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## **Bank Factoring: Russian and International Practice**

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**Abstract:**

*A new stage of developing the Russian real sector of economy focused on innovation development and import substitution is associated with a severe shortage of financial resources.*

*The financial crisis, sanctions of the EU countries and the USA stipulated the need to form internal financial resources and innovational financial instruments. One of the promising mechanisms to provide the expanded reproduction is factoring.*

*The article considers peculiarities of factoring transactions made by Russian and foreign banks. The factoring in PJSC JSCB Metallinvestbank was researched. Recommendations on improving the factoring efficiency were formed.*

**Keywords:** *factoring, commercial bank, interest rate, fee, factors, terms and conditions, problems, perspectives, efficiency.*

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## 1. Introduction

In practice factoring has been used for quite a long period of time. The factoring mechanism of financing is used to decrease risks related to selling goods or services, and preventing bad debts. Small and medium businesses that strive for increasing or maintaining the volumes of sales use factoring services.

Factoring means the assignment of short-term claims on the trade transaction by the supplier to a factoring company or a bank. Today, factoring is interpreted as the short-term lending by purchasing debt obligations of products buyers or suppliers of raw materials or equipment. Along with this, the client is insured from the risk of non-payment by its partner. The organization pays 70-90% of the invoice and then transfers the remaining amount to the client only subject to the full payment of the debt by the debtor. The buyer's factoring is a riskier transaction than the supplier's factoring. Consequently, the fee to be charged is higher.

In Russia factoring is a new service. There is no such term in the Russian legislation. At the same time, the current macroeconomic situation related to the financial instability and sanctions of the EU countries and the USA stimulates the development of classical factoring and its subtype – international factoring.

## 2. Peculiarities of Factoring Transactions Made by Russian Commercial Banks

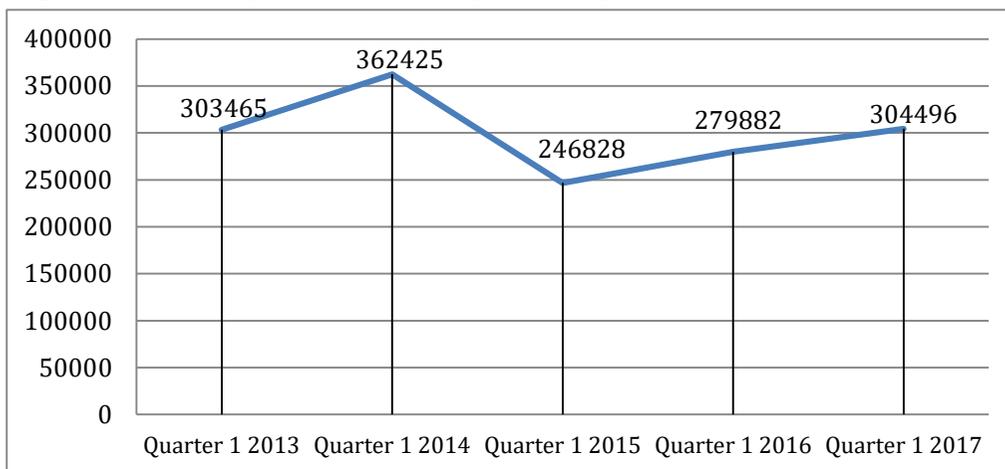
Nowadays Russia tends to experience the growth of the demand for factoring services and increase in the bank factoring supplies (Meshkova, 2015). Almost all companies that work under the conditions of the payment delay on a regular basis need factoring. In accordance with the experts' estimations, the needs in factoring make up ten billion US dollars annually. When forming terms and conditions for the factoring development, tempos of growing the factoring market could make up hundreds of percent.

The factor (a bank or a company) charges a factoring fee and an interest, as well as a document handling fee from clients for the transactions on claiming debts. In foreign countries the factoring fee is 1.5-3%, and in Russia, considering the amount, risk level, and receivables turnover period, the fee may reach 20-30%. In Russia factoring is at the formation stage. Several key problems that make factoring transactions in Russia different from the similar ones in foreign countries are defined. One of these problems is that today the Russian factoring is characterized by non-recurrence.

The Factoring Companies Association (FCA) published statistical indicators of the activity of Russian factors for quarter 1, 2017. According to the data and estimates of the FCA, the turnover of the Russian factoring was RUB 390 bln. As compared to quarter 1, 2016, in January-March 2017 the turnover of FCA members grew by 21%

or RUB 67 bln. About 4 thous. organizations used factoring in their operation. At the same time the number of trade debtors was about 8 thous. In Russia for quarter 1, 2017 factors concluded new agreements with 365 clients (in 2016 there had been 300 of them), attracted about 670 new debtors (in 2016 - 760) to serve the supply. The number of clients increased by 10%, and the number of debtors decreased by 4%. In the period January-March 2017 the volume of financing was RUB 305 bln. (Figure 1). In quarter 1, 2017 Russian factors paid RUB 304,496 mln. to their clients (in 2016 this amount was 9% less). The share of Top 5 market members in the volume of the paid financing was 69%.

**Figure 1.** Volumes of Russian Factoring Financing, mln. RUB

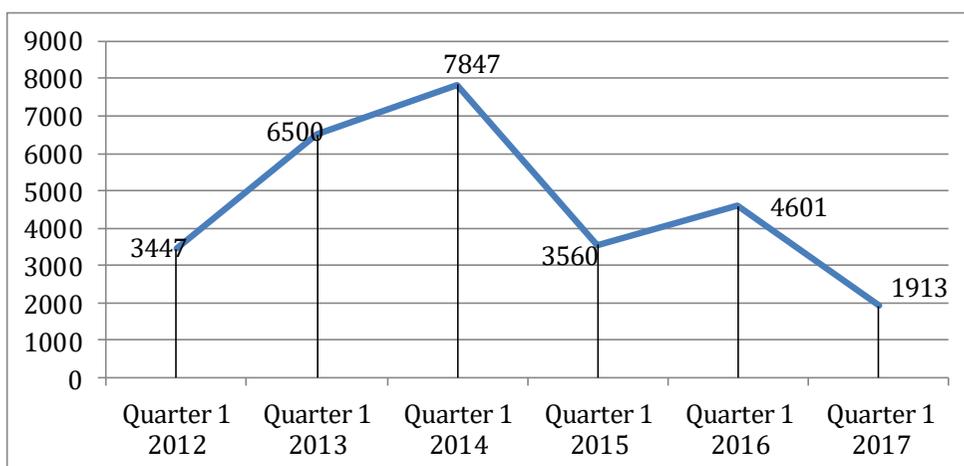


According to the results of quarter 1, 2017, the turnover of the Russian factoring market was RUB 457,464 mln. The share of recourse factoring was 58%, and non-recourse factoring – 30%, with no financing – 15%, and international factoring – 1%. The Russian sanctions against importers from the USA, Canada, and the EU countries can increase the demand for factoring services because many retail chains will reorient to the products of domestic suppliers.

As the Russian business grows and develops, the demand for factoring intermediaries dynamically increases. Notably, these will preferably be non-recourse factoring services as a product that allows excluding the performance risk. Sanctions can really help domestic producers. However, at the same time a great part of raw materials and components, for example, for agriculture, is purchased abroad. It is disputable whether they can be replaced by products of Russian suppliers or producers from those countries that were not sanctioned. If they cannot, the factoring market has no prospects in this segment because the volumes as well as the effective demand will decrease because of dismissing foreign financing channels.

All other things being equal, long-term sanctions can harm a greater part of the Russian factoring market members because above 80% of all factoring covered the imported products. However, it can be replaced, for example, by suppliers from Argentina or Brazil. To work with them, it is necessary to considerably change the system of estimating risks and commercial management. It may take more than a year. The data over the recent months confirm that sanctions can start the fall of turnovers on the factoring market even soon. Because of the sanctions the turnover of the international factoring of Russian banks has dramatically decreased (Figure 2).

**Figure 2.** *Volume of International Factoring in Russian Commercial Banks, mln. RUB*



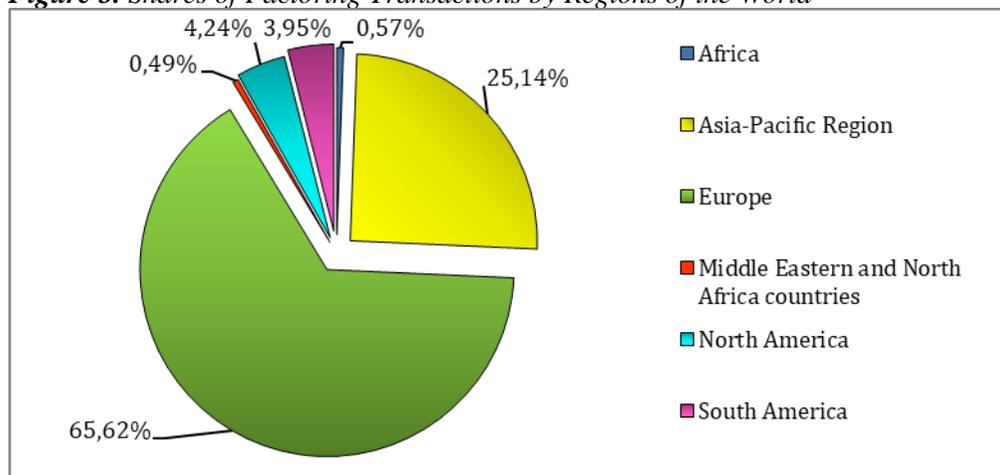
In the challenging political and economic situation foreign banks are afraid to provide companies supplying goods to Russia with loans. Consequently, the segment of import factoring, in particular, also risks failing.

### 3. Foreign Experience of Factoring

According to the statistical data of the international factoring this area has increased. The growth is observed both in general and on certain national markets. This dynamic decreased because of reducing the volumes of factoring in China where the economic downfall had an impact on international trade members that had counter-agents in such countries as the USA. In the global turnover of factoring that in 2016 was EUR 2,355 bln., which was inconsiderably lower than in 2015 (EUR 2,367 bln.), European markets showed a 2.5% growth. The numbers on other markets such as France (+8%), Germany (+5%), and Italy (+10%) show that the positive trend continues while, on the other hand, Turkey decreased export and lowered the general indicator of the factoring market volumes by 10%. It is necessary to emphasize that the Russian market has increased by 40%, and the Dutch market – by 26%.

Despite the political disruptions in the USA, in 2016, in general, the indicators of factoring in the North and South America increased by almost 10%. Brazil is at the top. Its volumes of factoring increased by over 50%. In Mexico this number is 16%, in Chile – 12%, and in Argentina – 22%. The future of factoring in the region is rather promising. The delay of the factoring transactions growth in the world economy is related to the delay of the economic growth in Asia that formed the second large segment of the global factoring market (after the European market) (Figure 3).

**Figure 3. Shares of Factoring Transactions by Regions of the World**



In 2016 the turnover of factoring transactions in Asian countries decreased from 8% down to EUR 563 bln. Major reduction of the transactions was noticed in China where the volume of the factoring market had decreased by 13%, which was directly related to the delay of the economic growth tempos. It also had an impact on worsening of the international trade development. The decrease in prices for raw materials and goods also had an impact on the dynamics of the transactions volume. It resulted in the decrease in the invoices cost, although the last months of 2016 and the early 2017 displayed tendencies for improvement. The delay of the economy growth caused the decrease in the volumes of financing in trade, which had a peculiar impact on the activity of small and medium-sized companies because the majority of financial institutes started limiting financial operations.

#### 4. Analysis of Factoring Transactions in PJSC JSCB Metallinvestbank

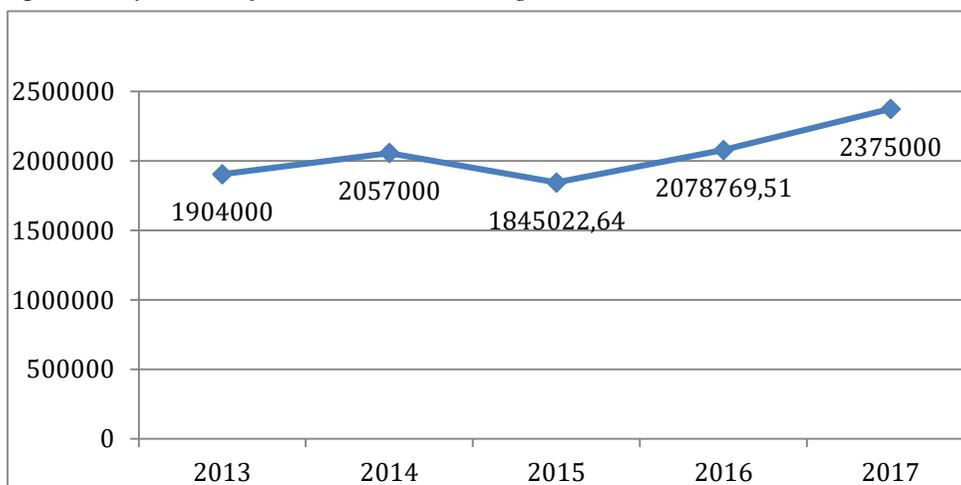
According to the results of quarter 1, 2017, the leader of the Russian factoring bank was VNT Factoring. It has the greatest shares in the market turnover (23%). It is followed by Promsvyazbank (18%), Alfa-Bank (15%), Sberbank Factoring (7%), and NFC SC (6%). On the Russian factoring market PJSC JSCB Metallinvestbank is the sixth among all members. It says about the competent policy of the bank on

providing clients with services, which led it to one of the leading positions among competitors on selling their products.

For quarter 1, 2017 the factoring turnover of the Bank was RUB 216 mln., and as on 31.03.2017 the portfolio was RUB 5,937.3 mln. According to the achieved indicators, it took position 11 among members of the Factoring Companies Association. Probably, the Bank needs to reconsider its credit policy, modernize it in accordance with the modern state of the market, and take active measures on attracting loyal large clients. By the end of quarter 1, 2017 the Bank had 787 clients. It made it possible to become the second in the rating of the Factoring Companies Association by the number of clients. Promsvyazbank was the first in the rating. It had 1,020 clients. NFC SC was the third with 379 clients.

Such number of clients in the Bank is explained by the fact that the Bank prefers to work with small and medium debtors and provides them with the factoring service. Therefore, the Bank is inferior to other lending institutions by volumes of financing. According to the FCA forecast, in 2017 the factoring market will go on growing. The respondents expect an increase in the factoring volumes by 14% as compared to 2016 (Figure 4).

**Figure 4.** Dynamics of the Russian Factoring Market, mln. RUB



In 2016 factoring sustainably grew. It is related to the improvement of the factors' state as a consequence of reconsidering and modernizing the financial policy. Besides, the emphasis on the development of the national production because of the sanctions and political position had a great role in stabilization and progress of the internal factoring. According to the results for 2016, PJSC JSCB Metallinvestbank was the seventh according to the factoring turnover. For quarter 1, 2017 the Bank managed to make the next step, which says about the efficiency of actions and management solutions. The increase in the turnover is substantiated by many factors,

such as the number of clients, average duration of factoring servicing, the amount of the paid financing, etc. Figure 5 shows the areas of the economic activity in the factoring volume of PJSC JSCB Metallinvestbank.

**Figure 5.** Percentage Ratio of Economic Areas in the Total Volume of PJSC JSCB Metallinvestbank Turnover, as 2016.

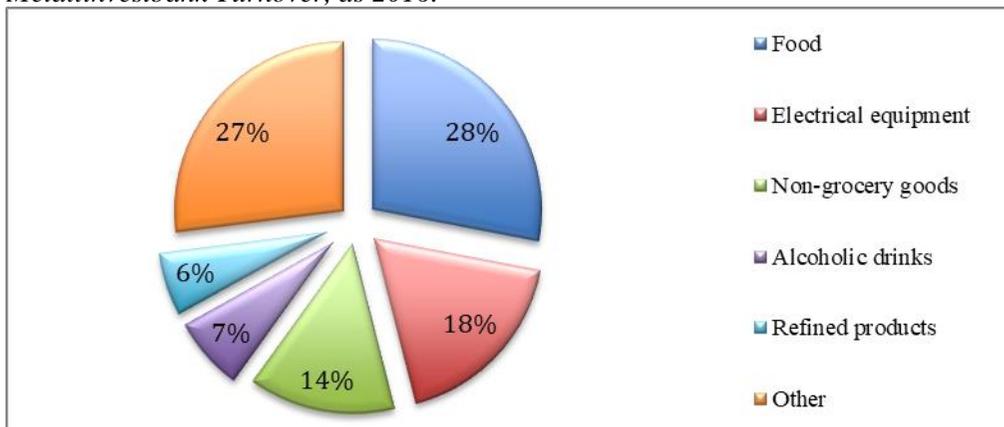


Figure 5 shows that the rating of the factoring turnover in the lending institution under consideration is as follows: food (28%), electrical equipment (18%), non-grocery goods (14%), alcoholic drinks (7%), and refined products (6%).

Due to the import substitution, on the Russian market there are many new members that manufacture their own products – analogues of the imported products. It is extremely difficult for such members to compete with the long-standing competitors – giants that have been selling their products in Russian stores for many years. As a consequence, when selling its goods, a small company faces the deficit of funds for further development. In order not to lose its production capacities, it contacts a bank for factoring. PJSC JSCB Metallinvestbank focuses on developing small and medium business. Due to this fact, the number of clients in the Bank has been growing every year. It results in the growth of the bank rating and trust to it by loyal and potential clients.

## 5. Risk Management during Factoring Transactions

For suppliers factoring decreases the non-payment risk. Since it is unsecured, for factors this service is risky and requires the use of the smoothly running system on estimating risks and high-quality risk management in order to improve the level of factoring transactions efficiency. That is why there is the need to estimate potential risks financial agents may face when making factoring transactions and to classify them, more than that, to create optimal instruments to influence such risks for their minimization.

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It is reasonable to group risks in accordance with the factors that generate them. Thus, when providing factoring services, the factor may face specific and unspecific (general) risks. Specific risks can be caused both by the client (supplier) and by the debtor (buyer). As a result, the factor may suffer losses. It is possible to specify the following specific risks of factoring transactions: risk of the delayed payment, credit risk, non-fulfillment of contractual terms and conditions of supply and factoring, as well as fraud. The risk of delayed payment (loss of the factor's liquidity) is the risk of the debtor's cash deficiency, the deficit of funds to cover the current expenses.

To avoid such risk, factors must analyze the relation of the supplier (client) and the buyer (debtor), including the debtor if possible. Besides, it is difficult to collect information about debtors because since they are not direct parties of the transaction, they may refuse to provide information about themselves. In this case, the factor will have additional expenses for reserving funds for such risks. The credit risk is related to the buyer's non-payment for the supplied goods.

Analyzing the impact of this risk, factors must define their share of delayed payments in the total volume of supplies in relation to every debtor, for example, because of the arisen difficulties to sell goods related to the seasonal nature of the demand for these goods. One of the ways to minimize the credit risks is to analyze debtors in terms of finances, and to determine limits for them, including to diversify (allocate) these risks (Ekimova, 2016). The supplier's non-fulfillment of contractual terms and conditions is related to the risks of supplying low quality products and return risk.

Thus, the factor can finance the supply where the amount of financing made to the supplier is higher than the claims to the debtor. It is possible to prevent this by verifying goods supplies and recourse factoring. In accordance with the latter, the client is obliged to pay for such returns. The fraud risk may occur because of the specificity of factoring. It may come from the supplier and the buyer, or due to their joint agreement. Thus, the factor may obtain invoices to finance for fake supplies, invoices for delayed supplies, etc. One more type of fraud may be so called double factoring. According to it, the client concludes 2 factoring agreement with different financial agents and is twice financed for one supply.

To prevent such risks, the factor must request the buyer to confirm the receipt of goods for every separate transaction under factoring, verify terms and conditions of the supply agreement and activity of the debtor, and visit the debtors' warehouses to check the actual availability of goods. Unspecific (general) risks are the ones characterizing both factoring and other financial products. This group is represented by operational, currency, interest, economic, political, system, legislative, and sectoral risks.

It is possible to decrease risks by using a tough system of control over the employees' compliance with the internal regulations and procedures, accurate monitoring of their responsibility, thorough verification of their documents, etc.

The currency risk may occur in case of international factoring and cause the rate losses when exchanging funds from the buyer's into the seller's currency. An increase in the foreign currency rate causes negative consequences for banks because, firstly, their financial potential is limited, and, secondly, the increase in prices for the client's goods caused by it requires a considerable prepayment from the factor (Ermilova, 2017).

Factors can manage these risks rather efficiently by hedging (insurance). Nevertheless, for this, it is necessary to bear additional expenses, which, in its turn, results in an increase in factoring cost. The interest risk has an impact on the financial result of the economic activity. It is an integral part of the factoring activity.

The economic risk is related to the economic situation in the country, possible crisis phenomena in economy (Bunich, 2016). When forecasting these risks, it is necessary to compare tempos of increasing the income from factoring services, including the monitoring of the inflation tempos, and to make changes according to it when defining and updating the factoring tariff scale.

The political risk increases the risk of potential losses of the factor and its clients because of the political unsustainability in the country, nationalization, privatization, and other events. These risks are the most peculiar for international factoring and relate to non-fulfillment of obligations under an agreement because of changes in the political situation of the buyer's or seller's country. To consider this risk, financial agents must constantly monitor the economic situation in the country and its impact on the financial state of clients and debtors. The legislative risk is a risk of the factor's losses when legislative requirements are not complied with, certain issues that may arise during factoring are not regulated by the law, counter-agents breach terms and conditions of the concluded agreements, etc.

To decrease the legislative risk, the factor must constantly monitor new laws and regulatory documents of the Bank of Russia, changes in the legislation in terms of sales on the deferred payment basis, and other enactments related to factoring.

The sectoral risk is possible when most clients in the factor's portfolio operate in a high risky area that is either weakly developed or thoroughly controlled by the state (for example, exploration and production sector). To estimate the sectoral risk, factors have to study the level of the sectors development, percent of bankruptcy in them, group clients by sectors, and determine general limits of financing for sectors by their attractiveness for factoring.

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## **6. Strategic Aspects of Developing Factoring in Russia**

Managers of most banks agree that factoring is a very promising area. However, this business is rather labor-intensive and specific. A lot of financial structures launch this project. However, few of them can make it attractive for clients. According to the analysis made by specialists, the Russian factoring market grows by 20-30% per year. Along with this, fees from factoring companies slightly decrease. For example, as compared to 2015 they decreased by 10%. That is why it is possible to say that the market becomes sustainable (Finogenova, 2017). It is necessary to note that just five years ago the factoring market was characterized by great fluctuations, and the interest in factoring either briskly grew or quickly decreased. Besides, Russian banks are actively merged and acquired. It will finally cause a considerable decrease in the number of the factoring market members. As a result, factoring can become typical, and it means, more understandable and accessible product for enterprises.

The greatest part of industrial enterprises, especially small and medium entrepreneurs need working capital. A lot of problems related to eliminating payment delays and speeding up the payment and production cycle are solved by factoring. Criminality in this segment of the financial market prevents the mass use of factoring.

According to the research made by the Expert RA, the losses of Russian factors from fraud are yet low. In 2016 the companies that disclosed this information suffered from losses in the amount of not more than RUB 4 mln. However, it does not mean that there is no such fraud in Russia, and that the receivables financed by Russian factors do not have fake supplies. Merely, the fraud in case of factoring may take place for years, and estimating its risk by formal features like credit, the factor will only be glad because of increasing turnovers, debtors' discipline and clients' loyalty.

It is important to note that the advantage of factoring is that members of such agreement save their time that is surely transformed into money. Russian producers strive for competing with foreign producers. Small and medium-sized businesses that are almost not supported by the state must rely on their own capacity. Therefore, for such enterprises factoring may become a new step for further development prospects. There are various areas in developing the factoring market.

Above all, this is a multi-feature development of factoring in the country by introducing various options of factoring. Then it is necessary to diversify, reconstruct the activity of lending institutions that provide factoring. Along with providing factoring services, firms must also provide consultancy services. Consequently, there is an urgent need to use new software by factors that can improve the analysis quality and optimize expenses.

According to experts, the adaptation of factoring in the Russian mechanism of export management will contribute to the growth of export volumes, and an increase

in the currency and economic efficiency of export by 7-9%. Besides, deductions in the country's budget can be increased. It will have a positive impact on the financial and economic state of regions and the whole country (Sysoeva, 2017; Posnaya, Vorobyova, Sokolova and Leonova 2017).

The promising areas of factoring include catering and basic goods production because they have a high liquidity and low turnover. The use of factoring as an accessible way of financing the activity of small and medium entrepreneurship will provide the resources of activity under unsustainable conditions of the economic environment and continue successful development. For the goods supplier factoring will contribute to an increase in demand for goods and volume of sales, improvement of goods competitiveness, and creation of favorable conditions of cooperation for buyers. Another promising area of using factoring is the services sphere (transportation, tourism, advertising, and telecommunication).

Advantages may include acceleration of the funds turnover, simplification of the balance structure, and lower accounting, administrative, legal and other expenses. It will strengthen the positions of supplying companies on a highly competitive market.

### **7. Developing Recommendations on Improving Factoring Efficiency**

According to the foreign practice, having achieved a certain development stage, factoring departments of banks, as a rule, are separated from parent banks into formally independent structures: specialized branches or subsidiaries. Based on this, it is possible to assume that efficiently operating factoring departments in Russian commercial banks will develop according to the same scheme.

In this case the bank regulation will be carried out by determining a number of control indicators for a factoring company: correlation of own and borrowed funds, standard of deducting in the reserve to cover risks, limit of crediting one supplier (including on classifying debtors of this supplier), depending on the amount of own funds of the country, etc.

It is impossible to implement factoring (as an operation that assumes risk) without developing the methodology of analyzing financial activity of the enterprise, credibility of its debtors, as well as the supplier itself based on the data of accounting reports and balances, and indicators calculated on their basis. In order to obtain the relevant information, the factoring company can conclude agreements with the bank departments that serve the supplier, auditing and consultancy companies.

Gaining practical experience of factoring transactions, the bank factoring department or a specialized factoring company will be able to provide suppliers with a wider range of services, including full accounting service (along with the analysis of the

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economic activity as ordered by the supplier, audits, analytical reports and recommendations on financial planning), rather than mere accounting of shipped goods and receivables.

The data of such accounting can be used both for accounting reports made by the enterprise, and for estimating payment interrelations with its counteragents, and defining reasons of invoices non-payment and goals of the statistical recording. The factoring department can offer legal services, services on insurance, informational provision, sale strategy development, transportation and advertising, as well as consulting on various financial issues. Thus, the factoring company becomes a partner of its client. The global financial crisis has touched on almost all areas of economy. It also affected the factoring market. Portfolios of most factors slowed down their growth, and some of them entirely decreased.

In the first half of the 2016 factoring continued growing. The number of clients using factoring services increased, and the range of products (for example, the pre-supply factoring) expanded, new players entered the market. In the second half of 2016 the overall picture considerably changed. The situation on the global financial markets could but not influence the factoring market. It results in the less forecast dynamics and volume of the market, as well as the growth of factoring transactions tariffs. In the second half of 2016 prices for factoring considerably grew two and more times.

## **8. Results**

Factoring contributes to establishing close relations between buyers and suppliers of products, saturating markets with competitive products, which is one of the primary tasks to be solved by the Russian economy today. Banks and companies specializing in financing, particularly, factoring, deal with credit risks, i.e. risks of non-payment by their borrowers. However, there is an important difference between crediting and factoring. In the latter case, it is necessary to beware not so much debtor's inability to pay, as clients' fraud.

Over the whole history of factoring, in all countries factors have suffered the greatest losses from the clients' fraud, i.e. the risk that is almost not taken into account by the majority of Russian factors, rather than from the credit risk. It is necessary to be attentive and flexible, and constantly adapt the system of risks management to the newly revealed typical cases of fraud.

Indeed, many factors tempt their clients themselves by ignoring certain components of the factoring risk management. It is necessary to understand not only the importance of non-admission of serious delays, but also the need to monitor operational risks, in particular, frauds.

## **9. Discussion**

Considering that the current legislation obliges lending institutions specializing in factoring activity to have the relevant license, the legislator has not defined a special licensing body, and, as a consequence, banks do not have an opportunity to obtain such license. Consequently, today on the factoring market there are financial agents that operate within the banking license because it empowers to freely practice factoring, and specialized factoring organizations that perform their activity without a special permission and ignore the demand to have such license as defined by the legislation. The above problem requires adjustment of the legislation in either way by coordinating standards of the current legislation. The cancellation of licensing is favorable because today the activity of factoring companies is already differently regulated within the current legislation: criminal, administrative, banking, and tax, which regulate the activity of commercial organizations.

When financing under cash claim cession (factoring), all transactions that are somehow related to payments are made subject to the participation of lending institutions. In their turn, lending institutions are controlled according to the current banking legislation. Consequently, all payments of factoring companies are controlled by the current legislation.

Moreover, financial agents do not involve funds of individuals and do not work with individuals because investments in the factoring business are attracted through lending institutions. Consequently, this activity is also controlled by the current banking legislation and cannot harm the population. All activity of factoring companies, as well as the activity of other legal entities in the Russian Federation is performed in accordance with the Tax Code of the Russian Federation. Consequently, taxation bodies tightly control financial agents.

In the Russian Federation factoring companies make payments for the transactions in rubles. However, in case of export-import transactions, where payments are made in a foreign currency, they are automatically regulated by the current legislation about the currency regulation and control and are controlled by bodies and agents of the currency control. Members of the factoring market have established the Factoring Companies Association. This Association is supposed to unite the majority of factoring companies operating in the Russian Federation (including market leaders and other structures that have both direct and indirect relation to factoring and financing trade operations) into a single structure. The main goal of the Association is to develop common standards and rules of factoring activity in the Russian Federation.

## **10. Conclusion**

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Thus, factoring becomes more and more popular. Small and medium-sized enterprises use this service more and more often, and thereby they exclude the non-payment risk on the ordered goods. In the whole world specialized factoring companies lead in providing factoring services, while in Russia banks render such services. It is explained by the imperfection of the legislation in this area.

The factor incurs the client's debt and guarantees the payment within the defined term. However, this causes a lot of risks related to the possibility of the debt non-payment to the bank factor. Consequently, the fee charged for this service is high. The financing party, or the factor, is paid for the services it renders and in the most cases it gets additional income that is the difference between the amounts paid to the creditor and obtained from the debtor.

Three parties take part in factoring transactions. These are the factor, the creditor and the debtor. To carry out factoring transactions, certain measures from the factor are required: to collect information about the debtor and creditor, to conclude an agreement, to monitor financial activity, to reveal and control over risks, to timely pay the debit indebtedness, and to accrue interests on the transaction to the client. Today the following factoring intermediaries are defined on the Russian financial market:

- Banks where factoring services are provided on the same level as other banking products,
- Factoring companies that perform their activity in accordance with the banking license, and
- Independent factoring organizations that do not have a banking license.

Export factoring is important for Russia. It makes export trading possible under the conditions of an open credit. By that it increases the volume of the floating capital. Moreover, Russian companies can cooperate with foreign ones under the conditions of an open account, which is an advantage. Factoring services increase the tempo of obtaining the principle amount of obligations, allow to entirely redeem debtor indebtedness, and to decrease the expenses related to servicing settlements with buyers. Besides, factoring companies guarantee the timely receipt of money by the supplier if the payer suffers temporary financial difficulties.

However, the introduced economic and political sanctions hinder the development of international factoring. However, due to such sanctions, the Russian Federation internal factoring started actively developing, a lot of new enterprises participating in the import substitution program were established. As the practice shows, in order to survive in the competitive struggle with competitors, small and medium-sized enterprises order factoring services in banks to replenish the lack of working capital. Over the recent five years, in the Russian Federation the interest in factoring has considerably increased. That is why it is necessary to further develop the legislative regulatory framework for factoring, to reveal organizational and

economic reasons that have an impact on the efficiency of factoring transactions, to more tightly control such transactions taking into account interests, rights, and obligations of their participants.

There are a number of problems related to regulating and carrying out factoring transactions by commercial banks and factoring companies. The main problems include the clients' fraud, imperfection of the current legislation, the lack of foreign experience, introduction of various limitations, and the lack of relevant knowledge about factoring by potential clients. The above problems result in certain risks. Therefore, there is the need to efficiently estimate the list of potential risks financial agents may face when carrying out factoring transactions, their competent classification, and to create instruments to influence these risks in order to minimize them (Kosov, 2016; Moskaleva and Chelmakina 2016; Cipovová and Dlasková 2016).

The above circumstances mean the need to deeply study and process the obtained information on the existing factoring practice, to develop practical recommendations that will aim at further development of factoring as an efficient method to finance the working capital of enterprises.

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