

EUF Members Council

THE ROOTS OF FACTORING

During the lunch prior to the EUF annual Members' Council meeting held at ING-bank main offices in Brussels on March 30, 2011, a conversation took place on the roots of factoring as a service. A UK representative referred to factoring in England in the old days and a Dutch representative thought it wise to respond referring to Dutch colonial trade facilitated via so-called "factorijen". A friendly debate started on which 'great nation' has the oldest tradition in factoring. All participants held the view that it is a pity that there is no accessible historical overview on this subject which can solve matters like these. In this article, I would like to fuel this debate and share the results of my little research which – I must admit - is based on internet sources only. As the internet is not the best source to rely on, I hope this contribution will be an incentive for other members to investigate the roots of factoring in their country and to share their findings with all of us.

Factor, factory and reverse factoring

The term 'factor' comes from the Latin word *facit* (to do). This term is similar to agent: it is a person who professionally acts as the representative of another individual or of a legal entity. The seat of a factor is commonly called a 'factory'. In 'factories' goods to be shipped were inspected, selected, weighted and packaged in order to protect them for the risks inherent to transport by sea. In the colonial era these goods to be shipped were mainly coffee, tea, spices, tobacco, cocoa, sugar and porcelain.

The factor thus had (and has) a key role in the trade between countries and continents. He can be seen as the facilitator of trade and as such he can act as representative of both the supplier and the customer. In modern times the factor is typically not involved in the flow of goods. He concentrates on the flow of money: the factor ensures that the supplier as creditor receives timely payment for the goods sold and delivered (or nowadays often: the services rendered). If the modern factor is mainly active on behalf of the buyer, we call this in today 'reverse factoring'.

English and Dutch factories

The English (later: British) East India Company ('EEIC') was founded by Royal Charter on 31 December 1600. At that time various Dutch companies with similar purpose were active in trading with East India. The activities of these Dutch companies were monopolised in 1602 when the Dutch East India Company was chartered by the States-General of the Seven United Provinces (at that time still at war against Spain).

On the EEIC's first voyage in 1603, the English established a permanent trading post in Bantam, West-Java. This English trade post officially became a 'factory' in 1609 (this factory was lost to the Dutch in 1682). Also the Dutch founded their first permanent establishment in Bantam in 1603. It was named a 'factorij' and the head was called 'opperhoofd'. By 1647, the EEIC had 23 factories, mainly in the present India and each under the command of a factor or master merchant. At that same time also the Dutch had created many 'factorijen' along the shores of Asia.

Factoring prior to any of the Anglo-Dutch wars

Further research learns however that neither the British nor the Dutch invented this idea of factoring. The Portuguese had trade-stations already in the 15th century. They called these 'feitorias'. Each 'feitorias' was headed by a 'feitor'. The first one was established by Henry the Navigator in Arguin, Mauretania, in 1445.

The real aristocrats in factoring however were born in the centre of Medieval Europe. The Hanseatic League started in Lübeck, Germany. Lübeck, founded in the 8th century by Slavic people, developed to become the 'Queen of the Hansa'. This was a merchants' organisation that had factories in the numerous cities all over Europe that were linked by this organisation. The bigger ones were called 'Haus', 'Hof' or 'Kontor'. Novgorod in North-West Russia had a Kontor already in 1190.

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