

# Factoring as a Perspective Financial Product of the Modern Market

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**Abstract:** The article shows the factoring application feature analysis in Russia. Factoring represents a range of services for manufacturers and suppliers who conduct trading activities on a deferred payment basis, and it is currently one of the fastest growing financial services. In its development, Russian factoring has avoided crises and everything that many other sectors of the Russian economy have suffered from. In particular, the article revealed that in recent years the market has grown due to the seriously increased interest of banks - in a crisis, factoring is the least risky product, and players began to actively promote it. The article describes the advantage of factoring over a close financial service - a loan. In addition, directions for the factoring development in the Russian economy were also formulated. In Russia, factoring has only recently begun to actively develop and become successful among organizations engaged in trading. As for foreign experience, the use of factoring is growing rapidly in Western Europe, the USA and Asia. Also in this research we have analyzed the dynamics of factoring services in Russia for the period from 2010 to 2018. Despite the problems and shortcomings of this financial instrument, it has development prospects that are connected with the stabilization of external economic factors, the exchange rate and increasing of the resource provision of financial institutions.

**Keywords:** Factoring, factoring service, recourse factoring, factoring market, financing of working capital.

## INTRODUCTION

Essentially, factoring is a tool designed to support the pursuit of client-oriented approach under the conditions of volatile financial flows.

Factoring consists of a range of services for manufacturers and suppliers conducting trading activities on a deferred payment basis. Factoring includes (in whole or in part) financing of working capital, credit risk coverage, accounting and collection of account receivables (Ivanovic S, *et al.* 2011). According to the theory of the time value of money, everyone needs revenue today, and not in a month or two. In this situation, based on the objective need for this service, banks began to develop factoring as a new product.

The first attempts to introduce factoring in the economy of modern Russia were made in 1988. However, this service at that time in its content and quality was far from the one that is currently available on the Russian market. At that time, only overdue receivables were assigned, and an agreement was drawn up with both the supplier and the buyer. Payments to the supplier were guaranteed by lending to the buyer. Commercial banks have begun factoring

operations in Russia since 1992 (Lvov and Rynok, 1995). However, in the 90s, commercial banks still had unformed technologies and were characterized by a lack of discipline of debtors. Factoring received its powerful development in Russia only during the last ten years.

## METHODS

The methodology of the study is based on the application of classical scientific methods and techniques, namely: systematic consideration of the object and subject of the study, dialectical logic, analysis and synthesis, methods of grouping, comparison, generalization, which allows to speak about the complexity, integrity and reliability of the results of the study.

## Factoring Trends in Modern Russia Economy

Nowadays, there are many options of factoring services offered in the market: with recourse, without recourse, domestic, international, etc. In Russia, factoring with recourse is in a high demand. According to the mechanism of factoring with recourse, the supplier, having shipped the goods and provided shipping documents to the bank, immediately receives financing in the amount of up to 90% of the delivery amount. The bank transfers the remaining amount minus the commission fee to the supplier's account after the debtor pays for the goods. The popularity of

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recourse factoring among Russian companies is explained by the relatively low cost in comparison with other types of factoring, since the supplier assumes the risk of full or partial non-payment of deliveries by the debtor (Yusupova, *et al.*, 2018; Nikonova, *et al.*, 2018).

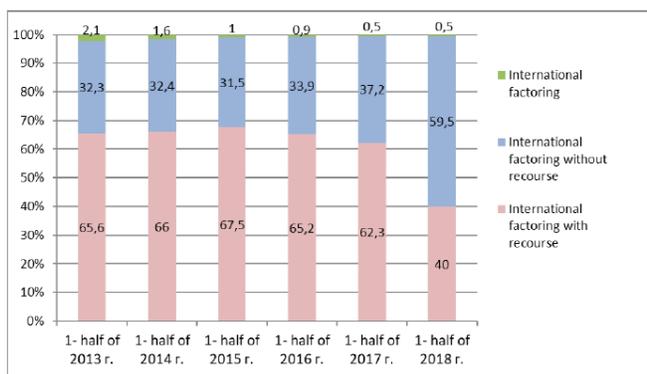
Factoring without recourse is attractive for suppliers of goods and services, but since in this case the bank assumes significant risks (the risk of non-fulfillment or improper fulfillment by the buyer of his obligations to pay for goods), the cost of this service will be higher in comparison with regressive factoring. To manage risk, a provider can use credit and liquidity risks insurance.

For the buyer, reverse factoring is more relevant. It is used if the buyer has a need for a deferred payment (commercial loan). This means that the supplier of goods or services is financed and its cash gaps that arise in the process of granting a deferred payment are closed.

Import factoring is oriented towards buyers who purchase goods abroad with deferred payment. Import factoring operations are carried out in the interaction of export and import factors that are performed by banks and factoring companies around the world (Rovcanin, *et al.*, 2005). Recourse export factoring is a type of export factoring that allows the exporter to receive financing for the assignment of a monetary claim to a foreign buyer (Factoring Promsvyazbanka 2014).

All these types of factoring are very successful in the Russian market. Confirmation of this fact can be found in the statistics provided by the Association of factoring companies. In the first half of 2018 the total amount of financing provided by Factors has reached about 1,100 billion rubles.

Types of factoring in market turnover for the period 2013-2018 are presented in the Figure 1.



**Figure 1:** Types of factoring in the market turnover (Zinina *et al.*, 2018).

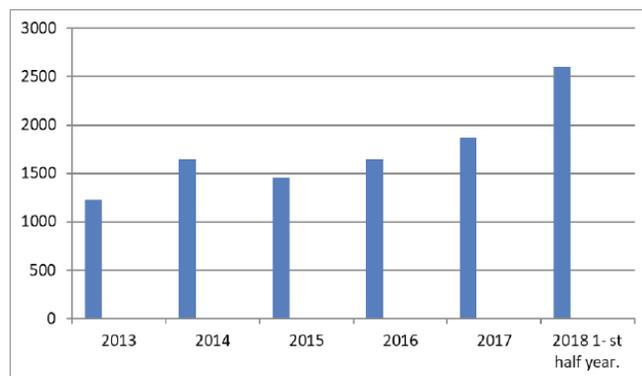
Factoring with recourse accounts for 40% of the total turnover, non-recourse - 59.5%, the share of international factoring is 0.5%.

In recent years, the Russian factoring market has been developing at an impressive pace. Currently, factoring is one of the fastest growing financial services. In its development, Russian factoring has avoided crises and everything that many other sectors of the Russian economy have suffered from.

## RESULTS

In 2018, the aggregate amount of financing provided by Factors showed an increase of 40% compared to 2017 and reached about 2.6 trillion rubles, which is largely due to the dynamic growth of the traditionally leading largest players (OOO VTB Factoring (Ltd.), AO Alfa-Bank (JSC) , OOO GBP Factoring (Ltd.), OOO RB Factoring (Ltd.)), as well as relatively new market participants (AO Raiffeisenbank (JSC) and OOO Sberbank Factoring (Ltd.)). (Kodolova *et al.*, 2019) The market has grown due to the seriously increased interest of banks - in a crisis, factoring is the least risky product, and players began to actively promote it, Figure 2.

Among the Factors that disclosed data on the amount of funding provided by regions to the agency, the leading position in the first half of 2018 in Moscow, St. Petersburg, the Volga Federal District, the Central Federal District (except for Moscow) and the Siberian Federal District is held by OOO VTB Factoring (Ltd). In the Ural Federal District, the leadership is retained by the GBP Group, and in the North-West Federal District (except St. Petersburg) - by OOO Sberbank Factoring (Ltd.). In the Far Eastern Federal District, the North Caucasus Federal District and the Southern Federal District OOO MSP Factoring (Ltd.) is the most active.



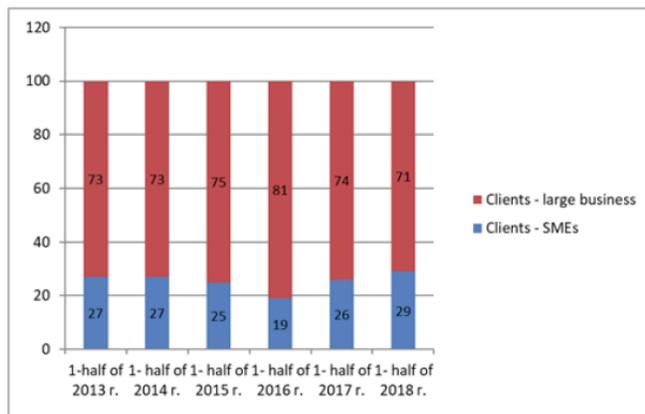
**Figure 2:** Turnover of Russian factoring (Zinina *et al.*, 2018).

Incentives for the development of factoring market in the Russian Federation

Such dynamics was provided by the breakthrough growth of market leaders who managed to increase the volume of financing by 50% and higher, which at the same time contributed to increased concentration on individual factoring companies: the share of the top 5 Factors in terms of the volume of financing increased by 7 pp, up to 70%, for the period from 07/01/2017 to 01/01/2018.

Currently the factoring market is a fairly competitive environment. In the search for low-risk transactions, large Factors descend into the segment of small and medium-sized businesses, using cheap funding. The demand for factoring by small and medium-sized businesses is increasing. The cost of factoring is approaching low interest rates on secured loans, which hinders the development of the industry (Yusupova, et al., 2017).

At the same time, despite a slight increase in the share of transactions in the segment of small and medium-sized businesses during 2016–2018, the bulk of the financing provided by the Factors still falls on large businesses (Figure 3).



**Figure 3:** Client structure of factoring market (%) (Zinina et al., 2018).

The total factoring portfolio formed by clients of the small and medium-sized business segment is 29% of the total market portfolio.

For small and medium-sized enterprises, factoring is a tool to minimize risks in working with receivables. With the help of factoring. Suppliers who work on a deferred payment basis have the opportunity to solve the problem of replenishing working capital, receiving money for business development, and attracting a new

customer base (Klapper L, 2005). Therefore, at present, this is one of the main tools in the financial policy of small and medium-sized businesses.

## DISCUSSION

For small and medium-sized enterprises, it is important that the bank makes payment immediately after providing him with documents on the shipment of goods or the provision of services. If a company supplies products with a large deferred payment, but wants to get along without a cash gap, factoring will be the best way for it to receive financing (Kodolova et al., 2019). With the advent of this service, small and medium-sized enterprises no longer need to refuse their customers because of the inability to provide a deferred payment. In addition, with the help of factoring, the company has the opportunity to increase its competitive advantage by giving counterparties more time to pay for delivered products. And, of course, factoring is the best way out for those who, in addition to the receivables of large customers, have no other assets for collateral (Solntsev M, 2012).

Due to the tightened credit policy of banks, there is a tendency to slow down the growth rate of the corporate lending market, which is a positive moment for the development of the Russian factoring market, as clients are actively attracting factoring financing to replace the loan portfolio and improve financial performance. On the other hand, factoring is also experiencing an increasing pressure connected with a decrease in business activity, increase in interest rates and frequent cases of late payments by debtors. However, most of the threats can be overcome by strengthening risk management, audits and reassessments of portfolio quality.

The Table 1 can help to understand the advantage of factoring over a loan (Tyutyunenko N, 2011).

If all the features of a factoring transaction are taken into consideration, it may replace the credit deal and give an opportunity to increase working capital and sales. In general, factoring is a promising financial instrument.

The prospects for factoring development market are highly rated for several reasons. Firstly, it accelerates the growth of this financial instrument - the gradual use of factoring in such a direction as public procurement (improvement of the Federal Law No.44-FZ of April 5, 2013 "On the contractual system used by federal,

**Table 1: Differences between Factoring and Loan**

Collateral is required	Collateral is not required
The limit is set based on account turnover and existing sales	The limit is set based on the planned sales volume, and not the current level of sales or account turnover
Loan amount is fixed	Financing limit grows with increasing sales
Loan - one-time financing for a long term	Factoring is a short financing tool that avoids cash gaps.
Requires a long history of the company's market performance	A company may have a short history of market performance.
One of the possible requirements is the transfer of cash flows to a bank account	There is a possibility to be served at any convenient bank
Responsibility for repayment of the loan entirely rests with the recipient of the loan	- There is an insurance component in case of non-refund by the debtor - There are debt recovery services
The rate for credit financing is subject to income tax on a mandatory basis	The factoring fee is fully charged to cost

regional, and municipal governments to procure requisite works, goods, and services”).

Secondly, suppliers have an understanding that accounts receivable is an asset that can be valued and sold at a fair price.

Thirdly, amid falling margins in corporate lending while maintaining factoring rates at a higher level, Factors transfer clients from credit services to factoring. Such measures are taken by market participants due to the limited quality customer base and the desire to maintain the effectiveness of their activities, increasing the attractiveness of factoring through an individual approach, decision-making speed and digitalization of transactions. However, the spread between credit and factoring rates is declining.

## CONCLUSION

The factoring business of banks continues to operate smoothly, fulfilling all obligations to customers and making new transactions. The factoring market will continue to grow in the next half year, mainly due to traditional seasonal growth in wholesale and retail trade. Nowadays the direction of financing for state contracts is very promising and there is a movement towards international transactions in this sphere.

All of the above and the statistics make it clear that factoring is a very attractive product, both for banks and for users of this service. And most importantly, there are reserves for improving growth, as the product is new and not yet fully implemented on the Russian market.

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