INTERNATIONAL ASSET FINANCE NETWORK ONLINE

COVID19 Impact on Auto and Equipment Finance Industries

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White Clarke Group

LEADING FINANCE TECHNOLOGY

SESSION 2

IMPACT ON OPERATIONS AND FORBEARANCE

CONFERENCE BRIEFING

Expert witnesses:

Melanie Chell, partner and head of asset finance, Shoosmiths

Adrian Dally, head of motor finance, Finance & Leasing Association

Colin Fleischmann, group director, White Clarke Group

Simon Harris, partner, AVANTALION Consulting Germany

Peter Landers, director, strategic partnerships, MotoNovo Finance

John Rees, global head of sales and marketing, Societe Generale Equipment Finance

Rohan De Souza, global head of auto finance, Genpact

WATCH AGAIN

"I want to thank delegates for your very positive comments on our first session we ran and to thank you all for the care and attention you have taken in your requests to tell us what you want to know."

Edward Peck

Chief executive officer, International Asset Finance Network Online

SESSION 2 SUMMARY

Adrian Dally, head of motor finance, FLA:

"The need to assess risks on and off balance sheet has never been more acute."

Forbearance

New FCA forbearance guidance a "very significant requirement, unprecedented in scale and depth". FLA position is to revert to normal forbearance rules asap.

Questions emerging such as 'how do lenders use credit reference agency data going forward?'. Will they have enough data on which to base credit worthiness decisions?.

Regarding existing CONC rules on lending, concerns over whether any would be too burdensome during 'off-ramping'? Some might be waived for a temporary basis.

Consumer Credit Act

Strict application of the rules in terms of modifying agreements and sending out dossiers is disproportionate under current circumstances. FLA in talks with Treasury to try to get some temporary relief from provisions.

Liquidity and Affordability for Lenders

Gaps remain and shortcomings in workings of some aspects, so ongoing discussions for improvements, particularly for non-banks. Request for Forbearance Guarantee – goes beyond liquidity because in almost any off-ramping scenario, whether or not the forbearance rules are extended, the financial pressures will be "very acute".

Melanie Chell, Partner, Shoosmiths

"I am sensing a definite nervousness across the lender community. People don't want to be on the wrong side of the FCA guidance, CONC rules or CCA requirements and that is driving reluctance to proceed with any business as usual-type decision-making. There are still large parts of your books that are not affected by COVID-19 guidance and we can continue as we usually would with those customers bearing in mind the risk factors we usually would."

Look at arrears strategies

For serious arrears pre-lockdown, try to communicate with those customers and find out current position. Official guidance does not apply to customers who were in serious arrears pre-announcement.

Vehicle Recovery

You can proceed where it is safe to do so and you can do so within social distancing guidelines, for example where customers are in voluntary termination. Good idea to try to convert repossessions to consensual recovery.

Systems

Some clients putting flags on system for key workers.

Contact strategies

Consider all different contact and payment strategies, not just phone. For end of deferral period, customers may be difficult to get hold of.

Managed activity

Manage demand from customers wanting to return vehicles immediately post-lockdown to avoid flooding the market and impacting on vehicle prices.

Charging interest in forbearance

Conflicting views. Most lenders not charging interest. If you charge interest than you are altering total amount payable which is a modification. FCA are not particularly keen on interest, but it is allowed.

Simon Harris, Partner, AVANTALION Consulting Germany

The German government's response to the economic consequences of COVID-19 were based on tried and tested procedures already in place in the last financial crisis. The German furlough system was ready to go in March and money was with businesses by the end of the month. In April every self-employed person in Germany received a €5,000 grant, subject to an up to date tax return. However, in return, they expect very high levels of flexibility from the finance sector re forbearance etc.

John Rees, chief commercial officer, Societe Generale Equipment Finance

Companies need to identify the difference between a real need for cashflow among customers and bad businesses buying time. This requires a customer-centric focus and close relationships.

The real core lenders have leveraged the depth of their relationships and continued to work through a challenging environment.

The number of requests for deferrals has decreased or stopped in some countries, so attention is turning to helping companies recover. SGEF is launching a campaign to stimulate growth and enable investment.

Close relationships with manufacturer partners also help asset recovery processes where necessary.

Digitalisation of processes is accelerating, but automation has limits. AI-based auto approval can only operate with strong historic data, so it was turned off to avoid ‘roadbumps’.

Software requirements include mutualisation of systems across geographies.

Peter Landers, director, strategic partnerships, MotoNovo Finance

Consumer confidence will be a driver in the recovery, along with key factors such as unemployment levels, but there is pent up demand.

Post lockdown, the key will be tolerance and support for dealers and customers, including development of digitalisation to drive higher levels of self service.

Rohan De Souza, global head of auto finance, Genpact

There will be a rise of self-service options that are digitally enabled. Financiers are adapting and accepting this is where they need to invest their time and energy.

There is also a need for greater access to real-time risk analysis, with forward-looking indicators and rapid conversion of ‘data to insight to action’. This enables the flexibility that customers will be looking for.

Colin Fleischmann, group director, White Clarke Group

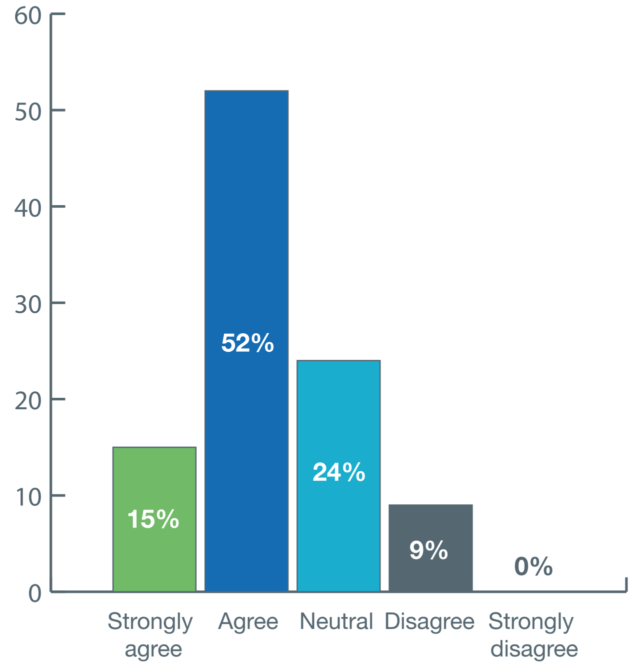
Data requirements are changing as it becomes more important to understand the customer more clearly and predict behaviour.

The strategies being introduced differ globally, but there is a wide-ranging focus on digitalisation and self-serve capacity to manage forbearance, as part of the ‘new normal’.

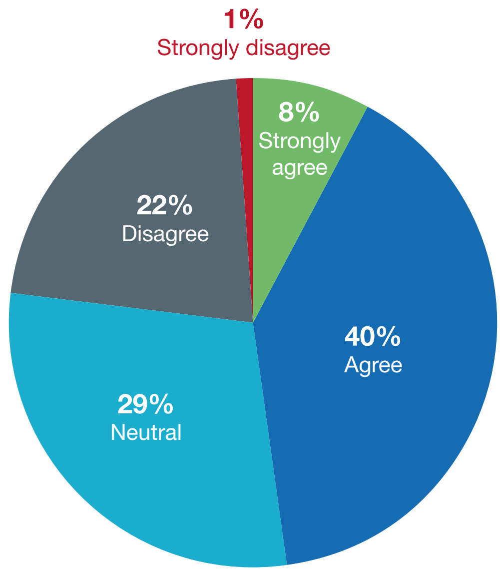
POLL RESULTS

There were several polls during the event, which identified how the industry is currently thinking about the future of the asset finance market.

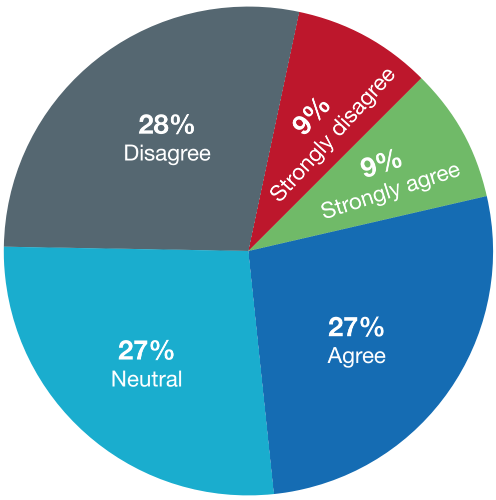
The COVID-19 crisis has highlighted serious weaknesses in the UKs current regulatory regime, with lenders forced to choose between abiding by the Consumer Credit Act and the requirement to treat customers fairly.



Payment holidays and quick access to finance through guaranteed loans offered on uncommercially low interest rates will damage the auto and equipment finance industry in the UK in the short and medium term leaving it less able to play its natural role in powering the bounce back.



Auto finance lenders will be able to mitigate the deleterious effect of the COVID-19 crisis on residual values through smart collections, delaying repossessions and appropriate agreement modifications.



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