

UK Car Dealer Point of Sale Finance Market Insight Report 2017

Summary

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About this report

What does the report contain?

- This report focuses on the UK market for consumer car finance arrangements offered at Point of Sale (POS) by car dealerships.
- It refers to finance arrangements offered to help individuals to hire or purchase new or used cars.
 - It includes individuals buying cars that may be used for business purposes, but not company purchases.
 - It includes hire arrangements for periods of over 1 year, not short-term hire.
- We cover three main types of industry participants:
 - The car dealers themselves, which may either be:
 - Franchised, i.e. holding an agreement with a manufacturer that allows them to purchase stock directly and sell new cars
 - Independent, not holding purchase and sale agreements with manufacturers
 - Finance companies offering hire or credit agreements, which may be:
 - Owned by car manufacturers (“captives”)
 - Banks
 - Non-bank finance companies.
 - Specialist finance brokers that may help match car dealers’ customers to finance companies.
- The report
 - Quantifies the overall car finance POS market size and historical growth rates.
 - Includes an in-depth analysis of the key market participants, including car dealers, specialist finance brokers and finance companies, and their relative market shares.

- Reviews drivers of car dealer POS finance growth, setting out historical trends and available forecasts.
- Provides our forecast for the market to 2021, supported by evidence from market drivers and industry interviews

What are the objectives of this report?

- This report aims to get behind the publicly available high-level numbers on the number and value of car finance agreements arranged at POS to provide insight into the size and characteristics of the many different distribution channels that exist within the market.
- It also aims to explore some of the questions currently being raised in the financial press round the implications of the growth of car POS finance for the wider economy.
- Key questions it answers include:
 - What are the different ways in which car dealer POS finance is offered in the UK?
 - What are the different forms of finance, how do they compare, and how widely used are they?
 - How does the process of providing POS finance vary between prime, near-prime and sub-prime customers?
 - Who are the main finance companies and how do they work with different types of car dealers?
 - What is the role of brokers in the market?
 - What alternatives are there to car dealer POS finance?
 - How does the UK car dealer POS market compare to other geographical markets?
 - Are car loans a reason for a growing credit bubble in the UK?
 - How could new regulation change the market?
 - Taking these factors into account, how do we expect the market to grow in the future?

Who is it useful for?

- Car manufacturers
- Car dealership groups
- Car dealer finance brokers
- Investors in the industry
- Advisors including consulting firms, investment banks, lawyers and accountants
- Industry regulators and policymakers

What are the sources and methodology?

- This report is based on
 - Extensive research into published industry sources.
 - In-depth analysis of the macroeconomic environment and relevant market drivers.
 - Financial analysis of the accounts and other financial information of market participants.
 - Interviews with industry experts and participants.
- Information from these sources has been synthesised and presented clearly and concisely with extensive use of charts and tables to illuminate points and support conclusions
- Forecasts are based on our market model which incorporates the key levers which drive the market and makes explicit assumptions regarding each, supported by evidence.

Summary

Car dealer POS finance market

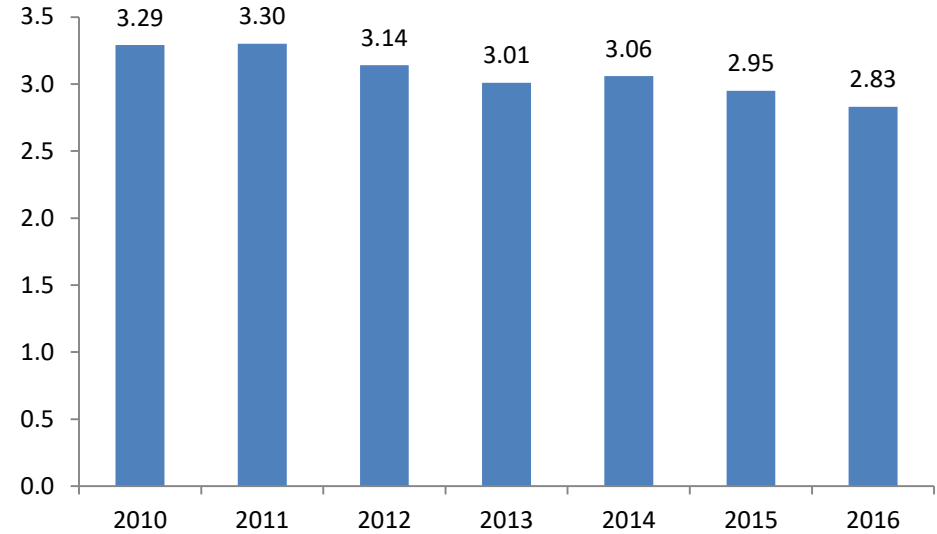
- The market includes all consumer hire and credit products sold by car dealers at Point of Sale (POS) such as:
 - Personal Contract Purchase (PCP) plans,
 - Hire purchase
 - Personal leases
- It excludes short-term hire (up to 12 months).
- The market is served by:
 - Car dealers, including franchised dealers which have agreements with manufacturers to purchase and sell new cars, and independent dealers that specialise in selling used cars.
 - Specialist brokers serving the car dealer market, who place deals introduced by dealers with finance companies.
 - Finance companies offering products to customers introduced by car dealers and brokers, including 'captive' firms owned by the car manufacturers, banks and non-bank finance companies.
- This report reviews all three segments of the market, profiling the major participants. It identifies market share splits for the different types of firms at dealer, broker and finance company levels. It reconciles the high-level industry statistics produced by trade associations with the accounts of the firms in the market and other available information.

Market size and growth

- UK new car sales have recovered to pre-recession levels but have recently dipped, however used car sales are still rising and the UK remains the largest used car market in Europe.
- UK consumers trade their cars more frequently than elsewhere in Europe and the hold periods have been coming down, to a large extent as a result of greater availability of finance

- Ten years ago, around half of new car sales came with dealer-arranged finance. Now almost 9 in 10 have point of sale finance, but only around 1 in 5 of total used cars, or 1 in 4 used cars sold via dealers.

Average period between car sales / years



Source: Department for Transport, SMMT, Apex Insight analysis

- POS Motor finance has grown strongly in recent years and new lending in 2016 was over £30bn, making the market a significant component of the UK's £190bn total unsecured consumer credit.
- PCPs, often supported by car manufacturer subsidies, have been the predominant method of financing new cars in recent years and are also growing in importance for higher-value used cars.
- The market has attracted significant regulatory attention as it has been the biggest contributor to the growth in consumer credit in recent years with some fears of a bubble. However, prior to the recent growth of POS finance, there was far wider use of credit cards, unsecured personal loans and second charge mortgages to fund cars. Hence, the overall increase in

car finance across all consumer credit products is not as great as headline figures suggest.

Competitive landscape

- The franchised dealers sector accounts for virtually all new car sales to consumers and a growing proportion of used cars.
- With the high finance penetration rates for new cars, and the sector's focus on higher-value used cars, the franchised sector accounts for most of the POS finance market.
- Independent dealers sell around 1 in 4 used cars. Both the average value of cars sold and finance penetration rates are lower than in the franchised sector. Nevertheless, finance sales account for a significant proportion of profits for some of the leading independent 'supermarket'-type dealers.
- Captive finance companies have played a key role in driving market growth by offering subsidised finance packages, often 0% finance.
- Captives also fund some used cars through franchised dealers, but most POS used car finance comes from other lenders. These include
 - UK banks (eg Lloyds Bank's Black Horse, Santander, Close),
 - MotoNovo, owned by the South African bank, FirstRand Bank
 - A range of non-bank owned companies that tend to specialise in non-prime lending.
- Brokers account for a small proportion of the market but some dealers use them to find finance for their customers.
 - Smaller independents may use brokers for all their customers
 - Larger dealers tend to use them for customers ineligible for finance from the main providers the dealer works with.

Outlook

- Demand for POS finance is clearly linked to volumes of new car sales, which has recently turned down and is expected by SMMT and others to decrease over the next two years.
- The outlook for used cars is less clear as, in the short term, they may receive a boost from being regarded as cheaper substitutes to new cars

but, in the longer term, availability will suffer as the fall in new car volumes feeds through to fewer used models.

- Finance penetration rates for new cars are unlikely to grow from their already high base, but we believe there is potential for further growth in the used car segment as the larger dealers, who are more likely to use finance, gain share from smaller dealers.
- We expect that actions of regulators, such as the FCA, will affect the types of products offered, and also broking and lending practices, but have only limited impact on overall market volumes.

About Apex Insight

Company background

- Apex Insight is an independent provider of research, analysis and advice
 - Founded in 2012 by a team with experience of working in strategy consulting and the transaction advisory team of a Big 4 firm
 - Focus on a range of services markets including consumer credit
 - Publish market reports and carry out consulting work to address more specific requirements

Consulting services

Commercial / operational due diligence

- Experience of leading c.150 commercial due diligence reviews on behalf of private equity and corporate acquirers / vendors.
- Work includes assessment of market attractiveness, competitive position, customer relationships, information systems and operational performance.

Custom market analysis

- Research and evaluation of your required market to your desired scope.
- Market quantification, competitor insight and intelligence, analysis of drivers and forecasts

Primary research

- We have deep experience in conducting face-to-face interviews with senior-level decision-makers and managing large-scale surveys, plus even more experience in analysing findings to provide insights and actionable results

Growth strategy

- Outward looking and fact-based: market entry strategies, search and screening programmes for new partners, customers or acquisition targets, benchmarking.

Related research

- Point of Sale Finance: UK Market Profile and Forecasts (January 2017)
- High-Cost Short-Term Credit: UK Market Insight Report (May 2017)
- Credit Reference Agency Services: Market Insight Report (July 2016)
- UK Consumer Debt Collection and Debt Purchase: Market Insight (January 2016)
- Rent-to-Own Retail: UK Market Profile and Forecast 2015 (September 2015)
- Home Credit: UK Market Profile and Forecasts 2015 (September 2015)
- Pawnbrokers and High Street Loan Stores: UK market profile and forecast 2015 (August 2015)
- European Peer-to-Peer Lending: Market Insight 2015 (June 2015)

Research subscriptions

- For clients who require access to multiple reports plus report updates and analyst time for further research, presentations, etc.
- Can be tailored to meet individual requirements cost-effectively

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