Keeping the UK on the move
Financing green assets

Finance & Leasing Association (FLA) Roundtable Events at the 2019 Labour and Conservative Party Conferences

FLA

The Issue

The Finance & Leasing Association (FLA) brought together lenders, industry suppliers and the Low Carbon Vehicle Partnership (LowCVP) at the Labour and Conservative Party Conferences, to get their expert opinion on the measures the Government could take to help increase the uptake of low emission vehicles (LEVs), and the role of motor finance to support that.

With consumers choosing to use motor finance in 91% of all private new car purchases in the UK, it is important to ensure that this popular option continues to work effectively as more customers make the switch to LEVs.

One obstacle is that the Consumer Credit Act (CCA), which regulates motor finance, assumes a traditional scenario where one customer takes out finance on a single asset (i.e. the motor vehicle). But LEVs contain two assets – the battery and the rest of the vehicle – and the value of these may depreciate at different rates.

This relatively new market does not yet have sufficient price-modelling data to allow an accurate prediction of an asset's rate of depreciation, which is essential for lenders when providing finance.

More broadly, the Government's strategy of encouraging the uptake of LEVs will require further investment in a nationwide charging-point infrastructure, so that consumers can be confident that LEVs are a viable option when travelling over both short and longer distances. Of equal importance is exploding the myth that LEVs are more expensive to run, just as the LowCVP's research on the total cost of ownership (TCO) reveals savings in terms of maintenance, fuel and tax.

This report looks at these challenges in more detail, and we hope that politicians of all parties, regulators and wider stakeholders will support the proposed measures to help facilitate the increased uptake of LEVs.

Challenge 1

Building a modern regulatory regime

Participants pointed out that the Consumer Credit Act (CCA) which regulates the provision of motor finance dates back to the 1960s and caters primarily for the situation where there is a single customer applying for finance to purchase a single asset. LEVs however may be used by one or more people and consist of two assets (the battery and the rest of the vehicle), with different prices, depreciation and histories. This means that the CCA is incompatible with the features of the emerging LEV market. Lenders emphasised that the primary legislation needed to update the CCA should be brought forward as a matter of urgency.

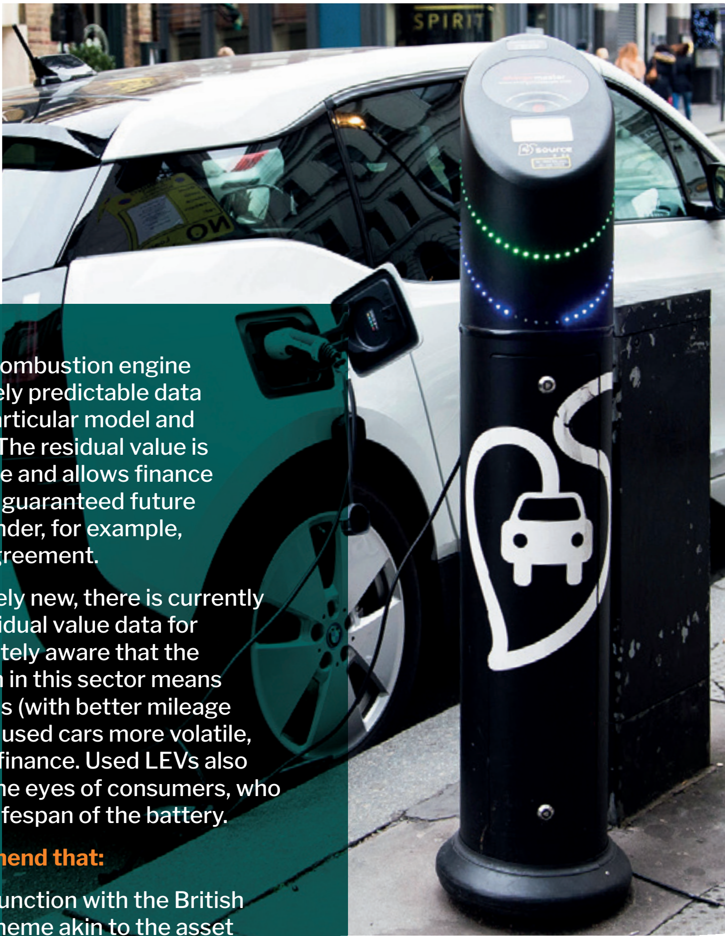
In addition, if the trend continues of consumers preferring to either rent or hire goods rather than own them, we may see even more people opting for products such as Personal Contract Hire (PCH). PCH currently sits outside of the CCA and therefore consumers do not benefit from the full range of protections that accompany other types of motor finance.

Our industry specialists recommend that:

the Government bring forward primary legislation to update the CCA so that lenders can more readily innovate new finance products to support the purchase of LEVs, and which also provide the appropriate level of consumer protection.

Challenge 2

Building the data to price assets accurately



The price of traditional internal combustion engine (ICE) vehicles is based on relatively predictable data that establishes the value of a particular model and how it will depreciate over time. The residual value is then used to calculate the finance and allows finance companies to offer consumers a guaranteed future value if they return the vehicle under, for example, a Personal Contract Purchase agreement.

As the market for LEVs is relatively new, there is currently little in the way of equivalent residual value data for new vehicles. The industry is acutely aware that the rate of manufacturing innovation in this sector means that the launch of new car models (with better mileage range) makes residual values for used cars more volatile, which increases the price of the finance. Used LEVs also potentially carry greater risk in the eyes of consumers, who may not have confidence in the lifespan of the battery.

Our industry specialists recommend that:

the Government develop, in conjunction with the British Business Bank, a risk-sharing scheme akin to the asset finance variant of the Enterprise Finance Guarantee Scheme to benefit both the new and used LEV market.

The Government could also ease some of the pressures on the second-hand market by extending the incentives for new LEVs to used ones, including grants for vehicles, benefits in kind and reduced road tax.

Challenge 3

Myth-busting the cost of ownership and stimulating consumer demand

The total cost of ownership (TCO) of electric vehicles needs to be more transparent to all consumers, irrespective of how they intend to finance the purchase. Consumer research by the LowCVP, in collaboration with the FLA, has demonstrated the importance of TCO considerations during the vehicle purchasing process.

Consumer perception is that it is costlier across the board to own and run a LEV compared to an ICE vehicle. However, our participants explained that the TCO can often be lower due to cheaper running costs (e.g. maintenance, fuel and tax bills).

Our industry specialists recommend that:

a TCO product comparison tool showing the respective costs of LEVs and ICE vehicles would help consumers make informed decisions. It would also assist lenders when undertaking affordability assessments.

The tool could be publicised by building on existing industry/Government initiatives and reinforced by a Government-led communication campaign to provide greater clarity about the potential savings from running a LEV and give consumers a better understanding of how LEVs work.

Alongside this, the creation of a database of local initiatives, providing ownership cost benefits in different areas of the country (for example, the Ultra-Low Emission Zone in London and Clean Air Zones in Leeds and Birmingham) would help encourage the uptake of LEVs. Other incentives to be provided at a local level could include access to bus lanes in city centres and free charging at key sites (e.g. retail parks).

Challenge 4

Building the infrastructure to make LEVs a viable choice for everyone

Participants expressed concern about the lack of a charging-point infrastructure, which deters consumers from choosing LEVs.

A more general concern was the fear that the Government could withdraw or scale-back grants, subsidies and other incentives (e.g. Vehicle Excise Duty) at any point and at short notice.

Our industry specialists recommended that:

the use of incentives – available at national and local level – to enable the market to determine the optimal location for, and types of, charging provision.

This could include, but not be limited, to:

- Deploying building regulations and the planning system, for example by fast-tracking planning permissions for charging stations
- Encouraging innovative locations e.g. the use of retail parks for night-time charging, and
- Offering favourable VAT treatment for charging installations.

Industry and consumers would benefit from a guarantee (ideally by cross-party agreement) that certain incentives would be available for a long period of time to stimulate demand.

Participants

The FLA would like to thank all those who gave their time to contribute to the discussions

Liz Barclay

Freelance Journalist (Chair)

Adrian Dally

Head of Motor Finance, Finance & Leasing Association

Beth Davies

Product Manager, CAP HPI

Andy Eastlake

Managing Director, Low Carbon Vehicle Partnership

Dave Eaton

Senior Associate, Public Affairs, Financial Conduct Authority

Laura Evans

Conservative Candidate for West Wirral

Nathan Evans

Leader, Conservative Group, Trafford Council

Richard Jones

Chairman, Finance & Leasing Association; Managing Director, Motor Finance & Leasing, Lloyds Banking Group.

Seán Kemple

Director of Sales, Close Brothers Motor Finance

Anna Powers

Associate (Asset Finance), DLA Piper

Nick King

Director, Autotrader

Paulo Larkham

Head of Fleet Consultancy, Hitachi Capital Vehicle Solutions

Anthony Machin

Head of Content and Product, Glass's Information Services

Rebecca McNeil

Chief Executive Officer, Close Brothers Motor Finance

Lauren Pamma

Head of Commercial Management & Business Intelligence, Black Horse & Lex Autolease

Andy Sage

Head of Proposition (Motor), Barclays Partner Finance

Edward Simpson

Head of Government Affairs, Finance & Leasing Association

Nick Smith

Partner, Deloitte UK

Jamie Sweeney

Parliamentary Assistant to Matt Western MP

Neil Wallis

Head of Communications, Low Carbon Vehicle Partnership

Chris Wilford

Head of Financial Services Policy, CBI

Matt Western MP

Chair, APPG on Electric Vehicles

About us

The Finance & Leasing Association (FLA) is the leading trade body for the asset, consumer and motor finance sectors in the UK, and the largest organisation of its kind in Europe. Our members include banks and their subsidiaries, the finance arms of leading retailers and manufacturing companies, and a range of independent firms.

In 2018, FLA members provided £136 billion of new finance to UK businesses and households. £103.3 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £32.8 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software.

Within the new finance total, £45.8 billion helped consumers and businesses buy new and used cars, including over 91% of private new car registrations.

Edward Simpson

Head of Government Affairs, FLA

+44 (0)20 7420 9654
edward.simpson@fla.org.uk

fla.org.uk

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