

Managing Cashflow Guides

# Invoice Finance and Asset Based Lending Options

[WWW.CICM.COM](http://WWW.CICM.COM)

The Managing Cashflow Guide series is produced by the Chartered Institute of Credit Management (CICM) in association with the Department for Business, Energy and Industrial Strategy (BEIS).



Department for  
Business, Energy  
& Industrial Strategy



Chartered  
Institute  
of Credit  
Management

#6

Most businesses extend credit to their customers and extending credit requires finance. Unless a business has the cashflow to support the difference in timing between the cash it collects and the cash it has to pay out, it can be in trouble. Managing cashflow effectively means staying on top of finance and ensuring funds are available when they are needed.

## CAN YOU ANSWER YES TO ALL THESE QUESTIONS?

- › Do you have sufficient cash reserves to meet commitments and pay suppliers on time?
- › Are you getting longer payment terms from your suppliers than you're giving to your customers?
- › Do you have finance facilities in place that will grow with your business (Factoring and Invoice Discounting are designed to do just this)
- › Is the product or service you supply so vital that you can dictate payment terms?
- › Is the level of your bank overdraft or short-term finance sufficient?
- › Do you monitor the creditworthiness of your customers?
- › Do you have access to adequate credit management systems and skills?

# Invoice Finance and Asset Based Lending Options

## A TOP TIP AND 5 OPTIONS

Don't wait until cash pressures become critical. You need time to put arrangements in place and it's easier when you're not under too much pressure.

1. **Factoring** – the Factor agrees to pay an agreed percentage of approved debts as soon as they receive a copy of the invoice; 80-85 percent is common. The balance, less charges, is paid when the customer pays. The Factor will undertake all credit management and collections activity in line with an agreed credit policy. The advance is usually 'with recourse' (meaning the factor will be able to reclaim its money from you if your customer does not pay) so the option of bad debt protection from the Factor should be strongly considered.
2. **Invoice Discounting** – as above, immediate cash for up to 80-85 percent of the approved invoice value is available. However, responsibility for the sales ledger operation and credit management activity remains with you and the service is usually undisclosed to your customers. Payments received are paid into a bank account in your name but administered by the invoice discounter, after which you are credited with the balance, less charges. Again, this advance is likely to be 'with recourse' (meaning that the discounter will be able to reclaim its money from you if the customer does not pay) so the option of bad debt protection should be strongly considered.
3. **Asset Based lending** – linked to Invoice Finance – where funding is provided, in addition to invoice finance, secured against the property, plant, machinery, stock, or sometimes even the brand name, of a business – especially useful in Merger and Acquisitions and restructuring.
4. **Supplier Finance** – sometimes called 'Reverse Factoring' is an option if you are a regular supplier to a large organisation that has an appropriate arrangement in place. Invoices are paid ahead of terms as soon as the buyer confirms it has approved the invoice for settlement. This allows you to receive an immediate cash payment, less an agreed discount (often based on the buyer's credit rating if it is using finance) and is without recourse as the buyer will only pay once it has approved the invoice for payment.
5. **Project Bank Accounts** – for the Construction Supply Chain – ensure that the contractor and its supply chain promptly receive monies rightfully due through certified interim payments. The Project Bank Account is set up in trust for the whole supply chain and is the medium through which payments are made. The Project Bank Account makes payment on receipt of an instruction signed by both the project client and contractor, and the supply chain is notified of the day they will receive payment from the Project Bank Account. Project Bank Accounts have Trust Status which prevents a receiver seizing the proceeds of the account in the event that the contractor goes into receivership.

See also the [\(Business Finance Guide\)](#) – a journey from startup to growth, setting out the main things to consider and outlining sources of finance available to businesses – ranging from start-ups to SMEs and growing mid-sized companies.



# Contacts and suppliers



CICM

Chartered  
Institute  
of Credit  
Management

*The Chartered Institute of Credit Management (CICM) is the largest recognised professional body in the world for the credit management community. Formed over 75 years ago, the Institute was granted its Royal Charter in 2014. Representing all areas of the credit and collections lifecycle, it is the trusted leader and expert in its field providing its members with support, resources, advice, and career development as well as a networking and interactive community. In addition to its comprehensive suite of qualifications and learning opportunities, events and magazine 'Credit Management', the CICM administers the Prompt Payment Code for BEIS. Independently, and through collaboration with business organisations, it provides vital advice to businesses of all sizes on how best to manage cashflow and credit.*

**Chartered Institute of Credit Management**  
The Water Mill, Station Road, South Luffenham,  
Oakham, LE15 8NB

T: 01780 722900 / E: [info@cicm.com](mailto:info@cicm.com)

[www.cicm.com](http://www.cicm.com)

*Note – inclusion of supplier details in the above list does not constitute endorsement or recommendation of that company, its products or services.*

Credit Services Providers – To be included in this page, please email [cashflowguides@cicm.com](mailto:cashflowguides@cicm.com) for further details.



The Chartered Institute of Credit Management (CICM) is the largest recognised professional body in the world for the credit management community. Formed over 75 years ago, the Institute was granted its Royal Charter in 2014. Representing all areas of the credit and collections lifecycle, it is the trusted leader and expert in its field providing its members with support, resources, advice, and career development as well as a networking and interactive community. In addition to its comprehensive suite of qualifications, learning opportunities, events and magazine 'Credit Management', the CICM administers the Prompt Payment Code for BEIS. Independently, and through collaboration with business organisations, it provides vital advice to businesses of all sizes on how best to manage cashflow and credit.

## Guides in this series:

1. Knowing your customer
2. Payment terms
3. Invoicing
4. Treating suppliers fairly
5. Credit insurance
- 6. Invoice Finance and Asset Based lending Options**
7. Chasing payment
8. When cash runs short
9. When all else fails
10. When your customer goes bust
11. Managing cash through Brexit
12. Investing in equipment

For tips on getting paid and advice on best practice in credit management, call the Chartered Institute of Credit Management on **01780 722912** email **helpline@cicm.com** or visit **<http://www.cicm.com/member-helpline/>** For information and advice on starting up, running and growing a business visit **[www.gov.uk](http://www.gov.uk)**

 [www.cicm.com](http://www.cicm.com)
 [CICM Credit Community](#)
 [@cicm\\_hq](#)
 [CreditManagement](#)

### WWW.CICM.COM

The Managing Cashflow Guide series is produced by the Chartered Institute of Credit Management (CICM) in association with the Department for Business, Energy and Industrial Strategy (BEIS).

## Prompt Payment Code

Administrated by the Chartered Institute of Credit Management on behalf of BEIS

© Chartered Institute of Credit Management 2017



Department for  
Business, Energy  
& Industrial Strategy

