

GLOBAL CRISIS, LOCAL SOLUTIONS

Delivering asset finance growth in
2021 and beyond



INTRODUCTION

If the global Coronavirus pandemic were to have a single lesson, it is the importance of preparing for the unexpected; as the global economy restarts, the door is opening on a much-changed world that offers a wealth of opportunities, but also new risks.

As businesses build a path to growth in this uncertain environment, asset finance will play a critical role, powering investment and enabling rapid deployment of equipment that will underpin the future profitability of companies.

However, the business landscape is quite different. The recovery will be uneven, with economic performance differing between nations, industry sectors and individual companies.

Traditional certainties built on years of customer data have been removed, as revenues in

many industries have been devastated by lockdowns and trading restrictions, while others have seen unprecedented demand far beyond their normal trading levels.

Asset finance companies are seeing evidence of this unpredictable market, with some going from 40% of customers requesting forbearance at the start of the pandemic to a V-shaped recovery where there was record demand less than a year later.

As one senior asset finance executive said: “It feels like we are on a rollercoaster.”

For finance leaders, this fairground experience is anything but fun; uncertainty creates exponential increases in risk, as customers or whole economies could plunge into decline with little warning.

There is no perfect solution, but asset finance executives are relying on a careful mix of good customer service and investment in technology to cope with this changing landscape.

Simple solutions such as talking to customers and developing close relationships in the market will ensure asset finance companies can be responsive to changing conditions, while updat-

ed technology will play a vital role in generating granular insights, speeding up response times, and reducing administrative costs, so that employees can focus on adding value and securing customer loyalty.

Industry leaders agree that the pandemic has provided an x-ray of asset finance companies, highlighting their strengths and weaknesses.

How the industry has responded to these unique insights – and how they will respond in future – will define the difference between success and failure in the coming years.



TOWARDS A POST-COVID WORLD

Global economies have endured the worst of the pandemic and with post-Covid recovery looming, attention is turning to what the future holds.

It is clear the recovery will be uneven, with some economies such as the UK beginning to remove many restrictions, while areas such as India and Mexico continue to endure the worst of the pandemic, but in general economists say overall global prospects have improved markedly in recent months as vaccine programmes protect tens of millions of people and allow a return to near-normal economic activity.

Global GDP growth is expected to be 5.5% this year, before slowing to 4% in 2022, but in addition to the national picture differing significantly between countries, there will also be divergence across industry sectors.

The OECD warns that it is vital the vaccination programmes are equally effective in every country, as sizeable risks remain that mutations resistant to existing vaccines will develop. Furthermore, as demand grows, pressure is starting to build in supply chains, many of which were scaled back in the past year, leading to supply disruption that is hampering market recovery. For example, a global shortage of microchips is disrupting the manufacture of goods including computers and cars.

Therefore, OECD experts discourage any premature tightening of fiscal policy, arguing

Whatever the regional solution, asset finance has a key role to play

that the current stance should be maintained until it is certain that a health crisis will not translate into an economic one.

The global flu outbreak a century ago bears a striking resemblance to current events, so governments will be focused on ensuring the welcome boom experienced in the 1920s isn't followed by the catastrophic crash that left millions destitute.

The answer, according to the OECD, lies in economic dynamism, where a strong and sustainable recovery is also inclusive, with international policy co-ordination to increase the gains from national policy actions to tackle the pandemic.

It is a view shared by asset finance leaders, with Odile de Saivre, Deputy Chief Executive Officer of Societe Generale Equipment Finance

(SGEF) referring to it as a “a global crisis with local solutions” in a recent forum.

This “think global act local” philosophy means asset finance leaders will be able to adapt broad strategies for growth, such as digitalisation, to the diverse national dynamics in each country as they chart their way to recovery.

Whatever the regional solution, asset finance has a key role to play, according to de Saivre,

who said: “It is clear that we have a key role in supporting the economy and our clients. Leasing supports the real economy and I think it is very clear in this crisis that we are a key actor. The very strong relationship that we have with our vendors and end-users allows us to help them to continue developing their businesses. We are the link between producers and end-users and this gives us a key role to play.”

Real GDP growth 2020-2022

Region	2020 (actual)	2021	2022
World	-3.4	5.6	4.0
France	-8.2	5.9	3.8
Germany	-5.3	3.0	3.8
Italy	-8.9	4.1	4.0
Spain	-11.0	5.7	4.8
UK	-9.9	5.1	4.7
USA	-3.5	6.5	4.0

Source: OECD

SAME CUSTOMERS, NEW RISKS

The pandemic has changed customer relationships forever and asset finance companies are having to look at the business landscape in a new light.

A combination of human expertise, talent and technology is the answer for the future



Already the industry has introduced digitalisation initiatives at a speed that would have been unthinkable before the pandemic, as finance companies battled to maintain contact with customers and staff who were all working outside an office environment, while handling unprecedented volumes of enquiries.

New communication systems were introduced and business data was transferred to the 'cloud', where it was more accessible compared to legacy systems where information was confined to servers restricted to the four walls of office buildings.

The pandemic has provided an x-ray of asset finance operations, argues Pascal Layan, Deputy

chief executive officer of BNP Paribas Leasing Solutions, providing unique insights into each company's strengths and weaknesses and enabling lessors to take rapid action to introduce lasting change.

He told a recent forum hosted by Acquis: "This crisis created an overnight revolution. We did more in three months than during the last three years to implement digitalisation.

"We have learned a lot from this crisis. And 'new normal' will be different from what we knew two years before."

Customers have benefited from the rapid introduction of e-signature technology to reduce paperwork while in some sectors, such as car leasing, a fully digital journey is now offered in some markets, as a growing number of customers choose and order vehicles entirely online, without visiting a showroom.

But the extent of this change has introduced new types of risk, both internal and external.

There are unique management challenges related to a remote workforce that go beyond simple performance management. There may be health considerations for workers experiencing isolation and a lack of social contact they used to have in the office. It is also harder to assess whether employees are experiencing too much workload or whether their work/life balance is suffering.

Customers are changing too. Traditional assumptions about long-standing clients may no longer hold true, but recent financial data provides little insight as company finances have been ravaged by the pandemic.

Research by Acquis found that 92% of SMEs felt their business had been negatively impacted to

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some degree by the crisis, with 43% saying the impact was severe; 12% said there had been irreparable damage.

Digital technology will play an important role in providing immediate updates about a company's health in this changing environment, with artificial intelligence generating valuable insights from a wealth of complex data that is aggregated in real-time, ranging from company bank statements to market reports.

But industry leaders agree that, while digitalisation has a critical role to play, the human touch will be an integral part of how asset finance companies operate. Close customer relationships will be essential to understanding the nuances of any changes or emerging risks highlighted by data analysis.

Companies must also establish programmes to interact with remote staff on a regular basis, not just for welfare, but as ongoing training to spot viruses or scam emails, which is essential to counter the ever-present threat of hacking or data leaks.

Layan said: "Technology works in partnership with humans; a dual approach is key. A combination of human expertise, talent and technology is the answer for the future."

STATE OF THE NATIONS

The headline for the International Monetary Fund's recent global analysis provides a neat summary for the current outlook – Managing Divergent Recoveries.

It points out that economic recoveries are diverging across countries and sectors, reflecting variation in the impact of the pandemic and the extent of policy support.

The outlook depends not just on the outcome of the battle between the virus and vaccines, it says, it also hinges on how effectively economic policies can limit lasting damage from the crisis.

Latest data shows eurozone economies shrank in the first quarter of 2021, although expectations remain of a return to growth by the end of the year.

Gross domestic product in the 19-member single currency bloc fell 1.8% year-on-year, according to official preliminary data, marking a fall into recession – defined as two consecutive quarters of falling GDP – after GDP fell 4.9% year-on-year in Q4 2020. By contrast, the US economy grew rapidly in the first quarter.

Acquis analysis has revealed that European SMEs are broadly optimistic, but the timescale for recovery differs by country.

SMEs in the UK are most bullish, with most expecting business volumes to recover this year, or early in 2022. By contrast, a large proportion of Spanish SMEs expect recovery to be later in 2022 or even early 2023 as travel restrictions hit its tourism industry particularly hard.

Expectations of recovery are likely to signal investment and there is a distinct increase in spending plans for new equipment in 2022.

For asset finance providers, this could indicate strong growth in 2022. In recent discussions, nearly one-third of lessors said origination volumes had already returned to pre-pandemic levels; more than half expect a full recovery by early 2022.

Asset finance companies point to diversification as the key to maintaining long-term growth, so that expanding economies or sectors offset those that are in decline or slow to recover.

Nick Leader, Acquis Chief Executive Officer, said: “We have seen the same adaptability amongst our leasing clients who have been quick to embrace diversification into new markets where leasing demand is growing, such as green energy sectors.”

Global governments on both sides of the Atlantic have made it clear their focus is on a ‘green’ recovery.

Europe is rebuilding its future around the Green Deal, a commitment to decarbonising the economy, which will see hundreds of billions of euros invested in environmentally friendly projects and also in technologies to drive digitalisation.

European Commission President Ursula von der Leyen said: “The European Union is undertaking a green and digital transformation. The European Green Deal, and the NextGenerationEU recovery and resilience facility, will shape the social, economic, and ecological architecture of the continent for

decades to come. Implementation of the European Green Deal and the Coronavirus recovery are two sides of the same coin.”

US President Joe Biden wants to cut America’s greenhouse gas emissions in half by 2030, while the UK aims to lead the world with a 78% cut in emissions by 2035.

The green focus adds a new layer of complexity to the need for diversification in asset finance, as end-user businesses that have a strong environmental focus will have a competitive edge when bidding for contracts, particularly government-funded rebuilding programmes, in the low-carbon economic landscape.

Nearly one-third of lessors say origination volumes have returned to pre-pandemic levels



OPPORTUNITY FROM CRISIS

There is a common misconception that the Chinese word for crisis combines the symbols for danger and opportunity, a claim most famously used by John F. Kennedy.



While the better interpretation of the second word is 'change point', the inaccurate definition provides a useful perspective on what the future holds for the global asset finance market.

The crisis has brought a significant opportunity for agile lessors that are able to respond to change and meet demand where it emerges as the pandemic subsides.

In many cases, finance companies have already built a path to success through their actions during the pandemic. With investment in new systems and digital solutions, leasing companies will have unlocked efficiencies and

reduced costs compared to rivals that have retained legacy platforms and cut investment until the crisis is over.

Digitalisation makes it easier and quicker for customers to interact with asset finance providers and drives greater levels of insight about potential clients that enables funders to serve new markets while limiting their levels of risk.

As a result, some lenders may have left themselves exposed without investment, argues John Phillipou, Managing Director of SME Lending at Paragon Bank.

He said: "Any business that has not seen this crisis as an opportunity to digitalise and look to the future has missed an opportunity.

"If you didn't prepare and you didn't sort out your businesses internally, investing in technology and people, then I think you are going to miss the opportunity that's coming."

Asset finance leaders admit there is still plenty of work to do – digitalisation requires long-term investment and constant innovation – meaning there is an opportunity for those left behind to catch up, but the general perception is that digital solutions must now be embedded in asset finance ecosystems to meet customer expectations and to remain competitive by controlling costs.

This also reflects the need to protect a customer-focused culture throughout any innovation programme, to ensure that change is made with the end-user in mind.

Leasing executives point out that asset finance remains a people business, as it always has been, and relationships still play a critical role in driving growth – you can digitalise your business, but you cannot digitalise personal relationships.

Being close to the customer has never been so important

These relationships will be maintained by qualified, expert employees who oversee and maintain the service levels and interaction that customers expect, even if much of the back-office administration is automated.

Unlocking growth opportunities that emerge in the coming years will require a balance of technology and people to meet an increasingly diverse range of customer needs in a constantly changing marketplace.

Being close to the customer has never been so important so lessors can collaborate and work together for recovery and growth.



ACQUIS OVERVIEW

Despite the uncertainty ahead, the leasing industry has proven to be strong-willed and resilient. We know from speaking with our partners that they are eager – and well placed – to continue playing their part in the economic recovery.

As a provider of outsourced insurance management programmes, Acquis has also had to quickly adapt to meet the new demands of our clients. It has been really important that through ongoing expert consultancy with our clients, we have been able to work seamlessly in the creation of tailored insurance solutions that provide new income streams. We have launched 18 new insurance programmes since the start of the pandemic, reflecting the industry's appetite to come back strongly and deliver the right services.

For lessors, outsourced insurance management provides an effortless stream of non-interest-bearing income.

Pursuing an outsourced insurance management programme with Acquis will deliver a typical margin of 2-5% of total portfolio revenue. Our customer penetration rates consistently outperform other insurance models and there is no cost to the lessor.

Crucially, our insurance programmes deliver more than increased income. They provide added customer value to the lessee with a dependable, best-in-class insurance product for business continuity, asset protection and peace of mind.

The desire to increase income is the most common reason our clients choose to partner with us, but there are many others too.

Outsourced insurance management provides reduced portfolio risk from the very start of

Supporting our clients and ensuring continued asset protection has, and continues to be, our priority

the lease with top-rated insurance partners. Moreover, our policies do not penalise lessees by their sector or geographic location – which is more important than ever right now. Premiums are determined simply by the asset and associated risk.

During periods of profound uncertainty, such as those we've recently experienced, it is never more important to partner with strong and stable businesses. As a market leading independent insurance broker with access to the whole market, we choose to work only with best-in-class insurers. Throughout the pandemic our partners have been very flexible in helping us provide extra support. We continue to do everything we can to ensure our lessor clients pull-through the pandemic and remain in a strong position as a result.

Nick Leader
CEO, Acquis



With Acquis, leased equipment has never felt so loved

Acquis specialises in helping lessors ensure leased equipment is fully protected.

Our insurance programmes for equipment lessors reduce risk, add customer value and improve revenue from leased assets.

To learn how we can help ensure your leased equipment feels loved, contact us today on

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Sources:

OECD Economic Outlook

IMF

Business Insider

Asset Finance International

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