Receivables CEOs

2011 half yearly report continued

sponsored by RSM Tenon

Clydesdale & Yorkshire Banks

Martin Rothera,
Head of Invoice Finance, iFS

Despite economic pressures and uncertainties, the first six months of 2011 saw continued strengthening across the portfolios of both Clydesdale and Yorkshire Banks.

In an increasingly competitive marketplace, and a naturally cautious approach by many businesses to funding and investment, our appetite to secure quality business remained strong. Through the period we saw growth in our customer base and an increase in funding. The growth seen in the six-month period was comparable to that of 12 months earlier, as clients both old and new continued to see the advantages of sales-driven funding.

Our focus on risk management and asset quality has risen to meet the challenges of continued economic pressures, and as a result we've been better placed to work successfully with our clients as trading conditions have tightened against them.

Two years ago, we decided to place invoice finance relationship managers into our network of 73 financial solutions centres, to work alongside the bank's business managers to support clients at a local level – and this decision has clearly strengthened and added value to clients and the bank alike.

However, for those who have been hit harder by the economic conditions, we have consistently demonstrated the value of book debt security to all our stakeholders, with surplus realisations often being used to repay other debt, and therefore avoiding personal security being called upon.

In general we have seen a proceed-with-caution approach from businesses, something which is perhaps best highlighted by their reluctance to draw down all available funding, and an increasing appetite for bad debt protection, which has seen our credit protected proposition increase significantly in the last 12 months.

In this world of heightened regulation and financial governance, in which risk, reward and return are the key challenges facing all financial institutions, we remain committed to the continued growth in our portfolio, supporting clients through whatever the immediate future has in store.

I'd like to take the opportunity to thank all our clients for their support, and the invoice finance team in both banks for their commitment, support and customer focus.

FGI Finance

Debbie Habib
Business Development Director

Most of us know 2011 proved to be another difficult year for the global economy, particularly for western Europe. Many countries saw their credit markets tumble, which historically has proven to open the market for asset-based finance specialists like FGI Finance.

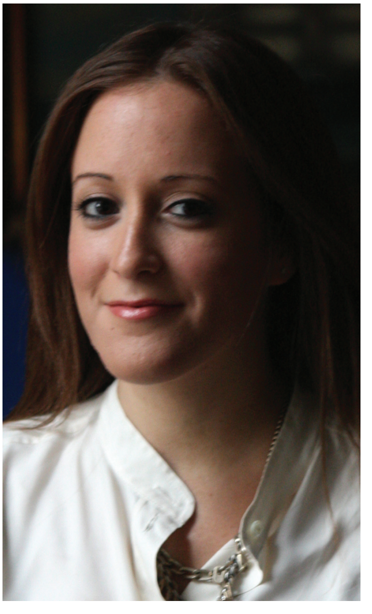
Our business model is built to serve companies with working capital needs regardless of their location. Whether we are talking about a Mexican company supplying American customers or a Hong Kong business selling within the Chinese market, FGI is there when the traditional domestic lender chooses to come up short, or in some cases, when a traditional lender doesn't exist.

In 2011, our business model has proven to be even more relevant. As a result of the tumultuous economic landscape, UK lenders have chosen to focus on funding their customers primarily within the UK, and rightly so.

FGI saw a surge in dealflow in areas like Germany, the Netherlands and Spain on situations when our domestic partners wished to offer their customers a comprehensive funding solution, against various asset classes, without assuming the risk themselves.

Export financing continued to be an important product offering for FGI as UK businesses sought to exploit growth opportunities outside the region, in areas like eastern Europe, southeast Asia and south America.

In these cases, we collaborated with the domestic lender to provide financing exclusively against the foreign receivables, while they continued to lend on the UK debtor book.



Debbie Habib

As the UK commercial finance industry expands and contracts, FGI strives to further solidify its position as the international financing partner. Global financing solutions for the middle market will be in demand in the new year, and we expect to have a hand in more of those transactions.

RBS Invoice Finance

Martin Morrin
Managing Director

H1 2011 saw a continuation of the strong growth trend from the previous 12 months for RBS Invoice Finance.

The latest set of industry data confirms our position in the market as a leading player, and also underlines the ever-rising popularity of invoice finance with strong year-on-year industry growth of 12%.

Since the beginning of this year the focus in RBS Invoice Finance has been exclusively on the UK operation following the successful divestment of the European businesses during 2010, and the UK management team continues to strengthen with a number of new appointments this year, including Mike Bardrick as chief operating officer.

Our regional model continues to evolve, reflecting the changing market, and geographically the local presence of our teams that this provides remains at the heart of our relationship with our clients.

During H1 our teams of business development and relationship managers continued to extend their reach, providing in excess of £400m of new facilities to more than 700 new clients.

The last six months have seen good growth in all sectors across the SME and corporate customer base, and throughout the teams have worked closely with their colleagues across the RBS group in support of joint funding deals.

We have also worked closely with our clients to help grow their businesses while maintaining an acceptable risk profile supported by continued investment in online, operational and risk management systems. We continue to make excellent progress in developing and improving both our client service and client proposition.

At the beginning of this year I talked about the resurgence of asset-based lending. It is a solution that lends itself to the current economic climate because of the flexibility that it offers, and the cost effectiveness of being able to increase working capital without having to curtail business growth or raise equity.

However, there is still much we can do to raise awareness among our client base of the product as an alternative funding option. Our strength in this area continues, and I am delighted that we are able to attract some of the very best talent in the market to work on the team.

The pace of the economic recovery will continue to feature highly on all of our agendas, but by introducing clients early to the benefits of alternative funding, such as ABL, we have been able to help many businesses to thrive and stay in better shape for the remaining challenges of 2011 and through into 2012.

Skipton Business Finance

Greg Bell
Managing Director

Our business continues to make excellent progress, and in Skipton Building Society we have a shareholder that is in it for the long haul, preaching the mantra of sustainable growth against a backdrop of ever increasing profitability.

As SBF enters its 10-year anniversary, the management team can be justifiably proud of its collective achievements. Our ambition and creativity will underpin our growth over the next 10 years, and will continue to see SBF build its market share in the UK.

The start of 2011 was difficult for the majority in our market, and at SBF this was compounded by a material fraud perpetrated by a long-established client of eight years standing.

While it is deemed taboo to talk openly about such things, the reality is that the industry will be better served by a sharing mentality amongst its leaders ensuring that we are all kept abreast of the ever-changing tactics adopted by a rogue minority.

SBF, despite now fully providing for the one-off impairment, has shown remarkable resolve and the benefits of prudent provisioning, controlled expansion and sheer hard work has seen SBF move ahead of its budgets at the half year. Another record profit is now forecast to our 31 December year-end.

Greg Bell

The landscape is changing in terms of the intermediary route to market, and the buying patterns of SMEs in the sub-£5m turnover sector is another interesting dynamic to build into one's future plans.

I commented in last year's report on ▸▸

a slow return to the more aggressive pre-payment levels to win new work, and sadly this has not disappointed. At 85-90% you have little left in the tank to support businesses through short-term cashflow issues, leading to an inevitable collect-out at wafer thin margins.

The market remains tough for the majority of SMEs, and thinner client profitability has not given way to reduced executive drawings, leading to a further shortening of client life. This in turn fuels the need for increased levels of new business to maintain growth, and so the game continues.

Interest rates are another variable in the deal mix, and in this regard the rates have held up very well this year. I have observed a good level of consistency among the independent providers with sub-3% over base for sub-£750,000 cash out deals still the exception.

In terms of our future plans, I am delighted that our Midlands regional centre has now opened. The mix of sales and operational presence in the regions, that has enjoyed success in Leeds and Manchester, will again be replicated in the Midlands region with further regional expansion planned for 2012.

Ultimate Finance group plc

Richard Pepler
Chief Executive

The latest data from the Insolvency Service shows that the number of business failures is expected to fall by 21.6% from a peak of 26,196 in 2009 to a predicted 20,536 in 2015. However, the number of business failures will remain above pre-recession levels of 16,431 in 2007, as the recession will have a long tail.

Businesses are proving resilient given the uncertain global economic conditions, with the number of business failures stabilising at a level below most expectations.

Richard Pepler

"Green shoots" is clearly an overused expression, but there are encouraging signs for the UK economic outlook for the next couple of years. The consensus among economists is that UK GDP growth could push above 1.5% – a full 0.5% ahead of predictions for the EU overall.

But are things as optimistic behind this headline figure? No-one ever paid their mortgage or bought their groceries with GDP. Recovery needs to be felt by the man in the street, it needs to reach our back pockets and it needs to produce jobs. Even in the boom years the public sector and large corporates were not hotbeds of sustainable job creation, and we cannot rely on them now.

Jobs must come from SMEs. To remain competitive, and to drive economic growth, the UK must create an environment where the blue chips of tomorrow can thrive today.

There are 4.8 million SMEs in the UK. It is more realistic for each of them to add one job than it is for each of the FTSE100 to create 48,000 jobs. If we succeeded in generating one new job in each SME then the effect would be transformative, without doubt having a far-reaching and long-term impact on UK employment.

But there is a major obstacle. As 70% of all corporate investment originates from traditional forms of bank lending, it is tackling the funding chain. And bank lending is highly cyclical. We know that many banking institutions remain highly leveraged and temporarily unable to maintain high levels of lending to SMEs.

SMEs can only innovate, create new jobs and fuel economic growth if they can secure funding, particularly working capital. They need to diversify their sources of working capital away from the traditional forms provided by banks. Our hugely proactive invoice finance sector would not have to advance that much cash to every SME to create just one extra job each, and we could completely transform the UK economy.

Bob, could you tell the government what invoice finance is again?

Businesses waking up to data protection responsibilities

Businesses may be waking up to their obligations under the Data Protection Act (DPA), but public confidence in how personal information is being handled continues to decline.

New figures from the Information Commisioner's Office (ICO) show that nearly three quarters of businesses surveyed now know that the DPA requires them to keep personal information secure – up 26% on last year's figure.

Despite this, public confidence has fallen – less than half of individuals surveyed believe that organisations process their data in a fair and proper manner.

In addition, the number of data security breaches in the private sector continues to rise – 58% more breaches have been reported to the ICO so far in 2011/12 than in the same period last year.

Information commissioner, Christopher Graham, said: "I'm encouraged that the private sector is waking up to its data protection responsibilities.

"Businesses seem to know what they need to do – now they just need to get on with doing it."