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## Rise of bad debt and late payments – how Invoice finance can help

The SME bad debt spike is creating a headache for banks, but an opportunity for asset-based lending. Simon Carter, Regional Commercial Director at Close Invoice Finance explains.



**Simon Carter**  
Regional Commercial Director,  
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As we enter the banks' reporting season, Britain's troubled financial services sector could be facing a new storm as a rising tide of bad debt and late payment risks forces SMES to default on planned loan repayments.

Although banks have already significantly tightened up on the credit terms they offer clients in the face of the global credit crunch, their risk assessments are unlikely to factor in the significant impact soaring levels of late payment and bad debt could have on growing businesses.

Recent statistics from BACS payment services estimate that the total national late payment bill has grown by £2.9 bn to £18.6 bn since the end of 2006. If this figure continues to increase at this rate, cash strapped businesses will simply not be able to sustain the rise and this could have disastrous implications for both banks and their viable SME customers.

Most SMEs are equipped to deal with a certain degree of late payment and bad debt but not the sharp rises we have been experiencing in the current economic slow down. The bad news is that things look set to get worse.

Our records show that 60 day repayment cycles are rapidly becoming the norm – even on 30 day invoices. It seems that the temptation to run a business on other people's money is too strong for far too many firms. ►

Indeed, there are plenty of companies in the UK that are taking well over six months to pay their bills, and their suppliers are unwilling to take action against them for fear of losing their custom. In less than ten per cent of cases is legal action being considered.

We estimate that around one in four businesses fails due to cash flow difficulties. Owner managed businesses, particularly because they are generally at the smaller and more vulnerable end of the market, suffer greatly from late payment by creditors.

As well as creating a further unwelcome dent in the share price of the UK's high street banks, we believe that widespread defaulting among SME clients will force banks to reassess how they lend to growing businesses and will lead to further significant cut backs in funding available for business banking customers.

In the current economic environment, with inter bank lending rates at an all time high, banks just can't afford to absorb bad debt. So if, as I suspect, many SMEs end up unable to make bank repayments this year, growing businesses could find themselves unable to find debt finance as banks consider them not worth the risk.

The irony is that none of this delay and uncertainty is necessary. By using invoice finance methods, SMEs can turn invoices into cash. Companies like Close Invoice Finance pay clients straightaway for money that is owed to them by their debtors and offer the option to protect against bad debt.

This kind of facility is widely used in a whole host of industry sectors: manufacturing, distribution, logistics, wholesale, transport, retail, recruitment, printing and many more. It affords businesses a greater degree of flexibility and control over their operations via their cash flow.

This flexibility is a crucial tool for expanding companies as it also allows them to grow in line with their sales and not be held back by a stuttering cash flow. The fact that invoice finance is tailored to the assets it is funding enables businesses to grow without giving up valuable equity or having to pledge other assets on security.

These are some of the many reasons why we foresee growing interest in factoring and invoice discounting over the coming months as smart companies realise that these methods could keep their growth plans on track in the face of a global credit squeeze.

The invoice book really can be a gold mine in terms of potential funding. Invoice finance can provide the key to unlocking this value without incurring additional debt. In such a complex economic environment, this is nothing but simple common sense. ●

***Article featured in The Birmingham Post – Invoice Finance feature***

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