

Factoring in France

10 questions/10 answers

Contents

1. What is factoring?
2. Who is factoring aimed at?
3. Why choose factoring?
4. When do you need factoring?
5. How does it work?
6. How does factoring fit into relationships with existing partners?
7. What are the different types of factoring?
8. Factoring and exports?
9. What is the charging basis?
10. How is factoring set up?

1. What is factoring?

Factoring is a solution for **managing companies' trade receivables**. It provides them with **financing** which can complement or take the place of conventional bank facilities.

Factoring is based on the assignment of trade receivables to a specialist company, the factor, which **enables the company to meet its cash flow requirements while receiving support** in all its development phases.

Factoring therefore includes a customer payment guarantee, collection and management of payments.

It introduces information and credit insurance mechanisms into the management of trade receivables, offering a flexible solution which provides a source of liquidity meeting the evolving needs of the company.

2. Who is factoring aimed at?

Factoring is aimed at **all companies trading with other companies or public-sector bodies**, whatever their size and sector of activity, whether or not they are engaged in exports.

The growing need for competitiveness increasingly emphasises the advantages of **outsourcing the management of trade receivables**, allowing better concentration on core business, raising the quality of services offered to customers and fulfilling commercial objectives more effectively.

At the same time, **the company's efficiency** increases and management and production costs are reduced or stabilised.

The factor enables receivables to be turned into cash as they fall due and **costs to be kept under control**.

3. Why choose factoring?

Securing and financing trade receivables is one of the main preoccupations of business managers.

Effective management of these receivables is therefore essential in order to:

- develop sales;
- while reducing the costs and risks associated with collection times and bad debts.

Factoring is a **durable solution for the provision of short-term finance**, incorporating risk prevention, rapid financing of receivables, monitoring, follow-up and account management. By outsourcing the management of trade receivables, **the company gains three key strengths:**

- **conversion of fixed costs into variable costs;**
- **optimised administration;**
- **secure financial management.**

Trade receivables represent on average
40% of a company's assets.

4. When do you need factoring?

The company can benefit from **the use of factoring at each stage in its development.**

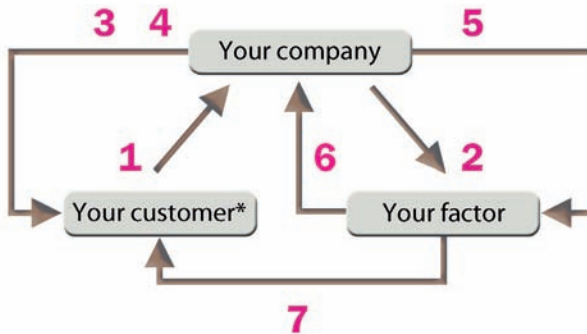
In the start-up phase, financing receivables through a factor may overcome a **shortfall of cash flow** or bank facilities.

In the maturity and revenue-growth phase, there are various reasons for using the services of a factor: **protection against customer failures**, relief from **administrative tasks** or **financing of growth.**

Finally, in the case of export business, the factor supports the company by providing it with the same services as in the domestic market.

5. How does it work?

You sign a contract with your factoring company (factor).



1. Your customer places an order.
2. You send a request to your factor. Your factor analyses it and grants you a guarantee line covering you against the risk of insolvency on the part of your customer. Your customer is generally notified, by you and by the factor, that he must settle the invoices directly with the factoring company.
3. You deliver the goods or provide the service.
4. You invoice your purchaser.
5. You assign your receivables to the factoring company. This assignment may be paperless.
6. Your factor will generally advance up to 90% of the tax-inclusive amount of the assigned receivables, within 48 hours. The remainder is used to create a guarantee fund.
7. Your factor carries out the follow-up and collection activities until payment is received.

* *Your customer = your purchaser, your debtor*

6. How does factoring fit into relationships with existing partners?

With customers

The company maintains exclusivity in its commercial relationships with its customers.

Freed from the need to pursue collections, it can strengthen its links with customers and concentrate on its development.

With the credit insurer

If the company already has credit insurance, the factor works in partnership with the insurer.

With banks

Factoring widens the sources of short-term finance beyond traditional financing products.

Part of the financing provided by a factor can take the form of promissory notes.

The company then has the possibility of maintaining the utilisation of its discount lines with its bank partners, who will readily accept the prime paper issued by the factor and will do so on attractive terms.

Bank relationships are thereby maintained or even strengthened. The businesses are complementary while retaining their distinctive features.

In many cases, the bank fulfils an advisory role in directing clients to a factor to enable them to take advantage of the full range of guarantee and management services.

7. What are the different types of factoring?

The factoring contract can take different forms, in order to meet the specific requirements of the company, its activity and its customers. The most common forms, apart from conventional factoring described above, are:

Non-disclosed factoring with delegated management, known as “Confidential factoring”

This factoring technique is aimed at companies generating high revenues and having:

- a solid financial structure;
- recognised technical and administrative capabilities;
- an efficient IT system.

The company retains full control of the management of its receivables, and the existence of the factoring contract is not disclosed to customers. Payments are sent to the company and credited to an account held in the company’s name at one of its banks. The factor provides the cash and the guarantee.

Reverse factoring

The company (the principal) gives advance instructions to the factor to pay its suppliers when their invoices have been passed for payment. The suppliers sign an agreement giving the factor prior authorisation to pay on behalf of the company. The company can take advantage of a commercial discount from its supplier. The suppliers invoice the company (in hard copy or electronically). The company forwards the invoices to its factor together with the associated payment authorisations. It reimburses the factor on the normal due dates of the invoices.

Export factoring (see question 8)

8. Factoring and exports?

Export factoring enables the company to delegate **the management of export receivables**.

The factor either has local companies or correspondents, or multi-lingual personnel, who are fully conversant with the specific characteristics of international trade.

The company's export receivables are guaranteed against the risk of bad debts on the part of a customer.

It benefits from:

- monitoring by country, customer and invoice;
- management and repatriation of collected funds;
- collection of export receivables, even hedging of currency risk.

The factor provides the company with flexible, upgradeable and immediate financing of its international receivables.

The company receives financing in euros or other currencies, whatever the invoice currency.

9. What is the charging basis?

The factor's services are remunerated through two main components, which are defined in the contract with the company:

- **The factoring** (or service) **commission** provides remuneration for the management operations: recording and monitoring of invoices, debtor follow-up and dispute processing, letter coding of payments and their remittance to the bank, return of customer accounting documents. The cost of the guarantee against insolvency, if met by the factor, is included in the factoring commission.
- **The financing commission**, based on a bank reference rate, is calculated in accordance with the amount and period of financing requested.

These two components may be subject to additional charges depending on the services offered by each factor.

Factoring essentially includes the service commission, which pays for the management operations, and the financing commission, which pays for the cash advance.

10. How is factoring set up?

After the contract has been signed, the company forwards **duplicates of its invoices** to the factor on a regular basis, for example every week. This can be carried out electronically or by post.

Except in the case of “confidential” factoring, a **subrogation notice** supplied by the factor must appear on the company’s invoices, and its customers are informed that they must send their payment to the factor.

For each new customer, the company opens a **purchaser account** with the factor and requests a limit up to which the commercial transactions in respect of that customer will be guaranteed.

Most factors offer **online services** enabling the company to monitor all its operations: guarantees provided, payments received or disputes detected by the factor, financeable amount provided etc.

Finally, the company has a **dedicated contact for all its factoring operations**.

To take advantage of factoring, the company includes a subrogation notice on its invoices and forwards copies of invoices to the factor. By means of online services it can then request financing and monitor its customers’ payment status.

Factoring companies, like banks, are **credit institutions governed by the Banking Act of 24 January 1984**.

In that regard they must be authorised and are subject to supervision by the national banking regulator. They are therefore bound by banking regulations which require in particular that they comply with cover and risk-division ratios.

Almost all factoring companies are part of major groups.

This information has been provided on the initiative of the members of the *Section Affacturage de l'Association Française des Sociétés Financières* (Factoring Section of the French Association of Financial Companies), the professional body of finance specialists, which includes all factoring companies.

A regularly updated list of factoring companies
can be found on the ASF website:
www.asf-france.com



24, avenue de la Grande Armée
75854 Paris cedex 17, France

Tel.: +33 (0)1 53 81 51 51 – Fax: +33 (0)1 53 81 51 50

Website: www.asf-france.com E-mail: asf@asf-france.com

Brussels: Rue du Luxembourg 19-21 B 1000

Tel.: 32 2 506 88 20 – Fax: 32 2 506 88 25 europe@asf-france.com