

FACTORING INSIGHTS

Factoring Trends for 2022

BY GEN MERRITT-PARIKH

What's in fashion for factoring this coming spring? Quite a bit. This year's trends show what we've all been keeping under wraps for the last two years, and we'll be seeing some definite changes.

First up, a cascade of activity with more traditional bank lenders that retained customers during the pandemic based on regulatory allowances and readily available government funding may start pushing out underperforming loans. In fact, our lending partners have already started seeing increased deal flow this year, albeit with more credit challenges to solve or with a higher need for aggressive structuring. However, this new cascade of deal flow is expected to increase moving into spring. Fitting then that one of the newest pantone colors this year happens to also be cascade.

For us, that also means increased activity with new participation opportunities, or a need for factors and lenders to increase their senior lines of credit or required junior capital to support their growth. We are really excited and eagerly looking forward to the approaching cascade this season.

Second, acquisitions. With portfolio balances climbing again combined with the amount of capital available in the marketplace, we anticipate seeing more acquisitions and buyouts. These could be the result of growth, or conversely, the result of stretchiness that has occurred over the last few years that unfortunately will now be unwrapped and revealed. Eeek!

Next, global hiring and outsourcing. For a few factors, this is already in play, especially in certain niche industries such as transportation. However, more and more the factors and lenders we speak with are hiring abroad to contend with the labor and skillset shortages while identifying ways to become more efficient. With so many other industries that have gone global extending into a remote workforce, some factors are not missing out on this new trend, which is not going away anytime soon and is anticipated to become a staple for their business model.

And, speaking of efficiency and costs, technology is a required accessory this year. As the cost of developing tech continues to decrease, more integration options have become available. And with labor continuing to be a challenge, efficiency will be top of mind, especially when combined with continued price compression throughout the industry. Many factors and lenders are now hyper focused on implementing technology. The larger shops can create their own; the small and mid-sized groups will work to find new resources and partners to fill the gap and will start dedicating part of their budgets to this void.

Even more, with technology and global expansion, cybersecurity will continue to be on the forefront of trends this year. Areas to watch - ransomware, IoT and third-party partnerships. Here are some

examples since this can be a murky topic:

(i) ransomware, with a focus on the Cloud as a bigger target as many organizations moved to this option during the pandemic, but still need to figure out how to ensure that the proper security and data controls are in place,

(ii) IoT (Internet of Things), with more devices connected to the Internet, a major concern is the amount of vulnerabilities in access points for companies in general especially with remote workers (i.e., think Ring, Nest, and other origination entry points where networks branch out to computers where data is then stored), and

(iii) Third-party partnerships where a company can be put at risk because of a vendor relationship and their security protocols. This makes qualifying vendors and their security more critical especially when it comes to data.

Finally, potential for fraud will be back in fashion (sigh), which goes in line with embellishments that are being added to the fashion mix this season. Through the pandemic, the number of factoring frauds appeared to decline, more than likely due to the sheer amount of government funds available. But now, we're already seeing an uptick in this area. So, with the expected growth, now is the time for additional vigilance and paranoia in underwriting new transactions and managing portfolios. Like fashion this year, getting back to the nostalgia of factoring is where to focus - the foundation of debtor and client credit, controls and managing risk.

As you can see, these six factoring fashion trends cover a lot of ground. Overall, I'd say this should be a year of growth, adventure, efficiency, and tech with a reminder to remember the basics - because the classics never go out of style. 🍷



■ **GEN MERRITT-PARIKH**
Haversine Funding

Gen Merritt-Parikh is the president of Haversine Funding, a leading financing provider to specialty finance companies, including asset-based lenders, factors, purchase order, equipment, real estate and inventory lenders. With more than 25 years of experience in commercial finance, she joined Haversine Funding in August 2020, responsible for growth and risk management, overseeing originations, underwriting, portfolio investment analysis and management, along with asset allocation strategy for the company.

Gen currently serves on the factoring committee for SFNet and is a speaker and designated subject matter expert for the International Factoring Association. She holds a bachelor of arts degree in business and economics from the University of Texas at Dallas.