



**INSTITUTE FOR FACTORS AND DISCOUNTERS**

# **FACTORING AND DISCOUNTING IN AUSTRALIA**

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## **Introduction**

Receivables finance turnover in Australia in 2009 was A\$63 billion. This compares to A\$8 billion in 1999, an eight -fold increase in ten years.

This period has witnessed the continuing acceptance of receivables finance within the Australian financial system, and the maturation of the product has resulted in the continuing dominance of invoice discounting to the point where discounting now represents ninety five percent of the receivables finance market.

The Australian economy has performed remarkably well over this period, combining high growth and low inflation with falling unemployment. In response to emerging supply constraints the Reserve Bank increased official interest rates on 12 occasions from late 2001 to March 2008, but between September 2008 and April 2009 official interest rates were subject to downward adjustment in response to a significant slowing in domestic economic activity and the substantial dislocations in global credit markets. It was only in October 2009 – after the rate bottomed at 3% - that official interest rates started to rise again.

The Institute for Factors and Discounters of Australia and New Zealand was established in 1994, and is the representative body of receivables financiers in Australia and New Zealand. IFD provides information and services to its members and works closely with the Government. One significant policy development is the establishment of a personal property securities regime in Australia, scheduled to be in operation by May 2011.

## Industry Environment

Whilst the Australian economy experienced an extended period of expansion dating from the early 1990s, like many other countries it has recently confronted considerable internal and external challenges. Since 2002 the international rise in commodity prices has increased Australia's terms of trade by about 70 percent – easing to about 50% by the end of 2009. Following substantial domestic supply constraints and increased inflation above 4 percent per annum, by the end of 2009 the underlying inflation was closer to 2%.

The official interest rate, which increased from a low of 4.25% in the late 2001 to 7.25% in mid-2008, fell significantly to 3.0% in mid 2009. It rose to 3.75% by the end of 2009.

However, economic conditions in Australia have been stronger than expected. In contrast to other developed economies, the Australian economy expanded, albeit modestly, over the year. Confidence has improved and spending has been supported by stimulatory monetary and fiscal policy. The Australian economy has benefited from the strong bounce-back in Asia, particularly in China, with export volumes remaining broadly unchanged during a period in which global trade fell markedly. Investment in Australia has also held up reasonably well, underpinned by a strong expansion of the resources sector and various fiscal measures. GDP is now expected to increase by just over 2% over the year to mid 2010 – much better than expected earlier in 2009. The forecast is then for the economy to expand by 3¼% over the year to mid 2011.<sup>1</sup>

## Market Performance and Supply

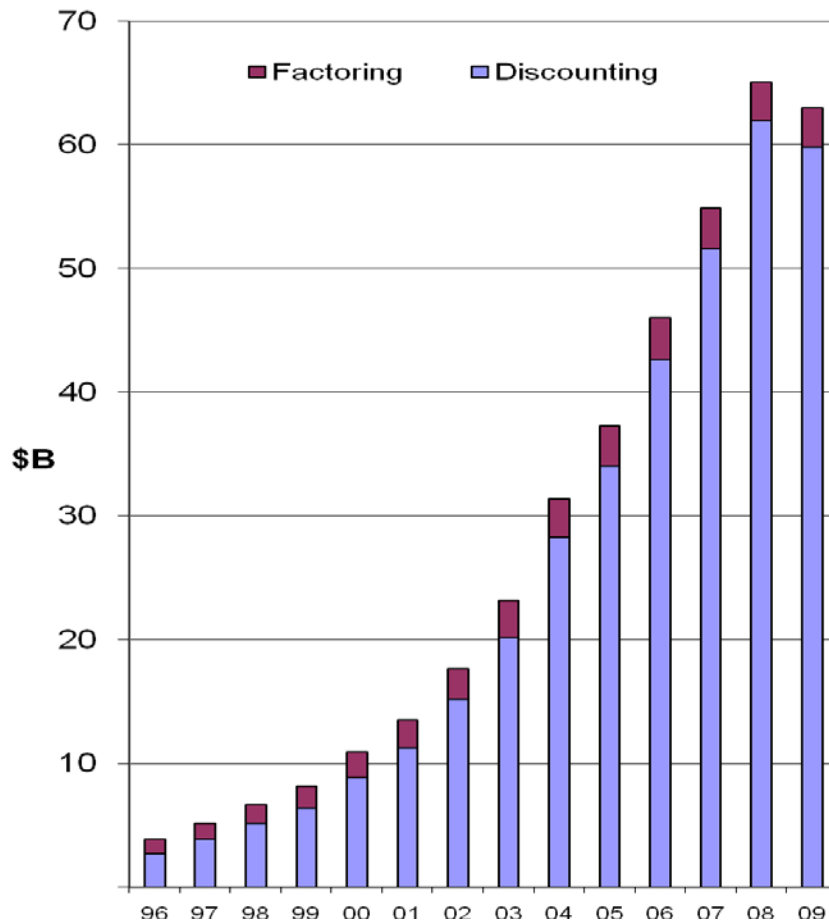
Receivables finance turnover in 2009 was A\$63 billion, a 3% decrease on 2008. Although the rate is down relative to the 20% growth rate of recent years, it is not unexpected given the recent economic turmoil. However, the long run trend has been, and is expected to continue to be, quite impressive.

	Turnover A\$Million		
	Factoring	Discounting	Total
1999	1,754	6,398	8,152
2004	3,151	28,269	31,420
2009	3,195	59,828	63,023

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<sup>1</sup> More economic information is available from the Reserve Bank of Australia website [www.rba.gov.au](http://www.rba.gov.au).

## ANNUAL TURNOVER \$Billion (Calendar Years)



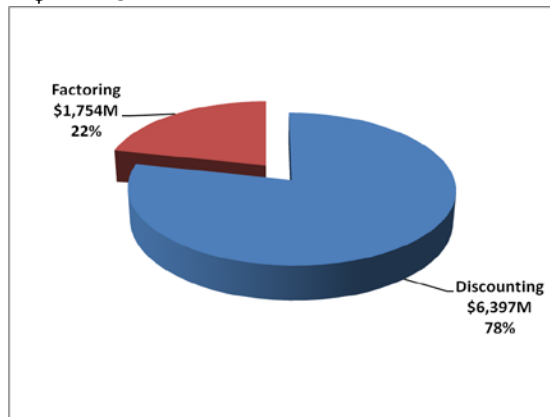
The very rapid growth in the last decade has been propelled by the substantial increase in the number of participants in the market. Most of Australia's major banks now operate a receivables finance division in their own right, whereas in the past these operations were conducted by separate entities or were not offered. Most of the regional banks also provide receivables finance, and have generally entered the market by way of acquisition of existing operations. A number of international banks have entered the market in the last couple of years.

Whereas a decade ago the Industry was dominated by non-bank participants occupying niche markets, the provision of receivables finance is today much more broadly based. In addition to the domestic and international banks, there are a number of international and local specialist receivables finance providers, who mainly operate on a national basis, and some in limited geographical locations.

The growth of receivables finance in Australia has seen a significant change in the composition of the market, with discounting now making up a much larger proportion than a decade earlier.

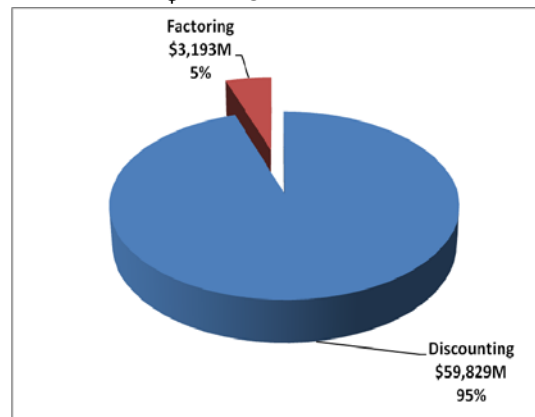
### 1999 Annual Turnover

A\$ million



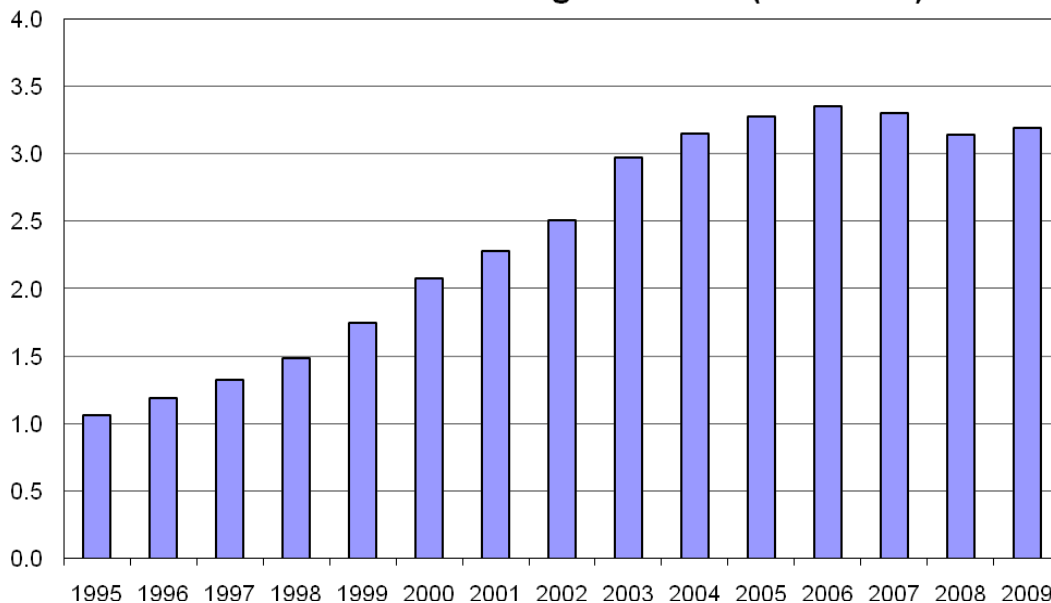
### 2009 Annual Turnover

A\$ million



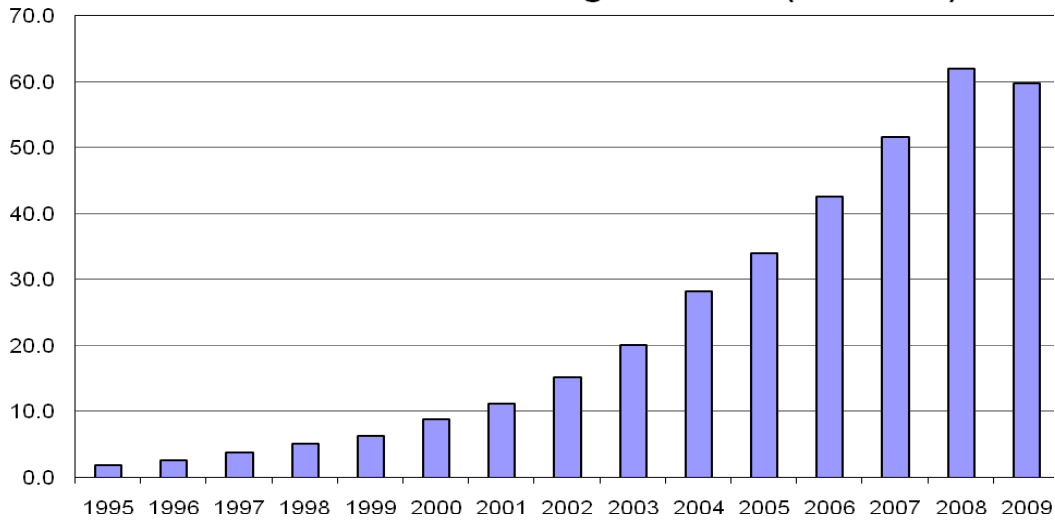
Since 1995 discounting has grown from 64 percent to 95 percent of the market. Discounting will increase this share even further in the coming period, reflecting the maturation of the receivables finance product in Australia, the composition of the providers, and the changing nature of the client base. These aspects are discussed in more detail below. The graph below shows the trend in the factoring component, with steady growth experienced from 1995 to 2004, and with a levelling out in recent years.

### Factoring Turnover (A\$Billion)



It is the continued exceptional growth of discounting which has mostly resulted in the changed composition of business in Australia. Since 1995 discounting turnover has increased from just under A\$2 billion per annum to around A\$60 billion in 2009, a thirty-fold increase. Part of the reason for the extraordinary growth of the discounting product is that many of the providers that have entered the market in recent years have concentrated on discounting, either offering this product exclusively or promoting it as the predominant product.

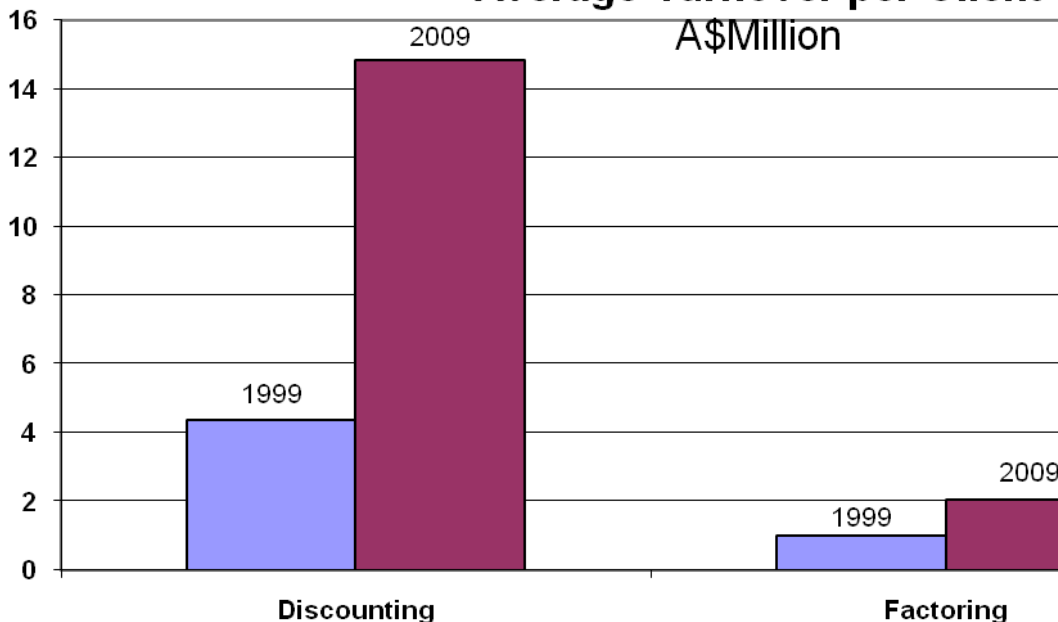
### Discounting Turnover (A\$Billion)



Furthermore, the increasing awareness within the Australian market of receivables finance has attracted the attention of larger companies of this form of funding. This has two consequences in that larger companies are more likely to utilise discounting because they have the personnel in-house to perform the additional functions offered by the factoring service, and secondly, the quantum of their invoices will be greater than smaller companies.

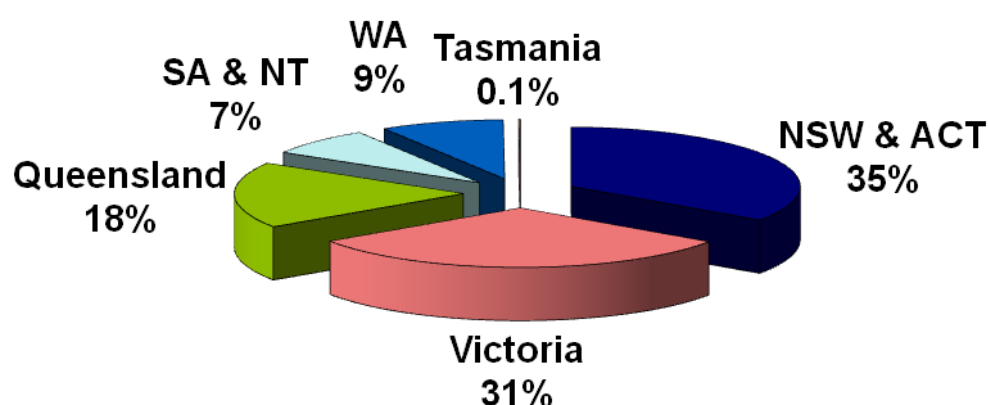
In the Australian market, factoring and discounting are very different risk propositions, reflecting the greater control the factor has over the debtor security. Discounting is generally more suitable to larger business with appropriate systems and a proven track record, whereas factoring may be more suitable to clients where the factor has a much greater involvement in managing its debtor security.

### Factoring & Discounting Average Turnover per Client



The distribution of business throughout the States and Territories of Australia is roughly proportional to the population distribution.

## States Turnover - Percentage of Turnover



## INDUSTRY PROFILE

Factoring	Dec-08 Quarter	Mar-09 Quarter	Jun-09 Quarter	Sep-09 Quarter	Dec-09 Quarter	Latest 12 Months
Turnover (\$M)	911.0	720.6	747.4	841.2	885.5	3,194.7
Receivables (end of qtr -\$M)	436.3	398.8	383.6	431.1	458.1	
Number of Clients (end of qtr)	1,597	1,544	1,621	1,586	1,552	
Number of Debtors (end of qtr)	61,264	59,572	61,565	66,104	65,652	

Discounting	Dec-08 Quarter	Mar-09 Quarter	Jun-09 Quarter	Sep-09 Quarter	Dec-09 Quarter	Latest 12 Months
Turnover (\$M)	16,993.4	14,141.0	14,837.4	15,131.6	15,718.6	59,828.6
Receivables (end of qtr -\$M)	7,982.2	6,986.5	7,098.6	6,981.6	7,193.1	
Number of Clients (end of qtr)	4,310	4,287	4,335	4,139	4,030	

Total	Dec-08 Quarter	Mar-09 Quarter	Jun-09 Quarter	Sep-09 Quarter	Dec-09 Quarter	Latest 12 Months
Turnover (\$M)	17,904.4	14,861.6	15,584.8	15,972.8	16,604.1	63,023.3
Receivables (end of qtr -\$M)	8,418.5	7,385.3	7,482.2	7,412.7	7,651.3	
Number of Clients (end of qtr)	5,926	5,907	5,831	5,725	5,582	

Competition in the receivables finance market is strong, with many clients utilising brokers to find the best deals. Clients not utilising brokers will typically shop around

to obtain the best pricing and structure for their needs. As a result, the sector competes on both a pricing and risk basis.

Trade terms in Australia are generally 30 days from the end of the month in which the goods and/or services are delivered. On average, debt turn is around 43 days, and varying between industries from the mid-30s to slightly above 50 days. Small to medium size enterprises' (SME) tax obligations are generally on a quarterly basis, and as a result debt turns on tax remittance months are often longer.

## **Future Trends**

Receivables finance in Australia is increasingly viewed as a mainstream funding alternative provided by a broad spectrum of banks and financial institutions, whereas ten years ago it was a niche product generally offered by specialist non-bank providers. This transformation will continue to deliver substantially higher volume transactions. The client base is expanding beyond the SME sector to include medium sized corporates and smaller listed companies, with annual turnover in excess of A\$500 million. In turn this will alter the risk/return equation, with clients having an increased capability to manage their debtors as well as their underlying businesses, and to this extent receivables finance will become more homogenised. It will be increasingly offered as part of a broader financial package, for example, in conjunction with trade finance and inventory finance.

However, risk differentiation will undoubtedly remain a feature of the competitive landscape, with variations in debtor concentrations, recourse periods and advance rates still distinguishing individual providers, but less so than in previous periods when the market was in earlier stages of development.

Whilst organic sales growth has been a key driver of receivables finance, it is being increasingly recognised as an opportunity for a business to fund major structural change, such as management buyouts, acquisitions or expansion into new product or business lines. These opportunities require significant and immediate new funding, and businesses are increasingly turning to the receivables as a key source of this funding.

The benefits are immediately apparent in the case of acquisitions; the acquiring entity can leverage their own receivables and in turn the receivables of the acquired company to meet the increased cash requirements of the group. Receivables finance can be provided either as a stand alone product or as part of a broader financing package, providing new horizons and new opportunities for business.

The receivables finance market in Australia has undergone the conventional maturation in the last decade. This has been marked by the entry of new participants, particularly the banks, with a much greater or exclusive focus on invoicing discounting, and a concomitant increase in higher volume transactions and a broader spectrum of clients. There has been some rationalisation of market participants in recent times, but this is seen to be due to individual situations and is not expected to become more pervasive. Likewise, although more participants are expected to enter the market, this will not occur on the same scale as over the last decade. Notwithstanding, the very strong growth of receivables finance is

anticipated to be maintained in the period ahead. The market has grown from A\$3 billion to over A\$60 billion annual turnover in a little over a decade, and the future for receivables finance in Australia is robust.

During 2009, the Australian Government introduced and passed the Personal Property Securities legislation with an implementation date of May 2011. IFD made comprehensive submissions on this new regime. Under the law, a receivables financier's claim to accounts will be determined by the statutory framework rather than by ownership considerations. IFD supported the inclusion of receivables finance within the personal property securities framework, and the legislation provides receivables financiers with as equitable and commercially logical ability to protect the new value they provide to a business when purchasing accounts. IFD is assisting Members prepare for the new legislation's implementation.

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## STATISTICAL APPENDIX

Table 1	Turnover (A\$million)		
	Factoring	Discounting	Total
1995	1068	1893	2961
1996	1195	2713	3908
1997	1330	3850	5180
1998	1489	5158	6647
1999	1754	6398	8152
2000	2078	8884	10962
2001	2281	11232	13513
2002	2511	15180	17691
2003	2975	20183	23158
2004	3151	28269	31420
2005	3283	34026	37309
2006	3360	42649	46009
2007	3310	51576	54886
2008	3149	61950	65099
2009	3195	59828	63023

Table 2	Number of Clients		
	Factoring	Discounting	Total
1995	1219	539	1758
1996	1289	708	1997
1997	1402	941	2343
1998	1608	1261	2869
1999	1747	1466	3213
2000	1827	1691	3518
2001	1843	1868	3711
2002	1148	1753	2901
2003	1441	2101	3542
2004	1590	2531	4121
2005	1637	2865	4502
2006	1788	3469	5257
2007	1870	4051	5921
2008	1597	4310	5907
2009	1552	4030	5582

Table 3	Receivables (A\$million)		
	Factoring	Discounting	Total
1995	149	333	482
1996	171	445	616
1997	175	617	792
1998	198	810	1008
1999	248	983	1231
2000	323	1380	1703
2001	336	1684	2020
2002	392	2227	2619
2003	409	2795	3204
2004	433	3901	4334
2005	434	4555	4989
2006	463	5785	6248
2007	449	6999	7448
2008	436	7,982	8419
2009	458	7193	7651



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