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ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

b t p i

Business Technology Performance Index 2010

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About the Report

Capgemini has completed the eighth annual study of current technology and operations trends in the Equipment Finance market. It serves as the industry benchmark for information technology (IT) and operations direction and spending and represents a summary of responses and an analysis thereof. We also present some of our insights into the continuing evolution of technology in the Equipment Finance marketplace.

The 2010 Business Technology Performance Index (BTPI) was written and compiled during the period from July to October, 2010. It is based on industry research and responses from 32 participants representing bank, captive and independent finance companies across a large spectrum of ticket sizes, market approaches and geographies. The respondent companies are largely members of Equipment Leasing and Finance Association (ELFA) and the International Finance and Leasing Association, who both provided support for the survey.

Participation in the BTPI is voluntary and free of charge. All Equipment Finance companies were welcome and invited to provide data through Excel-based forms. All those who participated received a free advance copy of the report before the formal introduction of the report, at the 2010 ELFA Annual Conference.

The 2010 BTPI is the latest report in a series of publications on business trends, systems and technology available through the ELFA, the Equipment Leasing and Finance Foundation (ELFF) and Capgemini. The BTPI report focuses specifically on trends in technology and operations, and their adoption. Other ELFA and ELFF resources were used to support research, analysis and conclusions found in this report.

About the Authors

The authors of the 2010 BTPI are part of Capgemini's Asset Finance practice. This group focuses on the Equipment Leasing and Finance market and works daily with Equipment Finance companies to help them create more efficient and profitable operations. This group is part of the 106,000 person Capgemini consulting business which operates in more than 36 countries around the world with 2009 revenues of €8.4B. The authors and contributors to this report include: Josh Bridge, David Byrne, Steve Byrnes, Michael Donnary, Vinay Kamulkar, Ken Kelliher, Cameron Krueger, Lawrence Latvala, Bryan Parfitt and Christine Williams.

The authors would like to thank all the participating companies and Capgemini associates who assisted with this report. Also, we need to acknowledge and thank Ralph Petta and Bill Choi of the ELFA for their continued support for the BTPI. Ralph and Bill were instrumental in ensuring this effort receives appropriate coverage, exposure and industry participation.

Preface

We are proud to present the **2010 Business Technology Performance Index** report in collaboration with the ELFA.

Now in its eighth year, the BTPI report provides insight into the trends and forward looking initiatives Equipment Finance companies have started, are anticipating, or have recently completed in efforts to drive their companies into new markets, new opportunities and improved and more efficient operations.

While this report largely focuses on the North American marketplace, we continue adding respondents with an outlook on the international market. To that point, 47% of the respondents are currently operating in multiple countries.

The main objective of this report is to help you understand the current thinking of market leading Equipment Finance firms relative to decision processes associated with operations and technology initiatives. This report will give you insight into operations trends, technology trends and the state of technology. The findings of this report can help guide the construction of business plans and the creation of new technology strategies to support those plans. The BTPI can assist you in efficiently benchmarking your spending and performance against the market and will help you refine you IT strategic direction.

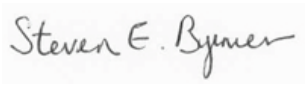
As a service provider to the industry, Capgemini provides solutions in the areas of technology strategy, system selection and implementation, and business transformation—both onshore and offshore—as well as applications development, maintenance and support through over 30 global delivery centers in more than 36 countries on six continents.

These offerings are supported by:

- A broad spectrum of global services and experience with all phases of the Equipment Finance lifecycle - from marketing and origination through to asset termination
- Unsurpassed knowledge of the software packages available in the market, supported by an international package-based solutions database with information on every major, relevant package and technology
- Vendor neutrality and a focus on the customer
- An exceptional track record and reference client list that includes 19 of the top 25 Equipment Finance companies as listed in the **2010 Monitor 100**
- Leading-edge capabilities closely attuned to industry trends and leading practices
- Strategic and comprehensive services tailored to the individualized needs of each client
- Global services and resources combined with excellent local delivery capabilities

Should you require any further information or assistance regarding our solutions, please contact Capgemini. We welcome feedback and suggestions on how to improve this report.

Cordially,



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Executive Summary

Delivering High Return on Investment through Cost Control

For three years running, survey respondents have placed efficiency improvement initiatives at the top of their priority lists. The rationale for this seems pretty straight forward—in times of down sales, focus on what you can control—namely costs.

But how well are companies doing at controlling costs? A study of a key industry measure—full time equivalent employees per dollars of managed assets- shows a long term average efficiency gain of 5.7% and a decline in this past year of 1%[1]. Controlling costs in the future looks to be challenging as well, as companies look to ramp up new business activity, while complying with anticipated new regulations and accounting requirements.

Investment in new core front and back end platforms certainly can be a driver of efficiency, but that investment payback is measured in multiple years and, if not carefully coupled with strong change management, can lead to cost inefficiencies.

How is Cost Efficiency Delivered Well?

We have been fortunate to work with a number of best in class companies over the past few years—ones that are delivering two to four times the industry average efficiency gain—on a consistent basis. What are they doing different from the rest of the crowd? Looking across the group, a few common themes emerge:

1. Measurement is built into the company culture—this is not about measuring the turnaround time on new deals—this is about measuring all processes and practices. These companies use measurements to form the foundation for building and prioritizing areas for improvements and setting objectives across the organization. In the accompanying survey, only 28% of companies commit to company wide use of measurements.
2. Delivery, control and measurement of processes and practices are achieved electronically. Workflow has historically been thought of as a front end need. Back end solution vendors and Business Process Management solutions are now offering the same capabilities for customer service, asset management, collections and portfolio management. Here again, only 32% of respondents have deployed workflow solutions in these back end functions.
3. Technology investments are held to longer term business case ROI thresholds. Web self service capabilities have been a model for many of these companies—starting small and building winning solutions over time. Technology integrations are another investment that has paid off for many companies.

Sustainable efficiency improvement models are not easy to deliver, but best in class Asset Finance companies continue to provide strong returns, even as portfolios earnings decline.

1. ELFA Survey of Industry Activity Reports – 2005 through 2010

1 Operation & Technology Trends

The uncertainty has been difficult to live with but the industry has survived and, in many cases thrived

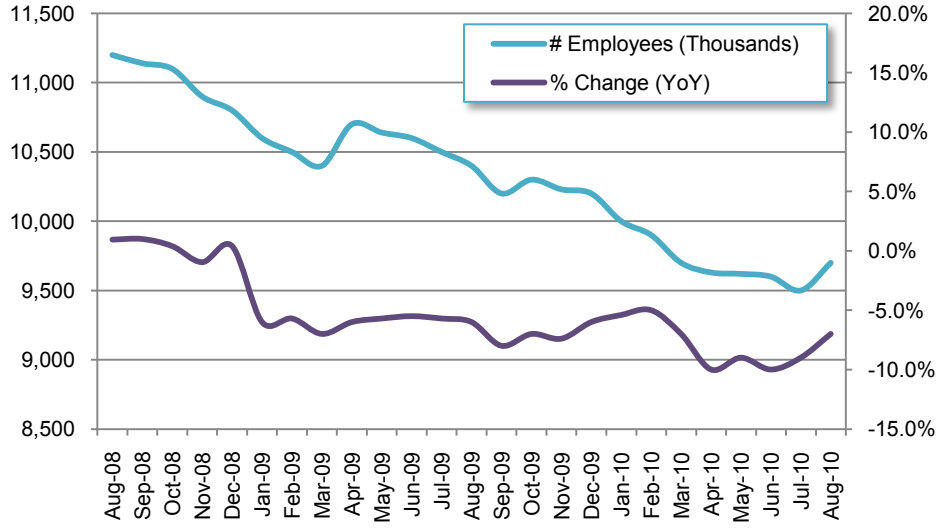
In 2009 we opened the Trends section with a heading that read "No Panic but Plenty of Uncertainty" and that was fairly accurate. In 2010 we did not witness irrational pricing, radically changed credit policies or a massive spike in write-offs. Alternatively we did witness a noticeable uptick in delinquency and a tightening of credit married to more lessors chasing fewer deals. (The latter condition is worth watching in 2011 as increased competition may again cause irrational pricing scenarios by some lessors.) There was no widespread panic and the market responded reasonably well with several logical mergers and acquisitions and only a few lessors exiting the market all together. The uncertainty has been difficult to live with but the industry has survived and, in many cases thrived. The forecast for 2011 continues to improve as we slowly emerge from the recession.

1.1. State of the Industry

One of the best indicators available to the industry is the Monthly Leasing and Finance Index (the MLFI 25) published by the ELFA. This index measures five indicators and compares them month-to-month and year-over-year.

During the three months ending in August 2010 new business volume was on an upswing— two very positive months followed by a slight decline. Receivables over 30 days were up slightly, but well below 2009 numbers and, for the first time in 18 months, total employee count rose[2].

Exhibit 1. Total new employees[2]



2. Source: http://www.elfaonline.org/ind/research/MLFI/0810.cfm#TNE

Further supporting a slow, but steady recovery, according to The Thomson Reuters/PayNet Small Business Lending Index[3], financing volume is up 15% year over year, and the fastest month to month gain since March of 2006.[4]

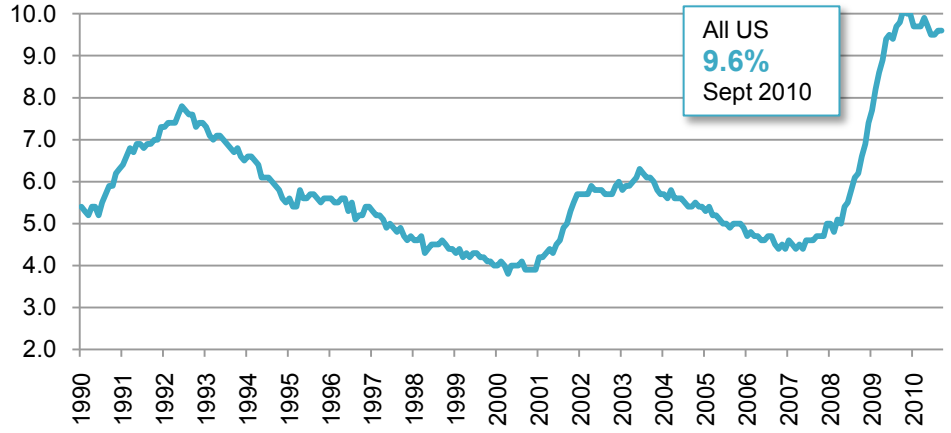
According to the same report delinquent 90+ day accounts fell to 0.84 percent in August from 0.91 percent in July and similar positive metrics applied to accounts at 180+ days.

Generally speaking the recovery is steadily underway but it is likely to be slow. Further complicating the recovery, or at least adding an element of uncertainty to the industry, is the pending new accounting rules (International Accounting Standards Board and Financial Accounting Standards Board.). Not only will these truly cause some market turmoil; there will be a cost in terms of the technology needed to support these changes. How equipment finance companies, software vendors and accountants will support this is quite unclear at this time.

1.2. Spending Trends

The US Bureau of Labor Statistics reported the national unemployment rate in August 2010 at 9.5%, a slight downtick from the September 2009 rate of 9.8%. During this same time period unemployment among full time employees across the Equipment Finance market segment increased 4 percentage points, much higher than the national average.

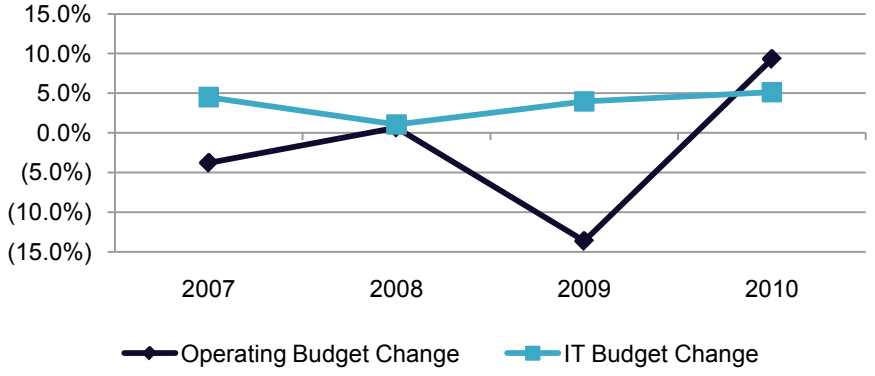
Exhibit 2. Unemployment rate: The percentage of the labor force that is unemployed, not seasonally adjusted[5]



3. The Small Business Lending Index measures the volume of financing to small businesses
4. http://www.reuters.com/article/idUSTRE6903I820101001?type=smallBusinessNews
5. U.S. Bureau of Labor Statistics - October 1, 2010

The consistent steady growth of the IT budget shows the continued focus of companies to invest in IT as a way to improve company efficiencies

Exhibit 3. Percentage change in budgets



BTPI survey respondents reported a significant boost in operating budgets in 2010 with a 9% year over year increase, while the change in the IT budget for 2010 increased by 5 percent. Over time, the BTPI has shown consistent increases in IT budgets year over year while operating budget tend to fluctuate widely. For instance, in last year's report, the respondents reported a 13 percentage point decrease in their operating budget while the IT budget still grew. The consistent steady growth of the IT budget shows the continued focus of companies to invest in IT as a way to improve company efficiencies. Over the long term, we expect actual IT budgets and spending to continue to rise as the recovery picks up momentum.

1.3. Core Back-End System Solutions… Deferred Again

There is no hiding the fact that the back-end software market is in real trouble

There is no hiding the fact that the back-end software market is in real trouble. In spite of a significant increase in buying activity in the first half of 2010, the market is showing the typical signs of stagnation and cooling. Vendors in this space have increased in number in a time when buyers are becoming fewer and the potential buyers of very large systems are exceedingly resistant to a wholesale replacement of core back-end solutions. To be sure, virtually every company running a legacy solution would like to move to an updated platform, but no more than one or two are likely to announce a new licensing agreement in 2010.

The industry has more vendors selling into this market space today than it did 5 years ago. This further complicates an already competitive landscape. There are two significant new competitors in the market and two other systems providers have significantly improved their competitive positions. Combine this with the fact that most equipment finance companies believe their current back-end platform sufficiently supports their business today and mostly will support their business in the future and the forecast for spending on back-end solutions is bleak.

In a very complex market it is uncertain whether any "best-of-bread" solutions can meet the needs of bank-owned equipment finance providers

Exhibit 4.	Strongly Agree	Agree	Somewhat Agree	Somewhat Disagree	Disagree	Strongly Disagree	No Answer
Core back-end system(s) meet current needs	22%	31%	25%	6%	3%	9%	3%
Back-end system(s) meet future needs	16%	16%	25%	13%	19%	9%	3%

Survey respondents state that most investment is going toward cost takeout, compliance or improved customer experience and this could alter the metrics shown above. For instance, in coming years, accounting and regulatory pressures may increase to a point where servicing costs associated with legacy platforms grow exponentially. Interestingly however, there is no guarantee that any of the current major software providers can address the complex needs of an integrated banking (or publicly traded captive or independent) organization on a global scale with multiple regulatory and accounting authorities. In a very complex market it is uncertain whether any "best-of-bread" solutions can meet the needs of bank-owned equipment finance providers (the most significant part of the market) or captives (somewhat easier in terms of regulatory demands, but none the less, complex).

A focus on new business generation is the number one ranked IT initiative in this year's report.

1.4. Core Originations System Solutions

The interest in core originations systems is on the rebound. As in prior post-downturn years, the market is interested in spending on technology solutions that cut costs or provide a higher level of customer intimacy. Front-end origination technology can do both and support "the channel" (more in the next section about the channel).

A focus on new business generation is the number one ranked IT initiative in this year's report. Core originations systems facilitate this goal and, while there has been reasonable levels of investment in 2009 and 2010; further investment will be made in 2011 to achieve a greater proficiency in straight through processing (STP). The originations component of the contract life-cycle is vital to "get right" to ensure quality data that will facilitate the balance of contracting, credit, documentation and eventual downstream booking and servicing.

1.5. Channel, Channel, Channel.

If we turn back the clock to circa 1999, the customer experience in the Equipment Finance industry consisted of paper-based applications coupled with phone contact and limited email communications. Customers and partners were doing the work of the finance company, and they were happy with the method of submitting applications via fax. Fast forward to 2010 and customers' expectations have never been higher. Customer web self service adoption rates are soaring and technology options now include self-service portals powered by workflow-based solutions.

Looking to the BTPI, 44% of respondents reported an increase in customers' adoption of self-service offerings. This may not seem like a high number until you consider that 38% of the respondents do not have self-service functionality at all.

In previous downturns, information technology was seen by many as part of the problem; now it is often seen as part of the solution

As you might expect with newer functionality, BTPI respondents consistently rate their new business processing, collections and customer service capabilities as being more developed than their customer self-service capabilities. These results suggest underutilized, inadequate or missing system opportunities relating to customer self-service. One would expect these ratings to converge with continued investment in this type of initiative as fully one-half of BPTI survey respondents rate customer self-service as a top 3 priority.

Today's economic environment has created significant shifts in business priorities. Companies have been forced to freeze budgets or reduce their workforces, thus making it difficult to deploy existing resources to areas of growth. Customer habits are changing rapidly. In our personal lives, we are experiencing new technologies via interactive TV, iPods/iPhone, gaming, social networking, GIS interfaces, etc. This use of the latest technology is becoming an expectation when using business applications, thereby, introducing new avenues of opportunity for the Equipment Finance company. In this context, companies require new tools to help them address the questions raised by the downturn and the Generation Y's expectations, notably;

- Changes in business priorities mean changes in business drivers and the introduction of entirely new business initiatives—but which changes and what new initiatives?
- In previous downturns, information technology (IT) was seen by many as part of the problem; now it is often seen as part of the solution—what does this new contribution of technology bring to the business, what impacts can be expected and within what timeframe can tangible results be delivered?

How companies meet the evolving expectations of the customer will be a differentiator…

Customer adoption rates for use of new technology will continue to rise, evidenced by this year's survey results. The anticipated benefits of a compelling customer experience remain high—improved customer retention and satisfaction ratings coupled with reduced operating costs for the finance company. How companies meet the evolving expectations of the customer will be a differentiator between one company's success and another's shortcomings.

1.6. Accounting Convergence Readiness

In 1976, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standards (SFAS) 13, Accounting for Leases. Over the next 34 years, FASB issued several standards, yielding an average of two changes per year. Looking purely at this volume of clarifications or changes, it indicates an overhaul of the current lease accounting standard may be in order.

After nearly four years of discussion and background work, in August 2010, FASB and the International Accounting Standards Board (IASB) issued their exposure draft for the proposed changes related to SFAS13. This delivery represents a key milestone in the convergence program of the two organizations to adapt worldwide international financial accounting standards. The FASB/IASB plans to review public comments on the draft and re-deliberate any changes to the exposure draft in the first quarter of 2011. The final rules will be completed, voted upon and issued by midyear 2011. Although, its effective date is left open at this time, it seems likely to come into full force in 2013. Therefore, companies with calendar year ends will likely begin accounting for leases under the new model in January 2013.

The proposed new standard is expected to affect the balance sheets of all companies subject to U.S. GAAP and International Financial Reporting Standards who use leasing to acquire assets or as part of their asset management strategy. Under current rules, when companies lease real estate, office equipment or other items, the lease can be classified in one of two ways:

- Capital or Finance lease, similar to a sale and included on the lessee's balance sheet
- Operating lease, represented as a rental and kept off the balance sheet

Regulators and critics have long said many companies structure the terms of their leases to get an operating lease classification and avoid showing the leases on their books, thus forcing analysts and investors to estimate the leases' impact on the companies' finances through footnote disclosures. The new proposal, if adopted, would eliminate the operating vs. capital lease distinction and put most leases on lessees' balance sheets under a "right-of-use" approach. Under a "right-of-use" approach, a company would add liabilities for its lease payments, and assets to represent its right to use the items being leased.

Not surprisingly, the responses to BTPI questions reflect the uncertainty surrounding the new pronouncement and the overall lack of preparedness

ELFA President William G. Sutton has said of the proposed approach, "…the leasing accounting model as proposed in the long-awaited exposure draft is unduly complex and will impose a compliance burden on lessees that will not result in a significant improvement in quality or reliability of financial information." For equipment finance companies, the proposed rules create several models that are not as transparent as the direct finance method, or as straightforward as the operating lease model, and create uncertainty as to which model to use.

Not surprisingly, the responses to BTPI questions reflect the uncertainty surrounding the new pronouncement and the overall lack of preparedness.

Exhibit 5. FASB and IFRS are in the process of developing new accounting standards which will likely replace FASB 13, in whole, or in part. As this has the potential to have a major impact on both lessors and lessees, please respond to the following:

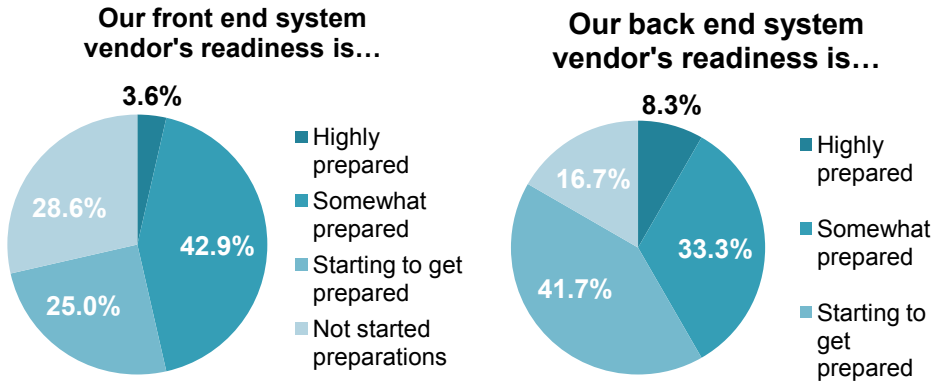
	Highly prepared	Somewhat prepared	Starting to get prepared	Not started preparation
The state of our operational processes to support the changes is…	7.1%	28.6%	50.0%	14.3%
Our company's overall understanding and readiness would be rated as…	10.7%	42.9%	35.7%	10.7%
Our readiness to deliver a seamless customer experience in helping customers transition to the new rules is….	7.1%	25.0%	53.6%	14.3%

Updating your processes or software is only a fraction of the equation. To prepare for the complexity in the regulations and the likely impact on equipment finance companies, the following initial tasks should be considered, to set the framework for the change, in a timeline that likely starts in early 2011:

1. Become familiar with proposed lease account standard
2. Create a project team with members from all involved departments
3. Verify that all software providers are working toward delivering the requirements surrounding the new rules
4. Create a detailed project plan, with a timeline that achieves the expected adoption date
5. Develop a detailed approach for updating; platform upgrades, data conversion, reporting, business metrics and measurements, credit underwriting, programs and pricing, operations processes and customer interaction

Pertaining to the technology component, vendor preparedness is perceived to be lagging internal preparedness. Close attention should be paid to how vendors are addressing this critical area.

Exhibit 6.



2 The New Relationship Between Business and IT

2.1. Business Technology

Individual users, outside of the office, greatly benefit from new technologies. In the last five years, millions of people have gained access to huge stores of data and information, which they are able to search through at high speed; they can perform increasingly complex transactions online, connect with hundreds of colleagues and friends and belong to worldwide communities, working and playing anywhere, anytime.

Information and communication technologies bring these people what Equipment Finance companies seek, but seldom achieve: a better mastery of data and information, real-time business intelligence, processes that adapt to circumstance, and a tighter and broader connection with their clients and partners. Enjoying the privileges of modern technology, individuals wonder why their employers and suppliers, and the corporate world in general, appear to be lagging. Their expectation is that companies should draw the same benefits from this available technology.

With business making technology its own, we need a new way to deal, jointly, with business and technology

In past business transformations, information technology usually took a back seat to business. At best, it was seen as an enabler of transformation; at worst, as a major obstacle to transformation. With the marriage of business and technology, the role of technology in transformation changes radically. Transforming the business or the organization without technology, would be mostly impossible. Transforming the IT organization without the strictest alignment with business, would make no sense.

For Equipment Finance companies, tangible benefits will be achieved through an improved and combined approach to transformation and technology; enabling the change through a collaborative experience.

This new era is the era of Business Technology (a name proposed by independent research firm Forrester Research, Inc.) a few years ago.[6] With business making technology its own, we need a new way to deal, jointly, with business and technology.

2.2. The Necessary Tools

In the past, high, thick walls separated Business and Information Technology. Business and IT had different people, different languages, different time lines, and different measurements. As a result, one had to throw "requirements" over these walls, and wait for the corresponding applications in return. The advent of Business Technology requires a very different relationship.

For a productive, targeted exchange, the participants need to prepare the tools of their respective trades. The business people provide the business drivers. Not only do they know what they want to achieve, they also know how they want to achieve it. Business drivers are

6. "My View: IT to BT," Forrester Research, Inc., August 18, 2006.

not just business objectives or, worse, intentions - they are, as the name indicates, the levers used by business to change the business, going after opportunities or resolving issues.

The technology people offer the knowledge of how technology works today, and they also know how technology is evolving.

The dialogue, between business representatives and technology experts will generate specific Business Technology insights, and ultimately draw a full picture of business and technology.

2.3. What Sorts of Business Drivers Do We See?

An analysis of the BTPI survey responses indicates that there are two major types of drivers: the generic ones, common to most Equipment Finance companies and specific ones, specific to one company.

- **Strategic business drivers.** An Equipment Finance company without at least one of these is hard to imagine. They define the growth or the differentiation strategy of an organization. They should not be confused with higher-level statements that express the mission and vision of an organization.
- **Translations of general trends.** FASB/IASB changes, globalization, etc. are important when they create a disruption or an opportunity, and therefore require a major company project.
- **Execution-related driver.** Focus on efficient and flexible execution within the organization or its Equipment Finance transaction lifecycle.

A significant amount of effort needs to be invested to come up with well-formulated, shared and concrete enough drivers. They should be distinct and crisp, with a defined effort, a clear end goal and timeline, and represent a workable and action-oriented statement about a desired future state. Drivers should not be too broad or too narrowly defined, such as something that only holds for a small group within the organization. “Eternal truth” statements like “we are a people company” are of little value in a meaningful discussion about Business Technology.

Examples of good concrete drivers include “being able to automate 80% of credit decisions” or “responding to customer inquiries within 5 minutes.”

In the end, each Equipment Finance organization will have to make its own strategic choices and define its own drivers.

2.4. Technology Trends that Matter Most

Ongoing evolution of technology creates freedom for businesses, notably in two ways. First, technology opens up vast opportunities for new value and innovation: It provides Equipment Finance organizations with the freedom to choose where they want to focus their energies, thus helping them achieve their business objectives. Second, and it is a prerequisite to unlocking new value and innovation, technology liberates organizations from the burden of having to manage assets that do not contribute to differentiating value,

yet consume a disproportionate part of budget, time and resources. Technology helps move away from current constraints and obstacles through simplification and standardization.

Our analysis of technology developments and this year's survey responses led to two important technology trend areas that are likely to have a profound effect on the Equipment Finance industry, now and in the forthcoming years.

2.5. Process-on-the-Fly

A new wave of service-oriented solutions enables business analysts to quickly simulate, describe, model, execute and manage business processes. This provides an unprecedented capability to change and improve a process on the fly, responding to business-critical events quickly. This flexibility increases even more with the availability of business rules systems that help to isolate the policies of the organization from the supporting information systems.

Business process management (BPM) pertains to the design, modeling, execution, monitoring and optimization of processes in an organization. With the new generation of business process management platforms, business process management becomes an activity that can be carried out virtually in real time and in near proximity to the actual business. Also, these tools help to define and manage process in the language of the business, rather than being dependent on IT tools and programming languages.

Relevant Business Drivers

Business drivers taking advantage of the Process-on-the-Fly technology typically deal with frequently changing rules and regulations, risk management, mergers and acquisitions, process and quality improvement, service management and workforce evolution.

2.6. Thriving on Data

Detailed insight into crucial data and events is a necessity for organizations that want to navigate a constantly changing, information rich environment. Equipment Finance organizations that know how to connect the use of data to their strategic business objectives are thriving on data, constantly reading, analyzing and reacting to information inside and outside the company boundaries. Intelligence becomes a real-time, integrated part of whatever system is in place. It supports decisions on the spot wherever and whenever they are needed but it also provides the deep insight to continually improve business performance and be prepared for the future. The power of data becomes even more apparent when it is made available to your customers.

Relevant Business Drivers

Business Drivers in this area typically deal with decision making, business portfolio management, performance and risk management, customer intimacy, competitive analysis, knowledge management, regulatory compliance, fraud detection and, in general, control and efficiency.

2.7. Towards Business Technology

After its wedding with technology, business is no longer the same. It will take years to fully understand the consequences, and even longer to see them fully deployed. Technology changes every aspect of the enterprise - from strategic planning to budgeting, from structures to processes, from client, customer and partner relations to the Equipment Finance transaction lifecycle.

As technology's role is different, its people need to be different—the systems architect must understand the business in depth. As its role is different, its capabilities need to be different - to serve both the foundations of the organization and its needs for high market reactivity. As its role is different, its management needs to be different—to reflect the new services orientation, services to business and services to clients.

3 Capgemini Point of View

The worst is behind the industry and the outlook is significantly better than the past 24 months. All indications are that the recovery will be slow and precarious, but it will come without a double dip. In the Equipment Finance industry certain and specific financial and technology issues will converge in 2011. This convergence will not come without an economic cost and likely cause some disturbance in the market. We are entering an era where being focused in what we do and very disciplined in how we do it will be quite important. Leaders will engage in constant financial and operational transformation. The adage of "do it right or don't do it all" should be used to evaluate the back and front office operations and technology of the organization.

In the Equipment Finance industry certain and specific financial and technology issues will converge in 2011

The reason the industry will need this high level of discipline is because, while we are in recovery, it will continue to be a slow recovery and the recovery is converging with increased regulation. The regulation of the financial services industry will permeate every aspect of what we do and how we do it. Increased reporting that is accurate, complete and compliant is only part of the regulatory equation. Regulation will likely include increased capital requirements, driving a need for the optimization of the calculation of capital and exposure. Markets and regulators will find some behavior unacceptable:

- Lack of transparency in operations; the historical "black box" approach
- Lack of robust methodologies and processes for compliance
- Poor service levels
- No defined plans for continuous improvements in technology, and process improvements that are not based on business metrics

The industry needs to get comfortable with a regulatory environment. This is not changing. What are changing, however, are the new accounting standards. This is the second key influencer of the industry. While the final rules are not out, it's clear they will drive change in the market and back office. Unlike the non-event nature of Y2K, this will represent real change and disruption. From a technical perspective many back-office systems will need major work and this will force operators to explore options in the market and potentially choose new systems. For many large companies, given the scale of their operations and the expected timeline of the accounting rule adoption (calendar year 2013), adopting the changes in a two year timeline will be a very extensive undertaking.

Customers are significantly more educated and interested in the financial products than they were just a few years ago

The third influencer is the constant demand to drive out cost—a.k.a. Financial Transformation. In 2010 and 2011 no technology initiatives are being funded without a solid justification of ROI. Key areas people are focusing on for cost reduction are customer self-service and business process automation and integration (arguably business intelligence initiatives could drive out cost also, but are more typically associated with better control/compliance.). The last influencer is the ever-important customer. Customers are significantly more educated and interested in the financial products than they were just a few years ago. This has a twofold impact. First they will demand transparency with clearly written, almost collaborative, contracts, terms and economics. Second they will (and are already to some extent) demand information and access through multiple channels—face-to-face, branch, web and telephone. Marketers and back office operators must address this with better technology to maintain a reasonable cost structure—a paradox in that more needs to be done, with less money.

4 Survey Response Statistics

The following section of the report provides a summary of the responses to the survey. Because respondents did not always provide information for each question, each table in the survey may have a different number of respondents.

1. Profile of respondents by type of Equipment Finance provider	
Bank	10
Captive	10
Independent	12
Total respondents	32

2. Profile of respondents by market segment	
Micro-ticket	4
Small-ticket	14
Middle-ticket	12
Large-ticket	2
Total respondents	32

3. Respondents' Headquarters Location	
Type	Percentage
Australia	3%
Italy	3%
Norway	3%
The Netherlands	3%
USA	84%

4. International Coverage	
Percentage Operating in more than one country	46.9%
Average Number of Countries	8.2

5. Percentage of new-equipment leasing- and lending-business volume booked in the most recent fiscal year by Region	
North America	85%
Asia Pacific	2%
EMEA	12%
South America	1%

6. Average operating and IT budgets for all respondents (in thousands)			
	2010 fiscal year	2009 fiscal year	% increase (decrease)
Operating budget	$66,559	$53,926	23.4%
IT budget	$6,589	$6,091	8.2%
IT budget as a % of operating budget	9.9%	11.3%	(12.4%)

7. Company headcount data (average for all respondents)		
	Current year Full time employees	Prior year full time employees
Total company	379	384
IT department	29	30
IT as a % of total company	7.5%	7.7%

8. Methods of service delivery for various IT related activities (by percentage of overall respondents)			
Activity	Outsourced (third party) service delivery	Corporate shared service delivery	In house service delivery
Desktop support	19%	44%	38%
Application help desk	25%	25%	50%
Application custom development	31%	19%	50%
Data center support	19%	34%	47%
Offsite / co-located data center	33%	47%	20%

The following nine (9) questions focus on the respondents rating of internal capabilities in terms of IT and Operations abilities. The respondents were asked to rate each area based on the following table of maturity definitions:

Initial	Ad-hoc processes. Systems not industry standard and do not cover the entire leasing lifecycle. Widespread use of Excel and standalone, non-integrated systems and tools.
Repeatable	Core processes established, although inefficient. Duplication of data entry prevalent. Core systems integration with supporting systems is non-existent or poorly executed. Front-end and back-end platforms have limited interface. Reporting is manual and ad-hoc. Organization is dependent on good people, not good processes and systems.
Defined	Processes are documented, standardized and well integrated with core systems. Some consideration of processes and systems is given prior to new market entry or new program development. Workflow drives processes. Two-way integration between front-end and back-end platforms. Partners are linked in through the web for new business origination.
Managed	KPIs and metrics established for processes. Systems and processes drive financial offerings. Web presence extends to partners and customers and covers a wide range of front-end and back-end capabilities. Manual data entry is minimized or outsourced, focusing internal resources on analysis and customer serving activities.
Optimizing	Continuous processes improvement. Processes and systems have become a competitive advantage for business. Financial products are highly integrated with processes and systems and some aspects of them are difficult to duplicate by competitors. Customers and markets drive system investments.

9. How would you rate your company's customer relationship management (CRM) capabilities?

Rating	Percentage of Respondents
Initial	19%
Repeatable	44%
Defined	22%
Managed	9%
Optimizing	6%

10. How would you rate your company's new business processing capabilities?

Rating	Percentage of Respondents
Initial	3%
Repeatable	16%
Defined	41%
Managed	31%
Optimizing	9%

11. How would you rate your company's back end portfolio servicing capabilities?

Rating	Percentage of Respondents
Initial	0%
Repeatable	16%
Defined	44%
Managed	25%
Optimizing	16%

12. How would you rate your company's collections and customer service capabilities?

Rating	Percentage of Respondents
Initial	0%
Repeatable	16%
Defined	44%
Managed	25%
Optimizing	16%

13. How would you rate your company's core accounting (general ledger, accounts payable, payroll) capabilities?

Rating	Percentage of Respondents
Initial	0%
Repeatable	16%
Defined	38%
Managed	34%
Optimizing	13%

14. How would you rate your company's business intelligence / reporting capabilities?

Rating	Percentage of Respondents
Initial	13%
Repeatable	31%
Defined	28%
Managed	22%
Optimizing	6%

15. How would you rate your company's compliance and controls capabilities?

Rating	Percentage of Respondents
Initial	3%
Repeatable	13%
Defined	56%
Managed	25%
Optimizing	3%

16. How would you rate your company's customer self service capabilities?

Rating	Percentage of Respondents
Initial	27%
Repeatable	20%
Defined	37%
Managed	10%
Optimizing	7%

17. How would you rate your company's project management capabilities?

Rating	Percentage of Respondents
Initial	9%
Repeatable	9%
Defined	56%
Managed	22%
Optimizing	3%

18. Average respondent ranking of IT initiatives from 1 (most important) to 7 (least important)

Initiative	Current Year Avg. Ranking
Improvements focused on new business generation	3.0
Improvements focused on lowering servicing costs	3.8
Improvements focused on business intelligence / reporting	4.4
Improvements on customer service / self service	5.1
Improvements focused on controls and compliance	5.4
Improvements focused on partner service / self service	4.9
Improvements focused on product innovation	4.8

19. Respondent identification of top 3 IT related initiatives to be undertaken with the next 18 months

Initiative	Number of Responses
Process-efficiency improvement initiative	11
Business intelligence improvements	11
Build or improve systems integrations	10
Customer self service (including web, mobile, phone, etc.)	9

19. Respondent identification of top 3 IT related initiatives to be undertaken with the next 18 months (continued)	
Initiative	**Number of Responses**
Portal for partners	9
Front end (originations) system replacement	7
Expand financial product offerings	6
360 degree view of customer / CRM	6
Compliance improvement initiatives	6
Consolidate multiple back-end platforms	4
Back end (servicing) system replacement	4
Business Process Management (automation of workflow)	3
Buy or build business-specific applications	2
Consolidate multiple front-end platforms	2
Invoicing/payment-processing initiative	2
Electronic signature solutions	1
Database Marketing	1
Outsourcing of processes	0
Outsourcing of systems / applications	0

20. Number of front-end systems (system applications) included in respondents pre-booking processes*	
Average	3.6
Low	1
High	17

21. Respondent information on front-end system applications	
Percentage of respondents with web-enabled front-end	94%

*includes CRM, application submittal/tracking, pricing, credit, documentation, funding, etc.

22. Customer Relationship Management (CRM) application information	
Activity	**Number of Affirmative Responses**
Does the company have a single, centralized CRM application	19
If CRM is not centralized, does sales force use decentralized contact management applications to track customers and leads	8
Is your CRM application web enabled	12

23. Your relationship with your core front-end solution provider can best be described as:

Activity	Number of Affirmative Responses
A strong, successful partnership	34%
A relationship with some hits and misses	28%
A collaboration that works and is growing	31%
A relationship in definite need of improvement	6%
An arrangement that we would prefer not to be a part of	0%

24. Respondent information on CRM system applications

CRM application vendor	Number of Responses	CRM application vendor	Number of Responses
IDS	6	Columbia Ultimate	1
LeaseTeam	5	Connext	1
In House	3	HCL CapitalStream	1
Vision Commerce	3	Internal FDC Development	1
Oracle	2	Reaktor	1
SAP	2	SalesChain	1
Siebel / Davis & Henderson	2	Terra Vista Software	1

25. Please specify your level of agreement or disagreement with the following statements as they pertain to your front end software vendor and application (Somewhat Agree, Agree, Strongly Agree, Somewhat Disagree, Disagree, Strongly Disagree).

	Strongly Agree	Agree	Somewhat Agree	Somewhat Disagree	Disagree	Strongly Disagree	No Answer
Enhancements to the core application are delivered regularly and they provide meaningful product improvements.	9%	50%	19%	3%	16%	3%	0%
Custom Enhancements are delivered timely.	9%	56%	13%	13%	6%	0%	3%
Technical support is high quality and responsive.	28%	44%	22%	3%	0%	3%	0%
Outsourcing of application management is available.	6%	34%	9%	13%	25%	9%	3%

26. Number of back-end systems (system applications) included in respondents post-booking processes*	
Average	4
Low	0
High	25

27. Respondent information on back-end system applications	
Percentage of respondents with web-enabled back-end	26%

*includes lease/loan accounting, general ledger, asset management, remarketing, collections management, etc.

28. Please specify your level of agreement or disagreement with the following statements as they pertain to your back end software vendor and application (Somewhat Agree, Agree, Strongly Agree, Somewhat Disagree, Disagree, Strongly Disagree).

	Strongly Agree	Agree	Somewhat Agree	Somewhat Disagree	Disagree	Strongly Disagree	No Answer
Enhancements to the core application are delivered regularly and they provide meaningful product improvements.	3%	34%	25%	13%	13%	9%	3%
Custom Enhancements are delivered timely.	3%	47%	16%	13%	9%	9%	3%
Technical support is high quality and responsive.	13%	44%	25%	9%	0%	6%	3%
Outsourcing of application management is available.	6%	44%	6%	13%	22%	3%	3%

29. Respondent internal focus on KPI's and measurements:	
Highly committed to developing measurements and measuring activities throughout the organization	28%
Used widely throughout the organization, but focus varies	34%
Focus on KPI's and measurements is more department specific with implementation on an ad-hoc basis	28%
None / Limited focus on KPI's and measurements	9%

30. Respondent preference towards core, front-end origination and back-end servicing system applications	
Purchasing an enterprise wide, package based solution from a single vendor	53%
Purchasing best of breed package based solutions from multiple solution providers	31%
Building a custom application(s) tailored to your company needs	16%

31. Respondent company reporting and business intelligence activities are supported by the following approaches (note: respondents have selected all approaches that apply)	
	Number of Responses
Use built-in reports and tools included in each application and manually combine data where needed	21
Use business intelligence tools to mine and report data from each core application	16
Currently aggregate and report data from a repository (data warehouse / mart) of all core applications	13
None / Manually construct reports from output of each application	5

32. Respondent company web based offerings for customers (note: respondents have selected all that apply)	
	Number of Responses
Request support (e.g. customer service, sales)	18
View all contract / asset information	17
Request changes to contract / asset information (e.g. address change)	12
View payment history information	11
Make payments	11
View balance and payoff quote information	10
Electronic presentment of documents	9
None	9
Execute documents electronically	7
Electronic bill presentment	5
Request a funding under a line of credit or master agreement	2

33. Please specify your level of agreement or disagreement with the following statements as they pertain to your organization (Somewhat Agree, Agree, Strongly Agree, Somewhat Disagree, Disagree, Strongly Disagree).

	Strongly Agree	Agree	Somewhat Agree	Somewhat Disagree	Disagree	Strongly Disagree	No Answer
Core back-end system(s) meet current needs	22%	31%	25%	6%	3%	9%	3%
Back-end system(s) meet future needs	16%	16%	25%	13%	19%	9%	3%
Core front-end system(s) meet current needs	19%	47%	13%	6%	6%	9%	0%
Front-end system(s) meet future needs	16%	28%	25%	9%	13%	9%	0%
Major initiatives have been delayed or rejected as a result of the current state of the economy and its impact on our business	16%	16%	13%	13%	38%	6%	0%
Organization taking a "wait and watch" approach to system replacement	9%	13%	13%	13%	31%	22%	0%

34. How are your customers' payments received?

Type	Percentage
Checks	49%
Automated Clearing House Transactions	26%
Wire Payments	16%
Direct Debit (payee initiated electronic debit)	7%
Credit and/or Debit Cards	1%
Other Payment Types	1%

35. In which of following areas are you using automated workflow

Area	Percentage
Credit	81%
Documentation	72%
Funding/Booking	63%
Customer Service	28%
Collections	44%
Portfolio Management	25%
Asset Management	31%

36. Respondent information on BPM

Percentage of respondents that are using BPM	39%

37. If using BPM are the workflows and business rules:

	Percentage
Built in to your core front end system	50%
Built in to your core back end system	32%
An off the shelf BPM package	14%
A custom application built for BPM	5%
None of the above	0%

38. Please specify your level of agreement or disagreement with the following statements as they pertain to your front end software vendor and application (Somewhat Agree, Agree, Strongly Agree, Somewhat Disagree, Disagree, Strongly Disagree).

	Highly prepared	Somewhat prepared	Starting to get prepared	Not started preparations
Our front end system vendor's readiness is…	4 %	43%	25%	29%
Our back end system vendor's readiness is…	8%	33%	42%	17%
The state of our operational processes to support the changes is…	7%	29%	50%	14%
Our company's overall understanding and readiness would be rated as…	11%	43%	36%	11%
Our readiness to deliver a seamless customer experience in helping customers transition to the new rules is….	7%	25%	54%	14%

39. Over the past year, has your end user customers use of your web self service capabilities been:

Activity	Percentage
Increasing	44%
Decreasing	0%
Remained the same	19%
Do not have self service capabilities	38%

40. If increasing, what percentage have you seen?

Percent Increase	Percentage
1% - 25%	86%
26% - 50%	0%
51% - 75%	7%
76% - 100%	7%

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