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Leasing has a Future Despite these Challenging Times



Alan Leesmith
Principal and Director of The Alta Group

The events of the last two years have without doubt changed much in the financial markets forever (which in economic terms means just a decade or two until those that had to cope with the turmoil have retired and memories have faded). Leasing is no exception and certain aspects have also changed forever.

Attempting to produce a SWOT analysis for the leasing industry as a whole would give a very distorted picture since some aspects may differ considerably depending on whether leasing companies are bank owned, independent or captive. Selecting just a few of the “burning” issues demonstrates how what may be good for one sector may not be for another, and vice-versa. That said, there is one notable issue -lease accounting- that is challenging and uniting the industry.

The funding conundrum and financial muscle

Bank owned lessors, excepting some with temporary problems, generally have deep pockets, plus lending money, in one form or another, is their core business. A cloud on their horizon is the inevitability of banks becoming subject to tighter regulatory controls and

capital ratios. Although still unknown how tight, we do know all business lines will be fighting for the available capital and face more demanding returns.

Independent lessors are dedicated specialists not usually competing internally for capital. They lack the financial muscle of the banks and the product knowledge and customer relationships of the captives. Some independents have disappeared due to loss of funding lines.

Funders’ current preference is to lend to businesses producing tangible assets and captives’ manufacturing parents are better placed to raise finance than many financial institutions.

The marketing jigsaw

Banks’ extremely large customer bases are a strength should their lessors choose these as their marketing route, but historically few banks have fully understood what is needed to be in the vendor business. Additionally, as a bank’s leasing arm becomes more absorbed into the bank itself, there is the risk of bank culture destroying the very independence and entrepreneurial spirit which has enabled the industry to develop so successfully.

Most bank lessors tend for good reason, to be geographically where their parent bank is, but an independent can go where business demands dictate. Independents can usually move faster as they are their own “bosses”.

Captives are in the unique position of being able to fully understand the equipment, their customers’ needs, to provide under the same banner support services, training, service, maintenance, supplies, add-ons and upgrades. They will better understand the product lifecycle and how to judge residuals, etc. A parent can choose to support its captive in markets where it sells sufficient volume of equipment to warrant it.

Additionally, they can become a valuable and marketable “group asset” in their own right if the parent ever needs to realise it.

Captives have to operate in a manufacturing/sales environment which may not understand their business needs or style. For example, demands to expand too fast geographically where volumes do not justify may place unreasonable pressures on the business.

The accounting “fly in the ointment”

Crucially, what may turn out to be the biggest threat to the whole leasing industry are the proposed changes to the leasing accounting standards. All sectors face the challenge of how much lessees will be deterred from leasing once anything that has a commitment goes on their balance sheets.

Will the impact for bank lessors be that they are required to hold additional capital? Will independents find that their borrowing gearing ratios become difficult to meet? And will the captives find structures under which they can raise the finance so that their parent still has a true sale and can take profit at the time of the “sale” to their captive?

As Leaseurope has been at pains to stress, the ramifications of the changes to the leasing accounting standard are likely to have far reaching adverse impacts not only on the leasing industry, but on businesses generally.

A positive future with opportunities for all

There will always be demand to acquire or have use of all types of equipment and, alongside that, a need for it to be financed. As the world comes out of the economic slowdown demand will once again take off presenting opportunities for all types of lessor. There will be opportunities to develop new products and exploit different ways of providing financial support and, of course, ever-growing opportunities in emerging markets for those that choose to take on the challenges.

In adversity, the industry must seek opportunities, promote its strengths and rise to the challenge