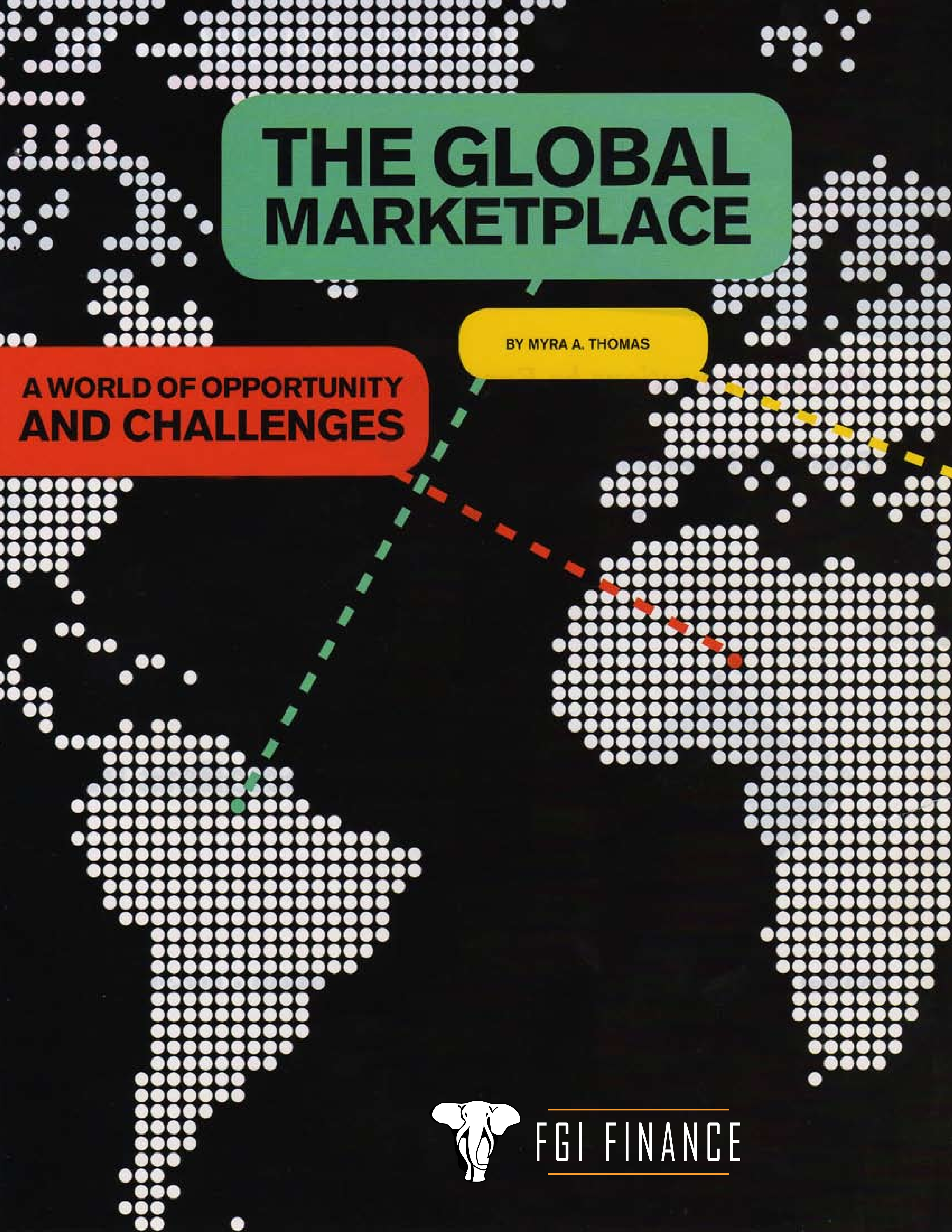
THE GLOBAL MARKETPLACE

BY MYRA A. THOMAS

A WORLD OF OPPORTUNITY AND CHALLENGES



FGI FINANCE

Today, the prospects for global factoring are very strong, with business steadily increasing in more mature markets in the UK and Europe, as well as interest gaining in parts of the globe previously untouched by the industry. The flexibility of factoring remains the key reason for the success of this type of financing worldwide, says Erik Timmermans, secretary general for the International Factors Group, a Brussels-based international association of factoring companies. He adds, "Factoring can be tailored to the specific needs of a client and defined to meet the unique requirements of each and every company."

In a 2006 market analysis on factoring in the European Union prepared by International Factors Group, recourse factoring and invoice discounting (with or without recourse) were the predominant forms of financing. The research also indicated that most of the EU expected continued growth in their factoring business, with (confidential) invoice discounting serving as the "engine for growth" in more mature markets. The value and confidential nature of the product were cited for its popularity with clients. However, the report also indicated asset-based lending, confirming or reverse factoring, as well as Internet-based electronic factoring products were gaining ground.

Despite the increasing options for secured lending, factoring retains its stronghold internationally, especially in the UK and the European Union. According to data from Factors Chain International (FCI), an Amsterdam-based global network of factoring companies, 2007 factoring turnover in the UK and Europe totaled €930 billion (Euro), including domestic and international business. The organization's research also indicated considerable growth in international factoring, in excess of 40% for 2007 versus the prior year.

Understanding the Dynamics

The globalization of trade and import/export financing are creating the need for additional factoring and ABL facilities worldwide. Says Erik Timmermans from the International Factors Group, "There are bigger and bigger players in the business, but there are also cross-border deals happening on a regional basis with strong local players establishing strategic alliances to deal with and facilitate business."

Stephen B. Lewis, executive director/cross-border solutions for GE Commercial Finance in London, notes the financial institution has been very active in the ABL and factoring market since the 1960s, through its GE Heller Bank in Germany and GE Factofrance in France. He notes that during the past two years, GE's factoring operations "have done extremely well and continue to grow significantly, even during the credit crunch. Businesses from the U.S. have increasingly acquired or grown their operations in Europe. U.S. businesses are very familiar with ABL and factoring, which has also helped international growth. The whole market is attractive right now for lenders that have a broad geographical footprint, strong technology, and local expertise."

But even with the good news, getting a handle on such a vast and diverse marketplace can be, at time, difficult. It is very much a patchwork industry on the international level, divided by product nuances, jurisdictional/legal issues, and language and time zone differences in each country. Certainly, the legal environment and historical preference have made factoring more popular than asset-based lending abroad. Lewis notes that, while most markets are suitable for factoring services, it can get more complicated for ABL and, particularly, inventory financing. "Lenders need to have total comfort that proven legal frameworks to allow them to recover assets should a problem develop. Typically, the existing legal regimes of Southern European countries—Spain, Portugal, Greece, and Italy—present more of a challenge on the inventory finance side, given the challenge in the realization on assets in times of difficulty, whereas Northern Europe and common law countries, such as the UK, Ireland, Germany, France, Australia, New Zealand, Singapore, and Hong Kong, have very proven channels to protect lenders."

Nonetheless, the future is looking much brighter for ABL. Lewis says that governments in Southern Europe, Eastern Europe and many of the emerging markets are beginning to implement changes to legal systems, in order to attract far greater use of asset-based lending financing. Notes Lewis, "Predictability is the primary concern for lenders. The ability to retrieve and dispose of collateral in times of trouble is the core challenge for lenders."

the basics

New marketplaces, such as China and India, are opening up around the world for lenders.

Major challenges to cross-border deals include product nuances, jurisdictional/legal issues, and language and time zone differences.

Creating a local presence may be the key to succeeding .

Paul Hancock, co-chair of the Asset Based Finance Association's ABL committee and managing director of asset-based lending for JPMorgan Chase in London, acknowledged a very "active market in Europe." The Asset Based Finance Association (ABFA) is a Surrey, England-based trade association for the industry. According to year-end association statistics from 2007, client sales volume in the UK had a value of more than £191 billion (pounds), with total funds advanced to UK businesses up by 16% vs. the prior year. Hancock predicts continued industry expansion ahead and more asset-based lending deals for funding acquisitions. "The market provides a more flexible package than traditional lending," he adds.

JPMorgan set up its unit in the UK three years ago, and Hancock does admit that doing business there is simply not as easy as it is in the U.S. Still, he adds that international ABL and factoring firms are all finding ways to reach across the many legal difficulties to service clients across jurisdictions and countries. "The industry may not be mature enough to say there are market norms as of yet, but we are getting there and making it easier for borrowers."

The ABL market is gaining ground in the UK especially, notes Edward M.G. Ettershank, managing director of Lloyds TSB Commercial Finance Limited in Surrey, England (Editor's Note: See the TSL Interview featuring Mr. Ettershank on page 52). While he notes that the ABL market is certainly much larger in the U.S., it is growing very rapidly in the UK, particularly in the large corporate/multinational sector. Lloyds TSB Commercial Finance Limited currently operates in the UK, France, Germany, Spain, Holland, Belgium, and Ireland, as well as in the U.S. Ettershank adds, "The ABL market is relatively immature in the rest of Europe, outside of the U.K. But interest and activity is growing year on year there, as well." Additionally, he says that the ability of major European competitors to work together to syndicate large facilities means that transactions up to £1 billion can be accommodated.

A Look Ahead

Now, areas of the globe that were once not known for factoring appear to be getting ready for a leap into the industry. Despite adequate legal structures and industry knowledge in places such as China, India, and in parts of South America and Eastern Europe to deal with secured lending issues, economic growth is driving the demand for financing products and beginning to alter the financial landscape. After a recent business visit to mainland China, International Factors Group's Timmermans acknowledged the government's strong interest in factoring (Editor's Note: For information on China's new factoring association, see Collateral on page 13). "Today, there are four or five large banks there doing what they call factoring, but it's really more like trade financing. There isn't really the knowledge there yet, but the knowledge and education will come there and to places like South America and India."

David W. Morse, partner at the law firm of Otterbourg, Steindler, Houston & Rosen, P.C. in New York City, admits that the legal system and political regime can certainly hinder or help an emerging market in asset-based lending. "As laws and the judicial infrastructure continue to develop, places like Mexico and Japan will be the new frontier," adds Morse. And, while China and India remain essential and important to the world economy, for traditional ABL, the legal and political issues are significant.

"Jurisdictions like Italy and France can also be challenging for ABL," says Morse, "in particular, because of their insolvency laws." With the continuing development of the case law around the EU Regulations on Insolvency Proceedings utilizing the concept of a "centre of main interest," hopefully greater certainty in dealing with insolvencies of companies with operations across the EU will emerge. Morse cites the difficulties factors and asset-based lenders face sometimes in dealing with insolvency administrators in such jurisdictions as Germany. "The scope of the insolvency administrator whose interests are often in conflict with the secured creditor can require additional planning on the part of the secured lender in structuring a transaction." But Morse concludes that the key is for the secured lender to underwrite properly, anticipating the issues it will confront in a multijurisdictional financing."

Sami Altaher, executive director of FGI Finance, a New York City-based global commercial finance firm, notes, "Some of the most difficult areas to establish asset-based loans are in the markets that lack creditor-friendly laws and markets that still utilize civil laws in their commercial transactions, such as France." FGI has clients both based in the United States, as well as Europe, Latin America and Asia, providing asset-based lending lines in the range of $1 to $15 million. He adds, "There are a lot of difficult challenges, but the toughest challenge is in building a network with the ability to operate internationally. There is a strong need for cultural understanding, legal knowledge and sufficient resources and infrastructure. Local presence is a key to succeeding in providing asset-based lines." **TSL**

Myra A. Thomas is a leading business editor, author and journalist with 13 years covering the finance sector. She currently serves as managing editor of *FSO Magazine,* a quarterly publication tracking the machinations in BPO for banking, insurance, and the capital markets.