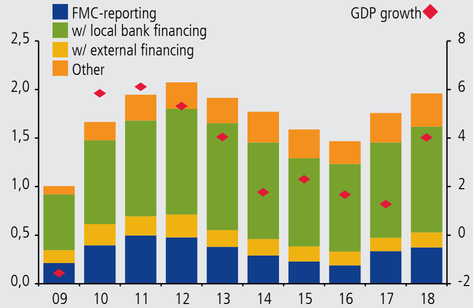
BOX IV.1
THE EVOLUTION OF BANK FACTORING IN CHILE

Factoring is a type of financing through which the firm (supplier) sells its accounts receivable (customer invoices) with a discount to an external institution (factor)[1]/. When the invoices come due, the customer pays the amount owed directly to the factor, who is now the legal owner of the invoices. This operation offers advantages to the supplier, who can receive immediate financing for the productive cycle and externalize the credit assessment and collection services, given that the factor normally has competitive advantages through its specialized knowledge, economies of scale, and better access to credit data (Berger and Udell, 2006)[2]/.

This box characterizes bank factoring from the perspective of the supplier's economic sector. At year-end 2018, total factoring represented 2% of the debt of nonbank firms (chapter II). This type of financing can be classified—from the supplier's perspective—into three groups: banks and subsidiaries (73%), bank associates (8%), and other FMC-reporting firms (19%). This box presents information on factoring operations by banks and their subsidiaries, using administrative records from the FMC[3]/.

FIGURE IV.18
Factoring debt, by year and type of firm
(percent of GDP)



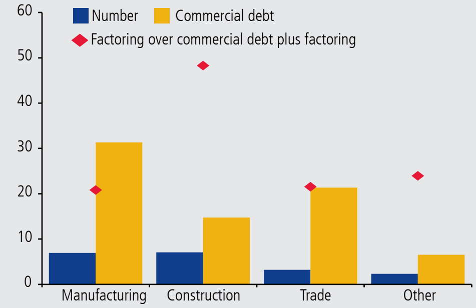
Source: Central Bank of Chile, based on data from the FMC.

[1]/ In a simple example, a fruit producer that sells to a supermarket transfers its outstanding invoices to a factoring company. In this case, the producer is the supplier, the supermarket is the customer or debtor, and the factoring company is the factor.
[2]/ Klapper (2006) and World Bank Group (2017) provide a detailed analysis of the types of operations, the advantages, and the role of factoring in business financing.
[3]/ There are other firms registered with the IRS as factoring companies, but they are not included in the debt calculation because public information is not available on their loans. This market also features intermediaries such as the Chilean receivables exchange, where invoices and contracts are traded, and some participatory financing platforms (PFP) that carry out financing operations similar to factoring. See Abarca (2018) and FSR (First Half 2015).

The evidence indicates that bank factoring is cyclical, peaking at year-end 2012 in terms of loans over GDP (2.1 points) (figure IV.18). This is not an idiosyncrasy of the Chilean market: at the international level there is a positive correlation between GDP growth and the growth of factoring (FCI, 2019)[4]/. The evidence also shows that a wide range of firms use factoring, including FMC-reporting firms and firms with local bank financing.

Both the share of firms that use this source of financing (whether measured as the number of firms or the amount of commercial debt) and the intensity of use (measured as the percent of total debt obtained via factoring) vary by economic sector. In the group of firms with local bank financing, only a small share of firms with commercial debt also use factoring as a source of financing, representing 7% of firms in both the manufacturing and construction sectors in December 2018. However, the intensity of the use of factoring was around 20% for manufacturing and trade and 48% for construction. In this latter sector, the commercial debt of these firms does not represent more than 15% of total debt in the sector (figure IV.19).

FIGURE IV.19
Share and intensity of use of factoring in firms with local bank financing, 2018
(percent of total)



Source: Central Bank of Chile, based on data from the FMC.

[4]/ Factors Chain International (FCI) is an international association of factoring companies. The data presented in the annual report correspond to operation flows and are limited to companies that are members of the association, which includes seven Chilean firms.