

Article submitted on 2009. 11. 30.
Examination completed on 2009. 12. 07.
Publication accepted on 2009. 12. 18.

A Study on International Payment Trend and Measures to Protect Credit Risk by International Factoring

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I. Introduction

Letter of Credit (L/C) allows the exporter to have a bank's payment undertaking against shipping documents required by L/C. This means that the exporter can take export proceeds from a L/C issuing bank regardless of importer's payment, and therefore the L/C better mitigate importer's credit risk compared to remittance and collections. In this respect L/C has been major trade payment method for Korean exporters

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However, the use of L/C is now on down trend in line with increasing use of T/T (Telegraphic Transfer) causing a big change of payment system. This tells that the payment method change in Korea is positive as the change also happens same in developed countries. This however gives more buyer's credit risk to exporters and therefore a systematic solution to this negative effect is required.

In Korea, export credit insurance has been widely used to cover the buyer's credit risk. But the export credit insurance is limited because of lack of government's financial support and strict evaluation of buyer and exporter. Now Korea is ranked 10th the largest trading country and therefore the exporters shall find another source for credit risk protection elsewhere.

And as such this paper suggests International Factoring as a tool for the credit risk protection. The International Factoring gives advantages to the exporter in terms of credit protection and advances by buying account receivables on a without recourse basis. Despite the benefits to the exporters, the use of International Factoring is very sluggish. In order to bring out solutions for the improvement of international factoring usage we searched problems in respect of legal system, factoring operations and government's support.

II. Recent Trend of International Trade Payment

1. Export volume by payment method

<Table-1> below shows that the number of remittance accounted for 44% among nations' total export transactions in 2000 with gradual increase of 63% in 2005 and 66% in 2008. On the other hands, the number of L/C transactions accounted for 31% in 2000 with gradual decrease of 14% in 2005 and 9% in 2008. The collection transactions are also on down trend with 14% in 2000, 8% in 2005 and 6% in 2008. These upward and downward trend continues in 2009 as shown in 1st half of 2009.

<Table-1> Number of Export transactions by payment method¹⁾

	2000		2005		2008		2009(1~6)	
	No of transactions	%	No of transactions	%	No of transactions	%	No of transactions	%
At sight L/C	1,162,791	27%	676,559	12%	443,639	7%	185,977	6%
Usance L/C	156,913	4%	130,657	2%	119,229	2%	57,142	2%
D/P	128,490	3%	79,698	1%	59,594	1%	25,957	1%
D/A	471,288	11%	405,169	7%	311,434	5%	140,589	5%
T/T, M/T	1,539,043	35%	2,996,354	52%	3,652,903	56%	1,746,663	56%
COD, CAD	412,867	9%	633,813	11%	650,676	10%	323,475	13%
the others	497,257	11%	889,720	15%	1,230,741	19%	616,827	17%
total	4,368,649	100%	5,811,970	100%	6,468,216	100%	3,096,713	100%

<Table-2> shows that the amount of remittance²⁾ accounted for 43% among nation's total exports in 2000 with gradual increase of 55% in 2005 and 59% in 2008. This compares to decrease of L/C amounts with 28% in 2000, 20% in 2005 and 19% in 2009. The collection in terms of amount also goes down with 23% in 2000, 20% in 2005 and 7% in 2008.

As evidenced by <Table-1> and <Table-2>, the use of remittance has been expanded in terms of number of transactions and amounts along with decreasing use of L/C. This change of payment represents that Korean exporters are taking credit risk based sales as like developed countries. This however leaves a more buyer's credit risk exposer to the exporters.

1) Source : KITA, edited by author.

2) Remittance includes T/T, M/T, COD, CAD.

〈Table-2〉 Amount of Export transactions by payment methods³⁾

(Unit: USD thousand)

	2000		2005		2008		2009(1~6)	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
At sight L/C	39,600,176	23%	45,421,170	16%	57,889,812	14%	20,943,013	13%
Usance L/C	7,907,953	5%	11,253,393	4%	21,719,512	5%	6,175,944	4%
D/P	5,278,432	3%	5,010,511	2%	4,633,184	1%	1,306,503	1%
D/A	33,730,584	20%	27,043,277	10%	24,648,108	6%	9,298,910	6%
T/T, M/T	48,329,586	28%	107,069,841	38%	187,981,640	45%	79,107,192	48%
COD, CAD	25,604,917	15%	47,097,910	17%	58,818,904	14%	21,174,990	13%
the others	11,815,862	6%	41,522,641	13%	66,316,168	15%	27,661,643	15%
total	172,267,510	100%	284,418,744	100%	422,007,328	100%	165,668,195	100%

2. Import volume by payment method

〈Table-3〉 shows that number of imports transactions by remittance has been increased. For instance, number of T/T transactions accounted for 50% among total nation's imports in 2000, and 69% in 2005 and 2008, respectively. On the other hand, L/C has been decreased with ratio of 29% in 2000, 15% in 2005 and 9% in 2008. This trend went same to collections with ratio of 8% in 2000, 4% in 2005 and 3% in 2008. These downward trend continue in 1st half of 2009.

〈Table-4〉 shows that amount of imports by remittance accounted for 29% among nation's total imports in 2000, 52% in 2005 and 64% in 2008 representing an upward trend. L/C amounts, however, are on downward trend with ratio of 54% in 2000, 35% in 2005 and 27% in 2008. This downward trend goes same to collection with ratio of 10% in 2000, 6% in 2005 and 3% in 2008.

3) Source : KITA, edited by author

〈Table- 3〉 Number of import transactions by payment method⁴⁾

	2000		2005		2008		2009(1~6)	
	No of transactions	%	No of transactions	%	No of transactions	%	No of transactions	%
At sight L/C	823,627	20%	571,162	9%	460,483	6%	171,919	4%
Usance L/C	384,444	9%	391,346	6%	403,153	5%	191,816	5%
D/P	134,167	3%	69,930	1%	54,983	1%	21,437	1%
D/A	226,046	5%	176,712	3%	164,342	2%	71,244	2%
T/T, M/T	1,842,400	45%	3,993,468	62%	5,172,348	63%	2,562,084	62%
COD, CAD	198,653	5%	436,016	7%	488,863	6%	227,689	6%
the others	516,655	13%	849,097	12%	1,458,167	17%	1,086,191	20%
total	4,125,992	100%	6,487,731	100%	8,202,339	100%	4,104,691	100%

〈Table-4〉 Amount of Import transactions by Payment method⁵⁾

(Unit: USD thousand)

	2000		2005		2008		2009(1~6)	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
At sight L/C	38,526,488	24%	34,671,320	13%	51,566,677	12%	15,719,775	12%
Usance L/C	48,572,886	30%	57,024,547	22%	66,548,904	15%	20,963,039	15%
D/P	5,170,627	3%	4,053,093	2%	5,942,053	1%	2,054,680	1%
D/A	11,125,518	7%	9,532,846	4%	9,049,786	2%	3,289,804	2%
T/T, M/T	38,223,744	24%	104,719,657	40%	225,516,572	52%	77,477,981	54%
COD, CAD	7,542,518	5%	31,757,868	12%	50,273,205	12%	14,849,154	10%
the others	11,311,849	7%	19,478,932	7%	26,377,539	6%	10,217,833	6%
total	160,473,630	100%	261,238,263	100%	435,274,736	100%	144,572,266	100%

4) Source : KITA, edited by author

5) Source : KITA, edited by author

In trade payments for 2008, L/C in terms of number of transactions and amounts of export represented 9% and 19%, respectively. This compares to those of import of 11% and 27% for 2008, respectively. This means that use of import L/C is greater than export L/C but the use of L/C continues smaller both for import and export.

As for remittance for 2008, the number of transactions and amounts for export represented 66% and 59%, respectively. This compares to those use of import of 69% and 64%, respectively. This tells that the use of remittance for import is slightly higher than that export but remittance is on upward trend both for import and export.

3. Forecast

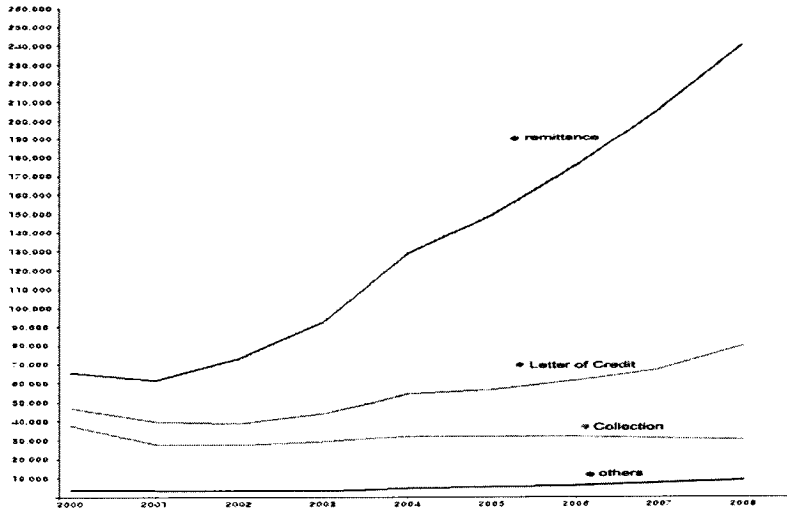
As mentioned above, remittance has become major payment method since 2000 in terms of amounts and number of transactions.

L/C represents about 15% for export in developed countries such as Japan, Deutsch, Hong Kong, Singapore while remittance represents 60~70%. Remittance is also in upward trend in developing countries such as China and South-East Asia developing countries being our important trade counter parties.

Given the high credit risk of buyer open account was not welcomed in the past. The open account will be, however, positioned as major payment method in view of heavy competition among sellers, increasing inter-company transactions, improvement of transportation and IT (thereby allowing easier credit checking of buyer) in the near future world wide.

This payment change in Korea is considered positive in view of increasing trend of credit based transactions in developed countries, and further Korean exporters are expected to face more competition with possible extension of credit period to the importers. Then this would leave the exporters more credit exposure and therefore a solution to this risk shall be sorted out.

〈Picture -1〉 Trend of Export payment



Source : Bank of Korea, edited by author (Unit : USD Million)

III. General Characteristics of International Factoring

1. Meaning

Definition of International Factoring varies according to commercial practice, financial and legal system in each countries. UNIDROIT Convention⁶⁾ on Factoring define International Factoring as follows.

- purchases all accounts receivable for immediate cash
- maintains the ledgers and perform other book-keeping duties relating to such accounts receivable
- collects the accounts receivable
- assumes the losses which may arise from the customer's financial inability to pay (credit losses)

6) Convention on International Factoring Article 1 (Ottawa, 28 May 1988).

Because of transactions between foreign countries with different law, language, customs and practices the International Factoring may face difficulties which seldom occurs in the domestic factoring⁷⁾.

Based on the above characteristics, we define International Factoring; purchasing of account receivables arising from international transactions on a with or without recourse basis along with collection or book keeping services.

We believe that this definition well fit old line factoring and current finance practices conducted among financial institutions.

2. Transaction style

International Factoring can be divided into single factor system(or one way factor system) and two factor system (or two way factor system) in accordance with factors involved. Single factor system means that just one factor, which is largely export factor, assumes the buyer's credit risk. This method is suitable for exporters who supply goods to credit worthy buyers on a regular basis⁸⁾. This one factor system is common in Western Europe⁹⁾.

Two factor system is used where buyer's credit profile is not strong and therefore export factor does not like to take buyer's credit risk. In this case the export factor seeks an import factor which can assume the buyer's credit risk on behalf of export factor. This two factor system is suitable for SME(Small & Medium Enterprise) transactions occurring on a revolving basis with small volume.

3. The advantage and disadvantage using international factoring

1) Advantage

7) F. R. Salinger, *Factoring: The Law and Practice of Invoice Finance*, London : Sweet & Maxwell (1999). p. 113.

8) Leo D'arcy, et al., *Schmitthoff's Export Trade ~ The Law and Practice of International Trade*, 10th ed., London, Sweet & Maxwell (2000), p. 227.

9) H. van., *Hautte, The Law of International Trade*, Sweet & Maxwell (2002) p. 292.

The exporters can enjoy following benefits using international factoring. First, uncertainty of payment risk from the buyer is removed by way of risk transfer to the factor. This means that the factor takes the buyer's credit risk in the midst of increasing open account payment reflecting severe competition in the international trade market. Under this circumstance, the factor pays 100% invoice amount to the exporter in case the buyer goes bankrupt or default. Second, factoring contributes to cash flow through purchase of account receivables from the exporter. With this immediate cash, the exporter finance working capital needs such as procurement of raw materials, finished goods for another supply. Third, the exporter can control account receivables which are due from buyers in overseas countries where the legal system and commercial practice may quite different from those of exporting country. This means that factor controls, on behalf of the exporter, the assigned account receivables and collect at maturities or after maturities(in case of buyer's non-payment at maturity) on behalf of the exporter. In this way, the exporter can be relieved from cost and time for collection of B&D(Bad & Doubtable) debts. Fourth, the exporter can develop new market at a credit terms backed by credit risk assuming factoring system. Lastly, operation flow for getting advance under factoring is much simpler than L/C operations. This means that there is little document checking procedure on the bank side and therefore the exporter does not have to worry about non-payment risk resulting from discrepancies. International Factoring also gives advantages to the importer as follows. First, the importer can procure goods on a open account terms. This is because an import factor provides payment guarantee to exporter, subject to import factor's credit evaluation of the buyer. Second, the importer does not have to open L/C. This means that the importer can save L/C opening commission and further can enjoy supplier's credit. Third, the importer can avoid fraud risk which might happen under L/C. This is because the importer does not have to pay at maturity if the goods delivered contains discrepancy of fraud. Fourth, operation for outward remittance can be saved as this is serviced by the factor. Last, the importer can preserve bank limit as the credit

is given by the factor not by bank, if the factor is non-bank organization¹⁰.

2) Disadvantages

International factoring has on the other hand following disadvantages. First, in order to protect position, in case of non recourse factoring, as right assignee the factor should normally get acknowledgment from debtor (being the buyer) for the debts which is assigned to him. To this effect, the factor tends to ask the exporter to notice the assignment to debtor but a problem occurs when the buyer is not willing to accept or acknowledge the assignment, then the factor has a difficulty¹¹ in factoring on a without recourse basis. Second, in case of commercial disputes, the import factor can hold the payment up to 90 days and then can conduct recourse if such commercial disputes are not resolved by that time and or the exporter is found responsible for the commercial disputes. Third, the exporter has to pay commissions or fees in return for the factoring services such as credit protection commission and collection/book keeping fees.

The credit protection commission is high because it is divided to import factor and export factor in exchange for their joint buyer's credit protection. Overall, factoring expense is highest among other trade finance expenses.

4. Factoring Markets

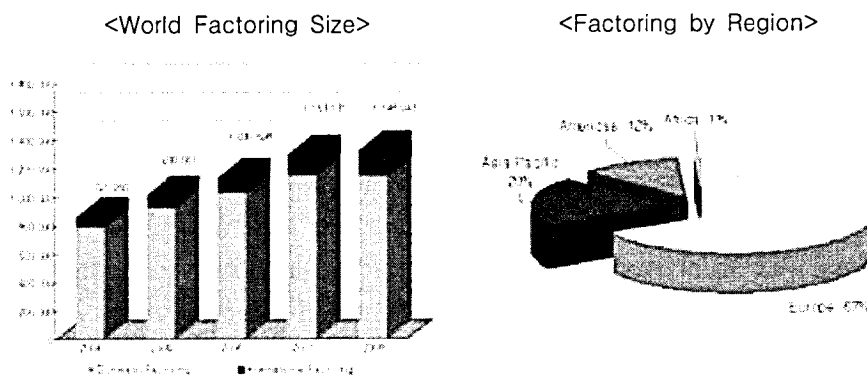
1) World Market

The size of world factoring market as of 2008 stood EUR 1,325,111 million representing a gradual increase over the years. Among the total, the domestic factoring reached EUR 1,148,943 million and international factoring reached EUR 176,168 million. The graph below shows that the growth of international factoring is greater than domestic factoring.

10) Park, Kwang So, "A Study on the Increasing Method in Domestic Use of Export Factoring for Small and Medium Enterprises", The Korean Research Institute of International Commerce & Law (February, 2007) p. 163.

11) if the seller insist to ask the buyer to acknowledge the assignment, this may result in business break.

<Picture -2> International and Domestic Factoring Volume
(Unit : EUR Mil)



Source : Factors Chain International Annual Review 2009¹²⁾

2) Status of Korean market

The government introduced "factoring operation guideline" in 1980 for SME finance supports. With this initiative, several merchant banks started factoring followed by some investment finance, commercial banks, venture capital, credit card companies and leasing companies. The factoring was about a success until 1997 when the nation faced severe economic crisis. Most of factors other than commercial banks shut down their operations due to their business closes, bankruptcy, M&A etc. Commercial banks nowadays replaced domestic

12) FCI is a global network of leading factoring companies, whose common aim is to facilitate international trade through factoring and related financial services. FCI's mission is to become the worldwide standard for international factoring. FCI helps its members achieve competitive advantage in international trade finance services through:
A global network of first-class factoring companies

Modern and effective communication systems, to enable them to conduct their businesses in a cost-efficient way, A reliable legal framework to protect exporters and importers, Standard procedures, aimed at maintaining a universal quality, A package of training programs, Worldwide promotion aimed at positioning international factoring as the preferred method of trade finance. FCI will always have a flexible and market oriented attitude. It will remain an open chain, encouraging quality factoring companies to join its ranks. As an open chain, FCI will view competition as a stimulus for superior service to exporters(www.factors-chain.com).

factoring business with loans, against account receivables, with full recourse.

Nowadays, there are only 5 capital companies¹³⁾ which are engaged in domestic factoring. Those 5 capital companies, however, prefer promissory notes to account receivables as promissory notes allow powerful collection¹⁴⁾ to the factor. The domestic volume in Korea is on down trend¹⁵⁾ due to decreasing use of promissory notes in the market and the capital companies' movement to other business area. As for the international factoring, Industrial Bank of Korea (IBK) started the factoring operation in 1989 but their volume was not meaningful as it was limited to import factoring for a while. In 2005, Korea Export and Import Bank (KEXIM) and Shinhan Bank entered international factoring market. In 2006, IBK closed international factoring unit and Shihan stopped international factoring from 2008 for some reason¹⁶⁾. Korea's international factoring stood at EUR 900million, a 5.7% decrease over 2007 while other International factoring market such as Europe, America, China is growing every year. <Table-5> shows international factoring volume of Korea and World total.

<Table-5> International Factoring Volume by Years

		(Unit : EUR million)					
Year		2003	2004	2005	2006	2007	2008
Volume	Korea	28	32	850	850	955	900
	World	760,391	860,215	1,016,546	1,134,238	1,301,590	1,325,111

Source : Factors Chain International, Statistics, 2008

13) Lotte Capital, Doosan Capital, Hana Capital, GE Capital

14) Recourse by force to endorser or issuer is backed by Law of P notes/BOE

15) The nation's total domestic factoring decreased from KRW 65billion in 2006 and to KRW 22billion in 2008.

16) The local banks concluded that factoring is not profitable

3) Factoring in USA

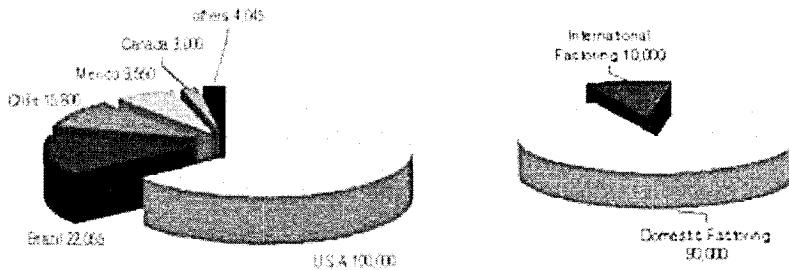
Factoring volume in USA amounted to EUR 100billion in 2008. Out of EUR 100billion, EUR 90billion was for domestic factoring and only EUR 10billion was for international factoring. Number of FCI registered factors were 120 as of 2008. This number is world No.2 following the FCI registered factors (674) in Brazil. The factoring in USA is mostly conducted on a non-recourse basis. Commercial invoices¹⁷⁾ are object to purchase for factors

<Picture-3> International and Domestic factoring in USA

(Unit : EUR Million)

<Factoring in America>

<2008 USA factoring>



source: Factors Chain International, Statistics, 2008

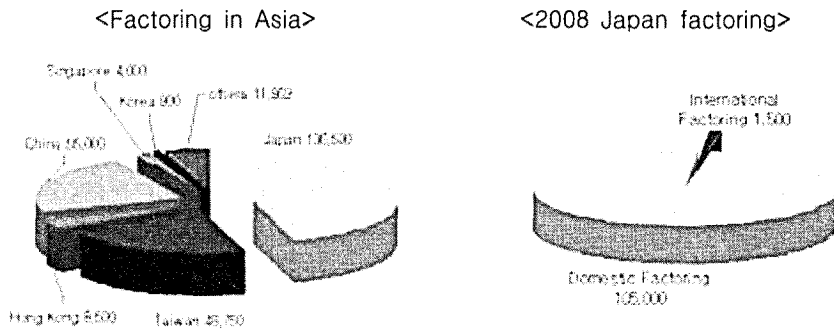
4) Factoring in Japan

Factoring volume in Japan amounted to EUR 107billion (comprising domestic factoring of EUR 105billion and remaining of international factoring), a 120times of Korean total. The factoring showed a rapid growth from 2003 with total volume of EUR 61billion. This remarkable growth is due mainly to change of legal system which protects the factors more in a way of disclose of receivable assignment to the public.

17) in Korean and Japan, Promissory notes are often used for domestic factoring

<Picture-4> International and Domestic Factoring in Japan

(Unit : EUR Million)



Source : Factors Chain International, Statistics, 2008

5) Factoring in China

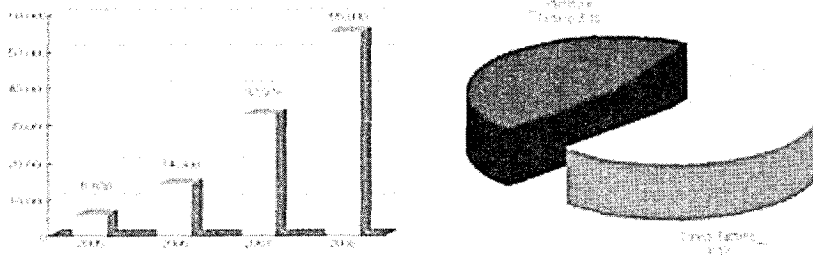
Factoring was firstly introduced in the middle of 1980 as a new financing method but the growth was triggered after 2001 when China entered WTO. Factors include commercial banks and non-banks (factoring exclusive financial institution). As of 2008 there are 16 FCI registered factors. The factoring volume stood at EUR30billion comprising international factoring of EUR 25billion and remaining of and remaining of a. In terms of total factoring volume, China is ranked world No.10 and No.2 in terms of international factoring.

<Picture-5> International and Domestic Factoring in China

(Unit : EUR Million)

<Factoring trend in China>

<2008 China Factoring>



Source : Factors Chain International, Statistics, 2008

6) Factoring in England

Factoring volume in England stood at EUR 188billion, a slight decrease over 2007, but represents biggest amount among other European countries. The number of FCI registered factors are 90 which also biggest in the Europe. Out of the total EUR 188billion factoring volume, domestic factoring amounted to EUR 175billion and international factoring amounted to EUR 13billion, showing a great larger portion of domestic factoring.

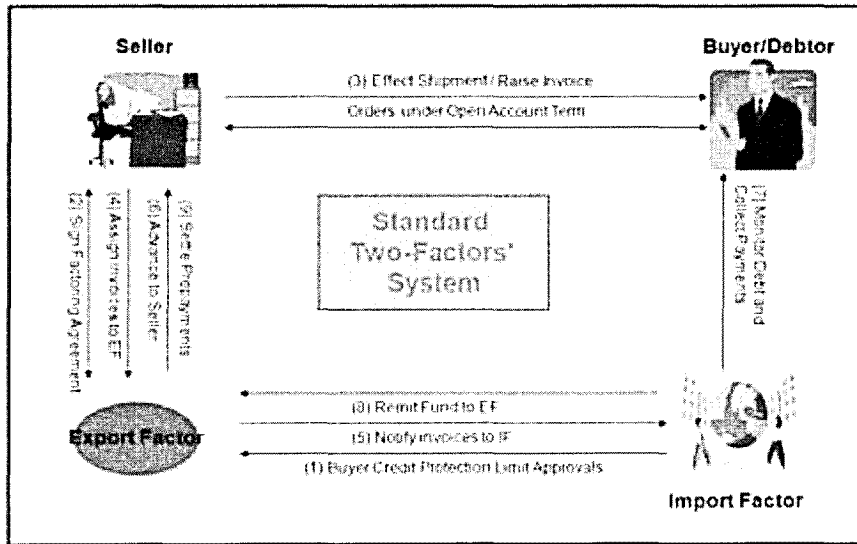
IV. A Way to Protect Credit Risk by International Factoring

1. Mechanism of Transfer of Credit Risk

Under international factoring, the buyer's credit risk is transferred to factor in a way the factor purchases account receivables on a without recourse basis.¹⁸⁾ This non recourse factoring is normal in financially advanced countries but in Korea only KEXIM and a few international banks are involved in non-recourse factoring. This compares to general bank loans which is extended to a buyer on a credit or secured basis. Under the bank loan scheme, the borrower (exporter) shall repay bank loans at maturity or get advance deducting interest with a condition that the borrower pays back when ultimate debtor (being the borrower's debtor) fails to pay to the bank. Below is flow of international factoring where two factors are engaged.

18) L. Klapper, "The role of factoring for financing small and medium enterprises", Journal of Banking & Finance, May (2006) p. 3112.

〈Picture-6〉 Flow of two way international factoring



2. Assignment of Receivables

1) Exporter and Factor

Under international factoring agreement, the exporter and factor are two major parties since the exporter becomes assignor and the factor becomes assignee. In exchange of assignment of receivables the exporter (assignor) get advances from the factor (assignee). At the time of assignment, the exporter submit evident documents such as invoice, copy of bill of lading. In case of non-recourse factoring, the advance is made on a with recourse basis. In case of with recourse factoring, the exporter shall repurchase the account receivables if the buyer (debtor) fails to pay at maturity¹⁹⁾.

2) Factor and Debtor

Factor as assignee becomes new creditor to debtor(buyer) under the factoring transaction. The assignment of receivables is operative between

19) Freddy Salinger, *op. cit.*, p. 218.

exporter and factor under their receivable assignment agreement. However there is no contractual relationship between the factor and debtor at first. Their relationship would be created later when a default occurs on the debtor side. This means that the factor shall have a creditor position in that case. Also the relationship between the factor and debtor might be established when the debtor acknowledge the factor as new creditor by way of acceptance of assignment notice from the exporter.

3. Legal characteristics of receivable assignment

1) Role of receivable assignment

Working capital requirements happens as soon as the exporter supply goods to the importer on an open account terms when the exporter does not have good cash flow. In order to cover the gap between the supply and post payment, the exporter goes to financial institutions including banks in order to get advances or sell out the receivables. The banks would not like to advance or purchase receivables if they are not positioned as right assignee. And therefore there must be a legal comfort to the banks so that they could freely engage in receivable financing especially on a without recourse basis.

When receivable financing is easily achievable, open account based commercial transactions would be promoted. If not, the seller on open account terms might face cash flow problems.

2) Legal character of assignment

Assignment is considered disposal of claim to other party concerned, but assignment is also kind of transfer of claim. The assignment becomes effective when the assignor and assignee reach an agreement in certain countries like Korea. In Korea, receivables can be assignable in principle but restricted ²⁰⁾ as below.

20) Civil Act 449.1

(1) Prohibition of Assignment

If the receivable assignment is prohibited in the sales contract, the assignee could not be protected unless he is a 3rd party bona fide holder. But in reality it is very hard for factor to claim that he is a bona fide holder in case even though he does not know whether there is a assignment prohibition clause in the agreement. This is because the court would blame that the factor should have checked the sales contract before he reached an factoring(or receivable) agreement

(2) Effectiveness of assignment

According to Civil Law, the factor could be positioned as a assignee provided that the seller notify the assignment to the buyer and then the buyer accept or acknowledge the assignment. Otherwise the factor, being the assignee, have difficulties in collection of debts from the debtor.

4. Similar Risk Protecting Tools

1) Forfaiting

Forfaiting is non-recourse financing against promissory note, bill of exchange, Letter of Credit and other negotiables instruments ²¹⁾. Using the forfaiting, exporters can make funds available before maturity of p notes and bill of exchange(BOE) . Besides the non-recourse nature of financing, the exporters could remove risk of foreign exchange and political risk²²⁾.

Forfaiting and factoring is similar in respect of non-recourse factoring but differs ; factoring deals with account receivables but forfaiting p notes/ bill of exchange, factoring covers future receivables but forfaiting accommodates individual receivables, factoring normally advances 80~85%²³⁾ invoice but forfaiting 100%, factoring service is extended to book keeping, collections,

21) cheques, dividend warrants, share warrants and debentures payable to bearer etc.

22) M. L. Emmenegger, A guide to forfaiting, Euromoney Books, 1998. p. 11.

23) but in Korea, KEXIM advances up to 100% according to exporter's credit

receivable management but forfaiting only for discounting, factoring is conducted often on a disclosure basis but forfaiting on a non-disclosure basis.

2) Export Credit Insurance

As mentioned above, export credit insurance is widely used for protection of buyer's credit risk. Big difference between factoring is that export credit insurance does not provide advance whereas factoring provides advances along with credit protection.

With regard to credit protection fee, KEIC's insurance premium fee is relatively lower than factor's credit undertaking commission. This is because KEIC is run by government and therefore KEIC can provide favorable premium to exporters especially for SMEs. As for credit protection coverage, however, factoring covers 100% importer's credit while export credit insurance up to 95% in Korea. In addition, it takes about 2months for KEIC to pay insurance amount to exporters after default of importer.

KEIC's export credit insurance, on the other hand, can be a help to factor in case a factor tends to only engage in advance not taking credit risk of certain importers.

V. Conclusion

L/C is considered traditionally best to cover buyer's credit risk but L/C requires opening commission and complicated documentation process for both exporter and importer. In line with changing market trend toward buyer's market, the use of open account is gradually increasing.

Under this circumstance, the exporter is needed to do due diligence such as buyer's credit, the importing country's politic and economic risk and then shall establish appropriate actions. In Korea, export credit insurance has been widely used for the credit protection but the export credit insurance does not fully cover the payment risk in view of KEIC's limited insurance undertaking

due to government's lack of budget and evaluation of the exporter's credit . International factoring could be an answer to this limited KEIC operation since international factoring provides larger credit protection along with advances to the exporters on a without recourse basis.

In Korea, the use of international factoring is very sluggish. To activate the use of international factoring we suggest followings :

- Train and educate the practitioners by relevant organizations such as KITA(Korea International Trade Association), SME Authorities, KBI (Korea Banking Institution), universities, trade related research institutions.
- Set up of factoring division in the banks such as IBK and major commercial banks. KEXIM may refinance at favourable interest rate.
- Invite world renowned factoring companies giving an incentive like tax reduction on income earned.
- Establish or revise factoring supporting law and regulations .

We hope international factoring contribute to the SME's working capital along with credit protection in the light of increasing O/A payments world wide.

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ABSTRACT

A Study on International Payment Trend and Measures to Protect Credit Risk by International Factoring

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L/C allows the exporter to have a bank's payment undertaking against shipping documents required by L/C. This means that the exporter can take export proceeds from a L/C issuing bank regardless of importer's payments and therefore the L/C better mitigate importer's credit risk compared to remittance and collections.

Recently the use of L/C has been on down trend in line with increasing use of T/T, causing a big change of payment system. This tells that the payment method change in Korea is positive as the change also happens same in developed countries. This however gives more buyer's credit risk to exporters and therefore a systematic solution to this negative effect is required.

In Korea, export credit insurance has been widely used to cover the buyer's credit risk. But the export credit insurance is limited because of lack of government's financial support and strict evaluation of buyer and exporter. Now Korea is ranked 10th largest trading country and therefore the exporters shall find another source for credit risk protection elsewhere.

And as such this paper suggest International Factoring as a tool for the credit risk protection. The International Factoring gives advantages to the exporter in terms of credit protection and advances by purchasing account receivables on a without recourse basis.

Key Words : international factoring, assignment of receivables, credit protection