NOSTRUM GROUP

UK Asset Finance Brokers and Independent Lessors Review 2013

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NACFB Helping Fund UK Business

BVRLA Promoting responsible road transport

George Ashworth Managing Director Aldermore Asset Finance

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Aldermore is very much open for business and is accelerating its growth plans partially as a result of the exit of ING from the marketplace. The team based in Apex Plaza, Reading currently stands at 70 with a view to increase that number significantly in 2013 to accommodate the anticipated increases in new business proposals.

This growing team will also be supported with new technology in the shape of the 'APP' – Aldermore Proposal Portal. This new proposal system will allow for greater speed in credit decision making, 3rd party document generation and more efficient pay-outs.

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Further information about Aldermore can be found at www.aldermore.co.uk. To hear more about Aldermore Asset Finance, watch George Ashworth, Managing Director, talking about the business on YouTube at: **http://youtu.be/Y7cUjKzLEIo**

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Funders
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NOSTRUM GROUP

PREFACE: NATIONAL ASSOCIATION OF COMMERCIAL FINANCE BROKERS

NACFB sees strong growth in the asset finance industry during 2012

BY ADAM TYLER, NACFB CHIEF EXECUTIVE

Adam Tyler

At the National Association of Commercial Finance Brokers (NACFB), we have some very encouraging figures from our latest annual survey of our members.

There has been a 100% increase in written asset and equipment finance business over the last 12 months from our member brokers, as well as a 20% increase in NACFB asset finance member numbers.

These figures go hand in hand with a reported increase in activity. Our asset finance brokers in particular have seen more activity and more funders coming into the market, and these figures are in line with the growth in our membership of this division over the last 12 months.

Similarly positive messages can be found in statistics from the Finance & Leasing Association (FLA). Brokers introduced 16% more business to lenders over a 12-month period, reaching a sum of £3.4 billion.

The average deal size climbed from £45,252 to £64,596, and the average amount of business done by each broker doubled, to over £2 million.

There has been an enormous effort behind the scenes by my fellow members of the Board of Directors in raising the profile of the NACFB amongst various government departments and trade bodies, and making them aware of the various alternative forms of finance that are available in the marketplace today.

For the next 12 months, the NACFB will be building on the work we began in 2012. Our national hub in conjunction with the Federation of Small Businesses, more training and new functions at the NACFB website, our Small Business Finance Directory, and a number of forthcoming tie-ups, all cover a wide range of activity, but all share the same aim: to straighten the path between small businesses and the money they need to grow and prosper.

On October 3 Adam Tyler, CEO of the NACFB, was presented with the prestigious 'Outstanding Contribution to the Leasing Industry' award in recognition of the tireless work that the NACFB has carried out in raising the profile of the professional broker and its continued efforts to promote the broker market.

"A record year" for BVRLA brokers

MARTIN BROWN, CHAIRMAN OF THE BRITISH VEHICLE RENTAL AND LEASING ASSOCIATION (BVRLA) LEASING BROKER COMMITTEE, LOOKS AT THE VEHICLE BROKER MARKET

Martin Brown

Martin Brown is chairman of the British Vehicle Rental and Leasing Association (BVRLA) Leasing Broker Committee and managing director of Fleet Alliance, a leading UK fleet management provider.

The BVRLA established a membership category for vehicle brokers in the early 2000s in recognition that brokers and funders were working ever more closely, and to establish clear objectives for a mutually beneficial partnership.

By 2007, with membership exceeding the 100 mark, the association decided to form a Leasing Broker Committee. This was followed by the launch of an online accreditation scheme for broker sales staff with the aim of raising standards within the sector.

From the start, the fact that BVRLA vehicle leasing brokers had for the first time a fully supportive "parent" body dedicated to car leasing (as compared to general asset broking) was of significance – and paid dividends when the current recession hit.

Martin Brown was appointed as chairman of the Leasing Broker Committee in 2011, having been a committee member for some years previously. "When I became chairman," he told Asset Finance International, "the committee had already established a firm level of maturity and some banks were already beginning to re-engage with brokers following the credit crunch. In fact only one funder, Lombard Vehicle Management, had actually withdrawn support for BVRLA brokers whilst all the other key funders such as Lex Autolease, Arval and LeasePlan had stayed loyal to the association's brokers."

He added: "Following the credit crunch the funders did amend their criteria somewhat. Whereas previously their approach had been to go for virtually unlimited volume, now, having realigned their books, their criteria changed and required a closer working relationship with brokers."

The BVRLA currently has around 130 broker members and Brown stressed that a noticeable trend is for funders and brokers to "work together at shaping the sector from within". "We have succeeded in improving relationships with motor manufacturers, motor dealers and other OEM bodies. We keep members up to date with all regulatory changes, such as the upcoming plan to force leasing brokers and other credit intermediaries to disclose the commission they receive to consumers."

Having worked effectively to ensure that the standards maintained by BVRLA leasing broker members remain high, Brown stressed that the committee has been exploring ways of promoting the benefits of using only a BVRLA member to customers, funders and motor manufacturers. This work has led to some funders deciding that they will only appoint BVRLA-accredited brokers – and caused a number of motor manufacturers to review how they can best promote the use of BVRLA members to their dealer networks.

In addition, the committee has been busy preparing a BVRLA guide to standard quotations and contracts which includes advice and sample clauses that can be used when drafting terms and conditions for a standard broker quotation or contract. "It also," Brown said, "provides some practical tips aimed at ensuring the terms of the contract are enforceable."

Next year will see the adoption of a new BVRLA Leasing Broker Code of Conduct, developed in conjunction with the committee. It will contains a customer charter that sets out what people can expect when dealing with a broker and also includes more detail about the role brokers play at the end of contract.

Brown confirmed that 2011 had been "a very good year" for the leasing broker market, with many BVRLA members reporting strong performances. Despite the rather dismal national economic outlook he remains bullish for 2012. By way of personal example he quotes Fleet Alliance, for which 2011 was "a record year and so far 2012 is not too far behind".

"Brokers," he said, "are a robust part of the vehicle leasing market – we are endeavouring to ensure they have an ever larger part to play."

Introduction

Richard Carter, chief executive, Nostrum Group

This inaugural Nostrum review of the UK asset finance brokers' and independent lessors' industry aims to provide a comprehensive and forward-looking assessment of the market, its current and future drivers and key industry issues. This is the first such Review sponsored by Nostrum Group in what is anticipated will become a standard for the industry. It has been compiled with the assistance and support of the National Association of Commercial Finance Brokers (NACFB), the British Vehicle Rental and Leasing Association (BVRLA) and individual brokers and funders.

The UK asset finance broker movement was something of a marginal body until the late 1980s. It really began a meteoric growth in the early 1990s when, as a result of the contemporary recession, lenders began cutting back their new business sales staff – and their high street premises. Instead, they increasingly turned to brokers to supply them with new business proposals.

Lenders, customarily cagey of broker-introduced business, became more reassured in doing so as brokers more readily accepted trade association codes of practice. At the same time there was a growing trend for brokers to expand by recruiting the trained new business staff shed by the traditional finance houses such as Mercantile Credit, Capital Bank and others.

When pondering the future of the UK broker sector it is worth bearing in mind the extreme unlikelihood of asset lenders reverting back to employing large swathes of account representatives and reopening branches in every town that has a football team (as in the past). Given that, the future of the sector is more assured than it might currently seem.

There are around 250 asset finance brokers that are currently active in the UK, excluding commercial mortgage brokers – an area not covered in this market review. The trade association with the greatest number of members is the NACFB, with currently 218 directly involved in asset finance. One important sector is that of fleet leasing, and specialist brokers in this field are represented by the BVRLA.

The following sections include an evaluation of the market from both the broker and funder viewpoints, coverage of the latest developments in lending, technology, and legal and regulatory matters, as well as listings of brokers, funders and suppliers to the broking market.

ING Lease

As this Review goes to press, the industry is in the process of evaluating the effect of the unexpected announcement by ING Lease (UK) that it has withdrawn from the UK market. As ING was the largest single lessor in the broker-derived asset finance market, with an estimated £1bn annual provision, this will have a profound effect on brokers and lessors alike. However, this review largely covers the industry over the period prior to this particular decision as well as looking forward to the coming months, and the real impact of the ING move will only become apparent in time – this will undoubtedly be analysed in the next Review.

Asset finance sector overview

It is difficult to give an assessment of the size of the overall broker market as it is unregulated. The need to broaden regulation and the proposals that have been put forward to achieve this are covered in greater depth later. However, the fact that this market is of considerable size and importance is undeniable, in particular to small and medium-sized businesses (SMEs) but also to the UK economy as a whole.

Another indisputable fact is that the economy remains depressed, although signs of a slow recovery are appearing, and the biggest problem for SMEs is still cash flow and access to liquidity. Bank loans continue to be the largest provider of funding, but since the recession many banks have withdrawn facilities and reduced sales forces.

However, the situation is not by any means gloomy. Data from the UK Finance & Leasing Association (FLA) show that the total asset finance market grew by 9% in the second quarter of 2012, with more than 50,000 businesses investing in new equipment using leasing. More agreements were made through commercial finance brokers, up by 14% in the quarter.

Growth has continued into Q3 according to the FLA, with a rise of 4% in July 2012 compared with the previous year. This coincided with the rise reported by the recent BRDC Continental SME Finance Monitor, which showed a five percentage point increase over the last year to 23% in the number of firms seeking external finance that say they are considering using asset finance.

Over the next 12 months, the FLA's confidence survey of asset finance senior executives shows that 74% expect a slight increase in business investment, and 79% a similar increase in funding availability. Some 91% of respondents expect an increase in lending to SMEs – which accounted for 59% or £3.1bn of new business in Q2 2012. Asset finance lenders expect modest growth in new business over the next 12 months in all of the finance channels – broker, vendor and direct.

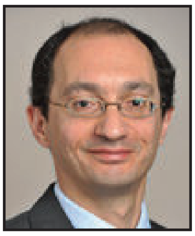
Geraldine Kilkelly, head of research and chief economist at the FLA, said: "Almost £6 of every £10 lent goes to SMEs. The latest BRDC Finance Monitor, showing growth in the number of SMEs considering using asset finance, supports our members' assessment that business to SMEs will increase over the next year."

Table 1: Total asset finance business, and extracts of breakdown by asset class

	July 2012	% change on July 2011	3 months to July 2012	% change on prev. year	12 months to July 2012	% change on prev. year
Plant and machinery finance (£m)	389	+20	1,126	+14	4,176	+14
Commercial vehicle finance (£m)	345	0	1,114	+5	4,658	+15
IT equipment finance (£m)	104	+31	371	+44	1,333	+26
Business equipment finance (£m)	135	+7	461	-6	2,027	+5
Car finance (£m)	598	-2	1,858	+8	6,529	+7
Total excl. high value (£m)	1,770	+4	5,406	+6	20,652	+11
Total FLA asset finance (£m)	1,818	+4	5,610	+4	21,645	+4

Source: FLA

Julian Rose, head of Asset Finance at the FLA, pointed out that "awareness of the benefits of asset finance is growing among small and medium-sized businesses, and many businesses are finding the finance they need through one of the over 500 commercial finance brokers across the country." These are listed in the new online Small Business Finance Directory, produced with the support of the FLA and the NACFB. The Directory also lists banks and other finance companies providing finance direct to small businesses and commercial finance brokers who act as introducers. It has proved very successful in putting UK businesses in contact with funders and brokers across the UK and helped many businesses with their funding problems.



Julian Rose

"Awareness of the benefits of asset finance is growing among small and medium-sized businesses" JULIAN ROSE

Broker business increases

In spite of the continuing uncertainties in the economy and the financial markets, brokers have managed to increase the amount of business they are writing. According to the NACFB, business written by its members to SMEs has risen for the third year running, to a total of nearly £9 billion. The average deal size has increased, according to the latest NACFB Annual Report and Accounts, to £64,596.

The 2012 NACFB member survey has revealed, in the 12 months from August 2011 to July 2012:

- 100% increase in asset and equipment finance from NACFB brokers;
- 4% increase in total activity, to £8.98 billion;
- Short-term lending has increased again, by over 40%.

Table 2: Business levels, selected sectors, 2011/2012

	Aug 2010–Jul 2011 (£)	Aug 2011–Jul 2012 (£)	Year-on-year %
Leasing & asset finance	1,027,142,233	2,057,133,277	100.28
Invoice finance	951,165,294	927,312,722	-2.51
Vehicle finance	306,055,817	228,855,400	-25.22
Development (new)	2,585,114,421	1,326,462,117	-48.69
Grand total	8,629,786,026	8,983,082,911	4.09

Source: NACFB

Adam Tyler

Commenting on the results, NACFB chief executive Adam Tyler said: "We have continued to see the SME community struggling to raise funding whilst being faced with increased costs. Our latest figures reveal the true position of both excellent and vulnerable businesses across the whole of the UK.

"Despite many lenders' protestations that they are lending more than ever, these figures reveal what anecdotal evidence has already shown: that funding for businesses is still hard to access, but it has improved, if you know where to look. The NACFB has 83 different commercial lenders that are part of its 1,000-member organization. We are very pleased to report that there has been an increase in lending over the last 12 months; this is now coming from a wider variety of lenders and is also being lent in a real variety of ways."

By far the largest increase was in the leasing and asset finance sector, with the total more than doubling to over £2bn. Tyler commented: "Asset finance went up by 100%. Our asset finance brokers, in particular, have seen an increase in activity and these figures are in line with a growth in our membership of this division over the last 12 months. We have once again seen a good growth in short-term lending of over 40%."

One disappointment was the vehicle finance sector, at least as far as NACFB brokers were concerned, with a 25% drop in business. However, there are areas of potential growth, as detailed later.

Tyler concluded his assessment of the survey results by saying: "Around 90% of small businesses bank with the four main high street banks; when it comes to borrowing, SMEs, with our guidance, are now reaching out to a wider variety of lenders. These businesses need to feel confident when they are considering borrowing, and the NACFB is there on a national basis to fill any voids left in funding for UK SMEs."

The NACFB also uses this survey information when lobbying Westminster to help give an accurate picture to ministers and to underline areas of concern with funding lines.

"When it comes to borrowing, SMEs, with our guidance, are now reaching out to a wider variety of lenders" ADAM TYLER

Government incentives

Non-bank lending taskforce

Tim Breedon

The Department for Business, Innovation and Skills established an independent taskforce on non-bank lending, chaired by Tim Breedon, CEO of Legal & General, to look at alternative and sustainable finance sources, particularly for SMEs, and the barriers to their development. The taskforce published its proposals in March 2012 ('Boosting Finance Options for Business', http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/taskforce, © Crown copyright 2012).

The taskforce commented: "As things stand, there is a risk that the supply of finance for investment and working capital will not match demand as firms seek to increase production. Banks remain essential in providing credit to the economy, but the stock of bank lending has reduced over the last three years, and there remains a significant funding challenge for banks as a result of regulation at national and international level which is likely to further restrict the availability of credit.

"The arguments for alternative sources of finance are strong. More diverse financing gives businesses greater choice, promotes competition amongst finance providers, potentially reducing cost, and leads to greater resilience in the financial system."

The taskforce's report to Business Secretary Vince Cable contained the following main recommendations:

- Increase awareness of alternative financing by creating a single brand and a single business support agency to deliver the government's range of SME finance programmes;
- Industry to establish a Business Finance Advice network, comprising the main accountancy bodies;
- Open up access to capital markets financing for smaller companies through the creation of a body to bundle and securitise SME loans;
- Consider the potential for the government's Business Finance Partnership (see below) to invest in innovative products such as mezzanine loan funds and peer-to-peer lending;
- Encourage large businesses to support smaller companies by reinforcing prompt payment practices, supporting greater use of invoice discounting and utilising supply chain financing to invest in smaller suppliers;
- Government and industry to review the impact of international prudential regulation such as bank and insurance capital rules on the supply of SME finance; and
- Increase the UK retail investor appetite for corporate bonds.

Vince Cable said: "We need to reshape the UK's finance landscape to better serve the needs of ordinary businesses, helping more companies find the support they need to start and grow."

The report anticipates growth in demand for finance as the economy recovers, and the expected constraint on availability from banks as they deleverage could create a finance gap for businesses of between £84 billion and £191 billion over the next five years. The taskforce's recommendations on increasing the supply and take-up of alternative sources of finance are aimed at closing this gap.

The government's response, published later in March, "welcomes the taskforce's report and agrees that more can, and should, be done to build alternative markets and unlock new pools of capital. The government agrees with the analysis set out in the report … and commits to work with businesses and the broader finance community to address these important objectives."

"We need to reshape the UK's finance landscape to better serve the needs of ordinary businesses, helping more companies find the support they need to start and grow." VINCE CABLE

Funder surveys

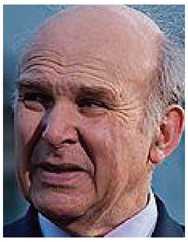

Harley Kagan

A more proactive approach from government is certainly needed, according to a recent survey carried out by United Trust Bank among brokers operating in the bridging, development finance and asset finance sectors. The results, released in August, showed that 82% of brokers felt that the government could be doing more to get the UK economy back on its feet. 67% of brokers responding to the survey indicated that the current economic climate has had a negative effect on their business, with 75% describing the three-year outlook for the UK economic climate as 'unsettled'. However, 25% of brokers suggested that their business had been positively affected by the economic climate.

Commenting on the research findings Harley Kagan, managing director of United Trust Bank said: "It's clear from this research that most brokers want more action from the government to get the economy moving forwards. Although some brokers have taken advantage of the economic turmoil and seen opportunities to grow their businesses, many want more support during this economic downturn. However, it does seem there's little appetite for a further reduction in interest rates."

Another survey of leasing finance brokers carried out by funder Investec Asset Finance and published in August revealed confidence in business growth, finding that "49.1% of brokers believe that their business volumes will increase between 5-15% in the next 12 months, whereas 28.1% believe that their business volumes will increase by more than 15%. Whilst 22.8% of brokers said that their business would stay at current levels, none of the respondents (0%) believe that their business would decline in the next 12 months."

Business Finance Partnership


Vince Cable

The £1.2 billion Business Finance Partnership (BFP) is a government scheme aims to ease the flow of credit to businesses in the UK by helping to diversify the sources of finance available to them. It is part of a £21 billion programme of credit easing measures announced in Autumn Statement 2011 to support SMEs that do not have ready access to capital markets. The government has already committed to spend £700 million through managed funds that lend directly to mid-sized businesses in the UK.

Secretary of State for Business, Innovation and Skills, Vince Cable, said: "It's important we make finance available to small businesses through alternative lending channels to help firms access the support they need to start and grow.

"The Business Finance Partnership will help to develop alternative channels in the mid-term so businesses have access to more diverse finance options, and help to reshape the UK's finance landscape to better serve the needs of ordinary businesses."

In May 2012 the Department for Business, Innovation and Skills issued a request for proposals for the £100 million Small Business Tranche of the BFP. The NACFB has submitted a proposal to be the conduit for this funding. The Association's ongoing work at Westminster and the relationships that it has built with SME trade bodies have helped it to be considered for the scheme.

In the opinion of the FLA's Julian Rose: "The government has rightly included asset finance in its programme of measures to ease the flow of credit to small businesses. Expanding those measures – for example the new Funding for Lending Scheme – to include a wider range of asset finance companies would help even more businesses to invest."

"The government has rightly included asset finance in its programme of measures to ease the flow of credit to small businesses. Expanding those measures – for example the new Funding for Lending Scheme – to include a wider range of asset finance companies would help even more businesses to invest."
JULIAN ROSE

Challenges for asset finance

Heading up any review of the challenges that the market has faced over the last 12 months and which it continues to face, is that of liquidity. The lack of funding has been, and remains, the biggest single restraint on small and medium-sized businesses. Most SMEs require cash flow more than ever at present and traditional lenders have not been providing this. For many firms, there is an urgent need for refinancing and traditional banks do not have the systems in place to provide finance quickly enough and anyway are not prepared to lend on such terms.

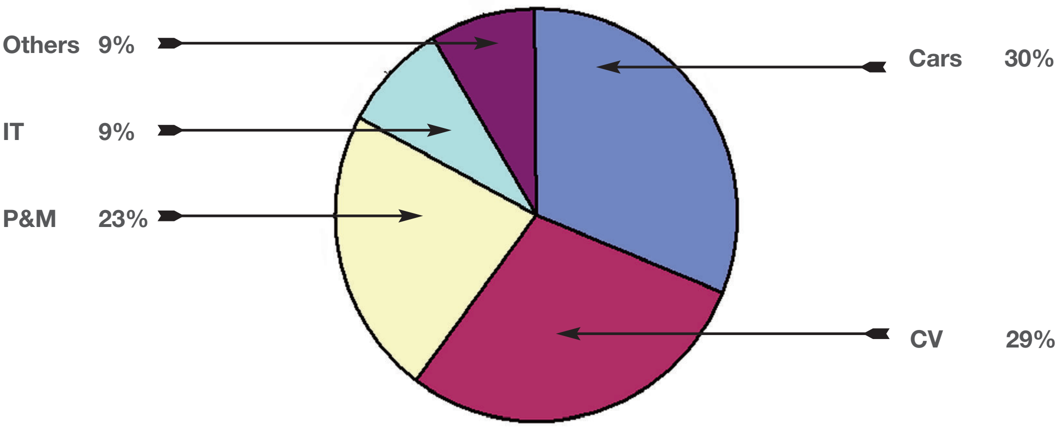
Looking at the market, the situation is not one of an absence of funders, or not enough professional brokers with whom to do business. However, as the viewpoints from both brokers and funders expressed in the following sections attest, greater flexibility is needed from both sides. There is, as one broker put it, "far too much regulation and not enough education." On all sides – brokers, funders and also customers – there should be a greater understanding of all the available financing options. Brokers can do better business in the longer term by going for the best funding rather than the best commission, and by there being a mutual appreciation by both brokers and funders of each other's specialisms. From here, the situation should be that the banks become the lenders of last resort, rather than first resort.

Sector analysis

Survey participant breakdown

Of the brokers surveyed for this Review by Asset Finance International, the majority were active in the cars and commercial vehicles sectors; plant and machinery was next largest in representation, followed by IT and other sectors. Most participants were active in more than one sector.

Chart 1: Broker participation by sector



Source: Asset Finance International

Sector potential

Stephen Bassett

For this Review, participants were asked to indicate the sectors they viewed as offering positive growth potential, and those that did not, and why. Opinion was spread, with no one sector standing out from the pack as either a hotspot or one to avoid; that said, brokers saw areas of opportunity within most sectors, in particular automotive.

On the other hand, the funders tended to be even-handed in their view of the sectors in which they are active, and understandably dismissive of the sectors in which they do not participate. Stephen Bassett of Arkle Finance simply said: "Without exception they are all just normal sectors for us and we have no particular emphasis on any of them." Robert Murray of Private & Commercial Finance Group was more specific: "We are very focused on plant & machinery, yellow goods and automotive; the others are of no interest to us." For Funding Circle, Laura McMullen said: "It's a 'yes' to all categories except the public sector, provided the business is strong enough and can afford the loan." Paul Bartley of Close Leasing saw positive signs in all sectors apart from solar power, healthcare and the public sector. Regarding the sectors in which Aldermore Asset Finance is active, George Ashworth was optimistic about plant & machinery, IT & technology and recycling, but less so for yellow goods and automotive.

Plant & machinery

Nick Simpson

This sector was viewed as neutral overall – a steady and reliable, if unspectacular, performer. However, there were more optimistic views, with Nick Simpson of Asset Finance Solutions reckoning: "Manufacturing and precision engineering are having a good time at the moment." Another going against the flow was First Capital Finance's David Mogg, who also saw opportunities, particularly in precision engineering.

Graham Hill at GHA Finance and Mike Deacon at Asset Based Finance and Leasing were more neutral. Graham Hill remarked that: "There is always a degree of interest in this market", while Mike Deacon saw longer-term potential: "There is always demand here, despite 'Rusting Britain'. The replacement cycle is overdue to be broken since 2008 – borrowers are just cautious. They prefer to pay to keep people not buy or lease assets right now, waiting for improvement. A steady, not a hot sector." Stewart Shirtliff at Victor Finance Group was less confident, saying: "There still does not appear to be the confidence to invest." For the funders, George Ashworth of Aldermore pointed out that "new and used machine tool finance is good."

Yellow goods

David Mogg

The yellow goods market is in many ways subject to the same economic conditions as P&M, and therefore it is no surprise that, overall, it too is regarded as a steady, neutral performer, largely dependent on the prospects for an upturn in the construction sector. Stewart Shirtliff saw opportunities for the sector, and noted similar conditions regarding the replacement cycle as Mike Deacon identified for P&M, saying that there were signs of new contracts as renewal was long overdue.

David Mogg also saw signs of green shoots: "Construction is still subdued but is starting to pick up." In Nick Simpson's opinion, this is "a very competitive market to do business in." Mike Deacon and Graham Hill again noted that this is a sector in which there is always demand, but Mike Deacon pointed out that: "Despite HMG's desire to loosen planning on home extensions, really demand is static and undeveloped land banks are being held by developers and banks alike. This will be static until construction booms again. Might be a long wait." George Ashworth was not too hopeful, adding: "This sector is slow, given low government spending."

Automotive

Stuart Shirtliff

The car sector was seen as a hotspot by Stewart Shirtliff, who identified the market drivers as: "New registrations. Company car drivers looking for new cars with lower CO_2 emissions to reduce the company car tax burden." It was also a positive for Graham Hill, who found the underlying factors to be: "Strong sterling; import pull from China; the prospect of vehicle dumping in the UK (due to excess stock)." Nick Simpson was another with a positive slant, but with the caution: "It's showing signs of cooling, with less activity particularly on the prestige side." On the other hand, David Mogg felt that the sector was: "Not for brokers and many dealers tell us they are quiet. Subsidised car manufacturer schemes (rate and RVs) are often very difficult to compete with"; this was echoed by Mike Deacon, who felt it was "a steady, unspectacular market." Funder George Ashworth saw "low personal disposable income as savings rationing increases" as a hindrance.

Although neutral on cars, David Mogg saw light commercial vehicles (LCVs) as a hotspot, again in part due to overdue replacement cycles: "These are workhorses that have to be replaced. Some customers may have delayed replacement, but this can't go on forever. We have also funded a fair number of vans for new start companies – perhaps a good economic barometer." Nick Simpson was also positive, but added that there is "a sausage factory mentality, with many proposals seen." In the neutral camp was Mike Deacon, who noted that: "It's mature and generally not exciting, but it's a bedrock of asset finance and leasing in the UK. Fuel duty rises for hauliers and logistics/transport companies is dampening demand." Graham Hill also noted that the market is flat, as companies are recirculating used vehicles. George Ashworth viewed LCVs as "better than cars, but there's still low activity in new registrations."

Green assets

Steve Green

Green leasing is being widely hailed as an attractive sector for asset funders looking for profitable diversification. Certainly, there is considerable investment momentum behind the renewable energy, energy efficiency, green fleet and equipment recycling areas, and sound opportunities exist for asset lenders seeking to enter the sector. The fleet sector in particular has seen a clear increase as fleet decision makers act on the message that going green means substantial cost savings.

Asset finance's flexibility makes it a good fit for the financing requirements of green projects, and asset financiers increasingly are being required to provide, arrange or manage innovative solutions for clients. The opportunity for substantial rewards may be there for the taking for forward-looking players. Nevertheless, there are also considerable risks in a sector with a short track record and limited experience. Technology risk, operational risk, performance and payback risk and changing government policies all signal wariness.

The brokers surveyed largely erred on the side of healthy caution, particularly the non-fleet players. Most do not view green leasing as the "holy grail" for brokers. Some were dubious of government intentions; others were doubtful of the realistic risk/return scenarios.

An exception here is Steve Green at Clear Asset Finance, who viewed the potential for green asset finance as key: "Over the past 12 months we have gained an enormous amount of knowledge and have made some great connections with equipment suppliers and non-mainstream funders. Alternative funding is the key to overcoming barriers faced within the green energy sector; a standard finance lease is not always the answer. The projects tend to have a longer lead time and the paperwork can be very labour intensive, especially when agreeing terms within an Energy Performance Certificate (EPC). The level of expertise required and slow conversion process may not fit every broker's or lessor's business model. We have created a division within our business headed up by Chris Barker and it is the combination of his qualifications and asset finance background that has made our entry into the green energy market a more informed experience, although we are learning all the time."

Nick Simpson of Asset Finance Solutions also views the sector as positive, but points out that, although there has been more activity in the sector over the last 12 months, it's "still very difficult to get deals done." He elaborated by saying: "You need to take the time to develop knowledge of the sector before you enter to identify the areas that have the greatest potential. Time also needs to be spent with funders, as this is a new market."

There was considerably stronger support for the green fleet market, with, for example, Martin Brown of Fleet Alliance stating: "Brokers ignoring the green message will simply fail!"

Positive viewpoints came from Mike Deacon, Martin Brown and Graham Hill. Mike Deacon listed the pros as: "Better visibility, implicit Corporate Social Responsibility (CSR) benefits, and encouragement by government to 'go green'."

On the other hand, he also noted cons: "Lenders are often asked to consider higher risk SME clients and therefore rejection rates are high; lack of industry knowledge; lack of customer facing experience, especially by underwriters." He went on to note that the latter is "the biggest problem of the past 15 years, where all direct experience has been lost and underwriters are 'cold' in terms of broad product and customer management expertise."

Martin Brown listed the benefits of green leasing for cars: "For cars, green leasing has been a reality for many years. Green fleet means:

- Low company car tax for drivers;
- Fuel-efficient vehicles;
- Lower fleet running costs for companies;
- Lowering the carbon footprint."

Graham Hill struck a balance between the importance of the green agenda and the part it can play for brokers against the harsh economic realities we are all facing: "The green agenda should certainly not be written off. It has become a key part of the decision making process, if only to assess the effect on personal taxation rather than a need to create a cleaner planet. Brokers should certainly advise customers on the green credentials of cars they quote on, and by providing more information there is a greater chance of retaining the customer. Electric cars still have a way to go and I see no serious impact within the next five years. Whilst we are still in a recession, and likely to remain so for the next few years, car finance will continue to be cost-driven at the expense of green objectives."

His views on the future for electric cars were also reflected by Graham Prince at Neva Consultants: "I can see electric vehicles becoming more prominent but this will not add to our profits; it will just replace the petrol/diesel vehicles that are being funded at present."

Others remain to be convinced. Mike Lloyd of Central Contracts was forthright in his view that green leasing was not a hot area, declaring: "I am a cynic. The 'green agenda' is more about raising taxation income that actually bringing about long-term change."

Ray Wells of First for Business took a cautious approach: "Green issues are an emotive subject and much depends on government thinking, which seems to change from time to time." His uncertainty was echoed by Stratford Corporate Finance's Brian Ward, who said apropos of solar power that "the world is uncertain and there are so many people who have gone wrong by depending entirely on their calculations on that tariff / grant that they will never make a profit. However, we are looking at the more sensible proposals."

"You need to take the time to develop knowledge of the sector before you enter to identify the areas that have the greatest potential. Time also needs to be spent with funders"
NICK SIMPSON


Richard Perry

Richard Perry at First Capital Finance summed up the overall market appetite and limitations to a market that is still in evolution: "This is not an area we are particularly involved in, other than seeing the occasional deal from time to time. As it stands currently, there does not appear to be a great deal of appetite in the market as the risk, real or perceived, is perhaps still unknown and / or unproven. Brokers can only write this business if funders wish to participate. It could be that this may not suit the smaller ticket asset finance market where the overall perceived risk, including asset security, may be higher, resulting in the benefits of the customer's investment in green technology becoming outweighed by the terms offered by the funder, including higher rates, etc. No doubt this will be something that will evolve over time and where, perhaps, government grant, taxation or guarantee initiatives could play a part."

There was little experience of renewable energy, solar power, wind farms or recycling among the brokers, and therefore most were non-committal across the whole sector.

On renewable energy and solar power, Mike Deacon was positive, but pointed out the need for government backing and handed out the clear message: "It needs government support in the form of more than just carbon credits. The recent reduction in solar Feed-in Tariffs (FIT) is a really bad step. There are niche lenders happy to play in this space. HMG needs to lead with the Climate Change Act 2020 deadlines for renewable sources of UK energy." He was less positive regarding wind farms, noting that "It's a difficult market, now being 'commoditized' by major non-EU players." From a funder's perspective, Close Leasing's Paul Bartley was not bullish about solar, citing the "lack of secure subsidy income," although he saw some encouragement for wind farms despite this also being limited due to subsidy income.

Stewart Shirtliff saw opportunities in recycling, noting that: "The recent increase in landfill tax has made recycling companies invest to achieve 0% landfill." George Ashworth was also optimistic for this area: "We are seeing increasing activity in this space." But Mike Deacon was less bullish: "EU directives hampering growth in key areas such as tyre shredding. Fractured market and lenders not utilising WRAP initiatives to support lending well enough in recent years."

The overall coolness and caution of brokers towards green leasing is perhaps best summed up by Paul Huxford of PHVC, who said: "At the present time, until technologies develop, and costs become more realistic, I do not see this as a viable option."

IT & Technology

There was little support for this sector among the brokers, with most either neutral or having no interests in the sector. David Mogg was neutral, but noted that there is always a need for replacement and investment, but that many organizations will pay cash. Graham Hill was more positive in his outlook: "We're still seeing growth but values are static or dropping so we need to shift more to get the same return; equipment always needs replacement, though." Funder Paul Bartley thought there were signs for optimism here, although "for strong credit covenants only." George Ashworth was more positive, saying: "There is a lot of replacement demand."


Paul Bartley

Healthcare

It was a similar story for healthcare, with few brokers reporting any experience of the sector. However, Mike Deacon saw the sector as offering real potential in 2013 as the government drives healthcare provisioning changes. In his view: "All banks see this as 'risk positive' sector – i.e. HMG = NHS. The legacy of Private Finance Initiatives (PFI) hangs over some banks for hospital projects, and the health landscape in England has prevented expenditure since March 2010. The dams should burst mid-2013. There is a real opportunity to lend here." Graham Hill also saw opportunities outside the NHS: "The non-NHS market is expanding, with increasing demand for private procedures."

Public sector

Mike Deacon

This sector presented problems for the brokers, who struggle with the sector's perceived issues regarding procurement, local government budgets, and funder problems. Few identified any opportunities here, although David Mogg said: "School minibus leasing has been very strong for us".

Mike Deacon summed up the state of the public sector from the broker's perspective, highlighting the problems; but he also pointed out that local authority budgetary constraints will mean changes for leasing in the near future. "The problem here is commissioning and procurement. It is awful across all sectors. There is a big tendency to adopt the 'no-one got sacked for employing the IBM' approach. Poor leadership in the public sector has led to big consultancies and accountancy firms hoovering up large tracts of work and then adopting the IBM approach. Banks and lenders will lend here, but only with HMG certainty involved. Lack of local authority spending in leasing has been evident since the mid-1990s, but budgetary constraints will see things change over the coming years."

He ended with a message for funders: "Government is keen to encourage 'mutualisation' of non-essential public services. Lenders need to understand what this means. I doubt if many do."

New sectors

Paul Huxford

Most brokers do not foresee expansion into new sectors in the near future, preferring to concentrate on consolidating and improving their position within their current sector specialities. Typical of these were Martin Brown and Paul Huxford. Brown's view was: "Greater market share in our current sector rather than new sectors would be my prediction – I see great opportunities for broker growth in the leasing sector", while Huxford said: "We are constantly evaluating new business opportunities but nothing specific at the present."

However, some saw promise in new areas or products. Interestingly, given the ongoing political and economic uncertainties, Mike Deacon is looking to Europe: "EU finance. I am working with EU-based clients and lenders as they still tend to operate in a fashion seen in the 1980s when there was a more prudent approach to risk." Graham Prince is looking for larger clients: "I see us working with larger fleets (up to 200) as even their balance sheets are not strong enough at present for one funder along to underwrite their total requirement." Ray Wells reported: "We are involved in newish-to-market financial products relating to the retail trade", while Steve Green is looking to consolidate the company's presence in the developing green sector: "Already we deal in the energy efficiency and renewables market sector, and we will continue to do so."

A cautionary note was struck by Stewart Shirtliff: "Our business is based on 30 years' experience and it works. Too many times we have seen companies dabble in new ventures they do not understand and fail. I see greater opportunities for the finance broker in the future providing a complete asset-based lending package. We currently arrange banking, sales ledger funding, property, vehicle and plant finance. So really, more of the same."

"Greater market share in our current sector rather than new sectors would be my prediction"

MARTIN BROWN

The funder–broker relationship

George Ashworth

Since the onset of the recession, a number of previously supportive funders either consolidated, reduced their presence in the broker market, tightened their lending criteria, or exited the market altogether. In some cases this happened with no notice, leaving their broker connections high and dry. Brokers often now struggle to secure funds for their clients, not just for tougher approvals, but even for what would previously have been regarded as routine transactions. Usually, in hard times funding sources tighten selectively, focusing on areas that are perceived to be higher risk, or struggling. But the tightening this time round appears to have been across all sectors, leaving brokers feeling understandably let down as funding lines dwindled.

Although some new funders such as Aldermore and Investec have entered the market, it is unlikely that the new dynamic will change much in the near future. Brokers are now even more aware of the importance of knowing their funding sources and properly managing the relationship for the long term, so that their business will continue to be underwritten during the hard times.

Funder panels

Mike Lloyd

"The market would definitely benefit from the entrance of new lessors to create competition; currently funders geared for flow business have a monopoly on both credit criteria and rate. In my experience the broking fraternity faced its biggest challenge when key lessors decided to withdraw from the broker market."

STEVE GREEN

Of the brokers surveyed prior to the withdrawal of ING Lease from the market, a number reported that they had succeeded in maintaining their funder panels, despite the market conditions. One even reported increasing its funder panel. Their experience is not typical of the industry as a whole, however, as others report anything from a 20% decrease to retaining none of their panel.

A number said they were not impacted. Mike Deacon of Asset Based Finance and Lending, Central Contracts' Mike Lloyd and Martin Brown of Fleet Alliance were among those who were unaffected. Mike Deacon managed an impressive result, saying: "I increased my funding panel by 25%." Mike Lloyd reported: "We retained all of the funders that remained in the market and added ALD so we were not adversely affected", while Martin Brown said that "We maintained 100% of our main funders."

Others were affected, but managed to ride out the storm. Ray Wells at First for Business said that his company had maintained 80% of its panel. At Neva Consultants, Graham Prince reported: "We managed to maintain most of our funding facilities. Only Lombard VM, Lombard North Central and ING withdrew from using us." PHVC's Paul Huxford said: "We were fortunate that we retained 80% and within a few months were able to replace the 20% with a new funder." Nick Simpson of Asset Finance Solutions noted that they had maintained their panel at just above 50%, saying: "Although it was a worrying time, we managed better than most due to the large, varied panel we had at the onset of the credit crunch."

As a relative newcomer to the industry, Clear Asset Finance had a different experience. Steve Green pointed up the need for new funding entrants to increase competition and reduce dependence on key lessors: "We have only been incorporated since March 2011, and, despite the recession we have still managed to secure over 15 funding lines. The market would definitely benefit from the entrance of new lessors to create competition; currently funders geared for flow business have a monopoly on both credit criteria and rate. In my experience the broking fraternity faced its biggest challenge when key lessors decided to withdraw from the broker market."

Brian Ward at Stratford Corporate Finance reflected both funder satisfaction and resentment and highlighted that UK funders have been more supportive than their foreign counterparts: "With regard to the finance companies who we give business to, we have a dozen who we know extremely well and by and large they are there for us. They have got one thing in common – they are all owned by British banks; independent finance companies that are British (with the exception of course of Santander), they are still there and are still being helpful. But yes, we were let down rather badly when foreign banks and their finance companies exited the marketplace."

Brian Ward

"The NACFB has been very supportive during the recession and championed our cause with government bodies and new patrons. We now have two new lenders who appear to be doing the job right and in for the long term."

STEWART SHIRTLIFF

Richard Perry at First Capital Finance reported that they initially lost substantial funder support, but turned it into a business opportunity. "We lost seven of our nine prime funders within three or four months. Overall, we retained over 50% but it was the withdrawal of the prime lenders (typically bank owned) that caused the most problems. It was then a case of educating customers and suppliers as to what was achievable with the available lenders and writing business based on that. However, our lender panel has been slowly but steadily increasing and improving ever since. This was, however, an opportunity which we seized to write more business on our own book, which is no doubt a common theme with other 'own book' brokers."

However, other companies have been badly impacted by the funder withdrawal. Anthony Sawyer of AFEM Leasing Finance said: "Our funding capability in regards to vehicles has diminished considerably; the plant & machinery is down by 20%." Graham Hill of GHA Finance has taken alternative action: "We retained none. We now use master brokers and captives through main dealers." Of course, this action might not be so easy for non-vehicle sectors.

The experience of Stewart Shirtliff of Victor Finance Group has left him less than impressed with some funders, but appreciative of the support of the NACFB during these hard times: "We were very badly affected. Pre-recession we had a panel of 12 lenders. This quickly reduced to three lenders and one of those was a private finance company. I cannot say I was impressed by the way the majority of the major lenders handled the situation. The NACFB has been very supportive during the recession and championed our cause with government bodies and new patrons. We now have two new lenders who appear to be doing the job right and in for the long term."

Funder loyalty

Ray Wells

Some brokers made special mention of certain funders which have been particularly supportive during the recession.

Close Asset Finance was singled out by Ray Wells for its business-like approach: "Close Asset Finance is, in my opinion, very commercially minded and will find a way to do a sensible deal."

In the vehicle financing sector, Network was highlighted by Mike Lloyd, who felt that: "Network is totally broker orientated and its position in the marketplace is the most stable."

Network was also among the choices of Graham Prince, who highlighted the importance of a close working relationship: "Lex, Arval and Network all remained very committed to brokers throughout this difficult period and in fact, with them joining the BVRLA Broker Committee, we all now work far closer and discuss/understand how policies affect all of us before they come into play."

Lex and Arval were also picked out by Paul Huxford: "Arval Ltd has come through the recession well by keeping a constant flow of communication, allowing us to overcome customer issues. Similarly, Lex Autolease, over the past 18 months, seems to be back to its normal high standards after the integration of Lex and Autolease." Arval was also name-checked by Graham Hill as having a good reputation.

"[ING] proved that the model works and works well, not least if funders seek to write their business with well-established reputable brokers who share the same values and mindset."

DAVID MOGG

First Capital Finance's David Mogg lauded ING and market entrant Aldermore: "ING in particular, as well as Aldermore for entering the market as a prime mainstream lender during this time. Although ING has unfortunately announced its exit from the market, they proved that the model works and works well, not least if funders seek to write their business with well-established reputable brokers who share the same values and mindset. There will hopefully be other like-minded funders and possibly new entrants that will fill the gap and there are already signs of this happening.". Stewart Shirtliff echoed these views regarding Aldermore's move into the market, and ING's legacy.

Others felt that no particular funder could be singled out as they were all equally supportive. This view was reflected by Steve Green: "All of our lessors play a part in our success and they know who they are! A broker is only as good as his portfolio of funding lines and we have some very valued partners." Stewart Shirtliff echoed these views regarding Aldermore's move into the market and ING's legacy. Others felt that funders were simply following market conditions. As Mike Deacon said: "They are all following a pattern based on appetite for lending and availability of wholesale funding allowing lending to take place."

However, unsurprisingly given his experience, Anthony Sawyer simply said: "None".

NOSTRUM GROUP

The new relationship dynamics – change for the better?

Mark Henry

The balance of power between brokers and funders has changed fundamentally since the recession and is likely to remain the norm for the foreseeable future – and certainly while the current economic climate endures. Funders have reasserted their control over the market; most have culled the number of introducers by up to 50%, and they are more demanding in terms of quality of broker-generated business, with more rigorous underwriting requirements and higher standards of accountability. Some in the industry regard this shake-out as no bad thing, ending what Martin Brown referred to as "the tail wagging the dog syndrome", driving up standards across the board and leading to stronger and deeper relationships and understanding between funders and brokers.

"Much of the imbalance seen prior to the credit crunch when lenders were chasing volume at any cost has been redressed."

NICK SIMPSON

In the opinion of Nick Simpson, "Much of the imbalance seen prior to the credit crunch when lenders were chasing volume at any cost has been totally redressed. Brokers have felt more vulnerable since, which has enabled the funders to dictate pricing much more and increase their return on funding costs."

Anthony Sawyer put it succinctly: "The relationship has changed considerably. Funders are more demanding in their requirements." In the view of Mike Lloyd: "Funders have become more demanding; however, this has served to separate the wheat from the chaff (in large part). Membership of a recognised trade body [the BVRLA or the NACFB being favourites] is now almost a prerequisite. Standards of behaviour and accountability have been raised and are being enforced."

Increased broker accountability was also noted by Mark Henry at Syscap: "The balance of power has most definitely shifted since pre-recession days. Funders are now seeking higher margins and are looking to brokers to take more responsibility for the performance of their portfolios. That shift was needed as some brokers had become too relaxed over the quality of business they were providing to funders versus the pricing on offer."

Steve Green was another who felt that the changing power dynamic was a positive move: "The recession has definitely readdressed the balance of power and the broker has significantly less power than before; this is not a criticism, just an observation! The lessors have definitely upped their game and have become more diligent and cautious before activating a lease. This is paramount to the industry and protects all of our interests – after all, this business is about credit risk, not contractual risk."

"Lenders now expect far more from brokers and are more proactive in making sure brokers 'know their customers' far more."

MIKE DEACON

Mike Deacon noted an increase in proactivity among funders: "Lenders now expect far more from brokers and are more proactive in making sure brokers 'know their customers' far more. This is fine for me as I operate transparently so allow lenders direct access to clients."

Graham Prince

The drive to raise standards was noted by both Martin Brown and Graham Prince. Brown said: "The market/relationship has changed, but for the better. As I see it, funders expect higher standards but in return the relationships would appear to be more robust – and in my opinion have greater depth. Funders are looking for better quality business, fully maintained contracts for contract hire and brokers who won't waste their time with low quality business."

Stewart Shirtliff also noted the benefits of a better standard of relationship with funders: "We now rely on a smaller number of lenders and because of that our relationship with them is stronger. Communication is more fluid and by discussing deals directly with the underwriter a greater understanding has evolved of each others' needs."

Graham Prince also noted a reputational benefit for brokers: "Quite rightly, there are now far more checks being made on brokers and training has come to the forefront of the relationship. Most have culled at least 50% of their brokers, so standards have risen considerable and the reputation of these selected brokers has grown."

"Quite rightly, there are now far more checks being made on brokers and training has come to the forefront of the relationship."

GRAHAM PRINCE

Reputation was also a factor for Paul Huxford and Brian Ward, both for funders and brokers. Huxford noted: "During the recession, funders have cut the number of introducers to ensure that the industry improves its image with the Financial Services Authority and the Office of Fair Trading. Most well-run businesses have welcomed this change." In Ward's opinion: "Funders pick and choose their brokers very carefully and that is why those with a long-serving relationship in the industry, that have not let them down and with very few arrears coming out of the woodwork, are those that are always able to place business."

However, the experience of Graham Hill has been less marked: "The only changes have been regulatory (that I have experienced). Providing consumers with more information, and confirming the passing on of that information, are now part of the process, but other than that, with less money to lend, underwriting has become tougher, with more information requested."

"Criteria remain clear and focused, but with many their appetite is narrow. Because of that, brokers need to be able to maintain a wide range of funders so that the borrowers get good coverage."

MARK HENRY

Ultimately, this change in relationship dynamics is likely to be beneficial to both funders and lenders, resulting in a leaner, cleaner and more robust industry in a much stronger position to benefit from any economic upturn. Improved mutual business understanding is one clear benefit that is certain to endure as the industry changes shape. Richard Perry provided this even-handed view: "It is perhaps fair to say that some lenders have, understandably, used the last few years to achieve better margins. This can obviously impact on broker earnings but it is also fair to say that some mainstream lenders have in the past charged unsustainably low margins on direct business in order to achieve volume and market share. There are other mid-tier lenders that have been able to write much better quality business than no doubt would otherwise have been possible."

The funding climate

Although there are now fewer funding options in the market (particularly since the exit of ING Lease), as far as brokers are concerned, the appetite of the remaining funders has not altered substantially since the recession, at least for good-quality business. What has changed is the degree of caution being applied and the stringency of their application procedures and underwriting requirements; however, it would appear that these enhanced requirements are not necessarily being applied evenly across the board. Brokers report some inconsistency and lack of clarity in funders' requirements, though most say that they are able to work around the difficulties, often through closer co-operation with, and understanding of, the funders.

Funders' current appetite for finance

"There are funders with appetite for funding good businesses and a good management team on board. But for one- or two-person businesses there seems to be more demand for security required."

ANTHONY SAWYER

Some have found that funders' appetite is much as before, albeit with tighter criteria and more demanding processes. Among these is Martin Brown of Fleet Alliance: "I think their appetite in general is pretty similar to pre-recession levels, although the process can often take longer and more financial information tends to be requested." Neva Consultants' Graham Prince concurred: "The funders do have an appetite for finance but the criteria have definitely tightened and it is a much harder process to get a business underwritten." In the opinion of Mark Henry at Syscap: "Criteria remain clear and focused, but with many their appetite is narrow. Because of that, brokers need to be able to maintain a wide range of funders so that the borrowers get good coverage."

Funders are showing caution almost to excess, in the opinion of Paul Huxford of PHVC: "Currently, the funding companies are being extremely cautious with their underwriting and look at most cases as if they were lending cash rather than funding a vehicle, where they have an asset to sell if there is a default."

Stewart Shirtliff of Victor Finance Group thinks that the situation is actually better than might be expected, given the current economic climate: "Funders' current appetite is good and better than expected. Current guidelines are probably clearer now than pre-recession. When the economic climate is strong it is easy for lenders to get carried along with the increased volumes and probably relax underwriting terms and the type of asset. As the recession hits - accompanied by ensuing losses - lenders entrench and realign underwriting guidelines."

Others note an increased requirement for securitization to back a deal. Mike Deacon of Asset Based Finance and Leasing said: "Appetite is still patchy, though more is coming through since January 2012. There is a still predominance for personal security and/or property security to underpin deals, especially for more marginal SME clients." This was echoed by AFEM Leasing's Anthony Sawyer: "There are funders with appetite for funding good businesses and a good management team on board. But for one- or two-person businesses there seems to be more demand for security required."

The current funding climate has resulted in more fundamental changes in the underlying structure of the lessor market. In the view of Richard Perry of First Capital Finance, the time might now be right for a review by funders of their market position: "Appetite is much the same as before (a bit tighter on occasions) – just fewer lenders. I think it would be fair to say that a few of the bank-owned lessors that exited the broker market would have, and probably have, made a number of changes. Perhaps now would be a good time for them to re-enter the market on a selective basis, having re-evaluated the types of business they wish to write and the types of brokers they wish to write it with."

Steve Green at Clear Asset Finance also observed considerable changes in way funders operate and interact with brokers: "Funders are looking for business but they are very particular about what they will take. With our panel of funders we are finding that instead of us using three or four lessors on a monthly basis, we are now spreading our business across seven or eight lessors per month. This clearly demonstrates that no one lessor can service an account and emphasises the importance of having a good broker relationship."

Sub-prime business

Unsurprisingly, the sub-prime sector presents challenges at present, and is largely out of favour with both funders and brokers.

Sub-prime is simply off-limits for a number of brokers, particularly in the fleet sector, where Graham Prince said: "We have no demand for sub-prime finance as a business." Martin Brown reported: "This is not an area we have any real knowledge of", while Paul Huxford noted: "In our business, there is no place for sub-prime finance as we ensure that all customers are given the best service during their contract and we do not feel that it would work with our business philosophy."

"In the current market conditions there is a need for both commercial and consumer sub-prime providers, a situation that can only get worse."

GRAHAM HILL

Outside fleet, Stewart Shirtliff said simply "No", Central Contracts' Mike Lloyd, while noting demand, said: "Not through us at the moment", while David Mogg at First Capital Finance stated: "There may be a demand for it, but we have never understood this market and don't intend to start now. Isn't this where problems started? Whether it be sub-prime mortgages or asset finance, basic principles should always apply."

Anthony Sawyer noted that the market is tight in any case: "Sub-prime finance is much more difficult at the moment. Companies with more than two secured creditors are often required to provide additional securities."

However, some brokers note that current economic conditions mean that the demand for sub-prime finance will continue. Steve Green noted: "There is a demand for sub-prime finance, and we do have access to funders who operate in this market sector."

In the view of Graham Hill of GHA Finance: "In the current market conditions there is a need for both commercial and consumer sub-prime providers, a situation that can only get worse. They are few and far between, with not only hire purchase sub-prime providers needed, but also contract hire. An option whereby they provide the cars as well as the finance, taking much of the risk out of the car, is needed because currently sub-prime lenders are having to charge high rates against overpriced retail cars provided by dealers."

"There is certainly greater demand for refinance – unlocking cash in unencumbered assets for a cash injection into a business has never been more popular."

NICK SIMPSON

Regarding the prospects for lenders entering the sub-prime market in the near future, opinion was mixed. Mike Deacon saw opportunities for new entrants offering alternative sources of finance: "I see more NBFIs (non-bank financial institutions) coming to the market over the next few years. Crowd-funding sources and peer-to-peer lenders such as Funding Circle, borro and Platinum Black (for invoice finance) will make inroads at the margins of lending. However, the banks will still remain the prime distribution channel for SME finance."

However, Steve Green said: "There are a number of funders operating in this market place already and I do not see too many lenders entering it in the near future", while Ray Wells at First for Business noted: "No, the sub-prime market is small and exact, with only a few players in this arena."

A final point was made by Nick Simpson of Asset Finance Solutions: "There is certainly greater demand for refinance – unlocking cash in unencumbered assets for a cash injection into a business has never been more popular."

Changing underwriting requirements

The broker has a critical position in the finance supply chain. As an intermediary, the broker acts as a facilitator to match clients' financing needs with the appropriate funding sources. When times were good, undertaking the legwork to ease the process for clients and funders was all that was required. In the current tight lending climate, however, the successful broker needs to act more as a business partner to his funding sources.

The broker's role needs to shift from being sales- and process-driven to becoming an advisor and consultative intermediary whose expertise adds value to every stage of the transaction. The broker needs to analyse the needs of clients, suggest detailed and meaningful solutions and assist funders through the credit process with an end-to-end understanding of the complete transaction. Recommendations for approval need to be accompanied by a full business case, including rational, supportive data to emphasise strengths and full explanations to mitigate any weaknesses, and meaningful and supported recommendations. Brokers will thus attract stronger credits and facilitate more complex transactions, which will assist in higher approval ratios, stronger funder relationships and more repeat business.

What brokers can do to help underwriters

"If brokers want respect from funders then they have to submit comprehensive, easy-to-understand proposals together with forecasts moving forwards for the larger deals."

RAY WELLS

It's clear that all the brokers interviewed are well aware of these requirements and are being proactive in working with underwriters in meeting the more stringent criteria.

There is a consensus around the need to take on more of the work on proposals and for thorough preparation. Mike Deacon said: "Do the work upfront and ensure they really have all information and client mandate to proceed." Anthony Sawyer concurred: "Brokers generally need to do more of the work, i.e. understanding the funders' requirements, and matching those criteria with the customers, and not the other way round", while Paul Huxford saw the need to "help underwriters understand their requirements and present to them the information they require on the first credit application. We endeavour to make financial checks on all new customers before presenting them for a credit line." Martin Brown agreed that "Brokers should be putting more work into pre-credit processes and packaging a deal with the funder which makes it easier to make a decision. A narrative drawing out key pros and cons and management information should be supplied if required." Or, as Nick Simpson succinctly put it: "No proposals on a fag packet, please! These deals need to be 'sold' to the finance companies."

The need for a comprehensive business case to support proposals was identified by Ray Wells, Stewart Shirtliff, Graham Hill, Mark Henry and Steve Green.

In the opinion of Ray Wells, "If brokers want respect from funders then they have to submit comprehensive, easy-to-understand proposals together with forecasts moving forwards for the larger deals." In Mark Henry's view, brokers can assist more by "Providing the funder with a proper and accurate introduction to the proposed customer/deal (i.e. better quality financial info packs, background to deal) and a realistic return." Steve Green said: "Collate as much information as possible and present a proposal with a compelling case as to why the lessor should invest. We can do no more!"

Graham Hill felt that this was business as usual: "Good brokers have always assessed the strength of an application and independently decided whether accounts will be needed, bank statements required or other proof of earnings. Also if adverse (information) appears on a client's file it is always better to explain the adverse in notes upfront rather than allow the automated system to automatically decline through no information."

Stewart Shirtliff elaborated: "Although we now use web-based portals which speed proposal input and decision making, our preparation prior to proposal has not changed. Prior to computer input we prepared a three-page report; although this is outdated, the principles of underwriting are the same. We look at the deal from the underwriter's point of view. Before the deal is submitted we look at:

1) the source of the deal;
2) the supplier;
3) the customer;
4) the goods in relation to deposit and period;
5) we negotiate additional security such as personal guarantees at the initial meeting; and
6) local knowledge."

"What's crucial is your knowledge and understanding of the customer and their business, including your experience with them if they are existing or previous customers."

RICHARD PERRY

Graham Prince also identified the need to look at the deal as the underwriter would, stressing the importance of good communications: "We have regular meetings with the underwriting teams and can help shape their thinking and what information we can offer them to help get a positive decision. They are surprised what information we can gain from clients and often it is us offering more than their on-systems can cope with. I believe that more manual underwriting is required in the market place now but the funders do not have the expertise to cope with this."

The need to also manage the client side was picked out as a factor by Mike Lloyd: "You need to pre-vet proposals and educate clients as to the likely commercial outcome of their application once their individual circumstances are taken into account. This helps to manage expectations."

Understanding the client was also a key factor both in helping the underwriting process and in building broker business for Richard Perry: "In addition to the usual, i.e. a thorough write-up and full supporting financials and asset details, what's crucial is your knowledge and understanding of the customer and their business, including your experience with them if they are existing or previous customers. Ours is a mix of new and repeat customers. Many of our customers have been using us on a regular basis for over 10 years, with repeat business typically being in the region of 65–70% of total business written."

Brokers' issues with underwriters

Inconsistency and unpredictability in underwriting are definitely a frustrating issue for some brokers. According to Graham Hill: "There is far too little clarity, which makes the proposing of clients a bit of a lottery. A client could have an instant decline from one lender and an instant accept from another. A greater understanding of the lender's score card or some means of pre-qualification would help tremendously and allow brokers to manage expectations."

"It is now more difficult to obtain a straight acceptance on any given proposal. In general, the underwriting guidelines are reasonably clear although the application of same varies from underwriter to underwriter even within the same funder."

MIKE LLOYD

Mike Lloyd makes a similar point: "It is now more difficult to obtain a straight acceptance on any given proposal. In general, the underwriting guidelines are reasonably clear although the application of same varies from underwriter to underwriter even within the same funder." Anthony Sawyer finds that: "Some of the funders' requirements are sometimes unclear, but often we find if we discussed a particular customer's requirement, they are usually happy to go ahead. But generally, it would be better if their requirements were more transparent."

On the other hand, Ray Wells doesn't really see a problem: "Because we work closely with our funders we understand their underwriting criteria, which do change from time to time."

Technology and innovation – the future for leasing

The leasing industry has been innovative from the start. By focusing on the advantages of concentrating not on the ownership of assets, but on their productivity, the early leasing entrepreneurs effectively disrupted conventional funding sources. And the industry has never been slow to exploit the opportunities provided by innovation and technology, whether in funding structures, or back- and middle-office process efficiencies, or customer relationship management (CRM) systems. However, arguably the industry has been too focused on the cost reduction side, rather than on service, data handling and structure. This may leave it vulnerable to entrants from economies that are able to leapfrog the conventional barriers to entry through access to cheap funding, a large domestic customer base and access to cheaper and more flexible technology. Innovation, particularly in technology, is needed to move on from legacy systems and multiple platforms to streamlined programming, real-time data, interactive customer interfaces and mobile applications.

Broker investment

"Brokers who don't invest in their systems will find things tough over the coming years"

MARTIN BROWN

Brokers are positioning themselves to make significant IT investments in order to develop and maintain a competitive advantage. Most regard cutting-edge IT systems as key. Martin Brown said: "Brokers who don't invest in their systems will find things tough over the coming years". Ray Wells backed this up: "Brokers must be aware of the ever-changing advance in IT technology if they want to be ahead of the game", while Graham Prince stated: "Definitely all brokers need to invest in IT to continue to offer excellent service to their customers." Nick Simpson noted that: "Systems are good to help with efficiencies and to standardize approaches, particularly for larger brokers like us. How else will you be able to understand what business you are writing and with whom? Management needs the tools to run the business effectively in the future, while making it easier for staff to do business and keep in touch with customers."

Customer-facing systems or client-management systems were identified as key, particularly by fleet operators. Martin Brown said: "We have made significant investment in an online client-management system – 'e-fleet' – which has transformed how we interact with our client base. This has allowed us to work with corporate clients that would have been unthinkable five years ago."

Graham Prince reported: "We are in a position to develop customer-facing systems far easier than the finance companies can. We are in the process of developing a fleet management solution for small businesses that allows them to view their total fleet regardless of the number of funders they have used. Obviously, no finance company will want to produce that type of system, so it will be unique."

For Martin Brown, the answer lies in "more affordable telematics solutions provided by the main leasing providers which will give them greater control of their assets, improved reporting for clients and which, all in all, makes fleet management a lot simpler."

"Funders are investing in technology to move towards a paperless society. I see brokers doing exactly the same, perhaps based on a remote iPad system."

STEWART SHIRTLIFF

Improving internal workflow and process was another focus. Mike Lloyd identified "Increased adoption of streamlined workflow-management tools", while Mark Henry said: "Better CRM systems, system-to-system links between brokers' own systems and funders are probably the most obvious technology investments. It's an area where we are constantly investing." Graham Hill noted: "There are a few brokers who are investing in pre-approval software that assesses an applicant for credit without a search footprint being left and allowing the broker to manage expectations."

Funder investment

Funders are also driving technology investment. In the opinion of Stewart Shirtliff, "Funders are investing in technology to move towards a paperless society. I see brokers doing exactly the same, perhaps based on a remote iPad system." David Mogg said: "Larger investments in systems and technology are probably more likely to apply to bigger brokers or be driven by funders or other providers in the market", while Ray Wells noted: "Most of the main funders are progressing well with their own broker / IT technology." Meanwhile, Mike Deacon foresees structural and technological convergence between brokers and funders: "Some brokers will amalgamate and become 'super-brokers' and invest in front-end sales technologies which will over time, increasingly integrate with lessors."

Social media

The use of social media is also on the rise. Mike Lloyd was among those who said that they would be making "greater use of social media." Graham Hill noted: "I see a greater move towards social networking as brokers understand the importance of Twitter, LinkedIn and Facebook." Martin Brown reported: "In 2013 we hope to have an app which will add even greater depth to our customer service," while Steve Green said: "E-signatures (payment on receipt of electronic documentation) will be our next project, combined with the launch of our new app."

Future trends

Our brokers held strong views on the developments necessary to enhance the leasing business. Mark Henry would like to see "more innovation around how funding capacity is made available. We regularly hear of pockets of liquidity in the wider financial markets; however, the sources are either hard to access or the mechanisms on offer to gain access are too inflexible for that capacity to be deployed effectively. Obviously an appropriate risk/return profile needs to be present but there also needs to be a little more collective 'outside of the box' thinking if the industry as a whole is to benefit." Mike Deacon said: "Get the underwriters trained in sales to make them understand how deals are structured and work 'in real time'." Steve Green is looking for "more innovative products around managed service agreements and energy performance contracts", while Anthony Sawyer would value "a system which will allow brokers to instantly analyse the validity of a funding requirement going ahead before all the hard work takes place."

The fleet operators had strong feelings concerning the role of the motor manufacturers in particular. Mike Lloyd listed what he is looking for: "Joined-up communication from the motor manufacturers rather than individual departments fighting each other. A better understanding of our channel by the motor manufacturers. A wider understanding among the general public of the benefits arising from dealing with accredited suppliers."

Graham Prince also felt that motor manufacturers could be more supportive: "Recognition from the manufacturers of our worth and standing in the marketplace and for them only to trade with BVRLA brokers going forward, rather than allowing their dealers to use unregulated brokers who do not adhere to a Code of Conduct as they do at present."

Graham Hill thought that more effort needs to be placed on educating clients regarding finance options, particularly for new car sales. "Put finance first. The Americans do it all so much better than us and write more business as a result. We need accurate pre-approval and greater understanding of the various options available to businesses and consumers. The most undersold product is contract hire; if it was better understood by businesses and consumers, the sale of new cars would vastly increase across all manufacturers."

Insurance is another product which is undersold, in the opinion of Paul Huxford: "I believe that one of the major leasing companies should incorporate vehicle insurance as part of their package, which works successfully on mainland Europe. This would, hopefully, start a trend. I have worked with this in both Germany and Holland."

"I believe that one of the major leasing companies should incorporate vehicle insurance as part of their package, which works successfully on mainland Europe"

PAUL HUXFORD

KEY ISSUES – THE FUNDERS' PERSPECTIVE

Introduction

It is crucial that brokers have funding sources to place their business with, and, prior to the recession, the primary sources of such funding – the banks – were increasingly reliant on brokers for new business leads as they cut down on their employed sales forces.

However, there has been an evident tendency since the recession started to bite for banks to retrench and pull back from non-core activities, partly in order to build up their own capital reserves. This has led to a scarcity of funding sources for brokers' new business. Moreover, the fact remains that the banks may look to reduce their involvement further if the financial difficulties continue, particularly in the eurozone.

Following the withdrawal of ING Lease (UK) from the market with effect from end-November 2012, the main asset finance lenders that rely on broker-sourced business include Aldermore Asset Finance, Arkle Finance, Close Asset Finance, D&D Leasing, Investec Asset Finance, Private & Commercial Finance, Syscap, Ultimate Finance and a few others. Aldermore is a new entrant to the banking system, a noteworthy achievement in itself.

Specialist vehicle finance lenders with broker networks include Arval (owned by French bank group BNP Paribas), Lex Autolease (owned by Lloyds Banking Group) and Network (part of LeasePlan UK).

A new area is peer-to-peer lending, a niche sector but with significant potential, which has two prime players: borro and online marketplace Funding Circle.

This section looks at the current brokers' and lessors' market from the viewpoint of the funders, taking in the recent market changes, the value of broker sales and assessing the ways the relationship can best evolve as the UK moves out of recession.

There is much here that is in general agreement with the views of brokers expressed in the previous section, although naturally there are areas in which the funders see room for improvement from the brokers.

The broker advantage

"The principle reasons for sourcing business from brokers rather than using your own sales force are the '3 Cs' – cost, coverage and compression."

GEORGE ASHWORTH

The funders interviewed by Asset Finance International for this Review have all continued their links with brokers, and although the market has obviously undergone severe challenges over recent years, these institutions remain positive in their attitude towards the funder/broker relationship.

However, given the changes brought on by the recession, an initial point to clarify is the lenders' views on what are the core merits of sourcing business from brokers rather than using their own sales force. There was consensus over this, the main factors being efficiency and scale, summed up by Stephen Bassett of Arkle Finance, who said that sourcing from brokers provides: "Cost efficiencies for the funder, and provides the funder with access to niches and expertise they might otherwise not uncover."

George Ashworth of Aldermore Asset Finance, said: "The principle reasons for sourcing business from brokers rather than using your own sales force are the '3 Cs' – cost, coverage and compression. Cost, in the form of being able to turn what are essentially fixed overhead costs into variable costs. Coverage in the form of being able to leverage a third party's distribution and relationship base. Compression in time scales, in that using brokers allows one to enter and potentially gain market traction quickly."

The broker model is viewed as not only a very cost-efficient route to market, but one that also provides a much greater reach to SME businesses across the UK. Regionally located brokers can provide niche expertise on how asset finance can help individual businesses to finance equipment and through regular, detailed communication to its broker network on any changes or enhancements to its products and services, the funder can ensure that its product offering is quickly disseminated into the market.

These points were backed by Robert Murray of Private & Commercial Finance Group (PCFG), who said that brokers: "Provide far wider and better coverage in terms of geographical presence, industry sector and asset class."

Positive effects


Bill Dost

The positive contribution of brokers in terms of customer knowledge was made by Bill Dost of D&D Leasing UK: "Introducers are on the front line with customers, they know customers closer and better than a funder possibly can, because of the nature of their relationship with an individual customer. Good introducers will know the exact credit box you purchase within and they will also assist you on arrears, recovery and repossession where needed."

This also applies in the motor finance sector, for which Ty Smith of Arval said: "Our broker partnerships provide scale in efficiently and effectively accessing the SME market where the numerous opportunities are unlikely to be fully addressed by a direct sales approach alone."

"Brokers offer a vital link to growing businesses looking for finance by providing direct access to an experienced and large sales team. They help provide immediate access to businesses that we might not have reached directly"
LAURA MCMULLEN

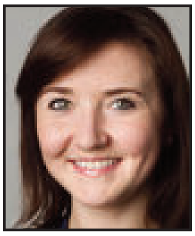
And more specifically, for Close Leasing, Paul Bartley added: "It provides for a more efficient use of sales people's time as they can concentrate on live deals rather than having to make many speculative sales calls."

From the perspective of Funding Circle, the recent arrival in the specialist peer-to-peer lending market, Laura McMullen commented: "For us, brokers offer a vital link to growing businesses looking for finance by providing direct access to an experienced and large sales team. They help provide immediate access to businesses that we might not have reached directly or who might not have heard about Funding Circle. We find that brokers not only introduce us to potential businesses but also ensure the application process runs smoothly. Furthermore, business applications through brokers are often of a higher quality, and consequently have a higher approval rate than direct applications."

A further advantage was given by Stephen Bassett: "Brokers can generally provide end users with better customer service and look after their various needs from most appropriate sources."

Finally, Robert Murray pointed out the added value of broker-sourced business in that the funders "Only pay commissions to brokers on completed transactions, so the sales costs are variable to volume and not fixed irrespective of volume."

Broker qualities


Laura McMullen

The funder/broker partnership must of course run smoothly. In the past there were occasions when business proposed to lenders through certain brokers was found to be for dubious end users. The chances of any suspect deals being proposed have been reduced by the strict application of Codes of Practice by the relevant associations such as the NACFB and the BVRLA. Nevertheless, what are the principal qualities that funders look for in a broker?

Once again, the funders were unanimous in their central requirements, succinctly articulated by George Ashworth: "Honesty, integrity, attention to detail and professionalism." This means "a willingness to operate within both our own code of conduct, and all prevailing regulations," according to Stephen Bassett.

"Brokers must also confirm if they are simply bidding or are mandated, so as not to waste funders' time approving deals that might never happen."

PAUL BARTLEY

Other qualities alongside these include, in the view of Robert Murray: "Industry knowledge and experience and understanding of the lending parameters of any given lessor," to which he added the need for a broker to be able to supply a "reasonable flow of good quality business."

In addition to the commonly-stated need for a proven track record and understanding of the funder's operational markets and types of deals, Paul Bartley outlined a more specific requirement: "An ability to put forward a well-presented proposal with accurate and up-to-date supporting information on which we can make a decision to take forward or not, as opposed to just firing us a summary and some accounts," to which he added: "They must also confirm if they are simply bidding or are mandated, so as not to waste funders' time approving deals that might never happen."

“We look for professionalism, industry expertise, a focus on quality customer service and future business potential. We also expect a genuine partnership approach and a sharing of values.”

TY SMITH

These previous points were backed by Bill Dost, who listed: “High ethical standards; the ability to propose business that fits in our box; a complete understanding of the deal and being able to explain this to us; respected in the marketplace (we look for references); ideally a member of the NACFB; prior positive experience with one of our staff.”

There was agreement from all the funders that brokers need to be proactive and demonstrate a clear understanding of, and affinity with, the lenders’ market. The point was made by Laura McMullen thus: “Primarily, we are looking for an understanding of, and enthusiasm for, the Funding Circle proposition, as well as a willingness to work proactively to introduce potential borrowers to us. Our most successful brokers are those with businesses that meet our lending criteria.”

Creditworthiness is perhaps an obvious quality that lenders would need to take into account, but merits mention. McMullen made the point that a broker would need to be “a stable and creditworthy limited company or limited liability partnership with at least two years of trading history.”

Ty Smith summed up: “We look for professionalism, industry expertise, a focus on quality customer service and future business potential. We also expect a genuine partnership approach and a sharing of values.”

Broker selection

Robert Murray

Regarding due diligence for prospective brokers prior to enrolling them, the interviewees for this Review were generally agreed that although the process may not have been altered much materially since the recession, there is an increased emphasis on regulatory and compliance issues. As to the main due diligence practices, references and inside knowledge are important, as well as the obvious credit checks.

Paul Bartley said the policy at Close Leasing is: “We generally first look to a reference from a credible source like another funder or someone we know. We then carry out a series of credit searches and require them to supply both data protection and Consumer Credit Act information/licences.”

Visits to prospective brokers form an integral part of the due diligence process for many funders. Ty Smith of Arval stressed: “We employ a ‘Know Your Customer’ approach which includes Arval making site visits, credit checks and reviewing references. We also ensure they have a valid Consumer Credit Licence and Data Protection Accreditation. In addition, we have an Agency Agreement in place with all of our brokers.”

Stephen Bassett of Arkle Finance agreed with the importance of a satisfactory peer reference and added the not-unreasonable requirement that the proposed broker source has to be solvent and preferably a member of a relevant trade body. He continued: “They are then subject to ongoing monitoring, particularly with reference to ‘treating customers fairly’; ensuring we get to know our prospective customers properly; and our responsible lending criteria.”

PCFG’s Robert Murray provided a succinct summary of due diligence requirements: “Financial information; track record / history / experience / CV; referral / recommendations; visit.”

D&D Leasing opened for business in the UK in 2008, and for Bill Dost: “We have always done the same checks on a broker, a supplier and a customer. We ensure we know who we are dealing with. Furthermore, we always meet the brokers we deal with. All our introducers sign trading agreements, which since we started our operations during the recession hasn’t changed.”

“We have always done the same checks on a broker, a supplier and a customer. We ensure we know who we are dealing with. Furthermore, we always meet the brokers we deal with.”

BILL DOST

For the other recent market entrants such as Aldermore and Funding Circle, the process follows a similar pattern as given above, with comprehensiveness and rigour emphasised.

As mentioned, although the material nature of broker trading agreements and the processes leading up to them have not been changed much by the recession, it is recognised that there is now greater emphasis on disclosure and regulatory compliance. This has led to regular reassessment and updating being conducted to ensure conformity with legislation and regulations impacting the asset finance market. The current form of trading agreement, as George Ashworth of Aldermore pointed out, "was developed during the liquidity crisis/recession; therefore it reflects the new normality that people operate within."

Ty Smith summed up: "The recession has changed the dynamic of the partnership for the benefit of both parties, with a focus on quality."

How brokers can ease the pressure on lenders

In the current economic and business climate there is an increasing amount of regulatory and legal pressure impacting on lenders. With these constraints, the question for the funders is in which areas can brokers assist by improving their efficiency?

Funder reactions to this varied from the specific, i.e. regulatory related pressure on lenders, to more broad opinions on where brokers can improve efficiency. Paul Bartley referred to the specific and did not see a distinction between broker-sourced business and business from other sources: "I do not feel use of brokers can directly impact on the effects of regulatory and legal issues."

"Brokers should have honesty, trustworthiness, and a willingness to operate within both our own code of conduct, and all prevailing regulations"

STEPHEN BASSETT

Stephen Bassett referred back to his list of qualities required in a broker – "Honesty, trustworthiness, and a willingness to operate within both our own code of conduct, and all prevailing regulations" – and added that the best way that brokers can improve is "by getting better at all of the above."

Ty Smith again stressed the importance of quality: "The emphasis should be on quality. Efficiencies stem from the broker having well-trained employees and a business model that delivers value to their customers and Arval."

Another issue is the need for brokers to provide value to both end user and funder, in which knowing and understating their customer is necessary to ensure that compliance and regulatory rules are met. Funders pointed out that relationships with brokers are put under undue stress when deals that clearly don't fit are portrayed as a good opportunity.

This point was stressed by Bill Dost: "The greatest thing an introducer can do is to fully understand the transaction and give the funders a complete understanding of the customer and their needs. Further to this, if deals are being split, funders should know this at the start."

For Laura McMullen at Funding Circle, the position regarding areas for improvement has yet really to arise, but the need for two-way communication is recognised: "Working with brokers allows us greater reach in a cost-effective way and helps us to filter through enquiries. We welcome and encourage feedback from our intermediary community to improve the efficiency of the funding process from both parties."

Finally, George Ashworth was forthright, providing the following suggestions for brokers:

- "don't multi prop deals. Funders do not want to waste time and money looking at proposals that will never turn into deals;
- deliver what you say you will deliver in terms of volumes/margins;
- transparency – disclose third party finance commissions in full;
- rather than income upfront (with debit backs), look to build an annuity income stream and take commission income over the life of the underlying transaction; and
- simplify the process – do away with such things as debit backs and volume bonuses."

Where do brokers add value to the broker/funder relationship?

Ty Smith

Following on from looking at where brokers can improve efficiency comes the broader view of where funders see the most value added by brokers to their relationship. The funders gave a variety of responses on this topic, from the very positive to the rather less so.

One point that was stressed by several was the importance of the position of the broker as intermediary to ensure a mutually rewarding connection between lender and customer. Basically, brokers are the front line, and through their direct relationship with the customer they can help ensure that any potential fraud is avoided by the right checks being put in place and solid communication taking place between the broker and funder.

This view was articulated by Ty Smith: "Brokers offer a dynamic route in to a fast-paced area of the funding marketplace. They bring expertise and innovation to their overall approach. The key to brokers adding value to the partnership is determined by the quality of the business they introduce and employing a collaborative approach in how they introduce it."

Paul Bartley simply commented that added value comes from the same previously mentioned qualities looked for in a broker partner, including a proven track record and specialism in the funder's markets, a clear understanding of the types of deals the funder wants, and the ability to provide an actionable proposal.

"Brokers add value by submitting well-presented and comprehensive proposals to funders so that an informed decision can be made quickly. Merely effecting the introduction of a customer to a funder does not add value."

ROBERT MURRAY

This was taken up and expanded on by Robert Murray, who said: "Brokers add value by submitting well-presented and comprehensive proposals to funders so that an informed decision can be made quickly. Merely effecting the introduction of a customer to a funder does not add value. Brokers can also make a difference and add value by actively assisting funders in times of difficulty for the customer."

Another funder who emphasised the importance of putting forward a comprehensive proposition was Bill Dost, who said that brokers could best add value "by proposing a full deal, with a full explanation at the time of credit proposal, and by sending in a complete deal when it's time to fund. One of the most difficult items for a funder to explain is the need to have a complete transaction delivered at one time. When a deal arrives in pieces it slows the process down for everyone as it forces the funder to touch the deal more times than is necessary."

Another angle to the broker/funder partnership is that brokers should maintain a reasonable panel and regularly review it. Stephen Bassett demonstrated that funders also have an understanding of the difficulties faced by brokers. He made the point that, with regard to the value added by brokers, "In our opinion, they already do, very much so," but continued: "However, funders can come and go over time, and this means that brokers should not always go down the line of least resistance. In the long term, doing so can leave their own business unnecessarily exposed to shifts in the market, by them having too many eggs in too few baskets. This was precisely the case in the very recent past, and nearly all brokers suffered greatly for a time; some did not survive. So, some of the less aware brokers probably still need to learn that key lesson."

"Funders can come and go over time, and this means that brokers should not always go down the line of least resistance. In the long term, doing so can leave their own business unnecessarily exposed to shifts in the market, by them having too many eggs in too few baskets."

STEPHEN BASSETT

The degree to which brokers add value is perhaps harder to gauge for the newer entrants to the market. For Aldermore, George Ashworth responded: "In our estimation only 20% of brokers add real value."

However, giving Funding Circle's perspective, Laura McMullen was more positive: "For us, the broker market is an important resource of industry knowledge and a vital link to the business community with which we engage. Brokers provide an effective, professional and knowledgeable resource that helps us to project our message of fast and flexible commercial funding to growing businesses."

Prospects for development in the broker/funder relationship

The final subject for examination is how brokers and funders might work more closely together, and more beneficially, in the future. There were again a variety of views expressed on the potential evolution of broker/funder partnerships in a post-recessionary era. The opinions were positive overall, but with some concerns shown in areas such as transparency regarding income and commission.

The timing of an actual climb out of recession into a period of any form of sustained growth is a moot point, however. This implies that major changes are unlikely in the short to medium term, although that does not rule out gradual evolution. As Arkle Finance's Stephen Bassett said: "We are not expecting particularly rapid structural changes in our sector of the market, but change will surely come."

"I see key relationships forming between funders and their best-performing brokers (in terms of volume and quality)."

ROBERT MURRAY

A general view of the prospect of selective closer relationships between brokers and funders was given by Robert Murray of PCFG: "I see key relationships forming between funders and their best-performing brokers (in terms of volume and quality)."

For Bill Dost of D&D Leasing, the best move is for the relationship simply to get tighter: "I believe the best thing that can happen is for brokers and funders to work closely together. We all rise or fall together." And again there was an emphasis on the necessary qualities of transparency and honesty in the partnership: "Transparency and honesty are hallmarks of the relationship."

From the point of view of the motor sector, Ty Smith of Arval broadly agreed, saying: "I would expect the partnership to grow stronger with both parties exploring new ways to add value to each other's business through refining the proposition and targeting more efficient operating models."

Paul Bartley of Close Leasing stressed the importance for brokers to develop their client relationships, which will in turn benefit the broker/funder partnership: "Brokers need to become closer to their clients with a full understanding of their business, rationale for investment and financial information so as to properly communicate this to the funder."

The need for confidence in the partnership grown through increased market understanding and cooperation was made by more than one interviewee. Several stressed the need for trust between brokers and funders, and that the ability to provide good quality business on a regular basis, with the underlying trust that the broker has carried out the necessary steps to ensure that regulatory and business requirements are met, is vital. Added to this is the possibility of expansion for some brokers, whereby the broker market may evolve with more partnerships and potential 'super-brokers' acquiring orphaned businesses, although again it was stressed that the relationship between the broker and funder needs to continue focusing on the trust factor, clear evidence of exemplary working practices and efficient two-way communication.

Broker evolution

"Brokers need to become closer to their clients with a full understanding of their business, rationale for investment and financial information so as to properly communicate this to the funder."

PAUL BARTLEY

Paul Bartley was one who raised the idea of super-brokers evolving, but through a different means of growth: "They can also develop as super-brokers by taking on ex-finance company sales staff that would perhaps be unable to secure arrangements with major funders in isolation."

This evolution of the brokers themselves was commented on by others. Stephen Bassett referred to the development of 'own-book brokers': "Provided that brokers do not seek too much commission overall, they will remain more efficient for funders than operating with their own sales forces. However, many larger brokers are creating significant lending portfolios of their own, and some of these will themselves become part of the next generation of funders. The hybrid broker/funder or funder/broker is already becoming a commonly occurring model. Purist funders need to watch that they do not simply get left with the scraps as their emerging new competitors own funding constraints fall away, they may eventually be forced to originate business from elsewhere."

As a new entrant to the market, Funding Circle's Laura McMullen remains confident in the continuing strong relationship between broker and funder: "We believe that, as traditional bank finance continues to be limited for businesses, the role of the intermediary will continue to play a vital role to companies such as ours."

And of course there is awareness among traditional funders of the potential for the expansion of internet-based origination. One view is that this will remain a limited option for the time being, as only relatively simple instruments can operate via this method at present, due to the complexities of customer funding requirements and the variety of solutions for these.

The arrival of these new business models may well lead to competition intensifying, given the continuing constraints on funding availability. This situation may not be eased by tighter regulation, as pointed out by Stephen Bassett: "With the advent of the FCA [Financial Conduct Authority] and its likely stricter licensing and increased policing powers, it is entirely possible that brokers will find themselves operating under increasing burdens in this regard, whether directly from such authorities, or indirectly via their funders." However, as Bassett concludes: "This is not necessarily a bad thing from the perspective of an open and honest market."

Peer-to-peer lending – a new direction in funding

There is constant pressure on businesses, and in particular SMEs, to seek new ways of escaping from the credit crunch. Small businesses have limited finance options, with traditional banks continuing to show little enthusiasm to lend, and SMEs lack the access to bond markets available to larger companies. Recently, however, there has been a significant development in the form of peer-to-peer lending to SMEs.

Two companies that have been established since the onset of the financial crisis to provide ways for individuals to invest directly into SMEs are borro and Funding Circle. Borro was set up in 2008 and Funding Circle in 2010, both companies founded by entrepreneurs backed by a series of equity and debt providers. And as their businesses have expanded, both have introduced broker-based operations that are proving successful. In fact, both firms are now patrons of the NACFB.

Personal asset lending

A structural change that has occurred in the small business asset funding market is the evolution of personal asset lenders – companies specializing in the provision of short-term lending to individuals and small businesses – of which borro is a prime example. Although originally founded as a business-to-consumer lender, demand from small businesses has grown to the extent that some 20% of borro's current loans are provided for SMEs.

The company specializes in short-term loans (average five months' duration) of up to £1m and secured against assets such as jewellery, luxury watches, fine art, antiques, prestige cars and other high-value assets including gold and boats. A valuation team assesses the value of the asset offered as security and can give "an approval in principle within minutes and cash within 24 hours".

"With 2012 perceived as being one of the toughest years yet to either launch a small business or keep one afloat, SME owners increasingly have to look at alternative ways to secure the finance they need."

PAUL AITKEN

Paul Aitken, borro's founder, said: "With 2012 perceived as being one of the toughest years yet to either launch a small business or keep one afloat, SME owners increasingly have to look at alternative ways to secure the finance they need. Small businesses are at the heart of the UK economy and need to be provided with quick, secure lending facilities. At borro it comes as little surprise that small business owners represent 60% of the growing client base."

Matching investors with businesses

Funding Circle is an online lending platform which matches private investors with businesses looking for funding, offering loans over terms of one, three and five years. This business proposition has been extended to the broker market (see the earlier references in this section) and, as Laura McMullen stressed: "As traditional bank finance continues to be limited for businesses, the intermediary will continue to play a vital role."

McMullen added: "Traditionally, there has always been a strong bilateral relationship between broker and lender." Funding Circle says it consulted brokers extensively to help shape the launch of its new asset finance and secured loan products in early 2012, and is now in a position to broaden its products again following feedback from the broker community. It now offers loans above £250,000 and will begin lending to sole traders and partnerships later in the year.

REGULATORY ISSUES

By Andy Thompson, legal & regulatory editor, Asset Finance International

Brokers face a number of regulatory challenges in the period ahead. To some extent, different types of lease brokerage will be affected in different ways.

From the standpoint of regulatory impact, it is perhaps possible to identify three broad categories of business model which together cover most types of brokerage in the leasing market, but which will be affected in different ways by regulatory changes:

- pure intermediaries between lessee and lessor, generally remunerated by commissions from lessors;
- 'undisclosed agency' brokers, who document lease contracts in their own names and maintain a profile with the lessee as if they were in fact lessors, but who assign all the leases at inception to a variety of unconnected leasing companies;
- 'broker/lessors', who act largely on the undisclosed agency model but also retain some leases on their own books.

Also very much within the definition of brokers for the purposes of the Consumer Credit Act (CCA) 1974, although not within the normal commercial concept of brokerage, are the equipment vendors in point-of-sale finance facilities.

The essential focus of these notes is on 'true brokers' in the commercial sense and not on vendors. However, in reviewing such regulatory instruments as the brokerage guidance from the Office of Fair Trading (OFT) as described below, the fact that vendors are within the statutory definition of brokers is often significant. It is necessary to assess which of the provisions addressed to brokers are in fact principally relevant to vendors, and which ones apply to true brokers, or perhaps to both types of party.

The scope of regulated agreements

The lease contracts subject to the most detailed regulation are those classified as regulated agreements under the CCA. The Act is principally intended to protect 'true consumers', i.e. those customers taking credit for private non-business purposes, through business-to-consumer (B2C) contracts. Yet most (though not all) of its provisions also cover a relatively small sector of business-to-business (B2B) contracts.

The regulated B2B (RB2B) agreements are those where:

- the customer is either a sole trader or a small partnership (with up to three partners) rather than a company or any other kind of corporate body; and
- the value of the contract (which means the total of rentals in the case of a lease, but the value of the credit in the case of hire purchase or unsecured lending) is below £25,000.

The scope of RB2B leases, viewed against the overall lease market or the sectors where brokerage is prevalent, is small and probably becoming smaller. Changes in UK direct taxation – specifically the large gap which has opened up between the 'small companies' rate of corporation tax and the top rate of income tax which is applicable to unincorporated traders – have been such that few businesses of any size will now choose to trade on an unincorporated basis.

Nevertheless there is a material remaining sector of RB2B contracts, where customers may comprise one of the following:

- firms for which professional rules prohibit or restrict incorporation;
- 'micro-businesses' whose current level of earnings is below the point where the tax advantages of incorporation become critical; and
- a small but possibly growing number of operations where tax planning considerations may actually favour unincorporated trading, because of the possibility of generating periodic tax losses that could relieve personal taxation of income from other sources.

As with principal lessors, brokers will require consumer credit licences (CCLs) if they are undertaking any RB2B business, however small a proportion of the total. There will be some brokers, for example those operating only in the market for public sector lessees, which could safely operate unlicensed without restricting their business opportunities or facing a serious compliance issue in the event that one or more brokered agreement could turn out to have been a regulated contract.

In most market sectors, however, operating without a CCL will not be feasible. Moreover, compliance issues for a licence holder may be perceived by the enforcement authorities even in relation to practices of a licensed broker which were in fact confined to unregulated business.

Leasing malpractices

For any regulated parties in the leasing industry, the current outlook needs to be viewed in the light of some recent malpractices by vendors in the point-of-sale small ticket leasing market. These areas of business, which have been highlighted in recent BBC radio and TV broadcasts, are, if any, the ones that could have regulatory consequences for lessors and/or brokers.

The common features of these malpractices are as follows:

- all involved apparent serious fraud on the part of equipment vendors;
- with a few exceptions, the leases passed through third party brokers unconnected with the vendors, and the vendors did not have trading agreements with the lessors;
- the misrepresentations involved promises, wholly or largely unfulfilled, of benefits to lessees outside the lease terms. These benefits comprised either supplies of services connected with use of the leased equipment, 'upgrade' settlements of pre-existing leases or promises by the equipment supplier to cover or subsidise the rentals;
- the purported benefits available with the new lease were not documented on the lease contracts, but promised in 'side letters' and/or orally by the vendors. They were not known to the lessors, nor necessarily to the brokers;
- the amounts invoiced to, and settled by, the lessors for the sale of the new equipment on lease far exceeded the value of that equipment;
- many of the lessees will have been aware that their contracted lease rentals were disproportionate to the value of the equipment supplied on the new leases, but will have been led to believe that the promised 'benefits' are in effect rolled up in the cost of the lease;
- the vendors became insolvent and ceased trading by the time that the extent of the malpractice came to light, its sales personnel having first taken out the proceeds of the fraud by way of sales commissions or otherwise. Hence there is in practical terms no legal redress for lessees or lessees against the vendor companies.

The great majority of these contracts have been unregulated for CCA purposes. The bulk of the customers have been either SME companies, schools or in some cases charities.

OFT broker guidance

A specific set of regulatory guidelines for brokers was issued by the OFT in November 2011 ('Credit Brokers and Intermediaries: OFT Guidance').

From the general tone and emphasis of the guidance two general inferences can be drawn, representing respectively good and bad news from the standpoint of lease brokers:

- it is clear that brokers and vendors in certain B2C rather than B2B sectors – such as sub-prime mortgage brokers, motor dealers, debt management companies involved in arranging consolidation loans, and price comparison websites – are at the forefront of the OFT's regulatory focus;
- at the same time, however, the guidance does stress that RB2B agreements are potentially within its scope.

Within a general summary on compliance issues in paragraph 8.2, there is a statement which (though possibly open to other interpretations) could be seen as implying that brokers should go some way towards applying the same principles in relation to unregulated B2B (UB2B) agreements. This states: "To the extent that it is appropriate to do so, we will expect brokers and intermediaries to have regard to both the letter and the spirit of this guidance."

Undisclosed agency

In paragraph 3.7 (e), within a "non-exhaustive list" of "unfair or improper business practices" to which the OFT will have regard for the purposes of the fitness test in licensing, there is specified the following:

- "stating or implying that a broker itself provides credit while credit is in fact provided by a third party creditor; and/or
- failing to make clear to the borrower that the broker is a broker and not a creditor."

This part of the guidance is applicable to both credit and hire agreements in the regulated sector, so that a lessee would be within the scope of 'borrower'. At first sight, this would appear to impugn the whole business model of undisclosed agency as used by some brokers and broker/lessors.

Although this model has been a feature within many recent leasing malpractices, it undoubtedly has a much wider and more long-standing provenance in business of the highest standards of integrity – both in the brokerage sector as understood in the commercial sense, and among vendors in point-of-sale leasing.

Also pertinent in this respect is paragraph 8.4 of the guidance, under the heading 'Regulatory compliance and enforcement', where it is stated that "If we form the view that the licensee's business model is, or is likely to be … a cause of significant … consumer detriment, we are likely to consider the business unfit to hold a consumer credit licence."

On the other hand, lease brokers can take some comfort from the fact that the sole instance of consumer detriment attributable to undisclosed agency cited in the OFT guidance appears to concern a data protection issue relevant to B2C contracts. It states that where there is failure to clarify the fact that broker and creditor identities are separate, “consequently the borrower's details will be passed on to a third party to consider his application for credit”.

This implies very strongly that RB2B contracts are at least not in the front line of the OFT's concerns with undisclosed agency. Had they been considering B2B contracts in this context, they might have cited a wider range of possible detriments to the customer.

For in the B2B case, a line of legal precedents (from the case of Branwhite v Worcester Works Finance Ltd, decided by the Court of Appeal in 1969, to that of Lease Management Services v Purnell Secretarial Services in the same court in 1994) leaves room for doubt in some such cases as to whether a customer would have redress against the finance company for a material misrepresentation (fraudulent or otherwise) on the part of the intermediary. In such a case the customer's position would seem to be stronger where it is a point-of-sale vendor trading through undisclosed agency (as in the Purnell case) than where a true broker is doing so.

In B2C contracts by contrast, Section 75 of the Consumer Credit Act 1974 (which applies only to true consumers and not to RB2B contracts) creates “joint and several liability” as between the financier and the intermediary. To this extent it sets aside the Branwhite precedent.

So the lack of any reference in the OFT's guidance to the questions of doubts about the legal agency principle, and the consequences of this for the customer, suggests that it had B2C rather than RB2B contracts in mind with its comments on undisclosed agency. Those comments should nevertheless be of some concern to those lease brokers using undisclosed agency.

Disclosure of commissions

One of the most specific rules introduced by the OFT broker guidance is a conditional rule requiring disclosure to customers of commissions receivable by the broker from the financier. This is done through paragraph 3.7 (i), bringing the relevant type of non-disclosure within the “shopping list” of “unfair or improper business practices”.

However, the stated conditions for triggering this rule are probably such that relatively few lease brokers would in practice be affected. Nevertheless due to the variety of potential trading arrangements in the brokerage market, in respect of both commission and other relevant aspects, it is perhaps difficult to make unqualified judgements on this point across the board.

The rule requires disclosure where:

- “ … commission could act as an undue incentive for … a broker … to recommend a particular credit product (as opposed to an alternative, from the borrower's perspective, from a product range available to the broker) to [the customer] …; and/or
- where knowledge of the … commission could … have a material impact on the potential borrower's borrowing decision.”

A typical lease broker may not be brokering a wide range of credit products. Commission rates will nevertheless vary from one lessor to another.

There will certainly be an incentive for brokers to place customers with lessors that offer the best commission terms, and these will not always be those quoting the best lease terms for the customer. However, that fact alone does not necessarily trigger the disclosure rule as drafted.

It is perhaps debatable whether a range of sources for a generally standardised type of lease offering sought by the lessee amounts to a “product range” within the meaning of the OFT rule.

Moreover, even where commission terms give an incentive for a broker to place a deal with a lessor that does not offer the best lease rate, it does not follow that “knowledge of the commission” would affect the customer's decision. For alternative lessors might not necessarily be accepting business through direct channels. Nor in any event would disclosure of a commission relevant to a quotation offered to the lessee always reveal whether more competitive quotations would have been available from lessors offering less favourable commission.

The responses of finance brokers to the commission disclosure rule are likely to differ from one financial services sector to another, due to variable market features affecting the possible triggering of such a conditional rule. In some sectors it is likely that customers will come to expect disclosure of commissions, while in others they will not. Lease brokerage would not seem to be a sector where the rule would most obviously be triggered.

A change of regulator

Under the Financial Services Bill currently before Parliament, it is planned that the OFT's licensing powers and regulatory oversight under the CCA will pass to the Financial Conduct Authority (FCA), which on January 1 2013 will become the successor body to the Financial Services Authority (FSA).

The FSA is already the regulator and licensing authority for all other regulated financial services areas, under the Financial Services and Markets Act (FSMA) 2000. However, the transfer of powers to the FCA will not take place in January next year, and probably not until at least several months later.

The transfer will be effected by secondary legislation through powers to be conferred by enactment of the current Bill. It is not proposed to be done before the outcome of current reviews of other OFT powers; and it is even possible that the government could eventually change its plans and not proceed with the transfer.

Assuming that the transfer does go ahead, the implications could be far-reaching. Firstly the FCA, like the FSA currently under powers conferred by FSMA, will be a rule maker, whereas the OFT is merely an enforcer of powers conferred by statute. The FCA would obtain power, which the OFT currently lacks, to outlaw commercial practices which it found objectionable by a speedy executive rule-making process.

Second, the FCA would enjoy more extensive penalty powers for deemed breaches of regulations or licensing conditions compared with those now enjoyed by the OFT – although the latter were extended by the CCA 2006, which introduced civil penalty powers as an alternative to the ‘nuclear option’ of rescinding licences.

When the government first issued consultative proposals on this transfer of powers, it envisaged the possibility of wholesale repeal of the CCAs of 1974 and 2006, and the extensive secondary regulations made under the 1974 Act in areas such as the documentation and marketing of agreements. That would have left the new rule making regulator to start with a clean sheet.

Such a proposal would have facilitated possible deregulation in some specific areas, as well as extensions of regulation elsewhere. However, this radical option is not now proposed. At the beginning of this year, when the current Bill was published, it was announced that all the consumer protection provisions under the CCA will remain in force. It now appears more like a one-way street towards higher levels of regulation, with FCA executive rule-making adding to the existing statutory restrictions rather than ever reducing them.

Many aspects of the transfer nevertheless remain unclear. This includes the question of whether there will be a continuing CCA enforcement role for local authority trading standards departments (or in Northern Ireland a separate government department) – or whether these roles will also be subsumed by the FCA.

In its brokerage guidance the OFT alluded to the possibility of a change of regulator, but suggested that that the substantive terms of the guidance would survive the change. In the introductory section it stated: “We consider that [these] principles will continue to be relevant … notwithstanding possible future changes in the regulatory regime.”

A note on the subject by the law firm SNR Denton earlier this year summed up the outlook by commenting: “The FSA has become, and the FCA will be, a proactive and interventionist regulator while the OFT has applied a lighter reactive approach.”

Lessors and brokers

It is likely that leasing companies will take their own steps to forestall malpractices in the leasing market, and to respond to changes in the regulatory environment, in the period ahead. Brokers in some sectors could be affected by these moves.

The OFT brokerage guidance indicates that principals in the market will to some extent be held accountable for the behaviour of intermediaries. Paragraph 1.24 states: "The OFT considers that creditors should take responsibility for the actions or omissions of brokers or intermediaries acting as their agents and/or business associates …

"[This may apply] if … [the broker or intermediary] has an ongoing relationship with the creditor, or frequently does business with the creditor. This will be a matter of fact and degree.

"... If a creditor … continues to do business with a third party which it suspects, or reasonably ought to suspect, is engaged in behaviour which the OFT is likely to consider to be inconsistent with fitness to hold a licence, its own fitness may be called into question."

The Finance & Leasing Association (FLA) as the trade body for UK lessors is concerned to monitor any issues of good practice raised by the conduct of intermediaries in all sectors of finance business, including leases. Code of Practice rules adopted by the FLA over 10 years ago in respect of brokerage practices in the market for leases to public sector lessees made an important contribution to cleaning up some earlier areas of malpractice.

Currently the FLA is conscious of the need to clean up vendor malpractices in small-ticket leasing transactions – where, as noted above, lease brokers also have a role. None of the recent patterns of fraud could have occurred but for the fact that leasing companies were paying suppliers far more than the true value of the equipment sold on lease.

Between 1994 and 2009 the FLA operated a specific Code of Practice rule at the small-ticket end of the point-of-sale market (for deals worth less than £50,000 per agreement), whereby its member companies were in general required to pay no more than fair value for the equipment. Unfortunately this disappeared as a specific rule when the FLA Business Code was last reviewed, due to a move to a more "principles based" approach in place of detailed rules.

However, the FLA is now focusing on the need for price checks among other safeguards against fraud and malpractice in the point-of-sale market. It has been developing a number of points of best practice, and these will be announced at its Asset Finance Operations Group conference in December this year.

Lease accounting

One important coming regulatory development will affect a completely different aspect of leasing, in the shape of new accounting rules. Those brokers whose business model brings them into a close advisory relationship with lessees will need to keep abreast of these developments.

A new global leasing standard to replace the current international standard IAS 17 has been under consideration for some years by the standard setting bodies, the International Accounting Standards Board (IASB) in conjunction with the US Financial Accounting Standards Board (FASB). Its key feature will be to require capitalisation of presently off-balance-sheet operating leases.

A re-exposure draft of this standard will be issued for public comment early next year. As presently proposed, virtually all equipment leases would be accounted for exactly as are finance leases under current rules. Conceivably the proposals could be changed so that the method of annual expensing for operating leases could remain different from that for finance leases, but the principle of capitalising all leases is almost certain to go ahead in some form.

The precise operative date of the change in accounting rules has yet to be determined. Currently it seems most likely that the change in IAS 17 (mainly affecting listed companies) will become fully operative in January 2017. A corresponding change in the UK lease accounting standard SSAP 21, affecting a much greater number of lessees in the UK, would be certain to follow soon afterwards.

Many public sector lessees such as local authorities and NHS hospital groups are currently keen to obtain operating lease terms, because of the accounting rules and also centrally imposed capital expenditure control regimes aligned to those rules.

Brokers and advisory firms in this sector will be familiar with the current preferences of these lessees. The latter will be looking to these intermediaries to advise them on the coming change. Lessees may well continue to see objective attractions in deals where lessors or suppliers assume residual value risk, but the current 'cliff edge' boundary between finance and operating leases would change.

TECHNOLOGY REVIEW

A new business model for funders and brokers


Richard Carter

Richard Carter is chief executive of Nostrum Group

He told Asset Finance International that several issues resulting from the Review were of great significance for the future of the UK broker sector.

"Firstly," he said, "demand for equipment finance continues to grow steadily and at the same time more brokers are being formed. NACFB figures show that brokers introduced 16% more business to lenders over a 12-month period, reaching a total of £3.4 billion and ever more brokers are specialising in equipment financing.

"At the same time the average deal size has risen to around £64,000, and the average amount of business done by each broker doubled in recent months, to over £2 million."

A central theme in the Review is that funders are becoming more demanding of their broker network and the shift of "power" from broker to funders has continued. Funders are increasingly expecting more from their brokers in terms of information, co-operation and an ever improving ratio of acceptances/declines.

Several brokers feel that their role is changing from being sales- and process-driven to being encouraged to act in a consultative and advisory manner.

"The balance of power has definitely moved from broker to funder," Carter said, "and this has been driven by the increasing demand for asset finance – and the limited supply of funds."

"Increasingly, funders will only deal with brokers whose level of professionalism matches their own. They want a full business case for proposals and this will mean a greater effort on behalf of brokers."

Carter argues that given this increased requirement for credit information and proposal backup by funders, asset finance brokers will need extra information-collection capabilities in-house. These will include greater detailing of previous transactions and more records of credit performance of completed deals.

"Brokers can't afford to get it wrong in the current climate," he stressed. "If funders notice that a particular broker's ratios are out of kilter then they will drop them from their panel."

At the same time, given the limited appetite of funders at the present time, together with ING Lease's departure from the market, Carter believes that more brokers will start writing their own book.

"This is especially likely since the economy is showing signs of improving and demand is likely to continue trending upwards," he added.

Given these changes to the broker sector Carter believes it is incumbent upon small to medium-sized intermediaries to invest in technology in a similar way that so-called "super brokers" have in recent years. "At the same time," he said, "system providers should refine their solutions to fit brokers' cost requirements. These include the need to process balances around the £60,000 level which are low in numbers but high in value."

Carter also stressed the need for funders to meet brokers half-way by "opening up their systems to funders". "If funders want both an increase in quality of proposals and a greater fit of originations to their own requirements, then they should be prepared to share systems with their intermediary sources of new business," he said.

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Alpha Contracts
Alternative Route Finance Ltd
Anthony K Associates Ltd
Applewood Vehicle Finance Ltd
Applied Leasing Ltd
ARI Fleet UK Ltd
AutoEase Vehicle Management Ltd
Autograph Contracts Ltd
Automotive Funding Solutions Ltd
Autoplan Vehicle Contracts
Autorama UK Ltd
B & B Vehicle Contracts Ltd
Balgores Leasing Ltd
Benchmark Leasing Ltd
Bentley Walker Vehicle Solutions
Bestcarfinder
Blue Chilli Car Contracts Ltd
Blueroc Ltd
Bowater Price Ltd
Business Car Contracts
Caledonian Independent Leasing Ltd
Cameron Clarke Leasing Ltd
Castle Vehicle Leasing
CBVC
CCLeasing
Central (UK) Vehicle Leasing Ltd
Central Contracts (SOT) Ltd
Compass Contract Hire Ltd
Concept Vehicle Leasing
Countrywide Vehicle Contracts Ltd
CVM Ltd
CVSL Ltd
Demo Ltd
Direct Cars UK
Driven Leasing LLP
DSG Auto Contracts Ltd
Dynamic Vehicle Solutions Ltd
Eagle Oak Vehicle Contracts
Eiger Vehicle Leasing
First European Finance (Scotland) Ltd
First Vehicle Finance Ltd
First Vehicle Leasing
Fleet Alliance Ltd
Fleet Street Ltd
Fleetdrive Management Ltd
Four Counties Leasing Contract Hire Ltd
Freedom Vehicle Contracts Ltd
Fresh Start Credit Ltd
Frontier Vehicle Leasing Ltd
Fulton Network Ltd
GB Car Loans Ltd
Gateway2Lease
GB Vehicle Contracts
Go For Finance Ltd
Grange Services & Grange Court Leasing
GWA (UK) Ltd
Hawkins Fleet Management Ltd
Hawkriver Leasing
Highland Vehicles Ltd
Holmwood Leasing Ltd
Howlett Leasing
Industrial & Vehicle Leasing Ltd
Insight Vehicle Management Ltd
Jelf Commercial Finance Ltd
Jet Vehicle Finance Ltd
Kingston Vehicle Leasing Ltd
Kudos Vehicle Management
Lease4Less
Leasedirect Finance Ltd
Leaseline
Leaseline Vehicle Management Ltd
Leasing Options Ltd
LMC of Fareham Ltd & Lease National
Logical Vehicle Management
Lookers Leasing direct
Low Cost Vans
Mann Island Finance
Mill House Leasing
Morgan Highfield and Land Ltd
Motoplan Ltd
Multileasing Ltd
MW Vehicle Contracts
Nationwide Vehicle Contracts Ltd
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Vehicles for Business
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West Midland Vehicles Ltd
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Yorkshire Vehicle Finance

Source: BVRLA Member Directory 2013