring remains almost unknown in the Brazilian market and our main challenge is to overcome the little awareness and knowledge about the product, requiring extra effort in educating both clients and staff. We know it can be sometimes frustrating to develop the product in these new markets, but the reward, in the long run, will certainly pay the investment. This would not be possible without the full support and cooperation from FCI, providing the needed education material and international good practices. We are convinced that, together, we can bring Brazil business volumes to the levels it deserves.

CY00100 **BANK OF CYPRUS CY**

Our upgrade to full membership again, was the result of hard work and effort with increased sales volume both in import and export factoring whilst remaining focused on delivering value to our customers.
This accomplishment provides yet another landmark that the Bank of Cyprus Plc is moving ahead with clear goals and perspectives. In addition to its listing in the London Stock Exchange, earlier this year, our status of full membership provides recognition of the Group's enhanced credibility and strong financial position.
The personnel here at BOC Factors display satisfaction and pride that once again BOC Factors is a full member and the only institution in Cyprus to be a member of FCI.

IN00100 **SBI GLOBAL FACTORS**

By now everybody at SBIGFL was quite excited about the future prospects and our Board of Directors seemed to be gaining confidence in our efforts to turnaround the fortunes of the company. We revamped our website. SBIGFL even won a recognition from FCI at Singapore Annual Meeting in 2015 in the category "best improvement in quality of service by an export factor". In 2016, when the turnover reached EUR 38 million, there was some sense of disappointment at not having achieved the coveted EUR 40 million mark. But this only spurred us to work harder and by March 2017, we had aggregate turnover for 12 consecutive months of EUR 42 million. In a short time of 3 years, we had progressed from almost losing our membership to becoming a Full Member. However, more exciting times lie ahead as we look to having at least 20% turnover under 2-factor model and 10% of our FIU coming from export factoring.
SBI future aspirations:

1. To create awareness across India about factoring as a preferred option for finance especially for MSMEs.
2. To increase Export Factoring under the 2-Factor Model so that it constitutes 10% of our FIU and 20% of our turnover (from current levels of about 5% and 10% respectively).
3. To begin providing Import Factoring Services.
4. To be among the top 5 Export Factors of FCI by 2019 in terms of service quality.

IN01400 **INDIA FACTORING**

India Factoring started Export Factoring in June 2016 with an aspirational target of becoming full member by December 2017. Being a new product segment in a nascent Factoring market which India is, the challenge was uphill but the team took it up as a personal goal. With immense amount of hard work, determination and bit of luck, the team was able to drive the business and achieve the target by March 2017. The entire team including parent FIM Bank, is extremely proud about the achievement and is looking forward to further double up the turnover during next year as we build a nascent but opportune business in India. The support shown by FCI and co-members is exemplary and India Factoring takes pride in being a FCI member and looks forward to participation in FCI activities in future.

PE00400 **SRM PERU**

It has been a strong challenge to become Full Member this 2017; since we first started operations with FCI in 2012 in Brasil we noticed that we could make good business going hand in hand with FCI and our exporters. For this reason we looked into other countries and by the end of 2013 we established a similar structure in Peru. In 2015, with the creation of the fund we firmly believed that we were ready to start our upgrowth.
Our team was aware and assumed with responsibility the challenge of making our Company well recognized inside and abroad. This same scheme was made in Chile and now we are looking into markets like Argentina and Colombia. We are very proud of achieving this target and encourage ourselves to spread these good practices all around South America. FCI together with factors around the world have been our strategic allies and we rely on them to continue achieving the company's goal for next year: double the turnover with safe business.

PL00500 **BZ WBK FAKTOR**

BZ WBK Faktor (100% owned by BZWBK a member of Santander Group) started FCI operations in the beginning of 2014, so just a few months after the membership application was approved. BZ WBK Faktor is proud that after three years they managed to increase international business turnover, both import and export operations, by over 720% from 2014 to 2016! This allowed them to meet full FCI membership requirements in May 2017. Year to year growth in international factoring Turnover amounted to 114% in 2016. This happened thanks to a strong commitment and huge efforts made by BZ WBK Faktor Team in order to ensure efficient operational process. This is also a good opportunity to acknowledge great support of BZ WBK Faktor counterparties who highly contributed to this achievement, especially to Santander Team of Jose Ortiz Miranda who served as a mentor and introduced BZ WBK Faktor to the FCI family. Our ambition is to continue to grow FCI business in the coming years. International factoring has become a firm part of Customer proposition to support Polish exporters and importers. BZWBK Faktor has consolidated its strong market position with over 13% market share (H12017 data) being overall number 2 player in the market (Polish Factors Association 22 member data) and maintaining its top position in Supply Chain Finance with 38% market penetration.

LK00400 **SCB SRI LANKA**

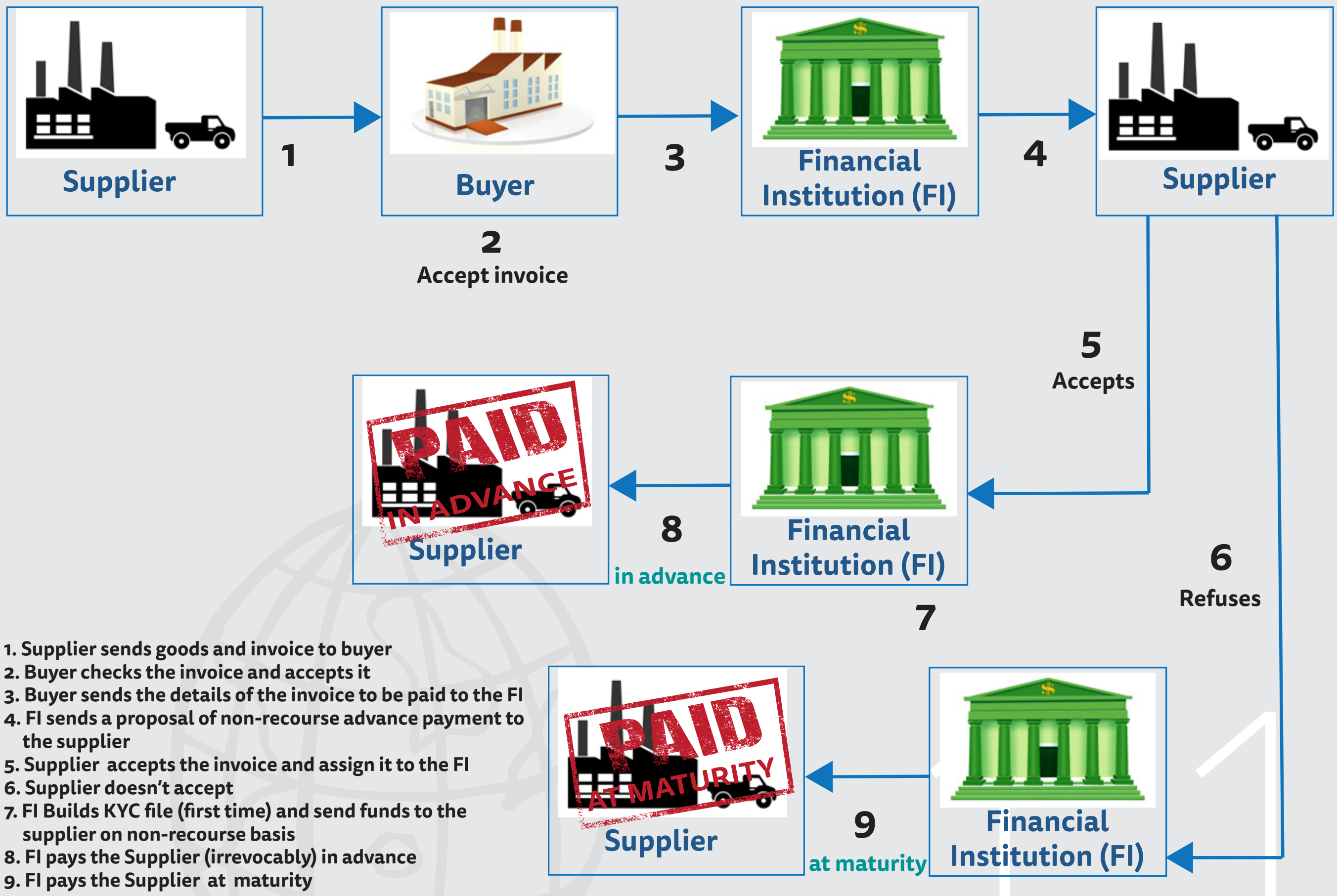
Standard Chartered Sri Lanka is pleased to have gained full membership on our partnership with FCI. We are confident that we can expand on our success in structured receivable financing, particularly in the industrial sector which is poised to contribute significantly to our country's exports in the coming years.

FCIREVERSE: ALL YOU WANTED TO KNOW

How does FCIreverse work? (3 corner-model)

A buyer (normally a financially strong company) reaches an agreement with a Financial Institution (FI) with the aim of providing early/advance payment to its suppliers. Once the buyer approves the invoices and transfers them to the FI, he also transfers all administrative work regarding the account receivables, since the FI takes on the responsibility of paying the supplier. The supplier will receive the full value of the invoice less the commission and the interest that the FI will charge. Hence, the supplier pays the discount. It is a non recourse discount for the period financed. This is certainly a significant advantage and benefit for both parties.

The buyer will periodically send to the FI all the information related to the invoices to be paid in the coming weeks or months. The FI, with the information provided by the invoices, will offer to each supplier the possibility of paying the invoice in advance, without recourse. The FI will not be able to pay invoices that are not assigned to them. Also, the FI will not be able to provide the advance payment unless the invoices have been accepted/approved by the buyer and the invoices have been formally assigned by the supplier. At maturity of the invoices, the buyer will pay to the FI all the invoices previously communicated with this maturity.



As there are 3 actors in this scheme, Buyer/Financial Institution/Supplier, we call it the 3-corner model.

What are the benefits to the Buyer (3 corner-model)?

The buyer will still be able to settle payment with their suppliers by different means. However, for all approved invoices under the FCIreverse program, the buyer will just send the file with the information of the invoices to the FI and the payments will be made by the FI.

As the facility will be offered to only financially sound companies, the buyer will increase its financial prestige in front of the suppliers.

Since the buyer, through its financial institution, is offering to its suppliers a financial tool, buyer can negotiate better payment conditions (extended payment terms basically) with its suppliers, and therefore improving the buyer working capital requirements.

Sometimes the buyer participates in the income derived from the business by way of a fee (referred by the industry as rebates). FI can pay a percentage of the commission or the interest paid (or both) to compensate for the fact that the FI will generate business with suppliers based on the risks taken on the buyer.

This type of program will also strengthen the commercial relationship between buyer and suppliers, so it can be used by buyers to retain major/risky/strategic suppliers.

The buyer can also benefit from good image (corporate social responsibility) from providing financing to its SME suppliers and promoting economic growth (via FI partnership).

The drivers for an anchor buyer to utilize SCF schemes is much more a question of:

- Better Days Payables Outstanding (DPO) = Working Capital Optimization
- To increase shareholder values over a certain time, because of a better working capital availability to decrease debts and financial costs

What are the benefits to the suppliers (3 corner-model)?

The supplier receives an offer to have the open-account invoices paid in advance, without the need of going to a financial institution to ask for a financing facility.

Consequently, the supplier is not using its bank credit limit (based on its intrinsic risk) capacity to finance these invoices, as this third party FI will provide the capital to the supplier, based on the risk appreciation of the buyer's financial strength.

As the FI approaches only financially sound anchor buyers, the price offered by the FI to finance the approved invoices is normally very competitive, probably better than the rates that the supplier might get in a facility directly negotiated with its local bank.

The invoices are financed on a without recourse basis so the supplier, if they accept the advanced payment proposal, these can be considered as paid and these receivables can be removed from their balance sheet.

FI does not oblige the supplier to open an account with it, instead transferring the funds resulting from the advanced payments to the account of the supplier at their operating bank.

This supplier can decide to factor the invoices in the normal way if it so chooses. The fact that the buyer has a SCF contract with an anchor buyer doesn't prevent the supplier to finance the invoices as it wishes. The only concern is that the FI of the buyer must change the payment instructions instead to the supplier, at maturity, to pay to the FI of the supplier. Otherwise the supplier can be paid twice.

With FCIreverse, there is no additional IT tool required. Another benefit is the early visibility of approved invoices and better cash flow management.

What are the benefits to the financial Institution (3 corner-model)?

The FI can work with suppliers without having to underwrite the supplier's financial capacity as the risk that the FI is taking is solely the risk of the anchor buyer.

FI can on-board suppliers located outside of their operating geographical region of influence. However, this will depend on the supplier's home country regulations and the FI's own internal policies and strategy

If well automated, like in FCIreverse, the product is profitable as it requires a low level of human intervention to manage the process. It also fosters the loyalty of the buyer as it is not easy to move these schemes of FCIreverse from one FI to another.

Lastly, the advantages are also based on economies of scale. If for example a member signs up on their own with a SCF provider, and volumes are small, then with up-front investment costs as normally required by IT providers (which can be rather significant), including additional fees, etc… the business model may become uneconomical. If you have the potential to invest in your own platform, we encourage you to do so, but you ignore the potential consequences to generate sufficient business to justify the significant up-front investment. The strength in FCI reverse is that we do this together, and as volumes go through the system together, the costs decline. Plus, there are no upfront investments required by the members, except for a platform participation fee of EUR 5,000, payable each year to FCI.

What are the risks of the Buyer (3 corner-model)?

The risk derived from the advanced payment to the suppliers will be reported to the Central Bank (when the FI must declare its exposures under the program) as risk of the buyer, as we do in a normal non-recourse transaction, so its banking risk will increase.

The risk of a potential commercial dispute resulting in non-payment by the buyer is eliminated under such a scheme. Normally the contract between the Buyer and the FI contemplates that the FI cannot accept the cancelation or amendment of an invoice once approved. The Buyer may try to solve the dispute issue, for example goods not shipped as agreed or late shipment, in the following invoice with this supplier. As such, it is important to ensure that the suppliers chosen for the FCIreverse scheme includes suppliers capable of meeting the terms of the purchase order. When working with a supplier that is only purchasing once or twice a year from the buyer, the buyer will have to wait to resolve any merchandise issues it may have from the previous shipment(s). Hence, we advise to avoid these sporadic suppliers in the FCIreverse program.

What are the risks to the supplier (3 corner-model)?

Basically, the risk is the time that the supplier will have to wait until they receive the advanced payment proposal from the FI.

Buyer will have to check the invoice, the goods, and then send the approved invoices to the FI (the process different based on the needs of the anchor buyer). As such, the FI will send the advanced payment proposal to the suppliers via the FCIreverse system.

If this period is short, the supplier normally will not have problems in waiting until the arrival of the communication from the FI. But if it takes time, it may cause liquidity problems to the supplier as invoices under a reverse scheme are not easily financed outside of the program. One of the common complaints in a SCF program is the length of time the suppliers have to wait for the buyer to approve the invoice. They may not be willing to do this until goods have been inspected, which can take quite a long time, defeating the purpose to receive early payment by the supplier. But as long as the invoice has not been assigned, the export factor could treat this as a normal factoring opportunity, with the knowledge that the payment may be made prior to the invoice due date under the SCF program.

If this approval period is longer than 15 days we do not recommend to establish a FCIreverse program. However, this could depend on geographical distances, the types of business sectors financed and the duration of the credit period i.e. 30 days versus 120 days. But in summary, the supplier will be paid after receiving the proposal from the FI of the buyer and once the invoices have been approved. If this approval arrives one month after the invoice issuance date, and depending on whether the supplier requires financing, they may look for an alternative source of financing, so the SCF scheme of the buyer will have a lower percentage of advanced payment accepted, and this may not be interesting to the FI.

What are the risks to the Financial Institution (3 corner-model)?

The profit of this product is linked with the average of advance payment accepted and advanced payments made to the suppliers. The FI will need to ensure that volumes (number of suppliers and total turnover under review) at stake are enough to cover the implementation cost. As the risks are concentrated on the buyer, the profitability will also be dependent on the buyer risk profile.

As said, the more automated the product, the more profitable it will be, but it also requires a minimum of efficiency. As the margins in this product are not that high, consequently, the cost of handling the product cannot be too high either.

If you have a performing automated platform, you'll need fewer people to handle the product so the cost of investment will be low.

The FI will have to make commercial actions towards the suppliers not accepting the advanced payment proposal to adjust the offer to the needs of each one.

On boarding of the suppliers is a risk for the FI as well as it may affect the success of the program. Your goal is to onboard as many suppliers as possible. What you have to do is to know why suppliers do not accept the proposal. For example, is it too expensive or is the onboarding too cumbersome? When you will know the answer, you can correct (revising pricing, for instance). In terms of on-boarding (educating the supplier, signing the agreement with the supplier, etc…, this is a joint responsibility of both the buyer and the FI. Hence, coordinated actions by both parties are required.

How can an FCI member start using the FCIreverse platform (3 corner-model)?

First, each FCI member must register to become an active trading member of FCIreverse. The initial fees required will be waived. However, starting 1 July 2018, all active users will be charged an annual fee of EUR 5,000. There are tremendous costs involved in having this entire project executed, so part of it is to recoup costs already invested by FCI, and also to incorporate future costs as well.

Second, the member will sign a Contract of Services Agreement with Demica to make the necessary arrangements to connect with the platform.

Third, the member will send the details of the invoices into the platform by way of an electronic file, and the platform will issue the communication (normally by email) to each supplier offering the non-recourse advanced payment option.

Suppliers can be either domestic or international. The communications will be made in the required languages. Once they agree, the supplier will be on-boarded onto the FCIreverse platform.

Depending how it is set up, the suppliers will answer the approval with an acceptance or declination, and based on the response, the member will make the advanced payment to the suppliers. In the platform, the member will be able to control which invoices have been paid and the ones to be paid at maturity.

Fourth, the member will pay 15-20% of the net income to Demica, based on a sliding scale and depending on the annual volume that has been generated within the platform (for further information on pricing, see contract details). Net income is derived by the total interest charge less cost of funds and other commissions incorporated into the discount. Again, there is no up-front investment required.

Most of this information on next steps will be provided when a member expresses interest in becoming a pilot member or later when the system goes live. But please note that FCI and the FCI Legal Committee is in the second phase, working with Demica on the Master Legal Framework Agreement, including the contracts between Demica and the Members, including all legal agreements that the anchor buyer and suppliers will need to sign.

How does the 4-corner model operate?

Buyers may have need for an Export Factor in the country of the supplier to help on-board the suppliers as such requirements may be outside the capability and scope of the FI, including asking the EF to do the following:

- Build the KYC/AML file of the supplier. FCI will develop minimum standards to ensure that the IF will be satisfied from a compliance standpoint.
- Verify the validity of some documents or signatures.
- Provide intelligence about the regulations either legal or fiscal to determine whether the supplier can receive funds from an unlicensed FI not operating in the home market of the supplier.
- Determine the existence of any stamp duty tax or other VAT issue
- Allow the EF to provide financing to the supplier directly based on an approval of the invoices by the FI. This could be due to the fact that the invoices are denominated in the local currency of the supplier, and the FI does not have the capability to finance invoices in this local currency. For definition purposes, the FI of the buyer is the one we call the IF, and the one financing the supplier is known as the EF.

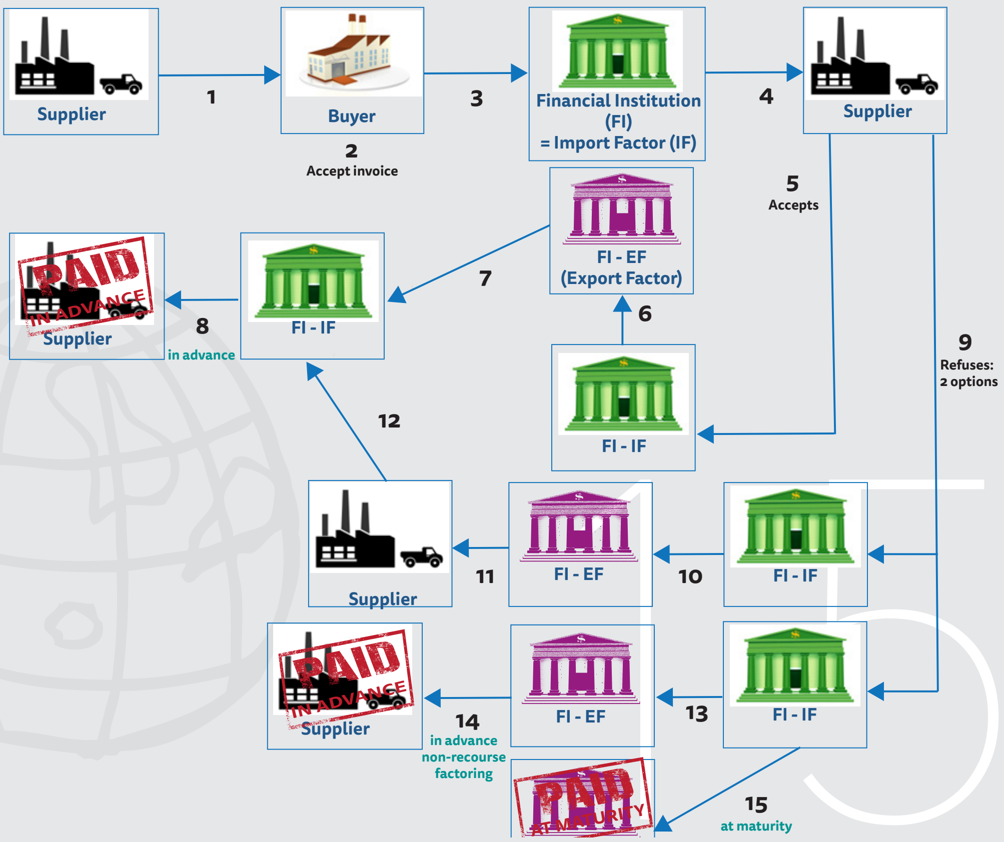
The idea is to have one platform, one standardized contract, and one standardized set of rules (similar to the GRIF but for FCIreverse). Of course, we cannot standardize the factoring agreement, as it is based on the laws of the country of the supplier, but this is our objective.

1. Supplier sends goods and invoice to buyer
2. Buyer checks the invoice and accepts it
3. Buyer sends the details of the invoice to be paid to the FI-IF
4. FI sends a proposal of non-recourse advance payment to the supplier
5. Supplier accepts the invoice, but the FI is located in a foreign country. The FI becomes Import Factor (IF) at the moment that he requires assistance to an Export Factor (EF)
6. IF asks a correspondent in the country of the supplier help:
   - to get documents for KYC
   - to supply legal or tax regulation information
7. EF verifies the documents /sends legal or tax regulation
8. FI pays the Supplier (irrevocably) in advance

2 alternatives:

9. Supplier doesn't accept
10. IF asks EF help to onboard the Supplier (explaining advantages)
11. EF explains
12. The Supplier accepts and is paid

13. IF proposes EF to finance via factoring directly to the supplier in the same country based on irrevocable confirmation of the invoice
14. EF pays the supplier
15. IF pays the invoice irrevocably to the EF at maturity



What is the role of the Export Factor?

The Export Factor will sign a factoring agreement with the supplier based on the laws of their home country.

The Export Factor can also finance the invoices to the supplier once they receive the binding confirmation from the Import Factor.

As there are four actors in this scheme, Buyer/Import Factor/Export Factor/Supplier, we call it the 4-corner model.

Where can I find more information about FCIreverse?

You can find more information about FCIreverse by becoming a member of the FCIreverse LinkedIn Group. The group, established in May, is the place where we inform members about how to become a pilot member of the program. We discuss the benefits of the 4-corner model as well, how to connect with FCI members in 90 countries to support the supplier on-boarding process.

What about pricing? I understand there are no upfront fees, only a pay as you go fee. How does it work?

The situation is that today many members cannot or are reluctant to invest in and develop their own reverse factoring/confirming programs on their own due in part to the up-front investment costs and also just the unknown risks. The idea behind the concept of FCIreverse is as follows:

- Provide a format whereby members do not have to make any up-front investments, which they would have to do if they were to invest in their own proprietary SCF IT platform (please note that we had 12 other submissions from our RFI and RFP from various IT platforms, and by far Demica was the most economical for what we were looking for, with the least amount of up-front investment required to get started).
- As for the rate, it is a sliding scale based on volume channelled in the system, so again if the "Group" exceeds expectations, the rate will decline. This model has been built into the system to assure value and improve returns for all participants.

What is the role of the Import Factor when the Export Factor finances the supplier (4 corner-model)?

The Import Factor will receive the information about the invoices to be paid from the buyer.

The Import Factor will send the irrevocable confirmation to the Export Factor.

This confirmation is binding and consequently it is not possible for the buyer to raise commercial disputes to prevent the supplier from raising credit notes against approved invoices. This will be incorporated in a legal agreement signed by the Buyer, but will also be stipulated in the GRIF.

On the due date, the Import Factor will normally debit the account of the debtor or receive payment from the buyer, and in turn will pay the outstanding invoice to the Export Factor. If the buyer fails to pay, similar to the 90-day rule, the IF will be required to pay as stated in the GRIF.

In terms of capital consumption, we do not see much difference compared to a normal import factoring transaction, as both involve an assignment of the receivable to the IF and the purchase is based on a non-recourse agreement. But capital allocation will depend on the local regulator's definition and interpretation of Basel 3 rules.

What's in it for me as a member?

By using the FCIreverse platform the participants will be able to generate reverse factoring business, and consequently develop new business, business that until today was out of their reach. It means that participants will be able to generate 80-85% of new income streams (based on the cost sharing model as explained above) that did not exist before. Again, according to our expectations the users of the platform will be medium and smaller members, and normally the range of the buyers will not be at the level of a Walmart, for example. We know that other large global bank groups can attract similar pricing however you must realize that they are committing to billions of dollars of volume in a given year (just as one entity), volume that would rarely be reached by a typical FCI member on its own.

As an FI, what is my target clientele?

This is up to you to decide. We believe there are two universes, large anchor buyer programs developed by the largest bank groups globally, with high investment rated buyers like Walmart that are generating billions in volume. FCIreverse is not targeting this business. It is however targeting a different audience, national banks or large NBFIs, who want to drill deeper into the supply chain to create new business opportunities and generate healthy margins for our members.

Why did FCI get involved in creating such a framework for its members in the SCF space to begin with?

First, we saw that many members within FCI needed support when developing an SCF buyer led payables programs. In fact, we saw three primary opportunities to help our members:

1. Offer a platform to all of our members interested, utilising economies of scale by banding together and acting as one large group of users on one global on-boarding platform with no or very low upfront investment required
2. Provide a format whereby members can utilise other members for supplier on-boarding, so that they can get into the international SCF space (when they otherwise could not).
3. Develop a set of rules and standards around FCIreverse and the 4-corner model, to bring best practices in the field of approved payables finance for the global receivables finance industry.

Have rules been developed yet to guide the use of the EDI messages for supplier onboarding?

The FCI Legal Committee has not yet launched an in-depth look into the legal aspects of the 4- corner model as there were too many questions about the format before they could begin, however it was discussed at the last meeting in April and is on the agenda of the upcoming meeting in October. The Legal Committee has been given the task, now that the project has been fully approved by the members, to look at all legal aspects relating to the project and the responsibilities of both IF and EF. The problem obviously lies mainly on the shoulders of the IF, if in case the anchor buyer files for bankruptcy protection, whereas the EF has little responsibility, more liable from an indemnity standpoint (i.e. supplier onboarding, local factoring contract, KYC/AML document authentication, and other on-boarding issues). Also, if the anchor buyer files for bankruptcy protection or defaults, and the IF has to start legal proceedings against it, the IF will use the contract signed with the anchor buyer and rely less on the assigned invoices which has a limited value in terms of recovery.

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:

Altınhas Holding is the main shareholder of Altınbas Holding which has more than 60 years of experience. The Holding is founded by Imam Altınbas, one of Altınbas Holding's leading founders. Altınhas Holding manages significant and extensive investments in finance, education, retailing and real estate within Turkey with more than 700 employees.

Ak Faktoring offers factoring business with a view to meeting the financial needs of corporate and commercial firms, carries on with serving an ever-expanding customer portfolio. The company has succeeded in ranking among the top 10 Turkish factoring firms operating in domestic market in a short time.

Albank which is a group company of Altınhas Holding was founded in 2016 as a private-equity deposit bank in Turkish Republic of Northern Cyprus and ensures to expand its service by setting up new branches. The group is planning to grow in international markets with its FCI membership.

Chang'an Inkasso Commercial Factoring Co., Ltd with registration capital of RMB50,000,000.00 (for short: Chang'an Inkasso Factoring) founded on November 16 2016, headquartered in Shaanxi Province Xi'an national level Economic and Technological Development Zone which is the significant component of Shaanxi Pilot Free Trade Zone. Chang'an Inkasso Factoring is a wholly-owned subsidiary of Chang'an Inkasso Asset Management Co., Ltd (for short: Chang'an Inkasso). As approved by Shaanxi province Xi'an national level Economic and Technological Development Zone, Chang'an Inkasso with registration capital of RMB200,000,000.00 founded on August 19 2016. The investors to Changa'an Inkasso are, Xi'an JingHeng Financial Service Co., Ltd. (the government investment platform wholly owned by the Zone), Shaan'xi Province Industrial Investment Co., Ltd., Zhuhai Longzhan Capital Management Co,. Ltd., Shaan'xi XinBoHua Investment and Development Co., Ltd., Xi'zang Lifeng Jiachuang Information Technology Co., Ltd. (wholly owned by a listed company, stock ID: Jia Wang, stock code: 430498), Faactor Management Consulting (Shanghai) Co., Ltd. Chang'an Inkasso Factoring is a fully market-oriented Commercial Factor with the state-owned enterprise played the leading role and the high-profile private enterprise introduced as strategic investor, the association between the strong enterprises obviously takes advantages of each other's strengths. Chang'an Inkasso Factoring started its international factoring business at the beginning of 2017 and will be continuously relying on the strong background of the investors, committing to "Timely, Precisely, Professionally" as business philosophy and, making use of competence of business management. Chang'an Inkasso Factoring will be dedicated to the International Factoring industry through deep plough and intensive cultivation to provide every customer with satisfactory service.

Demica is the market leader in independent, end-to-end, Working Capital Solutions enabling the financing of over $60bn of payables and receivables each year.

We are uniquely positioned in the market, offering integrated Working Capital Solutions to financial institutions, multinational and local corporations, with one team covering the spectrum of working capital products from Supply Chain Finance (also known as Confirming or Reverse Factoring) to Trade Receivable Financing (including Portfolio Purchase and Securitisation structures). Our team includes recognised industry experts and experienced technology implementation professionals.

Through a feature rich, proprietary, technology platform, Demica supports all large-scale supply chain finance transactions. Our solution has full white-label capabilities enabling our funding partners to offer market leading products and services to their clients across the working capital spectrum. Demica's solutions include: Traditional supply chain finance, Gross-up supply chain finance, Early payment discount capture, Dynamic discounting

Demica's extensive capabilities in supplier onboarding enables our Funding Partners to utilise Demica's Supplier onboarding team whilst providing an intuitive platform design with self-serve functionality minimising the costs of onboarding large numbers of Suppliers. Demica's solution addresses Buyer's and Funder's principle concern, onboarding, enabling Demica's Funding Partners to benefit from highly successful programmes. Demica's Supplier Onboarding Tool offers:

- KYC Automation
- Dedicated marketing messages
- Intuitive user interfaces
- Full integration with Demica's Supply Chain Finance platform

With over 35 Funding Partners, payables and receivables across 135 countries and Assets Under Administration growth of over 6x in the last 2 years, Demica continues to be the partner of choice to Funders globally.

INVEX FINANCE is a new non-bank Latvian factoring company which has been founded to provide non-recourse international and domestic factoring services in Latvia. Currently INVEX FINANCE is the only company represented in FCI from Latvia with the main goal to increase the country's small non-recourse international factoring volumes. The company is managed by Mr.Edgars Niedra and Ms.Galina Syropyatova. Mr.Edgars Niedra has 11 yearsexperience with FCI international factoring as well as banking background, Ms. Galina Syropyatova has working experience in the real estate industry including project analytics, financing, and budgeting through various real estate projects in the territory of Germany and Latvia. INVEX FINANCE belongs to Panorama Holding that is a dynamic Real Estate Group involved with high quality residential and commercial projects. As the name suggests, the main partner in customer acquisition is INVEX FONDI which is a diversified financial company that holds an important market share in business consulting and business sales related services in Latvia.

OTP Bank Romania, a subsidiary of OTP Bank, the largest independent banking group in Central and Eastern Europe, is an integrated and self-financed financial services provider. With an approach defined by responsibility, commitment and professionalism, OTP Bank Romania understands clients' needs and the current market context and is a trusted partner in providing financial services.

OTP Bank provides universal financial services in Hungary, Romania, Montenegro, Croatia, Bulgaria, Russia, Ukraine, Slovakia and Serbia for more than 13 million customers through an extended branch network of almost 1,500 units, ATM network and electronic channels.

For more than 150 years, we've been helping our customers with their money. Today, we have more than 35,000 people serving 10 million customers at more than 800 locations in Australia, New Zealand and around the world. We have built our business on understanding our customers and supporting them. We aim to take the hard work out of banking. As Australia's largest business bank, we work with small, medium and large businesses to help them start, run and grow. We fund some of the most important infrastructure in our communities – including schools, hospitals and roads. And we do it in a way that's responsible, inclusive and innovative.

We know that to be Australia and New Zealand's most respected bank, we need to be good with money. And we need to be just as good with people, too.

Premium Technology Inc, founded in 2001, is a privately held U.S. corporation with New York headquarters. Premium has locations in the U.S.A., Indonesia, & China (Beijing, Hong Kong, and Wuhan).

Premium started as a trade finance e-commerce developer for Trade Finance portals. In 2004, Premium decided to focus exclusively on Supply Chain Finance solutions. The Supply Chain Finance (SCF) product suite FinShare provides for Open Account and Working Capital Solutions.

The web based FinShare product suite includes both pre-shipment and post shipment financing solutions. They include: Purchase Order Financing, Supplier Finance (Reverse Factoring), Receivables Finance, Factoring, Asset Based Lending, Forfaiting, Risk Participation, Document Preparation, and Bank Payment Obligation.

The FinShare product suite shares a common core platform that includes Commercial Loan Capabilities, Credit Risk Limits, and Invoice/P.O. management components. Premium has received SWIFT certification for its BPO Supply Chain Finance solution. Premium is recognized as the market leading SCF solution.

The FinShare product suite is offered as a licensed software or as a Cloud Based (SaaS) solution.

Société Générale Marocaine de Banques is present in Africa (more than 15 countries) since more than 100 years. With its 3 850 co-workers in 432 branches and 13 subsidiaries, it is one of the top four companies in the banking industry, the top two in consumer credit and number one in car leasing.

Société Générale Marocaine is accredited for its expertise in several domains and its strategy based on synergies with retail banking, corporate and investment banking and general resources and global trade banking.

Offering a broad range of world class tailor-made services combined with local expertise, it was awarded during four consecutive years the "Euromoney" award for Morocco's best bank (FX activity-exchange).

Société Générale offers corporate clients a complete range of cash management solutions with dedicated consultants to support their specific needs.

Tourism financing department has developed an expertise in this area and has specifically adapted its funding policy to keep supporting this strategic sector throughout bilateral or syndicated loans.

Since 1995, Sogecapital Brokerage is a subsidiary of SG Morocco group, dedicated to brokerage patented by market regulation authority (CDVM).

Sogecapital Asset Management is a subsidiary focused on asset management and offering a large range of funds. Some tailored solutions are offered with dedicated portfolio management.

South American International Bank N.V. (SAI-Bank) is an international bank that has been incorporated on February 11, 2011. SAI-Bank offers a comprehensive of financial solutions for companies and high net worth individual clients.

The bank provides services to clients from Ecuador, Peru, Bolivia, Argentina, Venezuela, Spain, Panama, Belize, Colombia, Mexico, Uruguay, Brazil, Curaçao.

It offers the following products & services :

- Commercial
- Personal Loans
- Portfolio of Vehicle Loans
- Investments
- Letter of Credit

Website: www.sai-bank.com

We wish them lots of success!

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

FCI EDUCATION IN PRACTICE: SOCIÉTÉ GÉNÉRALE BULGARIA SHARES ITS EXPERIENCE

In the May copy of In Sight, we heard from colleagues in Egypt Factors about how FCI Education plays an important role in their Company's philosophy and development. In this edition, we are delighted to continue the theme of highlighting educational impact with an exclusive interview with Société Générale Bulgaria's General Manager, Frederika Priporska (FP).

John Brehcist, FCI's Advocacy Director (JB) recently spoke with her to get the views of this important player in a rapidly developing European market.

JB: Frederika, FCI's mission revolves around three key activities of Network, Educate and Influence; how does this fit with Société Générale Bulgaria's approach and thinking?

FP: As a part of the Société Générale Group, we recognize the FCI mission as being very similar to our own corporate culture, along with all other 10 Factors which are part of the same Group and also members of FCI.

Our belonging to the FCI Network makes us part of one family of more than 400 relatives, who are there to help each other and grow the business together.

Education has a key role in the Company's development. The more educated are the staff, the greater the chances of success in the contemporary business environment, which we know is extremely difficult and competitive. Our employees are encouraged to participate in all appropriate FCI courses.

JB: There is clearly a real fit in philosophy here; understanding that, which of the FCI educational products have you used and why were they attractive to you?

FP: We have used most of the courses: Foundation, Intermediate and Advanced Courses of International factoring, Selling and Marketing Factoring course, as well some of the thematic seminars.

Foundation and Intermediate courses are very attractive for the newcomers in the team, as it gives them the basis of the business and the two-factor system of working and its rules.


Société Générale Factoring Team in Bulgaria

The Advanced course is very useful for the employees with a bit more confidence as professionals, because it gives them more practical cases and views.

The Selling and Marketing course is a must for all the sales employees. It gives them on one hand how to develop their sales skills and on the other hand how to mitigate the risks.

Dedicated seminars are attractive with the in-depth knowledge and clarifications made by FCI specialists.

They are a good way to introduce ourselves to other FCI members and to improve the communication between our partners.

JB: You clearly make extensive use of the range of offerings available, which is very encouraging to hear! On this basis, how does using FCI programmes fit into your Company's overall approach to personal development and training?

FP: FCI programmes are the main part of our training programme, which we call our Factoring University. All of our employees participate in the different courses and seminars and we are very thankful to FCI to offer developed factoring material to their members.

JB: It's therefore obvious that FCI programmes are central to your development process. What particular benefits do you see in using FCI Education; does it make you a better business?

FP: The FCI courses are the right tool to maintain and upgrade our staff expertise which makes the Company's business better. It makes it more professional and profitable, while allowing the customer to remain satisfied with the solution provided. And teaches one very important thing, as well – the sense of risk.

JB: Yes, all of those things are very important and that's a key point you make at the end; I agree that awareness and understanding of risk management is absolutely essential! From what you've said, Société Générale Bulgaria sees FCI Education as something central in contributing to its continued success. Given that view, is FCI Education something you would recommend to other members – and if so why?

FP: Factoring is a relatively new product for the Bulgarian market and we believe that, as an FCI member, our responsibility is to make it more recognizable and usable by Bulgarian companies. There is a great potential for growth but first we have to educate the market. This could not happen without our highly-experienced team members and the support they received and are receiving by the FCI courses. We definitely will recommend FCI Education to other FCI members.

JB: That's a great endorsement of the value! In FCI, we are constantly looking to build and develop our education solutions; what could be done to make them even better at meeting your needs?

FP: We think that, considering the increasing number of members and the expanding worldwide member base, it will be more convenient to have interactive online or regional-based specialized training on different subjects and workshops.

JB: That's important feedback, thank you! The use of technology to reach ever larger numbers of people more efficiently is certainly an opportunity to be developed!

Frederika, a very big thank you to you and your team in sharing your thoughts and experience of FCI's education offerings and for explaining the support they provide to you. I'm quite sure that readers will be really motivated by your comments, with a better understanding of the opportunities and a real desire to follow your inspiring example.

EDUCATE

FCI INVITES YOU TO ATTEND TWO OUTSTANDING TRAINING EVENTS

LEGAL TRAINING ON GENERAL RULES OF INTERNATIONAL FACTORING
MIAMI, USA, 20-22 SEPTEMBER 2017

FCI has developed a new training: "Legal Issues", with a special focus on everything there is to know about the General Rules of International Factoring (GRIF).

Format and Style:
- Plenum presentations with smaller group discussions
- Q&A sessions with practical examples and genuine cases
- Members of the FCI Legal Committee will act as trainers

The Training will focus primarily on the GRIF, the background of certain articles, the implications for day-to-day business and the delicate balance in keeping the GRIF an acceptable document for both the group of Export Factors and the group of Import Factors.

There will be ample time for Q&A sessions, enabling the participants to raise questions or concerns in connection with the GRIF (and the Interfactor Agreement).

Discuss with experienced lawyers from markets around the world

Learn from global legal factoring professionals

Get a better understanding of the GRIF (General Rules of International Factoring)

Develop a deep understanding of the legal implications relating to cross border factoring

Please **register before the Friday 8 September** on our website. More details in the brochure

EDUCATE

WORKSHOP ON SOLUTIONS FOR OPEN ACCOUNT RECEIVABLES FINANCE HO CHI MINH CITY, VIETNAM, 10-12 OCTOBER 2017

The Workshop is the only truly international comprehensive and integrated training on the theory and practice of the open account receivables finance products. Covering all key areas such as *factoring, forfaiting, invoice discounting, supply chain finance, reverse factoring, asset based lending* and many other products this workshop enables participants to gain knowledge on the most important issues within the Receivables Finance Industry.

Highlights of the Workshop

- Introduction to the different forms of Receivables Finance
- Value of open account receivables
- Foundation skills in Receivables Finance management: Marketing, Sales, Risk Assessment and Monitoring

For the participant, attending is great for acquiring market valuable skills and developing your career. As with all FCI educational events, you will also have ample opportunities to meet new colleagues, exchange experiences and discuss bilateral business.

For the employer, there's the knowledge that your participant will receive the highest level of input from a range of industry experts and will develop a skill set that's hugely valuable to you.

Learn from the experienced factoring professionals from Europe and Asia

Get a better understanding of the Receivables Finance Industry

Network with peers to exchange experiences and best practices

Don't wait and **register before the 15 September** on our website. More details about programme and speaker in the brochure.

DEAR FCI

AYSEN CETINTAS
Education Director

This new area in the newsletter is answering the most asked questions to FCI Secretariat. If you wish to have one answered here, don't hesitate to contact FCI Secretariat.

Question: As a Member of FCI, we look for training courses to educate our team members who are new in factoring business. How can FCI help us?

Answer: FCI's **e-learning Foundation Course** offers a comprehensive introduction to the full range of products and provides an overview of international factoring, including a brief history of the industry as well as details on the different types of factoring, benefits, methods and mechanism of the two-factor system.

The study material consists of interactive learning modules and practical case studies.
- An overview of factoring
- FCI
- Seller selection & onboarding
- Managing the seller

The Foundation Course, which is offered four times a year in January, April, July and October, is suitable for new and recent entrants to the industry and is appropriate for staff employed at all levels within the industry with less than 12 months factoring experience.

Learn more here or see page 28 for more details.

Question: We are a new Member of FCI and want to get started in international factoring easily and quickly. Does FCI provide us with any special training programme?

Answer: FCI welcomes the new members with an education package containing three different training models.

- *Video conferences on selected topics by experienced factoring professionals.* New members will select the desired modules up to 4 hours.
- *Tailor-made in-house training programme* which enables you to create your own training according to your learning needs. The interactive programme lasts two to four days and is available for members who have joined FCI during the past two years. The purpose is to offer guidance in the process of setting up the two-factor business and facilitating the new member's integration into FCI.
- *FCI Mentoring Programme* aims to match experienced volunteer members (mentors) with recently approved and inexperienced members in FCI (mentees) for the specific purpose of providing support, guidance, showing best practices, giving helpful tips and passing knowledge to the mentees.

Learn more here or have a look on page 29 for more details.

Question: We are not an FCI member. Can we register our employees for the FCI courses and can we attend FCI seminars?

Answer: FCI **e-learning Foundation Course on Domestic and International Factoring for non- members** is for you!

This course offers all new factoring staff a comprehensive on-line introduction to the industry.

The FCI Foundation Course provides an overview of factoring including a brief history of the industry and information about FCI as well as the different types of factoring and receivables finance products, benefits, methods, factoring business process and the mechanism of the two-factor system.

FCI offers this course four times a year; January, April, July, October.

The course is offered in **English, Spanish and Chinese**

Learn more here

Invited "observers" can attend **FCI seminars**.

Please contact the FCI Secretariat for more information in case your company has an active interest in offering international factoring services and wishes to be invited as an "observer" to any of the FCI seminars.

Learn more here

"FCI Courses are well structured tools to educate our team and to expand their knowledge of factoring. For newcomers FCI Foundation Course is a well organised and comprehensive introduction into the world of factoring."

BNP Paribas Fortis Factor NV

EDUCATE

FCI FOUNDATION COURSE ON FACTORING

E-LEARNING

Curso Fundacional de Factoring Internacional

国内及国际保理基础课程

Foundation Course on International Factoring

This course offers all new factoring staff a comprehensive online introduction to the Industry. The FCI Foundation Course provides an *overview of factoring* including a brief history of the Industry and information about FCI as well as the different types of factoring, benefits, methods, factoring business process and the mechanism of the two-factor system.

The course comprises of four modules and a glossary.

- ***AN OVERVIEW OF FACTORING***
- ***FCI***
- ***SELLER SELECTION & ONBOARDING***
- ***MANAGING THE SELLER***

This course is suitable for new and recent entrants to the industry and is appropriate for staff employed at all levels within the industry with less than 12 months factoring experience.

Participants take an online multiple choice examination covering the study material. Those who pass receive the FCI Bronze Certificate on International Factoring.

Next study term begins on 2 October 2017, registrations are open till **15 September.**

The course is offered in **Spanish, Chinese** or **English**.

More information and registration: https://fci.nl/en/education/online-courses/international-factoring-foundation-course

NEW MEMBER WELCOME PACKAGE

I am a new member what is available for me?

The idea behind the new extended education offer is to support all new members regardless of their type of membership with the same standard education package. Our objective is to furnish the new FCI members in all markets with the *standard knowledge and skills* which will *facilitate their integration into FCI and the two-factor system* and to assist them in generating quality factoring business.

As new member, you have access to a number of education tools free of charge and additional tools against payment. Don't miss to take the opportunity to train your team!

Online

- FCI Quick Start Guide
- FCI Guide to the Establishment of a Factoring Operation
- One free registration for the Foundation Course per member, provided that the company commits to enrol a second student to the Foundation Course against payment within the consecutive 12 months after the registration of the first student.
- One free registration for the Intermediate or Advanced Course per member, provided that the company commits to enrol a second student to the Intermediate or Advanced Course against payment within the consecutive 12 months after the registration of the first student.
- Video conference sessions on selected topics by FCI Directors (maximum 4 hours)

FREE SUPPORT TO NEW MEMBERS

Onsite

- One free registration for any seminar/ workshop (travel and accommodation expenses excluded) within 24 months after the admission.
- FCI Mentoring program: The program aims to match experienced volunteer members (the mentors) with new and inexperienced members (the mentees) for the specific purpose of providing support, guidance, giving practical and helpful tips and passing on know-how to the mentees.

Video conference topics:

- *Introduction to Factoring, Two-Factor System and FCI*
- *edifactoring.com*
- *Introduction to Operations of the Two-Factor System*
- *Introduction to Risk Management in International Factoring*
- *Basics of Seller Selection and Control*
- *Basics of Dispute Prevention and Handling*
- *Basics of Fraud Detection and Prevention*
- *Basics of Selling Factoring*
- *Legal Matters*

WEBINARS:

THE NEW TOOLBOX IN FCI EDUCATION

SPYROS TSOLIS
Education Officer

Education throughout the world is undergoing various changes as demand to provide education for greater number of students is increasing and to do so using *new technologies to make learning and teaching more attractive and effective*. Visual learning is becoming popular as recent research has shown that almost 90% of information transmitted to our brain is visual and visuals are processed 60,000X faster in the brain than text. Just think for a moment how easier we capture the information contained in an infographic rather than reading complex tables with numbers and rich text.

In FCI, being a global organization, we need to adjust to such changes and have the flexibility to adapt new technologies to better serve our members. In this context, FCI Education will be soon enhanced with Webinars, a modern, on-line, web-based video conference tool, used widely for training and education purposes. Webinars use graphics for visual learners, voice recordings and have plentiful interactive features that may be combined. In addition, webinars are operationally easy for both presenters and participants, no special equipment is needed, have the possibility for a large audience to attend.

Taking advantage of this modern tool, FCI is about to introduce a series of Webinars on specific factoring related topics, to support the training of our new service "FCIreverse" as well as to elaborate on new concepts introduced in FCI. Moreover, our already successful on-line training for new members will be further enriched with Webinars, continuing to provide high level support to our new members.

Webinars, a modern, on-line, web-based video conference tool


On the way, we will always be your safeguard
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Dialogue with Asia Director

Taiwan: the factoring volume is higher than estimated

LEE KHENG LEONG
Asian Chapter Director

MANDY CHIEN
Taipei Fubon Bank

Prior to the emergence of China, Taiwan was not only the largest factoring country in Asia but also with the highest number of members in FCI. Whilst the number of members remain unchanged, the volumes decline progressively. This is somewhat a myth as unlike many countries, factoring is an integral part of the Taiwanese banking activities. I took this opportunity to interview Ms Mandy Chien, First VP of Taipei Fubon bank (MC). She was formerly a member of the FCI Marketing and Communication Committee.

KL : Taiwan is the second largest factoring market in Asia especially in international factoring and is a showcase for Asia and the World. What are the main reasons for this?

MC: The main reasons are: 1. Taiwan's domestic market is very small, so international trade is an important engine of the economy. In 2016, export and import account for 62% and 50% of GDP respectively. 2. As many Taiwanese companies moved their manufacture base to China, many international trade transactions between Taiwan and China are among Taiwanese companies, which were used to be domestic trade ones.

KL: Why is there a gradual drop in Taiwan when both Singapore and Hong Kong are catching up?

MC: First, due to pricing competition, some customers, especially the big ones, bought credit insurance on their own, and thus some factoring volumes have been transferred and booked under trade credit policy. Secondly, attributed to their lower USD funding cost, foreign banks in Taiwan, such as BOA, Citi, ANZ, Mizuho, BTMU…, have grasped many big-size factoring deals. As the foreign banks are not FCI members, their volumes are not counted in the statistics provided to FCI.

KL: So, the actual factoring volume is much higher?

MC: Yes, there are some banks providing factoring/invoice discounting services, but they are not FCI members, so the actual factoring turnover in Taiwan should be higher.

KL: Unlike many countries there is hardly any non-bank factor in Taiwan. Why is this the case?

MC: Taiwan is over banking, so a non-bank factor in Taiwan is hard to compete with a banking factor, in terms of product variety and pricing.

NON-BANK FACTOR IN TAIWAN IS HARD TO COMPETE WITH A BANKING FACTOR

KL: What is the percentage of MSME in Taiwan?

MC: Do you mean "SME"? If yes, around 97% in terms of number of company.

KL: As you know according to a WTO study export factoring helps MSME to have access to international trade. Wouldn't the lack of non-banks factors affect the Taiwanese MSME access to international trade as banks are typically financing large corporates?

MC: As SMEs are the mainstream of Taiwan, the government has some programs and policies for banking industry to support SMEs, such as "Small and Medium Enterprise Credit Guarantee Fund of Taiwan", subsidies for policy-based loans or specialized-industry loans, and policy or license permit incentives if banks can reach the SME facility goals. According to the financial statistics published by Banking Bureau of Financial Supervisory Commission, the loans balances as of April, 2017 provided to SMEs accounts for 58.5% of total loans to private enterprises by banks in Taiwan.

KL: How are the Taiwanese banks responding to the government strategy to move to South East Asia and South Asia?

MC: Due to different regulations, languages and cultures and limited Taiwanese corporates in the South-East Asia, Taiwanese banks are making prudential and careful assessments for any expansion plan in South East Asia and South Asia. In addition, the scale of most Taiwanese banks are relatively small, comparing to global or regional banks in these area, so it is not easy to tap into local market and make profit.

KL: What is the future of factoring in Taiwan? Would it continue to be a show case for the other Asian countries?

MC: In the past, factoring in Taiwan was growing in line with the booming of electronics & technology related industries. As many of them have moved out, we need to transform and find out blue ocean strategy to continue the growth.

Thank you Mandy for this very interesting information on the Taiwanese market.

INFLUENCE

The EUF: representing the Factoring Industry in Europe

ERIK TIMMERMANS
Deputy Secretary General

Final analysis of data collated by the EU Federation for the Factoring and Commercial Finance Industry (EUF) shows that factoring and commercial finance volumes in the *EU grew overall in 2016 by 6.2% to €1.5 Trillion*.

Factoring is playing an increasingly important role in supporting SME's in the EU, even during difficult economic times. The rate of growth outpaces the increase in GDP in Europe and demonstrates the vital role factoring and commercial finance is playing in developing the real economy, providing principally SME businesses with much needed working capital. This success story is about real growth, real employment and demonstrable business success in supporting the ongoing recovery. Around €200Bn of funding is supporting around 180,000 European businesses. With factoring and commercial finance now representing around 10.4% of EU GDP, this is a *powerful and important contribution to EU economic development and success*. And this support does not lead to increased risks for the financial system, quite on the contrary as illustrated by the findings of the EUF's White Paper (https://euf.eu.com/what-is-euf/whitepaper-factoring-and-commercial-finance.html) that demonstrated a *LGD* (Loss Given Default) *in factoring that is four times lower than the LGD in non-secured bank lending*.

The EU Federation for Factoring & Commercial Finance (EUF) is a division of FCI, bringing together *14 National Associations in Europe* together with FCI in a joint effort to represent and defend the Factoring's industry's interests with all European stakeholders, such as the EU Commission, EU Parliament, European Banking Authority and European Central Bank. Since 2009 the EUF has been permanently *monitoring EU legal or prudential initiatives that could influence the Factoring Industry*. Many position papers were published on a multitude of topics such as Capital Requirements, Liquidity Coverage Ratio, Net Stable Funding Ratio, Shadow Banking or Anacredit. In many of these issues, the voice of the Factoring Industry is heard by policy makers.

In the specific case of the *LCR* (Liquidity Coverage ratio), the EUF obtained a *derogation for factoring*. Without this derogation the industry's activities would have been severely damaged. We expect a similar positive result for *NSFR* (Net Stable Funding Ratio). We received some encouraging signals at recent meetings with the permanent EU representatives from an important number of EU member states, amongst them Estonia, holding currently the EU Council Presidency.

FACTORING AND COMMERCIAL FINANCE NOW REPRESENTING AROUND 10.4% OF EU GDP

But the EUF does not limit its activities to monitoring and reacting. It also has an important *pro-active role in raising awareness and understanding about Factoring & Invoice Finance*. The comparative *Legal Study of Factoring environments in Europe* which was first launched by ABFA and IFG in 2006 is under review for an update that will be published in the coming months. *A glossary in 8 languages* about terminology related to factoring is published and updated regularly. The EUF plays an active role in the development of the *harmonization of e-invoicing in Europe* and has obtained that the assignment of an invoice is part of the core information of a standard e-invoice. Connections are made with like-minded organizations such as Leaseurope. Yearly the statistics for Factoring in Europe are published and commented by the EUF. A very useful *Introductory Brochure on Factoring* has been published and can be downloaded from the EUF and FCI website.

Last but not least, the EUF organizes together with FCI a yearly EU Summit, bringing together the *entire European Factoring Industry to discuss trends and evolutions*. The fourth EU *Summit will be organized in Athens* (with the kind support from the Greek Factoring Association) on Tuesday-Wednesday *6-7 March 2018*. More information will soon be available on the FCI website.

Erik Timmermans
Deputy Secretary General FCI
Chairman EUF

The Role for Trade Credit Insurance in Risk-Weighted Asset Optimisation

MADELEINE BEST
Euler Hermes

Across the banking industry, credit risk has long been established as *the primary driver of institutions' capital requirement levels*. The ever-changing regulatory framework applied to both banks (Basel III) and Insurers (Solvency II) has driven increased collaboration between the two industries. Banks view the insurance market as a non-systemic, highly rated, regulated and non-competing risk distribution alternative to achieve efficient portfolio management. As banks shift from an 'originate and hold' mentality to an 'originate to distribute' model, they are seeking to set up a range of tools with which to distribute credit risk and insurance is becoming an important option.

Trade Credit Insurance (TCI) protects against non-payment due to commercial or political loss and is increasingly used by banks as a strategy to transfer credit risks to which they are exposed. This solution achieves overall credit risk reduction, reduces risk concentrations and enables banks to seek capital relief. Although the traditional benefits of TCI remain just as important, it is this new, capital relief-driven benefit, which has developed rapidly due to the post-financial crisis banking environment.

The global banking sector is now facing a reformed regulatory framework that requires it to set aside more capital and a greater quality of capital; *reducing-weighted assets* (the yardstick for banks' riskiness of assets) is now top of the agenda. Many banks have nailed their colours to the mast by setting ambitious risk-weighted asset reduction targets.

The challenge for TCI to help in this regard is its *adaptability*. Traditionally TCI cover has been purchased by banks and factors to allow for non-recourse factoring and to give greater insight into buyer risks. In essence the policy wording, though adapted for financiers, remains unchanged from a standard offering. In order to support banks with risk-weighted asset optimisation, the product must adapt to meet the Basel Committee's requirements of placing

control into the hands of the bank and achieving timely claims payments. As with any situation when lawyers are involved, the interpretation of these points differs widely so the agreement on a wording which satisfies the bank and insurer involves close collaboration and consultation.

The resulting capital gains will depend on the bank's internal model and whether the TCI enables a Loss Given Default adjustment or a full Probability of Default swap. Either way the *financial strength of the insurer is of upmost importance*. This gives Euler Hermes a great advantage in the field of trade credit insurers as its S&P AA- rating holds a lot of weight in the mitigation calculations and leads to significant potential benefits. Euler Hermes rating paired with its experience and knowledge in this specific area makes it an all-round preferred partner with whom to optimise risk-weighted assets.

The company also has a wide range of products that go beyond just the insurance of receivable finance activity; their insurance products can cover a variety of Trade Finance risks (including performance bonds and guarantees), Project and Export Finance and Structured Finance such as securitisations – all with the capacity to optimize risk weighted assets.

This proposition is most exciting for those factoring organisations owned by banks or those that must abide by banking regulation in their local market. We welcome you to get in touch to discuss further and look forward to meeting other FCI members at upcoming events.

The product must adapt to meet the Basel Committee's requirements of placing control into the hands of the bank and achieving timely claims payments

Factoring: Hello financial institution!

GERT DEMMINK
Philip Sydney

- **Introduction**

Over the years, oversight and the intensity of the oversight have increased. Regulators expect us to meet regulatory objectives such as: effective competition, good conduct of business and financial integrity. It is safe to say that *many core banking principles of an effective banking supervision and regulation also applies to us*. And: enforcement has stepped-up as well, in many jurisdictions. Therefore, we have to work hard in order to effectively cope with these challenges.

However: there is a *lack of level playing field throughout the world*. Not all the rules and regulations are the same for us and regulators have an almost Kaleidoscopic view on risk management and compliance. The consequence is that identical cases are handled differently. An issue derives from recognizing the commercial status of our industry and effects the regulation structure. In some of the countries factoring is recognized as a commercial activity and is subject to commercial law. In other countries factoring is qualified as a financial service and subject to financial law. To establish a European level playing field, the European Commission introduced the 4th Anti-Money Laundering Directive (4th AMLD). And as often: with good things come less desirable things. In this case: we now are qualified within the EU as correspondent relation.

- **Factoring Risks**

Our business can be qualified as a financial service. An example is the IMF qualification of factoring: factoring companies are financial institutions that specialize in the business of accounts receivable management. With the accounts receivable management certain risks management actions are to be undertaken. One of the risks we face is *money laundering*. Money can be laundered through third party payments. For example:

- We pay an invoice but there is no actual movement of goods;
- No services are provided;
- The goods perish; or
- The value of the good is not in line with the credit.

An additional risk is the moral hazard problem. This issue occurs when we cannot observe the seller's credit management efforts when the entire receivable is sold. As of that moment the seller has no incentive to monitor that receivable, it is no longer his risk and as a factor we are at risk. So, we want to know more about our customers.

- **European approach**

To tackle inter alia factoring risks and to establish a level playing field Europe introduced the 4th AMLD. Maybe you have noticed the change of the 4th AMLD but did not directly appreciate how this change affects our factoring world. In the correspondent relation definition in the 4th AMLD the word "financial institution" is added. This definition is explained in the Capital Requirement Directive IV (CRD-IV). CRD-IV lists factoring activities in annex I as activities performed by a financial institution. Therefore, now we qualify as a financial institution and we are in-scope of the correspondent relation definition.

- **Effects on our business: correspondent relation**

Banks and other financial institutions are now required to ask us for our anti-money laundering and counter financing terrorist (AML/CFT) framework in order to assess our ability to effectively counter risk and to be able to assess for themselves whether the framework is effective too. This assessment will include our KYC procedures which we have introduced via the FCI, our transaction due diligence where we rely on outsourced CDD and our overall risk management quality. Due to these developments, it is of utmost importance that we translate these changes in our AML/CFT framework in such a way it will satisfy banks and also regulators. At the FCI level there are currently discussions on how we can tackle this issue.

Would you like to discuss specific correspondent relation topics or do you want to share your views? You can contact FCI's Compliance Committee by sending an email to Erik Timmermans timmermans@fci.nl

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