



AUTOMOTIVE FINANCE STUDY 2016
THE EUROPEAN MARKET
AND ITS FUTURE CHALLENGES

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1. EXECUTIVE SUMMARY

The automotive market is facing disruptive changes from various directions. Elon Musk has advanced the competition to a new level that most companies were not yet prepared for and a new generation is challenging classical mobility concepts. Additionally, digitalization has already changed communication channels with clients and has the potential to structurally change the business model of the automotive sales industry.

The same applies for automotive finance companies, both captive and independent, as their business is directly affected by the same changes, in some cases even more noticeably due to the more digital character of their business.

To explore the impact on the automotive finance market, Eurogroup Consulting conducted a two-fold analysis. On the one hand, interviews with 20 decision makers from 16 automotive finance companies have been conducted to create a deep insight into opinions and visions of some of the affected companies. On the other hand, market research of the car market and the automotive finance market in six European countries was performed.

The study shows that automotive financing is still and will continue to be a core market for financial service players to cover. However, competition rose dramatically in the last decade especially as non-captives re-entered the market (after leaving it during the financial crisis) with better product coverage and ever increasing connections with car dealers.

All players are aware that digitalization and multichannel, as well as answers to the new mobility concepts, are not only nice to have, but crucial for survival. However, although interesting single answers and services exist, most companies have no clear overall strategy covering the entire impact of digitalization.

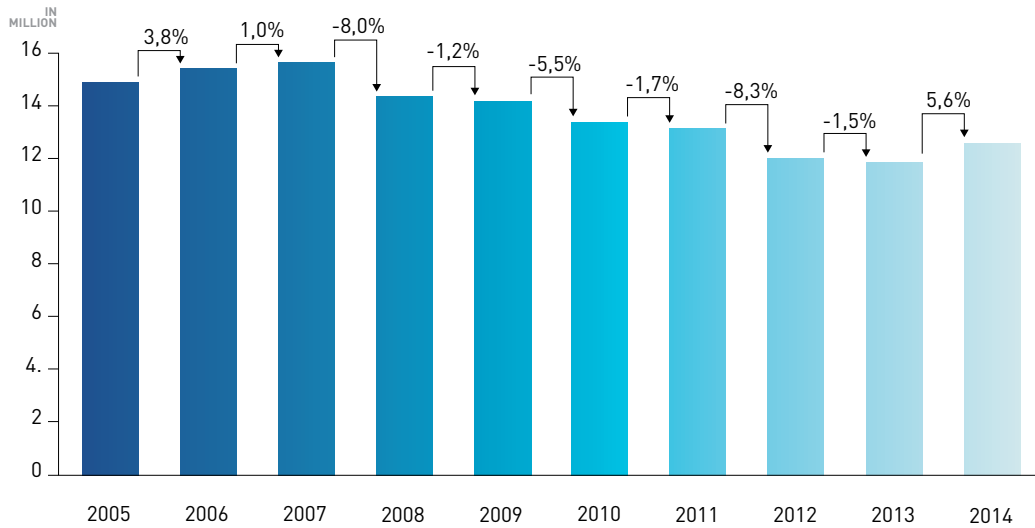
2. MARKET ANALYSIS OF THE AUTOMOTIVE SECTOR IN EUROPE

Globalization requires mobility. A decline in the effects of globalization is currently not in sight, nor is a decrease in demand for mobility. Global mobility is as relevant as mobility in the literal sense of everyday trips and travel, both business and private. Although more and more people live in cities, most of them are still dependent on cars. The main reason for an increase of passenger car registrations are the divers. Demand for mobility increases especially when living and working take place in different locations. Furthermore, occupational mobility has expanded and become normal. Also, leisure activities and holidays require more mobility than they have in the past.

To understand the reasons for the development of automotive financing and the related change in finance products, it is important to take an overall look at the development of and factors influencing the automotive markets in Europe.

There are significant differences between the automotive markets of the various European countries, mainly due to cultural diversity and different economic situations. However, the markets have gone through similar developments in recent years. Triggered by the financial crisis in 2008, the number of car sales decreased in all markets. In 2014, some markets started to recover and showed an increase in registration of new passenger cars. As a result, new car registrations in Europe reached 12.55 million. This reflects an increase of 5.6% compared to 2013 and was the first positive growth rate in six years. Nevertheless, registrations are still far below the peak before the financial crisis. At that time almost 16 million registrations were counted.

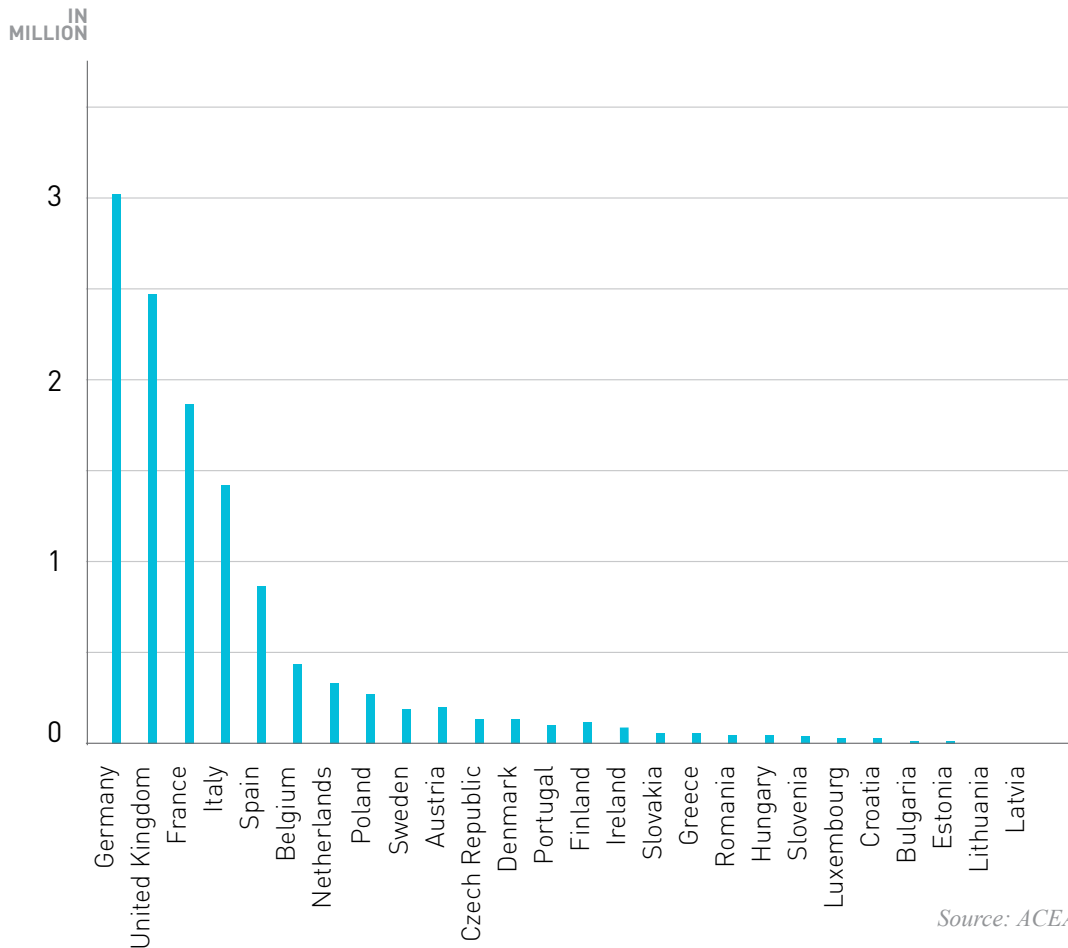
New passenger car registrations in the EU



Source: ACEA

In June 2015 significantly more new passenger cars were rolling onto the streets again. New registrations in Europe rose by 14.6% to 1.36 million. As of today, almost every automotive market in Europe has recovered from the financial crisis and has returned to positive growth rates. In terms of new passenger car registrations, the differences between the automotive markets in European countries are apparent. The following chart breaks down new passenger car registrations by country in 2014.

New passenger car registrations by country in 2014



In total, more than 9.5 million new passenger cars were registered in Germany, the UK, France, Italy and Spain in 2014. The number of registrations in Europe is mainly driven by the recovery of these markets. In Spain the number of registrations rose by 18.1% followed by the UK (+9.3%), Italy (+4.2%) and Germany (+2.9%), while registrations in France remained stable (+0.3%). In almost every European country, new passenger car registrations increased between 2013 and 2014 except in Belgium (-0.6%) and the Netherlands (-6.9%).

Considering the ownership of cars per household in the leading automotive countries, these markets are highly mature. For example, in Germany 85%, in France 83% and in Great Britain 75% of households own at least one car. These are countries with well-established car brands. Cars also have high relevance in these countries' societies, which is an explanation for the maturity of the markets.

Furthermore, the average car price has been steadily increasing in these European countries. In the last 5 years the price increased in Germany by 26%, in France by 20%, in Great Britain by 18%. The influencing factors are varied, from a longer list of special features including high tech and safety features, to the use of higher quality materials and last but not least rising inflation over the past decades. As a consequence, the demand for financing products has been rising, since more and more customers are searching for external sources to finance their car.

A positive growth rate in registration, a high percentage of ownership per household and an increasing average car price emphasize the attractiveness of Europe's automotive financing markets.

When it comes to automotive financing, customers in Europe prefer the on-site financing at car dealers, mainly carried out by captives or specialized actors (e.g. Santander Bank).

Reasons for the success of on-site financing are twofold:

- ▶ Nowadays, captives are able to provide at least the same contractual conditions as traditional banks e.g. the same interest rates.
- ▶ More importantly, captives cooperate with car dealers as they usually both belong to the same corporate group. Thus, they are very present through out the whole buying process, starting from when customers begin informing themselves up until the final contract is signed (one-stop shopping). This is the captives' true competitive advantage over banks.

As a result, captives have gained an ever increasing market share and become leaders in the automotive financing market. In order to retain their position as market leaders, captives have extended their product portfolio by offering further automotive specific financial products like insurance and other additional services. Also, Captives have further strengthened their position by offering traditional banking products e.g. saving accounts or credit cards. Besides the retail business, captives also offer financial products to dealerships.

There are three factors that have a significant impact on the automotive financing market and might be a game changer for finance institutions: a value shift in the society, increasing digitalization and the development of electro mobility.

2.1. SOCIETY SHIFT IN VALUE IN WESTERN EUROPE

According to different surveys, a shift in value is taking place, especially amongst younger generations. Fewer and fewer young people are acquiring their driver's licenses as soon as possible. They are changing their priorities and would rather spend their money on smartphones, fashion or travelling. Moreover, the emotional connection to cars is decreasing. Cars remain important, but only as a means of transportation. The focus of mobility lies in the rational point of view of getting from A to B, rather than on the emotional decision of owning a car. As a result, the car's meaning as a status symbol has decreased. But how does this affect automotive financing? Due to the value shift, the interest in car ownership has dropped and thus, the attractiveness of the automotive financing market has declined. Nevertheless, mobility is still important. As a consequence, the market for financial products is shifting from financing to leasing.

Another result of the cultural value shift is expressed by the trend towards car sharing. Besides the decreased importance of ownership, the lack of parking spots in cities and resource scarcity, and therefore increasing gasoline prices (at least in general if not in 2015), are the drivers for the success of car sharing. In a nutshell, car sharing combines three megatrends: mobility, urbanization and neo-ecology. There are different varieties of car sharing, from short-term rental (business to consumer) to p2p sharing (private-to-private, consumers share their own car). The trend of car sharing has just started but is already gaining a lot attention. Car manufacturers have realized this business opportunity and extended their product portfolio. They have become mobility service providers e.g. BMW with DriveNow or Mercedes Benz with Car2go. But also non car manufacturers offer mobility services such as Autolib (short-term rental), Blablacar and SnappCar (online communities for p2p sharing).

A new rationality towards sustainable acting in everyday life has established itself. The maxim is «using instead of owning». Thus, banks are facing a challenge due to decreasing demand for financing as ownership becomes less important. On the other hand, there are new business opportunities due an increasing demand for leasing in the private sector and mobility services.

2.2. DIGITALIZATION

Digitalization is affecting the automotive market in several manners. One influencing factor is a change in customers' behaviour during the buying process. More and more customers are searching for a suitable car and a suitable financing product online instead of physically visiting the dealer. As a consequence, the customer is detached from car dealers. Thus, more importantly, captives are detached from the customer as well. This might be the most significant impact on the automotive finance market as the captives lose their competitive advantage over other banks. In addition, car dealers, captives and banks are facing a new challenge in positioning themselves online to offer new and innovative channels of communication to the customer.

The second way that digitalization has been influencing the automotive industry in the recent past is in terms of new features for the car. Due to innovative technologies, digital connectivity services such as new safety features and different levels of autonomous driving are feasible. These services require the latest technology through which the car becomes a high tech product. As a result, these new technologies are driving up production costs and therefore increasing the average car price.

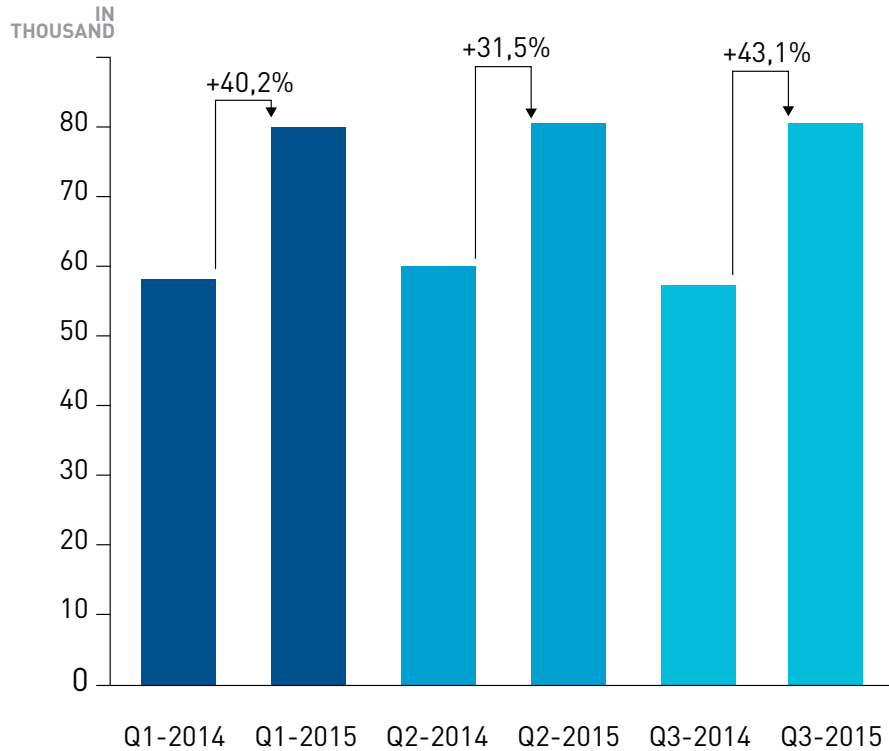
2.3. ELECTRIC VEHICLES

When it comes to the transportation of the future, electro mobility is the main topic, even though this technology is even older than traditional combustion engines. At the turn of the 20th century different types of drive systems were competing with each other. Electro mobility captured the rails, but not the streets. Here, the combustion engines won out due to better infrastructure, cheaper fuel from oil and much longer range when compared to the electric engines.

100 years later, it looks different, and electro mobility is experiencing a renaissance at all levels. This is due to the fact that the basis for combustion engines are mainly fossil fuels, which are not available in unlimited quantities. Due to the growth of the world population and the increasing industrialization of the emerging markets, the demand for oil is constantly increasing and as a result, in the medium and long term prices for all commodity sectors will rise. Therefore, new solutions and alternative drive systems are necessary to address the shortage of fossil fuels and to contribute to environmental protection as well as emission prevention. In the «BLUE Map scenario» with the goal of cutting greenhouse gas emissions in half by 2050, the International Energy Agency (IEA) estimates that by 2050 nearly 80 percent of passenger cars being sold will be plug-in hybrid, electric or fuel cell vehicles.

Another driver for the success of electro mobility is a change in the society's mind set. In Europe people's mind sets are becoming "greener" as they begin to care more and more about the environment. They are more sensitive to pollution due combustion engines. Therefore, it has come to a shift in mobility in favour of the environment friendly electro engines. The greener mind-set and the progress in electro mobility technology led to a higher demand for Electrically Chargeable Vehicles (ECV) in the EU as the following graph shows (ECV includes pure battery electric vehicles, Extended Range Electric Vehicles and Plug In Hybrid Electric Vehicles).

Total electrically charged passenger car registrations in the EU (% 2014/2015)



Source: ACEA

In 2014, 75,331 new ECVs were registered in the EU. That reflects a rise of 36.6%. Looking at the EU's major markets: the UK experienced the highest increase over the year (+300.8%), followed by Germany (+70.2%) and France (+29.8%). Looking at the EFTA countries, Norway ended the year in first place with 19,767 registrations, more than doubling the registrations recorded in 2013 (+140.8%).

In order for new ideas for electro mobility to have a chance, they must be affordable for customers. Yet, electric vehicles are still more expensive than conventional ones. However, experience shows that some users - the so-called early adopters - are willing to pay higher prices initially, if the framework conditions are right. For example, with special lanes for electric vehicles, reserved parking spots or tax incentives, «the appeal of electric» cars rises. Furthermore, competition is a good driver for innovation. The more the market develops, the more costs can be cut and the more people will decide to buy an ECV. However, as long the technology for electro mobility does not reach the tipping point, the prices for an electric vehicle will remain high. In order afford these high-priced electric vehicles, customers search for external financing sources. This leads to an opportunity for banks and their financing products.

As already mentioned earlier, the automotive markets of the European countries differ significantly from each other. Because of this, risks and chances resulting from the trends cannot be applied equally to all countries. The individual automotive markets as well as the country specific trends will be discussed in the following chapters. Based on the findings, business opportunities for financing companies can be derived.

3. STAKEHOLDER INTERVIEWS AND TREND ANALYSIS OF AUTOMOTIVE FINANCE

In the following country analysis sections, the individual markets are introduced and analysed to give deep insights into their individual characteristics. The information provided is based on comprehensive research and therefore presents a representative cross-section of the automotive finance business. But this only paints a quite general picture of the whole market. To go into more details and to gain deeper insights and internal expertise a couple of interviews have been conducted with upper management representatives of financial institutions like banks and leasing companies, in combination with industry insiders like captives, renting companies and dealers.

For this a questionnaire was developed focusing mainly on business and financing models and trends. The interviews were conducted in the same six countries that the ones in scope of the detailed analysis (see page 28 and further). This offers the possibility to compare the general research statements with the statements of the interviewed experts. Overall 20 interviews were conducted within the six countries which provides a representative sample to support the statements explained in this following section. The following graphs give an overview of the companies interviewed per country.

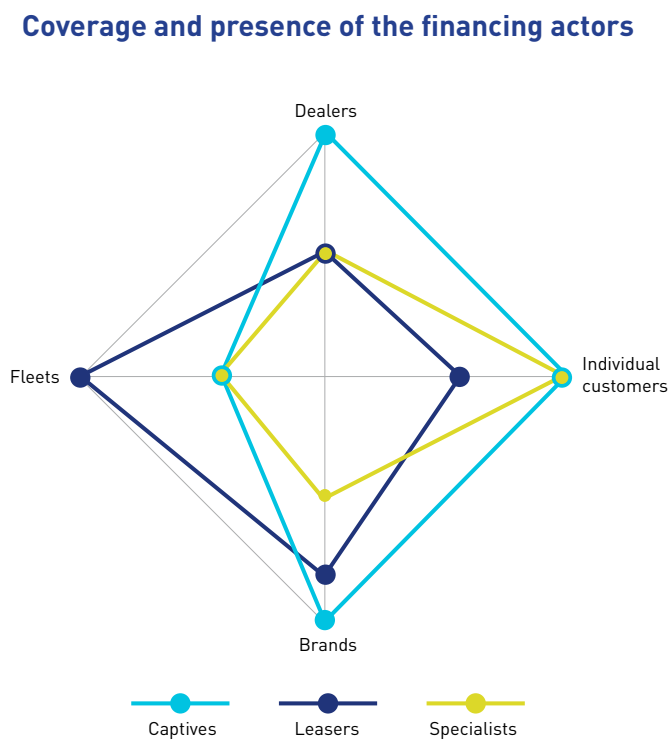


3.1. THE BUSINESS MODEL OF AUTOMOTIVE BANKING HAS EVOLVED

The business model of car sales is evolving and it coincides with a deeper change in the business model of automotive financing: used cars are now bringing in more profit than new cars, financing companies are paying bigger bonuses to dealers than car manufacturers, and services and extra activities (other than new cars sales) have become the main income of the dealers.

During the years of the financial crisis, traditional banks left the automotive credit sector. They devoted their funds to other sectors such as real estate loans, which were considered to be much less risky at the time. This provided an opportunity for automotive financing companies to develop in 4 categories: private customers, fleets, dealers and “brands”.

Here is the coverage of the 3 main actors in these 4 categories:



This graph shows that the strategy of the captives is to cover mainly their own auto-brand, but also individual customers and their dealers. Additional work should be done in order to be able to meet all fleets’ needs. On the other hand, leasers are much more fleet oriented and try to respond to all brands’ needs while they are not fully fulfilling individual customers or dealers expectations. Specialists’ business model is clearly to tackle all individual customers’ needs and try to extend in the brand and dealer networks.

(No) Change in the business model strategy

The in-house financing business model seems to be very resistant to the financial crisis. Even if car sales have decreased in recent years, the market share of the captives has increased to reach more than 30%. The main principle of in-house financing is the “one stop shopping” principle that brings everything the customers need into one place, the dealership. The final objective of the business model would be that one customer could come once to the dealership and would be able to leave with his new car, bought, financed and insured. Captives’ business model is quite robust as it covers a big part of the market needs: brands, dealers and individual customers should all find the products they are looking for in the captives’ offer. As it is already the right answer to the customers’ needs, this business model will probably not shift dramatically, although additional products or services may appear. Captives seem reluctant to take high risks; it is therefore likely that dealers will remain the point of sale for their products, and their voice towards the customers.

The main advantage of captive companies lies in the ease of the overall acquisition experience. In the context of tough competition in the market, it’s no longer enough to simply provide financing. Captives are maximising their value proposition by providing a single point of contact for the client, qualitative product expertise, putting an easier system that covers the choice of the type of vehicle, financing and insurance at the client’s disposal.

On the other hand, a disadvantage of captive companies can be seen in the limited opening to the market imposed by the restricted number of advertised brands, whereas the independent firms have no such restrictions.

In terms of clients, the attention shifted towards a new segment, the small fleets. These fleets, around 10 cars, are starting to gain significant weight in the portfolio of operational leasing companies. This segment has great growth potential in the coming years as the benefits of operational leasing are becoming known within it, leading to an increase in requests for this service. As it is a new field, the niche is still treated cautiously and the companies are developing special programs and offering personalized advice throughout the entire acquisition process.

Are automotive financing institutions considered real banks?

Today, insurance companies offer banking products. Banks offer monthly phone subscriptions and insurance products and in the last couple of months, they also started to offer cars. Automotive credit specialists have started to offer “deposit” products. However is it enough for specialists to be fully considered as banks?

Automotive financing companies usually offer credit, leasing, insurance and services to customers. They offer credit lines and real estate loans to dealers. They create securitizations based on their credit and leasing portfolios. Most of them offer online deposit accounts. In some countries, some of them have already started to extend their business to other goods such as real estate or personal loans. They are not far from offering the whole range of banking products (current accounts) and means of payment (credit cards). Specialists that are usually banks’ subsidiaries do not see any added value in offering current accounts and means of payment. Nevertheless, captives have started to think about it and even if it is seen as a complete change to its core business. According to some of our interviewees it is a necessary evolution, especially because traditional banks are coming back into the automotive financing business.

In France, in the past couple of months, banks have started to re-enter the automotive finance business. They have developed new credit and leasing products, and have begun communicating that they sell cars directly. They are using their customers’ knowledge and portfolio in order to overtake captives and specialists and get the customers approval before he even enters the dealership. Customers could even buy the car directly in the bank, without having to go to a dealership.

These new competitors will change the environment and increase the competition both inside and outside of the dealerships.

Specialists, captives and leasers have identified different objectives in the coming years in order to increase their market share and expand their portfolios.

Leasers, who have signed an agreement with all brands, are able to offer a unique service to companies that need multiple brands and models. They represent a unique interlocutor with whom large companies can get multiple leasing offers and services for all brands. They also offer a unique software package to their customers in order to manage their whole fleet. According our interviewees, leasers' main commercial focus will be to extend their customer base. They will not try to address individual customers, but will focus instead on smaller companies with a few vehicles in their fleet. In order to reach this new objective, leasers will have to convey the benefits of their products, which are already well known by big companies, to smaller companies.

Specialist consumer credit actors only have to worry about one thing: creating a strong and long lasting relationship with dealers. Indeed, their presence in the dealership is disliked by the brands and especially by the captives. In order to reinforce their presence in the dealerships, they have to count on an aggressive commercial strategy that has already achieved good results: offering dealers a higher percentage of the commission than other automotive finance companies do. As the margins in the cars themselves drastically decreased, dealers needed to find new revenues. The sale of financing products, car insurance and services has become an important compensation.

The main difference between captives and specialists is the level of the commissions given to dealers. Both captives and competitors will coexist as long as the latter offer higher commissions than the former. In order to maintain such relationships, new positions have been created in the dealerships, specializing in the financing and the follow up of the sales objectives of the financing companies and the bonuses for reaching those objectives. The sales objectives captives propose to dealers range from 25 to 35% when around 60% of cars sold are financed. Dealers carefully reach first the captives' objectives and then offer other products from the outside specialists.

Last but not least, captives must offer complementary services to be competitive. They have developed specific products that can be offered to customers who finance their cars: extended warranties for used cars, additional discounts on new cars, and exclusive service offers. Their business model also relies on their links with car manufacturers and dealers. They are usually using the same system in order to make the salesmen's life easier. All the information from the cars is directly input in the financing system, it saves time and has simply become a part of automotive sales.

Captives have developed a common sales strategy with the brands in order to create a unique line of communication from the salesmen to the customers. Captives can also use the car manufacturer's data in order to offer the right products and services.

Innovations and specific products will be the keys to attracting new customers

In the coming years, products proposed by financing companies should be innovative enough to attract customers and make their lives easier. Financing industries may have resisted change for too long focusing on their margins and ignoring the changes in their own market. They are now obliged to close the gap, learning fast with Fintech companies and other 100% digital companies.

For instance, in Germany, one bank has already started to offer dealers the possibility to put a QR code on all price tags. If the clients scan the code, they end up on the bank's webpage where they can enter their data (address, salary) and have a 100% online credit check. The next day, a list of interested clients is sent to the dealers. The main advantage for the customers is that all his data is saved and will be prefilled if he comes back to continue the credit application process. The advantage for the dealers is that they receive the contact information of the customers who are interested in the car and get all the information in order to contact them again.

In France, banks have started national TV campaigns based on the fact that they will negotiate the price of the car instead of the customer. Customers will go to a dealership, check the price they can get, and then go to their bank to see if they can get a better deal. Offers like this has two main advantages:

- ▶ The banks can rely on a specific offer before trying to negotiate the price with their dealers/partners;
- ▶ Even if the banks cannot negotiate a better price, they have in front of them genuinely, interested customers to whom they can sell their financing offers.

In Germany, another bank offers ID card reading devices to dealers: clients can put their ID card in and all required data is directed sent for credit check and then, again, directed back to the dealer.

New and innovative products will serve the same objective: make dealers work easier and customers' credit application process more simple.

Customers' data is the key

The management of customers' information has become a real challenge as the financial institutions deal with much more information about the customers than they or the car manufacturers could reasonably use in order to offer customers additional services.

Knowing when to contact the customers, who should use which information and what to offer, are the next main challenges for the financial institutions to solve.

Indeed, car manufacturers own some customers' data related to the car, but financial institutions have the financial data. The end of the contract might be the right timing to offer the customers new commercial services, to upgrade their car and their financing. Who should contact the customers? Should it be the car manufacturer? The financial institution? The dealership that sold the car a couple of years before? When is really the best timing to do so? These are questions and strategies that will have to be refined in the future in order to fully understand the customers and succeed in the act of selling new cars with, if possible, the financing that goes with it. According one of our interviewees, the client is seen as the consumer of a variety of services, not just a single product (the car).

Big Data

The digital car is coming. The connected car will revolutionize our mobility - this is a logical development. In modern cars, without electronics almost nothing would work. Even small cars have more computer capacity on board than the first Space Shuttle.

But connectivity requires data. Computer and control units of a car collect, store and partly transfer data. One of the data sources in the car is certainly the navigation system, based on GPS data the driver is led to the desired destination. Thereby, travel data is collected and stored.

A larger data source is the combination of sensors, control units and the telematics control unit (TCU). Control units with large computer capacity process information that is collected by the sensors, while the TCU is responsible for the data transfer. Thus, almost every electric signal can be translated into information. For example, detailed information about speed, braking performance, acceleration, wheel speed and lateral acceleration can be detected. Primarily, this information serves to monitor key vehicle components to ensure is used to trouble-free and safe driving. However this information also allows to draw conclusions about driving behavior. After an accident, for example, this information is interesting to the police. Would the driver agree to provide and share such data?

The fact that drivers agree to their user data being collected depends on the purpose. The following is a study by the International Automobile Federation (FIA). For the study 12,000 car drivers were interviewed online in twelve EU countries.

Almost all interviewees emphasize that connectivity should be switched off when required (96%). 7% stated that they already own a connected car. Nearly one in five assumed that the next car will be a connected one (18%).

For the service "breakdown management", 86% of drivers would provide their data. More skepticism exists towards providing data to auto manufacturers (61%) and app developers (21%) in general. Drivers have the biggest concerns regarding the commercial use of their data, the usage of private information (each 92%) as well as hacker attacks (87%).

In summary, drivers reflect an opportunistic behavior in terms of their data. They are more likely to provide data if the service they get in return is valuable.

One example of a potential valuable service is a new model of car insurance. The idea is based on pay how you drive (PHYD). The way you drive is the underlying factor for the calculation of an individual insurance premium. That means cost saving potentials for responsible and careful drivers if they provide their data. Another influencing factor on the insurance premium is the driver's GPS data as such data reflects the operating region of the driver. The riskier the region is (e.g. accidents due to high traffic or car theft risk), the higher the insurance premium will be, and vice versa.

A further possible valuable product is more customer tailored service and maintenance. Thus, service and maintenance are more oriented to the car usage e.g. in terms of the way a customer drives, total distance driven p.a. or differentiation between city and highway trips.

In general, with access to the driver's data more tailored services are possible, which are generally more valuable to the customer.

Ownership and usage of data

The data usage of a connected car still falls into a grey area, because the relevant legal provisions are missing. For example, car manufacturers are able to receive information from the vehicle's systems that the brake discs of a particular vehicle are worn. The manufacturer could use the information in order to initiate measures to organize a workshop appointment to replace the breaking discs. The use of information, however, is prohibited to the OEM due to data protection, despite the fact that those measures would increase traffic safety significantly.

Legal requirements are related to additional data protection issues: who owns the data collected in the vehicle? The owner of the car, the operator, the OEM or the provider? Is the owner of a vehicle allowed to track the vehicle to know where it is? Such information is of great interest, especially for companies with a fleet, vehicle rental companies or even for parents whose children have recently acquired a driving license. Furthermore, does the owner have the right to know what kind of data is generally recorded in the car?

Since no legal decisions have been made yet, the ownership and usage of this type of data is regulated by the terms of conditions of the OEM. The OEM give out terms and conditions, which permit them to use anonymous data, however, the purpose must be regulated and the customers must agree to said use. Currently, comparable terms and conditions for banks and insurance companies do not exist.

3.2. THE FUTURE OF DEALERS

Knowledge is shared with customers

All the people we interviewed agreed on the fact that the most significant development in our society is that customers are gathering much more information about cars than they used to do. It has become usual that customers check the offers several times on the internet or at different points of sale in order to find the best one. Customers not only verify the offer, but they check and gather all the information about the car, its options, services and financing, if he needs it. Customers arrive in dealerships knowing at least as much information as the salesmen.

Dealers and salesmen will have to offer more additional services to the customers than just information about the cars. Financing or insurance offers could be part of this added value, as is the availability of a test drive.

The other idea shared by our stakeholders is that nowadays, dealers have to regain customers' trust, while offering them good products and services, but above all correct answers to their questions.

In the automotive financing market, the customer care experience is a critical aspect. In order to ensure client satisfaction, the attitude towards him has to be professional, yet friendly, so that he can have easy access to the desired financial product, personalized for his needs. To measure the customer care experience, the company has introduced an evaluation system through which the dealers' performance is monitored monthly, both regarding the main product sold (the vehicle) and the financial product.

Internet versus car dealers

The main reason why people have started to buy online is that the price is lower. It is quite new that Internet sales have become easier than traditional shopping.

For the moment, the car market still seems reluctant to use the internet channel in almost all countries in which we conducted interviews. Indeed, it seems that for some products, it is still necessary to see and test the product before buying it. Dealers should therefore continue offering customers test drives and assistance that cannot be offered through the internet.

Let us think about the example of the music and video market. Music and video distributors have disappeared because of the facility to receive these products instantly and on demand. Are the car dealers also in danger? According to the interviewees in all countries in which we have conducted interviews, dealers will remain the main distributors for the brands. In the Netherlands, for one car manufacturer, online sales have been tested, but the cars are still delivered in the dealerships. For now, brands are not ready to abandon their dealers, but once again, as in the other markets, customers will be the ones to decide about it, and as long as they see an added value in going through dealers, they will keep on buying their cars through that channel.

The future of the dealers is in their salesmen's hands

Even if the salesmen are not very highly regarded, dealers will have to count on them in order to regain volume and customers' trust. Most of our interviewees, will put salesmen at the centre of their strategy as they are in direct contact with customers. They will influence customers' choice on cars and options. Salesmen should be perfectly trained in order to answer any questions a customer might have. Last but not least, they should have the right means, IT tools for instance, in order to reach their objectives. Salesmen are also the ones that will use customers' data in order to increase their loyalty, offering them opportunities to buy a new car. Dealers will also have to change the way they manage their salesforce, increase their training and compensation in order to reduce the turnover and increase their competences.

Financial institutions should not forget that the financing products and services sold in the dealerships are proposed by the cars salesmen for whom the sale of the financing product is not the priority. Indeed, their priority is the sale of the car.

Dealers must become financing specialists thanks to (or because of) the new regulations

Financial products and services have become more and more complex and numerous and governments of all European countries we analysed have decided to toughen the regulations. Regulations require additional and technically specific information to be given to the customers. In order to be in compliance with the consumer credit laws which become stricter every year, financial institutions will have to adjust and reinforce their training processes and deeply modify their sales methods.

In the Netherlands for instance, dealers have had to deal with major changes in the past few months with the new WFT (Wet Financieel Toezicht) law. Since July 1st it has been against the law for car salesmen to advise customers on financial products such as car loans. To still be able to provide car loans to consumers, a workaround was found by some financial institutions. During the sales process with a customer interested in a loan, an e-mail is sent to the financial institution. The sales process is then paused, and interactively taken over by the financing institution. That immediately sends back offers to the potential customer, after which the original sales process can be resumed.

Although this is not a very handy or desirable way of working, for now this is the only way to handle this situation. It is not feasible to hire someone with the right certifications in the dealership, since these certifications are very difficult to obtain.

Other institutions have had to deal with serious changes in operation since the new WFT was implemented. Another captive prepared itself for the changes caused by the new WFT, creating a new department focused on advising consumers; a task that was previously done in the dealerships.

In the Netherlands, a captive offers a complete private lease package, with mandatory insurance included. Apart from this offer, there are also dedicated lease companies active on the market. An important difference between captives and dedicated lease companies is that lease companies are only subject to rules from the VFN (Association of financing companies in the Netherlands), focused towards the business market. For finance companies such as captives the WFT law applies, while there is also a regulatory body (the AFM, Authority for Financial Markets) that oversees its business. For the captive, private lease contracts do fall under the WFT, which means that an unfair playing field is created when compared to lease companies. To mitigate this problem, a new joint hallmark is being implemented for the business market, which will be overseen by the AFM. If this hallmark proves itself to be strict enough, it will be maintained. In general, captives are content with the duties they are required to fulfil by the government. They are however not very happy with the fact that for every advertisement they need to place a banner stating "borrowing money costs money". It seems that in applying these strict European rules, the Netherlands belongs to the front runners in the active usage of this rule in Europe.

Dealer's network: Small is not beautiful

The financial crisis has clearly challenged the brands' network. The new car market decreased, and the small dealers were not selling enough cars to survive: the breaking point, or the number of cars to be sold in order to survive, has increased. As a consequence, the brands' network has been reduced in the majority of the European countries in which we conducted our analysis.

Small and risky dealers have disappeared to benefit bigger dealers in good financial condition. These dealers saw the opportunity to increase their size in order to become a counter power to the brands themselves. Their size allows them to negotiate with the brands in order to have better margins and services, and allows them to offer better services to their customers (coverage, choice, etc.). The breaking point has increased, but the interviewees still do not know how big the dealers should become in order to adapt to customers' and brands' needs.



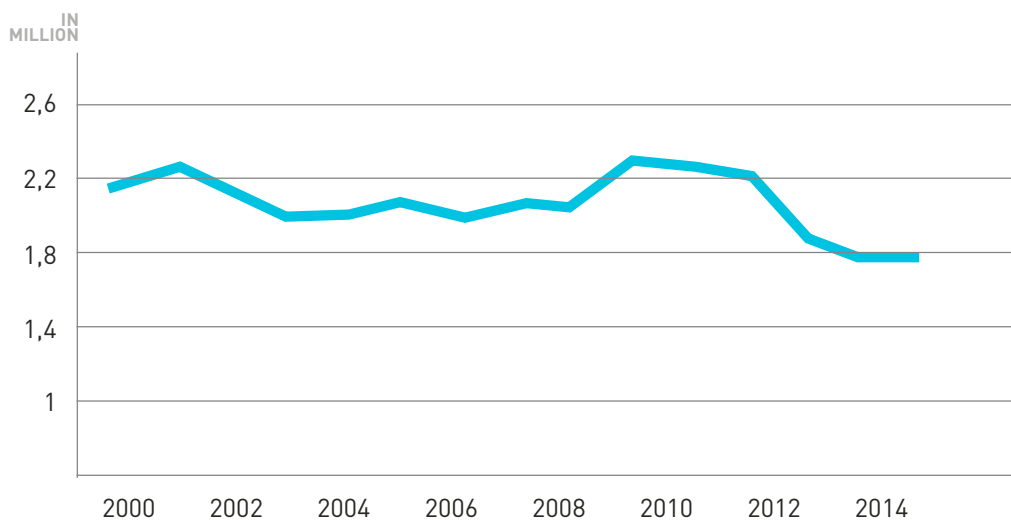
4. FRANCE

DETAILED ANALYSIS OF THE AUTOMOTIVE FINANCE BUSINESS

4.1. AUTO SALES / FINANCE

After 10 years and 2 million cars sold, the French car market started to decline in 2009 with the financial crisis and the following recession. The highest decrease was recorded in 2012 when the number of new cars sold dropped by 14% from 2.204 million cars sold to 1.898 million cars sold within this year.

New cars sales in France



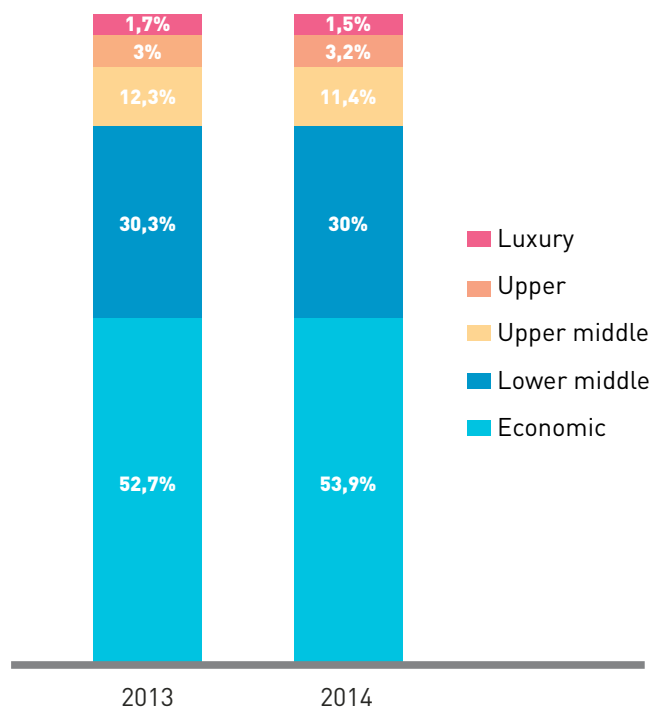
Source: CCFA

Nevertheless, since the beginning of 2014, the French car market shows good signs of recovery. The individual car market has slightly increased in 2014 - (+0.3%) mainly due to French auto manufacturers - (+3.9%) while registrations from foreign companies were still decreasing (-3.8%). In 2015, the majority of manufacturers seemed optimistic as current 2015 figures are very encouraging: according to the CCFA, in the first seven months of the year, the sales of cars increased by more than 5% compared to the same period in 2014.

French people started to buy again, but smaller cars

As we can see in the following chart, the increase of the market is mainly due to economy class cars. Indeed, in 2014, economical cars have increased their market share (from 52.7% to 53.9%) at the expenses of mid-sized cars (which decreased from 42.6% to 41.4%).

2014 French auto market Registrations by ranges

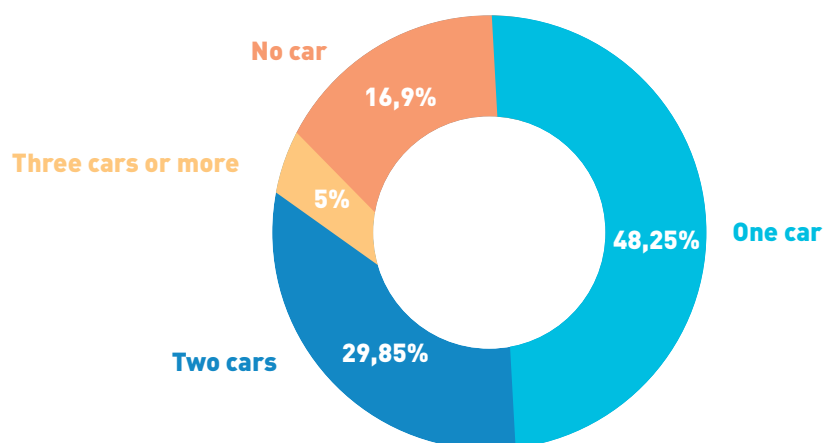


Source : Tableau de bord 41 - CCFA

The trend seems to continue in 2015: the category of economical cars is still increasing.

4.2. THE FRENCH MARKET IS MATURE

Ownership of cars in France in 2013 according to INSEE



The French automotive market is a mature market, as around 85% of the households own at least one car. But the market has some particularities when compared to other European markets:

- ▶ around 80% of cars are diesel while in Europe the average is below 50%,
- ▶ city-run cars are most often sold,
- ▶ 55% of new cars belong to the category “midrange cars”,
- ▶ Sales have not seen the same increase as other countries, mainly due to the resistance of the French market facing the 2008 crisis,
- ▶ Last but not least, more than 60% of new cars are bought with credit, leasing or personal loans.

According to INSEE 2013 statistics, the number of cars owned per household is quite high: **Close to 85% of households own at least one car**, and almost one third of households own two cars.

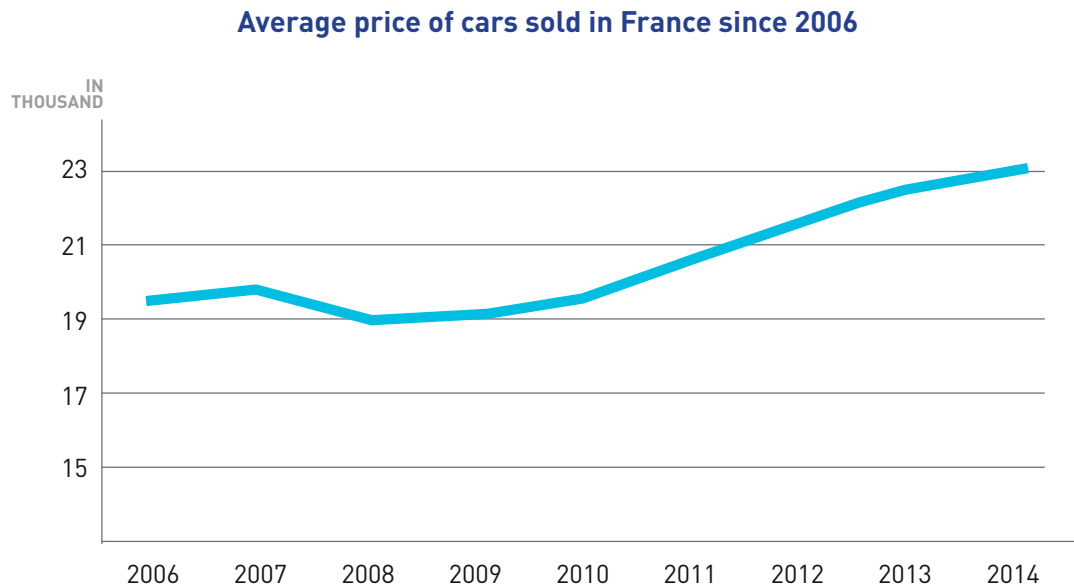
Thus, the French automotive market can be considered as an ageing market. According to 2014 figures of the “Comité des constructeurs automobiles français / French car manufacturers comitté – CCFA”, the average private car is 8.7 years old. Back in 2008, it was 8 years old, and only 6 years old in 1990 according the INSEE.

The French market is essentially a Franco-centric market. According to the last 2014 dashboard published by the CCFA, the top 10 models sold in 2014 were manufactured by a French company.

PROUD TO BUY FRENCH!

4.2.1. COUNTRY SPECIFIC TREND IN AUTOMOTIVE FINANCE

The increase of the average car price constrains to find new financing solutions



Sources: l'Argus and le Figaro.fr

In France, as in all main European markets, the average price for a new car is increasing. According to l'Argus, a French website specialized in the automotive industry, the average price for a new car sold in France was around 19,000€ in 2008. **It reached more than 24,000 € in 2014, which represents an increase of 25% in 6 years.**

The increase is mainly caused by three factors: firstly, French brands changed their strategy and decided to upmarket their range, which led to improved quality and equipment, but inevitably resulted in a price increase. Secondly, on December 31st, 2010, the French government stopped giving the "prime à la casse," an incentive given to the customers in exchange for trading in his old car. Lastly, the average car price is also linked to inflation, which has increased by at least 8% in the last 6 years.

As a consequence, customers tend to look for external resources to support their purchase, which car manufacturers have clearly understood. In the past 5 years, advertising campaigns have evolved from communicating about their "starting price" offers to referencing a "low monthly installment".

As an illustration of this phenomenon, websites from France's main car manufacturers (PSA, Renault, VW, Daimler, Mercedes and BMW) always quote the prices of their car followed by information on monthly installment. For car manufacturers, pursuing this option has many advantages:

▶ **Attractiveness of the monthly installment**

Monthly installments are very attractive as they can be combined with the cheapest car prices or extended to long duration, high down payment and residual value. All these options lead to a low monthly installment and appealing offers. But the brands should be cautious with the way they communicate: advertising extreme options will cause customers to raise an eyebrow in suspicion. This is why some manufacturers tend to either advertise their standard product (with some financing options such as down payment or type of product) or simple offers without any specific options “ex: 399€ with no conditions”.

▶ **Lower commercial discount**

Since 30% to 40% of customers decide to use the in-house financing presented in advertisements, brands have decided to give them additional funds. Additional advantages arise in form of a decrease in the standard interest rates, the offer of additional car services or even additional bonuses.

▶ **Keeping the residual value of the car to a fair price for the customers**

The catalogue car price is now becoming a reality where it was previously only just a reference. In an effort to stick to their initial catalogue price, car manufacturers no longer offer additional discounts to each and every customer. Particularly when it comes to launching a new vehicle, the additional discounts which used to be generously applied led to a sharp decrease in residual value. This strategy was mainly used by French manufacturers as Germans had already understood the importance of residual value. More recently, since prices shown in catalogues tend to reflect the prices which are applied continuously during the life of the vehicle, the residual value can be better anticipated and slightly increased.

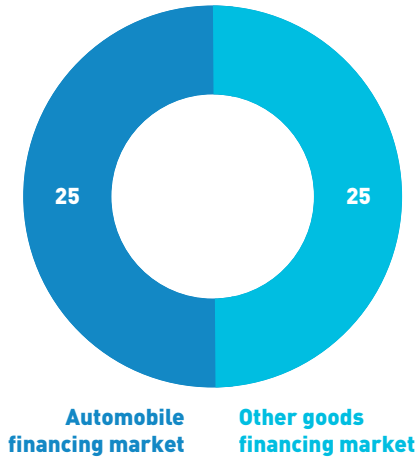
▶ **Increasing the group margin**

If customers decide to utilize an in-house financing option, the turnover and margin of the captive will be consolidated in the manufacturer’s financial results. Giving additional bonuses to the captive that will end up benefiting the customer creates a win-win situation: customers get additional discounts and the consolidated margin of the car manufacturer increases.

Because of all these advantages, brands generally advertise monthly installments rather than their “starting prices”. This has led the relationships between brands and their captives to tighten, while brands which do not own an in-house financing have developed partnerships with financial institutions, enabling them to offer similar financial services to their customers.

4.2.2. AUTOMOTIVE FINANCE MARKET, FIGURES AND ACTORS

2012 credit market in France (in billion €)

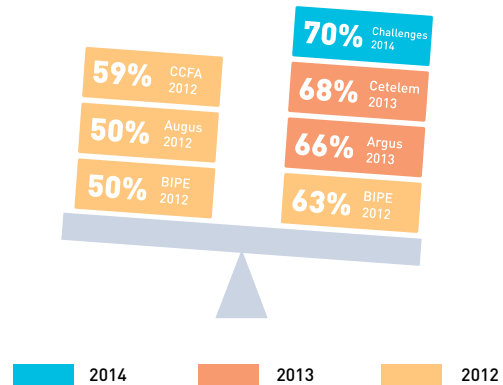


In France, the automotive financing market represents 50% of the entire credit market. According to the 2012 BIPE figures, the value of the automotive financing market comes to approximately €25 billion.

Source: BIPE

60% of cars sold are financed.

Finding official figures about the financing of cars sold in France is quite difficult. Captives have a good view of the market shares, but dealerships are the ones who know exactly how many cars were sold with financing solutions. According to different official sources from 2012 to 2014, **it can be estimated that around 60% of the cars sold in 2015 will have been financed on credit or through leasing.**

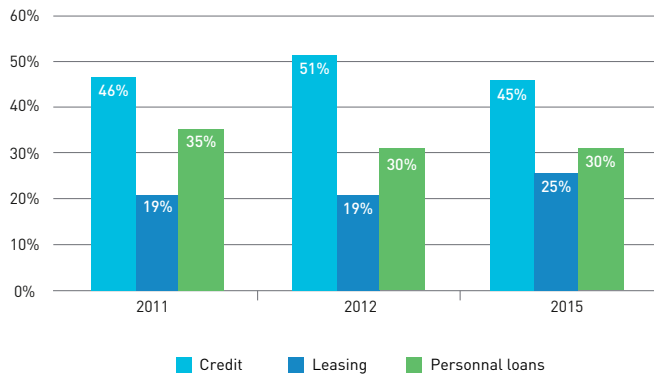


Sources: different websites

40% of cars sold are financed in dealerships.

Statistics regarding on-site financing sources also differ greatly from one information source to another. Generally speaking, it seems that **35% to 40% of cars sold are financed directly on-site** at the dealerships, through captives or specialized actors who train salesmen to promote their products.

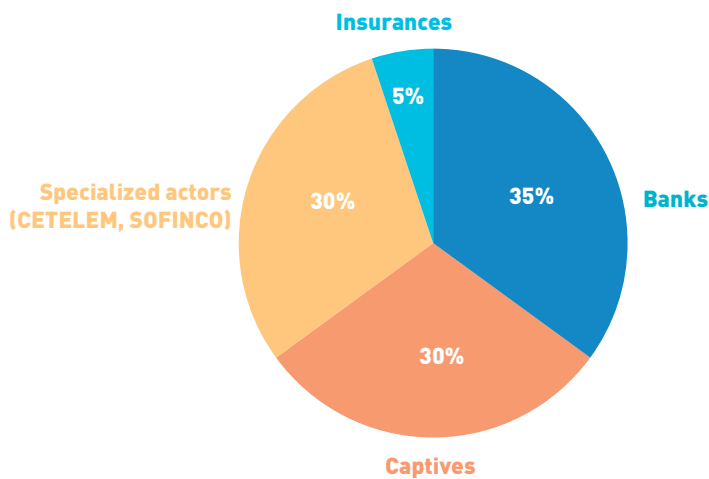
Share of the financing products sold



Source: CCFA figures and Eurogroup estimates

In 2012, according to CCFA figures, around 61% of new cars sold were financed through credit. Among these sales, 51% were financed through a credit product, which is more than personal loans as they represent only 30% (especially through banks and specialized institutions outside the dealerships) and finally, 19% are financed via a leasing product. In 2015, it is estimated that the number of leasing products sold has increased to 25%. The number of personal loans, on the other hand, will likely remain at the level of 2012.

Automotive Finance Markets Share in France from BIPE sources in 2012



Source: BIPE and Eurogroup estimates

In 2012, captives and specialized institutions had a roughly equal market share, each one controlling 30%, while banks reached 35% of the market.

Since then, the market share controlled by the banks has declined in favor of the captives. Indeed, the latter has maintained 30% of sales, which could be considered to represent at least 50% to 60% of financed cars.

4.3. PRODUCTS AND SERVICES OF AUTOMOTIVE FINANCE

Promotion of operational leasing

For a long time, private customers financed their cars via credit, whereas professionals preferred leasing. This differentiation in the financing modes had two reasons: first of all, the French society promoted the concept of ownership, which thus became a distinctive social criterion. The second reason is that leasing products have always been more oriented towards businesses due to tax issues and tariffs. But schemes have evolved and presently, private customers are no longer interested in the ownership of their car. Private customers are also looking for additional services and added value, and are interested in easy and all-inclusive financing products.

Financial institutions and car manufacturers understood the new customers' demands and modified their leasing products and advertising in a way that is more oriented towards private customers. Leasing products are now offered to both professional and private customers and are promoted in all advertising and car manufacturers' websites.

Today, operational leasing - LOA (Leasing Avec Option d'Achat) in French - seems to be the ideal option for all stakeholders: for car manufacturers who wish to sell more new cars, the typically short time span of a LOA (3 to 5 years) as well as its high residual value tends to encourage the customers to exchange his car for a new one at the end of his contract. For customers looking for a single all-inclusive financing product, the LOA offers many services and options which are meant to ease the customers' worries.

Financial institutions tend to prefer this solution, as the cost of risk is lower than for credit products: not only do they still own the cars, they are also assured that all the maintenance and servicing will be done in time and in their own dealerships, these services being included in the contracts. Last but not least, dealerships are given the opportunity to create a stronger relationship with their customers on an extended timeframe, not having to discuss the price anymore as the services are already paid in the monthly installments.

This could explain why, in July 2014 for the first time in France, the business of LOA exceeded the business of credit by 269 million euros.

Products and services offered by the main captives

The five main captives offer the usual credit and Leasing products.

For the past couple of years, “balloon loans” have emerged in an attempt to compete with the LOA. Compared to LOA, balloon loans offer a lower monthly installment (the last installment amounting more or less to the residual value of the car), less services and allow the customers to become the owner of the car. Such a product carries much more risk for the financial institutions as the last monthly installment is much larger.

Main financial products offered by captives in 2015

	Credit	Balloon loan	LOA
RCI Banque	●	●	●
Banque PSA Finance	●	●	●
Volkswagen Financial Services	●		●
BMW Financial Services	●	●	●
Daimler Financial Services	●	●	●

Main financial products offered by specialized actors in 2015

	LDD Long term leasing	Leasing	Fleet management
Arval	●	●	●
ALD Automotive	●	●	●
LeasePlan	●	●	●

In the past couple of years, financial institutions have widened the array of financial products offered to costumers. Very similar to the diversification taking place in the banking market, with banks offering insurance products and insurers offering banking products, captives and specialized actors promote additional services attached to their initial financing products such as car insurances, car services (warrantee, maintenance, assistance, battery rental), other insurance products (GAP insurance, borrower insurance), fleet management systems or payment cards.

Main services offered by captives in 2015

	Financial lost insurance	Automotive insurance	Warantee extension	Maintenance	Assistance	Battery rental
RCI Banque	●	●	●	●	●	●
Banque PSA Finance	●	●	●	●	●	●
Volkswagen Financial Services	●	●	●	●	●	●
BMW Financial Services	●	●	●	●	●	
Daimler Financial Services	●	●	●	●	●	

Main services offered by specialized actors in 2015

	Financial lost insurance	Automotive insurance	Maintenance	Assistance	Pneumatics	Replacement vehicles
Arval	●	●	●	●	●	●
ALD Automotive		●	●	●	●	●
LeasePlan	●	●	●	●	●	●

63%

According to Argus, 63% of customers who decided to finance their car have added at least one service to their financing such as credit insurance, 24/7 assistance, warranty extension or other services made available by the financing company. In their 2014 annual report, Banque PSA Finance claimed that around 2 service contracts were sold for every one financing contract, which correspond to a penetration rate close to 200% (in 2014: market share for services was 195% in 2014 versus 184% in 2013). RCI Banque service results are lower but also on an upward trend, with a penetration rate of 73% in 2014 versus 62.7% back in 2013.

Additional products offered

▶ Dealerships products

The second main activity after the Retail business is the Corporate business, with products offered to dealers for their stock financing, buildings or Working Capital Requirement. Stock insurances are also available through the in-house insurance companies. Additional credit products can be designed according to each dealers' needs. Captives are the specialists of choice for these types of products, but some banks can also offer these products.

▶ Savings accounts

Since 2011, RCI Banque offers a savings account which is managed exclusively online. This new product is part of the refinancing strategy of the bank, aiming to reach 30% of its refinancing needs in 2016 through savings activities. At the end of 2014, RCI Banque managed 6.5 billion euros of savings in 3 different countries (Germany, Austria and France) which represented 26% of its needs, and successfully began offering savings accounts in the UK in 2015. Since 2013, Banque PSA Finance also started offering a savings account product based on the same business model. At the end of 2014, Banque PSA Finance managed 2.1 billion euros of savings in 3 different countries (Germany, Belgium and France) which represented 10% of its needs. Cetelem, subsidiary of BNP Paribas and specialized in consumer credit, also started to aggressively advertise their savings accounts in 2011.

As of today, the financial institutions that are specialized in the automotive financing do not offer any other banking products.

Fleet management software

As captives are not specialized in big fleets, their offer in terms of fleet management software is quite poor. Indeed, such software requires the management of several brands and pieces of information which are not always known by the captives.

▶ This type of service is left to specialized actors such as ARVAL, LEASEPLAN or ALD Automotive who signed agreement contracts with all car manufacturers and are able to manage all types of cars, services, products, and brands in different locations.

4.4. A NEW TREND: CAR SHARING IN FRANCE

For the past couple of years, French people have been at the centre of the development of a new economy: car sharing.

▶ **Electric car sharing**

After several unfortunate attempts from car manufacturers (such as “Peugeot by Mu”), one of the richest and most well-known French entrepreneurs, Vincent Bolloré, launched the first 100% electric car sharing solution. “Auto lib” was inaugurated in Paris in December 2011. Since then, more than 3000 “BlueCars” and 6600 charging points and parking spaces were implemented all over Paris and its suburbs. Initially launched in Paris, it was later introduced in Lyon and Bordeaux and contracts have even been signed to expand “BlueCars” to Indianapolis, London and Singapore. The 100% electrical car sharing service is a success and answers many urbanite’s mobility needs. If they do not use a car on an everyday basis, Vincent Bolloré’s solution deters them from buying a car.

▶ **Long-distance car sharing**

With a recent fund-raise of € 200 million, Blablacar, the French start-up has become the largest long-distance ridesharing community. The website connects drivers and passengers wishing to share expenses and conversation during their common journey. According to their website, Blablacar reached more than 20 million verified users (profiles) in 19 countries. The advantages of such car sharing offers are numerous: for the passenger, it is comparatively much cheaper than a trip using traditional means (bus, plane or train). For the driver, expenses are significantly reduced, which is especially interesting as gas prices and toll fees tend to be quite high in France.

▶ **Car rental between individuals**

Lastly, the business of car rental between individuals is emerging and becoming increasingly popular. Drivy, the national leader with around 11.000 cars to rent in France, has just made two major acquisitions in 2015, Buzzcar in April and Livop in May 2015, and continues to grow. Drivy claims to have gained 1% of the total car renting market in France. Other competitors such as Ouicar (7000 cars) or Koolicar are trying to extend as well.

These companies are basically the “AirBnB” of cars: people who are not using their cars rent them out to people who need them. The service relies on attractive pricing, good services and a large offering. From old, cheap and small cars to brand new exclusive cars, prices include insurance as well as a payment guarantee. It is a great opportunity for the car owner to reduce his total cost of ownership and maybe help him to buy a better car or the same model with more options thanks to the money he will receive while renting it.

These new trends raise new questions (such as “multi ownerships and insurance policies”), as well as new challenges (such as the usual customers’ risk policy) for specialized financial actors and insurers; and no right answer has yet been given.



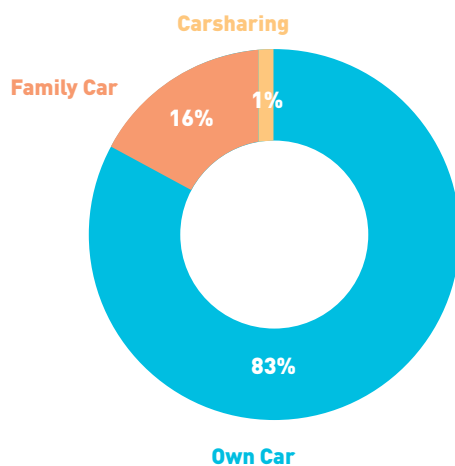
5. GERMANY

DETAILED ANALYSIS OF THE AUTOMOTIVE FINANCE BUSINESS

5.1. AUTO SALES / FINANCE

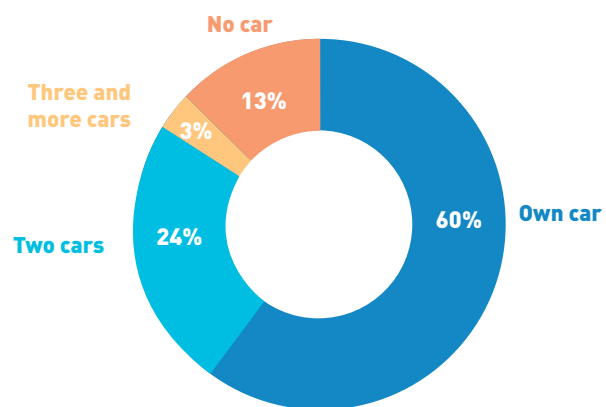
As the country where cars were invented, the ownership of a vehicle traditionally has a very high importance in Germany. Therefore, about 83% of Germans who use cars for their mobility own their own car. Only 16% use a vehicle that is available for the whole family and 1% use rental cars or car sharing. Only in the US and China is the amount of owned cars higher, especially for younger people^[1]. In total 87% of the German population own at least one car.^[2]

Car usage in Germany 2014



Source: Continental Mobilitätsstudie 2015

Ownership of cars in Germany 2014



Source: GfK: Konsum und Kfz Finanzierung 2014

The market potential for automotive financing solutions is correspondingly high, especially for captives. But car ownership alone may not be the single criteria for the evaluation of market attractiveness. Instead, the ratio of financed cars versus total cars sold should be the relevant measure. In 2014 the amount of car registrations totaled about 3.0 million for new and 7.1 millions of pre-owned cars, which was a slight increase compared to 2013^[3]. About 27% of these cars were acquired using a financing solution, which amounts to a slight decrease compared to 2013 (33%)^[4]. Overall, however, the amount of financed cars has steadily increased during the last 10 years (10% in 2005). This actually accounts for a rather large amount: in total €42.2 billion in 2014 for corporate and retail clients (€33.4 billion new; €8.8 billion pre-owned) which is about 1 percent of Germany's gross domestic product (GDP).

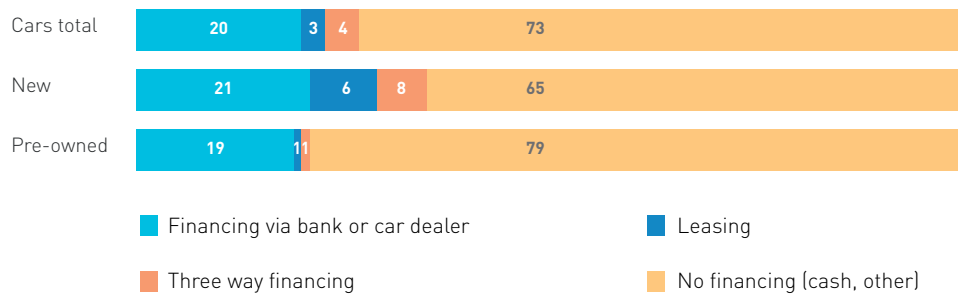
[1] Continental Mobilitätsstudie 2015

[2] GfK: Konsum- und Kfz-Finanzierung 2014

[3] Kraftfahrtbundesamt: Jahresbilanz der Neuzulassungen 2014

[4] GfK: Konsum- und Kfz-Finanzierung 2014

Ratio of financed cars to car registrations 2014 (new, pre-owned) for retail clients

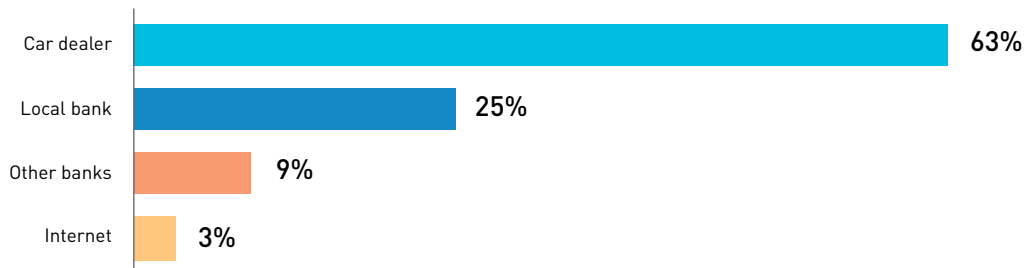


Source: GfK: Konsum- und Kfz-Finanzierung 2014

As can be seen from the graph above, the preferred way of financing for retail clients still is through loans (20%) whereas leasing accounts for only 3% and the combined financing vehicle (three way financing) for about 4%. For corporate clients leasing (55%) clearly has a higher importance in absolute and relative terms (loan financing 45%), as expected.

Customers show a clear preference regarding the sources of financing they are using. A steady increase in popularity of onsite financing through car dealers is obvious, whereas the importance of financing solutions offered by the client's banks is declining. Therefore about two thirds of all financed cars are financed by the financing solution offered by the car dealers.

Preferred sources for car financing in 2014 for retail clients



Source: GfK: Konsum- und Kfz-Finanzierung 2014

Overall, the German market still shows increasing market potential for automotive financing solutions, although with slightly lower growth rates. Sales figures, especially for new cars, are still increasing and continuing economic growth may further support this trend. The channel of onsite financing through car dealers, particularly, is gaining more and more importance. Captives should use this fact to extend the collaboration with dealers to improve the customer accessibility of their financing products. Additionally, this channel could be used to extend the product range offered to the clients beyond automotive financing to solutions like insurances and other additional services.

5.2. COUNTRY SPECIFIC TRENDS IN AUTOMOTIVE FINANCE

It is a well-known fact that the majority of Germans still aspire to own their own car. But it is also clearly visible that this attitude is slowly changing with the younger generation.

- ▶ Different surveys show that younger generations focus less on owning a car as a “status symbol”,
- ▶ Characteristics like being “flexible” and “mobile” are becoming more important,
- ▶ Long-term trend of urbanization requires new and intelligent mobility concepts that focus on community and not individual solutions.

Whereas 68% of the German population lived in cities in 1950, this number increased to 74% in 2000 and is expected to continue to rise up to 85% by 2050^[5]. This fact clearly illustrates the necessity of the development of joint solutions of different mobility concepts. Therefore, E-mobility may be an interesting alternative, but mainly from an environmental point of view. It will not be the solution for the increasing traffic density especially in cities or metropolises:

- ▶ Further environmental regulations like the reduction of CO₂-emissions will, in the long run, support the development of new intelligent and integrated mobility networks,
- ▶ Established concepts like stationary rental or free floating rental (e.g. drive now) have to be expanded and integrated as single components into new concepts like “Mobility on Demand”.

This offers the starting point especially for captives to offer their comprehensive expertise in financing solutions, fleet management or the expansion of their current business models to a supplier of different mobility concepts.

The trend of digitalization will have a significant impact on the automotive financing business.

- ▶ Currently approximately 40% of potential customers inform themselves about automotive financing solutions “offline” at the point of sale,
- ▶ Already 35% of customers use online information in a first step to select the preferred financing solution (although they still contact their dealership for the actual financing agreement),
- ▶ The remaining 25% already focus on online channels for their automotive financing regarding both information and the actual financing agreement.

Additionally, it is necessary to understand that for approximately 32% of automotive financing customers, the financing conditions are the decisive criteria for agreeing to a deal and not, as probably expected, the brand of the car^[6]. This clearly shows the future potential, especially for captives, to attract additional customers by improving their online presence and digitalized product offerings, as well as through attractive and flexible financing models and conditions.

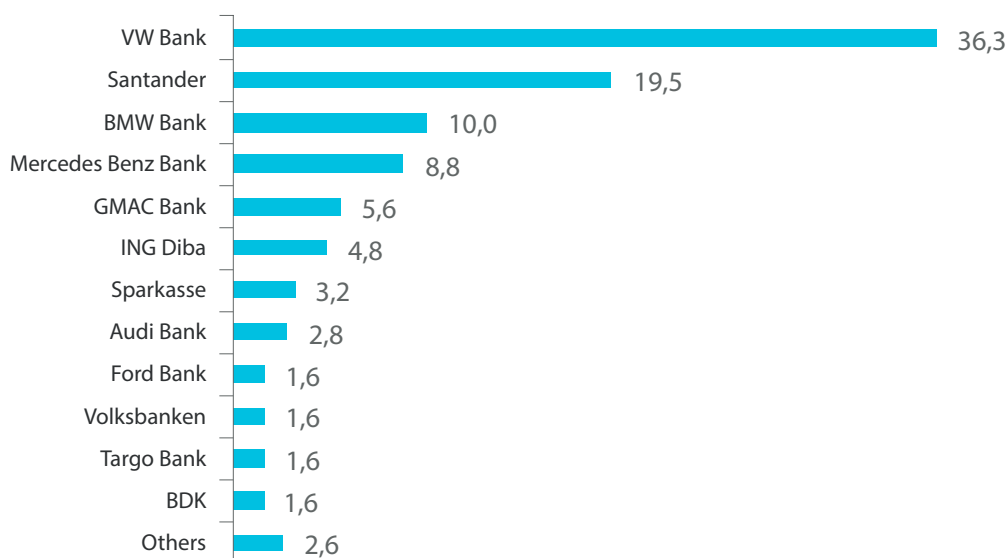
[5] UNO: Revision Population Database 2009

[6] According to different surveys

5.3. PRODUCTS AND SERVICES OF AUTOMOTIVE FINANCE

When asked to mention a financing company which is especially known for car financing and leasing, most customers name VW Bank first and Santander second. Therefore, it is quite interesting that captives – beside Santander - are the major players in this market segment and account overall for about 65% of the business. But it is also obvious that the spread of individual market share is tremendous. VW Bank itself accounts for a third of the whole market and, when compared to the share of just the captives, for at least 58%. BMW Bank, as second biggest competitor in the captive business, only accounts for about 10% of the whole automotive financing market and therefore has a market share less than a third of the size of VW Bank's. And still the total sum of all captives beside VW Bank account for only 28% total market share, which is in sum still about 10 percentage points less than the market share of VW Bank.

2014 ranking of high profile automotive financing companies



Source: xPulse Marktforschung: Mobilitätsfinanzierung 2014

The previous graph raises the following questions: what are the differences in the product portfolio of the big captives and how exactly do they differ from one? The following table gives a detailed overview of the products offered.

Captives in Germany and their 2012 product offering

Captive	Brands	Products							
		Retail Clients			Dealerships			Fleet management	Banking-Products
		Financing	Leasing	Insurance	Financing	Leasing	Insurance		
VW Financial Services AG	Volkswagen, Audi, Seat, Skoda, Bentley, etc.	●	●	●	●	●		●	●
BMW Bank GmbH	BMW Mini	●	●	●	●	●		●	●
Mercedes-Benz Bank AG	Mercedes-Benz, Smart, Setra, Mitsubishi, Fuso	●	●	●	●	●		●	●
GMAC Bank GmbH	Opel, General Motor Corp, Chevrolet	●	●	●	●	●			
Banque PSA Finance S.A. Niederlassung Deutschland	Peugeot, Citroën	●	●	●	●	●	●	●	●

Source: Arbeitskreis der Banken und Leasinggesellschaften der Automobilwirtschaft (AKA): Die Banken der Automobilwirtschaft – Factsheet 2012

At first glance the product portfolio seems to be identical, for the most part, for all captives. It is grouped into services provided to retail clients or dealerships, where the retail business includes both private and commercial clients.

An exception in the list shown in previous graph is Santander. While Santander is not a captive like the other high ranking institutions in the list above, it offers a highly diversified automobile finance product portfolio to its clients.

The product portfolio of Santander can be grouped into the following units:

Finance

- Classic: three-option-financing
- Budgetfinance
- Autoflex (balloon-loan)
- Repair-Loans
- Efinance (dedicated product line-up for electro mobility)
- AutoDispo: flexible balloon-loan with adjustable payment-rates

Leasing

- Mileage-accounting
- Residual-value lease
- Full-Service Leasing for commercial clients
- GAP (residual debt insurance)
- Leasing Protection (payment default insurance)

Insurance

- Full product line-up comparable to classic car-insurance companies.

Even though Santander is not considered a captive, it still cooperates closely with some car manufacturers like KIA, Mazda, Volvo and Infinity. This set-up makes Santander a hybrid in the car financing market.

Retail Business

The retail business can be grouped into the following three categories: standard financing business, leasing and insurance products. The core products in financing are three-option-financing (consisting of a down payment, monthly rates and a prearranged final installment), a balloon-loan (monthly rates with a usually high final installment) and the classic installment loan.

The leasing product range of the big captives offers leasing with either residual-value-lease or mileage-accounting ("Leasingkilometer-Abrechnung") with the latter becoming more and more popular lately. The product line up in this segment is completed by so called "flat-rate" or "care-free" packages which also cover wear-and-tear repairs, motor vehicle taxes, and road tolls. These mobility products are also becoming more and more popular especially with commercial clients.

A sub-category of the leasing business for most of the captives is the fleet management business. It covers full-service-leasing (in some cases even regardless of the car brand), insurances, fuel cards, rental car service and reporting services for wholesale clients.

Insurance products for retail clients conform exactly to the product ranges of the classic car insurance companies and are therefore not further analyzed.

Banking Products

Four of the five analyzed captives also offer traditional banking products to their retail clients. The product ranges offer overnight deposits ("Tagesgeld"), time deposits ("Festgeld") and credit card products. BMW Bank for example also offers real estate loans and even investment accounts ("Wertpapierkonten").

Dealerships

The leading captives provide a wide range of financing products which are tailored to meet the needs of their dealerships and which therefore form a significant part of the captives' business.

Products which need to be mentioned here are inventory financing, which helps dealerships to operate their business by financing their showroom cars and trade-ins for pre-owned cars, equipment financing (spare parts, tools etc.), real estate financing and financing of their business equipment.

5.4. SUMMARY

In a nutshell the German market still shows high potential, although growth rates for new car registrations and the proportion of cars being financed show more or less no growth for the last five years. As it is currently the largest and strongest economic area in Europe, with around 44.5 million registered personal cars in 2015, this market accounts for nearly 25 Percent of the European market. However, it is not only a question of size. Additionally the average price of cars sold rose steadily from less than €17,800 in 1995 to €28,300 in 2014 which is an increase of about 60% in only ten years. In comparison, in France the average price is currently around €24,000 in 2014 increasing from around €19,000 in 2006. Supported by macro-economic factors like a stable political environment, still expansive monetary policy causing historically low interest rates and continuously growing wealth, there is no reason to be bearish in this market. The Germans still love their mobility and the personal toy which makes it possible: their cars.

Looking at the products and services in the German auto finance market, one can conclude that there is no main deciding factor within the product line up of the big market players in Germany and that the car brand makes the real difference for the clients.

On the other hand we can expect the captives to change their sales approach in the near future due to changes in customers' behavior. The captives' distribution networks today are mainly focusing on their dealership networks while digitalization will definitely cause this setup to shift to a retail customer orientation, including various sales channels and various devices to use these channels (smartphones, tablets etc.). The client of the future wants to configure his new car online, check the web for the best financing solution which meets his exact needs and then go to the dealership and sign a contract. Clients are willing to use these different sales channels more or less simultaneously without having to enter the needed data twice.

On September 18th, 2015 Volkswagen had to admit that engine software for approx. 11 Million Diesel Engines had been manipulated in order to meet emission regulations in the United States of America. This scandal is expected to have a serious impact on the sales figures of Volkswagen and its group's subsidiaries. Experts estimate a drop in production of VW for 2016. However, the scale of the negative effects is still unknown.

Experts agree that the "Diesel-Gate" scandal will also have consequences for Volkswagen Financial Services. Since VW Financial Services has financed a large number of the 11 Million affected cars, they are facing a possible loss of the residual value of these cars. For Germany, experts believe that the eventual financial damages caused by a drop of the residual value of these cars could total as much as €1 billion for Volkswagen Financial Services.

6. NETHERLANDS

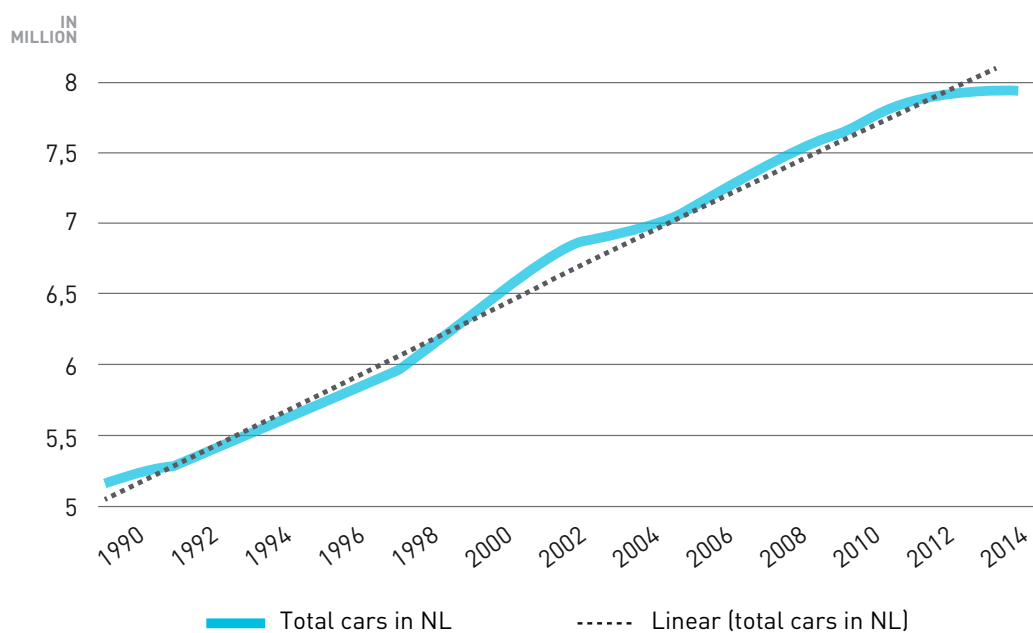
DETAILED ANALYSIS OF THE AUTOMOTIVE FINANCE BUSINESS

6.1. AUTO SALES / FINANCE

General market overview

In the Netherlands, the 'car culture' is slightly different when compared to other European nations. Reasons for this include, but are not limited to, the vast usage of bicycles by the Dutch for traveling to work or the supermarket, and the lack of affordable parking spaces in the cities⁽⁷⁾. Therefore, ownership of cars in the large cities (except for the suburbs) is not a matter of necessity. Approximately half of the households in city centres own at least one car. Outside the cities the amount of households which own at least one car approaches 85%. For households which own cars, it is more and more common to have more than one car per household⁽⁸⁾. With regard to the total amount of cars owned by the Dutch, there has been a steady increase each year. The economic crisis slowed down the growth slightly, nevertheless the total amount of cars is still growing⁽⁹⁾. The most probable reason for this is the fact that less cars are sent to the scrap heap, also when taking into account the fact that the net export of used cars is larger than the import. The mean age of cars rose to approximately 10 years old in 2014⁽¹⁰⁾.

Total number of cars in the Netherlands



The total number of cars in the Netherlands has shown a steady rise the last 25 years

[7] <http://www.theguardian.com/cities/2015/may/05/amsterdam-bicycle-capital-world-transport-cycling-kindermoord>

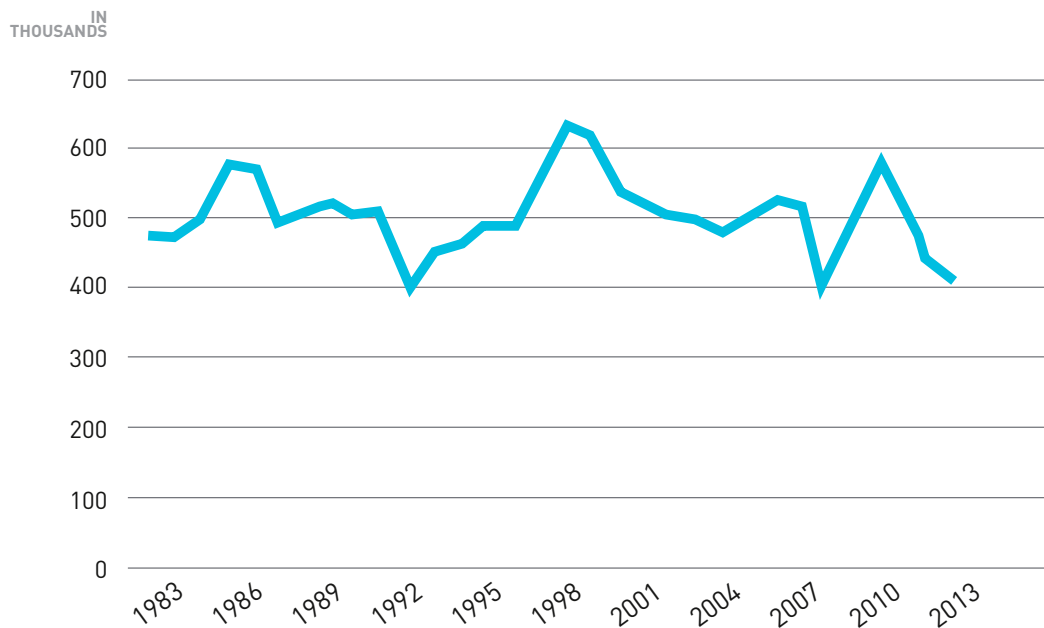
[8] <http://statline.cbs.nl/Statweb/publication/?DM=SLNL&PA=81845NED&D1=0-1&D2=a&D3=26-31&D4=a&VW=T>

[9] <http://statline.cbs.nl/Statweb/publication/?DM=SLNL&PA=7374hvv&D1=2&D2=0&D3=a&HDR=T&STB=G2,G1&VW=T>

[10] <http://www.vwe.nl/Nieuws/VWE-nieuws/Archief/groei-in-aantal-apks-verwacht-voor-2014.aspx>

The annual amount of new cars sold has been fairly steady for the last 30 years. Figures show that the annual sales of new cars varied between 400,000 and 600,000 cars in the last 30 years. Due to economic circumstances, technical innovations and government stimulus, the amount of sales is not a constant factor. The figures of the past 30 years can be found in the following graph^[11].

New car sales per year in the Netherlands

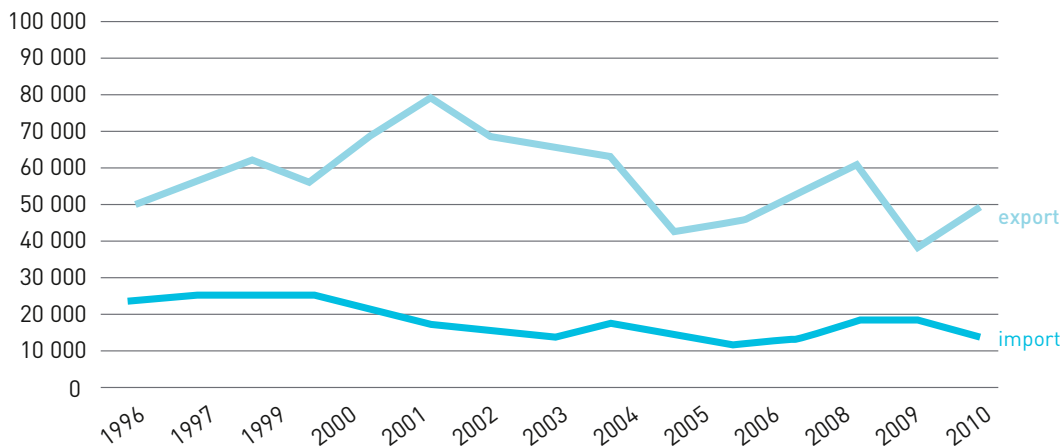


Furthermore, the importance of the used car market in the Netherlands should be stated. The market for used cars continues to play a significant role in Dutch car sales. In 2014, 1,031,960 used cars were sold from businesses to consumers, 680,045 used cars were sold from consumer to consumer and 721,057 used cars were sold business to business. The second hand car market is therefore approximately 5 times the size of the market for new cars^[12]. A focused study on the financial products associated with second hand sales would be desirable, but is not publicly available.

[11] <http://www.autoweek.nl/verkoopcijfers>

[12] <http://www.dealersupportnet.nl/static/downloadcenter/2015/06/occasions-ytd-05-2015-vwe.pdf>

Number of used car imports and exports to the Netherlands



The amount of exported used cars far exceeds those imported.

Automobile finance

New car sales can be split up into several different categories: business lease sales, private lease sales, cars financed onsite by a captive, cars financed by a different company (bank, finance company) and cars financed without lease or loan.

The number of business and private lease cars are documented by the Dutch Association of Lease companies (VNL)^[13].

Besides the lease market, different forms of loans exist. The two main types of loans are credit with a fixed term (personal loans) and revolving credit. Within the fixed term loans, different variants exist, including installment payments.

It has to be stated that since July 1st, 2015, the traditional method for financing cars at the dealerships came to an end. Previously, car dealers could advise potential buyers about the various financial products offered through the associated captive. A new constraint was implemented into the existing Dutch law called "Wet Financieel Toezicht" (WFT). This law forbids advising consumers about loans or other financial products, without having appropriate certification. Besides this, regular fixed term loans are no longer permitted. Instead, only installment payments are available for consumers. For car dealers this means that they have to let captives directly advise the consumers, or they need to hire salesmen who are certified to discuss financing products with customers. Altogether the WFT makes it more complicated for car dealers to operate, in an already turbulent market^[14].

The number of cars financed onsite by captives have been documented by the Dutch Central Office for Statistics until 2013 (CBS)^[15]. The number of cars financed onsite by other companies is not documented in the Netherlands. There are figures available of total loans in the Netherlands but it is unknown which part can be ascribed to the automotive branch. In the automotive branch, credit with a fixed term is more common than revolving credit. In the years between 2001 and 2008 the number of newly admitted revolving credit contracts was relatively high. In the table below the figures for the last few years are explained. For all values with zeroes, the amount of loans was not high enough to be noticeable.

[13] <http://www.vna-lease.nl/nieuws/iedereen/autoleasemarkt-plust-04-procent-in-2014-groei-zet-door-in-q1-2015>

[14] <http://amweb.nl/schade-724356/bovemij-wijst-autobedrijven-op-overgangsregeling-wft>

[15] <http://statline.cbs.nl/Statweb/publication/?DM=SLNL&PA=70699ned&D1=0,9&D2=6&D3=a&HDR=T&STB=G1,G2&VW=T>

Number of car loans per year by automotive companies (in thousand)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
New revolving credit loan	0	0	0	7	10	7	6	10	12	11	11	3	0	0	0	0
New fixed term loan	53	61	53	58	55	62	50	47	51	45	56	37	45	66	59	41

The next table shows an estimation of the Dutch market. The numbers of loans provided by non-captives are not published.

Overview of different types of automobile financing (non-lease)

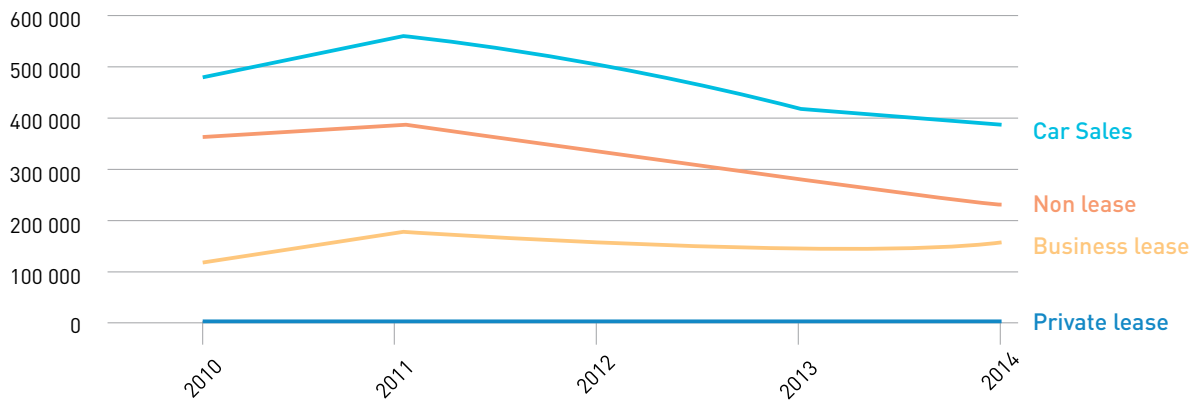
	Automotive company	Other (bank, Insurance)
Credit with a fixed term	+15% of non-lease car sales	Not published
Revolving credit	<1% of non-lease car sales	Not published

Overview of different types of automobile financing (non-lease)

A large number of cars are financed without a lease. In 2013, 34% of the cars were business leased, 1% were privately leased, 10% were financed by a captive and 55% were undocumented. Interviews or other data sources should make this number clearer, but at the moment there is a big gap in data. The next graph, shows an overview of the car sales and leases is shown^[16].

[16] <http://www.vna-lease.nl/stream/581866-autoleasemarkt-in-cijfers-2014.pdf>

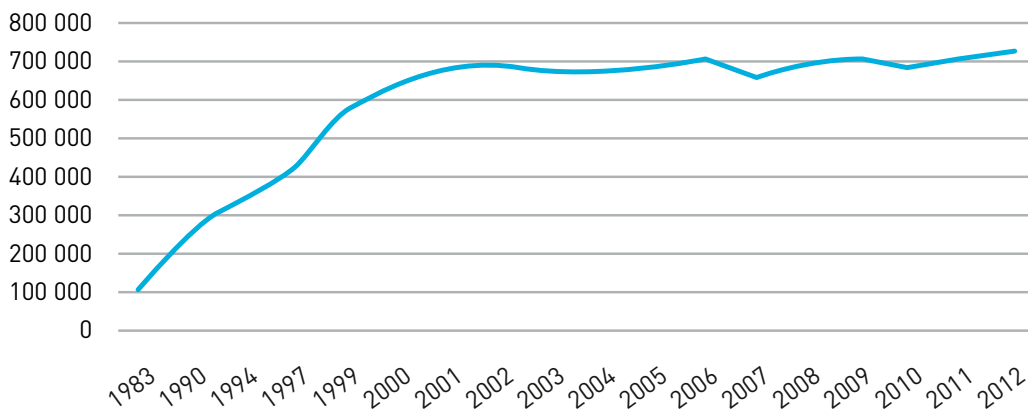
Car sales and leases between 2010 and 2014 in the Netherlands ^{(17) (18)}



As can be seen in the above graph, the amount of leased cars in the Netherlands has been fairly steady in the last couple of years, with a slight increase for the first time in 2014. The total amount of car sales has, however, gone down, while the total amount of cars has gone up. This is due to the fact that consumers tend to wait longer to bring their old cars to the scrap heap. This might change when the economic situation improves further. The more recent economic growth has slowly given consumers more trust in their financial situation, something that has yet to be translated into a rise in car sales.

The total amount of leased cars however stagnated in the early 2000s, which can be seen in the graph⁽¹⁹⁾ below:

Amount of leased cars 1983-2012 in the Netherlands

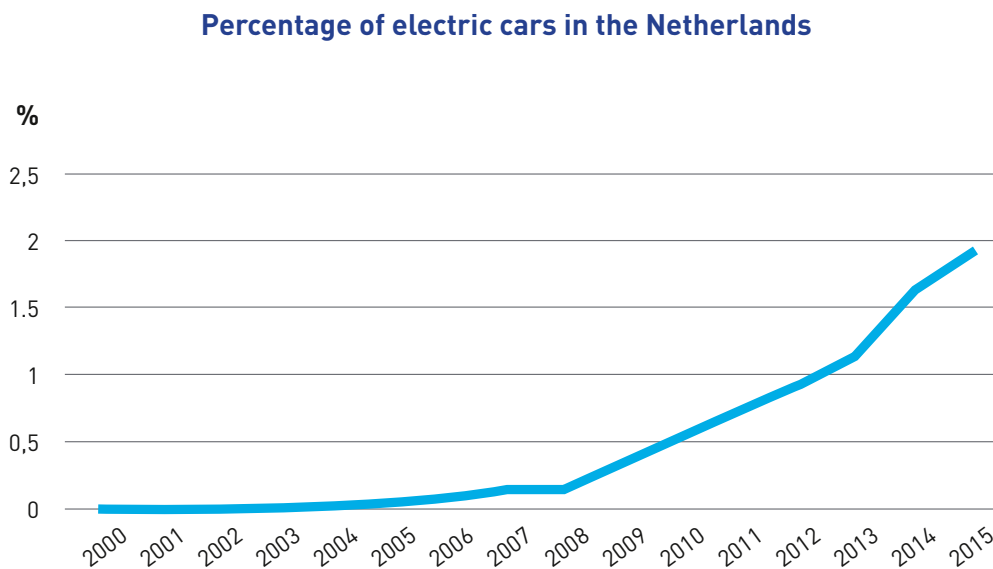


(17) <http://www.vna-lease.nl/nieuws/iedereen/autoleasemarkt-plust-04-procent-in-2014-groei-zet-door-in-q1-2015>

(18) <http://www.autoweek.nl/verkoopcijfers>

(19) https://www.ing.nl/media/ING_economisch-bureau-assetvisie-autoleasemaatschappijen_tcm162-71706.pdf

6.2. COUNTRY SPECIFIC TRENDS IN AUTOMOTIVE FINANCE



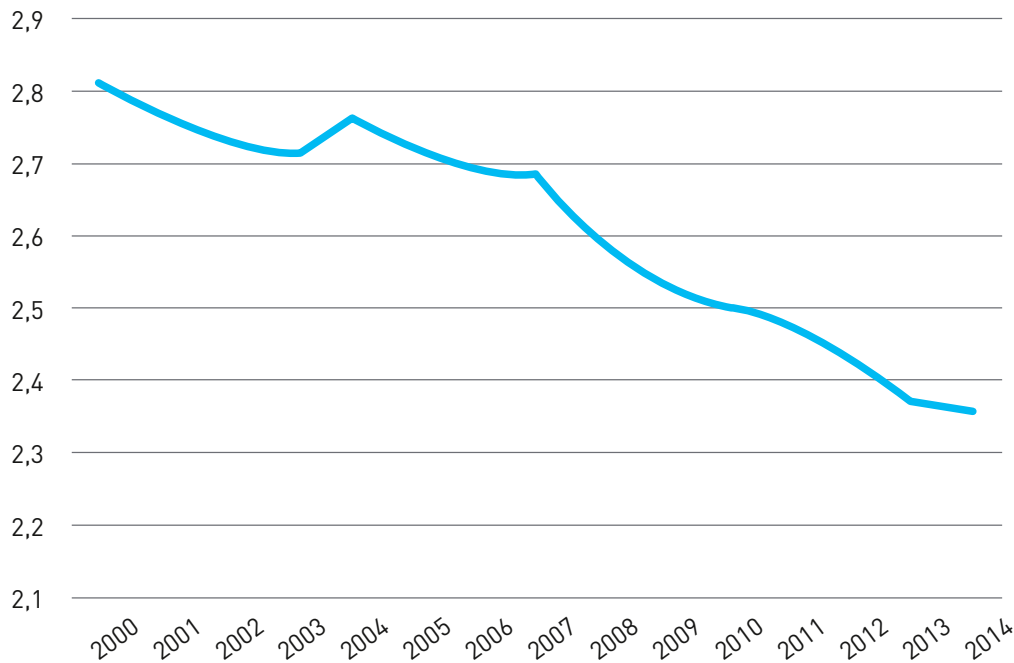
The types of cars driven by Dutch people has gradually begun to change. This becomes clear when viewing the figures for electric cars. There has been a big increase in the amount of electric cars for each year since 2004. This was most likely sparked by the introduction of the Toyota Prius in the early 2000s^[20].

The trend for electric cars goes hand in hand with the trend towards more efficient cars, which also gained momentum during the financial crisis. Leaving the total number of kilometres travelled by cars in the Netherlands out of the equation, the mean CO₂ emission of cars has gone down from more than 2,8 tonnes CO₂ per car per year in 2000, to almost 2,3 tonnes CO₂ per car per year in 2014. These figures are directly related to the mileage these cars are getting. The Dutch have bought more and more cars that are fuel efficient, presumably to save money and to help protect the environment^[21].

[20] <http://statline.cbs.nl/Statweb/publication/?DM=SLNL&PA=71405NED&D1=13-19&D2=0&D3=a&VW=T>

[21] <http://statline.cbs.nl/Statweb/publication/?DM=SLNL&PA=7063&D1=24&D2=1&D3=a&HDR=G1&STB=T,G2&VW=T>

CO2 emissions per car in tonnes in the Netherlands



The decrease in CO2 emissions shows that cars have become more fuel efficient.

The high amount of business leased cars in the Netherlands is an important factor on the sales of new cars. The influence of the government on this topic is important. The government has a tax liability in place for all leased cars^[22]. The tax liability for leased cars has been changing every year, due to changing and incentive attempts at tax evasion by companies through cars. Since 2008, this tax liability is used for leverage to compel companies to drive more environmentally friendly cars. After exempting fully electric cars from tax liability altogether in 2010, the amount of fully electric cars in the Netherlands rose to a record high. Since that caused a clear reduction in the amount of taxes the government was collecting, over the course of the last couple of years these benefits have slowly become more difficult to receive. If lease contracts were given out under the old tax regime, those cars will, however, retain their discounts for several years. This is the main reason why the stricter rules are pushing businesses to quicken the leasing and purchasing of cars over the last couple of years. This way businesses still get to benefit from the favourable fiscal discounts on these cars. The forecasts are that as long as new car models are released that are increasingly environmentally friendly, the government is expected to tighten these fiscal discounts, thereby spurring car sales^[23].

[22] <https://www.rijksoverheid.nl/onderwerpen/inkomstenbelasting/vraag-en-antwoord/wat-zijn-de-regels-voor-bijtelling-als-ik-een-auto-van-de-zaak-heb>

[23] <http://www.autoblog.nl/de-historie-van-de-bijtelling>

A definite and broad trend is visible when combining the topics of ownership, fixed rates, and simplicity or ease of use. Some examples of this can be seen in services such as HelloFresh, which selects ingredients for meals for you and delivers it to your door for a monthly fee; Netflix and Spotify, which never let you become the owner of music or films, but let you stream everything for a monthly fee; Energy and water suppliers, which give you a stable monthly fee irrespective of actual usage, with a yearly bill to settle the differences and some cell phones, for which a stable monthly fee is paid, instead of having to pay for the phone upfront. Linking this trend to cars, an increasing amount of people that want an “all-in” package, in which the car purchase costs, road taxes, insurances, maintenance, etc. are all spread over an extended time period. This ensures stable costs per month and simplicity for the user. Private lease companies offer these services to consumers. Therefore, an increase has become visible in privately leased cars in the last couple of years. Before 2012, there was almost no private leasing. Over the years this number has however increased. According to a report by the ING bank, it is estimated that in 2020 around 100,000 cars will be privately leased. In 2014, 9,000 new private lease contracts have been signed, which brings the total to approximately 17,000. Extensive growth is therefore expected over the coming 5 years^[24]. Several comparison websites have started to analyse the offerings of the different lease companies to find the best private lease deals^[25].

There has been a decrease in revolving credit loans used for cars since 2008. Companies and clients prefer loans with a fixed term over revolving loans, most likely because these loans have a fixed end date. The lack of an end date makes it ‘too’ easy to get in debt, because the temptation to get more money quickly is very high with these loans. The credit crisis made consumers more aware of their fragile financial situation, causing many consumers to choose fixed loans over revolving credit loans^[26].

Car sharing has become fairly important in the Netherlands. In the beginning of 2013, around 5,275 shared cars were present in the Netherlands. Compared to 2012, this is an increase of 86%. The main cause for this is the increase of peer-to-peer sharing, which means consumers share their own car via an online community (for example via MyWheels or SnappCar). These shared cars are used both in the large cities as well as in the rural areas^[27].

[24] https://www.ing.nl/nieuws/nieuws_en_persberichten/2015/03/ing_kwartaalbericht_autolease_aan_particulieren_in_opmars.html

[25] <http://www.trendsinautoleasing.nl/nieuws/achtergrond-artikelen/1531012-90-van-individuele-leaseklanten-straks-via-leasevergelijker/>

[26] <http://www.nu.nl/geldzaken/3190215/doorlopende-kredieten-dieptepunt.html>

[27] <http://kpwdashboard-4.blogspot.nl/2013/06/snelle-opkomst-onderling-autodelen.html>

6.3. PRODUCTS AND SERVICES OF AUTOMOTIVE FINANCE

The biggest captives for 2014 in the Netherlands are shown in the table below. These are the banks behind the brands. Some of these brands have joint efforts in captives, like Volkswagen and Audi. Other brands operate on their own, but work together in the same banking group, like Volvo and Kia in Santander Consumer Finance Benelux. The market shares indicated in the following table were estimated based on the car sales in 2014.

Automotive captive / bank	Brands	Sales 2014	%
Volkswagen Bank GmbH	Volkswagen, Skoda, Audi, Seat Porsche	90.558	23%
PSA Finance Nederland B.V	Peugeot, Citroën	56.098	14%
RCI Financial Services B.V	Renault, Nissan, Dacia	45.793	12%
Santander Consumer Finance Benelux B.V*	Volvo, Kia	39.293	10%
Alcredis Finance	Toyota, Suzuki, Lexus	30.837	8%
GMAC Financial	Opel, Chevrolet	23.590	6%
FCE Bank	Ford	20.783	5%
BMW AG	BMW, Mini	19.137	5%
Joint Venture FCA & Crédit Agricole	Fiat, Alfa Romeo, Land Rover, Jaguar, Lancia, Jeep	18.573	5%
Crédit Agricole Consumer Finance Nederland B.V	Mitsubishi, Mazda	17.549	5%
Daimler Financial Services	Mercedes, Smart	12.315	3%
Hyundai Finance	Hyundai	8.235	2%
Other	Other	5.075	1%

* Cooperation with regular bank, no captive
Market share of automotive captives/banks based on car sales⁽²⁸⁾

[28] <http://www.autoweek.nl/verkoopcijfers>

In the next table the top 10 lease companies in the Netherlands are shown. These companies mostly provide business leased cars, but also private lease products. These top 10 players represent around two-thirds of the lease market in the Netherlands ^[29].

Top 10 lease companies in the Netherlands

	2006		2012
Leaseplan Nederland	130.000	Leaseplan Nederland	120.000
Athlon car Lease Nederland	115.000	Athlon car Lease Nederland	120.000
Alphabet Nederland	77.000	Alphabet Nederland	80.000
Mercedes-Benz Financial Services	32.000	Arval	30.000
Arval	25.000	ALD Automotive	24.000
ALD Automotive	24.000	Terberg Leasing	23.000
Terberg Leasing	21.000	Business Lease Nederland	20.000
Kroymans Financial Services	18.000	Mercedes-Benz Financial Services	**
PSA Finance Nederland	13.000	PSA Finance Nederland	**
Business Lease Nederland	12.500	BMW Group Financial Services	**

** These companies do belong to the top 10, but exact numbers are unknown

Besides the captives, banks are also involved in providing loans for cars. The banks with the largest consumer credit portfolios in the Netherlands are Crédit Agricole (±€3 billion), Alfam (ABN AMRO) (±€1 billion), LaSer (±€650 million) and Santander (±€600 million). In addition to these banks, the retail banks operating in the Netherlands (ING, Rabobank, ABN AMRO and SNS) also provide personal loans. The figures above are estimated market shares for all consumer finance loans in the Netherlands. Specific figures for the car industry are not available.

[29] https://www.ing.nl/media/ING_economisch-bureau-assetvisie-autoleasemaatschappijen_tcm162-71706.pdf

Products and Services

Most captives offer the same type of services, however there are some differences between the captives. In the next table, the differences between the services offered by captives are outlined:

Captives active in the Netherlands together with their available services

	Private Lease	Installment Plan	Financial Lease	Operational Lease	Insurances	Maintenance Plan
Volkswagen Bank	●	●	●	●	●	
PSA Finance Nederland	●	●	●	●	●	●
RCI Financial Services	●	●	●	●	●	●
GMAC Financial	●	●	●	●	●	●
FCE Bank	●	●	●	●	●	●
BMW AG	●	●	●	●	●	
Daimler Financial Services	●	●	●	●	●	
Hyundai Finance	●	●	●	●	●	●

Business opportunities for further growth

The current options for growth concentrate especially on the private lease market, which is growing rapidly. Furthermore, loans without interest seem to be popular among consumers. These are the two main points of focus for growth in the Dutch car market in the coming years.

6.4. SUMMARY

The Dutch car market suffered a big blow from the financial crisis, and is still showing few signs of improvement in 2015. While the total number of cars on Dutch roads is still growing, this is mainly due to aging cars remaining on the road. It has to be noted that the market for second hand cars is several times larger than the market for new cars, creating possibilities for dedicated second hand car loans.

However, another blow for the Dutch car market was dealt on July 1st, 2015: only advisors with certified financial licenses are now allowed to advise consumers on car loans; this was previously done directly by car dealers. Some captives anticipated this change and preemptively created dedicated departments for advising consumers. For most brands however, it has been made increasingly difficult to give out loans to consumers buying a car. The lease market has stagnated since 2001, although some dealerships have shown signs of some recovery based on the growth of leased cars.

Dutch trends have primarily shown an increase of small, fuel efficient 'green' cars. The amount of electric cars has substantially risen the last couple of years, while mean CO2 output has gone down noticeably. Another widely recognized trend in the Netherlands is detachment of ownership and the desire to pay steady monthly fees. This translates into many people making use of shared cars, and ultimately into a huge increase of privately leased cars. Private leasing is considered to be the big trend for the coming years, and is expected to grow almost tenfold by 2020.

Besides private lease, interest free loans seem to be popular among consumers. At this moment, dealerships consider private lease as their biggest hope, since they expect to be losing customers due to the new governmental rules. Together with the large second hand market, these three topics seem to be the direction the Dutch car market is headed.



7. ROMANIA

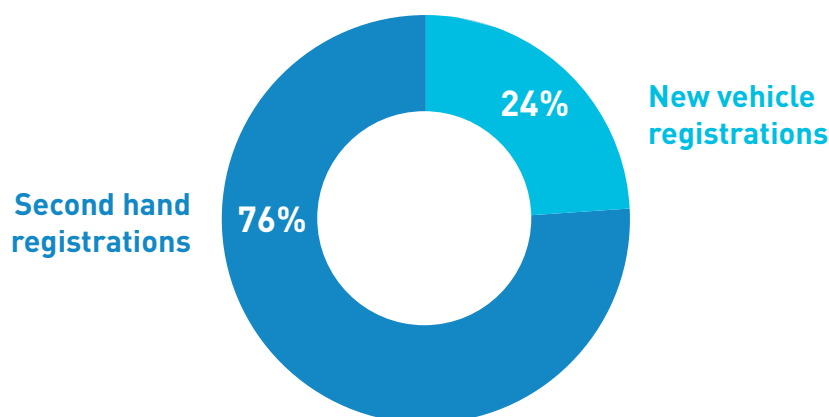
DETAILED ANALYSIS OF THE AUTOMOTIVE FINANCE BUSINESS

7.1. AUTO SALES / FINANCE

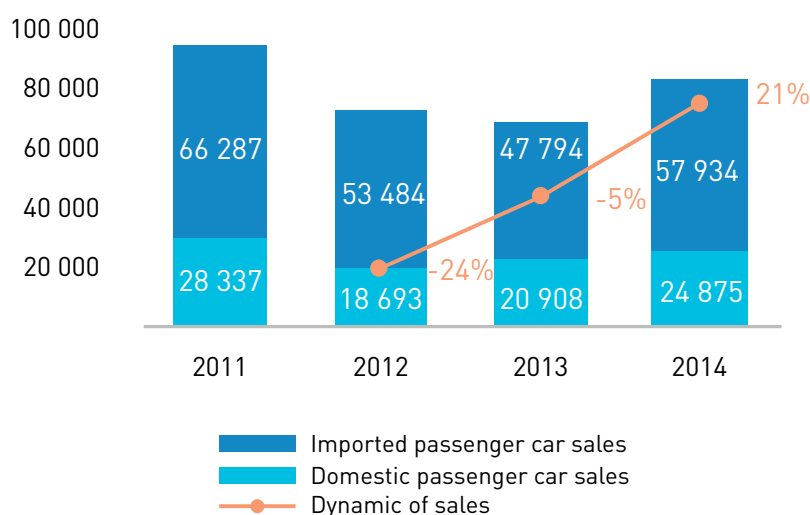
Even though Romania has the lowest rate of motorization within the European Union, the automotive sector is on the rise, with the number of car sales steadily increasing. The evolution of the financing market is therefore in sync with the good dynamic of the automotive sector and of the economy as a whole, highlighting the key role played by the financing industry in sustaining economic growth.

After a constant decline in car sales started in 2009, caused by the slowdown in consumption and a sharp decline in banking credit, 2014 has registered a 21% growth of passenger car sales compared to 2013. The positive evolution has continued in 2015, with an increase of 16% in the number of cars sold in the first four months compared with the same period of 2014. The local market growth is supported by corporate acquisitions that represented 70% of the total sales of vehicles in 2014. Government initiatives like the “Rabla” program brought sales of 20,000 new cars in 2014, and for 2015 the “First Car” program is expected to drive further growth. Still, the number of people who own a car remains low, only 1 in 5 Romanians owns a personal vehicle.

Ratio of new and pre-owned registered cars to total car registrations in 2014



Passenger car sales by category



Auto vehicle sales amounted to 82,809 units in 2014. When it comes to auto vehicles, the top brands were Dacia [26,918 units sold, 32.51% of the total] and Volkswagen (8,674 units, 10.47%), followed by Skoda, Ford, Renault and Opel. Regarding the car models the Dacia Logan was the best-sold model in 2014, followed by the Renault Clio, Dacia Duster, Volkswagen Golf, Skoda Octavia and Dacia Logan MCV⁽³⁰⁾.

The market outlook for the next few years is positive, based on the fact that many companies have delayed replacing vehicles over recent years due to the financial crisis, and their vehicles are now outdated and in bad condition.

The significant increase of automobile sales in 2014 and further estimated growth is expected to sustain a positive trend for the automotive financing market. Vehicle financing has significant growth opportunities, considering that Romania has the lowest motorization rate within the European Union, with 234 vehicles per 1000 inhabitants, while developed countries have up to 600 vehicles per 1000 inhabitants.

Another engine for the growth of the automotive finance sector is the age of existing vehicles. The average age of cars has increased significantly in recent years, reaching 13.6 years in 2015, while the share of 0-2 year old cars decreased from 23% in 2007, to only 3% in 2014. The main reason for this situation is that since the beginning of the financial crisis, the number of imported second hand cars has grown constantly, with the ratio of registered imported second hand cars to new cars being 3.8:1.

(30) APIA, 2015 "Buletin Statistic Auto", Available from www.apia.ro

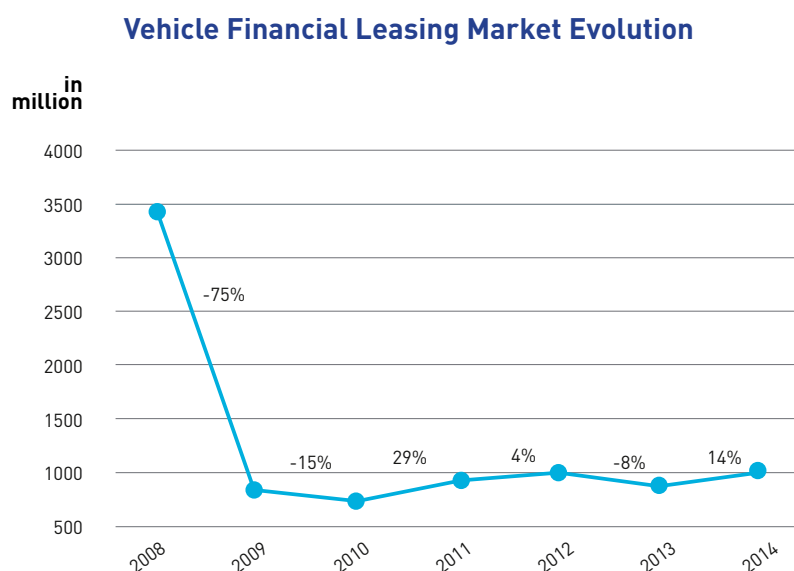
7.2. COUNTRY SPECIFIC TRENDS IN AUTOMOTIVE FINANCE

In 2014 a growing interest from financiers for the auto segment was noticeable, manifested in the form of extended offers of loans for car acquisition, and also increased vehicle leasing. Unfortunately, the market is still negatively affected by some measures, namely limiting the deductibility of VAT and amortisation for car purchases made by legal entities, as well as non-taxable imports of used cars, which favours the imports of used cars, to the detriment of new ones.

Financial Leasing^[31]

The vehicle financial leasing market is on an upward trend, with the heavy commercial vehicle segment growing faster than light commercial vehicle segment, while the passenger car segment still has the majority share.

At the end of 2014, the vehicle financial leasing market reported a total volume of new financing of €1.01 billion, gradually consolidating its results, growing 14% compared with 2013^[32].



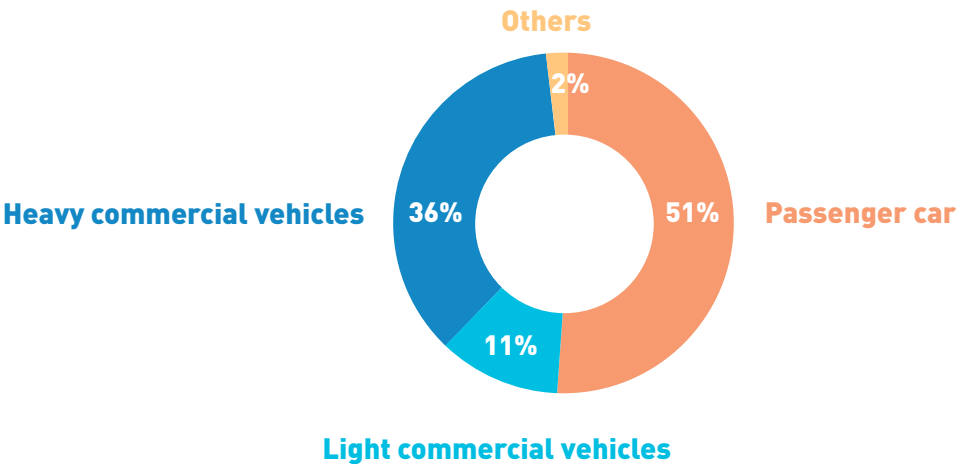
The volume of newly financed vehicles in 2014 was still dominated by passenger cars with a share of 51%. Meanwhile, the share of heavy vehicles increased by 7% compared to 2013, representing 36% of the automotive finance market. The remaining 13% was represented by light commercial vehicles with a share of 11%, which decreased by 2% compared to the same period of 2013, and other vehicles.

In the first quarter of 2015 the automotive financing market reached €270 million. With regard to the acquisition type, the financing of new cars remained high with a 79% share, but is slowly decreasing in favor of used vehicles. The heavy commercial vehicle segment still remains the most dynamic one in terms of financing. The market share of heavy commercial vehicles continued to increase in 2015, reaching 40%, reflecting the growing number of SMEs that have used financial leasing services, while light commercial vehicles accounted for 10% of the market. The share of passenger car financing is still low at 49% compared with highs from previous years.

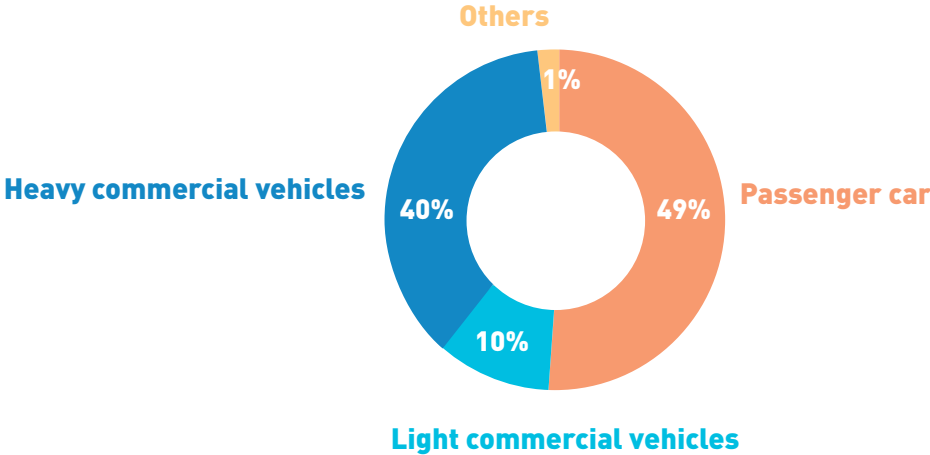
[31] The lease analysis conducted is based on data from the Association of Financial Companies - ALB Romania, which represents 88% out of the total financial leasing market in Romania.

[32] Stefan, A 2015, "Segmentul auto, preferatul finantatorilor in leasing financiar", Floteauto.ro, Available from www.floteauto.ro

Romanian Financial Vehicle Leasing Market in 2014



Romanian Financial Vehicle Leasing Market Q-1 2015



When looking at the type of clients, the statistics show that the vast majority (98%) of funds were awarded to corporate clients, with the majority of those seeking lease financing for acquisitions being SMEs. For corporate clients, financial leasing is still the most viable option, especially when taking the fiscal advantages into consideration, as can be seen from the numbers reported in 2014.

Operational Leasing^[33]

In Romania, the operational leasing market is not as developed as the financial leasing market, being a less utilized means of financing for both individuals and corporate clients. However, the operational leasing market increased by 14% in 2014 in terms of the volume of vehicles, and by 16% in the first quarter of 2015 compared with the same period of 2014, surpassing 55,000 units under management. This positive evolution was due to corporate clients, in 2014 one in 5 cars acquired by corporate users was through an operational leasing contract.

The upward trend forecasted by the specialists both for the automotive industry and fleet management services was confirmed, while, for the future, the customers' trust in the advantage of outsourcing fleet management could represent a growth engine for this market.

Consumer credit

Another means of automotive financing is represented by consumer credit, which in Romania is less utilized. The automotive consumer credit market stalled in the last few years, accounting for just €15 million in 2014.

85% of the vehicle consumer credits granted in 2014 were dedicated to the acquisition of new vehicles and 15% to the acquisition of second-hand vehicles. The trend of acquiring pre-owned cars is obvious in this segment as well, considering that in 2010 98% of vehicle consumer credits were for new cars.

[33] Association of the Operational Leasing Companies (ASLO), 2015, "Press release: Crește numărul înmatricularilor în leasing operațional", Available from www.aslor.ro

7.3. TRENDS IN AUTOMOTIVE FINANCE

▶ Digitalization

In the last few years, the digital trend has taken off in the automotive financing market. The automotive financing companies are starting to rely more and more on online channels, launching mobile apps for drivers and fleet managers and newsletters in order to increase transparency. Furthermore, the number of online services being offered to customers is increasing. More and more financing companies are using modern technologies and offering interactive online tools for their customers, one example being the "Service locator" business car leasing service, which allows customers to analyze, in real time, the proximity of service points in the agreed partner's service network for all types of services.

▶ Diesel cars

Even though the European Commission proposed banning diesel cars by 2050, their popularity is increasing in Romania, thus they represent a growing opportunity for the financial leasing sector. There is a visible trend in customer demand for diesel cars, the number of cars with such engines doubled in the period between 2007 and 2014.

▶ Environment

With environmental concerns rising and government subsidies increasing, it is only a matter of time until the electric car segment will take off. The Romanian electric car market is expected to reach 100 units in 2015 and there are talks for a first fleet of electric cars. Even though the number is insignificant compared with other countries, many initiatives are starting to take shape, and represent an opportunity for the automotive financing market.

▶ Bank subsidiaries

The diversification of sales channels and the increased use of banks' sales networks, in the case of bank subsidiaries, favours the strengthening of these subsidiaries and brings leasing products closer to customers.

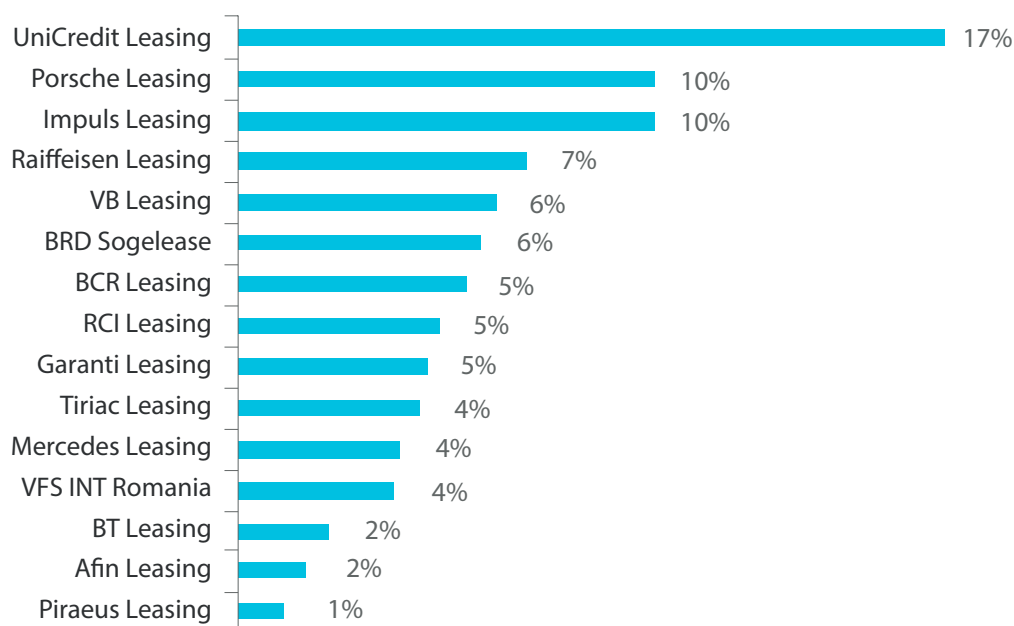
7.4. PRODUCTS AND SERVICES OF AUTOMOTIVE FINANCE

The automotive financing segment, sustained by bank and non-bank loans, as well as by financial leasing, saw an increase in 2014 when compared to the previous year. The main ways of reaching the clients being promotions and special offers.

Among the top 15 players in the leasing market based on the value of vehicle financing awarded in H1 2014, there are 5 captives, namely: Porsche Leasing, Mercedes Benz Leasing, RCI Leasing, VFS INT Romania and Afin Leasing. The captives' market share of the total leasing market rose to 24.2% in 2014 and has shown constant growth from the 19% market share recorded in 2011.

In the case of the independent player UniCredit Leasing, the biggest automotive financing company, the vehicle financing volume for new and used cars represented 90% of sales in 2012.

**Ranking of leasing companies
according to the value of vehicle financing awarded in H1 2014^[34]**



[34] Botea, C 2014, "Cum se pozitioneaza pe piata firmele de leasing: topul finantarilor auto si pentru echipamente", Ziarul Financiar, Available from www.zf.ro

Top captives and their product offering

Captive	Brands	Products			Fleet Management
		Car Credit	Leasing	Insurance	
Porsche Finance Group	Volkswagen, Audi, Seat, Skoda, Bentley Porsche	●	●	●	●
RCI Banque	Renault, Nissan Infiniti, Datsun, Dacia	●	●	●	●
Mercedes-Benz Financial Services	Mercedes-Benz, Smart, Setra, Fuso	●	●	●	●
VFS INT Romania	Volvo	●	●	●	
Afin leasing	Iveco		●	●	

Besides the standard products, the majority of companies have a series of special offers developed in collaboration with importers or dealers.

The distinctive elements for automotive finance are reflected in an integrated approach of all the elements required for financing an asset. The products offered include advantageous interest rates, grace periods and other facilities, namely approval at the Romanian Automotive Register and payment of pollution tax for used cars, or free vehicle inspections offered by the partner's network.

Also, the offers are periodically adapted to the market's standards and lots of companies resort to marketing tricks such as introducing in their specialized offers one month deferred payment per year. All the campaigns, partnerships and promotions will eventually determine cost reductions for the clients and increased quality of services. Furthermore, the supply continues to surpass demand, which will ultimately lead to increased competition and pressure to reduce prices.

Car credit

In the first half of 2014, the sales of car loans increased, as evidenced by the decreasing ROBOR index, which led to a drop in interest rates especially in the second half of the year. Another factor that is making financing cheaper is the fact that the supply from specialized companies is surpassing the consumers' demand.

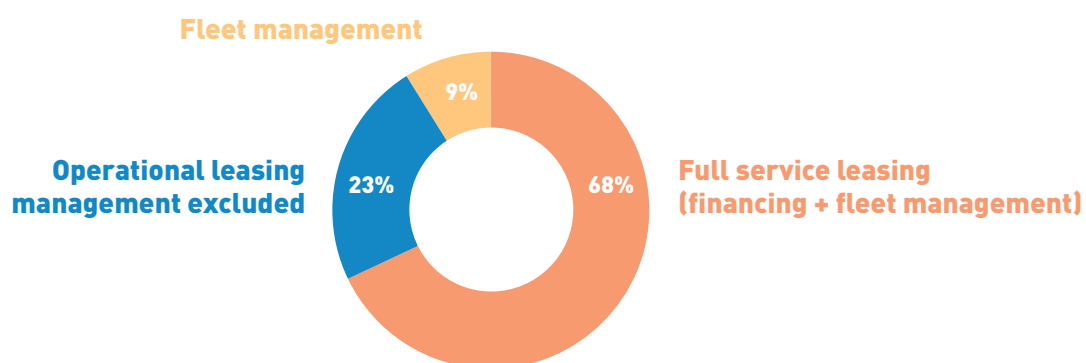
Financing in the form of a car loan is a core product in the captives' offering. However, on the Romanian market, these financing options are not very well developed and adapted to customers' needs. The classic installment loan is still the most frequent, followed by flexible credits with a lower down payment.

Leasing

Regarding the leasing options offered by the captives, these are more developed and customized. Almost all the captives offer both financial leasing and operational leasing. The product offering for financial leasing is varied, customers are able to choose between products in RON or EUR and between traditional financial leasing or residual-value leasing. These products are often accompanied by services for maintenance and tire services, or road assistance services with replacement vehicle, that can be added to the contracts.

In the case of operational leasing, the core product remains "full service leasing", meaning that the operational leasing contracts also include a number of optional services, the most requested being maintenance, road assistance, tire services and insurance. Full operational leasing services, which encompass financing and fleet management, represented 68% of the market in 2014, followed by fleet management with 23% and the rest being operational leasing without management services.

Type of operational leasing services granted in 2014



The operational leasing offering is becoming more and more complex. Customers are requiring full service packages and it is expected that in the next few years these products will encompass services with higher added value, such as monitoring driving behavior and reporting real-time fleet performance indicators on mobile platforms for smartphones.

The majority of automotive financing companies are targeting SMEs, a segment that was strongly affected by the financial crisis. Taking advantage of the fact that the lack of guarantees does not allow SMEs to qualify for a bank loan, the leasing companies developed customized products, which can include a financial bonus, CASCO insurance and preferential interest rates.

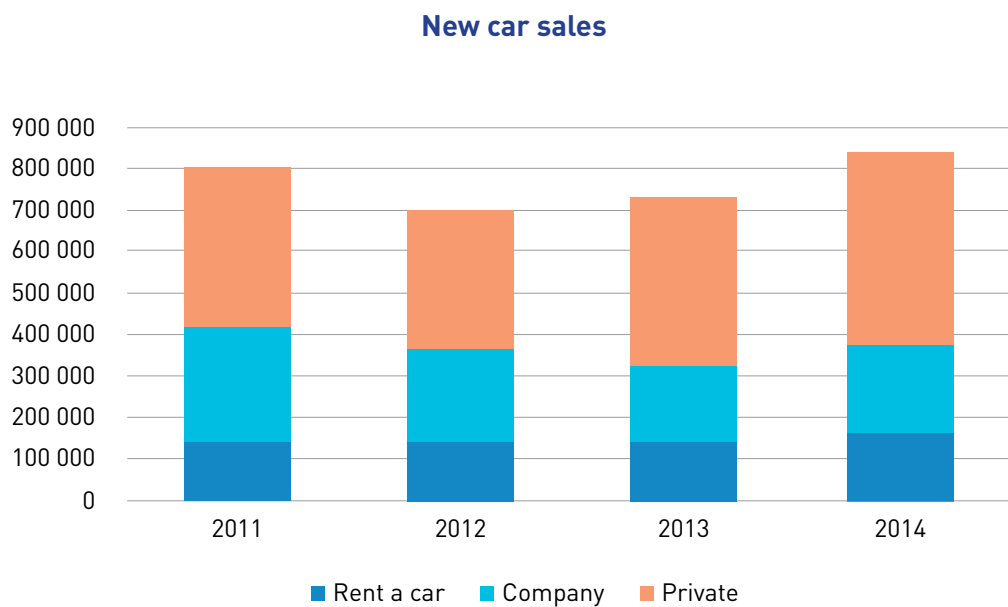
As the needs and demands of customers continue to evolve, the product offering is becoming more complex and the major challenge for the automotive financing companies will be to keep the costs under control while supplying high quality services that can set them apart from the competition.

8. SPAIN

DETAILED ANALYSIS OF THE AUTOMOTIVE FINANCE BUSINESS

8.1. AUTO SALES / FINANCE

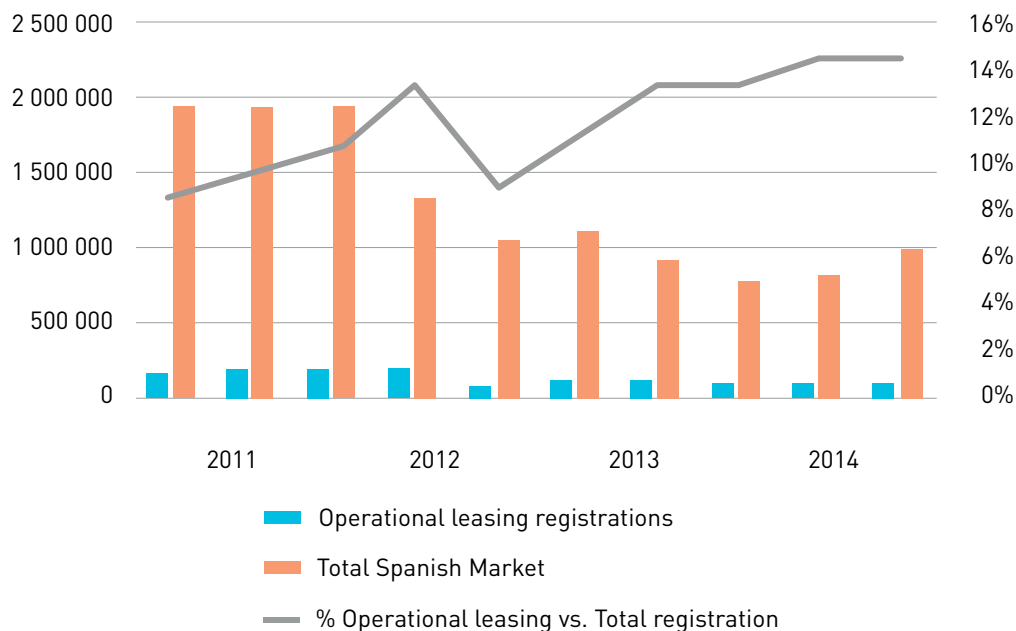
Sales of vehicles in Spain suffered the effects of the financial crisis more than most leading European markets, but are now recovering and returning to pre-crisis levels, helped mainly by the successive government PIVE programmes (car allowance rebate system or “cash for clunkers”).



Source: Memoria Anual 2014 Anfac

It is important to note that despite the decrease in the number of new registrations due to the crisis, the percentage of cars registered for operational leasing versus the total number of registrations increased within the last years.

Operational Leasing registrations 2005-2014



Source: Memoria Anual 2014 Asociación Española de Renting de Vehículos

The automotive leasing market in 2014 grew by 28% when compared to 2013^[35]. Furthermore, the total sales to companies increased by 13.8% in 2014 versus 2013 and in the first half of 2015 they increased by 33% compared to the same period of 2014^[36].

The new car buyers who are financing their vehicles can be classified by the usage of their vehicles, being 60% for private use, 25% for professional and 15% for car rental.

Based on these differences, their financing requirements are different and present the following characteristics:

▶ **Private use:**

The customer is more focused on monthly payments. It is a more emotional decision and less tax oriented. The customer is not really interested in aspects like residual value or depreciation and they finance 80%^[37] of vehicles. The Internet is the main source used to get information about financing, but the contract is signed at the dealership, which has a chance to influence the final decision and products chosen by the customer. More and more car manufacturers' advertising campaigns and promotions include financing as a condition to be eligible for discounts.

▶ **Professional or fleet use:**

Cost of ownership is a key factor when making a financing decision, with special attention given to residual value and the need to control mobility cost. Nearly 90% of vehicles are financed using different formulas, with bigger fleets using leasing and smaller fleets using something much closer to private financing offers, and most using operational leasing (called "renting" in Spain).

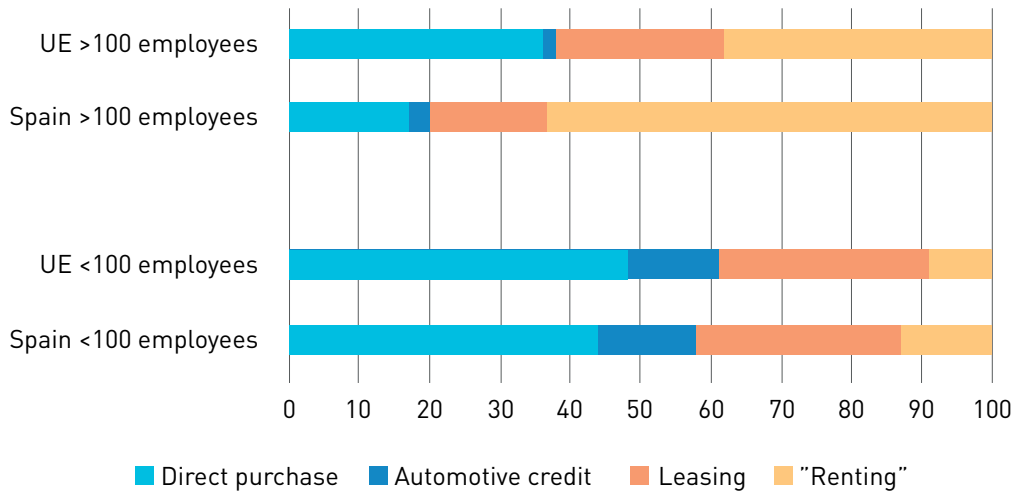
[35] Monitor AELR Dec 2014

[36] Faconauto

[37] Memoria ASNEF 2014/2015

The split between the different financing methods for fleets in Spain varies significantly in the companies with more than 100 employees when compared to their European counterparts.

Financing methods



Source: Barómetro CVO 2014

In both types of customers there has been an increase of bad debts in the last years causing difficulties for private and professional buyers to get applications for financing approved.

The forecasted increase of new car sales in the near future, the growth in the market share of corporate sales and the percentage of operational leasing contracts all indicate an opportunity for finance companies.



8.2. COUNTRY SPECIFIC TRENDS IN AUTOMOTIVE FINANCE

The customers in Spain became more demanding after the financial crisis. They are looking for more individualized solutions and not only for the standardized options offered in the past. The finance companies must adapt themselves to this new scenario by providing advanced management solutions for different customer's needs.

The finance companies have to focus on delivering quality customer service via the automation of the processes and by smoothing out the interaction with the customer.

There is an evolution in the profile of operational leasing customers, moving from fleet managers of the large corporations to SMEs and individual customers. Overall, the driver takes a more important position.

Spain will have to catch up in terms of the pay-per-use trend which is already present in other countries due to the fact that there is still a trend towards ownership among consumers.

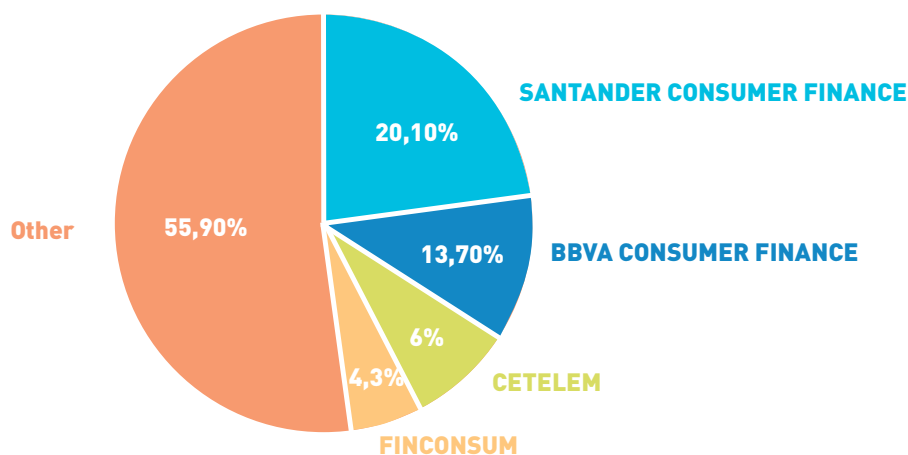
8.3. PRODUCTS AND SERVICES OF AUTOMOTIVE FINANCE

Independent finance companies

Here there is no link to car manufacturers – they represent 47% of the total number of finance companies present in the country. They are generally owned or supported by a bank and in order to reach their customers they mainly use either the car manufacturers' dealer networks or their own network of bank branches.

These independent companies are using advertising more and more to attract customers to their facilities. They can combine their offer with the other financial and insurance services of the bank. They are mainly focused on private customers and have a competitive advantage by the interest rate they can offer as well as the access to the customer databases of supporting banks.

Market shares of the main independent finance companies in Spain

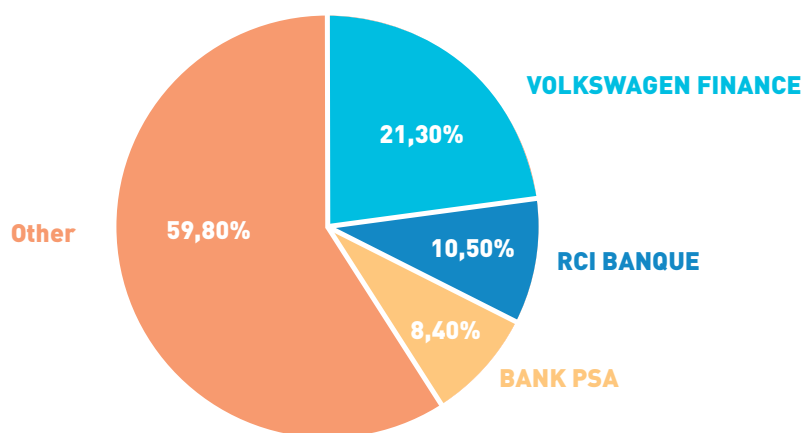


The trend is to grow and to use the knowledge and data mining of their bank customers in order to offer directly to customers and be the back office of captive companies.

Captive finance companies

These are linked to car manufacturers and represent 53% of the total of finance companies operating in Spain. Their main characteristics are that they only finance vehicles of their own brand, they have a distinct competitive advantage for being closer to the customer during the sales process and by offering combined products, like BMW "Select". BMW "Select" can reduce the monthly payments through a final financing payment equivalent to the residual value of the car, at which point the customer can either refinance this last payment or return the vehicle as the final payment. They can also offer discounts on the recommended retail price of the car with the condition that the vehicle be financed. More and more captive companies have an interface with the customers but they have agreements with independent companies to manage their back office. For example Santander Consumer Finance and Hyundai.

Market shares of the main captive companies in Spain



Operational Leasing

Operational Leasing represents a total of 408,095 vehicles at the end of 2014, including 143,027 new vehicles registered by “renting” companies^[38].

This is only for professional use in Spain and it can be considered very successful with 32% of fleet vehicles, mainly in big fleets representing 65% of total renting operations. The customer is very sensitive to residual values, forecasts and remarketing performance. In the Spanish market, more and more companies are offering flexible leasing with shorter renting durations.

They have recommended workshops and service stations, which gives them a bigger influence in the post sales market.

In addition, three types of “renting” companies can be found in the market:

- ▶ Independent: Arval, ALD, Leaseplan, which have their own commercial structure,
- ▶ Captive: Peugeot Renting, Volvo Renting: front office through a car manufacturer, but increasingly with a back office offered by an Independent renting company,
- ▶ Bank: Bansacar.

Used Car Financing Offer

The only financing option available in this market is via finance companies because “renting” is not offered for used cars. In this sector the percentage of bad debts is higher than in the new car market. The captive companies are mainly focused on their car manufacturers’ used cars.

[38] Memoria Anual 2014 Asociación Española de Renting de Vehículos

8.4. BUSINESS OPPORTUNITIES FOR FURTHER GROWTH

The finance companies must make the most of Big Data to offer personalized value to customers in an “Omni channel” approach with car manufacturers, dealers and workshops. It can take them from “transactions to relationships” – create engagement with clients to be in the best position to offer services that will be required in the future. It will also allow them to anticipate the future trends by not thinking in terms of products but in terms of customers and adapt solutions to new customers behavior and desires.

The “renting” companies that are able to evolve to “Fleet Mobility Supplier” will become a consultant of mobility for fleets in order to help them in defining their needs and offering them the best and most flexible solutions and by doing so will be positioning themselves as a trusted partner.

9. UNITED KINGDOM

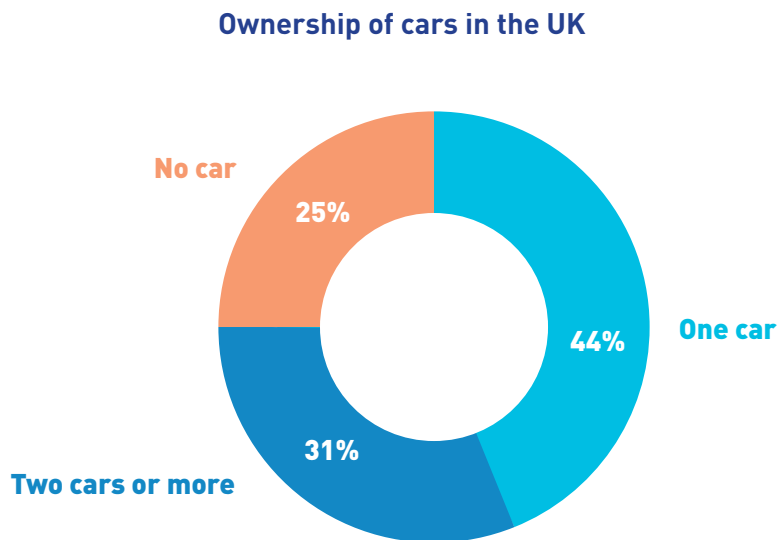
DETAILED ANALYSIS OF THE AUTOMOTIVE FINANCE BUSINESS

9.1. AUTO SALES / FINANCE

In the UK where 64% of the population uses a car to travel^[39] and 68% of the active population go to work with a vehicle^[40], a car is clearly important. In total, more than 32 million vehicles are on the road^[41] for a population of 63 million people^[42].

The market of potential customers has become larger over the years, as the proportion of people able to have a full driving license rose from 48% in 1975 to 73% in 2012 while the total population rose from 55.9 in 1971 to 62.1 million people in 2011^[43].

The British automotive market is a mature one, as around three-quarters of the households own at least one car, which means that the market potential for financial solutions and especially captives is considerable. The segment of the British population that possesses two or more cars is even larger than the one that does not own a car at all: in 2012, 44% of British households had a car, 31% had two or more whereas only 25% of the English population had no vehicle at all, as shown in the graph below.



Source: Transport Statistics Great Britain 2013 - National Statistics / Department for Transport

Finally, it is important to notice the average age of cars in the UK increased from 6.7 years in 2004 to 7.8 years in 2014 and according to the Used Car Market Report 2014^[44], it will be 7.95 years in 2015.

[39] Page 2/25 – Transport Statistics Great Britain 2013- National Statistics / Department for Transport

[40] Office for National Statistics, Labour Force Survey – Page 2/25

[41] SMMT- Report – Motor industry Facts 2015. P4/35

[42] Page 18/25 – Transport Statistics Great Britain 2013 - National Statistics / Department for Transport

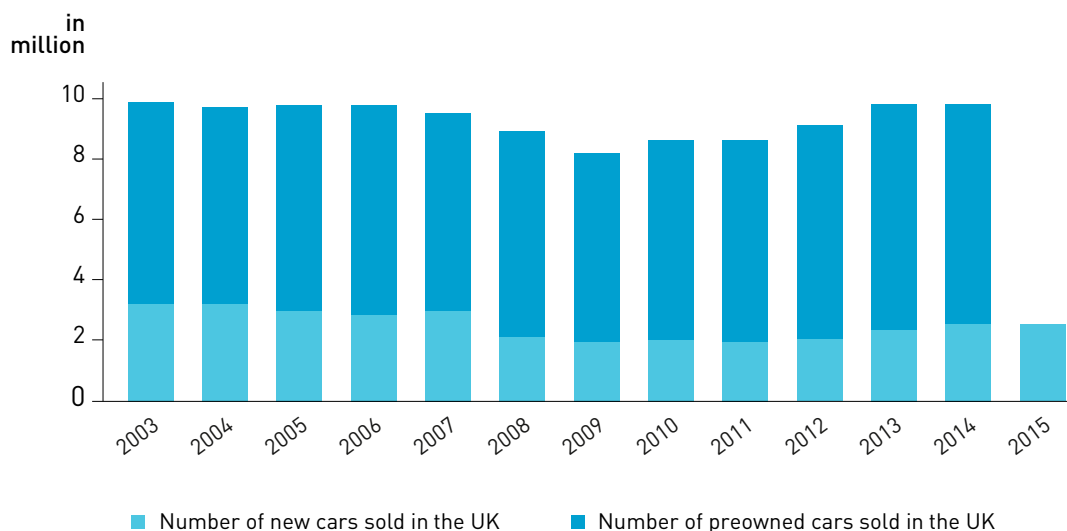
[43] www.statistics.gov.uk/socialtrends 40 - edition 2010

[44] The Used Car Market Report 2014 / for BCA – p.18/93

Sales and registrations

The British automotive industry is recovering from the financial crisis of 2008. In 2014, the UK was the second largest European new car market, just behind Germany, according to a press release from the government statistics^[45]. The country is experiencing the fastest growth rate of new registrations in Europe: according to the Society of Motor Manufacturers & Traders (SMMT), a significant increase in new car registrations has been recorded in 2015: up 7% from the start of 2014, which is almost 1,377,000 new cars registered between January and June 2015. The graph below shows that after a drop in sales between 2008 and 2012, the British car sale market is experiencing good signs of recovery as the number of new and pre-owned cars sold in the UK has been increasing again since 2012. In 2014, the amount of new car registrations totalled about 2.5 million while pre-owned registrations came to a total of about 7.2 million.

Total number of new and used cars sold (private & fleet) in the UK



sources below^[46]

Regarding the ratio of financed cars, it appears that in 2006, 46% of new cars were purchased using financial products (loans, leases and PCP). More recently, in 2013 74%^[47] of new cars were bought on credit according to the FLA – however this figure does not include the high-street providers' loans.

In 2012, 4.3 million used cars were sold through a dealership whereas 2.8 million used cars were sold by means of a private, person to person transaction.

According to the FLA (Finance & Leasing Association) Annual Review 2015, €46.36 billion were provided to finance British new and used cars in 2014, 75.9% of which was for private new cars^[48].

[45] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/433994/vls-2015-q1-release.pdf // Statistical Release from the 11 June 2015 – Department for Transport- "Vehicle licensing Statistics" P. 1/9

[46] <http://www.statista.com/statistics/299841/market-volumes-of-new-and-used-cars-in-the-united-kingdom/> ; SMMT 2015 Report ; The Used Car Market Report 2014 – a report from the Centre for Automotive Management at The University of Buckingham Business School

[47] <http://www.theguardian.com/money/2013/oct/08/why-britain-cant-stop-buying-new-cars>

[48] <http://www.fla.org.uk/index.php/about-the-fla/>

9.2. COUNTRY SPECIFIC TRENDS IN AUTOMOTIVE FINANCE

Young generation & car sharing

Different surveys show that younger generations are becoming less car-centric. This can be partly explained by the economic barriers, mainly because of the price of a car and the insurance prices^[49]. However, the same surveys^[50] advocate the idea that there is also a real cultural change taking place (less of a deep relationship, less interest, and cars becoming more digital than mechanical). The fact that car-sharing services are increasing in popularity might also explain why younger generations care less about owning cars. This new trend could have a real impact on the car sales in the UK according to certain sources^[51], even if it is still difficult to establish a link between the figures for cars sold and the car-share ones. However, according to the *Royal Automobile Club Foundation for Motoring Ltd*^[52], the number of British car consumers should continue to increase and there is no question of a cultural or generation issue.

Digital

Digitalization changes the information searching, selecting and buying behaviour of customers in the car industry^[53]. In the UK, more than three-quarters of car owners use the Internet to get information and shop (up to 76% in 2014)^[54]. Therefore, customers are becoming more and more preinclined to a dealership. That is why most Original Equipment Manufacturer (OEM) websites inform their clients about the possible financial offers (dealer systems, leasing products and financing tools).

According to the International Auto Finance Network Late 2014 Research, an increase in online car retailing and online purchase research is expected in the next 5 years. Moreover, some of the biggest opportunities in the automotive industry are mobility solutions and a better use of data^[55]. Mobility solutions are alternative mobility services such as car-sharing, more business services offered by public transport etc. This current trend stresses that people are looking for a more environmentally friendly and more efficient way to travel.

According to the same study (65% of the respondents were from the UK), 81.4% agreed with the statement that “customers will shop around on the Internet and choose the cheapest financial solution”^[56]. It is therefore genuinely important for the car retailers to have a clear and high value offer.

A recent study^[57] carried out by the International Auto Finance Network (IAFN) in collaboration with the University of Buckingham and Grant Thornton, reported that the most important challenges facing the automotive industry are finding new mobility solutions and using data better. New challenges are at hand, for instance taking into consideration that 50% of new cars are now bought by women, who therefore represent a huge opportunity for the auto industry, which needs to readapt its marketing techniques.

[49] <http://www.theguardian.com/money/2013/oct/08/why-britain-cant-stop-buying-new-cars>

[50] <http://www.theguardian.com/money/2013/oct/08/why-britain-cant-stop-buying-new-cars>

[51] <http://uk.reuters.com/article/2014/12/18/uk-autos-apps-idUKKBN0JW1TJ20141218>

[52] <http://www.racfoundation.org/>

[53] International Auto Finance Network Late 2014 Research CEO Study – Priorities for the Auto Finance Industry – page 33/63

[54] <http://www.jdpower.com/press-releases/2014-uk-vehicle-ownership-satisfaction-study-voss>

[55] International Auto Finance Network Late 2014 Research CEO Study – Priorities for the Auto Finance Industry – page 62/63

[56] International Auto Finance Network Late 2014 Research CEO Study – Priorities for the Auto Finance Industry – page 33/63

[57] International Auto Finance Network Late 2014 Research CEO Study – Priorities for the Auto Finance Industry – page 32/63

Environment

As the region in Europe to invest the 5th most in the electric vehicles^[58], the United Kingdom observed a 45% increase in newly registered units between 2012-2013. More recently, according to the Society of Motor Manufacturers and Traders' Motor Industry Facts 2015 (SMMT.co.uk), 66.7% of the alternatively-fuelled registrations are petrol/electric cars in the UK, 12.9% are pure electric, 15.1% are other electric and 5.3% are diesel or electric^[59]. In total, according to The Used Car Market Report 2014, 4,359 new ultra-low emission vehicles (electrical vehicles or vehicles with CO2 emissions below 75 grams/km) were sold in 2013. According to the ACEA^[60], this had a positive impact on the environment, as the average carbon dioxide emissions due to new cars fell to 128 grams/km and it continued to decrease, as the average emission in the UK was 124.6 grams/km (-2.9%) in 2014^[61].

Also, the rental option is more likely to have a positive impact on the environment, because the vehicles are new and efficient ones^[62]. Indeed, average CO2 emissions of a lease car are lower than the average of the British cars on the roads (123 grams/km as opposed to 151 grams/km)^[63].

The increase of the average car price

Both for new and used cars, the average price has risen. In 1988, the average price of a new motor vehicle was around €16,648, 25 years later, the price was about €37,835, however according to the Office of National Statistics, this cost has remained below the rate of inflation^[64]. Contrastingly, we cannot say the same for insurance and petrol. The average price for a used car increased from €7,534 in 2012 to €8,114 in 2013, which represents an increase of almost 8% in one year. This increase of the average car price obliges the customers to find new financing solutions.

Car financing

Car financing is gaining popularity in the UK. The percentage of private new car registrations in the UK financed by members of the FLA (The Finance & Leasing Association) has been growing from 45% in 2006^[65], 68% in 2012, and 74% in 2013, to 75.9%^[66] today.

An increased number of UK residents are interested in personal contract plans, renewable every three years^[67].

According to a recent survey by the British Vehicle Rental and Leasing Association (BVRLA), published in July 2015^[68], leasing broker activity has recently increased, especially in fleet size since 2013 (+30%). The Leasing sector in the UK grew 20% in 2014. Regarding this matter, Mike Potter, the BVRLA's Leasing Broker Committee Chairman, declared the following "We are converting a whole new generation of consumers and businesses to the benefits of low-risk, fixed-cost motoring." As an example, Car Loan 4U, the UK's largest online car finance website, has recorded 76% growth in car loans over one year.

[58] Electric vehicles in Europe: gearing up for a new phase?

[59] According to SMMT- Report – Motor industry Facts 2015. P28/35

[60] <http://www.acea.be/press-releases/article/passenger-car-registrations-1.7-in-2013-13.3-in-december>

[61] Page 59/78 from the Automotive Industry Pocket Guide – 2015/2016 - the ACEA & NATIONAL AUTOMOTIVE ASSOCIATIONS

[62] A report for the BVRLA and Oxford Economics from March 2013 "the economic impact of the motor vehicle full-service leasing and renting sector" (page 3/30)

[63] A report for the BVRLA and Oxford Economics from March 2013 "the economic impact of the motor vehicle full-service leasing and renting sector" (page 5/30)

[64] <http://www.thisismoney.co.uk/money/cars/article-2408807/New-car-prices-risen-inflation-25-years.html>

[65] <http://www.theguardian.com/money/2013/oct/08/why-britain-cant-stop-buying-new-cars>

[66] 2015 report FLA

[67] <http://www.theguardian.com/money/2013/oct/08/why-britain-cant-stop-buying-new-cars>

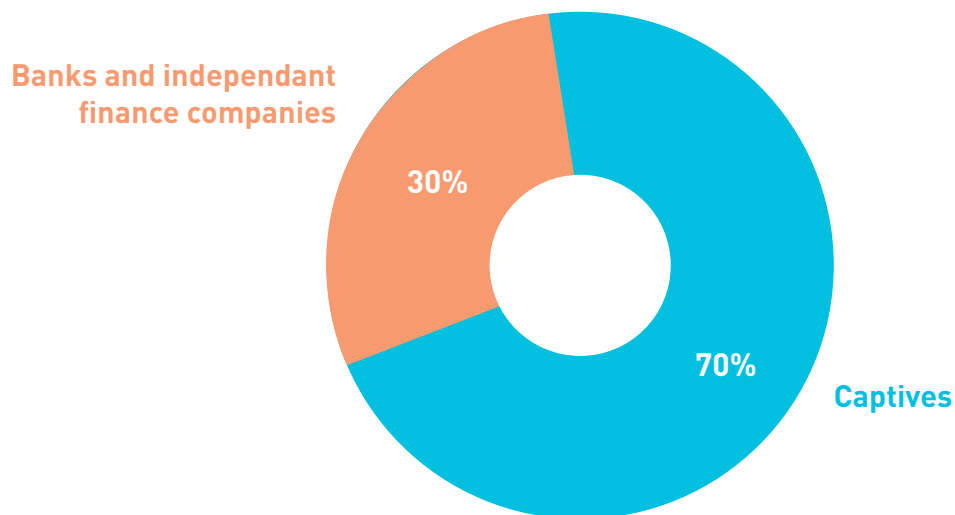
[68] <http://www.bvrla.co.uk/news/press-release/leasing-broker-sector-sees-20-growth-2014>

9.3. PRODUCTS AND SERVICES OF AUTOMOTIVE FINANCE

An article published in Automotive News^[69] explained that captives are the most used financial instruments in the leasing sector. For one thing, captives are more motivated to push leasing than banks or credit unions because leasing encourages brand and dealership loyalty. They also have more tolerance for the risk related to residual values that is inherent in leasing. And unlike most banks, the captives, their manufacturer parents and their dealer networks are geared towards remarketing lease returns.

It is certain that in the UK, captives have a dominant market position: in 2010, they represented 70% of the market, leaving banks and independent finance companies with about 30%^[70].

Market share in the UK automotive finance industry (2010)



In this study, only the product offerings of the main car financing companies in the UK have been analysed. Of these car financing companies, four of them are captives (see Graph below) and four of them are banks or special providers. This list is not exhaustive.

[69] Source: In the battle for lease business, captives are kings - Automotive News. 11/11/2013, Vol. 88 Issue 6594, p24-24. 1/3p.
[70] source : Dreaming of Life in the Fast Lane: Overview of the Motor Finance Market, Datamonitor, 2010

Main captives in the UK and their product offering

Captives	Financing					Leasing		Insurance	Fleet management	Banking products
	Contract Hire	Contract Purchase (PCP)	Hire Purchase	Salary Sacrifice	Other(71)	Sale & Leaseback	Finance Lease			
BMW Financial Services (GB) Ltd	●	●	●					●	●	●
FCE Bank PLC (Ford Credit Europe) ^[72]			●		●		●	●		
Hitachi Capital (UK) PLC	●	●		●	●	●	●			●
Mercedes-Benz Financial Services Ltd	●	●	●		●			●	●	●

[71] Commercial Vehicle Funding, Structured Employee Car Ownership, Employee Car Schemes, Conditional Sale, Balloon Conditional Sale, ECO schemes, Fixed Sum Loan, Fixed Sum Loan with Guaranteed Final Payment
 [72] KPMG - Global automotive finance and leasing – 2012

Banking Products

Three of the four analyzed captives also offer traditional banking products. For example, Hiatchi Capital offers Interest Free Credit and Interest Bearing Credit to car dealers. Only FCE Bank does not offer banking products, which is specifically mentioned on their website.

Banks and special providers

Banks and special providers	Financing					Leasing		Insurance	Fleet management
	Contract Hire	Contract Purchase (PCP)	Hire Purchase	Salary Sacrifice	Other(73)	Sale & Leaseback	Finance Lease		
ALD Automotive Ltd	●	●		●		●	●		●
Alphabet (GB) Ltd	●	●		●	●	●	●	●	●
Black Horse Ltd	●		●			●			
Santander Consumer (UK) PLC		●			●				

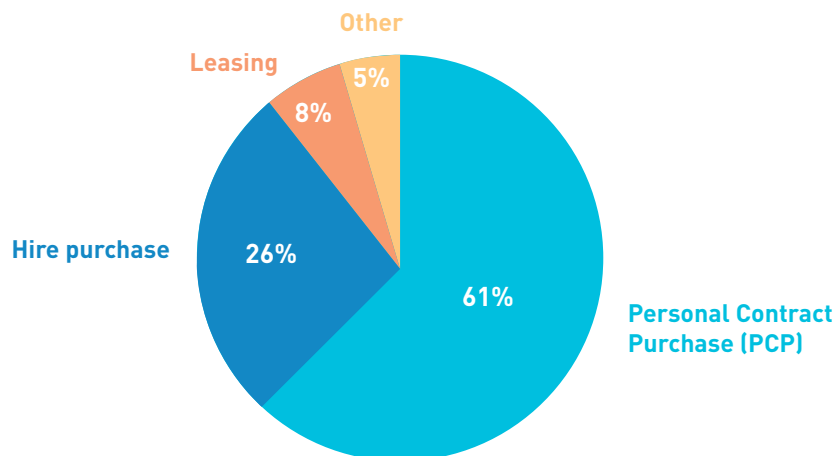
[73] Commercial Vehicle Funding, Structured Employee Car Ownership, Employee Car Schemes, Conditional Sale, Balloon Conditional Sale, ECO schemes, Fixed Sum Loan, Fixed Sum Loan with Guaranteed Final Payment

Financial Products

Today, the sources of funding are more diversified. The different products offered in the UK are the following: hire purchase, personal contract purchase, personal loan, contract hire, sale, credit sale, lease purchase, finance lease and secured loans and mortgages^[74].

The Personal Contract Purchase (PCP) is a very attractive product which has gained popularity since 2006 for both consumers and professionals in the car financing market^[75]. In 2014 PCP for private new cars represented €14.5 billion (+23% in a year) ; PCP for private used cars totalled €4.98 billion (+56%), whereas, still according to the FLA, Hire Purchase (HP) remains the most popular product for financing consumer used cars (+10%), representing €8.97 billion. PCPs, or so called balloon loans, are offered by the car dealerships. The main difference with between a PCP and an HP is that at the end of an HP, the customer is the owner of the car, whereas with a PCP, it is not mandatory but still an option. It seems that PCP is more likely to meet the current customers' needs: it is often easier to spend 200 EUR per month instead of 20000 EUR at once. Because the customer owns the car at the end, the HP monthly payments are often more important than the PCP ones. According to the FLA, 20% of customers choose to make the balloon payment at the end of the contract. Most people prefer to use the equity to begin a new PCP deal. One of the advantages of this system is keeping a certain warranty, while encouraging repeat business, which almost makes it like renting a car.

The car financing products



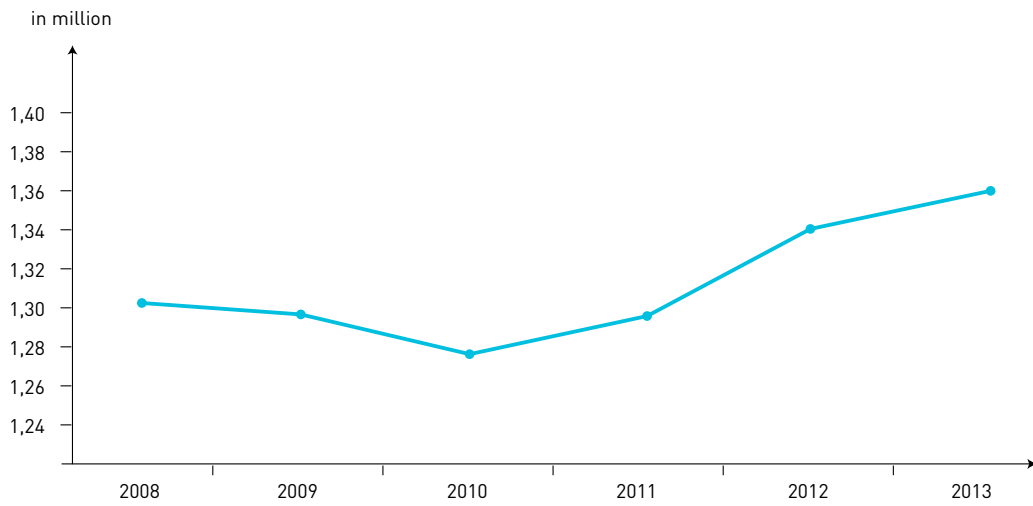
Graphic sources: BVRLA [76]

[74] Specialist Automotive Finance Reference Material – Finance & Leasing Association page 7 /204

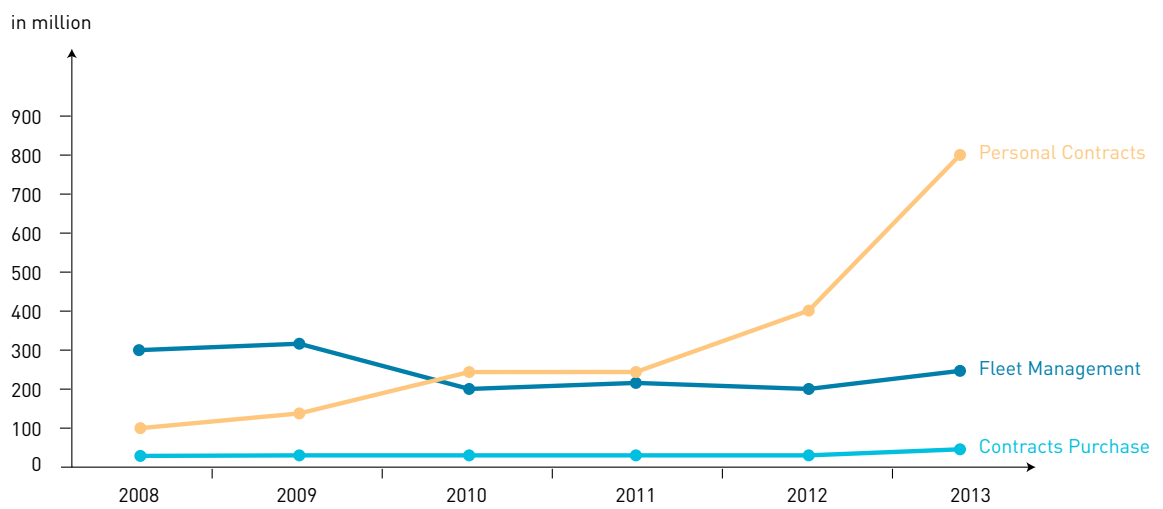
[75] 2015 annual review FLA page 9/13

[76] The Used Car Market Report 2014 - A REPORT from the Centre for Automotive Management at The University of Buckingham Business School - page 67/93

Number of contracts hire



The different kinds of contracts in the United Kingdom



9.4. BUSINESS OPPORTUNITIES FOR FURTHER GROWTH

In the UK personal contract hire has grown noticeably, as we can see above. Apparently it is going to stay that way, as 77% of the British respondents answered that the PCP offers a real growth opportunity for creditors, according to the CEO Study^[77]. The Used Car Market Report mentioned, regarding this issue, that the UK now wants to support new car sales; therefore the low-cost finance solutions have been more strongly emphasized.

This will certainly have consequences in the used car market, as thanks to these PCPs, around 800,000 cars will return to the used car market within two or three years. This kind of dynamic could persist, new cars will be bought and a new wave of young used-cars will arrive on the used car market, which might impact the prices. The International Auto Finance Network also raised the same question regarding the plausible flow of vehicles into the used car market^[78]: will these PCP transactions provoke a reduction in used-car values over the 5 next years? The topic is still discussed, but PCPs should not have that much influence on the car market. This future new wave of late model used cars could also attract some new buyers. As it is explained in the International Auto Finance Network Late 2014 Research Study: nearly 50% of the respondents answered that traditional buyers and new ones, those who have not bought a car in the past, will be interested in 3-5 year old cars.

According to results from the 2014 annual review from The Finance & Leasing Association (FLA)^[79], a large majority (83%) of interviewees declared that the new car retail finance market will likely develop. 95% of the interviewees were optimistic about the retail used car finance market. According to British Vehicle Rental and Licensing Agency (BVRLA) data, the sector of rental and leasing generated €4.036 billion (£2.85 billion) of the U.K. GDP in 2013^[80]. This means, that it is an important market for the State to support.

The automotive financial sector global outlook is defined as positive^[81] (slightly under +5% growth in passenger car finance), just like last year, according to market forecasts published by the White Clarke Group.

The outlook on the future of the British automotive finance market is surely brighter than it was some years ago. The IAFN Study concludes, as well, that^[82] a majority of the British respondents predict a higher demand for Personal Contract Purchase and Personal Contract Hire (both more than 50%), Business contract hire (55%) and Personal Hire purchase (around 25%).

Growth is likely to persist in 2015, but at a slower rate, because inflation should remain low and interest rates are still favorable for borrowing. Leasing is likely to increase as well^[83]. In conclusion, if we compare the automotive industry of the UK to the rest of Europe, the UK car market has shown positive signs over the past 3 years.

[78] International Auto Finance Network Late 2014 Research CEO Study – Priorities for the Auto Finance Industry – page 28 & 29/63

[79] FLA - UK (Finance and Leasing Association) - 2014 annual review and 2015 annual review Sources : <http://www.fla.org.uk/index.php/about-the-fla/>

[80] <http://www.autorentalnews.com/news/story/2013/05/vehicle-leasing-and-rental-industry-worth-14-billion-pounds-in-uk-economy.aspx>

[81] Page 17/41 White Clarke Group - UK ASSET AND AUTO FINANCE COUNTRY SURVEY

[82] International Auto Finance Network Late 2014 Research CEO Study – Priorities for the Auto Finance Industry – page 47/63

[83] White Clarke Group – UK asset and auto finance country survey ; page 21/41

9.5. SUMMARY

The British automotive industry, after Germany the largest automotive sector in Europe, is recovering from the economic downturn of 2008. Since 2012, the number of new and pre-owned cars sold in the UK has been raising again. With an increase of 7% from the start of 2014, the UK is experiencing the fastest growth rate of new registrations in Europe. The growth in market size is also affected by an increase in average price, both for new and used cars. The average price for a used car increased by 8% from 2012 to 2013. This growth in car sales and car price highlights the potential for car financing products in the UK. This is confirmed by the percentage of private new car registrations in the UK financed by members of the FLA (The Finance & Leasing Association), which has been growing in recent years from 45% in 2006 to 75.9% today.

Within the UK car financing industry, captives have a dominant position, controlling a market share of 70%, with banks and independent finance companies splitting the remaining 30%. An important underlying driver for this dominant position is that captives are more motivated to offer attractive financing products than banks or credit unions because it encourages brand and dealership loyalty.

The two main financial products for car financing in the UK are Personal Contract Purchases and Hire Purchases, however, this study showed a wide variety of car financing and leasing products offered by captives, banks and special providers operating in the UK market. It is expected that the demand for car financing products will continue growing in the coming years, thus emphasizing the potential of the automotive finance industry in the UK.

Finally, there are two important trends affecting the UK automotive finance industry that should be kept in mind. The first is the increase in digitalization, which changes how customers inform themselves, make their selections and purchase their automobiles. Car financing companies could respond to this trend by making their financial products transparent and attractive on the internet. The second trend relates to the younger generation becoming less car-centric, influenced by financial motives and services such as car sharing. Car financing companies could aim to constantly adapt their products to the changing needs of the public.

10. CONCLUSION

The country analysis section showed us the overall importance of the automotive finance sector and its future potential. This potential applies just as well to the overall market perspective as well as for the individual players in the market like banks, captives or dealers. Automotive financing still is and will be a core market for financial service players to cover. However, to succeed in this segment the different players have to be aware of trends that may be of importance to all of them or could have a very special impact on their business.

Digitalization, for example, is an absolute must for all players. It needs to be included in their business strategy as well as in the products they offer. To succeed in every point on the customers journey, it will be essential to improve the services and functionalities of their websites regarding customer acquisition, as well as deal management, their customer communication and the offering of user friendly IT-tools and solutions.

To have the relevant information available for customers at any time and to communicate with them through different channels is no longer a "nice to have," to positively differ from the competitors it is an absolute basic requirement to serve customers. Efficiency aspects such customer relationship management should preferably be done in one core system.

How the different players will have to react to the changing requirements of their business models will depend on their positioning. For captives there is no big change expected. Their main principle of in-house financing as a "one stop shopping experience", still meets the customers' needs. The other players have to update or at least extend their business models. Banks for example have started to promote the sale of cars already in their agencies. They have to leverage their competitive advantage, already having a comprehensive view of the financial situation and the needs of their customers, and be the first in line to offer individualized financing products. Leasing companies should, for example, focus on the (additional) services they may offer to their clients. As customer requirements are clearly changing with younger generations, offering individualized (mobility) services may be a promising way for them to go.

In order to survive, dealers will have to grow in terms of their points of sale to get broader market access. Banks, especially, also have the advantage of having higher customer access via their agency networks. To succeed, dealers have to work on their main competitive advantage which is the authenticity and excellent knowledge of the product. Therefore, it will be essential to train their sales forces regarding financial products, additional services like insurance and to improve and facilitate the sales processes and whole customer experience when delivering the vehicle.

The overall attractiveness of the market will remain and increase. Therefore the competitiveness will constantly increase. Especially the SME market segment will be hotly contested, also as a result of the new mobility trends and requirements of the customers. While the market segment of automotive financing has been seen quite homogeneous during the last few years, players and competitors will be faced with new requirements and the need to focus on a clear strategy and market access to durably remain successful and competitive. They should, therefore, not only focus on the current situation, but, much more, take into account future mobility concepts and strategies via the current focus on individual mobility by car.

11. PROFESSIONALS INTERVIEWED

We would like to thank all the professionals who agreed to receive us and share with us their vision of the car finance market.



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