

“We are an industry that creates value”

The last couple of years have been challenging for the car leasing industry in Europe, not least because of the re-adjustments that had to be made to residual values in the wake of the financial crises. Although the effects of the crisis are still with us there is sunshine on the horizon according to John Lewis and Renate Hemerik of Leaseurope, the association that represents the European lease industry.



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John Lewis, Chair of the Leaseurope Automotive Steering Group, is not ignorant of the challenges facing Europe, but sees opportunities for leasing companies and their clients. He told us, “This is a difficult time in Europe. In difficult times we tend to look at situations with fresh eyes. Some organisations are looking at leasing as a solution for the first time and others are seeing the benefits that leasing offers through a new set of glasses” One of the big benefits of leasing is fixed costs. “People don’t like financial surprises, certainly not in these volatile economic times.” says Lewis, adding, “Leasing doesn’t just consider the lease price, but also the Total Cost of Ownership (TCO) and provides control over fleet costs. The car leasing concept starts with defining a structured choice in terms of policy and vehicles,

and then it moves on to fixing the cost of that choice.”

“There is the finance aspect too.” adds Renate Hemerik, Chair of the Leaseurope Car Leasing Strategic Group. She says, “Capital is expensive. Leasing gives organisations access to new capital, makes sure taxation benefits are considered in funding decisions and provides secure funding.”

Do you think that the leasing industry has learnt lessons when it comes to managing residual values?

J. Lewis: “Leasing is a risk business. At times leasing companies make a loss and at other time profits. We manage risk over long timeframes with the aims of being profitable and satisfying shareholders.” R. Hemerik: “As the crises took hold, smaller cars became more attractive and the sec-

ond hand car market declined sharply. It took firms by surprise, but leasing companies take onboard this risk. Today, the second hand car market is performing better.”

Isn’t it difficult to assure price and risk consistency when technology moves forward with such a speed?

J. Lewis: “Is it changing as rapidly as you suggest? Diesel dominates in most European markets and has moved on rapidly in terms of efficiency. Take hybrid engines, in the beginning the industry was very cautious but we have embraced hybrids and I see evolution of technology, rather than a revolution. The challenge we have at the moment is the residual value of electric vehicles. With electric vehicles it is not easy to understand where the used car market is today and where it will head in the future.”

What is your reaction to claims that leasing companies are lacking transparency in their reporting?

J. Lewis: “Trust in relationships is important – so is transparency. The customer should set the expectation just as it would for other suppliers, say a cleaning company. The customer doesn’t want to know how much the cleaning company pays for a towel or a mop: they are paying for the services of the cleaning company. A company that wishes to know every aspect of expenditure should probably not





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lease, but prefers to own the vehicles and arrange their own finance. A lease company should be able to focus its resources delivering what it has committed too in the SLA. But the lease client also has responsibilities. One of the reasons that pan-European lease agreements don't work is the lack of buy-in from local countries, and that leads to demands for detail that are irrelevant when measured against the quality of service."

R. Hemerik: "My motto for lease companies is 'be transparent in what you do and what you earn, demonstrating why and how you justify the fees.'"

Are you in favor of a harmonized car taxation programme?

J. Lewis: "I can see opportunities for harmonization in the principles of taxation whether it is based on CO₂ or air quality, but I don't see direct harmonization of taxes. Certification is currently a huge problem and harmonization would enable the leasing sector to market vehicles across Europe. This would support residual values and the customer."

R. Hemerik: "Today, we have countries with extremely high car taxation

like the Netherlands or Denmark, and you have countries that are the opposite. This is a block to openness at a European level."

How is the lease situation today?

J. Lewis: "The industry is in a better position than it was in 2008. There is greater access to funding, technology and systems are improving all the time. In my home country, the UK, we have started to look how the leasing industry plays a role in the wider economy. We are exploring how our industry facilitates access to vehicles for all types of companies, how we promote the introduction of CO₂ efficient vehicles, how we control the running cost of employee mobility."

What about the maturity of the European car lease market?

J. Lewis: "The western European markets have moved from managing the metal asset to managing the human asset. In the Eastern countries we need to convince customers about the advantages of leasing, and build up and develop service networks. That's fine and these markets will move on quite rapidly."

R. Hemerik: "The fact that we have more mature and less mature markets makes leasing exciting. Leaseurope is about the collective and we are supporting local lease associations to become more professional."

What are the challenges to be successful lease company in the future?

R. Hemerik: "We face exciting and challenging times. Our business will change more in the next 5 years than it has in the past 20 years. Technology, telematics and mobility are changing the landscape and then there's new regulation and taxation schemes, and next generation labour forces to take account of. We need to keep abreast of change and be ahead of the curve." ■

Steven Schoefs

What's up with the new Lease Accounting Rules?

After several years of re-considering proposals to change the international accounting standard for leases and rental transactions, the IASB (International Accounting Standards Board, based in London) and FASB (Financial Accounting Standards Board, based in USA) have released a revised draft standard for public comment. The next step is to publish a final standard, only is not sure when.

Both Boards have modified the proposals since they were last exposed for comment in 2010. Amongst the most important changes is a revised definition of a lease.

The discussion has been going on for many years – should all leased assets be on the balance sheet of the leasing customer, giving a more complete picture of a business' financial position, and if so, how is this to be reported?

In Europe the current standard does not require operating leases to be reported in company accounts. Should this change in the future, a lessee (leasing customer) would identify the leased asset on its balance sheet and incur a corresponding liability for future rental payments.