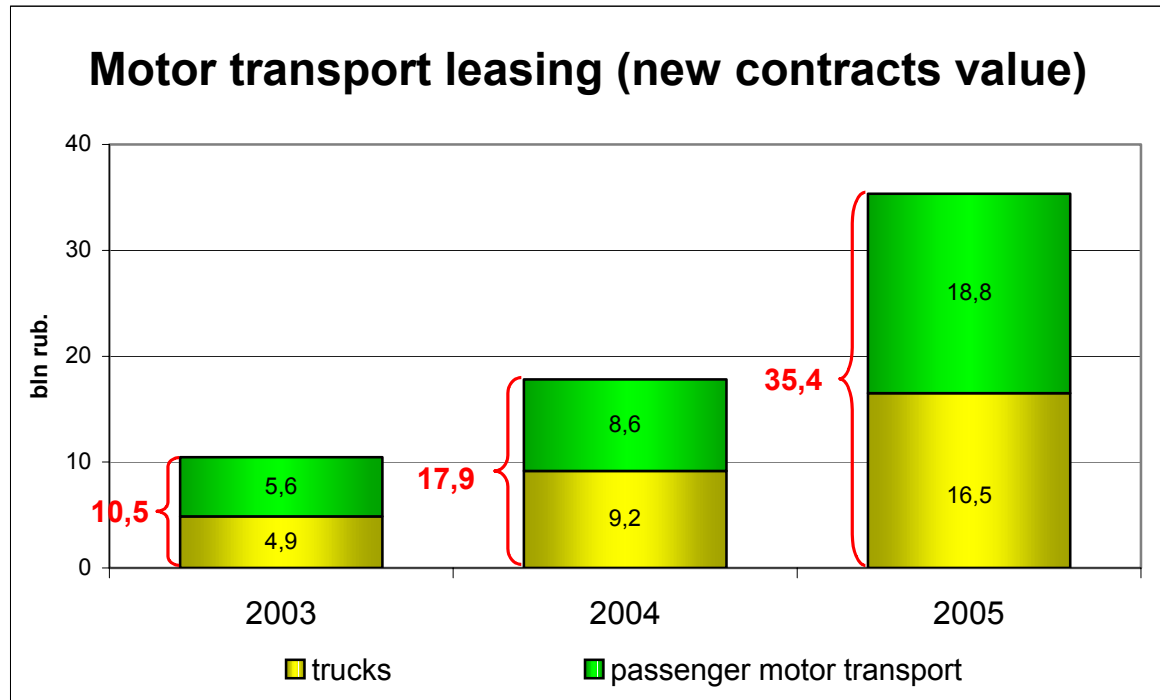


## Auto Leasing in Russia

### Auto Leasing Transactions

At present auto leasing is the largest segment of the Russian leasing market. According to ROSLEASING Association, the share of this segment in the Russian leasing market amounted to 24.3% in 2005. The volume of new leasing transactions completed in 2005 in Russia, according to our data, equaled 2.5 billion US dollars (see Diagram 1).

Diagram 1.



Source: Russian Association of leasing companies (The information collected from 111 participants)

The predominance of automobile transport among the subjects of leasing is typical not only of Russia, but the majority of other countries. Judging from the data of the European Federation of national leasing associations, LEASEUROPE, the share of auto leasing in the 27 European countries in 2004 amounted to 48.3% on the average.

The predominance of automobile transport among the subjects of leasing is easy to explain. Any automobile is qualitative and liquid from the lessor's point of view. The ownership of the leased automobile together with the advance payment, received from the lessee insure the leasing company against any possible default payments. The secondary automobile market is highly developed, which, in case of default payments, allows the lessor to compensate its losses by means of selling a used car.

Thanks to that a leasing company needs neither deeper estimation of its lessees nor additional securities. It all allows the lessors to attract a wide range of customers and serve them quicker. Customers are mostly attracted by the possibility of obtaining vehicles with out having to pay the all the sum at once. Another motivational factor is the possibility to save money on profit tax and property tax. At the same time leasing companies have become an important distribution channel for motor transport producers, suppliers usually give them a 10-15% discount on purchasing a motor vehicle. It all leads to a lower cost of transaction for the final lessee.

## **Market players**

Auto leasing segment is the most competitive in the leasing market. Out of 121 leasing companies, interviewed by ROSLEASING Association, 102 companies completed transactions in auto leasing in 2005 (see Table 2 and 3). Among the leaders of the rating on the basis of the volume of leasing transactions in auto leasing in 2005, 2 major groups of companies come out clearly. Those are the largest leasing companies, such as “UralSib”, “Globus Leasing”, “Interleasing”, and “Baltic leasing”.

The other group consists of leasing companies, founded by motor transport producers. Among the leaders of this group are: “KAMAZ”, “Scania Leasing”, “Element Leasing” (Ruspromavto), “Volvo Finance Service Vostok” and “DaimlerCrysler Leasing Automobiles” which did not take part in the survey. It should be mentioned that the majority of captive leasing companies focus on auto leasing.

Among the market leaders there are several companies that do not belong to any of the two groups. Those are “Carcade”, the company specializing in auto leasing; Rosagroleasing, the state leasing company specializing in agricultural sector (special truck for agriculture amount to 20% in the lease portfolio of the company); Atlant-M Leasing, founded by the largest auto dealer; and “Glavleasing” specializing mostly in trucks and construction equipment.

In 2005 the leaders of the rating considerably changed. The activities of Europlan turned much better after its acquisition of one of the largest operators in the leasing market, Kelvin company. The activities of Element Leasing became better too thanks to more efficient management and network development. Two relatively young companies with foreign capital – «Hansa Leasing» and «Lokat Leasing Russia», demonstrated high rates of growth. But the most impressive results were demonstrated by Petersburg Leasing Company. Its portfolio consists of one transaction on supplying 800 buses “LiAZ – 5256M” by Russian Buses company to “Mostransauto”. The cost of transaction equaled 2.2 billion RUR, leasing period – 3 years.

Most of leasing companies, emerging on the market try to focus on auto leasing as it is the segment of lowest risk transactions. Largest foreign companies that emerged in the Russian market in 2005, able to press domestic competitors, set ambitious plans concerning auto leasing. Those are such companies as ING Lease, VB Leasing, Parex Leasing, Arval (by BNP Paribas), Lokat Leasing Russia.

The reason why foreign companies are so attracted by auto leasing in Russia is that rates of growth in this segment are considerably ahead of those in Europe. While the average rate of growth of auto leasing market in Europe does not exceed 7-10%, in Russia it amounted to 60-70% for the last several years.

## **Haute concurrence**

High competition in the segment of auto leasing leads to keeping the financial rates, offered by leasing companies, on the same level. Competition is shifted to different spheres. First of all, the main goal is to make pendency of an application quicker. The thing is that most of lessees in the segment of auto leasing are medium or small enterprises. Usually they operate with rather high rates of return and even a week’s timeout may matter significantly. For the sake of making the pendency of applications quicker, leasing companies introduce complex automated management systems, scoring systems for evaluating prospective lessees on the basis of statistics of previous transactions. Some leasing companies claim that they are able to make a decision on any application in several hours.

Another goal for the competitors is to promote their activities in the regions. It should be mentioned that the rating leaders have the widest network of all the rest companies. After all, representative offices in the regions speed up transactions, make leasing more affordable for the customers and make the cost of transactions lower for the lessee.

And finally, another sphere for competition between auto leasing operators is development of new leasing products. We shall discuss this in details and mention several new major products of leasing promoted by leasing companies at present. It’s worth mentioning that

new leasing products emerging in the market of auto leasing (the most competitive and developed segment in the Russian market) show the direction for the development of the Russian leasing business in the future.

### **Full-service leasing**

This product presupposes that a leasing company apart from its main function – purchasing transport and putting it to lease – executes a lot more: paying all the taxes, registration of the transport unit, insurance and maintenance of the car. The lessor may even take a wider range of responsibilities: choosing the vehicle depending on the needs of the customer, working out a structure for planning and renewal of the customer's car fleet, supplying the customer with cars in case the leased cars are out of order, maintenance, repair works, changing winter tires, providing a fuel card.

This type of leasing transaction is very popular in developed countries. At present motor transport full-service leasing is offered by many Russian auto leasing operators.

### **Operating leasing**

Operating leasing implies that the equipment/transport is transferred to the lessee for the period less than the equipment depreciation period. After that the subject is returned to the lessor, and the lessor leases it to another lessee. Quite often customers prefer not to obtain transport on the basis of finance leasing, but renew their fleet with the help of operating leasing.

In Russia operating leasing transactions turned to be set equal to rent and were deprived of tax advantages after the adoption of the Federal Law dated 29.01.2002 #10 FZ "On amendments and additions to the Federal Law "On Leasing".

Practically, operating leasing transactions are carried out as follows. The subject of leasing is transferred to the lessee (usually for a period no longer than 6 months) on the basis of financial leasing (with tax concessions). After the return of the subject of leasing to the lessor, it is transferred to another lessee but on the terms of rent. According to lessors, what attracts customers in this leasing product is the possibility to renew the funds, without having to sell the out-of-date transport on the secondary market. At the same time tax concessions are of no significant meaning.

According to the estimation done by ROSLEASING Association, in 2005 the volume of operating auto leasing transactions amounted to no less than 300 mln US dollars (in 2003 it was only 300,000 US dollars). In 2003 only 2 companies, in 2005 – 8 companies, completed such transactions. Those are: Volvo Finance Service Vostok, Globus Leasing, Baltic leasing and others. The growth of the operating leasing transactions without tax concessions shows the great demand for this financial mechanism.

### **Leasing for physical entities**

From the point of view of the Russian legislation "leasing for physical entities" is understood as rent with the right for further purchase. However from the point of view of the scheme of the transaction, it resembles leasing transaction in the worldwide sense.

First of all this product attracts non-corporate entrepreneurs. It is widely known that small business, especially in the regions, do not present any accounting reports and do not pay taxes. That is why such businesses are not interested in tax advantages of financial leasing. More than that, financial leasing may be more of a burden to them as a consequence of the obligation to register the subject of leasing and leasing payments in the accounts.

Just like in the case of financial leasing, leasing for physical entities provides a more reliable transaction for the investor because the subject remains in the investor's property till the end of the leasing term. This leads to less strict requirements for customers' creditability and transaction securing.

In spite of nontransparency of small business enterprises, according to most lessors, those are the most creditable institutions. The thing is that very often for small business enterprises

subject of leasing (for instance, trucks) is the main source of income. That is why the debtor can limit himself as much as possible so as to make a leasing payment.

Forecasts for leasing for physical entities are very optimistic. In quite a number of European countries leasing for physical entities has the major share in local leasing markets. For instance, in Germany this segment has 9,2% of the leasing market and the subject of leasing of these transactions is mainly motor transport. In Russia this financial product may take part of the auto loan market, the volume of which amounted to more than 2 billion US dollars in 2005.

Few companies in the Russian market offer such service as leasing for physical entities. Those are Stolichnaya leasing company, Svoyo Delo (Own Business), Nezavisimost Land Rover and etc.

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