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THE JOURNAL FOR ASSET FINANCE

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INDEPENDENTS DAY

HOW SMALLER LENDERS ARE FILLING THE GAP LEFT BY RETAIL BANKS

REGION FOCUS

Infrastructure development has contributed to strong growth in the Balkans

FEATURE

Open Banking and its potential application in leasing and asset finance

INSIGHT

Electric vehicles enter the construction, agriculture and mining sectors

THIS MONTH

NEWS

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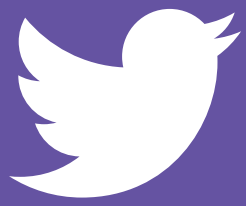

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JULY 2019

FEATURES

PEOPLE

INDUSTRY INSIGHT

REGION FOCUS

LEGAL

NEW ENTRANTS AIM TO MAKE A DIFFERENCE AND DRIVE GROWTH

Brian Cantwell, Editor

The SME lending market has proliferated over the past five years, particularly with independent lenders that have aimed to fill the funding gap left by the larger banks.

Big banks closed many of their branches and turned down smaller-ticket deals because of the associated costs with running them, especially after the financial crisis some 11 years ago. This, in turn, has created a new sector in alternative lending.

This story path is well known, but there are still new entrants that are aiming to make a difference and grow the market at the same time. Recent additions to the market include City of London Group, Wyelands Bank and Hadrian's Wall Capital, to which Chris Marchant spoke for our feature on SME financing.

Brexit has been a challenge for some lenders in that market, although some, like Hitachi Capital Business Finance, have repositioned themselves by maintaining offices in Europe that can manage the changes posed by the UK's departure from the EU.

We also speak to Simply, former Close Brothers Asset Finance chief executive Mike Randall's new lending outfit, about its expansion in Northern Ireland, which I think underpins the necessity for good cross-country coverage and local awareness when dealing with brokers and local businesses.

Additionally, we have heard a lot about electric cars and other vehicles on the UK's roads with regards to emissions. I know the ULEZ policy is causing some headaches in the lending books for motor finance lenders, with regards to residual values and resulting losses, but what could changes to emissions and new engine technology mean for assets in the commercial worlds of farming, construction and plants and heavy industry? We share the same air after all, even if these assets are less visible to the public. Hence insight from Euro Auctions on the effect that the Kyoto Protocol is having on new asset updates across those sectors could mean an advantage for lessors with new business, but a resulting downturn in residual values for older equipment with more polluting engines.

It is likely that the trend for selling assets at the end of their lease to African and other non-EU countries will continue, which may mean the emissions question hangs around a lot longer than 2040 – and certainly longer than legislators would like, given the quality of some assets and the likelihood they could run for decades in less developed economies.

With a country survey on the developing leasing market, July is an issue full of interesting insights. ■

GET IN TOUCH WITH THE EDITOR AT: **BRIAN.CANTWELL@VERDICT.CO.UK**

THE MONTH IN VIEW

White Oak UK acquires Growcap Finance

SME finance provider White Oak UK has acquired Growcap Finance, a Dublin-based provider to the SME market in the UK and Ireland.

Growcap Finance provides trade and supply chain finance to the SME sector. It also offers purchase-order funding solutions for assets in domestic and international markets.

The acquisition is intended to give White Oak UK a platform on which to develop a significant presence in Ireland. The current management team will also remain with the business.

Peter Alderson, managing director at White Oak UK, said: "We are delighted to announce our acquisition of Growcap, as we believe this is an important step in our continued growth strategy. We have been exploring ways to enter the Irish market for some time, and the acquisition of Growcap provides us with an ideal opportunity to meet the needs of clients in a market that is typically underserved by traditional banks."

Andy Beck, chief executive officer at Growcap Finance, said: "As one of the leading alternative providers of finance in the UK, White Oak UK is the perfect fit for Growcap as we look to expand our footprint and enhance our ability to deliver working capital solutions to our clients. The combination of the two businesses presents a compelling opportunity for future success, as we continue on our shared goal of providing businesses access to the finance they need."

In June 2018, White Oak Global Advisors, on behalf of institutional clients, acquired the LDF Group, a UK-based alternative provider of SME finance. The LDF Group rebranded to White Oak UK in July 2018.

In May, White Oak UK and Spotcap entered into a partnership with the aim of improving access to finance for UK businesses.

White Oak UK provides asset finance, commercial mortgages and business finance, while Spotcap offers unsecured business loans with no need for a personal guarantor. ■

RETIRING ALDERMORE DIRECTOR: REGULATION MAKES GROWTH 'ALMOST IMPOSSIBLE'

Chris Stamper has criticised the regulation facing the banking industry following his full retirement from the position of non-executive director at Aldermore.

In April, Stamper also stepped down from his directorship of AFS Group Holdings, a partner and introducer to asset and commercial finance funders in the UK, in which Aldermore holds a minority equity stake.

On a LinkedIn post, Stamper said regulation was stifling profitability and business growth, and was not succeeding in its original aim of policing the market.

"The regulatory environment in which we have to work has escalated to a point where sustainable profitability and business growth has become almost impossible.

"We all understand the need for regulation and compliance, but the cost of this is now beyond what, in my personal view, is acceptable or necessary.

Chris Stamper, Aldermore

"It does little to deter the dishonest and unscrupulous; it simply prevents the growth of reputable firms."

Stamper added that current regulation, under the supervision from the FCA and PRA, would not prevent job losses in banking. "At some stage, we will face another crisis in the economy and there will be casualties in the finance industry. The regulation that we currently see will not prevent this – it is the integrity of management that will protect the business," he wrote.

"It's sad that many people in the industry hold similar views but, as they are still in employment, find it difficult to express their views publically. The team at Aldermore have been fantastic and [Aldermore] very much fits into the category of 'reputable firms'. I wish them well. If any business can succeed in this environment it is Aldermore."

Stamper joined the Aldermore board in May 2013, bringing with him extensive experience of the asset finance sector as a founding governor of the Leasing Foundation. He was also previously a director at the Finance and Leasing Association.

Stamper's career also includes a period as director and chief executive at ING Lease (UK) from 2005 to 2013. ■

ACQUIS COMPLETES MBO WITH DUNEDIN BACKING

Leasing insurer Acquis has completed a management buy-out (MBO) with the backing of private equity investor Dunedin.

The MBO, which is subject to regulatory approval, will enable Acquis's current management team to accelerate business growth with support from Dunedin.

Founded in 2009, Acquis provides specialist solutions to the finance and leasing industry. Its diverse client base includes small independent lessors, captive finance companies and international financial institutions such as Investec Asset Finance, BNP Paribas Leasing Solutions, Siemens Financial Services, Société Générale Equipment Finance and Deutsche Leasing.

Following the MBO, Acquis hopes to consolidate its growth within existing markets, and launch products and services into new markets. Investment in research and development has also increased, in order to extend its product range to meet a broader range of client needs.

Acquis chief executive Nick Leader commented: "We are seeing increasing demands for Acquis's services, and this partnership with Dunedin gives us the extra firepower to accelerate the company's international expansion plans, as well as additional funding to invest in new products for our clients.

"With significant experience in the insurance space, the Dunedin team really understands our business; they bring a powerful combination of expertise and funding that will enable us to take Acquis to the next level."

Oliver Bevan, partner at Dunedin who will join the Acquis board, added: "We really look forward to working with Nick and the team at Acquis, and see huge potential for the growth of the business, particularly as it expands further into Europe and beyond.

"Acquis is already the clear UK and European leader in its niche, and is well placed to build on its position at the

forefront of this fast-growing market."

Bevan continued: "Dunedin has a strong record of investing in specialist insurance, and we look forward to drawing on that experience to support Acquis's ambitious growth plans." ■

EURO AUCTIONS TO DISPOSE OF DAWNUS CONSTRUCTION ASSETS

Euro Auctions has been appointed to dispose of construction group Dawnus's assets, following its administration on 15 March 2019.

Since the appointment, Euro Auctions has been working in partnership with Hilco Valuation Services to organise a full appraisal of all assets, including tracking construction equipment and in many cases assisting in repatriating them to secure locations.

Administrator Alistair Wardell stated that the financial difficulties at the firm, which employed approximately 700 people at six offices and 44 construction sites, stemmed primarily from the "downturn in the construction industry".

Wardell also noted: "The Dawnus Group had struggled with a wide variety of challenges, and despite significant efforts to turn the business around, unfortunately it has not been possible to rescue the group. As a consequence, the future cash flow has meant that the business was not in a position to continue to operate, including completing existing work in progress.

"Whilst the financial difficulties of the group were not a consequence of Brexit, there is no doubt that Brexit uncertainty impacted the ability to rescue the business."

The dates and location of the various sales to be hosted by Euro Auctions are still to be confirmed, but will be announced in due course. The inventory will include a full range of construction equipment and machinery, including excavators, backhoes, site dumpers, mini diggers, bulldozers, rollers, telehandlers and other machinery.

Neil McIlwaine, director of sales and business development at Euro Auctions, said: "We are delighted to have been selected by the administrators to work with them and advise on this project.

"Euro Auctions has extensive experience in conducting off-site disposal sales. Through our global network of buyers and consignors, we will be marketing to a specialist audience that has an interest in the wide array of general construction machinery, which has mass global appeal."

The Dawnus Group, based in Swansea, specialised in construction, development, commercial management, plant hire and recycling. With a £172m (€194m) turnover, the firm had a number of public contracts in Wales, including three schools in Powys and a flood defence scheme in Cardiff, as well as the construction of the £12m Kingsway redevelopment in Manchester. Founded in 2001, Dawnus has offices in London, Birmingham and Exeter.

The administration disposal sale of all assets of Hawk Plant Hire on 14 and 15 March 2019 raised just under £29m.

Euro Auctions said over 2,000 pieces of plant and machinery from Hawk Plant Hire, which went into administration earlier in 2019, made a final hammer total of £28,967,840. ■

MotoNovo Finance completes Aldemore integration

MotoNovo Finance has completed its integration with Aldermore, following the bank's acquisition by FirstRand in March 2018.

The integration marks the amalgamation of FirstRand's UK operations in retail, business and motor finance. By integrating the two firms, FirstRand hopes to fund new MotoNovo business through Aldermore's deposit base and securitisation operations.

"Joining the recently acquired Aldermore family brings us the strategic benefits of greater sustainability through a lower cost of funds and greater diversification," said MotoNovo Finance chief executive Mark Standish.

"MotoNovo will now begin to write new business from Aldermore's balance sheet – a move that will put us in a far stronger competitive position."

Aldermore chief executive Philip Monks added: "This is a very exciting step in Aldermore's journey as we join forces with MotoNovo Finance, one of the largest lenders in motor finance. This move will create real benefits for our customers and shareholders. It brings together the precocious entrepreneurialism of two organisations which together can achieve even more.

Mark Standish, MotoNovo

"With a broader customer base, we can harness the combined strength and energy of our two like-minded organisations to achieve great things for our customers. We already benefit from similar customer-focused cultures, and there is now a real opportunity to build our respective strategies together, armed with the firepower of our parent, FirstRand."

There will be no changes to the team of MotoNovo Finance's field-based account managers or at the company's Cardiff head office. The only change to partner dealers and customers with regard to new business is that this will now be written directly in the name of MotoNovo Finance Ltd.

Standish concluded: "Now we have successfully completed our integration with Aldermore, our focus for the future is on maximising the opportunities opened up by digitisation, product innovation, and regulatory reform for ourselves, our dealers, and their customers."

MotoNovo Finance has been owned by the FirstRand group since 2006. ■

KIER PROFIT WARNING RAISES VALUE FEARS

UK construction, services and property group Kier has announced that the group's underlying operating profit for the 2019 financial year will be lower than previous expectations, to a combined amount of £40m (€45m).

Shares in the company, which employs 20,000 people and works on major government contracts including HS2 and Crossrail, fell by 40% as a result of the profit warning to reach £1.67, less than half the amount at which Kier was trading when it launched a £264m emergency fundraising in December 2018.

Speaking to *The Guardian*, Ian Forrest, investment research analyst at UK stockbroker the Share Centre, said: "The shares are now down 85% over the past year, and there are clearly fears in the market that the company could be heading for the same fate as Carillion."

In its interim results, Kier also revealed that it is likely to report a net debt position as at 30 June 2019, which would adversely impact its yearly average month-end net debt position.

Kier continues to experience volume pressures in its highways, utilities and housing maintenance businesses. Despite double-digit growth in its order book, the company confirmed that its buildings business's revenue growth for the 2019 financial year will be lower than previously forecast.

Kier will provide updated guidance for the 2020 financial year with its 2019 preliminary results on 19 September. The net costs associated with Kier's future-proofing programme for 2019 are now expected to be around £15m higher than previously forecast; this is in addition to the £25m reduction in operating profit.

Kier will provide a further update on its future-proofing programme when it announces the conclusions of the strategic review. The cost increase was attributed to an acceleration of the programme following the appointment of Andrew Davies as chief executive. On 15 April 2019, Kier announced that Davies would lead a strategic review to consider ways of simplifying the company, the allocation of capital resources, and additional steps to improve cash generation and reduce leverage. Kier has confirmed that the conclusions of this review will be announced on 30 July 2019.

Similar to Kier, Carillion had large contracts for public sector projects before entering administration in early 2018. In February, independent plant hire group Hawk Plant entered administration with the loss of 83 jobs. In its 2017 results, filed in November 2018, managing director and majority shareholder Mike Hawkins said the liquidation of Carillion had disrupted its contract pipeline. ■

FCA issues P2P sector rules after Lendy failure

After a consultation, the Financial Conduct Authority (FCA) has introduced new rules designed to prevent harm to investors. This follows, coincidentally, the collapse of the Lendy peer-to-peer platform in May.

Lendy, a £165m (€186m) P2P network for secured property lending went into administration on 24 May, with RSM overseeing the returns to creditors. RSM is working closely with the FCA, which has consented to its appointment over the companies.

When the FCA set its first rules for P2P, it committed to keeping them under review as the sector evolved. It said its rules were designed to help better protect investors, and allow firms and fundraisers to operate in a long-term, sustainable manner.

Christopher Woolard, executive director of strategy and competition at the FCA said: "These changes are about enhancing protection for investors while allowing them to take up innovative investment opportunities. For P2P to continue to evolve sustainably, it is vital that investors receive the right level of protection."

The FCA has refined its proposals to ensure that the new rules protect consumers and support the P2P market. Platforms will not be prevented from including information about specific investments in marketing materials.

As originally proposed, the FCA is placing a limit on investments in P2P agreements for retail customers new to the sector of 10% of investable assets.

This is an important means of ensuring that they do not over-expose themselves to risk, although it will not apply to new retail customers who have received regulated financial advice.

In addition to these restrictions, the new rules cover:

- More explicit requirements to clarify what governance arrangements, systems and control platforms need to be in place to support advertised outcomes, with a particular focus on credit risk assessment, risk management and fair valuation practices;
- Strengthening rules on plans for the wind-down of P2P platforms if they fail;
- Introducing a requirement that platforms assess investors' knowledge and experience of P2P investments where no advice has been given to them;
- Setting out the minimum information that P2P platforms need to provide to investors, and
- Applying the Mortgage and Home Finance Conduct of Business (MCOB) sourcebook and other Handbook requirements to P2P platforms that offer home finance products, where at least one of the investors is not an authorised home finance provider.

P2P platforms need to implement the changes by 9 December 2019, with the exception of the application of MCOB, which is effective immediately.

The FCA said it will continue to monitor the P2P market closely as it develops. ■

PEOPLE MOVES

Leasing Life's monthly summary of the key career moves in the leasing and finance industry

HAYDOCK FINANCE APPOINTS BROKER RELATIONSHIP MANAGER

UK-based SME asset finance provider Haydock Finance has appointed a broker relationship manager for the south west of England.

Carole Luck is an experienced finance professional, who prior to this position had been a broker relationship manager at Close Brothers Asset Finance since 2010.

In her role at Haydock Finance, Luck will develop relationships with the company's portfolio of partnership brokers and introducers.

LEASING FOUNDATION ELECTS BOARD MEMBERS, THOMAS DEPARTS

The Leasing Foundation has changed its board members, with executive director Peter Thomas stepping down from his role as managing director.

Andrew Denton, co-founder of The Leasing Foundation and chief executive officer at Alfa Financial Software, will become chair of the board, replacing Carol Roberts, who will instead focus on diversity and inclusion.

The following board positions have also been confirmed: Mike Randall (Simply, technology), Nathan Mollett (Metro Bank, young people), Graeme Chisholm (CBRC, young people), Jo Davis (Locke Lord, diversity and inclusion), Ian Isaac (Lombard, non-executive) and Gavin Wraith-Carter (Hitachi Capital, non-executive).

SIMPLY HIRES TO SCOTLAND TEAM

SME asset finance provider Simply has created a dedicated team to cover Scotland.

James Waterson will become regional sales manager. He has 28 years of experience in the finance industry, and has helped many Scottish businesses throughout his career. Waterson focuses on specialist finance, such as renewable and alternative energy investments for Scottish farms, estates and SME business owners utilising technologies such as wind, biomass, solar and waste-to-energy projects.

Ross Pickburn has been hired as regional sales manager for Scotland. He has over 14 years of experience in asset finance, and six years in the motor trade. Pickburn's focus is on the transport, construction, and agricultural sectors in Scotland.

William Devine will be broker development manager. Since joining Simply, Devine has worked with Scottish broker partners, and spent the last 17 years in the leasing, rental and asset finance space, working for a number of hard asset funders and brokers.

HAMPSHIRE TRUST BANK NAMES ASSET FINANCE MANAGING DIRECTOR

South Normanton-based financial services broker Midlands Asset Finance (MAF) has hired a director of vendor sales.

Covering the whole of the UK, David Cowe will oversee MAF's vendor strategy and supplier partnership programme, which allows suppliers to provide finance to customers.

Joining from Econocom UK Technology Finance where he spent 14 years as a senior account manager, Cowe also previously worked for Lombard and HSBC.

Following rapid growth in 2018 which saw 10 new starters, Cowe is the second appointment of the year for MAF, growing the company headcount to 29.

ALPHABET INTERNATIONAL APPOINTS CHIEF EXECUTIVE OFFICER

Alphabet, the business mobility provider and fleet leasing subsidiary of BMW, has appointed a new chief executive officer to replace Norbert van den Eijnden, who will stand down at the beginning of July.

Incoming chief executive officer Marco Lessacher started his career at the BMW Group in 2007, and held various leadership positions, including at BMW Financial Services and Alphabet Germany.

Lessacher was formerly head of international corporate, direct and special sales at the BMW Group. In 2017, he took responsibility for BMW Group's Financial Services business in Central and South-eastern Europe, and further developed the region with its 11 markets as chair of the board of BMW Austria Bank.

CLOSE BROTHERS ASSET FINANCE ADDS TO SCOTLAND TEAM

Close Brothers Asset Finance has appointed an area sales manager to enhance the company's presence in the north of Scotland, with a focus on Inverness and Moray.

Martin Mackenzie, a graduate of Close Brothers Asset Finance's Sales Academy programme, rejoins after three years away building his motor sales experience, where he specialised in cars and LCVs.

BNP PARIBAS LS MAKES SENIOR APPOINTMENTS

BNP Paribas Leasing Solutions UK has appointed a lead for its broker team, and made a series of promotions.

Alongside Tim Pulleyn's appointment as head of broker, Paul Baker has been promoted to head of food and agriculture and Alun Davies to head of construction and logistics.

Pulleyn will be responsible for managing BNP Paribas Leasing Solutions' network of brokers across multiple sectors. Pulleyn was most recently head of structured finance and asset management at Metro Bank. Prior to that, he held positions at PEAC Finance, Aldermore Bank, Hitachi Capital UK and HSBC Bank.

Baker has over 32 years of experience in the agriculture sector, with 12 years spent at BNP Paribas Leasing Solutions. ■

THE LEASING FOUNDATION: asset finance AND OPEN BANKING

Industry figures gathered at law firm TLT's offices in central London to discuss Open Banking, both for its potential in the leasing industry and regarding any potential consumer reticence to the idea. The event was hosted by the Leasing Foundation. *Christopher Marchant* reports

The event centred around a panel discussion between Conrad Ford, founder and chief executive officer at Funding Options, Marc Plato, senior client executive at The ID Co., Carl Davis, managing director and chief technology officer at Downswood, and Daniel Weaver, head of innovation at Equifax UK.

Open Banking entails the use of open APIs that enable third-party developers to build applications around a financial institution. The technology also allows for greater financial transparency options for consumers through the use of open data.

Weaver observed the advantages of Open Banking from the perspective of an underwriter, saying: "Through this technology you will be able to have three years' worth of bank statements condensed and sorted into the most high-profile and important payments."

He continued: "Open Banking can also flag missed payments, allowing for forecasting of the future and helping to instantly alter perceptions when things change."

The imposition of General Data Protection Regulation (GDPR) across Europe in 2018 had a wide-ranging impact on Open Banking, including limiting the use of solely automated decisions that impact individuals.

As to whether this spurs a need to introduce a human element to ensure compliance and customer reassurance, Weaver said: "From a consumer standpoint, Open Banking has not been adopted in a fully automated capacity. The journey is more based around sourcing banking statements faster, and looking to use the intelligence gained from those bank statements to make the underwriter's job easier."

Mike Randall, Simply

NEW TECHNOLOGIES

On the construction of Open Banking software for a financial institution, Ford noted: "Whenever there is a perception that the customer journey is broken, it inevitably leads to a programme with two years of scoping, three years of build and two years of a financial institution fixing what they got wrong.

"The fix-everything-in-one-go mentality is disastrous. With Open Banking, Funding Options took the opposite approach. With the first use of Open Banking, there was nothing built into the core systems, because it was untested in so many ways. Instead, a few hundred pounds was spent with a supplier and a few hours of the customer-facing team's time taken up.

"In those early stages, there was a significant amount of surprise that many customers were willing to do this crazy new thing. It was also a vital first lesson from the process, which is that we had zero desire to integrate directly with Open Banking. Only then did Funding Options start investing a bit more heavily in the technology, and actually find ourselves in the position to be able to construct the customer journey with all the messaging about Open Banking."

All four panel members were aware that the financial world was still in the very early stages of utilising the potential of Open Banking. Plato said: "Open Banking will get exponentially bigger. However, there is no desire to change an entire business model and force everybody into Open Banking. It has to sit in alignment with traditional people who still want to send in paper information, but there are customers who do have a desire to automate and share as much as possible digitally on online applications.

"It is also not my belief that Open Banking will fully take over all of the underwriting because that's not its space, but it can certainly take huge leaps and chunks out of what is a fairly lengthy underwriting process currently."

Davis echoed Plato's sentiments on the take-up of Open Banking, adding: "No one on this panel is advocating full automation. It all comes back to the intention of giving the underwriting team as much information as possible. It is almost like they are the pilots and they have these autopilot systems that will be able to give them information a lot quicker than they would normally get by printing off a spreadsheet and using a highlighter."

THE CUSTOMER JOURNEY

As seen with the discussion over a continuing level of human interaction with underwriting in an Open Banking world, it is still a matter of contention as to exactly how the technological advancement will affect the customer process.

Ford observed: "Open Banking data, starting first with working capital, will take consumers extraordinarily close to one-click finance.

"For two decades now, consumers have been repeatedly told not to share their internet banking credentials with anyone. Financial institutions advocating for Open Banking represent somebody new coming in and saying: 'It is now fine to do this.' That was never going to be a happy place to find oneself in, yet in that context we have been pleasantly surprised with how customers have reacted to the idea."

Ford gives an unlikely example that may have paved the way for sections of consumers to become acclimatised: online payday loan providers such as Wonga. These companies used screen-scraping technologies that are enabled by the same internet banking credentials. His conclusion covered the sheer potential of Open Banking, noting: "If customers start using this data, I guarantee it will transform the finance industry in both the consumer and SME spheres.

"Funding Options was given access by the CMA to 50,000 small businesses' current accounts and data sets, and what was possible with this was extraordinary. It is physical bank statements on steroids."

For Weaver at Experian: "Knowledge of Open Banking is very low among the general public at the moment, so for 99% of people this will be a new experience. Companies are still getting better, but it is nowhere near the finishing point."

Seated L-R: Conrad Ford, Marc Plato, Carl Davis, Daniel Weaver

RISKS

As with all new technology, there are certain associated risks.

In the case of Open Banking, these relate largely to the use of open data and any possibility of a consumer's information being used inappropriately or stolen.

According to Davis: "The temptation when financial institutions encounter something new is to implement it before their competitors do. What companies need to do first is to actually understand its data architecture. Once this is achieved, they can understand how secure a piece of data should be and who should have access to it.

"The key thing is security. Who has access to that data – even internally – needs to be considered. Financial institutions should acquire a data governance platform that will help them to be able to manage a dataset, and the security within those datasets."

Of the question of use of customer data in Open Banking, Plato said: "I'm often asked that question visiting potential clients; however, protecting customer data is nothing new to the industry, going back to considerations of how to store and manage paper bank statements with information about customers.

"It's still their bank data, it is still identifiable, and you must hold the key to destroy that information if that becomes the necessary course of action."

LOOKING FORWARD

Giving a final observation on why Open Banking take-up might be faster than some think, Ford said: "If you had told me five or 10 years ago that I would get into a stranger's car at two in the morning because my phone told me to, or host a stranger in my spare room because my phone told me that was OK, I'd have thought you mad.

"Now AirBnB is one of the biggest hotel companies in the world, Uber one of the biggest taxi firms. If society has gone this far, Open Banking may be the next step."

Concluding the event was Mike Randall, managing director of Simply and Leasing Foundation board member: "Quite clearly, these events are needed because we keep filling a room.

"We hopefully are trying to inspire those here to think differently about the challenges in business, how to drive things forward, how to innovate and basically change the industry perspective. The asset finance industry is on this journey now." ■

MORE DEBT, LESS EQUITY: TRANSACTIONS IN THE LEASING MARKET

Former Grant Thornton partner Tarun Mistry talks to *Brian Cantwell* about setting up a new advisory business, and the leasing market and how it could change and become more efficient in the next 12 months

The leasing and automotive finance markets have been filled with M&A equity transactions over the past few years, a large number of which Tarun Mistry advised on as lead of Grant Thornton's (GT) specially developed sector-focused consulting unit.

As a result, he has had a unique insight into how the market has changed and developed in its structure, and what it takes to set up a new market entrant.

Tarun left GT in 2018 and set up his own consultancy shortly thereafter. T Mistry & Associates (TMA) focuses on the financing and lending sector, including the consumer and business lending, regulated and unregulated, secured and unsecured, prime, near-prime and subprime markets. Since the firm launched, it has advised clients in the UK and continental Europe on more than £100m of M&A transactions, over £250m of debt transactions and facilitated around $100m (£78.9m) of trade finance.

Leasing Life caught up with Mistry to find out how he sees the leasing and motor finance markets changing, and how this might affect his own business.

Leasing Life: How have you seen the leasing and financing market develop over the past year?

Tarun Mistry: I anticipated that there would be a slowdown in M&A activity over the next three or four years whilst at GT.

> "THERE'S SO MUCH UNCERTAINTY IN THE MARKET AT THE MOMENT

There's so much uncertainty in the market at the moment, partly because of Brexit and regulatory changes. Vendor valuation expectations have also remained high after recent transactions, it's therefore not surprising that M&A activity in the sector has slowed somewhat.

I also suspect that some of the private equity M&A investments into the sector are getting close to requiring achieving an exit to meet their funds' time horizons. Post-Brexit, you could see these companies coming to market. I also suspect that you're going to see some consolidation play in the challenger bank market to achieve cost synergies, principally around regulatory compliance and more effective use of capital.

I see the majority of my work focusing on debt transactions. This remains an attractive advisory space, not only in the equipment leasing market, but also in the regulated consumer finance and motor finance markets. So what I'm doing there is helping businesses raise debt finance, or I'm helping banks and debt fund providers in their diligence of their prospective clients.

In the last year or so, I've also facilitated almost £100m of trade finance transactions. I think this is a reflection of technology opening the funding market for corporates to tap into liquidity, and also for funders to offer this finance product in an efficient manner.

LL: Is there still a strong demand for advice on setting up new leasing businesses? And is the pipeline for market entry as strong as it has been?

TM: The industry would benefit from knowing how to use advisers in their business. I think that's a reflection of the lack of focused advisors in our market, and therefore businesses have completed projects in-house. With all advisers, there's a need to educate the industry on how we can assist their businesses.

There are financing opportunities out there, and finding the right opportunities where you can offer a value-based financial services proposition utilising the appropriate technology in a regulatory-compliant manner is the key.

LL: What are your top objectives for the new business?

TM: Up to the point I left GT, and now with TMA, my approach remains that of an industry-first, service-line-second strategy.

In most advisory firms you generally have service line experts – for example, M&A, due diligence, tax and so on – with secondary focus on industry sectors, whereas my proposition is focused on understanding, and leveraging this knowledge of the leasing, consumer and motor finance sectors, followed by bringing in the relevant advisory services, thereby making the offering industry focused and bespoke – and therefore differentiated.

Retaining this differentiated approach in a growing service line-focused scaled advisory practice can have its challenges.

For me, the objectives on leaving GT were to remain plural; that is, I wanted to be involved in many businesses, to remain in the same industry, and thirdly to manage my work-life balance and enjoy what I do.


Tarun Mistry, TMA

> "IT WAS GOOD TO SEE THAT, WITHOUT TOO MUCH MARKETING, THERE IS STILL DEMAND FOR AN INDUSTRY-FOCUSED ADVISORY SERVICE

I knew I wanted to stay in advisory, but I didn't know whether I was going to spend most of my time doing that or other things, like my non-executive positions, or getting involved more directly with businesses and management teams.

Over the last year or so, what's clear is that the advisory business is going to take up the majority of my efforts. It was good to see that, without too much marketing, there is still demand for an industry-focused advisory service. That's the fundamental part of TMA.

LL: Is there a lot more work for advisers in this market?

TM: There are other industry-focused advisors, but it is a large potential market. There are consumer finance businesses, mortgage sector, motor finance, equipment leasing, large-ticket players, smaller-ticket players, fintech businesses, businesses that are growing rapidly and others that are contracting, and all could benefit from the appropriate advice.

The biggest challenge is coming to market with industry knowledge. That's the difficult bit: to build a team who know the industry, and being able to leverage that in an advisory perspective. I think that's where TMA differentiates itself from some of the other advisory firms.

We won a tender recently against a number of larger firms because we understood what the client wanted and we were able to deliver the specialist advisory team required. We weren't the cheapest, but the client understood that we knew what they wanted and that we were able to deliver against their objectives and add value through the process.

LL: Who are your associates?

TM: In the last year I have worked with eight associates; of those, four are part of the core team and include some ex-GT colleagues.

LL: What's next?

TM: I've taken a non-executive directorship with the Mistral Group, which is a niche finance business focused on the provision of operating and finance leases for buses and coaches. This is interesting work, and allows me to add value to the business without getting operationally involved.

My focus for TMA is to continue to build on what we have achieved in the last 12 months, expand the associate base, do more debt transactional work, and then see where the business goes. ■

A 10-YEAR GLOBAL VIEW: electric machines, EMISSION REGULATIONS, AND CAM MARKET DOMINATION

With the advent of electric vehicles (EV) entering the construction, agriculture and mining sectors (CAM), what does the future hold for the industry, and what effect will this have on the used machinery market globally? *Jonnie Keys,* from market-leading Euro Auctions comments on the future of the industry

The Kyoto Protocol is the objective of the United Nations Framework Convention on Climate Change to reduce the onset of global warming by reducing greenhouse gas concentrations.

In order to comply with this, the EU – in step with the rest of the world – is striving to cut emissions, making road transport cleaner by setting strict new carbon dioxide emissions standards for all vehicles.

In early 2018, the UK government launched a consultation on proposals to pass new European limits on engine emissions on Non-Road Mobile Machinery (NRMM). This paved the way for new emissions standards for carbon monoxide, nitrogen oxides and particulate matter from all NRMMs ranging from lawnmowers to construction machinery, to be brought into UK law, with the aim to ensure that from 2030 onwards new vehicles will emit on average 37.5% less CO2. These initiatives in turn have paved the way for new technologies to drive road-going and non-road-going vehicles, such as cleaner fuel, hybrid fuel systems and battery power.

The on-road EV industry is heading for a vicious fight, with private cars set to see a collapse in sales as more people move to cities using more shared transport, rather that running private vehicles. In contrast, off-road electric vehicle OEMs are looking ahead to prosperous growth, in particular, for the construction, agriculture and mining sectors, known as CAM.


Jonnie Keys, Euro Auctions

COMPOUND GROWTH

Over the next 10 years, the EV market in the CAM sector is predicted to burgeon.

The sector has already started employing robots, drones, hybrid and pure EVs, with approximately 15% of CAM vehicles rolling off the production line being electric. Over the next 10 years, that number is expected to increase; in 2029, the numbers are predicted to be close to 100%.

With such a huge demand for new clean electricity to power those vehicles, further demands will be put on new technology to generate that power, on and off grid, with delivery of that power requiring new infrastructure.

The CAM market is projected to record a CAGR of 4.52%, with its market size reaching in excess of $200bn (€177.6bn) by 2029, up from $146.17bn in 2018.

The CAM vehicle business will grow more than six-fold in value by 2029, grabbing records for both the highest-volume EVs and the highest unit value.

OEMs are innovating at a frenetic pace, with some of the minor players innovating faster than many of the giants, of which a few seem to be sleeping through this future-proofing period.

Which technologies win? Which sectors go straight to pure electric and which need the hybrid interim stage? With even 300kW mining trucks working well as pure electric, what is the place for fuel cells?

ROBOT FARMERS

The industry is currently moving from the old 'electric drive' designs to full hybrid and pure electric.

Electrification is also crossing over, with the journey toward automation and ultra-precision agriculture. With issues such as Brexit, demographic pressures and ageing populations, farmers may be driven toward 'robot farming'.

These factors, along with increasing environmental concerns over the use of herbicides, may mean that in 10 years, the best-selling EVs in numbers are likely to be robot weeding machines.

Meanwhile, the most expensive EVs will be monster autonomous load-haul-dump machines in the mining sector, with the electricity to power these vehicles also becoming cleaner, with massive, renewable generation sites set up off grid, right next to the locations where power is needed.

THE EXPANDING MARKET

The earthmoving equipment category is the largest segment of the CAM market, by category, with much of the construction equipment used to carry, dig, spread or move earth or materials.

In comparison, material-handling equipment is the fastest-growing segment, and includes machines that manufacture, store, stack, distribute, deliver and recycle.

Road rollers of all sizes and specifications are the fastest-growing single item of equipment in the market, with increasing use attributed to the need for highway infrastructure in developing countries such as India and China. Large road-development projects – such as the China-Pakistan Economic Corridor, which aims to connect China with Central Asia, creating a modern 'silk route' – are also a contributor to this factor.

Upcoming infrastructural projects and increased government spending have led to an increase in construction activities globally. With the advances in technology, CAM equipment is becoming more fuel-efficient with lower emission levels, enhanced safety and better handling features.

RISE OF THE MACHINES

The Internet of Things (IoT) phenomenon will be the next factor to determine how machines best serve the industries.

The definition of IoT is the interconnection via the internet of computing devices embedded in everyday objects, enabling them to send and receive data. This emerging technology will mean that machines will become 'self-managing', and reshape the CAM machinery sectors, in as much as they will be potentially capable of: driving autonomously, self-driving in such a way to be highly fuel-efficient, using GPS to navigate, delivering output more efficiently, recording operating data to produce delivery invoices in the haulage sector, being more secure and, in time, being able to self-order spare parts for routine services and then telling the operator that they need to have fitted.

EMISSIONS REGULATIONS

Engines conforming to Tier-5 emission regulation are projected to have the largest market share of all current construction equipment in use by 2029.

North America, Canada and Mexico are speculated to have enforced these regulations by 2025. Additionally, it is speculated that Japan will also follow these regulations once they are in place.

Selective Catalytic Reduction is projected to be the largest segment of the construction equipment market by after-treatment devices, due to the stringent emission regulations that are expected to be implemented in the Asia-Pacific region.

Construction equipment with 200-400hp power output is projected to be the fastest-growing segment, with the market in Asia Oceania expected to grow at a faster rate as requirements for infrastructure development in China and India grow steadily.

Infrastructure is not only the largest, but also the fastest-growing segment of the construction equipment market by application. Equipment such as crawler excavator, wheeled loader, motor grader, crawler dozer, asphalt finisher and road roller are used to develop bridges, roads and tunnels. Due to the increase in infrastructure projects, demand for this equipment will also increase.

MARKET DOMINATION

Asia-Pacific is the largest market for rental construction equipment. With increasing population and urbanisation, demand for infrastructure development, housing and office space in this region is projected to increase significantly over the next few years, making it the largest rental market.

The Asia-Pacific region is estimated to dominate the OEM construction equipment market, and is projected to remain the largest market for construction equipment in 2029. This growth can be attributed to improving socio-economic conditions in emerging economies such as China and India.

The Middle East is expected to record the fastest CAGR during this period, because of large infrastructure projects planned in Qatar, the UAE and Saudi Arabia.

The construction equipment market is dominated by a few global players and comprises several regional players. Key manufacturers include Caterpillar (US), Komatsu (Japan), Terex (US), Volvo Construction Equipment (Sweden), Hitachi Construction Machinery (Japan), XCMG (China) and Zoomlion (China).

Caterpillar has long been the dominant global player in the construction equipment market, with a wide portfolio of innovative and technologically advanced products. During the next 10 years, it is likely to remain the largest player in the market, although Asian players such as XCMG and Zoomlion are expanding into developed markets to diversify their revenue streams. Due to their operational efficiency, these regional players are expected to challenge the established players globally.

WHAT NEXT?

With the advent of cleaner fuels and a regulated reduction in emissions, where do machines that no longer comply go to die? The quick answer is possibly Africa, India and parts of the Far East. However, large numbers will end up in the hands of owner-operators for small contracting uses, and possibly on private land.

One thing certainly is true about the used machinery market and the auction community: regardless of machine, its year, hours, condition or compliance with legislation, there will always be a buyer for that lot, somewhere in the world.

So, where do diggers really go to die? That is quite possibly the subject of the next opinion piece! ■

SIMPLY: on crossing THE IRISH SEA

Since launching earlier this year in Northern Ireland, Simply – formerly known as Simply Asset Finance – has already expanded with four new hires in May 2019 alone. *Christopher Marchant* speaks to Mike Randall, chief executive officer, and Gary Coburn, head of sales, about the company's plans for SME lending in the region

Mike Randall had experience of the Northern Ireland market in his previous role as chief executive officer at Close Brothers Asset Finance.

Of the decision to open a dedicated Belfast office, Randall says: "Simply has a dedicated SME lending model with which there was a desire to roll out across the entire UK. Gary showed an interest, and it was too good an opportunity to miss to implement the vision in Northern Ireland. Simply is aware this is a great market full of great businesses."

Gary Coburn has 20 years' industry experience, and joined Simply after nine years at Close Brothers Asset Finance, where he was responsible for the Northern Ireland asset finance sales team and worked alongside Randall.

With his decades of regional experience, Coburn offers a wider assessment, noting: "My view is that the Northern Irish market has always been underserved. Ever since the financial crisis of 2007-08 a lot of lenders withdrew facilities from Northern Ireland, and none of the lenders have really come back or committed to the area since.

"Instead there is a scenario where lenders will still provide facilities in Northern Ireland, but they would do it on a 'parachute' basis in that they will manage it from England. They will not actually have a presence here."

With the consideration of the SME market in Northern Ireland being historically underserved, Coburn has set a target of £30m (€33.8m) in new business for the region by the conclusion of 2019. With additional personnel hires, Simply expects to achieve full coverage of the region by the end of the year.

Randall says: "Simply is aiming high. Gary has taken on a number of people in the team so far, and we would love to be dominant in the marketplace in Northern Ireland."

For over two decades, Northern Ireland has enjoyed the benefits of an open border and frictionless trade with its counterpart, the Republic of Ireland. However, this border has become the subject of intense debate during the UK's negotiations to leave the EU, with much discussion of 'backstops' and the potential return of border checkpoints.

As to whether the ongoing issue of any potential trade disruption with Ireland affected Simply's plans, Coburn says: "It is a risk, and like every other business here we have to assess that risk. Historically, Northern Ireland has had its own issues and its own problems. There is a need to adapt to those problems; regardless of whatever happens with the outcome of the backstop or Brexit, we still have to conduct business with whatever comes our way."

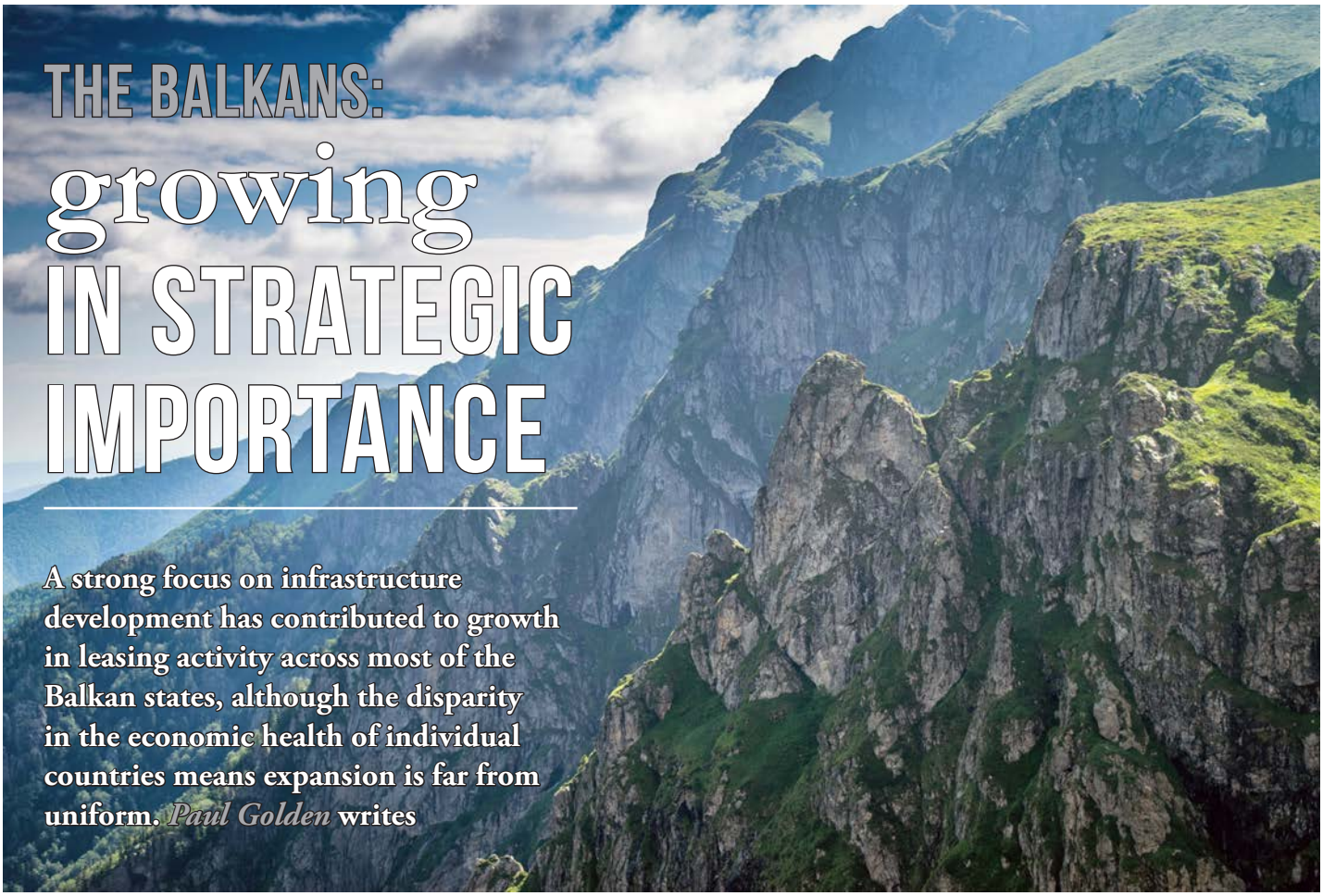
While London receives unbalanced attention as the economic centre of England, the same may not be said of Belfast and Northern Ireland. According to Coburn: "While Belfast does have the significant portion of the population, Northern Ireland is as much a rural economy as well. There are also great industries in the country west of the River Bann; for example, County Tyrone produces a massive amount of the world's quarry machinery."

Northern Ireland seems set to be an important part of Simply's operations, yet the lender has targeted expansion across the UK since its launch in 2017. According to Randall: "We are looking to grow our loan book in those territories, and we are looking to attract more brilliant people who understand the difference and disruption that Simply is intending.

"The marketplace in asset finance is underserved. It is living in the past, it hasn't moved on with the times, and when you look at the customer journey in lots of different industries in today's environment, it is a matter of a few clicks on a mouse or taps on a phone."

Simply is looking at the road ahead as it establishes its brand across the UK. With the majority of businesses in Northern Ireland having fewer than 10 employees, this may well be an SME market eager to reward the attention. ■

Gary Coburn (left) and Mike Randall, Simply



THE BALKANS: growing IN STRATEGIC IMPORTANCE

A strong focus on infrastructure development has contributed to growth in leasing activity across most of the Balkan states, although the disparity in the economic health of individual countries means expansion is far from uniform. *Paul Golden* writes

The Balkans consists of 10 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, North Macedonia, Montenegro, Romania, Serbia and Slovenia.

BULGARIA

One of the most dynamic lease markets in this region in recent times has been Bulgaria, where net lease receivables in 2018 exceeded €2bn for the first time since the global financial crisis.

Data from the Bulgarian Association for Leasing shows that outstanding net lease receivables under financial and operating lease contracts was €2.064bn (3.7% of GDP) at the end of December 2018, compared to €1.843bn at the end of the previous year, an increase of 12%. New business volumes were up by 20% last year to €1.058bn.

The most dynamic segments of the market were passenger cars, up by just over 20% in 2018, machinery and industrial equipment, which increased by 16.3%, and commercial vehicles, which showed a rise of 10.5%.

In line with other markets, outstanding net lease receivables for computers and business machines are in decline, down 17.9% in 2018, and there was a fall of almost 14% in real estate lease receivables. In terms of new business, machinery and industrial equipment was up 45.6%, and both private and commercial vehicles recorded increases in excess of 22%.

> "WE HAVE OPTIMISTIC EXPECTATIONS FOR MARKET GROWTH OVER THE REST OF 2019

These trends have continued into the first three months of this year, with outstanding net lease receivables for passenger cars up by 17%, machinery and industrial equipment up by 15%, and a 14% rise in commercial vehicles contributing to an overall increase of 13%.

Machinery and industrial equipment new business is up 34% for the first quarter of 2019, while there has been a 53% increase in the commercial vehicles segment of the market. Overall new business volumes rose 22% in the first three months of this year.

According to Valentina Marinova, executive assistant at the Bulgarian Association for Leasing, the increase in the leasing market is being driven by growth in GDP and the resulting increase in both corporate and household incomes.

"Also, due to low interest rates in the financial system, leasing companies can offer attractive prices to their clients," she explains. "Based on the forecasts for GDP growth in 2019 and market data for the first quarter of this year, we have optimistic expectations for market growth over the remainder of 2019."

SERBIA

Sanja Basic, executive director of the business support unit at National Bank of Serbia's bank supervision department, explains that at the end of 2018, 17 financial leasing companies held licences to perform financial leasing operations in that country, and the total number of employees in the financial leasing sector was 360.

Total balance sheet assets of the sector stood at RSD86.7bn or approximately €730m, up 15.2% from the same period in 2017, while the financial lease receivables of the sector stood at RSD77.8bn, a year-on-year increase of just over 19%.

"It is also important to emphasise that total capital increased," notes Basic. "As of 31 December 2018, total capital was equal to RSD9.7bn or €81m compared to RSD9.3bn/€78m at the end of 2017, and the profitability indicators of the financial leasing sector also recorded a significant increase compared to the same period of the previous year."

Return on assets increased from 0.95% to 2.05%, while return on equity amounted to 17.53%, more than double the 7.62% recorded for the same quarter in 2017, indicating not only an increase in profitability but also higher solvency, and suggesting a positive financial leverage effect in the financial leasing sector.

Financing of freight vehicles, minibuses and buses, followed by passenger vehicles, are the strongest market segments due to the marketability of these lease assets and their attractiveness for lessees, adds Basic.

"The process of approving financing of financial leasing is shorter and faster relative to loan financing, which is an important factor that stimulates demand," she says. "In the context of financial leasing, collateral is not required, so the procedure of granting the approval of financing is most often shorter compared to traditional forms of financing."

The National Bank of Serbia's expectations are that the financial leasing sector will continue its growth trend over the next 12 months.

CROATIA

Positive sentiment is also evident in Croatia, although growth in the lease market has been on a more modest scale than that enjoyed by some of its Balkan neighbours.

Nataša Vuletić, spokesperson for the Croatian Financial Services Supervisory Agency, observes that Croatian leasing companies are stable and hold adequate levels of capital as a result of continuous supervision by the agency. "Total assets of leasing companies are on the rise: as of 31 March 2019 they amounted to €2.66bn, increasing by €27m compared to the figure for 31 December 2018," she says.

As of 31 December 2018, leasing operations were carried out by 16 leasing companies. Increased economic activity had a positive impact on the leasing market last year, leading to a rise in business operations. Total assets of leasing companies were up by 7.6% during 2018.


Ernest Plej, Grenke

"This was primarily due to the rise in the value of newly concluded lease contracts, which amounted to €1.2bn in 2018, an increase of 20.5% over the previous 12 months," explains Vuletić. "This increase is mostly related to the increase in the value of newly concluded contracts for passenger cars, which was up by €160bn or 21.1%."

In 2018, leasing companies' aggregated net profit amounted to €59.3m compared to €29.7m in 2017. This increase in profitability was partly caused by market growth and partly by the reversal of costs of value adjustments accumulated at the level of the leasing industry.

As of 31 December 2018, capital and reserves of leasing companies were higher than at the end of 2017, at €320m, as compared to €310m as of 31 December 2017. There were 134,784 active lease contracts at the end of last year, up from 120,543 at the end of the previous 12-month period.

"The main challenge for leasing companies is to offer their clients the most affordable financing, considering the competition between companies, which depends on obtaining favourable sources of funding," explains Vuletić.

"Leasing companies tied to credit and financial institutions have an advantage in this case," she adds. "Passenger car leasing holds the most significant part of the leasing market in Croatia, especially short-term leasing that reaches its peak during tourist season as a result of increased demand for car rental."

Taking into account the recovery of the Croatian market, the agency is expecting a further increase in the number and value of lease contracts, as well the leasing companies' assets.

The Croatian Financial Services Supervisory Agency's observation on the likelihood of growth in the Croatian leasing market over the next 12 months is that demand for leasing products will be affected, above all, by investment growth and in particular the recovery of the real estate market and the related construction industry, as well as by the aforementioned seasonal demand for passenger cars by companies providing tourism rental services.

SLOVENIA

Data from the Bank of Slovenia shows that country's lease sector also experienced moderate growth last year. New leasing business was 1.9% higher than in 2017 at €1.1bn.

New equipment leasing business was up 6.5%, and cars and other commercial and goods vehicles remain the main source of new business, accounting for €957m. New real estate leasing business fell again to €10m, down from €56m in 2017.

Total assets stood at €2.7bn as of 31 December 2018, down 3.5% in year-on-year terms as a result of the winding up of individual reporting entities, while equity on leasing companies' balance sheets increased by 25% to €597m as a result of continuing good performance and recapitalisations.

> "APPROVING FINANCING OF FINANCIAL LEASING IS SHORTER AND FASTER RELATIVE TO LOAN FINANCING, WHICH IS AN IMPORTANT FACTOR

GREECE

It was, however, a more sombre story in Greece, where despite the documented need for renewal of income-earning assets in the market, businesses are still cautious about investing as long as consumption of goods and services remains low.

Nassia Panoriou, secretary for administrative support at the Association of Greek Leasing Companies, notes that since Greece is primarily a service economy, investments in high-value-producing assets are limited and most assets have to be imported, increasing the life cycle from deal approval to implementation.

"Leasing firms in Greece are all bank-owned, and therefore growth in new leases is correlated with the parent bank's appetite to fund long-term investments," she explains. "Last year began with expectations of continuous growth, but the second half of the year saw a drop in new business, and the year closed with marginally negative growth."

Asked to highlight segments of the market that are particularly strong or weak, Panoriou refers to a steady increase in vehicle financing since 2014, as the segment finally reached its 2010 level of €120m last year. In contract, real estate financing – which exceeded €700m in 2010 – has averaged only €40m during the past four years.

"Expectations of economic growth play a pivotal part in generating demand for the product, and when confidence returns in the economy, we expect growth to follow," says Panoriou. "Availability of clients' own funds versus the funding cost for a leasing transaction is also key, with lessors keeping spreads low to generate demand."

The Association of Greek Leasing Companies' expectations for growth in the Greek leasing market over the next 12 months are tempered by the fact that 2019 is an election year, and although the first half of the year is expected to improve compared to the same period last year, the second half is not expected to follow suit.

"In addition, new legislation increasing taxes on leasing loans – equating leasing with bank loans – will have an impact on new business to a certain extent," adds Panoriou. "Therefore, forecasting growth is a difficult exercise for this year."

RESTRUCTURING

Ernest Plej, vice-president of sales for Croatia, Slovenia, Hungary and Austria at Grenke, observes that governments across the Balkan region have been concentrating on reconstructing and upgrading public infrastructure for healthcare and education, in particular with a view to creating a stable environment for foreign and domestic investors to promote economic development.

The main challenge facing lease firms in this region is strong regulation in a number of countries, he says.

"It is important to mention that the Balkan region still manifests a mix of traditional life in the rural areas and a very modern and developed society in the cities.

"Very often, public services and administration are still time-consuming and not really supportive. Due to past developments and the political situation in some of the countries, companies have hesitated to replace old equipment and only made new investments after between five and seven years – in the EU the average period is much shorter."

The Balkan countries have been recognised as very important for the EU from a strategic and economic perspective, and therefore investments are expected to grow.

According to Plej, Balkan countries are mainly seeking to benefit from natural resources. Tourism in some countries represents almost 20% of their GDP, and others are focused on extracting natural reserves or motivating global companies to open local logistics and production hubs.

"Factors driving demand differ from country to country and the potential of each market depends on the availability of local resources such as employees, participation of the state and access to financial funding," he says. "This means that these countries are becoming more and more open to investments, internationalisation and globalisation."

When asked to outline his expectations for growth in the Balkan market over the next 12 months, Plej says that due to the recent development of some of the countries in the region, he expects the Balkans to grow further.

"Everyone is looking for new opportunities, and the governments are creating a more investment-friendly environment for foreign and domestic investors," he concludes. ■

> "GOVERNMENTS ARE CREATING A MORE INVESTMENT-FRIENDLY ENVIRONMENT FOR FOREIGN AND DOMESTIC INVESTORS

INDEPENDENTS DAY: how outside entrants ARE SHAKING UP SME FINANCE

Once, SME owners could go to their local high street bank when looking for finance to take their business further. In the last 10 years, however, larger retail banks have withdrawn from the market, allowing a proliferation of independent lenders eager to fill the gap. *Christopher Marchant* spoke to four leaders in the independent SME lending sector to gauge attitudes to asset finance, responsible lending, and whether market conditions can encourage further growth

Jim Higginbotham has been managing director at Wyelands Bank for 10 months, and was brought into the bank to help build an asset finance capability.

Prior to this position Higginbotham worked at Lombard, giving him valuable insight into the question of whether larger retail banks have been less willing to serve the SME market:

"In the pursuit of greater efficiency, larger banks have had to deliver highly efficient automated client-service models. What that has led to is a large proportion of the SME sector becoming a little disenfranchised. Businesses that previously enjoyed a human-touch relationship model have now been pushed down the more automated service model route.

"That has left a fairly big opportunity for smaller players in the marketplace, who have got the agility and desire to deliver a more relationship-based approach where SMEs have access to decision makers."

There is prevailing theory in the world of asset finance that the rise of independent banks coincides with the increasing caution by larger retail banks following the financial crises that rocked the global economy during 2007-08. However, according to Michael Schozer, chief investment officer at Hadrian's Wall Capital: "Issues over the lack of SME access to asset finance have been going on for 30 years, accelerated through the closure of banks' branches across the country.

> "ISSUES OVER LACK OF SME ACCESS TO ASSET FINANCE HAVE BEEN GOING ON FOR 30 YEARS

"Previously if someone had a £10m business in Leeds and wanted to borrow £1m, they would walk down the street to a local branch and speak to somebody there who was responsible for local corporate businesses. Those branches over the years have been reduced and reduced."

BREXIT

Another reason given for any caution in the UK's finance arena has been the ongoing political fallout from the referendum decision to leave the EU in 2016. Nevertheless, Finance and Leasing Association (FLA) results show that the total asset finance business hit


Jim Higginbotham, Wyelands Bank

£32.57bn in 2018, a 3% rise on 2017's figure.

Neil Davies, chief executive officer for asset finance and leasing at Close Brothers, is prepared to focus on the positives.

"We don't know if the level of lending would have been greater without the Brexit situation or whether Brexit just hasn't affected it," he notes. "Certainly, business levels at Close Brothers have increased rather than decreased.

"Generally, since 2009, SMEs haven't done things on a whim: they've done things when they need to do them. There are no current increases in defaults, and the company is seeing increases in business levels. Overall, sensible decisions are being made, and people are not holding off because of Brexit."

Jason Oakley, chief executive officer at Recognise, a City of London Group subsidiary, is also aware of the challenges that Brexit may face for independent SME asset finance. "The biggest single thing is a lack of clarity," he says.

"This leads to uncertainty, and uncertainty brings risk-aversion. Recognise has experienced the cash holding to businesses going up, and there is a lot of risk-taking dropping in terms of growth and investment."

INCREASING COMPETITION

In a market that is successful and profitable, there is bound to be increased competition, and resulting concerns of maintaining profitability and protecting against irresponsible lending practices.

According to Higginbotham: "In any marketplace there is going to be a spread of lenders with different risk appetites and different return expectations. Some are going to misprice that risk, and some will get it right. At Wyelands Bank, we are not positioning ourselves to be the cheapest on the marketplace, but we want to make sure that we are representing a fair price for a fair amount of risk."

Oakley is willing to look at the issue from a consumer perspective, saying: "Increased competition can be pretty good for the client as they can find better deals. Additionally, where there has been any new competition, lenders have tended to focus on a particular niche or highly focused level of expertise. Those that are successful are customer driven in terms of their continuity and responsiveness."

DISRUPTION

With some high street banks having existed for centuries and practising asset finance for decades, this is an arena that can be seen, paradoxically, to be both resistant to and dependent on external disruption.

Of this challenge to enact change, Davies says: "There is less technology disruption in our market. A company can do all the administration with artificial intelligence in seconds, but then have to wait six weeks for an invoice.

"There has been very little growth of price-comparison sites in asset finance. I think particularly in the SME market, when you look at the surveys of who do they know to talk to when they want asset finance, it is their clearing bank and maybe one other."

According to Schozer: "To some degree the banks have pulled back SME lending of their own volition. Independent SME lenders are not comparable to a company like Uber, which has disrupted the taxi market. The banks have been pulling back their bricks and mortar, which were expensive, for decades. They have helped facilitate the rise of alternative finance providers themselves, outside of disruptive practices."

> "BANKS HAVE BEEN PULLING BACK THEIR BRICKS AND MORTAR FOR DECADES. THEY HAVE HELPED FACILITATE THE RISE OF ALTERNATIVE PROVIDERS


Michael Schozer, Hadrian's Wall Capital

BROKER CHANNEL

For all new entrants into asset finance, the broker channel is of great importance, offering a valuable route of access to SMEs that are seeking finance. According to FLA results, in 2018 broker-introduced finance was up 8% to £545m, and sales finance was down 11% to £707m.

As to how to manage broker relationships, Oakley says: "The National Association of Commercial Finance Brokers is a good example of an association with very high standards that can also be a great contact for the industry.

"From here, it is about identifying the brokers in each market and giving them a superior experience. The best way is to give them a customer-driven experience, and to give them the confidence that they can refer to your company putting their reputation in your hands rather than to a different lender."

For Davies, simple market forces are a greater motivator. "Historically, new entrants to the SME lending market have benefitted by paying more fees than anybody else," he notes. "Yet with this strategy, brokers could move on to another lender if they were offered a little bit more. This may be why there should not be exclusive focus for a company on the broker channel. In order to


Neil Davies, Close Brothers

grow a sustainable business you need a mix of sources of business, and typically that is direct or indirect through vendor streams."

THE NEXT 12 MONTHS

While there has been success and a resulting growth in competition, the aforementioned concerns over areas such as Brexit and general economic uncertainty around the globe have raised questions of whether this growth in SME asset finance can continue. While no one can predict the future, senior figures at an independent lender are in as good as a position as any other to see where the market may be going over the next 12 months:

"There are market forces in both directions, so as to whether growth can continue is a tough one to call. The physical funders into the SME market might shift a little bit so that the risk profile of the available deals turns down slightly, but the overall levels should remain relatively stable," says Higginbotham.

"Wyelands Bank is looking to increase our lending into the SME sector. When starting from a relatively modest base it is an obvious aspiration to grow from that. There is a hope to play a sensible place in a marketplace that overall should be relatively stable."

On whether to anticipate an increase or decrease in lending over the next 12 months, Oakley says: "This is partly dependent on what the Brexit outcome is. Right now there is a degree of pent-up investment in the country that hasn't been unlocked yet and is pending some clarity on the situation. Assuming we have a sensible Brexit outcome, we could see volumes increasing over the next 12 months; if, however, there was very detrimental hard Brexit that was economically very difficult, then that would give it a different complexion."

TECHNOLOGY IN LEASING

As Davies notes, with the increasing need to include features such as price-comparison sites, technology is an axiomatic element of combating and updating the traditional leasing sector.

For Higginbotham: "Wyelands Bank has tended to focus its energies on the technical side of things, with focus on a core operating system that enables the bank to have a lot more stability around the product set on offer.

"There has been less focus on the automation of front-line origination, the automation of decisioning. Wyelands is looking to assess each customer on their merits with a manual underwrite situation, instead of falling into that 'computer says no' category."

For Schozer: "There is a huge number of smaller lenders who reach out to customers online – an area of outreach that didn't exist in this sector until recently. A lot of the further differences to the leasing sector have been tech-driven, whether underlying analytics or on the marketing side. If you look back to how SMEs borrowed10 years ago, it was radically different."

> "THERE ARE MARKET FORCES IN BOTH DIRECTIONS, SO AS TO WHETHER GROWTH CAN CONTINUE IS A REALLY TOUGH ONE TO CALL

CONSUMER AWARENESS

A prevalent issue in independent SME leasing has been simple publicity – a need to continually refine the art of letting companies know that there are alternative lenders to their high street banks out there, ready and willing to provide capital.

According to Davies, Close Brothers recently carried out a survey under the impression it was retaining about 85% of its SME customers. The data from the survey showed that at least 7% of its customers had not borrowed money for about five years.


Jason Oakley, Recognise

This led to a summation that customers had not moved away from Close Brothers, but that they did not need to borrow money on a regular basis.

Assessing both this issue and what is being doing to rectify it, Davies says: "A lot of SMEs don't need money every week, therefore they are not experts in it. When they want money, it is not a complex issue, they don't care what shape or colour it is. There is probably more to be done through vendors who could proactively offer the right type of financing for customers – although, if you wanted to increase the financial education of SMEs, that is going to take quite a while.

"Close Brothers works with a number of trade bodies, such as the Manufacturing Technologies Association. Being close to these organisations and being able to get the message out there is useful."

Davies continues: "Close Brothers also does a huge number of exhibitions, hosting stands that can explain to people what is happening in their sector. The company does more than 70 exhibitions in the UK a year, where if someone wants to talk about finance, there is the chance to have a conversation with them about it."

The independent SME asset finance market has undoubtedly experienced accelerated growth, and with adequate risk assessment practices there is no reason why this sector cannot continue to thrive.

In the event of an economic downturn, those players that have been more responsible and those less so may become evident, but what is undeniable is that this is a sector that has stepped in to provide small business owners much-needed capital when sometimes the bigger players in the market were unwilling to assist. ■

PENDRAGON: IS SILENCE STILL GOLDEN?

The case of a dealer that failed to disclose that the previous owner of a used car was a rental company was recently appealed, raising the question: what do customers need to know to make informed buying decisions? *Jonathan Butler* automotive specialist at Geldards, writes

On 22 March 2019, a judge at Teesside Crown Court overturned on appeal Pendragon's £134,000 conviction for failing to tell a customer in an online advert that a car had previously been owned by Enterprise Rent-a-Car.

The customer, a Mr Wilson, had visited www.evanshalshaw.com wanting to buy a used Vauxhall Insignia. He complained that the advert had contained the words "one registered keeper".

When he travelled to see the vehicle at the dealership, he was disappointed with its condition but said he would never have gone to the site had he been told that the vehicle had been owned by a rental company, a fact he said he only discovered when he saw a stamp in the service book in the glove box and made further enquiry.

At trial, District Judge Cousins, accepting that Wilson did not buy the vehicle but, a year later, did in fact buy a similar vehicle knowing it was ex-rental, nevertheless agreed with Middlesbrough Trading Standards that previous ownership by a rental company was material information under the Consumer Protection from Unfair Trading Regulations 2008 (CPUT) which Pendragon ought to have disclosed in its advert, and that failing to do so did mislead Wilson and would mislead the average consumer into assuming the words "one registered keeper" meant one private owner, and thus make a purchasing decision they would not otherwise make.

That decision rightly caused some consternation across the sector, because it revealed that the ASA's worrying decision in the widely reported yet criticised case of Glyn Hopkin and Fiat Chrysler in 2017 was being wrongly treated as the law, and that if that trend continued, a trader's disclosure obligations in the UK would be dramatically enhanced and contract law would be significantly recast in a way that the EU and CPUT had never intended.

If that were to be the case, the result would be not only prosecutions but also innovative civil claims on a scale akin to a 'new PPI' by law firms nationwide. Indeed, by January 2018, legal practice Harcus Sinclair LLP was publicising that it had over 4,000 claimants already interested in pursuing financial compensation.

APPEAL DECISION

On appeal, the judge was not satisfied that the words "one registered keeper" had ever actually appeared on www.evanshalshaw.com at all, but that, in any event, it was put to him that the previous user's identity was not a main characteristic of the vehicle for the purposes of EU law, nor was it a key purchase driver.

On the contrary, Pendragon's position was that the ASA's was inconsistent with a vast array of independent research commissioned by BCA between 2009 and 2014 to the effect that the main issue for consumers was quality, regardless of provenance, and that while some public perception might well be that a privately owned vehicle is better looked-after than a rental car, that is a legacy issue and simply no longer the case as a general rule.

In other words, the judge heard that the key point is not what a customer would like to know or would prefer to know, but what they need to know to decide whether or not to buy a used car, and the identity of previous owners is simply not a factor and has no adverse impact on value.

In allowing the appeal, His Honour Judge Crowson remarked: "The courts are not here to protect consumers from irrational prejudice. We are here to protect consumers against a bad bargain where the playing field is not level. If the value of the car is the same, there is no possibility of a bad bargain, is there? Here, we just have a feeling by Mr Wilson that buying a car that was owned by a rental company is not a good idea. Is that not irrational?"

Pendragon's success is important for the sector. The case raises the question: what do customers need to know to make informed buying decisions? The arguments should inform the CTSI's response to the consultation it launched in January 2019 over its planned implementation of its new Car Traders and Consumer Law: Guidance for dealerships.

This document stands to be the main reference tool and thus shape used car trade and practice for maybe decades to come. The case also underlines the need for care in distance and on-premises sales, staff training, good terms and conditions, and diligence in the arena of vehicle provenance systems, particularly following the GDPR changes to the V5C in May 2018.

But perhaps above all, the decision is an encouragement to the sector to defend these types of cases and more importantly, to champion how good a purchase ex-rental vehicles actually are. ■

HGV OPERATOR LICENCES: who, what AND WHERE?

The need for Operator Licences – in the form that we know them now – originated with the Transport Act 1968, and is now governed by the Goods Vehicle (Licensing of Operators) Act 1995 (the Act). Not exactly catchy titles, but they do what they say on the tin. Gateley's *Edmund Locock* writes

The Act specifies that nobody can use a goods vehicle on the road for hire or reward or in connection with any trade or business carried on by him except under an Operator's Licence.

This is a wide-ranging definition which, subject to the specific exceptions discussed below, acts as a catch-all for most commercial heavy goods vehicle operations in the UK.

Responsibility for issuing and enforcing Operator Licences lies with the Traffic Commissioners, of which there are eight, each presiding over a specific region of the UK. Operators need to obtain licences for each region in which they wish to operate.

EXEMPTIONS

A number of vehicle categories are exempt from the Operator Licence regime. While too numerous to list exhaustively, the main exemptions for Operator Licences relate to:

- **Small goods vehicles,** which for rigid vehicles means they have a relevant plated weight not exceeding 3.5 tonnes, or have no relevant plated weight but have an unladen weight not exceeding 1,525kg;
- **Old vehicles** registered pre-January 1977 with an unladen weight of not more than 1,525kg and a gross weight of not more than 3.5 tonnes;
- Vehicles used only for **internal carriage** by a haulier established in an EU member state other than the UK and not established in the UK, and
- Vehicles used by the **police, fire** brigade, the **ambulance** service and those used for **funerals**. It would, after all, be awful for one's hearse to be seized on the way to a funeral.


Edmund Locock, Gateley

WHO IS A USER?

The act talks about those who use vehicles on the road, but who exactly is a 'user' for the purposes of the legislation?

In the finance and leasing industry, where ownership of vehicles is almost invariably separate from their use and possession, this is a question of key importance. The user of a vehicle must apply for and hold a valid Operator Licence in respect of a vehicle, but where the vehicle is subject to a lease or hire-purchase agreement, it is the funder whose vehicle is at risk should it be seized for non-compliance.

The wording of the act itself is less than clear, stating: "For the purposes of this Act, the driver of a vehicle, if it belongs to him or is in his possession under an agreement for hire, hire-purchase or loan, and in any other case the person whose servant or agent the driver is, shall be deemed to be the person using the vehicle; and references to using a vehicle shall be construed accordingly."

What the legislation means, this writer believes, is that you will need an Operator Licence where:

1. You own and drive the vehicle;
2. You are in possession of the vehicle under the hire-purchase or lease agreement and drive the vehicle, or
3. It is your employee or agent who is the driver of the vehicle, whether or not you are owner or lessee of the vehicle.

For funders, therefore, it is essential that the terms and conditions of any lease or hire-purchase agreement incorporate a condition that the lessee, sub-lessee – and anyone else representing a user during the term of the agreement – hold a valid Operator Licence in respect of the vehicle at all times.

CONSEQUENCES

Operator Licences are personal to the individual or company to whom they are granted, which means they cannot be transferred, sold, borrowed or lent. They are also easily lost: fall foul of the Traffic Commissioner's strict regulatory requirements and the consequences will be severe.

Those who breach the terms of their Operator Licence can have their licence revoked, suspended or curtailed by the Traffic Commissioner. The commission can also direct that the person who was the holder of the licence be disqualified, potentially indefinitely, from holding or obtaining an Operator Licence in the future.

In case that is not enough incentive to comply with the act, not holding a valid Operator Licence is also a criminal offence; any person found guilty will likely also face substantial financial penalties.

Vehicles found operating without a valid Operator Licence can also be seized, impounded and scrapped after 21 days unless the owner can successfully appeal its seizure to the Traffic Commissioner. The appeal process is complicated, and there is certainly no guarantee that your vehicle will be released.

SUMMARY

For users, the importance of holding a valid licence for each vehicle in a fleet cannot be overstated. The consequences for non-compliance are severe, and potentially criminal.

For funders, it is essential that any agreement expressly requires customers, and anyone else classified as a user of the vehicle, to hold a valid Operator Licence at all times. A customer breaching this condition will be putting your assets at risk. ■

LEASINGLife

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Transaction Chronicle

- **Halifax Asset Finance** has closed an £85m sale and leaseback for **Severn Trent Water**. The lessee was advised by **Dresdner Kleinwort Benson** *(see page 6)*.
- **LPM**, the lease portfolio management division of **New Court Finance**, has been awarded the outsourcing contract for **British Railways Board**'s £120m equipment finance portfolio.
- **Silicon Graphics Financial Services** has been launched to provide a range of finance and leasing packages to **Silicon Graphics Computer Systems**' customers. The US company, which posted revenues of $3.7bn in 1997, established a UK presence in 1986.
- **Lloyds TSB** has moved the management of its 7,000-vehicle fleet to **Black Horse Vehicle Management**, its dedicated vehicle funding and fleet management operation. The fleet was previously administered by **PHH** and **Swan National**.
- **Pallas Industrial Finance** has been renamed **GE Capital Equipment Finance Ltd**.
- **Forward Trust Rail Ltd** has ordered £100m of rolling stock from **GEC-Alsthom**. Launch lessee on a four-year contract is the **National Express Group** train operating company **ScotRail** *(see page 8)*.
- **Lombard Corporate Finance** has closed a film financing valued in excess of £70m.
- **Nova Business Finance** has agreed a hire-purchase contract with **Motor & Legal Group** to finance the insurance claims handling company's 1,450 courtesy cars.
- **Paramount Computer Rentals** and **The Systems House Group** have been amalgamated to form **Systems Capital Group plc**.
- **Capital Bank Corporate** added 8,000 cars to its portfolio during March in its best business month since formation as IBOS Finance in 1975. Broker business was also very active.
- **Tenhill Computer Systems Ltd** has been acquired by **Lynx Group plc** for £10.21m of which £7.72m is in cash and £2.49m in Lynx shares, to be held by Tenhill's vendors for one year. For the year to December 1997, Tenhill made a pre-tax profit, before a £400,000 charge resulting from a property revaluation, of £400,000 on sales of £6.17m.

Where there's *Life* . . .

Newspaper headlines such as "National Express places £148m train order" show just how much more the UK leasing industry has to do in PR terms. The lion's share of the order is destined for ScotRail, a National Express train operating company that will have only four years of its franchise to run when the trains are delivered. The truth is, of course, that rolling stock leasing companies (RosCos) have ordered the trains and that in this case one of them is taking a residual value risk on to its own book on £100m of 30-year assets. Before government Ministers take the RosCos to task, they should look behind the headlines.

On the move . . .

Ian Gell is joining Dresdner Kleinwort Benson to develop non high-tech and telecomms middle market vendor business. He was previously with Hambros Bank.

Richard Waters, a manager in the Dresdner Kleinwort Benson (DKB) big-ticket leasing team has relocated to the bank's Wall Street office as a vice president of DKB North America Leasing, Inc.

Johan Evereart, **Doug Lambert** and **Victoria Want** have all joined Kredietfinance Corporation Ltd. Evereart, from Sybase Financial Services Europe, will be responsible for further developing the company's European vendor leasing capacity; Lambert, previously with Albany Life and Bank of Boston, has been named senior credit manager; Want has joined the asset finance team from ECS Computer Leasing.

Clive Butterworth has joined State Securities plc as manager for the East Midlands. He was with JCB Credit.

Robin Pyke (ex-Capital Bank plc), **Paul Thompson** (previously with Lloyds Bowmaker), **Bill Lowther** (from Caterpillar Financial Services), **Nick Clayton** (ex Forward Trust) and **David Kirk** (formerly with Lombard) have all joined GE Capital Equipment Finance.

Iain Sheppard has joined KPMG's leasing and structured finance unit to support the firm's lease evaluation services. He was previously with Royal Bank Leasing. **Jacqui Driver**, from KPMG's Leeds office, has been seconded to the unit to assist with lease accounting services.

Premila Hoon has joined Societe Generale as head of media finance. She was with Guinness Mahon.

Continued on page 15

inside