

THE PHENOMENON OF LEGAL PROTECTION FOR THE PARTIES TO THE FACTORING AGREEMENT (FACTORING)

ELIESER DHARMA BAHAGIA GINTING

Doctoral Program in Law, Faculty of Law, Diponegoro University, Jl. Prof. Soedarto, SH., Tembalang, Semarang. Email: Elieserdharmabahagiaginting@students.undip.ac.id

BUDI SANTOSO

Lecturer, Doctoral Law Program, Faculty of Law, Diponegoro University, Jl. Prof. Soedarto, SH., Tembalang, Semarang.

ERY AGUS PRIYONO

Lecturer, Doctoral Law Program, Faculty of Law, Diponegoro University, Jl. Prof. Soedarto, SH., Tembalang, Semarang.

Abstract

The phenomenon of legal protection for the parties to the factoring agreement. The purpose of this study is to analyze: 1) How is the legal basis of factoring agreements in accordance with existing rules according to Indonesian law?; 2) What are the rights and obligations towards the parties to the factoring agreement?; 3) What is the legal protection of the parties to the factoring agreement?. The research method used is empirical juridical with a statutory approach, concept approach, and case studies. The results showed that: 1) the legal basis in factoring agreements is regulated into two types, namely administrative and substantive legal arrangements. Administrative legal arrangements are contained in Article 6 letter I of Law No. 7 of 1992 which has been amended by Law No. 10 of 1998, hereinafter referred to as the Banking Law, Presidential Financing Regulation, and Regulation of the Minister of Finance of the Republic of Indonesia No. 84 / PMK.012 / 2006 concerning Financing Companies. While the Substantive Legal Basis which is divided into Pure Substantive, namely Article 1338 BW is related to the principle of freedom of contract. So that the parties are free to make an agreement provided that they have fulfilled the conditions for the validity of the agreement as contained in Article 1320 BW, namely agreement, competence, certain objects, and permissible causation. In addition, there is a procedural Substantive Legal Basis namely in article 613 BW related to *cessie and subrogation based on Articles 1400 BW, 1459 BW, 1491 BW, 1493 BW, 1495 BW, 1533 BW , 1534 BW and Article 174 KUHD-Article 177 KUHD.* 2) *A factoring agreement is a direct agreement between a factoring company and a client*, then there must be an agreement between the factoring company and the client. Factoring agreements are made in standard form or standard agreements, which are agreements made a priori by one of the parties. 3) The forms of legal protection that can be provided *to the Factor* are: a) The use of Recourse Factoring to protect the Factor; b) Implementing Personal / *Corporate Guarantee* Considering that the Factoring business is vulnerable to risk.

Keywords: Phenomenon, Legal Protection, Parties, Agreement, Factoring, Factoring.

INTRODUCTION

Background

Business activities, many problems arise to require additional capital or capital goods to develop their business activities. Increasing capital in a business activity can generally be done through loans at banking institutions. However, because this institution requires guarantees that must be met by the business entity concerned, other efforts are needed

that are without guarantees and easier to process. This effort can be done through a type of business entity called a financing institution.¹

However, when business activities increase, with the rapid increase in sales volume, it will cause a new problem, namely sales administration problems, because in reality many companies only concentrate on efforts to increase production and sales. While having limited ability to manage sales on credit. This causes the company to experience problems with bad receivables so that it will affect the smooth flow of its finances. To anticipate this, the government in 1988 through Presidential Decree N0.61 of 1988 concerning Financing Institutions opened opportunities for various business entities to carry out financing activities as another alternative to provide funds to support the growth of the Indonesian economy.²

In overcoming the obstacles experienced by the business world as explained above, it seems that the presence of factoring institutions will provide an alternative solution to the problem.³ through factoring services, companies will be able to obtain sources of financing easily and quickly up to 80% of the value of their sales invoices on credit. In addition, with the support of experienced personnel and experts in their fields, factoring companies can help overcome difficulties in the field of credit management. Thus clients can be more concentrated on product improvement and sales activities.

In Indonesia, the existence of factoring institutions began since the launch of the Policy package of December 20, 1988 or Pakdes 20: 1988 in accordance with Presidential Decree No. 61 of 1988 and Decree of the Minister of Finance No. 1251 / KMK.13 / 1998 dated December 20, 1998 which was later updated with the Regulation of the Minister of Finance No. 84 / PMK.012 / 2006 concerning Financing Companies, the introduction of factoring business is intended to obtain alternative sources of financing outside the banking sector, leasing, venture capital and consumer financing.⁴

In the end, an update was made with the Minister of Finance Regulation No.84 / PMK.012 / 2006 concerning Financing Companies, factoring business activities can be carried out by *Multi Finance Company*, which is a financing institution that can carry out business activities in addition to factoring, also in the fields of business lease, venture capital, credit cards and consumer financing. However, companies can choose one of several forms of activities carried out by *multi-finance companies* as their business specifications by forming a separate business entity. The type of financing business that can be done is influenced by the amount of capital in the deposit. Banks in principle can provide factoring services as part of their products without the need to form a new business entity.⁵

However, because this factoring activity has its own characteristics and is different from the financing process in the form of lending, in addition to the volume of factoring business is usually relatively large, banks generally tend to separate this factoring activity from daily banking operations by forming a business entity even separately, either by establishing a purely factoring company or by establishing a multi-financing company.

In the above cases, it is very important to note the legal protection that concerns the contractual relationship between the factoring company and the Client and the customer in the factoring agreement, *especially those that apply the form of transactions without recourse factoring*. But the existing law is still light. Therefore, strong legal protection is still needed in order to provide a deterrent effect to perpetrators.

Problem Statement

1. What is the legal basis of factoring agreements in accordance with existing rules according to Indonesian law?
2. What are the rights and obligations towards the parties to the factoring agreement?
3. What is the legal protection of the parties to the factoring agreement?

THEORETICAL FRAMEWORK

In accordance with the problems to be discussed in this study, it is necessary to briefly put forward several theories that are used as a theoretical framework.

1. Theory of Legal Protection

According to Fitzgerald, he explained Salmond's theory of legal protection that Law aims to integrate and coordinate various interests in society because in a traffic of interests, protection of certain interests can only be done by limiting various interests on the other hand.⁶

Legal interests are concerned with human rights and interests, so that the law has the highest authority to determine human interests that need to be regulated and protected. Legal protection must see stages, namely legal protection born from a legal provision and all legal regulations provided by the community which is basically an agreement of the community to regulate behavioral relations between community members and between the company and the government which is considered to represent the interests of the community. According to Satjipto Raharjo: Legal protection is to provide protection for human rights (HAM) that are harmed by others and that protection is given to the community in order to enjoy all the rights provided by law.⁷

In the opinion of Philipus M. Hadjon that "legal protection for the people as a preventive and repressive government action." 8 Preventive legal protection aims to prevent disputes, which directs government action to be prudent in decision-making based on discretion and protection.⁸

2. Law Enforcement Theory

Law enforcement does not solely mean the implementation of laws, although in reality in Indonesia the tendency is so, so the definition of law enforcement is so popular. In addition, there is a strong tendency to interpret law enforcement as the implementation of judges' decisions. It should be noted that this rather narrow opinion has weaknesses, "if the implementation of legislation and the decisions of judges disturb peace in society".⁹

Another opinion regarding law enforcement was explained by Sudikno Mertokusumo that: "The law serves as the protection of human interests. In order for human interests to be protected, laws must be implemented. The implementation of the law can take place normally, peacefully but it can occur also due to violation of the law. In this case the law that has been violated must be enforced, It is through the enforcement of this law that the law becomes a reality. In enforcing the law there are three elements that must always be considered, namely: legal certainty (*Rechtssicherheit*), expediency (*Zweckmaassigkeit*) and justice (*Gerechtigkeit*)".¹⁰

Furthermore, Selo Sumardjan as quoted by Sidik Sunaryo stated that law enforcement is closely related to efforts to instill the law in society in order to know, respect, recognize and obey the law, community reactions based on the prevailing value system and the period of time to instill hUkum.¹¹ Regarding law enforcement, Leden Marpaung explained that: Law enforcement that contains compliance, arises not suddenly but through a process formed from the awareness of every human being to carry out and not carry out according to existing regulations. The process does not come from top to bottom or vice versa but does not care where it comes from, because the obligation to comply with all forms of laws and regulations belongs to all Indonesians. In everyday reality, there are citizens who uphold the law, there are citizens who mistakenly or mistakenly live up to their rights and obligations so that those concerned are considered to have violated the law. The assumption that someone has violated the law must first be proven to be true carefully and thoroughly because of the principle of *presumption of innocence*.¹²

RESEARCH METHODOLOGY

This research is a type of empirical legal research. Empirical legal research is oriented towards primary data (results of research in the field). The approach of empirical legal research is carried out through field research, namely by seeing and observing what happens in the field, and how the application of regulations in practice in society. This research is also used normative research to support empirical research with a legal approach by reviewing laws and regulations related to the role of the Police in securing the execution of fiduciary guarantees.¹³

Normative juridical research refers to legal norms contained in laws and regulations and legal norms that exist in society. In addition, by seeing the synchronization of a rule with other rules in a hierarchical manner.¹⁴ Law that applies at a certain time and place, that is, a written rule and norm officially established and promulgated by the ruler, in addition to written laws that effectively regulate the behavior of members of society.¹⁵

The method of data collection in this study with library research or commonly called literature study, this method is carried out to obtain secondary data both in the form of primary legal material and secondary legal material. After being inventoried, a review is carried out to make the essence of each regulation concerned. Data is collected by studying literature sources in the form of literature books, laws and regulations, and

collecting existing data in the form of data that is directly related to the research conducted.¹⁶

In this study, a statutory approach and a comparative approach were used.¹⁷ Legal research conducted by examining library materials or secondary data.¹⁸ Statute approach: an approach taken by examining laws and regulations related to the focus of research. Then, the data collection taken in this study uses literature studies, namely data collection by searching, examining and reviewing secondary data.¹⁹ In this research, document studies will be carried out as a means of collecting data related to the problems raised, namely literature studies / document studies (documentary study), sourced from laws and regulations, books, official documents, publications and research results.²⁰

RESEARCH RESULTS

The Legal basis of the Factoring Agreement is in Accordance with the Existing Rules According to Indonesian Law

Factoring in Indonesian translates to factoring, consisting of 2 words, namely factoring and receivable. Factoring means to move or move. Receivables means money lent (which can be collected from someone), bills of company money to customers that are expected to be repaid within a maximum of one year from the date of issuance of the bill. Factoring means transferred receivables. While the definition of *factoring* according to John Downes and Jordan Elliot Goodman in the Dictionary of Finance and Investment Terms is: "*Type Financial service why a firm sells or transfer title to its account receivable to a Factoring company, which then acts a principal, not as agent. The receivables are sold without recourses, meaning that the Factor cannot turn to the seller in the event accounts prove UN collectible.*"²¹

Meanwhile, Minister of Finance Regulation Number 84 / PMK.012 / 2006 concerning Finance Companies Article 1 (e) states that factoring is a financing activity in the form of purchasing short-term trade receivables of a company along with the management of these receivables. ²²In Article 1 point 8 of Presidential Decree R.I.No.61 of 1988 jo Article 1 letter 1 of the Decree of the Minister of Finance No.1251/KMK.013/1988 it is stated that a *factoring company* is a business entity that conducts financing business in the form of purchase and/or transfer and management of receivables or short-term bills from domestic and foreign trade transactions.²³

The factoring agreement includes legal documents. This means that factoring as a form of financing business comes from various legal provisions, both agreements and legislation. In addition to including legal documents, factoring also includes special laws. In carrying out its business, factoring institutions need a legal basis that can guarantee legal certainty in carrying out each of their activities. This is needed to ensure the protection of the rights and obligations of parties involved in factoring companies.²⁴

Factoring in the Civil Code and other laws and regulations is not specifically regulated. The regulations that exist until now are only administrative regulations, but their existence

is possible in the Indonesian legal system, because Indonesian treaty law adheres to the principle of freedom of contract as threatened in article 1338 paragraph (1) of the Civil Code, that all agreements made validly apply as law to those who make them. This means that the law of agreement gives the widest freedom to the parties to enter into an agreement as long as it does not conflict with the Law, decency, and public order. As long as the factoring agreement meets the requirements for the validity of the agreement as stated in article 130 of the Civil Code, the consumer financing agreement is fully binding on the parties, which must respect the contents of the agreement made and must carry out their obligations and performance. Thus in good faith, as stated in article 1338 paragraph (3) of the Civil Code, basically every agreement must be executed in good faith.²⁵

The legal basis in factoring agreements is regulated into two types, namely administrative and substantive legal arrangements. **Administrative legal** arrangements are contained in Article 6 letter I of Law No. 7 of 1992 which has been amended by Law No. 10 of 1998, hereinafter referred to as the Banking Law, Presidential Financing Regulation, and Regulation of the Minister of Finance of the Republic of Indonesia No. 84 / PMK.012 / 2006 concerning Financing Companies. While **the Substantive Legal Basis** which is divided into Pure Substantive, namely Article 1338 BW is related to the principle of freedom of contract. So that the parties are free to make an agreement provided that they have fulfilled the conditions for the validity of the agreement as contained in Article 1320 BW, namely agreement, competence, certain objects, and permissible causation. In addition, there is a procedural Substantive Legal Basis namely in article 613 BW related to *cessie* and *subrogation* based on Articles 1400 BW, 1459 BW, 1491 BW, 1493 BW, 1495 BW, 1533 BW , 1534 BW and Article 174 KUHD-Article 177 KUHD.²⁶

There are five kinds of elements in the *factoring* agreement, namely ²⁷

1. Company Factor

This company is a company that conducts financing by buying and or receiving the transfer of receivables. Factor companies can be companies that are specifically engaged in factoring, *multi-finance* companies, namely companies that in addition to being engaged in factoring are also engaged in other financing, besides that banks are also allowed to enter into factoring agreements, this is as stated in Article 6 letter I of Banking Law No. 7 of 1992 as amended by Law No. 10 of 1998, namely regarding expansion bank services.

2. Client Companies

Article 1 letter m of the Presidential Regulation on Financing gives meaning to clients as a company that sells and or transfers its receivables and / or bills arising from trade transactions to *factor companies*.

3. Customer Customer

It is the debtor who owes the client company, which then with *factoring activities*, the receivables issued from the debt are transferred to the factor company.

4. Receivables / Bills

Accounts receivable are business bills that are not yet due (*account receivable*), either issued using securities, such as *promissory notes*, or only bills through *ordinary trade invoices*.

5. Transfer Of Receivables

Transfer of receivables regulated in BW. Client companies that have receivables both existing and non-existent, both maturing and not yet maturing, can transfer receivables to *factor companies either with or without the knowledge of the debtor* on the basis of the principle of freedom of contract contained in Article 1338 BW provided that it has fulfilled Article 1320 BW regarding the terms of validity of the agreement, namely between the two & both parties there has been an agreement, Both parties have met the requirements of proficiency, clarity regarding the object in the form of receivables, and the agreement meets the permissible causation. The factoring agreement is *short-term financing*, so the transferred bills are relatively short-term bills, ranging from 30 to 100 days.

Transfer of receivables that can be done either by using documentation or evidence related to the transfer of receivables made to accounts receivable (*not yet due*) or through promissory notes (*securities*) to the client company to be endorsed to the company factor as a link in the process of transferring receivables.²⁸

Rights and Obligations towards the Parties to the Factoring Agreement

The *right of the factor to the client is very large compared to the client's right to the factor*. When viewed in terms of obligations, then of course *the client's obligations become very large compared to factor obligations*. This can be understood, because the *factor is as a party who buys client accounts receivable and is entitled to get payment for the financing that has been issued by the client*. However, it is agreed that the amount of the client's obligation *to the factor does not mean that a balance has been achieved* in protection, especially the client *in this case is a party who needs funds in order to facilitate cash flow, so that many clauses have the potential to lack protection, especially to clients*. As for the factor, as the obligation is to pay the trade debt to the *client, then the main thing is to get a notification that there has been a transfer of the trade debt*.²⁹

A factoring agreement is a direct agreement between the factoring company and the client, so there must be an agreement between the factoring company and *the client*. Factoring agreements are made in standard form or standard agreements, which are agreements made a priori by one of the parties. However, it does not mean that in the factoring agreement there is no agreement, because in the factoring agreement as well as other standard agreements consists of three parts, namely:

- a. Principal parts
- b. Additional or supplementary parts (which are not always in the agreement)
- c. General conditions.

In the main part there is the word agreement, while in the general conditions there is no word agree. However, the parts of the standard agreement are a single entity. Thus it can be said that in the factoring agreement there is a word of agreement. The factoring agreement in making an agreement involves three parties, namely:

1. Creditors (clients), are companies that sell short-term accounts receivable to finance companies such as submitting bills to be collected or managed or taken over by managing or buying according to agreements and agreements that have been made.
2. Factoring company, is a company that will take over or manage receivables or credit sales of its debtors.
3. Debtor (customer, is a party who has a problem (debt) to creditors or clients. Factoring transactions that occur between the three parties above start from product sales transactions between clients and customers on credit which cause debts between the two parties. Because the client needs a fast turnover of money so that the receivables or bills can be sold in part or in whole with a discount to a third party or factoring company so that the debtor will pay directly to the factoring company with the full amount in accordance with the value of the bill.³⁰

In the Factoring agreement, the Factor has a number of rights, namely;

- a. Receive all invoice documents from clients.
- b. Receive receivables in a clean condition and free from all claims.
- c. Collect receivables to customers in *accordance with payment terms that have been determined between the seller of receivables (Client) and customers (Customer)*.

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The right to collect receivables from Factor is born from the legal relationship of the agreement, namely the Factoring agreement. Bachsan Mustafa stated that the right is power, and that power can be defended against everyone, meaning that everyone must recognize, respect, and heed that right.³²

Legal Protection of the Parties to the Factoring Agreement

Legal protection according to Philipus M. Hadjon is the protection of dignity and dignity, as well as recognition of human rights possessed by legal subjects based on legal provisions from arbitrariness, so that it can be said that law is a collection of regulations or rules that will be able to protect things from other things.³³ Meanwhile, according to Muchsin, legal protection is an activity to protect individuals by harmonizing the relationship of values or rules that incarnate in attitudes and actions in creating order in the association of life between human beings.³⁴

Every business has risks. This is of course true. Moreover, businesses regarding the provision of funds such as the factoring business. Moreover, for the type of *Without Recourse factoring*, where the *Factor Company* will be responsible for all risks if the customer (*Customer*) is unable to fulfill its obligations. In *Without Recourse Factoring*, the position of *the Factor* is very crucial and the lack of protection in the form of guaranteed return of accounts receivable from the *Customer*.³⁵ If the *Customer* does not fulfill its obligations, the risk will be fully borne by the *Factor*.

The right to collect receivables by *Factor* against the *Customer* is protected by law. As stated by Sudikno Mertokusumo, rights are legal interests protected by law, while interests are demands that are expected to be fulfilled. Interests essentially contain powers guaranteed and protected by law. On that basis, the right to collect receivables from *Factor* needs to be given legal protection.

Preventive legal **protection** that can be done for *factor companies* is by using the Facultative Factoring agreement model, *which is a type of factoring agreement where option rights are given* to factor companies to determine whether later when receivables are received with factoring transactions or not. So that later if there is no debt transaction, the *factor company* will not be harmed, although the risk of this type of agreement is that the client company is free to sell its receivables before factoring transactions occur.³⁶

Then, **the repressive** protection provided is protection if the client company cannot fulfill transactions in the factoring agreement because there is no debt agreement. If the client company is unable to fulfill its obligations, it can be said that the client has defaulted. The reason for default is not fulfilling or neglecting to carry out obligations as specified in the agreement made between creditors and debtors.³⁷ Default or non-fulfillment of promises can occur either intentionally or unintentionally. The client's company is said to be in default if it does not fulfill its obligations or is late in fulfilling them but not as promised. BW also regulates default in Article 1243, namely that reimbursement of costs, losses, and interest on non-fulfillment of an agreement, only begins to be mandatory, if the debtor, after being declared negligent in fulfilling his engagement, continues to neglect it, or if something that must be given or made, can only be given or made within the grace period exceeded by him.³⁸

However, the default of the client company must be stated by a statement called a subpoena. **Subpoena** is a notification or statement from the factor company to the client

company containing the provision that the factor company wants immediate fulfillment of performance as within the period specified in the notification.

Article 1238 BW states that a client company can be said to be negligent if there is a subpoena and the subpoena has various forms, namely:

1. Warrant;

The warrant comes from a judge which usually takes the form of a determination. With this determination letter, the bailiff verbally notifies the debtor when at the latest he will perform achievements. This is called the "bailiff exploit".

2. Similar deeds

This deed can be either a deed under hand or a notarial deed

3. Knotted in the Engagement Itself

This means that since the making of the agreement, the factor company has determined the existence of default.

If in the factoring agreement there is a settlement clause through arbitration, then settlement can be made by selecting the desired arbitrator and authorized to make decisions. The arbitral award shall be final and binding and closed to the public.³⁹ Law Number 30 of 1999 concerning Arbitration and Alternative Dispute Resolution, hereinafter referred to as UUADR Article 1 point 10 states that Alternative Dispute Resolution is a dispute resolution institution or difference of opinion through procedures agreed by the parties, namely out-of-court settlement by means of consultation, negotiation, mediation, conciliation, or expert assessment.⁴⁰

Given the high risk of failure to collect receivables to the Customer, especially in the case of *without recourse factoring*, the forms of legal protection that can be provided to *the Factor* are:

- a. In order to protect the Factor, in the sense of providing guarantees for collection of receivables from the Customer, the Factoring agreement *can be used or applied the type of Recourse Factoring*, which is *factoring* where the Client will bear the risk if the customer (Customer) does not fulfill its obligations. So the Factor Company is not responsible for uncollectible receivables from the Customer.
- b. Applying Personal / Corporate Guarantee Given that the Factoring business is vulnerable to risk, and even said to be a type of business that contains a high risk of success in collecting receivables, to secure or protect the Factor, a debt guarantee system can be applied through the application of Personal and Corporate Guarantee.

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CONCLUSION

The results showed that;

1. The legal basis in factoring agreements is regulated into two types, namely administrative and substantive legal arrangements. **Administrative legal** arrangements are contained in Article 6 letter I of Law No. 7 of 1992 which has been amended by Law No. 10 of 1998, hereinafter referred to as the Banking Law, Presidential Financing Regulation, and Regulation of the Minister of Finance of the Republic of Indonesia No. 84 / PMK.012 / 2006 concerning Financing Companies. While **the Substantive Legal Basis** which is divided into Pure Substantive, namely Article 1338 BW is related to the principle of freedom of contract. So that the parties are free to make an agreement provided that they have fulfilled the conditions for the validity of the agreement as contained in Article 1320 BW, namely agreement, competence, certain objects, and permissible causation. In addition, there is a procedural Substantive Legal Basis namely in article 613 BW related to *cessie* and *subrogation* based on Articles 1400 BW, 1459 BW, 1491 BW, 1493 BW, 1495 BW, 1533 BW , 1534 BW and Article 174 KUHD-Article 177 KUHD.
2. A factoring agreement is a direct agreement between the factoring company and the client, so there must be an agreement between the factoring company and *the client*. Factoring agreements are made in standard form or standard agreements, which are agreements made a priori by one of the parties.
3. Forms of legal protection that can be provided to Factors are: a) Use of Recourse Factoring to protect Factors; b) Implementing Personal / *Corporate Guarantee* Considering that the Factoring business is vulnerable to risk.

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