THE JOURNAL FOR THE CAR FINANCE INDUSTRY

Motor Finance

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Cross-border dialogue for fresh perspectives

I'd like to start this editor's letter with a warm welcome, both to our subscribers, and to those reading this issue at the *Motor Finance* conference in Germany. For our subscribers who are also in Germany, I guess that means you get two warm welcomes, for what it's worth.

For the second year running, we've chosen to host our international conference in Europe's great central economic powerhouse, which also happens to be the continents largest car market, and home to some of the largest manufacturers in the world.

As with last year, we're hoping that a pan-European conference will help spread ideas beyond borders, so that our German counterparts can hear some of the teething troubles UK motor finance companies have been though with the Financial Conduct Authority, and we can see what we have to learn from recent German experiences.

Looking at some of the senior executives of larger captives, such as Albert van den Bergh, joint managing director at VWFS, who has over a decade of experience in the Dutch market, and BMW's Preston Rogers who came over from BMW FS in South Africa, it's clear they understand the value of spreading ideas between their various subsidiaries.

As an introduction to the German market, reporter Sotiris Kanaris has written a detailed feature at what's going on in the country, and there are some key differences.

Some of these differences are fairly far reaching. One example is the strength of the UK subprime sector. The German market features a lot more consumer-to-consumer interactions in the used car space, and certain German regulations have deterred the evolution of a subprime market in the same way as the UK. At the same time, the broker market present in the UK is also much weaker in Germany.

However German captive houses often possess an extra funding arm in the form of a deposit-taking bank. Plenty of UK independent lenders are part of larger banking groups, but it's still relatively rare in the UK for a captive finance company to have a deposit bank service. RCI successfully launched one recently and it will be interesting to see how it does in the UK in the medium to long term.

The German captives we speak to tell us they provide banks with a number of advantages. An obvious one is that it provides them with capital with which to lend. Another is that it increases their brand awareness. After all, someone with an Opel bank account is more likely to have Opel in the back of their minds than someone without one.

At the same time, the two markets are facing some similar developments, first among them a customer base and economy which is

rapidly becoming more technologically advanced. Most companies have recognised this as both a challenge and an opportunity, but how companies are tackling the digitalisation process can vary quite a bit.

As with anything, the more different ideas you listen too, and analyse, the more informed your eventual decision will be. It is my hope that, by providing a platform for speakers from across the continent to talk about some of the challenges they've faced, the ideas they've had and the opportunities they see, attendees will gain some fresh perspectives on familiar challenges.

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BLME acquires Renaissance Asset Finance

The Bank of London and The Middle East (BLME) has acquired SME asset finance provider Renaissance Asset Finance, for an undisclosed amount.

In 2014 BLME supplied a £35m credit line to Renaissance to fund its growth, complementing the bank's focus on the UK's mid-market.

Michael Williams, BLME chief executive, said the acquisition would be finalised in early April, and that the Renaissance acquisition met its strategy to invest in its leasing business to grow its client base.

"Renaissance is a strong cultural match for BLME and we look forward to working with a company that shares our values and customer-focused approach," said Williams.

Renaissance Asset Finance will remain a separate brand and legal entity in the market, while BLME will maintain its focus on the UK mid-market.

Fred Yue, head of leasing at BLME said: "BLME and RAF have worked together since the business launched in 2014, when BLME supported the start-up phase with a £35m funding line. Since 2014 RAF has exceeded all its initial business objectives and has provided a tailored service to the UK SME sector. The acquisition is an attractive one for BLME.

"Our leasing business has a good level of cultural and commercial alignment with that of RAF and we really value its market leading team, led by Hugh Sigrist.

"Despite the efforts made over the last few years the UK SME sector like the mid-market, remains under-financed. Our two businesses share the joint objective of filling this funding gap, with BLME focusing on the mid-market and Renaissance targeting the smaller-ticket end. Today, we come to the market together as a highly successful asset finance business focussed on growth."

The existing Renaissance team will remain the same, with Sigrist as managing director of Renaissance Asset Finance, along with current directors and board members, Vikki Fisher, operations director; Mark Lester, credit and compliance director; and David Pusinelli, non-executive director.

The RAF Board will be further supplemented with several of BLME's senior management, including Michael Williams, Jervis Rhodes, head of corporate banking and Fred Yue.

Hugh Sigrist, Renaissance Asset Finance

Sigrist said: "From the outset, Renaissance and BLME have shared a like-minded, relationship focused, commercial and entrepreneurial approach. This acquisition gives us a good platform for future growth, with BLME's large net asset base, diverse financing portfolio and unrivalled expertise within the UK mid-market." ■

Motor industry well-represented in Times Best Companies To Work For list

The motor industry was once again well-represented in the *Sunday Times* Best 100 Companies To Work For list.

For the 2016 list, 925 firms registered to take part, and almost a quarter of a million people filled out questionnaires about their respective companies.

In the best 100 mid-sized companies list, MotoNovo broke into the top 10, with a sixth placed finish. This was up from 14th in 2015.

Mark Standish, chief executive officer at MotoNovo, said: "This recognition, which comes from team member feedback, is testament to our business-wide capacity to create a customer-led business model based around an engaged and energised team, where every team member has the opportunity to enjoy a long-term career. I think it shows we are developing a very special and successful environment for our team and I'm very proud of every one of them."

In their feedback to *Sunday Times*, 90% of MotoNovo's 373 staff said they had a great deal of faith in Standish.

Zuto was a new entrant to the mid-sized category, and came in at 18th. Similarly to Standish at MotoNovo, Zuto chief executive officer James Wilkinson scored highly when reviewed by the broker's 317 staff, with 90% saying they had a great deal of faith in him.

Wilkinson said: "Our team of Zutonites has grown substantially in the last 12 months and we've invested an incredible amount of time in ensuring everyone can get true satisfaction from their role."

A number of large motor retailers also found their way into the top 100. Swansway Garages came in at 39, down from 34. Motorpoint climbed from 92 to 58, while JCT600 joined the list at 84. Toyota GB also made the Top 100 medium sized companies, coming in at 54. ■

FCA US launches two co-branded credit cards

FCA US, a member of the Fiat Chrysler Automobiles family of companies, has launched two co-branded credit cards for small businesses in collaboration with First Bankcard, a subsidiary of First National Bank.

The newly launched co-branded credit cards, the Mopar Business Edition MasterCard and the BusinessLink Business Edition MasterCard, offer exclusive in-dealer rewards and discounts.

The Mopar Business Edition MasterCard offers pricing benefits to independent repair facilities, while the BusinessLink Business Edition MasterCard offers points and rewards for small businesses with vehicle fleets.

The cards have no annual fee and give users the ability to keep business and personal spending separate.

Their other benefits include a low introductory rate for the first six billing cycles; 10,000 bonus points after the first $100 in purchases at FCA US dealers in the first three billing cycles; and 4% back on all FCA US dealership purchases, including new or used vehicles, service contracts, and parts and accessories, FCA US said.

FCA US vice-president for US sales operations, fleet and small business sales Jeffrey Kommor said: "We're introducing a new credit card programme with our small business customers in mind as a way to say thank you for their loyalty.

"Whether you have an independent repair facility or a vehicle fleet for your small business, this new programme will provide a positive boost to your operations." ■

SMMT members back staying in the EU

More than three-quarters (77%) of Society of Motor Manufacturers and Traders' (SMMT) members say remaining in the EU is best for their business, according to a survey by independent pollster ComRes.

The survey found overwhelming support for EU membership across the board, with 88% of large SMMT member companies and 73% of SME members in favour of remaining.

Only a minority (9%) said leaving would be best, less than the proportion who are uncertain (14% don't know). No large companies surveyed said an exit would be in their business's best interests.

Delving into the reasons why the EU is important to them, SMMT members said that access to EU automotive markets has a positive impact on their business (66%). This was followed by a majority saying that access to a skilled workforce (55%) and the ability to influence industry standards and regulations (52%) also have a positive impact on their business.

When asked to provide open-ended feedback, some of the key reasons given for staying in the EU included the importance of economic and market stability, securing the UK's global competitiveness, and access to the single market's free trade opportunities.

Looking ahead to the threat of a potential Brexit, 59% of SMMT members said it would have a negative impact on their business in the medium to long term, with a further one in five uncertain about the nature and extent of that impact (18% don't know). When those foreseeing a negative impact were asked why, fears included becoming uncompetitive and losing business to EU rivals, while the risk of future investment being diverted to the continent also featured highly.

Mike Hawes, SMMT chief executive, said: "The message from UK automotive is clear – being in Europe is vital for the future of this industry and to secure jobs, investment and growth. UK automotive is thriving, with record car exports, new registrations and the highest manufacturing levels for a decade. Our industry supports 800,000 jobs across the UK and contributes more than £15bn to the UK economy – our members have clearly stated that pulling out of Europe could jeopardise this."

Dr Ian Robertson, member of the board of management at BMW AG, said: "As a major employer, exporter and investor, the BMW Group is committed to the UK which is home to two of our brands, Mini and Rolls-Royce Motor Cars. Our experience

shows that the free movement of components, finished products and skilled workers within the EU is extremely beneficial to British-based business. We firmly believe Britain would be better off if it remained an active and influential member of the EU, shaping European regulations which will continue to impact the UK whatever the decision in June."

Tony Walker, deputy managing director, Toyota Motor Manufacturing UK, commented: "Our UK operations are fully integrated within our European business – exporting nearly 90% of all UK-built vehicles. We are very satisfied with the performance our UK operations and are committed to our employees and investments. We also recognise that the UK's future relationship with the European Union is a matter for the British people to decide. After considered review, we believe that continued membership of the European Union is best for our business and for our competitiveness in the longer term."

ComRes interviewed 204 members of the SMMT online between 14 January and 17 February.

February figures

Meanwhile, new car registrations increased 8.4% year-on-year in February to 83,395 units, according to SMMT. This was the highest February figure since 2004.

Private new car registrations increased by 22.6% year-on-year, from 30,718 to 37,666. As a result of this increase, the private segment of the market increased its share from 39.9% to 45.2%. Fleet car registrations dropped 1.4% year-on-year in February to 44,254.

Demand was up across all fuel types, with diesel and petrol registrations growing by 5.6% and 10.7% respectively, while alternative fuel vehicles enjoyed an uplift of 19.9%.

Hawes said: "February is typically one of the quietest months of the year, ahead of March's plate change, but this positive performance is encouraging and puts the sector in a good position for the coming 12 months."

Industry comment

Richard Jones, managing director at Black Horse, said: "These are encouraging figures for the UK automotive industry, continuing a strong start to the year. The increase can be attributed to a combination of further growth in personal contract purchase financing, ongoing low interest rates for consumers, and continued high levels of manufacturer subsidisation, driving up the volume of affordable new cars coming into the UK market. This time next month we should have a good indication of the outlook for the rest of 2016. Whatever happens, dealers will continue to remain crucial to the car buying journey."

Sue Robinson, director of the National Franchised Dealers Association said: "Increased sales are supported by strong manufacturer deals and low-cost finance offers that are encouraging consumers to buy.

"We anticipate the market to continue to grow, and have strong expectations ahead of next month's 16-plate change where customers will be likely to take advantage of a range of substantial discounts and savings, in addition to a variety of low-rate finance packages being made available."

Steve Jackson, chief car editor at Glass's, said: "February SMMT registration statistics show private customers have been incentivised back into the market with low interest rates, deposit incentives and a selection of new models on offer. The consumer is the market that the manufacturers can currently influence the most to increase volume in the first quarter of 2016. There are no doubts from Glass's that retail demand will also be the major influencer in the March 2016 figures, the largest new car plate change month of the year.

"Fleet, however, has fallen marginally by 1.4% during the month and is down 1.2% year-to-date. Post-recession fleet has returned to pre-recession volumes and now is largely a numbers game. Manufacturers are competing for a share of a finite, yet important market of fixed-term contract company car drivers via benefit in kind advantages and financial incentives." ■

NEWS IN BRIEF

Athlon enters 'underdeveloped' Swiss market

Fleet lessor Athlon International has expanded its European reach with the establishment of Athlon Switzerland. Following the expansion, Athlon is represented in 22 countries globally.

According to Frans Janssen, president of Athlon International, the opening was "demand-driven", as many customers requested the presence of the company in Switzerland.

Janssen highlighted the growth potential of the Swiss market, as leasing is not as well developed as in other European markets.

"The Swiss market is underdeveloped in comparison to other markets in Europe; Switzerland likes to 'buy', and leasing was never really propagated," said Janssen.

"After a strong year focusing on the uplift of the competitive strengths of strategic positioning in central-western Europe, the new location is a milestone. So, we are now adding the strategic business field "internationalisation" to our operations as part of our focus area. Internationally operating companies are now also offering an integrated fleet service in Switzerland. The expansion into Switzerland is another signal of our growth intentions."

New head of business for Moneybarn

John Lay has joined subprime lender Moneybarn as head of business.

In this newly created position, Lay will be responsible for the optimisation and expansion of existing business acquisition channels and the development of new ones. He will also look at ways to drive further growth.

He has over 20 years' experience in the financial services industry, mostly in business development, customer acquisition and channel strategy. His most recent role was as commercial and sales director at insurance company Genworth Financial.

LeasePlan launches short-term mobility product

International fleet management company LeasePlan has launched FlexiPlan, a 1-24 month full-service mobility package.

FlexiPlan offers flexibility in contract duration and mileage, an on-demand structure, and does not incur penalties if clients' mobility needs suddenly change – there are no early termination fees.

The company said it had identified a gap between short-term rental offerings (1-30 days) and longer-term fixed leasing offerings (usually from 24 months onwards), and realised that many companies would prefer the option of a product that was flexible to their mobility needs.

Nick Salkeld, chief commercial officer at LeasePlan, said: "We developed FlexiPlan in order to meet the growing demand for driver mobility solutions as an alternative to the traditional lease product. It is part of our mobility strategy to be the one-stop-shop for all vehicle-related mobility needs, from hours to years."

FlexiPlan is now available in the Netherlands, Spain, Italy, Poland, the UK and the United Arab Emirates. FlexiPlan will be rolled out globally in 2016 across all LeasePlan's operating companies.

Shoosmiths grows recoveries team

Law firm Shoosmiths has recruited consultant Stephen Allinson to its UK recoveries litigation operation.

In this role, he will be responsible for growing recoveries services for corporate and business clients, including the set-up and management of a new volume insolvency recoveries service at the firm.

Allinson began his legal career at Clarke Wilmott, where he spent 25 years developing a debt recoveries and insolvency team, before moving to Moon Beever and then Lester Aldridge.

He was appointed a non-executive board member of The Insolvency Service in 2015 and he regularly lectures and presents on all areas of credit, debt and insolvency issues.

Shoosmiths head of recoveries services, Waine Mannix, said: "Steve is hugely respected in the industry and we are extremely pleased to welcome him to Shoosmiths. Our team is going from strength to strength and his appointment will be instrumental in continuing this growth and diversifying our service offering to help us realise our ambition of becoming the leading national recoveries litigation service."

NAMA warns of pre-registration challenges

Pre-registration is becoming increasingly common as dealers look to drive volumes in order to release volumes, The National Association of Motor Auctions (NAMA) has warned.

To date, NAMA said, retailers had been able to absorb the influx of nearly new stock that grew over 2015. However it questioned where this was sustainable.

Paul Hill, NAMA chairman, said: "Maintaining the supply/demand equilibrium in balance is essential to sustaining residual values, which, following the growth of PCPs is arguably more important than ever before in our market.

"Right now many dealers are resorting to extensive levels of pre-registration activity to achieve the volume targets, which form an essential part of their profit mode. The growing risk is that the flood of product is exceeding demand bringing with it an inevitable downward pressure on values."

While this might seem attractive to consumers, Hill noted that historic experiences showed that any significant fall in residuals had a knock-on effect on consumer confidence.

NAMA said that while new vehicle registrations grew in 2015, much of this growth came from fleet. In order to keep up their own growth, the association said dealers were pre-registering vehicles at a level unseen for many years.

FCA explores how to help ageing customers

The Financial Conduct Authority (FCA) has launched a project to assess how financial services companies should meet the needs of ageing customers.

As an initial stage, the regulator has launched a discussion paper written by a range of individuals and organisations on some of the problems older people face in accessing financial products, and how they can be best assessed.

Linda Woodall, FCA director of life insurance and financial advice and sponsor of the FCA's Ageing Population Project, said: "Demographic change is at the heart of the challenges posed by the ageing population. Regulators and firms need to adapt to make sure that financial services are still fit for purpose, and able to meet the wide range of needs of today's older consumers."

Areas Woodall highlighted included the fact that as people get older they are more likely to suffer health conditions, that evidence suggests people rely on 'gut-feeling' to an increasing extent as they age, and that the proliferation of choice can become increasingly difficult.

Tracy McDermott, acting chief executive at the FCA, said she believed the regulator has a role to play in facilitating the debate about what older people need from financial services providers and the barriers that might get in the way.

She said: "In the UK, the average life expectancy of children born in 2013 is over 90 years old, and the number of people aged over 65 already outnumbers those under 16. This changing demographic is driving, and will continue to drive, a need for new and different financial products and services to meet the needs of our ageing population. This provides both opportunities and challenges for firms across the financial industry. It is critical that our financial services markets are able to adapt to meet these needs."

The FCA said this was just an initial step in the programme, and that it would be interested to hear from stakeholders about how older consumers engage with financial services. It said it intends to conduct further research on the topic, which will be scoped in the second quarter of 2016. This will be used to develop an FCA Strategy on the Ageing Population, which it intends to launch in 2017. This strategy will make recommendations about how outcomes can be improved for older people, including whether regulatory settings need further review. ■

Hybrid and electric sales to near 17 million by 2020, but used PHEVs predicted to struggle

Nearly 17 million hybrid and electric vehicles will be on the road globally by 2020, up from an estimated 12 million last year, according to a study from Juniper Research.

According to Juniper, the reason behind the significant increase in sales will be lower "range anxiety".

The study found that electric car manufacturers are prioritising range as the key issue. "In order to meet the expectations of the combustion engine vehicle market, Tesla and Chevrolet have focused their efforts towards ensuring that their models' mileage range can exceed 200 miles on a fully charged vehicle," wrote Juniper.

Additionally, the research recommended that OEMs take an active role in the education process, investing in campaigns to communicate the capabilities and benefits of electric vehicles in order for them to be viewed as a real alternative to combustion engines.

Challenges in the used sector

The new range of plug-in petrol hybrid electric vehicles (PHEVs) are going to take some time – if ever – to establish themselves as the "third fuel choice" in the used sector, despite their success in the new car market, according to vehicle data provider Glass's.

Glass's said that the popularity of PHEVs in the new vehicle sector is being driven almost entirely by company car taxation – and is unlikely to be matched by used car buyers.

Rupert Pontin, head of valuations at Glass's, said these vehicles usually do not make a compelling choice for used car buyers unless they are very keen to avoid the congestion charge and to enjoy vehicle excise duty exemption.

He added that there was also an underlying issue that the majority of used retailers and car buyers did not have much awareness of plug-in hybrids or how they might benefit certain kinds of motorists.

In addition, Pontin highlighted that as diesel and petrol prices have fallen quite quickly and quite substantially, it has become even more difficult to make a case for plug-ins. ■

Alphabet UK launches 'virtual handover'

After a successful trial, fleet lessor Alphabet has launched its 'virtual handover' service to all customers receiving new vehicles via its preferred dealership network.

The new service provides the driver with a video guide for their new vehicle from the supplying dealer, approximately two weeks before the vehicle is delivered. According to Alphabet, this is a pioneering service for the leasing industry.

The videos are created by the dealers themselves and customers receive an email with a link to a 'virtual handover' film.

"Drivers get an experience as close to that of going into a retailer, without the inconvenience of having to visit a dealership," said Tony Long, network development manager at Alphabet UK.

Virtual handover is available for all makes and models of vehicles delivered via Alphabet's preferred dealer network of 26 dealer groups and over 80 retailers nationwide, with further films being created as new models are launched.

Although Alphabet's virtual handover is currently only available for passenger cars, Long confirmed that a similar service was in development for commercial vehicle customers and drivers.

Long said: "While some leasing companies have trialled video technology for vehicle handovers, Alphabet is the only company providing a virtual handover across all manufacturer vehicles and for all new car deliveries fulfilled by our preferred dealership network.

"We worked closely with our network over the past 12 months to create a library of over 200 virtual handover films, providing guidance and feedback to dealers on the content that customers really value and want to see."

Matt Sutherland, chief operating officer at Alphabet UK said: "Increasingly modern consumers turn to videos such as via YouTube when they need guidance on anything today – whether that's to follow a recipe, change a fuse or replace a tyre. So it seemed a natural progression for us to provide a video handover which builds drivers' excitement and anticipation about their new car being delivered, as well as being a handy reference guide to ensure their vehicle stays in tip-top condition in future.

"While there's a significant driver benefit in this, fleet managers are supportive too as it helps to ensure that they are meeting their duty of care obligations in the handover of new vehicles to their employees."

Appointments

Alphabet UK has appointed Gavin Davies to the newly created position of general manager for SME sales and distribution, with Graham Conway replacing him as head of Alphabet Partner.

Davies joined Alphabet in 2013 to create and establish the company's broker sales channel, Alphabet Partner. He previously held various roles at LeasePlan.

In his new role, Davies will coordinate all of Alphabet's SME commercial operations in order to provide consistency in sales and service delivery across all of the channels in which the company interacts with SME customers.

Conway, who also joined Alphabet in 2013 to set up the broker channel in tandem with Davies, has taken up the position of head of Alphabet Partner. His previous role was head of tactical business and he was involved in the development of the 'Icon' quotation system.

Upgrade

Alphabet International has launched a reshaped version of the AlphaGuide app. The relaunched app is currently available in eight countries: Germany, France, the Netherlands, Belgium, Poland, Luxemburg, Switzerland and the UK. Austria and other European countries are set to follow in the near future.

The company referred to real-life user journeys when defining the apps' feature set. The resulting selection currently includes a mobility calendar with real-time traffic information featuring a function that tells the user when to leave in order to arrive at an appointment on time; service partner search with points of interests; access to leasing contract information; and damage report filing.

Alphabet wrote: "To date, certain features have enjoyed particular success in specific markets. For instance, German users are fond of the automated driving licence check, allowing them to verify easily any Germany-issued driving licence on the app.

"In the Netherlands, users and fleet managers are enthusiastic about a feature that facilitates mileage reporting because the country's tax code requires precise documentation of every journey.

"Both features considerably reduce the administrative effort of drivers and fleet managers, which in turn saves people time and companies money.C ■

Mercedes finance tops satisfaction survey

Average dealer satisfaction with manufacturer finance fell slightly from the summer to the winter in 2015 in the National Franchised Dealers Association's (NFDA) *Winter Report*.

In it, dealers were asked to score a number of questions out of ten. When asked: "How satisfied are you with the competitiveness of your manufacturer's finance programme?" The average score was 7.2, down from 7.4.

There was notable variance between manufacturers, however. Mercedes dealers were the most satisfied with their finance programme, scoring it on average 9.2 (down from 9.3).

Toyota, Ford and Alfa Romeo all also scored well, with an average score of 8.2 for each. In Alfa Romeo's case, this was up from 6.9 in the summer.

Hyundai and Jaguar dealers were the least satisfied with their finance, with average scores of 4.9 and 5.3 respectively. Both of these constituted a notable drop from the summer, when Hyundai dealers gave a score of 5.9 and Jaguar dealers 6.1.

When asked how satisfied they were with the reasonableness of the finance penetration and renewal targets set by their manufacturers, the average response fell from 7.1 in the summer to 6.8 in winter.

Again, Mercedes came top with an average score of 9, however Lexus came in second with 8.3, followed by Suzuki, at 8.

When asked how satisfied they were with the reasonableness of the underwriting stance and customer service aspects of their manufacturer's finance programme, dealers responded with an average score of 7.2, down slightly from the 7.1 recorded in the summer.

While Mercedes dealers again scored their OEM finance programme well at 8.4, Ford dealers were slightly more satisfied, with an average score of 8.6. Land Rover, Lexus, Nissan and Suzuki dealers all also gave an average score of 8 or above.

Dealers remained less satisfied when asked about their manufacturer's inducement to self-register vehicles. On this topic, the average score remained at 5. Some companies scored low on this. Renault dealers gave their manufacturers an average of just 2.9 out of 10, while Peugeot and Seat gave average scores of 3.4 and 3.9 respectively.

When asked, overall, how they would rate their manufacturer out of 10, the average dealer score was 6.1, down from 6.2 in the summer. Again, this overall number hid some significant differences between manufacturers. The average Mercedes dealer score was 9.3, while Lexus dealers scored 8.9. Kia dealers scored 8.4. At the other end of the spectrum, Jaguar dealers gave the lowest score, 3.7, while Alfa Romeo, Peugeot, Renault, Seat and Volkswagen dealers all gave average scores of less than 5.

Sue Robinson, director of the NFDA, said: "The relationship between car dealers and car manufacturers recorded an average score of 6.1, which is 0.1 points lower than the summer 2015 survey. This is the lowest score recorded in the past eight surveys, suggesting that a number of dealer networks are slightly less satisfied with their relationship with their manufacturer. ■

Volkswagen Group plans 'future centres'

Volkswagen Group announced at the Geneva International Motor Show that it will create three 'future centres', where designers and digitalisation experts will work together on the "car of the future".

The future centres will be located in Germany, the US and China. The centre in Potsdam, Germany has already begun working under the new concept. Volkswagen said decisions regarding the locations for the new centres in California and China will be taken soon.

"We are realigning our group design for the digital era," chief executive officer at Volkwagen Group Matthias Müller said. In addition, the group has been focusing on "autonomous driving", and says it aims to bring this core technology to market maturity faster than its competition.

Müller said that digital transformation is very high on the group's agenda.

Johann Jungwirth, who became chief digital officer at the Volkswagen Group in November, made clear where the realigned Group was heading: He said: "I'm firmly convinced we will become a leading mobility provider by 2025." He described how the Volkswagen Group would "in part become a software and services company" in the process.

The group is also forging ahead with electromobility. The Volkswagen Group currently has nine electric vehicles and plug-in hybrids in its product range. It will be adding a further 20 models by 2020. "All-electric ranges of over 500 km are feasible by the end of the decade," said Müller. "Charging will only take as long as a coffee break. And in the long term an electric car will cost less than a car with an internal combustion engine."

The group highlighted that a concerted effort was needed on the part of industry and politics, with regard to setting up a comprehensive charging infrastructure to speed up electric mobility penetration. ■

MotoNovo warns of underestimating the importance of online reviews

A number of dealers aren't maximising the potential of online review sites such as Trust Pilot, independent finance provider MotoNovo Finance has said.

Extracting the value from these could provide a way to differentiate from competitors, increase consumer confidence and enhance search engine optimisation, the lender added.

MotoNovo's head of sales and marketing Karl Werner said: "According to digital optimisation consultants Invesp, 90% of consumers read online reviews. Given the changes in the way consumers approach car buying today, all dealers should consider themselves to be multi-channel retailers who serve the customer initially online and subsequently (although not exclusively) in the showroom. Creating a stand-out digital presence in a crowded marketplace, means reviews matter."

In 2015, Invesp also found that 88% of people trusted online reviews as much as personal recommendations.

Other research has supported this theory. In 2011, consumer research company iPerceptions found that 63% of customers were more likely to make a purchase from a site with user reviews.

Werner said: "A strong collection of reviews, such as those we have amassed to date, including less favourable assessments (providing they are not fake reviews) add a high level of authenticity to a dealer's F&I offering and vicariously to the dealer's own credibility.

"If dealers are looking for an edge in 2016, developing their review profile should be a key candidate for investigation." ■

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Discrimination accusation in US auto finance

The primary regulator of consumer financial protection in the US is the Consumer Financial Protection Bureau (CFPB), a federal agency born of the ashes of the last decade's financial crisis. Racial discrimination did not cause the financial crisis (auto finance securitisations performed well during the crisis), nor is there any evidence to suggest it even played a role. Nonetheless, the CFPB has actively pursued banks and finance companies under the so-called 'disparate impact' theory of liability – a questionable legal theory that requires neither direct evidence of discrimination, nor any intent to discriminate.

Disparate impact is a theory of liability that, the CFPB contends, arises from the federal Equal Credit Opportunity Act. The theory requires a defendant to have a facially-neutral policy that has the result of treating protected classes (in this case, racial minorities) less favourably than similarly situated non-protected classes. No discriminatory intent is required; the plaintiff need only show that the defendant's neutral policy has a statistically measurable negative effect on protected classes. 'Disparate treatment' occurs when a policy is discriminatory on its face.

Most auto finance in the US takes place in the dealership, where a dealer sells a vehicle to a customer on credit, then sells the credit sale contract memorialising the transaction to a finance source (generally a bank or finance company). The dealer negotiates an interest rate with the customer, which is based on wholesale rates set by the finance sources. In most instances, finance sources will agree to buy credit sale contracts evidencing retail interest rates up to 250 bps higher than the wholesale rates, and pay the dealer all or part of that difference as compensation for originating the transaction. The crux of the CFPB's disparate impact allegations is that the portfolios of the banks and finance companies that buy credit sale contracts from dealers show statistical disparities based on race due to the 'discretion' finance sources give them to negotiate retail rates with their customers, ie, the policy of discretion allows dealers to charge minorities higher interest rates than non-minorities, resulting in a statistical disparate impact on minorities.

If the concern is that dealers disparately treat minorities, one would naturally wonder why the CFPB would not attack the apparent source – the dealer. Certainly the CFPB would like to go after dealers, but it has learned over the past few years that auto dealers have tremendous lobbying power. Virtually every member of Congress has one or more auto

dealers in his or her district, and those dealers are likely long-time contributors to their campaigns, if not close personal friends. Add to that the fact that dealers are probably the single largest contributors of sales tax revenues to their states' economies, and it's no wonder they succeeded in convincing Congress in 2010 to deny the CFPB jurisdiction over their activities.

Barred from attacking dealers directly, the CFPB has instead chosen to attack the century-old credit sale business model by holding the finance sources responsible for statistical disparities in their portfolios (which consist of credit sale contracts not from one dealer, but from thousands of dealers across the country). Individual dealers' retail rate-setting policies vary, and finance sources have no control over the rate variances that ultimately find their way into their portfolios, short of setting the retail rates themselves and eliminating dealers' ability to negotiate rates with their customers. Even then, statistical disparities will arise because rates don't remain static, nor are they consistent across the country.

Since 2013, the CFPB has settled allegations of disparate impact discrimination with four major auto finance companies: Ally Financial (\$98m) (£69.2m), American Honda Finance Corporation (\$24m), Fifth Third Bank (\$18m) and Toyota Motor Credit Corporation (up to \$21.9m). It has engaged in some settlements with banks it supervises as well, but those were part of the non-public examination process and little is known about them other than general supervisory information periodically published by the CFPB.

All of the dollar amounts are restitution to be paid to minority consumers for allegedly having paid higher prices for credit, except for \$18m of the Ally settlement, which is a civil money penalty paid to the CFPB. The CFPB supported its claims using the 'Bayesian Improved Surname Geocoding' (BISG) proxy method, which uses geography and surname to form a single proxy probability for race and ethnicity. The BISG proxy method never determines the actual race of an individual, just a statistical probability of the individual's race. How high the probability is determines who gets restitution under the CFPB's orders. The challenge is determining which consumers to pay, since the finance sources have no idea whether a given individual is actually a minority. It's ironic, to say the least, that it is illegal in the US to inquire as to a credit applicant's race in an auto finance transaction, yet that is exactly what the CFPB would have finance companies do after the fact to remedy this 'harm'.

The largest disparity in the four public cases was 36 bps, or less than the cost of a cup of coffee at Starbucks each month. None of the companies admitted to discriminating – it's impossible to admit to something that you don't control – and it's safe to assume that these companies settled the claims to forgo a protracted legal battle with a government agency armed with an enormous bank account.

One can argue the merits of the government's case against the auto finance industry. In fact, the CFPB's own documents reveal that its attorneys felt that there was a significant litigation risk in the Ally case that might not go well for them (the documents further reveal that the CFPB felt it could go forward because it had leverage over Ally, which needed government approval to obtain financial holding company status – a designation necessary for it to continue two unrelated lines of business). That risk has only been exacerbated by a recent Supreme Court decision that placed substantial limits on the disparate impact theory, and a scathing report from the Republican staff of the House of Representative's Committee on Financial Services that exposed in detail the flaws with the BISG proxy method for determining race (not to mention the Committee's publication of thousands of internal CFPB documents outlining the CFPB's efforts to upend the auto finance market).

A brave finance source that chose to fight the CFPB's discrimination allegations might very well prevail, sounding the death knell for the disparate impact theory in auto finance. The question is whether it's prudent to wage the battle when you might create a war with your regulator for years to come.

Michael Benoit is chairman of Hudson Cook LLP and a partner in the firm's Washington, D.C. office

No one's getting any younger – issues for finance providers to an ageing population

There's little escaping the fact that no one is getting any younger. In the next five years, the number of consumers aged over 65 in the UK is expected to increase by 1.1 million and the fastest-growing segment of the UK population are those aged 85 and over. The number of people aged over 65 already outnumbers those under 16.

The FCA has published a discussion paper (DP 16/1) *Ageing Population and Financial Services*, which forms part of its work aimed at ensuring consumers have access to products and services that are well-governed and deliver value for money in competitive markets.

The more that is understood about how markets work for older consumers the easier it will be to improve the outcomes for these consumers.

Risks/challenges associated with lending to older consumers

The financial services market, like any other consumer-led market is continually changing and evolving and as such, there's no option but to embrace the changes and rise to the challenges such changes pose. Here is a brief overview of the four key issues that financial service providers may face with this changing demographic.

1. Vulnerability

Providers need to be mindful that older consumers can sometimes become vulnerable consumers. This's not to say that vulnerability has a direct correlation with age, as every consumer runs the risk of becoming vulnerable due to their personal circumstances, whatever their age.

Older people will be more likely to encounter unpredictable life events such as ill health, cognitive decline and reduced mobility which will have a significant bearing on how they manage their money. The Alzheimer's Society found that 76% of people with cognitive decline had experienced difficulties managing their finances.

It's also a sad fact that personal circumstances leave many older people open to becoming a victim of fraud or financial abuse. Stronger measures therefore need to be in place to regulate against scams and help older people detect scams. Staff should be trained to direct older consumers to reliable sources of information and away from poor sources.

Communicating with vulnerable customers is not without its challenges. Experiences tends to show that consumers are often reluctant to disclose vulnerabilities and this can make it difficult for providers to communicate in an effective manner. Disclosing vulnerabilities should therefore be actively encouraged.

2. Making an informed decision

Evidence suggests that as we age we tend to rely less on reasoned, deliberative thinking and more on gut-feel and things learned through experience. Older people also find it more difficult to navigate the abundance of choice and are often slower to process information. As a result of this, older people tend to prefer simple choices with minimal options and information which is succinct. This is in contrast with the younger population who prefer a wide range of choices offering flexibility with the ability to create tailor-made options.

Older people in general are also less understanding of the financial implications of delaying decisions and so staff in the financial services sector should be trained on how to communicate effectively with older consumers.

3. Access to products and services

Compared to the working age population, fewer older people use the internet. Of people over 55 who do, 53% don't use it for banking and 41% don't use it for purchasing goods and services. As such, there's a real need for firms to keep the needs of older customers in mind when they innovate. Having said this, current research shows that older consumers who use mobile and internet banking typically use it as frequently or only slightly less often than younger generations.

With some of the best deals only available online, this could discriminate against the older generation who either don't have access to the internet or that would prefer to deal with someone face-to-face. Firms should take this account when offering online exclusive deals so as to avoid excluding this group of consumers.

4. Financial uncertainty

It's often been the case that older people are more likely to find themselves victims of age discrimination. For retired people the key financial challenge is the need to manage existing financial resources over their entire retirement. This has led firms to use age as a risk factor in pricing financial products or even refusing to provide products to certain age groups.

Provided firms put in place different enhanced tests for assessing affordability and these risks are assessed as part of the lenders' normal underwriting process, this should help older people have access to a much larger area of the financial services market.

What does the future hold?

It appears clear that this change in demographics represents both challenges and opportunities for financial services. The key appears to be developing new and innovative products to meet the needs of our ever-changing population. It should not be forgotten that older consumers are just as diverse as the younger population and so a 'one size fits all' approach should not be adopted. There appears to be a real need to balance innovation with consumer protection.

It should also be noted that adapting to these changes should also have benefits for the younger population as it will allow them to have access to information and services at an early stage to ensure that they have planned and prepared appropriately for financial provisions in the future.

It's critical that our financial services markets are able to adapt to meet these needs which will be achieved provided firms work collaboratively with others to help bring about a positive change. While firms should not be ignorant of the risks associated with lending to an ageing population, equally these should not be exaggerated and it's clear that with careful planning these risks are both tractable and manageable.

I ***Charlotte Healey*** *is a solicitor at Shoosmiths LLP*

Are finance companies guilty of handing car dealers a bad deal?

Browsing the car comparison website Carwow, I came across an article on hire purchase. The writer points out that with an HP agreement, the finance company will step in to help out in a dispute between the consumer and the dealer. They go on to make the statement that "in all honesty, manufacturers and dealers will take a lot more notice of a major finance company than they will of individual consumers".

The obvious inference in that statement is that finance companies hold a certain amount of power over dealers and are not afraid to use it.

But at what cost to dealers?

Now I have no issue with consumers having rights or finance companies providing high levels of customer service, but why should either be offered at the expense of car dealers. At Lawgistics we represent over 1,000 dealers and every week we are asked to cast our legal eye over new terms and conditions which finance companies are issuing to dealers. The main issue of concern is that of indemnity in the case of consumer complaints.

Following the introduction of the Consumer Rights Act 2015 in October last year, consumer rights were further separated from those available to a party involved in a business-to-business transaction. This led to the possibility of a consumer being entitled to redress from the finance company under the Act, but the finance company, as a business, not necessarily having the same level of redress against the selling dealer.

New terms and conditions

To combat this potential statutory inequity, some finance companies issued new terms and conditions in an effort to legally contract dealers to indemnify them against any consumer payouts.

Many seem fair and reasonable and take on board that the consumer is not always right or genuinely entitled. In these contracts we see terms such as "if the parties dispute whether a vehicle complies with the terms of this agreement and/or the relevant consumer law, either party may refer the matter to an expert for determination" or we see references to dealers needing to "respond adequately to reasonable complaints which are reasonably considered well-founded". However, we're beginning to see a trend whereby some finance companies are attempting to contractually oblige dealers to indemnify them for any payout they make to a consumer. Terms we have seen include "the finance company shall at its sole discretion determine how much to refund to the customer" and "the dealer obligations in this contract apply in addition to any rights the consumer has under the Act".

The latter terms remove any sense of reasonableness from the equation and given that reasonableness is a concept much used in law for good reason, they leave not only a bitter taste but leave dealers is in a position whereby they have fully investigated and considered a complaint, reached the conclusion that there's no liability but are still required to pay out when the finance company take a different view. Quite often these different views are made without ever having seen the car or read a report other than perhaps a few words from a local Halfords or an AA breakdown report.

This leads to us to regularly defending clients who have legitimately rejected a complaint from a consumer only to find that the finance company has decided to gift the consumer money for their repair or even a full refund of the purchase price. In these circumstances, the finance companies subsequently write to the dealer to ask them to indemnify their loss. Some ask under Section 75(2) of the Consumer Credit Act 1974, but in my view that is more appropriate for credit card transactions, but that's a discussion for another day. However, when the dealer stands up and says "hang on, we inspected the car and there was no fault" or "there was a fault but it did not make the car not of satisfactory quality", court proceedings are threatened.

In many cases we are finding that finance companies have a different view on what is a fault. Under the Consumer Rights Act 2015 a fault needs to be something which makes the vehicle not of satisfactory quality or not fit for purpose or not as described. Satisfactory quality is covered in Section 9 of the Act. In that Section it makes clear that all relevant circumstances must be taken into account when considering satisfactory quality. For used cars this means its age, mileage and price paid are all relevant.

As Lord Denning, every law student's favourite judge, declared in the case of Bartlett v Sidney Marcus Ltd: "On the sale of a second-hand car, it is merchantable (now known as satisfactory quality) if it is in a useable condition, even if not perfect...A buyer should realise that when he buys a second-hand car defects may appears sooner or later and, in the absence of an express warranty otherwise, he has no redress."

So without a warranty, again another subject for another day, consumer rights when buying a used vehicle are very different to rights of consumers buying a new car or even a kettle or a toaster.

We have seen cases where full refunds (with no deduction at all for usage) have been given by finance companies after almost a year due to issues of wear and tear. We have seen a case where the finance company, until we got involved and insisted on an independent report, were about to issue a refund based on an AA breakdown roadside report which drew no real conclusion. The result of the report? The customer had put petrol in the car instead of diesel. A more common issue is disproportionate main dealer repair bills for items merely marked in amber on a vehicle health check. As a quick aside, why do consumers choose to buy from an independent dealer at an independent price but feel entitled to a main dealer repair? Anyway I digress.

In summary, we do understand that finance companies are under pressure to avoid investigation fees which are generated when a customer complains upwards to the Financial Ombudsman Service.

And we know, not least from the outcomes of the many spurious PPI claims we look after for our members, that FOS outcomes can be quite random. But, there has to be a better balance.

Consumers have never had it so good. Do we really need to be gifting them cash at the expense of dealers?

Nona Bowkis is a solicitor at Lawgistics

Change of mind by FCA on requirement for a default notice after breach of guarantor loan

The Financial Conduct Authority (FCA) has issued a short consultation before finalising its guidance on enforcing security under the Consumer Credit Act 1974 (CCA).

The guidance relates to the requirement under s87 CCA to serve a default notice before taking certain actions following breach of a regulated agreement in relation to guarantor loans. The guidance will be of particular interest to motor finance companies that accept guarantees and/or indemnities from third parties in relation to regulated credit agreements or regulated consumer hire agreements.

The consultation (GC 16/2) has been published after feedback received on guarantor lending following the FCA's proposed changes to its consumer credit rules and guidance (PS15/23 September 2015). In that document the FCA had stated that it did not consider that taking or demanding payment from a guarantor would amount to 'enforcement' of the security and so it would not require a CCA default notice (Annex 2 page 43).

The FCA now considers that position was incorrect.

Having reviewed the CCA and underlying regulations, the FCA now considers:

- The CCA provisions on security are intended to provide a surety (including a guarantor and an indemnifier) with appropriate protections.
- The definition of security in s189 includes both guarantees and indemnities, and the CCA treats both types of security in the same way.
- S111(2) expressly contemplates that security is capable of being enforced without a court order.
- In the case of a guarantee or indemnity, security is realised if the creditor/owner seeks and obtains payment from the surety. This therefore also constitutes enforcement of the security.
- S87 requires a default notice, and s111 requires a copy to be sent to the surety before steps can be taken to enforce security.
- The statutory statement prescribed by the s105 regulations (The Consumer Credit (Guarantees and Indemnities) Regulations 1983) states: "if the debtor fails to keep to his side of the agreement, the creditor must send him a default notice (and a copy to you) giving him a chance to put things right before any claim is made on you".

The FCA's position now is that if the creditor wishes to enforce a guarantee following non-payment by a debtor, it must first serve a default notice on the debtor, provide a copy to the guarantor, and allow at least 14 days for a response. Failure to serve a valid default notice means payment cannot be taken from the guarantor. If it is, the FCA may consider taking regulatory or disciplinary action against the firm.

Comment

The guidance is not binding on firms, but the FCA will take it into account in deciding whether a firm has complied with the law and whether any supervisory or enforcement action is warranted. Of note, given its change of view, is that the FCA will not take any disciplinary action solely on the basis a firm took payment from a guarantor without first issuing a default notice to the borrower and copying it to the guarantor between 28 September 2015, when the FCA published its incorrect view, and 19 February 2015, when it published this guidance.

The consultation ran until 18 March 2016.

Greg Standing is a motor finance partner at Gowling WLG

The wisdom of changing bank accounts

The Competition and Markets Authority (CMA) has decided that banks do not have to work hard to compete for customers, and that this state of affairs is not in the best interests of the consumer.

The investigation has identified a number of competition problems in the SME banking market. Low levels of customer switching mean that banks are not put under enough competitive pressure. The thinking here matches the FCA's stance, aiming to tilt the scales towards smaller companies.

What happens with many SMEs, especially the ones that are more S than M, is that they open their business current accounts (BCA) at the same bank where they have their personal current account (PCA). They do this because in the short term this saves them time and effort, and the benefits of investing time into research would only become apparent after that time had already been spent, which is a bit like having a tooth extracted in case you find a cavity in it once it's out.

If you're determined to stick with your personal bank for your business loans, you're not even going to look for bank comparisons. And when you do go to look, they're not easy to find. Only 3% of customers switched their PCA in 2014 and, more indefinably, just 16% "looked at" alternative accounts.

Research shows that 57% of consumers have been with their PCA provider for more than 10 years, and 37% for more than 20 years. The investigation also discovered that accounts which are more expensive and below average quality are not losing customers to cheaper and better alternatives at the rate that would be expected in a well-functioning market.

The lack of competitive pressure in SME banking is highlighted by the fact that more than half of start-ups choose an SME account at the bank with which they have a personal current account, more than 90% stay with their BCA when the initial free banking period comes to an end, and around 90% go to their BCA provider when they are looking for business loans.

This is why the CMA feels it has to act. There's a nationwide interest at stake if growth is being stifled by the absence of effective competition. Smaller banks find it hard to gain a foothold. That's not what they will tell you, because they're looking to send out the positive message that they're expanding fast – and they are, but the total values involved are still small in comparison with the established banks.

The CMA published an initial list of remedies last November, and since then the NACFB has been involved in consultations.

One possible remedy would be to relaunch Midata, which is an industry online tool allowing consumers to access their banking data from their bank and input it directly into a price comparison website which can then analyse their transactions. If revived, this website could have a big impact on consumer choice in retail banking markets by alerting consumers to bank accounts which suit their needs better.

The CMA is currently in a process of consulting and holding detailed discussions with all interested parties, including the NACFB. It aims to publish its final report in May 2016. I'll report back when we know the outcome.

Adam Tyler is CEO of the NACFB

FLA chairman toasts another successful year

In his introductory speech at the annual Finance & Leasing Association dinner, Nigel Clibbens, chairman of the FLA, celebrated another good year for the industry

My Lords, Ladies and Gentlemen, welcome to the FLA's 2016 Annual Dinner.

It's a very great pleasure to see so many of you here tonight – just over 1,500 – to help us celebrate another successful year for the industry.

In this room we have FLA colleagues who between us represent a huge breadth of lending, from those who fund major corporates through to those who fund private individuals, and in an enormous variety of ways, across the asset, consumer and motor finance sectors.

As a group, we touch every corner of the economy.

In 2015, we provided a record level of new finance – £110bn – 9% more than in 2014.

Within that total: asset finance new business grew by 12%; consumer finance new business by 8%, and motor finance new business volumes – business and consumer – by 9%.

And FLA members in the asset finance markets, through leasing and hire purchase, financed almost one-third of UK investment in machinery and equipment in 2015.

In fact, of the total asset finance new business last year, almost 60%, or £16.6bn, went to support SME investment in equipment.

Eight out of ten private new car registrations in the UK were financed by FLA members through dealerships in 2015 – and overall last year, we financed almost 2.7 million personal and business cars.

And in the personal credit markets, FLA members provided around a third of all UK consumer credit.

But what does this really mean for the UK economy? We commissioned Oxford Economics to tell us. They reported that FLA members:

- Help sustain more than 330,000 UK jobs;
- We support 57% of all consumer spending on cars; and
- As a sector we are five times more productive than the UK national average.

I'm pleased to say that the FLA's membership also grew in 2015, as more firms recognised the value of having a knowledgeable, credible, specialist trade body to represent their interests to key stakeholders, including the government and regulators.

Stephen Sklaroff [director general of the FLA] and the team have established an

excellent relationship with the Financial Conduct Authority – shown by the fact that the FCA often seeks our views on key initiatives before they happen.

We have similarly productive relationships with the Bank of England and with the government – witnessed by the growing number of areas where our advice is taken, because it is respected – and acted upon.

But, let me remind you, our continued effectiveness depends crucially on your input and support as members.

I was therefore very proud to see that our last annual survey showed the highest level of overall member satisfaction since the financial crisis, including a particularly positive response to some of our new initiatives in the asset finance division.

Our conferences and events were well-attended throughout the year, and our regulatory working groups had standing room only!

I know that the team at Kingsway really appreciated the swift, constructive and insightful responses from you to requests for feedback on the dozens of regulatory and other issues which arose during the year.

As a result, during 2015, the FLA made a difference in a number of key areas, including:

- In the regulated business lending market – recognition of the importance of business plans when assessing affordability;
- In the motor finance market – a better outcome in the new rules for GAP insurance;
- In the second charge mortgage market – more time to introduce the new reporting and prudential requirements.

These and many other positive outcomes were the result of the FLA's ability to collate and distil industry knowledge for the benefit of its members and stakeholders – one of the key attributes of an effective trade association.

As some of you will know, those attributes were examined last year, when the current financial services trade bodies' structures were reviewed by some of the larger banks.

That review recommended a radical change in the landscape for 2016, involving the merger of several existing banking and financial services trade bodies on a tight timetable.

Helpfully, the review also agreed with us that the FLA should remain independent, given the diversity of our membership and the distinct voice we provide for our markets.

We look forward to working with both the new and established trade bodies in the coming years to maximise the benefits for our members and customers.

And it won't surprise you to hear that the FLA will need your input again in 2016, as we deal with:

- The FCA's recent call for input on the review of the retained provisions of the Consumer Credit Act – a process we welcome, having already suggested to the FCA a list of outdated provisions. We'll want your help to make sure we get a regime fit for the 21st century.
- There's also an expected consultation on possible new rules for affordability and creditworthiness;
- Not to mention the FCA's ongoing work on remuneration and commissions; and
- The implications of the new EU Data Protection Regulation for responsible lending, among many other issues.

Beyond our regulatory work, we've been listening to your views in other areas.

2016 will therefore see more FLA regional events, new ways of delivering our very popular training courses, and a focus on the implications and opportunities of technology and market innovation for our industry.

So let me encourage as many of you as possible to participate during 2016.

Membership of the FLA is a two-way street – the more you put in, the more you get out. ■

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Prestige lender sees gold in year one

JBR capital launched at the start of 2015 to provide finance for prestige vehicles. **Jonathan Minter** speaks to founder and managing director Darren Selig about how the first year has gone

When JBR Capital launched at the start of 2015, the company was clear that it was looking to provide specialist finance for the top-end prestige motor market, which founder and managing director Darren Selig felt had room for a new, dedicated player.

Speaking to *Motor Finance* just over a year later, it appears this suspicion was well-founded, as in its first year, the lender wrote in excess of £60m worth of advances. "It's not just the amount we wrote, though, we built with real foundations that should, in 2016 and 2017, really catapult us to become the number one finance house for high-value vehicles," he says.

Other aspects have grown in order to keep pace with demand, he says. Headcount grew from an initial 11 to 20, while maximum loan size has increased from "about £1m to £1.5m" to £2.5m.

JBR has already hit its self-imposed £2.5m ceiling in a refinancing deal for a collection of 17 cars for a private individual, and Selig says the maximum loan size may increase in the future.

Selig credits part of JBR's success down to the fact that, as a dedicated high-value lender, it is able to offer more flexible products than other lenders where high-value vehicles make up just a part of their operation.

For example, when valuing a vehicle and looking at residuals, JBR will use CAP, but it will also use its own people to establish values. Selig says: "Because we're independent, we're not constrained by third-party data providers like CAP. So we're quite happy to, and indeed do, a lot of research and valuation work on vehicles. Especially when they're specialist vehicles or vehicles not in CAP. And we're quite comfortable to go well outside of those parameters should our own valuation work stack up.

"We're very happy to live or die by our own sword, to make our own judgements, and lend on that basis, and I think that's what people find refreshing."

Similarly, when it comes to assessing credit, JBR will use credit reference agency searches, as other lenders do; however as so many high net worth individuals don't necessarily fit into normal credit profiles, JBR also assesses candidates beyond this.

According to Selig, this has resulted in

customers getting access to credit they might not have necessarily otherwise got, as it allows JBR to structure a deal around the customers' personal circumstance, based on how they structure their lives and their finances, and what they want to achieve.

Selig adds: "Standard products often don't suffice. Things like refinancing 17 vehicles for £2.5m is a fairly tailored and bespoke product. So we do anything from plain vanilla, up to raspberry ripple or pistachio, if you will."

One of the challenges new lenders have faced recently is how to reach the market with finance. The majority of large brokers today have robust lending panels, and dealers are, if anything, looking to cut back on lending panels as they seek to lessen the regulatory burden imposed on them by the FCA. As a result, new lenders need to find a way to distinguish themselves from the competition.

For JBR, this was less of a problem, as it is less reliant on mainstream brokers for distribution compared to mainstream lenders. The brokers it does deal with tend not to work with a large number of dealers but instead with the customer base directly.

When asked what he has learned in the 12 months since JBR launched, Selig says: "When you start a business, you start with certain ideas about how you think things are going to go. And the thing I learnt very quickly is you can't predict everything. A month in this market seems like a long time. And the market, and what people want, constantly evolves."

One example of this was the upping of the maximum lend Selig mentions. The initial plan was that the average lending balance would be approximately £100,000, however after a year that number sits at £185,000, and is growing.

According to Selig, it became apparent very quickly that the upper limit would need to be raised, and JBR reacted by doing so. Part of the reason why JBR underestimated the upper limit is that it didn't fully anticipate the appetite for multiple car buys. One of the reasons why this has grown in recent years is that classic and performance cars have become in vogue investments for high net worth individuals, who now compete with enthusiasts for these vehicles.

Relatively soon after launching, JBR signed a white label agreement with McLaren. According to Selig, he has had a personal relationship with McLaren for a number of years, and this helped provide the impetus for the two to work together. In addition, he says: "They felt as a small, independent niche finance house that we had a very good understanding of their product, were empathetic with their customer bases and could service their requirement quite nicely."

Looking ahead

Following a successful launch year, JBR has a number of plans in place. These include some new distribution channels with dealers, brokers and manufacturers which the company isn't able to talk about yet.

It is also planning to go through a full rebrand. In 2015, the company kept its public face deliberately quite low, however in 2016, Selig says JBR will be pushing a rebrand into the public consciousness with a more concerted effort.

As well as this, it is planning on launching a bespoke scoring system for deals under £100,000. Recognising that one of the company's selling points is the personal, manual system it employs to deal with customers, the system won't see people rejected from credit; they will either be accepted or referred to a manual underwriter. However, he says: "We recognise that we can transact a lot of these (deals under £100,000) by building our own scoring system, which is our own intellectual property which will help give customers quick decisions. How we fit that into our philosophy is the system will never see a customer declined."

Finally Selig says the company is on course to increase its total lending to in excess of £100m in 2016. ■

Tailor the message for the audience

With the vast amount of motor finance introducer-based, *Motor Finance* investigated what strategies companies employ to reach the consumer in a B2B and B2C world

While the idea that there is a typical motor finance deal is being increasingly challenged, it remains true that, even today, the vast majority of finance sold to UK consumers will have either a dealer, a broker, or both, between the lender and the end-consumer. Although the customer should have been made aware of who the finance is with, the customer will not necessarily have heard of the finance provider before being informed of them.

Nonetheless, anyone can easily use the internet to research companies and form opinions relatively quickly and easily. What's more, the internet has allowed companies to increase the amount of contact they have with existing customers, in order to ensure there are no problems and increase retention rates. Therefore the argument could be made that, for lenders, keeping a positive public image is becoming increasingly important.

This is certainly true at Moneybarn, where marketing manager Stacey Ball says: "We operate in a market which has higher risks than the prime market and this applies to both lenders as well as customers. The nature of the market means that customers want to understand Moneybarn's approach to lending before signing the agreement through a broker, so our communications play a vital role in providing this insight for customers. Our marketing and press communications play a key role in this."

As a result, the company's marketing team spends around 70% of its time focused on customer projects, such as the evolution of its current-customer communications, and those which focus on the information delivered to customers via intermediary partners.

The ratio is similar at The Car Finance Company (TCFC), according to marketing executive Hayley O'Connor. She says the marketing team currently spends around 60% of its time dedicated to end-users, with the remainder related to dealer and broker marketing material.

A big part of this is speaking to customers throughout the duration of their contract. O'Connor says: "Because our customers are usually with us for around 36 months, depending on their finance agreement term, it means that regular communication is required in order to educate our customers on our processes and ensure customer satisfaction.

One method lenders can use to reach out to customers is social media, however O'Connor warns that companies need to avoid pure advertising as social consumers generally react poorly to this.


Graham Filmer, Rocket Marketing Associates


Nigel Unwin, BMW Group Financial Services

Ball adds there are other considerations which need to be considered when using social media. One is that anything published on the main platforms is accessible to all audiences, including potential customers, existing customer, and even regulators, and therefore needs to be considered from all angles before publishing.

She adds: "Social media is great for tracking advertising campaigns, but it become harder to measure success when the content does not have a strong call to action. As a responsible lender we believe that it's important for Moneybarn to be a source of information about the motor finance industry and this often means that the content has no measure of impact beyond the number of views."

TCFC takes a similar stance on this, and O'Connor says: "We look to use social media for engagement rather than a sales channel. We promote ourselves as subject matter experts with the industry to build a relationship with a potential customer."

This educational element is something Graham Filmer, director of Rocket Marketing Associates, recognises as being important in crafting a company's image.

He says: "A promotional approach that focuses upon a sales force, a website and advertising, may mean that dealer audiences know a business; but a well-executed PR strategy can create additional credibility gained from considered insight, news and views. Over time, this can help develop a highly desired 'thought leadership' position for a company, which in turn can help to build respect and trust, again differentiating a business."

Building up to the position of a thought leader takes time, and Filmer says one of the mistakes companies make is to appear to view PR and marketing as little more than putting out the occasional press release, as a press release in isolation is unlikely to create long-term traction.

"The copy to support a thought leadership stance needs to be relevant, appropriate, distinctive (or you risk being a follower) and substantiated. Importantly, the copy and the message have to be 'real'. Journalists will not publish what is simply a veiled advert. Nor should organisations make excessive or unsupportable claims. This presents the risk of breaking the very trust that PR is aiming to achieve. Good PR should always support the brand and ensure that copy is real and not hyperbole," he adds.

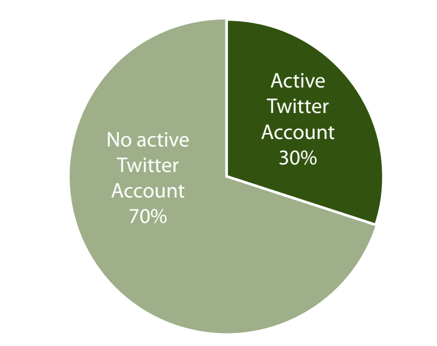
As an external PR, one of the challenges Filmer has encountered in this regard is that 'thought leadership' content needs to be aimed at the business' ideal customer, addressing their needs, instead of pitching a product or service. However, Filmer says: "This can often be a challenge, quite simply because organisations are quite naturally so focused upon their business and its customers that they may not immediately have distinctive views about wider trading environment issues, or perhaps are unsure of how to articulate them."

In terms of how to engage with consumers, Ball warns that tone is important, and that using a tone which is too formal or language that has too much jargon results in poor engagement.

As motor finance can be seen as daunting to consumers, which in the case of Moneybarn are customers who are often focused on improving their credit score, she recommends: "Talking to them in a way that is conversational and accessible removes some of these barriers and helps us get across important and useful information. It's important for the whole Moneybarn team to be approachable so that our customers are encouraged to talk to us.

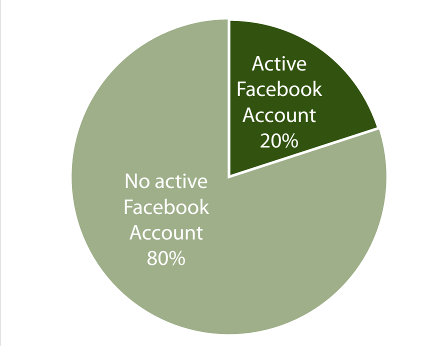
One way of achieving this O'Connor recommends is through the use of video. This works in both B2B and B2C environments, she adds. She also suggests infographics as a digestible way to communicate with audiences. "A lot of the information regarding our finance products is very comprehensive and we want to ensure that this information is easy

FLA MOTOR FINANCE MEMBERS SAMPLE WITH ACTIVE TWITTER ACCOUNTS



Source: Timetric

FLA MOTOR FINANCE MEMBERS SAMPLE WITH ACTIVE FACEBOOK ACCOUNTS



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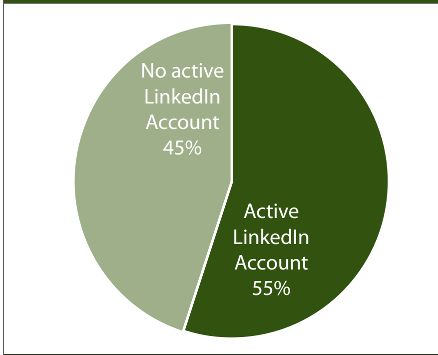
FLA MOTOR FINANCE MEMBERS SAMPLE WITH ACTIVE LINKEDIN ACCOUNTS



Source: Timetric

to read and clear so we utilise infographics where possible within our marketing," she says.

According to Nigel Unwin, head of marketing at BMW Group Financial Services (BMW FS), both B2B and B2C marketing is important for finance houses. However he adds: "The marketing for Alphera, our independent finance brand, is much more focused towards traditional B2B. This involves providing our dealer partners and brokers with the tools, service levels and campaigns they need from us to sell our finance products."

This is a key difference he finds between promoting a captive and an independent finance company. Another, he adds, is that captives will have a better brand awareness generally, and therefore marketing can focus on the USP of the brand. With independents, marketing will vary depending on the business strategy, but he says Alphera's marketing focuses on communicating with its partners and being a trusted resource. Therefore, he says, sales of its products are presented in the best possible manner where it is the most suitable option for the consumer.

While Alphera is currently focused on B2B, Unwin admits that B2C will become more important. He says: "As the consumer purchasing journey is evolving, particularly with the advent of technology, peer-to-peer lending and comparison sites, there will be a requirement for independent lenders to have a greater consumer presence. This will ensure they stay visible and competitive, as consumers potentially decide on finance before they enter a retailer."

Filmer agrees that traditional B2B services are increasingly in the B2C domain thanks to digitalisation. Explaining this, he says: "It may still be reasonable to reflect that car finance customers may not be aware of their finance supplier until they sign their agreement. However, through digitalisation not only are financial services providers more public and accessible, something that 'self-serve websites' will only increase, but today consumers can and are sharing their experiences and views, notably through reviews."

While social media platforms such as Twitter and Facebook may be the most obvious example of this, Filmer also notes that some businesses may be unaware their services are being rated on review sites and potentially forums. As a result, he suggests businesses should now be looking to manage their online reputation. For lenders this could have the added benefit in today's environment, where being seen to treat customers fairly is paramount. Filmer says: "In today's TCF operating environment it's certainly conceivable that dealers will want to say 'I work with a lender with a really high trust pilot score.' If the customer can go online and see 1,000 reviews of which the majority are good, that's credible information."

Monitoring negative feedback is important for companies, however it's clear there's no one-size-fits-all approach to responding to negative feedback. At Moneybarn, Ball notes: "When a customer expresses dissatisfaction via an open platform it's usually because the situation is causing them particular concern and usually has a strong emotional element to it. With this in mind, any response should avoid being defensive. Instead, it should acknowledge the issue, making sure the customer understands how seriously we take it, and offer them a clear path to resolve the problem."

However in open forums, where there can be multiple consumer opinions, a direct response might not always be appropriate. Instead Moneybarn monitors these forums and feedback sites, and contacts customers directly if they can be identified. "Replying to a customer via social media or a review site provides a great forum for opening up communication channels with customers and provides a more controlled environment, allowing constructive dialogue," she adds.

At BMW FS, Unwin says the company will engage with customers directly via its website, social media account, telephone or through its retailer partners. While he says the company takes all complaints seriously, he adds: "It's our policy not to engage with indirect comments made online, but we do keep a watching brief on online discussions."

While a lot of media attention is focused on trade press, social media and direct contact with consumers, Filmer recommends lenders also look at the consumer press when considering strategies. The audience in this field is wider and more diverse, and there is also a wider array of publications. Filmer says that success in this market is often a longer game, and may require some lobbying to educate publications which will have a more limited knowledge and appreciation of product features and the benefits of dealer-based finance.

In his experience, the 'key criteria' with B2C media is to focus less on what an organisation does and more on what that means for the consumer.

He adds: "One storyline option might be to say 'we've got the cheapest or best PCP in the marketplace', but arguably it would be so much better explaining through a publication like *Which?* or *WhatCar?* why dealer finance is different to a personal loan, and why dealer finance gives better consumer protection and improves affordability when compared to an unsecured personal loan. There is a lobbying job to be done to promote dealer F&I."

Last year BMW and Alphera changed its business model. According to Unwin, this included a direct communication campaign with retailers and partners, including newsletters, roadshows, webinars and a microsite. While the focus was on B2B, Unwin notes: "We also ran a consumer campaign to raise the profile of financial services for the brand. This involved a research project and PR campaign to consumer media titles which proved successful."

As consumers and businesses become increasingly diverse, it makes sense that the routes to communicating the message to them follows suit. It's clear there's no one 'right' way to go about communicating a brands message that will work for each company. Instead, people *Motor Finance* spoke to promote a range of campaigns and methods to reach partners and end-customers, including B2B media, B2C media, the use of social media and direct PR and marketing campaigns. ■

Room for further finance growth in Europe's largest car market

Despite its long history and large size, the German car finance market is poised for change as leasing matures and online channels develop. **Sotiris Kanaris** investigates

Apart from being the centre of European car manufacturing, Germany is the continent's top car market, boasting a large number of registrations and car finance volumes.

In 2015 new passenger car registrations in Germany stood at a six-year high of 3.2 million, according to the German Association of the Automotive Industry – Verband der Automobolindustrie. Alongside the increase in registrations, car finance penetration expanded since 2009, when car-scrap bonus was introduced in Germany.

Managing director of AKA, the German automotive captive finance companies association, Heinz-Peter Renkel tells *Motor Finance*: "While only 60% of private customers used financial services for their car purchase in 2009, today there are well over 75% choosing to lease or finance their new car. With corporate customers and fleets, the share of financial services is even higher."

Captive dominance

According to AKA, captives are dominating the new car finance market, with a 66% share of the market. Consumer banks' market share is approximately 22%, while commercial and savings banks account for 12% of car finance volumes.

Renkel says that although competition has increased over the past five years, captive finance companies were able to maintain a strong position.

"In the last five years there have been new players trying to establish themselves in this market through aggressive pricing and marketing, for example ING-DiBa, Commerz Finanz and Targobank Autobank. However, the captive banks' wide product range and close cooperation with the OEMs and dealerships have sustained their success in the market. Captive banks have even enhanced their penetration rates to 46% in the last few years," says Renkel.

Executive director at Volkswagen Bank Anthony Bandmann tells *Motor Finance* that the bank's penetration rates have remained relatively stable at a high level, between 55-60% over the past three years.

Bandmann says that another reason behind the strength of captives in the market is their business model, which is based on continuity. "If you look at the last few decades, non-captives have been more flexible in entering and exiting the market. The dealers know they can rely on us when times may not be so good."

Bandmann adds that captives' 'all-in package' for mobility services offers a competitive advantage over non-captive finance companies.

He explains: "It's the aspect of mobility services as a whole which most non-captive banks are not able to offer. They can offer one portion of it and they can offer that very aggressively if they want to enter the market and capture business.

"Working so closely with the brand and the dealer bodies, we can operate as a one-stop-shop and offer a complete solution package to the end-customer. That is something that makes our business model to a certain degree unique and very hard to duplicate by a non-captive organisation."

Services on the rise

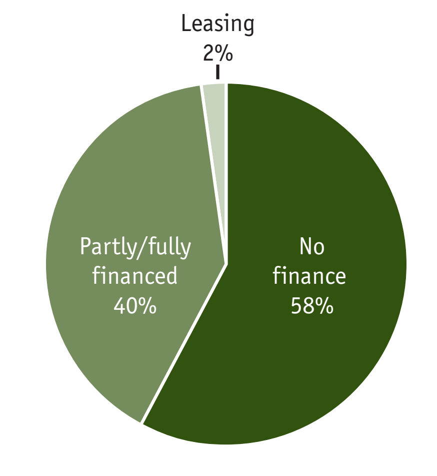
Renkel says that the bundling of these services to form 'mobility packages' enjoys high acceptance among consumers and has become the market standard. He adds that the interest rate is not the sole focus of customers anymore.

"The customer's question is: 'What is the total cost of my mobility and how can I fit it into my monthly budget?' Renkel says.

"The captive banks recognised this trend early and were the first banking groups to add systematically a wide range of vehicle-related services to their product portfolio.

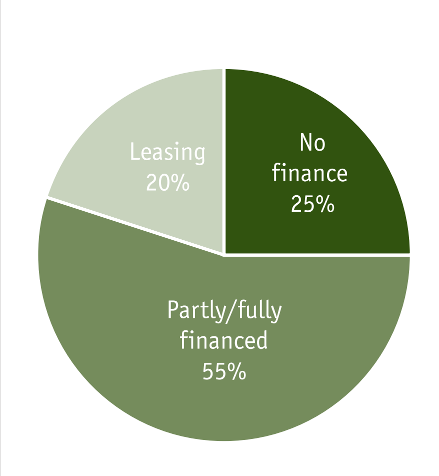
"For each leasing or finance contract today there are, on average, two additional service contracts with the customer."

■ FINANCING FOR ALL USED CARS 2015



Source: DAT report 2016

■ FINANCING FOR ALL NEW CARS 2015



Source: DAT report 2016

Captives have grown their service contracts from 1.9 million in 2010 to 2.5 million in 2014.

"The sale of insurance products is an attractive income source for captives, as there's no underlying equity required," says Frank Stenner, adjunct professor of automotive financial services at the University of Applied Sciences at Nuertingen-Geislingen. "Keeping repair and maintenance work within your own dealer organisation is the name of the game."

According to AKA, 53% of captive finance company customers go for a mobility package. The components most in demand are maintenance and service contracts, vehicle insurance and warranty prolongations.

The importance of additional services for captive finance companies is illustrated through the investment they have put into this area. VWFS has established a separate salesforce that goes into the workshop area of the dealership to educate service people in the dealership on the products it offers.

Bandmann says that the availability of such services strengthens customer loyalty to brand dealerships.

"As customers don't need to buy each individual module separately, it will have a huge impact on customer loyalty for dealerships," he explains.

Dealership role still strong, but transforming

"In Germany car dealers have a prominent position. The dealer is the first and main point of contact and distribution for the customer," says German leasing association BDL chief executive Horst Fittler.

However, technology is changing the way customers engage with dealers, as the dealer role as information provider weakens.

Bandmann says: "The level of information customers have prior to their purchasing decision has increased over the years. I would say that probably 90-95% of all consumers purchasing, leasing or financing a car, prior to the choice of the vehicle, are somewhat informed through the internet. This definitely changes the role of the dealer. However, as of 2015-2016, the role of the dealer body, at least in Germany, but I think it's the same in the UK and US, has not yet dramatically changed."

In addition, the availability of vehicle and finance information online has reduced the number of visits a customer makes to the dealership. "All the previous visits to the dealership have been replaced by visits to the corresponding website," says Stenner.

Technology can also disrupt the dealer market with more of the business of selling and financing cars taking place online.

"Captives and their OEMs will do more online business. If dealers don't open up to these trends they will lose competence for sales, service and customer care," says Stenner.

On the other hand, Stenner says, the 'offline dealer' will not disappear because it is part of the German market's DNA.

"Don't forget you need a physical signature on the contract and this is provided by the dealership," says Stenner.

Bandmann expects the role to change in the future. "In 5-10 years, I would definitely say that the role of the dealer body will change, with the degree of change strongly determined by the individual strategy of each manufacturer."

IFA-Institute has forecasted that the number of independent dealers will shrink from 7,950 in 2011 to 4,500 in 2020.

Digitalisation

"Digital sales channels are a significant growth provider," Mercedes-Benz Bank tells *Motor Finance*.

According to AKA research, over half of German customers (52%) could imagine ordering a future vehicle directly on the manufacturer's website, while 40% of respondents would be interested in concluding the matching financial service directly online.

Major captive banks, like Volkswagen Bank and Mercedes-Benz Bank, have already launched portals that offer their services through a digital channel.

Volkswagen Bank's portal Leasingbörse offers a leasing product for young used cars. Bandmann says that customers on the portal can filter the number of vehicles according to monthly cost.

"What the customer then does is reserve the vehicle and choose a dealer using the 'dealer locator', which is also installed on the internet site," explains Bandmann. "After that, the customer sets up an appointment at the dealership and the dealer formalises the leasing contract."

Bandmann says the primary goal of Volkswagen Bank when it looked at online sales channels and digitalisation of its business was to do this hand-in-hand with its German dealer body. He adds that all parties involved will benefit from this.

As to the reasons behind Volkswagen's decision to launch this portal, Bandmann says it is to increase leasing business.

"We wanted to increase the percentage of leasing because we see advantages for the manufacturer and the dealer body in this finance product compared to pure financing or even balloon financing," says Bandmann.

Mercedes-Benz Bank says the company's goal from the digital channel is to provide information and tools concerning financing and leasing products to its customers from the beginning, so they can choose the product that best fits their requirements.

"In the next step customers can individually arrange and calculate their financing or leasing product according to their wishes and the dealer can propose a customised offer fitting their needs," writes Mercedes-Benz Bank.

In both cases, the dealer remains the final point of contact where the customer goes to finalise the contract.

Despite simply offering a leasing product through Leasingbörse, Volkswagen Bank found that 80% of contracts generated from this channel also include additional services such as insurance and extended warranty.

Bandmann says: "One main aspect of our 10-year strategy is that we want to offer every product that is today offered exclusively through the dealer bodies through digital sales channels. That doesn't necessarily mean that we will bypass the dealer body."

Leasing

Leasingbörse presents an opportunity for VWFS to boost its leasing volumes, an area that it is underdeveloped in Germany compared to other countries.

According to the *DAT-Report 2016*, only a fifth (20%) of new car buyers turned to leasing as the method to purchase a car, while for used cars the figure is as low as 2%.

Ed Paulat, managing director and executive vice-president at GM Financial Austria, Germany, Sweden, Switzerland and the UK, commented: "Fully amortising loans continue to be the most popular automotive finance product for consumers in Germany. In 2015, it was the preferred option for 70% of people who financed a new car."

Although Fittler highlights constant growth in car leasing since 2011, he specifies that growth has not been linear, as there have been fluctuations in the year-on-year growth. Last year this leasing segment grew 6%.

Fittler tells *Motor Finance* that over time captive finance companies' share of new car leasing business has risen to 80% in 2014, while bank-owned companies' share decreased to 13%.

At Volkswagen Bank Bandmann says: "If you compare the German automotive market to the UK or US market, the percentage of leasing is much lower, simply because the product is not yet as mature and developed on the consumer side. The demand for leasing on the private side has been increasing, but there's definitely a lot of room for growth; as a result more organisations are entering the market."

This growth potential was identified by Opel Bank, which launched 'Factor Leasing' last year. Through this leasing product, which targets consumers and small fleet customers, the company has already experienced an increase in its leasing portfolio.

Paulat says: "In the showroom, the customer together with the sales representative selects online between a range of 'pick and choose' features for the model and car line and sees immediately how this influences the monthly leasing instalment. The new product enjoys high acceptance among our customers, and helps to significantly facilitate sales. After eight months, Factor Leasing accounts for almost 40% of our total new car business."

The fleet market is a strong market for industry players to target in order to boost leasing volumes. BDL finds that more than half (51%) of all companies in Germany use leasing to finance their vehicles.

Fittler says: "The leasing kilometre contract especially has made a significant leap forward. This is shown by the current CVO Fleet Barometer. Nearly every third company interviewed relies on leasing kilometre contracts. The purchase of automobiles has decreased by two percentage points down to 40%."


Heinz-Peter Renkel , AKA


Anthony Bandmann, Volkswagen Bank

Used car market

The used car market is another area captive finance companies are targeting, since finance penetration is lower than the new car market.

"As there's a higher share of cash purchasers and other banks in the used car market, there's still a lot to gain for the captive banks," says Renkel.

The latest *DAT-Report* states that 58% of used car buyers did not use finance, 40% partly/fully financed, while only 2% used leasing.

"The used car finance market is more consumer-to-consumer. People sell their used car by themselves to another person," says Stenner.

In this market, the competition between finance companies is more intense as a number of non-captive banks and captive banks are operating.

Renkel says: "The captive banks have gradually entered into the highly competitive used car market and have successfully gained ground in recent years. One success factor is that the captive banks clearly target younger and more valuable used cars which are also a strength of their brand retail partners."

Captives are entering the market also to take advantage of the increased demand for used vehicles.

Bandmann says there has been an increase in demand for young used vehicles and that 2015 was a record year for VWFS in used car financing.

Renkel also says that by entering the used car market, captive banks can boost their new car sales in the long term.

He explains: "With regards to their function as new car sales promoters the used car segment is also of high value to the banks because it allows them early access to potential future new car customers. Hence, the banks can build up a connection with these customers so they are very likely to stay loyal to their brand and their financial service provider when buying a new car in the future."

Fintech competition

Co-founder of Auxmoney, a P2P platform which offers – among other loans – car finance, Philip Kamp says the reason behind the low finance penetration in the used car market is the fact that banks don't offer small loans.

Kamp says: "I think a lot of German people don't have access to the used car market on a finance basis because they don't want to spend a lot of money to receive bank loans, or their credit status is not good enough to receive higher loans.

"If you want to finance a car for €3,000 (£2,325) to €5,000 in Germany there's almost no option to do it with a classic bank."

Auxmoney – backed by American and German venture capitalists – serves the near prime car finance market. Kamp says the market the company serves accounts for 30% of German population. "This also means that 30% of the population is not getting car finance because of their weak credit history," he adds.

The P2P lender is only financing used cars and mostly older cars, cars which are five years old or older. Kamp says these cars are often not seen as potential collateral by big banks.

Bandmann says this finance avenue is on

Frank Stenner, University of Applied Sciences at Nuertingen-Geislingen

Philip Kamp, Auxmoney

the rise, but Volkswagen Bank does not consider P2P lenders primary competitors at this point. Kamp says his competition is banks like Santander and Targo.

Auxmoney's average deal size for a car is around €10,000, which is lower than the usual financing of a car with the classic banks. Loans start at €1,000 and go up to €25,000.

According to Kamp, the eight-year-old company has originated €100m in loans in 2015 and this year's run rate nears €250m. He says that 25% of the loans are related to car finance.

Stenner says fintech companies will disrupt the relationship of dealers with customers and captives.

Kamp tells *Motor Finance* that the company aims to build up a sales team to "convince" car dealers that there is another solution for people who get rejected from the 'traditional' banks, and refer these customers to Auxmoney at the dealership.

"Then there's an opportunity for them to make a more expensive loan with Auxmoney and get the car financed and without a down payment," says Kamp.

Kamp says there's no product like that in the German market and Auxmoney would like to offer it, but lacks the distribution power because it cannot distribute the product through car dealerships.

He also says Auxmoney would be interested in partnering up with a big bank in order to serve its near prime segment.

Kamp adds that as a fintech company Auxmoney has a strategic advantage over traditional banks because the whole process is automated instead of having parts paper-backed.

He believes that Auxmoney could achieve natural growth from a future increase in the number of online car finance seekers.

"Currently in Germany around 15-20% of all loans are online. If this figure grows to 50% in the next 10 years, we will grow just by people searching for loans online, without any further marketing," says Kamp.

Deposit services

The increased use of online channels by German consumers has not only affected finance companies' sales channels but also the creation of banks. One example is Opel Bank which launched its own online bank last September.

A difference between the German and the UK market is that in Germany there's a much greater number of captive banks operating in the market which take deposits.

Six out of the eleven AKA members have successfully established their own deposit business in Germany: Banque PSA, BMW Bank, Mercedes Benz Bank, Opel Bank, Renault Bank and Volkswagen Bank.

Stenner in his book *Handbuch Automobilbanken* writes: "Captive banks have a reputation of consistently offering attractive interest rates. For private customers this is a strong motivation to open a deposit account."

Stenner says that the German market is attractive for captives to establish deposit business because the private individual is "inclined" to put his money into a bank account.

"Typically German individuals do not like to invest in capital markets, so the majority shies away from putting their money into shares," explains Stenner. "They are very risk-averse, so they prefer to put their money into bank accounts. If you take into account this preference, it is only natural that the captives would want a slice of the cake."

Renkel says captive banks' deposit businesses mainly contribute by attracting new customers to the car brand and increase customer loyalty.

He adds that deposits are an additional pillar in refinancing the leasing and finance business of the banks.

"Captive banks with their own deposits have an extra refinancing source besides securitisations and funding through the capital and finance markets," explains Renkel.

"This provides them with a diversified and well-balanced refinancing mix and leads to more flexibility on the side of the bank."

Regulation challenge

Paulat says the requirement for automotive finance companies to hold a banking licence has left them impacted by the banking business regulatory requirements.

"In recent years, the regulatory environment has changed significantly – with implications for resource management, IT systems or structural and process organisation," says Paulat.

A potential challenge for captive finance companies operating in the market could be the regulatory provisions currently under discussion in Brussels and Basel, for example, the ones regarding securitisation and equity requirements.

Renkel says these regulatory provisions could have considerable negative implications for the car finance and leasing sector as well as the real economy.

"Banking regulation is absolutely indispensable, but it has to allow for different business models instead of painting with a broad brush," adds Renkel.

Bandmann also mentioned the challenge market players experience from the increased consumer protection regulation.

He says: "The increase in regulation can be seen by the number of pages that have to be printed and signatures needed from the customer at the dealership to close a deal. This number has increased dramatically over the past two years.

"I think consumer protection is something which is absolutely important. On the other hand, there needs to be a balance between informing the customer in order to make a well-informed decision and not overwhelming the customer with information that he or she might not be able to handle at the end of the day."

He also believes that the tightening of consumer protection regulation is going to be an ongoing trend for years to come. ■

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We do this through Interact®, our single software platform, which enables secure customer acquisition, engagement, transactions and servicing across any mobile and online channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving technology that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Atom Bank, Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group and Think Money Group.

FLA motor finance statistics

Cars bought on finance by consumers through dealerships

	Jan 2016	% change on prev. year	3 months to Jan 2016	% change on prev. year	12 months to Jan 2016	% change on prev. year
New Cars						
Value of advances (£m)	995	+20	3,353	+23	16,371	+16
Number of cars	59,990	+14	197,790	+18	991,629	+11
Used Cars						
Value of advances (£m)	1,093	+15	2,909	+16	12,260	+14
Number of cars	104,864	+12	271,408	+13	1,158,652	+10

Cars bought on finance by businesses

	Jan 2016	% change on prev. year	3 months to Jan 2016	% change on prev. year	12 months to Jan 2016	% change on prev. year
New Cars						
Number of cars	33,566	–2	106,204	–3	507,893	+6
Used Cars						
Number of cars	2,536	–21	9,398	–1	38,327	–5

Analysis

The point of sale consumer new car finance market saw new business growth of 14% by volume and 20% by value in January 2016, compared with January 2015.

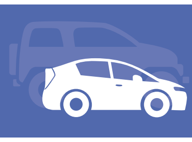
The percentage of private new car sales financed by FLA members reached 81.7% in the 12 months to January.

The consumer used car finance market also saw growth in January, with new business up 12% by volume and 15% by value.

FLA head of research and chief economist Geraldine Kilkelly said: "These figures show a strong start to 2016 for the point of sale consumer car finance market. The recent growth in this market has to a large extent mirrored a reduction in the use of unsecured personal loans, while also reflecting changing consumer attitudes towards car ownership."

81.7% Share of consumer car purchases financed at the dealership in past 12 months

+0.3 Percentage point change from previous month



Motor industry (stats from the SMMT)

New car registrations

	Feb 2016	Feb 2015	% change	Market share Feb 2016 (%)	Market share Feb 2015 (%)
Diesel	40,711	38,553	5.6	48.8	50.1
Petrol	40,463	36,553	10.7	48.5	47.5
AFV	2,221	1,852	19.9	2.7	2.4
Private	36,666	30,718	22.6	45.2	39.9
Fleet	44,254	44,893	-1.4	53.1	58.3
Business	1,475	1,347	9.5	1.8	1.8
Total	**83,395**	**76,958**	**8.4**		

Market share of different brands

Brand	Feb sales	Trend	Market share Feb 2016 (%)	Market share Feb 2015 (%)
Ford	11,513	▲	13.81	12.81
Vauxhall	7,868	▼	9.43	12.41
Volkswagen	6,694	▼	8.03	10.02
BMW	5,760	▲	6.91	6.62
Audi	5,384	▲	6.46	5.73
Mercedes-Benz	5,196	▲	6.23	5.65
Nissan	4,634	▲	5.56	5.39
Peugeot	3,469	▼	4.16	5.09
Citroën	3,046	▼	3.65	3.99
Skoda	2,902	▲	3.48	2.94

February best sellers

Fiesta	4,507
Golf	2,574
Qashqai	2,486
Corsa	2,408
Focus	2,369
Astra	1,626
Audi A3	1,619
Polo	1,585
Sportage	1,521
Mokka	1,506

Analysis

- 83,395 new cars were registered in February. This was 8.4% more than February 2015, and the highest figure for the month since 2004.
- Growth was driven by the private sector, which grew by 22.6% year-on-year.
- Gains were made across all fuel types. AFV sales grew by 19.9%, boosting market share for the month to 2.7%.
- SMMT chief executive Mike Hawes said: "February is typically one of the quietest months of the year, ahead of March's plate change, but this positive performance is encouraging and puts the sector in a good position for the coming 12 months."

Used car values

Car product sold unit market performance – January 2016

	Up to 1 year old				1-3 years old				3-5 years old			
Body type	**Ave. age**	**Ave. sold (£)**	**% of CAP Clean**	**Price vs previous month (%)**	**Ave. age**	**Ave. sold (£)**	**% of CAP Clean**	**Price vs previous month (%)**	**Ave. age**	**Ave. sold (£)**	**% of CAP Clean**	**Price vs previous month (%)**
Saloon (2.0 or less)	8.00	21,464	98.16	97.95	27.54	14,729	95.10	98.15	45.09	9,697	96.65	99.00
Saloon (greater than 2.0)	8.21	28,234	94.65	96.74	25.48	20,623	96.65	98.86	44.64	13,159	98.08	99.23
Hatch (2.0 or less)	8.91	14,933	99.62	100.31	25.27	8,442	93.52	97.57	45.16	6,343	94.34	98.05
Hatch (greater than 2.0)	9.47	31,132	102.70	99.37	25.65	25,268	97.93	98.67	42.62	17,890	99.35	99.42
Mini MPV (2.0 or less)	9.80	11,363	94.59	97.31	24.39	10,139	91.30	96.01	44.50	7,407	91.61	93.99
Large MPV (greater than 2.0)	10.13	16,900	96.57	95.05	26.40	20,311	101.34	105.04	48.09	13,089	98.15	101.97
Estate	8.55	21,915	97.93	99.07	26.57	14,486	95.49	98.34	44.99	8,675	94.72	97.47
4x4	8.14	29,288	101.95	101.33	25.57	20,605	97.74	97.98	43.39	15,138	97.09	97.69
Coupés	8.50	25,558	98.40	100.47	26.63	17,154	97.11	97.98	45.65	11,954	97.88	97.69
Roadsters	9.35	35,170	98.41	98.45	27.83	18,389	101.16	99.64	46.56	13,864	98.42	100.44
Convertibles	9.52	26,846	99.15	98.70	25.49	17,551	96.78	98.93	45.74	11,032	95.88	99.18

OBSERVATIONS Tim Naylor, BCA

The latest Pulse report shows that the headline average value of a used car sold at BCA rose in February 2016 by £52 (0.6%) over the month to £7,929. Year-on-year, average values were up by £115 (1.4 %), with both age and mileage declining.

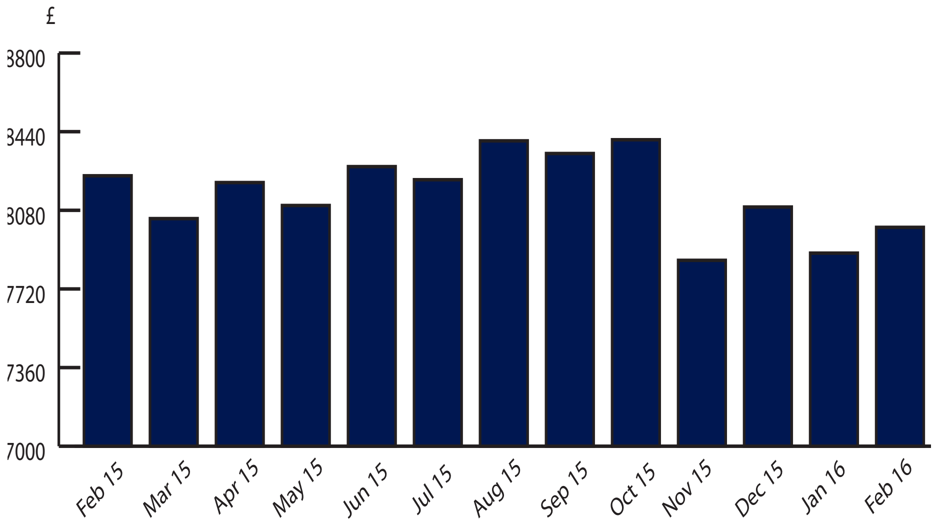
This price performance reflects the strong levels of demand in February, with BCA reporting plenty of interest in retail ready cars, but buyers rather more wary of poorer condition vehicles. Buyers have a lot more choice and vehicles requiring repair and refurbishment need to be sensibly valued to compete. For cars with cosmetic damage, SMART repairs are a cost effective option for sellers, meaning their vehicles can be quickly processed and presented in the best possible condition.

The market is anticipating increased part-exchange business and greater volumes from fleet and contract hire sources over the coming weeks. With Easter imminent – often a watershed in demand - this could impact on residual values in the weeks ahead and BCA is recommending that volume vendors appraise their sale stock closely to ensure it is valued in line with market expectations.

Fleet & lease car values averaged £9,662 at BCA in February, an increase of £222 (2.3%) compared to January's figure of £9,440. Retained value against original MRP (Manufacturers Retail Price) improved by a percentage point to 41.56, from 40.48% in January, with age and mileage broadly static. Compared to February 2015, average fleet & lease values were virtually static, down by just £11, with retained value down by nearly three-quarters of a percentage point.

The importance of professional appraisals that adhere to NAMA standards cannot be over-emphasised, as this builds buyer confidence and delivers benefits for buyers and sellers alike. BCA continues to innovate in this area, investing in training for staff and developing new tools such as the BCA Branch Appraisal App that generate reliable data for the search engine powering Auction View.

Car product sold unit market performance – February 2015



Source: Manheim Remarketing

"Manheim has seen very strong sales at the start of this year, with high conversion rates and intensive buyer activity."

74.1% UK employment rate

5.1% UK unemployment rate

0.3% UK CPI

1.3% UK RPI

BASE RATE 0.5%

0 (▼4) February Consumer Confidence Index (source: Gfk NOP)

+12 (▼4) February Consumer Confidence Index (Large purchases) (source: GFK NOP)

Europe focus

Vehicle registrations from the largest EU countries by volume (data supplied by ACEA)

Country	Feb 2016	Feb 2015	% Change	Jan-Feb 2016	Jan-Feb 2015	% Change
Germany	250,146	223,254	12.0	468,511	434,591	7.8
Italy	172,241	135,317	27.3	327,963	267,428	22.6
France	166,728	147,584	13.0	305,128	280,754	8.7
UK	83,395	76,958	8.4	253,073	241,814	4.7
Spain	97,650	86,719	12.6	173,984	154,838	12.4
EU total	1,056,902	924,534	14.3	2,118,273	1,923,403	10.1

Analysis

Motor Finance *reviews the European car market*

European passenger car registrations continued their recovery in February, growing 14.3% year-on-year, according to the European Automobile Manufacturers Association (ACEA).

The only two countries in the EU which failed to grow their car registrations were Greece, where 32.4% less cars were sold in February 2016 than the same month 2015, and the Netherlands, where sales fell 15% over the period.

Of the so called ‘big five,’ Italian registrations grew the fastest, up 27.3% to 172,241, followed by Spain (up 12.6% to 97,650).

166,728 cars were sold in France in February, up 13% year-on-year, while the German market hit the quarter million mark for the month, after 12% growth. The UK market grew 8.4% year-on-year to 83,395 in February.

By percentage, the Cypriot car market was the fasted growing market, at 76% growth, although the number was comparatively small – just 1,100 cars were registered in the country in February 2016.

Volkswagen remained the most popular brand in the EU, as it sold 115,075 cars in February, up 4.4% year-on-year.

Renault remained the second largest brand with 75,666 vehicles sold, 10.5% more than February 2015.

Ford saw its sales rise by 19% year-on-year to 71,529. Opel/Vauxhall sales grew by 18.7% to 69,956, overtaking Peugeot which sold 69,767.

March personal loan rates

Supplier	Interest rate	Comments
HSBC	3.3%	
Zopa	3.3%	Must be aged 21+ with income of £12,000pa
Cahoot	3.4%	UK residents aged 21+
Clydesdale Bank	3.4%	
Nationwide	3.4%	Nationwide main current account holders aged 18-79 only. Self-employed must be householders
Sainsbury’s Bank	3.4%	
Tesco Bank	3.4%	Clubcard holders only
Yorkshire Bank	3.4%	
M&S Bank	3.5%	Must have income of £10,000pa
Santander	3.6%	

Rates apply to an £8,500 loan, repayable over four years
Source: moneysupermarket.com

FLA Vehicle Recovery Scheme (in association with HPI Crushwatch)

Top 5 marques recovered, February

Vehicle make	Quantity	Value
Vauxhall	150	£587,495
Ford	140	£795,975
Volkswagen	73	£521,685
BMW	72	£769,255
Mercedes-Benz	64	£1,037,380

Top 5 recoveries, February

Vehicle make	Model	Police Force	Value
Mercedes-Benz	GT AMG	Greater Manchester	£99,800
Land Rover	Range Rover Vogue	Surrey	£54,800
Mercedes-Benz	C Class	Surrey	£49,300
Maserati	Grancabrio	Metropolitan	£44,500
Audi	R8	Kent	£42,500

Police force of the month

Metropolitan

Value of vehicles seized:

£2,068,125

February recovery update

Total HPI Crushwatch enquiries	8,797
Total finance hits	925
Value of finance hits	£6,594,150

HPI Crushwatch is an online service aimed at helping lenders reclaim vehicles with outstanding finance before they get crushed.

THE JOURNAL FOR THE CAR FINANCE INDUSTRY

Motor Finance

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7 April 2016 • Steigenberger Frankfurter Hof

Motor Finance: Europe 2016 brings together motor finance professionals and industry disruptors in an active discussion of the key issues facing the industry:

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- Comparing European Perspectives from the Biggest Captives
- Producing Customer Centric Strategies and Business Practices
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For more details please contact Victoria Pennell on victoria.pennell@timetric.com or call +44 (0) 20 3096 2634.

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