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HEADLIGHT

Shining a light on the motor finance market

Diesel overtakes Brexit in car buyer concerns

100% of brokers blame weak car buyer confidence on uncertainty over what fuel type to buy

Slowdown in new car market boosting used car market sales

Only 24% of brokers think the FCA motor finance update will have a positive effect on their business

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HEADLIGHT

Diesel overtakes Brexit in car buyer concerns

Welcome to the latest edition of the Paragon Headlight Survey, shining a light on the UK motor finance market and gathering the views and opinions of the UK's largest motor finance brokers.

It is now two years since the Brexit referendum took place and there are some fascinating responses in our latest survey from brokers in terms of consumer confidence dipping and the reasons for that.

In our brokers' minds, concerns surrounding diesel vehicles have now overtaken 'Brexit' in terms of why car buyer confidence continues to fall.

The Government's push to eradicate diesel cars by 2040 and similar plans for hybrid vehicles has had serious ramifications on consumer confidence with every broker we surveyed (100%) blaming uncertainty over what fuel type to buy as the reason for car buyers sitting on the sidelines.

This is supported by the SMMT figures for May 2018, which showed diesel registrations for new cars were significantly down - by 23.6% - compared to May 2017 as consumers and fleets are in somewhat of a dilemma over which fuel choice to select. This stems from lack of understanding about fuel types and the risks they pose, along with nervousness about future vehicle tax rates on diesel.

This has also been compounded by manufacturers' research and development into alternative fuel vehicles (AFV) being well behind the curve, meaning consumers have little choice when looking at an AFV purchase. This has also led to a natural shift

of dealers veering customers towards petrol cars as manufacturers steer away from developing further diesel cars.

What we need as an industry is clarity. Diesel cars have been demonised but the infrastructure doesn't support AFVs at the moment. Interestingly, the diesel used car market is still strong and that says that consumers still want to buy them, possibly because there is not a viable alternative.

We are looking at four or five car changes before we get to 2040 but there needs to be proper guidance from the Government on how it will work, what AFV rates will be going forward and a timetable of events because the uncertainty is causing confusion and negative demand.

All in all, this has impacted on consumer confidence to the point that it's now become a bigger issue than Brexit - in comparison, only 64% of our brokers blamed concerns over Brexit.

This gives a real insight into how the industry is thinking, especially when you consider that 88% of brokers surveyed a year earlier cited Brexit as a key reason for weak buyer confidence.

Consumer confidence has plateaued over the past 16 months and the last time confidence was reported to be this low by brokers in our survey was back in July 2016 - the month straight after the Brexit vote.

The other hot topic for the motor industry is transparency. Both open banking and the final report from the Financial Conduct Authority (FCA) into the motor finance market are due imminently.

The FCA's investigation is delving into whether lenders and brokers are complying with current regulatory requirements and if consumers are being given the right kind of information, at the right times, to make informed decisions.

With the findings due in September, it is good to see that brokers seem to be informed about the FCA report. Our brokers said they were most interested in reading about commission arrangements (59%), affordability criteria (54%), transparency of information (49%) and asset valuation pricing risk (33%) in the final report.

While 24% felt the recent FCA update would have a positive impact on their business over the next six months, the majority (62%) were expecting it to have no impact.

We welcome this FCA review as it should lead to greater transparency of the motor market and ensure that consumers receive positive outcomes, which is vital to help protect the longevity of Point of Sale Motor Finance. We are hoping for a more prescriptive approach, particularly for commission arrangements and the affordability criteria than in the original legislation. This will be good for the industry and make it stronger.

There is, however, more uncertainty over open banking. Around half (48%) of brokers were familiar with what it entailed while 53% said they didn't know how it could affect their business.

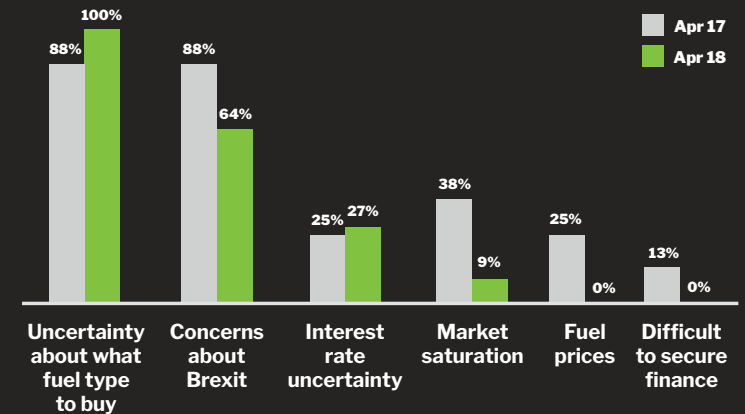
Very many thanks to everyone who took part in our survey.

Diesel overtakes Brexit in consumer concerns

The Government's plans to ban diesel cars over the coming two decades has had a stark effect on both consumers and fleets.

Our brokers reflected this sentiment when asked the reason why they thought car buyer confidence was weak - 100% blamed it on what fuel type to buy, while 64% said concerns about Brexit.

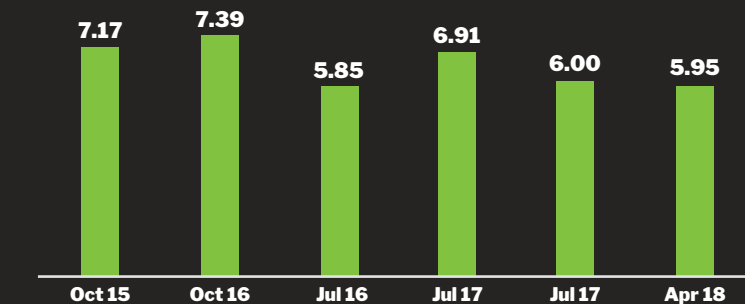
Why do you think car buyer confidence is weak at the moment



Brokers were asked to rate confidence amongst car buyers on a scale of one (very low) to 10 (very high).

The last time confidence was viewed as this low by our brokers was in the month straight after the Brexit vote, in July 2016.

How would you rate confidence amongst car buyers at present



Slowing new car sales assist used car market

The latest SMMT registration figures showed a cooling in the new car market and this is a trend which is likely to continue for the remainder of 2018.

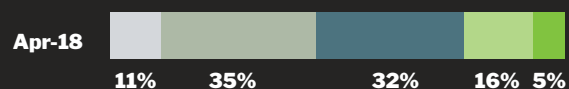
When asked to describe demand for new car applications over the past six months compared to the same period last year, nearly half (46%) of our brokers reported a fall in applications. This comes off the back

of a recent record period and heavy pre-registration activity by retailers, which was driven by the manufacturers during 2016.

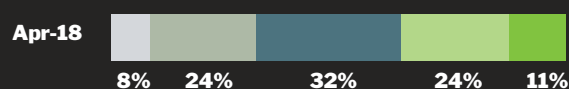
On the other hand, one in three brokers reported increased applications (35%) for used cars and a further 32% said there had been no change in the past six months.

Change in car finance applications November 2017 - April 2018

NEW CARS

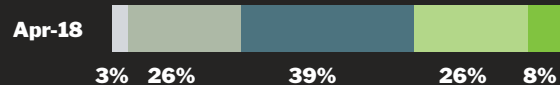


USED CARS

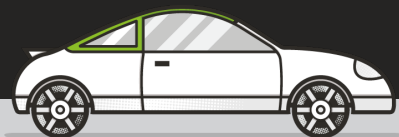
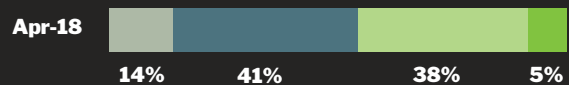


Anticipated change in car finance applications April - September 2018

NEW CARS



USED CARS



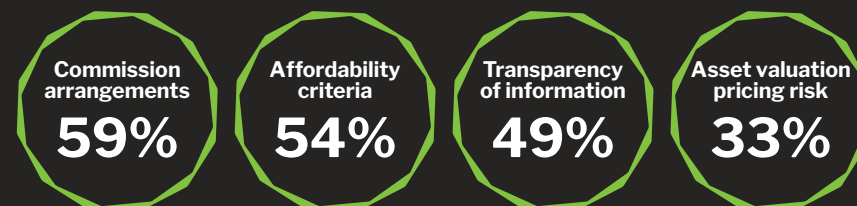
Gearing up for transparency in motor market

The Financial Conduct Authority (FCA) has been working on its final report into motor finance and this input should lead to greater transparency of the motor market.

The final FCA report is due in September and is set to address whether lenders and brokers are complying with

current regulatory requirements and if consumers are being given the right kind of information, at the right times, to make informed decisions.

This is what brokers said they were most interested in reading about in the final report.



When asked about what impact brokers thought the FCA update would have on their business over the next six months, only 24% felt it would have a positive impact while with the majority (62%), expected it to have no impact.

What impact do you think the FCA motor finance update will have on your business in the next six months?

- Negative 3%
- Very positive 3%
- Positive 21%
- No impact 62%
- Don't know 13%

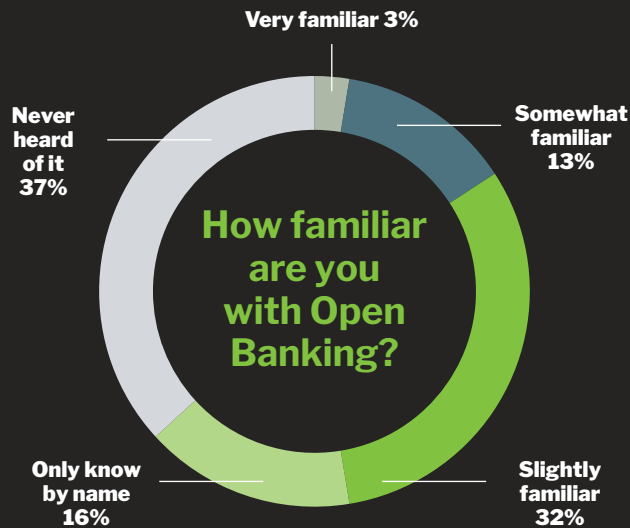
Uncertainty over impact of open banking

Open Banking is a government-led change set up by the Competition and Markets Authority that is designed to bring more competition and innovation to financial services.

From January 2018, the UK's nine largest banks were required to provide 'Open Standard' API technology to allow new account information and payment initiation services to be developed. It will take time, but industry experts predict that this will revolutionise the future of financial services.

Despite this, there was uncertainty shown by our brokers to open banking and only around half of them (48%) were familiar with what it entailed and 37% said they had never heard of it.

When quizzed about the long term impact of open banking, 53% of our brokers said they didn't know how it could affect their business, while 21% thought it would have no impact and 16% expected it to have a positive effect.



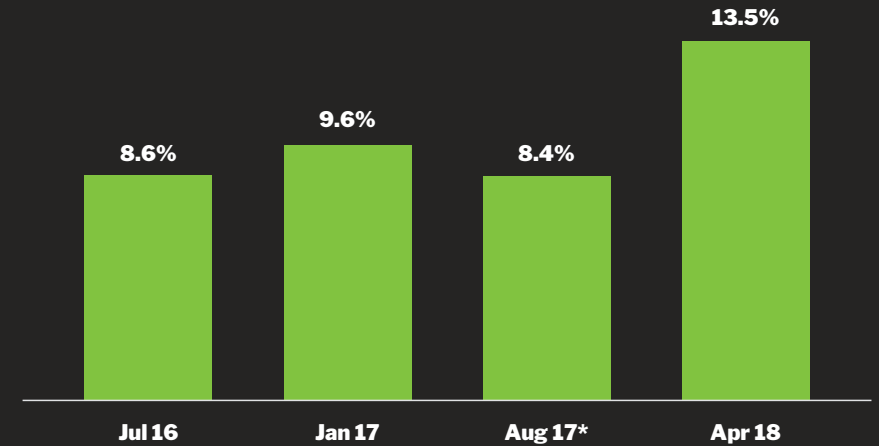
Deposits driven up for new cars

Our brokers reported a sharp rise in average deposits for new cars to 13.5% compared to 8.4% a year ago.

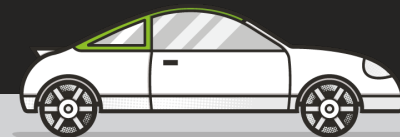
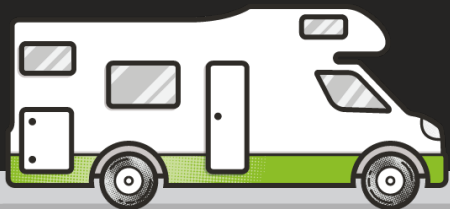
This comes amid a background of manufacturers looking towards Europe for their low deposit marketing schemes, where the motor market is still increasing. Larger deposits may have also been requested to protect against the risk of

a potential dip in the value of used cars, particularly for consumers involved in Personal Contract Purchase (PCP) deals. That may change because we have not seen a decline in used car values, and this is reflected in our brokers' views. It was promising to see that 18% are expecting the average deposit on new cars to fall in the coming six months with only 3% expecting deposits to rise.

What was the average deposit on your new car applications, including part exchange, during the last 6 months?



*In Aug 17 the series frequency was adjusted to intervals of 10%



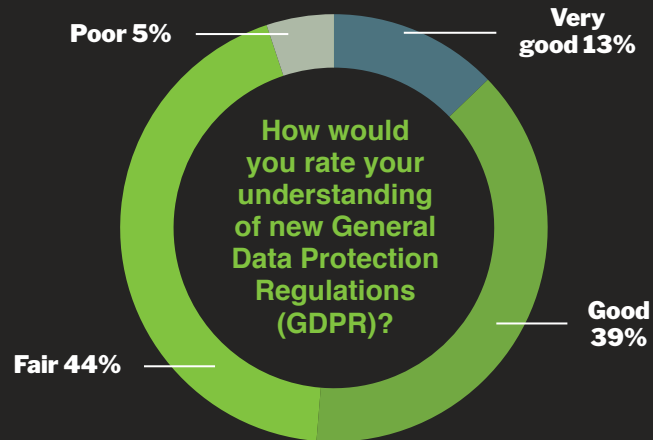
Industry in driving seat for GDPR

New General Data Protection Regulations (GDPR) rules introduced by the European Commission to strengthen and unify data protection for people across Europe came into force on 25 May.

GDPR aims to give people more control over how organisations use their data with penalties for organisations that fail to comply or suffer data breaches.

Feedback from our brokers was positive with 97% confirming they had a plan in place to ensure their business was GDPR compliant.

In terms of how well they understand GDPR, over half (52%) were confident of their understanding and a further 44% described it as fair.



About Headlight Survey

Paragon's Headlight Survey is a six-monthly survey of around 40 key vehicle finance brokers operating in the UK. It includes a wide range of brokers, from those who arrange business for car dealers and specialist vehicle retailers to those who arrange finance with customers directly.

About Paragon

Paragon provides motor finance for cars, LCVs, motorhomes and caravans through approved intermediaries and registered dealers.

Paragon Bank PLC is a subsidiary of the Paragon Banking Group PLC, which is a FTSE 250 company based in Solihull, in the West Midlands. Established in 1985, Paragon Banking Group PLC has over £12 billion of assets under management.

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