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Contents

The UK at a glance

This new Asset Finance International country survey aims to provide a balanced assessment of the latest developments in the asset and auto finance markets in the UK.

Key areas covered and principal findings include:

- The UK asset finance market continues to thrive – it is now firmly consolidated as the fourth largest market globally and the largest in Europe. Total new business volume (NBV) in 2015 amounted to £29.1 billion ($44.5 billion) – a year-on-year increase of 12% and marking two consecutive years of double-digit growth.
- The asset finance industry now funds over 30% of investment in machinery, equipment and purchased software in the UK.
- The asset sectors with the strongest performance in 2015 were IT equipment finance (up 38%) and commercial vehicle finance (up 14%).
- The dominant sectors by asset finance are passenger cars (31% market share), commercial vehicles (23%) and plant & machinery (20%).
- New car registrations rose for the fourth consecutive year to a record 2.6 million, and registrations in the fleet sector grew by 11.8% to a record total of 1.3 million.

- Forecasts are for the overall asset finance market to grow by around 7% in 2016, with SMEs growing nearer 10%. Growth in the IT sector is forecast to be well above average. The passenger car sector is also projected to grow more than the average rate.
- Confidence amongst SMEs seems reasonably robust, although investment intentions are cooling. For SMEs, liquidity is returning and finance markets have continued to improve for them.
- Awareness has risen amongst SMEs of the range of finance options that are now available, which is leading to a change in approach to finding funding, with more options being considered.
- Although global headwinds are causing concern for overall economic growth, the forecasts are still for the UK to maintain stronger growth than most developed nations.

The opinions and comments of a select group of asset finance industry leaders are provided throughout this survey. Topics under analysis are:

- Market performance;
- Auto leasing developments;
- Asset finance for SMEs;
- Alternative funding sources;
- Asset finance uptake; and
- Future financial shocks.

There are also special articles covering:

- The outlook for fleet leasing;
- Forthcoming developments in asset finance; and
- Asset finance recruitment.

The asset finance market

The UK asset finance market continues to thrive – it is now firmly consolidated as the fourth largest market globally and the largest in Europe. The fact that the UK has replaced Germany as the leading European market is not in doubt, but it should be noted that relative market size can be distorted by variations in exchange rate, and over the last year the euro has been weak against sterling.

Bearing this in mind, according to the most recent figures published by Leaseurope – for the first half of 2015 – most European markets grew comfortably but the UK raced ahead, with new business volume (NBV) for equipment and consumer vehicle finance (excluding real estate) totalling the equivalent of €36.6 billion. In euro terms, this represents an exceptional increase of over 30% on the same period a year earlier, but a straight comparison hides the fact that over the same period sterling had appreciated by some 12% against the euro.

More recently, sterling has weakened but whatever the currency the UK market continues to grow, as shown in the following section. Equivalent figures are given in US dollars below, at the average exchange rate for the period – i.e. £1.00 = US$1.53 in 2015.

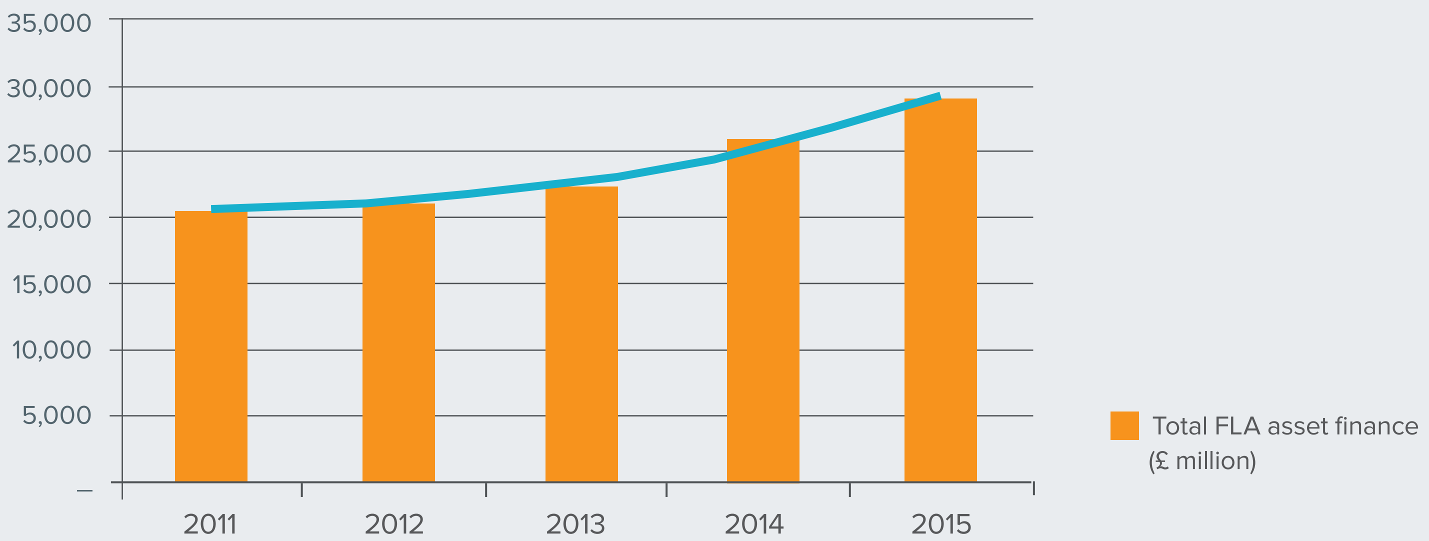
The growth of the asset finance market in the UK continued in 2015, with new business volume up 12% year-on-year

Upward momentum maintained in 2015

The growth of the asset finance market in the UK continued in 2015, with new business volume (NBV) up 12% year-on-year according to the Finance & Leasing Association (FLA), marking two consecutive years of double-digit growth, with total NBV in 2015 amounting to £29.1 billion ($44.5 billion).

As Geraldine Kilkelly, head of research and chief economist at the FLA, comments: “2015 was another strong year for the asset finance industry, with new business reaching its highest level since the onset of the financial crisis,” adding: “The asset finance industry funded almost 32% of UK investment in machinery, equipment and purchased software in 2015.”

Asset finance volumes 2011-2015 and trendline

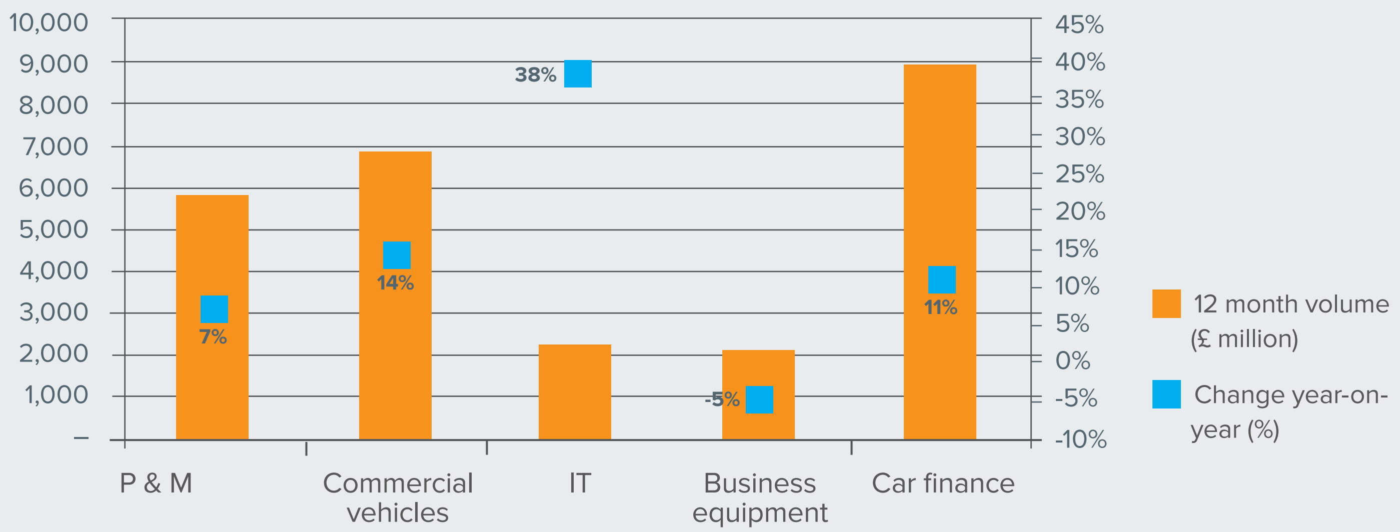


Source: FLA, Asset Finance International

New business in the core market of deals of up to £20 million increased at the marginally lower rate of 11% over the year before to £28.1 billion ($43 billion); however, within this market there was notable growth reported by the IT equipment finance sector (up 38% y-o-y) and commercial vehicles (up 14% y-o-y). The only sector where NBV declined in 2015 was business equipment, which was down 5%.

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.

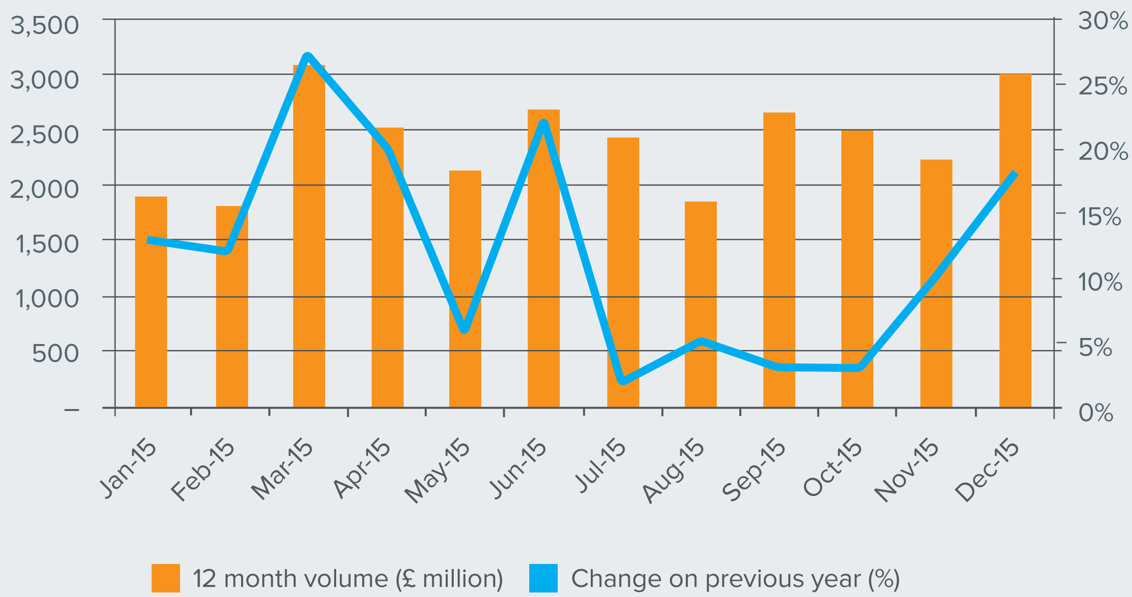
Asset finance core market by sector, 2015



Source: FLA

Month-on-month figures show a second full year of positive growth rates, and although there was a dip around the third quarter compared with the previous year, 2015 saw a strong finish.

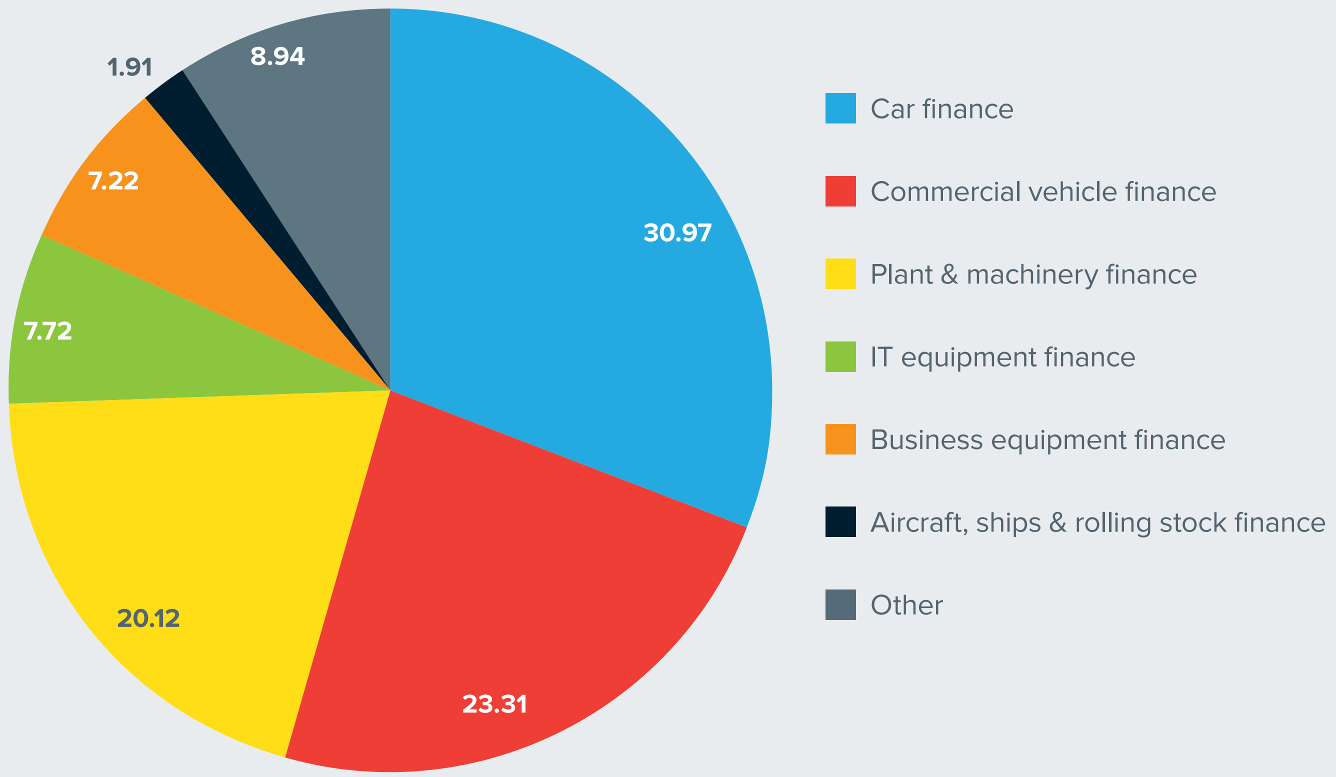
Asset finance NBV monthly running total, Jan-Dec 2015



Source: FLA, Asset Finance International

Looking at the composition of the market by annual business volumes per sector, the dominant sectors in 2015 remained car finance, commercial vehicle finance and plant and machinery (P&M) finance. However, while both cars and commercial vehicles increased market share, P&M declined from 21.3% share in 2014 to just over 20% in 2015.

Asset finance NBV by sector, 2015 (%)



Source: Asset Finance International, FLA

Market performance – What the experts say

Asset Finance International asked industry leaders in UK equipment and auto finance for their views on a number of current issues.

The first topic for debate concerned the potential for market growth in the coming year, following another strong performance in 2015. What events might change the market dynamic and alter the uptake of asset finance/leasing in 2016?

The general view is that the market will continue to grow, but the potential brakes on growth are increasing. Two frequently occurring words were 'confidence' and 'uncertainty' – both of which sway businesses' investment intentions.

Martin Nixon of United Trust Bank summed up the situation, stating: "The main issue in the UK surrounds business confidence which, if negative, will lead to postponement or cancellation of capital expenditure this year for many businesses, and this could have significant implications for the asset finance sector."

The main issue in the UK surrounds business confidence

Martin Nixon

The global context was provided by Richard Schooling of Alphabet (GB): "In the interconnected reality of the modern global economy, the dynamics of the UK market cannot be immune to the wider challenges facing the world – the slowdown in China, price fluctuations in oil, energy and natural resources, turmoil and uncertainty in the markets as well as soundings around interest rate hikes from both the US Federal Reserve and the Bank of England." (Interest rates are also covered later in this report.)

This was taken up by Sam Geneen of Star Asset Finance, who said: "Confidence is an important factor and with falling stock markets throughout the world, this can have an adverse impact." However, he added: "In the meantime, the UK continues to defy gravity with decent GDP growth, low interest rates and inflation, and rising consumer demand."

However, confidence amongst lenders in a generally resilient investment outlook is tempered by sector-specific challenges, with Investec's Mike Francis noting the adverse impact of downgraded Chinese growth and oil price reductions on sectors such as steel. "In such cases," he said, "we may take a sector and/or geographic view that would not impact our other lending activities."

The panel of experts offered a variety of other market challenges for the near future, an important one being the cost of borrowing. Aldermore's Carl D'Ammassa commented that, aside from expecting growth to remain strong throughout 2016, "Nevertheless, we have to acknowledge that the growth in unrealistically cheap lending that is beginning to appear is not sustainable over the long term."

The growth in unrealistically cheap lending that is beginning to appear is not sustainable over the long term

Carl D'Ammassa

One cause of cheap lending, according to Bill Dost of D&D Leasing, is continued consolidation in the market, at the rate of a purchase or merger "every other month, if not more." He elaborated: "This leads to a dropping of rate in the market as these new 'super' firms, for lack of a better term, try to corner the market on volume. We're already seeing some astoundingly low yields being offered in the SME ticket and while I'm sure the SMEs are loving the rate, I'm not sure that such a low rate is healthy in the market place."

This point was highlighted by George Ashworth of Virgin Money, who said: "There are now a growing a number of signs pointing to increases in money costs during 2016 and beyond. This, combined with the fact that there are a large number of business enterprises that have grown up with low money costs, is a potential danger in itself. The question is, how many businesses will not be able to withstand cost of money increases? Any increase in the business failure rate will have a negative impact on the asset finance market. This particular point is also likely to be exacerbated by the possible changes in allowing tax relief on interest expense."

A positive move in the market dynamic, in the opinion of Gavin Wraith-Carter of Hitachi Capital Business Finance, is the strengthening of liquidity through initiatives such as the launch of the British Business Bank's ENABLE funding programme, aimed at increasing SME finance. He explained: "The British Business Bank has supplied us with a £100 million facility to fund a portfolio of newly originated small business asset finance receivables. This offers SMEs a valuable alternative to mainstream lending, allowing businesses to free up cash flow and to budget appropriately for the equipment they need to remain competitive." He sees this as "a fantastic example of how funders can look at new and fresh ways to generate increased use of alternative lending to UK SMEs."

Nonetheless, the main high-street banks still dominate the SME lending space. George Ashworth anticipates some changes in the banks' position: "These banks are still trying to redress their balance sheets and their capital requirements under CRD IV [the EU legislative package covering prudential rules for financial institutions]. I expect to see an increasing substitution effect taking place over 2016 as banks switch their clients into more capital-efficient forms of lending," he said, although with the rider, "I see this as having a positive impact on asset finance, but not necessarily growing the overall SME lending market."

Conister Bank's Juan Kelly, meanwhile, is fairly dismissive of the outlook for any great change in the status quo, observing: "The Competition and Markets Authority investigation into the dominance of the big four banks in the SME market could have been a pivotal moment. However, the CMA's initial recommendations have been somewhat muted. If the CMA maintains this position I do not expect many significant changes in the market for asset finance or leasing."

Another market challenge is likely to be the new lease accounting standard. There is a concern that, relative to other forms of borrowing, the standard will increasingly impose transactions costs on lessees, particularly lessees with large leasing estates, and that it could have a depressant effect on leasing, particularly of soft assets/office-based business machines.

Changes to accounting rules regarding on or off balance sheet will be an important development to watch for large and limited companies. According to Richard Schooling, this is a key development for auto lessors as, although IFRS 16 doesn't take effect until 2019, some agreements being put in place this year will fall under the new rules towards the end of their contract term (if they have longer than 12 months to run once the new rules take effect). "How leasing companies react to these changes to develop new, shorter-term leasing products will be interesting," he noted. "While leasing companies are less likely to invest in short-term products – because this is where risk is most volatile – the agenda will be driven by increased customer demands for service, ease of use, cost benefits, predictability, removal of risk and sustainability."

A final area of ongoing development in asset finance was introduced by Julian Hobbs of Siemens Financial Services UK, namely the trend to digitalizing and automating production processes and service models, which is challenging established market norms and dynamics across many sectors and around the globe.

This means, Hobbs said, that "increasing numbers of British companies are recognising that in order to remain competitive in a volatile and unpredictable economic environment they need to embrace the business opportunities and challenges inherent to the so-called Fourth Industrial Revolution." This is reflected in greater investment in new technology and equipment, and also demands for flexible financing solutions that allow companies to acquire the necessary hardware and software whilst maintaining liquidity for other pressing financing needs.

Financial decision-makers are increasingly favouring asset finance solutions over other financing methods

Julian Hobbs

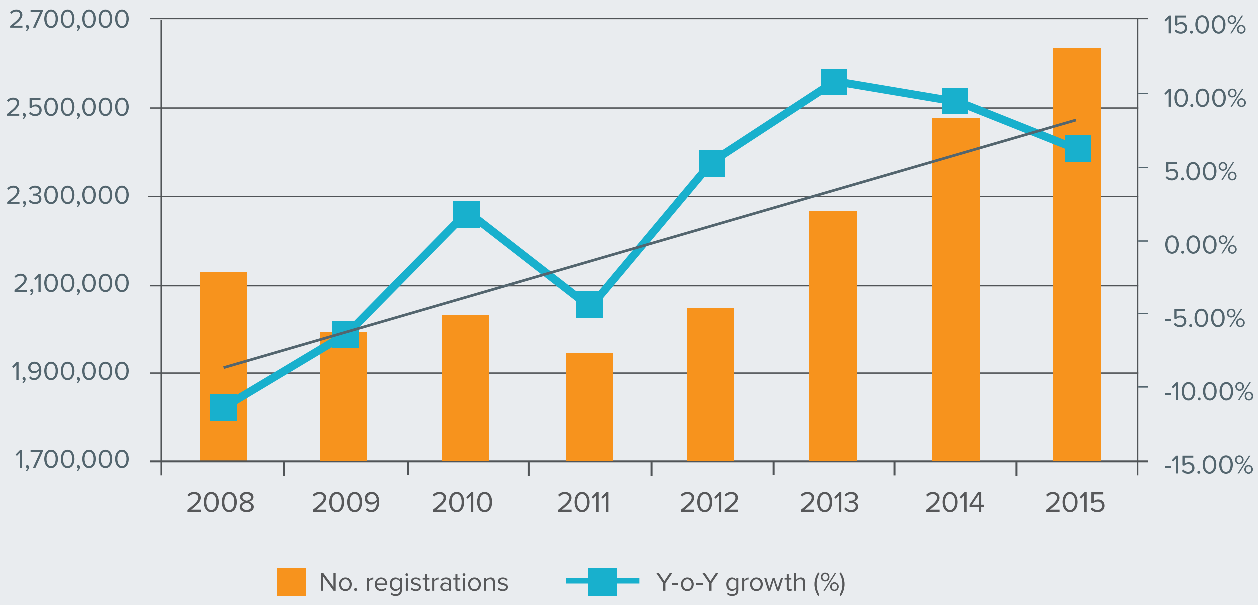
He continued: "Financial decision-makers are increasingly favouring asset finance solutions over other financing methods when acquiring necessary technology and equipment," concluding: "This indicates that despite the challenging economic environment, further growth of the UK asset finance market, particularly within certain sub-segments, may be expected."

Auto finance growth continues

Driven by growing consumer confidence, low interest rate deals and the prospect of lower fuel costs, the UK new car market hit an all-time high in 2015.

Figures from the Society of Motor Manufacturers and Traders (SMMT) revealed new car registrations in 2015 exceeded 2.6 million for the first time and well ahead of forecast numbers. This was an increase of 6.3% on the 2014 total and meant the market has risen for four consecutive years. The upward trend in registration numbers looks set to continue.

Total car registrations, 2008–15, with growth trend



Source: Asset Finance International, SMMT

There were increases in all fuel types, with registrations for petrol-driven cars up 8.4% and, in spite of the emissions scandal, those for diesel up 3.0%. Although a much smaller group, alternatively fuelled vehicle (AFV) demand grew 40.3%, securing its biggest ever market share of 2.8%. Within the AFV group, plug-in hybrids experienced phenomenal growth, with volumes more than doubling, and pure electric vehicles gained by around 50%. However, the dramatic fall in the price of oil may cool interest in this group.

Registrations in the fleet sector grew by an impressive 11.8% to a record total of 1.3 million units, and while business registrations declined the combined total of fleet and business sales represented more than 54% of all new registrations in 2015. The British Vehicle Rental and Leasing Association (BVRLA) expects to see further growth in these sectors in the coming year. (The outlook for fleet leasing is covered further in a later section of this report.)

UK new car registrations

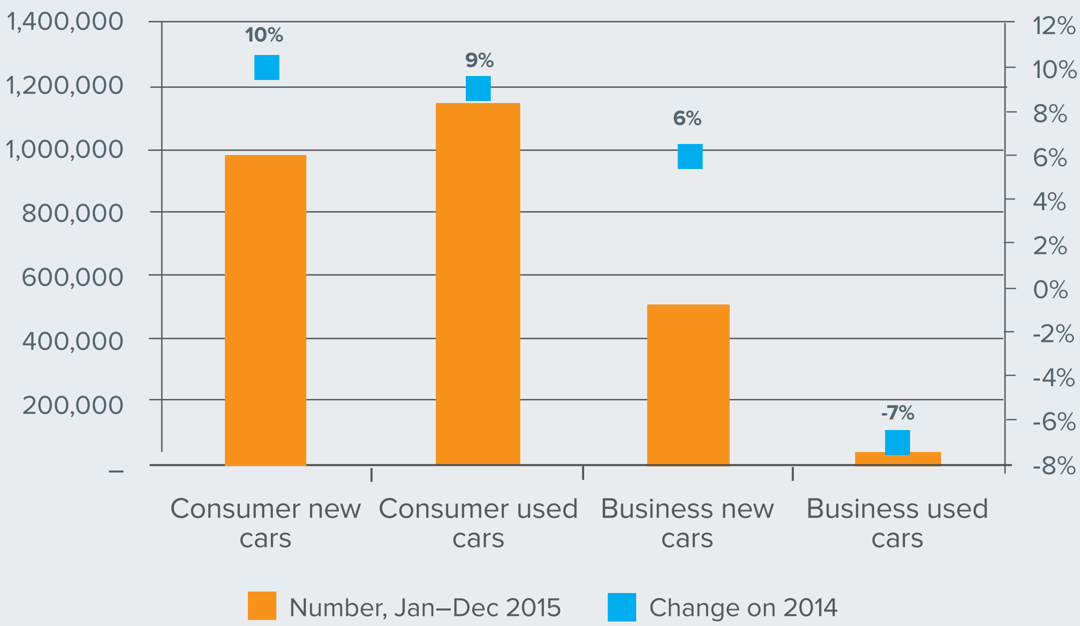
	Total	Diesel	Petrol	AFV	Private	Fleet	Business
2015	2,633,503	1,276,871	1,283,857	72,775	1,208,812	1,317,570	107,121
2014	2,476,435	1,240,287	1,184,409	51,739	1,179,499	1,178,416	118,520
Year-on-year change	6.3%	3.0%	8.4%	40.3%	2.5%	11.8%	-9.60%
Market share 2015		48.5%	48.8%	2.8%	45.9%	50.0%	4.10%
Market share 2014		50.1%	47.8%	2.1%	47.6%	47.6%	4.80%

Source: SMMT

Figures from the FLA show a 10% rise year-on-year in 2015 for new cars bought by consumers on finance through dealerships, reaching an all-time high of just short of 1 million units. Consumer used car finance also performed well, growing 9% to over 1.1 million units. Although impressive, the rate of growth declined compared with the previous year, as the FLA's Geraldine Kilkelly noted: "While growth in 2015 remained robust, it was slower than in 2014, in line with expectations."

Meanwhile, FLA figures for the volume of new cars bought on finance by businesses showed growth of 6% over the previous year, exceeding the half-million mark in total, although again the rate of growth was slower than in 2014. It was a slightly different picture for the much smaller segment of used cars purchased on finance by businesses, where the total showed a decline yet again, but at a lesser rate than the year before.

Cars bought on finance, 2015



Source: FLA

Auto leasing developments – What the experts say

The next topic for consideration by the panel of industry experts concerns auto fleet leasing and retail lenders. Asset Finance International asked for their views on how far they predict business mobility solutions will develop during the year in the auto industry, and what financial models/products are being designed to meet demand.

There is no doubt that there has been increasing interest, as well as greater uptake, of mobility services such as car sharing. Developments have been spurred by changes in work and lifestyle habits, and technology and flexibility are at the forefront.

Tim Porter of Lex Autolease commented: “Business mobility has been a topic of discussion over the last couple of years. We expect the focus to continue to develop during 2016, with a specific focus on larger cities and greater innovation from manufacturers.”

Regarding product development, he added: “We continue to investigate different products and propositions and we keep close to manufacturers to ensure the needs of customers of the leasing industry are represented in vehicle mobility solutions.”

We keep close to manufacturers to ensure the needs of customers of the leasing industry are represented in vehicle mobility solutions

Tim Porter

In the opinion of David Betteley of Jaguar Land Rover, this is an area where the attractiveness of the concept meets an ingrained tendency towards ownership. He said: “This is a biggie, and although I don’t see a lot of change in 2016 there is potential for this to be very disruptive. Against this, many people know that owning a car is a financial burden (it only gets used 5% of the time) but they are prepared to pay for this luxury as they don’t want to share it. It’s a bit like asking people to share their spare bedroom with a complete stranger.”

Many people know that owning a car is a financial burden but they are prepared to pay for this luxury

David Betteley

He concluded: “This is worthy of more debate, but beware of predicting the end of car ownership before it actually starts to happen!”

However, for Alphabet’s Richard Schooling there is a real changing market dynamic, with customers looking for increased flexibility beyond the three-year contract hire convention. “More flexible, project-based and freelance ways of working mean increasingly customers have a need for vehicles beyond daily rental but less than 12 or 18 months,” he said, adding: “In direct response to this we have significantly expanded our extended rental fleet, AlphaRent+.” Apart from improved flexibility, this offers the end user benefits beyond daily rental – such as improved choice of make and model, increased specification and reduced downtime swapping in and out of vehicles.

There was significant growth in electric and hybrid vehicles in 2015. Schooling highlighted the introduction of EVs as part of the AlphaCity corporate car-sharing fleet as a key product for Alphabet in 2016. He continued: "The growth of eLCVs is also an area we expect to see develop considerably in 2016 and beyond as the technology and range of vehicles grows to meet the customer demand."

Of course, technological innovation is a major component of many developments in mobility. The growth of apps and online self-servicing is a retail phenomenon which is now being felt in the leasing market. Apps such as Alphabet's recently launched AlphaGuide provide drivers and fleet managers with key information and support at their fingertips, thus enabling them to make more efficient decisions on their personal mobility.

From the point of view of a software solutions provider, Brendan Gleeson of White Clarke Group commented: "The demand for connected intelligence is growing; fleet customers demand better connectedness with their mobile work force, and technological innovation improves operational efficiency."

He added: "The asset finance industry has always been strong on innovation. Growth in technological developments is exponential: in future, ideas that were perhaps once thought to be impossible will be made not only possible, but deliverable."

In future, ideas that were perhaps once thought to be impossible will be made not only possible, but deliverable


Brendan Gleeson

Prospects for 2016

The outlook for asset finance in the year ahead is not easy to predict, as overall economic growth is likely to be constrained by global headwinds, plus there is major uncertainty around the outcome of the June referendum on UK membership of the EU. Any uncertainty tends to lead to reduced investment in the near term as plans are put on hold.

Nonetheless, the FLA Q4 2015 confidence survey suggests that, despite these issues, the asset finance industry expects new business in 2016 to grow by up to 10%.

Asset finance remains an essential part of the investment recovery trajectory as it increases small businesses' capacity to invest. The UK Office for Budget Responsibility forecast is for growth in business investment of 7.4% in 2016, providing further support for the likely continuation of growth in demand for asset finance.

The asset finance industry expects new business in 2016 to grow by up to 10%

Market forecasts

It has been said that experts in markets don't make forecasts because they know what will happen, but because they are asked to. In the expectation that its panel is more expert than most, Asset Finance International asked its market experts for their predictions for the coming year.

First, the predicted rate of growth for the overall UK asset finance market in 2016. These were all positive, with a broad range from the low single digits to as much as 20%, with the majority and the average coming in at 5–10%.

The next question was whether large corporates or SMEs are likely to offer better prospects for asset finance in 2016. The bottom line showed an average growth rate of just under 10% for SMEs compared to slightly below 5% for large corporates, although several commentators pointed out that both segments demonstrate value and much depends on the operating model and risk appetite deployed by the lessor.

Despite the stronger outlook for SME funding, enhanced by their sheer weight of numbers and the greater potential for funders to cater for their varied needs through flexible options, confidence is paramount in this segment. There seems to be a revision of growth ambitions, with many SMEs appearing to be more focused now on business levels staying the same. Competition within the SME sector is likely to increase and yields are likely to decline. With rates falling, as one expert observed, "SMEs will start to have the shine worn off them and you won't see as much attention placed on them."

A range of equipment leasing sectors are cited as having favourable growth prospects, which augurs well for the market as a whole. These included IT, healthcare, transport & logistics, renewables and media. The consensus view is that most sectors are expected to continue to expand, assuming there are no major macroeconomic factors at play. One sector seen to be showing some signs of stress is agriculture, which may tread water, and opinions varied regarding construction, depending on expectations of increasing volume coming from governmental commitment to housebuilding and the new infrastructure projects taking place.

Auto sector forecasts

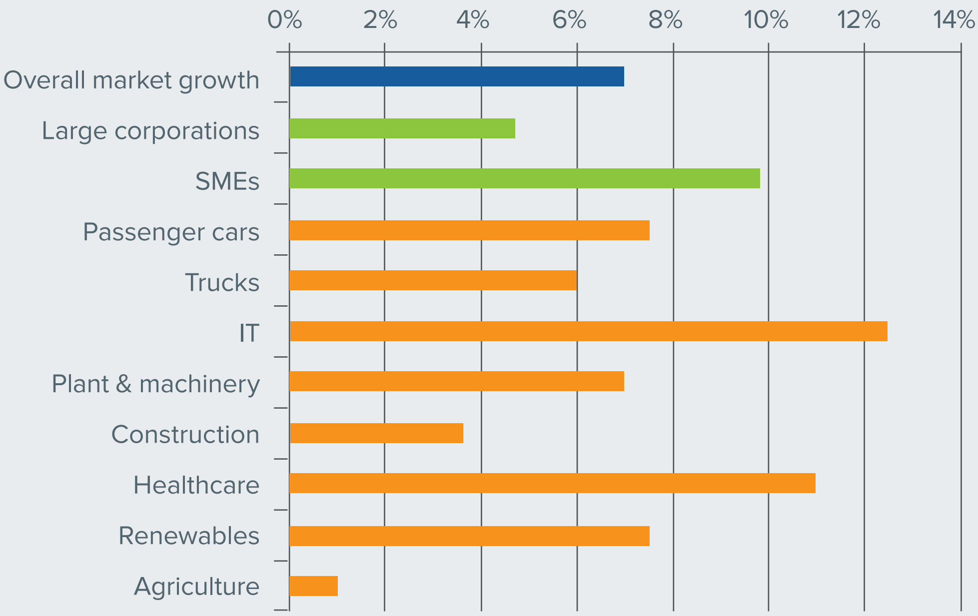
Looking specifically at the vehicle market, forecasts are positive for the year ahead. Projections for passenger car finance growth are solidly in the upper single digits, with a robust performance predicted for fleet leasing. The fleet segment is highly competitive but is well established, with huge volume involving large numbers of employees working for a small number of large organisations.

There is a more challenging outlook for fleet leasing amongst SMEs, due to their diversity and smaller numbers of employees, and confidence is again key as investment for growth will filter through to both car and commercial vehicle leasing.

Confidence, particularly concerning the massive eurozone market, will also be important for the truck segment, where forecasts are slightly lower than for the rest of the auto sector.

Regarding residual values, opinions vary but the tendency is to see them softening from their current high level as better sales over the last few years should lead to more used stock being available as the larger operators trade vehicles in. Although the increase in total industry volume in 2015 will naturally put some pressure on values, it should not be to the extent that the growing market won't be able to absorb this volume as a matter of course.

Market forecasts



Source: Asset Finance International

Photo credit: Getty Images

Market commentary – 2016 industry outlook for fleet leasing

Gerry Keaney looks at the challenges facing the sector

Gerry Keaney

It is wise to assess the previous 12 months in order to identify the challenges that the industry will face in the year ahead, and that is just what the British Vehicle Rental and Leasing Association (BVRLA) has been doing.

As of 31 December, BVRLA members were responsible for record numbers of cars, vans and trucks on UK roads. Members operate 4.47 million vehicles – which is up 16% year-on-year, and has come about following big jumps in personal car and van leasing, and smaller increases in corporate leasing and short-term rental volumes.

This growth is sure to put the sector in the spotlight in 2016.

The automotive industry as a whole must get used to working under increased scrutiny from the government, the media and the public, and this is mainly due to the Volkswagen emissions crisis which unfolded towards the end of 2015.

Looking ahead to the next 12 months, the BVRLA believes there will be a continued focus on reducing emissions and developments in automotive technology.

This has been seen already this year, with the Department for Transport announcing that Bristol, London, Milton Keynes and Nottingham are the recipients of a £40 million investment to boost the take-up of ultra-low emission vehicles.

In the first two months of the year, the DfT has also awarded £20 million to eight driverless car projects in a bid to make roads safer and reduce traffic jams.

In March, the Chancellor will have the opportunity to use the aforementioned VW emissions crisis as an excuse to raise vehicle excise duty. George Osborne could also suggest further tweaks to the emissions-based taxation regime, which has been so successful in getting motorists out of high CO_2 vehicles that the government has seen its revenues falling. The BVRLA is seeking to ensure company car drivers are treated fairly.

Throughout the year, automotive lobbyists and legislators will be dealing with the challenges of trying to thrash out a new agreement that will create a fair, secure and standardised technology framework for sharing vehicle data between manufacturers, vehicle owners, the independent aftermarket and other third-party service providers.

Fleet owners will have to deal with the aggressive market strategies of certain original equipment manufacturers (OEMs) who see their connected car platforms as a key opportunity to gain a direct relationship with the customers of rental and leasing companies. OEMs are also trying to gain a bigger share of the vehicle repair and servicing, breakdown and mobility services markets, competing directly with the offerings provided by rental and leasing companies.

Fleets are also likely to grow increasingly more frustrated with government agencies such as the Driver & Vehicle Licensing Agency (DVLA) and Driver & Vehicle Standards Agency (DVSA) as budget cuts result in them inevitably delaying the introduction of some digital fleet services.

On all these issues, the BVRLA will be working with policymakers, vehicle manufacturers and other stakeholders in the automotive industry to ensure members can conduct their business as usual.

Gerry Keaney

Chief Executive of the British Vehicle Rental and Leasing Association

www.bvrla.co.uk

Developments in small business finance

In November 2015, the Bank of England (BoE) and the Treasury announced a further extension to the Funding for Lending Scheme (FLS) to the end of January 2018. The BoE stated that the extension would allow for the FLS to be gradually phased out, with borrowing allowances reducing over time, and aiming to minimise risks to the economic recovery from the withdrawal of funding support.

Commenting on the move, BoE Governor Mark Carney said: "Since its launch in 2012, the FLS has provided an important source of funding support to banks, which has flowed through to improved credit conditions across the economy. As conditions have normalised for particular sectors over the life of the FLS, we have consistently reduced the scope of this temporary scheme and focused support where it is needed most. [This extension] continues that tapering, supporting continued improvement in SME credit conditions as the economic recovery takes hold, while gradually withdrawing that support over the next two years."

In its *Money and Credit* report of December 2015, the Bank revealed that the level of loans to all businesses had been static over the 12-month period, but loans to SMEs had increased by 1.2%.

Small business confidence

Confidence amongst SMEs seems reasonably robust, with the Small Business Index published by the Federation of Small Businesses (FSB) rising to +21.7 in Q4 2015, from +20.3 in Q3 and +17.6 at the same point a year earlier. "This suggests," says the FSB, "that businesses are buoyant in general about business conditions in the three months ahead," although the latest level is some way down from the five-year high of +41.0 in Q3 2014.

However, the latest Index reports that 60% of firms used the finance available to them simply to manage cash flow; 13% used the cash for maintenance purposes, by updating old equipment; and just 18% of firms used their lines of credit to actually expand their business.

Investment intentions are cooling, with a net balance of 22% of firms anticipating an increase in capital investment during the coming year, down from the highs of 25% above across 2014 and the first half of 2015.

A key finding by the FSB is that financing is now less of a cost to business and less of a barrier to growth for SMEs. Although the research showed that the number of firms applying for finance is gradually falling, acceptance rates are rising.

And according to this research, around 5% of firms applying for finance looked for P2P lending. As the FSB comments, "This remains a small figure for now, but is likely to grow quickly over the coming years." (Source: FSB, *Small Business Index Q4 2015)*

Funding initiatives

The British Business Bank (BBB) has launched various initiatives to help unlock finance for small businesses. In 2015 it launched the £100 million 'Help to Grow' pilot, to deliver with its private sector partners debt-based finance for growing firms. It has developed a funding programme (ENABLE) that encourages participating banks to lend more to smaller businesses, providing guarantees and capital funding to support challenger banks and asset finance providers. It is also supporting the Northern Powerhouse Investment Fund announced by Chancellor George Osborne in the 2015 Autumn Statement.

Liquidity is returning and finance markets have continued to improve for SMEs

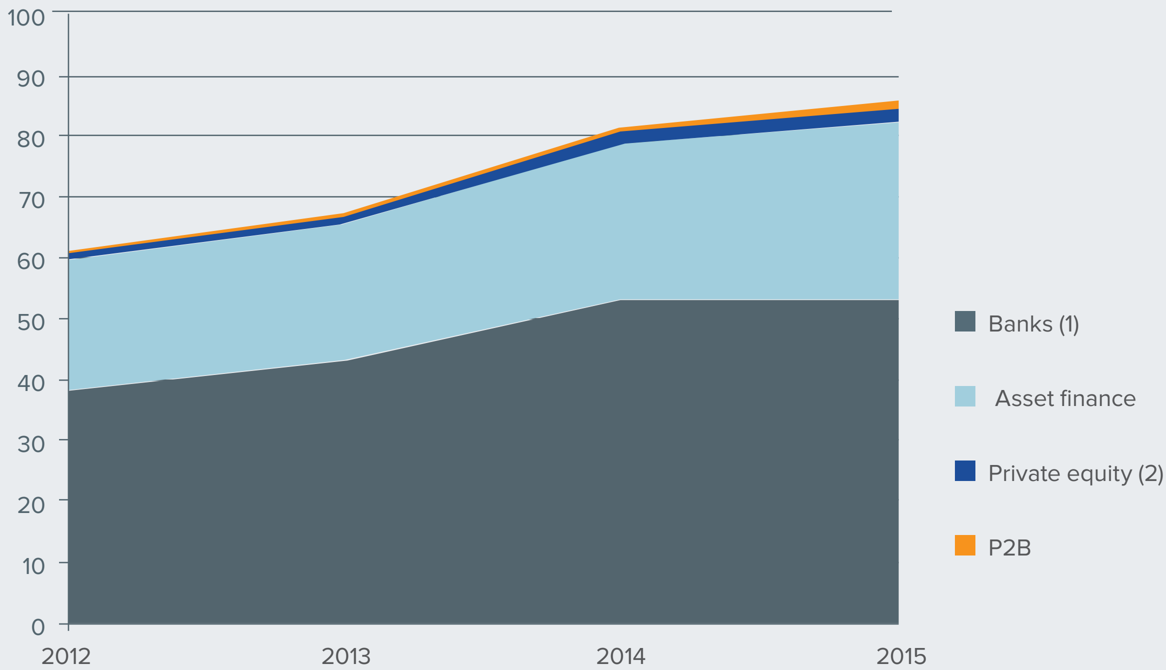
It will take time for the benefits of these initiatives to be seen, particularly whether the latter of these will be effective in redressing the imbalance favouring investment in SMEs based in London and the South East.

Meanwhile, the BBB's *Small Business Finance Markets Report 2015/16* shows that liquidity is returning and finance markets have continued to improve for SMEs.

Bank lending is still the main form of finance for SMEs and is finally showing consistent improvement – following several years of contraction, 2014–15 saw four consecutive quarters of positive net bank lending to smaller businesses.

Apart from stressing the important contribution of asset finance and its continuing growth, the report notes the dramatic growth of business lending from the alternative finance sector, albeit from a very low starting point. According to figures from AltFi Data, peer-to-business (P2B) lending grew 75% to £1.26 billion ($1.93 billion) in 2015.

Sources of SME funding (£ billion)



Notes: (1) To Nov 2015; (2) To Sep 2015

Source: Bank of England, FLA, Beauhurst, AltFi Data

In addition, recent data from the Peer-to-Peer Finance Association (P2PFA) shows £96 million ($145 million) of net lending flow facilitated by members to SMEs in Q4 2015 – with almost all of this emanating from two P2B platforms, Funding Circle and RateSetter.

The BBB report comments: "Although we have seen positive momentum in terms of market diversity, some new entrants face structural disadvantages when offering small business loans relative to incumbents related to funding costs and capital efficiency, slowing down their development. More time and further nurturing of the market is needed before these newer offers become everyday alternatives for smaller businesses of all sizes across the UK."

Asset finance for SMEs – What the experts say

Asset Finance International asked its panel of industry experts for their views on awareness amongst SMEs of the benefits of asset finance and how this and, importantly, buyer behaviour can be improved.

Opinions varied with, for example, Star Asset Finance's Sam Geneen stating: "I don't subscribe to the view that there many SMEs who are not aware of asset finance. My reason for disputing the claim is that every SME I speak to uses asset finance."

Every SME I speak to uses asset finance

Sam Geneen

This contrasts with the view of D&D Leasing's Bill Dost, who claimed "SMEs will always lack an awareness of our industry; this hasn't changed in decades." However, he noted the FLA statistic that the UK has broken the 30% barrier for the percentage of finance provided, "which is an amazing statistic", and concluded: "I would say that SMEs are certainly hearing the word about finance, but there is always room for growth."

Changing buyer behaviour is key for Mike Francis of Investec, who observed that research into this has highlighted the importance of factors such as speed and ease of application. "This creates an advantage for providers of loans over traditional asset finance products," he said, "and highlights the need for SMEs to be aware of the distinct benefits of asset finance products."

He continued: "Historic efforts to build awareness of asset finance benefits have increased visibility but do not appear to have made a widespread difference across the broad SME population. For many SMEs, especially micro-businesses, asset acquisition is infrequent, so the relevance of understanding the benefits of any financial structure is restricted to a specific point in time. This places emphasis on point-of-sale or easily available points of reference, such as accountants, advisors and websites with high search engine ranking."

For Mike Randall of Close Brothers Asset Finance, it is vital to build closer relationships with associations and professions: "We all need to work more closely and forge better links with the industry bodies such as the FLA – which in turn has partnerships with the British Business Bank and the ICAEW (Institute of Chartered Accountants in England & Wales). By combining forces we can all work together to raise the profile of the asset finance sector."

He stressed: "Lack of awareness is still a big issue amongst SMEs that think the high-street bank is the only or first point of contact and unfortunately if they are declined by this source, a high percentage give up and don't progress any further. This often means their business doesn't get off the ground or fails." Randall added that the funding referrals programme will also help prevent this possible outcome.

United Trust Bank's Martin Nixon agreed, commenting that "the FLA could exert greater influence and promote itself and its members more effectively with some professional marketing," and adding that "There's also a need for better staff training and recruitment of younger blood into the industry."

The active involvement of government bodies alongside funders and intermediaries was underlined by Gavin Wraith-Carter as an effective way to promote asset finance through leasing and hire purchase to SMEs. However, there are signs that things seem to be slowly changing for the better.

There are early signs that SMEs are finally feeling supported by the financial services industry

Gavin Wraith-Carter

He elaborated: "We have found in the Hitachi Capital British Business Barometer research that there are early signs that SMEs are finally feeling supported by the financial services industry. Compared with 12 months ago, SMEs appear to be significantly less critical of the industry's willingness to lend (33%), down 11% on the same period in Q4 2014 (44%), and there is a stronger sense of 'partnership' between the industry and small businesses (36% vs 42% in Q4 2014)." He concluded: "We are delighted to see that we are on the right trajectory."

So will a stronger sense of partnership convert to greater uptake of asset finance? The point is moot, according to Carl D'Ammassa of Aldermore, who said: "In 2015 we conducted a survey which revealed that only 3% of SME owners and decision-makers thought they were likely to use asset finance in the next 12 months, yet 20% of respondents said they planned to buy new machinery. This mismatch is partly down to the fact many businesses have simply got used to managing without credit over the past few years."

He pointed to the fact that many businesses have made only the minimal necessary investment in equipment since the economic downturn in 2008, although he added: "However, it is also due to a lack of awareness and understanding of asset finance. We can overcome this by making our industry more approachable and through embracing technology to deliver customer service that is fast, intuitive and hassle-free."

Julian Hobbs of Siemens Financial Services suggested that more can be done to raise awareness amongst SMEs of the specific suppliers to approach for particular types of finance such as leasing: "This is highlighting a need for asset financiers to address the SME segment of British industry with their communications and marketing efforts to build awareness, and create products tailored to the specific requirements and needs of smaller businesses." In addition, he added, "This may entail working closely with equipment and technology vendors to develop joint offers and increase the ease of access to asset finance solutions by this segment."

In the auto sector, Tim Porter reported that "a number of LeaseCos have positively engaged the SME population, providing the market with better awareness and knowledge of the options available when sourcing vehicles. The actions range from specific marketing campaigns to best practice workshops and studies on whole life cost savings." He concluded: "Continued market awareness and engagement of SMEs is required to ensure they are aware of the options available."

Elsewhere, direct action is being taken to help SMEs recruit and train new blood. One such enterprise is in manufacturing, where the Close Brothers SME Apprentice Programme has been founded, in conjunction with the University of Sheffield AMRC Training Centre and the Manufacturing Technologies Association (MTA). Under the scheme, Close Brothers will fund half of the new recruits' wages during the first year and a quarter in the second, meaning participating SMEs won't have to bear the full cost of employing the apprentices until they start making a positive contribution to their business.

As Mike Randall said, "This initiative is both good for the manufacturing industry and the asset finance industry. Close Brothers believes the SME sector is the lifeblood of the UK economy and also firmly backs the role of apprentices in helping SMEs grow. Apprenticeship schemes can help SMEs, particularly those in engineering and manufacturing, to bridge a looming skills gap that threatens their success and the health of the wider UK economy."

One growing source of funding for SMEs is peer-to-peer (P2P) and peer-to-business (P2B). James Lovett of Funding Circle provided their viewpoint: "Based on market data, only 25% of small business owners are aware of P2P lending and how it can help fund their business. This means there is still a big challenge ahead to make sure business owners are aware of the range of alternative finance options available. A reason for this challenge is that small business owners are often focused on running their businesses day-to-day and understandably do not have the time to become experts in finance as well."

He stressed the role of intermediaries: "We believe that finance brokers have a significant part to play in helping their clients to understand, and gain access to, the increasing range of options available to them, and we are working closely with our introducer community to support them with their marketing to help get the message out to their existing and hopefully future customers."

There is further comment on alternative sources of funding later in this report.

Finally, Virgin Money's George Ashworth defined the route to building awareness and use of asset finance as 'ACE', which is "the improvement of *Access* of SMEs to finance; the improved *Communication* of not only the benefits of asset finance but also how it can be accessed; and the *Education* of SMEs in the sourcing and usage of finance."

Awareness of finance options

The *SME Finance Monitor* for Q3 2015 produced by market research agency BDRC Continental found that 29% of SMEs used 'core' forms of finance (loans, overdrafts and/or credit cards), a figure that has been declining over time, whereas 16% used one or more of the other forms of finance specified (leasing, invoice finance etc) – and their use has been more stable over time.

The report views the likely impact of P2P lending to be limited. Currently, just 1% of all SMEs are using crowdfunding, with two-thirds of these firms using crowdfunding in conjunction with other forms of external finance. Nonetheless, 7% of all SMEs surveyed said they were considering using crowdfunding in future, and just under half of these potential customers are not currently using any other form of external finance. The SME Finance Monitor comments: "If all these potential users were converted, this would boost the proportion of all SMEs using external finance (including crowdfunding) by 3%."

It should be noted that many SMEs simply are not looking for external funding. According to the BDRC research, 46% of SMEs meet the definition of a 'permanent non-borrower' and many SMEs continue to exhibit 'debt-averse' attitudes. In fact, 80% of SMEs had been 'happy non-seekers' of finance for the 12 months prior to interview, a proportion that has remained relatively stable in recent years, and 76% of SMEs expected to keep this non-seeker status in the near future.

Research by the BBB in its *Small Business Finance Markets Report 2015/16* revealed that awareness of the range of finance options has risen amongst SMEs, in particular for newer types of finance and providers, including P2P lending (up from 24% in 2012 to 40% in 2015) and crowdfunding (up from 13% to 49% over the same period). It also found that this increasing level of awareness is leading to a behavioural change with more options being considered – the percentage of SMEs contacting more than one provider has risen from 29% in 2012 to 39% in 2015.

Alternative funding sources – What the experts say

Asset Finance International sought the views of industry experts on the impact of the new peer-to-business (P2B) lenders and others entering the market. Is this likely to lead to great competition or greater consolidation?

Comments from the more mainstream lenders were broadly encouraging, recognising the potential and benefits of competition from a new area that is increasing the accessibility of SMEs to finance, but also pointing out the differences in service.

First, the view from the P2B perspective came from Funding Circle's James Lovett, who said: "Increased competition is a good thing for both the business owner and the market as a whole. Ultimately we are all trying to increase awareness and grow the market. Competition can create innovation and promote change."

Competition can create innovation and promote change

James Lovett

And importantly, he continued: "Hopefully this means that rather than trying to simply take a larger slice of the cake we are actually making the cake bigger through increased awareness, development of new products and the growth of the businesses we support."

It is here that alternative sources of funding can be disruptive by establishing niches at the lower end of the market, thereby introducing new customers. This point was appreciated by several experts, including Aldermore's Carl D'Ammassa, who stated: "The emergence of alternative funding providers is good news for businesses, as well as more traditional lenders."

He elaborated: "Some crowdfunders are doing a huge amount of small-ticket business, which is positive for the industry as it can act as a gateway for businesses that have never previously used funding to get into more traditional, longer-term finance. However, most importantly, P2B lenders are creating competition and encouraging best practice in customer service. P2B lenders are transforming the way that customers want to engage with their funding providers, something which more traditional lenders can learn from."

Mike Randall of Close Brothers Asset Finance voiced the common view that the market has room for new models, saying: "Whilst new lenders on the scene will bring great competition, there is ample room for us all as they currently inhabit a separate space and have different business models. It is always good to see innovation – both in terms of technology and finance – in the market and new ways to obtain funding." However, he added that "it is early days for this specific sector and we are interested to understand the impact it will have, particularly with regards to regulation."

This last point on regulation was raised by others, with a cautionary comment from Investec's Mike Francis, who acknowledged that P2B lenders bring new products and new ways of doing things which will appeal to some SMEs, but added that "to date their credit models have not been fully tested by an economic downturn and they have operated within light-touch regulation. At some point, personal investors will face significant losses and the approach to regulation for the new P2B lenders will come under scrutiny. Some will survive and prosper, others will not."

The approach to regulation for the new P2B lenders will come under scrutiny. Some will survive and prosper, others will not

Mike Francis

There is greater scepticism in the auto sector, with Tim Porter of Lex Autolease stating: "We note that P2P is more developed than P2B and at present the products are reasonably standard and basic in their operation. Specific to leasing, we don't believe the P2B market is sufficiently developed to offer a product which supports asset-backed lending and risk taking on residual values."

And Jaguar Land Rover's David Betteley does not see this type of funding providing any real competition to traditional methods, observing: "They won't be able to offer the one-stop shop that dealers can offer. Dealers will evolve to deal with this perceived threat."

The fact that P2B lenders and specialist financiers address different segments of the market, serving different financing and service needs in different segments, is likely to keep them from directly competing. This was highlighted by Julian Hobbs of SFS, who added: "Even though P2B lenders and others are on the rise, specialist financiers are set to continue playing a vital role in providing financing options for customers. Their specialist industrial knowledge and asset expertise is seen as crucial by many clients who are planning a major investment."

He described one scenario: "There are growing expectations of 'all-in-one' solutions which bundle in service factors such as installation, training, maintenance and future upgrades etc. Specialist asset financiers that have a thorough understanding of asset trends, the potential volatility of underlying equipment values and replacement cycles will be well positioned to craft commercially sustainable financing packages that accommodate the diverse needs of lessees."

And whilst applauding their efforts, Juan Kelly of Conister Bank doesn't expect alternative funders to have a significant effect, commenting: "P2P or P2B won't slay the big banks that dominate the market," explaining: "Lending essentially consists of three components: origination, processing and funding. The big banks still have a competitive advantage in the first and the third. Some P2P/B lenders have done a great job on the second. They may make progress on the first (origination) also but the big banks still control current accounts so most borrowers go to their bank first. In order to compete on funding, P2P/B players will need banking (deposit-taking) licences – i.e. become a bank."

Market commentary – Industry engagement and education

Simon Goldie

Simon Goldie of the FLA looks at recent and forthcoming developments in asset finance

2015 was a busy year for the asset finance industry. The value of new business reached £29.1 billion in the 12 months to December, up 12% compared with 2014. The IT equipment and commercial vehicle finance sectors saw particularly strong performances, with new business up 38% and 14% respectively.

Figures like these show that the FLA's engagement with the government, the Bank of England and the Financial Conduct Authority (FCA) on the need for proportionate regulation is more important than ever.

The FCA's new consumer credit regime affects a considerable proportion of lending to small businesses, and we have been concerned from the outset about the application of the regime – designed to protect individual consumers – in a business environment.

In light of the new FCA regime, FLA members are reviewing our own Business Finance Code to ensure it properly reflects recent market and regulatory developments. We are also developing non-binding operational good practice guidance for the intermediated markets.

Action in 2016

2016 has of course already seen one important milestone – the International Accounting Standards Board's (IASB) announcement of the much-anticipated new Lease Accounting Standard, IFRS 16. Although the new Standard will not take effect until 2019, and will in the first instance affect only those companies subject to IFRS, we remain concerned to minimise any deterrent effect on the leasing markets. We will therefore continue to work on the roll-out of the new standard with the European Financial Reporting Advisory Group (EFRAG), and the UK Financial Reporting Council.

Following extensive work with members and *ifs* University College, we hope to launch an improved higher-level qualification in asset finance later this year. The course will be tailored to the needs of member companies, and designed to fit well with our existing suite of FLA training courses.

Under the terms of the Small Business, Enterprise and Employment (SBEE) Act, the British Business Bank must this year designate online finance platforms, to which business customers will be referred should they be rejected for finance by their bank. We expect asset finance to be a central feature of these platforms, and we are working with platform providers to ensure this is the case.

Simon Goldie

Head of Asset Finance at the Finance & Leasing Association

www.fla.org.uk

Asset finance uptake – What the experts say

The experts on the panel were asked by Asset Finance International to comment on asset finance penetration levels, which in some sectors remain relatively low. How can they be increased? Might one solution lie in the way industry entrants are employed and trained, and if so, how might this be achieved?

There was some agreement that sectors with the highest penetration levels are those with the best finance packages and resale prospects. As Star Asset Finance's Sam Geneen stated, "If you look at the car sector, penetration is high because manufacturers offer such good deals on new cars. HP, leasing, operating leasing, contract hire, PCP – they're all designed to add value to the buyer. Forklifts have a 70%+ penetration, generally because they are financed with maintenance for a fixed period. The customer has no residual value risk – again, a value added product."

He continued: "Asset finance will continue to grow as banks move away from traditional working capital lending. They have no appetite for it. It's almost a business prevention mentality, unlike asset finance companies that look at ways to do the deal."

George Ashworth of Virgin Money agreed on this last point, stating: "I can envisage asset finance as a whole benefiting from a substitution effect as supply-side players look to switch clients into more capital-efficient forms of lending," although he added: "The industry would be wise to regard this as a boon but not rely upon it, as the goal should remain growing the size of the cake overall."

The goal should remain growing the size of the cake overall

George Ashworth

As the sectors that have stubbornly low penetration levels tend to be those that have less attractive assets from a resale point of view, UTB's Martin Nixon suggested: "It will be these industries that need to work more closely with specialists to identify more innovative funding structures and ensure the risk/reward for the funder is attractive."

For Gavin Wraith-Carter of Hitachi Capital, one reason for the low penetration of asset finance is the simple fact that many businesses still head straight to their bank for a loan. "There's the usual lethargy when it comes to finance," he said. "It's much easier to go back to your bank than to think of alternative sources of funding. They are a business's first port of call for a number of different financial transactions, so they are logically the starting place for many questions about asset acquisition. The number of different products available and options mean that for a solid business, the answer will tend to be a yes, so there's no requirement to shop around."

Several panel members stressed the need to take a more customer-centric rather than product-centric approach. As Conister Bank's Juan Kelly said: "What are the end-to-end benefits for the customer? How much friction is there in the process? Have lenders invested sufficiently in technology to compete on service?"

The fact that the customer has access to more information and a greater number of options than ever before can be overwhelming and sometimes frustrating, according to Alphabet's Richard Schooling. "The opportunity is to really value the service that we provide our customers to guide them through the choices and help them make the best decision," he said. "This in turn builds trust which is the foundation to any long-term customer relationship."

We're not selling merely a commodity, we're selling our service, our expertise, the ease of doing business with us

Richard Schooling

He went on: "Commoditisation – the focus on the cheapest, not necessarily the best or the most cost effective in the long term – is a key challenge the industry needs to face. Both for new recruits and for long-serving, experienced employees we need to refocus on service and look beyond simply price. We're not selling merely a commodity, we're selling our service, our expertise, the ease of doing business with us – the whole experience from start to finish, all day and every day."

Increasing efficiency is part and parcel of the service, in the view of Brendan Gleeson of White Clarke Group: "Customers have ever-higher expectations of systems and processes. A customer-oriented finance origination approach, backed by straightforward and rapid credit application processes and efficient back-office processes will help create a positive customer experience," he said. "This will play a crucial role in positioning asset finance as a fast and easy-to-use financing tool."

Product innovation by lessors remains an important aspect, as Julian Hobbs of SFS explained: "In order to maintain flexibility and be able to respond to innovations and advancements in technology, customers are increasingly seeking finance solutions which are closely aligned to the benefits of its use – for example, increased productivity, reduced cost per unit, increased efficiency. As a result, financiers need to develop offerings that better help connect financing payments with the expected outcomes resulting from the use of the equipment."

The question of recruitment and training created considerable comment, summed up by Aldermore's Carl D'Ammassa: "While we need to invest in technology to enable business owners to better understand how asset finance might help them, we also need to invest in recruiting and training sector experts so that we can create products and services that really deliver for potential clients across every industry."

Martin Nixon agreed: "This remains the biggest issue facing the industry and it is imperative that all funders give great thought to the next generation of asset finance specialists and wherever possible have robust succession plans in place. There is a huge amount of knowledge in the industry but I fear that this is not being used or passed on most effectively."

A number of asset finance companies are actively involved in industry programmes, including broker training from Aldermore and Hitachi Capital. This requires close relationships with trade associations, but there is also innovation in direct sales training, as described by Mike Randall: "Close Brothers Asset Finance is in a fortunate position to work with all of the trade bodies in the various sectors that we target, but we have also launched the Close Brothers Training Academy, which opened in September 2015 to train our future customer-facing employees."

He continued: "We are very excited about this initiative. Our people really are the best asset we have, and so actively seeking the next generation of brilliant sales people is a means of ensuring we have a cohort of young enthusiastic people spreading the word about the industry."

There is also the prospect of a move within the industry to bring back a professional qualification. In George Ashworth's opinion, "If the in situ players mobilise around this initiative and gear elements of their training and development programmes around this, the launching of a new professional qualification as one possible route for self-development will have a very positive impact."

Finally, Bill Dost of D&D Leasing enthused about new opportunities for asset finance that firms should be investigating. "While old and stubbornly low penetration areas are a great place to try to break into, what about new areas that are yet to be explored? What is the new frontier of leasing – cloud, drones, consumables, 3D tech?" he asked. "I think for the industry to thrive we need to be looking to the new. New staff with new ideas and a new way of doing things is going to be a great way to start looking at some of these finance opportunities."

What is the new frontier of leasing – cloud, drones, consumables, 3D tech?

Bill Dost

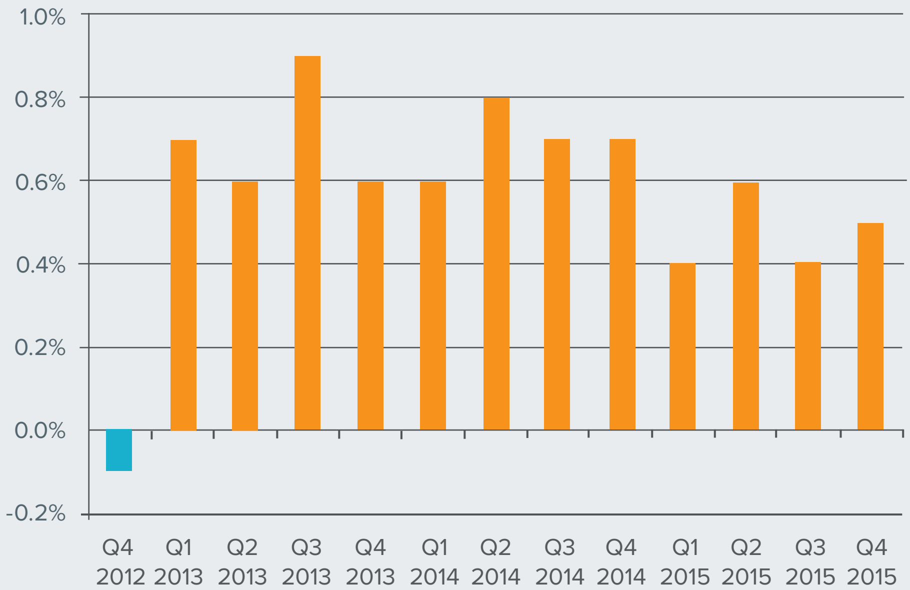
Economic outlook

Over the last 12 months, initial cautious optimism for global economic growth evaporated as 2015 progressed, with few signs of an end to global headwinds at the start of 2016. GDP growth was below forecast levels for most advanced economies in 2015, with the main bright spots being the UK and US. Outside the UK, the US economy picked up after a weak first quarter, while growth in the eurozone struggled and GDP actually fell in both Canada and Japan. Meanwhile, China's economy carried on slowing, with GDP growth at its slowest rate in six years, and continuing its hard landing into 2016.

In the UK, GDP grew for the 12th straight quarter in Q4 2015, but the annual rate of growth slowed in 2015 to 2.2% compared with 2.9% in 2014. The rate of growth in 2015 was also down against projections made at the start of the year. Output in the three months to December was 1.9% higher than a year earlier, but down from 2.1% in the third quarter and the smallest increase since early 2013.

However, despite the slowest annual growth rate for three years, the UK has one of the fastest growing economies of the developed nations. Employment numbers grew strongly in 2015, while the unemployment rate fell steadily in the second half of the year to 5.1% and wage growth picked up.

UK GDP growth rate



Source: Office for National Statistics

However, inflation on the 12-month consumer price index (CPI) was just 0.2% in December 2015, way below the 2% inflation target. In its February 2016 *Inflation Report*, the Bank of England's projection was for the rate to remain below 1% until 2017, meaning a greater likelihood that interest rates will not move before then.

The worry is that the main propulsion of growth is from consumer spending and the services sector. Despite this, the closely watched Markit/CPS Purchasing Managers' Index (PMI) showed UK manufacturing growth increased in January 2016, against economists' expectations. The index rose to 52.9 in January from 52.1 the previous month – a three-month-high and well above the 50-mark that indicates growth.

Economic forecasts

In its most recent *Economic and Fiscal Outlook*, in November 2015, the Office for Budget Responsibility revised its GDP growth forecast up by 10 basis points to 2.4% for 2016 and 2.5% in 2017, "reflecting both higher population growth (driven by higher net migration) and the Government's decision to slow the pace of fiscal tightening."

However, in the months since the OBR outlook, the global economy has wobbled sufficiently for its upgrade to look optimistic, and the prospect of weaker growth has led to other forecasts being tightened.

Most recently the Bank of England downgraded its projection for 2016 to 2.2% from 2.5%. It also lowered expectations for growth in 2017 and 2018 to 2.4% (from 2.7%) and 2.5% (from 2.6%) respectively.

The International Monetary Fund (IMF) also has projections of 2.2% year-on-year growth in 2016, and a similar rate in 2017. A year ago, the IMF forecast growth of 2.4% in 2016.

Also revising down its forecasts – and harder – is the Economist Intelligence Unit (EIU), which comments: "After real GDP growth of 2.9% in 2014, momentum has ebbed. In our current forecasting round, we are revising down our estimate of 2015 growth from 2.4% to 2.1% and our 2016 forecast from 2.2% to 1.7%. Fiscal policy remains tight, monetary policy loose."

In the longer term, the EIU stresses the importance of productivity trends, suggesting: "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 infrastructure shortcomings."

Nonetheless the UK economy remains the world's fifth largest by nominal GDP and 10th largest by purchasing power parity (PPP). It is ranked sixth globally by the World Bank for the ease of doing business (source: *Doing Business 2016*) and according to the World Economic Forum WEF), it has improved its competitiveness "across the board".

This performance may not have been enough to prevent the UK slipping one place to 10th position in the WEF's *Global Competitiveness Report* for 2015-2016, but the report comments: "The country has created a good set of conditions for its vibrant service sector to develop and for London to become the epicentre of the European tech and start-up scene," adding that "although still recovering from the global financial crisis, the UK financial market remains one of world's best developed, able to provide venture capital and equity financing to start-ups and entrepreneurs." However, the report notes the need for the UK to continue efforts to improve its macroeconomic environment in the longer term.

Future financial shocks – What the experts say

The final topics for the Asset Finance International panel to debate revolved around the wider economy, such as what effect a rise in interest rates might have on the market and views on the potential impact on the market of Brexit – if the UK leaves the EU.

A variety of macroeconomic factors were brought into play, including global headwinds, oil prices, the slowdown in China, the strength of sterling and the resilience of the UK economy, but if a single concept underscored everything, it would be uncertainty and the adverse effect this has on investment. This was particularly the case when discussing a possible Brexit as, whatever the long-term outcome, the consensus is that this will be disruptive, at least in the near term.

On the subject of UK interest rates, however, opinions were more relaxed, with the general view being that a rise in the base rate is moving further forward, and is becoming less likely in 2016. Any rise would be small and the prospect of low incremental rises is not viewed as having too dramatic an impact on businesses' appetite for asset finance.

Turning to Brexit, which is taking up most of the headlines at the time of writing this report and will undoubtedly continue to do so up to and beyond the referendum in June, the overall concern was summed up by Funding Circle's James Lovett: "The sooner the referendum question is answered the better for all business owners and finance providers alike. I would not like to speculate on the impact of Brexit, but uncertainty is generally bad for all businesses and the wider economy, so the sooner this is resolved the better."

Mike Francis of Investec took this up, saying: "A Brexit scenario, including the lengthy period between vote and implementation, would create uncertainty that could significantly impact business investment, both domestic and inward."

In the opinion of Mike Randall of Close Brothers Asset Finance, "Brexit would trigger economic and financial shock to the country and this is massive in the minds of the UK's SMEs."

Brexit would trigger economic and financial shock to the country

Mike Randall

However, looking longer-term at the potential benefit of less red tape, Conister Bank's Juan Kelly said: "A Brexit would be positive for the market as asset finance's customer base is SMEs, which are hit disproportionally by EU Directives."

A Brexit would be positive for the market

Juan Kelly

For exporters and international brands there are other concerns, one of which is bank licensing. In the EU, a firm can set up a bank in one country and passport the licence to all other member countries, with the benefit of dealing with only one regulator, usually in the company's home market. This potential hazard was pointed out by David Betteley of Jaguar Land Rover: "Brexit is an issue, especially if you were thinking about setting up a bank in Europe and passporting the licence. If the licence was held in the UK and the UK leaves the EU, then you would be forced to set up a bank in one of the remaining markets, which would be disruptive and expensive. On this basis, the UK would be the last place you would choose to apply for a licence."

A worry for George Ashworth of Virgin Money is that the economic debate gets lost or conflated with the questions surrounding UK borders and the level of net inward migration, leading to the UK ending up with "the wrong outcome for the wrong reasons."

He elaborated: "Around 60% of all UK exports flow into EU partners and one could confidently predict that anything that makes exporting more difficult is likely to lower the overall level of asset finance usage. A relatively strengthening pound will also have a depressant effect on asset finance activity." And he concluded: "If this decision was to be made purely on economic grounds, I believe that we could call the outcome of the referendum now."

According to Hitachi Capital's Gavin Wraith-Carter, the issue of Brexit needs to be seen in a broad context. "The Brexit vote is not the only major factor going into decision-making," he said, "meaning that businesses will only take notice of Brexit when it's a fact as opposed to an unknown. For individual businesses the other major factors that go into decision-making – such as commodity prices, exchange rates, oil prices and wage rates – can all be just as significant as a possible Brexit and hence as a factor it may be overwhelmed until it becomes a very real threat."

Everyone agrees the longer the wait for an outcome, the more investment decisions will be delayed. In the event of a decision to remain in the EU, it is expected that those held-back capital spending decisions will be released back into business and consumer plans fairly quickly, but the scenario following an exit vote is harder to predict. For Wraith-Carter, "We expect it would cause a slow-down in capital spend simply because businesses will take time to 'wait and see' how an exit vote impacts each business sector."

He continued: "The effect will be mixed, even within sectors, some positive, some negative, but it will not be clear what the effects will be until the detailed terms of exit and the implications for each industry segment gradually become evident. It is likely that certainty would only return slowly after an exit vote."

So a vote for Brexit may see a slowdown in spend, followed by a longer period – maybe years – to recover as the UK negotiates new trade terms.

However, confidence can be taken from the simple fact that the UK imports more goods from the EU and other major economies than it exports, and the UK is one of the largest economies in the EU alongside Germany and France. Therefore, as Wraith-Carter concluded, "the EU and others will be just as interested in access to the UK market as the other way around – regardless of the outcome of the vote."

It should be remembered that Brexit is not the only issue to weigh on prospects in 2016. In the EU, Greece still has a multitude of issues to resolve, and a second election in Spain is slated for June following inconclusive elections in December – all adding further uncertainty to the mix.

And to conclude, Alphabet's Richard Schooling adds a reminder of another event that could lead to slowing investment in the short term, observing: "Of course 'across the pond' this year, the world's largest economy chooses its new leadership in November."

Asset finance recruitment

Julie Ramsay of THC Recruitment looks at current issues


Julie Ramsay

As we all know, the asset and motor finance market of 2016 is unrecognisable to that pre-recession, and that is also true of the UK recruitment market – which has not only recovered from the 2008 low but is moving at a fast pace.

Our client list is unrecognisable from five years ago, with lots of engagement from large brokers and challenger banks which are not only more creative but plugging the gaps left by mergers and companies selling off their leasing subsidiaries. The growth of large brokers has given us the most recruitment opportunities and gives our candidates a fresh challenge to move into new sectors with large and flexible funding capacities.

Here at THC we are winning more vacancies and enquiries than for years, maybe as a result of our reputation and our marketing becoming more effective, but also as a result of the economy and general economic growth stabilising.

Over the last year we have seen a huge demand for Business Development Managers, not only from super-brokers and challenger bank lenders for recruits with expertise in the 'hard asset' sector, but also over the last few months there have been lots more opportunities in the Credit sector, both in Risk and Collections. At the same time, the motor finance sector also seems very buoyant with openings nationwide both in Account Management and Risk and also in growth specialist roles such as Stock Finance.

The problem that the industry is facing as a whole is a shortage of candidates, as so many people have left the industry and, with a few exceptions, there has been a lack of training and development of new talent.

Up until the last year we have found it hard to motivate candidates in employment to look at new positions, the overall feeling being "better the devil you know", but with growing confidence in the economy there are quality candidates who are starting to put their heads above the parapet and investigate potential opportunities. The market is fast moving and is very much candidate-driven.

Looking at industry trends, there is much optimism in the asset finance sector and great career opportunities ahead. Looking back over the difficult period of the recession, I am sure we have all learnt many lessons – two important ones being to specialise but have more than one sector, and to be open to new sectors.

We have learned to grow our user base to cross-sell other services within our business to our clients, and we are updating our marketing and social networking activities to support these changes and challenges.

Julie Ramsay

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