

Motor finance in the vehicle leasing sector

A vital resource to keep Britain moving

Factsheet



Motor finance provides an essential lifeline for millions of working families who rely on having the ability to access affordable finance to get a car or van to help them go about their daily business.

A vehicle is likely to be a person's second most expensive purchase after property. Motor finance gives consumers the choice to rent long-term via a lease.

The choice of finance products on the market provides consumers with options, enabling them to select what best meets their needs. Some prefer

the flexibility of a leased vehicle, others look to fund an outright purchase and there are those who are undecided about their intentions and would like the option to buy at the end of a lease. Motor finance is relied upon by millions of individuals and businesses across the UK and is an essential part of the transport supply chain.

Established in 1967, the British Vehicle Rental and Leasing Association is the trade body for companies engaged in vehicle rental, leasing and fleet management.

BVRLA members are collectively responsible for almost five million vehicles on UK roads, that's 1-in-8 cars, 1-in-5 vans and 1-in-5 trucks.

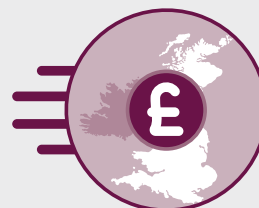
The BVRLA is an industry leader in facilitating and promoting motor finance best practice via its self-regulatory code, training regime and governance programme

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Motor Finance products offer usership and ownership options, giving consumers choice:



Want to buy a car and need finance?

Personal Loan (PL) is a way of financing your car purchase. It can be for the full purchase amount or it can be used to make up a shortfall if you plan to pay with cash.

Hire Purchase (**HP**) requires payment of an initial deposit and you will pay off the entire value of the car in monthly instalments. When all payments have been made, the HP agreement ends and you own the car.

Want use of a new car and would like option to buy?

Personal Contract Purchase (PCP) is similar to a Hire Purchase agreement as you will usually pay an initial

deposit, followed by monthly instalments. The monthly instalments pay off the depreciation of the car, and not its entire value, over the course of the term. When you get to the end of the agreement, you either return the car or pay a final balloon payment if you want to keep it..

Want use of a new car, changing it every few years for another new one?

Personal Contract Hire (PCH) is a type of long-term rental that will suit you if you're not looking to buy the car at the end of your contract and won't need to change the car before the end of the contract. You lease the car for an agreed period of time by making fixed monthly payments. When the contract expires, you simply return the car.

The value of motor finance

In recent years there has been significant growth in the uptake of motor finance, particularly in PCP and PCH products, as people move away from 'ownership' to 'usership'. This reflects broader societal changes where a subscription-based culture, especially amongst the younger generation, is becoming the norm.

50%

of millennials – those aged 19 to 35 – are more likely than older buyers to obtain a car using finance

30%

of 18 to 34-year olds used Personal Contract Purchase (PCP) or Hire Purchase (HP) as an option for acquiring a car last year.

36%

had used some form of finance to purchase their last vehicle in 2017, with 10% opting for PCP and a further 10% using HP.

47%

of dealerships see new finance products as the biggest growth opportunity for their business.

The regulatory spotlight on motor finance



Against the backdrop of significant growth in the uptake of consumer motor finance, the Financial Conduct Authority (FCA) announced in its 2017 Business Plan its intention to look at the motor finance market to ensure that it works well and to assess whether consumers are at risk of harm.

The FCA undertook a review to look at the steps that firms offering motor finance take to ensure that they lend responsibly to ensure an appropriate degree of protection for consumers. They explored whether firms check affordability as well as creditworthiness when making lending decisions, whether there are conflicts of interest arising from commission arrangements whether information provided to consumers is clear and transparent, and finally whether firms are adequately pricing risk.

The FCA acknowledge that it is impossible to eliminate the prospect of consumer harm:

‘Even a well-functioning consumer credit market will involve some consumer harm because even the most creditworthy group of customers will see default or struggle to repay. This is a feature of lending that even the most sophisticated and selective lender cannot eliminate. Payment difficulties or default can be triggered by random life events such as sudden loss of job, serious illness or loss of a partner.’

The regulator places emphasis on the importance of clarifying the distinction between credit risk (a lender-focussed test) and affordability (a borrower-focussed test) to ensure that appropriate account is taken of affordability:

‘Creditworthiness, including affordability, is a key element of ensuring a sustainable well-functioning consumer credit market.’

In its March 2018 Interim Report, the FCA found that most of the growth in motor finance has been to those with higher credit scores, with just 3% of outstanding motor finance going to those with poor credit scores. The FCA also found that lenders were managing risk to their business from a potential fall in car prices adequately.

In addition to the FCA review, the Bank of England and its Prudent Regulation Authority (PRA) is undertaking a systemic review in to the risks associated with the sector.

The FCA will publish full findings and recommendations following its review in September 2018.

The BVRLA believes the current regime provides significant consumer protection

Disproportionate action could compromise consumers’ access to affordable motor finance

Motor finance plays a vital role in providing ordinary working families with access to safe, affordable road transport

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The BVRLA's governance programme supports responsible lending

The BVRLA, which represents over 400 leasing and leasing broker members, an increasing number of whom offer motor finance to consumers, welcomed the FCA's review and is committed to continuing to engage constructively with the regulator.

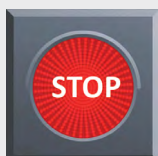
In June 2017, the BVRLA established a Motor Finance Taskforce with the intention of developing a proactive industry response to the FCA's work in this area. This led to a strengthening of the association's inspection regime, including the monitoring of processes, procedures, policies and communications, to ensure that everything is in place to satisfy any FCA concerns.

BVRLA members are already subject to robust inspection processes as part of membership, positioning them as industry leaders in terms of promoting best practice and raising industry standards.

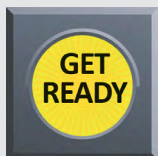
The BVRLA is committed to promoting the highest standards in relation to motor finance, and already has a number of effective industry-led, self-regulatory measures in place including:

- **Requiring BVRLA members to adhere to a mandatory Code of Conduct** as part of their membership
- **Regular member inspections** in the form of desktop audits and on-site visits to ensure full compliance
- **Providing best practice guidance** on checking affordability and suitability, managing complaints, financial promotions, incentives and conflicts of interest and a general FCA-compliance guide
- **Supporting members to train staff appropriately** including through BVRLA guidance, webinars and the association's e-Learning Platform
- **Access to the BVRLA conciliation service**, a government-approved Alternative Dispute Resolution Service available free to members and their customers who find themselves unable to resolve a dispute directly

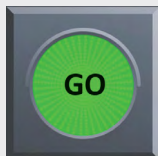
BVRLA 360 governance programme raises standards



BVRLA CONCILIATION SERVICE... is a government-approved Alternative Dispute Resolution service available free to members and their customers who find themselves unable to resolve a dispute directly. By highlighting trends and emerging issues, the conciliation service alerts members to areas of concern and works with the BVRLA inspection team to consider what more can be done to improve standards and help to deliver a better customer experience.



BVRLA INSPECTION PROGRAMME... is an ongoing programme designed to ensure that members are meeting the appropriate standards in line with the Code of Conduct and regulatory requirements. The inspection regime consists of desktop audits and on-site visits. A post-inspection report provides advice and guidance on steps to take to make necessary improvements where needed, to get ready for delivering the highest industry standards.



BVRLA ADVICE, GUIDANCE AND TRAINING... is available for members to help build corporate knowledge, develop employees' skills and ensure compliance with industry best-practice. The association supports members via a range of tools including telephone advice, factsheets, guidance documents and a wide range of learning and development resources, including an e-Learning Platform, forums, training courses, seminars, webinars and conferences.

The BVRLA Code of Conduct sets the standard