

Role of non deposit taking lenders in SME Finance and SCF

Lee Kheng Leong
HPDLandscape

khengleong.lee@hpdlandscape.com

Survey by ADB on financing SME

- ◆ 20 countries surveyed – Central Asia, East Asia, South Asia, South East Asia and the Pacific
- ◆ SME accounted for 90% of enterprises
- ◆ Employed 62% of labor force
- ◆ Formed 42% of GDP (2015)
- ◆ SME has difficulties in accessing to Finance as the financing in many countries are dominated by banks

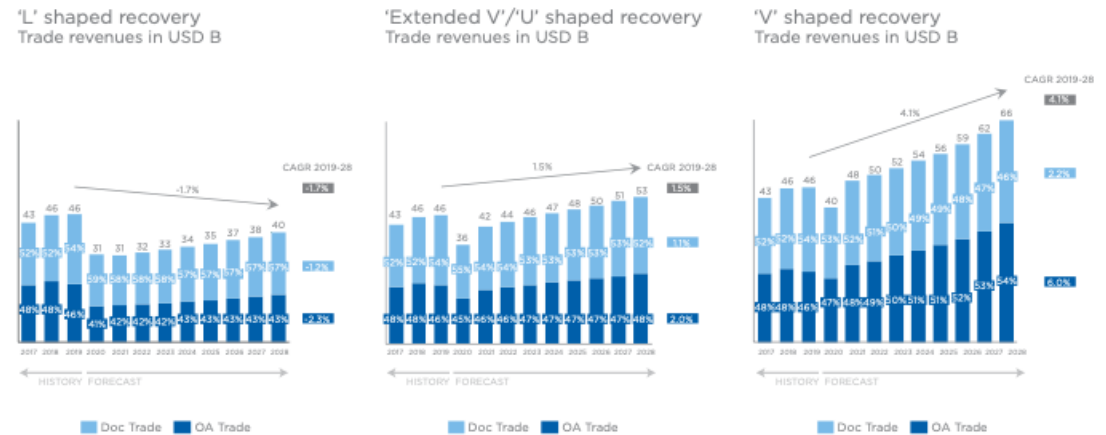


SME needs support from NBFIs in SCF

- ◆ Post Pandemic – SME needs to get financing beyond government support
- ◆ Problems in getting financing as most financing requires security
- ◆ According to IFC –There is a APAC SMEs Financing Gap of US 2.4 trillion
- ◆ According to ICC survey 50% of the world trade will be under open account
- ◆ Receivable offers the best security as it forms more than 50% of SME assets
- ◆ SCF which covers, factoring, receivable financing and reverse factoring offers the best form of financing against receivable

More than 50% of trade will be in OA under V shape
 APAC MSME financing Gap US2.4 trillion

Figure 12:
BCG Trade Finance Model, estimated share of documentary trade vs. open account trade, 2011-2028



Source: BCG Omnia Global Trade Finance Model 2020
 These analyses represent only potential scenarios based on discrete data from one point in time (06 April 2020). They are not intended as a prediction or forecast, and the situation is changing daily.

NBFI will therefore play an important role in APAC economies

Bank

- ◆ A bank is a financial institution that accepts deposits from the public and create demand deposit while simultaneously making loans
- ◆ Due to the importance of banks in the financial stability of a country , most jurisdictions exercise a high degree of regulations over banks.
- ◆ Also regulated by international banking regulatory agency
- ◆ Bank has a fiduciary duty

Non bank financial institution

- ◆ NBFIs are financial institutions that do not have a full banking license or are not supervised by national or international banking regulatory agency
- ◆ More flexible in financing than bank

Wikipedia

Types of NBFI

- ◆ Factoring company
- ◆ SCF company
- ◆ Leasing company
- ◆ Pawn shop
- ◆ Finance company
- ◆ Micro finance company
- ◆ Fintech company

NBFI is a growing industry in Asia

- ◆ CFEC- China Factoring Expert Committee
- ◆ Many regional factoring association in China
- ◆ Indonesia Financial Services Association
- ◆ Asian Financial Services Association
- ◆ Indian Factoring Association
- ◆ Malaysian Factors Association
- ◆ Malaysian Finance Association
- ◆ Hire purchase, Finance and Leasing association of Singapore
- ◆ Debtor and Invoice Finance Association of Australia and New Zealand

Receivable finance company can be very large

- ◆ Scottish Pacific – Australia
- ◆ Hong Leong Finance – Singapore
- ◆ Orix Group – Japan
- ◆ Hitachi Capital – Japan
- ◆ Bibby Financial Services
- ◆ IFS Capital

Factoring credit policies are different from bank

- ◆ Based on the quality of the receivable
 - ◆ Are the receivable factorable?
 - ◆ Are the debtors acceptable ?

Factor can give higher financing than bank for receivable financing

- ◆ Borrower credit standing
 - ◆ \$500,000
- ◆ Receivable outstanding
 - ◆ \$2 million

- ◆ Bank
 - ◆ Loan amount :
\$500,000
 - ◆ Amount static until
the next review

- ◆ Factor
 - ◆ Upto \$1.6 million or
80% of receivable
outstanding
 - ◆ Amount of financing
grows with sales
 - ◆ The more the SME
sells the more
financing it can get
 - ◆ Factoring limit is
dynamic

Bank's credit policy vs factoring company's credit policy

- ◆ Bank- company must be viable at least for one year
- ◆ Factoring company – company may not last for more than 6 months
- ◆ Why?
- ◆ Because the company may not last for more than 6 months, the factoring company will have to ensure that the debts are collectable as such factoring company will
 - ◆ Ensure that the debts are factorable
 - ◆ Buyers are good
 - ◆ Strict on compliance to documentation
 - ◆ Risk analytics to detect fraud and negative trend


Banks also play an important role in supporting NBFI

- ◆ Funding the NBFI
- ◆ Re factoring
- ◆ Ping Ann Factoring cloud

Funding Factoring company via factoring cloud

- ◆ Commercial factors use Ping An Bank factoring cloud
- ◆ Ping An Bank provides financing to the commercial factors

- ◆ Advantages to bank
 - ◆ To reach out to SME via factoring company
 - ◆ Less manpower
 - ◆ Less risk
- ◆ Advantages to Factoring company
 - ◆ Access to state of art factoring software at low cost
 - ◆ Access to funds from bank
- ◆ Advantages to SME
 - ◆ Access to financing



CONNECT

Asia Chapter Director Roving report
Ping An Bank- cloud factoring program

LEE KHENG LEONG
Asian Chapter Director

During my visit to China, I found that one of our members in China Ping An Bank (PAB) has developed a very interesting factoring called "Factoring Cloud" which is probably the first of its kind in the world.
Under PAB Factoring Cloud, commercial factors can sign up to PAB program.

The advantages of this program are as follows:

- **For commercial factors**
 - It enables commercial factor to go into factoring without having to pay for a high software and hardware cost which is often a barrier to entry to factoring.
 - Commercial factors can also provide true blue factoring services.
 - They also have access to fund provided by PAB.
 - Apart from funding-commercial factors can also get additional services from PAB, such as the indemnity of factoring account management, business recommendation and etc.
 - It is a plug and play system and hence the commercial just need to have PC connected to internet.
- **For PAB**
 - This enables PAB to reach out to MSME via the commercial factors and while it focuses on the larger clients.
 - PAB is able to reach out to more clients through the commercial factors.
 - Although PAB is based in Shenzhen, they are able to reach out to clients in the 19 major cities in China such as Shanghai, Shenzhen, Beijing, Guangzhou, Fuzhou, Wenzhou, Nanjing, Hangzhou, Suzhou, Ningbo, Bengbu, Zhuhai, Haikou, Xi'an, Chongqing, Chengdu, Jinan, Qingdao, Tianjin.
- **For MSME**
 - MSME will have access to factoring services which shy away from most banks.
 - They get professional factoring services from commercial factors.

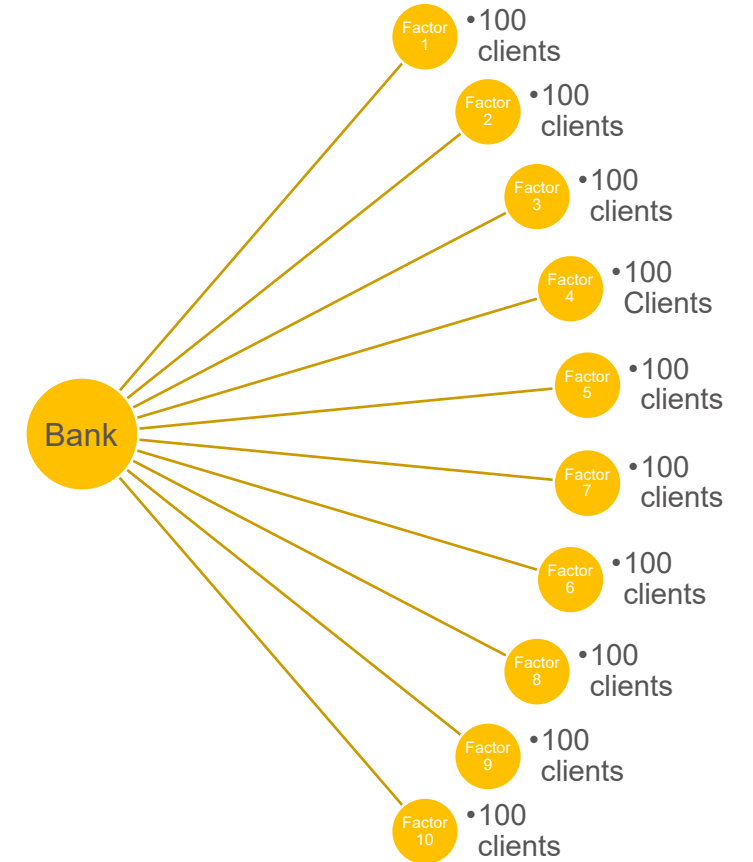
FACTURING CLOUD

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Direct bank factoring vs through factoring company

- ◆ Direct factoring
 - ◆ 500 clients
 - ◆ 10 relationship managers
 - ◆ 50 operation staff

- ◆ Via factoring company
 - ◆ 1,000 clients
 - ◆ 2 relationship managers
 - ◆ 5 operation staff
 - ◆ 10 factors
 - ◆ 100 clients



Barriers to entries for NPFI to go into factoring and SCF

◆ Barriers

- ◆ Lack of factoring/SCF platform
- ◆ High cost in factoring/ SCF platform
- ◆ Lack of experience

◆ No more barriers to entry

- ◆ State of art technology is available
- ◆ No heavy investment cost
- ◆ Low cost at monthly rental based on the number of concurrent users
- ◆ Plug and play system
- ◆ Risk analytics
- ◆ Leapfrog into the new technology
- ◆ Training provided by
 - ◆ International Factors Association
 - ◆ FCI

NBFI is an essential part of the financial ecosystem

- ◆ NBFI play an important role in financing SME as many SME are unable to comply with the credit policies of the banks
- ◆ When the SMEs are small, they will use NBFI
- ◆ As they become bigger and their financial standing become acceptable to the bank, they will move to the bank