ASSET FINANCE INTERNATIONAL
IN ASSOCIATION WITH
WHITE CLARKE GROUP

United Kingdom

ASSET & AUTO FINANCE COUNTRY SURVEY 2015

White Clarke Group

White Clarke Group is the market leader in software solutions and business consultancy to the automotive and asset finance sector for retail, fleet and wholesale. White Clarke Group solutions enable end-to-end credit processing and administration to streamline business practice, cut operational cost and deliver outstanding customer service. White Clarke Group has a 23-year track record of leadership and innovation in finance technology, consultancy and new market entry. Clients value White Clarke Group's industry knowledge, market intelligence and innovation. The company employs some 600 finance and technology professionals, with offices in the UK, USA, Canada, China, Australia, Austria and Germany.

White Clarke Group publish the Global Leasing Report, which is part of The World Leasing Yearbook. To download a copy please go to:

www.whiteclarkegroup.com/knowledge-centre

Acknowledgements

George Ashworth, managing director, ABN AMRO Lease
Stephen Bassett, executive director, Arkle Finance
David Betteley, Financial Services director, Jaguar Land Rover
Miles Clarke, director, CBC Resourcing Solutions
Peter Collins, CEO, MAN Financial Services
Bill Dost, managing director, D&D Leasing
Mike Francis, head of Asset Finance, Investec
Brendan Gleeson, group executive vice president, White Clarke Group
Simon Goldie, head of Asset Finance, Finance & Leasing Association (FLA)
Julian Hobbs, UK sales director, Siemens Financial Services
Juan Kelly, managing director, Conister Bank
Alastair Kendrick, Tax director, MHA MacIntyre Hudson
Martin Nixon, head of Asset Finance, United Trust Bank
Tim Porter, managing director, Lex Autolease
Mike Randall, CEO, Close Brothers Asset Finance
Richard Schooling, chief executive, Alphabet (GB)
Ian Wood, head of Marketing, Lombard
Gavin Wraith-Carter, general manager, Hitachi Capital Business Finance

http://www.whiteclarkegroup.com/
http://www.assetfinanceinternational.com

Publisher: Edward Peck
Editor: Brian Rogerson
Author: Nigel Carn
Asset Finance International Ltd.

39 Manor Way,
London SE3 9XG
UNITED KINGDOM
Telephone: +44 (0) 207 617 7830

© Asset Finance International, 2015, All rights reserved No part of this publication may be reproduced or used in any form or by any means – graphic; electronic; or mechanical, including photocopying, recording, taping or information storage and retrieval systems – without the written permission from the publishers.

Contents

The UK at a glance

The aim of this Asset Finance International country survey is to provide a broad and balanced overview of the asset and auto finance markets in the UK, the factors and challenges that affect them and the trends for 2015. Key areas covered and principal findings include:

- The latest figures from the Finance & Leasing Association (FLA) show that the rate of growth in 2014 for new business was up 13% year-on-year compared to 2013. This is the strongest annual rate of growth rate since the onset of the financial crisis.
- The £25 billion mark (US$41 billion) total for new business volumes (NBV) was surpassed for the first time since 2009; this landmark should be reached in 2015 through new business in the core market of deals of up to £20 million.
- In the 12-month period to December 2014, the three dominant sectors were car finance, commercial vehicle finance and plant and machinery (P&M) finance. Of these three sectors, growth was strongest in P&M (+21%), with car finance on +13% and commercial vehicles +12%.
- The most consistent sector for growth, with positive rates throughout the year, was P&M finance. Commercial vehicle finance performed well and only slipped into negative figures at the end of the year.
- However, there was greater fluctuation in other sectors, with IT equipment finance, business equipment finance and car finance all experiencing negative growth in at least three out of the 12 months.
- An indicator of consumer confidence is the car market, which has now enjoyed 34 consecutive months of growth. Demand has been boosted by favourable financing offers from dealers, backed by manufacturer incentives. There was solid growth in the fleet sector.

© Asset Finance International, all rights reserved.

- The latest data from the FLA for consumer car finance volumes reveal growth of +13% for the number of new cars bought on finance through dealerships in 2014. Advances for new car purchases rose +17% over the 12 months, to over £14 billion ($23 billion).
- A major challenge for lenders across all credit markets has been the implementation of the Financial Conduct Authority's (FCA) consumer credit regime. The need is clear for all stakeholder trade associations to step in and help their members prepare for authorisation.
- Government figures show that lending to small and medium-sized enterprises (SMEs) decreased in 2014. It is hoped that new incentives such as the British Business Bank will boost lending, as will the growth of alternative sources such as peer-to-peer (P2P) and people-to-business (P2B) lending.
- Industry experts are positive for the outlook for the asset finance market as a whole. Sectors that are forecast to have the best prospects for growth in 2015 include construction, P&M, healthcare and IT / business equipment. In the vehicle sector, trucks should perform reasonably well, as will the alternatively-fuelled car sector.
- Meanwhile, the macroeconomic signals are good: UK GDP has continued to grow faster than in most developed economies. The outlook is positive, although muted global growth and further contraction in the eurozone are likely constraints.
- For this country survey, a wide variety of industry leaders in UK equipment and auto finance and leasing provided their perspective on the market and the opportunities and challenges it faces in the near and medium term, and the direction of market trends.
- Opinions were given on a range of topics, including whether there has really been a lack of finance provision for SMEs, and the opportunities that are available in the renewable resources sector.
- Other subjects covered include how to increase asset finance penetration levels, which remain low in some sectors, and the rise of alternative sources of finance such as P2P and P2B and whether these types of financing will prove to be a force in the industry.
- This country survey concludes with two specially commissioned articles. The first provides an update of government taxation policy regarding the company car and whether the method of taxable benefit calculation is still relevant or whether it should be replaced.
- The second article concerns developments in staff recruitment within the UK asset finance sector, in particular the challenge to ensure the best talent is recruited, and the recent increase in awareness of the value of experience and that maturity should not be discounted.

© Asset Finance International, all rights reserved.

The UK asset finance market

The UK has the sixth largest economy in the world, but its asset finance market is estimated to be ranked higher than that. It is most likely now fourth largest, after the US, China and Japan, and having overtaken Germany which has for long been the leading European market.

The rise to Europe's largest market is indicated in the most recent figures provided by Leaseurope, which show that in the first half of 2014, new business volume (NBV) for equipment and vehicle finance (excluding real estate) in the UK totalled €27.8 billion[1] (US$38.1 billion at the average exchange rate for the period) compared with €23.5 billion ($32.2 billion) in Germany. It is highly unlikely that this will have been reversed in the second half of the year. According to Leaseurope, compared with the same period a year earlier the UK market rose at a rate only surpassed in Western Europe by Spain and Portugal – both of which were coming back off a steep decline.

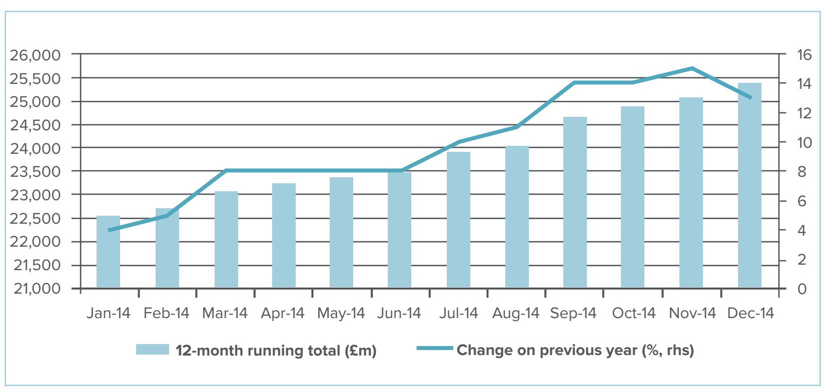
Return to pre-recession levels

The continuing recovery in the economy (see later section of this report) has been reflected in the growth of asset finance, which maintained its upward momentum as last year progressed. In fact, according to data from the industry body, the Finance & Leasing Association (FLA), NBV growth in 2014 was up 13% year-on-year on 2013, the strongest annual rate of growth since the onset of the financial crisis.

The total of £25.4 billion ($41.6 billion at the average exchange rate for the period) in new business comes off the back of 14 consecutive months of growth and sees the £25 billion mark passed for the first time since 2009. New business in the core market of deals of up to £20 million totalled £24.6 billion ($40.3 billion) in 2014, and with growth set to continue, is on target to surpass its pre-crisis peak in 2015.

The following charts illustrate the upward momentum that the market has maintained over 2014. Naturally, there have been fluctuations by month, but the changes on the same month of the previous year have all been positive.

Asset finance volumes – annual total, month-over-month change



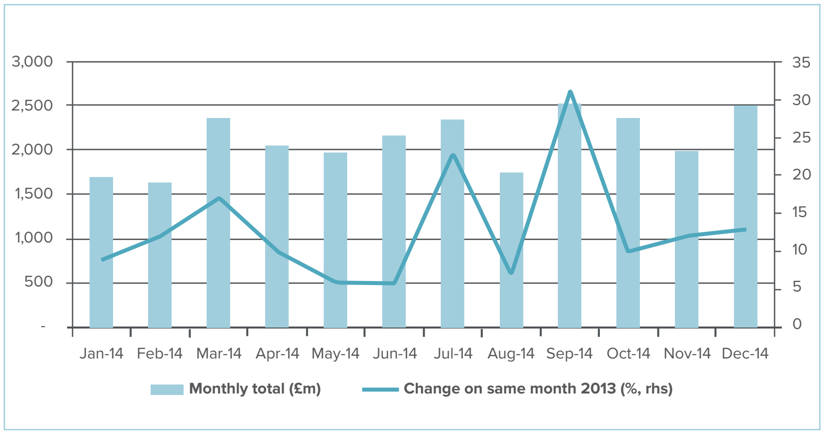
Source: Asset Finance International, FLA

1 Note the Leaseurope figures are for asset finance plus consumer car finance (excluding personal loans for vehicle purchases). Consumer car finance is covered later in this section.

White Clarke Group

© Asset Finance International, all rights reserved.

Asset finance NBV monthly running total, Jan–Dec 2014



Source: Asset Finance International, FLA

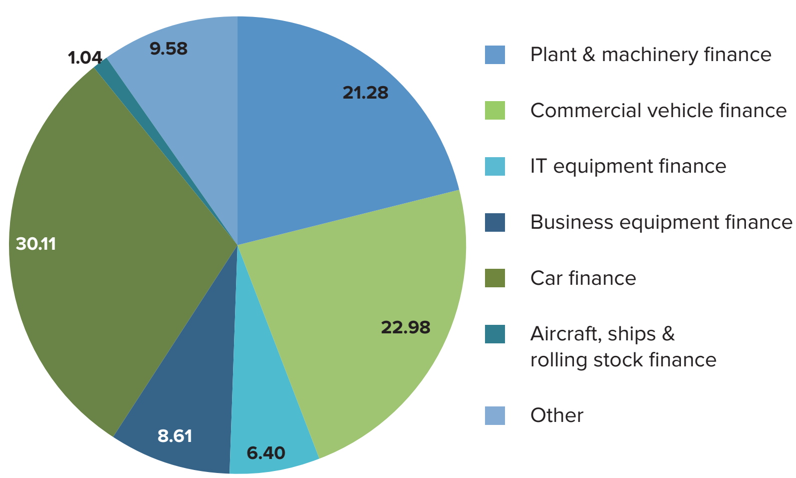
Commenting on market performance, Geraldine Kilkelly, FLA head of research and chief economist, said: “The figures show a strong recovery in the asset finance market in 2014. Businesses were keen to use leasing and hire purchase to invest in a wide range of assets, with particularly strong growth in new finance for production plant, agricultural equipment and construction equipment.

Looking at the composition of the market by annual business volumes per sector, it is not surprising that in the 12-month period to December 2014, the three dominant sectors were car finance, commercial vehicle finance and plant and machinery (P&M) finance.

Of these three sectors, growth was strongest in P&M (+21%), with car finance on +13% and commercial vehicles +12%. December was particularly good for P&M (+48% on December 2013), whereas it was the poorest month of the year for commercial vehicles (-19%).

In the other main market sectors, there was good growth over the year in business equipment finance (+13%), but less so for IT equipment finance (+5%). The large-ticket sector of aircraft, ships and rolling stock finance fared worse, with a year-on year fall of -14%. This sector only accounts for a little over 1% of the total market.

Asset Finance NBV by sector, 2014 (%)

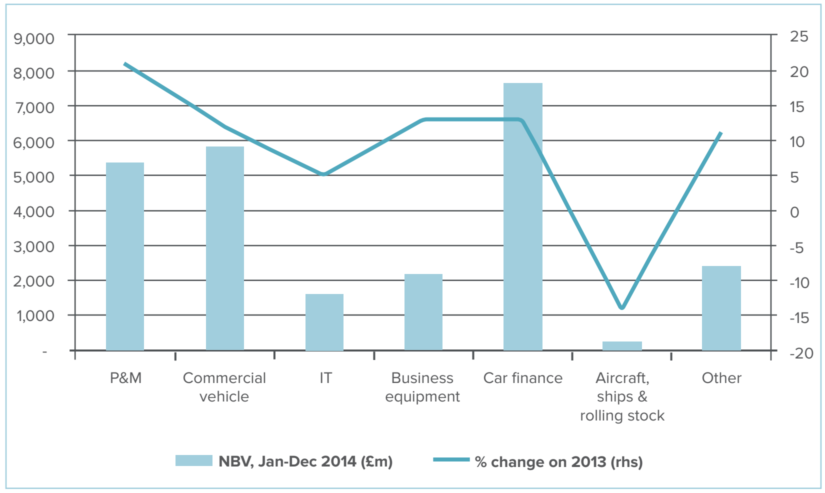


Source: Asset Finance International, FLA

White Clarke Group

© Asset Finance International, all rights reserved.

Asset finance NBV annual total and growth by sector, 2014

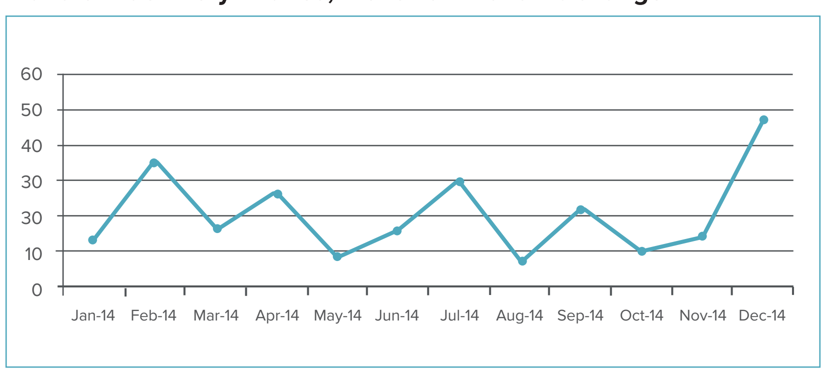


Source: Asset Finance International, FLA

Note that in the FLA figures given here, 'Commercial vehicles' includes light commercial vehicles, trucks and buses; 'IT equipment' signifies computer hardware and software; 'Business equipment' signifies office equipment such as photocopiers, multifunctional devices, telecoms, vending machines, and medical equipment; and 'Car finance' signifies both fleet finance and cars financed via the point of sale through dealers.

Taking rates of growth in 2014 by sector, on the basis of change over the same month of the previous year, as shown in the following charts, it can be seen that P&M had a consistently strong year, with positive growth values across the 12-month period. Commercial vehicles, as mentioned, performed well and only slipped into negative figures in December, whereas IT equipment, business equipment and cars all experienced negative growth in at least three months. The greatest fluctuation over the year was in IT equipment finance, with a low of -41% in April, contrasting with a high of +52% in October.

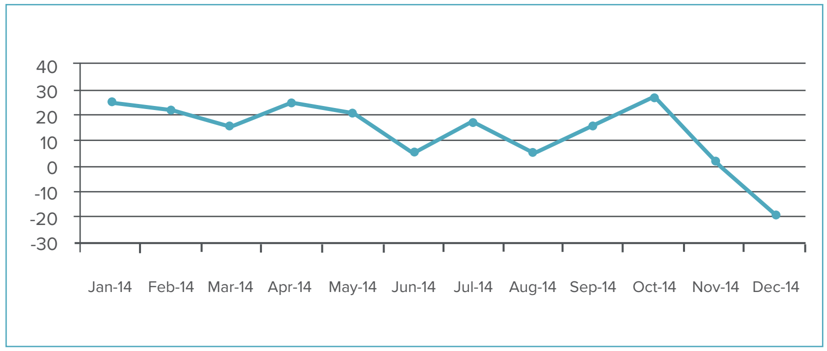
Plant & machinery finance, month on month % change



Source: Asset Finance International, FLA

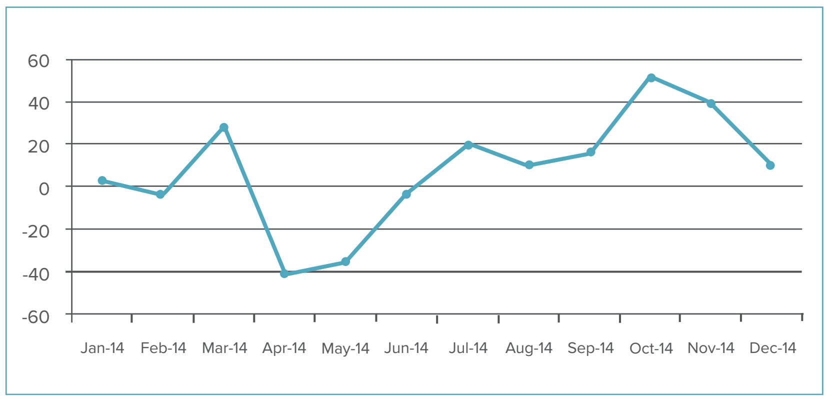
© Asset Finance International, all rights reserved.

Commercial vehicle finance, month on month % change



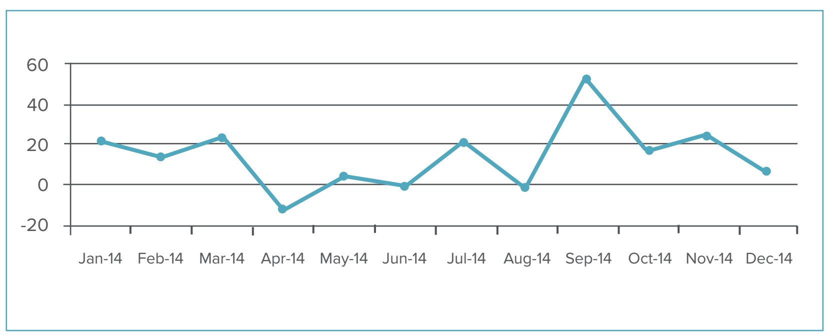
Source: Asset Finance International, FLA

IT equipment finance, month on month % change



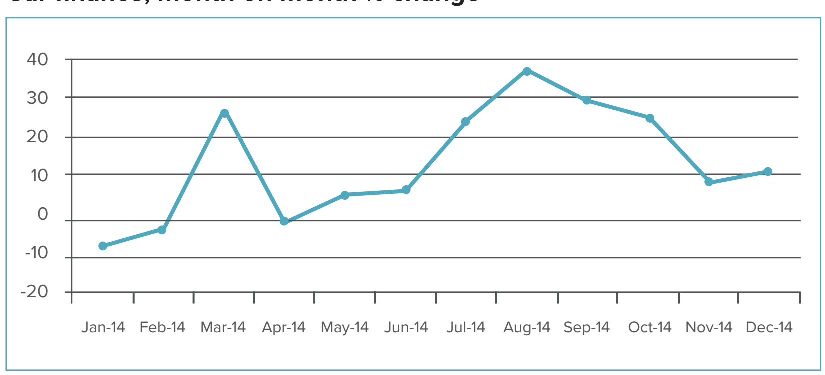
Source: Asset Finance International, FLA

IT equipment finance, month on month % change



Source: Asset Finance International, FLA

Car finance, month on month % change



Source: Asset Finance International, FLA

White Clarke Group

© Asset Finance International, all rights reserved.

Consumer credit

There is no better indicator of consumer confidence than the car market, which in 2014 maintained its recent year-on-year growth momentum and has now returned to pre-recession levels. According to figures from the Society of Motor Manufacturers and Traders (SMMT), new car registrations in 2014 were 2.48 million – the greatest number in a calendar year since 2004 and a 9.3% increase on the total for 2013, which itself was 10.8% higher than the previous year.

This pent-up demand was aided by a plethora of favourable financing deals through dealers, backed by manufacturer incentives. There was solid growth in the fleet sector (+8.7%), but the standout sector was alternatively-fuelled vehicles (AFV) which increased by +58% – with signs that consumers are slowly shedding concerns over the viability of ultra-low emission vehicles (ULEVs), as registrations of plug-in vehicles quadrupled to well past the 10,000 barrier. However, the actual numbers involved mean AFVs still only represent 2% of the total market.

The UK car market has now enjoyed 34 consecutive months of growth and remains the second-largest market in the EU behind Germany.

UK new car registrations

	Total	Diesel	Petrol	AFV	Private	Fleet	Business
2014	2,476,435	1,240,287	1,184,409	51,739	1,179,499	1,178,416	118,520
2013	2,264,737	1,127,414	1,104,592	32,731	1,074,622	1,084,279	105,836
% change	9.3	10.0	7.2	58.1	9.8	8.7	12.0
Market share 2014		50.1	47.8	2.1	47.6	47.6	4.8
Market share 2013		49.8	48.8	1.4	47.5	47.9	4.7

Source: SMMT

UK new car registrations, 2007–2015F

Source: SMMT

Figures from the FLA for consumer car finance volumes reveal growth of +13% for the number of new cars bought on finance through dealerships in 2014, coincidentally the same year-on-year rate as for asset finance. The total number was an all-time high at close to 900,000 for the 12-month period.

White Clarke Group

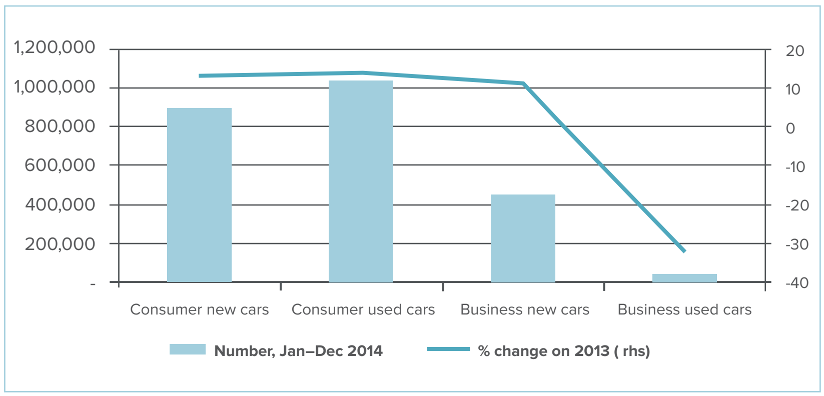
© Asset Finance International, all rights reserved.

The value of advances for new car purchases rose +17% over the 12 months to over £14 billion ($23 billion). The percentage of private new car sales financed through dealerships by FLA members reached a new high of 76.1%.

The consumer used car finance market also recorded strong growth in 2014, with NBV increasing by +14% over 2013 in terms of the number of cars, reaching a new high of well above 1 million. The value of advances for used cars rose +21% year on year to £10.6 billion ($17.4 billion).

Meanwhile, FLA figures for the number of new cars bought on finance by businesses in 2014 showed a decent growth rate of +11%, after growth of only +3% in 2013, although momentum had stalled towards the end of the year. The number of used cars bought on finance by business, which was never large, fell back by over 30% over the 12 months – partly due to the attractiveness of new car financing.

Cars bought on finance, 2014



Source: Asset Finance International, FLA

Commenting on these figures, Geraldine Kilkelly stated: “There has been strong growth in consumer motor finance provided through dealerships by FLA members over the last couple of years. Our most recent industry confidence survey suggests that growth is likely to continue in 2015, but at a slower rate than in 2014.”

The views of industry leaders on growth prospects and much else can be found in the later ‘Leaders insights’ section of this survey.

White Clarke Group

© Asset Finance International, all rights reserved.

Simon Goldie

Market commentary – industry growth and wider regulation

The FLA's Simon Goldie reviews the industry's achievements over the past year and looks at what to expect in 2015

2014 saw a strong recovery in the asset finance market. After the 15th consecutive month of growth in December, new business for the year as a whole was £25.4 billion, up by 13% compared with 2013, the strongest rate of growth in at least seven years. £24.6 billion of the total was for deals of up to £20 million, which is now only 7% below its pre-crisis peak of £26.5 billion – a peak it is likely to surpass during 2015.

2014 saw growth in most asset finance sectors: plant and machinery finance grew by 21% to £5.4 billion; business new car finance by 17% to £7.0 billion; business equipment finance by 13% to £2.2 billion; commercial vehicle finance by 12% to £5.8 billion; and IT equipment finance by 5% to £1.6 billion.

Analysed by type of finance, leasing new business grew by 3% in 2014 to £9.0 billion (finance leasing was up by 2% at £3.5 billion, and operating leasing by 5% at £5.5 billion). Lease/hire purchase new business saw strong growth of 18%, to £13.1 billion. Other finance provided by FLA asset finance providers was £3.2 billion in 2014, 28% higher than in 2013.

Regulatory challenges

Perhaps the biggest challenge to face lenders across all credit markets was the implementation of the Financial Conduct Authority's (FCA) consumer credit regime last April. As the FCA's regulated community leapt in size from 27,000 to 70,000, it was imperative for all stakeholder Trade Associations to step in and help their members prepare for authorisation.

The FLA ran a series of events including two major conferences, produced a dedicated suite of training courses, and held regular meetings of our Regulatory Reform Working Group to assist members through the authorisation process. We also established a working party to look at particular issues affecting our asset finance members.

We continued our advocacy work in 2014 by responding to proposals from the Department of Business, Innovation and Skills and the Bank of England for new data-sharing arrangements in the business credit markets, and we gave evidence on behalf of the industry to a Parliamentary enquiry into Government business-support programmes. The FLA also helped the British Business Bank develop a new asset finance funding vehicle, which was launched in November.

© Asset Finance International, all rights reserved.

Continuing SME support in 2015

2015 is looking very busy already. With the General Election only a few months away, we will continue lobbying for a supportive business and regulatory environment to help the asset finance industry thrive.

In February, the next event in our series of roundtable discussions will see Stephen Ibbotson, the ICAEW's Director of Business, talk to our members about SMEs' access to finance. Then in March we are holding a joint event with the ACCA to discuss the IASB's latest proposed changes to lease accounting rules.

Later in the year (18 June), we will hold a major industry conference to discuss the funding landscape and how technology can be used in marketing, among many other issues.

Simon Goldie

Head of Asset Finance, Finance & Leasing Association (FLA)

www.fla.org.uk

© Asset Finance International, all rights reserved.

Small business finance

In its final Money and Credit report of 2014, the Bank of England (BoE) revealed that loans to non-financial businesses decreased by £3.8 billion ($6.23 billion) in December, compared to the average monthly decrease of £0.8 billion ($1.3 billion) over the previous six months. The 12-month growth rate was also negative at -2.8%. Within this data set, loans to small and medium-sized enterprises (SMEs) decreased by £1.0 billion ($1.6 billion), compared to the average monthly decrease of £0.1 billion ($0.16 billion) over the previous six months, with the year-on-year rate standing at -2.1%.

In December, the BoE announced a further extension to the Funding for Lending Scheme (FLS), keeping it running to January 2016, with the claim that this would “provide lenders with continued certainty over the availability of cheap funding to support lending to SMEs during 2015, even in the event of stress in bank funding markets.”

BoE Governor Mark Carney stated that “The extension … concentrates the FLS on the one area where support remains warranted: the supply of credit to SMEs.” And an enthusiastic George Osborne, Chancellor of the Exchequer, commented: “Now that credit conditions for households and large businesses have improved, it is right that we focus the scheme’s firepower on small businesses, which are the lifeblood of our economy.”

However, small businesses are still not finding access to funding easier to come by. Despite the growth of challenger banks and alternative sources of funding such as peer-to-peer (P2P) and people-to-business (P2B) lending, the vast majority of loans to SMEs still come from the four main high-street banks, but the overall volume is not increasing.

Government incentives

A major tool in the government armoury to boost lending to small businesses is the British Business Bank (BBB), now in its second year of operation and is building its investment and partnership programmes.

The BBB is administering various schemes such as the Enterprise Capital Funds programme to encourage venture capital funds to invest in SMEs, and is guarantor to a Treasury pledge of £500m ($755m) of new bank lending to SMEs which was announced in the Chancellor’s Autumn Statement.

The recent BBB Small Business Finance Markets report found that “For some [small businesses] with the potential to succeed, traditional loans and overdrafts are not suitable for all their financing needs. This underlines the importance of continued diversification of the range of financial products used by smaller businesses, reflecting the growth and risk profiles of individual businesses. These products are likely to be supplied by many providers including banks, other existing providers and new entrants.”

The report recognises that a wider range of finance sources offers more options to smaller businesses, but that awareness must be improved, as there remains a gap between perceptions of the chances of obtaining finance and actual approval rates.

© Asset Finance International, all rights reserved.

The BBB says it aims to make up to £10 billion (around $15 billion at current exchange rates) of finance available for SMEs through its partnerships over the next five years.

So the finance is there, and more is being made available through an increasing number of sources, but a problem remains regarding raising awareness among small business operators as to this variety of options that are available.

Investment confidence

In spite of the improving economy, many SMEs remain cautious. Research published by the Federation of Small Businesses (FSB) in its Q4 2014 Small Business Index shows that 22% of businesses report that the cost of finance is a barrier to growth, compared with 10% a year previously.

However, the Small Business Index finds that, while firms are overall less confident than in previous quarters, they still expect to hire more staff, increase exports and grow their businesses in the first quarter of 2015. This was backed up by BBB research that revealed that nearly half of small businesses were making plans to grow in 2015, and that 43% of businesses seeking finance were doing so to purchase fixed assets.

In the well-regarded international research comparison produced by the World Economic Forum (WEF), the UK is consistently ranked as one of the most competitive nations to do business. The WEF ranks the UK ninth globally out of 144 countries in its Global Competitiveness Report, 2014–2015, but comments that “difficult access to loans [where the UK is ranked down at 82nd] remains the most problematic factor for doing business in the country.”

Access to finance is one of many topics covered by industry experts in the later ‘Leaders insights’ section of this report.

White Clarke Group

© Asset Finance International, all rights reserved.

Market forecasts

Asset Finance International asked a cross-section of senior executives at leading financial institutions for their market projections for the coming year. It is likely that such forecasts tend towards caution, particularly in a General Election year and with further concerns over the eurozone, so it is heartening to see the optimism shown in last year's survey continuing.

Looking at the outlook for the market as a whole, growth forecasts were universally positive, ranging from the low single digits to as high as +15-20%. However, the lower end was favoured by the majority, giving an average estimate of +7-8% and indicating a slight softening from the projections made for 2014.

Given the option of whether the outlook supports greater growth prospects for larger corporates or SMEs, the feeling was that SMEs have more scope, depending on confidence levels – the General Election result could affect these. In the meantime, SMEs will benefit from the low interest environment and utilise their ability to move nimbly to meet customer demands.

The average projection for both segments was again marginally lower than for forecasts made at this time a year ago – at rather more than 5% for SMEs and slightly under 5% for corporates – although upper estimates reached double figures for larger corporates and 15%+ for SMEs.

Asset finance sectors that drew the most favourable projections were construction (averaging around +10%), plant & machinery (+7-8%), healthcare (+5%) and IT / Business Equipment (+5%).

Auto sector outlook

Looking specifically at the vehicle market, forecasts for growth in passenger car finance average a little under +5%, not much changed from a year earlier, although the more optimistic estimates are for nearer +10%. The alternatively-fuelled sector looks set to advance even more than in 2014, particularly for electric vehicles, where there was a four-fold increase in new registrations of plug-in cars (although that was admittedly from a low base).

The overriding view regarding residual values is that they will soften in 2015, in line with supply increasing as the number of leasing vehicle returns rises and more nearly new cars come onto the market. The continuing negative rhetoric regarding diesel vehicles was highlighted as having a possible effect of depressing diesel residual values but supporting petrol RVs.

There was reasonable optimism for the truck sector, with forecasts averaging 5%+. However, the truck market in particular will be susceptible to confidence regarding the overall economic outlook and especially eurozone activity – there could be adverse effects if quantitative easing does not stimulate growth and the ongoing Greek turmoil depresses confidence.

© Asset Finance International, all rights reserved.

Economic overview

The UK economy continued to move in the right direction in 2014, with GDP growing at an estimated 2.6% – a faster rate than most other developed economies, particularly in comparison with its faltering eurozone peers. However, progress in the fourth quarter was below market expectations, with further signs that the driver remains services and that growth in manufacturing and construction is still muted.

Unemployment has been falling steadily over the past year, keeping below 7% for most of 2014, and the latest figure from the Office for National Statistics (ONS) shows the rate for September to November 2014 was 5.8%, down from 7.1% for the same period a year earlier.

Inflation has also gradually fallen, with the most recent ONS figure for the Consumer Price Index (CPI) standing at 0.5% for the year to December 2014, down from 1.0% in November. A primary cause of the drop was the fall in oil prices, bringing down the price of petrol – a situation that is likely to remain for the near term.

This is good news for consumers, whose spending power may also be helped by the return of meaningful real wage growth in 2015.

The outlook for the coming year

Expectations for growth in 2015 are generally for the UK to maintain a better rate than most other developed economies, but this is likely to be constrained by muted growth globally and especially by further contraction in the eurozone, the UK's major export market.

The independent fiscal watchdog, the UK Office for Budget Responsibility (OBR), was slightly more upbeat in its December 2014 Economic and Fiscal Outlook than in its previous March report, stating: "GDP has increased more strongly [in 2014] than we expected in March, which has led us to increase our forecasts for growth in calendar years 2014 and 2015." However, the OBR expects the quarterly pace of growth to slow, continuing: "With unemployment falling more rapidly than we expected, we judge that there is less spare capacity in the economy than we forecast in March and therefore less scope for above-trend growth in the future as this spare capacity is used up."

Despite the expected loss of momentum through 2015, the OBR marginally raised its growth forecast, stating: "With GDP starting the year higher than we expected, our forecast for GDP growth in 2015 as a whole is 0.1 percentage points higher than in March at 2.4%."

This forecast comes in slightly lower than from a number of organisations, although the consensus expressed is much in agreement. The World Economic Outlook for January 2015 from the International Monetary Fund (IMF) has projections of 2.7% year-on-year growth in 2015, followed by 2.4% in 2016.

The Organisation for Economic Cooperation and Development (OECD) also forecasts 2.7% GDP growth for the UK in 2015, with a drop to 2.5% in 2016. Commenting in its November 2014 economic forecast summary, the OECD suggested that in the UK, "Higher interest rates associated with the economic recovery could support stronger productivity growth by encouraging the selection of more profitable projects and the restructuring of loss-making companies. Labour

© Asset Finance International, all rights reserved.

productivity would also be strengthened by further structural reforms to improve loan availability, reduce mismatches in the labour market and further upgrade infrastructure."

The Economist Intelligence Unit (EIU) forecasts 2.5% growth in 2015, noting that the UK economy is in a healthy recovery phase, but cautioning that "continued austerity will heighten political challenges following the 2015 election, which we expect to result in a hung parliament. Relations with the EU are increasingly strained." The EU is of course the UK's biggest trading partner and such strains, or lack of resolution, can adversely affect confidence and investment.

Looking at the next five years, the EIU forecasts real GDP growth at an annual average of 2.2%, commenting: "Longer-term activity will depend increasingly on future trends in productivity. Technological progress will be an important driver, but productivity levels will remain lower than in the US, Germany and France, reflecting a deficit in intermediate skills and a congested transport network."

© Asset Finance International, all rights reserved.

Leaders' insights

Asset Finance International sought the opinions of industry leaders across the UK equipment and auto finance and leasing market, in order to provide a view of the current state of the market, the opportunities and challenges it faces in the near and medium term, and the direction of market trends.

Current trends

The first topic concerned the positive growth trends shown over the last year in the UK economy and in the uptake of asset finance and leasing, and whether these are likely to continue through the coming year.

The consensus was generally optimistic, tempered by a degree of concern over the potential effect of the General Election in May and external issues such as stagnation in the eurozone. This was summed up by Mike Francis, head of Asset Finance at Investec, who said: "The 2014 UK economy has seen a second successive year of solid growth after four years of uncertain recovery. Key to this has been business investment which, in the first half of 2014, was running at 11% on the year, 8% higher than the pre-crisis record. In the coming year, we expect overall UK growth to remain solid and growth in the asset finance market to continue."


Mike Francis

Ian Wood, head of Marketing at Lombard, stated: "We see no reason why the UK should not continue to grow throughout 2015. We also expect the overall volume of asset finance / leasing to grow over the year" but he was less enthusiastic about investment levels, adding: "However, as with previous recessions and despite a sustained period of underinvestment, we expect overall levels of business investment to slow their growth as the year progresses."


Ian Wood

A comparative view was taken by George Ashworth, managing director of ABN AMRO Lease, who commented that the UK economy should perform better than the eurozone economies throughout 2015, partly because the other economies currently represent a relatively less attractive growth opportunity. However, despite the UK asset finance market having the highest performance in a decade in 2014, he questioned, "Is that down to the industry's own efforts, or is it down to just plain good luck? Looking across the landscape it does not appear to be characterised by exceptional individual performances. Rather, it seems the industry is more a net beneficiary of several factors – pent-up demand, greater use of non-traditional sources of finance, and end-users looking to lock into medium-term finance at low interest rates with proven products that are not repayable on demand."

While agreeing that pre-recession levels of asset finance business have been passed and the trend looks set to continue, Bill Dost, managing director of D&D Leasing, observed: "While the indicators are

White Clarke Group

© Asset Finance International, all rights reserved.

good that we will have growth, I don't think it's going to be as robust as we think or hoped it would be. The fact is, with worldwide oil prices dropping the way they have and the subsequent knock-on effect on global business, I suspect we'll see a slowdown in economic growth and the recasting of figures over the course of the year."

Noting that Europe has now begun its programme of quantitative easing and that deflation has already started to have an effect, Dost said: "I think these are all signs that we aren't out of the woods and need to carefully watch the economy and, more importantly, to be there to support our lessees when they need us."

One event looming large is the General Election. Mike Francis observed: "Political deadlock after this year's election, with no party winning sufficient votes for an overall majority, may faze financial markets for a while; however, we expect the uptake of asset finance to continue."

A similar point was made by Mike Randall, CEO of Close Brothers Asset Finance, who stated: "Whilst demand over the last 12 months has been solid, we have to consider the election in May which, depending on the result, could pause any investment from SMEs until the outcomes are known."

Mike Randall

Auto sector confidence

As noted earlier in this survey, the UK car market has grown overall for the best part of three years on the back of relatively favourable economic conditions, particularly compared to the rest of Europe.

The industry is confident that such conditions will persist, although again the General Election result could have an effect. Tim Porter, managing director of Lex Autolease, stated: "We expect the level of economic growth to continue into 2015 – as inflation remains low and interest rates remain favourable for borrowing. We also anticipate demand for leasing and new registrations to continue to increase."

Richard Schooling, chief executive of Alphabet (GB), agreed: "This year we expect to see a continuation of the positive underlying trends we saw in the UK economy during 2014 with the increasing strength of the SME sector," adding: "The General Election will create some market uncertainty, but the UK recovery is showing signs of resilience and overall business confidence is cautious but optimistic. Already we've seen the strongest performance in January vehicle registrations since 2007 and company car registrations for that month were 18% up on the corresponding period in 2014."

For David Betteley, Financial Services director at Jaguar Land Rover, economic growth and asset finance uptake are likely to be maintained at current levels, but he added the proviso: "The outcome of the election will be an issue. It will be important to follow pre-election statements on any proposed investment/ BIK [benefit-in-kind] changes."

David Betteley

© Asset Finance International, all rights reserved.


Brendan Gleeson

Brendan Gleeson, group executive vice president of software solutions and consulting services provider White Clarke Group, stressed: "Last year, there was an upswing in confidence among individual consumers due to the improving economy, and they buoyed up the auto market through uptake of finance plans such as personal contract hire (PCH) and personal contract purchase plans (PCPs). The election result may well affect whether such levels will be maintained through the coming year."

A different challenge was highlighted for the truck sector by Peter Collins, CEO of MAN Financial Services, who stated: "In the transport industry we are in a stable environment and even foresee modest growth – but a problem for the industry is in recruiting drivers."

Finance for SMEs

The panel of experts was asked to comment on the provision of asset finance to SMEs, as voices are still raised that this has remained an issue for many small businesses, with the follow-on being: in which areas might this be improved upon?

The general view is that now, unlike in the depth of the recession and contrary to many headlines, the SME market is adequately provided for – if the SMEs know where to look. The image of the high-street banks may still be tarnished, but a problem persists among many small businesses that there are no alternative options to their traditional lender.


Stephen Bassett

Stephen Bassett, executive director at Arkle Finance, explained: "I don't think asset finance to SMEs has ever been a particularly contentious issue at all; I think it is cashflow / overdraft-type funding where the issue has lain.

"Even in the credit crunch, asset finance was always there, although from far fewer sources. In my opinion, it was accessing it which was difficult for SMEs because they were so used to easy credit from everywhere, particularly their bank, that they did not know where to go when that dried up."

He concluded: "Having learnt, they now understand better what asset finance is for, but they still lack more liquid funds for day-to-day activities."

Juan Kelly, managing director of Conister Bank, stated: "It's broader than the provision of asset finance to SMEs, and SMEs don't think in terms of product but funding." In his view, "It's a general problem driven by the Big Four banks' control of the distribution and payments system."


Juan Kelly

White Clarke Group

© Asset Finance International, all rights reserved.

In George Ashworth's opinion, "It is not just the provision of asset finance that has been the contentious issue. Clearly, lending of whatever nature to SMEs has been an issue throughout the liquidity crisis." The growth in non-traditional forms of finance and asset-based lending facilities were market responses to the general deleveraging in the UK economy and, "Whether the commercial banks like it or not, the hammer of bank deleveraging fell on the sector of the economy that was the least able to kick back – SMEs."


George Ashworth

Ashworth continued: "With close to 80% of B2B asset financing lending in the hands of authorised institutional players, it cannot be surprising that the supply side of the asset finance market was negatively impacted. What is far more surprising is the lack of focus that asset finance has received within the authorised institutional bodies. Rather than foster and nurture in-house asset financing operations, it seems the reverse is in process. For the position to improve, either authorised institutions need to better understand the capital efficiency of the product and strategically invest in it, or non-authorised institutions need to grow."

Mike Francis emphasised that the issue is not one of a shortage of funding: "The issue is really one of confidence on the part of the SME. We are hopeful that the government-backed referral scheme, where any business that is declined traditional bank loan finance is offered out into the wider market, will see increased demand for credit and will help align more borrowers with funders who are appropriate for them in the future."

Another viewpoint was provided by Gavin Wraith-Carter, general manager of Hitachi Capital Business Finance, who commented: "I don't believe that it's a contentious issue, it's just that they haven't set the country goals high enough. At the moment only 25% of business funding is funded by asset finance, which means 75% isn't, so if we set the goals high enough then we should start to see the situation improve."


Gavin Wraith-Carter


Martin Nixon

This level of penetration is a major issue for all funders, a point also made by Martin Nixon, head of Asset Finance at United Trust Bank, who added: "While progress has undoubtedly been made, it is generally accepted that the industry could do more to educate SMEs about the benefits of asset finance. For our market to continue to grow we will have to develop more innovative products to make our offering more attractive."

In addition to these points, Julian Hobbs, UK sales director for Siemens Financial Services (SFS) commented: "The share of investment financed by asset finance has remained relatively steady over the last four years. Leasing and hire purchase, in particular, have played a crucial role in enabling SMEs' investment."

© Asset Finance International, all rights reserved.

Hobbs quoted a 2014 survey by the British Business Bank, based on a consultation with asset finance providers, which suggests that awareness rates of leasing and hire purchase as a form of external finance are high, on average at 85%, but that only 45% are aware of the specific suppliers to approach for this type of finance. He concluded that "There is therefore a need for asset financiers to further extend their marketing efforts to engage with end-customers, in particular in underdeveloped asset finance markets, as well as developing unique service offerings that are tailored to the specific requirements of SMEs."


Julian Hobbs

Some thoughts on areas for development were offered by Bill Dost, who said: "I'm a proponent of lending to SMEs and in fact I think our job as lenders is to look for a reason to lend to them. While we're not in danger of saturating the market I think we do need to look at the next up-and-coming sectors that aren't yet being financed or are not yet understood and start taking a punt on them and offering finance to customers in those areas."

He added that sometimes opportunities are spotted that make sense but how to get them financed can seem to be a problem because either they require an abnormal structure, or because they are an abnormal asset. "I think the smarter finance company needs to look to these areas constantly and ask itself if this is where finance is going to go and will it be ready to finance a product like this in the next year or two?"


Bill Dost

Challenges for the vehicle finance sector

The UK car sales market far outstripped those in mainland Europe in 2014, with fleet leasing remaining buoyant. There were significant increases in the registration of alternatively-fuelled vehicles, especially the plug-in electric car market, indicating that, while still at low numbers, this new market is established and will only grow – a new opportunity that will inevitably be a challenge for lessors to promote.

While recognising the opportunities in the vehicle sector for continued growth, Richard Schooling stated: "The changing social and business environmental themes of smart technology, the challenge of 'big data', increased connectivity (of both people and vehicles) and improved vehicle telematics, as well as new attitudes and approaches such as the sharing economy and flexible working, mean significant changes to how we think, live our lives and do our work. Automotive finance and leasing can not only react to these changing customer demands but can also lead the change."

He elaborated: "From our perspective at Alphabet, we no longer see ourselves as merely a leasing or fleet management company. We are a 'business mobility' solutions provider whose role is to keep


Richard Schooling

White Clarke Group

© Asset Finance International, all rights reserved.

our customers on the move and get their employees to where they need to go in the most efficient, effective way possible. That might not necessarily be in a contract hire, combustion engine vehicle – it might be via a corporate car-sharing solution like AlphaCity or an electric vehicle."

For David Betteley, the main challenge will be "Continued dependence on subsidy from manufacturers," to which he added: "New legislation is not helpful but it's a level playing field, so professional operators have nothing to fear."


Tim Porter

Tim Porter also placed manufacturers' incentives at the top of the list, stating: "The principal challenge is whether economic conditions will allow manufactures to continue offering the same level of new car discounts experienced over the last 12-18 months. Business and consumer demand has been further generated by the availability of discounts and deals in the market and will be susceptible to any reductions."

As a specialist in the haulage sector, Peter Collins had earlier mentioned the challenge of recruiting drivers, but added: "As an observation, I would say that car leasing challenges lie in being competitive and offering added value to customers who are becoming far less commoditised and demanding more flexibility."


Peter Collins

Sticking with the commercial vehicle sector, Mike Randall commented: "The challenges we are witnessing for businesses are the costs of new vehicle upgrades, which is a major issue for UK hauliers. There are also issues such as fluctuating fuel prices and government regulation, which can impose further costs for businesses that may not have been considered. This is where a flexible cash flow which can be eased by refinance solutions can be of assistance."

What will be the main market drivers

The next topic for discussion centred on what will be the likely 'drivers of success' for the equipment and auto finance markets in the near and medium term. The overriding sense was that, with the industry on track for further growth, the focus should be on customer service.

Ian Wood said: "As competition continues to build and as more lenders return to the market, a key issue will be delivering value for customers aside from just agreeing to provide finance. The asset finance industry as a whole needs to become simpler and more focused on its customers' needs in an increasingly competitive finance market."

Technological innovation is a key element in this, put simply by Juan Kelly: "Technology, particularly in credit risk management. The current approach is archaic."

Others agreed that the introduction of improved technology will be a main driver of success, as Mike Randall stated: "Flexible finance solutions are a key driver to encourage investment."

White Clarke Group

© Asset Finance International, all rights reserved.

Bill Dost expanded on this: "I think flexibility and innovation are going to be two of the biggest drivers for success in the next few years. How willing are you to change your process or the way you think about an asset? How willing in your office are you to fund an item that has never been funded? If 3D printing, cloud services and consumables were the only items able to be financed tomorrow, how quickly could most of us, myself included, adapt and change to serve that new market?"

Mike Randall then pointed to the important consideration for businesses of investment in people. "Apprentice programmes encourage sector experts, so when businesses invest in new equipment in order to meet demand they have the experienced experts to operate them," he said, adding that "Government initiatives such as the Regional Growth Fund, of which Close Brothers is a facilitator, encourages this type of investment in assets and people, across regions in England."

Relationships within the industry were highlighted by Mike Francis, who observed: "The strong relationships between funders and their intermediary partners will continue to be one of the main drivers of success, along with funders, intermediaries and trade associations raising awareness of asset finance for SMEs in order to grow the size of the overall market."

He continued: "Vendors, the auto finance market and dealers will need to adopt the new practices required by the FCA regulatory environment, ensuring they have the correct authorisation. While this may initially dampen growth in the near term, over the medium-to-long term we would expect this to result in a strong healthy industry."

Of course, the big given is the continuing growth of the economy, as Gavin Wraith-Carter reminded: "The growth of the overall economy is going to have the biggest impact on the overall success of the equipment leasing markets in both the near and medium term," to which he added: "Obviously, publicising the options available to SMEs outside of bank funding will help enormously, coupled with a regulatory framework that's effective but not too onerous."

Government policy will be a particular issue for some funders, observed Martin Nixon: "Within the construction sector in which we specialise, the sustainability of the rate of economic growth will be crucial. Further growth in the housing market via government stimulus, as well as continuing focus on improving the infrastructure of our road and rail networks, will determine the success or otherwise for many companies in this sector."

Another issue is the need to replace outdated equipment, as raised by Julian Hobbs, who said: "Following years of underinvestment during the recession companies now have to replace and upgrade ageing equipment and machinery. Addressing previously deferred investment is particularly important, as businesses are eager to take advantage of the improving economy."

He pointed out that, in the short to medium term, the overall tightening of the bank lending market is expected to continue to stimulate growth in asset finance, and stated: "As a lessor that understands how the drive for energy efficiency, automation, digitalisation and competitiveness might impact the industrial and business environments, we are able to take that insight into the further development of our products and services to suit the changing

© Asset Finance International, all rights reserved.

requirements of SMEs and to enable their business success, despite low credit supply."

The regulatory environment was also stressed by George Ashworth, who noted: "For authorised institutions, the key driver of success is being better able to utilise the rules and approaches as laid out in Basel III / CRD IV. Success within authorised institutions is all about capital efficiency. As such, these organisations need wherever possible to secure advanced status."

He expanded on this, saying: "Linked to the subject of capital efficiency, the Bank of International Settlements (BIS) has recently circulated a consultation paper in respect of the 'standardised approach'. This is a very interesting and potentially very powerful development and needs to be watched by the industry carefully. The potential changes that may flow from this consultation document may be wide-ranging indeed. I can foresee some operating models in the industry that we take for granted today being forced into a re-evaluation."

And he summed up the situation for non-authorised institutions: "The challenge is and will remain of a 3D nature – deposits (aka liquidity), distribution and data."

Innovation is key in the auto sector

It was agreed that meeting customer needs will always be the key driver of success in the auto sector and, as Richard Schooling observed, "Being ready to satisfy a customer's need in the future – a need they might not be aware is even a need at the moment – will be crucial to long-term, sustainable success. Apple's iPhone and its subsequent revolution to the smartphone market is a great example of this kind of thinking."

Peter Collins commented: "The future will be driven by new technology and differentiating from the competition through added-value services such as telematics (black box) and forward-facing cameras," to which he added: "Driverless cars are not that far away either."

In Brendan Gleeson's opinion, "Technology innovation is changing the way people run their lives and do business; consumers expect greater interaction, transparency and efficiency. Asset finance providers need to ensure their processes and systems are flexible and capable of providing this level of service in a rapidly evolving environment."

Richard Schooling concurred, saying: "In our market of fleet leasing and management we're starting to see changes in how our customers

© Asset Finance International, all rights reserved.

use their vehicles, how they fuel their vehicles, demands for more flexibility, as well as increased use of technology platforms for greater transparency, access and efficiency.

"That's why in the future for our market we see the 'driver of success' being the focus on mobility and going beyond funding and fleet management. We're looking to provide business mobility solutions to meet the changing mobility needs of our customers right now, as well as meet their future business travel requirements."

He explained that the mobility objectives UK businesses are often diverse – from fundamentals such as keeping the business on the move or achieving greater travel efficiencies, to supporting sustainability objectives and providing 'perk' benefit solutions for employee satisfaction. Meeting these objectives presents a complex challenge to bring the Executive, Finance, Human Resources, Procurement and Operations functions together but, Schooling concluded, "We can help organisations 'join the dots' with these different functional areas to deliver a seamless, efficient and effective mobility approach, tailored to the needs of that business."

Where to look for growth

Projections for asset finance sectors are covered earlier in this report (see 'Market forecasts') but Asset Finance International also asked the panel to comment on those sectors that offer good prospects for growth in the coming year. Views were specifically sought on the 'green' renewable resources market, and what potential might be in that sector.

It was interesting to see a broad view that most sectors will perform robustly, although if any one particular sector was favoured it would be construction. Investec's Mike Francis made that point: "We would expect construction and plant hire to do well due to further house-building and infrastructure investment."

Mike Randall of Close Brothers Asset Finance said: "We are seeing healthy growth in the market across the variety of sectors we operate in, including manufacturing, construction, transport and print, and can see this continuing over the next 12 months."

It was noted earlier in this report (under 'The UK asset finance market') that plant & machinery has been performing consistently well, and this sector was selected by Julian Hobbs of SFS, who stated: "The increase in new orders in the past three months up to January is likely to drive investment momentum for new machinery and equipment, providing impetus to the asset finance industry."

The provision of healthcare is likely to become increasingly important as the population ages. Hobbs observed: "Driven by the squeeze on capital budgets, the healthcare sector will also show growing interest in asset finance. As the NHS continues to walk the tightrope of achieving efficiency savings without compromising healthcare service quality, asset financing techniques are predicted to become an increasingly useful tool with which hospitals can pave the way for long-term sustainable development, while delivering service excellence and improving patient outcomes."

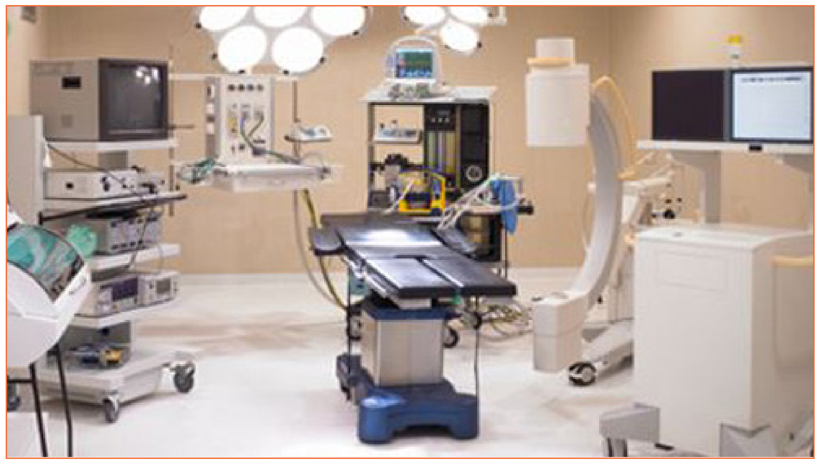
Bill Dost of D&D Leasing also highlighted construction and healthcare, among others, commenting: "Construction, trucking and medical are

White Clarke Group

© Asset Finance International, all rights reserved.

always good solid areas of growth, and I think more service-based areas such as cloud computing will continue to rise in prominence."

Although not quite committing to specific sectors, ABN AMRO Lease's George Ashworth gave an indication of the areas he believes are worth concentrating on: "By virtue of the drive to optimise capital efficiency it makes sense for authorised institutions to focus on those assets that present good loss given default (LGD) characteristics. In my world, that equates to hard-iron assets where I can literally kick the tyres / tracks, and which have demonstrable, transparent, easily accessible and liquid secondary markets. No rocket science around that, it is just the plain old canons of asset finance lending."



Green opportunities

Looking at the renewable resources sector, Mike Randall commented: "The 'green' market presents opportunity, with an understanding of the innovation and therefore an appropriate proposition for lending."

This was taken up by Ian Wood of Lombard, who sees definite potential in renewables: "All sectors show promise through 2015; however, the renewable and sustainable energy market has the potential to grow apace. The actions of Government and their moves to assure energy security for the UK grid will be an ongoing point of interest."

However, he cautioned, "The recent falls in oil and gas prices appear to be more than a temporary feature, as supply levels remain consistent while OPEC maintains its output. Whilst this may be driven by a perceived need to make North American supplies drawn from fracking relatively expensive, the by-product will be to impact the relative costs of carbon-based and renewable energy supplies which may make the latter less attractive in the short term and impact on demand."

A further note of caution came from Mike Francis, who reasoned: "We do not actively seek opportunities in the renewable resources market. The repayment term in the sector is often too long for funders to take a traditional credit view, while the borrower is usually too small to undertake the necessary due diligence to afford a project finance approach, resulting in the expenditure being cash flow negative in the short term."

© Asset Finance International, all rights reserved.

Such is not the view of Julian Hobbs, who stated: "UK businesses are likely to face increased energy costs through to 2030, further highlighting the importance of energy efficiency. However, raising or prioritising capital represents a major obstacle to making those investments and asset finance is increasingly coming to the fore to fill the funding gap."

He continued: "SFS is committed to facilitating investment in energy efficiency and renewables. In 2011, SFS launched the Energy Efficiency Financing (EEF) scheme in cooperation with the Carbon Trust with the aim to boost green growth. Since the launch of the scheme, EEF has provided tens of millions of pounds worth of finance to the energy efficiency and renewables sector. Around 75% of this financing has focused specifically on renewables technology, successfully helping more than a thousand organisations generate hundreds of megawatts of renewable energy."

Developing the green vehicle market

Renewable technology in the auto sector has for long been promoted as a certain growth area, but has been slow to gain acceptance from consumers. However, signs over the last year show that numbers of new vehicle registrations have finally taken off, with a 60% rise in January 2015 over January 2014, albeit from a rather low base.

As Alphabet's Richard Schooling said: "The growth in electric and alternative fuel vehicles is one to watch." However, he added: "But this is a great example where simply doing what has been done before doesn't work, so a new holistic approach is needed."

He explained: "With electric and alternative fuel vehicles there's a huge potential but companies need to think about the bigger picture and need a 360-degree customer view: Which journeys are electric vehicles (EVs) most appropriate for? Which vehicles best suit your needs? What's the role of pure electric vs hybrid models? What charging and support infrastructure needs to be in place? What leasing considerations need to be made with regards to the battery?"

Schooling stressed the need for lessors to "think wider than merely vehicle funding to ensure that an EV is right for the expected usage and that the home, workplace and public charging infrastructure is in place."

In the commercial vehicle sector, and especially for trucks, the need to improve emissions is of course a major issue and one subject to tighter legislation. However, as Peter Collins of MAN Financial Services pointed out, the situation has been changed somewhat by the recent and dramatic fall in fuel prices: "With the sustained drop in global oil prices, the economics of switching to different forms of energy to power vehicles such as gas, hybrids and electricity becomes less attractive. Having said that, in the HGV sector, with the recently introduced Euro VI engines that are more economical and emit less particulates / $C0_2$, then there will be modest growth in 2015 as fleets become greener over a period of time."

© Asset Finance International, all rights reserved.

How to increase asset finance penetration levels

Although asset finance figures are back to pre-recession levels in terms of overall new business volume, there are still sectors where penetration levels remain stubbornly low. The question of how penetration levels can be increased was next addressed by the panel. Should a change to the way industry entrants are employed and trained within the industry be considered, and how might this be achieved?

The terms most frequently used were education, awareness and innovation, though more in relation to customers rather than new recruits. George Ashworth provided a summary of the background: "Throughout the liquidity crisis, the industry has had a window of opportunity to build the case for the leasing / asset finance brand. The industry singularly failed to seize that window of opportunity. Now, as a growing sense of normality returns to the industry it remains to be seen whether asset finance can not only help grow the overall investment pie but also take an increasing share of it."

He elaborated, stating: "It is many years since asset finance broke the 30% share figure of gross fixed capital formation (excluding property). We still only have around 40% of corporates with debt utilising asset finance products. Why? The industry needs to challenge itself if it wishes to grow relative to other forms of lending. It is growth that primarily attracts young blood into an industry."

Conister Bank's Juan Kelly was unequivocal in his view of the first thing the industry should do: "Stop calling it asset finance. We cannot continue to think in terms of product. Customers want problems solved. It's our job to do so in the most frictionless way possible. That means embracing financial technology."

It was agreed that education and raising awareness of this form of funding across all levels of UK business are key, more so than training, as Bill Dost pointed out: "We can have the best training in the world but still have poor penetration in certain sectors. We need to figure out why these sectors have poor penetration, what their needs truly are and then find a solution for those needs."

Martin Nixon of United Trust Bank concurred, adding: "If finance penetration levels in certain sectors remain low, then without some innovation in our product offering it is difficult to see how the tide can be turned. It is a real challenge for many of us in the industry and one that we are all giving serious consideration. I don't believe that it is necessarily a training issue, just one of getting the product right and finding the right route to market."

The importance of product innovation was stressed by Julian Hobbs, who noted: "As customers increasingly want to pay for equipment and services based on usage, financiers need to intensify the ability to develop differentiated service offerings that help bring transparency to and tackle total cost of ownership (TCO) for a wide variety of assets."

He also emphasised that educating businesses is needed, "to help finance managers understand the value of finance. The argument for financing goes beyond the issue of whether or not a company has the cash to buy or upgrade the equipment outright. It is as much about whether a business wants to stay commercially nimble and keep cash to hand for sudden tactical initiatives – instead of tying up capital in plant and equipment."

White Clarke Group

© Asset Finance International, all rights reserved.

Gavin Wraith-Carter of Hitachi Capital Business Finance observed that awareness can be raised through various means in addition to by individual funders, which include government and the associations such as the FLA and the National Association of Commercial Finance Brokers (NACFB).

He went on to make the point that improvements in training should be considered: "There isn't an industry standard of training and there is no widely accepted qualification in asset finance, unlike other financial arenas such as IFAs, so developing a recognised qualification might bring more kudos as well as a greater awareness to the sector."

Ian Wood concluded: "There is a general need for the industry to review its stance on how it presents itself to the market. Simplicity and clarity need to be the watchwords for everyone to ensure customers understand how hire purchase and leasing can support their businesses."

He also noted the need to attract new blood and the benefits that brings, adding: "Bringing fresh blood into the industry from other successful B2B markets would be an advantage, helping to break free from jargon in particular."

Auto sector penetration

In general, the vehicle sector has relatively high penetration levels, as Lex Autolease's Tim Porter stated: "Penetration in the vehicle leasing sector is strong. Aside from the aforementioned SME market, most business sectors are well penetrated and utilise leasing as a key form of funding."

However, the need to at least maintain such levels and keep up customer awareness is recognised, which involves above all investing in people and product. Richard Schooling stressed that, whilst the financing products may be intangible, the service provided is most certainly tangible and getting the right business culture is vital. He commented: "It's said that 'culture eats strategy for breakfast' and in my experience that is true. If we're going to deliver outstanding service to customers, day-in and day-out, it all comes down to getting the culture of the business right and how we influence the attitudes and behaviours of our people."

He continued: "By investing in people with the right attitude, values and behaviours – who may come from outside the industry and need investment in the skills or experience required – you create a culture where the customer is at the heart of everything you do."

Peter Collins joined in, stating: "If you believe customers are only interested in the interest rate then you are never going to grow your portfolio...it's all about having a deep-dive understanding of your customer and offering the right solutions. Customers want consistency, longevity and to be able to trust their funder not to be just a fair-weather friend – customer intimacy is a lost art and many funders employ so-called 'Relationship Managers', which is rather ironic as there is often no pretence of a relationship."

© Asset Finance International, all rights reserved.

New sources of funding

A new subject for consideration is the rapid rise of alternative sources of finance, in particular peer-to-peer (P2P) and peer-to-business (P2B). These lenders are becoming increasingly visible across the finance spectrum and more are venturing into the asset lending marketplace. Asset Finance International asked the panel's views on this and whether alternative financing will prove to be a force in the industry.

Opinions varied, but were on the whole welcoming – Mike Randall said: "Innovation in lending is key to the industry's success and we believe there is opportunity for a variety of different channels."

Gavin Wraith-Carter concurred, stating: "P2P / P2B lenders fit a specific gap in the marketplace and increase the choice of funding routes for the SMEs, so the fact that they're increasingly visible can only be a good thing for the overall market."

And George Ashworth welcomed their innovative approach, commenting: "I think the platforms that have been created are clear, cogent and consistent. In short, they do what it says on the tin," adding: "I believe that they represent both an opportunity and a threat to the industry. An opportunity in the sense that they can help grow the overall pie; a threat in that some in situ players may find their models / returns coming under ever-increasing pressure. The challenge to the P2P / P2B players lies in the end-of-life scenarios and how they can minimise investor loss via the repossession and re-sale of assets."

Other challenges for the new entrants include costs, as stated by Juan Kelly: "P2P lenders will not penetrate deep into the asset finance market because P2P lenders have a cost of funds disadvantage, which is why over 80% of funding in the US P2P market comes from institutions – so let's call them marketplace lenders. For marketplace lenders to compete, they must have superior processing capability, particularly in credit risk. That's currently easier for consumers than for SMEs, although this will change in time."

This tacitly recognises that the new platforms are gaining in popularity, at least with small businesses, because of their speed in processing and the fact that their nimbleness makes them attractive. However, caveats were raised as to the appeal of these new products outside of niche markets.

For Peter Collins, the new platforms' very nimbleness may mean they will move on as market conditions change: "This is an interesting

© Asset Finance International, all rights reserved.

growth sector, and asset lending has its obvious attractions in securing risk against a tangible asset; however, they are symptomatic of a dysfunctional market where the large banks/finance houses have left a significant gap in the market and these new lenders are filling the space where returns are better. As soon as risk appetite returns to the big players, the margins will shrink and the new funders will quickly move on to where they can maximise their investments."

Bill Dost commented: "Like all entrants in the market, the only way they will be able to make a space and stay in our industry is if they are filling a need, and if they are doing so the market will bear them. Like all of us, they will need to go find their place in the market."

So should established players react to a potential challenge presented by alternative financing? Ian Wood observed: "New methods of lending will be part of the competitive landscape going forward, of whatever type. The industry must look to meet these challenges head on and seek to develop existing offerings and drive innovation to maintain and grow our positions."

Shaking the established tree should prevent complacency and help innovation. For Julian Hobbs, "Against a background of the rise of P2P/P2B lenders, specialist financiers can still have a vital role and contribution to make to the palate of financing options for customers because of their industrial knowledge and asset expertise. The provision of finance in itself is just one part of the equation.

"Businesses nowadays are increasingly looking for advice and guidance on the best choice of technology and there is also growing expectation on 'all-in-one' solutions, bundling other service factors such as installation, training, maintenance and future upgrades etc. Specialist asset financiers that have a thorough understanding of asset trends, volatility of underlying equipment values as well as replacement cycles will be in a position to craft commercially sustainable financing packages that accommodate the diverse needs of the lessees."

The regulatory scenario

The final topic for the panel of experts to assess concerned what, if any, real impact the impending regulatory changes might have on the asset finance and auto finance sectors. The introduction of the Financial Conduct Authority (FCA) in 2014 has caused a considerable reaction, much of it negative, especially from brokers, although others have welcomed a new approach.

One such is Richard Schooling, who said: "For me, the FCA, its remit and its approach of 'treating customers fairly' (TCF) can only be seen as a positive force in enabling good businesses become great ones."

The benefit to customers that should come with the introduction of regulatory monitoring by the FCA was also viewed positively by Mike Randall: "We believe that it encourages the industry to be transparent and compliant, whilst creating a positive experience for the customer. We believe the customers' experience and journey should be at the heart of the industry, which will give them the reassurance and security to continue to invest in their businesses and the future."

For David Betteley of Jaguar Land Rover, the impact is not expected to be significant: "The main players have set out their positions and actually it's not such a massive change. I expect dealers will still be

© Asset Finance International, all rights reserved.

able to generate the same level of income but spread over more customers."

Others, however, voiced concerns over the potential impact. Mike Francis commented: "We believe increased regulation will have a number of impacts. It might reduce the number of brokers and vendors operating in specific markets and will increase the funders' costs, especially in terms of compliance and other regulatory requirements. In extreme circumstances it may discourage some lenders and brokers from writing regulated business, reducing the funding options available to sole traders or small partnerships."

Taking this up, Martin Nixon stated: "It is still too early to gauge what lasting impact these changes will have on our industry. In the broker market in which we operate, it is leading to a growth of larger broker groups, which can be beneficial in some ways, although the loss of many independent brokers as a result may lead to a loss of some very experienced individuals for whom the prospect of even more regulation will inevitably lead to them leaving the industry for good."

For Peter Collins, the impact may be that the hurdles prove too high for some, which could lead to a reduction in access to financing for consumers as a result, adding: "No one argues that the industry needs transparent regulation, but the framework needs to be workable and there needs to be a realisation that the one-size-fits-all approach has its inherent dangers as well."

The pressures and their impact will take some time to be felt and, as George Ashworth noted, "the industry must recognise that the regulatory pendulum may yet have swung its full course."

He continued: "When I receive a communication from the FCA advising of changes being made 'without consultation' I sit up and take notice. The changes in the regulated space made on January 1st in respect of brokerage commissions are unprecedented. I do not think that it will be the last time we see such action, nor do I discount the FCA looking in due course to extend this approach into the unregulated space. The implications of any such move to this segment of the market are clear. So much so, that I would be inclined to pray for the best and plan for the worst!"

Bill Dost concurred, commenting: "While I'm all for good regulation, I think there is the danger of over-regulation, or regulation that becomes so burdensome that good companies decide it's not worth the work to fall in line under the regime, because either they can't resource the extra burden that comes with regulation or because they don't want to."

He believes that regulation has gone too far if lenders are being driven out of the lending space, "not because they aren't abiding by the rules or because they should not be in the space, but because the burden to do business in the space outweighs the benefit of being in the space."

Getting the correct balance would be the ideal, suggests Gavin Wraith-Carter: "I think a properly regulated industry can only have a positive impact on small businesses and the key here is to make sure that the regulation is relevant, and not just consumer regulation for businesses."

© Asset Finance International, all rights reserved.

George Ashworth concluded with mention of further potential regulatory burden, relating to the ongoing deliberations by the International Accounting Standards Board (IASB): "We await in 2015 the exposure of the lease accounting standard by the IASB. If there is no dispensation for small-ticket leasing (as yet to be defined) then I fear for its future. My concern stems from the fact that without such a dispensation, leasing as a product may become negatively impacted by being viewed as too expensive a product in respect of the whole life costs. This is because leasing may become viewed as too administratively cumbersome from a lessee's perspective."

© Asset Finance International, all rights reserved.


Alastair Kendrick

Government taxation concerns likely to hit company car users

Alastair Kendrick looks at potential future developments

When I wrote for this survey last year, I voiced concern at the lack of certainty over the future taxation policy of the government in regard to the company car.

The government addressed these concerns with the release of the proposed taxable benefit levels on company cars which arises in years up to and including 2018/19. These figures show an increase year on year but no significant hike in any one individual tax year. Overall, the level of benefit-in-kind does move significantly during the life of a company car and it is, in my view, important that those employees that are getting a new car need to realise what it is going to cost year on year.

When looking at the future taxation of company cars it is important to take account of the dropping of the 3% surcharge on diesel cars which occurs at April 2016 and is of course welcome news. We should also acknowledge the fact that we have no tightening of the tax relief available to the employer in regard to the cost of the lease. So there is full relief for a company car with CO_2 emissions which are below the 130gms qualifying level. Also, those who decide to buy a car can likewise get more relief by way of capital allowances for vehicles with emissions below 130gms.

Strategy review waits on the election

It is clearly the case that we cannot expect any announcements over the long-term tax strategy in regard to the company car in the short term. Nothing is likely to be released this side of a general election and clearly any announcement may not in any event be adopted by a future government.

It does seem relevant to ask the question whether the method of taxable benefit calculation is still relevant or whether it should be replaced with something that is more appropriate. It would seem that the current calculation does not really determine what the scale of the benefit to the employee is. It is calculated simply by reference to the list price and CO_2 emissions of the vehicle. So an employee who does only 1,000 private miles a month pays the same benefit-in-kind as an employee who does 5,000 miles a month if both are driving the same type of vehicle.

Is it not time to say let's adjust the calculation to take account of private mileage incurred? It is a fact that with concerns over mileage capture and duty of care many employers have this detail readily available. This seems equitable, but of course can it ever be the case that tax is equitable? Many would say not! When the present rules came into being there were concerns over tracking private mileage, but with the massive steps in technology since then this seems no longer an obstacle. Also, it is an approach that is adopted by other countries.

© Asset Finance International, all rights reserved.

Leaving these aside, we have not seen any significant changes. We still see the screw tightened on those employees who have free fuel. It is clear the Government is on a mission to tax this out of existence, but despite the massive tax increases to date many employees still hold on to their fuel card.

We still wait to see proposals for the long term on electric cars. This seems to have been put on hold until a new government is in place.

Alastair Kendrick

Tax Director

MHA MacIntyre Hudson

Alastair.Kendrick@mhllp.co.uk

© Asset Finance International, all rights reserved.

Miles Clarke

Experience to the forefront in the asset finance recruitment sector

Miles Clarke of CBC Resourcing Solutions looks at recent trends in staff recruitment within the UK asset finance sector

2014 shaped up to be a successful year for CBC. The number of clients increased compared to the previous year – something that we've been consciously working hard to do, and in doing so, spreading the risk (our reliance on too few clients could have been fatal for CBC in the dark days of late 2008 and 2009).

In addition there was a broader functional split; areas of increasing demand included credit risk, operational and prudential risk, product and proposition, finance, marketing and sales and leadership was in as high demand as ever. In fact, CBC was mandated on a greater number of roles than at any time in our 23-year history. If we'd have successfully filled every single potential role that we had the opportunity to work on, I would be writing this article from the luxury of my yacht moored of the coast at Cap Ferrat, rather than from my dinghy bouncing around in the waves off the beach at Llandudno!

The fight to get the best talent

The biggest challenge that we faced in 2014 and likely to be a continuing trend in 2015 and beyond is the issue of counter offers, whereby companies are loathe to allow good candidates to resign and leave without a good fight, and a financial fight at that.

In addition, we are seeing an increasing demand for good candidates, often from two or more potential suitors. This results in something of an auction to outbid rivals in securing the candidate and a race to get the candidate to commit to an offer before the competition. While money is typically the major influencer, the broader issues of career development, culture and even the candidate experience at interview can play a significant part in the decision-making process.

Experienced candidates are becoming increasingly bold and open-minded about their careers and in considering a move out of their comfort zones to further their careers, especially as the continuing trend for optimism and UK economic growth impacts positively on the asset finance sector and the broader banking and financial services sector as a whole.

In the later months of 2014 and into 2015, we can see an increasing demand for quality new employees right up to executive level, not only in the world of asset finance and leasing but across the broader banking and financial services sector. Unfortunately, the supply of readily accessible candidates is far outstripped by the demand.

While companies are loosening their purse strings, and budgets for additional headcount are improving, the search and selection community have to work harder to identify better quality candidates to present to their clients and to demonstrate a true value-add throughout the process.

White Clarke Group

© Asset Finance International, all rights reserved.

One mark of a good resourcing partner is the strength of their network from which to call upon for quality talent and their ability to identify, engage with and subsequently place 'passive' candidates, i.e. those who were not necessarily actively seeking alternative employment but were convinced at least to take a cursory glance at something different – headhunting at its most challenging.

This increasing demand for quality candidates and the relatively short supply is once again driving salary levels up and we have seen the lure of bonus buyouts and bonus guarantees being deployed to get good candidates 'over the line' – a tactic that all but stopped in the years immediately following the 2008/09 'depression'.

Positive attitudes to age

In early to mid-2014, clients were, in general, fairly set in their ways, only really wanting to pay a fee for a candidate approaching perfection and with a very close match to a specific role profile. As the year progressed and into 2015, clients are becoming more aware that maybe perfection will take too long to find, if ever, and are therefore being a little more open-minded as to experience and competencies that they will consider.

In addition, we have seen a really positive trend towards more mature candidates being employed, and clients paying fees to do so – the oldest in recent months being 63 years old, and several within six or seven years of the current retirement age. More mature candidates are less likely to make another move in a short period of time and are typically more open to share their experience, and in the case of the 63-year-old, recruit, train and develop their successor from day one.

I am confident that I will be stating in 12 months' time that 2015 was a successful year. I am in no doubt that we will continue to be pleasantly surprised at the opportunities that present themselves from established and new players in the asset finance sector and beyond and I am in no doubt that the demand will continue to put pressure on the limited supply.

I also know that there are several initiatives to raise the profile of the sector as a credible and dynamic career option for the next generation. The team at CBC hope that we can support this next generation to fulfil their future career aspirations.

Miles Clarke, director, CBC Resourcing Solutions

M: 07970 513962

E: miles@cbcrs.co.uk

www.cbcrs.co.uk

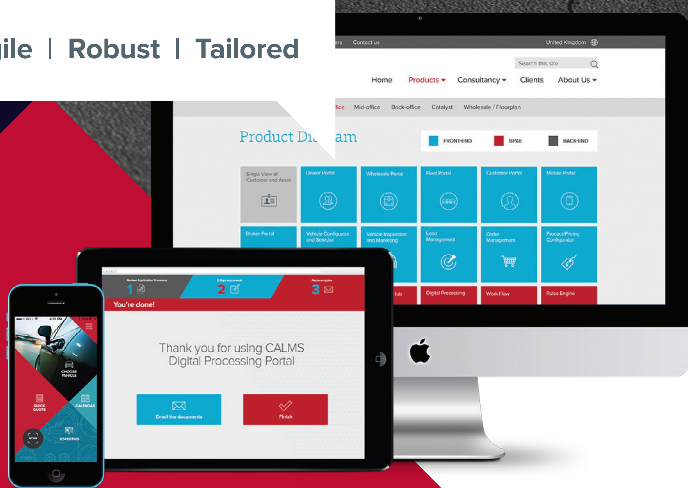
© Asset Finance International, all rights reserved.

Calms²

Smart end-to-end Auto and Asset Finance Software

- Full lifecycle management
- Retail, fleet and wholesale
- Easy and flexible to deploy
- Intuitive business rules engine
- Powerful workflow capabilities
- In-life case management
- Document management
- Web-based, self-service and mobile access
- Works across multiple countries

Social | Mobile | Agile | Robust | Tailored



whiteclarkegroup.com

White Clarke Group