

Unfriendly policy hurts factors

Finance

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Factoring companies have called for changes to the Personal Property Security Act (PPSA) to give them priority to receive payment over the invoices they discount. They said the changes in the Business Law Reform Bill were cosmetic and did not provide the necessary security.

An economic development ministry official had told the *National Business Review* the bill, which became law on April 15, had rectified a drafting error in the act. Previously, creditors were given priority to receive payment from a company's invoices, over-riding the interests of factoring companies.

The bill allowed factoring companies to register their security interest on the ministry website. But Commercial Factors managing director Terry Haydon said that was incorrect.

"It rectified the matter only partially and the situation is still not equitable," he said.

Scottish Pacific national manager Steve Cooper agreed factoring companies were exposed to unnecessary risks.

"Our only definite security is the debtor's ledger and most customers are paid 90% of the value of their invoices," he said.

California-based Interface Financial Group president and chief executive David Banfield agreed on the need for statutory protection but said there were also other proven ways of managing the associated risks.

"Direct and personal-level contacts with clients always provide a true picture and ensure they remain creditworthy," he said. "While small and medium enterprises [SMEs] may not have the requisite assets to cover the invoices discounted, companies advancing money should follow a good risk management system."

Mr Banfield said no company should use factoring as a permanent cashflow solution.

"Any organisation which uses the invoice discounting facility should be able to manage its finances better and maintain sufficient equity within 18 months, after which it would become attractive to banks."

He was in Auckland recently to launch the first office of the Interface Financial Group in Australasia.

The group's Auckland franchisee Chris Reid said despite increased use of technology SMEs needed constant guidance and personalised service.

"They should understand invoice discounting should not be used as a norm but on the basis of the business needs," he said.

Mr Reid said his company would deal with any type of business, including construction, advertising and marketing and publishing firms, usually avoided by factoring companies.

"Every type of business has its risk factor, which is why a closely-monitored, person-to-person service becomes important," he said.