

Written evidence submitted by Finance and Leasing Association

Introduction

1. The Finance & Leasing Association (FLA) is the leading trade association for the UK consumer credit, motor finance and asset finance sectors. FLA member companies include banks, the finance subsidiaries of major manufacturers and independent finance firms. They offer credit services to customers from all social groups, via credit and store cards, personal loans, point of sale finance, motor finance and a number of other consumer credit products, as well as a wide range of leasing and hire purchase services to businesses of all sizes.
2. In 2019, FLA members provided £140 billion of new finance to UK businesses and households, £48 billion of which helped consumers and businesses buy new and used cars, including over 91% of private new car registrations. £104 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £35 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 in the UK last year.
3. We welcome the opportunity to respond to the Treasury Committee's call for evidence on the economic impact of coronavirus. We have only responded to the questions relevant to our members.

Treasury Committee Questions and FLA Responses

4. *To what extent are Government measures value for money for the taxpayer?*
5. At this stage it is too early to make an informed judgement on whether the Government's measures are value for money. However, there have been serious concerns, widely reported in the press, regarding fraudulent use of the Bounce Back Loan Schemes (BBLs). If these concerns are realised, this will have a significant impact on the exchequer. Prior to the introduction of BBLs, we argued that independent lenders should be able to directly access government funding. This would have enabled independent lenders to support their customers: small businesses and consumers. This direct transmission mechanism would have meant lenders could make commercial decisions quickly. While the BBLs allowed small businesses quick access to loans, its flawed design has opened up the possibility of fraud.
6. *What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?*
7. A policy of stop/start lockdowns will cause uncertainty among business and will delay a full economic recovery. Our members would prefer a different approach that allowed business to continue while appropriately minimising the risk of Covid-19, with a reliable "test, trace and isolate" regime. However, if this is not possible, we the current policy response is unsustainable for the FLA's markets. If members' customers request further payment deferrals, they will increase their debt and our

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members will face a liquidity crunch. It would be far better if direct support were offered to businesses.

8. *How large a problem is corporate indebtedness? How effectively did the financial sector give assistance to businesses? Is there a need for a new state sponsored investment bank? If so, what should it do?*
9. Debt plays a part in businesses' financial toolkit. The danger as mentioned above is that businesses become highly leveraged where they are unable to open due to Government restrictions. When the first lockdown was implemented, FLA members worked with the customers to ensure they could continue to operate. This was largely done by providing forbearance on financial agreements. Members worked hard to support their customers and to support new customers who approach them.
10. We do not see the need for a state-sponsored investment bank as this would duplicate what the market is doing. However, there may be a case for a financial entity to buy distressed assets such as coaches and hold them until they can be sold at a commercial price and the investment returned to the lender. Alternatively, these assets could be supported by a specific Government guarantee.
11. *How effectively did the Government work with the Bank of England? Was fiscal and monetary well-co-ordinated? Do there need to be changes to the monetary and fiscal framework?*
12. The Government, Bank of England, Financial Conduct Authority and British Business Bank all worked well together. This liaison was important to ensure a coherent approach to the challenges that the financial services sector faced. However, the one policy failure has been the lack of support for independent lenders. Despite our recommendation that Term Funding be accessible to non-banks this proposal was not accepted. We were disappointed that our various suggestions for how this might be achieved were not taken on board. We hope that all the organisations listed above can collaborate to find a way to create a support mechanism that can support independent lenders during a future crisis. There remains a need for non-bank lenders to have access to appropriate liquidity to maintain a diverse mix of funding options for businesses.
13. *What are the productivity challenges in the wake of the coronavirus crisis?*
14. Businesses continue to deal with the productivity puzzle and the crisis will have exacerbated this. Part of the solution is for businesses to approach finance as a strategic tool. This will enable them to ensure they have access to working capital, manage their cash flow and maximise the utility of company assets. To assist businesses in this, it is important that they are aware of the different finance options available to them and how to access that finance. The Government has a vital part in assisting businesses by maintaining the BEIS website that has key information for business, supporting the BBB in providing information to businesses and providing adequate funding to the Growth Hubs so that they are able to provide a baseline service for businesses. The Small Business Commissioner can also play a role in signposting businesses to information that will support them.

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