



Factoring in the 21st Century

The economic relevance of
factoring and trade finance in Europe

May 2013



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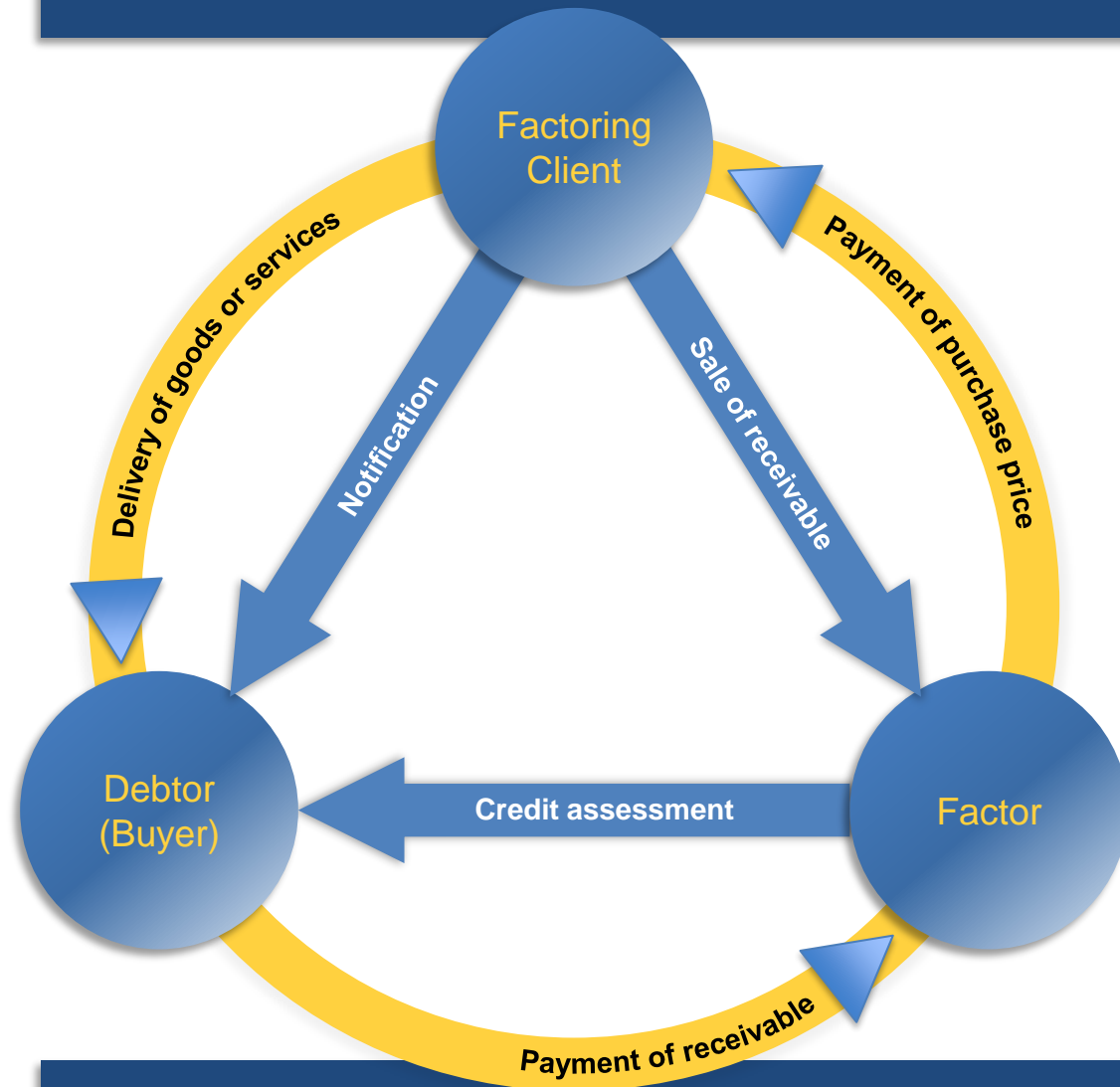
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What is factoring?

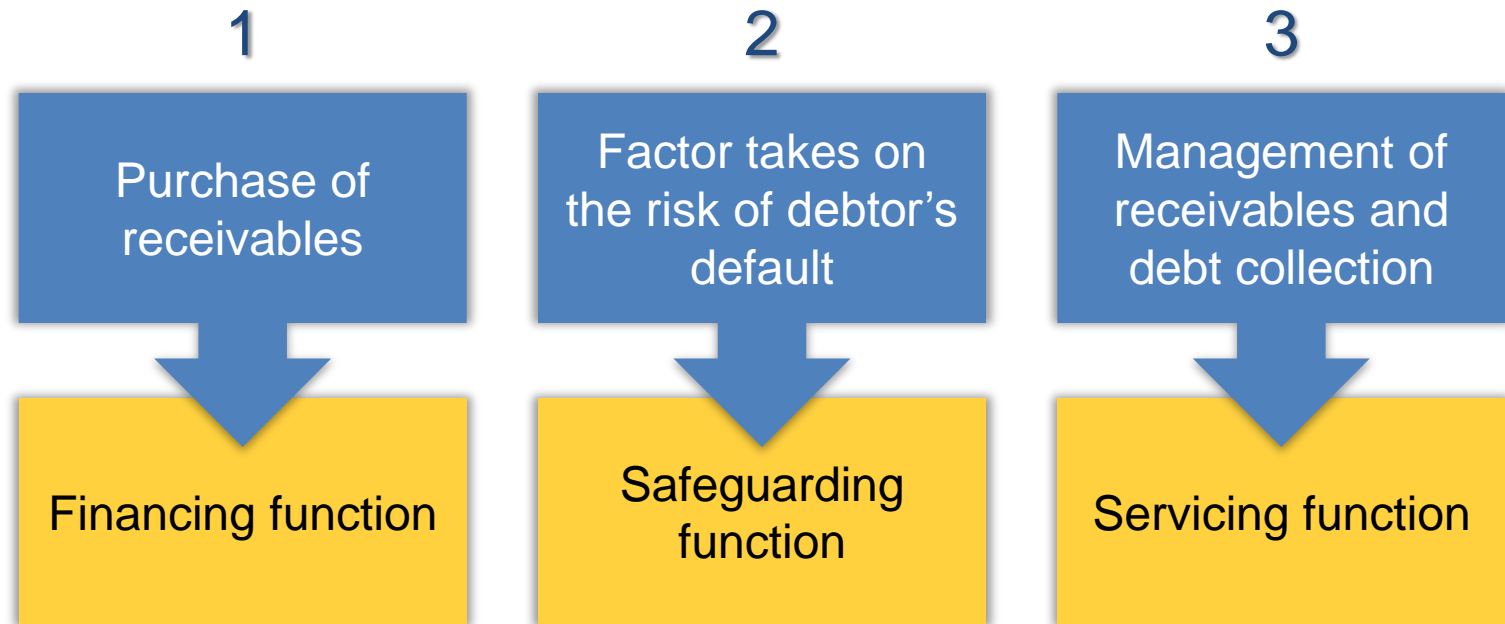
The cycle of factoring

Terminology

- The **Factor** is a financial entity providing Factoring facilities
- The Factoring **Client** is a supplier business which has a contractual relationship with a Factor or an Asset based lender.
- The **Debtor (Buyer)** is a business that has been supplied with goods or services by the Client and is obliged to make payment for them.
- An **Assignment** is the transfer of Receivables from the Assignor to the Assignee
- The **Assignor** is the entity disposing of an asset by an Assignment
- The **Assignee** is the entity to which a Receivable is assigned



The three functions of factoring



Main types of factoring

Full-Service Factoring	The Factor provides the Assignor with all the following services: <ul style="list-style-type: none"> ▪ Advance of a percentage of the amount of the receivables assigned; ▪ Receivable management and collections; ▪ Credit protection.
Maturity Factoring	The Assignor receives from the Factor the payment of the receivables on their due date or on a certain, fixed and pre-agreed date
Non-Recourse Factoring	The Factor offers a credit protection service, therefore the credit risk of debtor failure remains with the factor.
Recourse Factoring	The credit risk of Debtor failure remains with the Assignor (no credit protection service).
Reverse Factoring (or Supplier Finance)	The agreement is set between the Factor and a (usually strong) Debtor. The Factor offers the Debtor's suppliers the possibility to assign any receivable approved for payment by the Debtor.
Invoice Discounting	The Assignor assigns its receivables in exchange for an advance of a percentage of the amount but retain full control of its sales ledger function.
International factoring	Includes Import and Export Factoring, usually performed through the Two Factor System (two Factoring companies connected through an International Organization of Factoring: IFG or FCI)

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Who are factoring clients?

Who are factoring users?

Any size

- Particularly praised by SMEs
- But also large and major companies

Many economic sectors

- Manufacturing
- Distribution
- Services

Anywhere in the world

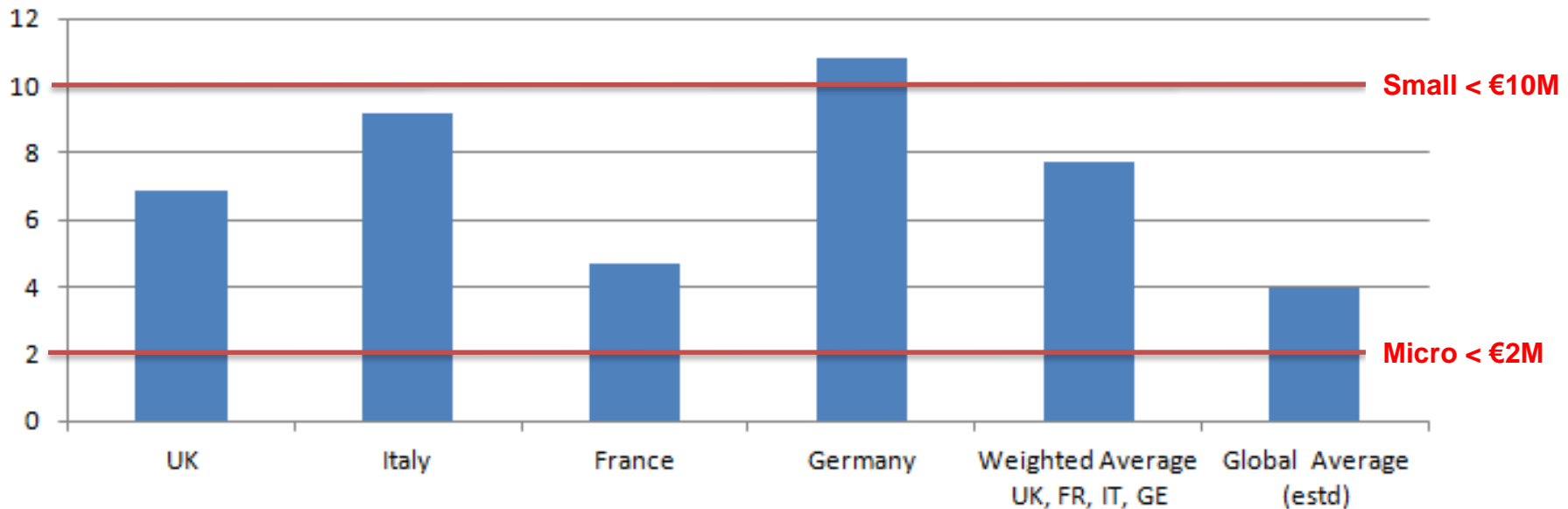
- Mainly domestic
- But powerful role in Import-Export (*Two Factor System*)

What are the benefits for the clients using factoring?

- **Prompt liquidity**
- **Financing according to turnover** rather than to collateral or track record
 - The focus is not on the factoring client but on its customers
- **Protection against defaults**
- **Secured national and international market expansion**
- Outsources **administration costs** and improves **debt collection performance**
- **Flexible**, it adapts as business grows

A popular form of alternative financing, praised by SMEs

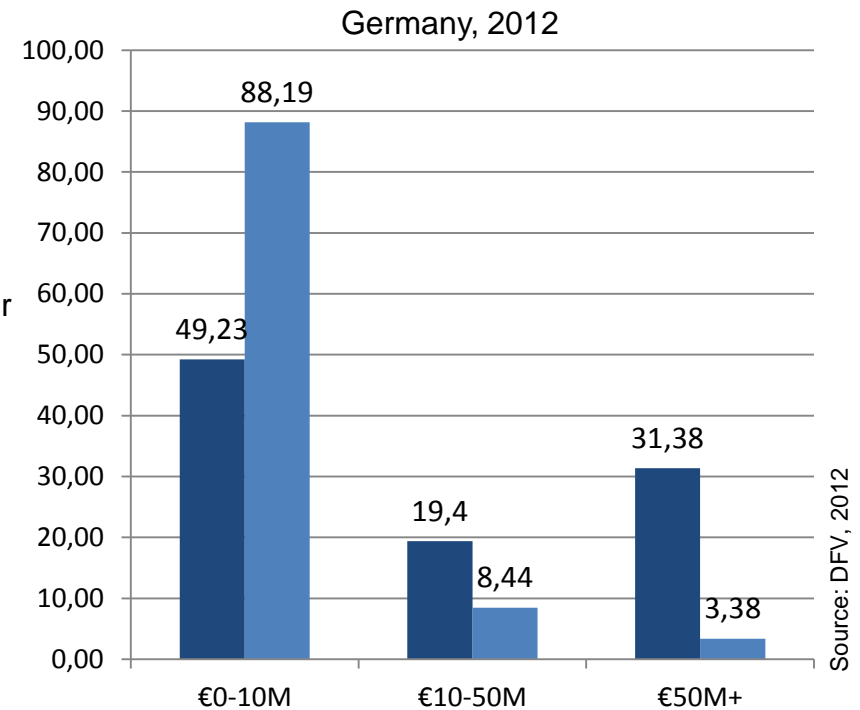
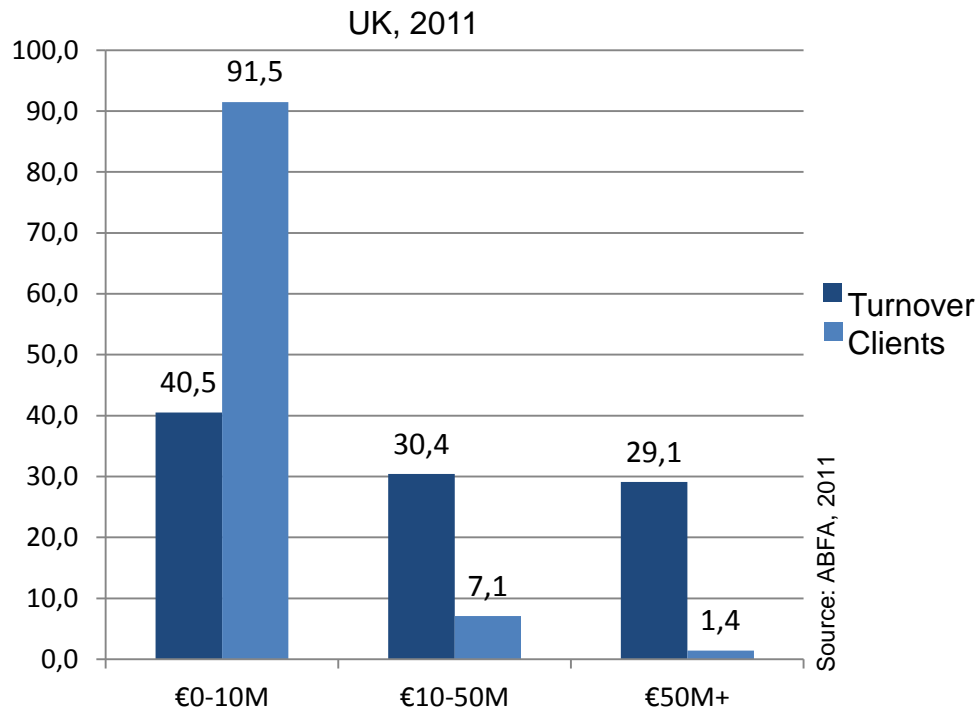
Average turnover per client 2011 (million €)



Sources: IFG statistics 2011

Factoring and SMEs, examples of the British and German markets

Factoring volumes in relation to total turnover and clients (%)



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European factoring market and future trends

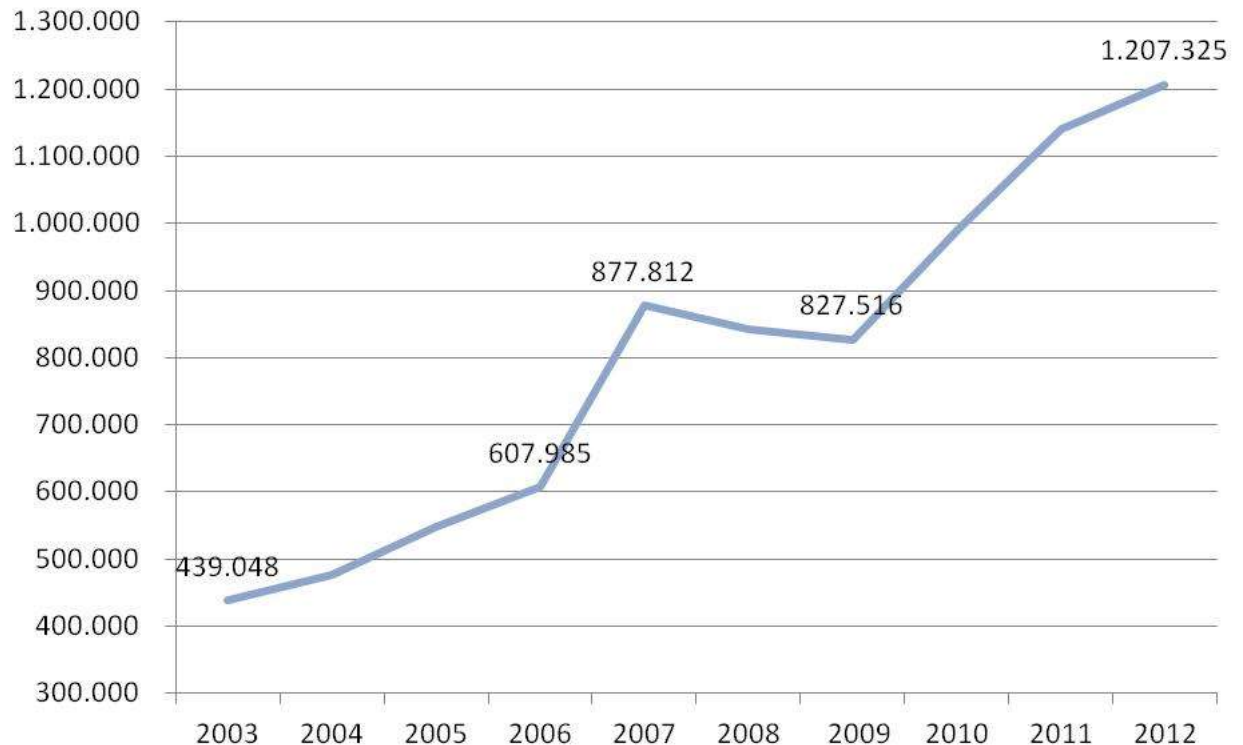
Evolution of factoring turnover in the EU

In recent years, firms and banks reached a **better understanding of the benefits of factoring**:

- Sound **management of the working capital** (from the users' point of view)
- **Lower risks and lower capital requirements** (from the banks' point of view).

This evolution contributes to the growth of the factoring market in Europe and should bring it closer to its potential in years to come.

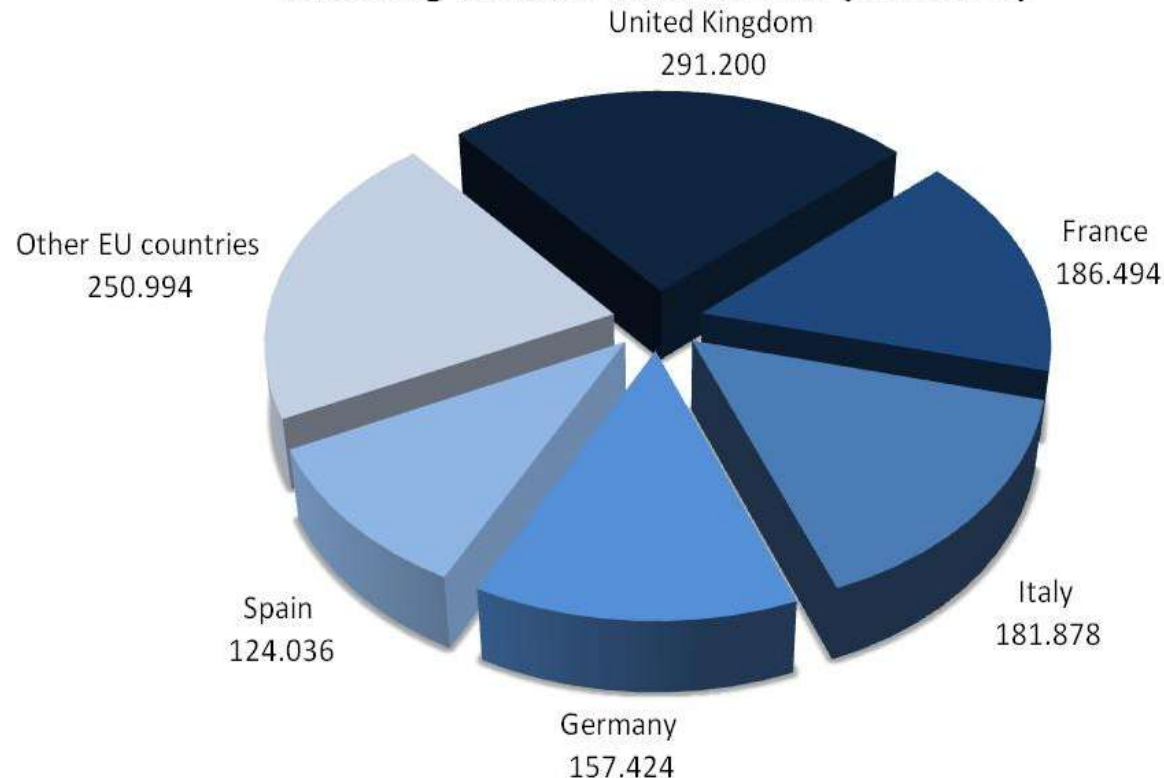
EU Turnover (millions €)



Sources: EU national associations, FCI and IFG statistics

Factoring turnover in the EU

Factoring turnover volume 2012 (millions €)



- 601,000 jobs currently supported by factoring in UK, FR, IT and DE
- Further 282,000 potential jobs to be supported by 2015 if « optimal » usage was made

Sources: EU national associations, FCI and IFG statistics

Source: GE, « The AR factor » study, 2011

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The EU Federation for the Factoring
and Commercial Finance Industry

EUF Missions

- Create a **common voice** for the **European Factoring Industry**
- Support the creation of a **more integrated and harmonised framework** and a **« level-playing field »**
- Build **awareness** of the **funding solutions Factors provide**
- Promote **understanding** of the **potential role of Factoring in supporting businesses**, especially but not only SMEs
- Create a **wider opportunity** for the **Industry to grow**

EUF Organisation

16 Members

14 National EU associations of Factoring and 2 International Organizations of Factoring





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