



**in 2008 FLA members provided £90 billion of finance to businesses and households.**

**almost £29 billion was provided to the business sector and UK public services, representing almost 28% of all fixed capital investment in the UK last year (excluding real property and own-account software).**

**£61 billion was provided to consumers finance sector (including credit and store cards) representing almost 30% of all unsecured lending in the UK.**

**FLA members provided almost £19 billion of motor finance in 2008 and financed more than 50% of all new car registrations in the UK.**

# what is the FLA?

The Finance & Leasing Association is the leading trade association for the asset, consumer and motor finance sectors in the UK. Our members include banks, building societies, finance houses, credit and store card providers, motor finance companies and asset finance and leasing companies.

The facilities they provide – including finance leases, operating leases, hire purchase, conditional sale, personal contract purchase plans, personal lease plans, secured and unsecured personal loans, credit cards and store card facilities – account for a third of the UK's unsecured lending and half of all car purchases. A study by Oxford Economics in 2008 concluded the following:

**Employment:** FLA members employ – directly or indirectly – some 167,600 people, about 0.6% of total UK employment. This is comparable to the number of people working in the energy and water industries.

**Economic contribution:** in total, the industry contributed £11.2 billion to GDP, or 0.8% of overall economic output.

**Taxation:** FLA members contributed £2.7 billion to the Exchequer – enough to build 12 new hospitals.

**Purchasing:** FLA members supported 40,500 jobs in the supply chain.

# asset finance

asset finance (leasing and hire purchase for businesses):

funds almost **28%** of all fixed capital investment, other than property

provides finance to around 20% of all SMEs, and to around

**33%** of SMEs which seek external funding

is particularly important in the manufacturing, agriculture and transport sectors, and in the north east, north west and south west

## what is asset finance?



**Asset finance** is the provision of finance to the business and public sectors, including sole traders, partnerships, companies, local government and health services, to assist in the purchase of assets. This occurs mainly via hire purchase and leasing.

**Hire Purchase (HP)** is a well-established method of financing the purchase of assets. Customers pay an initial deposit, and the balance and interest is paid over a period of time. The finance company which provides the finance is known as the creditor, and purchases the asset on behalf of their customer, who is known as the hirer. The finance company owns the asset until the final instalment is paid.

**Leasing** is a contract between the leasing company, known as the lessor, and their customer,

the lessee. The lessor buys and owns the asset needed by the lessee. The lessee hires the asset from the leasing company and pays rental over a pre-determined period for its use. There are two main types of lease: *Finance Leases and Operating Leases*.

Under a **finance lease**, the rental covers most of the costs of the asset. An **operating lease** runs for less than the full life of the asset, and the lessee is not liable for its full value. The lessor, or the original manufacturer or supplier, retains the risk associated with the residual value of the asset at the end of the lease. This type of lease is frequently used when the asset is likely to have a resale value, as is the case with, for example, aircraft and vehicles.

## asset finance is important because:



- it funds investment in real business assets, including plant and machinery, office technology, and commercial vehicles.
  - the agreements are longer than many bank loans, typically lasting 3 to 5 years.
  - businesses have certainty because asset finance agreements cannot usually be cancelled by the lenders.
  - it suits businesses with limited capital and those which need to manage their cashflow.
- it is easy to access because it is secured – largely or entirely – on the asset being financed, rather than on other personal or business assets.
  - leasing gives businesses the flexibility to change their leased equipment at the end of the rental period; and
  - the finance provider can often buy assets at a lower price, and offer a better rate to businesses than could be achieved through a direct transaction with the equipment provider.

# consumer credit

in 2008, FLA members provided:

## £61 billion

to consumers, representing about 30%  
of all unsecured lending in the UK

FLA members funded:

**26%** of all new  
UK credit card business

**39%** of all other  
consumer credit

**8%** of all consumer  
spending in the UK

## what types of consumer credit do FLA members offer?



**Unsecured loans** are personal loans where the lender does not have any rights over their customers' assets. Such loans are often used to purchase cars or invest in home improvements.

**Credit cards and store cards** offer consumers a very flexible and convenient way of accessing credit, with the option to pay the lender back immediately or over time.

**Store instalment credit** is typically used to purchase electrical goods, furniture and furnishings. Payments are usually monthly, and may be interest-free or a buy now, pay later option.

**Secured loans** are personal loans where the lender has some rights over their customers' assets if the loan is not repaid. An example is second-charge mortgages. Some customers use such loans to consolidate existing debts at a lower and more affordable rate of interest. This is particularly important for anyone struggling with their finances.

# motor finance

in 2008, FLA members provided:

**£19 billion** to business  
and private buyers of new and used cars

this funded the purchase of  
1.6 million cars, and more than

**50%** of all new car  
registrations (private and business)

point-of-sale finance (available in motor  
dealerships) is the most popular way to buy  
a car. It is used by over half of private new  
car buyers

## what finance options are available when buying from motor dealerships?



**Hire purchase (HP)** is the most common method of funding a car purchase. After all the payments have been made, the ownership of the car transfers from the finance company to the customer, usually on payment of a fee.

**Personal Contract Purchase (PCP)** is increasingly popular. At the end of a fixed term during which rental payments are made, customers have the option to purchase the car at a pre-agreed price, or to return it once all outstanding charges have been settled. A maintenance plan may also be included under the agreement.

A **lease agreement** funds the use but not the ownership of the car over a fixed period of time. Repayments cover the cost of the car plus interest. Customers are usually responsible for insuring,

maintaining and taxing the car.

**Insurance** is often offered alongside finance. One of the most popular types of insurance is GAP (Guaranteed Asset Protection). In the event of an accident, GAP insurance covers any shortfall between the value of the car (i.e. what the insurance company pays out) and any outstanding finance repayments owed by the customer.

**Contract Hire** is often used to fund car fleets. It is a cost-effective method for businesses to fund the use – but not the ownership – of a vehicle, because payments are fixed over an agreed term. Payments may include maintenance and service charges and an anticipated annual mileage is usually agreed. At the end of an agreement the car is handed back to the leasing company.

# other industry initiatives

**Codes of Practice:** The FLA has two Codes, the Business Finance Code for asset finance and the Lending Code for consumer and motor finance. The Codes require members to deal fairly and responsibly with their customers.

**The Specialist Automotive Finance (SAF)** initiative aims to increase consumer confidence in motor finance sold in car dealerships by improving the financial knowledge of dealership staff. Over 500 dealers are now registered for the SAF online competence test. The scheme has the support of the Retail Motor Industry Federation and the Office of Fair Trading.

**ACPO Vehicle Crime Intelligence Service (AVCIS):** FLA members sponsor this police unit, which is dedicated to tackling vehicle crime. Now in its second year, the unit has recovered over 350 stolen vehicles with a total value of £5.4 million.

**The FLA's Vehicle Recovery Scheme** is a partnership between finance companies and regional police authorities. The scheme involves the police running a background check on vehicles seized for traffic offences. The scheme will help make roads safer and could lead to around 20,000 illegal vehicles being taken off the road.

**The FLA's Fraud Intelligence System** launched in May 2009 is a ground-breaking initiative for motor and asset finance providers. The system will help lenders to identify financing and application frauds.



**To find out more,  
please contact us:**

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