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United Kingdom

ASSET & AUTO FINANCE COUNTRY SURVEY

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 twenty-two year track record of leadership and innovation in finance technology, consultancy and new market entry. Clients value White Clarke Group industry knowledge, market intelligence and innovation. The company employs some 500 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:

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Introduction

The UK is at last beginning to sense that it is pulling properly out of recession and that the upward trend in growth is not another temporary respite but a steady rise that indicates a real recovery. The things that should be going up (GDP, average earnings) are going up, and those that should be going down (inflation, unemployment) are doing so. Most noticeable, in terms of going up, is confidence.

In 2013, the UK managed four consecutive quarters of GDP growth, and predictions for the coming year have been duly revised upward – mostly at a still modest rate of 2.4%, although as much as 3.4% in the most recent Bank of England forecast. Such figures, indicating a turnaround that is certainly not being matched by other EU economies, have helped raise confidence levels and reduced consumer uncertainty.

However, most of the changes are at best gradual and are set to remain so. There is in reality little change in the prevailing sense that austerity measures are continuing to squeeze, except at the top end of society and the fact that easy access to credit is once again being promoted, and this has fuelled a relative consumer boom. The housing market has been a major beneficiary, aided by government incentives such as the Funding for Lending scheme (FLS) and Help to Buy. New car acquisition also grew, receiving an extra fillip from customers using compensation payments from banks over mis-sold payment protection insurance as down-payments.

But is the recovery filtering through to business, in particular small and medium-sized enterprises (SMEs)? For SMEs, the answer has to be: not much as yet. Much as funding is said to be available, the figures do not show that mainstream banks have been lending more. The so-called challenger banks are working hard on this front, but they still form only a small proportion of the banking sector.

The benefits of asset finance

One plus point to take from the latest economic data is that the recovery seems to be becoming just a bit more balanced – in the final quarter of 2013, manufacturing actually grew at a faster rate than services, the sector on which the economy has become over-reliant in recent years for momentum. Any such rebalancing, however slight and gradual, will be good for business in general and a definite boost for SMEs. As confidence builds among SMEs, so will the need for raising finance, if for no other reason initially than firms will feel reassured about replacing equipment. And if the big banks are still keeping a tight rein on lending to smaller companies, alternative sources of funding are readily available.

The figures for asset finance provision for 2013 from the Finance & Leasing Association (FLA) show a small but definite increase year-on-year, with new business volumes for smaller-ticket deals of up to £20m growing by 4%. When broken down by sector, the figures show a heartening rise in new business in the traditional industries of manufacturing and construction, as well as strong growth in IT equipment. There was some encouragement in the fleet sector, at least in the small business segment and signs of growth in the final quarter.

In fact, indications are that the pick-up in the economy in the latter stage of 2013 will be reflected in the asset finance market into at least the first quarter of 2014. This trend has been attested to by brokers as well as funders, with broker-derived business showing strong growth rates. New business has also been on the rise for the growing number of funders offering asset finance through new means such as peer-to-peer lending and web-based innovations such as crowdfunding.

Reaction to government incentives to lend to small business has been mixed. Opinions vary as to the possible impact of the reallocation of FLS funds to SMEs, but there are greater hopes that the Business Bank, once it becomes operational later in the year, will act as a stimulus to small business funding. The Business Bank should also bring the various government initiatives under a single co-ordinating institution.

Another development for lenders and customers alike to be aware of in 2014 is the arrival of the Financial Conduct Authority (FCA) as regulatory overseer and the possibility of legislative changes to follow.

About this survey

This Country Survey aims to provide a balanced assessment of the asset and auto finance market in the UK. The survey covers the following areas:

- A summary of asset finance and leasing activity;
- The current economic and business climate and forecasts for 2014;
- Insights on the current state of the market, its outlook and the challenges and opportunities that face it – provided by a selection of key industry figures from a cross-section of lenders, from larger, broad-based lenders to smaller niche operators, and covering all areas of equipment and vehicle finance;
- The challenges in recruiting new talent;
- The latest developments in company car tax; and
- The potential changes facing consumer credit lenders.

The UK asset finance and leasing market

The asset finance industry in the UK is, at the latest estimate, the fifth largest globally (Source: Asset Finance International Global Asset and Auto Finance Survey 2014) and second largest in Europe, although these rankings may improve as the UK market is expanding – a rarity in Europe and may overtake Germany in top spot.

The current recovery in the economy (see later section of this report) has been supported by asset finance, which witnessed overall a growing trend in new business volumes (NBV) as last year progressed. In fact, according to data from the industry association, the Finance & Leasing Association (FLA), year-on-year growth of new business in December 2013 was 34%, which was the strongest monthly rate of growth for nearly six years and helped the full year total to exceed 2012 by 3%, with the annual total NBV reaching £22.4bn.

Smaller-ticket asset finance deals of up to £20m grew by 4% year-on-year, making it the fourth consecutive year of growth in that sector.

Asset finance NBV, 2013

	Dec 2013	% change on Dec 2012	3 months to Dec 2013	% change on prev. year	12 months to Dec 2013	% change on prev. year
Total FLA asset finance (£m)	2,214	+34	6,130	+14	22,382	+3
Total leasing and hire purchase excluding high value (£m)	2,199	+33	5,839	+10	21,712	+4
Data extracts:						
Plant and machinery finance (£m)	385	+25	1,123	+9	4,473	+4
Commercial vehicle finance (£m)	618	+74	1,549	+30	5,189	+9
IT equipment finance (£m)	257	+28	455	+14	1,542	+14
Business equipment finance (£m)	179	+8	480	+2	1,926	+1
Car finance (£m)	568	+22	1,718	+2	6,753	+1
Aircraft, ships and rolling stock finance (£m)	33	+199	112	-21	307	-38

Source: FLA

The sectors that rose most significantly were IT equipment (14%) and commercial vehicles (9%). The commercial vehicle sector finished the year particularly strongly, partly owing to transactions completed prior to the implementation of new EU emission rules for trucks registered after 31 December.

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.

One important segment that can be extrapolated from the figures is for construction equipment, included in the table under 'Plant and machinery'. In 2013, total construction equipment finance amounted to £1,183m, an impressive increase of 8% over 2012.

However, the FLA acknowledged that the recovery in the UK economy has been driven to date primarily by the services sector, although at the same time pointing to the fact that businesses in that sector had been supported by nearly £15bn of asset finance in 2013.

Consumer credit

There has, of course, been a considerable uplift in consumer sentiment in recent months, a situation endorsed by new business figures from FLA consumer finance providers which showed particularly strong growth in second charge mortgage and car finance.

In the car market, 2013 saw the highest annual vehicle registration total since 2007 – an annual total of 2,264,737 cars registered – and an increase of 10.8% on 2012 (Source: Society of Motor Manufacturers and Traders – SMMT). This increase meant the UK overtook France as Europe's second largest car market behind Germany, having enjoyed 22 consecutive months of growth. In fact, the UK market was the only one to grow consistently throughout the year, fuelled by growing confidence and cheap finance deals which account for around three-quarters of transactions.

There is another factor that has helped the UK to outperform the rest of Europe, although difficult to quantify, and that is payouts over the mis-selling of payment protection insurance (PPI). Average compensation payments from the banks for PPI mis-selling have been around £3,000 and, given the lack of incentive to save as interest rates are at record lows, coupled with dealer discounts and manufacturer incentives, such a lump sum makes a ready deposit on a new car.

New car registrations

	Total	Diesel	Petrol	AFV	Private	Fleet	Business
2013	2,264,737	1,127,414	1,104,592	32,731	1,074,622	1,084,279	105,836
2012	2,044,609	1,038,679	978,089	27,841	929,440	1,025,501	89,668
% change	10.8	8.5	12.9	17.6	15.6	5.7	18.0
Market share 2013 (%)		49.8	48.8	1.4	47.5	47.9	4.7
Market share 2012 (%)		50.8	47.8	1.4	45.5	50.2	4.4

Source: SMMT

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Fleet car finance

In the fleet sector, SMMT figures are not so bullish, registering a more modest degree of growth of 5.7% year-on-year. This represented a falling sector percentage to 47.9% compared to 50.2% the previous year. However, the all-important (small business) Business car sector (sub-25 vehicle fleets) showed an annual increase of 18% in sales in 2013. The sector percentage rose nominally to 4.7% from 4.4%.

Figures for the number of business cars bought on finance, including fleet, from the FLA show an upward curve in new car finance in Q4 2013, giving a 3% year-on-year increase for that specific segment. A fall in numbers in the smaller used car segment meant that the total car finance sector gained only marginally on the previous year in terms of finance, totalling £6,753m in 2013, although there was a surge at the year-end (see earlier table).

Cars bought on finance by businesses

	Dec-13	% change on prev. year	3 months to Dec 2013	% change on prev. year	12 months to Dec 2013	% change on prev. year
New cars						
Number of cars	38,776	+37	108,903	+15	409,530	+3
Used cars						
Number of cars	3,846	+13	11,750	-34	59,198	-8

Source: FLA

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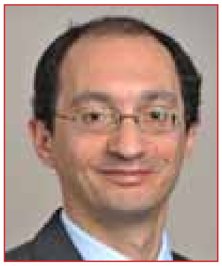


Market commentary – Asset finance support grows for SMEs

Julian Rose sums up the industry's achievements over the past year, and looks forward to what may be expected in 2014

FLA members reported the strongest rate of growth in new business for almost six years in December 2013, and the highest monthly level of new business written since December 2010.

Overall in 2013, the asset finance industry provided £22.4bn to support business investment by corporates, small and medium-sized enterprises (SMEs) and the public sector, an increase of 3% compared with 2012.

Around a third of non-property fixed capital investment was financed by FLA members last year. Given that businesses fund around half of their investment themselves, it follows that a sizeable majority of debt-financed capital equipment is leased. In short, our slice of the investment pie is already substantial and the role of asset finance is well recognised by the government.

In 2013, the Funding for Lending Scheme (FLS), the Regional Growth Fund and the Business Finance Partnership all included leasing, following extensive consultation with the industry through the FLA.

Although the inclusion of leasing in these government programmes is welcome, smaller non-bank finance companies in particular still face a high cost of funds compared to banks – and the real shame is that smaller, and often specialist, funders are better able to reach the small businesses which may not otherwise be able to raise finance.

In his 2013 Autumn Statement, the Chancellor confirmed plans for a new leasing-specific scheme to be operated by the government's Business Bank. The scheme should help non-bank finance companies to attract funds from investors for lending at a lower rate.

Priorities for 2014

It seems likely that 2014 will be the year we find out how the international accounting rules for leases will change. Our lobbying over recent years has emphasised lessees' need for straightforward rules that provide consistent and predictable data. There has already been movement in the right direction and the International Accounting Standards Board (IASB) seems set to further simplify its proposals before they are finalised.

For businesses providing consumer credit regulated business, 2014 is also a year of major operational change as the Office of Fair Trading passes its regulatory baton to the Financial Conduct Authority (FCA). Our Asset Finance Operations Group held two workshops to help members identify the scope of change needed and this work will continue in 2014. At the time of writing we were urging the FCA to make clear that some of the rules which are clearly designed for dealing with individual consumers need to be interpreted in different ways when dealing with businesses. Without that clarification, there could be a significant fall in lending to the smallest businesses.

The asset finance sector ended 2013 in good shape, with its profile in Westminster and the national press at its best for many years. Finding solutions for both the regulatory issues and the challenge of attracting new sources of sustainable investment for non-bank asset finance providers will be key priorities for 2014.

Julian Rose
Head of Asset Finance at the Finance & Leasing Association (FLA)

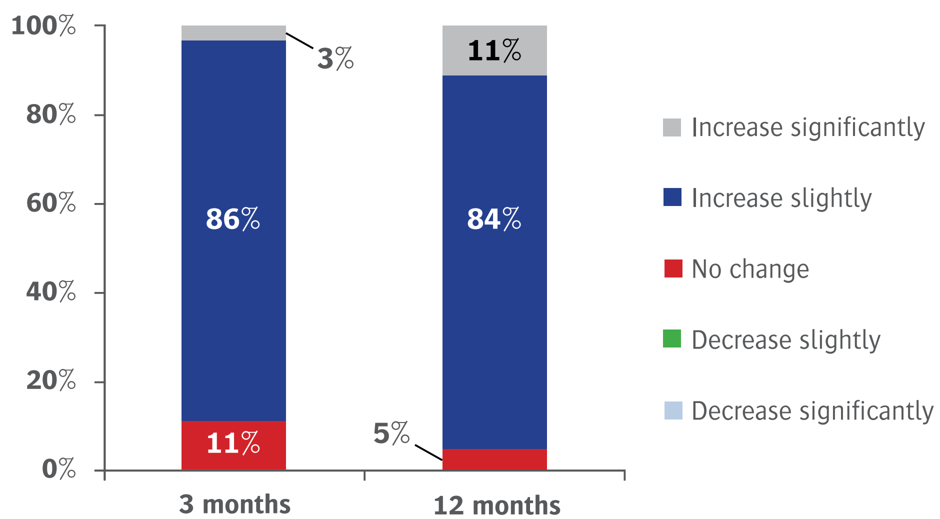
Finance for SMEs

Following the growth in asset finance over the last year and signs of sustained recovery in the overall economy, business confidence has been given a welcome boost. Member companies of the Federation of Small Businesses (FSB) are increasingly confident, as shown in the FSB's Small Business Index, which has risen for four consecutive quarters from -5.6 in Q4 2012 to +21.6 in Q4 2013. Such confidence means more small firms are planning capital investment – 23% of FSB members said they expect to invest in 2014.

Similarly, the FLA's most recent survey of members' opinions on the near-term outlook revealed that nearly three-quarters (73%) of respondents expect an improvement in economic prospects for the next quarter, and virtually all respondents (96%) anticipate further improvement in the economy over the coming 12 months (Source: FLA Q4 2013 Asset Finance Confidence Survey).

Optimism was also evident regarding lending to SMEs, with 89% of respondents expecting the value of leasing and asset finance provided to SMEs to increase over the next three months, while a total of 95% expect an increase over the next 12 months, including 11% who predict a significant rise.

Predicted lending to SMEs



Source: FLA Q4 2013 Asset Finance Confidence Survey

Sources of finance

This optimism raises the question of where this increased funding will come from. Despite the indicators, and the bullish commentary from the government and the big banks, for many SMEs there has been little hard evidence yet of the greater availability of finance.

The FSB noted at the end of last year that, while refusals of credit applications had fallen, only 16% of respondents to the Q4 Small Business Index had actually applied for credit in the quarter. So it seems that firms are

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relying on their own resources and increasing profits for investment capital. The FSB said it "hopes the reallocation of FLS funds to SME lending will mean the banks make finance available to more small firms."

This is indeed a move that many are hoping will have a positive effect. However, until now the trend has been for lending conditions to SMEs to remain tight, with repayments exceeding loans in the three months to end-November 2013. There might have been some improvement over the year, but the Bank of England could only state in its January 2014 Trends in Lending report that "the rate of decline in the stock of lending to UK businesses eased slightly in the year to November compared to 2012."

Since 2009, overall bank lending to business has declined year-on-year, and the trend continues. In January, the parliamentary Public Accounts Committee (PAC) reported on government initiatives: "Far from encouraging more lending to SMEs, investment has declined." In its summary, the PAC observed that government departments "could not provide compelling evidence of where schemes had made a significant impact on the financial markets' willingness to support SMEs. Among the debt-based schemes, for example, the performance of both the Enterprise Finance Guarantee (EFG) and the Funding for Lending schemes do not suggest that the banks are more prepared to lend to SMEs. Indeed, overall lending is down. The number and value of loans backed by the EFG has fallen each year between 2010 and 2013 and net lending by the FLS participants has reduced by £2.3bn since the scheme was launched."

One PAC recommendation was that the new Business Bank co-ordinate the various government schemes in a coherent strategy to make it easier for SMEs to access finance.

Specialist lenders

To make matters worse for high street lenders, their reputation has been tarnished further by the accusation that RBS forced viable small businesses to close so that its restructuring division could show a profit.

The arrival of the Business Bank and the redirection of FLS funds towards SMEs should encourage banks to provide credit to small business. However, such state support would only be a short-term solution; the more feasible solution is to encourage alternative methods of funding such as asset finance, provided by an expanding sector of dedicated specialist lenders.

Included in this would be the growing number of peer-to-peer (P2P) lenders and web-based innovations such as crowdfunding. New start-ups are following established P2P lenders such as Funding Circle and ThinCats – in the last year new P2P lending operations have been opened by Assetz Capital, Funding Knight and rebuildingsociety.com. In fact, at the time of writing, high-profile City fund manager Nicola Horlick is in the process of launching a new P2P venture, Money & Co, aimed at providing loans to established SMEs that are finding the banks unresponsive. Given that greater regulatory insight of this type of funding (and the potential pitfalls for investors) is due from April 2014, there is room for these new operators and, as Horlick said in an interview with *The Times,* "We're not trying to take business from Funding Circle. We're trying to take it from the banks."

The views of other asset finance experts on the availability of funding and a range of other topics can be found later in this report; some of their more specific forecasts follow.

Market forecasts

Senior executives at major lessors were asked by Asset Finance International to provide their market projections for the coming year. Of those who offered predictions, all were optimistic for growth in almost every sector, albeit that growth rates would mostly be in single figures.

In terms of the outlook for the overall asset finance market, the most optimistic forecasts were for 10–15% growth, although the average estimate was for around 7–10%. Expectations were equally positive for the captive/vendor lessor market, with the average prediction ranging from 5–10%.

As to whether the next 12 months look brighter for SMEs or larger corporates, business confidence was seen by several as key, and with interest rates set to remain low the consensus favoured SMEs as having the greater scope and the ability to respond quicker to changing situations, such as a recovering market. The average projection for SMEs for the year was in the high single digits, with an upper estimate of as much as 15%; for corporates, the range was still positive, but at a lower range of 5–7%.

When asked to consider the prospects of growth in the auto sector, the view was for growth in the passenger car segment, although few thought more than 5%. There was unanimity regarding residual values, which all expected would continue at a high level because of the enduring shortage of used cars in the 0–5-year range – a situation caused by poor new car markets in 2008/09 and into 2010/11.

The one segment that drew negative projections was trucks, with a decrease of up to 5% predicted due almost entirely to the anticipated impact of EU emissions legislation. As was noted earlier in this section, commercial vehicle finance rose sharply at the end of 2013 in order for new registrations to be covered by Euro 5 regulation rather than the new Euro 6 regulation due in 2014.

There was a view also that the bus and coach segment could benefit from increased business confidence overcoming previous reluctance to invest, in addition to new legislation necessitating investment in new vehicles.

Projections were favourable for the general Plant & Machinery sector, with forecasts for growth in manufacturing equipment ranging up around 7–10%. Construction equipment and IT/telecoms were segments singled out by several as having stronger prospects, heading into double-digit growth rates. Healthcare was mentioned less frequently, but those who did rate the sector tipped it for double-digit growth. The Renewables segment received mixed assessments due to the possible downside of reduced incentives such as feed-in tariffs.

Economic overview – what will drive growth

The UK economy has finally shown it is pulling out of recession, with GDP growth accelerating in 2013, output continuing to recover and optimism on the rise. In its February 2014 Inflation Report, the Bank of England (BoE) stated: "The UK recovery has gained momentum and unemployment has fallen faster than expected. The recovery to date has been underpinned by a revival in confidence, a reduction in uncertainty and an easing in credit conditions."

The rate of growth in the second half of 2013 surprised many and led to a re-evaluation of forecasts (see below). In fact, the rate of recovery has catapulted the UK from one of the world's strugglers to among the fastest growing developed economies.

According to the latest figures from the Office for National Statistics (ONS), GDP is estimated to have increased by 1.9% in 2013 compared with 2012. 2013 was the first year since 2007 that the economy grew in all four quarters.

As the ONS noted, "Change in gross domestic product (GDP) is the main indicator of economic growth." Manufacturing grew 0.9% in Q4, finally growing more than services (although this sector accounts now for more than three-quarters of the economy) and potentially indicating a more balanced recovery. However, output decreased by 0.3% in construction, although the uplift in the housing market meant that this sector grew 4.5% on the year.

Many forecasters took these figures as a sign that the recovery will snowball, although some, including government politicians, expressed caution as the figures tended to mask underlying low levels of business investment as well as the influence of the booming property market and banks' preference for lending in that sector – at least to businesses with property collateral – rather than to SMEs and start-ups.

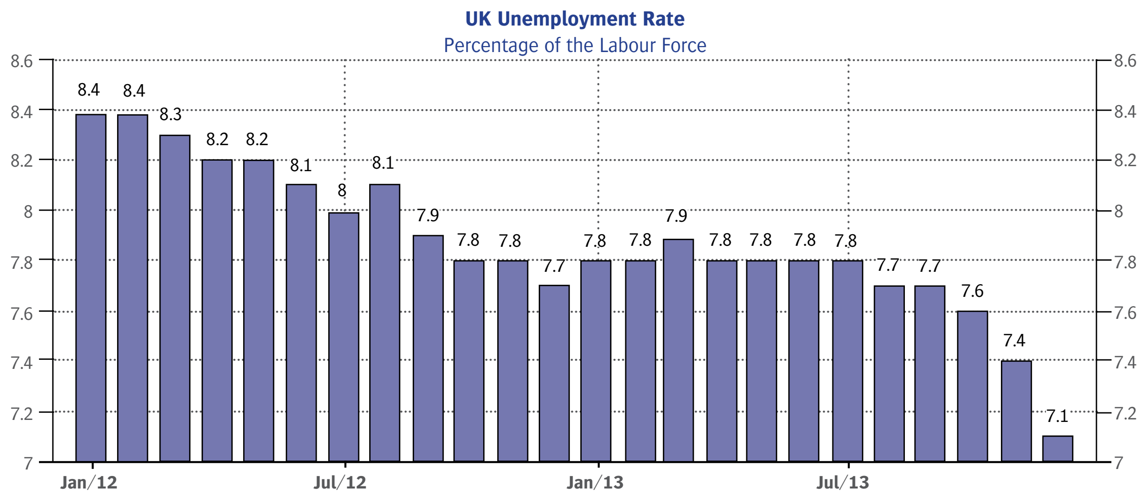
The latest quarterly Industrial Trends Survey for the three months to January 2014 from employers' organisation the Confederation of British Industry (CBI) showed growth in new manufacturing orders was the strongest since April 2011. Domestic orders rose, uncertainty about demand fell and there were more positive intentions for investment in the coming year.

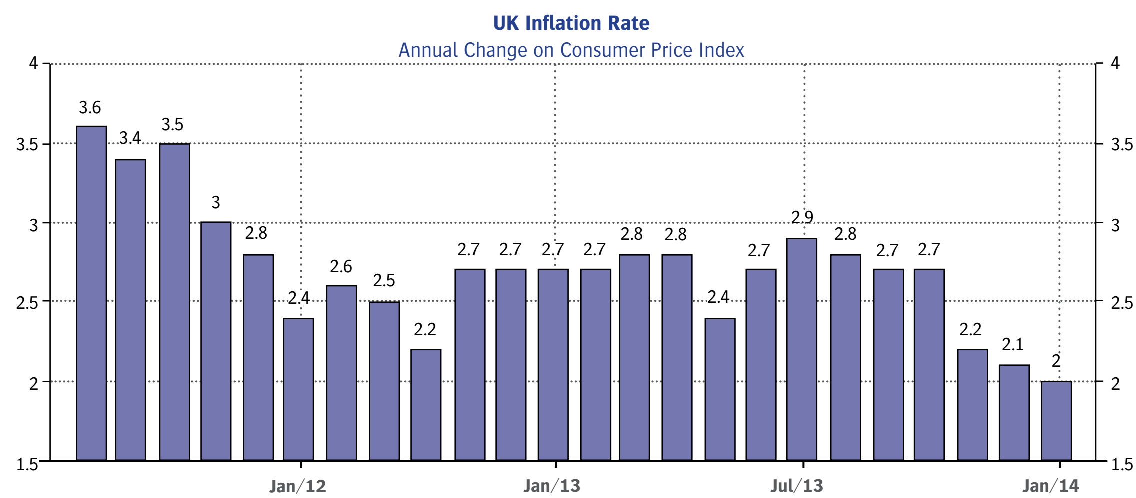
The CBI survey reported that manufacturing companies' confidence is growing, which is boosting their investment plans. Optimism about business conditions rose strongly in the last quarter, while the number of firms feeling that demand uncertainty was constraining investment fell back sharply. Plans among member firms for increased capital expenditure on buildings in the year ahead were the highest in three years, the survey said.

Monetary policy

The BoE base rate has been stuck on 0.5% since March 2009 and, regardless of any economic recovery, does not look like being raised in 2014, although expectations are for a gradual rise in 2015, perhaps starting around the time of the general election. Employment figures have been encouraging from H2 2013 onward, and the closely watched rate of unemployment has fallen with increasing speed towards the 7% threshold that BoE Governor Mark Carney said could trigger a rate review; however, as it seems probable it will hit that level earlier than previously thought, it has actually triggered a revision of the forward guidance policy away from a simple numerical target.

In addition, the UK rate of inflation has also shown a definite downward trend over the same period. The BoE recognised in the February Inflation Report that the 2% target for Consumer Price Index (CPI) inflation has been hit sooner than expected, but stated that slack in the economy remains and this should be absorbed prior to any rise in the base rate. The Report commented: "The legacy of the financial crisis and the persistence of economic headwinds mean that interest rates may need to remain at low levels for some time to come."





Source: www.Tradingeconomics.com | Office for National Statistics

Meanwhile, the Bank's Monetary Policy Committee has voted to maintain the quantitative easing programme, which has so far purchased assets amounting to £375bn and should continue to act as a stimulus to the economy in the near term, or at least until the first rise in the bank rate.

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Outlook for 2014

The BoE's most optimistic forecast yet came in the February quarterly report, predicting relatively stratospheric growth of 3.4% in 2014, a sharp rise from the previous forecast in November of 2.8% and in spite of Carney maintaining the view that the state of the recovery is as yet "neither balanced or sustainable". BoE forecasts were consequently more muted for 2015 and 2016, at 2.7% and 2.8% respectively.

The UK Office for Budget Responsibility (OBR), in its December 2013 Economic and Fiscal Outlook, had also raised its projections for economic growth in 2014, although maintaining a sober overview. It stated: "The UK economy has picked up more strongly in 2013 than we expected in our March forecast. Private consumption and housing investment have surprised on the upside, while business investment and net trade have continued to disappoint."

The OBR report continued: "We do not expect the quarterly growth rates seen during 2013 to be sustained in 2014. While consumer confidence, credit conditions and the housing market have improved, productivity and real earnings growth have remained weak. Ultimately, productivity-driven growth in real earnings is necessary to sustain the recovery. So we expect quarterly GDP growth to slow into 2014, and then to strengthen gradually as productivity picks up. The outlook for productivity growth is the key uncertainty confronting all UK forecasters."

The OBR raised its forecast for GDP growth in 2014 from 1.8% to 2.4%, although it pointed out this was due to GDP starting the year at a higher level, and added: "We expect fractionally weaker growth from 2015 onwards than [forecast] in March, reflecting weaker exports."

In a revealing comment that adds credence to concerns regarding the real drivers behind the current recovery, the OBR stressed: "The main explanation for those upward revisions has been stronger-than-expected private consumption growth in 2013. Residential investment has also grown more strongly than expected. By contrast, business investment and net trade have continued to disappoint."

The projections by global forecasters are roughly agreed regarding the immediate prospects for growth, although there is some variation when it comes to the medium term, given differing views as to the strength of factors underlying the UK recovery. The Economist Intelligence Unit (EIU) predicts real GDP growth will rise from an estimated 1.5% in 2013 to 2.5% in 2014, although it states: "Doubts persist over the sustainability of the recovery, given high debt and squeezed incomes. No official rate rise is expected before late 2015. The fiscal position remains weak, but the country's large deficit will narrow gradually."

In its January 2014 World Economic Outlook, the International Monetary Fund (IMF) forecast real GDP in the UK to grow at 2.4% in 2014, although for 2015 the projection is for a slight drop to 2.2%.

The Organisation for Economic Cooperation and Development (OECD) is more optimistic for a sustained recovery, predicting GDP growth for the UK of 2.4% for 2014, ahead of its OECD peer group, and 2.5% for 2015, although by then the UK is projected to have fallen behind its peers.

In its economic forecast summary published in November 2013, the OECD stated: "Economic activity has picked up and broadened, supported by a turnaround in private sector confidence, continued monetary stimulus, a policy-induced recovery in the housing market and a more gradual pace of household and public sector deleveraging as automatic stabilisers operate. Growth is projected to strengthen further in 2014 and 2015, mainly supported by an upturn in gross fixed investment and exports. Despite exceeding the inflation target of 2%, headline inflation is projected to fall gradually in the next two years."

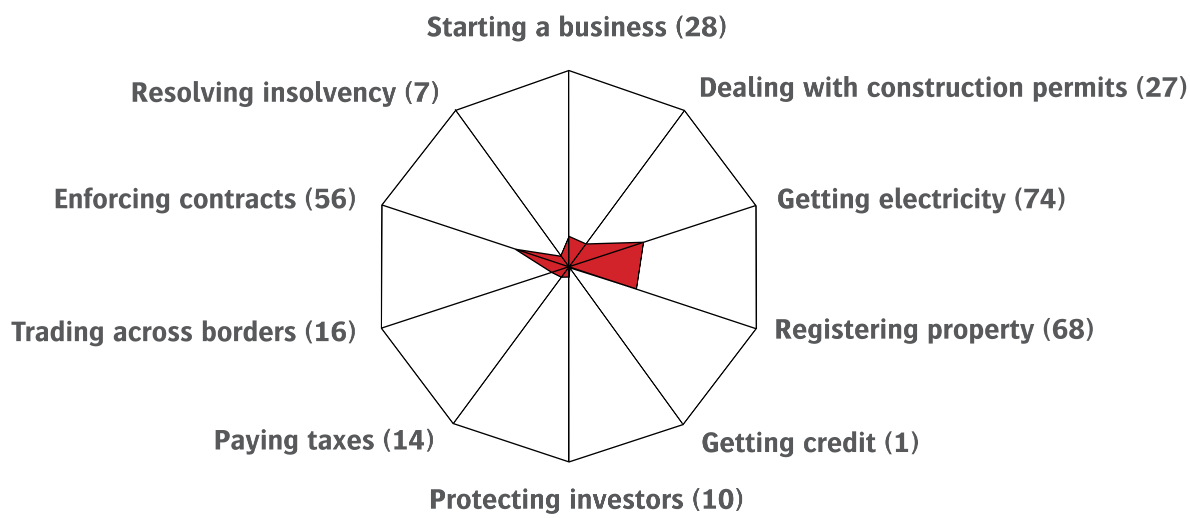
The summary continued: "Consistent with its newly adopted state-contingent forward guidance, the Bank of England has announced its intention to keep interest rates low to support the recovery. The welcome efforts to speed up the recapitalisation of the banking sector should underpin financial stability. While headline deficits are expected to shrink as growth recovers, it is important to maintain existing consolidation plans to restore fiscal sustainability. Further relaxing the barriers holding back housing supply is an important policy priority to contain house price inflation."

Longer term, the EIU projections are for real GDP to grow by an annual average of 1.1% in 2012-20, picking up to average 2.2% from 2021-30. The EIU comments: "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. Like most western economies, the UK will see its economic and political influence diminish as emerging-market economies expand."

Business climate – highly rated

The UK has slid in recent years in respect of the ease of conducting business, according to the World Bank's annual *Doing Business* survey; however, this can be put down more to improvements in other countries, and the UK remains one of the most favourable business environments. In fact, it actually climbed one place in the overall ranking in *Doing Business 2014*, to 10th out of 189 national economies. As can be seen in the chart, the UK is unsurprisingly ranked highly in most areas and is generally rated higher than the OECD average and other EU economies, although there could be efforts to improve the ease for businesses to get connected to a permanent electricity supply, the efficiency of the judicial system when resolving commercial disputes, and the procedures required to purchase property and transfer property title.

How the UK ranks on Doing Business topics



Source: Doing Business database

Competitiveness – still room for improvement

The UK was also ranked in 10th place globally, this time out of 148 nations, in *The Global Competitiveness Report 2013-2014*, produced by the World Economic Forum (WEF).

The WEF noted positive and negative trends, the most worrying decline being in the macroeconomic environment and financial markets. In its summary, it commented: “Overall, the UK benefits from clear strengths such as the efficiency of its labour market (ranked fifth), in sharp contrast to the rigidity of those of many other European countries. The country continues to have sophisticated (ninth) and innovative (12th) businesses that are highly adept at harnessing the latest technologies for productivity improvements and operating in a very large market (it is ranked sixth for market size).”

The report went on to observe: “The highly developed financial market also remains a strength overall, despite some weakening since last year. All these characteristics are important for spurring productivity enhancements.”

However, it then came to the downside, highlighting an alarming deterioration in the macro-economy: “On the other hand, the country’s macroeconomic environment (115th, down from 85th two years ago) represents the greatest drag on its competitiveness, with a fiscal deficit above 8% in 2012, an increase of over 7 percentage points in public debt amounting to 90.3% of GDP in 2012 (136th), and a comparatively low national savings rate (10.8% of GDP in 2012, 122nd).”

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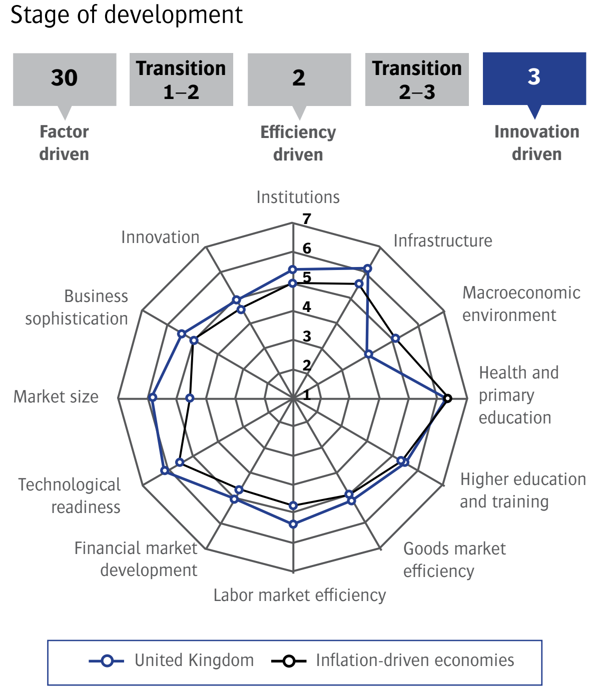
UK performance in the Global Competitiveness Index, 2013-2014

Global Competitiveness Index

	Rank (out of 148)	Score (1–7)
GCI 2013–2014	**10**	**5.5**
GCI 2012–2013 (out of 144)	8	5.4
GCI 2011–2012 (out of 142)	10	5.4
Basic requirements (20.0%)	**24**	**5.5**
Institutions	12	5.4
Infrastructure	8	6.1
Macroeconomic environment	115	4.0
Health and primary education	16	6.4
Efficiency enhancers (50.0%)	**4**	**5.5**
Higher education and training	17	5.5
Godds market efficiency	14	5.1
Labour market efficiency	5	5.4
Financial market development	15	5.0
Technological readiness	4	6.1
Market size	6	5.8
Innovation and sophistication (30.0%)	**10**	**5.2**
Business sophistication	9	5.4
Innovation	12	4.9



Source: Global Competitiveness Report 2013-2014, World Economic Forum, Switzerland

Even though financial market development scores relatively poorly, largely owing to a low rating of the soundness of banks, the availability and affordability of financial services is ranked highly. It is therefore surprising to find that, in the list of factors perceived by the business community to be the most problematic for doing business, access to financing is a clear leader, as shown in the chart below. This is an interesting view in light of the number one ranking for the UK for ease of getting credit in the World Bank's latest *Doing Business* survey, shown above.

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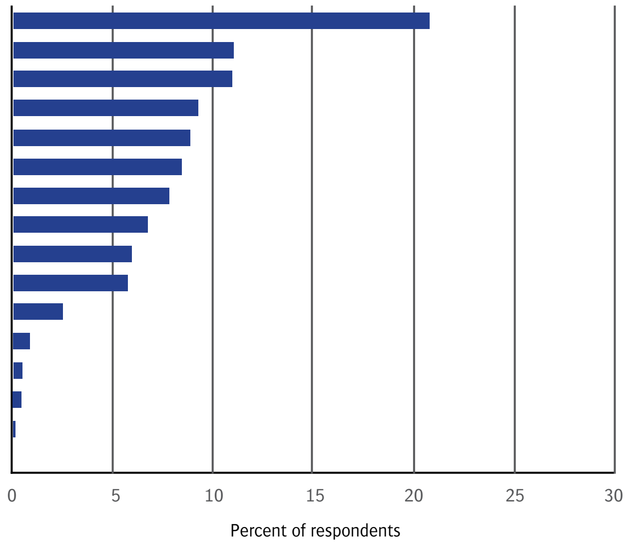
The most problematic factors for doing busness

Access to financing	20.7
Tax rates	11.0
Inefficient government bureaucracy	11.0
Inadequately educated workforce	9.2
Tax regulations	8.9
Insufficient capacity to innovate	8.4
Inadequate supply of infrastructure	7.8
Restrictive labour regulations	6.7
Poor work ethic in national labour force	5.9
Policy instability	5.8
Inflation	2.5
Corruption	0.9
Foreign currency regulations	0.5
Poor public health	0.5
Crime and theft	0.1
Government instability/coups	0.1



Source: Global Competitiveness Report 2013-2014, World Economic Forum, Switzerland

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Leaders' insights

Asset Financial International interviewed prominent industry leaders and senior executives at a cross-section of UK equipment and auto lessors for their analysis 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.

The knock-on effect of economic recovery


Stephen Bassett, executive director of Arkle Finance

The first question was whether the new-found optimism in the level of UK economic growth is yet to be reflected in capex investment and asset finance/leasing take-up, to which the responses were positive but cautious. Stephen Bassett, executive director of Arkle Finance, gave the prevailing view: "There is certainly a heightening sense of confidence, but this will take a little while to reflect in deals done. It's too early to tell yet but, yes, we expect things to tick up slowly."


Ian Wood, Head of Marketing at Lombard

A similar point of view was provided by Ian Wood, Head of Marketing at Lombard, who said: "It's a little too early to say. We haven't seen any real evidence from FLA numbers. The UK remains a standout performer with manufacturing, services and construction all firing, but a slight tempering of the services Purchasing Managers Index would not be surprising. Output is still growing in comparison to the previous year and at the very least the UK has set itself up for a good first quarter."

Martin Nixon, United Trust Bank's head of Asset Finance

This view certainly rings true for broker-derived business, according to Martin Nixon, United Trust Bank's head of Asset Finance, who commented: "We have noticed a tangible increase in enquiries from our broker channels from early January, which is normally one of the quietest months of the year. This trend has continued and the general feedback from brokers is that they are a lot busier than this time last year."


Mike Francis, head of Asset Finance at Investec

Mike Francis, head of Asset Finance at Investec, echoed these sentiments: "We aren't seeing any real massive increase in demand, more 'steady as she goes'. Volumes are remaining at similar levels to 2013. However, general feedback from brokers suggests that activity levels have picked up quickly at the start of 2014 and there is generally a more optimistic outlook amongst customers and vendors/dealers."

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Mark Picken, managing director, Shire Leasing

And in the same vein, Mark Picken, managing director, Shire Leasing, observed: "There is some improvement in asset finance and the take-up of leasing specifically. The larger corporates are continuing asset replacement as an organised and structured programme, but some of the medium and smaller enterprises are hesitant, as confidence is sporadic and influenced by asset type and sector. There will be latent demand in unreplaced assets from the last five years, but this is not being released in a general way and will remain so until a broader recovery is evident."

Mike Randall, CEO, Close Brothers Asset Finance, echoed this point, saying: "It's still too early to say and, in the main, capex would still appear to be of a replacement nature due to age or maintenance costs, rather than an investment for growth. Having said that, there are sectors that are starting to see good growth and the signs are encouraging."

Mike Randall, CEO, Close Brothers Asset Finance

A quietly optimistic view of the market was also provided by Julian Hobbs, sales director, Siemens Financial Services (SFS) UK, who said:

Julian Hobbs, sales director, Siemens Financial Services

"2014 is expected to see an increase in investment activities that should benefit the asset finance industry. Following the slump, when general business investment in 2009 fell by over 15%, the current rate of investment has yet to catch up with the pre-crisis level.

"However, the economy is showing strong signs of recovery across numerous sectors and businesses appear to be making greater use of asset finance. Overall, the industry has been experiencing growth for four consecutive years. Asset finance take-up should therefore continue to develop positively in light of the increased investment and the current positive business sentiment."

Bill Dost, managing director of D&D Leasing

Of course, the uptake of asset finance is related to many factors and not just the vibrancy of the economy as a whole, as stated by Bill Dost, managing director of D&D Leasing: "I don't think you're seeing a direct correlation just yet, but I wouldn't necessarily expect to either. Many customers lease regardless of market conditions. Often customers who use finance in a downturn may not be the same as those who use it in a boom economy."

Auto sector confidence

Tim Porter, managing director, Lex Autolease

As noted earlier in this report, UK car sales have been very strong over the last year, consistently outstripping those of rivals in mainland Europe. This was certainly recognised as a benefit of the UK economy's earlier recovery. Tim Porter, managing director at Lex Autolease, summed up: "A combination of a stronger UK economic recovery and favourable euro–sterling exchange rates has paved the way for heavier discounts from German manufacturers and higher UK consumption. Economic sentiment across Italy, France, Portugal and Greece remains negative."

David Betteley, director, Financial Services at Jaguar Land Rover

Some interviewees were cautious as to whether the onset of recovery has yet to impact the auto sector, as voiced by David Betteley, director, Financial Services at Jaguar Land Rover, who said: "It's a bit patchy to be honest. Cost of ownership and BIK (benefit-in-kind) are still the main drivers."

Peter Dyson, managing director of White Clarke Group

Up to now, the rise in sales has not been reflected in the fleet sector. Giving a view of a specialist services provider to the industry, Peter Dyson, managing director of software solutions company White Clarke Group said: "The surge in auto finance is definitely not due to car leasing. Figures from the FLA show that businesses are using leasing less overall; individuals are driving the increase, buoyed by growing consumer confidence and enthusiasm for finance plans like personal contract purchase plans (PCPs)."

Richard Schooling, chief executive of Alphabet (GB)

However, Richard Schooling, chief executive of Alphabet (GB) saw signs for optimism: "There are clear signs of stronger confidence in the fleet market. In the most recent Alphabet Fleet Manager Report, 81% of fleet operators said they expect their fleets to be the same size this year, 50% higher than 12 months earlier, which provides a barometer for the economy as fleets make decisions with the next three-to-five years in mind. At the same time, an increasing number of our customers are looking ahead, anticipating the impact of changing trends in business mobility and vehicle technology. Businesses are looking at investing in electric vehicles and charging infrastructure, for example, or at multi-driver lease contracts."

For Betteley, the situation is straightforward: "General economic confidence and the fact that the manufacturers are offering significant incentives are driving the market." And Schooling elaborated, saying: "Britain's being outside the euro was one of the chief factors insulating UK buyers from the drop in confidence in mainland Europe. The timing of the UK car market cycle is also different to Europe as a whole."

Referring to the recent bonus for some consumers of a lump sum which can be used as a deposit following payments in lieu of mis-sold payment protection insurance (PPI), Schooling said: "PPI payouts definitely played a part, and the industry responded to pressure on consumer incomes by offering very competitive deals. The banks are setting aside cash for further PPI claims, which should support the market in 2014 as well."

Ian Wood concluded, saying that poor sales in Europe have led to manufacturers diverting volume to the UK. Because of this, he said, "UK national sales companies have been pressured to register more vehicles, resulting in:

- Increased use of retail finance-backed offers through dealers;
- Increased fleet and corporate discounting, particularly those with definite purchase commitments to the big lessors;
- Increased cross-subsidisation of manufacturer finance propositions;
- A return to pre-registration activity by dealers to meet volume bonus targets;
- A partial return to daily rental as a route to achieve volume at month-end close."

SME provision of asset finance

As also noted earlier in this report, there remains a feeling among many SMEs that the supposed increase of funding into their sector has been much talked about but has been little in evidence. Are SMEs not being adequately served by asset finance providers, and in what ways can this be improved?

Understandably, funders generally viewed the service to SMEs as adequate. Ian Wood stressed the active nature of the market, with "plenty of competition from the main banks and also challenger banks such as Aldermore," but also stressed the point that the product needs to be right for the customer. Lombard of course has close links to one of the main banks, being a subsidiary of The Royal Bank of Scotland Group, but others responded similarly, whilst admitting there is room for improvement. Stephen Bassett commented: "The financial products provided could still be fairer and be more aligned to customer needs, but generally SMEs are being adequately served. However, there is still a shortage of easy overdraft, cash-flow and simple loan-type funding, which generally speaking is not the asset finance sector's issue."

Mike Francis followed on from this, observing: "In many ways, SME lessees are well served, as many of the mainstream banks continue with relationship models that are not economically viable from a 'cost to serve' perspective. In the long term, we believe that the local broker model will challenge the traditional bank relationship model." He continued: "We are aligning ourselves with the NACFB small business directory as a means for SMEs to access the funding they need across a broad spectrum of lessors with varying pricing and credit quality thresholds."

Some interesting comparisons with the rest of the EU were made by Julian Hobbs, who firstly noted that, according to a 2013 report from the European Commission, "the UK still trails behind the EU average with regards to access to loans and credit. This is particularly the case concerning the share of rejected loan applications and unacceptable loan offers (UK: 28% versus EU: 15%) and the difference in interest for small loans of up to €1m and those above that threshold. Recipients of small loans (mostly SMEs) have to

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pay an interest rate premium of about a third more than the rate levied on larger loans (EU average premium is 19%). Based on these observations, the importance of leasing as an invaluable financing tool, in particular for SMEs, should increase further."

He continued: "As not all SMEs are familiar with the leasing process and lease terminology, lessors should make conscious efforts to ensure that the lease origination process is clear and well understood. Ensuring an overall positive customer experience during the stages of initial research, acquisition and end-of-lease processes will create a well-managed customer journey and help drive stronger interest in and affinity to leasing. Additionally, lessors should pay particular attention to the process of educating SME customers in the benefits of leasing versus traditional forms of bank lending."

Mike Randall commented: "Better education on the alternative sources of funding to include HP and leasing is required; more proactive canvassing of SMEs by lessors and greater promotion by the FLA; closer links with trade bodies and business associations; and better managing customers' expectations."

Looking from a slightly different angle, that of a broker firm with an 'own book' operation, Mark Picken said: "It appears that some funders are still operating broadly under the credit policies they created at the time of the credit crunch, if not by the letter, then by the emotion. They still see some sectors – construction, manufacturing, industrial etc – and their associated assets as higher risk. Given the improvements and forecasts generally in the economy and in some of these sectors specifically, it would serve the lessors and the SMEs well if these credit biases were positively revisited to assist in the recovery."

In the auto sector, opinions varied as to what needs to be done to help SMEs, since, as Richard Schooling pointed out: "Vehicle financing has generally been much less of a problem for SMEs over the last five years than other forms of business lending. In fact, the option to free up capital (or refocus borrowing) by switching from vehicle ownership to leasing has been something of a lifeline for many small businesses."

However, there are areas that can be developed. Tim Porter commented that SMEs can be better supported with specific products: "Within the vehicle leasing industry we believe more can be done to serve the needs of the SME base. As a business we are investing in the SME market to bring new propositions that are innovative and will appeal to a broader spectrum of the market."

To this, Schooling added that Alphabet has a dedicated SME team that recognises the need to develop partnership programmes with local dealers, as well as the broker channel, but noted: "However, there is a job to be done to educate SMEs and their advisors on all the funding options, channels and additional services available to them – and that calls for engagement from both sides."

Market drivers

The next topic for discussion was what will be the main drivers of the asset finance market in the near and medium term, and whether the focus will be on captive/vendor lessors rather than independents. Opinions varied, although it was definitely agreed that the initial driver will be the long-awaited upturn in the economy, allied to which will be access to funding and how that is used.

Maria Hampton, managing director of 1pm

Speaking as an independent, Maria Hampton, managing director of 1pm, said: "There is a real opportunity for the independents to grow over the next couple of years. However, it depends on where the funding is coming from and the cost of that funding; if borrowing rates increase dramatically the independents may struggle to write the volumes they need."

There was broad agreement that there are opportunities for all types of funder and lessor, indicated by the number of new entrants to the market. Martin Nixon commented: "The recent new entrants into the UK asset finance market suggest that the vendor market is likely to become even more competitive as certain funders look to leverage their European presence to attract more business from this sector. Whilst the captives have had to fill the void since 2009 due to lack of funders in the market, this trend is now starting to reverse."

Captives, vendor lessors and independents can all thrive, according to Mike Randall, as long as they remain alert to market indicators: "Captive / vendor lessors will be supporting their manufacturers and dealers to sell product as demand increases due to the growth of the economy and, as such, they will be in a strong position should their parent have sufficient funds and credit appetite. Independent leasing companies still have a major role to play and a great opportunity, but need to be on the front foot and close to their customers."

Mike Francis agreed, adding: "I think the number of lessors will continue to grow, with a number of overseas banks coming back in and the number of new private equity-backed niche independent lessors will increase." He also stressed the potential change to the market that should come with new regulation under the Financial Conduct Authority (FCA).

While concurring on the increasing level of competition, a different scenario was suggested by Mark Picken: "Captives will flourish as their parental manufacturing base takes advantage of the upturn in various economies, and their risk appetite should be the first to soften as they place an inherent value in the asset that others cannot or will not." But, he continued, there should be room for a mix of funding options: "As SMEs look to replace assets they will need to seek funding from a broad spectrum of funders. New and re-entrants to the market are in abundance but not all have world domination volume ambitions. More are operating in a niche way as they select the customer/asset type they feel most comfortable with. The asset finance industry generally suffers from a lack of awareness in the SME market. This is an age-old malaise and until we take definite and focused steps to change it, it will not change. We have to accept that this will not be as easy as turning on a light. A long-term plan to educate college students, business schools, management colleges, universities, franchisor associations etc. will eventually create a broader awareness that will drive up demand."

Ian Wood agreed that the UK recovery will attract overseas interest, stating: "Increased competition from overseas manufacturers and the push for UK manufacturers to export more will mean more investment as businesses seek to be more competitive."

Whilst noting the importance of the brightening economic outlook and demand to replace ageing equipment as key drivers, Julian Hobbs proposed that, "in the medium term, technology advancement, including increased energy efficiency, will create an important impetus for growth, as businesses will increasingly look for the newest and most advanced technology to boost productivity and efficiency, particularly in the manufacturing industry."

He continued: "At SFS we believe captive and third party vendor finance providers – especially those with an in-depth industrial or technology background – will particularly prosper. These industry specialists offer a one-stop-shop experience that can be expertly flexed to each customer's requirements without undermining good risk management. In-depth knowledge of the assets, equipment applications and the associated business risks, enable technology financiers to be in a better position to offer favourable financing arrangements that are tailored to the individual needs and circumstances of the customer."

Ian Wood also made a telling observation regarding the Annual Investment Allowance (AIA), the 100% allowance on qualifying capital expenditure in the year of purchase, aimed at providing a time-limited incentive for businesses to make new investment in new or used equipment and which was raised to £250,000 as of 1 January 2013. However, that increase was temporary and is set to expire on 31 December 2014. This will be a market driver this year and, as Wood pointed out: "As it currently stands, we do not know what will happen to the AIA after 31 December 2014. We are hoping that the Chancellor will make an announcement in the upcoming Budget, that he will either keep this at £250k or extend it further. But in the meantime businesses should seek advice from their financial advisors on how to take advantage of this tax break before it expires."

Technology is key in the auto sector

Competition will also be a driver in the auto sector, as well as the need to maximise efficiencies. Commenting on the sector as a whole, Tim Porter said: "There is an expectation that captives (vehicle) will grow their share, a trend that has already been seen as some have moved away from their partner leasing companies. The vehicle leasing sector is traditionally fragmented and we expect this to continue as consumers, businesses and the regulator look for continued competition. That said, there have been examples of further private equity investment and consolidation could be expected in the market."

In Richard Schooling's opinion, apart from GDP growth that is still slow, an important background constraint is steadily rising energy costs. Increasing efficiency and technology developments will be key to progress. He stated: "Businesses will need to boost the cost-effectiveness and general efficiency of their fleets while keeping them competitive in terms of incentive/reward and mobility. A very large part of the answer will be to leverage emerging vehicle technologies – particularly embedded telematics and non-liquid fuel sources – to enhance vehicles' role in corporate mobility."

In addition, Schooling said: "A substantial driver will be fleets looking at how they use company cars and assessing the most efficient and relevant method for mobilising their employee base – be that car-sharing or using different forms of transport. The shift will change to usage rather than ownership."

Ian Wood commented: "Contract hire remains an ideal way for businesses to source vehicle assets. Beyond the benefits of usership, businesses are looking for product partners that don't just provide an efficient cost-effective solution, but also add value to their businesses." He also stressed the contribution that technology will bring to the auto sector, stating: "Increased use of technology-based consultative services, simplified web-based processes and telematics are absolutely key. Cheaper technology means that solutions that were once the preserve of larger fleets are now available for SMEs."

White Clarke Group's Peter Dyson concurred, saying: "The quality and complexity of technology services is constantly improving, and implementation can be achieved in surprisingly quick times. The game-changer is reach: our latest software platform covers everything, from the individual consumer to SMEs to large corporates."

There was some debate regarding captives and whether manufacturer offers cannot be sustained for too long. Some felt that as the European markets pick up these offers will fall away and the recent captive spike in volume will duly rebalance.

On the other hand, according to David Betteley, manufacturer incentives are still going to be important, as he said: "Continuing incentive spend is contemplated by most manufacturers. The UK is turning into a payment-led market (similar to the US) and I can see this trend continuing."

In a final overview of which type of provider will prosper, Bill Dost gave an open verdict, saying: "As always, finding a willing buyer, whether it's through a captive relationship or via an independent/broker relationship, is what will continue to drive companies forward. I think in all cases, it's going to boil down to who holds the key relationship with the account. Captives, bank-owned leasing companies, independents – their rise and fall is all cyclical. A good finance company will carve out a space and create solid relationships it can rely on. In the last year-and-a-half we've seen a major bank-owned lessor leave, others enter, and one bank-owned broker spin off and become an independent. Anything can and will happen in the market."

Market challenges

Of the many challenges that face the market in the near and medium term, a central factor cited by several interviewees is the rise in competition.

Arkle's Stephen Bassett mentioned the issue of "maintaining sustainable yields and portfolio quality in an oversubscribed and increasingly competitive market." Taking this up, Bill Dost of D&D Leasing said: "With there being a lot of lessors vying for the same business you will see price compression and companies competing for key talent. Lessors will need to carve out their own space in the market again, and any that don't have a well-recognised space may find it hard to do business."

United Trust Bank's Martin Nixon added: "As competition grows there is likely to be a squeezing of margins as larger funders look to grow their market share aggressively. This could put pressure on credit quality for the medium term, which interest rate rises might expose to some degree."

"The main challenges will be around getting the message out to the right people and building confidence amongst SMEs to invest in growth," according to Mike Randall of Close Brothers Asset Finance. He continued: "A watchful eye will be needed on the levels of arrears, repossessions and bad debt, as SMEs may overstretch as they look to grow. Finally, it is very important that the asset finance industry maintains its responsible lending ethos, with value-for-money pricing and a commercial outlook."

Moving on from that last point, the area of education and awareness was highlighted by Maria Hampton of 1pm, reiterating concerns that had been raised earlier, especially regarding SMEs: "Customer awareness has been a problem; continued education is needed to inform SMEs and consumers that there are alternative funding sources available."

For Julian Hobbs of SFS, funders with specialist knowledge should have the competitive advantage over generalists in being able to deal with specific challenges. He said: "Accelerated equipment, technical obsolescence and replacement cycles in some sectors may have an impact on residual values and accordingly many aspects of asset disposal, including recycling, refurbishment or re-leasing. Lessors therefore need to develop the expertise to understand individual asset industry dynamics and asset trends, as well as understanding the volatility of underlying equipment values, in order to offer commercially sustainable financing packages."

Lombard's Ian Wood introduced some thoughts on regulatory challenges, such as: "Increased regulation around anti-money laundering and understanding what the changes from FSA to FCA will bring."

Regulation, and the ability to adapt to it, was picked out by Mike Francis as both a market driver and a challenge, as the two are frequently linked. Ian Wood also listed other potential problem areas that had also been mentioned as opportunities, including:

- "Increasing dominance of manufacturers linking discounts to their own captive finance houses, whilst also directly controlling supply and all stock. This leaves discounts in the hands of a controlled few (that commit to large volume), locking out many lessors; and
- Introducing next-generation technology to both retain existing customers and acquire new ones."

Challenges in the vehicle sector

The economic recovery was most often spoken of as a prime driver of asset finance growth but, as Tim Porter of Lex Autolease pointed out, it is still nascent and could suffer from further setbacks in the global economy: "Business confidence is a key driver of investment and growth, and if this retracts we would expect more difficult trading conditions."

Also looking at challenges in the auto and fleet sector, Alphabet's Richard Schooling proposed: "The shift will change from ownership to usage, due to younger consumers' attitudes towards vehicle ownership. This will mean leasing markets need to look at new and different ways to the traditional 'one company car per employee' model to address changing employee needs." He continued: "In the medium and long term, we also need to reduce dependence on liquid fuel transport. Building the electric vehicle (EV) sector towards critical mass will certainly test our ability to drive change and create new types of leasing packages for EV operators."

Finally, David Betteley of Jaguar Land Rover could see no particular obstacles and a relatively clear road ahead: "Excellent liquidity is available and as long as demand continues it will continue to be supplied."

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Prospects for market growth

Specific forecasts for the asset finance market appear earlier in this report, but the Asset Finance International panel were asked to comment on which sectors offer the strongest prospects.

Two areas came up most often as being safe bets for growth: ‘traditional industries’ such as construction and manufacturing, and vehicles. The logic here is that much industrial equipment needs replacing, as Mark Picken of Shire Leasing said: “This equipment has been left in situ during the tough economic climate with a ‘make do and mend’ approach. In many cases it is past its sell-by date and needs to be replaced and updated.”

This point was taken up by Investec’s Mike Francis, who commented: “Plant & Machinery (P&M) sectors look set to grow as Britain starts the process of investing again (effectively ‘de-rusting’ itself),” to which he added: “Vehicle sales will continue to stay buoyant as consumers feel the benefit of house price inflation.”

A point made by Julian Hobbs was that there will be demand for P&M, “as industrial firms are increasingly keen to acquire specialised industrial equipment to enhance efficiency and productivity and, accordingly, their competitiveness. As generalist lenders withdraw from specialist areas of finance following the credit crunch, original equipment manufacturers (OEMs) are exhibiting a growing interest in incorporating financing into their sales proposition in order to facilitate sales and ease of investment by end-customers.”

Hobbs added: “Equipment finance for medical equipment will also provide further room for growth as the leasing penetration rate in the sector is still at the low end. Healthcare organisations are under intense pressure to make efficiencies and cost savings.”

Greener prospects

Interviewees were also asked for their views on asset finance in the renewable resources sector and whether much funding is happening in that market, or is likely to in the near future. Martin Nixon noted risk aversion among funders: “The traditional sectors of construction equipment and vehicles remain the ‘bread and butter’ for many funders. Margins are better in more specialist sectors, but most funders are still nervous about entering into the renewable sector and funding here is still difficult to find for most brokers.”

Several expressed the opinion that the 'green' sector has potential, but one that needs to be approached correctly. Stephen Bassett stated: "Funding for sustainable energy and energy-saving markets is not exactly new, but it is still a growth area. Like all other 'specialized' sectors, including softer assets, you certainly need to know what you are doing, especially when deals go wrong."

Mike Randall agreed, saying: "New technologies and 'green' funding present an opportunity, but funders still need to understand the business dynamics and get comfortable with the lending proposition."

Ian Wood listed renewable energy as one of the stronger growth areas, along with P&M and construction, but added: "It is questionable whether the asset finance industry is doing enough to promote itself and the part it has to play in the recovery."

Mark Picken added: "The 'green' sector is seeing more leasing activity, but uncertainty on tariffs or any related grants means they are being viewed in a more normal credit assessment way. That is as a balance-sheet lend, not an income generating, earn-as-you-use proposition. The latter is fraught with risk and danger, as it offers open season to mis-selling. There is relatively low demand currently at the lower end but large projects are flourishing, usually funded through project finance facilities. Another issue is the lack of awareness, understanding and experience of the assets in the funders' risk departments and this naturally creates a drag on the supply of funds available in the market."

The drive for energy efficiency will spur growth in the renewables sector, according to Julian Hobbs: "In light of rising electricity prices, energy-efficient equipment will also be a key growth area for asset finance as businesses increasingly recognise the benefits of energy efficiency, in both cost savings and being greener overall."

Considering the vehicle sector, Richard Schooling observed: "Automotive will be a mainstay of the UK economy for the foreseeable future, so the sector remains critical to leasing's future prospects." On the green issue, he was bullish for future growth, stating: "More and more car manufacturers, including the premium brands, are launching electric vehicles and there is a greater range of vehicle types – including electric versions of popular fleet models. 'Green fleet' leasing will be about ultra-low-emission-vehicle (ULEV) financing packages and funding the build-out of charging infrastructure, rather than businesses investing in private generation of renewable energy. Green fleet financing will grow rapidly in the next few years – although from a very small base to start with."

Tim Porter agreed, saying: "We expect the vehicle leasing market to grow further, and anticipate the drive to reduce CO_2 emissions to feature as a high priority of the UK and EU political agenda. The adoption of alternative power trains and fuel sources will be driven by manufacturers, but we wouldn't expect a large shift to adoption until such renewable sources are well proven."

However, David Betteley does not see great prospects, at least not at the luxury end of the market, stating: "Consumers are not convinced by green financing. I believe that there may be some prospect of increasing sales in the mobility market for the manufacturers that have the right (small) cars to sell."

So it remains a niche market, which, as Bill Dost says, will work for niche funders who understand their market: "I'm all for finding a niche and running with it, and those running with 'green' right now and doing it well are going to do well with it, but I think it behoves funders to create a steady stable of business to build the company on and then opportunities that arise can be capitalized upon. You can't build your business to go from one prospective market to another."

SME growth

There is also the question of whether to look for growth prospects in the SME sector, or among larger corporates. The consensus here was that SMEs look more promising. Mike Francis said: "SMEs will perform better, because any increase in revenue will have an impact on the P&L. Large corporates are running so lean anyway that they have already extracted any economies of scale over the last few years, and in some instances will need to staff up again to deal with any increased demand."

Bill Dost looked at the numbers, saying: "As always, I bet on the SME sector. It's easy to see a large corporate do well, but I think if you aggregate all large business against all SME, you'd see the SME come out the winner."

And Ian Wood pointed to flexibility and adaptability: "SMEs will perform better as they are more nimble and better able to respond to growth potential in the initial stage of recovery."

The effects of government incentives

There has been much talk about government incentives to lend, such as the Funding for Lending scheme (FLS) and the new Business Bank. As covered earlier in this report, the broad opinion is that SMEs have not benefited from the variety of government initiatives. However, there is hope that the Business Bank may be a positive development.

The Asset Finance International panel had muted views, certainly of FLS. As Mike Francis said, "It is hard to definitively measure the material impact of any of the government incentives (outside of 'Help to Buy'). The primary impact of Funding for Lending has been that the corporates that would have been able to access the market anyway did so at a reduced cost."

Mark Picken said: "FLS hasn't done much for leasing as it didn't address the banks' existing toughened credit policies of the time, so didn't necessarily increase lending. It just reduced the price of what would be lent anyway."

For Stephen Bassett, the potential benefits are likely to be outweighed by lack of focus, as "they will tend just to distort yields further. When reasonable credits can already obtain the asset finance and leasing options they want, such initiatives just seem like tinkering for the sake of spin. In our opinion, government would be more helpful to SMEs by concentrating on supporting other 'banking'-type funding, which is where the significant shortage lies."

The inevitable presence of bureaucracy was seen as a hindrance by the smaller funders. Maria Hampton noted: "There is a lot of red tape surrounding government products and to date the schemes in place have under-delivered." Policymaking can be influenced by the prospect of an election, and she added: "With a potential change of government around the corner, it's difficult to predict what will happen over the next 12 months."

Both these points were elaborated on by Bill Dost, who said first: "Like all incentives, there are usually two realities: first, a lot of red tape; and second, a disconnect between what is thought is needed and what is actually needed in the market place. If this could be corrected I think we'd have a winner. Having said that, I think for the right lender some of these initiatives could work." On the possibility of new incentives being offered prior to the general election in 2015, he continued: "I think it depends on the general state of the economy and what the take-up of the current slate is."

For the auto sector, Richard Schooling commented: "We anticipate there will be a continued emphasis on encouraging green behaviour and a strong emphasis on reducing air pollution, so a continuation of grants to encourage electric vehicles looks set to continue, along with investment in the charging infrastructure."

Other interviewees also saw some positive outcomes. In Mark Picken's view: "The Business Bank is a much more likely source of success. The key benefit is its staff, who are predominantly commercially skilled individuals who understand the hot and cold spots of doing business. However, whilst it is tied to government and without its own banking licence it will have to struggle on with the inevitable uber-bureaucracy that such a status brings. Assuming it gets its own licence and operates in competition with other banks in the commercial sector, I see it as being a very successful channel for the government to offer business incentives and to ease access to funding for UK businesses."

Ian Wood added: "It's early days yet, but the Business Bank has been quite active in gaining an understanding of the UK leasing/asset finance sector and is progressing a number of consultation sessions with the FLA and leasing companies to better understand the challenges and issues." He went on to comment, with particular reference to the FLS, on the problem of not knowing the degree to which such schemes incentivise lending, and how much would have gone ahead regardless, without the incentive.

However, he has hopes for the Regional Growth Fund (RGF), another initiative run by the Department for Business and Skills (BIS): "The RGF is one of the schemes that has helped the industry and SMEs somewhat, as it supports the provision of finance for the acquisition of assets by way of a grant to those businesses that could otherwise not borrow due to lack of deposit or inability to service debt; as a result, jobs are required to be safeguarded and/or created."

Increasing market penetration

The UK is undoubtedly a mature market for asset finance and leasing. In what ways can the level of penetration be increased – is a change in industry attitude needed?

Stephen Bassett started by emphasising the need to talk of asset finance generally, and not to treat leasing as something separate. He said: "Individuals in the sector do need to understand their own products and the relevant regulatory and legal environment much better than many currently do."

Education was universally seen as vital, both of customers and within the industry. For customers, as Maria Hampton said, the issue is "More awareness; the majority of people still do not know what asset finance is." And on whether training of new entrants could be improved, she added: "An industry standard qualification may help, but it would need to be mandatory."

Ian Wood agreed, stating: "We need to look to how this industry engages with its customers and potential customers. As we see an increasing number of younger entrepreneurs succeeding in the economy we need to review how we engage with them and even the language we use to describe and define our products." He continued: "With a large proportion of SMEs not using asset finance/leasing due to a lack of awareness and/or understanding of the products and their benefits, there's a large part to play in educating SMEs and promoting the industry."

The UK is not alone among mature markets, as Bill Dost testified: "This is a question that has plagued the US and Canada as well." He stressed the importance of ensuring that potential customers really know what leasing is and what the market is offering, which they rarely do, adding that the work of associations is also vital in this. He concluded: "One-third of sales are financed, we all know the statistic. I think now we need to start looking at how to make ourselves attractive to the other two-thirds of the people who don't use us or don't know us."

This point was taken up by Mark Picken, who observed: "There is a view that c.30% penetration is the glass ceiling that cannot be breached, but if it can, then the industry has to do two things: first, encourage new talent in. Shire, for instance, runs a continuous Sales Academy for young people just entering the job market and an annual graduate programme that offers experience in many different business disciplines but specifically asset finance. I doubt there are careers officers in schools pointing students or graduates at the leasing business, and probably not even banking these days! The second thing is to advertise and educate at grass roots level to future business owners and managers, so they understand the features and benefits of asset finance and demand it."

Julian Hobbs took a pan-European view, commenting: "Compared to other European countries, the use of leasing amongst UK SMEs is relatively high in the machinery and industrial equipment sector. When it comes to IT and communications equipment, however, UK organisations are yet to take full advantage of leasing to acquire such equipment compared to many of their European neighbours." To increase leasing penetration in a mature market like the UK, Hobbs suggested: "Lessors will need both to extend their efforts to new markets and technologies, as well as target asset markets that have low existing penetration rates or are under particular budget pressures. Additionally, further work is required to educate more decision-makers within UK businesses in the benefits of leasing compared to other forms of traditional bank lending."

For Mike Randall, there is no doubt that market penetration can be increased, "and it is the responsibility of the whole industry to achieve this. It is important that the right profile of the industry is portrayed to the business community and that access to funders and information is made more readily available. The process of applying and obtaining funds needs to be straightforward and fast and customers' expectations managed with good communication at all times."

Education is also one of the watchwords for Mike Francis, who reiterated the need to "educate industry that there is no stigma around leasing and asset finance rather than owning your assets; and educate the next generation of industry sales people of the true customer benefits." On a practical note, he added: "Government could bring back transferrable tax allowances for the lessor, so they can pass on reduced cost of funds."

Auto and fleet penetration

Looking at the overall vehicle market, it was agreed again that customer perception is all-important if leasing penetration is to increase. Tim Porter commented: "Any large shift in growth will need to be supported by a change in the perception of UK consumer behaviour, a move away from ownership and towards usage. The market is mature and significant growth will need to be supported by this large shift in attitudes towards leasing."

Education was also stressed by David Betteley, who said: "I agree that one problem is that the dealers lack education and training. Personal contract hire (PCH) is widely advertised and consumers are attracted by the low payments, but once in the dealership they are sold a personal contract purchase plan (PCP)."

Regarding the fleet segment, Richard Schooling also singled out the need for greater awareness: "There is clearly the opportunity to increase fleet leasing penetration into the small business sector, which traditionally uses HP or cash to acquire vehicles. There is no instant solution, though. It will take a sustained effort to educate small business owners and their advisors via the media and local dealerships. We also believe in the medium term that as Generation Y make their way up the ranks, there will be less outright purchase and HP in general, as car ownership isn't necessarily something they are concerned about."

Schooling continued: "Offering salary sacrifice for company car schemes provides a further opportunity to increase fleet leasing penetration, as it unlocks the potential to lease a car to the wider employee base. This is particularly suited to the public sector, where grey fleet usage is high."

Recruitment into the industry

Following on from points made above about training new recruits, the question was posed as to whether there is a danger that future growth in the UK asset finance market may be affected by a lack of young professionals coming into the industry after the 2009/10 clear-out, and if this is the case, what should the industry be doing to counter it.

Everyone accepted that this is a scenario that needs to be recognised. Martin Nixon stated: "There is a definite shortage of younger professionals in the market. The average age of brokers is in the 50-plus age range, which is a result of the lack of recruitment over the last 10 years or so by funders. This will not be a problem in the short term, but unless the trend is reversed quickly, there will be problems within the next 5–10 years as these brokers either retire or move out of the industry and are not replaced."

For Maria Hampton, there is a danger, but "it depends on what the existing companies within the market want to get from their business: lifestyle, ambition, sustainability, longevity, pension." She also suggested as a measure to attract new blood that "universities and colleges could be approached with regards to offering a leasing module as an option on certain courses."

The worry for Mike Francis is that there is likely to be another clear-out from mainstream lenders "as they align the business model to their reduced ambition."

Stephen Bassett put forward the case for a clear-out making room for a bit of a clean-up, saying: "Is there another wave of trained 'professionals' queued to leave? Yes; does that mean there will be a bit of a vacuum? Yes. However, people will always be attracted to a successful and vibrant sector and asset finance (as a whole) is one such. Could it be more so? Yes. Does it need clearer more cost-effective basic training? Yes. But more importantly, it needs to leave behind the more distasteful aspects of the 'money-lender' image by adopting more open and fairer practices. It needs to be more professional."

The asset finance industry needs to make some clear distinctions as to what it is, and isn't, according to Mike Randall, who stressed: "In order to get young finance professionals in to the industry it is important to distinguish between banking and asset finance, and to demonstrate that there is a varied, worthwhile and rewarding career to be had, with a structured career path supported by training and development and remunerated appropriately and competitively."

And Bill Dost suggests a corporate campaign: "The industry definitely needs to go on a recruiting drive. For too long, people have fallen into asset finance instead of sought it out. I think the old guard need to return to their alma maters and expound on their love of the industry (certainly they love it enough to stick around), so I think we need to put on workshops and promote ourselves. We seem to think we're the best-kept secret occupation. If we continue with this mindset, we may just find we no longer exist."

Talent management, says Julian Hobbs, is vital to the asset finance industry's further development: "In order to attract talent, the industry must actively support, develop and nurture employees through, for example: measuring employee engagement, benchmarking and setting improvement targets; active management of employee development through addressing training needs; and supporting employees' development as subject matter experts."

This topic is covered further in the article by Miles Clarke later in this report.

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Industry consolidation

A final topic for the Asset Finance International panel to consider also concerned the future make-up of the industry: is there a greater or lesser likelihood in the current environment of mergers and acquisitions?

Responses were varied as to the volume of deals and sector in which M&A might be seen, but the consensus was that there will be such activity. Starting with the vehicle sector, David Betteley was convinced, saying: "Yes, definitely, driven by a desire to get scale in order to reduce operating costs, as the leasing/finance business is a low-cost business model."

Richard Schooling elaborated, saying: "Over the past two years, the fleet market has changed shape dramatically as a result of players dropping out or consolidating. There are some new names in the industry league tables, while the established market leaders have shown solid growth. Looking forward, there is likely to be more consolidation in the mid- and lower tiers due to economies of scale issues. In such a mature market, companies that can't benefit from economies of scale are at a competitive disadvantage."

Looking at the whole market, Stephen Bassett commented that M&A deals will happen, "and this will be driven by the anticipated hyper-competiveness in some sub-sectors of asset finance."

One such sub-sector is the broker market, as singled out by Mike Francis, who said: "I think that there will be M&A in the broker market, but not in the funder market." This point was also made by Mark Picken, who added: "It is more likely in brokers who are nearing the end of their careers and if they have their own portfolio that will be attractive to growth-focused lessors. If they are without their own book they might be attractive for their origination skills, and lessors may try to capitalise on that in the short term."

Pressures to consolidate may prove hard to resist in the medium term, according to Martin Nixon: "In view of the number of new entrants over the last three-to-four years, and the aggressive business models that many have employed, there will be pressure for some of these new funders to be sold over the next two-to-three years and they would make an ideal target for other funders looking to increase market share quickly. Margin pressure may also accelerate some of these potential sales."

On a final note, relating to optimising efficiency and thereby reducing the possibility of needing to merge operations or being the object of a takeover, Peter Dyson added: "Some lessors may gain advantage from outsourcing part of their portfolio management and other back-office functions so that they have sufficient scale to be efficient."

Miles Clarke examines the state of health of staff recruitment within the UK asset finance sector

The general trend for the tangible increasing demand for talent in the UK asset finance sector can be traced back to 2012 when our stats indicated a month-on-month increase in mandated roles up to executive level.

2009 had been all about survival in the recruitment sector and beyond. For many of us, the lessons learned during the recession, as painful and humbling as they were at the time, will positively impact on our activities and behaviours as the UK economy continues on its journey of reparation and recovery in 2014.

2013 was always going to be a tough year to replicate from an ‘activity and performance’ perspective. The departure of ING Lease at the end of 2012 distorted the overall numbers of experienced asset finance personnel finding new employers early in the New Year – several finance companies succeeding in ‘lifting and shifting’ teams of varying sizes in an attempt to accelerate their plans for growth and fill the void left by this departing ‘giant’ of the sector.

Those finance companies that acted nimbly and were opportunistic and pragmatic will reap the benefits of these new employees in 2014 and will benefit the most. Rather than fill all of the potential vacancies across the sector, there has been increased demand for quality people to support the new intake and reinforce the operational infrastructure of businesses.

The departure of ING Lease and the sustained improvement in the UK economy has seen something of a surge in demand for human capital in 2013 and into 2014. Existing players are gearing up to satisfy the demand of their customers whilst seeking opportunities to diversify, differentiate and exploit new market sectors or asset types. In addition, the number of new entrants be they ‘challenger’ banks, foreign banks, debt funds or hedge funds, has resulted in demand far outstripping supply.

Pressure on the talent pool

This is putting pressure on the talent pool and some finance companies are starting to take a more flexible and creative approach to whom they will appoint, sometimes recruiting those with experience in allied areas of financial services.

Gearing up and recruiting additional personnel does not necessarily mean from a sales perspective. New and existing finance companies continue to rely on the indirect channel for distribution, most notably through brokers and the vendor route. Brokers and vendors have an ever-increasing choice of funders with whom to place their business. The real shift in recruitment activity over the last few years and into 2014 has been around middle- and back-office roles and functions.

The recession exposed many of us to the operational inefficiencies and vulnerabilities of our businesses – this affected businesses of all shapes and sizes. Asset finance companies have quickly identified that in order to survive and thrive in this post-recessionary world, they must have:

- a more rigorous and effective credit and risk function;
- to be more operationally robust;
- stronger finance and business intelligence functions; and
- regulation in all its forms needs to be proactively addressed.

All of this points to an investment in technology and training and, most importantly for the recruitment profession, the appointment of new people.

In 2013 and into 2014, the pendulum of demand swung markedly away from front office sales and sales leadership roles and towards functions which pre-recession, we would have labelled 'off piste' and would have played second fiddle to the insatiable demand for sales people.

The maturing workforce

A great deal has been written and spoken about the challenges that the asset finance sector faces with a maturing workforce. In part, much of this is true. In our experience it is those whose career has been in and around sales that are causing widespread concern and cannot be ignored – there is an ageing and diminishing pool of asset finance sales people. Historically it is those from a sales background who have been regarded as the 'face' of the sector and who typically have progressed into the most senior leadership roles, rather than those from an operational background.

What is encouraging is that there are many bright, young and ambitious people successfully progressing their careers within asset finance in credit and risk, finance, IT, compliance and other operational roles. The value of quality personnel in these and associated functions is fast becoming realised, appreciated and rewarded than ever before. They can often be the unsung heroes of the sector and represent the future MDs and CEOs of the future. This talent pool has an increasing value and can impact on the operational integrity, efficiency and performance of a company.

In 2014, the head-count investment has been towards these middle- and back-office roles. The broker community in particular continues to provide high-quality access to new business opportunities for many funders. Brokers will continue to account for an increasing percentage of recruitment fees for CBC and it is highly likely that a broker will be responsible for the largest fee (and therefore the highest salary) earned in 2014.

The lack of bright, young and ambitious talent in sales functions across the asset finance sector is not lost on all finance companies. The lack of activity and investment in training has impacted upon this, as has the 'beasting' that the greater financial services sector has had in the media over the last five or so years. Financial Services isn't necessarily regarded as an aspirational career of choice for many leaving school, college and university.

The specialist asset finance recruitment companies were established to satisfy the demand for sales people to work across the branch networks of Lombard, Lloyds and Scottish, General Guarantee, NWS Bank, Roycsot, British Credit Trust, Mercantile Credit, Forward Trust et al.

Bringing back sales apprenticeship

In 2014 there is likely to be at least one finance company that will make a concerted effort to bring back the sales apprenticeship previously afforded by the finance companies of the 1970s and 1980s.

Many finance companies have benefited over the last four or five years from a relatively benign market. With the increasing activity across the sector, high quality personnel or teams of people operating in niche areas will be vulnerable to being enticed away into something new. This has already happened in late 2013 and early 2014. With a number of predatory new entrants circling, it would be foolish to ignore the fact that good people are in demand and that money (and opportunity) 'talks'.

The surge in demand for quality people is having an impact upon salary levels and a number of companies are being proactive, taking defensive measures to 'lock in' their better people with loyalty bonuses, share schemes, bonus guarantees and deferred earnings schemes. When good people do resign, the spectre of the aggressive counter offer has returned in force.

The rigour around the recruitment and selection process has increased compared to an often laissez-faire approach to hiring staff in previous times – and so it should be – this as well as budgetary and head count restrictions can get in the way of a quick and easy hire (and fee!) but the quality of those within the sector will continue to improve as a result.

2014 is shaping up to be an active year for recruitment, search and selection across the asset finance sector. The activity at the senior management and executive end of the market has never been greater. The specialist recruitment companies will have to work hard, with undoubted integrity, at achieving a wide and well-developed network, access to good research and a true understanding of the sector across all functions and at all levels.

The lessons learned (and most importantly, remembered) having survived the recession will live with us for many years and make us stronger people in stronger businesses. The movement of talent between new and established players is likely to continue for some time. The outlook for those employed in and around the asset finance community is become more and more positive – those who move and evolve to keep pace with the changing landscape should thrive over the years to come.

Miles Clarke is a director of CBC Resourcing Solutions. CBC Resourcing Solutions was established in 1992 as a search and selection business specialising in asset finance, leasing and the broader financial services sector – offices in central London and Cheadle Hulme, Cheshire

Government taxation concerns likely to hit company car users

Alastair Kendrick looks at potential future developments

We have been given some indication from the government over what we may expect by way of benefit-in-kind levels on company cars up to and including the tax years 2016/17.

We really need news of what will happen for 2017 and beyond. Are we to see a total re-think over the way the benefit-in-kind is determined, or will the government simply continue with its present policy but increase the tax we pay? We may get some indication in the spring Budget.

There is clearly a hike in the level of taxable benefit on the company car in 2015/16 which those in company cars need to be prepared for. The problem is, will the funds needed by government mean there is to be a shock awaiting us for 2017/18 and beyond?

The population of company cars has declined over the years, which results in a drop of taxation collected by government on the company car. It is accepted that those who have opted out of the company car will pay income tax and National Insurance on the cash alternative they receive, but the amount this generates is not recorded (it is lost in the general PAYE figures). In 1990 there were about two million company cars and the tax take from company cars and fuel combined was then about £1.3bn. That tax take increased in 2000/02 to a sum of £3.6bn. The most recent figures on company cars released by HMRC estimate the numbers at around 95,000 (this was in 2011). This evidences the drop in tax taken on company cars and fuel in 2010/11 to a revenue collected of nearly £2bn. There are real concerns that the government may attempt to try to get back to the tax revenues of 1990 by increasing the tax on cars.

The problem of the tax pot on cars is also evident in regard to vehicle excise duty. Up to 2007 there was a steady level of tax collected from vehicle excise duty but then we have seen a cyclical decline following the introduction of the graduated regime and the regime's structure failed to keep up with the improved CO_2-emission profile of new and used cars. There were announcements in 2012 to review this whole area but we have to date seen no significant change of approach. The question remains, how will the government attempt to address this issue and plug the gap produced?

So in reality we are seeing a number of problems in respect of the taxation of cars which, if the government feels moved to address them, could see a wholesale change in taxation levels.

It is not long since the qualifying CO_2-emissions for company cars dropped from 160gms to 130gms. It is therefore unlikely this will be reduced further in the life of the present government.

In addition, it is clear that the government is committed to stamping on anyone who comes up with ideas to get out of paying tax on the car. In the autumn statement we saw the stopping, from April 2014, those who have avoided paying benefit-in-kind tax on the car using the idea used in the case of Apollo Fuel and structured around the use of a personal lease. There was also the closure announced over the reduction in the benefit charge by a private-use adjustment when this contribution did not actually take place. In both these situations we see HMRC committed to recover tax going back to when the scheme was first used.

So it seems there is little major to expect, but the Budget in March will be worth watching for in case there are announcements over the long-term taxation of cars.

Alastair Kendrick, Tax Director, MHA MacIntyre Hudson

Consumer credit – towards a tougher regime

Howard Cohen gives a check-list of the radical changes facing consumer lenders

We are in the midst of one of the most radical changes to the consumer credit regime that we have seen in decades. The implications of the changes will affect all firms that are involved in the consumer credit industry, to a greater or lesser extent depending on the activities they are undertaking. So, are firms ready for the seismic shift?

Ready for what?

Ready for the transfer of regulation of consumer credit and related activities from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) from 1 April 2014.

But I've got an OFT licence

The OFT will no longer be the supervisory authority for consumer credit. The activities that currently need a licence from the OFT under the Consumer Credit Act will, from 1 April 2014, be "regulated activities" for the purposes of the Financial Services and Markets Act 2000 (FSMA), and anyone carrying them out will need FCA authorisation.

Surely I'll be grandfathered?

No, you won't. FCA wants to be sure it regulates the right firms for the right activities, so you must check which regulated activities you want to carry on and apply to it for authorisation. You must apply for an interim permission from FCA.

What's an interim permission?

An interim permission allows firms that currently carry on consumer credit activities to continue to carry out their normal business after 1 April 2014. An interim permission will last until 30 March 2016, or the date the firm gets full FCA authorisation, whichever happens sooner.

I'm already authorised under FSMA

You will still have to get interim permission from FCA for your consumer credit activities and you will then have to apply to FCA between 1 April 2014 and 30 March 2016 for a variation of permission to include consumer credit activities in your current permission.

I'm an appointed representative, what does that mean?

Many consumer credit firms are appointed representatives of FSMA-authorised firms for the purposes of selling insurance products. This makes them exempt from the need for direct FSMA authorisation. Once consumer credit regulation transfers to FCA, these firms will need to become directly authorised. Normally, it is not possible under FSMA to be authorised for some activities and exempt as an appointed representative for others. But certain 'limited permission' consumer credit firms can continue to be appointed representatives in some circumstances.

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What's a limited permission?

FCA intends to regulate consumer credit activities proportionately, so more onerous rules will apply to higher-risk business. Most mainstream consumer credit providers will not qualify for a limited permission. The firms most likely to make use of a limited permission are secondary credit brokers - that is, those whose credit broking activities are ancillary to a main, non-financial, business. For example, a car dealership or retail outlet may qualify for a limited permission if it brokes credit to its customers, and may also be able to be an appointed representative of a firm authorised under FSMA if it sells insurance related to that product.

We have a group licence, can we transfer it?

No, FSMA does not recognise group licences. You will have to decide how many companies in your group need licences for consumer credit activities, and possibly consider making some companies appointed representatives of one authorised entity.

When do I have to get my interim permission?

Now! FCA is accepting applications for interim permissions, which will take effect from 1 April 2014. Any firm that has not registered for its interim permission before 1 April will not be able to carry on its consumer credit activities until it has completed the authorisation or variation of permission process. This could take months.

How do I get one?

You must register with FCA. You will need to tell FCA which permissions you will need. FCA has listed the permitted activities and you need to make sure you register for the right ones. Check your OFT licence, read FCA's guidance and make sure you tick the right boxes. You have to pay a fee.

The consumer credit regulated activities requiring FCA authorisation are:

- Entering into a regulated credit agreement as lender;
- Credit broking (including broking and intermediation);
- Operating an electronic system in relation to lending (such as running a peer-to-peer platform);
- Debt adjusting;
- Debt counselling (including if not-for-profit);
- Debt collecting (but excluding third party tracing agents that only carry on tracing activities but do not lend or carry on debt collection activities);
- Debt administration;
- Entering into and other activities relating to a regulated credit agreement as lender (covering both first and second charge lending);
- Entering into a regulated consumer hire agreement and certain related activities;
- Providing credit information services; and
- Providing credit references.

The effect of the changes is that a few firms that do not need an OFT licence may require FCA authorisation (such as operators of peer-to-peer lending

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platforms), while a few firms that currently require an OFT licence may not require FCA authorisation (for example the third party tracing agents).

What happens next?

After 1 April 2014, FCA will start contacting firms with interim permissions to ask them to complete more detailed application forms. Until then, you may carry on with your business, but you must comply with FCA's rules that relate to your business.

What sort of rules are they?

FCA is a hands-on regulator with many more powers than the OFT has had. Among other things, its rules:

- Set high-level principles which all firms must comply with: FCA can take enforcement action against firms who are in breach of these principles;
- Require individuals within firms who hold certain positions to be individually approved by FCA and to be personally accountable to it. FCA can take disciplinary action against these individuals;
- Require firms to have in place adequate systems and controls to address the various risks their businesses face; and
- Set detailed conduct of business requirements.

Some of FCA's current rules have been extended so they apply to consumer credit firms. Other rules will apply only to some firms. FCA has developed a new Consumer Credit Sourcebook (CONC) specific to consumer credit activities, but CONC will not be the only part of its rules that applies.

What's happening to the CCA?

The CCA will still exist. But certain of its provisions, and legislation made under it, are being transferred to legislation under FSMA and into CONC. Almost all the detailed requirements on agreements, advertisements and so on will stay the same, but you will often have to look somewhere else to find them.

What happens if there is a change in control of my business?

There are a new set of thresholds for change of control notifications for consumer credit firms. Authorised firms carrying on only consumer credit activities will need to notify at 20%, 30% and 50%, while limited permission firms will have one threshold of 33%

FCA approach to consumer credit

FCA plans to apply proportionate regulation depending on whether activities are lower or higher risk. Lower risk activities include lending where the main business of the firm is selling goods and non-financial services and there is no interest or charges (such as interest-free membership instalments), secondary credit broking, consumer hire, not-for-profit debt counselling and adjusting, and not-for-profit credit information services. Certain low risk firms may benefit from a 'limited permission' regime, which means FCA will not apply some of the requirements listed below to them.

High risk firms (major lenders) will need to comply with FCA requirements familiar to firms already regulated under FSMA, such as:

- The threshold conditions, which will apply according to the firm's risk category;

- Approved persons: there will be no 'customer function' requirement, but all firms except limited permission firms will have to appoint approved persons to significant influence functions (such as CEO and director);
- Principles for Businesses, high-level standards and conduct standards, the latter based also on CCA rules and on existing guidance and industry codes;
- The firm systematic framework (FSF) for supervision, which will apply proportionately depending on the risk category;
- Capital requirements (but only for debt management firms); and
- Financial crime compliance, enforcement and redress, including product intervention powers and consumer redress schemes.

So what should CCA firms do?

There is not much time left. CCA firms should urgently assess what FCA authorisations they will require from 1 April 2014, and plan for any restructurings necessary. If they have not done so already, firms should submit their interim permission applications without delay and should start now, if they have not done so already, to assess their compliance procedures against the FCA standards.

Note: This article is not designed to provide legal or other advice and you should not take, or refrain from taking, action based on its content.

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