



FLA Manifesto 2017

Foreword by Stephen Sklaroff

Director General of the Finance & Leasing Association (FLA)

Since the EU referendum, the FLA's markets have continued to prosper, and our members provided £118 bn of new finance to UK households, businesses and the public sector in 2016.

After the General Election, when Brexit negotiations begin in earnest, it will be essential for the new Government to do all it can to maintain and build confidence among consumers and businesses. Important issues will also need to be resolved as part of the negotiations leading up to the UK's exit from the EU.

FLA members' businesses are highly regulated. However, some of that regulation is very outdated, and actually hinders the provision of an effective service to customers in the modern digital marketplace. In this Manifesto, we describe some of the ways in which regulation could be modernised, while preserving important customer protections.

While it will be necessary to maintain current EU-derived rules in the immediate post-Brexit period, there are nonetheless important areas where medium-term reform could have real benefits for our members' customers. For example, the Standard European Consumer Credit Information (or SECCI for short) must be provided to consumer credit customers, but is much too long to be read on a mobile or tablet.

We hope that candidates and future policy-makers will find the ideas contained in this Manifesto a helpful contribution to the important economic debates during the election campaign. Please let us know if you would like to discuss any of them further.

Stephen Sklaroff

May 2017

The Finance & Leasing Association (FLA)

The leading trade body for the asset, consumer and motor finance sectors in the UK and the largest organisation of its kind in Europe.

Diverse membership

Banks, subsidiaries of banks, the finance arms of leading retailers and manufacturing companies, and a range of independent firms.

£118^{bn}

of new finance provided to UK households, businesses and the public sector in 2016.

£88^{bn}

of new lending to households for essential purchases such as cars and household goods.

£30^{bn}

of new asset finance (primarily through leasing and hire purchase) to businesses and the public sector, representing almost a third of all UK investment in machinery, equipment and purchased software in the UK.

Modernising consumer credit rules

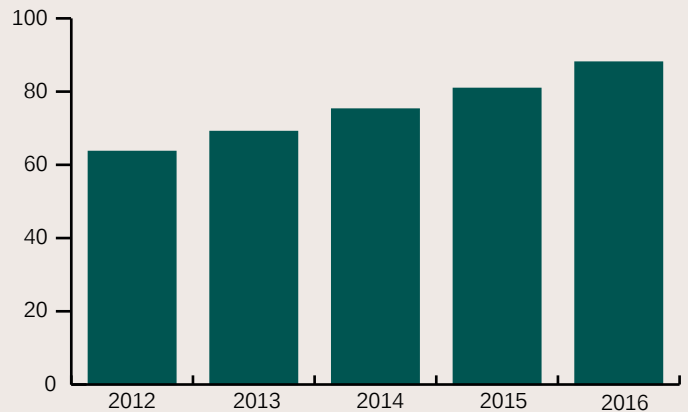
Our members' customers range from people buying cars or domestic appliances, or taking out a second charge mortgage for home improvements, to businesses using asset finance to get the equipment they need to grow. In these diverse markets, regulation needs to be applied proportionately if it is to protect both consumers and business customers in an effective way.

Although the current system of regulation is quite recent in some respects, it incorporates some very old bits of legislation, drafted in the mid-1970s – long before the advent of modern communications technology.

The Consumer Credit Act (CCA) makes it more difficult for lenders to exercise forbearance when their customers are experiencing difficulties in making repayments. It also requires companies to provide customers with the Standard European Consumer Credit Information (or SECCI for short) which requires between 30 and 150 "swipes" on a smartphone or tablet to read. The Act also includes sanctions designed for an era before the existence of a dedicated regulator like the Financial Conduct Authority (FCA), whose powers make many of the CCA's provisions redundant or actively counter-productive for both consumers and lenders.

The FCA is already reviewing the CCA, with a view to seeing how it can be better adapted to the modern regulatory landscape. This presents an ideal opportunity for the new Government to modernise the Act thoroughly. Brexit means that those parts of the Act which implement EU Directives can also be properly assessed for their effectiveness.

FLA consumer finance new business (£billions)



Our consumer credit recommendations to the incoming Government:

- Adopt a proportionate approach to consumer credit regulation, reflecting the diversity of today's lending markets.
- Modernise out-of-date legislation, including the 1974 Consumer Credit Act, so as to:
 - i. iron out inconsistencies with the Financial Conduct Authority's other powers.
 - ii. ensure modern IT-savvy customers get the information they need, when they need it, in order to make informed decisions when they apply for credit.
 - iii. take a sober, medium-term view of which current EU rules make sense, and which actually get in the way of good customer service.

Supporting investment in the UK economy

FLA members enable millions of UK businesses to invest in new machinery and equipment. Many of the UK's most important economic sectors, including manufacturing, transport, construction, agriculture and retail, benefit from the leasing and hire purchase contracts provided by FLA members. An application success rate of 96% makes this form of finance – often called “asset finance” – an essential component of any successful industrial policy.

Awareness of leasing and hire purchase has improved in recent years among the many businesses who can benefit from it. But small firms in particular are often less aware of where to get it. The FLA already works closely with the Local Enterprise Partnerships (LEPs) and Growth Hubs to help improve access to asset finance. We hope that the new Government will ensure that the LEPs and Growth Hubs have the expertise they need to help SMEs effectively. For example, each Growth Hub would benefit from a dedicated member of staff who could provide information to local businesses on how to access finance, including the need for effective business planning.

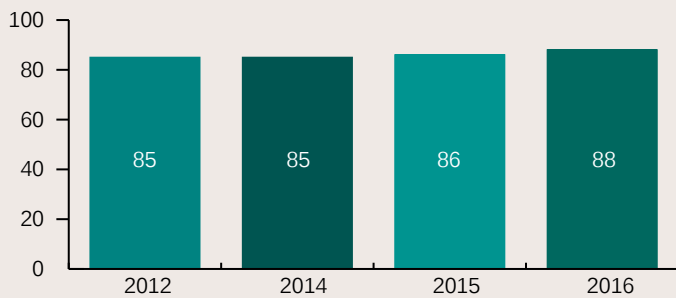
We also believe that the new Government should sponsor the creation of an on-line Small Business Financing Options Portal. This would provide a comprehensive, impartial, online list of the funding sources available to UK SMEs. It could include links to the finance companies that offer SME finance,

allowing small businesses to apply direct to lenders. The British Business Bank's (BBB's) existing 'Business Finance Guide' website would provide an excellent basis for the portal, and we would welcome the opportunity to work with the BBB to develop such a 'first-stop-shop'.

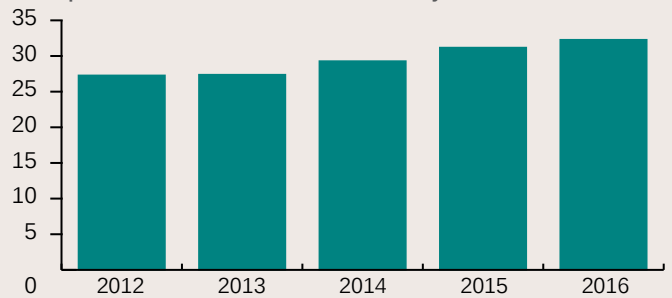
Unfortunately, the existing system of regulation sometimes gets in the way of effective business lending. In addition to the problems it creates for the consumer credit markets, the CCA applies to the finance provided to hundreds of thousands of small businesses, a market for which it is ill-suited. The result is that many lenders and brokers have reduced the amount they lend to small businesses. We believe that the CCA should be revised both in respect of the business lending to which it applies and in respect of the way it regulates those markets, so as to ensure a more proportionate and better-targeted regime.

Some forms of current Government support for business lending – such as the Funding for Lending Scheme (FLS) and the Term Funding Scheme (TFS) – are only available for banks, and not for non-bank lenders. This is partly because of current EU rules. Another of our medium-term objectives is to look again at these rules post-Brexit, with a view to creating a more level playing-field for business finance support.

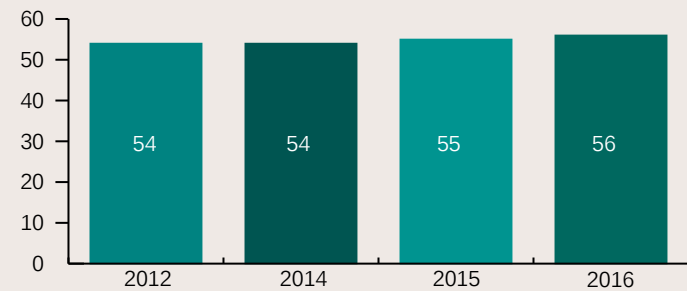
Awareness of leasing/HP among SMEs (%)



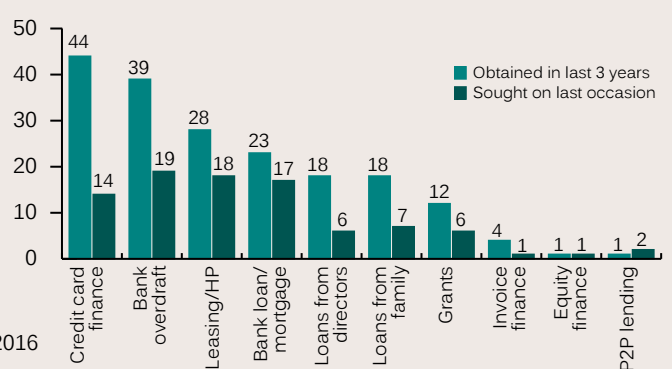
Percentage of UK Investment in machinery, equipment and purchased software financed by FLA members



Awareness of specific providers leasing/HP among SMEs (%)



Finance obtained and sought by SMEs (%)



Source: FLA calculations based on results from British Business Bank 2016 Business Finance Survey

Our business finance recommendations to the incoming Government:

- Equip the LEPs and Growth Hubs with the resources and knowledge they need to support local SMEs seeking business finance, including dedicated staff to assist in business planning and advise on available finance options.
- Create an online, comprehensive and impartial Small Business Financing Options Portal, probably via the British Business Bank.
- Reform the regulation of small business lending to ensure proportionality, including by amending the relevant parts of the 1974 Consumer Credit Act.
- In the medium term, review the EU-derived rules governing Government business support schemes to create a more level playing-field.

Funding the public sector

Leasing and hire purchase are cost-effective means of financing the acquisition of important assets by the public sector. In 2016, FLA members provided £315 million of finance to support investment in healthcare. But leasing expertise remains patchy amongst public sector procurement managers. Current proposals to split up NHS procurement among different organisations, each dealing with a different type of equipment, may make this worse.

We are concerned that the new International Lease Accounting Standard (IFRS 16), which puts all leases on the lessee's balance sheet, could make leasing even more difficult for the public sector. For example, schools are not currently allowed to enter into a finance lease (i.e. one where the regular payments more-or-less add up to the cost of the asset) unless they receive permission from the Secretary of

State. We have long argued that this is inappropriate, and that schools should be able to make an informed choice about the best finance option for them. IFRS 16 could make the situation even worse if it is applied to the public sector in such a way as to treat all leases like finance leases. This might prevent schools even from using the operating leases currently available to them, severely limiting their procurement choices.

We have therefore urged the Financial Reporting Advisory Board (FRAB), which is responsible for making recommendations on the use of IFRS 16 in the public sector, to consider exemptions or other ways of ensuring that leases are not treated as debt in the public accounts. We hope the new Government will support this position.

Our public sector procurement recommendations to the incoming Government:

- Place the management of NHS leasing arrangements with a dedicated body which has the relevant expertise.
- Ensure the new lease accounting rules are amended so that leases in schools are not treated as debt in the public accounts.



Contacting the FLA

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