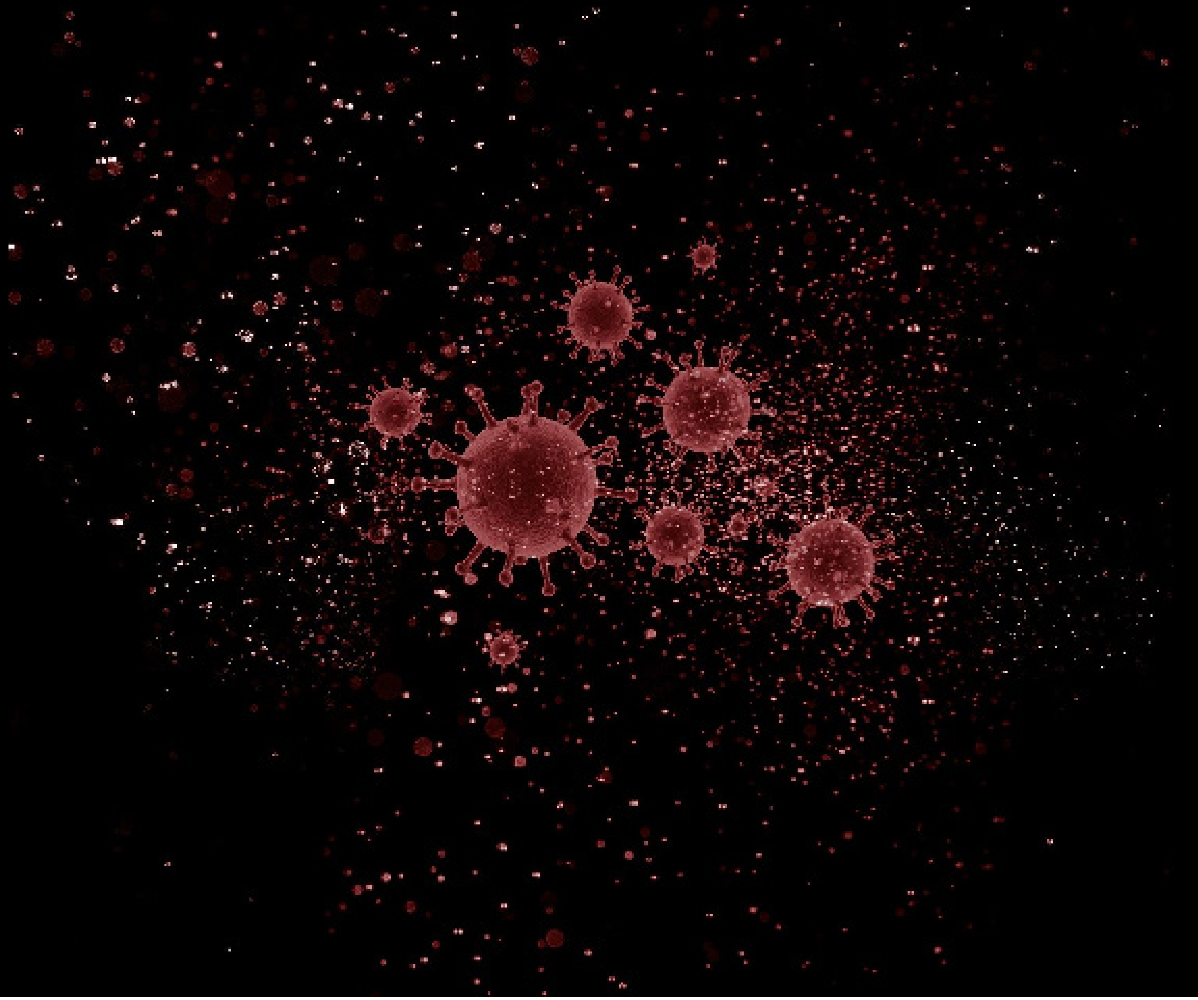
Leasing

Outlook

RESEARCH
&INSIGHT

Q1 SPRING 2020

BVRLA



Back to basics

Through the Covid-19
crisis and beyond

Market Spotlight
Facing unique challenges

Business Confidence
Calm before the storm

Forecasts
Long-term challenges

In association with

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FOR SMARTER AUTOMOTIVE DECISIONS™

About this report

The BVRLA Leasing Outlook report combines the aggregated market data and insight of experts from across the sector to provide an unrivalled perspective of what is happening to the market and where it is heading.

Each quarter the association analyses a range of automotive market data and puts a series of questions to a panel of senior executives from across the industry and its supply chain. Full of strategic insight and analysis, this report provides the BVRLA's forecasts for key areas of the leasing market.

Leveraging its knowledge and understanding of the policy and regulatory environment, the BVRLA Leasing Outlook report also presents a unique 'Risk Register' of upcoming items that will have a major impact on fleet procurement and operations.

The BVRLA is the home of reliable, robust and compliant fleet industry data. If you would like to find out more about what we do, or participate in our research and insight activities, please get in touch.

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Contents

Executive Insight Panel


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Managing Director, Arnold Clark Finance


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Executive Summary

The leasing industry had barely overcome the costly uncertainty of Brexit when the disruption of the global Covid-19 pandemic began. There are major challenges ahead for the industry, but an underlying focus on maintaining a key fleet partnership role and high service levels will pay dividends as the virus dissipates.

Every silver lining has a cloud

With clarity on Brexit, leasing companies were reporting a significant increase in demand at the start of the year, with some enjoying record sales.

Within weeks, the industry was tackling a new, even bigger challenge as the global Coronavirus pandemic grew.

The crisis has demanded swift responses from the leasing industry to support customers affected by the pandemic in different ways. Delivery fleets and emergency services have needed rapid fleet expansion and enhanced management support. Others have sought support of a very different kind, requesting invoice reductions, contract extensions or payment holidays as they tackle cashflow problems. Car registrations in the key March registration month were down 44%, with fleet sales dropping 47.4%.

Leasing companies have cashflow problems of their own. A sudden pause in remarketing has affected revenues and prompted urgent discussions with their own finance providers.

The pandemic is also acting as a stress-test of key aspects of leasing company operations, ranging from customer service levels to cyber-security, as employees are forced to work remotely.

Only time will tell how these challenges will evolve and how serious they become. The length of lockdown will dictate how much forbearance burden leasing companies are asked to bear as customers struggle with their personal lease car payments.

The lockdown will not last forever, but the current lull in activity is providing valuable breathing space for lease companies and their supply chain partners to plan for a future where social distancing and sanitising will be the new watchwords. PPE will be as much of a burden as PCNs. As usual, the leasing industry will focus on its strengths, acting as a vital fleet and mobility partner, providing much-needed support and advice during uniquely challenging times, to secure growth in a very different post-pandemic world.

Mission Zero

Demand for zero-emission capable vehicles is increasing, driven by the long-term certainty of lower company car tax bills from April 2020. Towards the end of 2019, there was a sharp increase in deliveries, which saw zero-emission capable vehicles taking more than 17% of orders. Despite short-term disruption caused by COVID-19, there is clearly a growing appetite for alternative fuels that will see them taking a growing proportion of the leasing market this year. This is at the expense of both petrol and diesel, although the sharp decline in diesel demand is showing signs of slowing.

> *We had a record order book at the start of the year. Now most of our staff are furloughed. We can manage our finance costs for three months while remarketing is paused, but after that things will get very serious for us.*

Business Confidence

The end of Brexit uncertainty gave the markets a boost last year as they saw a final hurdle cleared on the path to market growth, unaware there was even greater disruption ahead.

There was a strong rally in the stock market at the start of 2020 and indicators from the Confederation of British Industry, BVRLA and leasing companies all improved.

Since then, the world has changed. During March, business confidence slumped to lows not seen since the financial crisis in 2008, according to the Lloyds Business Confidence Index.

In the first two weeks of March, confidence amongst companies sank by 17 points to 6% and hiring intentions fell 12 points to 4%, Lloyds said.

The FTSE 100 Index, which was 7,604 points at the start of 2020, plunged as low as 4,993 during March, its lowest value for a decade, before recovering to 6,115 by the end of April as discussions turned to restarting the economy.

Swift action by the government has provided some cause for optimism, with unprecedented financial support for businesses, employees and the self-employed.

However, as there is little certainty about when businesses will be free to trade or when social restrictions will be lifted, there is no chance to establish long-term strategies for returning to growth.

While the leasing industry plays a key role during the crisis, ensuring essential services continue to operate, ranging from the NHS and police through to logistics and deliveries, most customers are in limbo.

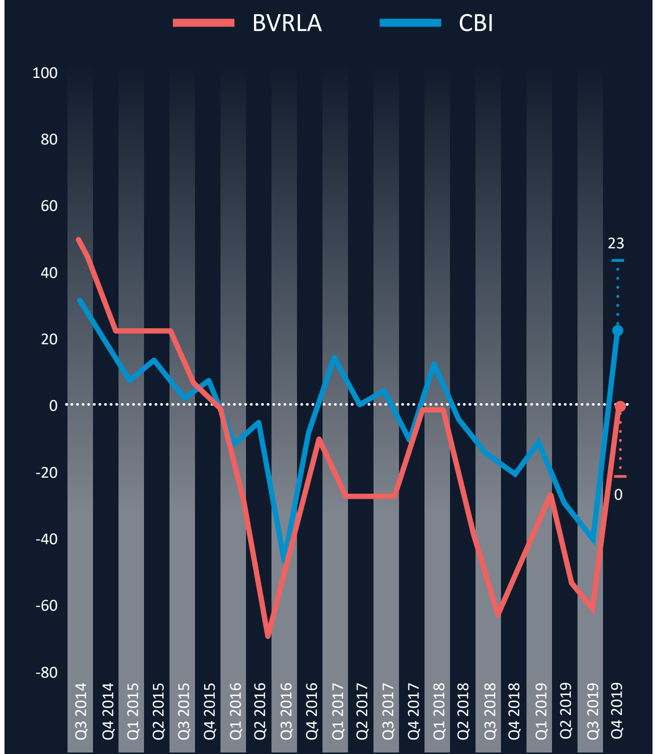
Leasing companies are extending some contracts, particularly as volume remarketing channels are closed, while customer requests for payment holidays grow. Leasing companies are working to amend their own funding arrangements as balance payments become due.

Other concerns remain, such as the risk of increased defaults or arrears, depreciating defleeted vehicles that can’t be sold, disrupted supply chains and uncertain future demand.

Some leasing giants have suspended dividends and warned of a “strong negative impact” this year.

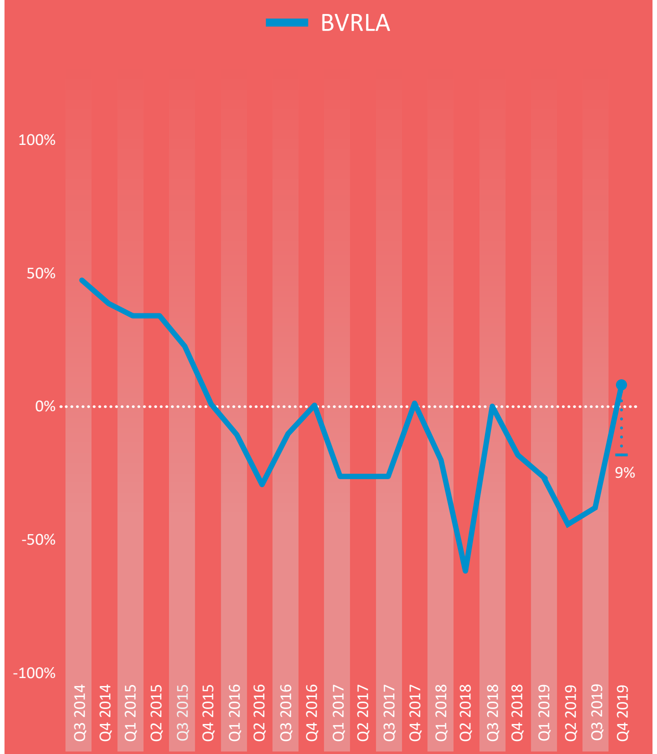
The challenge will be identifying opportunities for growth once the pandemic has passed in a business environment that will look very different to the one leasing companies entered at the start of the year.

UK Economy



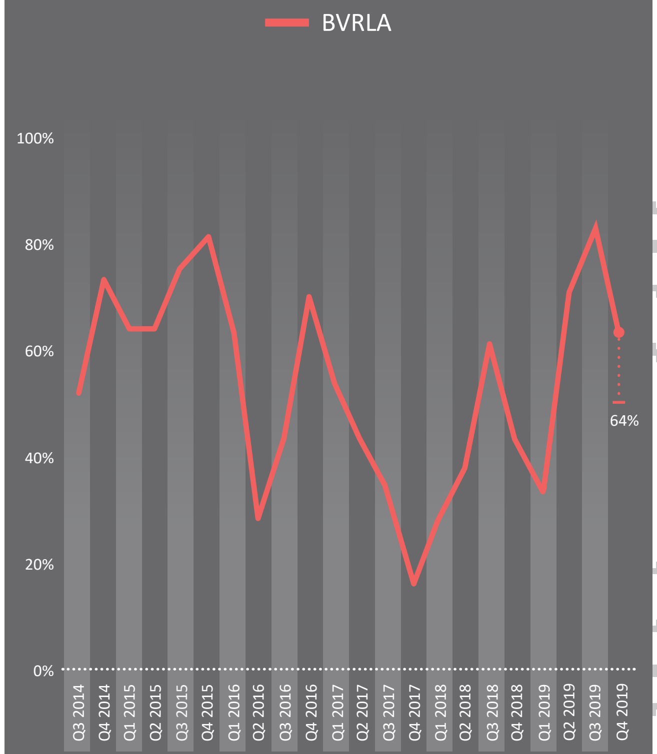
Confidence measures take the form of improve/ stay the same/ diminish for the next six months compared to the previous. The percentage quoted is the difference between the percentage of respondents taking each view. A sharp increase in confidence reflected the end of Brexit uncertainty as the general election gave the government a clear mandate to exit the European Union.

Fleet leasing sector



The downward trend in confidence levels seen since 2013 ended in the final quarter of 2019 as markets responded to greater certainty, which prompted the release of pent-up demand from some customers in January 2020. Some leasing companies reported record numbers of deliveries. This boost came despite the car market remaining subdued, offset by strong sales of commercial vehicles. Company car tax clarity and long-term EV incentives were expected to boost demand - until the arrival of Covid-19.

Fleet sizes



Despite improved confidence across the fleet sector, the reality of falling car sales reflects lower expectations of fleet size growth. In part, this may be because fleet demand was expected to be focused on company car tax changes in April 2020, when incentives for electric vehicles and long-term certainty on tax rates was predicted to bring increased demand from company car fleets. The arrival of WLTP-based VED and company car tax in April was also expected to add clarity to costs that had been disrupting demand for months.

Market Spotlight

Risks

Maintaining Order

The Covid-19 outbreak has disrupted the normal flow of vehicle orders and returns. Leasing companies are having to manage unprecedented levels of asset risk and customer forbearance, with future market direction clouded and confused. Vehicle orders are likely to be affected for several months following the closure of the supply chain, while remarketing has been severely disrupted, which in turn impacts on the delivery and collection of customer vehicles. The funding arrangements of leasing companies are also affected by the disruption to cash flow, which will continue with the introduction of FCA measures to support consumers with three-month payment freezes on leases if they encounter financial problems.

Cyber Security

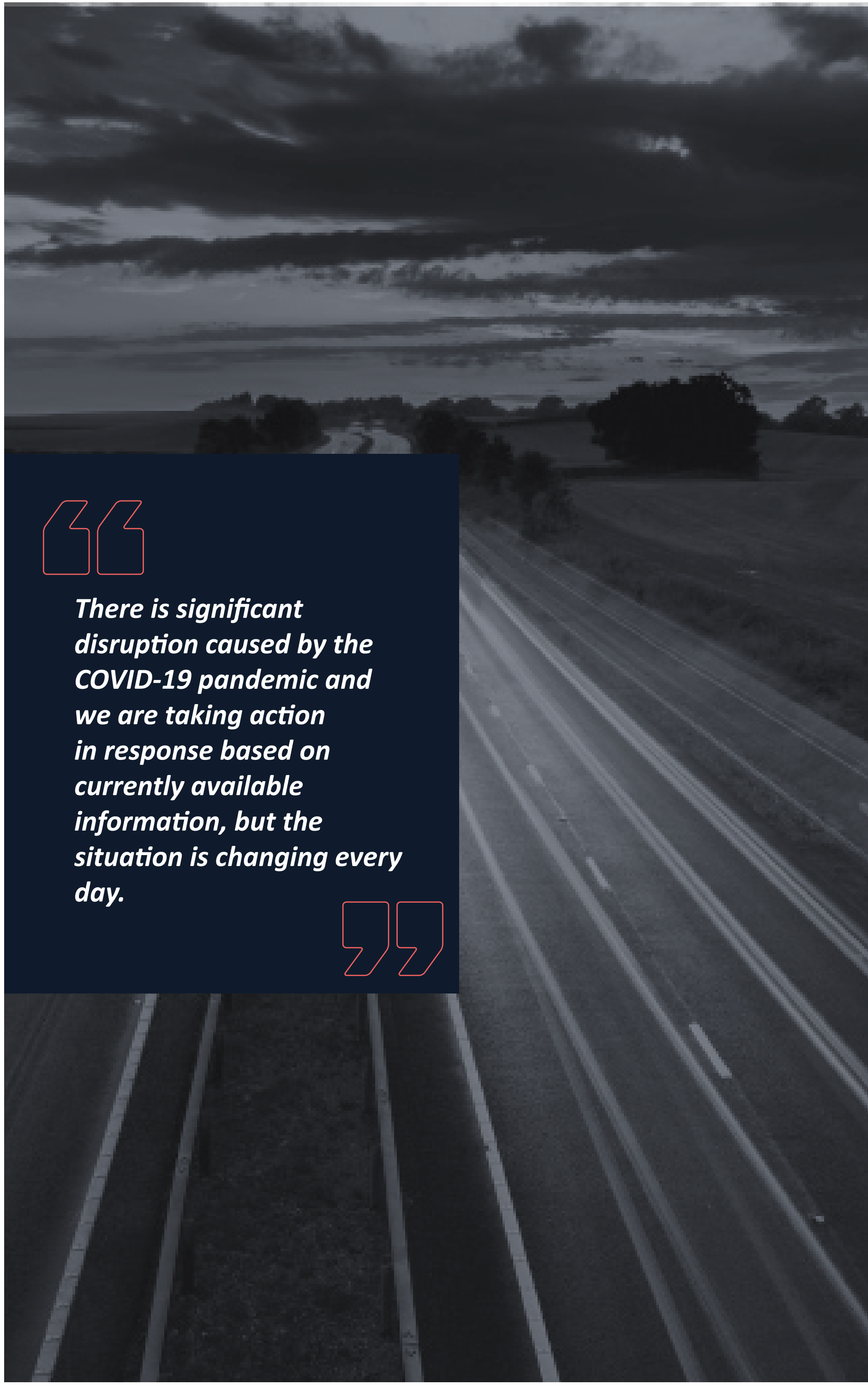
The introduction of extensive home working at short notice has increased cyber security risks as employees use a variety of technologies to connect remotely. In some cases, email accounts are being compromised and entire contact lists are receiving scam emails with links to downloads that are infected with viruses. These emails are arriving from the official accounts of leasing companies, raising the potential for reputational damage and GDPR issues.

Growing Fleet Risk

In response to the crisis, some leasing companies are extending contracts with clients to manage supply chain issues. While this solves one problem, it raises other potential concerns that need to be managed. Leasing companies may discover increased damage when cars are returned and vehicles may have incurred higher mileage than expected during extended use. As more vehicles are leased without maintenance contracts, suppliers may be at greater risk from customers that have not been looking after cars and vans properly, particularly if they have been standing idle during the shutdown. Customers that are already struggling from the cost of the pandemic may be more likely to contest any charges.

Managing the transition to WLTP

With the introduction of WLTP as the basis for emissions-based charges and taxes, initial data shows there has been a significant increase in official CO_2 emissions across the board. This requires careful customer management to ensure costs such as VED and company car tax are clarified; many models now span several VED and BIK bands, depending on their specification. This situation has been exacerbated by the Covid-19 lockdown introduced in March, which meant thousands of vehicle deliveries missed the April tax deadline. As a result, leasing companies face some difficult discussions with customers about new cars that have been delayed and become more expensive.



> ***There is significant disruption caused by the COVID-19 pandemic and we are taking action in response based on currently available information, but the situation is changing every day.***

Market Spotlight

Opportunities

Leasing companies as business partners

The Covid-19 pandemic has been a showcase for leasing company best practice and the benefits for clients of working with a specialist partner in vehicle provision and maintenance. Leasing companies are working with customers to help them navigate the changes with expert advice and a flexible approach to short-term disruption based around long-term partnerships, which emphasises the service-based elements of contract hire provision. Initiatives being introduced to help customers, for example mobile servicing and specialist helplines, can help cement long-term relationships and provide clear evidence of the benefits of fleet leasing and related services.

Demand for flexible rental

A turbulent economy creates demand for flexible rental from opposite ends of the market. Companies facing an uncertain future will look to avoid long-term risk and free up cash using flexible rental, while growing businesses use the solution to quickly source vehicles while they manage sustainable expansion. For leasing companies, flexible rental acts as a stepping-stone to and from longer-term services and secures customer loyalty as clients adapt vehicle provision to changing circumstances without switching suppliers.

Extended contracts

The multi-year cycles of contract hire arrangements will provide leasing companies with some protection from revenue disruption and logistics headaches over the coming months. Agreeing new contract extensions will enable firms to maximise revenues from current vehicle assets, reduce the potential for remarketing backlogs and provide some shelter from a potentially turbulent residual value scene when auctions do reopen.

Lower emissions – rising demand

Company car tax changes introduced in April have turbocharged demand for zero-emission capable vehicles, particularly battery electric models. In some fleets, most new vehicle orders among perk fleet drivers are for pure electric vehicles, as employees make the most of low company car tax rates. In addition to providing advice for fleets and drivers, leasing companies can provide additional services such as charging infrastructure, breakdown support and helplines.

Return of the company car

After years of decline, the certainty provided by the new company car tax regime could drive renewed growth in the proportion of orders taken by business contract hire, albeit in an uncertain market where overall demand could decline. Employees are switching back from cash for car schemes to make the most of the potential savings, particularly from electric vehicles.

Bouncing back

As the lockdown is eased, companies that act swiftly to respond to growing demand when it occurs, through robust supply chains and close relationships, will stand to gain an advantage as the market rebuilds. The freeze on economic activity will build pent-up demand, such as a rush of vehicle replacements or returns at the end of contracts, which will coincide with new car shortages after factory shutdowns. This could create an opportunity for used vehicle leasing of flexible rental to cover mobility gaps.

Focusing on whole life costs

The emergence of new fuel options is changing the lexicon of the fleet market. As fleets enter the unfamiliar territory of alternative fuels, discussions can move away from focusing solely on monthly lease rates to a broader level of engagement, encompassing miles per kilowatt, charging speeds, infrastructure costs and residual values, engaging a greater proportion of the fleet market in a discussion about whole life costs, which recognises the value of good service and industry expertise in minimising fleet spend.

Fleet actuals and BVRLA forecast: Leasing Market

For the car leasing market, 2020 promised to be a year of diminishing decline, but recovery is now uncertain.

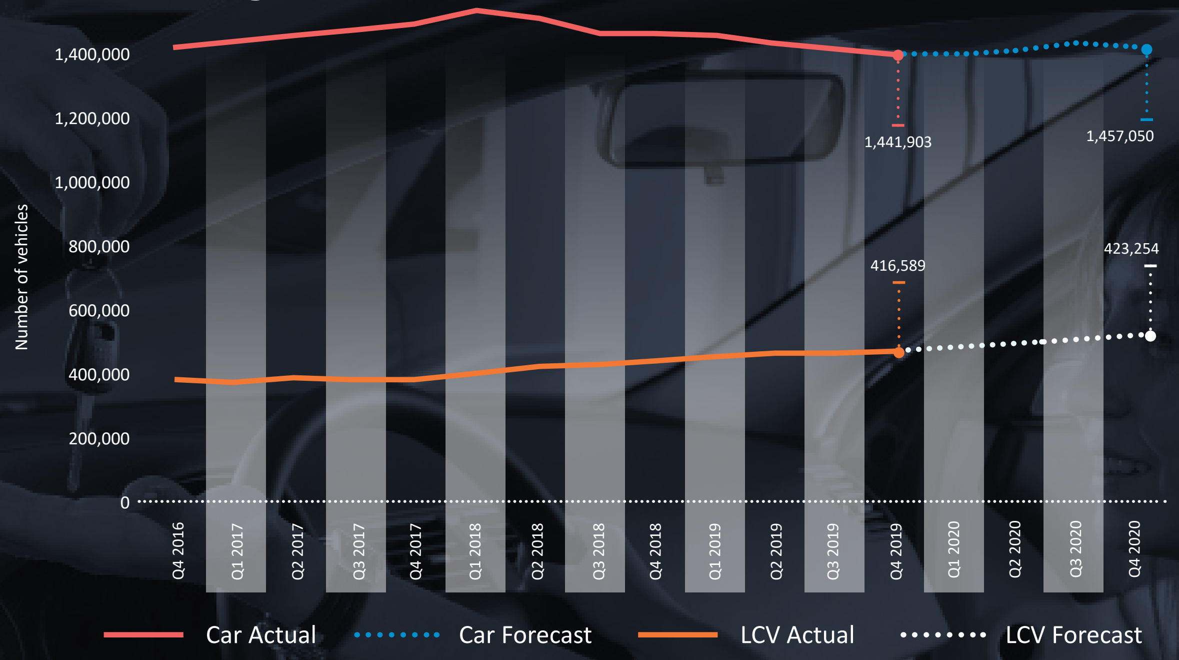
By the end of 2019, the BVRLA lease car fleet had fallen by 2.9% year-on-year, to 1,441,903. This marked the sixth consecutive quarterly fall since the market first started shrinking in Q3 2018.

The business lease fleet fell by 5.4% to 1,125,051, a decline that was only partially offset by a rise in the personal lease fleet, which grew 7.3% to 316,852.

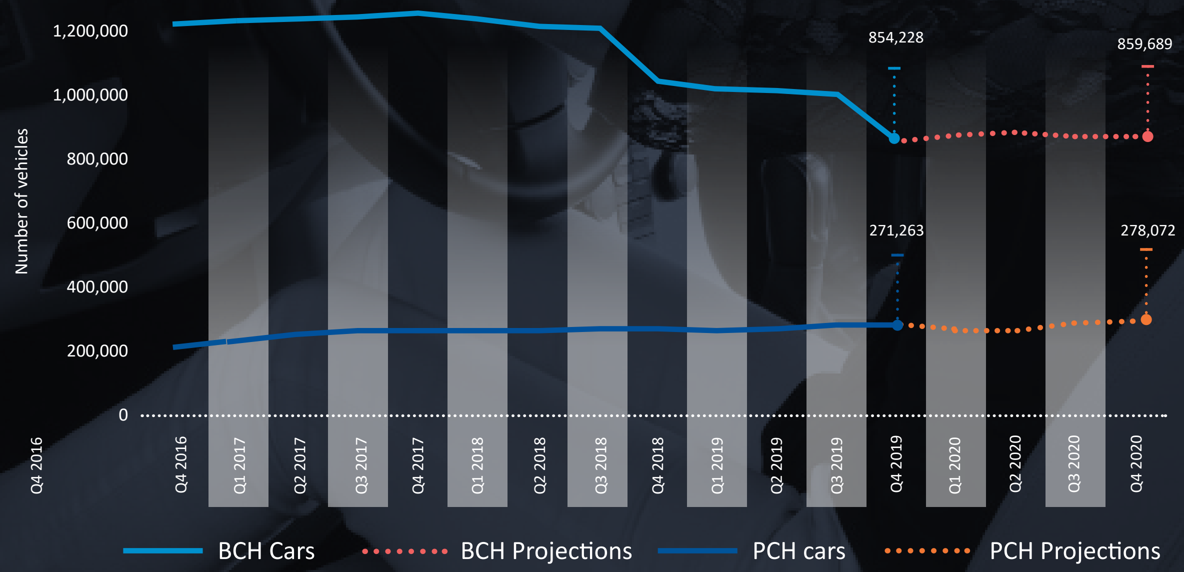
Before the full impact of Covid-19 had reached the UK, the reduction in fleet size was predicted to flatten, with the fleet remaining broadly similar in size by the end of 2020 or even rising slightly, boosted by the return of cash for car drivers making the most of new tax incentives for zero emission cars and clarity over WLTP costs.

This would also see a return to growth in the BCH fleet, while PCH would continue to expand, but at a slower pace.

Leasing fleet actuals and forecast – Car & LCV



Fleet actuals and forecast – BCH v PCH



However, the pandemic has brought an end to this positive outlook as the full economic impact of the virus is felt.

Although the government has provided hundreds of billions of pounds of support for the economy, companies will struggle this year and many will look for fleet savings.

This could see a further reduction of the fleet as vehicles are returned and not replaced, while new business is significantly reduced, potentially reducing the car fleet.

The LCV market rose 1% last year and growth was expected to accelerate during 2020 as economic conditions improved, helped by increased government spending in the annual budget.

Although the pandemic is likely to mute this growth, the government is committed to spending on infrastructure that could keep demand high in areas such as construction and utilities, while local authorities continues to invest in updating their own fleets with clean fuel vehicles.

Falling demand among SMEs is likely to be felt more in the used vehicle market, but overall, the LCV will suffer in the short-term, although demand may return as the year continues.

Expert analysis

Future growth clouded by uncertainty

The Worldwide Harmonized Light Vehicles Test Procedure caused many businesses to put their car orders on hold until the position on costs was clearer. Now that has happened, we expect growth in BCH, as cash for car drivers return to company car schemes, while PCH will level out, but still continue to grow. We also see potential for more electric vehicles within this sector due to the tax benefit they have. This may be limited by the lack of supply, however as the year progresses more models will be available to order. We expect the LCV market to remain stable. This all depends on the impact of Coronavirus, which will affect production, supply and demand. This impact is hard to predict, including how long the industry will be affected for.

Fleet actuals and BVRLA forecast: Electric Vehicles

New tax incentives for electric vehicles and the government's ambitious target of banning the sale of new petrol and diesel cars by 2035 could accelerate demand for zero-emission capable models.

From April 2020, pure electric vehicles incur no company car tax, rising to 1% in 2021/22 and 2% in 2022/23.

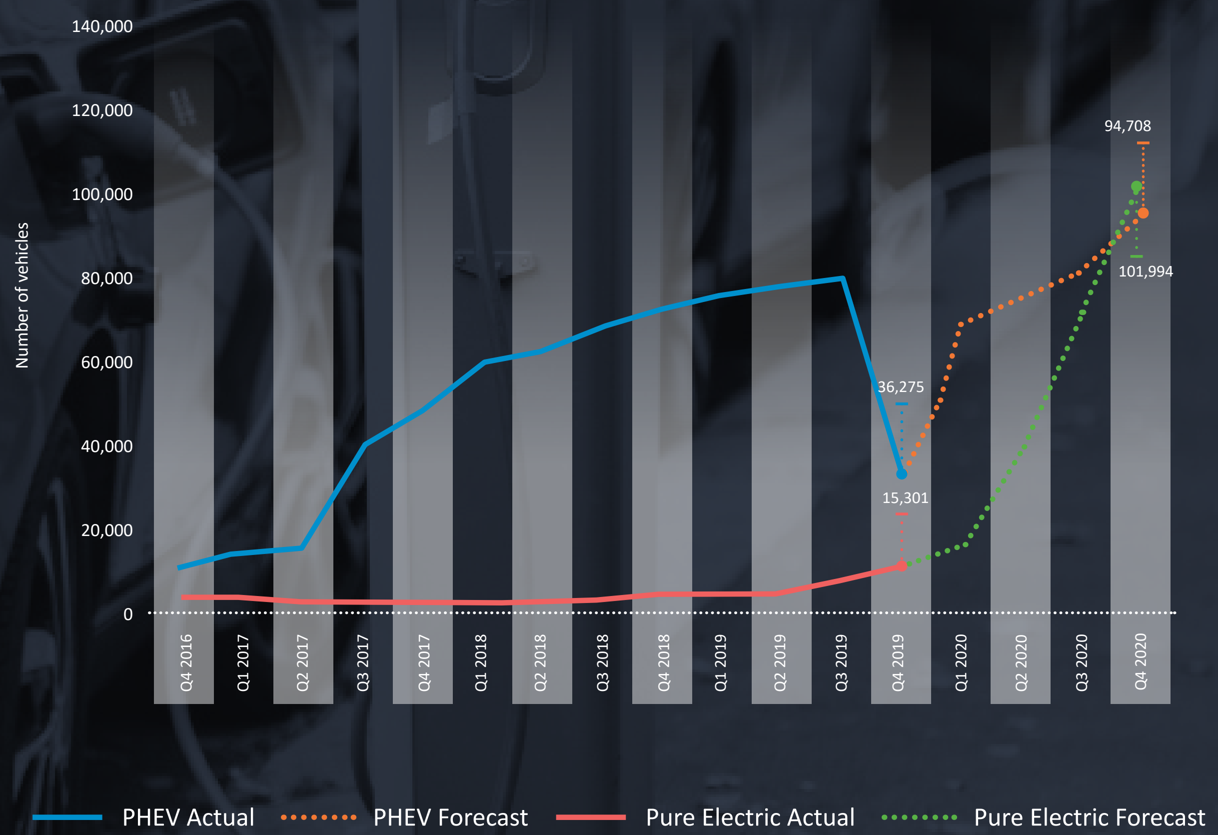
For some drivers this could mean company car tax savings in excess of £15,000 over a three-year cycle, compared to operating an equivalent petrol or diesel car.

The government is focusing attention on the greenest cars by limiting its plug-in car grant to vehicles with emissions below 50g/km that can cover at least 70 miles in electric-only mode.

In addition to increasing demand for electric vehicles, this has encouraged some drivers who have taken cash for car to switch back to a company car, as the potential savings are so significant.

Drivers are being attracted by a growing array of electric vehicles, such as the Tesla Model 3, Jaguar I-Pace and Audi e-tron, while models such as the Volkswagen e-up! provide a lower price point that introduces zero-emission motoring to a wider range of car bands within companies.

Fleet actuals and forecast – Pure EV v PHEV



2020 and 2021 are key years for electric vehicle arrivals, with new launches including the Volkswagen ID3, Peugeot e2008, Mini Electric, Honda e and Vauxhall e-Corsa arriving, along with a wide range of plug-in hybrids.

By 2021 there could be 92 BEVs and 118 PHEVs on the market, according to analysis by Transport & Environment.

As of Q4 2019, pure electric vehicle registrations were up 633% year-on-year, giving Pure EVs a 4.3% share of new lease car sales. Meanwhile plug in hybrid sales had continued their slump, down 35% year on year.

Zero emission capable vehicles, including mild hybrids, already accounted for nearly one-in-five new car registrations in the first two months of 2020, which is reflected in leasing companies' own registration figures.

By the end of the year, leasing companies predict plug-in cars and hybrids could account for around 10% of the total car leasing fleet.

Leasing companies reported soaring EV orders at the start of 2020, particular for perk car fleets or salary sacrifice schemes.

In one case, a leasing company reported that 49% of car orders for its own fleet were electric vehicles.

In another case, a leasing company reported 70% of new car orders in the first month of a client's salary sacrifice scheme were electric vehicles.

Production and supply will certainly be affected by the global pandemic, but there is clearly pent-up demand for zero-emission motoring within fleets.

Expert analysis

Fleets responding to 2035 EV deadline

"Every organisation we are talking to wants to know what our role will be in helping them implement their Road to Zero strategy.

Companies are introducing wide-ranging corporate objectives to reduce emissions and fleets are part of that challenge now the government intends to ban internal combustion engine vehicles, including hybrids, by 2035.

Choice tends to be more brand fluid that the traditional company car market, so people are opting for brands outside their normal shortlist."

Fleet actuals and BVRLA forecast: Fuel Types

Diesel cars are predicted to account for less than half the UK leasing fleet by the end of 2020 as demand for the fuel continues to decline.

Among new deliveries to BVRLA members during Q4 2019, 34.1% of cars were diesel, with petrol accounting for 48.5% of orders; it must be noted diesel still accounts for hundreds of thousands of car orders.

Overall, diesel accounts for 54.4% of the BVRLA fleet, but leasing companies predict this will fall below 50% by Q3 2020.

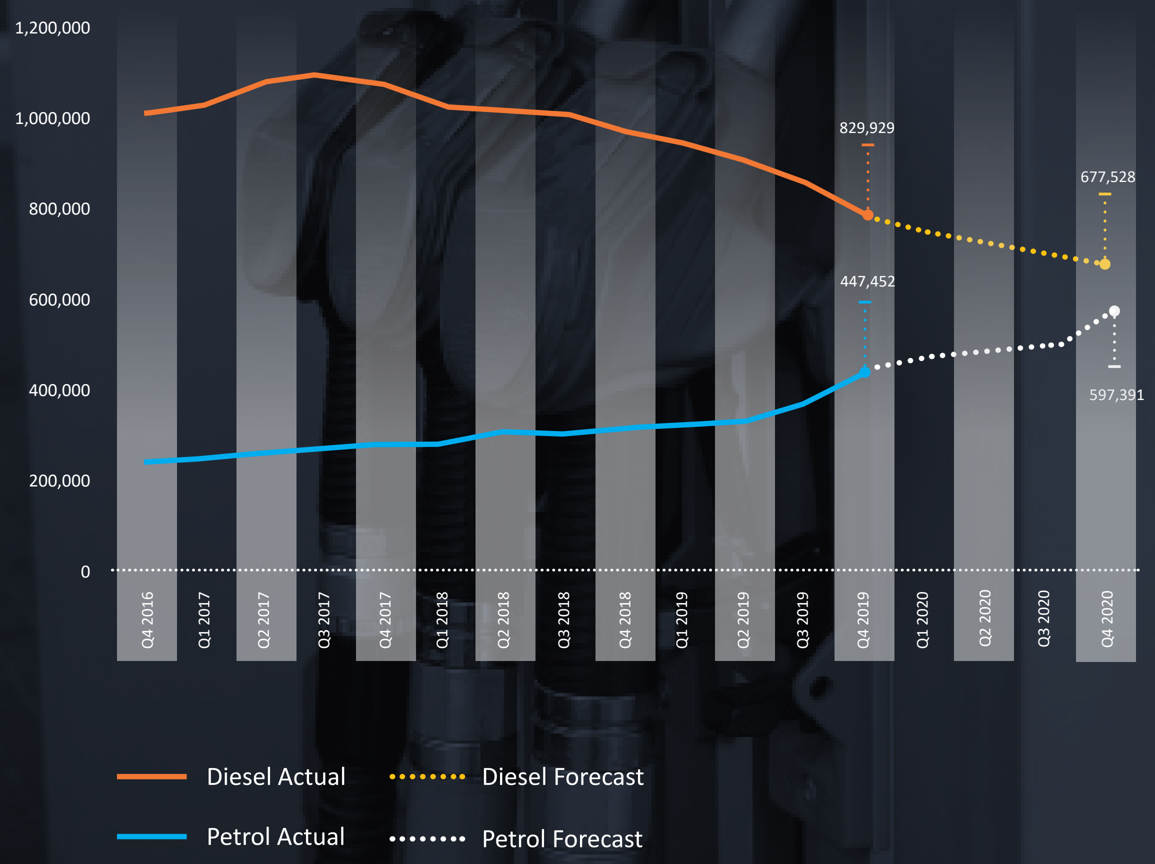
Petrol cars account for 35.1% of the fleet, but new orders account for nearly half the market, substantially exceeding diesel.

Just three years ago the ratio was 20% petrol to 76% diesel.

There had been predictions of a resurgence in demand for diesel as more cars achieve RDE2 compliance, which removes a four percentage point benefit-in-kind tax penalty, but in February Prime Minister Boris Johnson confirmed an accelerated timetable to ban the sale of all new petrol and diesel vehicles, which has been expanded to include hybrid technology.

Keeping to this timetable would mean fleets have around three replacement cycles to introduce new policies for cars, but as little as two for commercial vehicles, some of which can be operated for up to eight years.

Fleet actuals and forecast – Diesel v Petrol



Some companies are even more ambitious, with members of the EV100 committing to an all-electric fleet by 2030.

Members include major fleets such as Centrica and AstraZeneca, along with major leasing companies including LeasePlan and Lex Autolease, which will electrify their own fleet and support the transition of more than 2 million vehicles operated by their customers.

In the interim, leasing companies expect the rate of diesel's decline to slow as it becomes focused on its core market of high-mileage drivers and large SUVs, where the fuel is more cost-effective than petrol and offers double or triple the range of equivalent electric vehicles.

As a growing number of RDE2-compliant models appear, diesel will retain its strong running costs advantage based on an established infrastructure that supports high-mileage motoring.

For commercial vehicles, there are fewer replacement cycles before the petrol and diesel ban comes into force, so strategies for change need to be considered more urgently.

The vast majority of LCVs are still diesel powered and even the use of hybrid technology is limited.

There is currently limited choice for companies looking to switch away from diesel models for a cost-efficient option.

A key challenge is the need to balance maximising the payload for goods against the weight of batteries required to provide useable range.

For example, most currently available electric vans have an official range of around 100 miles, which limits their operational use to a single urban or suburban area, especially if cargo is being carried.

Future models promise a larger range of 250 miles, but with a substantial increase in cost, which is a challenge as van fleets are often run on extremely tight margins.

Leasing companies have a key role to play in helping companies navigate the transition from petrol and diesel to zero emission motoring, particularly when it comes to understanding running costs and whole life cost calculations.

Currently, there is little to challenge the dominance of diesel vans, but companies will need to start preparing strategies and testing vehicles if they are to be ready for the government's deadline when their future vehicle replacements must be battery powered.

Expert analysis

Diesel remains key fleet fuel option

If you are doing 30,000 miles a year, then diesel remains your best option and with RDE2 compliant models, you are protected from the four percentage point company car tax penalty.

Savings on National Insurance Contributions also help whole life costs.

They remain cost competitive, with some models being offered with significant discounts that make them very cost effective for fleets to operate.

Even so, people are shifting their focus away from diesel.

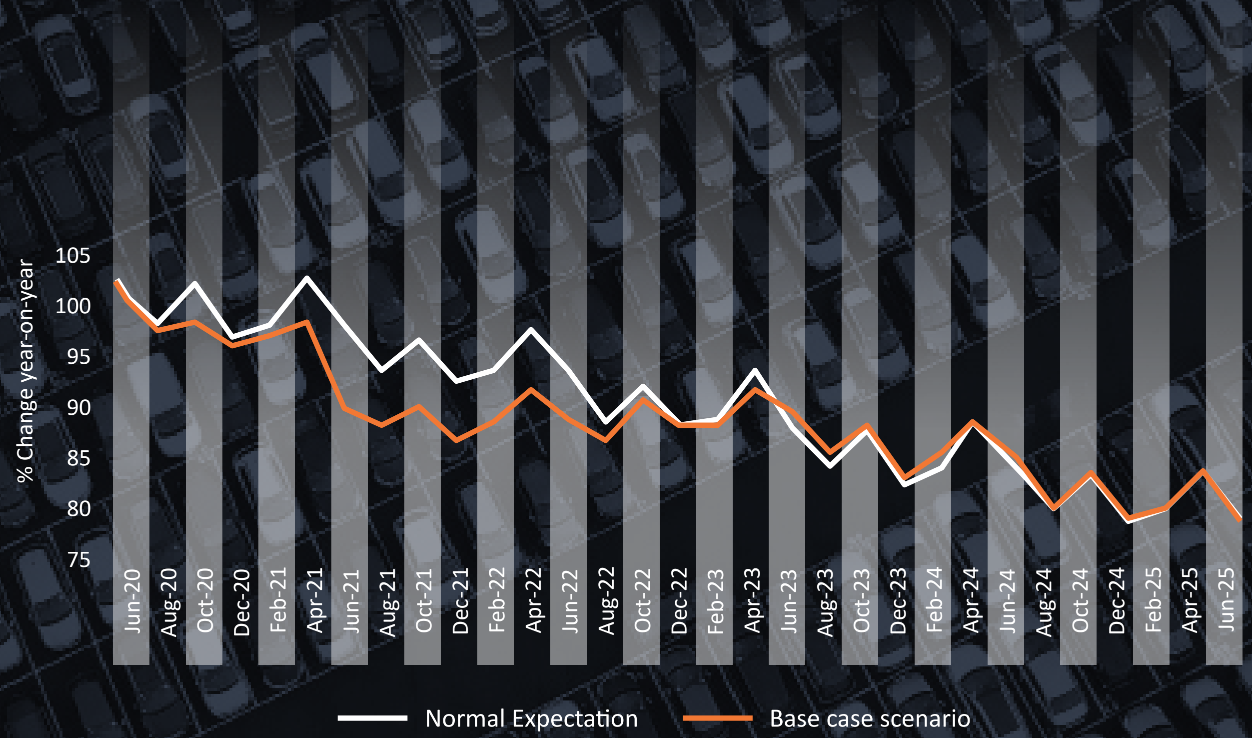
Used vehicle forecast: Pressure next year followed by recovery

When the market correction came in 2019, we were proved right in saying that the downturn would bottom out towards the end of that year. Indeed, the last few months of 2019 and first few months of 2020 saw a strong car market, which was just as well given what was about to unfold.

The Covid-19 pandemic has now put us in a unique situation, affecting everyday life and business activity. Although we are now entering a period of phased relaxation of lock-down, a significant part of the economy has been closed down; for our industry there has been a nationwide cessation of both trade and retail activity, and internationally much of the automotive manufacturing sector has also been closed. There has been widespread disruption to global supply chains and international trade. We also have had a large proportion of the working population economically inactive, and many are still uncertain when or if they will return to work with the risk of significant impact on the UK economy.

At cap hpi, we have been closely monitoring current retail and wholesale data, gathering market intelligence from all sources, and analysing our wealth of data going back many years. We have considered the many different

Likely RV Deflation June 2020 to June 2025



Source: cap hpi

permutations of supply and demand factors for used cars over the short and long term, with the balance of these ultimately determining the level of future residual values. We have looked at the potential impact on cars split by age, sector, fuel type, and price.

The 2008 Global Financial Crisis was a reference point, but the current situation is very different. Back then, we had problems in a major part of the economy – the finance sector – and the cessation and then re-introduction of credit availability resulted in a rapid fall in used values, followed immediately by V-shaped recovery. Now, we have a much more complex set factors about to come into play.

When the car market restarts in June, we expect values to show a short period of volatility. There could be a bounce in buyer interest, with some pent-up demand, especially for smaller cheaper cars, as buyers seek an alternative to public transport for their daily commute. Values may also be helped by a possible slow return to normal levels of stock movements, as drivers and transporters get back to business. Conversely, some vendors may decide to sell cheaply to move stock quickly and generate cash flow, which will would have a negative impact on values.

After values stabilise, we expect there to be an overall gradual downturn in values lasting for approximately a year, due to the combined effect of impact on the economy, jobs, and consumer confidence; coupled with the ongoing high volume of used supply coming from previous years' registrations. Early 2021 could be a particularly difficult period, with peak returns of ex-lease vehicles from 2017, many extended; this is likely to be coupled with the normal peak of ex-rental vehicles when rental stock is replaced. During this difficult period, we expect values for smaller and cheaper cars to be less affected, as budget-conscious buyers will remain cautious.

In the longer term values will recover, as consumer confidence improves and as used supply reduces due to the fall in new car registrations that is happening now. In three years' time, we expect values to have fully recovered to where they would have been if Covid-19 had not come along.

The accompanying chart shows this evolution of residual values. The white line represents what we would consider the normal deflation of values, at a fixed age and mileage, over time. This does vary by sector and fuel type, but the combination of aging into lifecycle, coupled with normal supply and demand conditions, typically results in deflation of around -4% per annum.

The amber line represents our current view of the future, which is a Base Case scenario that assumes a successful relaxation of lock-down, new registration volumes coming back to close to normal throughout 2021, and no further shocks to a gradually recovering economy. It does not include any assumptions on two factors about which there is yet no certainty: a scrappage scheme and post Brexit trade deals that may or may not include tariffs on new cars.

Expert analysis

What of the future?

In summary, the next year could be difficult for those with end-of contract assets to dispose of, and any possible actions to stagger or defer disposals should be considered. However, the outlook remains very positive for new business being written on deals of 3 years or more.

Contributed by Andrew Mee, Head of Forecast UK, cap hpi

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FOR SMARTER AUTOMOTIVE DECISIONS™

Customer insight: BVRLA members play their part

With supply chains severely disrupted by the Coronavirus pandemic, BVRLA members have faced an unprecedented challenge to keep business drivers mobile and safe on UK roads.

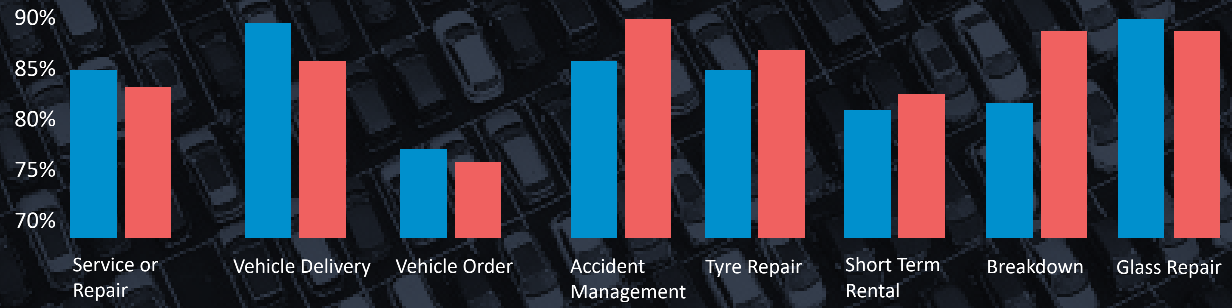
To evaluate how the industry has performed, APD Global Research has compared survey responses from our 2019 annual driver sentiment report (sample size 54,027) with 16,789 online surveys of drivers completed during the January to April 2020 period.

Following a range of different contact experiences with their leasing company and service representatives, drivers of leased vehicles in the UK were asked to rate the service provided. The resulting KPIs: CSAT (or CSI) and NPS (Net Promoter Score) provide useful comparisons of driver experience and sentiment between the periods before the onset of Covid-19 in the UK and the subsequent dramatic changes in all driver's work and home environment.

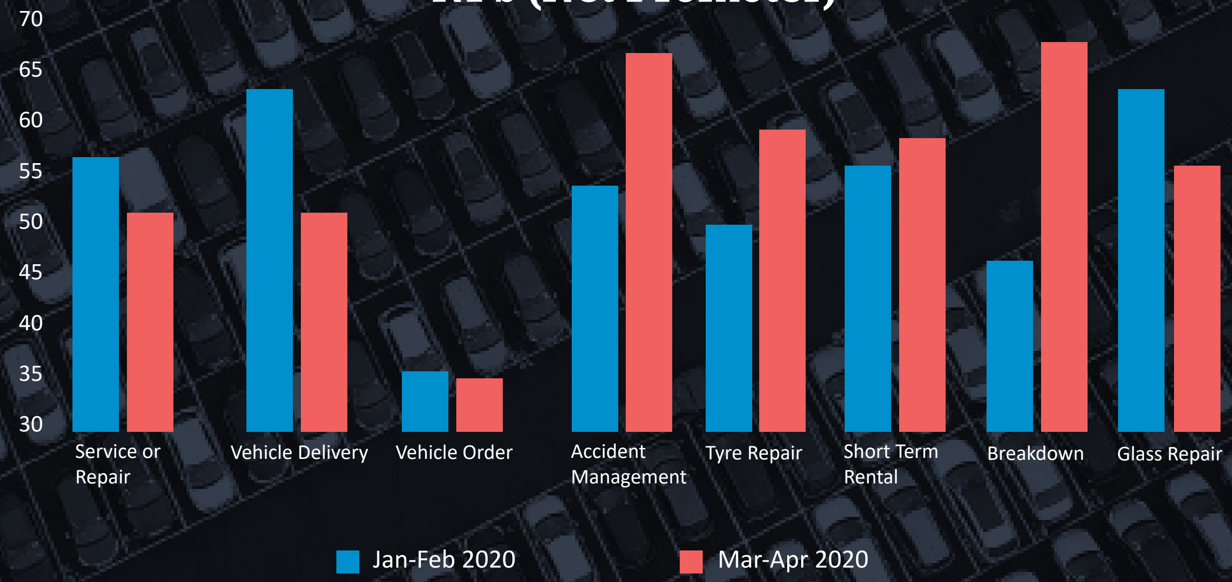
Leasing companies have tried hard to maintain the fullest range of driver services through the crisis so far. Whilst consistently good communication with the driver has traditionally been an area of weakness with many leasing companies, there appears to have been a concerted effort to address this during March and April.

Comments such as "Excellent service with great communication from start to finish" are becoming more typical of driver responses.

CSAT / CSI



NPS (Net Promoter)



Source: APD Global Research

Levels of satisfaction have been impacted differently across specific contact experiences. Most significant is the marked improvement in CSAT for Accident Management and Breakdown responses between the pre and post Covid-19 crisis period. Up 4% for Accident Management (86% to 90%) and 7% for Breakdown (82% to 89%).

NPS showed similar trends, with Accident Management up by 13 points (56 to 69), and Breakdown responses up 23 points (47 to 70) over the same period to the end of April. This distinct improvement in driver satisfaction and willingness to recommend builds on a period of little change in these KPIs since the same period in 2019.

Given the challenges of social distancing, this demonstrates that 3rd party suppliers (with the exception of glass repair and replacement) have been able to step up and exceed driver expectations in support of their mobility during the crisis.

Vehicle order, delivery and maintenance satisfaction have been lower as an inevitable consequence of a breakdown in the service and supply chain, caused by the closure of factories and dealerships. Allowing for these difficulties in maintaining any level of service in these areas it should be considered a significant achievement that satisfaction and recommendation levels have held up as well as they have.

Given the timeframe in which they have responded, BVRLA members and their supply chain partners have demonstrated their ability to adapt to remote working practices and utilisation of new communication technology to successfully maintain operational support, especially to frontline emergency and essential services, public sector customers and key workers.

The charts on page 16 show the 2 key KPIs for drivers of leased vehicles across 8 different contact experiences. Comparisons are between those experiences in January and February (prior to any significant impact of Covid-19 in the UK), and those from March and April 2020 (post onset).

The upper chart, CSAT or CSI, shows the overall customer satisfaction score, and is in response to variations on the question: “How would you rate the overall service experience?”. This is rated with a score of 1-10 and converted to a percentage.

The lower chart shows the Net Promoter score (or NPS). This is taken from the question “How likely is it that you would recommend [your leasing company] to a friend or colleague?”. This is scored from 0 to 10 and calculated as the percentage of detractors (0-6) minus the percentage of promoters (9 or10), with the result expressed as a number between 100.

Expert analysis

Communication is key

Research conducted during the Covid-19 lockdown has clearly highlighted that communication between all stakeholders involved with vehicle supply and in-life services will become paramount in maintaining consumer confidence for the future.

The use of regular email bulletins and accessible information on websites has helped ensure that, for many leasing companies, levels of inbound contact from customers and drivers have been matched to their available resource and a capability to respond.

This type of proactivity, combined with an agile approach to the adaptation of working practices which marry new technology with sharpened personal communication skills, will be essential as communication volumes increase and interaction with supply chain networks, who have their own challenges, resumes.

These include:

- *Remote process automation (RPA) to handle routine admin tasks*
- *Web chatbots to improve engagement and balance response availability*
- *Apps for accessing driver information, reminders and channel for feedback*
- *Track & trace AI analytic tools to identify performance issues*

Contributed by Paul Turner, Executive Chairman, APD Global Research

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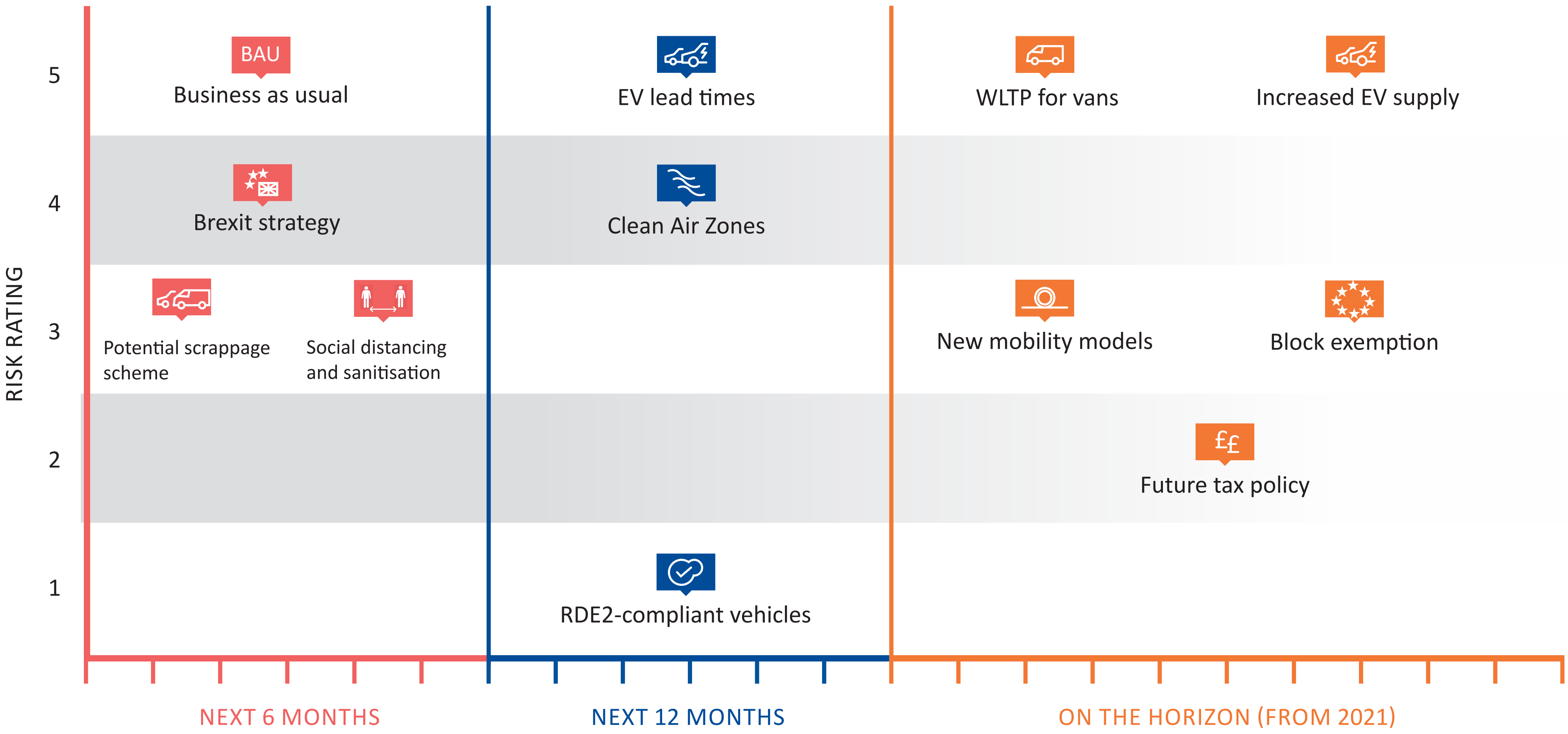
Fleet Forward Planner



Summary

Next 6 months

Business as usual

The motor industry is feeling the full force of the Coronavirus pandemic, as global lockdowns slash demand and cut supply lines. Just as the industry has found some answers when it comes to Brexit and future tax rates, it is faced with a new range of questions: What will happen to residual values? How quickly will customer demand return? How creditworthy are customers? How can we re-integrate furloughed staff into our business?

Social distancing and sanitisation

Health and safety will rise to the top of the automotive agenda in the coming months as the supply chain comes up with new ways of keeping staff and customers safe and vehicles and workplaces clean. The speed and efficiency with which companies can re-design their operations and communicate this to customers and staff could well become a source of competitive advantage.

Brexit strategy

Behind closed doors, the Brexit row rumbles on, amid debate over trading terms in a world that has been transformed since the UK's exit from the European Union was confirmed. The UK stopped being a member of the EU at the end of January 2020. A transition period to discuss future trading relationships is due to end on December 31, but recent reports indicate the talks face an "impasse" and "fundamental differences". This sets the stage for increasing tensions as the formal exit deadline nears, with attention once again turning to the potential impact of a "no-deal Brexit" on automotive supply chains.

Potential scrappage scheme

Experts point to the U-shaped recovery of China's car market as evidence that demand will quickly return in European vehicle markets. However, European campaigners argue more stimulus is needed. They suggest a scrappage scheme would provide the maximum return by providing an economic boost as buyers purchase new vehicles, thus cutting overall emissions by removing older, more polluting cars from the road. Manufacturers are concerned that without intervention they won't meet EU targets for reducing average emissions, which could expose them to fines worth billions of euros just as they are recovering from the impact of the Coronavirus lockdown.

Next 12 months

Clean Air Zones

The timetable for introducing Clean Air Zones has changed as a result of the global pandemic, with most delayed until at least 2021. London has also suspended its Ultra Low Emission Zone, but this relief from road user charging will be temporary. Companies should use this additional time to prepare for more clean air zones and a host of other local air quality measures through 2021 and beyond - with a worrying lack of anything resembling a national framework.

EV lead times

The Coronavirus pandemic halted global car production and will result in longer lead times for many of the most popular electric vehicles as order backlogs are dealt with and fragile supply chains are restored. The growing electric vehicle market entered the crisis in good health, with analysis suggesting lead times for many new electric models were as little as 12 weeks. How will cash-strapped manufacturers respond in the months and years ahead – can they afford to plough money into a rapid transition to less-profitable EVs? Or will they need to reduce EV production as they concentrate on making more profitable petrol and diesel models?

Summary

Next 12 months

RDE2-compliant vehicles

There is growing availability of diesel models that comply with tough EU emissions standards (RDE2), which could encourage demand in the fleet market. Under current carbon-dioxide-based company car tax legislation, diesel car drivers incur a four percentage point penalty if they opt for a diesel, but this is removed if the vehicle complies with RDE2 standards. As diesels typically have low CO2 emission levels, RDE2 compliance typically secures a valuable tax advantage compared to an equivalent petrol model, in addition to fuel economy benefits. This stronger tax position for diesel could slow declining demand that has reduced the fuel's market share substantially in recent years.

On the horizon

New mobility models

Home working and video conferencing have sustained many companies during the Covid-19 crisis and new ways of working may become embedded in future business processes. The shock of the pandemic has left many companies paying for vehicles that are sitting unused, which led some drivers to hand their keys back in a bid to avoid paying company car tax during the shutdown. As employees return to work, there may be growth in interest in more flexible services that can also incorporate other transport options.

Block exemption

A review of The Motor Vehicle Block Exemption Regulation was launched in December 2018 and a public consultation is currently planned for the end of 2020. A report is expected by the end of May 2021, ready for the expiry of the current legislation on May 31, 2023. The purpose of the evaluation is to gather facts and evidence on the functioning of the Block Exemption Regulation to verify that it is meeting its objectives. The evaluation will be based on the following criteria: effectiveness, efficiency, relevance, coherence and added value.

Future tax policy

The Government has given a clear indication that there will be no return to 'Austerity Britain' as it seeks to guide the UK out of the lockdown with minimal job losses and permanent 'economic scarring'. The emphasis will be on a 'Green New Deal-style' economic stimulus. It wants to drive a quick 'bounce back' that reduces its huge budget deficit through increased tax revenues that are based on business growth rather than punitive tax hikes. When it comes to motoring taxes, the future may not be so clear cut. Transport decarbonisation remains a key priority, and the Government may be tempted to subsidise some of the inevitable green incentives by increasing fuel duty, VED or Benefit on Kind tax on petrol and diesel vehicles. If it is really bold, it may finally take the first steps on devising a national road pricing strategy.

WLTP for vans

The government plans to launch new tax bands for vans based on WLTP from April 2021, which is intended to incentivise low-emission vehicles. It is planning to introduce a two-category approach, graduated by CO2, when the van is first registered, followed by a standard rate, with different tax bands for small/ medium-sized vans and large vans. The exact weight categories, banding and rates will be set out by the government at a future date, which will require leasing companies to monitor developments closely.

EV availability

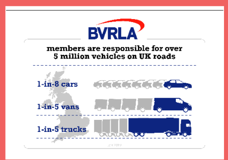
2020 was expected to be a landmark year for the supply of EVs – and still could be – as several major manufacturers launch volume models into the UK market. However, the market disruption means that most model launches will be available in volume from 2021 onwards, which will generate new conversations with clients covering range, recharging networks, electricity costs, servicing requirements and safety. Will the rapid transition to EV fleets be smooth, or should we expect growing pains?

Fleet industry insight from the BVRLA

The BVRLA Research and Insight team produces a range of market reports and analysis that provides a clear picture of the scope, scale and direction of the vehicle rental and leasing sector.

*You can find out more on the **BVRLA website**.*

BVRLA in Numbers



Our annual breakdown of BVRLA membership and fleet profile provides a useful snapshot of the industry. Our historic data can give a more detailed perspective of how it is changing over time.

Quarterly Leasing Survey

Now five years old, this survey provides a fascinating insight into the changing profile of the UK fleet leasing market. It gives a detailed analysis of trends in product type, vehicle type, fuel type, emissions and business confidence.

Industry Outlook - Commercial Vehicles

Our new 2020 Industry Outlook for Commercial Vehicles report charts the main challenges faced by the sector and provides insight into how they are being overcome. It was produced in collaboration with Motor Transport and involved input for leaders across the CV sector.

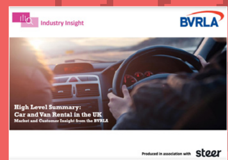
Industry Outlook

Our annual look ahead to the key trends that will be driving the vehicle rental and leasing industry in the year ahead. Published each December, this report includes contributions from senior executives from across the industry and its supply chain.

Quarterly Leasing Outlook

This new BVRLA looks ahead at the key market trends and issues that will be driving the leasing market in the short and medium term. Combining the latest insight from leasing executives and supply chain experts, it also provides an aggregated industry forecast on key industry metrics.

Vehicle Rental Report



Representing some of the most comprehensive research to-date into the vehicle rental market, this report is the culmination of six key research projects. Transport consultants Steer have lent their expertise to unearth important insights from a survey of 4,500 rental customers, a market-sizing omnibus survey, a detailed rental operators' study, a series of in-depth interviews with rental sector leaders as well as an analysis of both the economic impact and the sustainability credentials of the rental sector.

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