

LEASINGLIFE

September 2016 Vol 22 No 276

www.leasinglife.com

SME leasing



Dealing with uncertainty
post-Brexit

NEWS: GE completes French and German leasing arm sale to BFCM

SPECIAL REPORT: The Netherlands

PLUS: CMA report comment

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Leasing Life Conference & Awards 2016 brings together asset finance professionals and industry disruptors in an active discussion of the key issues facing the leasing industry:

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CMA report missed the mark for SME lessors

It is summer season and a lot of the industry is on holiday.

It is traditionally a quiet time of the year, but there has been some important news.

Virgin Money said in its half-year results that it would defer its business lending unit to a future date, as yet unspecified.

Leasing market veteran George Ashworth departed the bank, causing speculation that Virgin had no intention of entering the business lending market.

Although the Newcastle-based lender said the decision was due to uncertainty caused by the Brexit referendum, market commentators have pointed out the rising competition in the SME lending market over the past two years.

Brokers and small lenders with distribution networks have been bought up by private equity funds or acquired by larger rivals, as the double-digit returns on offer attracted investors keen for more secure investments than volatile global equity markets could provide.

These new players targeted the SME market, incentivised by the returns, while challenger banks entered the market keen to get a foothold in what was seen as a growth market, buoyed by government lending schemes.

Could Virgin's decision to defer its entry into the market be a sign that the SME lending market growth has peaked?

We are in more uncertain times due to the Brexit referendum.

And as Julian Rose points out in some excellent insight on p12, there may have been other decisions for the Virgin board to take into account for the deferral, namely the Competition and Markets Authority report into competition in retail banking.

The CMA did not have the power to change the balance of power for challengers against the bigger banks when it came to the capital requirements regime.

As Rose points out, the CMA shied away from addressing disparity between traditional lenders on one side and alternative lenders and challengers on the other over required capital ratios and the higher cost of capital for lending for non-banks.

The feeling then is that there could be less competition in the market available for new lenders.

Or there could be a wave of mergers as the costs cause alternative leasing businesses to sell up.

Add to this warnings from the Asset Based Finance Association that the expan-



sion of the quantitative easing programme to improve corporate bonds would help only large corporations, and offer relatively little to SMEs, then there seems to be a mix of confidence in the SME market at the moment.

Good then that we have this month's feature on SME leasing post Brexit by new reporter Saad Ahmed, which you can read on p16.

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Leasing Life is available in print and online worldwide.

Leasing Life is published monthly by Financial News Publishing Ltd.

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ISSN No 1351-3826. Printed in England by Progressive Media Group

Picture resources: Shutterstock

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GE completes €6.1bn sale of French and German leasing arm to BFCM

GE has completed the sale of its Equipment Finance and Receivable Finance businesses in France and Germany to Banque Fédérative du Crédit Mutuel (BFCM), for a total value of \$6.8bn (€6.1bn) as of the first quarter of 2016. The deal was originally proposed in December 2015.

"We are pleased to complete this transaction with BFCM for a significant piece of our European business," said Keith Sherin, GE Capital chairman and CEO.

"As we continue to execute on our strategy to significantly reduce the size of GE Capital, we wish our commercial finance employees in France and Germany the very best as they join BFCM," he added.

BFCM is part of CM11 which belongs to Crédit Mutuel group, the second-largest retail bank in France with positioning in home loans, SME and non-life insurance.

GE is focusing on its high-value industrial businesses and is selling most of GE Capital's

assets, while retaining the financing "verticals" that relate to GE's industrial businesses, it said.

GE Capital has signed agreements for the sale of approximately \$183bn of businesses, and has closed approximately \$168bn of those transactions.

GE Capital plans to have largely completed the process of selling approximately \$200bn of GE Capital businesses not linked to GE by the end of 2016. ■

CDB Leasing falls 7% in HKSE IPO

Shenzhen-based lessor China Development Bank Financial Leasing dropped 7% on the Hong Kong Stock Exchange (HKSE), marking the worst major debut in three years, according to news reports.

CDB Financial Leasing debuted on the HKSE with an initial public offering (IPO) of 3.1bn shares priced at HK\$2 (€0.23), raising \$799m.

The share values soon fell, closing at HK\$1.86, making it the worst first-day fall for a company valued at \$500m or higher since Langham Hospitality Investments dropped 9.2% in 2013.

The Chinese lessor was originally founded in 1984 as Shenzhen Leasing, and renamed in 2008 when CDB became its controlling shareholder.

CDB Leasing set the record for the highest proportion of shares in an IPO on the HKSE going to a single cornerstone buyer, with state-owned China Three Gorges Corporation purchasing 42.1%, according to reports.

This comes two months after the Bank of China broke records with the IPO of its aircraft leasing arm BOC Aviation Hong Kong. ■

ELFF: Equipment leasing and finance industry confidence steady

Equipment leasing and finance industry confidence has remained steady in July, according to the Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI).

The MCI-EFI is released monthly by the Equipment Leasing and Finance Foundation and surveys executives from the equipment finance sector to assess business conditions and expectations for the future.

In the July 2016 release it was reported that confidence in the equipment finance market is 52.5%, remaining near-steady with the June index of 52.3.

Anthony Cracchiolo, president and CEO of US Bank Equipment Finance, said: "The industry continues to be stable and positioned for growth as the US economy improves."

"However, challenges remain as the expansion remains slow and low interest rates continue to apply pressure to the industry's bottom line."

Respondents overwhelmingly believed market conditions will remain the same.

When asked about business conditions over the next four months, 75.8% predicted no change. The situation was similar for access to capital for equipment acquisitions

(78.8%), employee hires (63.6%), demand for leases (57.6%), and business development spending (60.6%) over the same period.

The industry took a similar view when assessing US economy, with 100% of respondents assessing it as 'fair', and 78.8% expecting no change in economic conditions over the next six months.

However, there are fears for the future, following slow growth in the US market, and uncertainty prompted by Brexit and the undecided US presidential election.

William H Besgen, senior advisor and vice-chairman emeritus at Hitachi Capital America, said: "There is definitely uncertainty given the international effects that Brexit has had on exchange and bond rates."

"The question is how it will affect the US market, which continues to grow ahead, albeit at a slow pace."

Valerie Hayes Jester, president of Brandywine Capital Associates, said: "Current events here and abroad make us concerned about demand for the next two quarters."

"I think our average customer will wait for the outcome of the election before making any decisions to expand their business or replace equipment." ■

Chinese leasing businesses look to expand internationally

Chinese financial leasing firms are increasingly looking abroad to expand their business, according to reports.

Beijing-based ICBC Financial Leasing reached ¥300bn (€40bn) in assets by the end of 2015, 40% of which was international business, according to local English-language newspaper *China Daily*.

Zhao Guicai, president of ICBC Financial Leasing, said: "International development has become an essential feature and core competence of our company."

ICBC signed contracts with Chinese

shipbuilders for 14 iron ore carriers worth \$1.4bn earlier this year, after securing a 27-year deal to transport iron ore with Brazilian mining company Vale.

From the first half of 2018, ICBC will transport 16m tonnes of iron ore from Brazil to China.

"By signing these contracts, we are effectively pushing forward the domestic high-end shipbuilding industry to go global," Zhao added.

Tianjin, the coastal Chinese city where ICBC was founded in 2007, has become a

hotspot for China's leasing industry, with eight companies established and one awaiting approval.

These firms have assets worth ¥520bn, and 37% annual growth.

Wang Wengang, deputy director of the Tianjin office of the China Banking Regulatory Commission, commented: "In the next stage, we will keep guiding financial leasing companies to further strengthen their support to the high-end equipment industry and improve business models that serve China's Going Global strategy." ■

Aldermore H1 profits up 45% to £63m

Aldermore has seen a 45% increase in underlying pre-tax profit in the first half of 2016, according to its results.

The challenger bank achieved £63m (£73.3m) in H1 2016, up from £44m at the same point in 2015. Reported profit before tax also rose, up 50% to £59m, from the £40m achieved in the first half of 2015.

Aldermore saw decreasing returns on equity however, as underlying was 18.0% versus 18.6% in H1 2015, with reported returns on equity falling 0.5% to 16.3%. Earnings per share grew by 17% to £0.103.

The loan portfolio experienced growth, with loan origination up 26% to £1.5bn from H1 2015, and net loans up 11% to £6.8bn from 31 December 2015.

Though Aldermore's capital ratios fell, with total capital ratios down 1.1% and CET1 down 0.8%, both compared to 31 December 2015, the capital position remained in line with expectations.

Phillip Monks, chief executive, said: "It has been another strong six months of operational and financial performance."

"We have also driven another significant

increase in profits...a 45% increase in the group's underlying profit before tax to £63m for the first six months."

Monks stated that though the effects of Brexit may affect the economic environment, Aldermore remained positive.

Monks added: "Following the EU Referendum, we all face a period of heightened political and economic uncertainty.

"We remain confident that we will successfully navigate the challenges ahead as well as take advantage of the opportunities that change may bring." ■

Hampshire Trust achieves £1.3m profit in H1 2016

Hampshire Trust Bank reported profits of £1.3m (£1.6m) in the first half of 2016.

The UK-based bank also saw total assets increase by 60%, reaching £389m in H1 2016, from £243m at the end of 2015.

Loan assets also increased, up 75% from the end of 2015 to £311m. Hampshire Trust saw customer deposits rise by 68% to £314m in the same period, enabled by a 33% increase in customer numbers to 10,000.

The challenger bank boosted employee numbers by 25%, and announced plans for further personnel growth in the coming year to meet business objectives.

Mark Sismey-Durrant, CEO at Hamp-

shire Trust Bank, said: "We are delighted with our financial performance in the first six months of 2016, and expect to continue on this strong growth trajectory during the second half of the year.

"In H1, we achieved a pre-tax profit of £1.3m, a solid achievement for a bank that launched just two years ago.

"As a relatively new business with no legacy loans, we feel well positioned to respond to the current economic and political uncertainty around Brexit."

Ketan Malde, chief financial officer at Hampshire Trust Bank, added: "We are in a strong financial position for the future." ■

Shawbrook: £9m charge stunted H1 profits

Shawbrook Bank has increased its profits by 14% in the first half of 2016 compared to the same period in 2015, according to interim results released by the group.

The challenger bank saw first-half profit before tax (PBT) of £38m (£45.2m) in the year to 30 June, up from £32m in 2015.

The results factor in the £9m impairment charge that Shawbrook announced on 28 June, following perceived irregularities in lending practices.

Without the charge, the group claims, profits would have risen 41% compared to H1 2015.

Shawbrook saw decreasing returns on tangible equity (RoTE), with RoTE for H1 2016 of 21.2%, down from 22.7% a year ago. However, the bank claims that without the impairment charge RoTE would have increased to 23.3%.

The underlying cost-to-income ratio for the group fell to 47.9% from 51% for H1 2015, and the group started new initiatives, expanding its personal loan proposition and employing a development finance strategy.

Steve Pateman, CEO at Shawbrook Group, said: "I am delighted to report that the business achieved a strong first-half performance.

"This strong result is after taking into account the additional impairment charge announced on 28 June 2016; absent this charge, underlying PBT in H1 2016 would have been 41% higher when compared to H1 2015."

The group stated it was preparing for a changing economic environment following the UK vote to leave the European Union.

The report stated: "We will continue to be cautious yet confident in our outlook, and we are well prepared for a softer economic outlook." ■

Metro Bank loans up 110% to £4.6bn in H1 2016

Metro Bank has increased its loans by 110% in the first half of 2016 compared to the same point in 2015, according to the bank's trading update.

The bank gave loans worth £4.6bn (£5.5bn) in the six months to 30 June, more than double the £2.2bn recorded the previous year. Loans were up 12% from the first quarter of 2016.

Total revenue for Metro Bank also increased, rising 63% to £46.3m compared to the previous year. Compared to the first quarter of 2016, the bank's total revenue increased by 23%.

Non-performing loans made up 0.12% of the portfolio, and the loan loss reserve was 146% of these at 30 June 2016.

The bank has maintained capital ratios above the regulatory requirements, with common equity tier 1 capital at 21% of risk-

weighted assets, 13% above the regulatory leverage ratio.

Craig Donaldson, chief executive officer at Metro Bank, said: "We have had an excellent second quarter and first half of 2016, generating substantial growth in deposits and lending, joining the FTSE-250, and continuing to move towards profitability."

Metro Bank saw higher revenues, reporting a 63% year-on-year (YoY) increase in revenue to £46.3m. Losses fell by 45% YoY and 48% from the first quarter of 2016, to £4.1m underlying after tax.

Vernon Hill, chairman and founder, Metro Bank, added: "As we celebrate our sixth anniversary, we would like to thank all our customers, colleagues, and investors who have supported us in our mission to develop Metro Bank into a major banking force in the UK." ■

ABFA: BoE stimulus could leave SMEs behind

The Asset Based Finance Association (ABFA) has expressed concerns that the Bank of England's (BoE) stimulus package risks "leaving behind" small and medium-sized enterprises (SMEs).

The BoE announced that it will cut UK interest rates to a record low of 0.25%, in response to the economic uncertainty following the Brexit vote.

The Monetary Policy Committee of the UK's central bank voted on a variety of measures, including:

- A 25-basis-point cut in the Bank Rate to 0.25%
- A new Term Funding Scheme (TFS)
- The purchase of up to £10bn (€11.8bn) of UK corporate bonds
- A £60bn expansion of the asset purchase scheme for UK government bonds, taking the total stock of these asset purchases to £435bn.

The ABFA warned that the expansion of the quantitative easing programme to improve corporate bonds would help only large corporations, and offer relatively little to SMEs.

Jeff Longhurst, CEO at ABFA said: "The [BoE] needs to make sure that SMEs do not get left behind by stimulus packages that only help households and big businesses.

"It is disappointing that the Bank of England has not considered...[providing] much more targeted assistance to SMEs."

The new TFS launched by the BoE will provide funding for banks at a rate close to the 0.25% Bank Rate.

In a letter to UK Chancellor Philip Hammond, BoE governor Mark Carney said: "The MPC judged this step was warranted in order to ensure the very low level of Bank Rate was passed through to lending rates in the real economy faced by households and businesses."

The TFS was, however, welcomed by ABFA, as it may prove positive for SMEs.

Longhurst said: "We look forward to the detail on the proposed term funding scheme which may have the potential to have some positive impact on smaller businesses if it can be used to support the full range of commercial finance options, including invoice finance and asset-based lending." ■

Metro Bank pledges £30m with LDF for services funding

Metro Bank has announced £30m (€35m) in funding to support the professional services sector.

Metro Bank will join with LDF to provide the funding to small and medium-sized enterprises (SMEs) over the next 18 months.

Nathan Mollett, head of asset finance at Metro Bank, said: "Professional services are an integral sector in the UK economy, and we are delighted to be able to support it with an additional dedicated line of funding.

"We understand how demanding the sector can be, and hope that by working closely with LDF we can enable more businesses to prosper."

This announcement follows the launch of Metro Bank's tailored lending offering, which aims to provide short-term funding, including asset finance, to SMEs.

Metro Bank reported strong results for Q2 2016, with 110% year-on-year (YoY) increase in lending, and 74% YoY growth in deposits to £6.6bn, with 52% from business customers. ■

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Virgin Money postpones SME lending unit due to Brexit

Virgin Money has postponed the implementation of its SME lending unit due to financial uncertainty resulting from Brexit, as revealed in its half-year results.

In its half-year results report, the Newcastle-based bank announced it would defer its SME and unsecured lending plans.

This decision comes as Virgin Money revealed underlying profit before tax of £101.8m (£120.8m) in H1 2016, up by 53% on the previous year.

Virgin Money chief executive Jayne-Anne Gadhia said: "Our strategy is focused on creating a business that can continue to grow, maintaining our excellent asset quality and successfully delivering sustainable shareholder returns through the economic cycle."



"As part of this, we have decided that it is prudent to defer our SME and unsecured lending plans and focus investment on enhancing our digital capability."

Virgin Money's loan-to-deposit ratio rose 2.3% from H1 2015 to 109.6%, and return on tangible equity increased to 12.2%. Gross mortgage lending was £4.3bn (£5.1bn), 19% higher than H1 2015.

The bank declared an interim dividend of £0.016 per share, and pledged to "fund growth in the most cost-efficient way".

Virgin Money stated: "We are delighted that we have delivered strongly against our objectives in H1 2016."

"We will continue to put customers at the heart of everything we do." ■

SG Fleet acquires Solihull-based Fleet Hire in £25.7m deal

SG Fleet has acquired Fleet Hire, a Solihull-based contract hire, fleet management and salary sacrifice provider, in a £25.7m (£30m) deal.

The deal sees the Australian-listed SG Fleet add Fleet Hire's 6,500 vehicles to its 130,000-strong fleet in Australia, New Zealand and the UK. SG Fleet will also take on Fleet Hire's 60 staff.

Fleet Hire attracted a number of new business wins over the past 12 months, and its senior team, including CEO Graham Hale, COO Chris Joyce and sales director Nick Poole, will remain in place to ensure continuity.

In a statement, SG Fleet said the acquisition provided it "with critical mass in the attractive UK fleet market and, in combination with our existing local business, will create a

profitable platform for future growth."

SG Fleet's UK MD, David Fernandes, said: "Fleet Hire is an ideal fit for our long-term growth strategy in the UK."

"Coupled with the invaluable expertise we have gained by retaining the commitment of the existing management team, we have made a significant stride forward."

Graham Hale, CEO at Fleet Hire, commented: "The integration of the two businesses in the UK extends the range of solutions we can offer our rapidly growing corporate customer base."

"Combining our forces is a big step forward for both businesses."

"It establishes a genuine platform for the combined business to build on and is a very exciting time for both of us." ■

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CLOSE BROTHERS EXPANDS IRISH SME ASSET FINANCE TEAM

Close Brothers Commercial Finance has appointed four sales directors and an area manager to provide SME asset finance in the Leinster and Munster regions of Ireland.

Pat Buckey, Matthew Dolan, Kenneth Havelin and Anthony Aylard join Close Brothers as sales directors, boosting the asset finance team to 15 employees. Darren Robinson joins the same team as area manager.

The five new employees have experience across diverse industries, ranging from motor and commercial vehicles, to farming, to technology and engineering.

Close Brothers hopes this wide experience with businesses in Ireland will enable the team to work closely with SMEs for tailored finance packages.

Close Brothers stated that demand for funding continues to increase, and that 60% of Irish firms intend to invest a minimum of €25,000 (£21,393) over the next 12 months.

ULTIMATE FINANCE APPOINTS ADCOCK AS SENIOR REGIONAL DIRECTOR FOR SOUTH EAST

Ultimate Finance has appointed Simon Adcock as senior regional director for the South East.

Adcock will be responsible for driving sales in the region and supporting the sales team already in place.

Prior to joining Ultimate Finance, Adcock worked at CVR Global for three years, often dealing with members of Ultimate Finance, and for 15 years in the invoice finance market.

IAA-ADVISORY APPOINTS FOUR DIRECTORS; STORRAR RETIRES

IAA-Advisory has added four directors to its team: Stephen Grey, Patrick Jelly, Nigel McInerney and Ian Sinclair-Ford.

Grey has worked in many operational and project management roles within the UK and abroad.

Grey worked with organisations such as GE, BNP Paribas and Aldermore, among others, and IAA said it would benefit from this experience and his operating ethos to IAA.

Jelly joins IAA from Pitney Bowes, where he was head of European operations and the leasing, rental, and payments business.

Jelly has over 30 years of industry experience, and has held senior positions at GE, AT&T, Capital and CIT. He also has experience of change management and business transformation.

McInerney is a qualified accountant who joins IAA from HSBC, where he was responsible for a wide range of asset finance solutions for both UK and global clients, and developed a specialised skill, energy-related financing.

McInerney has worked in organisations such as Airlease International, Kleinworth Bension, and Citibank, and has over 30 years' experience, and gained deep understanding of the structuring of asset finance transactions.

Sinclair-Ford has been involved in the asset finance industry for over 20 years. A qualified solicitor, he has worked as in-house counsel for Alliance & Leicester Commercial Finance and Capital Bank. Sinclair-Ford brings this



experience, and skill and interest in data protection and data privacy within the UK, Europe and the US.

The leasing and asset finance consultancy also announced the retirement of director Chris Storrar, who joined IAA in 2010.

HENRY HOWARD APPOINTS GODDARD HEAD OF SALES FOR CASHFLOW FINANCE

Henry Howard Finance Group has appointed Robin Goddard as head of sales for its invoice finance division, HH Cashflow Finance.

Goddard will be responsible for driving the continued expansion of the Newport-based group, which was the fastest-growing lender in Wales last year.

Goddard has spent 16 years in business development and sales roles for many independent lenders, and will bring his experience of commercial funding to the new role.

HH Cashflow was launched in October 2014, and exceeded its growth forecast in its first 18 months, lending more than £9,000,000 (£10,670,000). It has also increased its client portfolio by 31% over the past six months.

SIEMENS STRENGTHENS MANCHESTER VENDOR FINANCE SALES TEAM

Siemens Financial Services (SFS) will increase the size of its Manchester vendor finance team, based at Sir William Siemens House.

The financial services provider decided to relocate its vendor finance sales support team from Bristol in early June, and the staff started at their new location on 15 August.

SFS hopes that improved delivery and customer service will result from the whole vendor finance sales support team now being in the same location.

ASHWORTH DEPARTS VIRGIN MONEY

George Ashworth has left UK challenger bank Virgin Money after it decided to shelve its SME business lending unit, as revealed in its most recent results.

A spokesman for Virgin told *Leasing Life*: "As announced at our half-year results on 26 July, we decided that it would be prudent to defer our SME plans and focus our investment on enhancing our digital capability. As a result I can confirm that George Ashworth has decided to continue with his SME career elsewhere, and has left Virgin Money."

The spokesman said that Ashworth's departure

would not change its intention to develop a business lending unit in the future.

Ashworth joined Virgin Money as director of its intended SME business lending unit in November 2015, after a successful stint setting up and growing Dutch lessor ABN-Amro Lease UK, now headed by MD Richard de Keijzer.

This year he featured in *Leasing Life*'s power 50 list of the top influencers in the European asset finance industry, the fourth time he has appeared in the annual list.

Ashworth has had a 39-year career in banking and leasing, starting at Barclays in 1977, entering into asset finance in 1989 as MD of startup IVM Finance, later bought by DLL.

His career has taken him to DLL, captive lessor Crown Equipment Corporation, Lombard, Fortis Lease and Aldermore.

FRAIKIN APPOINTS C-LEVEL EXECUTIVES IN THE UK

Fraikin, part of France's Fraikin Group, has appointed Ed Cowell as CEO and Bryn Thomas as CFO.

Cowell joins Fraikin from Speedy Services, where he was head of major accounts, and group sales and marketing director.

Prior to this, Cowell worked at security company G4S in a number of roles, and at Barclays Private Bank for two years after leaving the UK's armed forces in 2007.

As CEO, Cowell will be tasked with spearheading the company's growth in the commercial vehicle contract hire, fleet management, and rental sectors. He will report to Pierre Louis Colin, CEO of Fraikin Group in France.

As CFO, Thomas will work on fiscal strategy. He joins Fraikin after two decades working with Peugeot and Citroën in the UK and Ireland, to take the place of Emmanuelle Kergoat, who has taken a position with Fraikin in France.

ALPHABET APPOINTS INTERMEDIARY MANAGER FOR AFFINITY PARTNERSHIPS

Alphabet has appointed Darren Harnett as intermediary manager for its affinity partnerships team.

Harnett joined the business mobility provider from CLM Fleet Management, where he was client relationship manager. He has also held previous roles in the leasing industry, focused on the SME market.

At Alphabet, Harnett will be responsible for managing larger clients, and developing strategic and commercial relationships with third-party fleet management providers in the UK.

ALDERMORE MAKES RHODES COMMERCIAL DIRECTOR

Aldermore has appointed Lee Rhodes as commercial director in wholesale and structured asset finance.

Rhodes joined Aldermore in 2014 as head of wholesale, and previously worked at ING Lease in the financial products team for 10 years.

He has also worked for Investec and Dresdner Kleinwort Wasserstein. In his new role, Rhodes will report to group MD for business finance, Carl D'Amassa. ■

Post Brexit and CMA, is the leasing market ready for some fintech attention?

The Competition and Markets Authority is putting its faith in a fintech solution to disrupt the big banks' dominance of SME banking. While the implications for leasing may only be indirect, they could still be significant says Asset Finance Policy's **Julian Rose**

At the end of its marathon two-year review of the banking market, the Competition and Markets Authority (CMA) has placed its money on a financial technology (fintech) solution for disrupting the big banks' dominance of the SME banking market. The implications for leasing are only indirect, but could still be significant.

Having decided that older and larger banks do not have to compete hard enough for customers' business, and smaller and newer banks find it difficult to grow, the CMA's masterplan is focused on technological change.

Small businesses will be able to instruct their bank to share certain data about their banking activities with other banks and with third parties.

Through online tools or applications, the CMA expects this will help businesses to manage and compare different banking accounts.

The CMA's requirement for data sharing could be seen as only a small step from an existing Small Business Act provision, now in the implementation phase, that requires banks that turn down loan applications from small businesses to offer an online 'referral' to a range of alternative finance providers.

The idea is that alternative finance providers armed with information about the small business's banking records might be willing to provide the finance that the bank has declined.

It is easy enough to dismiss all of this. It relies on small businesses choosing to allow their data to be shared with other providers. Would businesses with anything other than a perfect record do so?

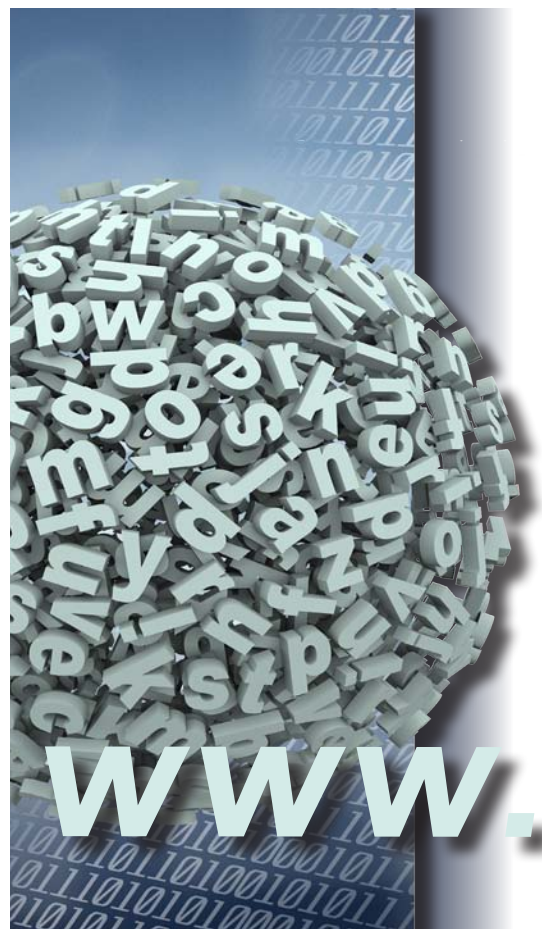
It also assumes that many of the businesses rejected by the banks are still realistic lending propositions for other finance companies.

Data sharing at the individual company level also does little to overcome two quite

fundamental barriers to entry into the SME finance market identified by the CMA: the challenges of capital requirements regulation for a new entrant unable to use historical information to justify holding a lower amount of capital than otherwise required, and the costs of funds for lending being higher for non-banks.

On both counts, the CMA seemed content to leave the problems to other authorities to consider. It noted it lacked the powers to change the capital requirements regime, and that the regime as a whole is subject to a number of significant other developments.

Regarding the cost of funds, it (rather oddly) pinned this to the idea that some banks are 'too big to fail', and as such benefit from lower wholesale funding costs, rather than considering the cheap money available to banks through the Funding for Lending Scheme and its post-Brexit-vote successor, the Term Funding Scheme.



LEASING L I F E

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The CMA came in for some quite severe criticism from challenger banks for its weak remedies to the market issues it identified.

It may not be a coincidence that Virgin Money froze its plans to enter the SME banking market shortly before the CMA final report was published, even though the bank blamed Brexit uncertainty.

Yet the CMA may not have completely lost its marbles. Data sharing and fintech does matter, and it could make a difference to the SME finance market, not least for leasing.

With access to market-wide lending data, combined with a range of other data on businesses and individuals, fintech should be able to help banks and other finance companies predict future loan performance with greater precision than is possible today.

The credit reference agencies may argue they already provide all of this. Some valuable work is indeed being carried out in the sharing of payments information on firms' credit agreements and utility and other bills.

Predicting loan performance is, however, only partly about looking at the data to find the differences between individual businesses: What makes one business a lower or higher risk than another?

It is necessary also to look at the data to find the similarities between businesses. What makes a particular business sector, geographical location, or type of investment



Julian Rose, Asset Finance Policy

a lower or higher risk than another?

Many individuals and firms in the leasing industry quite rightly pride themselves on their expertise in making lending decisions in particular sectors, regions or for particular types of assets. This is based on their deep experience. It has served the industry well up to now, but is it enough for the leasing industry of the future?

As economic conditions tighten following the referendum, the need for better data on loan performance will only increase. Without the data, lending is simply unnecessarily risky, as insights about sectors, regions and asset types are missed, no matter what exper-

tise is available in-house and what insights the credit agencies can provide.

It is also difficult for lessors to attract external non-bank investment, as investors typically want to understand the risks of a particular lessor's portfolio compared to the wider market.

The CMA's emphasis on data sharing and fintech follows not only the Small Business Act provision for referrals, but also a Bank of England discussion paper on UK credit data in 2014.

In its feedback, the Bank said it believed greater availability of market-wide credit data on the SME asset class could support market-based financing for SMEs, including through a deeper securitisation market for SME loans. Such information sharing is already in place in the leasing markets of the US, Canada and Italy.

With the CMA report, the regulatory impetus is growing for further data sharing. The Small Business Act and CMA might have focused on 'micro' individual business-level data, with all its limitations, but the biggest potential remains at the 'macro' portfolio-level data to give banks and other lessors far more granular and reliable information on SME lending risks than is available today.

Increasingly it is not a question of whether, but rather of when SME loan and lease performance data sharing will happen. ■



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Making business simpler

Brian Cantwell talks to Nordea Finance chief executive **Peter Hupfeld** to understand how he is revamping the Nordic lessor for the commercial leasing market in the age of digital

In September 2015 Nordea Finance appointed Peter Hupfeld, 44, as its chief executive, replacing industry stalwart Jukka Salonen.

Salonen left to become COO of the Nordea Group, overseeing a process of 'simplification'.

For the commercial arm this meant improving Nordea's processes and products by building online platforms to drive sales.

Hupfeld comes from a management consultancy background, specialising in corporate strategy and process optimisation. He moved to Nordea from global insurer RSA, where he was responsible for the Danish part of the corporate insurance business, covering the SME market and global clients.

Despite a lack of direct leasing experience, Nordea brought Hupfeld to the role because of his fresh perspective and his ability to reform the lessor into a more customer-focused business.

"I spent the first three or four months learning how the leasing business worked," says Hupfeld.

"Then I started off a new strategy project. Up to the start of this year after my appointment I was learning the business, understanding where the penetration of the finance arm was most effective.

"Now there is a new strategy in January, put together with the management team, centred on the customer."

Hupfeld says upgrades to customer platforms were the most challenging in terms of logistics, but were absolutely necessary as part of his corporate strategy for the Norwegian lessor.

"I think there is a system side to the challenge. A lot of leasing businesses have not changed platforms [in a long time], which means they are operating 10- or 15-year-old platforms: that is the journey.

"Nordea started the simplification program three or four years ago, and we are almost through now. In 18 months we will have a new leasing platform up and running in all four Nordic countries."

Online engagement with customers is vital, says Hupfeld, because he is bullish on the expansion of leasing into new markets. As for the leasing market, Hupfeld is positive on its potential for growth, and for the application of leasing into new markets.

"I think leasing is a growing business.



Peter Hupfeld, Nordea Finance

More and more of a normal household's expenditure will be tied to leasing or financing: for cars, travels, glasses, phones, electrical goods. In the volume market it is space and simplicity. People want to do business online, to answer one or two questions. It needs to be simple, it needs to be fast."

For the commercial space, however, the picture is more complex, requiring greater sophistication.

"For larger complex leasing arrangements, corporates understand that these are complex and they need time to do them, and they are required to answer a lot of questions. I think that is what we need to differentiate.

"I think that the service proposition has been too generic. People expect simple service. Why do I need to talk to someone if I could handle it myself? I think that wave of operation – self-service, digitalization – is part of Nordea's simplification."

Hupfeld says organizing large pre-existing commercial leasing clients would take time, but files would also be brought up to date and their leases, which can often be wide-ranging and the paperwork difficult to track, would be brought online and centralised.

"How? It is transparency, it is reporting, it is making the product really simple to use – and how can we help the CFO to want to do more leasing?

"Again, obviously large leasing arrangements are complex, people understand that, but you cannot complicate simple business because then people do not want to do business with you.

"I think the key to businesses' requirements is new systems, new products, and new processes. If you try to do something simple, or try to do without transparency in terms of reporting in all systems, then you are going

to fail because there is too much manual work.

"I think that's what we have been facing at Nordea Finance, but also as an industry, for a number of years."

Talent reworking

In the race to digitalise Nordea's existing leases and the platforms and products that the lessor offers, Hupfeld has also moved to transition the thinking behind the biggest disruptor to banking in the last 10 years: financial technology.

"I think everyone was looking at fintechs, seeing whether they wanted to work on it. Everyone hit the wall and said we need to react. I think let's use the fintech element in this, and add young agile dynamic people trying to work in a banking environment.

"What we do at Nordea Finance is maintain a strict focus on talent management; that is a cornerstone," Hupfeld explains.

"When setting up a new management team, I think diversity is extremely important. Youth is one thing, but I think the key for me is having young dynamic mindsets to test new things. It is extremely important to get new ideas fully integrated into how we run and develop the business.

"We invited all our employees to participate in the workshops, and we had tons of great ideas. We just launched a new product, 'Win Culture', which everyone is part of, and means I am provided with good suggestions from employees and middle management.

"Obviously that goes through the management system. But the culture of everyone coming up with innovative ideas and new products has happened in the markets. Some of it is really local, which makes it country-specific.

"The dynamic I am looking for is how we can use that across the seven countries we operate in, because we are 3,500 people in transactional banking in Nordea Finance, so firstly we must get through the layers, and secondly have the correct mindset, with this openness and willingness to test new ideas. I think it boils down to agility and trade.

"One thing is having the best idea; the other thing is how can I make it operational in certain foreign processes?

"This is why it is so key for me to change the platforms. Because again, it gives me new opportunities, new capabilities." ■

A question of reputation

After media disclosures about margins on public sector leasing contracts, the leasing industry must protect its reputation by instituting its own quality controls, says **John Bennett**, principal at JB Associates

I have never been a regular viewer of the BBC's *Panorama* programme since its Monday night schedule started to clash with Sky Sport's coverage of the Premier League's Monday fixture.

But, like many of us in leasing, I did watch *Panorama* on 24 September, 2012.

There was actually no football that evening, and *Panorama* was broadcasting its story of how the leasing industry was supporting rogue photocopier and IT suppliers, which were defrauding schools and colleges by supplying equipment at vastly inflated prices.

The *Panorama* programme had been preceded by several months of media exposure of the allegations in the national press. It resulted in Margaret Hodge, chair of the Commons public accounts committee, commenting in Parliament that banks and finance companies may not have a legal obligation to ensure that public sector procurement contracts achieve value for money, but they have a "moral responsibility" to intervene if they knew that "these supply companies were fleecing our schools".

This debacle, although it was limited to a small number of cases, undoubtedly tarnished our industry reputation within government circles. It added a different, but equally unwelcome, dimension to the widely held view of leasing as a tax-dodging industry, devoted to exploiting every available loophole with aggressive tax structuring.

So it is not hard to understand why, for many years, leasing was excluded from various government incentive schemes aimed at stimulating capital investment, and was a regular target for anti-avoidance tax legislation.

Where are we today in terms of our industry reputation, particularly following the recent mass changes of personnel within the government's ranks as a consequence of Brexit, from Prime Minister and Cabinet members through to junior ministerial positions, together with various departmental realignments?

Many of these new appointments who will be involved in our industry are already known to the Finance and Leasing Association (FLA), either on a business or personal

basis, and several will also have experience of asset finance through their business activities outside parliament.

A few may also have experienced complaints about leasing companies from schools in their constituencies.



As the FLA starts to work with these new stakeholders to convey the benefits that our industry delivers to UK PLC, to ensure that asset finance is allowed to participate fully in government initiatives, and to promote a level of external regulation that is not disproportionate to the needs of our customers, we cannot afford another *Panorama*-style exposure on the leasing industry.

Whether or not you agree with Margaret Hodge's 'moral responsibility' burden, I believe we all have a 'market responsibility' to each other to avoid transacting any business that will result in our industry reputation being trashed in the media.

We especially need to apply a large dose of common sense, as well as formal know-your-customer rules and compliance standards, in selecting business partners which will become sources of new business, and in monitoring the integrity of the deals being proposed by these partners.

In today's market, 50% of our total business volume is intermediated, via brokers, vendors, dealers and distributors. For some lessors their business model is 100% intermediated, and some deals will involve more than one intermediary.

For any lessor, market reputation risk is potentially much higher with intermediated deals compared to direct deals. Lessors must be prepared to walk away from business that could lead to Stephen Sklaroff at the FLA being asked to defend the indefensible in the public arena.

It is my view that the FLA has already been very effective, over several years, in promoting the positive image of asset finance and leasing with key government, regulatory and other public sector stakeholders. I would also recognize the positive contribution made by the National Association of Commercial Finance Brokers in reinforcing the credibility of asset finance with previous governments.

A strong indicator of the government's cur-

rent attitude to leasing can be determined by the industry's relationship with the British Business Bank (BBB), which is 100% government-owned, and independently managed with a focus on promoting all forms of SME finance.

In its 2016 report on the SME finance market, the BBB acknowledges the strong growth rates in asset finance volumes in 2014 and 2015 (10-13% pa), with 60% of new business volume accounted for by SMEs.

Asset finance is viewed by the BBB as "an essential part of the investment recovery story as it increases small business capacity to invest."

The Enable funding programme has been developed by the BBB in order to increase significantly the supply of leasing and asset finance to smaller businesses. The FLA has also worked with BBB to extend the Enterprise Finance Guarantee scheme to lessors, which has been recently agreed.

In summary, the BBB views asset finance in a very positive way.

Post Brexit, the asset finance industry is open for business and well placed to support capital investment across all sectors of the economy, and not only for SMEs. Public sector investment (including schools) and infrastructure projects can also be facilitated by asset finance products. I have no doubt that the FLA is already delivering this positive message to the government.

A final thought: when I started my career in leasing, manufacturing accounted for 30% of the UK's GDP. Today, it is less than 10%.

Brexit will deliver huge opportunities for UK manufacturing, with global trade deals that would not have happened under EU control, favourable exchange rates to support manufacturer exports, and the ability to sell 'Made in Britain' as a universally recognized sign of product quality – thankfully, we no longer make Austin Allegros!

The asset finance market can play a vital part in the renaissance of UK manufacturing. We can do for UK manufacturing what the German and Italian leasing markets do so well for the manufacturing sectors in their countries: financing capital expenditure that will increase manufacturing capacity and productivity.

But let's do it with the right business partners, and allow me to devote my Monday night viewing to Sky Sports! ■

Forwards for the Netherlands

After several years of negligible growth, the Dutch leasing market took a significant step forward last year on the back of rising business confidence, reports **Paul Golden**

Data from the Dutch Association of Leasing Companies (NVL) reveals that the equipment leasing market realised in 2015 a total volume of new business of €5.2bn, up by a sizeable 21.8% compared to 2014.

Every quarter experienced production volume of at least €1bn, and the traditionally busy three months at the end of the year generated business of almost €1.5bn – the highest single-quarter figure ever recorded.

Businesses invested in a broad range of equipment and assets including machinery (+10%), trucks and trailers (+20%) but also ICT (+56%) as well as other assets related to energy efficiency and cost-saving equipment.

The construction sector and agriculture were, again, the largest investors, while the food industry also recorded high growth levels.

On the other hand, the professional printing industry continued to go down in terms of investments in equipment, and the volume of copier and office printing equipment remained at the same level as 2014.

The latter is likely to be related to the downward trend of prices of new equipment, since the number of contracts grew 25%.

Bank-owned leasing companies are the largest distribution channel for leasing in the Netherlands, with 46% of all volumes distributed by bank branches and offices, 12% by the sales force and direct channels of leasing companies, 30% by vendors and 12% by captives – percentages that are little changed over the last five years.

SMEs account for over 82% of total leasing volume, and the average ticket size was around €90,000.

“This market growth has been supported by the strong recovery and intrinsic health of the Dutch economy,” explains Peter-Jan Bentein, NVL secretary general.

“The growth of investments by companies (especially SMEs) may well be the main driver for volume growth in the leasing market since the volume of equipment leasing

is directly related to the investment level of businesses.”

Robert Peterson, ABN Amro Lease director of strategy and business development, also observes that an improvement in the wider economy has boosted demand for leasing in the Netherlands by encouraging businesses to invest in new equipment.

“The figures for the first three months of 2016 illustrate the positive state of the lease market, with business showing its strongest growth since 2011, and we expect this positive trend to continue through the rest of the year,” he adds.

Peterson refers to particularly strong expansion in transport and IT leasing, noting that while IT leasing volumes are modest compared to other segments, they have risen by more than 50% since January 2015.

The market continues to be quite competitive, which is placing downward pressure on pricing (interest margins), but DLL has continued to grow its share and has also recorded strong double-digit growth during the first half of 2016, according to Peter Dijks, DLL's vice-president of vendor finance, Netherlands.

He describes the healthcare sector as a particularly interesting growth market, with most medical devices expected to exhibit 5% or higher compound annual growth rates between now and 2019. This has led to an

uptick in leasing activity in diagnostic imaging, dental and ophthalmic devices.

In most cases, the leasing growth rate is outpacing market growth, which is a promising trend in a market where leasing is becoming a more relevant method of acquisition for domestic buyers.

The technology leasing sector has also provided opportunities for growth, but not in the traditional IT hardware sectors, which have been relatively flat. DLL continues to see growth in demand for leasing and finance solutions in the software and services sectors, driven by the ongoing emergence of cloud computing and managed data and storage services.

The food and agriculture market has faced challenging conditions recently due to continued low commodity prices, which has impacted farm incomes and investment decisions, particularly in the mechanised farming sector – such as tractors and harvesters.

The dairy sector in the Netherlands is still recovering from the elimination of EU milk quotas in 2015, which resulted in overproduction and steep price declines, in many cases driving prices lower than the cost of production.

This has significantly impacted confidence levels and investment activity in the sector, although the European Commission (EC) recently announced another round of subsidy (€500m) in an attempt to stabilise the market.

Aside from increased demand for leasing and financing solutions in the software and services sectors, the most significant development in this market over the last 12 months has been the emergence of new equipment markets – such as smart robotics and 3D printing – where leasing is a viable method of acquisition for many buyers.

“Other interesting movements in the market have been an increase in the leasing of refurbished equipment and the continued emergence of ‘pay per use’ lease products such as cost per copy, cost per scan, etc.,”



Peter Dijks, DLL

says Dijks.

"In the case of second-life or used equipment leasing and finance, DLL continues to support the growth of this sector as an enabler for the circular economy," he continues.

"On a global basis, this business represented 5% of our originations in 2015, and we aspire to have this grow to 20% by 2020.

"Earlier this year, we became the first financial institution to receive the Circular Economy Investor Award at the World Economic Forum in Davos."

He says DLL is satisfied with market growth in the Netherlands over the last 12 months.

"The leasing market continues to provide a number of opportunities for growth and is outpacing the growth levels seen in the general macroeconomic environment," he explains, adding that he expects the market to grow this year compared to 2015: "We continue to see strong double-digit growth in the domestic equipment leasing market."

Stef Klijn, CEO of BNP Paribas Leasing Solutions Netherlands, observes that the national institute of statistics reported an increase of investments in tangible assets of 11.9% last year, illustrating strong growth in lease penetration.

He accepts that some attention should be paid to the details of these figures, although they are not easy to analyse.

"Some members include the fleet financing of cars in their reports, while others report their car leasing activities separately. For instance, the substantial car leasing activities of Arval are not included in the figures of BNP Paribas Leasing Solutions, and therefore not included in the reporting of the Dutch association of leasing companies."

The most important categories are machines for industry, construction and agriculture (31%) and transport equipment (30%), with the former recording 10% growth last year and the latter expanding by 20%. Financial leases account for 81% of business by volume and 68% of transactions.

"The most important development within the leasing industry is the strategic split in the Dutch market between vendor lease companies and companies that have a strategy of direct lease," explains Klijn.

"Lease companies that have a focus on direct lease are often bank-owned, and in term of new business they rely upon their network of bank branches. Their product offering is interest driven and does not include servicing elements – the leasing product is one part of the total package of product the bank provides to their clients."

He says that in contrast, a vendor lease company has a partner-driven strategy where leasing products are provided to customers of international manufacturers and national importers and dealers.



Stef Klijn, BNP Paribas Leasing Solutions

"We are a strong leader in this segment, helping our partners realise their growth ambitions and solving equipment investment challenges for businesses of all sizes. To achieve this, we specialise in certain markets and assets."

According to Klijn, operational excellence and rapid processing of transactions from application to pay out are the key factors to be successful in the vendor lease market.

"We are able to process maintenance and servicing products, including price indexation as well as insurance-related products. Full-service rental is one of our key products."

Bentein describes increased interest in equipment leasing as a source of finance for SMEs, next to bank lending and other finance sources like crowdfunding and private equity, as the most significant developments in the market over the last 12 months. He notes that leasing is the second-largest external finance source for companies, after bank loans.

According to the secretary general of the NVL, the government pays a lot of attention to the issues that SMEs face to attract sufficient finance, supporting the promotion of alternative finance sources such as leasing.

"There are many initiatives, such as Finance Days organised by the Chamber of Commerce, and the Week of the Entrepreneur, a private initiative supported by the Ministry of Economic Affairs," he says.

"These initiatives are meant to better inform the entrepreneur of the benefits of alternative finance sources. However, there is no specific focus on leasing, since the parties involved believe in a finance mix adapted to the needs of each company, rather than a one-size-fits-all approach."

The NVL supports these initiatives with its presence and input in workshops, presentations and other promotional material. It has produced a leasing app in which entrepreneurs can find all relevant information about leasing and also publishes information through social media.

"Our members are optimistic about the prospects for the lease market in 2016 given the sound situation of the Dutch economy and the fact that asset-based finance is to be

promoted," concludes Bentein.

"The recent biannual Dutch Investment Monitor, which gives some insight into the intention of businesses to invest as well as their intention to finance the intended investment, shows that Dutch entrepreneurs and business leaders are eager to invest in the near future, but that they remain rather conservative as far as financing is concerned, since a large number of respondents plan to finance the investment with own money instead of borrowed money. This means there is still room to grow."

According to Peterson, the outlook for 2016 and beyond is positive.

"Investment in all sectors of the economy is expected to grow further and research into the investment plans of Dutch businesses reveals that around four in five companies expect to increase investment over the next 12 months, with leasing continuing to play a crucial role in equipment financing."

While leasing penetration in the Netherlands is relatively low, Peterson says the leasing association and member firms are working hard to increase the use of leasing by Dutch businesses.

"Leasing is a significant product for ABN Amro, and the bank expects to do more business of this type by improving distribution through both the physical bank network and digitally, making it easier for relationship managers to access our products and recommend them to clients," he says.

"Our website has moved from solely being an information channel to a sales channel, and we are very pleased with the volume of business generated online."

Asked whether the Dutch government has taken any direct or indirect action to support the lease finance industry, Dijks notes that on an indirect basis via the EC, the government is supportive of the leasing industry.

"For example, the European Investment Bank makes funding available to spur growth in the mid-sized business sector, offering subsidies to lessors and enabling lower payments for the lessees themselves."

DLL's most recent customer surveys showed a net promoter score – a measure of customer loyalty – of +26, which he says is well above benchmark for firms in the financial services and banking industry.

"In the local market, 90% of our customers indicated they are satisfied or very satisfied with the products and services they receive from DLL," adds Dijks.

"In addition, we focus on developing thought leadership by providing forums where information on trends and developments within the local market can be shared between customers.

For example, we are hosting a panel with CFOs of 10 top companies within the IT sector in September." ■

Funding SMEs following the Brexit vote

Leasing and asset finance have opened up new ways for SMEs to finance and support their businesses. With Brexit looming, this crucial lifeline may be harder to reach. **Saad Ahmed** spoke to institutions to get a sense of current and future conditions in the UK SME asset finance industry

Though first used over two centuries ago, the assertion that the UK is a nation of shopkeepers was not without merit, and resonates in the present day.

Small and medium-sized enterprises (SMEs) account for over 99% of all private businesses in the UK, according to the Federation of Small Businesses, and generate £1.8trn in annual turnover – 47% of all turnover from private business.

StartUp Britain, a national enterprise campaign backed by the UK government, has reported that on average 80 new businesses are started every hour.

In the *2015 Business Finance Survey: SMEs*, a study of 1,608 UK SMEs conducted by the British Business Bank (BBB), a UK government-owned facilitator for entities to provide asset finance products to SMEs, 28% reported their source of funding to be a bank overdraft. A further 15% stated that a bank loan or mortgage was funding source, and 28% cited credit card finance.

Asset finance and leasing made up relatively small percentages of SME funding sources, but have experienced rises.

In 2013, asset finance constituted 1% of SME funding; by 2015, this had increased to 4%. Leasing and hire purchase, though they experienced a higher share than asset finance, rose to represent 16% of all SME funding in 2015.

Traditional sources of funding have decreased in recent years, and these more alternative routes – leasing and asset finance – are beginning to gain ground, even if it is at a relatively slow pace.

However, since these studies and surveys were conducted, the economic ground seems to have shifted; Brexit is on the cards.

Brexit bust?

On 23 June, an in-out referendum on the UK's membership of the European Union was held. A majority voted to leave, and after a political reshuffle, Theresa May's government is tasked with delivering and working out the details.

The economic environment became uncertain, and with Article 50 of the Lisbon Treaty still lying un-triggered, it seems likely to remain so for at least two years, until such time as the process is completed.

For SMEs and the institutions that fund them, economic uncertainty may have a

direct impact on their operations. The inability to determine the nature of future trading relationship, if any, between the UK and the European single market has made many pause to think. Virgin Money has delayed all plans for its SME lending unit reportedly due to Brexit.

In writing this feature, *Leasing Life* spoke to a number of finance providers and facilitators to determine that if, in the wake of Brexit, the economic environment had indeed “all changed, changed utterly”, and what could be expected for the future of SME asset finance and leasing.

Asset finance products

Asset finance products, which consist of hire purchase and leasing (including operating leases), are used in a variety of industries for many different products to help meet the needs of a business.

An unusual example is cattle finance for certain farming businesses. Largely, however, asset finance lending to SMEs is based around slightly more mechanical assets.

Carl D'Amassa, MD of business finance at Aldermore Bank, explains how the challenger approaches asset finance: “We tend to be focused on hire purchase. The largest asset classes align to our core roots, things like construction equipment and cars.

“We have, in recent times, been more into softer assets, things like technology and office equipment.”

While speaking to banks and institutions that provided business lending, it soon became clear that hire purchase was the most popular asset finance funding option to SMEs. With hire purchase, typically the

assets being used were stationary assets such as office equipment, including printing and reprographic materials, and some forms of machinery.

Ultimate Finance launched its asset finance arm seven years ago, and since then the product offering has grown. According to Martin Bennison, MD, construction finance, Ultimate Finance: “Asset finance is probably one of the fastest-growing parts of what we do.”

Bennison continues: “We probably do more hire purchase than leasing. [We have] customers across all the sectors that you would expect, [including] manufacturing, packaging, and textiles. Waste recycling and processing is one that is coming on more and more.”

The reason for the popularity of hire purchase provoked mixed opinions, with interviewees divided between greater familiarity with the term and concept in comparison to leasing, and specific features of hire purchase being more appealing to SMEs.

D'Amassa points to the widespread use of hire purchase to explain its popularity.

“The majority of the market these days is hire purchase, and we all understand that, we have used it a lot in our own personal lives, so that can transition into the corporate and business life.”

Sam Dring, senior manager, asset finance product for GTB at Lloyds, and winner of the *Leasing Life* young professional of the year 2015 award, took the latter view.

“From a client-demand perspective, hire purchase is the most dominant product. There are some fundamental features that work for SMEs around the hire purchase product,” Dring tells *Leasing Life*.

According to Dring, simplicity and a timeline to eventual ownership of the asset are what make hire purchase a winner among SMEs seeking business funding.

“There is the ownership angle. They like the fact that at the end of the agreement they have control and ownership of the asset, which is certainly the feedback we get from clients. There is also simplicity to [hire purchase] as well, typically a deposit paid up front, followed by fixed monthly payments over an agreed term.

“It does the job that they need it to, [allowing them to] get the asset on board quickly and simply so they can start utilising it with-



Martin Bennison, Ultimate Finance



Bernard Skivington, British Business Bank

in their business,” Dring continues.

Where leasing was concerned, SMEs tended to prefer this option when needing transportation.

Bennison of Ultimate Finance adds: “In the distribution of light commercial vehicles, or people running fleets, trailers tend to be leased, [and] buses and coaches.”

Typically, the asset finance options explored by SMEs seem to align to their needs as a business. For printing and machinery, hire purchase was preferred, whereas when a fleet of vehicles was needed, leasing was the option.

Given that different needs warranted different funding options, the representatives of SME lenders tell *Leasing Life* that it is not unusual for the same SME to have two different asset finance funding options for different parts of the business.

“We will assess the asset they are purchasing and the needs that are required, and therefore you could have several different products with one client servicing different needs,” Dring adds.

“Depending on the scenario, you could have a client funding some of their purchases on hire purchase, with others on finance lease.”

How to get noticed

The market for SME funding is divided between challenger banks and the older, more established banks.

According to the *2015 Business Finance Survey: SMEs*, 43% of SMEs secured funding using a bank loan or overdraft, options which are more commonly associated with the older high street banks.

D’Amassa says: “The big challenge for the SME is knowing that all these other forces are out there. There is still a significant proportion of small businesses which default into going to speak to their clearing bank, and it is those which are letting the SMEs down.”

Bernard Skivington, director of wholesale

solutions at the BBB agrees, saying: “A large percentage of businesses that do just go to their bank get turned away.

“The banks are not so keen to support some of the businesses that are less well established, or a higher credit risk, and many of them still do not know where to go.”

For these challenger banks, which may not be as well known, their issue is twofold. First, they must spread awareness about themselves as an entity. Many of the challenger banks *Leasing Life* spoke to were convinced that they had emerged, almost organically, due to the financial condition over the past several years.

The global financial crisis of 2007-8 was marked out by many as the key event that allowed their businesses to emerge to fill a niche, and survive – and begin to thrive.

The global financial crisis, they argued, led to a retreat of the high street banks, and an unwillingness to lend to SMEs.

Challenger banks were able to carve out a niche as smaller financial entities that were still willing to lend. “We were built out of the cinders of the financial crisis,” D’Amassa says. The space was opened up, and the challenger banks entered.

However, the challenger banks are also competing against each other. While the consensus among those interviewed was that competition drives up standards, very little was offered in the way of preventing rivals from poaching SME customers.

While they extolled the virtue of choice for SMEs, it was not clear how they would ensure that they were that choice. But first and foremost, challenger banks are overshadowed in the public consciousness by the big established banks, and this is their primary battle.

Secondly, challenger banks must increase awareness about asset finance, and convince SMEs that it is a better option. A large percentage of SMEs still turn to bank loans or overdrafts, and the number using credit card finance grew to 28% in 2015, up from 22% in the preceding two years. Though leasing and asset finance have grown in the past few years, it remains the case that these options are used by a minority of SMEs.

Through the interviews, it became clear that the marketing of these challenger banks and products was very much through a slightly more sophisticated form of word-of-mouth marketing.

“The bulk of our business is actually introduced to us via a third party, whether that’s a broker, or an adviser, or an accountant. We have very strong links with accountants and business advisers who recommend us,” says Bennison.

Brokers were very important to the challenger banks, and normally functioned as the primary introducers, linking SMEs in search



Simon Featherstone, Shawbrook

of funding with the challenger banks and the asset finance options they had available.

Simon Featherstone, MD of business finance at Shawbrook Bank, explains how important brokers were to the bank, to the extent that it has been a long-standing funder of the National Association of Commercial Finance Brokers (NACFB).

The BBB agrees that such organisations had been instrumental in spreading awareness.

Word of mouth and third-party means are not the only ways banks raise the profiles of themselves and their products. Representatives from Shawbrook attend specialist trade shows as an additional form of more active marketing.

“We promote ourselves by being exhibitors, and profiling ourselves at specialist trade shows. We go where we think our specialist customers would look to explore new assets, as well as talk to people in the trade,” Featherstone adds.

The BBB explains that it works closely with bodies like the FLA and ICAEW to spread awareness, and has produced brochures in collaboration with them.

“We recently produced a brochure with both the FLA and ICAEW called *Asset Finance: Guide for Advisers and Businesses*, which we are actively trying to distribute, both through FLA, ICAEW and their own members, and to businesses where we can,” Skivington says.

In addition to this, the BBB produces an annual brochure with the support of 22 different bodies, with distribution in the hundreds of thousands.

“We produce something called the *Business Finance Guide*, and, in our third iteration, and it has just gone digital. The second version we distributed around 700,000 copies, both hard and digital; this time we want to get it into a million inboxes of businesses.

“It brings all of this information about finance, not just asset finance, into one place where they can read about it, but also look at

SME LEASING

the various different sources and where they can get it from.”

The future

The decision for the UK to leave the EU created an immediate shockwave. In the Bank of England's stimulus package on 5 August, interest rates were halved to 0.25%.

Despite government intervention and other factors leading to a relative level of stability, uncertainty still reigns, and with it an unclear sense of the future.

Unsurprisingly, few of those interviewed were willing to give *Leasing Life* a sworn-by prediction of the environment over the next few years. However, the banks were adamant that they would continue to provide leasing and asset finance to SMEs, and this was pushed on by a belief that their services would continue to be needed.

“In many respects, it is a continuation of what we have done before. We are very much open for business and we will continue to support SMEs with their funding requirements,” Dring explains.

Though, just like the established banks, they spoke of “business as usual” from an operational standpoint, the challenger banks expected changes in the composition of the market, and with it their future opportunities for business.



Andy Hart, Investec

Investec's Andy Hart believes there may be some consolidation of smaller finance houses.

“Will there be some consolidation in the market? Possibly. There has been a lot of activity in terms of equity houses coming in and purchasing brokers and then building books,” Hart says.

The general consensus among the challenger banks, however, was that the established banks would start to retreat from SME funding once the full implications of Brexit became clear, echoing their behaviour after the global financial crisis.

The challenger banks believe that they, and

their alternative financing options, would be needed now more than ever, and want to be poised to take advantage of this.

Hart sees an opportunity for challenger banks to profit from the cautious uncertainty of other financial institutions.

“We are feeling very buoyant about the opportunity. We have already seen some in the marketplace that have suffered some substantial losses. We are seeing others that were looking to enter the market but have now decided not to,” Hart explains.

“I think there is going to be a whole plethora of opportunity out there, and we want to make sure we are in the best possible position to take advantage of that opportunity as it presents itself.”

Shawbrook's Featherstone also takes this view, saying: “We will continue to see the large banks retrench, and leave pockets of marketplaces or specialisms underserved.

“So the structural reasons for Shawbrook existing, the opportunities that caused the formation of challenger banks, will continue to exist.”

The prevailing sense was one of opportunity post-Brexit. Challenger banks hope that uncertainty will work in their favour, allowing them to swoop in with asset finance and further erode the status of established banks as the lender of first resort for SMEs. ■

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Hywel Prewett, Business Development Manager, Aldermore Asset Finance comments, "Asset Advantage has been a key partner of Aldermore's for a number of years. We leverage their expertise via block discounting to extend our reach to SMEs. We very much share their drive and commitment to this market and value all the support they provide us with."

A flexible approach is good for business

Jonathan Eddy, Managing Director, Asset Advantage Limited comments, "We are a credit, rather than asset focussed operation, with customers borrowing up to £500,000. So our business model is more specialised than the majority of our competitors. Therefore we need block discounters who understand how our business works. Aldermore not only understand our ethos and business model; they have the facility size and advance rates that work well for us."

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Bespoke clauses prevail over standard terms and conditions

Many contracts have standard sets of terms and conditions, with additional special terms negotiated for each individual agreement; but what happens in the event of a contradiction? **Greg Standing**, partner and head of the Retail & Finance Automotive Sector Group at Gowling WLG, explains

Where standard printed terms and conditions of a contract are inconsistent with its special terms and conditions, and cannot fairly or sensibly be read together, the special conditions will prevail so as not to defeat the main object and intention of the contract.

The Court of Appeal has provided a reminder of this basic proposition in *Alexander* (as representative of the Property 118 Action Group) v West Bromwich Mortgage Company Ltd.

Alexander took out a 25-year buy-to-let interest-only tracker mortgage with the lender. Interest was fixed for the first two years and thereafter was to be at a variable rate of 1.99% above the Bank of England base rate. The lender sought to increase the variable rate to 3.99%.

Alexander argued that the lender's standard printed conditions on which it was relying were not consistent with the terms of the offer of loan (the Offer) and were therefore not incorporated into the contract.

The two clauses in particular in issue in the standard mortgage conditions were those which gave the lender the right to

- increase the variable rate of interest for any reason, including to reflect market conditions generally, and
- request repayment of the loan in full on the giving of one month's notice.

The interest rate clause

Alexander argued that it is well known that a tracker mortgage interest rate is variable only in line with a specified base rate and not for any other reasons.

He also relied on the 'inconsistency clause' in the standard conditions, which stated that if there were any inconsistencies between the standard terms and those in the Offer, then the terms contained in the Offer would prevail.

At first instance, the Commercial Court held that the lender's general terms and conditions were not inconsistent with the special terms in the Offer but, taken together, they could be read as modifying or qualifying one another. The lender was entitled to increase the rate of interest for any reason. Alexander appealed.

The Court of Appeal, allowing the appeal, held that it was the Offer document that set out the features and specially agreed bespoke



terms and conditions of the particular mortgage being agreed, and described and defined it. The reference to the interest rate in the Offer was part of, and integral to, the product description.

The Offer clearly indicated that the rate of interest would only be varied in accordance with (and so as to reflect) changes to the Bank of England base rate. There was no suggestion in the Offer that the rate could ever be raised (or lowered) other than by reason of, and strictly in accordance with, a change to the Bank of England Base Rate.

That was entirely consistent with reasonable parties' general understanding of a tracker mortgage.

If incorporated, the lender's widely drafted standard condition gave it the unilateral right to change the product offered to something else entirely. A printed standard term which conferred such a right was inconsistent with the specially agreed description of the loan in the Offer.

It would mean that there was no enforceable obligation on the lender to provide the product that it had agreed to provide.

The right to vary the variable rate as the lender suggested should have been clearly spelt out in the Offer, but had not been and was inconsistent with the Offer.

The repayment clause

Alexander argued that if the clause enabling the lender to request repayment in full on one month's notice, (minus any default by the borrower) was incorporated, it would effectively give the lender an unqualified and

unrestricted right to terminate the contract despite no default by the borrower.

Alexander contended that such a right was contrary to the spirit, intent and object of the loan agreement as a whole, and produced a commercially unreasonable, if not absurd, result.

The Offer made it clear that the sum was repayable in full at the end of the 25-year term and that the borrower should ensure sufficient funds were then available to be able to repay it.

This could not sensibly be read together with a term that provided for a right to require repayment on one month's notice where there was no default, as that would expose him to the risk of termination at the lender's whim.

The Court of Appeal agreed that this term was also inconsistent with the purpose of a 25-year-term buy-to-let mortgage.

Both the standard terms complained of were incompatible with the intent and purpose and specific terms of the Offer, which reflected the agreement reached between the parties. They could not fairly or sensibly be read together with the Offer and were not therefore incorporated into the contract.

Things to consider

The starting point where the issue of inconsistent terms arises is that the courts are generally reluctant to hold that parts of a contract are inconsistent with each other.

Where there is an 'inconsistency clause', as in this case, the approach is slightly different. The court should approach the issue objectively without any pre-conceived assumptions and not strive to either avoid or to find inconsistencies.

In either event, inconsistency is likely to be found where one clause would deprive another almost entirely of any effect.

Lessors should review their documents to ensure there is no inconsistency between the standard printed terms and the special terms of the specific lease being entered into. In the event of conflict, special conditions will normally prevail unless expressly provided to the contrary.

For the sake of certainty, if a particular term is essential to the lessor, it should be clearly provided for as a special condition to make sure there is no issue as to its incorporation into the contract. ■

SMEs should look at alternative funding, but remain selective

If Brexit diminishes bank-backed leasing, then SMEs will be forced to turn to the alternative funding market for their leasing requirements, but should take care as to what their needs are, argues **Mark Crook**, co-founder and COO at Henry Howard Finance

Uncertainty is never good for business. It stalls decisions and therefore business investment, making it more difficult for SMEs to access the money they need to fund growth.

This is why, whatever your political hopes for the long-term, most would agree that on a short-term level the EU referendum has not done our economy any favours.

The Brexit referendum result sent shockwaves through the markets and saw sterling plunge to its lowest level since 1985, wiping millions off the value of the major UK banks. Lloyds and RBS lost a fifth of their value in a matter of hours.

More than a month on, the dust has started to settle and sterling has made some recovery – albeit not to anywhere near the levels it was enjoying previously.

But Britain now faces several years of uncertainty over when and how its exit from the EU will be implemented, and what impact this will have.

There are signs that the UK's decision to leave the EU has led to a deterioration in economic activity not seen since the aftermath of the financial crisis.

Data from IHS Markit's Purchasing Managers' Index (PMI) shows a fall to 47.7 in July, the lowest level since April in 2009. A reading below 50 indicates contraction.

Both manufacturing and service sectors have seen a decline in output and orders, although exports have picked up, driven by the weaker pound.

In such an uncertain environment, it seems likely that banks will start tightening their lending criteria once again.

The Bank of England, all too aware of this, has moved to try and encourage continued lending by easing restrictions on UK banks, releasing up to £150bn for bank-backed consumer and corporate lending.

The Bank's Financial Policy Committee said the economic risks of a Brexit vote were beginning to "crystallise", and that it had acted so the country could continue to borrow and lend.

It will be interesting to see if this ploy of reducing regulatory capital blocks to raise bank lending capacity will prevent what many see as an inevitable fall in lending.

Either way, SMEs which wish to keep investing in growth and development should be prepared to look for alternatives to the high street banks.

Happily, since the recession a whole raft of new-style lenders have emerged, offering a viable alternative to those hunting for investment.

Business can access ready cash using invoice finance, asset finance, angel investors, pension fund investments, crowd-funding and peer-to-peer lending, among other options.

The alternative funding market as a whole now lends more to SMEs than clearing banks lend on overdraft. The UK's alternative

finance market did £3.2bn of business in 2015, up 84% on the previous year.

Henry Howard Finance lent more than £75m in 2015, and has already lent to 2,500 SMEs in the first half of 2016 alone.

With so many options now available SMEs must be careful to do their research and choose a trustworthy lender that suits their specific needs.

What is your finance need?

Why do you need funding? Is it for a one-off spend on a new piece of equipment or to fund a long-term lease agreement with a customer, or simply to release working capital and avoid cash flow issues associated with late payment?

Different forms of finance suit different requirements although some things are fairly universal – the desire for speed, efficiency and good value.

Many new fintech startups appear to offer an easy, fast solution to those wishing to avoid the time-consuming bureaucracy associated with traditional bank lending.

But, be aware, such financial vehicles are often little more than online platforms offering just one type of financing with no staff on hand to help clients with any service needs or offer advice on the best lending package for them.

While they may provide a quick fix for a business or individual in need of ready cash, such one-dimensional financial tools rarely offer a long-term solution.

They cannot provide the same level of business support and advice as more estab-

lished, multi-faceted lenders.

Well-supported, reputable lenders can provide clients with a dedicated relationship manager to advise them. Experienced staff can offer invaluable business support and turn what might be a short-term need into a mutually beneficial long-term partnership.

So, ensure your finance solution matches your need. If you want to build a long-term relationship with a trusted lender which can offer you added value in the form of business advice, then look beyond purely the need for speed at all aspects of what makes a good finance provider.

The ideal lender should offer the speed, great value and flexibility of a fintech startup alongside the service, expertise and breadth of experience of a high street bank.

This winning combination can be found among independent lenders, who are embracing technology to streamline their service and ensure their clients have access to market-leading solutions.

Mobile internet access overtook desktop browsing in 2014, and remote working has been on the rise ever since the emergence of mobile devices. Around 4.2m people now work remotely, an increase of 1.3m since 2008, and this looks set to rise much further.

Thanks to advancing technology and the rise in mobile, online and cloud-based working, the assessment, approvals and administration associated with finance provision are quicker and more efficient than ever, so larger lenders can keep pace with small fintech firms in terms of speed and convenience.

Access to lease or hire-purchase agreements can now be done through user-friendly online portals, such as Henry Howard Finance's HowApp, which cuts paperwork and offer faster access to money, facilitating more stable cash flow for business owners.

A good lender's staff should have many years' combined experience in commercial finance and can offer a consultative approach, offering invaluable advice on a whole raft of business issues.

Look for a finance house that offers a wide range of lending services in-house, as this will mean they can tailor packages to your individual business need and, where necessary, provide more than one form of support.

So, go for the best of both and find a lender that will help your business grow and prosper in the short and long term. ■



What it is: a guide to lease technology

Professor Peter Thomas, COO of the Leasing Foundation, launches a regular column on new technologies that will impact the industry. This month he gives an overview of chatbots

What is it?

A chatbot is a piece of software that tries to talk to you in a more conversational manner. It uses text – and in some cases, speech recognition and voice responses – to help you get things done. You will have come across chatbots on sites like online banking, shopping and in the form of Apple's Siri.

How does it work?

Behind the scenes are complex software algorithms that process what you say to the chatbot – whether that is “Siri, call Jo at work” or typing “I'm interested in opening an account”. They use a database of phrases specific to a domain – no point asking a banking chatbot about groceries – plus knowledge of the structure of language, and in the case of Siri, digital representations of speech.

Collectively this set of resources – algorithms, domain and language knowledge – is artificial intelligence (AI), an area which has been researched for 50 years.

Researchers in all of these areas, and especially in processing speech and language, have built more complex and sophisticated software, facilitated by more computing power, to get to the point where the error rate – misinterpretations of what you type or say – are becoming much rarer, and if the software does not understand what you say or type, it can respond gracefully with a phrase like “I'm sorry, I didn't understand that. Did you mean...?”

For example, the software behind Siri – which processes your requests in the cloud and so has access to a huge computing power – is smart enough to know that when you say the

Introduction

I have spent 20 years or so researching and applying a range of new technologies, from virtual reality (VR) – I led a team that established one of the first immersive VR environments in the world, in Australia, 15 years ago – to designing personal digital assistants, the forerunners of smartphones and tablets, or finding uses for location-based technologies, like the Pokemon Go app which by now has taken over the world.

One thing I have found is that it is sometimes hard to understand how these technologies work, and how they can be applied. This new column will look at a different technology each

time, explain where it came from, how it works, what it could be useful for and what it might look like in the future.



Like all these technologies, I am not suggesting that everyone should go out and implement it, or that because it is new it is necessarily good, but that understanding it will leave you better armed to make decisions about whether you take a closer look. If nothing else, it might provide an interesting conversation topic at your next conference dinner.

In this first article, I am going to look at something that is sweeping across business and has the potential to change the way businesses operate: chatbots.

word “Call” it only needs to limit its search to your phone book; it also now knows that what is likely to come next is a person's name; and that the response it will give will either be one of “Did you mean Jo Davis or Jo Williams?” or “Which number for Jo Davis would you like to call?”

Why are they important?

There are much more complex and powerful ways that AI software can operate that will completely change the way we all interact with information, with businesses – and potentially with each other.

For example, software accounting company Sage is developing a chatbot that helps small business owners manage expenses. If you show the chatbot an image of a receipt, it is smart enough to figure out that it needs to be stored as an expense, and to ask you a series of questions such as: “Do you want to save this to the general expenses category? If I see this kind of receipt again shall I do the same thing?”

Companies like Sage, Amazon, Apple and Microsoft are putting resources into designing chatbots that make you feel that the interaction is natural, intuitive and not intrusive: if the chatbot does not respond enough you might feel you are being ignored; too much and you will be irritated. If the chatbot does not have the right domain knowledge you will think it does not know what it is doing.

There are some dangers here, of course. Recently, Microsoft's Tay chatbot was taught by malicious users to start sending hate-filled posts using offensive words to describe ethnic minorities, and appearing to support totalitarian policies.

Tay was a very sophisticated chatbot, using machine learning – the ability to learn from previous interaction with people – to change its behaviour. Unfortunately, Tay did not have built-in filters, and so started to behave like users who goaded it into learning their offensive behaviour.

What the Tay episode tells us is that while technologies like machine learning are very

powerful, they are not infallible, and so have to be used with caution. But implemented effectively they can add huge value to businesses and their interactions with customers.

Chatbots can replace the mandatory phone trees that businesses force customers to use; they can integrate directly into messaging systems – which are now being used by more people than use social networks, and so provide a more seamless experience of interaction with a service or brand.

They can make it easier to allow people to engage with a product or service before being handed to a human agent, and they are suited to mobile platforms, which is where people spend over 90% of their internet time.

Try using Facebook Messenger to interact with CNN's chatbot at www.messenger.com/t/cnn and you will see how easily this experience integrates into how you use a messaging service: it uses a conversational style to encourage you to ask questions, taps into an extensive database of other users' questions, and integrates with CNN's application programming interface (API) that provides access to CNN's live news stories.

What impact will it have?

Chatbots are here to stay. Even if their uses at the moment are limited, the knowledge being built up around algorithms, AI, what customers prefer and want and the growing effectiveness of computing resources will mean they will become ubiquitous.

There is also an ecosystem of third-party chatbots, native bots, distribution channels, and enabling technology companies that now allow businesses to create chatbots to respond to complex queries about products, accounts or services without the need for human intervention.

Just as automation decimated blue-collar manufacturing jobs, AI will decimate white-collar information worker jobs. An alternative view is that chatbots are a way to add capacity without the headcount, and to do so very quickly. ■

Glossary of concepts

Chatbot: A piece of software that responds in a human-like manner to customer interactions.

Algorithm: A set of steps that describes the solution to a problem that can be programmed in a software language.

Natural language processing: Software that uses knowledge human language to process requests and answer questions in human language.

Artificial Intelligence (AI): A set of software algorithms that can make decisions about information and create appropriate responses based on knowledge about a domain, about customers and about the context of the questions they are asked.

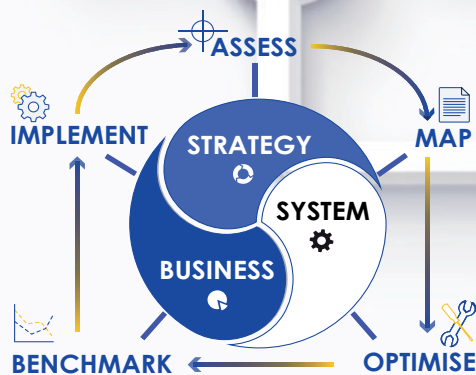
Machine Learning: A form of AI that analyses the interactions people have with it and changes its responses based on learning more about what is an effective response.

Application Programming Interface (API): A programming language that provides access to information in databases. ■

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