

Leasing

The path towards sustainable growth for Europe



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What is Leasing?

A lease is when a company makes an asset it owns available to another party to use for a certain period of time.

Across Europe, different types of contractual agreements fall under the notion of “leasing”. Leases can be placed on a continuum ranging from pure financing to outright service solutions and are often a combination of both. The common feature of all these contracts is that while a leasing company (also known as a lessor) allows another party (known as the lessee) to make use of the leased asset, it is the lessor that retains the ownership of the asset throughout the contract.

At one end of the continuum, the client is seeking to finance the use of a particular asset. In these cases, the client will use the asset for a period of time which may extend up to the asset’s useful life. At the end of the contract, the client can return the asset to the lessor, extend the contract duration or have the possibility to purchase the asset. Such leases are solutions for clients to be able to finance their investment in productive assets.

Compared to other forms of finance, they are often cheaper and made more readily available. In fact, because of their ownership of the asset (which acts as a form of inbuilt security), lessors are able to provide finance in situations where other lenders are not.

The Leasing Continuum

Leases fit on a continuum....



Leases fit on a continuum ranging from financing the use of an asset to providing an asset-related service solution with most leases being a combination of an asset finance and service solution.

On the other side of the continuum, leases are designed to provide the client with the temporary and flexible use of an asset. Asset related risks and all other considerations linked to asset ownership are borne by the lessor. Lessors also provide a range of sophisticated reporting, consulting and management services to their clients. Viewed from this perspective, leasing provides a service that allows clients to outsource all of their asset-related needs to the lessor. Instead of spending time managing assets, lessees are thus free to concentrate on their core business activities.

In practice, many leases are often somewhere in the middle of the continuum and are a combination of both an asset financing and servicing solution. They can come with a wide variety of options that are tailored to suit the specific needs of a client. For instance, lessees can extend or terminate the contract to match their business requirements. They can obtain asset insurance and maintenance services from the lessor or may choose to have an option to upgrade their assets to the latest technology when it becomes available. All aspects of asset disposal including recycling, re-using or re-leasing an asset (or its components) can be taken care of by the lessor. It is precisely this tailored and flexible combination of financing and services that makes leasing unique.

Examples of Leased Assets



What can be leased?

Almost any type of physical asset can be leased as can certain intangible assets. Examples of leased assets include: plant and manufacturing equipment, IT equipment and software, printers, photocopiers and telecommunication equipment, construction and logistics equipment, vehicles and other means of transport, medical equipment, renewable energy equipment, infrastructure, utilities and property, to name but a few.

Who uses leasing and how do they access it?

Leasing is used by businesses, individuals and the public sector to obtain the use of assets.

It is easy to access and is distributed via many channels; for instance through retail banking networks, directly from leasing companies, through brokers or from vendors and dealers of assets at their point of sale.

Who are leasing companies?

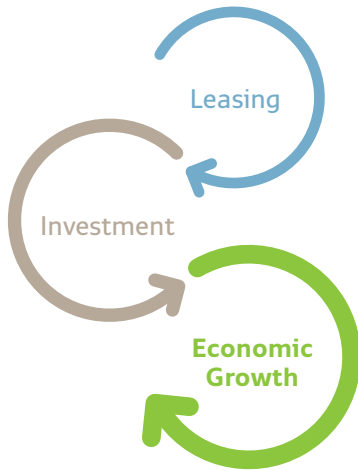
Leasing companies can be banks, bank-owned subsidiaries, independent firms or the financing arms of manufacturing companies, known as captive lessors.

Leasing and its Contribution to the European Economy

Supporting European investment

Leasing's economic importance lies in the fact that it is a major source of investment support for European businesses¹. It is used across the board by companies of all sizes and in all industries², as well as being extremely useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

In 2016, European lessors granted new leases worth about €334 billion and the portfolio of leased assets in their hands at the end of that year was worth nearly €757 billion³. In 2016, leasing enabled 26% of all business equipment investment in Europe⁴.



Leasing allows businesses and other types of lessees to manage their working capital by spreading payments over the life of the asset. Leasing also enables clients to upgrade their assets to the latest technologies so that they remain competitive. It is often more affordable and quicker to obtain than other forms of finance⁵ and provides greater operational flexibility⁶ in comparison to the outright purchase of an asset.

By helping its clients to invest more, leasing can foster greater economic growth. One study in particular has shown that a relatively small increase in the uptake of leasing would create an important boost in European GDP growth⁷.

Supporting European SMEs

It is a well-known fact that small businesses are the backbone of Europe's economy. They account for two out of every three jobs in the private sector in Europe and grow more quickly than larger firms. However, their size can also make them more vulnerable, particularly in times of crisis. As evidenced in the economic downturn, they often have more difficulty in accessing finance than larger firms⁸. According to Eurostat, one of the main reasons for this was their *inability to provide sufficient collateral or guarantees to the lender*⁹.

Leasing has, however, been a reliable source of support for millions of European SMEs, providing finance during times of crisis. 43% of European SMEs made use of leasing in 2013. Furthermore, SMEs financed 19% of their total investment via leasing, more than any individual form of bank lending¹⁰.

1) Sources: Leaseurope; Oxford Economics (2015) *The Use of Leasing Amongst European SMEs*; European Investment Fund (2012) *The importance of leasing for SME finance*; and UEAPME (2012) *UEAPME Newsflash*. 2) Oxford Economics (2015) *The Use of Leasing Amongst European SMEs* and European Commission (November 2014) *Survey on the Access to Finance of Enterprises (SAFE) Analytical Report*. 3) Leaseurope (2016) *Annual Statistical Enquiry*. 4) Leaseurope calculation based on leasing new business volumes as a percentage of gross fixed capital formation (GFCG) in equipment. Leasing volumes are taken from Leaseurope's *Annual Statistical Enquiry 2016*, GFCG equipment figures are taken from the European Commission's DG ECFIN database AMECO extracted on 13/07/2017. 5) European Bank for Reconstruction & Development – EBRD (2011) *Special Study: Bank's Leasing Operations (Regional)*. 6) i.e. the ability to match the period of use of an asset to actual needs, thus avoiding waste. 7) According to Oxford Economics (2015), a modest increase in the uptake of leasing by SMEs would add an extra 0.3% to 0.7% to the level of EU GDP by 2020. Set against the Eurozone's long term growth rate of 1.6% per annum, this boost to the economy would be significant.

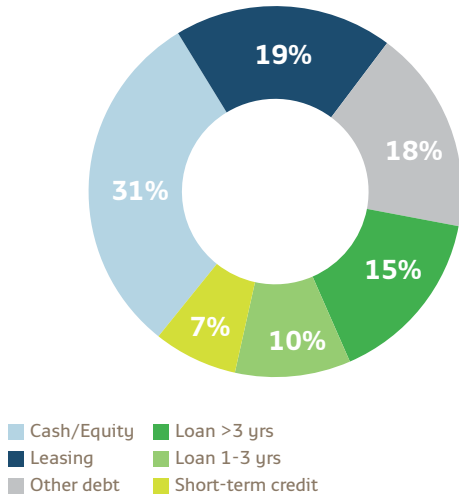
Additionally, according to the OECD, it is the financing source with the highest rate of successful applications amongst SMEs¹¹.

Why is leasing so well positioned to assist SMEs? The main reason is that it allows SMEs to finance the full purchase price of an asset *without requiring any collateral*. This is because the asset being leased *is* the collateral (the leasing company owns the asset and can put it to another use or sell it if the lessee defaults on its lease payments). For start-up SMEs that do not have a strong credit history, for those who may not be in a position to post collateral, or for SMEs in sectors that are generally perceived as being riskier, leasing is particularly advantageous in comparison to other types of finance¹². Leasing also caters well to the needs of very small firms (micro entities) which

form the category of small business that suffers the most from a lack of access to finance. Lastly, while some forms of finance are better suited for companies that are at a certain point in their lifecycle, leasing is appropriate for use throughout the lifespan of any SMEs' business.

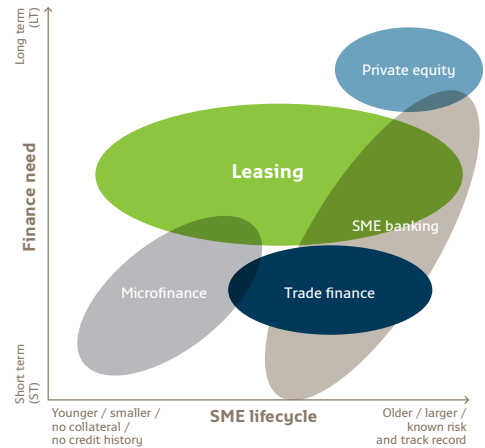
Studies have shown that the majority of small businesses witness an improvement in their business performance as a result of using leasing¹³. Additionally, SMEs that use leasing invest on average more than twice (123%) as much as those that do not¹⁴. Leasing is therefore not only a reliable source of support for SMEs even in the most uncertain economic conditions, but it also contributes to the success of their businesses and helps them increase their investment levels.

Percent of SME investment by finance type in 2013



Source: Oxford Economics/EFG (2015)

SME Finance Landscape



Source: Adapted from IFC (2008)

8) European Commission's Annual Report on European SMEs 2013/2014, A partial and fragile recovery. 9) Eurostat (2011) Access to Finance Statistics, The main reasons given by banks to refuse requested loans from SMEs were: 'Poor credit rating', 'Lack of own capital' or 'Insufficient collateral'. 10) Oxford Economics (2015) The Use of Leasing Amongst European SMEs. 11) OECD (2012) Measuring Entrepreneurial Finance: A European Survey of SMEs. See success rates in obtaining leasing compared to success rates in obtaining loans (2010). 12) European Investment Fund (2012) The importance of leasing for SME finance. 13) EBRD (2011). 14) Oxford Economics (2015) The Use of Leasing Amongst European SMEs.

Supporting European manufacturers

Manufacturing represents around 16% of the EU's GDP and 14% of its employment¹⁵. It is therefore a vital contributor to the European economy. As a result, European policymakers have recognised the need to promote the competitiveness and sustainable growth of European industry¹⁶. Leasing is very well placed to help the EU reach this goal.

The most popular means of accessing a lease is through an asset vendor or dealer at the point of sale¹⁷. This means that clients benefit from a "one-stop-shop" for obtaining both the use of an asset as well as a financing solution. This convenience provides a clear advantage for lessees in comparison to other forms of financing, which often have to be arranged separately to the asset purchase.

Viewed in this light, leasing provides a valuable

MANUFACTURERS PROVIDE LEASING SOLUTIONS BECAUSE IT ALLOWS THEM TO:

- Sell more equipment
- Sustain a competitive advantage
- Increase repeat business

Source: Challenge Consulting market analysis of 22 European manufacturers in 2009-2010

form of support to European manufacturers who use leasing as a method to sustain their sales and launch new products. By way of illustration, a survey of European construction equipment manufacturers demonstrated how valuable leasing is to this particular type of manufacturing business. Over 84% of the manufacturers surveyed considered that leasing was either key

to closing sales or an essential and integral part of the manufacturing business¹⁸. The sales support role of leasing is also visible in many other sectors. For instance, a significant portion of new cars, trucks, industrial and business equipment production is made available to end-user clients through leasing.

Enabling sustainability

As Europe tries to reduce its carbon footprint, the focus on producing and using energy efficient assets has increased. Consequently, clients demand cleaner, more energy efficient assets and leasing can help clients gain access to these assets. For instance, by allowing and encouraging the uptake of clean vehicle technology, the leased car fleet in Europe has become steadily less polluting over the past few years¹⁹. Similarly, recent research has also recognised the importance of leasing to achieve the required rejuvenation of European truck fleets in order to adopt necessary fuel-saving technologies²⁰.

Additionally, leasing can help address one of the general barriers that inhibits the development of sustainable energy production, i.e. a lack of access to capital²¹. In fact, leasing already facilitates the financing of equipment such as wind turbines, biofuel processing plants, photovoltaic panels, long lasting battery cells and so forth, allowing Europe to produce cleaner and more sustainable energy.

Leasing not only aids in replacing old, polluting equipment with cleaner and more energy efficient assets, it can also encourage the efficient use of scarce natural resources²². The fact that lessors are the owners of the assets they lease incentivises them to ensure that resources and materials that go into asset production are of high quality.

*15) Leaseurope estimates based on calculations using data from Eurostat (2016) tables on 'gross value added and income' and 'employment' A*10 industry breakdowns. 16) DG ENTR, Industrial Competitiveness, The European Commission has stated that industrial policy and competition policy are at the core of its new competitiveness policy framework and have a direct impact on the business environment in Europe. 17) Oxford Economics (2015), 79% of lessees surveyed use the vendor channel, compared to 58% for the banking channel and over 40% for the direct sales network of finance companies. 18) Committee for European Construction Equipment (July 2010) Business Barometer. 19) Leaseurope (2013) Between 2008 and 2013, the average CO2 emissions of newly purchased vehicles in a leased fleet of 6 pan-European companies active 8 European markets decreased from 152g/km to 123g/km. 20) CE Delft (2012) Market Barriers to Increased Efficiency in the European On-road Freight Sector.*

Otherwise, they will have to bear the costs associated with the asset's maintenance or replacement. Moreover, lessors are also incentivised to ensure that production materials and the individual parts making up an asset can be re-leased, refurbished, reused or recycled. As they will have to deal with the asset when it is returned after being used by the client, it is in their interest to ensure that this can be done efficiently. Lessors have specialised asset knowledge and sophisticated asset manage-

ment capabilities to deal with these often complex ownership-related issues. Alternatively, they can also bring together the expertise of a network of various other specialists where the lessor acts as an integrator of the best available asset-related skills and knowledge. The end result is a seamless lease solution for the client. At the macro level, leasing allows for a more efficient allocation of resources compared to when businesses own assets outright.

Lessors: Integrators of Asset Expertise



Leasing's Role in Contributing to Sustainable Growth for Europe

- Leasing enables European business and public sector investment.
- Leasing is particularly appropriate for small businesses and has been a constant source of support for SMEs through difficult economic times.
- Leasing is a key means of sustaining and promoting the sales of European manufacturers.
- Leasing plays an important part in encouraging the uptake of energy efficient assets and a more sustainable use of resources.



21) International Finance Corporation (2009) *Leasing in Development: Guidelines for Emerging Economies*. 22) Wuppertal Institute for Climate, Environment and Energy for the European Parliament (2012) *Leasing Society*.



The Voice of Leasing and Automotive Rental in Europe

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