

# Factoring and Commercial Finance

## A Whitepaper

The EU Federation for the Factoring  
and Commercial Finance Industry



January 2016

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## Executive Summary

The European Factoring and Commercial Finance (FCF) Industry is a success story.

It provides working capital to support businesses that drive the real economy in Europe.

Yet it is an Industry that presently is not always fully known or wholly understood at a regulatory and legislative level.

This Whitepaper is designed to build knowledge and change perceptions.

It demonstrates from existing and new research undertaken on behalf of the EU Federation for the Factoring Industry (EUF) that it:

- Is growing rapidly, the FCF Industry now supports businesses that have a combined turnover that represents 10% of EU GDP
- Provides funding of €170Bn to around 164,000 businesses, large, medium and small which together have a combined turnover of €1.37Tn
- Principally enables businesses in the Manufacturing, Services and Distribution sectors
- Is, in risk terminology, a low Loss Given Default (LGD) solution, providing opportunity for safe, secure funding in an increasingly risk aware regulatory environment
- Offers a unique combination of meeting user, provider and regulator stakeholder needs simultaneously; a real and unique win win in business finance

# **Part One: The European Factoring and Commercial Finance Industry - A Background**

## **Introduction**

The European Factoring and Commercial Finance Industry is a success story in supporting the real economy, growth and employment through the provision of working capital finance.

Factoring and Commercial Finance (FCF) holds perhaps a unique position in the provision of funding for business in that it can fairly claim to be a real win:win for users and providers.

Funding is made against the trade receivables (otherwise known as the debtors or sales invoices outstanding) of the user business, so there is no need for that business to be large, established and strong; the credit risk is distributed amongst the business' debtors. This makes the form of funding especially useful within the SME sector, although in recent years, larger scale organisations have also increasingly been taking advantage of the opportunities this form of funding can provide.

For a given level of receivables, FCF can provide a user with proportionately more funding than other sources, whilst for the provider the advance is more secure than the alternatives of traditional lending.

And yet despite this symbiotic advantage the EU Federation for the Factoring Industry (EUF) believes the solutions are still not used to anything like their full potential. We believe that amongst stakeholders, awareness of the unique character and contribution that FCF can provide is far from complete.

This White Paper is designed to provide a step towards opening up the industry for all to view, to show its success, its opportunity and to start to address some of the challenges it faces to reach its true potential.

We hope that you find it illuminating and inspiring.

John Gielen, Independent Chairman

On behalf of The EUF Executive Committee

## **Industry Development**

The early origins of Factoring and Commercial Finance (FCF) are open to some considerable debate; for example, some suggest they lie in the trade of the Roman empire, others the importation of tea from the UK colonial empire.

However, without doubt the modern movement originated at the end of the 19<sup>th</sup> century in the U.S. textile industry and this developed version migrated to Europe and started growing here significantly from the early 1960s.

What links all these historic stories are the core elements of an FCF relationship; the requirement of businesses for capital and the devolution of the expertise in management and control of customer relationships.

Whatever the origins, it is quite apparent that after around one hundred years of development, FCF has become a significant element within many countries' business finance systems.

It has established itself as a major source of finance and credit management for a growing number of companies, especially but not exclusively for Small and Medium Enterprises (SMEs).

Globally it is currently found in around ninety countries and is spreading continuously as its benefits and opportunities become more widely understood. In the year 2000, global volume was estimated to be in the order of €600 Billion; by 2014, the combined client turnover had grown exponentially to around €2.3 Trillion, which represents around 4% of global GDP.

Whilst volumes are in general growing rapidly across the planet, Europe for now remains the heart of the Industry with around 60% of global turnover domiciled here. That's around €1.37 trillion euros, or 10% of European GDP.

## **What is Factoring and Commercial Finance?**

FCF is a method of providing working capital to business and it occupies a unique place in the world of finance. Let's look at the drivers that have led to this position.

The global crisis of 2008, followed by the subsequent overall lacklustre and challenged state of European economies resulted in many companies, particularly SMEs, experiencing greater difficulty in obtaining traditional bank funding than ever before.

FCF providers however are generally experiencing increasing levels of new business enquiries and are continuing to write more new business than ever before.

The finance that FCF provide is principally secured by the underlying receivables. With a much reduced emphasis on the balance sheet, an FCF provider is able to offer significantly higher

levels of finance to companies experiencing strong growth or requiring support through change and restructuring.

In seeking to define FCF, it has to be understood that the industry and its products are diverse and varied; it is wide in scope and approach. There are variations depending on market development, user needs and significantly based on the varying legal and regulatory environments that pertain in the individual countries where it is found.

Language and terminology can also be divergent, although the EUF has recognised this challenge and has created a glossary of commonly used terms and a tool to translate these between five major European languages.

Accordingly, there is no one, simple universal definition; more realistically we have a family of products and solutions with common features and approach.

This diversity is also a result of innovation and continuous improvement, adaptation to local environment and adoption of latest technological advances.

But whilst acknowledging the variations, there are overriding common themes and attributes which closely link the range together in a coherent and effective manner.

Based on the UNIDROIT Convention, FCF can be defined as:

An agreement between the assignor (the client using the services) and the FCF provider (offering the services) in which the former assigns/sells its receivables (debtor sales invoices) to the FCF provider, which delivers to the assignor a combination of one or more of the following services:

- A Finance Function: payment in advance (depending on circumstances typically between 80% and 90%) of the total sales invoices offered for FCF (credit facility function). The balance, less the FCF provider's charges, is usually paid when the invoice(s) is/are paid by the debtor.
- A Ledger Management Function: receivables collection and management including the gathering of credit information about debtors, collecting debts, accounting, and the management of non-performing advances.
- A Credit Protection Function: bad debt protection, i.e. the FCF providers' assumption of the responsibility for a debtor's financial inability to pay.

The relative levels of provision and utilisation of these various functions will be considered later in the report. Broadly speaking, the most universally utilised and sought after element is the provision of finance.

## **EU Federation for the Factoring Industry (EUF)**

The EUF is the Representative Body for the Factoring and Commercial Finance Industry in the European Union (EU). It comprises fourteen national industry associations (representing fifteen countries) that are active in the region, together with the recently combined Factors Chain International and International Factors Group. Its members account for around 97% of the EU Industry turnover.

The EUF seeks to engage with Government, regulators and legislators to enhance the availability of finance to business, with a particular emphasis on the SME community, as businesses in this sector are the heartland of growth. The EUF acts as a platform between the Factoring and Commercial Finance Industry and key legislative decision makers across Europe bringing together national experts to speak with one voice.

Its aim is to provide these bodies with vital industry information to inform, influence and assist with the direction of existing and future finance legislation. It seeks to ensure the continued provision of prudent, well-structured and reasonably priced finance to businesses across the EU.

The FCF Industry has a valuable role to play in the EU economy and the EUF will work to engage in debate with all relevant stakeholders to ensure they are fully aware of the benefits that the Industry has to offer.

The EUF's aims are to:

- represent the Industry with EU policy makers and to promote harmonisation in the EU legal, fiscal and regulation environment
- promote an understanding of the benefits of Factoring and Commercial Finance as a first choice flexible form of growth finance for companies
- gather information and publish papers and statistics on industry related subjects
- observe legal and EU Policy initiatives affecting the Industry and to lobby in favour of policies that can support the growth and effectiveness of the Industry or lobby against initiatives that would create barriers for the Industry's growth or negatively influence the provision of this effective and efficient form of finance for business.
- encourage the establishment of Factoring and Commercial Finance activities in EU countries

More information on the EUF and its activities can be found at [www.euf.eu.com](http://www.euf.eu.com)

## EUF Members

Name	Country	Website
The Asset Based Finance Association (ABFA)	UK & Ireland	<a href="http://www.abfa.org.uk">www.abfa.org.uk</a>
Asociacion Española de Factoring (AEF)	Spain	<a href="http://www.factoringasociacion.com">www.factoringasociacion.com</a>
Association Professionnelle Belge des Sociétés de Factoring (APBF-BBF)	Belgium	<a href="http://www.febelfin.be">www.febelfin.be</a>
l'Association Française des Sociétés financières (ASF)	France	<a href="http://www.asf-france.com">www.asf-france.com</a>
Associazione Italiana per il Factoring (ASSIFACT)	Italy	<a href="http://www.assifact.it">www.assifact.it</a>
Czech Leasing and Finance Association (CLFA)	Czech Republic	<a href="http://www.cfla.cz">www.cfla.cz</a>
Deutscher Factoring-Verband (DFV)	Germany	<a href="http://www.factoring.de">www.factoring.de</a>
Factoring & Asset Based Financing Association Netherlands (FAAN)	Netherlands	<a href="http://www.factoringnederland.nl">www.factoringnederland.nl</a>
Factors Chain International (FCI+FG)	EU countries	<a href="http://www.fci.nl">www.fci.nl</a>
Finans og Leasing (FL)	Denmark	<a href="http://www.finansogleasing.dk">www.finansogleasing.dk</a>
The Hellenic Factors Association (HFA)	Greece	<a href="http://www.hellenicfactors.gr">www.hellenicfactors.gr</a>
Österreichischer Factoring- Verband (OFV)	Austria	
Swedish Bankers Association (SBA)	Sweden	<a href="http://www.swedishbankers.se">www.swedishbankers.se</a>
<a href="http://www.alf.pt">Associação Portuguesa de Leasing, Factoring e Renting (FLA)</a>	Portugal	<a href="http://www.alf.pt">www.alf.pt</a>
Polski Związek Faktorów (PZF)	Poland	<a href="http://www.factoring.pl">www.factoring.pl</a>

## Part Two: Our understanding of the Industry based on EUF Research in 2015

### Introduction:

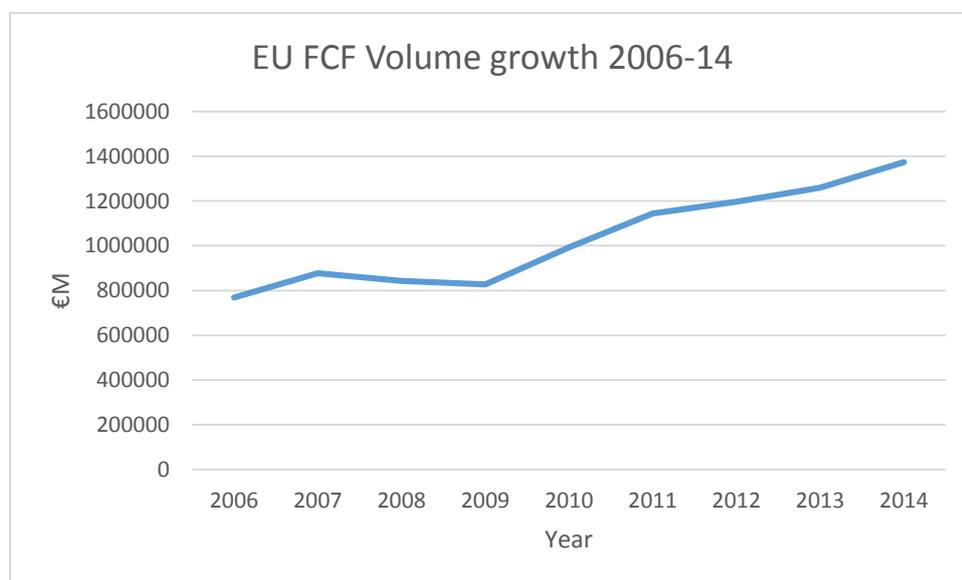
The EUF was instigated in 2009 and in its relatively short history has developed (inter alia) a reputation for the delivery of credible centralised data on the Industry. Driven by the Economics and Statistics Committee (ESC) under its Chairman, Diego Tavecchia of Assifact, the EUF now regularly collates numeric data which describe the shape, distribution and growth of the Industry.

In order to bring this information to the widest audience possible, this Whitepaper focuses on the key findings of the research that has been undertaken by the ESC in 2015 in Part Two.

It then introduces the separate results of the EUF's latest cross European Survey in Part Three.

### FCF development

The Industry has grown dramatically in recent years. The effects of the Financial Crisis, whilst visible on the trajectory, has had limited effect and certainly minimal compared with mainstream banking where lending (especially to SMEs) has remained increasingly constrained. The development demonstrated between 2006 and 2014 represents a 7.5% compound annual growth rate. From 2009 the equivalent figure is 10.7%.



Source: EUF data

Of course this figure is an overall view and inevitably masks different performances and rates of progress in the individual constituent countries whose respective positions vary both in economic performance but also in the relative development and performance of the embedded industries.

## FCF Volumes

The following table demonstrates the variations between the volumes and market penetration by EU Member country; it clearly reflects the individual economic environments whilst combining to create an overall picture of growth which massively outstrips the growth in EU GDP in the same period.

Country	Turnover (€M) 2014	% Change on previous year	GDP penetration	EU Market Share
Austria*	16458	16.64	5.00	1.20
Belgium*	55374	16.13	13.77	4.03
Bulgaria <sup>1</sup>	1728	1.65	4.11	0.13
Croatia <sup>1</sup>	2498	-20.25	5.80	0.18
Cyprus	2671	-5.38	15.26	0.19
Czech Republic* <sup>1</sup>	5912	12.77	3.82	0.43
Denmark* <sup>1</sup>	10463	16.36	4.07	0.76
Estonia	2010	5.85	10.29	0.15
Finland	20554	16.13	10.07	1.50
France*	226598	13.02	10.58	16.49
Germany*	189880	10.85	6.54	13.82
Greece*	13017	7.62	7.27	0.95
Hungary <sup>1</sup>	2827	12.85	2.74	0.21
Ireland*	25476	20.14	13.74	1.85
Italy*	183004	2.81	11.32	13.32
Latvia	680	14.86	2.83	0.05
Lithuania	5550	100.87	15.29	0.40
Luxemburg	339	-16.71	0.73	0.02
Malta	296	66.29	3.72	0.02
Netherlands*	57378	8.46	8.78	4.18
Poland* <sup>1</sup>	33497	8.99	8.13	2.44
Portugal*	21404	-4.03	12.27	1.56
Romania <sup>1</sup>	2700	-0.22	1.79	0.20
Slovakia	1036	-3.00	1.38	0.08
Slovenia	536	-14.38	1.44	0.04
Spain*	112976	-3.06	10.67	8.22
Sweden* <sup>1</sup>	28290	-1.83	6.59	2.06
United Kingdom* <sup>1,2</sup>	350622	6.19	15.81	25.52
EU Total Turnover	1373774	7.43	9.87	100.00
EU Members (*) <sup>1,2</sup>	1330349	7.23	10.14	96.84

\*EU Member States

1: % variation adjusted to avoid biases due to exchange rate fluctuations

2: Figures for previous year amended

Source: EUF ESC Committee, EUF Members, IFG, FCI

## Factoring and Commercial Finance characteristics

FCF is both a domestic and a cross border funding solution; the majority of business however is intranational domestic based. Cross border business is transacted either directly by the provider on its own (or through its own corporate international network), or through a specialist network of linked business providers in the recently merged FCI and IFG.

A majority of the business is conducted on what is described within the Industry as on a “recourse” basis. This means that the credit risk remains with the seller client. Alternatively, the user can choose a “non-recourse” basis, where credit default insurance is a feature of the transactions. Of course the decision as to which approach to use is driven by the individual circumstances of the FCF arrangement and the client user’s particular needs.

Increasingly within Europe, ownership of FCF providers is dominated by banks and banking groups, with delivery either through dedicated departments or specialist subsidiaries. The independent sector however continues to play an important role delivering specialist and bespoke solutions for particular client situations. It is also important in driving innovation in new solutions.

2014	EU Total	% of EU Total	Sample % of Turnover
Total Turnover	1,373,774	100	100
- Domestic	1,121,238	81.62	100
- International	252,535	18.38	100
Recourse	808,048	58.82	78
Non-Recourse	565,725	41.18	78
Bank owned	1,269,056	92.38	79
Non-Bank owned	104,718	7.62	79

Source: EUF ESC Committee, EUF Members, IFG, FCI

## **Part Three: The Latest Research**

### **Introduction**

The research undertaken to date by the EUF and described in the previous section has shown the large scale picture of turnover, advances and product types. This new research goes beyond this overview and creates the opportunity to understand better the make-up and characteristics of the market, to appreciate the impact, effectiveness and potential for FCF in Europe.

### **Aims**

The purpose of this latest research is to try to understand better the full picture of the user demographics:

- The sectoral distributions of users: In which sectors do they operate?
- The type and size of user: What is the profile of the user group?
- Critically, and for the first time, it seeks to dispassionately assess the (well understood within the industry) premise that FCF is a low Loss Given Default (LGD) product for the providers. Until now this “knowledge” has been based on anecdotal and personal perceptions and has not been supported by any independent survey or analysis.

### **The survey**

The survey was designed by roundwindow Consultancy Services in conjunction with the ESC and the Executive Committee of the EUF.

The sample population was drawn from the membership of the EUF’s members. Fourteen National Associations representing fifteen countries were requested to take part.

The survey was launched in September 2015 and data collection completed by mid-December. roundwindow would like to thank the National Associations for their critical role in supporting the survey and encouraging their members to participate in this important information gathering process.

Data received was a mixture of individual companies’ responses and collated information provided by National Associations where available.

Critical to the success of this exercise has been the fact that Survey responses were received and depersonalised by an external independent agency Euralia to ensure that the data to be analysed by roundwindow was fully anonymised and not traceable to an individual company. The EUF gratefully acknowledges the vital support given by Euralia in this regard.

## Participation: Sample sizes, distribution and significance

Responses relating to 80 different companies were received. Sample sizes varied according to the sensitivity and detail required of the question and the participants' individual ability to provide the relevant level of information.

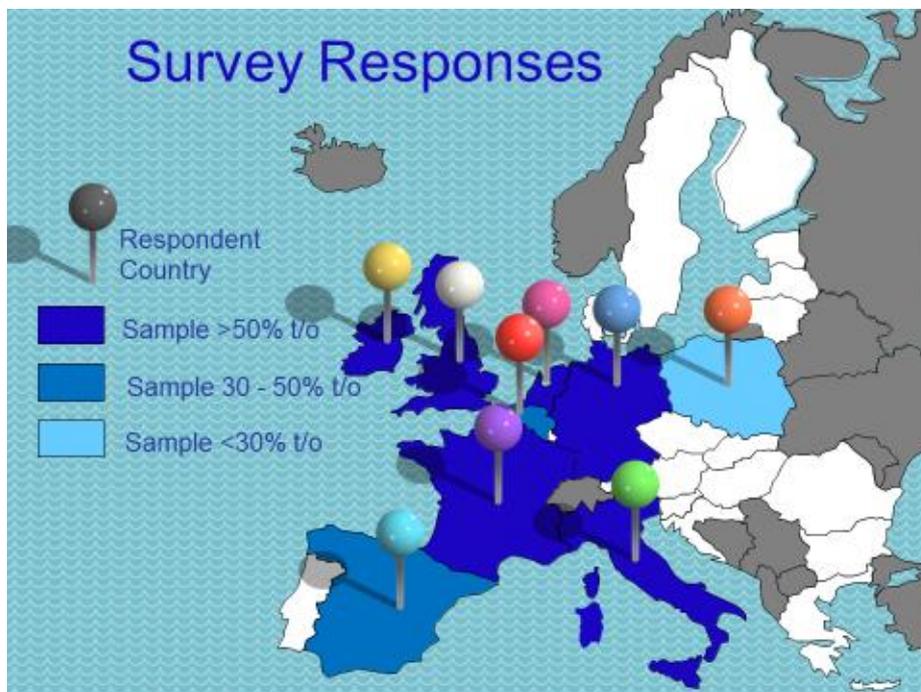
The input received therefore varied according to the particular elements of the questions asked. Samples (n) equating to between 40 and 71 sources within the 80 participants were achieved. This is a very high response level from an overall potential European scale provider population of around 200 (N).

From a statistical perspective, this means that these are all large samples in respect to their population and (depending on question) the combined turnover of the respondents represents between 40% and 62% of that of the total EU industry.

Responses were received from nine countries and these country sample sizes varied between 12% and 100% of their local turnover.

In just two survey response cases where cross border business within EU was noted but not location defined, the whole turnover was assumed as being based in the principal country of business.

Detailed information on the sample size and its significance is given question by question in the full analysis.



## **Participation: Competition and Data**

The majority of National Association members of EUF were active in seeking to persuade their respective individual members to participate or by collating data on a country level basis.

Three National Association members advised that they would be unable to participate because of their particular concerns or especial sensitivity regarding potential conflict with any relevant competition and anti-trust regulations.

One National Association believed that its members would not be in a position to collate the necessary data.

It is important to note that all the active participants' data analysed is both historic and anonymised.

Significant elements of the data are already available in the public domain through respective individual audited accounts.

# Survey Results

## User Sector Distribution

### Purpose

This element of the research was designed to analyse the sectoral distributions of users: In which sectors do they operate?

### Methodology

The survey asked respondents to provide data regarding the Industrial sectors in which FCF users operate.

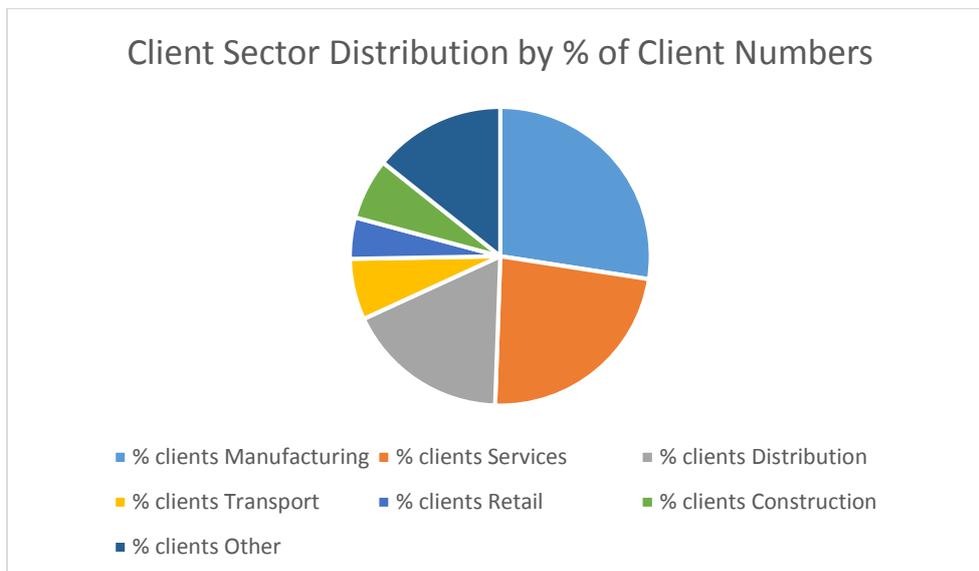
Respondents were asked to allocate according to the following categories (which were selected on the basis of the anticipated types of likely users):

- Manufacturing
- Distribution
- Services
- Transport
- Retail
- Construction
- Other

The question was posed from three perspectives;

- What proportion numerically of clients are there in each sector?
- What proportion of client turnover vests in each sector?
- What proportion of advances (utilisation of funding) does each sector represent?

### What proportion numerically of clients are there in each sector?



Sample size: n=49

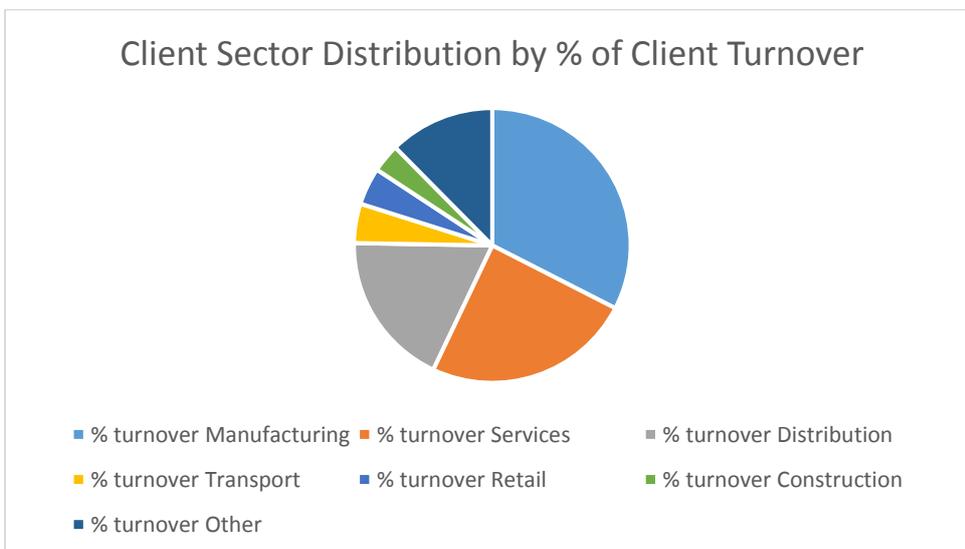
Looking from the perspective of client numbers, the three top sectors are Manufacturing (26.9%), Services (22.5%), Distribution (17.3%), Together they represent two thirds of the total and clearly dominate utilisation of the FCF solutions. This focus within a key range of activities within the economic spectrum reinforces the value of this form of funding for everyday “real world” business.

### Extrapolation for the entire European Population

A statistical analytical approach to this data provides some further insight. Using the sample’s standard deviation and standard error of mean, a spread of the expected proportions can be predicted for the entire European user population. For example, with some approximation, the table below indicates that for Manufacturing clients, with a 95% probability, the percentage of the number of clients in that sector is 26.9% +/- 3.5%. That is to say, analysis of the data suggests there is a one in twenty chance that the percentage figure for the entire population will lie outside the range 23.4% to 30.4%.

Client Numbers by Sector	%	% +/-
Manufacturing	26.9	3.5
Services	22.5	3.9
Distribution	17.3	3.4
Transport	6.7	1.3
Retail	4.5	2.1
Construction	6.7	1.9
Other	15.5	5.9

### What proportion of client turnover vests in each sector?



Sample size n=72

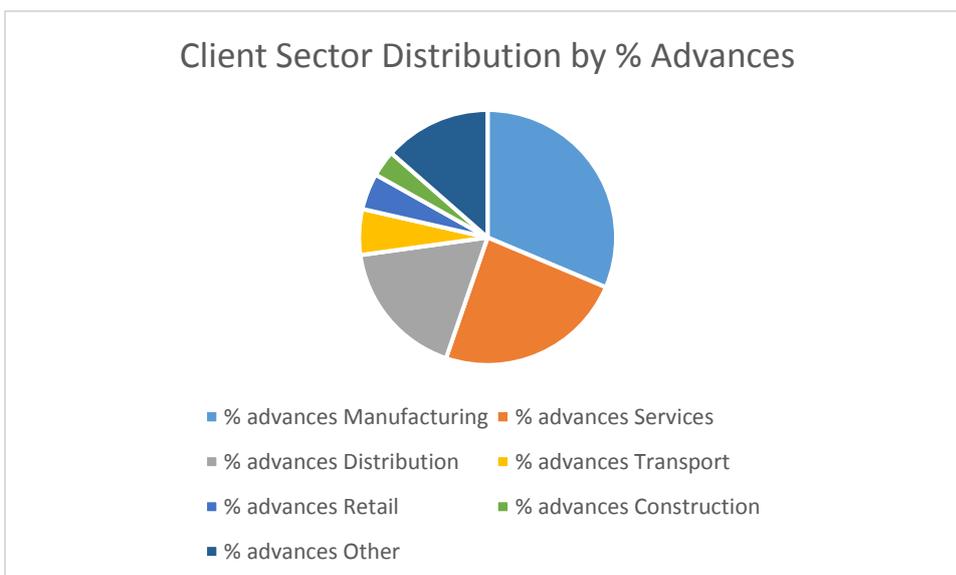
Looking at Turnover distribution, the top three sectors are the same as for client numbers. Manufacturing (32.5%) takes the lead, followed by Services (24.4%) and Distribution (18.2%). The top three combination represents a slightly higher level of concentration at 75.1% of the total.

### Extrapolation for the entire European Population

The statistical analytical approach to this data described above again provides the following likely ranges for the entire population

Client Turnover by Sector	%	%=-
Manufacturing	32.5	3.8
Services	24.4	3.8
Distribution	18.2	3.1
Transport	4.6	0.9
Retail	4.4	2.0
Construction	3.3	0.9
Other	12.3	3.8

### What proportion of advances (utilisation of funding) does each sector represent?



Sample size n=71

Advances, the measure of how much funding is being utilised by FCF users, followed very closely the pattern of turnover. Here the same three top sectors followed the same sequence and penetration levels were broadly similar, with Manufacturing 31.3% Distribution 23.8% and Services 17.5%

### Extrapolation for the entire European Population

Predictions for the range of the whole population are as follows:

Advances by Sector	%	%=/-
Manufacturing	31.3	4.4
Services	23.8	4.0
Distribution	17.5	3.6
Transport	5.8	1.5
Retail	4.6	2.4
Construction	3.3	1.1
Other	13.5	4.4

### Key Findings and Implications:

- Anecdotally, it had been well understood that usage is focused in the three key economic sectors of Manufacturing, Service and Distribution; the responses reinforce and amplify this understanding.
- The responses clearly confirm that FCF is a vehicle for funding of the real economy providing financing support in key productive sectors of European industry.
- Manufacturing is the single largest sector supported by any of the three measures of client numbers, turnover and advances.
- Within the sample (n=71), Manufacturing penetration was highest in Germany at 52% (n=25) by measure of turnover, closely followed by Belgium 48% (n=2) and France 45% (n=4).
- Within the sample(n=71), Distribution penetration in the Netherlands was notably the highest by measure of turnover at 54% (n=5).

## **User Size and Funding Utilisation Distribution**

### **Purpose**

This element of the research was designed to analyse the type and size of user: What is the profile of the user group?

### **Methodology**

The survey asked respondents to provide data regarding the numbers, sizes, turnovers and advances.

Respondents were asked to report client numbers, their turnover and the advances by the categories of:

- Small Business defined (using EU Criteria) as a business with turnover less than €10M per annum,
- Medium with turnover between €10M and €50M, and
- Large with turnover >€50M

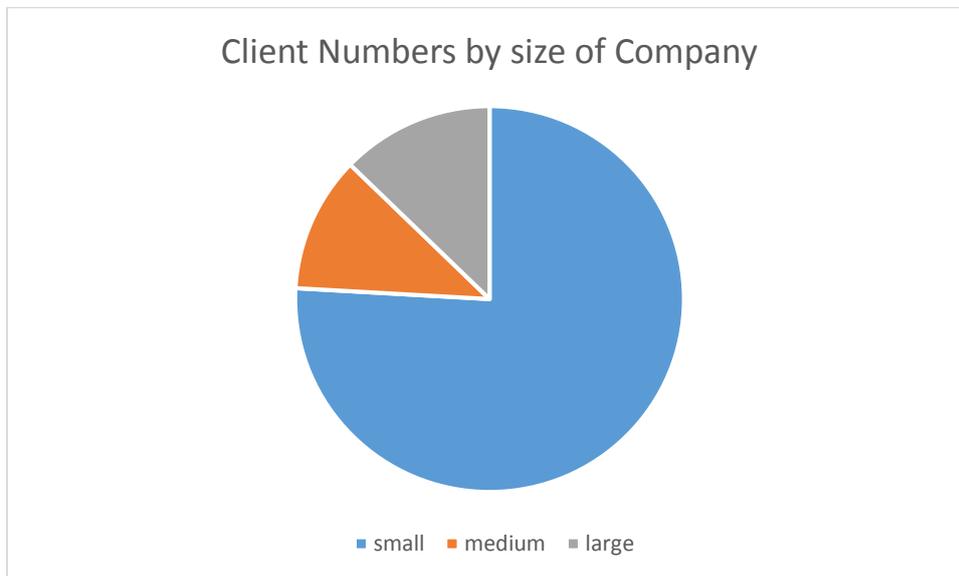
The question was posed from three perspectives:

- What proportion numerically of clients are there in each size band?
- What proportion of client turnover vests in each size band?
- What proportion of advances (utilisation of funding) does each band represent?

Data was received in this section from 69 respondents; the sample sizes below are smaller, reflecting different levels of ability in the respondents to sub categorise data into numbers, turnover and advances by client scale ranges.

**Responses:**

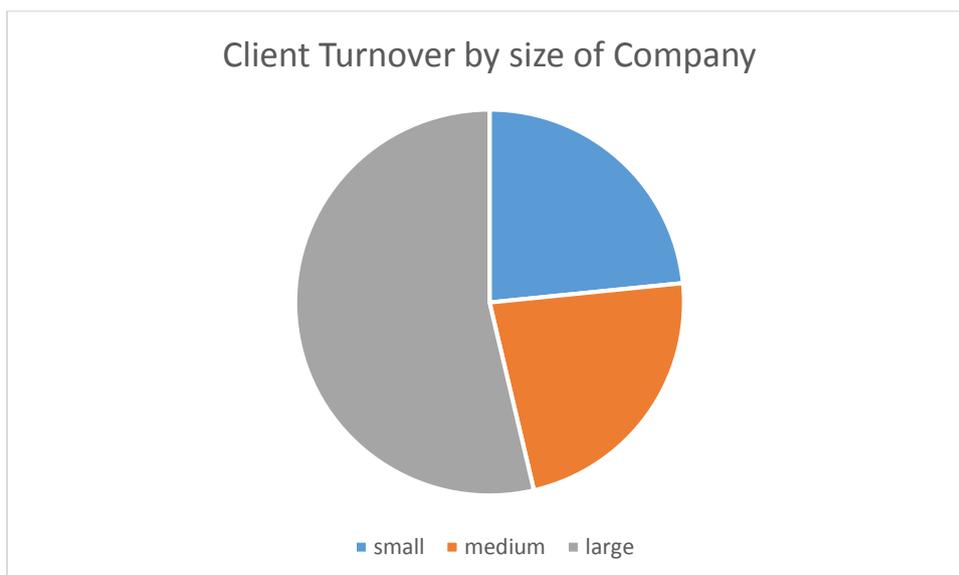
**What proportion numerically of clients are there in each size band?**



Sample size n= 67

Confirming the long held industry view that the majority of users by number are SME businesses, Small represented 76% of numbers, Medium 11% and Large 13%. This measure reflects the focus of the industry on SMEs as a seedbed for economic growth, and as a group which may find sourcing traditional lending more challenging.

**What proportion of client turnover vests in each size band?**

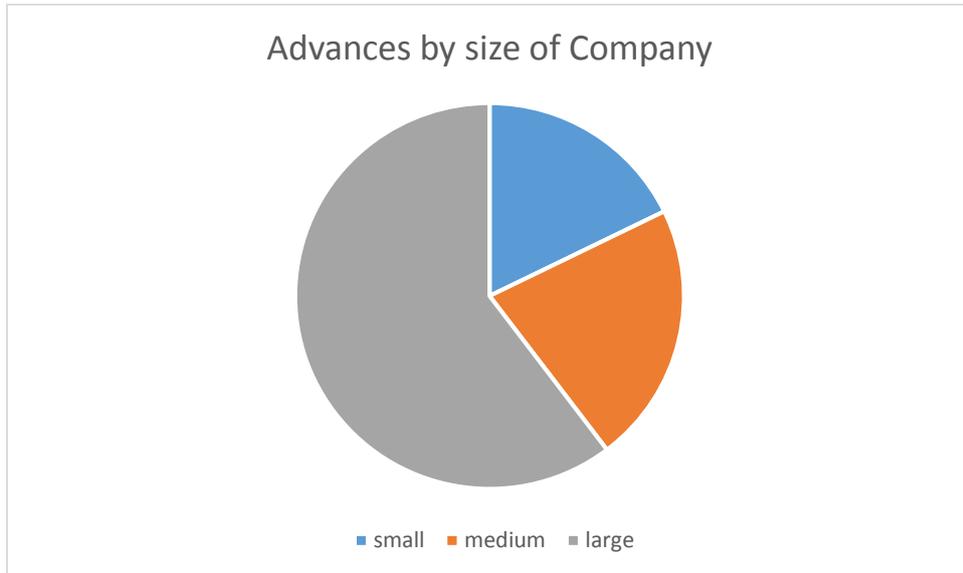


Sample size N= 62

Turnover however indicates a diametrically opposed position with the roles reversed; small businesses, although the large majority by sheer numbers as demonstrated above, only

represented 23% of turnover. Medium size users also represented 23% and Large 54%. Here the position demonstrates that whilst numbers favour the small scale end of the market, volume is focused more in the larger end.

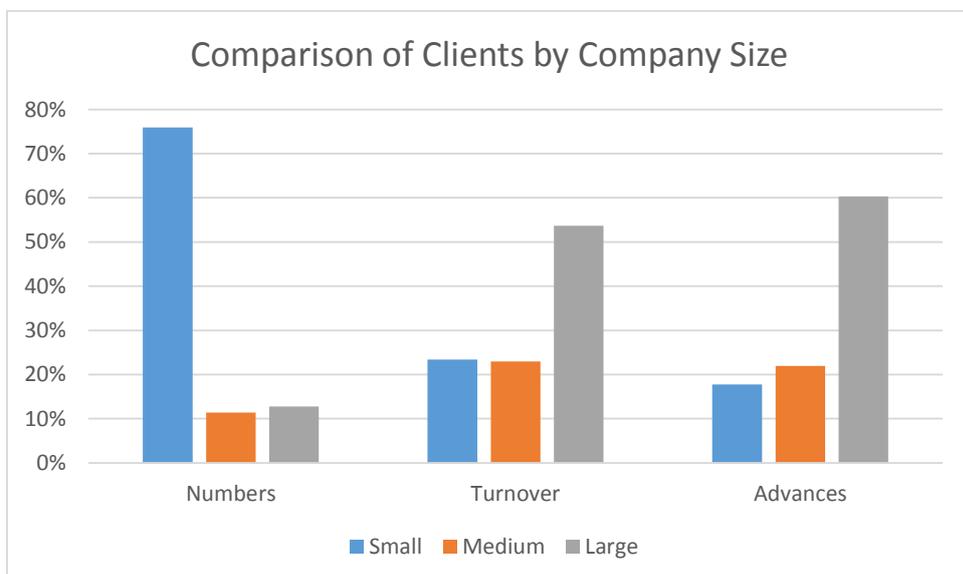
**What proportion of advances (utilisation of funding) does each band represent?**



Sample size n= 42

The role reversal effect is even more accentuated if we look at funding utilisation by user size. Here, small companies utilise only 18% of the funding provided, Medium 22% and Large 60%. This demonstrates almost a reverse 80/20 Pareto effect in the small sector when compared to actual client numbers.

The difference between proportions of client numbers, turnovers and advances is made more apparent in the following graphic:



### **Key Findings and Implications:**

Historically FCF has very much been perceived as an SME oriented funding solution;

- This element of the survey confirms that by number SME users predominate
- The focal role of FCF in supporting the development of SMEs is made clear
- It also brings to attention that by the measure of Turnover, Large scale users are the approximate equivalent of Small and Medium sized combined
- By advances, or funding utilisation, Large Companies clearly dominate the stage. The implication of this is that, contrary perhaps to some previously held perceptions, FCF is a funding vehicle for businesses of all sizes
- Indeed, according to Eurostat over 99% of businesses in Europe are SMEs; by implication this means that the sector penetration of FCF is actually higher in the Large Corporate population than it is within SMEs

## **Losses and Provisions Analysis**

### **Purpose**

Critically, and for the first time, the survey seeks dispassionately and scientifically to assess the (well understood but untested within the industry) premise that FCF is a low Loss Given Default product for the providers.

Until now this “knowledge” has been based on anecdotal, personal perceptions and experience. This survey is a ground breaking exercise in assessing these perceptions.

For respondents, this data is often considered to be highly sensitive for commercial, operational and reputational reasons. Understandably, there has often historically been a distinct reluctance to share this information.

Crucially, the design of this project, which involved the anonymization of data through an independent third party has given many respondents the confidence to share this (what can be otherwise) very private information.

The results are illuminating.

### **Methodology**

Respondents were asked to report on the credit performance of their portfolios: Their “at risk balances”, their provisions made and reserves held for the year 2014 (or the period of their latest audited accounts if the data was not separately available).

If available, such data was to be analysed by client turnover band in order to allocate to small, medium or large enterprise.

### **Responses**

This element of the survey, perhaps because of its sensitivity and its novelty produced the lowest numerical sample size with data relating to N=40 respondents.

Nonetheless, the sample respondents’ turnover represents approximately €738Bn or 54% of the European Industry turnover and their “at risk balances” of €72Bn represent around 42% of the estimated total European EU 28 figure of €170Bn. This sample is still considered to be large in the context of the overall EU population; the respective provider members of the EUF National Associations number around 200 and between them represent around 97% of the EU industry turnover.

The responses therefore have good statistical significance as a large sample of a small population, although the caveat must be made that this responding element of the population was partially self-selecting. There is a possibility that a proportion of those who responded might tend to have had “better” performances than those who chose not to participate and this potential bias cannot entirely be eliminated. However, even with this

proviso, the results offer a very clear endorsement of the view that FCF is a low loss form of funding.

**Provisions made:**

Provisions made in 2014	Lowest “Best” Individual Performance Reported by %	Highest “Worst” Individual Performance Reported by %	Average Provision made	Median Provision made
Absolute value €M	-3.061M~	11.995M	€5.72M	€0.440M
% of risk balance	-0.069%~	1.896%	0.26%*	0.09%^

Sample n= 40

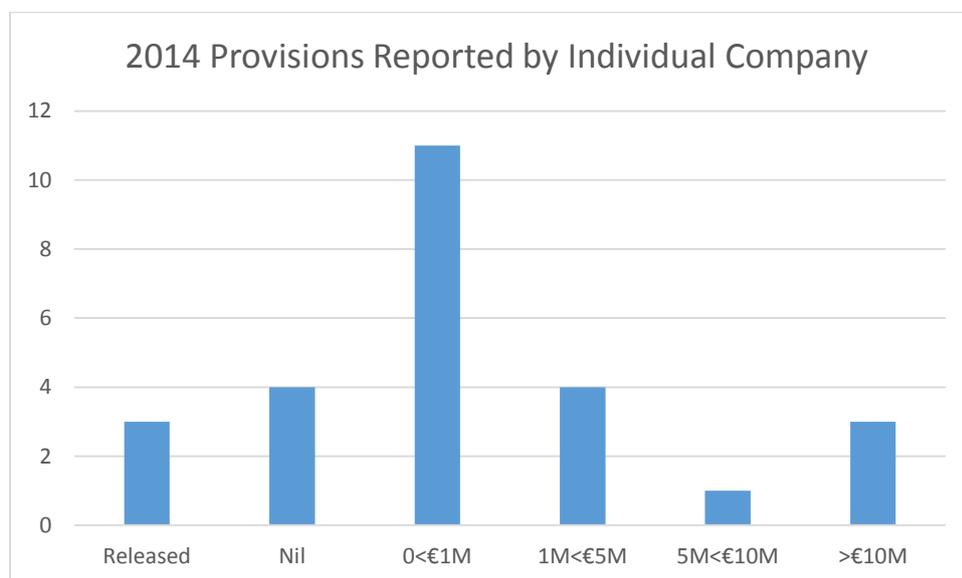
\* Total sample provisions as % of total sample risk balance

^ Median provision as a % of median risk balance

~ Provision written back/recovered

This data demonstrates for the first time - and very effectively - that loss rates in the Industry are, at an absolute level, very low. Even allowing for the possibility that this is a “rose-tinted” view with 26 of the 40 respondents being self-selecting, the implication of low loss is clear. Further research with a larger sample will help to clarify the indicated position.

The distribution of provisions according to this group also show that (as demonstrated by the median figure in the previous table) clustered in the sub-million Euro scale.



Sample n=26

Of the three individual reported provisions greater than ten million Euro, these represented 1.90%, 0.31% and 0.21% of their respective companies’ risk balances.

Indeed, the provisions as a proportion of client turnover are vanishingly small:

Provisions made in 2014	Sample Average
% of Client Turnover	0.042%

Sample n=40

In the survey, the “at risk” figure is defined as total exposure to FCF according to the balance sheet - if appropriate according to IAS - which may be total advances in a recourse environment or total advances plus credit risk in a non-recourse.

The reported “at risk” figure €86.5Bn at year end represented 15.8% of the Client Turnover for the year of €548Bn. This figure is in line with expectations and previous data.

### Comparison with Traditional Bank Lending in the EU

The low loss nature of FCF is further highlighted when the performance is compared with that of traditional bank lending. The following table shows data relating to European bank loans according to the Annual Data published by the European Central Bank (ECB) and that of SNL Financial separately published by the ECB.

	Bank loan impairment rates: Low Risk Countries	Bank loan impairment rates: High Risk Countries:	Overall EU Bank loan impairment rates:	EU FCF Sample Provision Rates: Low risk countries:	EU FCF Sample Provision Rates: High risk countries:	Overall EU FCF Sample
2012	0.46%*	2.12%*	1.22%^			
2013	0.40%*	1.72%*	0.96%^			
2014	0.32%*	1.60%*		0.09%	0.43%	0.26%
2015 h1	0.19%*	1.20%*				

\*<https://www.ecb.europa.eu/pub/pdf/other/financialstabilityreview201511.en.pdf?24cc5509b94b997f161b841fa57d5eca> page 70, chart 3.6 SNL Financial

^ <https://www.ecb.europa.eu/stats/money/consolidated/html/index.en.html> (reference period end 2013/2012, impairment loans and receivables inc. FL as a % of total loans and receivables inc. FL)

Data for the overall EU banking sector for 2014 is not yet available but a simple trend analysis of the above ECB figures for 2013 and 2012 compared with the SNL analysis suggests that the figure may reasonably be expected to be in order 0.8%. The actual figure will be awaited with interest.

Although the data periods are not contiguous, the dramatic difference in risk levels is clearly apparent.

What is emphatically demonstrated by the data is clearly that traditional lending methods are not as secure as FCF as exemplified by the large sample analysed in the survey.

**Key Findings and Implications:**

- A large sample of respondents demonstrates that the Industry's belief that FCF is a low loss solution is well justified
- The loss levels reported are very low in absolute terms
- They are significantly lower in comparison to other comparable forms of lending in the EU
- From a provider's perspective this implies a portfolio based capital allocation approach should favour this form of funding
- From a regulator's perspective this implies that this form of funding offers a lower risk and should accordingly be associated with a lower risk weighting and a lower cost of capital

## Summary and Conclusion

The survey reinforces The EUF's view that the European Factoring and Commercial Finance (FCF) Industry is a continuing success story. It serves to provide working capital to support real businesses in the real economy in Europe, providing funding, employment and growth opportunities.

The Industry is, at this stage in its development, not always fully known or wholly understood at a regulatory and legislative level and this paper has been designed to try to help to build knowledge and change perceptions.

It demonstrates clearly, both from the perspectives of existing and new research that the industry is growing rapidly and is now supporting businesses that have a combined turnover that represents 10% of EU GDP.

In doing so it provides funding of €170Bn to around 164,000 European businesses of all sizes, large, medium and small, in arrange of industrial sectors but principally in Manufacturing, Services and Distribution. The responses clearly confirm that FCF is a vehicle for funding of the real economy providing financing support in these key productive sectors of European industry.

For the first time it also confirms that the solution is a low loss given default source of finance, providing safe secure funding in an environment where the focus on financial risk is becoming increasingly important.

Whilst historically FCF has been very much perceived as an SME oriented funding solution, the survey confirms that by number SME users predominate, it also brings to attention that by the measure of turnover, Large scale users are the approximate equivalent of Small and Medium sized combined. Indeed, by the measure of advances, or funding utilisation, Large Companies clearly dominate the stage. The implication of this is that, contrary perhaps to some previously held perceptions, FCF is a funding vehicle for businesses of all sizes.

Given that according to Eurostat over 99% of businesses in Europe are SMEs this implies that the sector penetration of FCF is actually higher in the Large Corporate population than it is within SMEs. In other words, this is an important solution for all scales of business.

The survey demonstrates effectively that, as was anticipated by the received wisdom of the Industry, FCF is a low loss solution with very low absolute and proportional loss levels.

This reinforces the perspective that banks and other financial institutions should take advantage of the opportunity to fund safely whilst regulators should recognise and take account of the low risk approach.

Finally, this combination of satisfying the working capital and operational needs of users, meeting the expectations of funding providers and achieving all this in a low risk environment truly is a win win in the world of finance.