

The multi-tasker

SMBC Aviation Capital's David Swan tells *Airfinance Journal* why aviation leasing has been such a passion for 28 years, and about the work that needs to be done to take the industry forward.

With the changing world of work, not many millennials will be able to boast about working in one industry with only two companies over a career spanning 28 years. However, such is the dynamic nature of aircraft leasing that it encouraged David Swan to build a long-term career in the industry.

"I have a real sense of pride, being involved from the early days and working with so many talented individuals to help build and create what is now the global centre for aircraft leasing."

As chief operating officer (COO) of SMBC Aviation Capital, and also as chair of industry representative body, Aircraft Leasing Ireland (ALI), he is now focusing his energy into "giving back and driving positive change".

His ISTAT mandate was unique: he was the first Irish person to serve on the board of ISTAT when he was elected in 2011. "Given that Ireland had been the global centre of the aircraft leasing industry for decades, it was strange that there had never been an Irish person on the board," he says in an interview with *Airfinance Journal*.

His mission was to internationalise the association and broaden its membership and that has been successful. ISTAT's membership has doubled since 2011 to more than 5,000, with most of the growth in Europe, the Middle East and Africa (EMEA) and Asia.

Today, he still works with the organisation. He is chair of the humanitarian committee of the ISTAT Foundation which donates more than \$200,000 annually to aviation-related causes. He was also instrumental in the original evolution and design of the ISTAT PDP education initiative.

Initially a banker with KBC, Swan spent the early part of his career knee deep in restructurings such as GPA. "I learned some valuable lessons in those early workouts which have really helped me over the years," he admits.

"In the case of GPA, it was about growing too quickly while not accessing enough diverse funding to keep up with balance sheet commitments."

He also worked through the collapse of United Aviation Services, a Middle-Eastern lessor which ceased operations after the first Gulf War. "KBC Bank got stuck with an Airbus A310-200 aircraft, a very difficult aircraft to remarket. I learnt first-hand the pitfalls of financing unique aircraft types."

In 1996, he was seconded to Hong Kong, just before the handover to China, to set up KBC's aviation and project finance business in the region, making many long-time industry friends such as Robert Martin, chief executive officer (CEO) of BOC Aviation, who was then at HSBC, and Jose Abramovici, then regional head at Credit Lyonnais (now Credit Agricole-CIB).

Returning in 2001, he assumed the role of global head of aviation at KBC but soon followed a former colleague, Peter Barrett, in 2002 to the fledgling RBS Aviation Capital and has worked with Barrett ever since. Initially as a marketing dealmaker, he helped grow RBS's EMEA business (he convinced Ryanair to lease their first aircraft) before being promoted to the role of COO in 2004. The company was acquired by Japan's SMBC and Sumitomo Corporation in 2012 and continues to thrive as one of the leading industry players.

Beyond his day job, Swan has become a prominent figure in initiatives aimed at supporting the global leasing industry as a whole.

He was the founder and inaugural chair of Aircraft Leasing Ireland (ALI) and was appointed to the executive board of Financial Services Ireland in 2017.

The desire to give the industry a united voice and avoid uncoordinated action on regulatory issues in the future was a major motivation behind Swan's efforts to bring the leasing community in Ireland together to establish its own dedicated industry body.

"What frustrated me was that while Ireland had been the centre of aircraft leasing for decades, there was no coordinated voice for this high-growth global industry, no IATA [International Air Transport Association] for lessors," he says. "My wife is also involved in the industry as an aircraft trader with Aircastle."

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David Swan, chief operating officer, SMBC Aviation Capital

We have three sons and like many colleagues across the industry, I want to ensure that the industry continues to thrive here, providing great career opportunities across several disciplines. Complacency by the Irish government would be a tragedy.”

The frustration led him to do something and he saw an overwhelming need to work with the Irish government to do more collectively to support and promote Ireland as the leading global centre for aircraft leasing.

“Irish lessors own and/or manage 65% of the global leased fleet and that has to be fostered by government initiatives and education programmes,” he says.

Declan Kelly, the chief commercial officer of GECAS, Patrick Blaney, previously CEO of GPA, PwC’s Yvonne Thompson and Tom Woods of KPMG all came on board to support the initiative.

“We had the same views and decided to use Ireland’s biggest lobby group, IBEC, to get this initiative off the ground with the support of the minister of finance.”

The Irish government also appointed Swan in 2018 to the IFS2025 industry advisory committee to support its financial services strategy into the next decade.

ALI’s number of members has grown to 35 from 11 initially and all major lessors are now members.

While ALI was set up primarily as a body to represent the sector on regulatory issues, Swan has broader aspirations for the association.

He believes it can be a driver for education to train the next generation of lessors, encourage the wider adoption by the sector of technology and push for greater diversity and inclusion within the sector. The environment and sustainability will also be a critical area for action over the coming years.

Swan will pass the baton on next year. GECAS’s Kelly will take over for a two-year period next summer and Orix’s chief financial officer, Marie-Louise Kelly, will be the vice-chair of ALI. She will then be the face of the Irish-based aircraft leasing industry from 2022 to 2024.

GATS for technology change

On the edge of the *Airfinance Journal*’s Dublin conference in January 2017, Swan gathered a group of prominent players in aircraft finance in the SMBC Aviation Capital offices.

The brainstorming session included BOC Aviation’s David Walton, GECAS’s John Ludden, Milbank’s Drew Fine, Goldman Sachs’s Greg Lee, KPMG’s Woods and Jeffrey Wool of Aviation Working Group (AWG).

The idea was to find a more efficient and more modern way of trading and financing aircraft via an electronic platform. The result was the creation of the Global Aircraft Trading System (GATS), a fully electronic

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David Swan, chief operating officer, SMBC Aviation Capital

system for buying and selling aircraft and engines on lease, created by AWG.

It took about two years to get full industry buy-in to the concept, agree the basic documents and platform design.

“That was the difficult stage and I have to hand it to Jeffrey Wool in leading that process with AWG’s lessor, OEM [original equipment manufacturer] and bank members. There is now real momentum to do things differently in an industry that has operated in largely the same way for nearly 40 years. This is a big achievement,” says Swan.

“The leasing industry still functions in quite an old-fashioned ‘paper-based’ way. It has not really evolved to keep pace with the sheer volume of transactions of this multibillion-dollar industry.

“There is still lots of room for innovation in the industry but trading is probably the most inefficient area. An aircraft might be traded five or six times during its lifetime. It can often take five to nine months after an LOI [letter of intent] is signed to exchange funds, particularly because we don’t have standardised documents and we have to go through a novation process. All of which is very impactful on our airline customers as they need to have ancillary documents re-certified, re-agreed and re-signed off at different board meetings.”

What’s new? “Standardised documents have now been agreed by all AWG lessors, OEM and bank members and everything can be done online in much less time,” he says.

“We will be using an electronic exchange developed by Fexco, an Irish financial services company, which will be launched in the second quarter of 2020. All documents for a GATS trade will be executed and delivered online, with e-signatures, and once the conditions are met, the airline will only have to tick the ‘yes’ box,” adds Swan.

GATS will allow big savings of time because transaction timeframes can be reduced from five to nine months to a couple of weeks, as well as big savings on legal fees, Swan highlights.

He also praises the impact the system will have on the customer: the airline. “GATS allows the same airline controls and rights as before but essentially it will be a quicker process. It will involve less work by our lessees, effectively this will be limited to reviewing that the conditions initially agreed have been met. Many ancillary documents will not have to be re-done.”

SMBC Aviation Capital has already agreed quite a number of leases in a GATS compliant structure. “We were the first lessor to have signed GATS compliant leases; for instance, our recently announced deal with Scoot for six Airbus A321neo aircraft is GATS compliant,” he says.

A key factor in the success of GATS will be gaining the support of potentially sceptical airlines.

But Swan emphasises that the AWG members have been talking to airlines from the start. “We have been working with a panel of leading airlines for over 18 months to get their input and support. Each of the lessor members of the AWG has been speaking with their lessees promoting the initiative as a way to reduce the impact of increased aircraft trading, particularly with so many ABS [asset-backed securities] deals recently.”

He concedes that the real acceptance and understanding of GATS from the airline community will only come after a few trades happen.

“Like with any new systems, there will be some tweaks. It will evolve but it is a start. The key message to get across is the way aircraft trading is done today is unsustainable. Change and innovation is vital for our industry.”

What’s next on the horizon?

Swan was recently appointed to the board of SMBC Aviation Capital’s sister company SMBC Aero Engine Lease and looks forward to the growth opportunities that exist for this business.

Elsewhere, he continues to see other opportunities for continued positive change in aircraft leasing. “This is an industry that is only starting to embrace technology,” and he believes that there is a lot more to come in terms of innovation.

It is also an industry that has been slow, like many others, to deliver change in diversity patterns. “We need like many others to embrace change in this area to encourage more females and more cultural diversity at senior levels at the very top of organisations and to ensure that this is prioritised within the industry. Not just because it’s the right thing to do but because it will be good for business.”

Finally, he believes the industry also has more to do in terms of its approach to climate change and that each company and the industry body, ALI, has its role to play in this.

“This is where the challenges lie for the future. The executives who built this industry into what it is today now need to show leadership to respond and to proactively address these very challenging issues. That is how we can continue to develop an industry that is robust for future generations.”

As a multi-tasker, there is no doubt that Swan will continue to be at the centre of this positive change. ▲