

THE DEVELOPMENT OF FACTORING SERVICES IN ROMANIA. ANALYSES, EVOLUTIONS, POSITION IN EUROPE

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Abstract: Romania's adhesion to the EU has led to changes in the economy and implicitly in the banking system. The steps prior to adhesion consisted in adapting the Romanian banking system to the European norms. The Romanian factoring market has developed by several credit institutions. The advantages of factoring for the adherent and factor recommend this service as a modern financing, crediting and risk management tool. The present study is an analysis of the evolution of factoring in Romania, starting from the worldwide and European tendencies. By comparisons there will be established the position of Romania on the EU factoring market. The sources of the data processed in the research are Factor Chain International and publications of Romanian financial institutions. By its outcomes, the research is useful to the participants on the financial and credit market, to the academic environment and to economists concerned in this field.

Key words: internal factoring, external factoring, regress factoring, debts management.

1. The Importance and Usefulness of Factoring Services

For many companies, selling on an international market represents a true challenge. It is true that this activity can prove to be a very profitable one, but business success implies risks taking. Different habits, currency systems, laws and language, continue to create obstacles in front of commerce, in a world where communications and information technology allow for processing orders regarding foreign relations within seconds.

One of the biggest problems confronted by exporters is the increasing insistence of importers for the exchange to be made under commercial credit conditions. Therefore, the counter-value of the merchandise is cashed weeks or even months after the deliver. On the other hand, many organizations consider that granting such buyer credits can generate severe problems regarding cash-flow management. Moreover, problems can occur in case the importer postpones the payment after the initially stipulated term or worst if he makes no payment whatsoever for insolvability reasons.

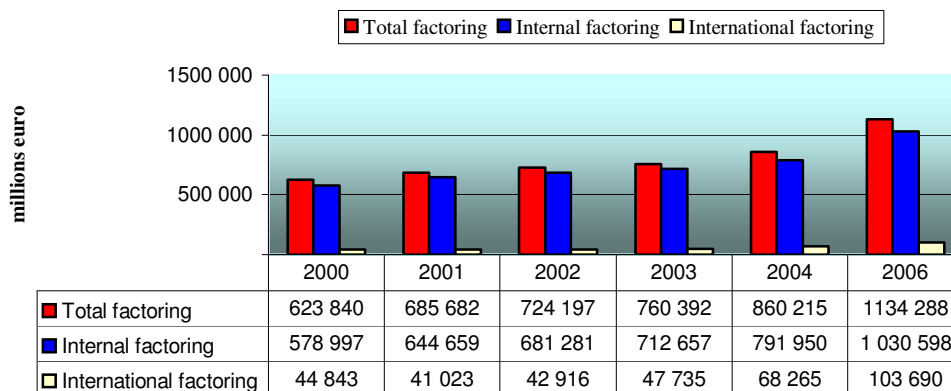
International factoring provides a simple solution, regardless if the exporter is a small company or a large one. The role of factoring is to collect the amounts due from abroad, by calling for importers in their own country, in their own language and upon local usages. Thus, the distance, cultural, economical and hour differences are no longer a problem. Moreover, factoring ensures protection against non-payment to exporters. The credit institutions' (factors) promoting factoring services represents a current problem worldwide. The advantages of international factoring have proved to be very attractive for the participants to international exchanges. Today, the form of financing by factoring is considered to be an excellent alternative to other traditional financing forms. This means that the conditions for international factoring can be regarded as favorable in all countries, not in the developed, but also in the developing ones.

Romania's adhesion to the European Union brings in new players on the financial market as a whole and in the banking system in particular. This increase of competition, as well as the correlation with the prudential norms and good practices of the European Union increases variety in the financing offers and in the services provided by credit institutions. It is upon this view that we will analyze the features of the Romanian factoring market.

2. Analysis of the Factoring Evolution Worldwide

Although Romania is an insignificant financial market on world level, we consider that an overview image over the factoring worldwide will allow us to make a more relevant identification of this product's place in Romania.

In respect with the evolution of the total factoring volume worldwide, we can notice that throughout 2000-2006 such increased by 80%, which demonstrates an increase of the interest for this financing form, both of the users and of the financing institutions. Given the fact that the factor takes over non-payment risks in the case of external factoring and only in some cases for the internal one, it is interesting that worldwide internal factoring has the largest share in the total (graph 1).



Graph1. Factoring Structure Worldwide

There can be seen that in the analyzed period international factoring increased with approximately 130% in 2006 compared to 2000. This demonstrates that we assist to a major development of financing by international factoring. Also, signals exist that more and more businesses adopt this product as a way of shifting from letter of credit based sale to open account sale. Importers demand more favorable payment conditions, and factoring allows for exporters to accept open account payment, upon commercial credit conditions, without worrying about "overdue debts", or problems regarding the cashing of external invoices.

In respect with the geographical distribution of the operations, the FCI reports show that the most developed factoring market is in Europe, holding 71% of the world volume. Following in the top there are the Americas and Asia-Pacific area with equal shares of 13% in the world volume. During the past years a strong increase was noticed of financings by factoring, especially in expanding economies in the Central and Eastern Europe. As shown bellow, this tendency is also felt in Romania.

3. Factoring in Romania

The opening of Central and Eastern Europe to the international financial and credit market has brought factoring operations into participants' attention. Even though the factoring market is still emerging, an increase is noticed in the interest for this financing modality in many Central and East European countries, Romania included.

Factors Chain International (FCI) is an umbrella organization for independent factoring institutions worldwide and has become today the largest international factoring network. Upon its establishment in 1968 internal factoring services were available only in North America and a few European countries. The concept of international factoring was still new and limited in sense, due to lack of geographical coverage. The founding members of FCI noticed the existent potential for international factoring, also acknowledging the need and opportunity for such an organization. The organization's main purposes were to introduce factorings in countries where it didn't exist and to create an institutionalized members' collaboration framework. In respect with its relation to Romania, on April 1, 2007 five members activated in Factors Chain International: BCR SA, BRD Group, Unicredit Romania, Factoring Company IFN SA and ING Commercial Finance IFN SA, yet annual reports refer to the activity of more institutions. In 2006 such

performed factoring operations amounting to euro 750 millions. The amount doesn't seem important if compared to the European level, but the increase by 30% compared to year 2005 is significant. There can't be noticed that Romania is placed last among Central and Eastern European countries, yet its market is a lot more developed than the Bulgarian one (euro 35 millions in 2006). Last years' increase in the factoring volume in Romania demonstrates an opening of the participants to international trade for this financing form (Table 1).

	1998	2000	2002	2003	2004	2005	2006
Total Europe, out of which	295 778	414 383	522 851	546 935	612 504	715 486	806 983
Bulgaria	0	1	0	0	0	0	35
Croatia	0	0	0	0	28	175	340
France	44 255	52 450	67 398	73 200	81 600	89 020	100 009
Germany	20 323	23 483	30 156	35 082	45 000	55 110	72 000
Hungary	115	344	580	1 142	1 375	1 820	2 880
Italy	75 319	110 000	134 808	132 510	121 000	111 175	120 435
Netherlanders	17 702	15 900	20 120	17 500	19 600	23 300	25 500
Poland	609	2 085	2 500	2 580	3 540	3 700	4 425
Portugal	5 545	8 995	11 343	12 181	14 700	16 965	16 886
Romania	20	60	141	225	420	550	750
Slovakia	179	160	240	384	665	830	1 311
Slovenia	14	65	75	170	185	230	340
Spain	9 936	19 500	31 567	37 486	45 376	55 515	66 772
Great Britain	84 255	123 770	156 706	160 770	184 520	237 205	248 769
TOTAL (worldwide)	456 506	623 840	724 197	760 392	860 215	1016547	1134288

Table 1. Volume of factoring operations in Europe (selection)

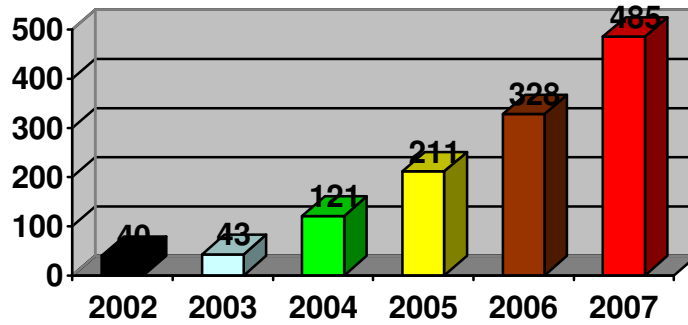
In the current period there can be said that the Romanian factoring market is a well organized one, even though these products and services have been brought in relatively recent and the factoring operations volume is not too large. The most used factoring services are the internal factoring type ones and external factoring without regress. The most important factors are commercial banks, yet some non-banking institutions also exist, out of which the most active is the Factoring Company.

4. Study on the Evolution of the Factoring Volume and Structure in BRD Group

BRD Group Societe General was established in 1923 along with the constitution of the National Company for Industrial Credit. In time, it has undergone a series of changes. The initiation of factoring services in Romania took place in 1992, yet the important step was made in 1993 by the affiliation to Factors International Chain, BRD being the first banking institution of full member statue in this organization. In the BRD factoring products portfolio there can be found both internal and international factoring (export and import). The bank provides its clients with factoring product in the versions with or without regress upon the client. Depending on the situation, clients can access the entire factoring services package: invoices financing, debt management, collection, coverage of non-payment risk, or a combination of at least two of them.

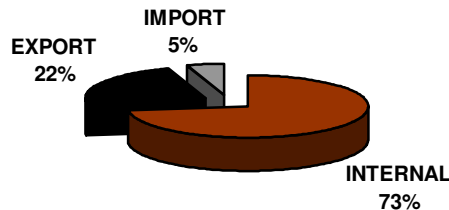
By analyzing the period 2002-2007 there can be noticed that in the first years the level of factoring operations performed by the Group was of approximately euro 40 millions. As such is due to the fact that the product was less known to the economic environment, as well as to the fact that the crediting activity was spreading. Starting 2004 BRD factoring has significantly increased, the bank reaching its factoring market leader position. By the end of 2005 a new boost was registered, by 75% from one year to the other. In 2006 the bank obtained euro 328 millions turnover from factoring, representing an increase of 55%

compared to 2005. The value of the operations performed in 2006 provided the bank with a very strong position on the market, as the volume of euro 328 millions represented approximately 40% of the total factoring in Romania (euro 750 millions in 2006).



Graph 2: BRD factoring volume (millions of euro)

In 2007 the total volume of the factoring operations reached euro 485 millions, by an increase in the operations of 47% compared to 2006 (graph 2). In respect with the operations' structure, in 2006 internal factoring had a share of 73% of the total, external factoring 22% and the rest of 5% was represented by import factoring. There can be noticed that internal factoring holds the highest share in the factoring operations portfolio, while the rest is divided between export and import factoring. Import factoring is a less used product in the local banks' offers. In the structure of the operations, the largest increase of approximately 50% was registered by internal factoring operations, which reached a level of euro 357 millions, whilst the volume of international (export and import) factoring volume increased by 47% compared to 2006. It is interesting to study if these annual increases are correlated to the dynamics of adherents or if a similar number of clients are using factoring more.



Graph 4: Factoring structure in 2006

From the data disclosed by the bank it results that in 2006 BRD was managing by factoring a portfolio of over 360 clients and 700 debtor clients or BRD non-clients. Compared to the same period of the previous year, the number of clients calling for factoring had increased by 40%, representing over 100 new companies enlarging the initial portfolio. In 2007, the number of clients increased again up to the level of 496, corresponding to a portfolio of over 1000 debtors and over 180.000 administered invoices.

By correlating the data regarding the volume of factoring operations to those regarding the number of clients calling for BRD factoring services, an increase trend can be noticed at both, yet the increasing rhythm of the clients' portfolio is smaller compared to the increase of the factoring volume. It seems that the understanding of the product, the development of the Romanian business environment and a more enhanced promotion of factoring services have lead to the increase of the number of users thus increasing the factoring volume. The same trend was also registered in the case of other factors. In order to provide a complete image of the Romanian factoring market we will briefly refer to the activity of other factors.

In the case of BCR group the initiation of factoring operations was made in 1998 by external factoring. The internal factoring product was introduced later on in 2001. BCR's market share for factoring operations is of approximately 33%. The significant boost period started in 2005, when BCR became a full member of

the Factor Chain International. The BCR factoring turnover for factoring in 2005 slightly exceeded euro 130 millions with an increase of 51% compared to 2004.

In the case of ING group, the factoring operations are made by ING Commercial Factoring. The institution mainly addresses to small and medium enterprises, focusing on internal factoring. This is due to the fact that ING Commercial Finance is not yet a member of Factor Chain International. ING's factoring offer includes internal factoring with or without regress, external factoring without regress, as well as a portfolio of services such as: invoices financing due from 7 to 90 days, on-line reporting system, debtors monitoring, risk coverage in external and internal factoring, collection services. ING's factoring products are destined to enterprises registering a turnover of at least 1 million euro a year. The market covered by ING is of 5% of the total.

The Factoring Company is an institution specialized in factoring services, member of Factors Chain International. It was established in October 2006 and its shareholders are Transilvania Bank and Intermarket Bank Austria. Products portfolio is comprised of a series of factoring products; internal factoring is provided in Factoring, Plus factoring, Premium factoring and Total factoring. What differentiates these products is that they comprise one or more factoring services. For instance, Factoring only provides the services of invoices financing, Premium factoring includes besides invoices financing the debtors' risk of non-payment, while Total factoring includes besides the two said ones the debts management service.

The Factoring Company also provides external and import factoring services, yet in this case the way of achieving the products portfolio is not the same, as external and import factoring can be found in a particular product each, including all factoring services. In respect with operations volume, Factoring Company achieved in its first months of existence a turnover of euro 12946, and the turnover for 2007 was of euro 116 millions.

All these examples refer to an increasing factoring operations market. It can be noticed that more and more participants to the international commerce have understood the benefits of the factoring services. Using factoring is of immediate impact over the client's cash-flow, transforming due cashing into open cashing. Thus, factoring allows for business development without immobilizing assets in real guarantees and for an efficient debts management.

5. Conclusions

The factoring package comprises integrated services both for internal factoring operations and for export ones, as debts financing, debts administering and management and, as the case might be, taking over insolvency risk. The product provides a financing alternative to companies undergoing their business development phase, to those in their maturity phase, and especially to those having debts from exports and/or internal deliveries.

Compared to the European market Romania can hardly be seen as a share in the total operations (0.092% in the total in 2006). However, there can be noticed good growing rhythms from one year to the other. The comparison with other Central and Eastern European countries in the European Union is most cases unfavorable to our country: in 2006 the total factoring volume was of euro 1311 millions in Slovakia, 2880 in Hungary and 4425 in Poland, compared to euro 750 millions in Romania. Nonetheless, our country overcame countries such as: Bulgaria, Croatia, Slovenia. It is important to underline that although less numerous, the financial institutions active on the Romanian factoring market undergo an impressive activity, although some have been operating only for a few years. The present research demonstrates that Romania faces a considerable diversity of factoring products (internal, external, export, import, with or without regress), which indicates rapid adaptation to the market's needs. There can be said that on the Romanian financial market the factoring services are fairly sophisticated and thorough.

Considering the growth rhythm of the factoring operations' volume throughout last years, we consider that a tendency exists for potential users to open to such sort of financing. Nonetheless, we consider that the product is not yet accessible to small sizes exporters on one hand due to the fact that factoring services are not known, and on the other hand due to relatively high costs. We believe a mediating campaign from factors would be welcomed and could help increasing the performances of factor-banks, and also to the development and fluidization of national territory and upon export. Also, it is our opinion that the use of international factoring services provides a financial safety climate to any company, allowing it to enter new markets upon European competitiveness conditions.

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