INDUSTRY OUTLOOK 2023

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INDUSTRY OUTLOOK

BVRLA

Welcome

After yet another year of turbulence, twists and turns, how are BVRLA members gearing up for 2023?

The impacts of the cost of living crisis are likely to deepen for many, while the immense supply chain challenges experienced this year cannot be resolved with the flick of a switch.

Our Industry Outlook Report has been developed to help you to understand the market forces and business priorities that your sector is grappling with. It builds on the BVRLA's Business Impact Survey, which has helped provide a regular status update on the rental and leasing industry's post-pandemic recovery. This Industry Outlook Report takes that data to the next level to give a more complete picture. Hopefully, it provides a better sense of what is going on and what is on the horizon, enabling you to make more informed decisions.

On the following pages you will see what your peers are anticipating in 2023. Where is the market headed? What are their business priorities? Which compliance and regulatory issues top their agenda? How are they using technology to tackle their 'pain points'?

Only with the valuable input of BVRLA members and our industry colleagues can we present this data with confidence. Thank you to all those who have participated in this year's report.

If you wish to get involved in 2023 and join our Industry Outlook Panel, please get in touch with our Research and Insight Manager Phil Garthside via Phil@bvrla.co.uk.

Gerry Keaney

Chief Executive

British Vehicle Rental and Leasing Association (BVRLA)

Contents

Report data

This report is based on qualitative and quantitative research among BVRLA members

The data is based on responses from 73 companies which participated in the BVRLA Industry Outlook survey.

Special thanks to:

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Ryan Johnson, Managing Director**, Enterprise Rent-A-Car**
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Keith Allen, Managing Director, **Licence Check**
Biswajit Kundu Roy, CEO, **Coastr**
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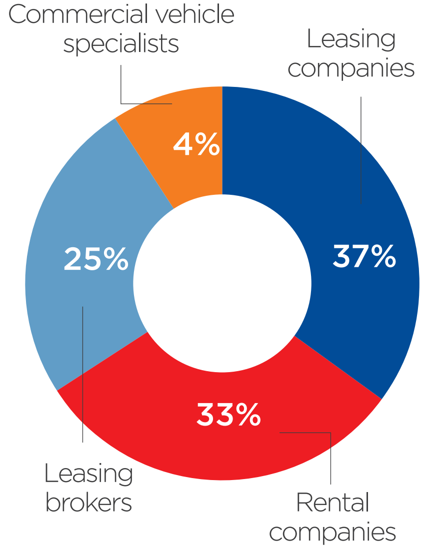
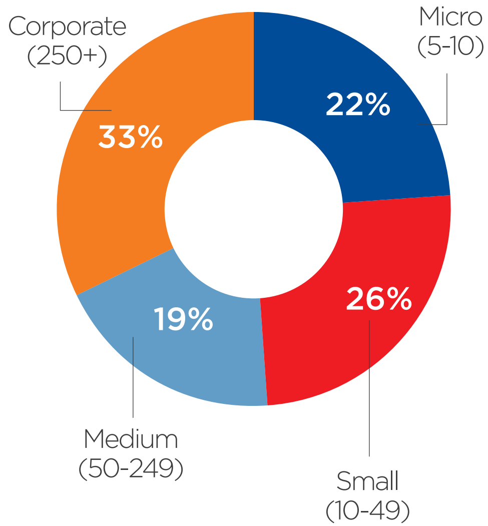
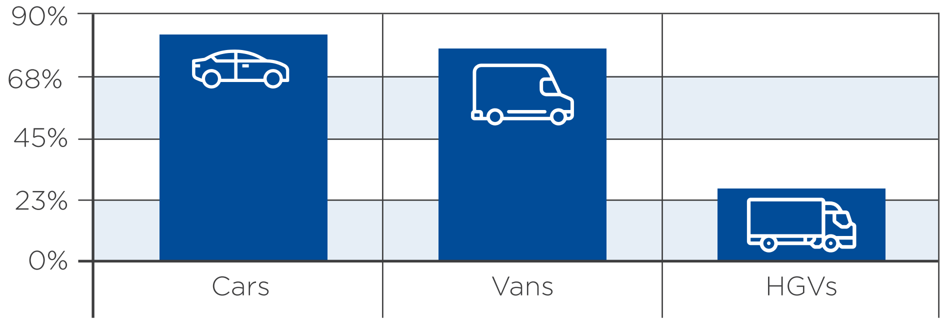
Survey respondents



Size of respondent companies (by employee numbers)



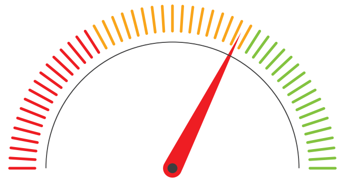
Fleet mix



Business outlook for 2023

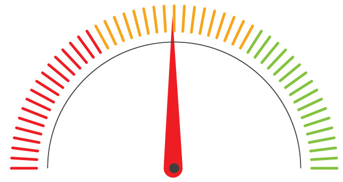
Car supply

Worse Same Better



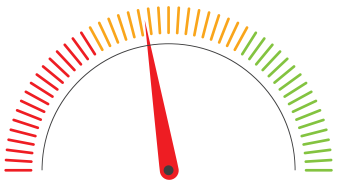
Van supply

Worse Same Better



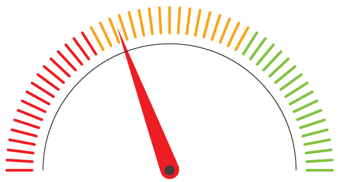
Recruitment and retention

Worse Same Better



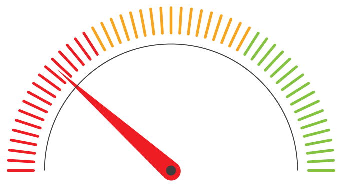
Business demand

Worse Same Better



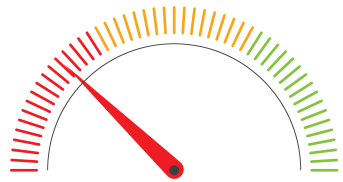
BEV total cost of ownership

Worse Same Better



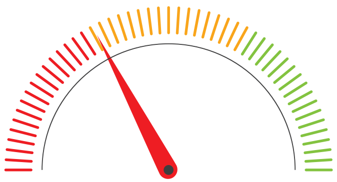
Consumer demand

Worse Same Better



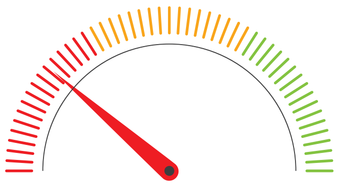
Regulatory / Compliance burden

Worse Same Better



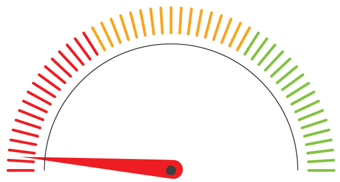
Used van market

Worse Same Better



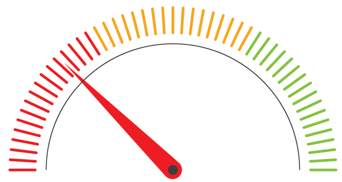
Used car market

Worse Same Better



Cost of Finance

Worse Same Better



Cash flow / debtors

Worse Same Better

Executive summary

Leasing and rental companies are staring down the barrel of unprecedented levels of uncertainty due to a turbulent economy and extremely challenging trading conditions

In the face of long lead times, unreliable delivery dates for new vehicles, and rapidly rising borrowing costs, companies are investing in technology and training to navigate through these choppy waters.

The good news is that demand remains strong, with business contract hire steady, salary sacrifice soaring, residual values remaining at profitably high levels. amd the industry securing clarity on benefit in kind tax levels until 2028.

Moreover, history suggests that worsening economic conditions favour rental companies and their flexible short-term hire solutions. In the leasing sector, the swift electrification of car and van fleets lends itself to contract hire and its advantages of amortising the cost of higher priced vehicles while avoiding residual value risk.

“Leasing is great for the customer – at a time of 10% inflation it helps to protect the customer from market volatility,” said Lakshmi Moorthy, Arval UK.

Nonetheless, BVRLA members face their own internal challenges to recruit and retain staff, and to train employees to operate increasingly digitised workflows.

This is a new business environment for all; there is no wellspring of managers and technicians with long-term experience of managing electric vehicles, or overseeing the delivery of automated quotations and orders, or negotiating with manufacturers that have replaced their traditional franchised dealers with an agency model.

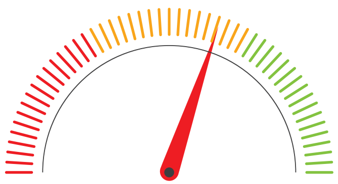
New regulations, particularly Consumer Duty, have added to compliance pressures, while the need to be responsible environmental citizens is always at the forefront of leasing and rental minds.

Innovation in procurement, a revolution in the richness of data available from connected vehicles, and a confidence that rental and leasing are cyclical businesses whose fundamentals are sound, are preparing companies for 2023 and beyond.

Leasing and rental may be in for a bumpy ride in 2023, but since the start of the pandemic the industry has been making the strategic decisions to transition to a connected, electrified and digitised world.

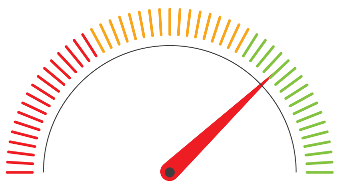
> “We are carrying the highest degree of risk I have seen in 35 years, with interest rate rises, maintenance cost increases and residual value uncertainty. We have no idea when we will get a vehicle, how much we will pay for it or how much we will pay to fund it. And who knows what EVs will be worth when they start reaching the used market in higher volumes?”
>
> **Guy Mason, SG Fleet**

Market perspectives for 2023



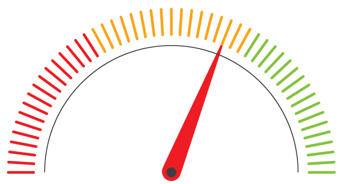
Car subscriptions

Worse Same Better



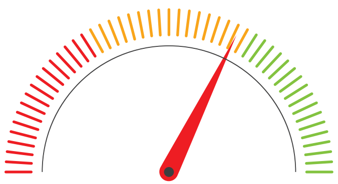
Salary sacrifice

Worse Same Better



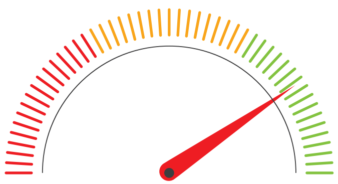
Business contract hire - vans

Worse Same Better



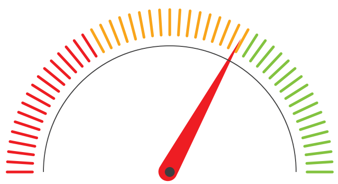
Car rental

Worse Same Better



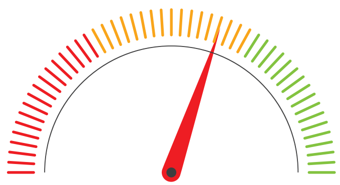
Van flexi-rental

Worse Same Better



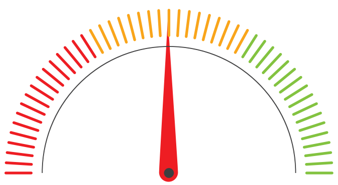
Van rental

Worse Same Better



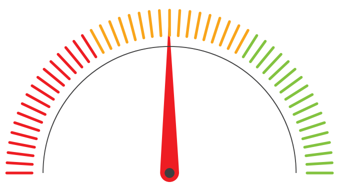
HGV rental

Worse Same Better



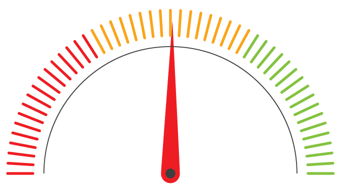
Car clubs

Worse Same Better



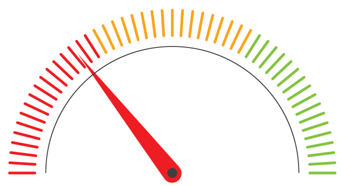
Business contract hire - cars

Worse Same Better



HGV leasing

Worse Same Better



Personal contract hire

Worse Same Better

The most difficult trading conditions anyone can remember

Vehicle supply shortages, new distribution models, rising prices and soaring interest rates present unprecedented challenges, yet growth prospects in many areas are good

A series of headwinds have combined to create a perfect storm in trading conditions for rental and leasing companies, with experienced executives saying the market has not been as challenging or uncertain for more than 30 years. But with bulging order books, steady demand for new vehicles and healthy residual values, industry leaders are not yet reaching for the Valium.

In the core market of business contract hire, 43% anticipate no change in demand over the next 12 months, while 28% expect an increase. Optimism is even greater in the light commercial vehicle sector, where 45% forecast that 2023 will be a stronger year for van contract hire, an outlook that is more than twice as positive as predictions for HGV leasing (20% stronger).

There is also a strong sense among executives that leasing holds the key to electric vehicle uptake, with contract hire making these vehicles more affordable than outright purchase to end user fleets, while removing the residual value risk.

Given the uncertainty of today's turbulent economy, rental companies are particularly buoyant about the year ahead, with the flexibility of short-term hire proving attractive to businesses that do not want to make long-term financial commitments. Overall, 44% of car rental companies and 40% of van rental companies expect demand in 2023 to be stronger than 2022, while flexi-rental products for light commercial vehicles are forecast to boom, with 57% of suppliers expecting the next 12 months to be stronger than this year.

> "The rental industry tends to perform better in recessions. If you're not confident about the economy over the next two years, rental offers a flexible way of getting new and reliable vehicles without being tied into long-term contracts."
>
> **Per Voegerl, United Rental Group**

The other area where industry experts are confident of strong growth is salary sacrifice, with schemes expected to mushroom as the availability of electric cars improves.

"At the moment, fixed costs are incredibly important as people are up against inflationary pressures, and salary sacrifice delivers a financed vehicle, insurance and maintenance for a fixed amount, over a three- or four-year period," said Ian Hughes, Zenith., The certainty of supportive benefit in kind tax rates for electric cars right through to 2028 has given both employers and employees confidence in the long-term future of salary sacrifice schemes, with 47% of suppliers forecasting demand next year to be even stronger than this year's positive results.

While not directly related, the most vulnerable product for 2023 is also focused on private rather than company car drivers, namely personal contract hire, with 57% of suppliers forecasting weaker demand. Sharp price rises for new cars allied to much higher interest rates have meant drivers coming to the end of a PCH agreement and wishing to replace like-for-like with a new car face monthly rentals that are hundreds of pounds per month higher, and in some cases double their previous payments.

Continues over

The impact of longer lead times

› As leasing company order books bulge with unfulfilled deliveries, 70% of BVRLA members highlight pricing uncertainty as a major cause of concern, with both acquisition costs and borrowing rates rising between order and delivery. While 58% are resigned to the fact that longer lead times are now standard, the knock-on effect is that more than half of rental and leasing companies are running older fleest, through official and unofficial contract extensions, raising concerns about higher maintenance costs as vehicles age.

Solutions are, however, starting to emerge, with companies adapting to the pockets of supply that are available, and "working with what we can get rather than what we would choose."

Some leasing companies are ordering batches of vehicles, in popular colours and trim levels, without having confirmed customers for the cars when they sign on the dotted line. Such is the eagerness for end user fleets and salary sacrifice drivers to avoid long lead times, leasing companies and agile brokers have found no difficulty in finding customers for these batches when they arrive.

Leasing companies are also encouraging clients to broaden their horizons in vehicle selection, a process that electrification had already kickstarted. Kia, Hyundai, MG, Polestar and Tesla are now very much part of mainstream fleet.

"We absolutely see drivers' choices change, or become much less fixed about colour and specification, if we can supply a salary sacrifice car quickly," said Natalia Peralta Silverstone, Octopus EV

The impact of the supply shortage has been even more challenging for the rental sector.

"You see 95% less vehicles being registered into the rental car space. We have purchased a large portion of our vehicles from the used car market over the last year, because the new car market wasn't available. In doing so, we've also done what we call fleet preservation which is keep our vehicles longer," said Ryan Johnson, Enterprise Rent-A-Car.

"Traditionally our contract hire model for HGVs would run for five years and three years for LCVs. What we found, because of the supply chain impact, is that we have had to adjust that model towards a four-year term for LCVs and potentially a sixth year for HGVs. Getting access to new assets is the problem."

Charles Starr, Close Brothers Vehicle Rental.

Reaction to vehicle shortages

70% **Huge uncertainty on pricing.**

58% **Longer lead times are now a part of normal business.**

51% **Vehicles on fleet are older.**

"Customers have become much more flexible in vehicle choice and some are accepting brands they would never have considered previously."

Jason Rogerson, Herd Group

"Vehicle supply is such an issue that we are having to run vehicles for much longer. We used to keep cars for three to six months, but now we are keeping them long enough that some need MoTs, which is increasing tyre, service and maintenance costs."

Margaret Speirs, Arnold Clark Car & Van Rental

In the commercial vehicle sector, both vans and heavy goods vehicles are in desperately short supply, leading to eye-watering price rises of 30% to 40% in a year.

Only a third of light commercial vehicle operators believe this supply crisis will improve to pre-Covid levels in 2023, with 57% forecasting that the current situation will continue for at least the next 12 months, and 10% predicting that the situation will never recover to its former levels.

The only silver lining to the price rises is a closing of the gap between acquisition prices for diesel and electric vans, with internal combustion engine vehicles catching up with battery-powered models, helping to make the TCO of zero emission LCVs more competitive. There is a widespread feeling, however, that commercial vehicle operators are several years behind car fleets in their readiness to electrify, leading to an extension of contracts.

As for a return to normal supply times, the industry consensus appears to be not before the final quarter of 2023, and perhaps 2024, with most of next year spent clearing the backlog of outstanding orders already on the books.

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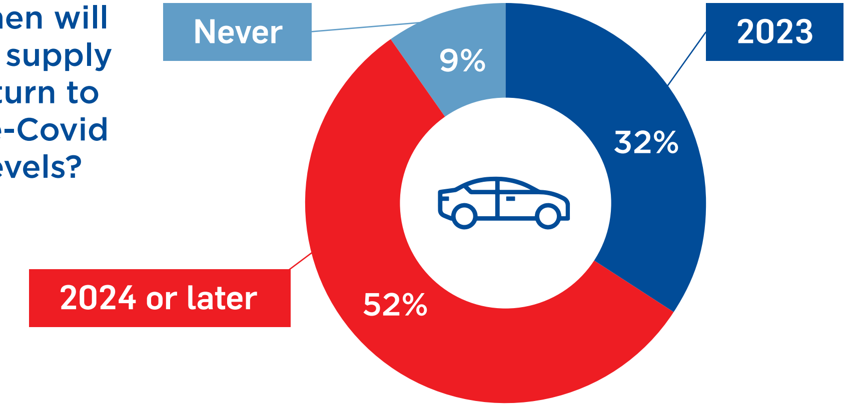
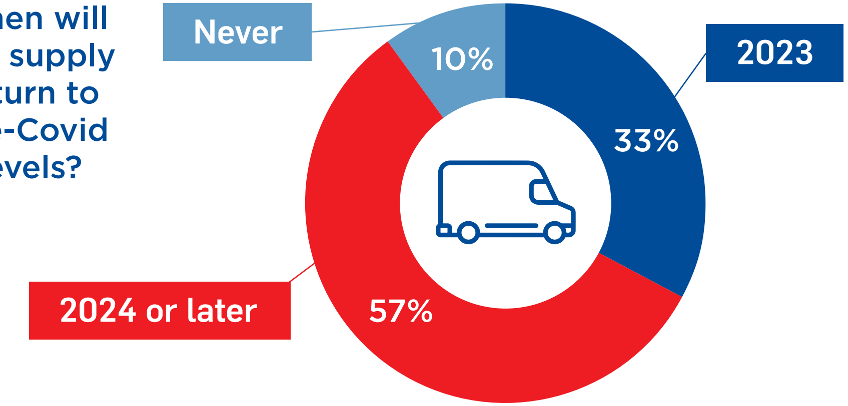
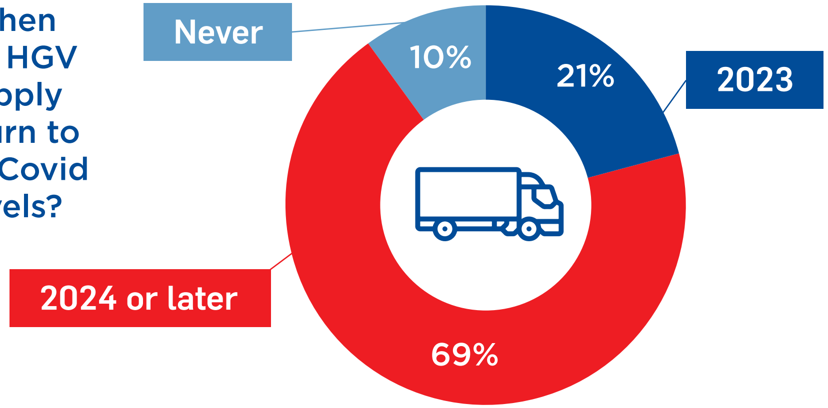
When will car supply return to pre-Covid levels?



When will van supply return to pre-Covid levels?



When will HGV supply return to pre-Covid levels?



OEM's new agency models

› Anxiety over vehicle supply is being compounded by the upheaval and uncertainty of a number of vehicle manufacturers transitioning to an agency model for their distribution, which will see the manufacturers set the sales prices of their vehicles and remove dealer margins.

In an ideal world, manufacturers would compensate leasing and rental companies for the loss of dealer discounts, but 42% of rental companies and 37% of leasing companies expect a decline in manufacturer discounts and marketing support, which will lead to them having to increase rentals.

However, many of these large fleet buyers have operated an agency-type arrangement with manufacturers for a number of years, negotiating directly with head office. They have also dealt centrally with new electric vehicle makers that are successfully launching without a traditional dealer network.

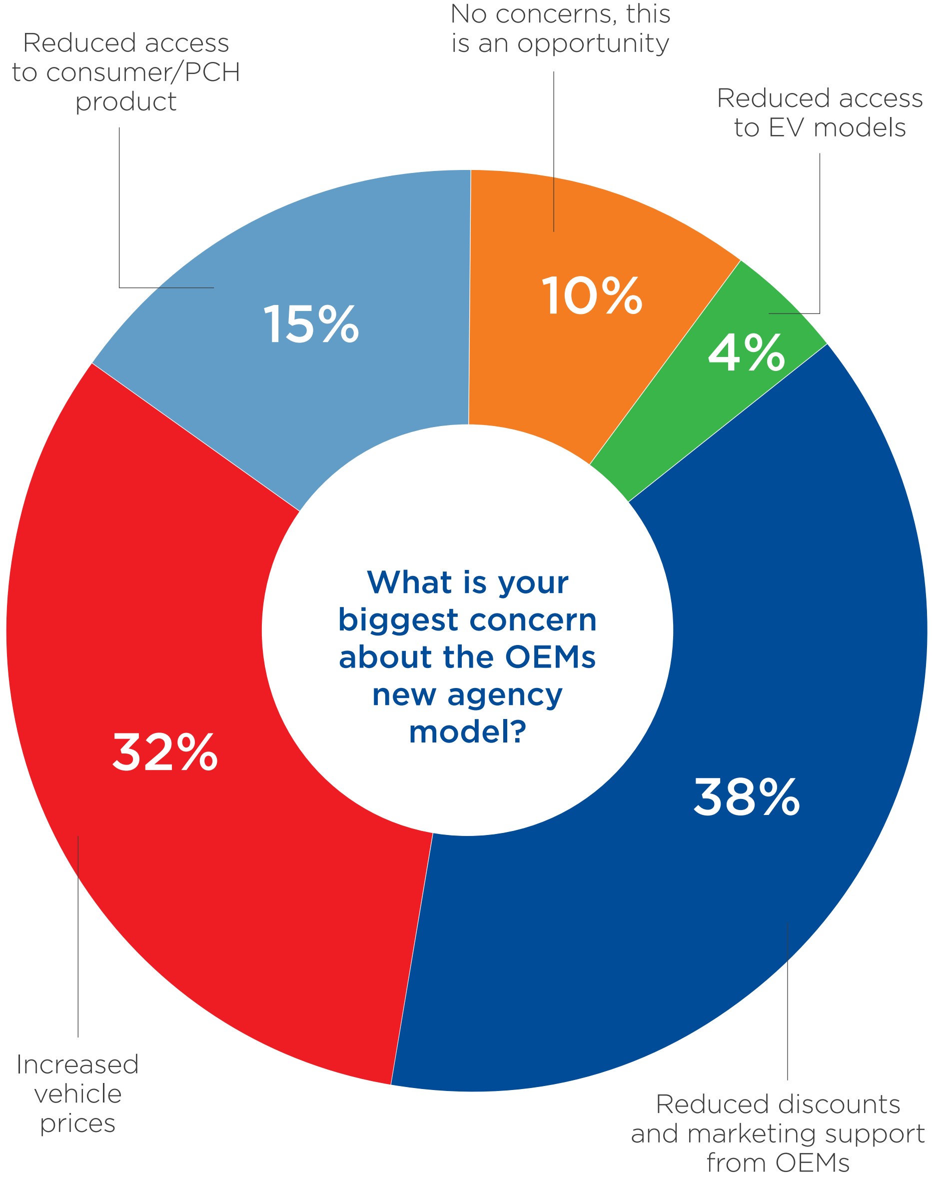
From a back-office perspective, leasing and rental companies welcome the process efficiency of one invoice itemising all buying terms.

However, they also concerns that some of the conditions of agency agreements might deny them access to specific customer groups or specific vehicles.

One OEM, for example, restricted the leasing of a new electric car to its captive finance house at launch.

Another is refusing to recognise personal contract hire drivers as the customers of leasing companies and therefore declining to extend fleet discounts to this sector of the leasing market. PCH customers, it insists, are retail drivers who have to engage directly with the manufacturer and its agents (dealer showrooms).

The consensus is that the full impact of the agency model has yet to strike, and while this approach makes sense for OEMs while demand outstrips supply, if production volumes rise to pre-Covid levels, industry executives believe manufacturers may well need their dealers again to drive sales at a local level and, if necessary, register and sell excess stock.



Rising interest rates

The first significant increases in Bank of England interest rates for over a decade are bringing unprecedented inflation to the borrowing costs of leasing and rental companies after years of cheap finance.

It's not simply the scale of the jumps, from 0.25% to 3% in less than a year, that has caused BVRLA members difficulties, but their speed. Leasing quotations are often out-of-date within 28 days, leaving suppliers with the invidious choice of honouring prices that no longer reflect true costs, or passing on the higher charges – 68% are either passing them on or at least renegotiating contracts.

Some companies are hedging their finance costs, although borrowing a fixed sum for a fixed period removes the flexibility to defleet the funded vehicles at the optimum moment to maximise residual values – instead, these vehicles have to be sold at the end of the finance period.

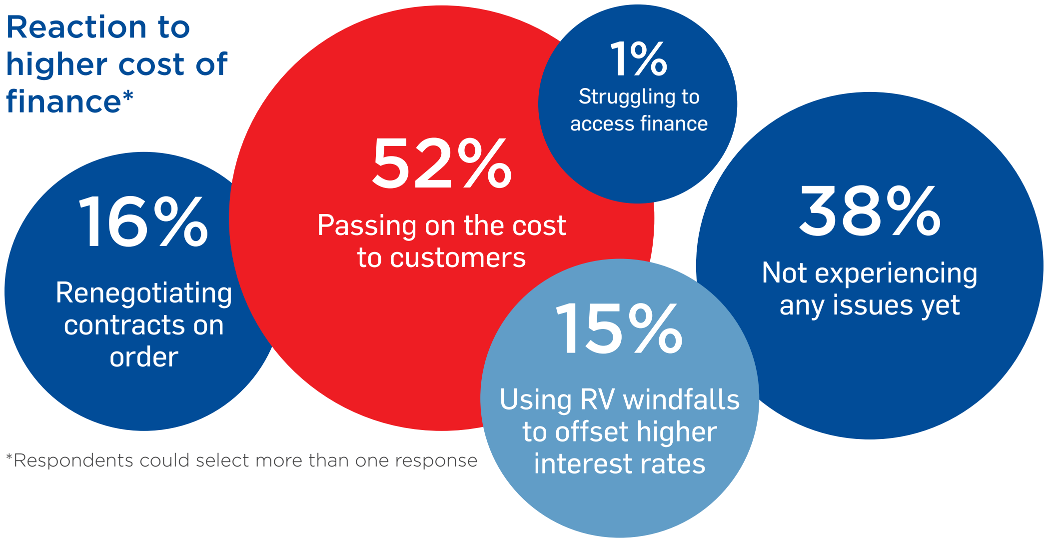
> "The leasing industry and its clients have become used to cheap finance, but that is over for some time."
>
> **Pat Skelly, Prohire**

Higher interest rates raise the question of whether bank-owned leasing companies will have a competitive advantage in accessing cheaper funds; they insist their relationships with their shareholders are at arm's length; their rivals beg to differ.

Almost no (2%) of companies reported difficulties in securing finance, although rental companies expect 2023 to be much more challenging than leasing companies, with smaller rental companies feeling the squeeze the most. Every leasing and rental company, however, faces substantially more work in calculating prices. The days when rental and leasing rates might be reviewed twice a year has vanished, with BVRLA members forensically analysing their costs and pricing on a monthly, and in some cases daily, basis.

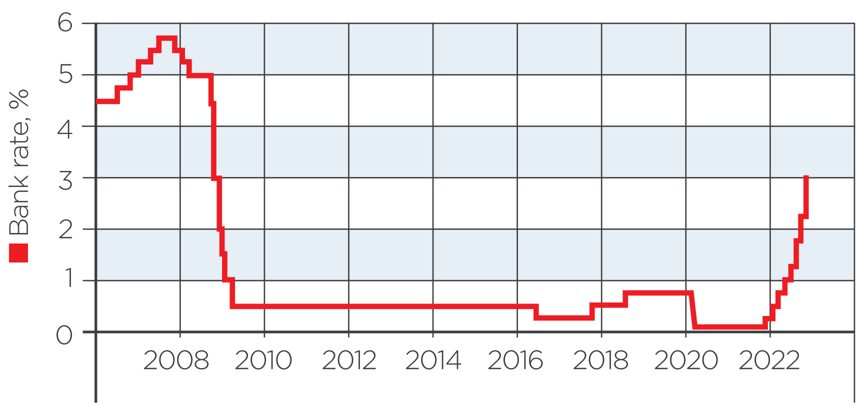
89% Think the cost of borrowing will rise in 2023.

Reaction to higher cost of finance*



*Respondents could select more than one response

Bank of England interest rate



Main business challenges for 2023*

Vehicle supply
Leasing 78%
Rental 92%

Rising costs and energy prices
Leasing 78%
Rental 67%

Cost of finance
Leasing 48%
Rental 25%

Low business and consumer confidence
Leasing 41%
Rental 33%

Staff retention and support
Leasing 15%
Rental 38%

Regulatory burden
Leasing 26%
Rental 4%

Cash flow
Leasing 0%
Rental 4%

Affordable insurance
Leasing 0%
Rental 17%

Supporting vulnerable customers
Leasing 7%
Rental 0%

Other
Leasing 1%
Rental 4%

*Respondents could select their top three challenges.

Strategic outlook for 2023

Heading into a recession, BVRLA members have clear investment priorities to future-proof their businesses

Leasing and rental companies are investing in IT solutions and staff training to drive efficiencies in the areas of their businesses that they can control.

The three principal business challenges for next year – vehicle supply, rising costs, and higher borrowing rates – are largely beyond the control of BVRLA members, although industry sectors suffer the consequences differently. Overall, 92% of rental companies identify vehicle supply as a challenge for next year, as manufacturers prioritise more profitable, longer term business, compared to 78% of leasing companies.

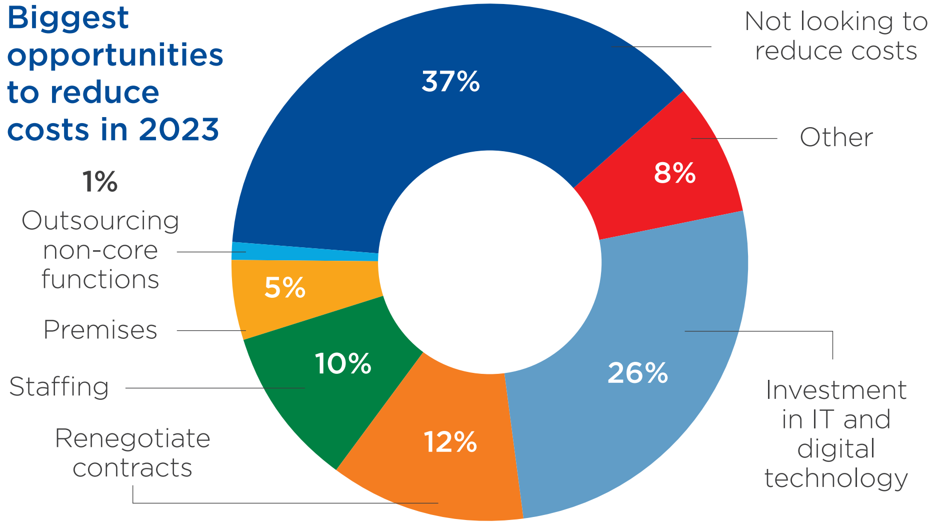
But almost twice as many leasing companies (48%) anticipate the cost of finance being a significant issue in 2023, compared to rental companies (25%), a reflection of the longer contracts with customers and the greater difficulty in passing on these inflationary costs.

An extra challenge for rental companies is to hold on to employees in a cost-of-living crisis, with lower-paid branch staff susceptible to changing job – 38% of rental operators forecast that staff retention will be difficult in 2023, compared to 15% of leasing companies.

“Paying a liveable wage is important. However, the only way that this can be done sustainably is by improved productivity. This doesn’t mean employees having to work harder, but instead smarter. This has implications for how people are trained and supported in the new ways of work, how jobs and tasks are redesigned and regraded, how salary rates and structures are revaluated, and how skills and experience are valued.”

Charles Cotton, CIPD’s Senior Adviser, Performance and Reward

Biggest opportunities to reduce costs in 2023



On the other hand, the regulatory burden of complying with the FCA’s new Consumer Duty rules disproportionately impacts leasing companies, with more than a quarter seeing compliance as a challenge for next year, versus just 4% for rental companies.

The principal route out of this crisis is to invest in digital technology to deliver business efficiencies, a strategy identified by 33% of leasing companies and a quarter of rental companies. Their focus is to operate larger fleets without having to add to their headcounts.

A surprising number of both, however, are not looking to reduce costs next year, a result, perhaps of more than a decade’s rigorous cost focus after the financial crisis of 2008-09.

Continues over

Investment priorities

› Major leasing and rental companies are making six-figure investments in IT as they seek to digitise every possible element of their operations. More than half (52%) of all leasing companies and 29% of rental companies identified IT systems and business intelligence platforms as their number one investment priority for 2023, the highest score of any investment category, signalling a continuation of decisions made during and immediately after lockdown.

Rental companies are backing up this increasingly digital approach by also investing in digital marketing and front-end web services, as customers seek ‘low touch’ hire processes, with 21% of operators citing this as their prime investment priority next year, compared to 15% of leasing companies.

Both industry sectors are also heavily focused on staff training and development, their second highest priority for 2023. This twin-pronged strategy aims to enhance retention through career development, as well as to prepare staff to deal with new technology and business processes, and understand the fresh challenges posed by new electric powertrains.

Recruitment of new staff, however, is a low priority with several leasing and rental companies highlighting their efforts to automate more processes or even outsources aspects of their administration in order to increase the ratio of vehicles to staff as they grow fleet sizes.

Achieving this greater efficiency is also a significantly higher priority than developing new products.

Finally, despite turbulent economic times historically presenting acquisition opportunities, the long-standing strategy of buying rivals as a quick way to grow seems largely to be off the agenda, with two-thirds of rental and leasing companies ranking it as their lowest priority for 2023.

Investment priorities for 2023

1. IT systems and business intelligence
2. Staff training and development
3. Business/ product development
4. Digital marketing and web front end
5. Recruitment
6. Acquire another business

Staff training and development

› Training, career development, salaries and cost-of-living bonuses have all come under the spotlight as employers fight to recruit and retain staff.

Rental companies in particular are feeling the pressure to recruit and retain staff, with 58% identifying this as their number one HR challenge for 2023, compared to just one-third of leasing companies.

Retaining lower paid branch staff is difficult, even when businesses score highly as ‘employers of choice’, while smaller, lesser-known rental operators face competition for staff from local businesses in many different sectors.

One solution is to give new employees an immediate sense of a career trajectory, with training that reinforces the message that the rental company offers long-term prospects.

Leasing companies, too, are investing heavily in training – the number one investment priority for 2023 for almost a fifth (19%) of companies.

The digitisation of business processes and the rapid adoption of electric vehicles have dramatically increased the training demands of BVRLA members.

As one leading executive pointed out, the days of recruiting technicians from garages and workshops to oversee service and maintenance work – the classic poacher turned gamekeeper – are over. Quite simply, there are no technicians or engineers with years of experience dealing with these new technologies. The only answer is to develop employees.

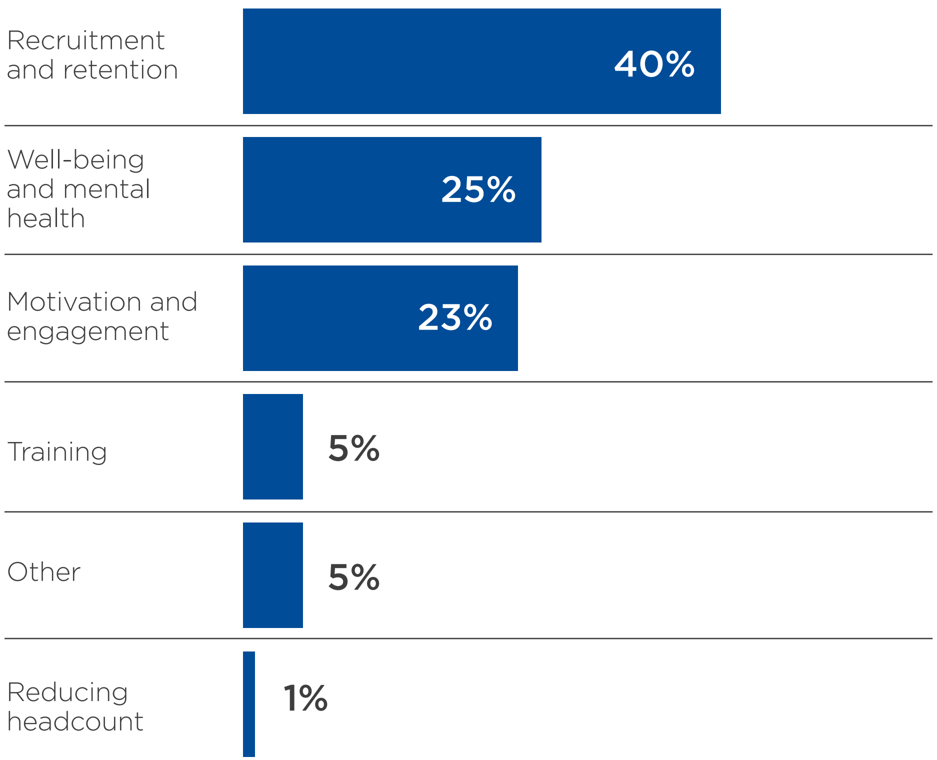
In the leasing sector in particular, companies are investing heavily in training staff across the entire electric vehicle eco-system, so they can help business customers select fit-for-purpose EVs, calculate the total cost of ownership implications of moving away from petrol and diesel, and establish charging strategies.

“Choosing the make and model of an e-LCV is the third or fourth

Continues over

> “We hire people directly into a management training programme, and we promote from within, so people who start at our entry level are not starting work in a retail rental station, but starting work on a long-term career, which has helped us with recruitment.”
>
> **Ryan Johnson, Enterprise Rent-A-Car.**

Principal HR challenges for 2023



› step of the conversation about electrification, after considering the customer's operational changes and charging requirements. All of our focus has been on how we help customers start the electrification journey," said Pat Skelly, Prohire.

The touchpoints for private customers, taking on personal contract hire or salary sacrifice cars, are also driving the demand for training. The vehicle selection, order and payment process may be increasingly digitised and automated, but customers are still likely to want a degree of human hand-holding at some stage during the process for an asset that is second only to their home in its impact on the household budget.

Significantly, much of this training is now delivered by external trainers, with new remote working practices in the wake of the pandemic meaning managers no longer have the opportunity to sit side-by-side with a colleague to guide them through practices and procedures.

Duty of care

BVRLA members have introduced widespread support mechanisms to help staff deal with the pressures of work and the cost-of-living crisis. Generous pay rises, one-off bonuses, preferential purchasing agreements, in-house GP services and mental health support are among a series of initiatives deployed to assist employees.

Pay rises are running from 5% to the rate of inflation, supplemented by one-off payments to cover the soaring cost of energy, mortgages and groceries without baking higher costs into the business.

Larger BVRLA members have also been holding seminars to guide their employees on how to budget their way through the current crisis, as well as making counselling services available to help staff deal with financial anxieties as well as the stress of post-Covid living. Hybrid working practices have left some employees feeling isolated without the everyday support and interaction with office colleagues.

Given the difficulty of accessing GP appointments, Zenith now has a GP visit its headquarters two days a week, helping employees get easy access to consultations, and is heavily focused on a programme of diversity and inclusion (D&I), with a committee made up of employees from across the business, at all levels, who are committed to ensuring that inclusion and diversity are at the forefront of minds.

"We've now got a dedicated D&I manager, which is a senior position within the HR and people team," said Ian Hughes, CEO corporate division, Zenith.

"We have just finished our inaugural D&I month, with weekly speakers addressing topics such as women in leadership, gender transition, and ethnicity, alongside panels of employees talking about items such as neurodiversity and men's mental health."

Ian Hughes, Zenith

"We invest a lot in our staff. If they are with you, everything else falls into place."

Margaret Speirs, Arnold Clark Car & Van Rental

Meeting compliance and regulation conditions

New rules are forcing a change of procedure and mindset among leasing and rental companies

Regulation and reporting requirements in two key areas are placing significant new burdens on leasing and rental companies.

Firstly, implementing the Financial Conduct Authority's new Consumer Duty regulations is a priority for 95% of leasing brokers and 74% of leasing companies (although this is of negligible importance to the rental sector due to the nature of its supply agreements).

Secondly, reporting greenhouse gas emissions as part of corporate environmental, social, and governance (ESG) responsibilities is a duty that is growing in importance as both shareholders and customers demand determined decarbonisation efforts. Overall, 44% of leasing companies and a quarter of rental companies cite ESG reporting as a key challenge for next year.

Anecdotally, bank-owned leasing companies as well as any leasing or rental supplier to the public sector are feeling particular pressure to keep improving their ESG performance.

Rental companies are preoccupied with the task of dealing with penalty charges and notices, with 58% identifying this as a major challenge for 2023. The resumption of in-bound business after Covid restrictions has resurrected the difficulties of addressing parking, speeding and access (bus lane) infringements by overseas drivers.

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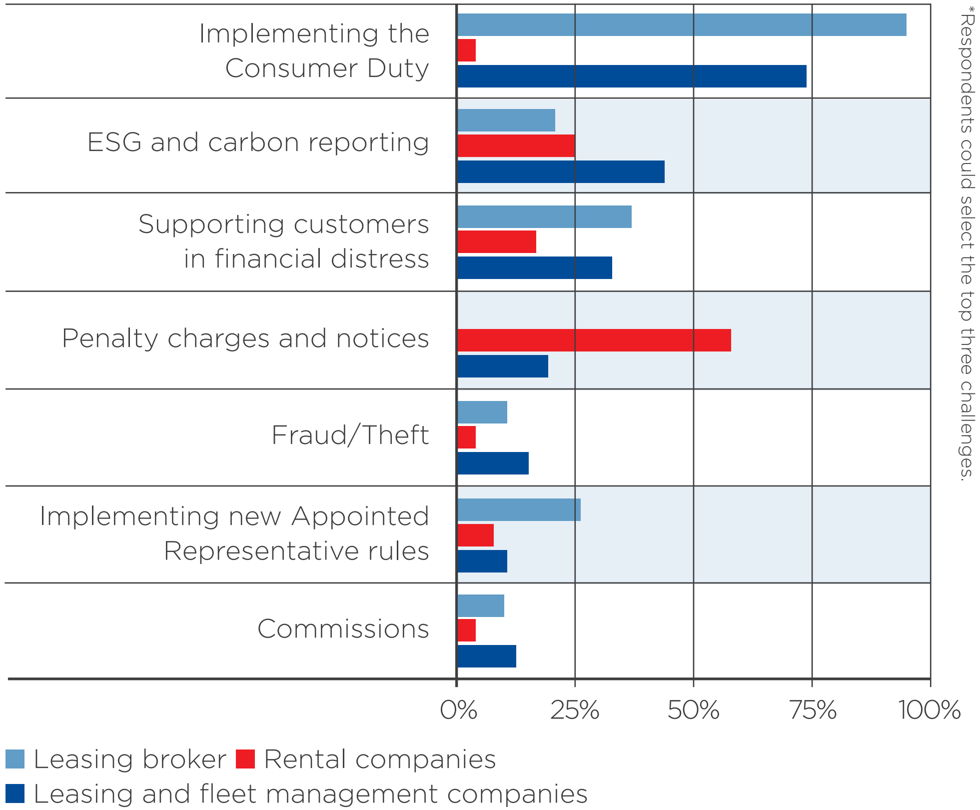
Biggest compliance challenge for 2023*



*Respondents could select the top three challenges.

95% of leasing brokers see compliance with the new Consumer Duty as a challenge.

58% of rental companies identify dealing with penalty charges as a challenge.

BVRLA members are also braced for an increase in contract delinquency and bad debt as the economy heads into recession, with fears that some businesses and private drivers will struggle to keep up with payments. One third of leasing companies highlight this as a challenge for 2023, although industry consensus so far indicates that bad debts have yet to materialise.

Despite the administrative burden of complying with new regulations, leasing and rental companies do not see the rules as a hindrance to business (with the exception of a suggestion that smaller brokers might find the financial costs of ensuring their processes comply with the rules could be financially prohibitive). There is widespread agreement that treating customers fairly and being environmentally responsible are vital to running a successful business, even if 56% oppose the idea of greater regulation to achieve this and 55% think the compliance burden is already too great.

The solution to working in this new operating environment is closer cooperation with suppliers throughout the supply chain, with 94% of companies seeking a closer relationship with their supply partners.

More than half (53%), however, lack the internal resource, expertise or bandwidth to ensure faultless compliance with the fine print of Consumer Duty regulations and ESG reporting, and are therefore looking for external support to meet this administrative burden. This is particularly the case for commercial vehicle rental companies, albeit from a small sample size.

Continues over

Industry attitudes to regulation and compliance

Agree

94% want to work more closely with automotive supply chain partners.

55% think the compliance burden on the industry is too great.

53% are looking for external support to help meet compliance burdens.

Disagree

63% disagree with the notion that regulatory uncertainty is hindering business.

56% reject the idea that greater regulation is required to protect consumers and raise standards.

Consumer Duty

› Meeting the requirements of the Financial Conduct Authority's new Consumer Duty regulations requires a change of both mindset and process for leasing companies and brokers. They fully accept the spirit of the new rules to give private consumers greater protections by bringing more transparency to financial services, but both quantitative and qualitative research has found that there are significant grey areas for leasing companies to resolve.

Overall, 37% of leasing companies and 63% of leasing brokers want a greater understanding of the scope of the rules and how they apply to their businesses, with 37% also seeking greater clarity on what constitutes 'fair' value. More than a third of businesses involved in leasing also report that finding specific guidance on how the Consumer Duty applies to their specific sector is a challenge.

For business with roots in the B2B sector, the regulations are forcing a change of mindset as well as practice, while even new retail-focused businesses have appointed full-time compliance officers to ensure they meet FCA guidelines. The scandal and compensation surrounding the miss-selling of PPI haunts businesses in the financial services sector.

As a result, leasing companies now feel the responsibility to inform private drivers about, for example, the implications of early termination fees or excess mileage charges, with the risk that customers sign up for inappropriately low-mileage contracts in order to reduce their rentals, only to incur high charges at the end of the agreement. One suggestion is for leasing companies to provide an annual mileage statement to customers (and brokers if it's a broker-supplied car) to allow for contract renegotiations, rather than present customers with a sizeable bill at the end of the term.

The obligation to treat customers fairly is also going to be tested by the risk of rising defaults as the cost-of-living crisis impacts on drivers' ability to keep paying their rentals. In such circumstances, leasing companies expect to offer forbearance and restructure repayment profiles, but if a customer cannot afford to pay, are they at liberty to repossess a car, even if this leaves the driver without transport that might be essential? And there's further opacity in the nature of 'fair': will a customer be able to insist their electric is collected and tested because it fails to achieve the range promised in the manufacturer's marketing literature?

Even the 'cooling off' period is problematic; should this be the fortnight after the customer places the order, or the fortnight after the car is ready for delivery, by which time the price of the vehicle and the interest rate on the finance may have risen, pushing up the cost of the original rental?

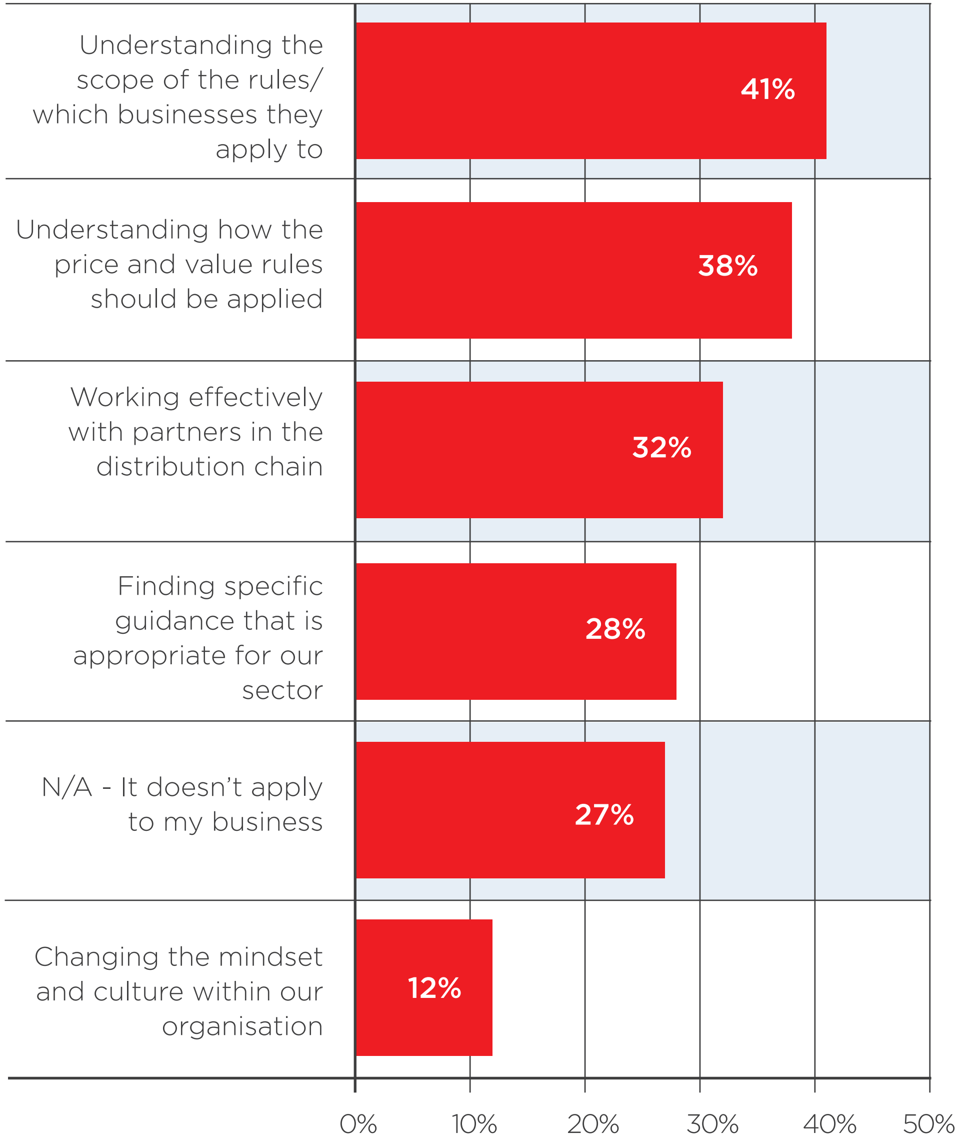
> "Consumer Duty is a massive change for the industry, a cultural change, and the bar has been set very high by the FCA"
> **Lakshmi Moorthy, Arval UK**

Commercial vehicle compliance

Vehicle contract extensions and more remote working have exposed gaps in fleet compliance procedures when it comes to MoTs. As fleets keep vehicles for longer, a growing proportion of the parc now requires an annual MoT, with leasing and fleet management companies reporting that checks on client vehicles regularly identify cars and vans without a valid MoT.

There are also concerns that the workshop infrastructure will be inadequate to support the maintenance requirements of electric and hydrogen heavy duty trucks, with operators facing pressure to decarbonise before a viable zero emission ecosystem is in place to help them comply with the stipulations of the operating licence.

Biggest Consumer Duty challenges for 2023*



*Respondents could select the top three challenges.

Outsourcing

› A significant 44% of leasing and rental companies expect to increase the outsourcing of compliance work in 2023 as they seek to reduce time-consuming tasks.

Only 3% say they will reduce their reliance on outsourcing in these areas.

By enlisting the support of specialist external agents to manage speeding and parking fines, for example, companies will be able to expand their fleet size without increasing headcount.

This is more an efficiency drive than a cost saving exercise, although it will avoid the need for temporary staff to deal with workloads that tend to arrive in peaks and troughs.

In other areas, helping customers with compliance issues is increasingly dependent on connecting IT platforms with third party databases. For example, leasing and fleet management companies can help clients with driving licence checks for both company and grey fleet drivers, an increasingly important area as employees work remotely and don't come to the office as frequently, reducing the opportunities for in-person licence checks.

The ageing of fleet vehicles also means more are requiring MOT certificates, which is another area where leasing and fleet management companies are looking to connect to an external database to ensure their clients' vehicles are road legal.

Continues over

> "Third-party fleet compliance solutions increase efficiency, reduce administrative tasks and minimise exposure to occupational road risk. They give assurances that drivers and vehicles are eligible and roadworthy."
>
> **Keith Allen, Licence Check**

› Two-thirds of leasing companies are already collecting data on their carbon emissions and reporting their performance as part of their ESG commitments.

The importance of this duty is reflected in the fact that 59% of leasing companies have appointed a dedicated executive or even team to develop their ESG agendas, while almost half (48%) are now receiving requests to supply their ESG data from both customers and shareholders.

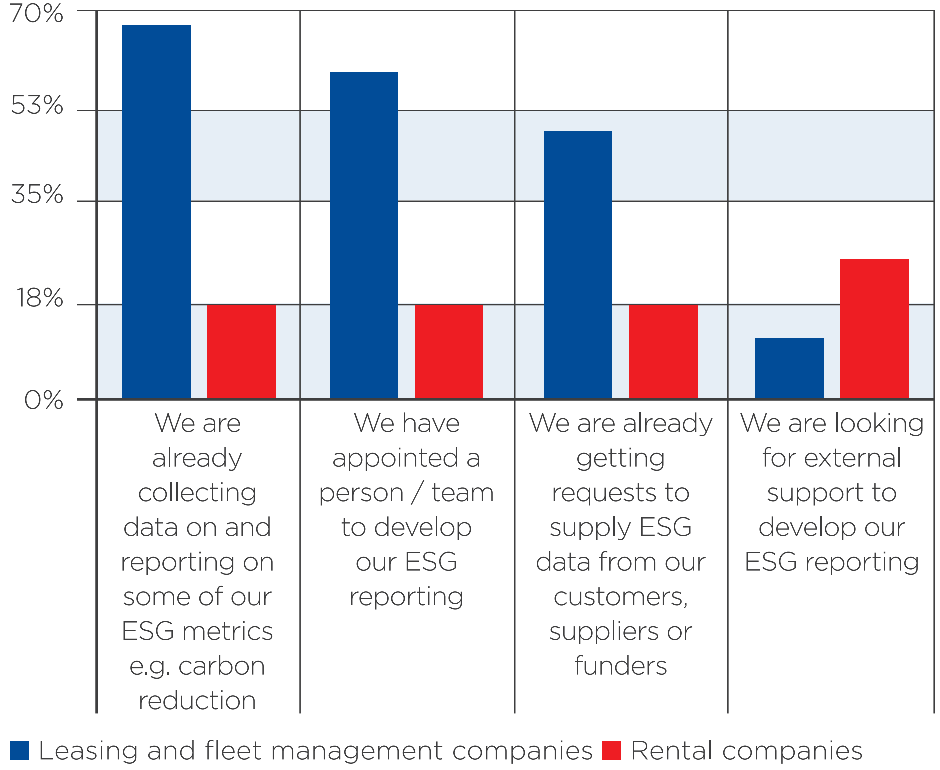
With so many leasing companies owned by financial institutions, even a cursory glance at annual shareholder reports reveal the prominence of sustainability within business results.

The figures are significantly lower for rental companies, perhaps due to the delay in their fleet electrification plans, with battery powered vehicles proving to be operationally difficult for short term hire companies, although some are deeply committed to enabling customers to decarbonise.

In a classic case of practising what they preach, leasing companies are using their own experience of electrifying their company car fleets, installing workplace charge points and tracking their own vehicle emissions as case studies for customers to follow.

Some of these policies are bolstered by additional sustainability

How leasing and rental companies are managing ESG



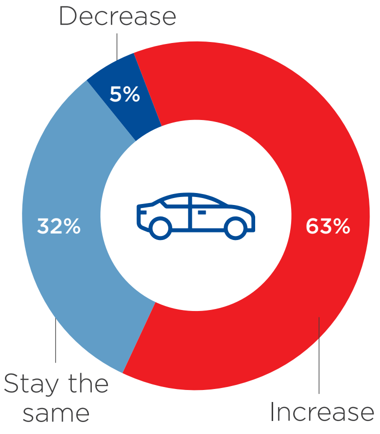
initiatives, such as committing to the Science Based Targets Initiative's goal to limit global warming to 1.5 degrees Celcius and publishing annual progress on emissions, or even practical actions, such as pledging to plant a tree for every electric vehicle delivered.

There is also a compelling case presented by some companies that ESG must be a wider concern than CO2 and zero emission vehicles, helping communities become more sustainable by introducing car clubs that replace older, more polluting vehicles with fewer, cleaner models, as well as seizing opportunities to support diversity and inclusion projects in local neighbourhoods close to offices and branches.

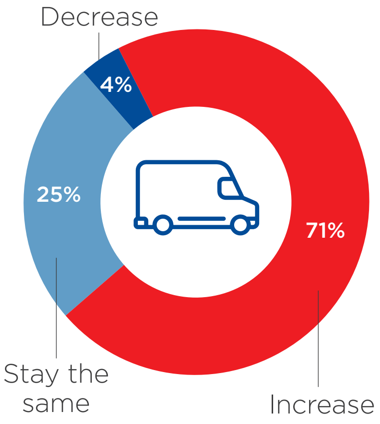
End-user fleet outlook KPIs

360 Media Group's surveys of fleet decision makers captures their attitudes and purchasing intentions

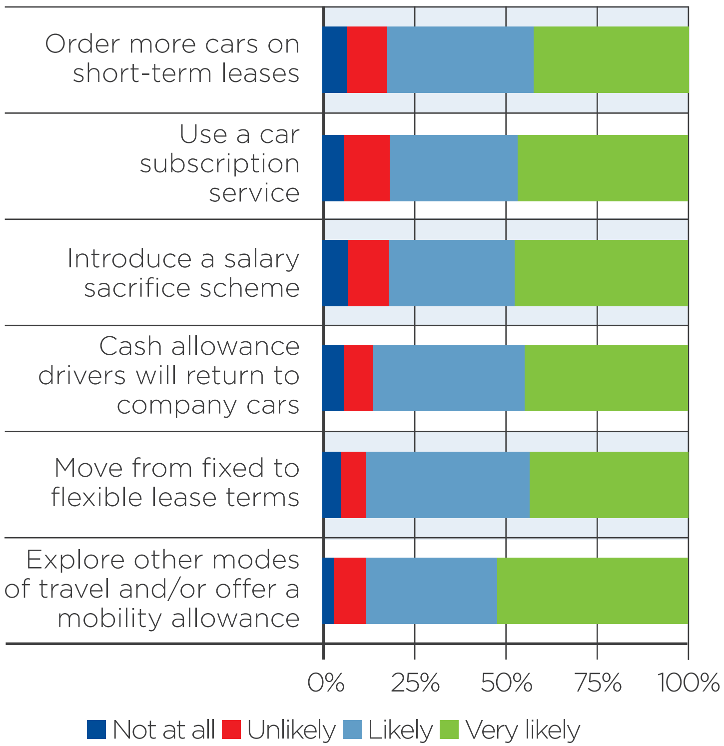
Car fleet size outlook, 2023



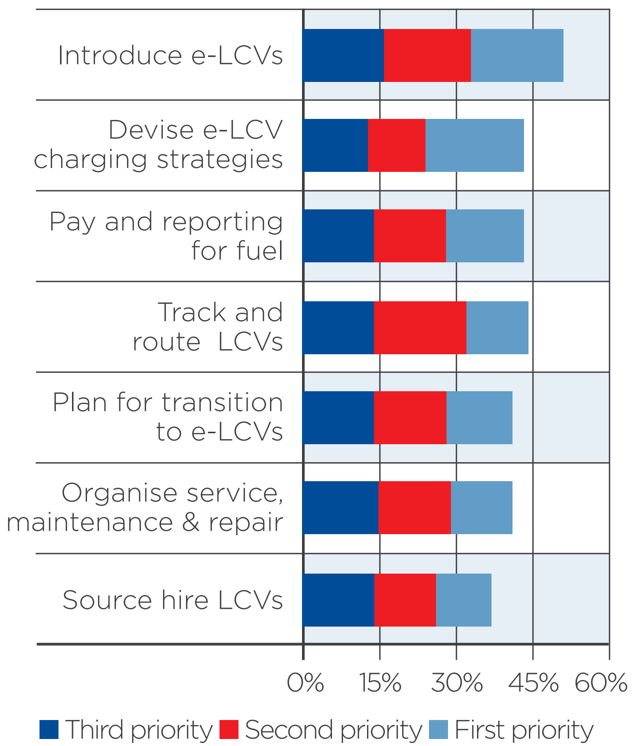
Van fleet size outlook, 2023



Employer fleet and mobility plans, 2023



LCV fleet challenges, 2023



360 Media Group Information Services

Insights are previewed from 360 Media Group's 2023 Fleet Outlook Report. Sample, 400 fleet interviews; frequency of publication, twice-yearly. For more details visit www.360mediagroupltd.com

IT investment in the online transition

Customers want 24/7 access to vehicle quotations and fleet data

Rental and leasing companies are investing heavily in IT to boost productivity, enhance the customer experience and capitalise on new connected technologies.

More digitised back-office systems will enable companies to operate larger fleets without increasing their headcounts, with connected vehicle technologies presenting significant opportunities to manage vehicles more closely.

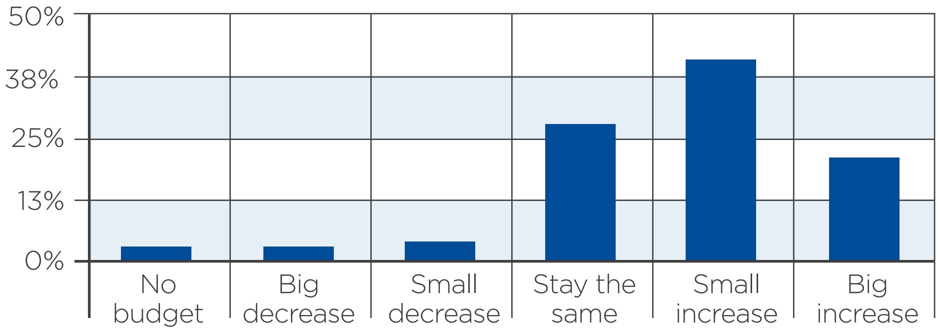
Overall, 59% of companies are looking to increase their IT spend next year, while a further 30% plan to maintain current investment levels, which in many cases are significantly higher than pre-Covid.

The pandemic accelerated the trend for customers to generate leasing quotations and rental bookings online, an area identified by companies as holding the greatest potential to add value to their businesses. This also holds the key to meeting driver expectations, with company car, salary sacrifice and personal lease drivers wanting to be able to select, configure and order vehicles online, including the option to manipulate specifications and contract lengths and mileages to generate a suitable rental.

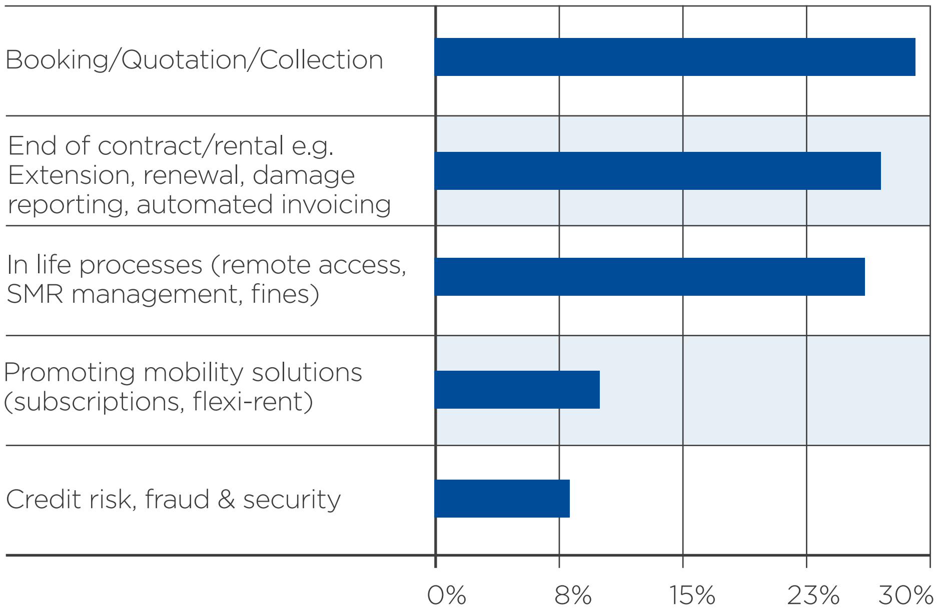
One major player in the salary sacrifice sector said up to 50% of

> “During COVID we developed processes that we call low touch, so you could still rent a vehicle but with reduced need for direct interaction between our people and the customer. What we learned was that customers like a frictionless rental, which technology is enabling us to deliver.”
>
> **Ryan Johnson, Enterprise**

IT and digital infrastructure budget for 2023



Greatest potential for IT investment to add value



transactions were now taking place online, although the scale of a new car purchase still means that many drivers want some human contact during the digital journey, whether via live chat functions or telephone calls.

For rental companies, the impact of the pandemic accelerated a ‘light touch’ approach to the hire process, minimising contact between operator and driver at the rental station.

“Our IT investment is all about making the customer journey easier, allowing customers to deal with us remotely and minimising contact in branches, without losing the personal touch,” said Margaret Speirs, Arnold Clark Car & Van Rental.

And it’s not just at the start of a rental or lease that IT is playing a vital role. Business customers now expect immediate access to meaningful, configurable data on their fleet performance and expenditure, without having to contact account managers to request reports, and with the information ideally presented in user-friendly dashboards.

“Digitisation is a key area for investment. Corporate customers want self-service access to vehicle, and retail customers expect everything online. The pandemic accelerated this trend,” said Lakshmi Moorthy, Arval.

Continues over

“By harnessing the power of technology, shared-mobility companies can offer their customers a dynamic, engaging service. Innovations in customer self-service mobile and web apps give a fully online, modern e-commerce experience.”

Biswajit Kundu Roy, Coastr

Electric and connected

› Exploiting the data available either from telematics systems or the connected technologies in electric vehicles is high on the agenda of leasing companies, with 63% looking for technology solutions to drive operational efficiencies.

Monitoring vehicles in real time is allowing operations departments to get on the front foot with service and maintenance work, moving to a predictive rather than reactive model.

"In terms of SMR, managing EVs compared to ICE vehicles is managing a problem that is going to happen compared to managing a problem that has happened," said one senior executive.

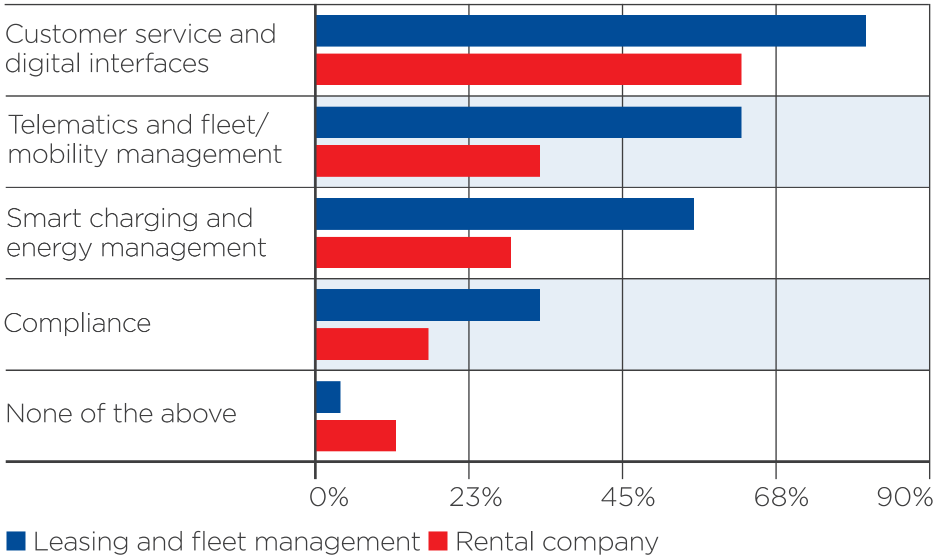
This round-the-clock connectivity is also allowing suppliers, both rental and leasing, to maintain more frequent, positive engagement with their customers. One company that specialises in commercial vehicles has created a specialist department to support customers starting their electrification journey.

"Connectivity means we can monitor the state of charge in batteries, whether a plugged-in vehicle is actually charging, and spot impending faults before they occur," said the director, adding that the technology allowed the department to send immediate alerts to fleet managers and drivers if an EV is in danger of running out of power or if the handshake between vehicle and charge point is not working.

Leasing companies are also investing in technology that allows them to support customers' with their decarbonisation goals.

> "Investing in technology is hugely important for reducing costs, working smarter and running the fleet more efficiently. Almost our whole fleet is fitted with telematics, and we are starting to take our first OEM telematics offerings, which are a whole new ball game in terms of the data we can get from the vehicle."
>
> **Jason Rogerson, Herd Group**

IT investment areas



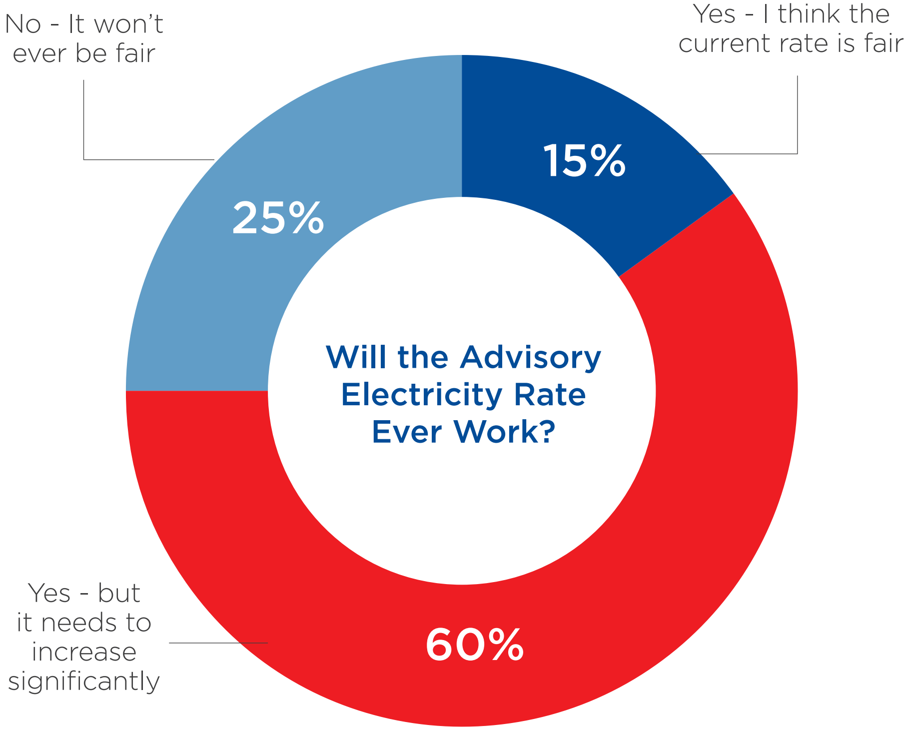
Tracking vehicles over a series of weeks holds the key to identifying those with a usage profile achievable by an electric power train, while also pinpointing where businesses and their drivers will need recharging infrastructure.

More than half (56%) of leasing companies are looking at IT as the answer to smart charging and energy management, allowing customers to maximise the power capacity available to them from the local grid and take advantage of cheaper off-peak tariffs.

Connectivity also provides a solution for managing charging costs, with leasing companies starting to help their customers calculate a fair reimbursement rate for electric business miles. Only 15% think HMRC's official Advisory Electricity Rate of 8 pence per mile is fair, given the wide variation in energy tariffs for home, workplace and rapid public chargers, although more than one executive pointed out that the rate is only 'advisory'. If technology can calculate the actual cost, both employers and their drivers stand to gain.

The same technological process of monitoring miles and emissions is essential for leasing companies to support customers with their duties to report Scope 1 and 2 greenhouse gas emissions, as businesses strive to honour their net zero commitments.

> "The flat rate model will never work. There are too many differing tariffs, before even considering where people can charge. Can they plug in at home, or are they forced to rely on public infrastructure?"
>
> **Ashley Tate, CEO, Mina**



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