Asset Finance Outlook

H2 2023 survey results

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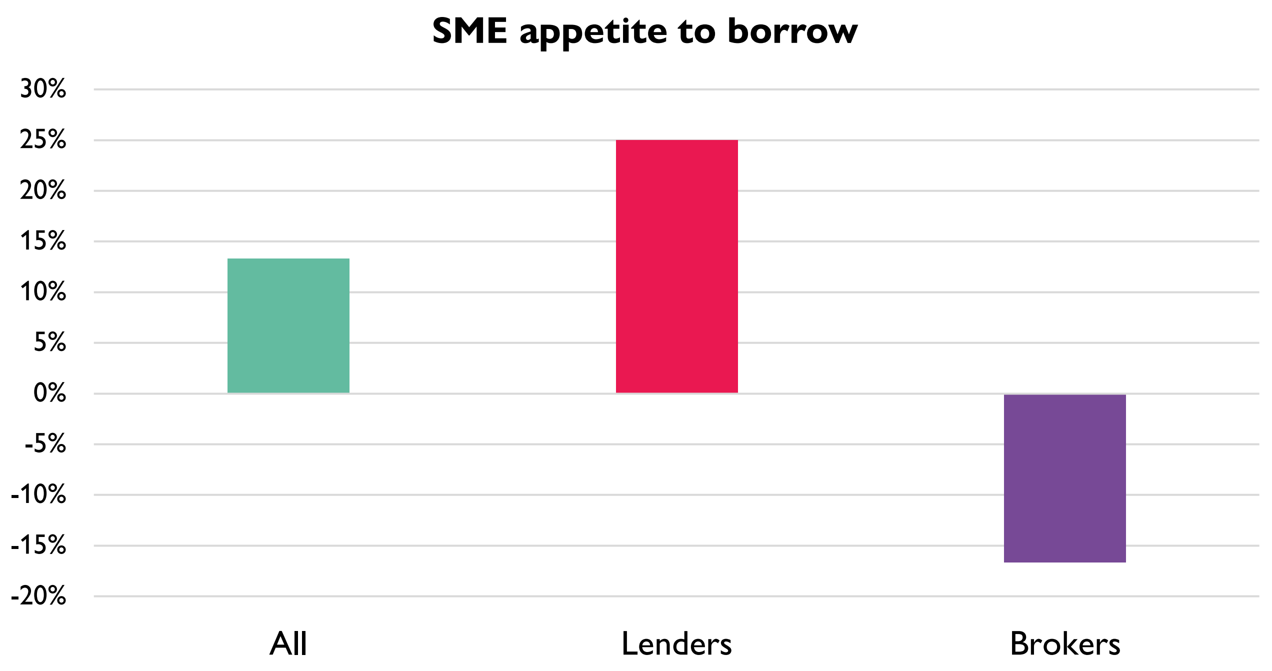
SME demand

Lenders are more confident than brokers about SME's appetite to borrow.

On balance lenders expectation of growth in demand scored 25%, compared -16.7% for brokers.

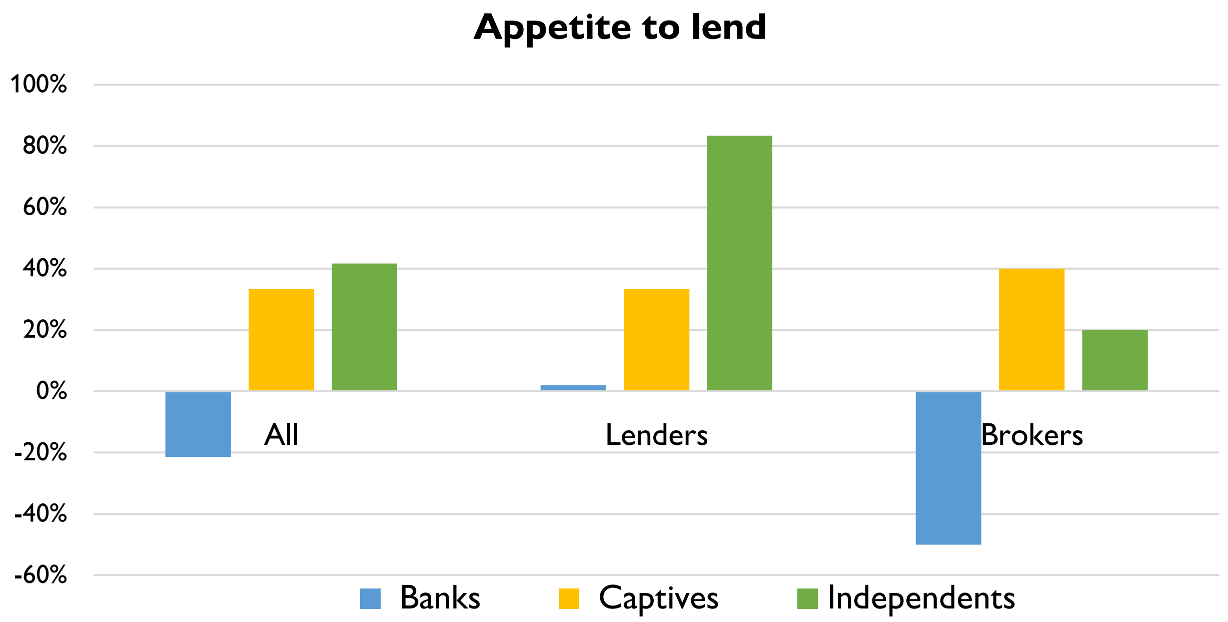
The score is the percentage who believe SME borrowing appetite will increase less the percentage who think it will decrease.



Lender appetite to lend to SMEs

Both lenders and brokers expect captives and independents to take some market share from banks, with a significant divergence between banks and non-banks appetite to lend.

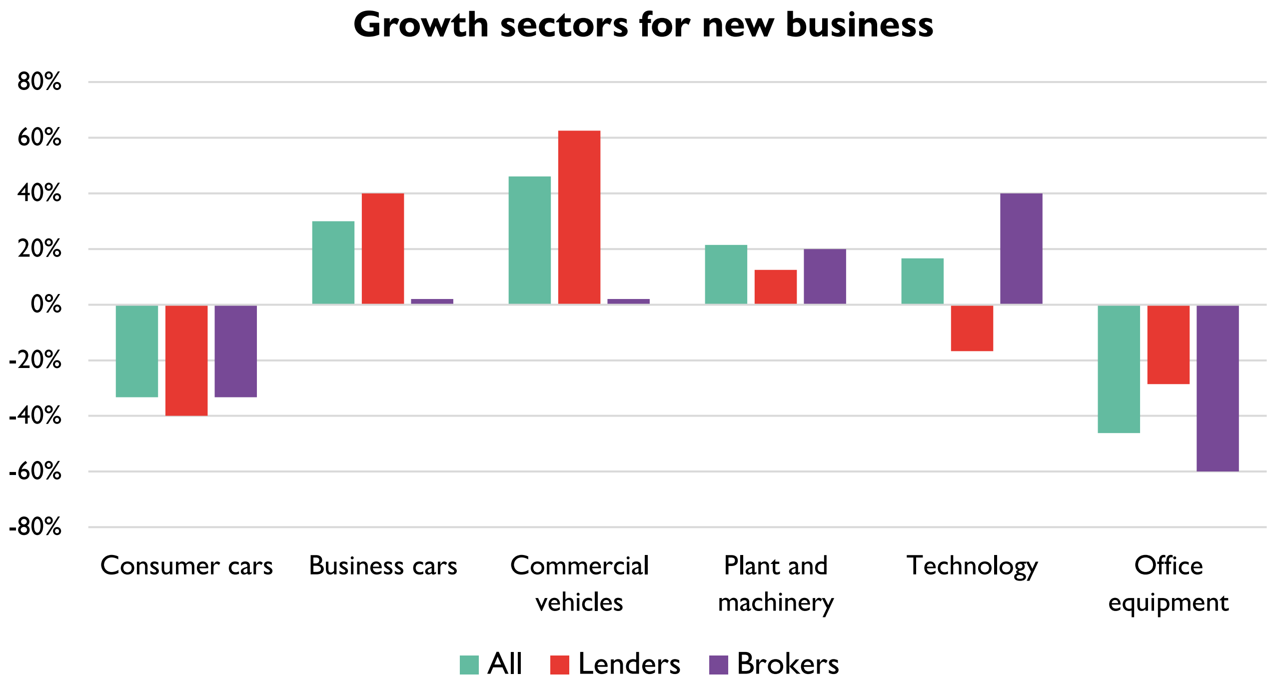
On balance, banks were given a negative score of -21% (due to very low expectations from brokers). Captives and independents both received positive overall scores of 33% and 42% respectively.



New business volumes

SMEs more likely to invest in assets that generate revenue. Company cars, commercial vehicles and plant and machinery are expected to perform well over the next six months.

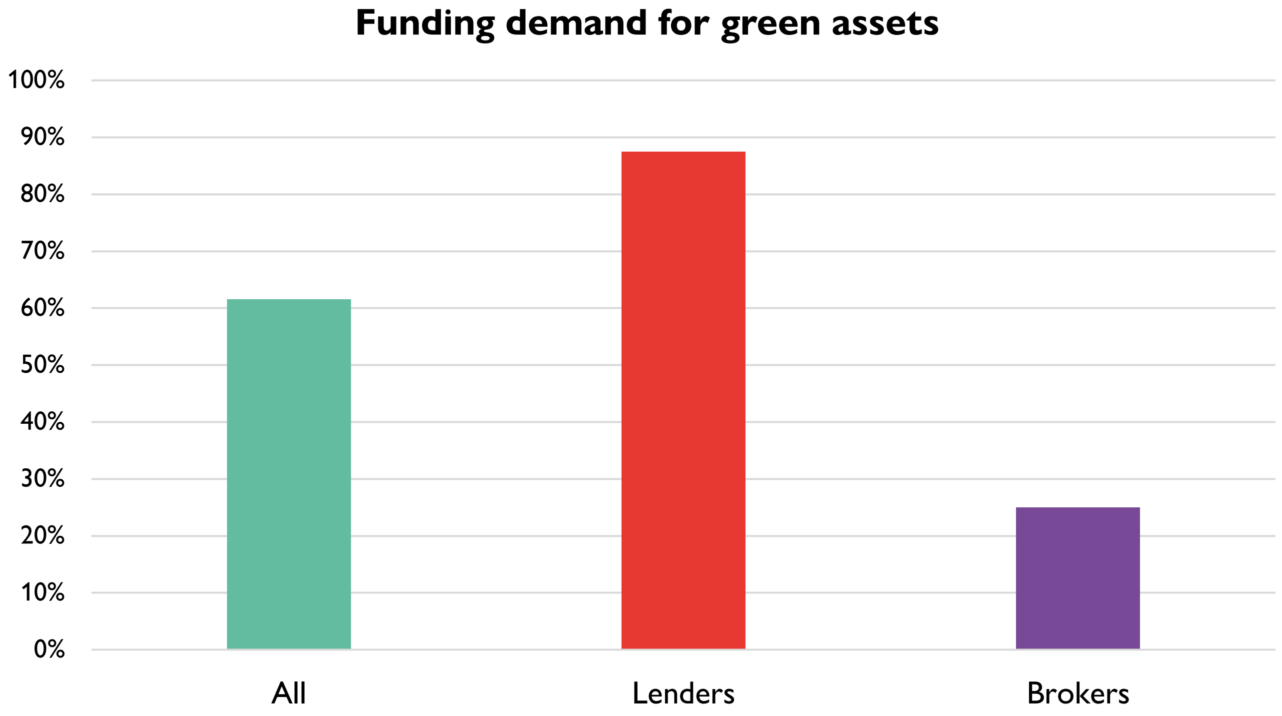
The cost-of-living crisis, and higher interest rates are impacting consumer demand for cars. Businesses are expected to invest less in office equipment. This may be a reflection of new hybrid working practices.



Green asset funding

Lenders are more bullish than brokers about the prospects for 'green' assets.

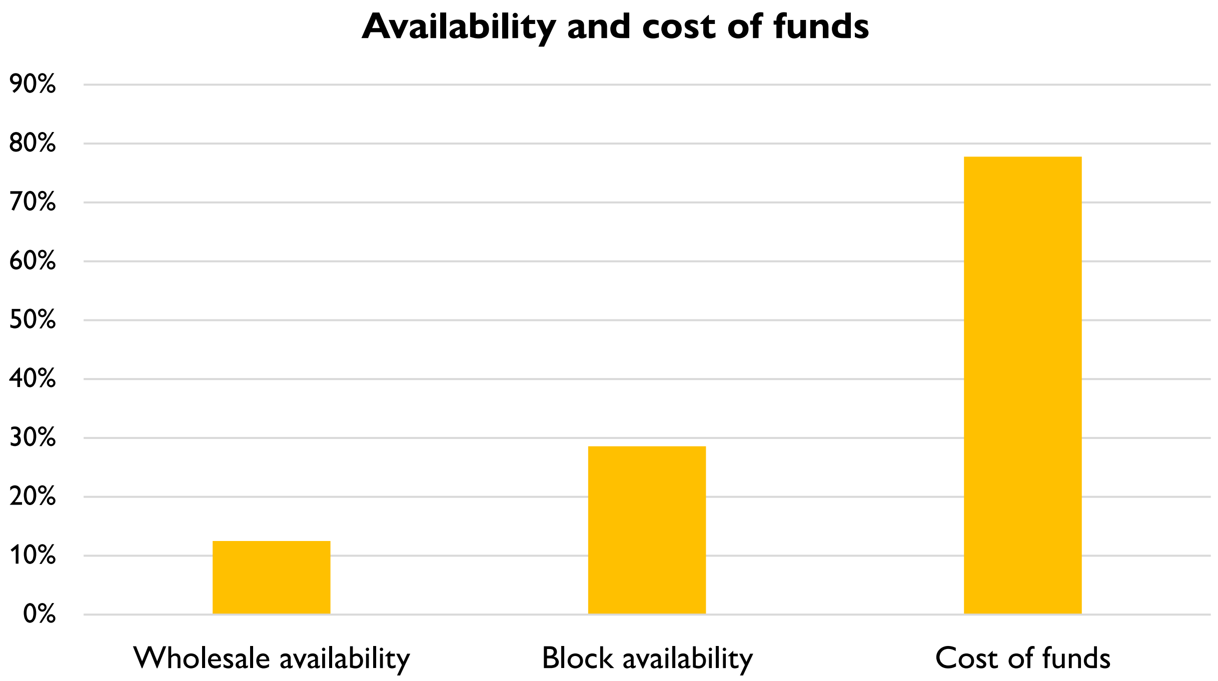
This opportunity does, however, come with challenges around cost, uncertainty surrounding the lifecycle of green equipment, and significant residual value risk.



Cost of funds

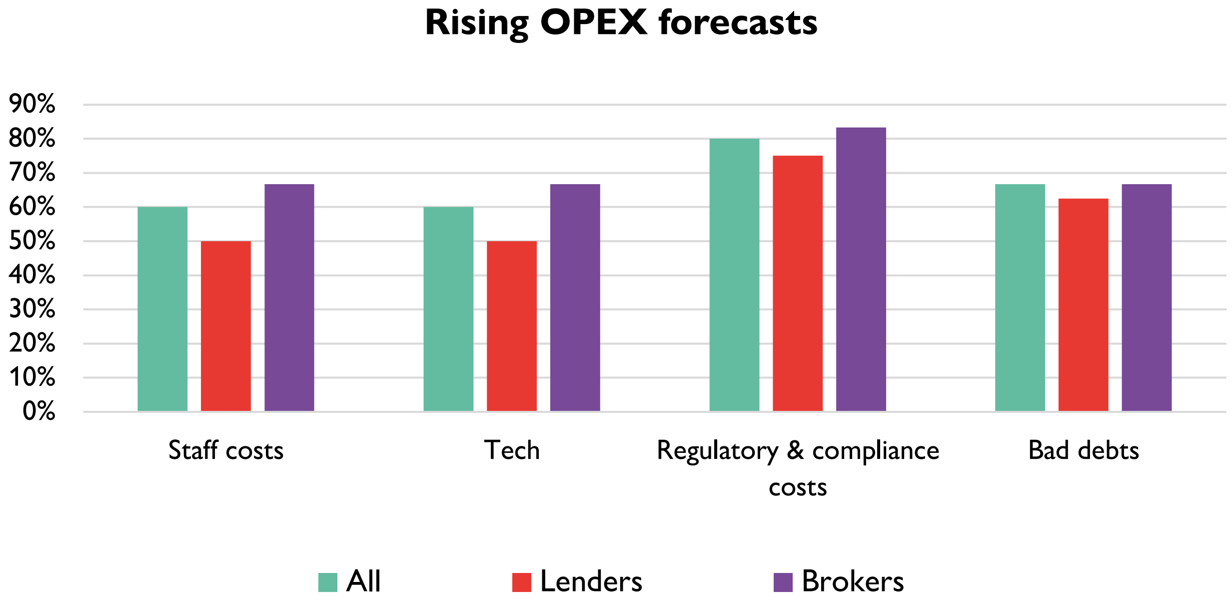
The cost of funds is forecast to increase substantially, according to AFC survey respondents.

The availability of funds (wholesale and block) is expected to increase only marginally to moderately.



Operating expenditure

A series of inescapable business headwinds are driving up operating expenditure, with lenders facing higher staff recruitment and retention costs, increased compliance costs, rising prices for investments in technology, as well as the impact of more bad debts.



Risk

The credit risk appetite is expected to decline as concerns about the economy grow.

The number of defaults, the danger of SMEs going into administration, and concern over residual value exposure (particularly for untested green equipment) are expected to increase.

Compliance risk is expected to increase (50%). More lenders who do relatively little regulated business are expected to focus on unregulated business only.