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FACTORING AS A NEW POSSIBILTY IN THE FINANCIAL SECTOR

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Abstract

Over the past fifteen years, an increasing number of small and medium-sized companies have begun to consider factoring as a practical source of working capital. Unfortunately, the availability of accurate information and time has not kept the same pace with the growing interest in this used form of funding. The financial sector, especially the banking sector, has been hit by the difficulties generated by the tensions of debt dependence, which are affecting the banking market assessment and its ability to create medium and long-term funds. Consequently, making a comparison with the past, in general, the most valued valuation methods are the cost of funds which have increased significantly. Current economic conditions, characterized by credit constraints, make factoring one of the most favorable solutions for businesses. This funding method is one of the ways it takes a short time to negotiate and one of the easiest methods to provide working capital funds.

Factoring services offer an alternative to credit to companies that need little help with funds. By selling your receivables to a factoring company, you receive a portion of the forward amount and receive the rest, minus a percentage that the company receives as a payment as soon as the amount is collected. You get most of your funds before the customer has paid the account, instead of waiting until after paying the bill. The factoring service works to collect accounts receivable so that you can devote your resources and efforts elsewhere to your business. Through factoring, businesses can: -Enable their boards and senior management to make better informed decisions. -Proactively manage the provisions and effects on capital plans. - Make strategic decisions with a view to mitigating risks in the event of current underlying conditions. - Get assistance in understanding the evolving risk nature of the banking sector.

Key word: *Albania, Factoring, Services, Financial Institutions*

Introduction

The crisis that began in 2008, continues even today its effects. While some countries suffer more than other countries, the European Union, in general, is influenced by the economic slowdown with possible impact on consumption and investment decisions. For small and medium companies, one of the simplest and fastest way to keep working kapitak is converting accounts receivable into immediate cash using a transaction known as a financial transaction called "factoring". Many companies that are new to the market or the growth phase can not wait 30-90 days to their customers to pay their bills. In order to survive and continue to grow, they need their money more quickly. Factoring frees up money receivables so you can get paid for what you possess much before customers pay bills. It is very flexible, very effective form of business financing. Even if it used as a short-term solution, even if used as a permanent means of financing, factoring with those of the K immediately optimize cash flows without sinking in even deeper debt. Factoring is a simple mechanism to accelerate the receipt of money are won before. No debt is created, so there is no interest to pay, and no principal to repay. Rather than create a debt on the balance sheet, factoring of receivables creates secure cash flows and improves business classification in connection with loans. It strengthens the balance because it creates more cash on hand and fewer receivables. Moreover factoring does not require a transfer of ownership or transfer. Factoring is the only source of business financing where the amount of capital you able to grow at the same portion of sales success. As soon as you grow, and the more bills to recreate the more cash you will able to krojuar even more sales and marketing initiatives.

Literature review

Factoring term refers to both purchase and sale of bills receivables at a discount from face value. The structure, terms, conditions of such a transaction may vary in several ways. Companies engaged in the business of buying receivables are called "factors". "Factors" provide flexibility and entrepreneurial awareness rarely demonstrated from banks or other lenders, whose activities are limited by regulations or laws (Vasilescu, 2010). Companies that sell receivables referred to as "clients" or "seller" (not the borrower). Customer Customers, who currently detyohen for money represented by bills are known as "customers" or "the account debtors". The money factor provides a client as initial payment for the factored invoices are called "advance". Factoring differs from commercial lending because it involves a transfer of assets more than a loan in cash. In assessing the risk, primarily fakrotët see more quality asset that is purchased (for example, ability to collect receivables) rather than financial condition of the seller/client. This focus makes factoring a convenient tool for many growing businesses where traditional commercial borrowing proves that it is impractical and unavailable. Factoring is essentially a two-pack services (Salinger, 2006). *Lending*-Credit Services include assessment of the customer's credit reliability of the accounts which factor will purchase, on the basis of sales invoices associated with each account. Factor usual bases these estimates on a combination of asset data and public data on the performance of accounts payable. As shown, the SMEs that use factoring are basically the function of granting credit. The added value here is that commissioners factoring enjoy significant economies of scale decisions, reflecting their high access to credit information.

Companies that can benefit from factoring. The list is virtually as long as the index of consumers that they need to have. Any company that is experiencing the stage of entry, growth or maturity, needs good cash flow. If flows of a company's money is good and the company has always enough money to pay his bills, pays payroll and taxes, and can be expanded to the desired extent without help, then this company does not need factoring. However, if it is necessary to improve the cash flow, factoring can be one of the best ways to achieve it. A company that considers factoring will need to have at least one customer whose bills can be factored. The new companies are opened from several months to several years, as long as they have the best receivable, are often good candidates. Customers are very large corporations that often make their vendors to wait 60 days or more to pay as part of their terms to do business with them. These customers are usually good to be factored. Companies that sell strictly so customers will not be factoring their receivables. A good strategy to improve the cash flow of a company is accepting credit cards from customers consuming, and factoring their receivables for businesses and government customers (Bakker, Klapper and Udell, 2004).

Results

Like any other business even factoring has its risks, but there are also tools for managing this risk, which are described in the second chapter of the thesis. As mentioned in all the above items, the factoring industry is gaining greater development due to the bad condition of the liquidity of companies or banks. This chapter describes the moment when a company needs to factoring and become cost analysis of factoring commission. One of the strengths of factoring is that it improves the cash flow of the company. For this reason, this chapter will be analyzed through a concrete example of how improved cash flow when a company is financed through factoring. Then through the analysis of financing or factoring bank loan, we will see that factoring is lower cost than bank loans, if the need for liquidity is short term. In the last issue of this chapter we will explain the method of calculating the expected return and will conclude a factoring company can have a high annual rate of return. Specific risk of factoring. There are many people who want to live comfortably, without taking over the risks inherent in the cash market. They prefer to deposit their savings in savings deposits, treasury bills or where the end of the period are sure you will earn interest on the amounts deposited and will have to secure their money. This category of people can not undertake the creation of a factoring business, as it itself carries risk. When companies operate in this kind of business, carry upon them the risk of losing money. These risks are limited to four potential often:

-*Failure by the client.*

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A customer cannot pay one or more bills for many reasons: the dispute born with its suppliers for quality product or service offered, lack of liquidity to pay at the right moment, business closure or bankruptcy. Commissioners factoring in the time of drafting contracts, are very careful to protect themselves from this type of risk.

-Poor management of supplier businesses.

A supplier that does not have good skills in the management of its businesses could bring problems in connection with the factoring company. If the supplier's service is poor-, or poor-quality products are, they bring the client dissatisfaction, therefore he does not pay the bills. Registration of invoices held in incorrectly is another problem stemming from bad business management. Such a problem makes it more difficult to enable connection of a factoring agreement. So factoring companies, prior to conclude an agreement, clearly define the managerial skills of business administrators.

Personal events.

In his personal life supplier may also have unexpected events like severe illness, separation from spouses, death of a family member, which affect the business of the supplier. But even in these cases, which are unexpected, as anyone can be in such events occur, commissioners try to minimize factoring through risk management tools.

-Freud

Freud by the supplier is unpleasant but possible. Such frauds are the most varied. One is receiving payment from a supplier itself in time that must collect factoring company and the supplier did not passes factoring company but keeps to himself. Another trick may be the sales invoices which are still the customer's requirements are not met, as no finished product without distributing etc. Or another possible fraud is a supplier instructs the client is no longer in relation to the factoring company and therefore payments should go back suppliers. Even when the supplier owns a company that misleads and has not paid clients, which in fact has neither the company nor the client is a fraud which could face factoring companies. However, if there is any fraud, factoring companies, which can be prepared for such losses, they should achieve this kind of loss to keep to a minimum.

Risk management methods. Factoring companies, sooner or later, will face the risk of loss during their activity. But they try to reduce this risk as much. They always keep in mind the fact that the possibility to lose, especially large amounts, increases dramatically when:

a) finance large amount of supplier invoices,

b) not prepare a regular analysis of suppliers or do not use the proper legal documents to protect their investment.

Thus, if a factoring company spends money on an unsteady hand, then you should not be surprised if he loses. Currently, there are many risk management modes, which can be used by either factoring company. As with other investments, these methods do not provide the factoring companies that will not lose a penny, but rather they reduce the possibility of losing especially large losses. The main ways you can use a factoring company to manage risk are divided into five categories:

-Setting the limits.

The limits that establish a factoring company depend on the amount of funds it has and how much is tolerant to risk. These limits prevent the company to become overly focused. Funding limits determine the maximum monthly amount that the company finances new suppliers, as well as the limit for each supplier.

-Setting the industry that the company will finance the factoring.

In fact, there are plenty of companies that need liquidity to continue their operation in the market, but factoring companies do not have to take risks and their capital to waste time with all these companies. There are some that are more suitable for financing with factoring.

-Performing a good supplier analysis.

Analysis must pass four stages: defining desired supplier, the customer desired determination, the determination of whether the new bills are bills that you want to finance and undertake appropriate actions to ensure payment of outstanding bills. All these will make the factoring company to be very careful at the time of signing a contract with the supplier.

-The creation and establishment of reserves.

The reason for the creation of reserves is simple. If a company has factoring invoices that are not liquidated in time, you can use the reserve fund, so as not to affect its cash flow.

-Guarantees for loan.

This method of risk management is more important for large companies factoring, which decide on funding large amounts. This guarantee is achieved through insurance companies, which provide unpaid supplier bills that are financed by the factoring company.

But all factoring companies, when business finance, must draw up a list of policies to be followed in order to minimize the risk of loss. This list will help a lot, especially at the time of obtaining a new supplier, new client or new bills.

Conclusions

Factoring, as a phenomenon that is spreading across the world, has received due attention in connection with legislative support and accountability at the beginning of XXI century. In order to enable congressmen to factoring companies should adopt laws that ensure them an equal operating environment with companies operating in other business areas. It is a form of predominantly financial instruments and an important source of external financing for small and medium-sized enterprises (SME's). Factoring is not a traditional investment, but an industry that can operate people who want to make a fortune, taking into account the risk and quality of service factoring. There are at least two differences between factoring and bank loans, which are in favor of factoring as a better financial alternative for small and new firms: First, these two alternative financing tools vary according to the type of collateral. In the case of factoring, accounts receivable which are yet unrealized assets used as collateral, while in the case of bank loans are stable assets that are used as collateral. Secondly, the difference between factoring and bank credit is in the process of credit risk assessment. While banks are interested in credit analysis firm that requires credit, factoring companies investigate qualitative and quantitative characteristics of suppliers and its customers. Factoring is not free from risk. A factoring broker can face many risks, but only smart people can cope with success and manage these types of risks. Using the tools of risk factoring, factoring Commissioner can manage to profit to be higher than the loss. Funding via Factoring is one of the tools that requires less time and one of the easiest methods for providing liquidity. Factoring avoids the need for long-term financing and generate constant need for cash flow. Factoring reduces overall costs, when you can apply for commercial loans and short application time, as credit analysis is not a long time and also takes certain prepayments. Factoring, unlike other forms of kredidhënjes, involves three parties that facilitate communication, decrease in payment deadlines, creating opportunities for liquidity and increasing investment power business. Factoring is widely accepted as an alternative source of funding and is used in almost every industry that sells business-to-business or business-to-government. Factoring is the ideal form for funding:

✓Business trade, manufacturing and services trade with buyers

✓Businesses with extended payment terms or with high loan

✓Businesses with rapid growth or seasonal sales fluctuations

✓Businesses that have receivables and inventory lrtë that offer less banking collateral

✓Businesses that are moving into new markets or expand to new clientele

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✓ Young enterpreneurs and newly started businesses\

Recommendations

Presentation and application of factoring as a short-term source of funding for SMEs will be successful if it is accompanied by an appropriate education and awareness campaign. The Albanian banking system is liquid and generally used for investments in treasury bills and lending to immovable property collateral. I think it would be preferable to be taken to the base and other asset classes as collateral, such as accounts receivable. Factoring is a flexible resource; it is not strictly defined and that makes it adapted to the environment. The lack of accessible information for business loans makes factoring warranty (which factor is responsible for the credit of the buyer) impractical, because there are known both buyer and seller. For this reason, it is recommended using no guarantee factoring (where the factor is not responsible for the credit of the buyer). Factoring A company should determine the type of society that will finance because they cannot risk capital and time with some companies that need liquidity to continue their operation in the market.

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