FACTORING AND COMMERCIAL FINANCE

A NEW WHITE PAPER

EUFederation
Factoring & Commercial Finance

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Contents

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Executive Summary

When we first published our Whitepaper in early 2016, based on data from 2015, the aim was to demonstrate that the European Factoring and Commercial Finance (FCF) Industry was a real success story in creating mutually beneficial relationships in business finance.

In producing this update, we demonstrate that this successful symbiosis continues, and the impact and benefit of the Industry continues to grow.

FCF provides working capital to support businesses that drive the real economy in Europe; it has become a key part of the financial support mix for business.

But despite some remarkable progress in ensuring that the legal and regulatory environment is adapted to the specificities of our Industry, even now it is still not always fully known or wholly understood.

This updated Whitepaper is therefore designed to celebrate the continued success, to build knowledge further and continue the process of education and changing 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 11% of EU GDP
- Provides funding of around €240Bn to nearly 220,000 businesses, large, medium and small which together have a combined turnover of €1.7Tn
- 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
- Continues to offer a unique combination of benefits that meet user, provider and regulator stakeholder needs simultaneously; a real and unique win win in business finance

FCF = 11% EU GDP

Funding of 240Bn to about 220,000 business

Main areas
- **Manufacturing**
- **Services**
- **Distribution**

Risk: Low Loss Given Default

Win win in business finance

Françoise Palle Guillabert
Chair of EUF

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

Introduction

The European Factoring and Commercial Finance Industry continues to be 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 available 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 updated White Paper is designed to continue the process of **shining a light on the industry for all to view, to show its success, its opportunity and future**.

All of us at the EUF hope that the reader will find it illuminating and inspire you to learn more about this unique form of business finance.

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 Phoenician empire, others the importation of tea from the UK colonial empire.

However, without doubt the modern movement - the type of funding we see today -originated at the end of the 19th century in the U.S. textile industry. This developed version migrated to Europe and started growing here significantly from the early 1960s.

What links all these historic examples 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 history and development since its resurgence, 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).

A major source of **finance and credit management**

Globally it is currently found in around 90 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 end 2018, the combined client turnover had grown strongly to around €2.7Trillion, which represents around 4% of global GDP.

Whilst volumes are in general growing rapidly in many markets across the planet, Europe for now remains the beating heart of the Industry with over 60% of global turnover domiciled within the EU28 countries. That's around €1.7 trillion euros, or 11% of European GDP.

Europe = the heart of the Industry
(around 60% of global turnover)
=+/- €1.7 trillion euros
= 11% of European GDP

What is Factoring and Commercial Finance?

FCF is a method of providing working capital to business which occupies a unique place in the world of finance. Let's remind ourselves of the drivers that have led to this position.

The global crisis of 2008 precipitated a sustained period of overall lacklustre performance and weakened European economies; this, together with a further (though less severe) general slowdown in growth in the years 2012/3, resulted in many companies, particularly SMEs, experiencing greater difficulty in obtaining traditional bank funding than ever before. Banks became and have remained much less willing to lend into the SME sector.

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

The finance that FCF provides 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, that have a short track record or are 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 is no one single approach which is entirely common across Europe. 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. (See the EUF website: www.euf.eu.com/glossary-and-translator.html)

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 in Europe at least is the provision of finance.

EU Federation for the Factoring Industry (EUF)

13 national associations | **Representing 97% of the Industry**

The EUF is the **Representative Body for the Factoring and Commercial Finance Industry in the European Union (EU)**. It now comprises 13 national industry associations that are active in the region, together with the global representative organisation FCI. 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 FCF 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 FCF 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 FCF activities in EU countries**

More information on the EUF and its activities can be found at www.euf.eu.com

EUF Members

Name	Country	Website
Asociacion Española de Factoring (AEF)	Spain	www.factoringasociacion.com
Association Professionnelle Belge des Sociétés de Factoring (APBF-BBF)	Belgium	www.febelfin.be
l'Association Française des Sociétés financières (ASF)	France	www.asf-france.com
Associazione Italiana per il Factoring (ASSIFACT)	Italy	www.assifact.it
Czech Leasing and Finance Association (CLFA)	Czech Republic	www.cfla.cz
Deutscher Factoring-Verband (DFV)	Germany	www.factoring.de
Factoring & Asset Based Financing Association Netherlands (FAAN)	Netherlands	www.factoringnederland.nl
FCI	EU countries	www.fci.nl
Finans og Leasing (FoL)	Denmark	www.finansogleasing.dk
The Hellenic Factors Association (HFA)	Greece	www.hellenicfactors.gr
Österreichischer Factoring- Verband (OFV)	Austria	
Associação Portuguesa de Leasing, Factoring e Renting (FLA)	Portugal	www.alf.pt/
Polski Zwiazek Faktorów (PZF)	Poland	www.faktoring.pl
UK Finance	UK	www.ukfinance.org.uk

Part Two:

Our understanding of the Industry based on EUF's Economics and Statistics Committee Data Collection in 2018

Introduction:

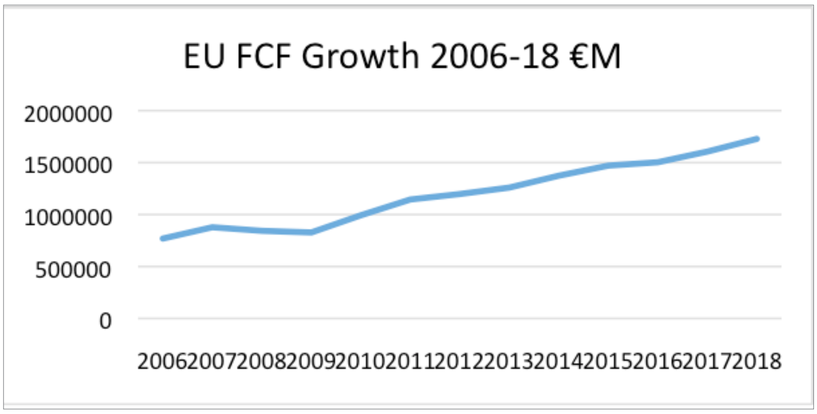
The EUF was formed in 2009 and since then has developed a reputation as being the key source of credible centralised data on the European Industry. This process has been driven by the Economics and Statistics Committee (ESC), initially under its former Chairman, Diego Tavecchia of Assifact (Italy), and now by Magda Ciechomska-Barczak of PZF (Poland). The EUF now regularly collates numeric data which describes the shape, distribution and growth of the Industry.

In order to bring this information to the widest audience possible, this updated Whitepaper focuses on the key findings of the research that has been undertaken by the EUF's ESC in 2018 in Part Two.

As before, it then introduces the separate results of the EUF's latest cross European Survey in Part Three.

FCF development

Our original analysis showed that the Industry has grown dramatically in recent years. The effects of the 2008 Financial Crisis, whilst clearly visible on the trajectory, had overall only a limited effect on the growth of the Industry and one which was certainly minimal compared with mainstream banking where lending (especially to SMEs) was and remains constrained. The expansion in volume demonstrated between 2006 and 2018 represents a 7% compound annual growth rate.



The Industry has **grown** dramatically in recent years

Source: EUF data

It should be understood by the reader that that this growth figure is an overall pan European view and it inevitably masks different performances and rates of progress in the individual constituent countries. These respective individual performances vary both in reflecting the countries' particular economic situations but also in the relative rates of development and penetration of the embedded FCF industries. That said, it is clear that the trajectory of the Industry remains strong and positive.

FCF Volumes

The following table demonstrates these variations between the volumes and market penetration[1] by EU Member country; it clearly reflects the individual economic environments whilst combining to create an overall picture of growth which continues to outperform the growth in EU GDP in the same period.

Country	Turnover (€M) 2018	% Change on previous year	% GDP penetration	% EU Market share
Austria*	24,107	14	6	1.4
Belgium*	76,340	10	17	4.4
Bulgaria	3,211	10	6	0.2
Croatia	1,094	-19	2	0.1
Cyprus	3,585	27	17	0.2
Czech Republic*	6,778	12	3	0.4
Denmark*	18,637	24	6	1.1
Estonia	3,600	44	14	0.2
Finland	25,800	8	12	1.5
France*	320,409	10	14	18.5
Germany*	241,814	4	7	14.0
Greece*	14,635	11	8	0.8
Hungary	6,911	25	5	0.4
Ireland*	26,294	0	8	1.5
Italy*	247,430	8	14	14.3
Latvia	784	9	3	0.0
Lithuania	3,660	22	8	0.2
Luxemburg	339	0	1	0.0
Malta	554	58	4	0.0
Netherlands*	98,368	10	13	5.7
Poland*	56,474	27	11	3.3
Portugal*	31,757	18	16	1.8
Romania	5,007	10	2	0.3
Slovakia	2,521	53	3	0.1
Slovenia	1,400	17	3	0.1
Spain*	166,391	14	14	9.6
Sweden*	19,822	3	4	1.1
United Kingdom*	320,193	0	13	18.5
EU Total Turnover	1,727,914	7.9	10.9	100.00
EUF Members (*)	1,669,448	7.7	11.2	96.6

1 We use the ratio of a country's FCF volume as a % of its GDP to give a corollary of market penetration

Factoring and Commercial Finance characteristics

FCF is both a domestic and a cross border funding solution; that said, the majority of business (approaching 80% of the overall total) is domestic based. Cross border business is generally 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 who are members of FCI, an international group of FCF businesses based in around 90 countries.

FCF is both a **domestic and a cross border** funding solution

Overall in the EU, a small majority of the business is conducted on what is described within the Industry as on a "recourse" basis. This simply means that the credit default risk remains with the seller client, so that if a buyer fails to pay though insolvency, then the seller accepts that potential liability.

Alternatively, the user can choose a "non-recourse" basis, where credit default insurance is a feature of the transactions; if the buyer is covered, then in case of credit default, the insurance will pay the failed debt.

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, and the relative proportions do vary according to country practice. For example, in two of the largest markets, non- recourse is 99% of business transacted in Germany, 13% of that in the UK.

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

2018	EU Total	% of EU Total	Sample % of Turnover
Total Turnover	1,727,914	100	100
• Domestic	1,385,538	80	100
• International	342,376	20	100
Recourse	867,565	50	69
Non-Recourse	775,683	50	69
Bank owned	1,656,612	96	73
Non-Bank owned	71,302	4	73

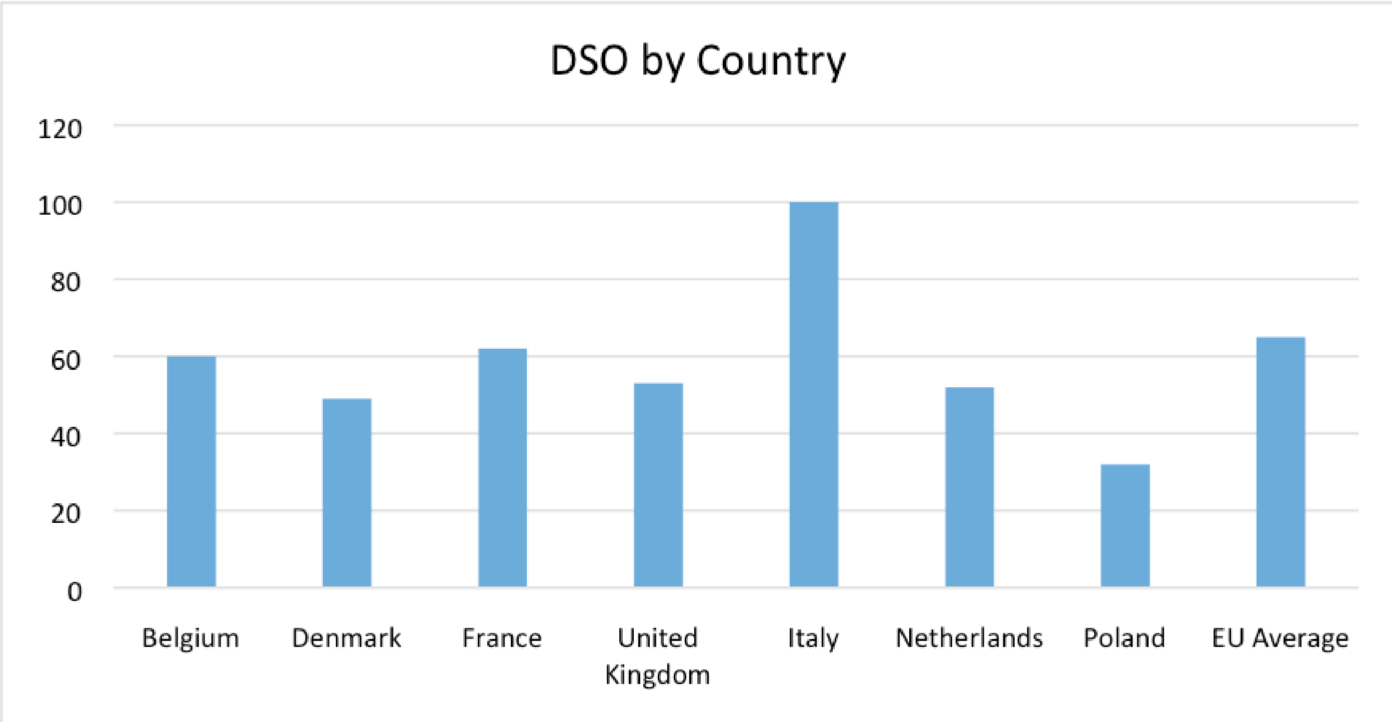
Source: EUF ESC Committee, EUF Members

FCF provision is **dominated by banks** and banking groups. The **Independent** sector continues to play an important role in delivering specialist and bespoke solutions for **particular client situations and developing new solutions**

Payment Performances

The average length of time it takes for debts to be paid varies from country to country and is affected by local custom and expectations. To communicate the comparison from country to country, we use the calculation of average days outstanding (DSO). This expresses the total security value of debts outstanding at year end as a ratio of total turnover, multiplied by the number of days in the year.

Based on the annual data collation exercise undertaken by the Economics and Statistics Committee, the following sample is available for 2018. A fuller analysis to encompass the whole EU Region is one of the ongoing targets of our data collection process.



Part Three: The Latest Research in 2018 and its picture of the Industry

Introduction

The continuing annual research undertaken by the EUF and described in the previous section has shown the large-scale picture of turnover, advances and product types across European markets.

This separate update research project goes beyond this overview and in its new iteration creates again 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 updated research on the market is to try to understand better the **full picture of the user demographics**:

- The sectoral distributions of users: In which sectors do they operate? Have there been any changes or developments since the first Whitepaper?
- The type and size of user: What is the profile of the user group? Again, has this demographic distribution changed?
- To re-confirm the finding of the original Whitepaper research that FCF is a low loss given default financial solution. Has the situation improved, worsened or stayed the same?

The survey

The original survey was designed by roundwindow Consultancy Services in conjunction with the ESC and the Executive Committee of the EUF and was updated by roundwindow for this iteration.

The sample population was drawn from the membership of the EUF's members. National Associations representing fifteen countries and 97% of the EU market were requested to take part.

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.

As in our first Whitepaper research project, 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 **131 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.

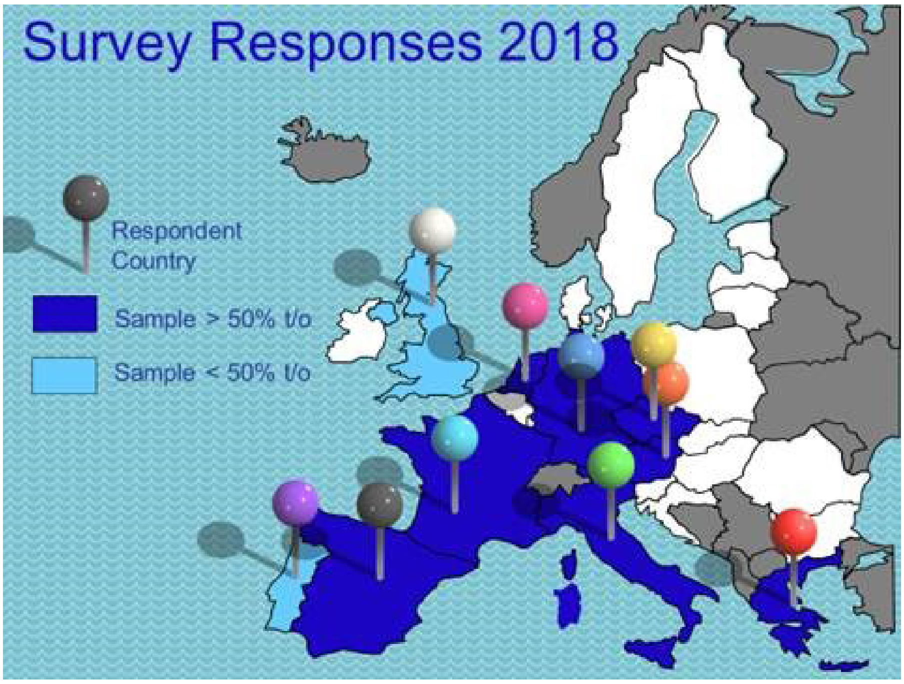
The input received therefore varied according to the particular elements of the questions asked. Samples (n) equating to between 34 and 106 sources within the 134 participants were achieved. This is a very high response level from an overall potential European scale provider population of around 200 (N).

From a statistical perspective, this means that these may all be reasonably treated as large samples in respect to their population and (depending on question) the combined turnover of the respondents represents between 36% and 58% of that of the total EU industry.

Turnover of the respondents represents between 36% and 58% of that of the total EU industry

Responses were received from ten of the fifteen countries requested.

As before, in just two survey response cases where cross border business within EU was noted but not location allocated, 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.

It is important to note that all the active participants' data analysed within this project is both historical and anonymised.

All responses were managed by Euralia on behalf of the EUF to ensure anonymity of the individual respondents.

The survey was launched in August 2018 and data collection completed by November.

Significant elements of the financial loss data are already available in the public domain through respective participant's individual audited accounts.

Survey Results

User Sector Distribution

Purpose

Factoring and Commercial Finance are used by a wide range of businesses; the Whitepaper Project wanted to look at the nature and type of business that are typically part of the user population.

This first element of the research was designed to analyse the sectoral distributions of users: In which sectors do they operate? Which are most important? Has this distribution changed in any meaningful way since the first survey?

Methodology

The latest Whitepaper survey followed the same approach as the original project and asked respondents to provide data regarding the Industrial sectors in which their FCF users operate.

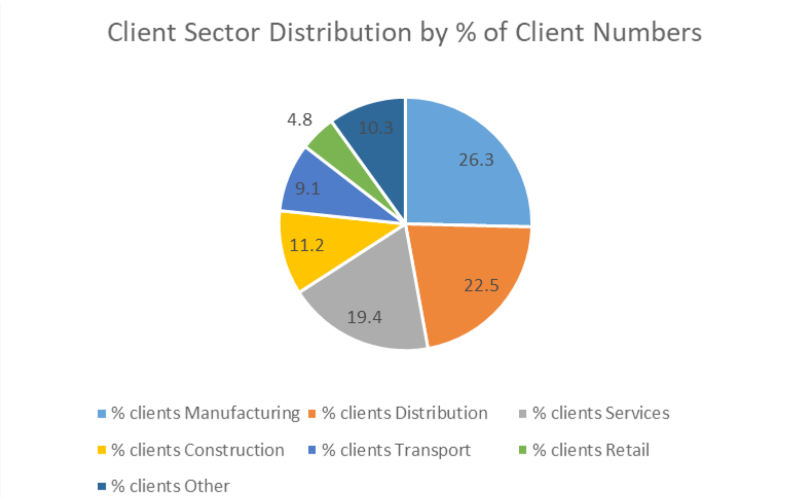
Respondents were asked to allocate according to the following key categories (which were originally selected on the basis of the anticipated types of likely users and confirmed as appropriate by the first iteration of the Project):

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

As before, 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=81

From the perspective of client numbers, the three top three sectors remain unchanged and are Manufacturing **26.3%** (26.9% in 2015), Services **22.5%** (22.5% in 2015) and Distribution **19.4%** (17.3% in 2015). Within the sample tolerances shown in the table below, this means that by number of users, the structure of the market has remained statistically constant.

Together these three sectors represent two thirds of the total (68.2%) and they clearly continue to dominate utilisation of the FCF solutions. This persistent focus within a key range of activities on the economic spectrum further reinforces the value of this form of funding for everyday "real world" business.

Top three sectors are **Manufacturing (26.3%), Services (22.5%), Distribution (19.4%)**

Extrapolation for the entire European Population

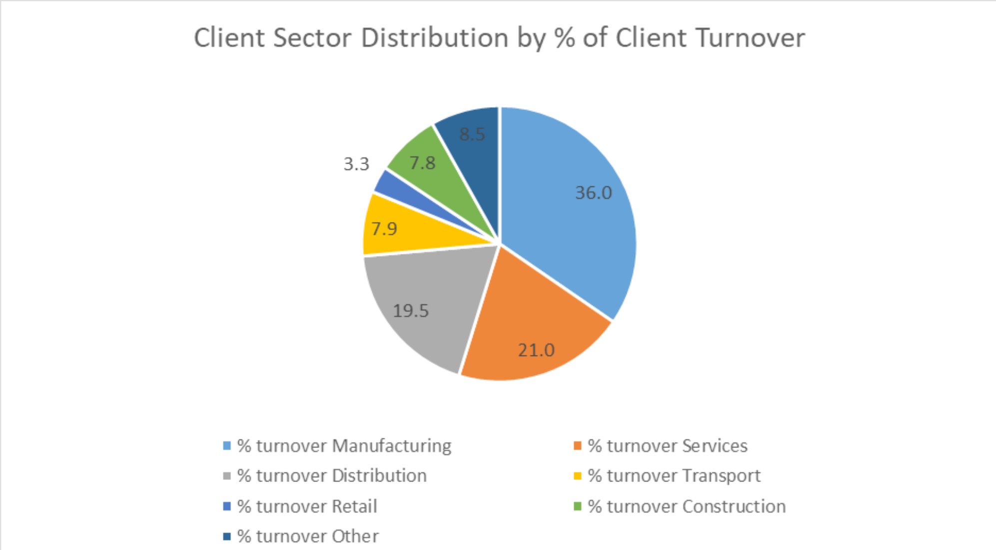
A statistical analytical approach to this data provides some further insight. Using the sample's standard deviation and standard error of mean, a spread of the expected proportions can be predicted for the entire European user population.

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 **26.3%** +/- 2.0%. (That is to say, the data suggests there is only a one in twenty chance that the percentage figure for the entire population will lie outside the given range of 24.3% to 28.3%.

The only specific categories to change proportion to a significant degree since the first iteration have been Transport and Construction, which have grown from to **6.7%** +/- 1.3% to **9.1%** +/- 1.7% and from **6.7%** +/- 1.9% to **11.2%** +/- 4.2%.

Clients Numbers by Sector	%	% +/-
Manufacturing	26.3	2.0
Services	22.5	3.2
Distribution	19.4	2.5
Transport	9.1	1.7
Retail	4.8	2.0
Construction	11.2	4.2
Other	10.3	1.8

What proportion of client turnover vests in each sector?



Sample size n=117

The second element of this sectoral analysis considers the distribution by client turnover and looking from this perspective, the top three sectors remain the same as for client numbers and as from the last iteration. Manufacturing at **36.0%** takes the lead (32.5% in 2015), with Services **21.0%** (24.4% in 2015) and Distribution **19.5%** (18.5% in 2015).

Also, as per the first iteration, in terms of turnover, these top three sectors combined represent an even higher level of concentration at three quarters (**76.5%**) of the total.

Extrapolation for the entire European Population

The statistical analytical approach to this data described above again provides the following 95% probability ranges for the entire population in terms of client turnover.

Client Turnover by Sector	%	%+/-
Manufacturing	36.0	2.8
Services	21.0	2.4
Distribution	19.5	2.8
Transport	7.9	1.3
Retail	3.3	1.3
Construction	7.8	3.7
Other	8.5	1.3

The same three top sectors

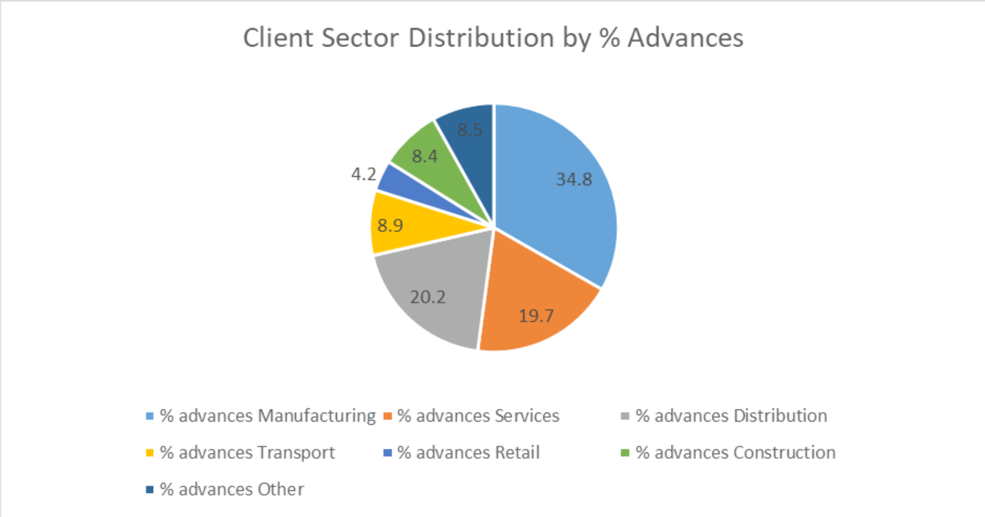
Manufacturing 36%

Services 21%

Distribution 19.5%

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

The final element of this sectoral analysis considered the level of funding advances being made by sector providers to user businesses.



Sample size n=49

As in the first iteration of the Whitepaper, this measure of how much funding is being utilised by FCF users followed very closely the pattern of segment turnover volumes. Here again the same three top sectors followed the same sequence and penetration levels were broadly similar, with Manufacturing **34.8%** (31.3% in 2015), Distribution **20.2%** (23.8% in 2015) and Services **19.7%** (17.5% in 2015)

Again, the top three sectors represent around three quarters (**74.7%**) of the total.

Extrapolation for the entire European Population

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

Advance by Sector	%	% +/-
Manufacturing	34.8	4.3
Services	20.2	4.3
Distribution	19.7	3.5
Transport	8.9	2.7
Retail	4.2	2.2
Construction	8.4	5.5
Other	8.5	1.8

Key Findings and Implications:

- The second iteration of the Whitepaper survey confirms that usage continues to be focused in the three key economic sectors of Manufacturing, Service and Distribution; the responses reinforce and amplify this understanding.

- Manufacturing, Services and Distibution together continue to dominate the Industry in all sector dimensions of user number, client turnover and advances.
- Manufacturing is the single largest sector supported by any of the three measures of client numbers, turnover and advances.
- Whilst they remain minority sectors, Transport and Construction have both increased meaningfully in all measures in the period to this second iteration.
- 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.

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? Had there been any changes in status since the first iteration?

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

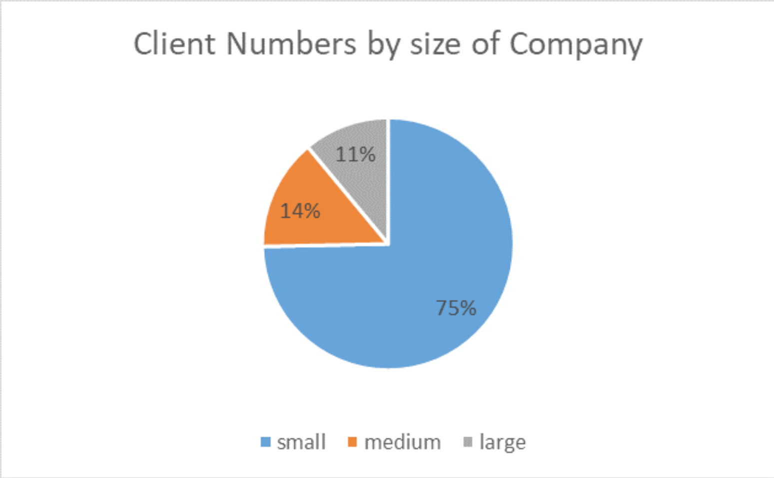
The question was posed from three perspectives:

- 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?

Stratified data was received in this section from 106 respondents in respect of numbers, 98 in terms of turnover and 35 in terms of advances; the sample sizes below are smaller, reflecting different levels of ability in the respondents MIS capability 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?



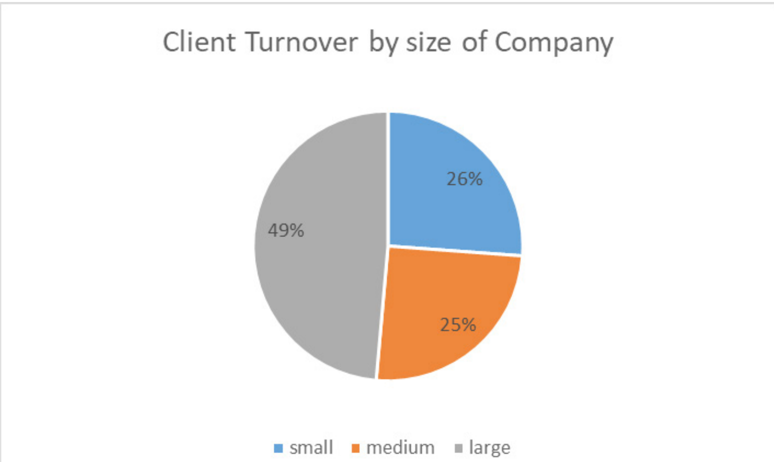
Majority of users by number are SME businesses

Sample size n= 106

The second iteration showed a very similar result to the original survey, confirming the long- held industry view that the majority of users by number are SME businesses, Small represented **75%** of numbers (76% in 2015), Medium **14%** (11% in 2015) and Large **11%** (13% in 2015).

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?



Volume is focused more in the larger end

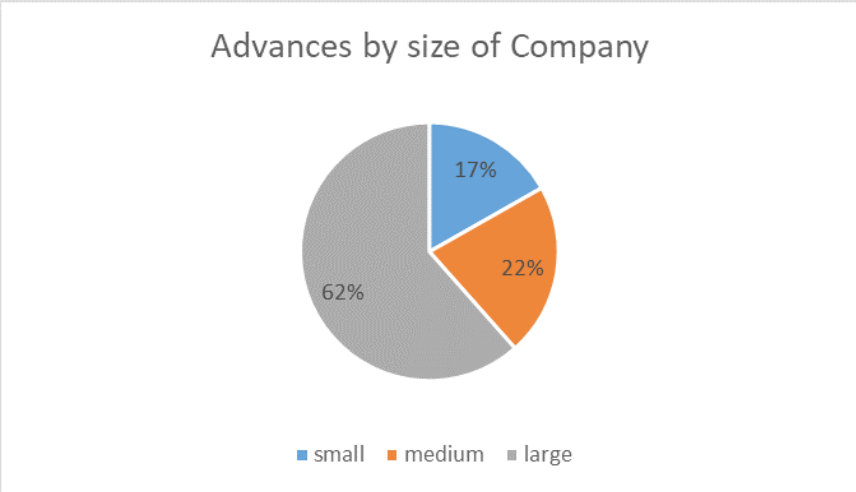
Sample size N= 98

Turnover, as was seen in the first iteration, again indicates a completely altered position with the roles inverted.

Small businesses, which although as demonstrated above are the large majority by sheer numbers, only represented **26%** of industry turnover (23% in 2015). Medium size users represented **25%** (23% in 2015) and Large **49%** (54% in 2015).

Here again 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?



The role reversal effect is even more accentuated if we look at funding utilisation by user size

Sample size n= 35

Again, in an exactly parallel manner as was shown in the original survey, the role reversal effect is even more accentuated if we look at funding utilisation by user size. Here, small companies utilise only 17% of the funding provided (18% in 2015), Medium 22% (unchanged from 22% in 2015) and Large 62% (60% in 2015).

This again demonstrates a near 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 completely dominate the market
- Accordingly, the focal role of FCF in supporting the development of SMEs is reinforced as a key mechanism for their finance
- At the same time, the survey shows that by the measure of Turnover, Large scale users have consolidated their dominance and now represent more than the total turnover of Small and Medium sized combined
- By advances, or funding utilisation, Large Companies clearly now dominate the stage. The implication of this is that, as was shown in the first iteration and 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 significantly higher in the Large Corporate poulation than it is within SMEs

Losses and Provisions Analysis

Purpose

For the first time, the first iteration of the Whitepaper survey sought dispassionately and scientifically to assess the (at that stage well understood but untested within the industry) premise that FCF is a low Loss Given Default product for the providers.

Until that key turning point, this "knowledge" had been purely based on anecdotal, personal perceptions and experience. The first Whitepaper survey provided a ground-breaking exercise in assessing and confirming those perceptions, demonstrating categorically that the Industry did indeed offer a low loss given default solution.

For many respondents, this default data often continues to be considered highly sensitive for commercial, operational and reputational reasons. Understandably, because of these perceptions, there has often historically been a distinct reluctance to share this information. This status has not changed fundamentally in the last three years and addressing the reticence continued to be a facet of the second Whitepaper survey.

Fortunately, as before, 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 continue to be an illuminating insight into the relative safety and security of this type of business finance for providers and for regulators.

Methodology

Respondents were again asked to report on the credit performance of their portfolios: Their "at risk balances", their provisions made, and reserves held for the year 2017 (or the period of their latest audited accounts if the data was not separately available.

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

Responses

This element of the survey, notwithstanding its sensitivity produced a numerical sample size with data relating to n=71 respondents, numerically a large proportion of the scale provider population N=200.

However, in this second iteration, the sample respondents' turnover represents approximately €579Bn or 36% of the European Industry turnover and their 2017 "at risk balances" of €75Bn represent around 34% of the estimated total European EU 28 figure of €218Bn.

This sample is therefore still considered to be significant in the context of the overall EUF members' member provider population which between them represent around 97% of the EU industry turnover.

The responses therefore have good statistical credibility as a large sample of a small population, although the caveat must be again made that this responding element of the population was partially self-selecting. As in the first iteration, 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 2017	Lowest "Best" Individual Performance Reported by %	Highest "Worst" Individual Performance Reported by %	Average Provision made	Media Provision made
Absolute value €M	-1.6M~	5.44M	€0.915M	€0.30M
% of risk balance	-1.18%~	3.06%	0.09%*	0.14%^

Sample n= 71

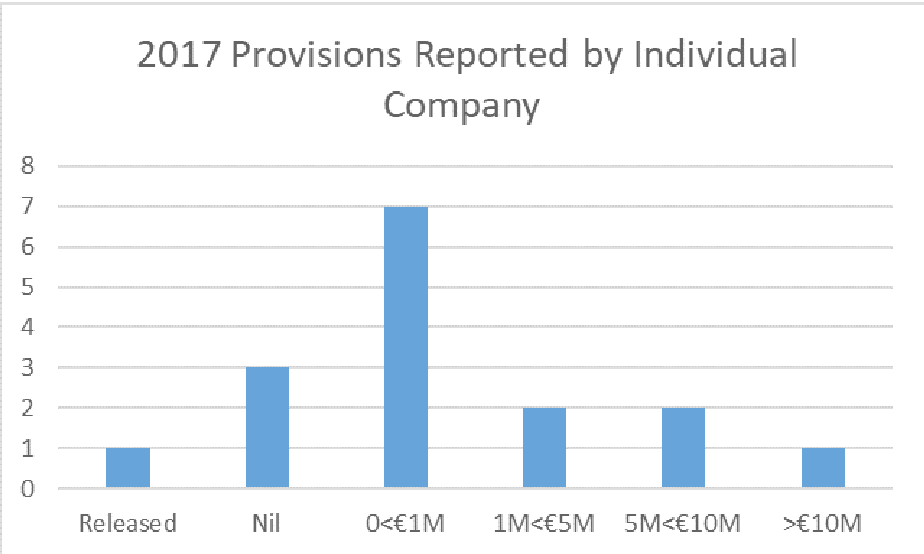
* Total sample provisions as % of total sample risk balance

^ Median provision as a % of median risk balance

~ Provision written back/recovered

This new data confirms - 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 19 of the 71 respondents being self-selecting, the implication of low loss is clear.

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



- In respect of the one individual reported provision greater than ten million Euro, this event represented 0.35% of the provider's "at risk" balances. (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.)
- Indeed, the overall provisions as a proportion of client turnover are even lower than the vanishingly small figure of 0.042% reported in the first iteration:

Provisions made in 2017	Sample Average
% of Client Turnover	0.011%

Sample n= 71

Comparison with Traditional Bank Lending in the EU

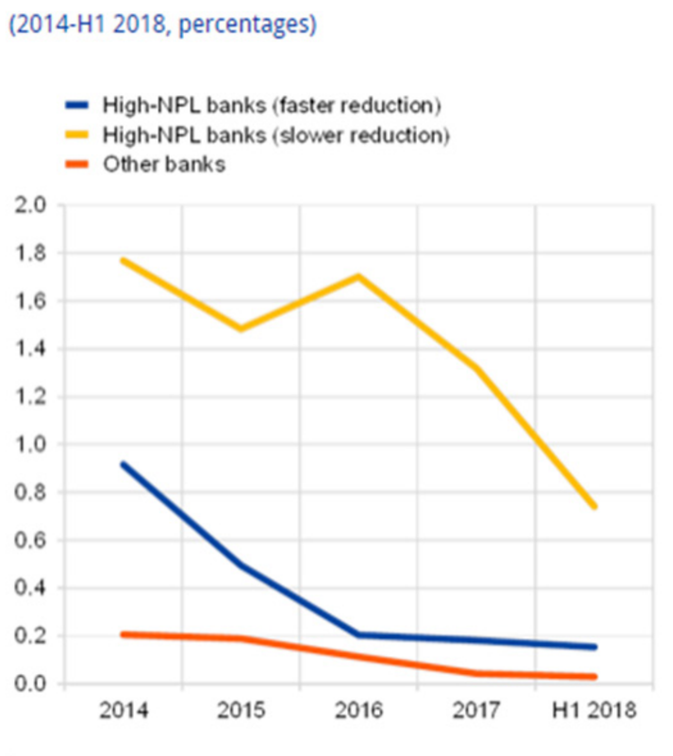
In our Whitepaper Report of 2015, we demonstrated how the low loss nature of FCF was further exemplified when we compared FCF loss performance compared with that of traditional bank lending. According to data published by the ECB, together with information collated by SNL Financial and separately published by the ECB, our analysis showed that loss rates within the FCF Industry were on average in the order of four times lower than those for comparable bank loans. This ratio applied whether looking at Low or High-risk countries as well as for the overall Region.

Whilst the author's intention was to repeat this comparison in this updated version it now not possible to separate the asset classes and corresponding provisions from the publicly available ECB database structure. The author has discussed this anomaly with the ECB Statistics team but at this stage there is no appears to be no obvious methodology for extracting the directly comparable data.

It is interesting to note however that the improvement seen in the FCF performance between the first iteration and this edition has also been reflected in the wider banking position as indicated in ECB's November 2018 Financial Stability Review. The improved situation in general banking however is tinged with some caution, as the ECB states:

"On aggregate, analysts anticipate a slight increase in loan loss provisions over the next couple of years, although this masks some heterogeneity. While a decline in impairment costs is expected to be a positive driver for high-NPL banks (in line with expected NPL reductions), provisioning costs are projected to increase for other large listed banks from current, historically low levels, for instance due to higher expected credit losses on some emerging market economy (EME) exposures."

Acknowledging this caution, there has nonetheless been a clear reduction in new provisions as is demonstrated by the following ECB graphic from the same Report:



FCF is more secure than traditional lending methods

This graphic appears to suggest that the best performing banks have provisions of a similar order of magnitude to the average FCF figures; but that the overall performance is still nowhere near as strong.

Source: https://www.ecb.europa.eu/pub/fsr/html/ecb.fsr201811.en.html#toc20

Key Findings and Implications:

- A large sample of respondents demonstrates again that the Industry's belief that FCF is a low loss solution is fully justified
- The loss levels reported are very low in absolute terms and are even improved since the first iteration of the Report
- The low loss nature of the Industry is both consistent and continous
- From a provider's perspective this implies a portfolio based capital allocation approach to return on capital should favour this form of funding
- From a regulator's perspective this implies that this form of funding offers very low risk and should accordingly be associated with a lower risk weighting and a lower cost of capital

- ***Industry's belief that FCF is a low loss solution is well justified***
- ***Loss levels reported are very low in absolute terms***
- ***The low loss nature of the Industry is both consistent and continous***
- ***Provider perspective: a portfolio based capital allocation approach should favour this form of funding***
- ***Regulator perspective: this form of funding offers very low risk and should accordingly be associated with a lower risk weighting and a lower cost of capital***

Summary and Conclusion

The second iteration of the Whitepaper survey clearly reinforces the EUF's view that the European Factoring and Commercial Finance (FCF) Industry is a continuing success story.

The Industry has continued to develop, serving to provide working capital to support real businesses in the real economy in Europe, delivering funding, employment and growth opportunities.

Notwithstanding the EUF's considerable success in lobbying and affecting regulatory outcomes, even now the Industry is, at this mature stage in its development in Europe, not always fully known or wholly understood at some regulatory and legislative levels and this second paper is designed to try to reinforce our efforts to increase knowledge and enhance perceptions.

For a second time, the Report clearly demonstrates, 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 around 11% of EU GDP.

In doing so it provides funding of €220Bn to around 200,000 European businesses of all sizes, large, medium and small, in a range of industrial sectors but principally Manufacturing, Services and Distribution. The updated survey 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.

It also again confirms how FCF is a low loss given default source of finance, providing safe secure funding in an environment where the focus on financial risk remains a matter of key importance.

Whilst historically FCF was been very much perceived as an SME oriented funding solution, the original survey confirmed that by number SME users predominated, but also brought to attention that by the measure of turnover, Large scale users were the approximate equivalent of Small and Medium sized combined. Indeed, by the measure of advances, or funding utilisation, Large Companies clearly dominated the stage. The implication of this was that, contrary perhaps to some previously held perceptions, FCF is a funding vehicle for businesses of all sizes. This second iteration completely reinforces and repeats these findings.

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

The second iteration of survey convincingly demonstrates again that, as FCF is a low loss solution with very low absolute and proportional loss levels. The risk performances in this second survey were indeed even stronger.

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

Finally, it is rewarding for the author to be able to reiterate with confidence that 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. We are fortunate in our Industry to be able to access and deliver such solutions.

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