




Market analysis on Factoring in EU 25+2

prepared by International Factors Group (IFG)
for European Investment Fund (EIF)
project JEREMIE


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Erik Timmermans October 2006



Preliminary remarks on research

- Questionnaire sent to members/partners in 25+2 European countries
- Follow up by telephone
- Information on Luxemburg is integrated in report on Belgium
- Information on Ireland is integrated in report on UK
- In 3 countries : no information received on market shares:
 - UK (competition law) : estimates are included
 - Hungary and Sweden : not available
- In 5 countries : no estimates available on shares of different factoring products : Belgium, Lithuania, Malta, Poland, Romania.

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Preliminary remarks

- Percentage of turnover realized with SME's (European definition) and percentage of SME's using factoring services : only estimates, no detailed information available
- Only half of the countries could give an estimate of the number of Factoring Users : Austria / Cyprus / Czech Republic / Denmark / Estonia / Finland / France / Germany / Greece / Latvia / Netherlands / Poland / Slovenia / Spain / UK / Bulgaria
- The average turnover per client and the average borrowed amount are therefore mostly estimates

Summary of Findings

History of the industry

- On average, factoring is 23 years old in EU 25 + 2 (average year of first factoring operations : 1983)
- “Oldest” countries : Germany and Finland (1959)
- “Newest” country : Malta (2006)
- 2 big waves of start of factoring activities:
 - the sixties : the old EU countries
 - the nineties : the “new” EU countries
- In 16 countries, there is a national association of factoring companies (sometimes part of leasing association)


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Number of Market Players

- Only members of the national associations are taken into account (if association available)
- Average number of factoring companies per country in EU 25+2 : 13
- Number of players is relatively stable during the last 5 years.

Exceptions:

• Greece	from 6 to 11
• Italy	from 25 to 35
• Latvia	from 2 to 7
• Poland	from 7 to 10
• Slovakia	from 5 to 8
• Romania	from 3 to 8


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More info on number of market players

- Total number in 2006 in EU 25+2 = **316** factoring companies
- Countries with highest number:
 - UK & Ireland : 57
 - Italy : 35
 - France : 31
 - Hungary : 26
 - Spain : 21
 - Germany : 21

Perceived Trend in number of players


- 11 countries expect **new entrances** in the coming years :
Austria / Cyprus / Estonia / Germany / Greece / Latvia / Lithuania / Malta / Slovakia / Bulgaria / Romania
- 5 countries expect a **consolidation** in the market towards fewer players:
France / Hungary / Italy / Netherlands / Portugal
- The other 9 countries expect a **status quo**.

Market Concentration

- Average market shares in EU 25+2:


▪Number 1	48%
▪Number 2	20%
▪Number 3	14%
▪Total of 3 biggest	82%
- Least concentrated markets :

▪Germany	47% (20% - 18% - 9%)
▪France	51% (24% - 14 % - 13 %)
▪UK	(estimated market shares) : 53%
- In 9 countries (almost) 100% by 3 or less players:
 Austria / Belgium / Cyprus / Estonia / Latvia / Lithuania / Malta / Slovenia / Bulgaria


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Type of Company

- From the Top 3 Factoring companies:
 - 78,5% are subsidiaries of banks
 - 12,5% are divisions of banks
 - 9% have non-bank shareholders
- Factoring industry is clearly dominated by banks
- Banks prefer obviously to have a special factoring vehicle


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Type of Products offered

- No information available in 5 countries
- Average in EU 25+2:
 - 40% Invoice Discounting (with or without recourse)
 - 47% With Recourse Factoring
 - 22% Without Recourse Factoring
 - 2% Other (collection only, reverse factoring...)
- Big differences between countries

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“Invoice Discounting Countries”

• Sweden	95%
• UK & Ireland	83%
• Netherlands	75%
• Cyprus	74%
• Germany	65%

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The European Exception

Spain : 38% of confirming / reverse factoring



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Factoring Turnover

- Total turnover 2005 in EU 25+2 = **653 Billion €**
- Biggest markets:

– UK & Ireland	226 Billion €
– Italy	111 Billion €
– France	89 Billion €
– Spain	56 Billion €
– Germany	55 Billion €
- Emerging Markets:


– Malta	0
– Bulgaria	20 Million €
– Slovenia	223 Million €
– Romania	550 Million €
– Latvia	737 Million €
– Slovakia	837 Million €



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Estimation of SME's share

- EU 25+2 :
 - 69% of turnover realized with SME's
 - 80% of factoring users are SME's
- Countries with low SME share:
 - Spain : 40% of turnover realized with SME's
 - Germany : only 20% of turnover realized with SME's

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Total number of factoring users

- Not enough information to give a reliable figure:
Only 16 countries could give an estimate
- In EU 25+2 at least 100.000 companies use factoring

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Domestic vs. International Factoring

- In EU 25+2:
 - 78% is domestic factoring
 - 22% is international factoring
- Champions of international business:

• Bulgaria	90%
• Romania	37%
• Latvia	36%
• Lithuania	32%
• Slovakia	30%
• Denmark	30%

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Market awareness and acceptance

- Only in 4 countries, the market awareness is considered to be High.
- In 21 countries market awareness is Low or Average (equally spread).
- The market acceptance of factoring is slightly better than the awareness :
in 8 countries acceptance is considered to be High and in 13 it is considered to be average.
- Factoring still has an image problem, even though the situation is improving

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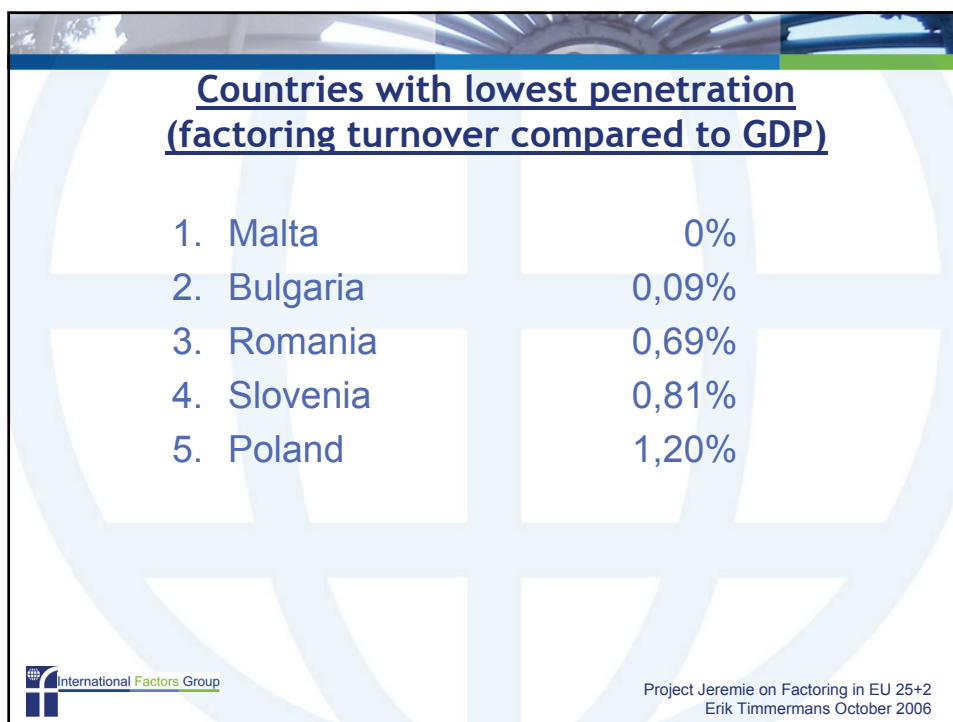
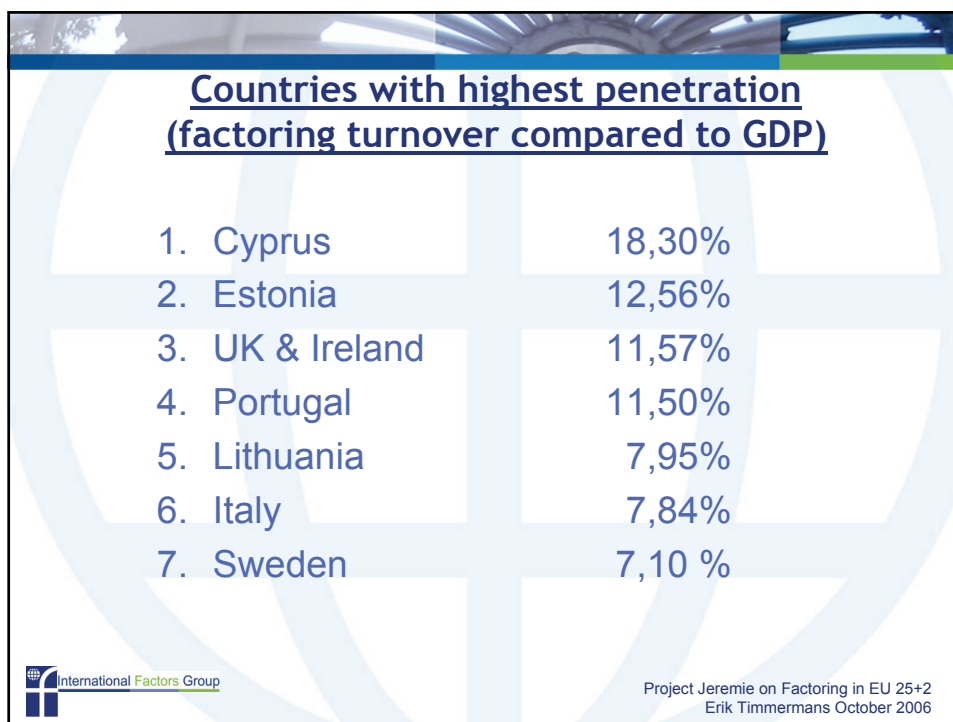
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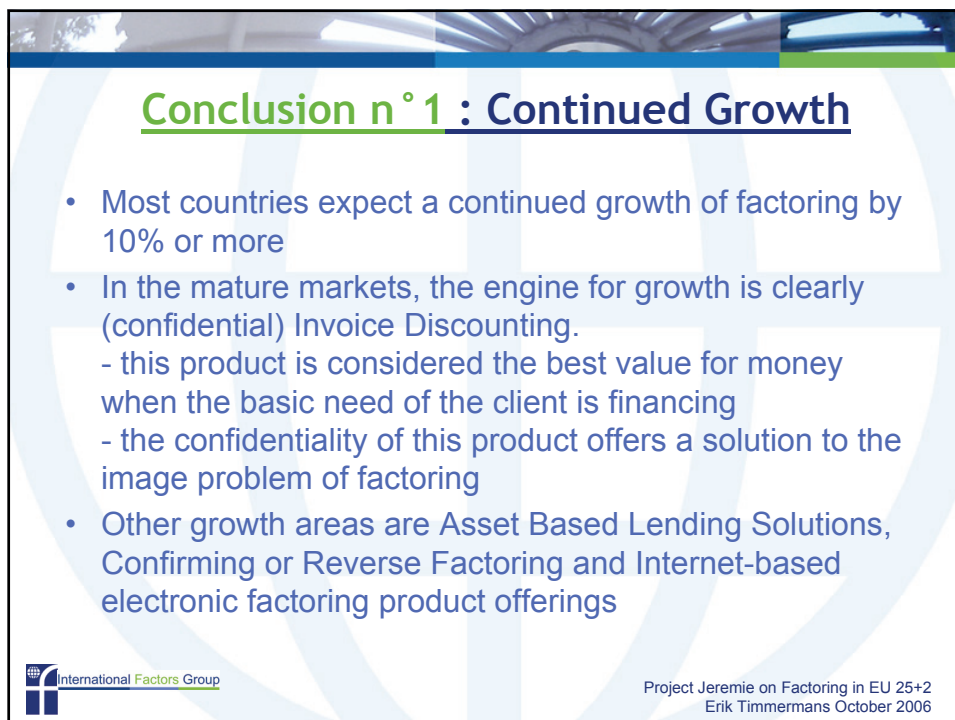
Government Regulation

- Only in 6 countries, there is a direct control on factoring (separate factoring law or within banking law) : Austria / France / Greece / Italy / Portugal / Spain
- In Malta and Bulgaria, there is a certain form of co-operation with the government to develop factoring
- Apart from some minor issues (recuperation of VAT on bad debts, fiscal treatment of bad debts...) there are no fiscal impediments, nor incentives towards factoring

Summary of Factoring Penetration

- EU 25+2 GDP in 2005 (source : Eurostat) :
10.947 Billion €
- Factoring Turnover : 653 Billion €
- Factoring Volume in percentage of GDP = 5,96%





Conclusion n° 2 : Contradicting relationship between Banks & Factoring companies

- Banks as shareholders of the factoring companies (or through their factoring division) play an increasingly active role in the development of the industry. Growth figures in factoring attract more attention from the banks.
- On the other hand, in most countries banks are considered to be the biggest competitor for factoring products.

Conclusion n° 3: increased professionalism

- Growth in factoring is also achieved by a growing professionalism of the service delivery systems. More standardized products for full service at very competitive fees are often considered to be the best differentiator from pure financing products.
- Powerful IT solutions are considered to be a competitive advantage to achieve both lower cost and better service.

Conclusion n° 4: Basel II and IAS-IFRS will influence the factoring market positively

- One of the driving forces behind the future growth of the factoring industry is clearly Basel II. Factoring companies can finance SME's at a much lower capital cost compared to classical banking products. Banks have become more aware of operational risks and look for ways to better control them.
- IT will again be a very important tool to fine-tune the capital cost calculations according to Basel II requirements.
- IAS-IFRS rules will lead to more factoring deals for off-balance operations.

Conclusion n° 5: image has to improve

- For an industry that exists since almost 50 years in Europe, the awareness of factoring in the market remains unexpectedly low.
- The acceptance is growing but in most countries there is still an image problem of factoring as "the lender of the last resort".
- Image is clearly one of the biggest barriers for the further development of factoring in Europe.

Conclusion n° 6: Government Regulation is not necessary

- In only 6 countries factoring is regulated through a (semi) banking license. There is no correlation between the penetration of factoring in the market and the government regulation.
- Since most factoring companies are subsidiaries or divisions of banks, there is already an indirect control by the banking environment.

Conclusion n° 7: Legal harmonization would help the industry

- The legal environments for factoring (assignment of receivables, insolvency laws, etc...) are very different in the 25+2 EU countries.
- This is a barrier to the market development on a European scale.
- A European harmonized legal environment is probably difficult to achieve, but could be an important driver behind future growth of the industry.

