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China: Asia's emerging leasing giant

Opportunity and risk go hand and hand, particularly in China, where understanding and acceptance of cultural differences are crucial to achieving success in this new and exciting leasing market.

BY DEREK SOPER

The pace of change in the country is breathtaking and is stimulating great interest among vendors of all types of equipment. Vendors are putting pressure on their Sales Finance Providers to follow them into the Chinese market,

while Chinese equipment manufacturers need support for sales financing. The leasing potential is enormous.

China's growing Gross Domestic Product and the country's WTO accession has helped to enable the development of leasing.

Legal changes and revisions continue to adapt to Western standards, as Chinese financial markets, including leasing, quickly develop. Interest among Western lessors is primarily driven by customer pressure, particularly vendors of equipment, who have

worked with partners in America or Europe, and now expect these partners to support them in China.

Fifteen western leasing companies have now received wholly owned subsidiary licences and are entering the market with a mixture of western and local management. Others are still exercising caution and proceeding with joint ventures, partnering with local Chinese companies. "Our contribution to the joint venture is the sourcing of good quality vendor business and our Chinese partner's contribution is knowing whether we can collect our rentals or not," said one European executive.

The transformation of asset finance brokerage

The entire asset broking industry has been revolutionised in the past 20 years, as a series of changes have transformed it from a small, fairly marginal activity, to a multi-million pound industry with many thousands of participants.

BY DAVID NICHOLSON

The recession of the late 1980s began the process, as the banks laid off their asset finance sales forces and many of these people started up in self-employment. The banks have continued to downsize their sales departments ever since, in good times and bad, as the comparative advantages of using brokers in asset finance have become ever clearer.

"For the banks, the return on investment is much better," says Chris Rigby at the Bank of Ireland, which does most of its asset finance through brokers, "because they only pay the broker when a deal is done, rather than having to pay the salaries of sales teams. As the finance houses have cut their sales operations, the brokers have done very well."

The whole culture of asset finance broking has shifted from a practice that, as Rigby puts it, was "frowned upon" to a slick, highly professional and respected industry, where brokerage companies may have as many as 20 salespeople. "It's an effect of people's willingness to deal with it," adds Rigby.

He finds that intermediaries outperform the financial houses in terms of service, and can offer customers a wide choice of sources of asset finance, potentially making the eventual cost cheaper, as the competition increases. Brokered asset finance now accounts for just over 15 per cent of the UK total by value, according to recent figures from the

Finance and Leasing Association, with total figures for the first quarter of 2006 at £803.4 million, compared to £561.7 million for the same period last year.

Alongside the growth of the sector to the point where there are perhaps 6,000 asset finance brokers in the UK, the industry has adopted new technology to speed up decision-making and allow deals to be completed more easily than ever before.

An attractive market

At finance house State Securities, Andrew Bullard believes that the sector is becoming so attractive that brokers in other kinds of product, such as mortgages, are now offering the service to their clients. "They think they're missing a trick," says Bullard, "so they're going into factoring and asset finance because they have the customer base and would like to diversify, rather than opening up these customers to other brokers."

Some in the industry warn that asset finance is a specialist area and that customers should beware of brokers without a proper background in the subject – people for example who have worked with the big lenders such as Lombard or Bank of Scotland. But since the big players have reduced their teams so radically, there is no longer the same flow-through of people who can go on to become intermediaries, leaving a gap in the market for non-specialists to fill.

The industry has developed its own self-regulation, with competition between brokers naturally tending towards an industry code of conduct. Some brokers have even turned themselves into lenders, normally on small ticket items of up to £5,000 for example.

Bullard expects the banks to continue reducing their sales teams yet further, but at the same time to move further towards asset finance as a lending tool, offering a wide range of products to customers through intermediaries. This should mean a healthy future for the brokerage sector, as it continues to provide services that banks are no longer willing to take on.

The entire asset broking industry has grown from acorn to oak over a period of just 20 years

Rapid growth

When implemented, possibly in 2007, a new financial leasing law under the Ministry of Commerce will be the first covering the industry. Currently, China's Contract Law has some provisions about financial leasing but that is insufficient to keep up with the rapidly growing leasing industry.

“Vendors are putting pressure on their Sales Finance Providers to follow them into the Chinese market”

Foreign investors have been able to set up wholly owned leasing or renting companies in China since March 2005. Before that date they had to establish joint ventures or co-operatives with Chinese counterparts. The capital threshold for financial leasing for foreign investors has been lowered from a minimum registered capital of US\$20 million to US\$10 million, which has normally to be fully paid up when operations start. This has helped to bring in new players.

Companies such as Daye International Leasing – a joint venture leasing company in Beijing – can help foreign



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businesses ease themselves into the market. Daye offers an established leasing platform and will underwrite, negotiate, document, manage and account for transactions. Joint name marketing can take place, the injection of one or two staff for training, the ring fencing of a portfolio – in short, all the ingredients for establishing a leasing company. The entrant can take increasing risk, as and when it feels comfortable with each step in the process.

The sheer scale of the opportunities means that China cannot be ignored and, regardless of the various hurdles, presents an irresistible opportunity. Those companies that are taking the plunge now will be ahead of the pack; trying to catch up in a few years time will be a costly exercise.

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