



# Invoice finance and reverse factoring overview provided by Optima:RM



# Invoice finance overview

- Finance provider lends immediate cash against value of invoices issued
- How does it work?
  - Finance provider advances you cash up to a % of invoice value
  - Customer pays invoice (either to finance provider or yourself)
  - Finance provider pays you the balance on the invoice financed (or you retain the balance if paid directly to you)
  - If invoice remains unpaid after a certain time period then provider withdraws finance on that invoice



# Different types of invoice finance

- Full service factoring
- Confidential invoice discounting



# Full service factoring

- Features

- Get an immediate cash advance on invoices issued – can range from 80% to 95% of invoice value
- Finance provider runs credit control in their name and your customers are aware of this. Payment is made directly to the finance provider. Typically all or nothing arrangement with long-term commitment
- Recourse – you retain the risk of bad debt
- Non-recourse – through the finance provider you insure against bad debts (additional cost)
- Can source insurance cover separately
- Monthly reconciliation of finance provision/sales ledger status



# Confidential invoice discounting

- Features

- Get an immediate cash advance on invoices issued – can range from 80% to 95% of invoice value
- You retain management of your credit control and collections. Payment is made directly to yourselves and your customers are unaware of the invoice financing. Flexible arrangements on invoices/customers submitted
- Recourse and non-recourse available
- Can source insurance cover separately
- Monthly reconciliation of finance provision/sales ledger status
- Good credit control means higher % advance and lower charges



# Invoice finance charging structures

- Full service factoring
  - Finance fee on amounts borrowed, typically 2 – 3% above base rate on amounts borrowed over the time period the financing is outstanding
  - Service fee, typically 0.5 – 3% of turnover
- Confidential invoice discounting
  - Finance fee on amounts borrowed, typically 1.5 – 3% above base rate on amounts borrowed over the time period the financing is outstanding
  - Service fee, typically 0.2 – 1% of turnover



# Reverse full service factoring – supplier invoices

- Features

- early payment is provided by a finance provider to a supplier based on invoices qualified by the buyer
- Generally only regular suppliers to the buyer, with a minimum length of previous relationship, are considered
- Advance of up to 100% of the invoice value can be provided to the supplier
- Credit of up to 120 days can be available
- As the buyer you then settle the payment to the finance provider at the agreed date, plus service fee and interest



# Invoice finance summary

- Fast access to cash in both options
- Shouldn't be used to mask under-performance in credit control
- Full service factoring has the identity of the finance provider disclosed. Finance provider runs your credit control in their name
- Confidential invoice discounting. Involvement of provider not known. Can be more flexible than factoring but need good credit control in place
- ***Call 0845 680 8845 for a free consultation with no obligation. We are happy to answer any questions you may have***