



Asset Finance & Leasing: Navigating the Pivot to Digital

Asset finance and leasing companies need to look beyond technology and consider fundamental strategic questions about how they want to do business digitally in the future, who with, and what capabilities they'll need. The way companies answer these questions today will impact their performance and growth for many years to come.

Executive Summary

Picture the scene ... Imagine a world where a farmer looking for a combine harvester can finance and lease it online with a couple of clicks. Then use it – and pay for it – only when it's needed, while being confident of getting the best price in the market. Always find it in top condition. And share it with others on days when he or she isn't using it.

Or, imagine an owner of a private jet parked at a regional airport in the Caribbean who no longer has to bring it in for an annual assessment and revaluation. Instead, a drone connected to the Internet of Things (IoT) flies over and scans the asset from above to check its condition.

Sound futuristic? Think again. All of this is possible with today's technology – as asset connectivity via the IoT enables an industry-wide move towards digitally-powered self-service models. This will meet the expectations of a rising generation of consumers who demand ever-greater choice, flexibility and customisation.

Asset finance and leasing providers ignore these trends at their peril. Instead, they must develop a strategy that enables them to respond decisively and at pace, by creating business and operating models – and an organizational culture – fit for the digital age. Which is why simply re-platforming the “as-is” business is an approach doomed to failure.

The good news is that for those players who get it right, the upside is huge. The need for profound strategic and operational change presents a golden one-off opportunity to future-proof the business and set it on course for long-term growth. The potential is clear and tangible – and now is the time to act to realise it.



INDUSTRY AT AN INFLEXION POINT

Companies across the asset finance and leasing industry face a complex array of business challenges, many of which are interrelated. While navigating the dynamic digital economy, these companies need strategies that simultaneously sustain growth in operating profit and preserve the net interest margin, while also simplifying their business and technology architectures to boost agility and reduce operating costs.

At the same time, they need to maintain their intimate relationships with existing customers and acquire new ones, as well as ensure that they realise value from their voluminous troves of customer data – all while complying with an ever-stricter regulatory environment. And they must do all this while managing the transition from their ageing legacy customer base who value face-to-face contact, to the upcoming generation of digital-savvy customers who seek speed, efficiency and convenience.

To address these converging challenges, such companies need to lay down solid foundations for the future – in the form of a digitally-enabled platform. This will support their ability to exploit opportunities, defend themselves against threats, and deliver an even more personalised and customer-value-centric service.

SCOPING THE EVOLVING MARKET LANDSCAPE

Another factor making the need for action urgent is the growing complexity of the market landscape. Proliferating opportunities and threats from multiple directions are arising as new and existing players launch disruptive plays. Competitors of all kinds – from within and beyond the industry's traditional boundaries (including so-called fintechs) – are becoming increasingly agile, innovative and insight-driven as value chains become progressively more digitised.

The signs of these trends are everywhere, ranging from incumbent players' development of digital-only offerings and intensifying focus on small to medium enterprise (SME) lending, to the rising activity of peer-to-peer players and shadow banking entrants. This convergence is reducing the barriers to market entry – as enforced by regulatory authorities. Much of this is being driven by the increasing market penetration by fintechs, as well as by global tech giants, such as Apple and Google, which are entering the fray as a way to sell their hardware and services.

SEEING THE INDUSTRY'S FUTURE THROUGH CUSTOMERS' EYES ...

As these trends play out and escalate, it's vital to see the industry from the perspective of customers – and to appreciate how their needs, wants and desires are changing.

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Viewed from the demand side, the fundamental tenets of the asset finance and leasing business will remain intact: to meet customers' needs for assets in a timely, efficient and profitable way. But much else is in flux. Historically, companies in the industry have succeeded by focusing on the personal relationship with the customer, whose bespoke and complex financing requirements meant they valued face-to-face contact.

This is now changing, as data analytics augments human ingenuity and experience as the most effective way of customising offerings and experiences. The transition to the next generation of services requires firms to more quickly meet customers' own digital expectations for self-service, hyperpersonalised data and services, and a unique customer experience. Companies need to understand and respond to these changing expectations – and in doing so, they could

find they're able to forge even deeper relationships, going beyond what was achievable through face-to-face contact.

As customers' expectations and requirements increase, they place growing demands on providers – most of which boil down to a need to make smarter use of customer data. Companies need to provide a range of channels to supplement human contact, possibly including support for peer-to-peer interactions, and to offer access to an integrated ecosystem of best-of-breed suppliers for complementary services. They must make the effort to understand what their customers want, and use this feedback to drive change and innovation. And they need to work out what all this means for their operating and business model, their capabilities, their people's skills, and their organisational culture and way of working.

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SHAPING ASSET FINANCE & LEASING'S FUTURE

Given sweeping and ongoing industry-wide change, it's clear that any decision on technology platforms has implications that go far beyond technology. So in approaching such a choice, it's vital to consider the business's long-term strategy as a whole, to ensure that decisions are taken in the widest possible context.

This means focusing on creating an operating model that fully considers the entire enterprise and value chain, and is fully aligned with business, operating and technology models. To do

this, asset finance and leasing firms must ensure that the right capabilities are in place and are aligned to deliver the step-changes required to realise the strategy. From there they must develop a realistic roadmap and plan targeted at hard, measurable business outcomes.

The key elements needed to achieve this transformation – and the interrelationships between them – are illustrated in Figure 1. As it shows, the business, technology and operating models both support and drive each other. Within each model there are specific aspects that must be considered – all of which need to be in place to realise the fullest possible benefits.

The Digital Interlock

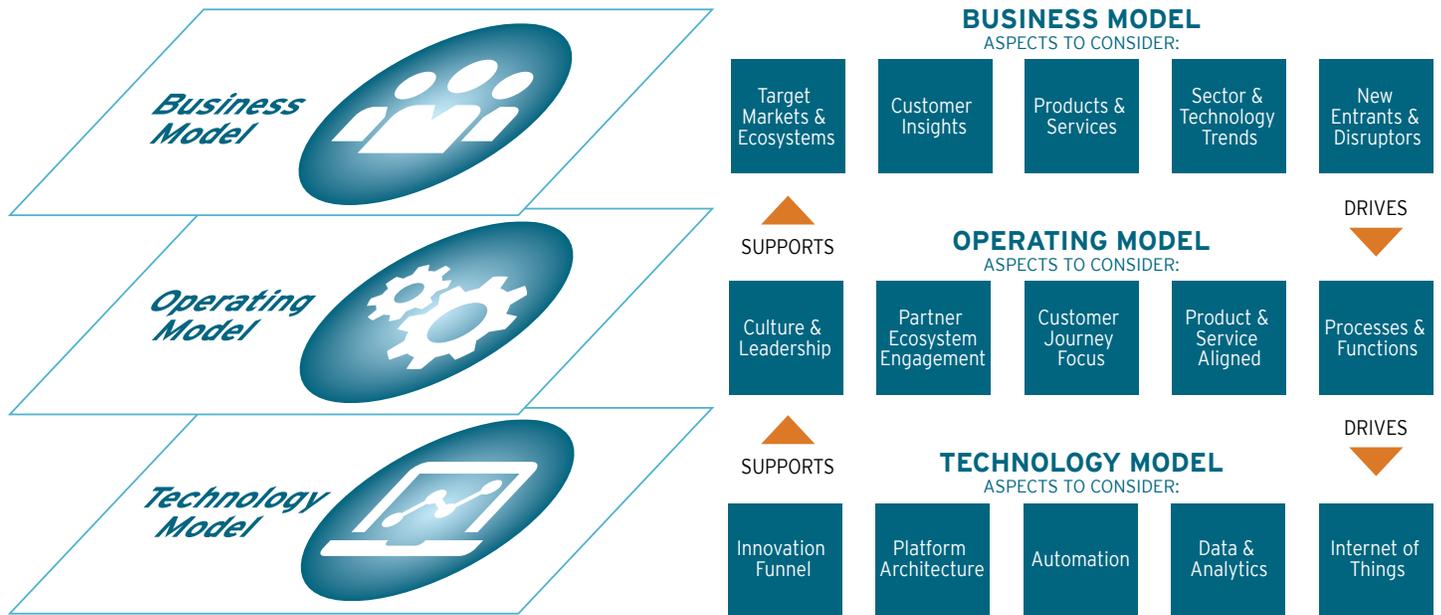


Figure 1

NEXT STEPS: ACT NOW TO AVOID CREEPING IRRELEVANCE

The biggest danger for companies is falling into a mindset of “active inertia.” That is, one where they decide that they’ll take action in response to changes they see underway – but are just not quite ready to do so, yet.

At root, the industry is now in the throes of a profound and irreversible transition, from an era where face-to-face contact and personal relationships were the main source of value and differentiation, to an era when omnichannel digital interactions and customer insights are the key drivers of success. Put simply, continuing to base the business’s future on face-to-face interactions is no longer feasible.

Making this switch is not just a technology challenge. It demands that businesses completely rethink their capabilities, and engineer both an organisational and cultural change in how they think and operate. And it demands that they make bold decisions about what they’ll do and won’t do – or face gradually losing their relevance to customers.

Those that succeed will gain a competitive edge and higher revenues at lower cost. They’ll retain their existing customers while gaining new ones. And they’ll free up the time and skills of their relationship managers to devote to delivering truly value-adding advisory services to customers.

For asset finance and leasing companies, adapting to the new reality isn’t an option. It’s an imperative. And it’s a journey that must begin today.



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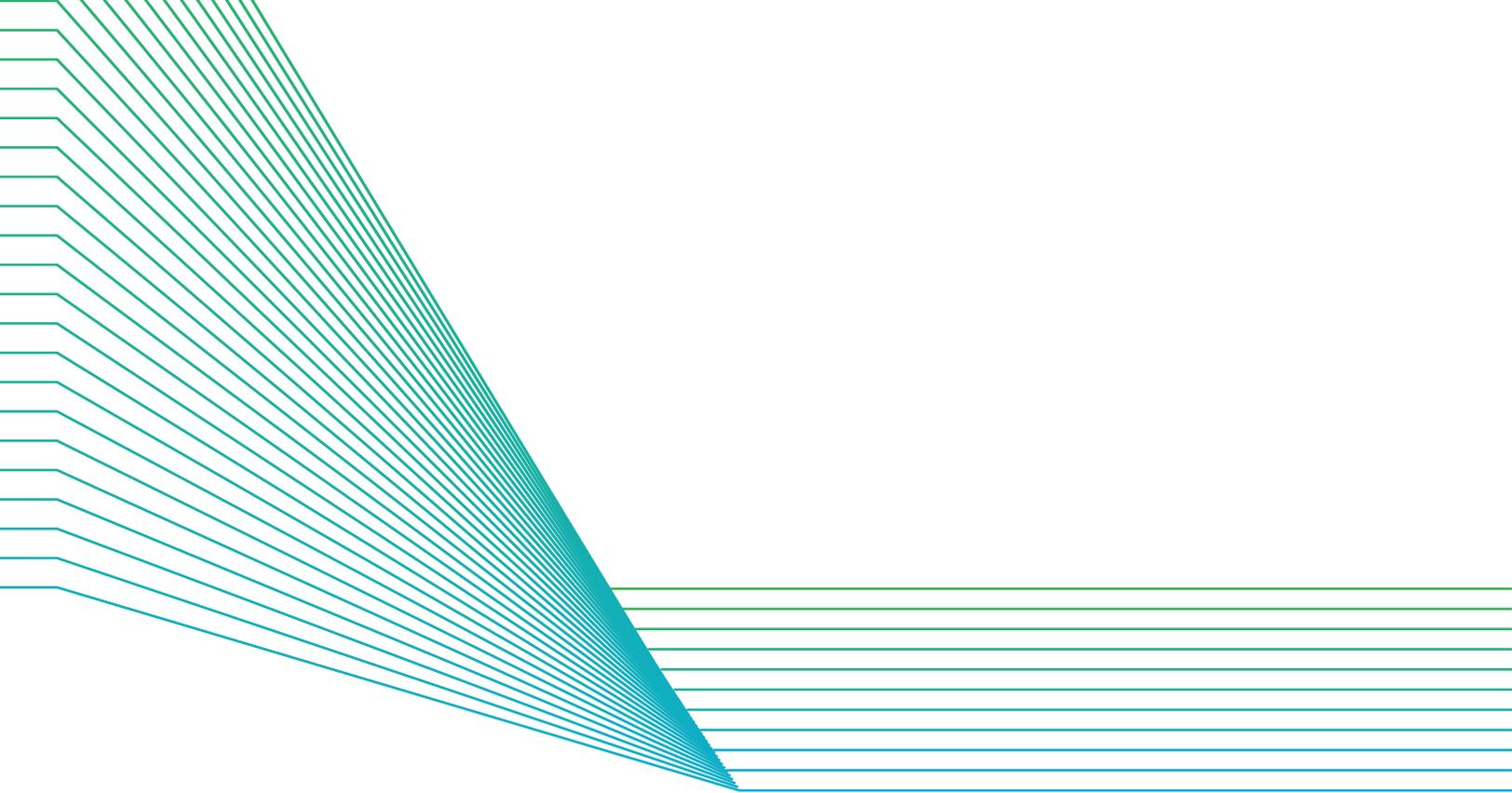
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