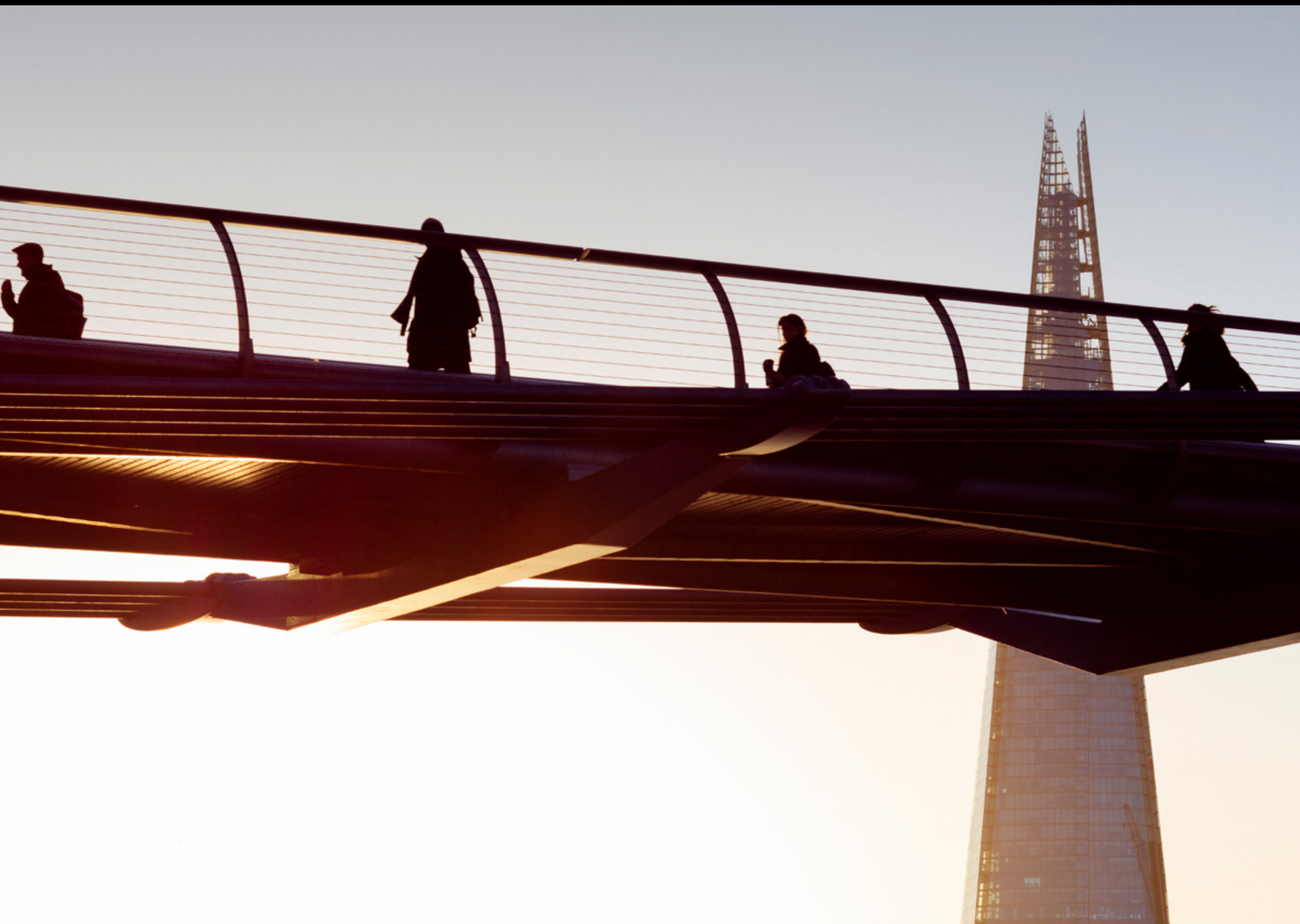
FIS ASSET FINANCE

2023 TRENDS, CHALLENGES AND INNOVATIVE WAYS FORWARD



With more than its fair share of curve balls and crises, 2022 was a challenging year for leasing. To find out what the next 12 months could hold, Jake Rose, European Sales Manager for FIS Asset Finance, invited a panel of top executives from U.K. bank-owned, independent and captive lessors to share their hopes, fears and strategies for what lies ahead.

The panel

- Sacha Balachandran, UK Head, HSBC Equipment Finance (UK)
- Stuart Doignie, Managing Director, Digital SME Lending, Shawbrook Bank
- Julian Hobbs, Chief Executive Officer, Siemens Financial Services UK
- John Jenkins, Chief Executive Officer, Haydock Finance
- Nathan Mollett, Head of Asset Finance, United Trust Bank
- Mike Randall, Chief Executive Officer, Simply Asset Finance

The opportunities

Even in turbulent times, there's a lot for asset finance firms to look forward to. From rising credit risks to sustainability, many of the industry's biggest challenges come with a chance to outpace competitors and drive growth.

Mike Randall: 2022 was another challenging year for UK businesses. With the challenges we all faced, such as supply chain issues, the war in Ukraine, rising inflation and funding costs, SMEs needed perhaps more than ever a partner that believed in their potential and supported them.

At Simply, we are proud of our track record in serving the SME community, which also underpins our continued growth and resulted in a record year for us in 2022. We are expecting another busy year and the turbulence in the environment to continue. However, our promise is that we will use our award winning service to support SMEs across the UK, come rain or shine, and provide a flexible finance option when they need it the most.

Nathan Mollett: The pandemic proved that if you do stay open when things get tough and are brave but continue to lend sensibly, you really can reap the rewards. Asset finance firms definitely have opportunities to win market share in the small to medium enterprise (SME) space as bigger banks tighten their credit appetite.

Assuming they are well capitalized and have good access to liquidity, the firms that will succeed are those that can pivot, move quickly and take advantage of any opportunities that a turbulent market brings.

There's also the ongoing transition to net zero carbon emissions and the resulting chance to fund more green assets. That's never going to go away – so, if you're not doing it already, it's another big opportunity.

Stuart Doignie: The key opportunity for Shawbrook Bank is volume growth. With a number of larger asset finance providers pulling back from the market, there's also less appetite for unsecured loans among non-bank lenders and tier one banks, many of which are only lending to existing customers.

For us, 2023 is about both taking advantage of this gap in the market and trying to do that in a much more digital way. Not so long ago we were receiving all our proposals by phone and email, but now we've not only got a digital portal for customers but also direct API connections to brokers. By making the most of our investment in technology, we aim to become one of the easier banks to work with.

To drive more traffic and reinforce our experience in this sector, we will continue to focus on building partnerships with brokers, intermediaries and new channels like accountancy package providers.

John Jenkins: As long as businesses continue to invest, which I believe they will in the first half of this year, there will be opportunities to grow. Supply chain challenges persist and businesses are still catching up on their 2021 investment cycle.

In the current market, opportunity tends to fall more easily to players like Haydock Finance, who are more agile, more flexible and more considered when it comes to underwriting. We can have a slightly wider risk appetite because we know that's where we sit.

In other short periods of uncertainty, when larger lenders have tightened their risk appetite, we've seen better credits fall downhill to us. So, even if we tighten our own appetite slightly, we can still see very good volumes with better credits by staying disciplined and true to our position.

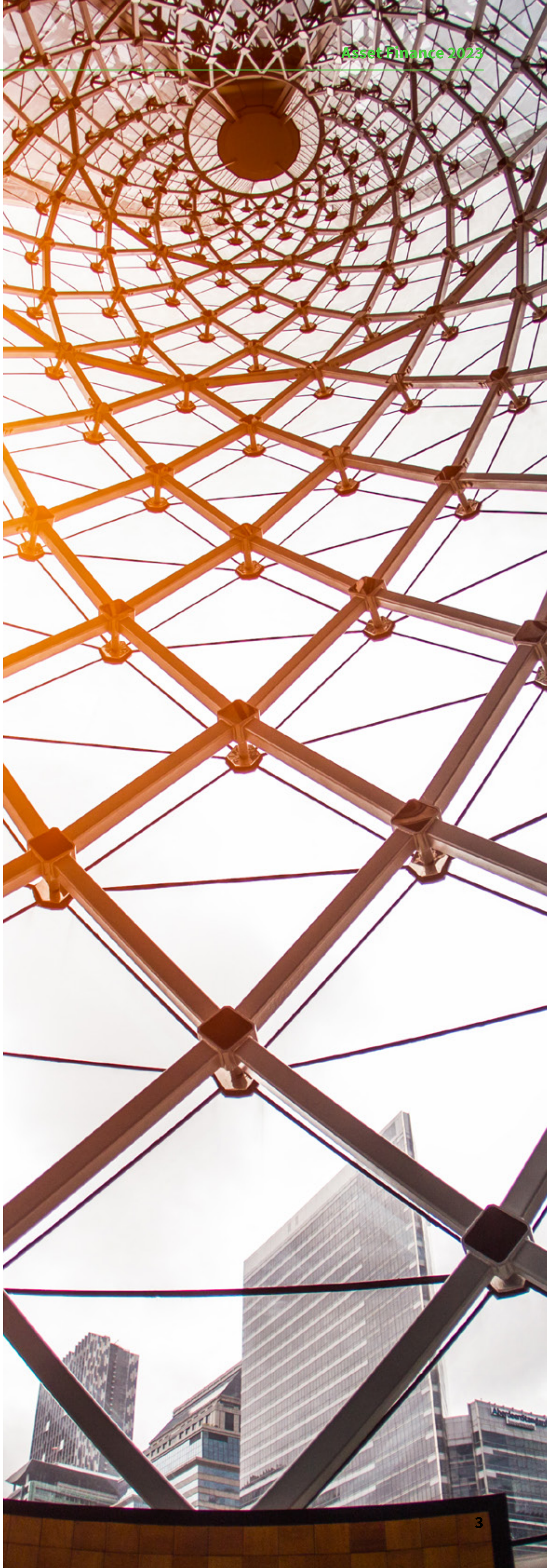
As in previous mini recessions, more businesses may also look to release working capital by refinancing existing pools of assets. Although there's more inspection and valuation work involved, this is a transaction type that Haydock has always supported with confidence – and another big opportunity for asset finance firms like ours this year.

Sacha Balachandran: At HSBC Equipment Finance, we've been focusing a lot on sustainable growth. I don't just mean sustainability in the environmental context, but also sustainable in ensuring we remain relevant to the evolving market. This is through the ability to keep supporting more asset classes for more markets and new (if still asset-led) propositions such as those supporting, for example, "asset-as-a-service" or "subscription-based" models. Increasingly, these models overlap with those supporting businesses' transition to net zero.

That expansion also includes the opportunity for funding different types of assets such as technology supporting our customers' digital transformation. For the right type of customer and asset risk profile, through the right finance structure, the opportunity exists to fund a whole plethora of assets, on top of the equipment types that will always be our bread and butter.

Of course, sustainability in the sense of environmental, social and governance (ESG) is a massive opportunity, whether that be financing solar panels, electric vehicles or the wider infrastructure to support them, from charging points/stations to supporting the necessary wider [battery] technology supply chain.

Plus, I am focused on the wider opportunity for our own digitalization and how it can help us optimize



customer delivery and service, not only as an equipment finance provider, but also as part of a global bank.

Julian Hobbs: As part of the Siemens Group, digitalization offers Siemens Financial Services huge potential to not only improve the efficiency of our processes, but also increase our reach. Digital tools like artificial intelligence will make us more productive, but it's also about driving a stronger financing culture into the sales channels we serve for Siemens, which haven't all traditionally lent themselves to finance.

In this respect, we've got a real opportunity to learn from the motor and consumer finance sectors – and build on our existing skills – so we can improve the customer experience and make our digital services easy for people to use. But we also need to think hard about what it is we're offering and how we communicate the complexities.

With the adoption of APIs, we're seeing customers we've never served with a digital product quickly getting to the stage of self-serving proposals and documents, 50% within six months. There's a big appetite out there for self-service in banking, and a natural shift toward it as people get used to it in their personal lives. Why should straightforward business transactions be any different?

We're also seeing larger corporates move increasingly toward pay-per-use models or what we actually call outcome-based finance – relating some form of business result or KPI for a customer to their finance payments. As the internet of things becomes more popular, we're lending more on this basis than purely according to corporate risk.

The challenges and obstacles

However optimistic the industry outlook, the harsh realities of economic uncertainty, regulatory scrutiny and operational complexity remain top of mind for asset finance firms. But will they block the road to growth?

Mike Randall: The reality is that business confidence is lower, however we have seen first-hand an overwhelming sense of resilience in our customers. At times last year, it was hard to predict what would happen in the next week, yet customers found ways to adapt and get on with things.

On top of that, I'm a great believer in industry cycles. There's a lot of change coming and whatever form it takes, I genuinely think the asset finance industry is entering its next era. With the support of government schemes and by listening, our priority is to support SMEs and continue to help them grow. We will weather the storm together.

Nathan Mollett: Increasing regulation is another challenge. With the new consumer duty rules and all the regulatory frameworks associated with lending to SMEs, lenders will have to do a lot of work to ensure they have the right processes in place to service this type of business.

Also, although we'll all be aiming to increase our market share in the SME sector, it's a very difficult point in the economic cycle for asset finance firms to start flexing their credit risk appetite to do so. It's about balancing your desire to grow with lending safely.

Then there's the fight for talent. Despite the threat of recession, the balance of power still hasn't shifted from employees to employers. In anticipation of the rise in arrears, there's a big drive to recruit recovery agents and collectors. But there's only a certain amount of available resources in our sector.

Stuart Doignie: One of my concerns with leasing is the time and effort it takes to fulfill a deal. You can automate parts of the decision-making process but completing the transaction can involve a big operational overhead. That makes it challenging to scale up the business without significantly scaling up resources.

Shawbrook has made huge inroads by using different technologies and processes to shorten the fulfillment time for our asset finance products. But we still can't compete with the speed of fulfilling unsecured loans.

Collectively, our industry also needs to confront the issue of commission disclosure. Consumers are now used to full disclosure where commission is applied to regulated products, and this expectation will inevitably spill over into SME markets.

Together, we need to move to meet these expectations and to protect the reputation of the category as being fair, transparent and fit for purpose.

John Jenkins: If the economic environment gets any worse, the industry will have to shift its resources toward managing collections and recoveries. At Haydock, we've already increased the size of our collections team and the number of people focused on in-life deals, whether they're trawling through changes at Companies House or making more site visits and asset inspections.

I agree that consumer duty regulation is a big thing, but it's hard to interpret. We are a regulated entity that does 99% of our business in unregulated hire purchase – but we do that through brokers who are all regulated. It's a question of finding the right balance between how much we need brokers to do and how much we need to do.

Funding prices are also going up considerably. We are wholesale funded, so we're reliant on wholesale banks to create facilities for us. It feels like there will be increased funding to grow into, but as swap rates increase and securitization prices widen, will the costs allow us to generate profitable growth?

Sacha Balachandran: When we talk about growth at the moment, we must obviously consider the effects of the economic environment on credit profiles, business confidence and our customers' capital expenditure plans.

I talked previously about the great number of opportunities. So, bluntly, another key challenge is prioritization. Being part of a wider group is a huge positive in terms of balance sheet strength and the support we get, but like any business, it's a question of which opportunities you go for, in which order and how you allocate those resources.

Coming back to sustainability, the challenge there is to continue to upskill both customers and colleagues, myself included. We're already doing a lot to continue to develop our understanding of ESG, the opportunities and expectations of businesses and regulators – and how asset finance can help firms transition and best fund their capex plans.

Julian Hobbs: As a technology company, Siemens is driven by the aspiration to address the world's challenges, and its portfolio is designed to drive digital and sustainable transformation across multiple sectors. So, ESG and the financing of sustainable assets is in our DNA. But for the financing industry as a whole, there is still more to learn about what we can do to promote and assist with net zero carbon strategies.

Some of the new sustainable technologies aren't well known at the moment, but as a leading player in driving smart infrastructure and efficient digital manufacturing, we've got good insight into it. It's critical for us to provide education and be part of our customers' journey to sustainability.

Another challenge we're focused on, in this period of unparalleled, exponential change, is to make sure that we're not just attracting the best employees we can, but also investing in their development, whether of leadership or digital skills. We're hugely lucky to be part of an organization that can do that.

We continue to champion diversity and inclusion, but I worry that our wider industry still doesn't get it. Firms are often too concerned with ticking regulatory boxes to recognize they can make better decisions and be more successful by having the most diverse talent in the room.

We've got to the stage now where roughly 60% of our management group are female and 30% from ethnic minorities. So, we're on the right road and we don't intend to row back. We want to make the industry think and talk about topics that it's often afraid to. It's the right thing to do and I think businesses have to take the lead.

The top priorities

Beyond the all-important growth ambitions, what are the most important business objectives for asset finance leaders in 2023?

Mike Randall: Continuing to evolve Simply Connect, our end-to-end digital platform, to make finance more accessible to SMEs. Also, we are focusing on our journey to become a more sustainable business and to bring our customers along with us.

Nathan Mollett: Launching our new leasing platform and continuing our digitization journey for even better interactions with customers and brokers.

Stuart Doignie: Opening new digital channels, enhancing our systems and being able to grow safely, react quickly to credit deterioration and work smarter with data.

John Jenkins: Replacing our core operating system and increasing automation around collections and finance to make us more efficient and give us better data.

Sacha Balachandran: Continuing to create innovative products and propositions and ongoing enhancement to our platform, and recruiting, retaining and developing an increasingly diverse, talented and committed team.

Julian Hobbs: Building a business that's both digitally efficient and solving customers' problems, while cutting out inefficient deals with insufficient margin.

THE PANEL'S PERSONAL RESOLUTIONS FOR 2023

Mike Randall: Proving I can play to my handicap in golf.

Nathan Mollett: Completing Ironman Italy and running a marathon in under 3½ hours.

Stuart Doignie: Getting back into drag car racing and bringing home some trophies.

John Jenkins: Getting fitter for both a ski trip and a longer-than-usual cycling tour.

Sacha Balachandran: Playing more, better tennis.

Julian Hobbs: Redeveloping a property I've bought – a brand new experience that's bound to stretch me.

Whatever opportunities and obstacles your firm faces, FIS' expanding team of asset finance specialists are here to help. Get in touch now to find out how – and best of luck for 2023!

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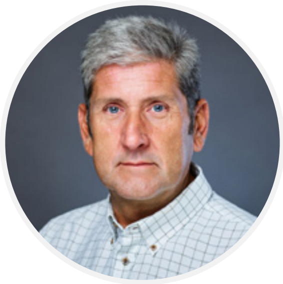

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"There's a lot of change coming and whatever form it takes, I genuinely think the asset finance industry is entering its next era." – *Mike Randall, Simply Asset Finance*

About FIS

FIS is a leading provider of technology solutions for financial institutions and businesses of all sizes and across any industry globally. We enable the movement of commerce by unlocking the financial technology that powers the world's economy. Our employees are dedicated to advancing the way the world pays, banks and invests through our trusted innovation, absolute performance and flexible architecture. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS ranks #241 on the 2021 Fortune 500 and is a member of Standard & Poor's 500® Index. To learn more, visit www.fisglobal.com. Follow FIS on Facebook, LinkedIn, and Twitter (@FISGlobal).

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