

Monetary affairs

Financing a new fleet or finding the right insurance cover doesn't have to be troublesome with a host of financial backers ready to assist you.



STEVE BANNER
reports

Competition for bus and coach insurance business is hotting up now that Norwich Union is flexing its corporate muscles in the sector through Kerry London. One of the UK's leading commercial insurance brokers, Kerry London is making a facility with NU available through selected brokers nationwide.

Throwing down a challenge to established players such as Ensign, NU's move looks set to push down rates further in what is already a soft market. "It's been like that for at least the last three or four years," comments Chris Curson, fleet insurance broker at Wrightsure.

"There are no real signs of it hardening either," says Stuart Charnock, branch director at broker BJK.

Nor is it solely full-size buses and coaches that are affected.

"A lot of the business we do is with community transport groups," he says. "Whereas it costs around £1,400 on average a couple of years ago to insure one of the accessible minibuses they run, these days the premium is more likely to be around £900 to £1,000."

A soft market means that it's not really worth the while of an operator – especially a small one – to take a higher voluntary excess in order to reduce rates, says Curson. There won't be much of a discount available on what is probably already a low premium, and if there is an accident the firm concerned could find that it ends up footing a substantial damage repair bill that



comes straight off its bottom line.

Because one reason for implementing a risk management policy is to reduce the number of accidents resulting in insurance claims and thus drive down insurance

Engulfed by fire: Operators need to secure appropriate insurance cover for the most unlikely of events.

Mistral boasts a variety of financial offerings to suit the needs of operators.

costs, there's always the danger that process of managing risks will end up pushing down company agendas when premiums are showing no sign of rising. But that could be a serious error of judgement.

While rates are undoubtedly low at present, any firm that experiences a sudden rise in accidents and claims because it has put its risk management strategy on the back burner will undoubtedly see its premiums start to rise. Because it carries an excess it will be pay-

ing more of its own money out too, and a succession of accidents will undoubtedly attract the attention of the Health and Safety Executive, VOSA, and the traffic commissioner.

If vehicle premiums are falling and a company is making a saving as a consequence, then it could make some sense to spend at least some of that saving on additional insurance covers. That could for example include legal expenses insurance to meet the legal costs associated with the recovery of uninsured losses and representation at public inquiries and employment tribunals.

Taking out director and officer insurance is a wise precaution too given the growing inclination of authorities and litigants to pursue directors in their personal capac-

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ity. So is ensuring that the business carries sufficient public liability cover.

Perhaps surprisingly, firms are not compelled by law to take out public liability insurance, although councils demand that any bus or coach operator working for them does so.

Not that NU and its partner are competing for business solely on price, stresses Kerry London divisional director Grant Irwin. "One thing we're offering clients with properly-equipped workshops and trained staff is the ability to self-authorise repairs, subject to an NU audit," he says.

Kerry London also offers a risk management programme.

He agrees that the insurance market is soft. "But I'm not sure how long that will continue," he remarks.

Turning to finance, while some bus operators on contracted services may opt for contract hire, most small- to medium-sized firms still favour hire purchase says Bill Burgess, account manager at Broadoak Asset Finance. "It's the solution that eight out of ten of them prefer," he says.

It's the simplicity of the arrangement that appeals to them, he believes. "They eventually get to own the asset, they get tax relief

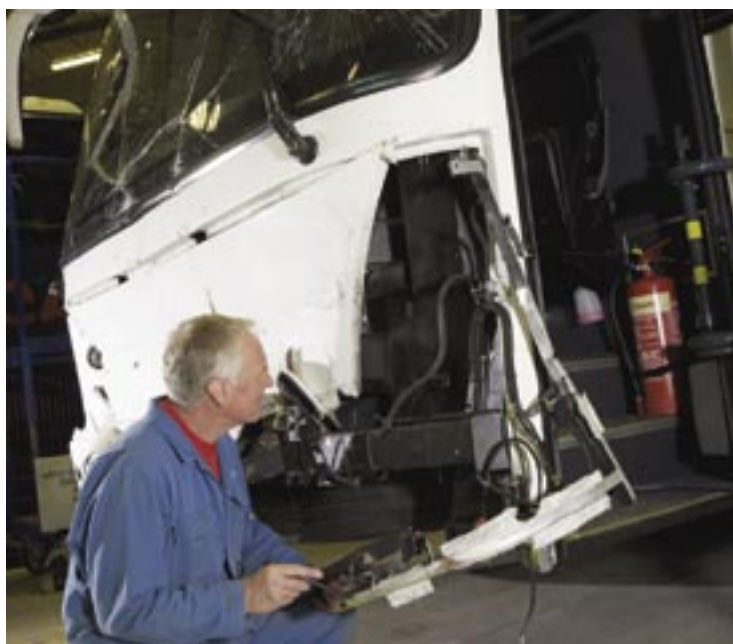
Some sort of security will be required if the firm seeking finance has only just started trading.

on the interest they pay, and they can claim capital allowances too," he observes.

Normally at the time of purchase all the VAT has to be paid at the start of a HP agreement. Various deferral schemes are available however to make this less painful, Burgess points out, and the VAT of course can ultimately be reclaimed by the operator.

The need to pay the VAT may prompt some operators to opt for a finance lease instead, but this has drawbacks of its own.

With a finance lease, VAT is paid on the monthly instalments and the whole of the instalment is tax deductible. On the downside however the lessee doesn't get to



Risk management programmes are designed to help reduce the number of accidents resulting in insurance claims, thus keeping premium costs down.

own the vehicle once the agreement runs its course.

Instead, the lessor has to dispose of it to a third party, although it is always open to the operator to buy it from the third party concerned.

While firms can usually negotiate seasonal payment patterns with finance companies, paying more during months when they're busy and cash is coming in, and less when times are slack, there's surprisingly little interest in such arrangements, says Burgess. "Most prefer to make the same size of payment every month over, say, five years," he says.

"Some agreements can of course run for six or even seven years," says Andrew Bullard, sales director at State Securities.

Rising interest rates have as yet had little impact on the willingness of firms to obtain buses and coaches on finance, Burgess says.

"The individual rises we've seen so far have been relatively small, often amounting to no more than 0.25 per cent," he points out. In his view it is unlikely that a sound, well-managed company's decision to enter into a finance agreement or not would be influenced by so modest an increase.

Cumulatively of course all these rises can start to add up.

"I think that base rates would have to reach around 7 to 7.5 per cent before firms thought twice about taking finance though," he says. "At that stage they're going to get concerned that rates will go

higher and that their customers will start drawing their horns in."

Consumers struggling with bigger mortgage repayments as a result of higher interest rates may be less inclined to take coach trips.

"If base rates rose to nearly 10 per cent then I suspect operators would become very cautious about entering into finance agreements," says Bullard.

"To date however the rate increases we've seen haven't had an impact on them. If they need to invest, then they invest."

"If you're worried about interest rates going up then there's an argument in favour of buying now and signing an agreement based on today's rate level," remarks Grant West, national accounts manager at Close Asset Finance.

As with insurance, there's no lack of competition for finance business.

"The economy is still awash with money," Burgess remarks. "We deal with around 42 different funders."

Since its formation over 15 years ago, the Mistral Group boasts a variety of financial offerings to suit the needs of small to medium size operators. Both short-term rental and longer-term operating leases are available, which allow customers to look at running new vehicles without having to purchase the vehicles outright and show them on their balance sheet.

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Asset & Commercial Finance
01454 413788
www.acfgroup.co.uk

Belmont
01732 744700
www.belmontint.com

BJK Insurance
01271 345005
www.bjkinsurance.co.uk

Broadoak
0870 243 0513
www.broadoakassetfinance.co.uk

Close Asset Finance
01283 742585
www.closeassetfinance.co.uk

Coachlease
0116 238 7272
www.coachlease.co.uk

Coachsure
01993 842383
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Ensign QBE
020 7105 4000
www.qbeurope.com/ensign

Hansar
0161 488 4000
www.hansar.co.uk

Lombard
0800 502 402
www.lombard.co.uk

Mistral Asset Finance
0800 781 4144
www.mistral-group.com

Pioneer Corporate Finance
08700 622699
www.pioneerco.co.uk

State Securities
0845 170 5600
www.statesecurities.co.uk

Sale and leaseback packages are available, subject to a company's status.

A major part of Mistral's business is the sale of new and ex-fleet vehicles, and with the introduction of its new in-house finance company, Mistral Asset Finance, customers now have the option of placing either a hire purchase agreement or finance lease at the time of acquiring a vehicle.

Mistral operations director Steve Low says: "We already know a great deal about our customers and enjoy good relationships with them, and this often allows us to make a decision on the spot regarding underwriting their purchase. Many have dealt with us on rental for a number of years and now want to purchase vehicles, so it has been a logical progression for us to offer our own finance option as an alternative to the many traditional funders that are in the market."

Another finance broker is Bristol-based Asset & Commercial Finance, which handles deals for vehicles across the range from service vans to high specification buses and coaches. Vehicles of up to 15 years old can also be financed. Operators can even release money tied up in other assets to improve cash flow, raise funds to expand a business, pay for an unexpected repair or buy out a partner.

Asset & Commercial Finance managing director Wayne Rees says: "As well as new or used vehicles, the company can also provide finance for garage equipment, ticketing machines, computers,

telephone systems, and even commercial property."

Aside from the businesses mentioned above, companies active in the market include Alliance and Leicester, Hansar, Lombard and Bank of Scotland.

While a new coach instantly depreciates heavily the minute it is fitted with a set of number plates, it will still fetch a respectable sum if it has to be repossessed and disposed of. Something that costs a few thousand pounds will be by definition a much older vehicle and may finish up being worth next to nothing.

Some sort of security will be required however if the firm seeking finance has only just started trading. "We may for example want a charge over its premises, or over the owner's house," says Bullard.

How old a bus or coach will finance companies fund?

"We'll look at anything up to ten years of age," he replies. "We try to avoid getting involved with anything older."

"We've arranged finance for vehicles up to 15 years old, but the funder of something that's a bit older than usual may ask for the client to put down a larger deposit," says Burgess.

Approximately 40 per cent of the business State Securities does with the bus and coach sector involves sale and leaseback deals. They can provide the operator with a useful injection of capital to invest in other assets.

"In fact what we often do is purchase the vehicles then allow the firm to buy them back under an HP agreement," Bullard says. "That way they don't lose ownership of the asset."



Mistral Group, which offers a wide range of financing options, recently ordered 110 Optare Solos for its sales/rental fleet. Left to right: Bob Coombes, Optare and Steve Low, Mistral.

If the client needs to keep monthly instalments down, then Bullard and his colleagues can offer an HP deal spread over, say, five years with a balloon payment at the end.

"The balloon can be funded by selling the vehicle or by extending the agreement over another couple of years," he says.

Not that sale and leaseback packages are available to everybody points out one industry expert.

"If you've got the VAT man battering on your door, you haven't got the money to pay the staff's wages, and you desperately need to sell your vehicles to raise some cash, then you won't find many finance companies that are prepared to help," he says. "They want to deal with firms with a long-term future – not those that are about to collapse." ▀