

Activity of credit intermediation and factoring companies in Poland

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ABSTRACT: *The article discusses the changes taking place in the method of financing Polish enterprises and the analysis of economic entities in the financial services sector. Concepts related to this topic were presented and forecasts for the development of the financial services market in Poland were included. Factors influencing the development of credit and factoring enterprises were indicated. The two types of financing methods for enterprises were compared and their advantages and disadvantages as well as opportunities and threats appearing in the economic environment were shown. The article also presents reflections on the direction of the ongoing economic changes.*

KEYWORDS: *Banking, Economic development, Management, Sources of financing, Technologies.*

I. INTRODUCTION

Over the last years, the financial services sector has grown considerably. The use of various forms of financing activities has become more and more common. Sources of financing for enterprises can be classified in terms of many different aspects. There is a division into foreign and own capital. Equity is funds coming from within the enterprise, for example a profit generated in the company or capital contributed by the owners in the establishment process. Equity is perceived as a stable source of asset financing due to the long period of connection with the company. Foreign capital, on the other hand, complements equity. Often it is the company's financial liquidity. One of the main problems of small and medium enterprises in Poland is access to foreign capital. These enterprises, lack of own resources, supplement with funds from entities conducting credit intermediation activities, or use the services of factoring companies. These measures are often necessary for further development, which is necessary for survival in the market. Diversification of financing sources leads to diversification of the company's assets and liabilities [1]. According to data from the Central Statistical Office in Poland, the value of loans granted and interest in factoring services are constantly growing.

II. CONCEPTS RELATED TO THE MARKET OF BANKING AND FACTORING SERVICES

An enterprise may finance its operations with capital coming from inside or outside. The internal source of financing are funds developed by the company, while external sources come from funds accumulated by other entities, such as investors and banks. Foreign external financing may take various forms of loans [2]. The basic features of the loan are: transfer of funds, for a specified period, for a specific purpose, return with interest at a specified date. There are loans;

- revolving - intended for financing current operations.
- investment - used for the purpose of expansion, purchase of machines, modernization.
- others - for example, discount of bills of exchange.

This is one of the divisions due to the criterion of the subject. Loans can also be distinguished, taking into account the time for which they are granted. There are short-term loans (up to one year), medium-term loans (from 1 to 3 years) and long-term loans (over 3 years). Most often, small and medium-sized companies use overdrafts. The greatest advantages of this solution are flexibility and simplicity in use. It consists in collecting funds up to the limit set, in the absence of own funds. The amount of this limit is determined based on the average monthly income associated with running the business. The debt is repaid when the funds are credited to the account. This gives you the opportunity to recalculate your overdraft [3]. Banks use various forms of collateral, thus preventing the borrowers from ceasing to repay the loan. They receive funds after assessing creditworthiness, based on the analysis of past financial data. However, these activities are subject to

considerable risk, hence the need to apply collateral. They are intended to motivate to pay liabilities. Credit collateral accept material and personal forms. The most common material security features are;

- pledge is a property right that seeks to secure a claim. It usually occurs as movable things such as machinery, equipment, rights to securities.
- mortgage is a similar form of collateral for pledge, the object of the mortgage can be established real estate, perpetual usufruct.
- the blocking of funds on a bank account takes place at the request of the account owner and is the power of attorney for the bank to dispose of blocked funds.
However, personal security includes:
- that is a contract that ensures the repayment of the borrower's obligations towards the bank by a third party in a situation when the payment of credit obligations is not carried out within the prescribed period.
- a blank bill is an authorization that gives the bank institution the option of making a promissory note for the amount resulting from the loan debt.
- the bank guarantee is a document containing the bank's certificate for the benefit of the bank granting the loan, in which the bank undertakes to repay the borrower's debt.

Credit collateral is used only in crisis situations, undesirable from the point of view of borrowers and banks. It also happens that banks require the establishment of several securities at the same time [4].

Factoring is a relatively new way of financing in Poland. It appeared only in the 90s after systemic transformation. However, interest in factoring companies is constantly growing. Factoring is a financial instrument consisting in a payment of payable remuneration for deliveries of goods and services by an enterprise using deferred payment terms for a specified time in order to increase the rate of capital turnover. Factoring is also additional services, not related to financing, eg accounting services, collection of receivables, control of solvency of contractors and their financial situation, advisory services. The following entities participate in this transaction;

- factoring agent or supplier, transferring the claim against the debtor.
- the debtor or recipient of goods or services, usually is informed about the transfer of the assignment of claims.
- a factoring or factoring institution, a bank that purchases a claim.

The diagram of the factoring process involves first the sale of the goods confirmed by the invoice, then the transfer of the claim to the factor takes place, subsequently the financing for the factorer, informing the debtor about the factoring, finally payment by the recipient. The benefit of factoring for the supplier is to provide the source of financing and support in the management of receivables. The factor, on the other hand, controls the repayment of receivables and collects debt. Even if the debtor fails to pay the liabilities, the factoring party will pay the debt at the same time bearing the risk of the contractor's insolvency. However, in order for the factoring agreement to be realized, the receivable must meet a number of requirements: undisputable, their source of origin is economic turnover, it does not concern goods with a personal purpose, they can be transferable [5].

The factoring financial function consists in paying a partial amount towards future receivables regulated by the recipient. Factoring thus becomes a solution to the financial problems of enterprises. The modern market forces companies to use deferred payment terms in order to increase the market. Terms of repayment of receivables is an important part of the commercial offer. This increases the demand of the supplier for capital. As the sales volume increases, the capital level frozen in receivables increases. The sale of these receivables to the factor enables the conversion of frozen capital into financial resources and thus improves financial liquidity, i.e. the ability to repay liabilities. Small and medium-sized enterprises are particularly vulnerable to loss of liquidity. Through the additional services offered by the factoring agreement, the financial economy of these enterprises is improved without having to bear the costs of hiring new staff for office, accounting or debt collection services. There are different types of factoring on the market. His choice depends very often on the factorer, on how he assesses the solvency of contractors. There are several types of factoring listed on the basis of various criteria presented below.

Criteria distinguished due to the financing method;

- discounting consists in the payment of funds reduced by factoring fees.
- the advance payment consists in the payment of a part of the amount settled on the date of settlement of the claim.
- maturity is the transfer of funds after payment of debts from the debtor.

Criteria distinguished due to the manner of informing the debtor;

- explicit notification of the assignment of receivables.
- secret is the lack of informing the debtor about the factoring agreement.
- semi-open is to notify the debtor about the factoring contract at the time of requesting payment.

Criteria distinguished due to the country of transactions;

- national addressed to entities from a given country.
- export addressed to foreign entities.

Criteria distinguished due to the subject that runs the risk of the debtor's insolvency;

- the risk of the debtor's insolvency is completely transferred to the factor.
- an incomplete factor does not bear the risk related to the insolvency of the debtor.
- mixed means a partial transfer of risk to the factor up to the amount specified in the contract.

Factoring may be used by companies refused a bank loan due to lack of creditworthiness. It is also recommended for companies with dynamic development. Apart from the huge benefits of factoring, it has several drawbacks. Baskets of factoring contracts are usually significant, higher than the cost of credit. Factoring costs are commissions on value, number of invoices, fees for additional services and interest for granted financing. Factoring also often raises concerns about credibility in the eyes of recipients, but over time they will disappear with the spread of factoring as a form of financing [6]. Factoring can not be used by all companies. It is dedicated to enterprises with regular customers. A specific type of receivables that can be factored out is also distinguished.

III. ANALYSIS OF CREDIT AND FACTORING MARKET

On the basis of market surveys of entities offering credit intermediation services, lending from their own resources carried out by the Central Statistical Office for 2017, a report was prepared in 2018 presenting the following results. The study covered 257 entities. Among them, 126 entities provided loans from their own funds, 120 intermediated in loan transactions or provided advisory services, while 11 entities operated both forms of activity. In the presented study, the division of entities was also distinguished due to the dominant type of activity performed. For 156 of them, it was the only business conducted, for 63 dominant.

Table 1: Basic information on the activities of loan brokers

Specification	Totally		Physical people		Company	
	2016	2017	2016	2017	2016	2017
Number of customers in thousands	4533	5187	4494	5145	39	42
The number of loans granted in thousands	5324	5884	5279	5834	44	49
The value of loans granted in millions of PLN	39973	45943	33948	38846	6026	7098

The total number of clients using credit intermediation services amounted to 5,187 thousand people. These companies obtained customers mostly electronically: via the Internet (139 companies), by telephone (147), successively through personal sales and in commercial establishments. The studied entities are mainly limited liability companies and joint-stock companies. The capital structure is as follows: in 201 enterprises, domestic capital predominates, in 55 foreign capital, in one of them capital is covered by domestic funds and in the other one by foreign capital.

Employment in the aforementioned intermediation enterprises is mainly employees employed under a contract of employment (23 114 people), successively 14 788 persons employed on the basis of civil law contracts. The last group of employees is represented by people who run their own business (8,501 people). The vast majority of loan brokers maintained full accounting, while only 50 of them are accounted for using the tax revenue and expense ledger. According to data from the Central Statistical Office, key items of the assets of these enterprises are short-term investments (54.3%) and short-term receivables (44.5%). The most important liability items are long-term liabilities (54.6%), short-term liabilities and basic capitals. When analyzing the income of credit intermediation enterprises in 2017, in 2016, there was an increase by 8.7% in 2016. The costs of doing business increased by 6.3%. However, a group of 103 entities showed profits, while 66 incurred a loss. The Central Statistical Office also conducted a survey for 2017 regarding entities offering factoring services. The research covered 50 entities, of which 39 are non-banking institutions, and the remaining 11 apart from the main banking activities, deal with factoring services.

Table 2: Activity of entities in the factoring services sector

Specification	Totally	Non-bank factoring companies	Factoring at banks
	Number of entities		
Total surveyed entities	50	39	11
Factoring - the only type of activity	15	15	-
Factoring - dominating activity	11	11	-
Factoring - side activities	24	13	11

In the presented study, the division of entities was also distinguished due to the dominant type of activity performed. For 15 of them, it was the only activity carried out, for the 11th dominant, and for the 24th one. More than 12,000 customers have benefited from the services offered by these companies, an increase of 10% compared to the previous year. For 27 factoring companies, the source of financing was domestic capital, in 11 foreign ones, and half of the share was domestic and foreign capital. Factoring companies are most often organized in the form of joint-stock companies and limited liability companies. An incomparably lower level of employment occurs in factoring companies compared to credit intermediary companies. The factoring services market generates employment for 1,327 people, in 311 branches, representative offices and subsidiaries. The vast majority of factoring companies keep accounting books in the form of full accounting. The analysis of the assets of these enterprises shows that the value of assets increased by 20% compared to the previous year. The main item of current assets are short-term receivables. Their share in the balance sheet increased by 16% compared to 2016. The second most important asset item is short-term investments, which are mainly affected by short-term financial assets (97.2%). On the other hand, the liabilities mainly consist of liabilities and provisions for liabilities (95.9%). Profitability of non-bank factoring companies decreased by 13%. Of the 25 companies surveyed, 4 incurred a loss. It is caused by an increase in the level of operating costs by almost 18%, with a simultaneous increase in sales revenues by 11% [7].

IV. FORECASTS OF THE CREDIT AND FACTORING INTERMEDIATE MARKET EVOLUTION

The factoring services market is constantly growing. The offer of factoring companies is increasingly directed to small companies; however, it differs significantly from services provided to large companies. It focuses mainly on the accelerated procedure and minimum formalities when concluding a factoring agreement. Small enterprises that use factoring need mainly to maintain liquidity, ie they are looking for a source of financing. Services are delivered using modern technological solutions and online processes. As a result of the development of systems supporting factoring tools, integration with accounting modules, communication with the market and risk management takes place [8]. The Polish factoring services market is entering the maturity phase, but it will continue to evolve. The popularity of this method of financing will increase over time. In the credit intermediation services market, there is competition between loan companies and banks. Banks are trying to return to the offer of loans granted for low amounts, in which non-bank institutions dominate.

On the other hand, these institutions offer loans for increasing amounts and longer deadlines. This causes that the demand for consumer loans motivated by higher incomes increases. This results in an increase in customer debt. In a market situation based on an increase in interest rates, there is an increased risk of the liquidity of the most indebted customers [9]. This may translate into a decrease in the attractiveness of banking and loan products. Another determinant affecting the profitability of the banking sector are alternative forms of financing such as, for example, factoring. The conditions conducive to the development of the financial services market are economic growth, in Poland in 2017 it was at the level of 4.6%. The ongoing recovery of the economy is mainly caused by the increase in consumer demand. Stable domestic economy contributes to the increase in the number of commercial orders, which intensifies the need for financial resources. The good situation of Polish exports and imports is also a factor conducive to the dynamic growth of the potential of financial services in Poland, which should be expected within the next few years. In recent years, the financial services market has developed based on modern technologies that modern clients expect. This requires the application of new models of customer creditworthiness assessment, while maintaining the data security principle.

V. CONCLUSION

The use of factoring solutions helps to maintain a competitive advantage. However, the legal regulations of factoring services are much less developed and transparent compared to banking services. Factoring is susceptible to various types of technological innovations, which is an advantage over traditional offers of the banking market. Factoring gives greater opportunity to fit the needs and covers a wider product range. The creation of factoring companies subordinate to banking institutions can be observed on the market. It illustrates how much the various forms of financing enterprises overlap in the contemporary economy. Entities operating in the present economy must adapt to the contemporary variable of reality. In the opposite situation, they will be forced out of the market by competitors. However, on the Polish market, knowledge about available products offered by credit and factoring agencies is still insufficient. It is necessary to educate entrepreneurs, which will make them aware of what products can be found on the market.

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