ASSIFACT
Associazione Italiana per il Factoring

CIRCOLARE INFORMATIVA 41/18 Milano, 15 novembre 2018

OGGETTO: EUF Newsletter - Autumn 2018

Si informa che l'EU Federation for the Factoring and Commercial Finance Industry ha pubblicato sul proprio sito internet il nuovo numero della propria newsletter (https://euf.eu.com/news/newsflash/euf-newsletter-autumn-2018.html).
Cordiali saluti

Il Segretario Generale
Alessandro Carretta

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NEWSLETTER / NOVEMBER 2018 / ISSUE 16

EUFederation

Connecting and Supporting the Commercial Finance Industry Worldwide

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The EU Federation for the Factoring and Commercial Finance Industry

Welcome from Françoise Palle-Guillabert

Chair EUF

Dear Reader,

I'm very happy to introduce our Autumm Newsletter.

The last few weeks have been rich in events for the EUF. First of all, on 10 June, in Amsterdam, I had the honor to speak on the FCI board to present the actions and achievements of EUF. On 20 June, in Milan, EUF was honored during the opening speech of the General Assembly of the Italian factoring association, ASSIFACT. On 24 July, we met with Diego Tavecchia, Chairman of the EUF Prudential Committee and Gerald Lederer, Austrian Presidency Advisor, to present the profession's request to grant the factors the specific trade finance regime for the NSFR.

The Executive Committee of the EUF met in Berlin on 27 September. The half year figures for the European factoring industry were presented. They showed the growing role of factoring as a source of funding for companies across Europe. The factoring turnover during the first half of 2018 for the EU countries exceeded 822 billion EUR, with year on year increase of 6,5%.

Such good results should not make us forget that in the future, the Factoring and Commercial Finance industry will have to deal with major prudential and legal issues (NSFR, Anacredit, NPL, Basel III, Rome 1, SMEs definition...) and that their voice will have to be taken into account by the European legislators and regulators.

Regarding upcoming events, you can already pencil in your agenda the 5th EU Factoring Summit, which will be held on 21 and 22 March 2019 in Lisbon. The event is organised under a joint initiative of FCI and EUF. At this occasion, the updated EUF White Paper will be presented. It will help factoring "DNA" to be clearly identified as a secured short-term financing product committed to the real economy and employment in Europe. During the Summit we will also have a look at the Portuguese factoring industry, at the European figures 2018 and at the major activities of the EUF during the past year. We will also speak about the future: Fintech, digitalization, Blockchain and new technologies. The Summit will close with a panel of some key Industry players about "EU market after Brexit".

I hope to see you during this Summit, which is the only European Conference organized by the Factoring Industry for the Factoring Industry.

Kinds regards,

Françoise Palle-Guillabert

MAGDALENA WESSEL
Chairwoman of the Legal Committee

The Legal Committee

New Developments regarding the late payments in commercial Transactions

In March 2011, the directive 2011/7/EU on combating late payments in commercial transactions (in short referred to as the late payments directive) came into force and was to be transposed into national law within the following two years. According to the introductory deliberations to this late payments directive, it aims to achieve „a decisive shift to a culture of prompt payment" in order to ultimately facilitate access to finance for SMEs.

> ***IT AIMS TO ACHIEVE „A DECISIVE SHIFT TO A CULTURE OF PROMPT PAYMENT" IN ORDER TO ULTIMATELY FACILITATE ACCESS TO FINANCE FOR SMES.***

In order to achieve this aim, the late payments directive includes rules aimed at discouraging debtors from paying late or from establishing excessively long contractual payment terms. Hence, debtors are inter alia to pay interest and the reasonable recovery costs of the creditor if they do not pay for goods or services in commercial transactions on time. Moreover, the maximum time limits for contractual payment periods set by the late payments directive are 60 days for businesses and 30 days for public authorities, unless another time limit has been expressly agreed upon in the contract, which is not grossly unfair to the creditor, e.g. because it grossly deviates from good commercial practice and is contrary to good faith and fair dealing.

Currently, the European Parliament (through its Committee on the Internal Market and Consumer Protection – IMCO) is assessing the implementation of the late payments directive. It is against this background that MEP Lara Comi has been appointed as rapporteur and has issued a draft report on 21 September 2018 (http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-625.375+01+DOC+PDF+V0//EN&language=FR"http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-625.375+01+DOC+PDF+V0//EN&language=FR). In this (draft) report, the rapporteur points out certain shortcomings in achieving the aforementioned aims of the late payments directive and also presents and recommends certain corrective measures which may be introduced by the European legislator through a possible review and recast of the late payments directive, or which the EU Member States could adopt to help achieve the aims of the late payments directive. The measures the rapporteur suggests include introducing non-binding

corrective and possibly sector-specific measures which are supposed to improve business payment behaviour and discourage unfair practices (e.g. "name and shame" or "name and fame"-measures), but also measures to make companies, in particular SMEs, more aware and better informed of both credit and invoice management as well as of these companies' rights stemming from the late payments directive. Also, the rapporteur stresses the role of public administrations which need to set a good example through timely payments. The rapporteur includes a motion for a European Parliament resolution in her report which covers all these suggestions and more. Even though the European Commission has apparently not yet decided on how to react or whether to hold a public consultation on this issue, a meeting with the Commission expert group in charge of late payments seems to be imminent. Hence, it is not unlikely that the Commission will undertake a review of the late payments directive, possibly resulting in a recast or new late payments directive. The timeframe for such decisions however is much more uncertain, bearing in mind that there will elections for a new European Parliament in May 2019 and that the current EU Commission's term of office will come to an end in the autumn of 2019. In the past, the almost simultaneous occurence of such changes and transitions in two important EU institutions have resulted in delays of legislative proposals and processes.

ANY DISCUSSIONS ON LATE PAYMENTS ARE A GOOD OPPORTUNITY FOR THE EUF TO PROVIDE EDUCATION ON FACTORING TO RELEVANT STAKEHOLDERS AND THEREBY PROMOTE FACTORING AS AN ALTERNATIVE MEANS OF FINANCING

Contractual payment terms, business payment behaviour, late payments, different kinds of countermeasures and other related issues are naturally of importance and therefore of interest to the factoring industry. Already during the legislative process leading up to the late payments directive of 2011, the EUF voiced its views and suggestions on how to best combat and prevent late payments. Hence, these recent activities within the EU and in particular the European Parliament have naturally caught the EUF's attention, also because any discussions on late payments are a good opportunity for the EUF to provide education on factoring to relevant stakeholders and thereby promote factoring as an alternative means of financing.

The EUF Legal Committee and the EUF Prudential Risk Committee are currently cooperating in assessing these new developments within EU institutions and discussing which reactions and measures to take in relation to a possible review of the late payments directive. Considering the aforementioned changes to come in two important EU institutions and the likely time-lag connected with these changes, this is a longterm lobby issue for the EUF.

The Economics and Statistics Committee

2018 Half year's figures – continuous growth of the market

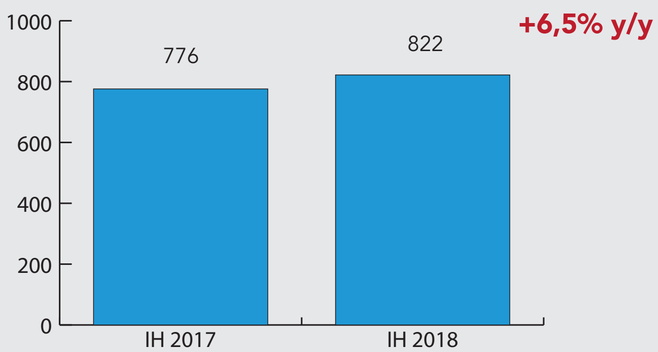
MAGDALENA CIECHOMSKA-BARCZAK
Chairwoman of the Economics and Statistics Committee

The EU Federation for Factoring and Commercial Finance collated the first half year's turnover results for the EU factoring market. Responding countries represented 97% of the European factoring market.

Factoring turnover in the first half of 2018 for the EU countries exceeded 822 billion EUR, with year on year increase of 6,5%.

It is another year - the ninth in succession - of constant, continuous growth in turnover, confirming that factoring is now more often being accepted as a key source of business funding.

EU Factoring Turnover (EUR bn)



Source: EUF

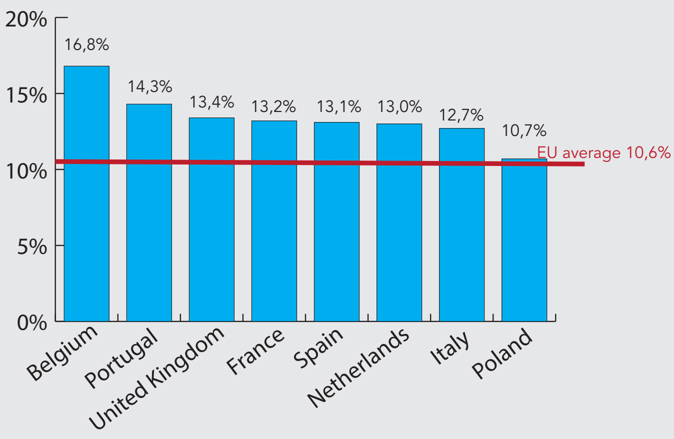
The countries with outstanding increase during the first half of 2018 comparied to last year's figures were Poland, with 31% of yearly increase and Denmark with 23%.

The two other countries with significant increases in absolute values were the Netherlands and Spain, with increases respectively 13,8% and 13,1%.

This year, two countries had a decrease in their turnover volume compared to the previous year – Sweden with 3% and the United Kingdom with 0,5% of decrease.

Also this year's GDP penetration ratio was higher than last year (10,6% comparied to 10,4% after the first half of 2017), and there were wide variations between countries. The lowest GDP penetration ratio was in the Czech Republic (3,3%) and the highest in Belgium (16,8%).

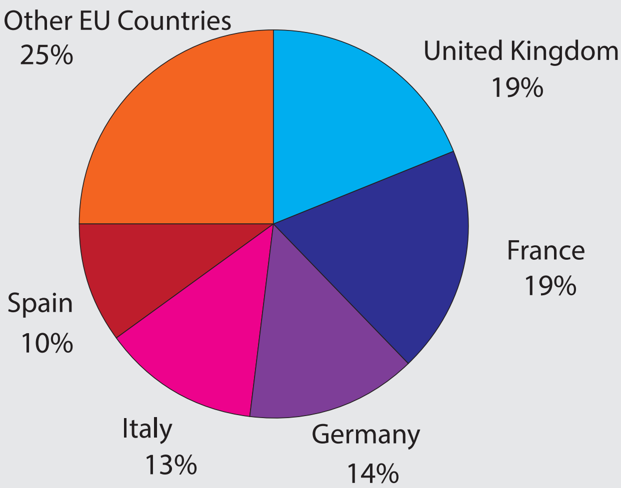
Highest IH 2018 GDP Penetration Ratio



Source: EUF

The high level of concentration shown by the EU factoring market remained unchanged. The top five countries after thefirst half of 2018 represented 75% of the total EU market and those were: the United Kingdom, France, Germany, Italy and Spain.

Top 5 Countries



In conclusion, the data collected by the EU Federation for the first half of 2018 shows the growing role of factoring as a source of funding for companies across Europe.

30 June 2018	Notes	Total Turnover	pct var. on the previous year (Total)	GDP Penetration
Austria*		11,060	11.1%	5.9%
Belgium*		37,127	7.2%	16.8%
Czech Republic*	(1)	3,285	12.1%	3.3%
Denmark*	(1)	8,734	22.5%	6.1%
France*		153,232	9.9%	13.2%
Germany*		118,807	4.9%	7.1%
Greece*		6,972	10.1%	8.0%
Ireland*	(3) / (4)	12,560	7.7%	8.2%
Italy*		109,997	0.4%	12.7%
Netherlands*		49,803	13.8%	13.0%
Poland*	(1)	25,110	31.0%	10.7%
Portugal*		14,000	9.6%	14.3%
Spain*	(4)	77,936	13.1%	13.1%
Sweden*	(1)	10,047	2.8%	4.3%
United Kingdom*	(1)	158,215	0.5%	13.4%
EUF Members (*)	(1)	796.884	6,4%	10,9%
Other EU countries	(2)	25.564	na	5,6%
EU Total Turnover	(1) / (2) / (3)	822.448	6,5%	10,6%

Notes:
1) Pct variation has been corrected in order to avoid biases due to exchange rates fluctuation.
2) Turnover estimates on the basis of the available information
3) GDP estimates on the basis of the available information

Source: EUF Members

The Prudential Risk Committee

Artificial Intelligence: from Tech to factoring?

DIEGO TAVECCHIA
Chairman of the PRC Committee

When thinking about the banking industry, one of the most important inputs it has is "information". Yet, at the same time, information is also one of its most valuable outputs.

Indeed, academic literature suggests that an information asymmetry is the basis of financial intermediation theory and explains the very existence of banks.

Such institutions have a significant competitive advantage over other actors, that being the opportunity to ask their clients for confidential credit information and an ability to generate new information through carrying out their clients' day to day business.

Factoring makes no exception. On the contrary, underwriting a factoring agreement requires a perhaps even deeper analysis of the business, of its own clients and of the trade relationships between them. The relationship with a factoring client allows the factor to "invade" the client's business even beyond the banks' capacity, through the daily monitoring of new invoices and payments collected, which help identify non-performing situations long before the situation bursts. The reader may have the feeling he/she has already read the above lines in the past, and rightly so, as it is basic knowledge within the Industry, handed down from one generation to another of factoring professionals.

During the latter years, credit assessment has not been forgotten by digitalization and therefore has been more and more transferred from the underwriter mind to the machine. In particular, the information has been organized and implemented into credit scoring systems, at the foundation of internal rating models.

Credit scoring methods normally consider information provided by the client, and by public registers and/or credit bureaus, weighted through an algorithm into a single number ("score"), which is used to infer the probability of default of the client, traditionally through established statistical tools such as e.g. regression, decision trees. But the explosion of "FinTech" is proposing new and interesting alternatives to traditional approaches, exploiting the potential of other sources to integrate the credit assessment, namely the so called "big data" (According to the EBA report on prudential risks and opportunities arising for institutions from FinTech: "These models may use customer data from a variety of sources, such as social media data, data from other lenders, enterprise customer data, publicly available data, location data, mobile data, web data and behavioural data"), as well as new computational techniques, such as Machine learning and Artificial Intelligence, to improve credit scoring, reduce the need for human intervention and speed up the lending decision process. The Financial Stability Board, in its report on "Artificial intelligence and machine learning in financial services", "defines AI as the theory and development of computer systems able to perform tasks that traditionally have required human intelligence. AI is a broad field, of which 'machine learning' is a sub-category. Machine

learning may be defined as a method of designing a sequence of actions to solveproblem, known as algorithms, which optimise automatically through experience and with limited or no human intervention. These techniques can be used to find patterns in large amounts of data (big data analytics) from increasingly diverse and innovative sources".

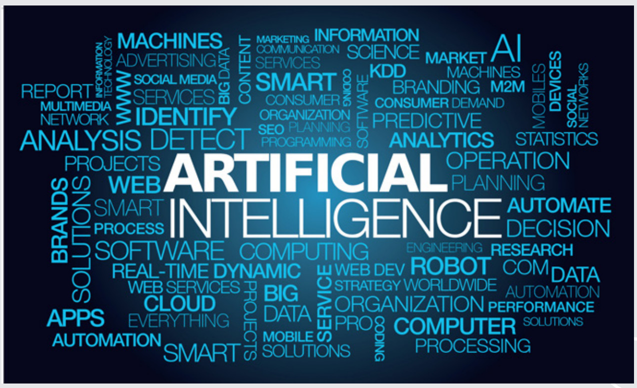
THE EXPLOSION OF "FINTECH" IS PROPOSING NEW AND INTERESTING ALTERNATIVES TO TRADITIONAL APPROACHES, EXPLOITING THE POTENTIAL OF OTHER SOURCES TO INTEGRATE THE CREDIT ASSESSMENT, AS WELL AS NEW COMPUTATIONAL TECHNIQUES TO IMPROVE CREDIT SCORING, REDUCE THE NEED FOR HUMAN INTERVENTION AND SPEED UP THE LENDING DECISION PROCESS.

The FSB provides, in the same report, an interesting list of possible applications of AI, that "could be used for anticipating and detecting fraud, suspicious transactions, default, and the risk of cyber-attacks, which could result in better risk management". To make some examples, algorithms could use image processing to detect fraud risk by verifying if the prospect's headquarter is really where he/she said it is (through "Google Maps") or if the prospect is a hooligan (through his/her Facebook profile) or to find out if an invoice is false or manipulated. Of course, on the other side of the coin, exploiting AI has its risks…for example, the decision process may become opaque to the client and even to the bank (or factor). And what if the AI takes bad decisions? Who will be responsible of those losses? … and so on.

Coming back to factoring, what will be the impact of such new analytic tools? Will the man be overcome by the machine? My personal answer is: it depends. The natural application of AI credit scoring is in the online digital platforms, where new clients, normally small and possibly facing difficulties in accessing bank lending, approach the platform to sell their receivables, usually to -again- small businesses with opaque credit history. Such advanced tools may allow a thorough but prompt assessment of the credit worthiness of the transaction, using unconventional data sources to supplement unavailable credit information and limiting the need for human intervention. The possibility to scale the algorithms is almost limitless: a large number of clients and debtors might be analysed quickly and without absorbing resources (other than computational power), independently from their location and willingness to provide credit information. One could even dare say that quick and reliable credit scoring models are essential for the digital platform to work properly and fulfil the client's expectations (which, not surprisingly, most of times can be summarised with "gimme the money, now").

But would it work just as well with corporate, where most of the volumes of the factoring industry comes from? I respectfully doubt it, as in that case the demand for automation of the underwriting process (which is driven by numbers and demand for speed) is lower and information is normally available.

A proper conclusion for this contribution might be drawn from the above-mentioned EBA report: "The large amount of variables that could potentially be exploited using big data and machine learning may lead to better customer screening and financial inclusion, by increasing the accessibility of financial products to consumers, especially for borrowers who do not generally have access to credit because of limited credit information data, although this remains speculative in the absence of evidence". That appears to be the case of small businesses approaching factoring through online digital, much less the case of larger companies. That being said, even in the former case, in the experience where AI credit scoring are already implemented, I must say that currently I am not aware of situations in which the final credit decision is not made by a human.



EU FEDERATION FOR FACTORING AND COMMERCIAL FINANCE

The EUF is the Representative Body for the Factoring and Commercial Finance Industry in the EU. It is composed of national and international industry associations that are active in the EU.

The EUF seeks to engage with Government and legislators to enhance the availability of finance to business, with a particular emphasis on the SME community. 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.

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