

# ASSET BASED FINANCE TAKE A FRESH LOOK

*A guide to asset based  
finance and how it can unlock  
working capital to help  
businesses grow*



For more information go to: [www.abfa.org.uk](http://www.abfa.org.uk)  
or call us on: +44(0)20 8332 9955

## THE CHALLENGES FOR SMEs

The ABFA carried out a survey of over 2,000 UK professional advisors on the challenges facing SMEs and the awareness of working capital solutions. Key findings are highlighted below:

80%

stated the biggest challenge their clients face today is the removal or restriction of 'traditional' forms of finance

86%

cited 'lack of cash' as a key issue for clients, followed by 'bad debt' (61%), 'declining sales' (52%) and 'poor credit management' (44%)

55%

think the scale of late payments has grown worse

69%

said better marketing was key if clients are to grow their businesses

67%

think business owners have a poor understanding of the finance available

98%

of advisors questioned would recommend invoice discounting to clients, followed by 81% for factoring and 58% for asset based lending

## THE FINANCE GAP

Late payment and poor payment practices are a significant problem for UK businesses. ABFA analysis of the Companies House filings of 130,000 UK businesses showed that in 2015, businesses had debts settled on average 29 days outside agreed payment terms.

### *The Problem*

Businesses are increasingly being affected by lengthy waits for payment over and above the standard 30 days. This problem is more acute for smaller businesses; businesses with a turnover of less than £1million now wait an average 72 days for payment. This is 11 days longer than at the peak of the recession.

Delays to payments put enormous pressure on small businesses' cash flow which is already stretched to meet overheads, tax bills and to pay their own suppliers. Smaller businesses are particularly vulnerable no matter how successful they are. If just a few invoices aren't paid on time, they could end up in serious financial trouble.

### *Available Solutions*

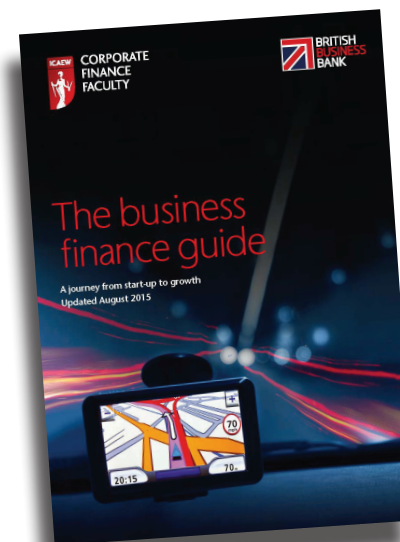
Although credit is still viewed as tight in the UK, particularly for smaller businesses, there are many sources of funding that are either overlooked or just not well understood, including:

- Asset based finance – invoice finance and asset based lending
- Asset finance – leasing and hire-purchase
- Peer-to-peer lending
- Crowd-funding

There are also a range of government schemes aimed at helping SMEs get the finance they need.

The British Business Bank and the ICAEW, in conjunction with the ABFA, have published an excellent guide to the sources of finance that are available. This can be accessed at: [www.british-business-bank.co.uk/bfg](http://www.british-business-bank.co.uk/bfg).

Asset based finance is a key way for businesses to manage the challenges of late payment. Finance is available from banks and specialist finance businesses that can provide sustainable working capital, protection against bad debt, late payments and bring a range of other business benefits to your clients. This guide provides more details on the options available to your clients.



# ASSET BASED FINANCE

*releasing working capital for growth*

Invoice finance and asset based lending provide more funding to more client businesses than ever before. But with access to finance continuing to be a challenge for UK SMEs, asset based finance has the potential to help many more businesses unlock the working capital they need to grow.

Asset Based Finance is the term used to collectively describe invoice finance (IF) and asset based lending (ABL).

## Invoice Finance

Invoice finance can be provided in two forms; factoring or invoice discounting. Both involve funding against unpaid invoices, releasing cash back into the business, unlocking working capital, and allowing the business to grow.

Invoice finance is available to businesses that sell products or services on credit to other businesses. Funding can be agreed against the entire sales ledger or a selected invoice(s).

- **Factoring** - finance providers (factors) can purchase a businesses' unpaid invoices. The factor will advance the majority of the value of the invoices, with the balance (less any charges) paid when the invoices are paid by the end customer. Factoring includes an additional service element, as the factor also manages the sales ledger and collects payments, effectively acting as external credit control support.
- **Invoice Discounting**- similar to factoring except the client business retains control over managing the sales ledger without end customers being made aware. As with factoring, funding is advanced against the value of the invoices with the remaining balance (less any charges) paid to the client when the invoices are paid.

Both options allow the business to choose when and how much they draw from their sales ledger - the funding is there when they need it.

## Asset Based Lending

With an asset based lending facility, finance is provided against a wider pool of assets. This will normally include debt (as in invoice finance) but could also include inventory and stock, plant and machinery, real property and also intangibles such as intellectual property, brand and forward income streams.

## 'Lending' or 'Finance'?

Invoice finance is provided on the basis of a purchase of debts owed to a business, so it is technically not lending, although the economic effect is the same. Asset based lending will normally involve taking security over the assets in question and so is more accurately described as lending.

## Benefits of Asset Based Finance

Asset based finance provides a set of flexible funding options, with the finance available expanding as the client business grows.

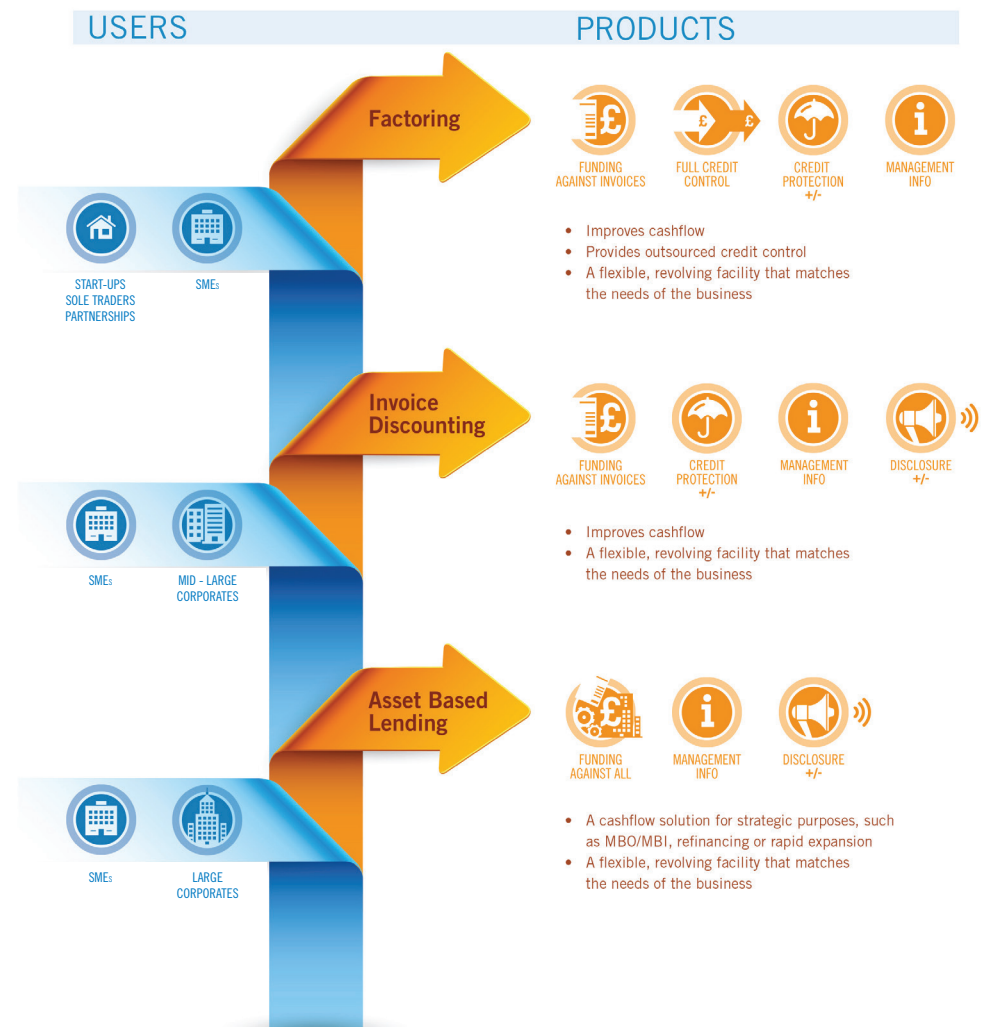
ABFA Members work with clients to understand the strengths of the business. Funding decisions are based on real-world considerations such as the quality of a client's customers and the assets the client holds, not just last year's accounts.

As well as finance, clients benefit from a finance partner that truly understands their business and can add genuine value to their operations.

# ASSET BASED FINANCE

*adaptable to the needs of business*

Asset based finance can support businesses at any stage in their development and across a wide range of industries. From start-ups to large corporates, asset based finance is flexible and adaptable.



# THE INDUSTRY IN NUMBERS

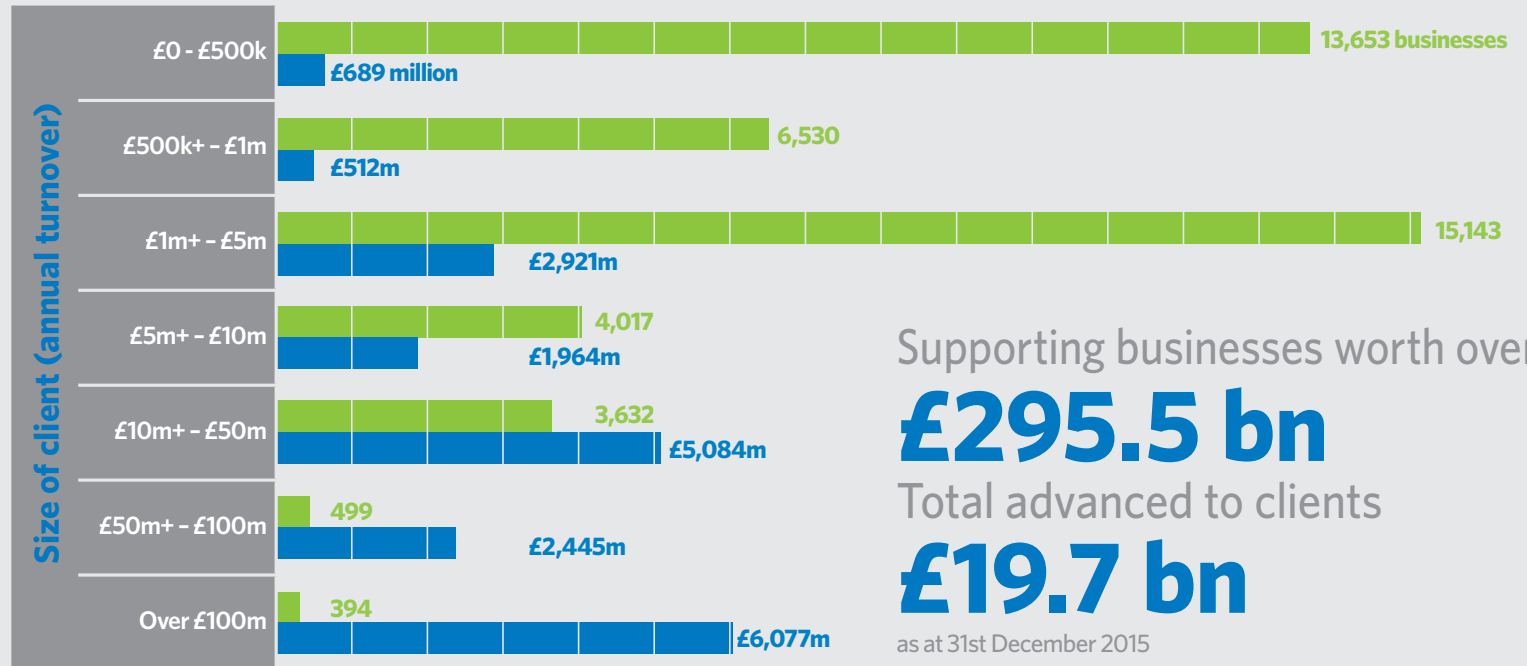
*“Asset based finance is a key source of finance for businesses of all sizes. It is affordable, fast and flexible, and unlocks the working capital UK and Irish businesses need to grow, invest and thrive.”*

Jeff Longhurst  
Chief Executive Officer  
Asset Based Finance Association

## 43,868

Total number of UK and Irish businesses supported by asset based finance

as at 31st December 2015



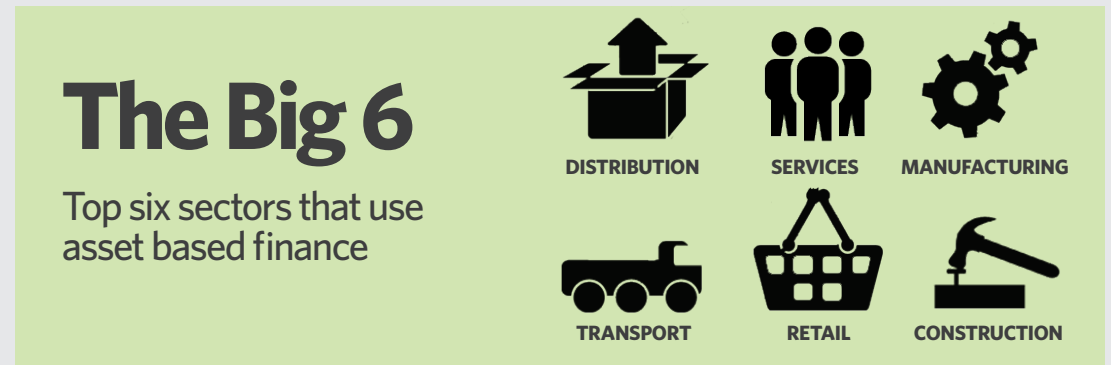
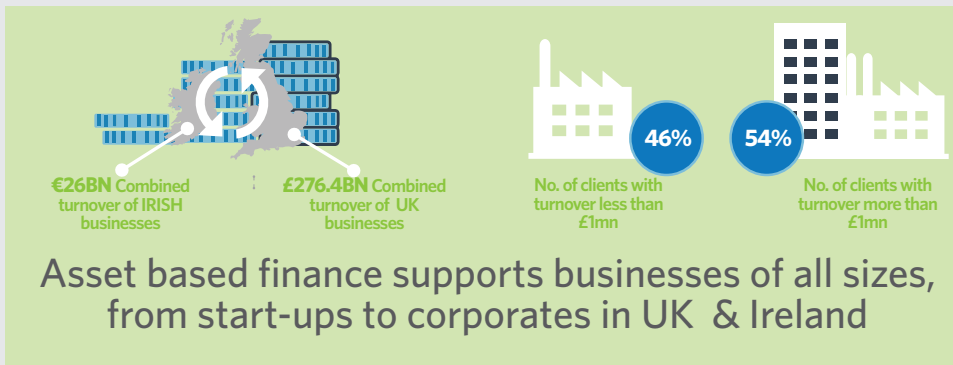
Supporting businesses worth over

## £295.5 bn

Total advanced to clients

## £19.7 bn

as at 31st December 2015



## TOP 5

### *benefits of asset based finance*

**Flexibility** – finance is provided against the debts and other assets of the business. As sales grow, the availability of working capital can also grow. The business can concentrate on managing and growing their operations; they don't need to worry about whether their funding will keep up.

**Relationships** – an asset based finance provider will take time to understand a business, their customers, the pressures they face, and their plans for the future. They can look beyond last year's accounts and short-term credit history and see the wider financial picture. This focus on relationships means they will often be able to support a business through thick and thin.

**Availability** – asset based finance can unlock more funding, more quickly. New facilities can normally be set up in a matter of days (and sometimes hours!), and once a facility is up and running, every new invoice raised can unlock more funding.

In addition, using asset based finance will often release more funding overall than through other forms of funding.

**Liquidity** – asset based finance enables more predictable cash flow and greater financial stability. This can free up cash down the supply chain as well, allowing a client to pay their own suppliers more quickly. This can bring additional savings by enabling a business to take advantage of volume discounts, for instance.

**More than just finance** – as explained elsewhere, a factoring facility will combine finance with a credit ledger management and collections service. But asset based finance can be complemented with additional services as well, including bad debt/credit protection which gives businesses peace of mind if a customer fails to pay. All ABFA Members will bring their own expertise and experience to the partnerships they establish with their clients.



## TOP 5

### *frequently asked questions*



#### FAQ 1

##### **How much does asset based finance cost?**

The costs of any type of finance will vary depending on the individual requirements of the business and the level of support needed. Invoice finance and asset based lending are increasingly competitive with other types of 'conventional' business finance such as loans and overdraft, and will often be cheaper than other types of 'alternative' finance.

The main costs will be a service charge (normally based on turnover) and a 'discount' charge which is equivalent to interest and is charged on the funding used. The market is very competitive so businesses should shop around for a package that is right for them.

Beyond the costs, however, asset based finance unlocks the working capital businesses need to generate *more* sales, and can be complemented with a range of additional services.

#### FAQ 2

##### **What percentage of the invoices are released upfront?**

As each facility is tailored to the requirements of the business, this will vary. Generally though an invoice finance facility will release anything up to 90% of the value of outstanding invoices.

#### FAQ 3

##### **How soon after notifying an invoice to the financier, can your clients access funds?**

This can vary from provider to provider but typically funds can be made available

within 24 hours of an invoice being received. However, some providers are able to make same day payments depending on the terms and individual circumstances.

#### FAQ 4

##### **What if your client doesn't want the finance provider to chase their invoices?**

Many businesses still wish to perform their own credit control services. If a business already has a strong system in place, they may want to consider funding-only services such as invoice discounting. This means the business can continue to chase their own customer payments. Invoice discounting is now used by a majority of clients and provides the majority of funding but factoring remains a very important finance option for thousands of businesses.

#### FAQ 5

##### **Is asset based finance available to any business?**

Asset based finance is generally available to businesses that trade with other businesses on credit. It is not available to businesses that sell directly to consumers. A client business will clearly need to have a sufficient asset base (whether in terms of its debtor books or other assets) to support the funding. Beyond that, the finance provider will work to understand the client and come up with a funding package that meets the businesses needs.

## ABOUT THE ABFA

*informing, engaging & setting standards*

The ABFA represents the invoice finance and asset based lending industries in the UK and Ireland. The industry has supported UK and Irish businesses for over 50 years.

### Overview

Put simply, asset based finance is funding provided against the assets of a client business. However, funding can also be provided against a range of wider assets, including inventory and stock, plant and machinery, real property and also intangibles such as intellectual property, brand and forward income streams.

The industry has evolved considerably over the last thirty years and has a reputation for being able to support clients through periods of growth and also through challenging times. It continued to support its clients through the financial crisis and is now providing more funding than ever before.

Asset based finance is financially sustainable and has supported many hugely successful UK and Irish companies.

### About the ABFA

The industry is defined by the products not the institutions providing them and the membership of the ABFA is varied. It includes the specialist arms of the UK and Irish high street banks, a number of specialist and challenger banks, the specialist businesses of some overseas banks and large corporates, as well as a number of independent non-bank finance providers.

A full list of Members is available at: [www.abfa.org.uk/members/memberslist.asp](http://www.abfa.org.uk/members/memberslist.asp)

### Education & Training

Originally established to provide training to staff working within the industry, the ABFA education and training programme now incorporates a wide range of day courses, e-learning modules and distance learning courses.

These cover specific aspects of the industry and its operations and also provide more general introductions to the industry for those either new to it or those who just want to know more.

Many elements of the ABFA's education and training programme are now available through the new online Learning Management System. They can be undertaken individually or as part of the ABFA's three main qualification programmes; the Foundation, the Certificate and, ultimately, the ABFA Diploma.

For further information about the ABFA's education and training programme please visit [www.abfa.org.uk/training.asp](http://www.abfa.org.uk/training.asp) or call +44 (0) 208 332 9955



## ABFA STANDARDS FRAMEWORK

*setting, promoting and enforcing best practice*

A Standards Framework for the asset based finance industry in the United Kingdom and the Republic of Ireland has been in operation since 2013, setting, promoting, and enforcing best practice and professionalism for ABFA Members.

### Standards Framework

In addition to raising awareness of the industry, one of the ABFA's key objectives is to support the development of professional standards, allowing clients to use ABFA Members with confidence.

The ABFA has established an independent Standards Framework. This sets out the standards that ABFA Members should meet in their treatment of clients and other associated parties, along with independent and accessible mechanisms of complaint and redress.

Compliance with the Standards Framework is a condition of membership of the ABFA.

The Framework incorporates the ABFA Code, an independent Complaints Process provided by Ombudsman Services, and is overseen by the Professional Standards Council which operates independently of the ABFA and the industry.

- **ABFA Code** - The Code, along with the supporting Guidance sets the standards that ABFA Members are required to meet in their dealing with clients and prospective clients. The commitments within the Code are broadly drawn from established 'Treating Customers Fairly' principles in statutorily regulated sectors. In brief summary, ABFA Members commit to treating their clients fairly and responsibly, and to operating with integrity at all times.

- **Complaints Process** - the independent Complaints Process investigates and enforces compliance with the Code. It is provided by the specialist dispute resolution organisation, Ombudsman Services. The Complaints Process has been designed to be independent, accessible and is particularly focused on the requirements of smaller client businesses that may lack the resources or confidence to otherwise take forward concerns about their treatment.
- **Professional Standards Council (PSC)**- the PSC is the independent guardian of the Code. It is responsible for overseeing the Code and Complaints Process, and ensuring that they are working effectively. It does this as part of an overall objective to protect and enhance the reputation of the industry.

### FURTHER INFORMATION

Further information on the Code, how the independent complaints process works and the Standards Framework is available at: [www.abfa.org.uk/standards.asp](http://www.abfa.org.uk/standards.asp).