

2011 Outlook – The only constant is change

Malcolm Ogle, Chairman of The Alta Group EMEA, calls for optimism tinged with caution and realism



Current and planned levels of investment are accelerating modestly at a European level and this is expected to continue as a result of improving sales and increasing profitability, particularly among large firms, but there are also encouraging signs among SMEs. Nevertheless, international uncertainty means that the foundations are not yet on a secure footing.

In the UK, recent Office for National Statistics provisional data confirm a revival in business investment whilst the Bank of England's latest Agents' Summary of Business Conditions suggests that investment plans over the next 12 months were more positive, again especially for larger firms. Demand uncertainty and capacity were seen as the primary impediments to investment, particularly for firms in construction and, to a lesser degree, in business services. The resumption of postponed asset replacement provided a strong positive driver of intentions.

It is unlikely that every proposal in the Exposure Draft on Leases will feature in the new IFRS but, as uncertainty is carried forward into 2011, the certainty is that a new standard and significant change are inevitable. The new approach not only impacts the whole of the industry, including customers, parent organisations and funders, but also has widespread ramifications throughout organisations, beyond the obvious accounting implications. It necessitates careful scrutiny of how an organisation is structured, the approach to markets, its business processes and interaction with external parties.

The accounting changes will have a profound effect on lessors' business activities, financial statement presentation, financial metrics, internal controls and lease accounting systems. Lessors will need to revamp risk and asset management strategies, accounting processes, corporate governance and marketing and sales approaches to continue creating value for their customers. Lessees will have to rethink decisions about how to finance their equipment. It is crucial that all staff are informed, and kept informed, of the proposals as they evolve.

All of these issues present plentiful planning, implementation

and training opportunities – not just for asset finance businesses, but also other users of accounts - as our research confirms that many organisations are under-resourced or under-skilled to cope with this momentous exercise.

Basel III, with its focus on capital and funding, should be a dominant theme throughout 2011 for the banking sector which should be taking steps now to ensure compliance with the requirements. Despite the long transition period (the new rules will not be fully phased in for several years), compliance with new processes and reporting must be largely complete before the close of 2012.

Banks will be taking a close look at the Balance Sheet implications and the returns on different classes of business. Leasing and Asset Finance should come out well.

As bank-owned lessors increasingly concentrate on the bank customer base (and underwrite like bankers), there are growing opportunities for those willing to fill the gap and give customers a choice. The manufacturer/vendor channel will be well placed to do just this. By taking advantage of the strategic relationship which exists between the manufacturer/vendor, its customers, and its sales channels, a captive can seize a competitive advantage based on many factors apart from price, and become the lender of choice. Helped by a strong product and customer sector focus, captives often reach out to SMEs in a much more proactive way too and we expect to see this trend continue.

The increasing demand for capital goods in emerging countries is paving the way for asset finance to explore new openings. We are seeing plentiful opportunities to help the strong exporting nations; using our global contacts to help exporters with sales finance arrangements in their target import countries. The resource needs encompass a wide spectrum of equipment leasing and financing functions. Taking the time to learn the rules in new leasing environments will pay dividends in the long term and, despite the various hurdles, there are irresistible opportunities to gain a foothold ahead of the pack. Having the contacts and knowing the players are important in newer leasing markets where success depends on understanding the opportunities and pitfalls.

It is time to look forward with some optimism, albeit tinged with a dose of caution and realism, and embrace new and emerging opportunities. ■

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