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FACTORING SERVICES MARKET DEVELOPMENT IN THE ECONOMY OF THE RUSSIAN FEDERATION AT THE PRESENT STAGE

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Abstract: The financial activity of any enterprise in all its forms is connected with many types of risk, the impact of which on the result of a financial firm is very large. The main risks arising in determining the influence on the results of the financing and operating activities of the enterprise are financial risks. We will consider financial risks as unforeseen financial losses (diminution of profit, income, capital losses, etc.) in a situation of uncertainty in the financing activities of the organization. Financial risks occupy the largest part in the aggregate portfolio of business risks of the enterprise. One of the ways of financial risk sharing is the conclusion of a factoring agreement. Legal documents and analytical reports, statistical reference books of the Association of Factoring Companies (AFC) of the Russian Federation are used in writing the article. Maximum demand for experience of small and medium-sized enterprises, given the fact that this service in a certain way simplifies settlements of accounts between partners, which is an advantage for the provision of factoring services. In recent years, there has been a growth in the factoring market, which is explained by the continued migration of

customers from traditional credit products to factoring, the expansion of the range of products of factors, an increase in the number of quasi-factoring transactions, the new edition of the Civil Code of the Russian Federation, which entered into force on June 1, 2018, and the general economic and political situation in the country.

Keywords: financial risk, factoring, accounts receivable, factoring company, factoring portfolio.

INTRODUCTION

To reduce negative impacts of financial risks on the results of any type of activity, management methods are developed (12). One of the methods of financial risk management is passing of risk. Methods of risk sharing to third parties are effective in the case when the risks are quite probable and the loss expectancy is minimum. One of the ways to pass financial risk is to conclude a factoring agreement (3). Factoring can be justly considered one of the first forms of trade lending. Scholars have found evidence of this in historical documents on trade relations in the Babylonian kingdom during the era of King Hammurabi in the fourth millennium BC and later during the Roman Empire (13).

The origin of the word factor comes from the Latin verb *facio*, which literally means “the one who does.” Factoring went further in the Middle Ages in Great Britain, which carried out trade with the colonies. Factoring operations were first carried out by the House of Factors, newly established in England in the 17th century. Modern (financial) factoring originated from import factoring of the “colonial” type (commodity). It assumed the transfer of the function of agents for products by merchants in markets unknown to foreign manufacturers. Factoring operations were continuously developed in the United States at the beginning of the 20th century. Moreover, initially it was the service in the textile industry, and later in the furniture and paper industry, tailor firms, and the electrical goods firms.

In the late 50s – early 60s of the 20th century, three largest international factoring groups emerged across the financial landscape: Heller International Group, International Factors Group S.C., Factors Chain International (1). Factoring operations have been distributed in international commercial practice despite the utter lack of legal regulation of factoring. This is the reason for the emergence of legislation regulating international financing transactions at a discount in exchange for immediate money (6).

In Ottawa, on May 28, 1988, the UNIDROIT Convention on International Factoring Transactions was signed, which includes information on the legal transactions, control over the clearance of the rights of all parties to factoring transactions. In accordance with this document, factoring will be considered an operation in which the condition of possible concession by a supplier or a factor (financial agent) of claim must be fulfilled following from contracts for disposal of goods concluded between the supplier and their customers (debtors), except for those that are reckoned among goods purchased mainly for their individual, family or home use (9). This type of operation has advantages for all parties engaged in the process. Therefore, they are claimed (8). Currently, factoring has received great development in the international market in many countries that dominate in the foreign market for factoring services, as shown in Figure 1 (5).

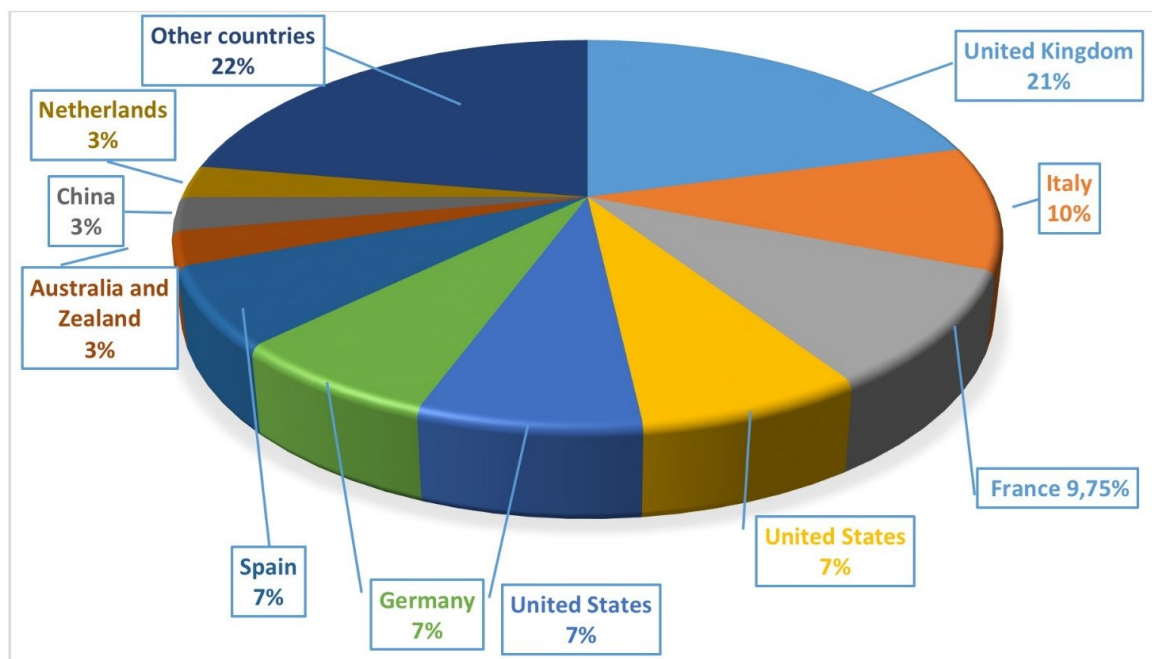


Fig. 1. Market of factoring services in foreign countries.

An undoubted leader of the international factoring market is Great Britain. These operations can be insured, respectively, they can provide a guarantee of repayment. Factoring, therefore, can contribute to economic growth (4). In the course of the study, the Russian market of factoring transactions in comparison with foreign ones was explored, in order to determine the possible reasons of Russia's trailing in the world factoring market, although it is an economically developed country.

METHODS

Regulatory documents and information and analytical reports, statistical reference books of the Association of Factoring Companies (AFC) of the Russian Federation were used in writing the article. The questionnaire developed by AFC was brought to 68 organizations, with a request to provide information on factoring services in Russia. The questionnaires were completed by 34 organizations, of which 18 are banks, 11 are factoring companies, and 5 are groups consolidating a bank and a company. The survey used analytical, comparative, statistical methods, as well as the grouping method, which made it possible to generalize and identify industry-specific regional indicators and features in the assessments of factoring companies in Russia.

RESULTS AND DISCUSSION

In accordance with Article 824 of the Civil Code of the Russian Federation, only special entities – financial agents – can be a cessionary dealing with the assignment agreements. And according to Article 825 of the Civil Code, they can be commercial banks, credit organizations and other commercial enterprises licensed to perform this type of operations. As a result, it can be concluded that Article 825 of the Civil Code of the Russian Federation contains a prerequisite for commercial enterprises on the compulsory licensing of factoring services. Contradictions emerge here, for the above type of financing refers to transactions for which there are no requirements for the

presence of a compulsory license of the Central Bank of the Russian Federation, which follows from the Federal Law “On Banks and Banking Activities” dated 12.02.1990 № 395-1 (revised from 26.07.2017). Moreover, there is no special licensing body in the legislation of the Russian Federation. Since there is no legislative regulation in the Russian factoring market, banks, and not special factoring companies, prevail in the financial market, while factoring companies take the leading position in foreign markets. It should be noted that in the UK the activities of factoring companies are not subject to licensing. Therefore, it can be argued that factoring in this country is a fairly developed financing service in the United Kingdom, but it also contributes to consolidating the UK’s first position in the international factoring services market.

The above problems in the legislation also affect Russia’s standing in the world factoring market at the present stage of development of economic relations. Since June 1, 2018, amendments to Article 825 of the Civil Code of the Russian Federation of 03/28/2017 came into force, which resolved these shortcomings. The new edition of the Civil Code of the Russian Federation fixes the terms “factoring”, “factoring agreement” and determines factoring as a paid service. The new edition allows commercial structures to carry out factoring operations, while maintaining the risks of recognizing the transaction as void. A typical scheme for conduction a factoring transaction is shown in Scheme 2.

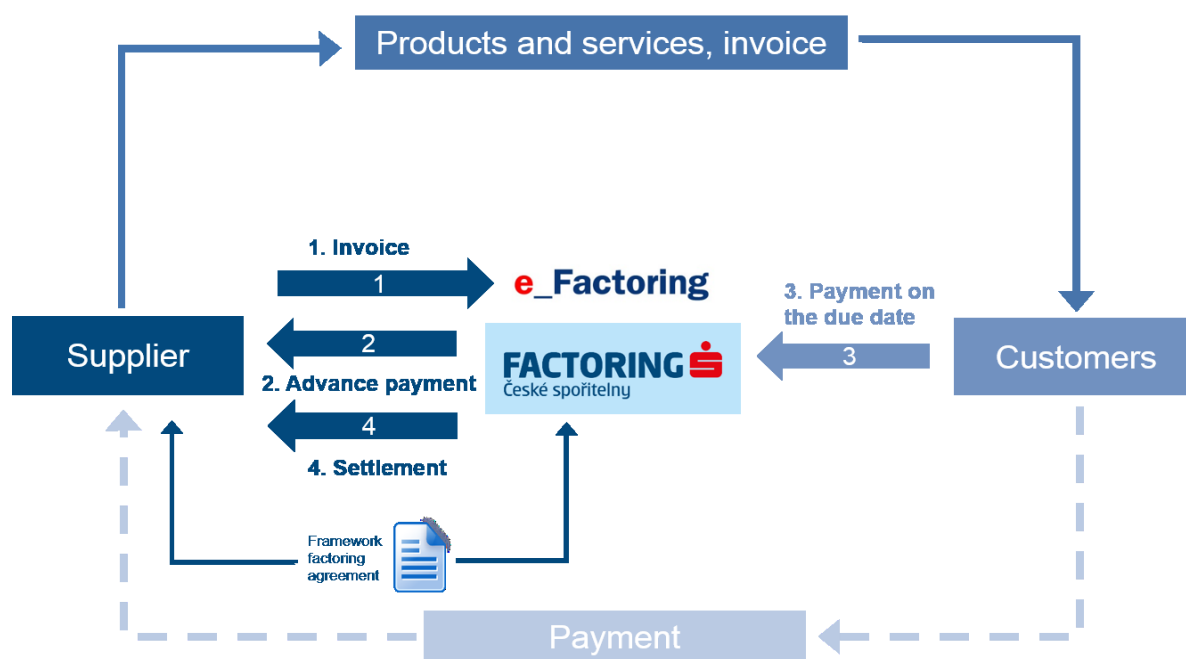


Fig. 2. Factoring scheme.

Both the economic and legal feature of the presented agreement lies in its two-sidedness since the contraction occurs between the client and the financial agent. The relations arising under the agreement will tie the client, the economic entity supplying goods (works, services), the debtor to whom the goods (works, services) are delivered and the financial agent (7).

SUMMARY

Let us consider in more detail the current state of the market of factoring services in the Russian Federation. The consolidated portfolio of the Russian factoring market as of January 1, 2019 amounted to 610 billion rubles, growth of the measured factoring portfolio - 40% in 2018 by 2019 (Fig. 3) (Official website of the Association of factoring companies).

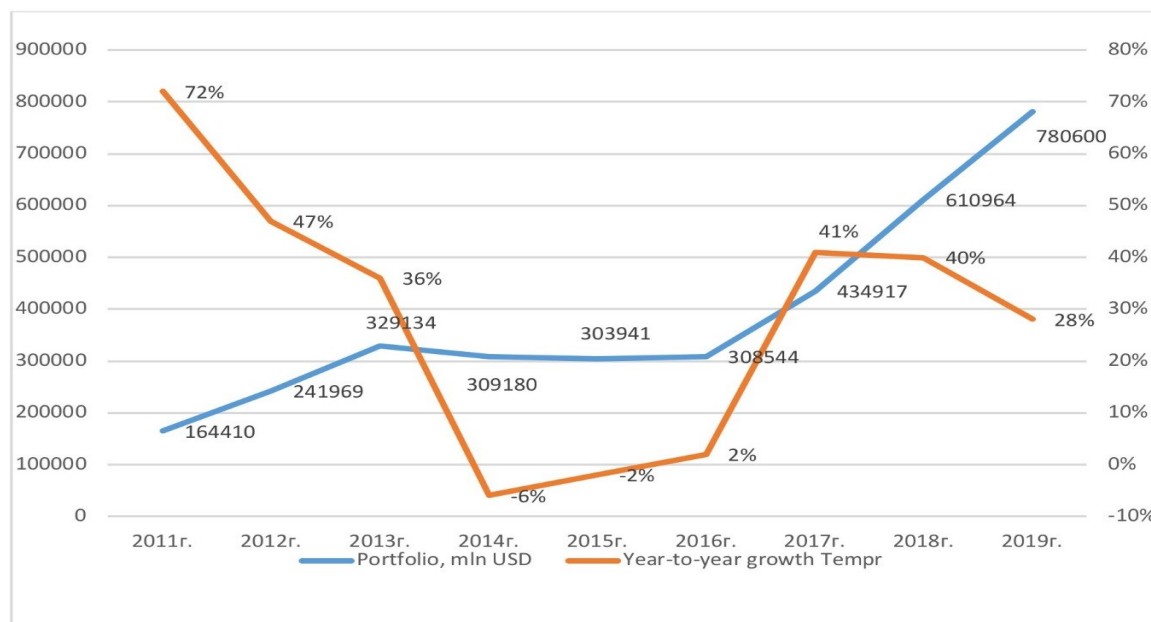


Fig. 3. Dynamics of Factoring in Russia.

The amount of the provided funding reached 2.6 trillion rubles in 2018. Russian factor firms financed trade turnover in the amount exceeding 2,646 billion rubles, which is 811 billion rubles more than in the same period last year (+ 44%). The market leaders are VTB Factoring, Sberbank Factoring and Alfa-Bank (Fig. 4).

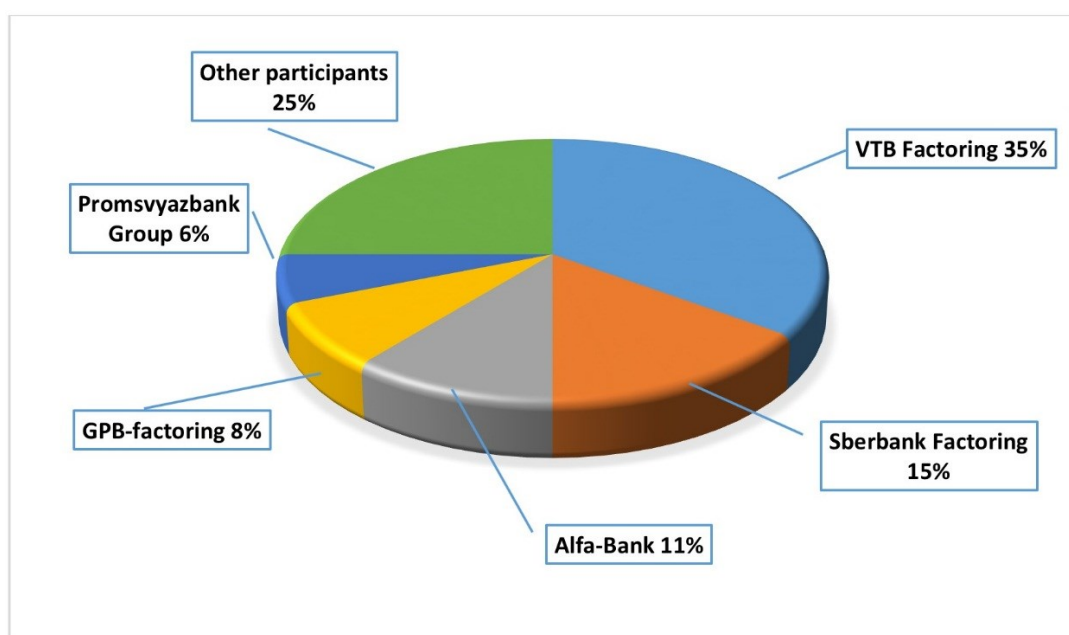


Fig. 4. Factoring Portfolio as of 1.01.2019, 2010.

The number of clients in the portfolio of factors as of 01.01.2019 is 4.5 thousand companies. However, an increase of 18% (to 6,345 organizations) was noted among the companies that received funding in 2018. The reason for the growth was the correction of data by VTB Factoring, which disclosed data on the number of financed organizations within the framework of agency factoring. Taking this adjustment into consideration, the number of new companies that received factoring financing in 2018 exceeded 3,000 organizations. Factoring in the regions: competitive environment is erratical. Moscow's indicators continue to decline compared to 01.01.2018: the portfolio performance fell by 7 percentage points to 36.5%, the number of clients – by 15 p.p. – up to 34.8%.

The leaders in terms of portfolio include the Urals (18.5% share; + 6.3 p.p. per year) and the Central Federal District (15.3%; + 5.8 p.p.). The most significant growth in the number of clients over the year was in the Privolzhsky (share of 14.7%; + 4.6 p.p. over the year) and the Central (14.5%; +4.1 p.p.). As can be seen from Figure 4, VTB Factoring and Sberbank Factoring are leading. Figure 5 illustrates that the credit risk of factoring is now passing into production. According to the data collected by AFC on the sectoral structure of factor portfolios, the credit risk of manufacturing companies has increased from 157 to 195 billion rubles per year, increasing the observed growth at the end of 2017, the gap between the indicators of wholesalers, which has also increased over the year from 154 to 182 billion rubles. The exposure credit in the service sector in factor portfolios doubled from 12.6 to 25.3 billion rubles. The section “credit risk of other sectors” has reached 116.5 billion rubles (against 29 billion rubles a year earlier), which indicates that factors in 2018 opened limits on new industries that did not previously claim a significant share in portfolios.

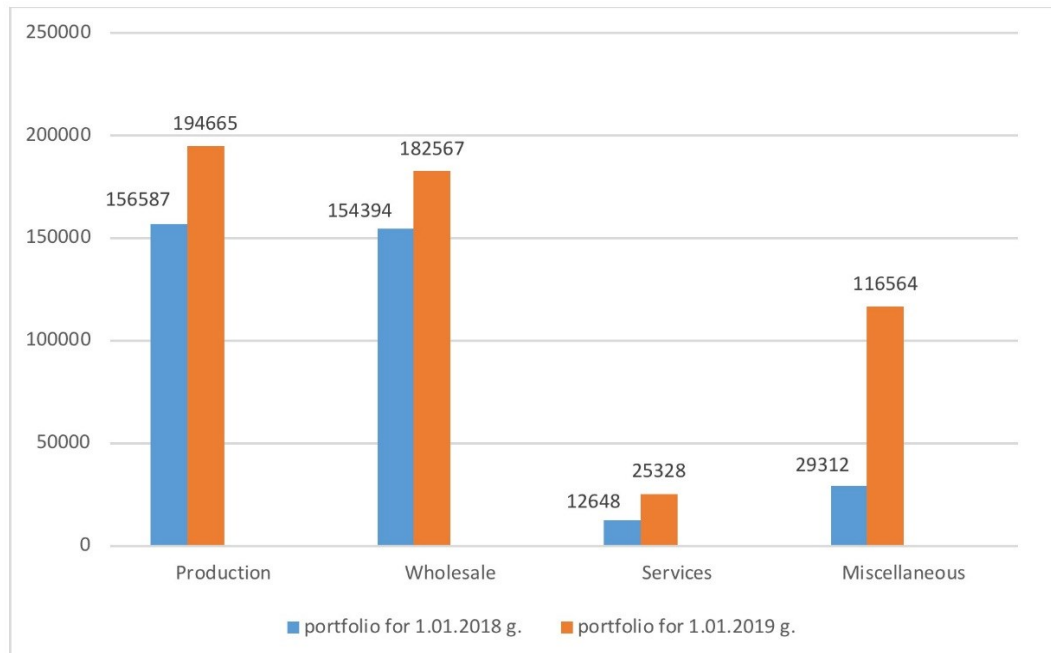


Fig. 5. Structure of Factoring Portfolio in Russia.

Based on the results of 2018, factoring companies reported purchases in the form of commissions and other types of income (excluding VAT) of 39,566 million rubles, which is 17% more than in 2017 (Fig. 6). Factor revenues have grown for the second year in a row after falling in 2016, the acceleration of dynamics began in the 3rd quarter

of 2018, the amount of income reached 14.5 billion rubles in the 4th quarter of 2018, compared to 11 billion rubles in the same period in 2017.

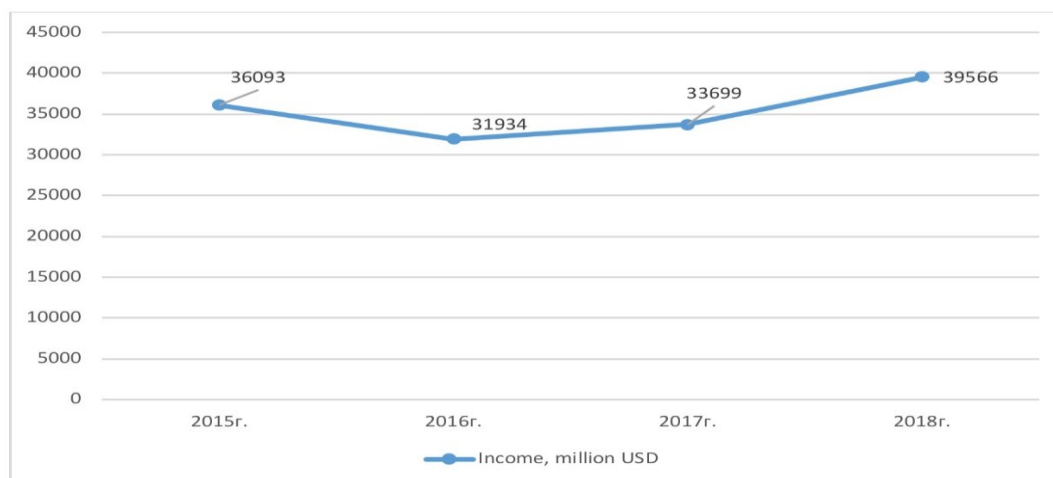


Fig. 6. Income Development Factors.

At the end of 2019, the factoring portfolio of the market is expected to increase by 28% year-on-year – to 780 billion rubles. At the same time, the respondents predict an increase in their own portfolios at the level of 36% (corresponding to an increase up to 830 billion rubles). The expectation of a decline of market growth rates was noted in previous years, but the reality turned out to be better than forecasted.

CONCLUSIONS

Despite the growth of the factoring market in Russia, today Russia's lag is well observed in the indicator responsible for the factoring turnover from the gross domestic product (11). In our opinion, the following factors that negatively affect the development of factoring in the Russian Federation can be identified: lack of financial literacy of Russian companies; a low degree of confidence on the part of entrepreneurs in digital information provided by commercial banks and factoring companies (2); a high degree of management risks; insufficient credit history of factor firms; business non-transparency; imperfection of Russian legislation.

At the present stage of development of market relations, the increased interest in factoring activities in the territory of the Russian Federation is indissolubly tied to: 1) the new edition of the Civil Code of the Russian Federation, which entered into force on June 1, 2018; 2) a favorable economic and political situation in the country; 3) positive changes in the field of risk management in factoring companies, banks, organizations; 4) a significant increase in factoring in government banks, which have been rapidly developing and popularizing factoring among their clients, and also offering factoring financing instead of classical lending. The advantages are that factoring becomes a more accessible and marketable product. The main risk is that many banks request a large package of documents and have a time-consuming approval procedure, which negatively affects the perception of factoring financing as a quick and effective tool; 5) increasing the availability of factoring in new industries, for example, oil and gas, chemical, energy, and the replacement of loan products with factoring ones.

It should be noted in the conclusion that factoring being a universal commercial

product is used in modern conditions by enterprises of various forms of ownership to overcome various difficulties in their daily activities.

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