
Factoring Services in the Czech Republic

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Abstract:

The goal of this paper is to present a survey of the actual state of factoring in Czech Republic (2007-2014). Both theoretical and empirical analyses are applied. The paper is mainly based on the Czech literature and statistics. Conclusion: trends of the Czech factoring market principally follow the trends of the EU factoring market. In some respects, the Czech market still lags behind the average EU market penetration. At present, the Czech factoring market is growing; it has a favourable development perspective.

Key Words: Factoring, factoring market, The Czech Republic, providers of factoring services

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1. Introduction

The goal of this paper is to present the development and the current situation of factoring services in the Czech Republic during the period of 2007-2014. The theoretical analysis includes the definition of „factoring services“and the classification of its forms in relevant professional literature of the Czech Republic (monographs and other university sources). Empirical analysis focuses on selected quantitative characteristics: volume development, changes in factoring services structure, the institutionalized framework of factoring and prospects of further development of this funding. Empirical knowledge is mostly based on Czech statistics and the statistics of international associations. Comparability of Czech statistical data with foreign data, however, is limited due to their unequal structure. It allows assessing the prospects of factoring as a tool to finance small and medium-sized enterprise in the Czech Republic in the medium-term horizon.

2. Concept of Factoring

Czech professional literature places factoring in the so-called „alternative financing“ which includes all forms of some other than debt“ financing, or some other than financing from own resources.² Most authors do not use the term alternative financing“: they deal with relevant methods of financing only, and in different context. (Kislingerova, 2007)

The literature offers lots of different definitions and/or characteristics of factoring. A large number of existing definitions that meet requirements for the structure of the scientific definition are drawn up for a special purpose, i.e. they aim to explain factoring as a financial category. Many of these definitions are based on the historical perception of factoring as a form of financing where the so-called factor plays the crucial role. Recent Czech definitions, however, mostly call the persons - described as the so-called factor, in line with Czech regulations - financial mediators.

Czech literature usually defines/describes factoring from various perspectives, e.g. as: 1. a form of financing, 2. a financial tool, 3. a method of financing, 4. financial-business transaction, 5. financial service/product, 6. contract of factoring. Presented quotations from Czech professional literature confirm this view.

Kislingerová describes factoring from the point of view of its subject as a regular purchase of short-term debts by a factoring company. The team of authors of the University of Economics (*Revenda-Mandel-Musilek-Dvořák-Brada, 2000*) briefly

define factoring as contract-based continuous purchase of short-term debts arisen as a result of providing fiduciary supplier credit.“ Similarly, *Polouček*: Factoring is a method of financing based on the sale of short-term multiple claims resulting from the sale of goods or services. Czech characteristics or the definitions of factoring thus mostly reflect the concept of factoring in foreign literature; in terms of the factoring concept, they usually differ in the application of a different initial approach. The same might be said about the (empirical) definition used by the Czech Factoring Association.

Factoring is a modern financial tool that represents an alternative to the bank credit for its user. The source of financing are claims that arise for the user of factoring as a result of supplies of goods or services. The debt via transfer passes to the factoring company which in addition to its funding provides a complex of different-scope services in the area of debt management and collection for the user of factoring, or after assuming non-payment risk due to insolvency or unwillingness of relevant customers. (Polouček, 2006.). Karel Havlíček describes factoring as a key instrument of SME's financing in times of crisis. “A major advantage of factoring is the flexibility of financing and screening off any potential problems of the company, as the factoring provider works more or less on the basis of the financial standing of the actual receivables, not on the actual standing of the company asking for credit. (Havlíček, 2014). Factoring as a flexible tool of financing in the segment of small and medium sized enterprises is found also by Breckova “...the survey revealed that systematic and consistent strategic and operative planning, management and controlling of finance, is often missing in this segment of enterprises” (Breckova, 2014).

Factoring fulfils three functions: 1. Guarantee, 2. Credit (pre-financing) and 3. Administration of services. Factoring in practice obtains different forms that can be classified by numerous criteria. In this essay, we distinguish *factoring forms* based on 4 criteria: 1. Based on the segment of financial sphere (bank and non-bank factoring); 2. Based on the extent of factoring services (complex or basic factoring); 3. Based on the localization of provided services (domestic and export/import factoring); 4. Based on the risk - bearer (regressive and non-regressive factoring). It is possible to find other approaches in Czech professional literature.³ Practice saw a number of factoring forms that may be a combination of the above-mentioned forms and carry different names.

3. Development of the Volume and Change in the Factoring Market Structure in the Czech Republic

The volume of factoring services in the Czech Republic in the period of 2007-2014 developed under the influence of the world boom. In the period of 2000-2006, it was characterized by a continually rising tendency that was still maintained in 2007 and 2008. The following year 2009 saw a relatively distinct crisis decrease reflected in the Czech Republic. In 2011-2012, the volume of factoring business gradually increased, and in 2013 the pre-crisis situation was restored and markedly exceeded. The business development in the 1st half of 2014 has been quite promising; unless the boom in the 2nd half gets worse, a substantial growth might be achieved. Disposable statistics focus on the market structure in terms of its division into regressive and non-regressive factoring and into domestic, export and import factoring.

A predominant factoring form in the Czech Republic is permanently regressive factoring. Since 2012, however, there has been tendency to slightly decrease its share and to markedly increase the share of non-regressive factoring. During this whole period, the share of domestic factoring had been decreasing while the share of export factoring had been increasing. The share of import factoring – compared with the pre-crisis situation – increased in 2011 and 2012; however, later it slightly decreased. These fluctuations mainly reflect the development of the boom; in the Czech environment, however, the degree of financial literacy of small and medium-sized enterprise might play a substantial role (they often prefer straight credits)

4. Subjects Providing Factoring Services in the Czech Republic and their Classification

At present, a large number of providers of factoring services operate in the Czech Republic. According to Czech National Bank Data (30. 6. 2014), 257 subjects were active in the area of asset financing mediation (i.e. financial leasing, forfeiting, factoring and others).

The data presented in the list of asset financing mediators do not indicate which of those activities are performed by the mediators. These subjects have a different legal form (joint-stock company, ltd.); they differ in size, scope of their business, types and the scope of provided factoring services, localization on the territory of the Czech Republic, geographical focus of their activity, demands laid upon the potential and real clients, the amount of the reward for factoring services and in other parameters that are not mentioned here. The list of differences among the providers of factoring services is considered operational. The starting classification

of factoring subjects in this essay deals with the division of subjects into 1. bank subjects, 2. non - bank subjects.

4.1 Bank Providers of Factoring Services

This part presents important information on factoring services of Česká spořitelna, a.s. Factoring company ČSOB, a.s. and Factoring KB a.s. These companies belong to the group of bank subjects. Those interested in factoring services choose to use specific services after taking into account many aspects including random choice or the local presence of the factoring firm residing in the area of potential customer's firm etc. Lots of entrepreneurs turn to factoring firms that are part of bank groups because they have their accounts with a bank of the respective group. Naturally, this bank usually recommends to them its factoring firm. The decision of those interested is also influenced by the fact if factoring firms are able to submit their offers comprehensibly as well as with professional content.

Potential customers for factoring services may be discouraged e.g. by putting too much emphasis on advantages and withholding disadvantages of the offered services as well as by too simple „colloquially“ formulated information. Entrepreneurs also consider it suspicious if the factoring service does not provide transparent information about the price of its services. Not very attractive are offers that make the customer spend too much time searching for some information which is needed for the final decision whether to contact the relevant factoring firm or not. As for the export firms, it is quite important to know in which country the mother“ bank resides: it might be of significance in terms of negotiating specific contract conditions between the Czech firm and the factoring firm from the relevant bank group.

Furthermore, these characteristics of factoring services of the three most significant companies operating on the Czech market of alternative financing tools (they usually do not focus on factoring only) demonstrate that the marketing approaches of all three factoring companies are very similar at first sight; however, they differ in the scope and depth of the information, in some details of the method during the factoring process etc. In recent years, the possibility of an individual solution for suitable clients has been markedly emphasized.

4.1.1 Factoring of České spořitelny, a.s.

Company Factoring České spořitelny, a.s. was established in 1997. It is a financial company operating in the factoring area. It offers its clients financing, debt management and collection, or liability for non-payment towards contract customers. The company is a part of the Financial Group of Česká spořitelna a.s., which owns 100% share in company Factoring České spořitelny, a.s.

Factoring company of Česká spořitelna is a member of organization Factors Chain International (FCI). Factoring České spořitelny, a.s. is a founding member of the Association of factoring companies in the Czech Republic. The company provides funding for entrepreneurs operating in the area of manufacture, trade and services. It runs a system which allows factoring services based on international standards to be provided. The scope of provided services is comparable with services provided by the biggest international factoring companies. The company is individual customer-oriented; in case there are more customers, it is possible to utilize more forms of cooperation. The company offers complex services to those interested. The approval process is flexible and takes into account clients' requirements.

4.1.2 ČSOB Factoring, a. s.

Company ČSOB Factoring, was established in 1992 under the name O. B. HELLER as a joint company of Československá obchodní banka and Heller International Group from the USA (through its Austrian branch). This American company successfully implemented tradition and quality of financial business in the Czech Republic; it was founded by Walter Heller in Chicago in 1919 and is considered one of the oldest specialists in the field.

In 1993, it was the first one on the Czech market to start offering the funding of domestic claims. In 1997, a similar company was founded in Bratislava. In 2003, ČSOB launched application FactorLink – a modern tool for the administration of factoring operations which maximally facilitates communication with clients and allows them the access to all on-line information related to factoring cooperation. Since 2006, as Československá obchodní banka became the sole shareholder of joint company O. B. Heller, the name ČSOB Factoring, a. s. has been used.

Long tradition and membership of strong financial group of ČSOB allow the company to provide factoring services in top quality of the full range. ČSOB Factoring sustains in the long term their market share in the Czech Republic above 20 %. In 2012, the turnover of transferred claims to the company totalled more than CZK 29 bn. ČSOB factoring, a. s. is the founding member of the Association of factoring companies and a member of Czech leasing and financial association.

ČSOB Factoring, a. s. has a subsidiary Euroincasso, s. r. o., in which it owns 100% of the stock. This company specializes in collecting problematic claims. Thanks to a network of foreign contacts, it offers collection services both home and for claims arisen from export practically to any territory.

4.1.3 Factoring KB, a. s.

Factoring KB was established on 24th July 1997; its operation started on 4th August 1997. Capital stock of the company amounts to CZK 1,184 bn. Factoring KB is owned by Komerční banka, a. s., which owns 100 percent of the stock. Since its establishment, Factoring KB has been part of the Financial Group of Komerční banka and since 2002 part of Société Générale (SG) as well. Company's membership in this group is important for its development and cooperation with other members of the group at home and abroad. Factoring KB closely cooperates with KB in the area of acquisition and risk management. Factoring KB is a member of Factors Chain International (FCI). Factoring KB is the founding member of the Association of factoring companies in the Czech Republic as well as a member of Czech leasing and financial association. Factoring KB provides complex factoring services to its clients.

4.1.4 Factoring Services/Products of the Three Aforementioned Banks

All of the three big banks in the Czech Republic – Česká spořitelna, ČSOB as well as Komerční banka currently offer complex factoring services, i.e. products for their potential clients. When comparing these products, however, we have to deal with certain problems in terms of their non-uniform identification. Relevant bank do not choose identical identification for some of their products even though the nature of these services may be identical or most similar. The reasons might refer to marketing and commercial nature; they apparently differ in the chosen strategy of relevant banks that focus on a broad range of potential clients or – with some products – rather on the circle of existing bank clients. The following table (No. 2) presents common kinds of products, also adding relevant information about offers of these products in the respective banks.

4.2. Non-Bank Providers of Factoring Services

This group includes 1) companies established pursuant to Czech law, 2) companies established abroad. Companies from countries outside the EU follow different rules than companies from EU countries. Based on the main scope of operations, they can be divided into 1) companies specializing in providing factoring services, and 2) companies in which providing factoring services is not included in the main scope of operations. Considering a large number of non-bank factoring services providers, only a few examples have been included. Non-bank companies are not very significant in terms of the transaction volume on the market of factoring services in the Czech Republic. In some cases, however, they are able to offer Czech clients services which the “bank providers – for various reasons (e.g. due to a small volume) – usually do not provide. Non-bank companies established pursuant to Czech law, particularly some of the new companies established in recent years,

which mainly specialize in debt collection, do not have a good reputation with potential Czech clients given their non-standard nearly illegal conduct.

4.2.1 Transfinance, a. s.

This joint-stock company is a significant non-bank provider of operational financing for small and medium-sized firms through factoring of domestic and international claims. The company finances, collects and ensures claims of clients from various industry sectors. In the area of financing international claims (export and import factoring) it is the undisputable leader among factoring companies in the Czech Republic.

Transfinance was established in 1991 as the first specialized company for operational financing of companies (factoring and forfaiting) in Central and Eastern Europe. 100 % share-holder is M Bank S.A., Warsaw, a subsidiary Commerzbank AG. Transfinance is an important member of the international association of factoring companies Factors Chain International and the founding member of Czech Association of factoring companies whose members joined the Czech leasing and financial association in 2005.

In 2013, Transfinance funded claims totalling CZK 25.3 Mio. of which CZK 12.3 Mio. Represented domestic factoring, CZK 10.2 Mio export factoring and CZK 2.9 Mio. Import factoring. The volume of funded claims since 2010 has constantly grown (most rapidly in export factoring). Customers of this firm are mostly **small and medium-sized businesses** with annual turnover from CZK 15 Mio., which find it difficult to get bank loan.

4.2.2 Bibby Financial Services, a. s.

The company has been operating under this name in the Czech Republic since 2005, when British company Bibby Group of Factors, Ltd. joined it with its capital. It was established in December 1996 originally under the name Cash Reform Factoring, a.s. In 2011, the company performed acquisition of clients' portfolio of Coface Czech Factoring.

The company provides these factoring services: regressive and non-regressive factoring, operational financing, administration and monitoring of claims, claims collection. It is currently the biggest non-bank factoring company in the Czech Republic with turnover of CZK 15.5 bn. (r. 2013).

The company is a full member of two professional organizations in the Czech Republic – Czech leasing and financial association and the Association of factoring

companies of the Czech Republic (since 2009). Since 2005, the company has been a member of IFA – International Factoring Association.

4.2.3 Intermediary and consulting firms

Although the list of intermediaries maintained by ČNB presents 257 companies, most of them do not include factoring services in the main scope of their operation. However, there are some non-bank firms that have specialized in consultancy and intermediation in the area of factoring financing in recent years.

One of the successful and serious firms of this kind is *Arfin s.r.o* with its principal place of business in Prague. This firm employs a number of specialists who were hired after 2005 acquisition of Coface firmou Bibby Financial Services, a. s. (see above). Besides full coverage of the local market, Artfin wisely develops an international network of contacts as well.

5. Professional Organizations Associating Factoring Firms in the Czech Republic

The first professional association in the area of alternative financing was established in 1991 as top organization of leasing companies. Since 1992 it has acted as an interest group of leasing companies called Association of leasing companies of ČSFR“ (after the split of Czechoslovakia as the „Association of leasing companies of the Czech Republic“).

Since late 90's of the past century it has also associated non-bank companies that provide consumer credits and since the half of the first decade of the new millennium factoring companies as well. In 2005, the name of the association changed to the Czech leasing and financial association (since many members provide consumer credits).

ČLFA's main objective is to promote legal and economic environment, which is suitable for financial products, and to coordinate and support common interest of its members. ČLFA's activities include the dialog with state bodies concerning professional interest of its members, cooperation with interest groups, spreading information about financial products, analyses performed by expert committees, prevention of frauds, ethical affairs, preparation of statistics, establishing and maintaining foreign relations (e.g. with international organizations, such as Leaseurope, Eurofinas, EUF) etc.

46 firms are currently members of Czech leasing and financial association; they represent about 97% of the volume of all domestic leasing trades, most of non-bank credits for consumers and most of factoring businesses. Factoring services/products are currently offered by these 5 members of the Czech leasing and financial

association: Factoring České spořitelny, a.s., Factoring ČSOB, a.s., Factoring KB, a.s., Transfinance, a.s. and Bibby Financial Services, a.s..

Simultaneously, the Association of factoring companies, associating mainly bank providers of factoring services was established in the 90's in the Czech Republic. Some members of this association became members of ČLFA after 2000.

Conclusion

The factoring market in the Czech Republic – similarly as the banking market – shows characteristics of an oligopolistic market, which results from its institutionalized structure: it is practically controlled by 5 main subjects (see above). During its development (prior to the crisis) a few subjects that were considered quite important ceased to exist; some of them could not defy the competition, others became victims of the altered strategy of foreign owners who left the Czech market. However, these changes did not affect the basic structure of the factoring market in the Czech Republic, which was dominated by domestic regressive factoring; only now is the export non-regressive factoring growing stronger. The causes for this looming change in case of the Czech Republic lie in the fact that our country has not adopted the euro, i.e. this is partially a monetary issue.

It is quite surprising that the utilization of such a great financial tool which factoring represents for small and medium-sized businesses in the Czech environment has not been considered useful and beneficial considering the advanced level of the Czech financial system. International statistics imply that GDP level of market penetration is below average of EU countries while this indicator in the worldwide average showed 4.5% in 2013, in the Czech Republic it represents 3.5%. For comparison, we can show the value of the respective indicator which is 13.9% in Portugal and 13.0% in Belgium.

Even though the dynamics of the development of the factoring market in the Czech Republic was relatively high in the long run, specialists believe that its volumes do not correspond to existing possibilities. The probable cause – in addition to the aforementioned economic and financial factors (the impact of the boom has already been mentioned) – might also be the disappointing legal environment. At present, some Czech factoring experts believe that the potential impact of the new Civil Code will allow a positive development of factoring in the medium-term. Another important fact is that the process of transferring claims has been modified more liberally, which allows factoring solution based on multiple transfers of claims and on an easier transfer of future non-specified claims.

Should we assess the next development of the factoring in the Czech Republic, we could only express a hope that the current upward tendency of the market will continue in the medium-term.

Table 1. Development of Factoring Market Structure in the Czech Republic (2007-2014; in %)

Factoring form	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 1st Half
Regressive	75.5	73.6	75.0	76.0	73.7	69.2	65.5	62.9
Non-regressive	24.5	26.4	25.0	24.0	26.3	30.8	34.5	37.1
Domestic	80.3	80.1	80.7	76.8	73.2	70.3	69.3	69.2
Export	17.2	18.0	17.8	21.0	23.5	25.9	27.3	27.4
Import	2.5	1.9	1.5	2.2	3.3	3.8	3.4	3.4
Volume in bln. CZK (X)	127.1	134.0	99.7	111.9	128.2	130.6	145.4	78.6

Source: ČLFA reports about the state and development of non-bank, leasing, credit and factoring market in the Czech Republic in the respective years.

Note: (X) Debt transferred to AFS ČR members.

Table 2. Comparison of the product structure of Česká spořitelna, ČSOB and Komerční banka (2014)

Product/service	Č.spořit.	ČSOB	KBanka
Domestic factoring	X	X	X
Domestic factoring (non-regressive)		X	X
Domestic non-regressive factoring with insurance			X
Domestic regressive factoring		X	X
Export factoring	X	X	X
Import factoring	X		X
Modified factoring			X
General (balance) factoring			X
Reverse factoring			X
Retail factoring			X

E-factoring	X		
Additional financing		X	
Collection services/Claims administration and collection	X	X	
Monitoring of entrepreneurial subjects	X		
Balance monitoring	X		

Source: Česká spořitelna, ČSOB and Komerční banka web

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