Asset Finance Pricing Review

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Nordic leasing market warms up

- Car subscription services – too good to be true?
- ExpertEye on Europe's eastern promise

Introduction

Welcome to the latest edition of our Asset Finance Pricing Review, published in association with Asset Finance International

If 2018 was a year of decidedly mixed fortunes for many companies, 2019 looks to be full of uncertainty. The biggest shadow over Europe, of course, is the UK's departure from the EU, with the nature and the impact of Brexit still unclear more than two years after the referendum resulting in a vote to leave.

Then there is the ongoing trade war ignited by President Trump between the US and China, along with his determination to fulfil his electoral promise of building a barrier on the Mexican border. Meanwhile France is one of several countries to see continuing populist uprising, as the "gilets jaunes" or yellow vest movement – originally a protest against proposed hikes in fuel prices to counter environmental concerns – has staged regular protests in Paris and other major cities.

All of these geo-political events have a direct impact on the auto finance sector, not least because of the highly integrated supply chains now adopted by all the major car manufacturers.

Added to this, there are the seismic changes within the automotive sector itself. Ford and Jaguar Land Rover both began the year with the announcements of significant job cuts as established manufacturers struggle to adjust to a new world where petrol-engine car sales are in sharp decline. As well as the switch to alternative fuels, OEMs, fleet managers and lenders must respond to the inexorable pressure to do business digitally, a further challenge in a world which is already in a state of flux.

As industry expert Colin Tourick, who is Professor of Automotive Management at the University of Buckingham, points out in his article on page 3, while it can be easy to see the advantages digital offerings have for consumers, it can be harder for leasing companies and lenders to spot their competitive advantage. In his final column, he applies more than three decades of experience to the topic of car subscription services, an option which looks a lot like running a fleet or even "flexible leasing" but has some very different characteristics.

Our lead article (starting on page 7) is designed to offer an overview of the leasing market in the Nordic region. This is a region which has often been in the shadow of other, bigger, European markets but which is starting to show signs of more vigorous activity. We assess the local challenges and business opportunities for leasing companies there.

As ever, we also have ExpertEye's report on residual forecasts and market summaries for the main western European market, which face some challenges over the coming months, which you can read on page 17.

Do enjoy and your comments and opinions are always welcome.

Gary Jefferies
Sales and Marketing Director, Bynx

Subscription services – who takes the risk and who gets the reward?

Professor Colin Tourick

In his final column, Colin Tourick, Professor of Automotive Management at the University of Buckingham and a 39-year industry veteran, takes a close look at the latest trend in mobility, and asks whether the move towards supplying cars-as-a-service is good news for leasing companies, and not just their customers

I remember one day, thirty-seven years ago, when I was the CFO of a modest-sized leasing company, sitting in a credit committee meeting listening to one of our salesmen presenting a deal for approval.

And for the benefit of anyone under 30 years old, I should point out that by today's standards all leasing companies were modest-sized then, and the word "salespeople" hadn't been invented.

He was trying to encourage us to approve a particularly risky deal, to fund some cars for a barely creditworthy client and at a low price. He wasn't having much success and was getting increasingly frustrated, until he finally blurted out "Don't you realise this is what customer wants and that the customer is always right?"

The room fell silent and then the CEO patiently told him that we weren't selling consumer goods, we were leasing cars and taking a credit risk, and that whilst the customer might be willing to take a risk by entering into this deal, that didn't mean we had to go along with it.

For reasons I'll explain later I was reminded of this episode when reading the recently-published YouGov/Zuora study which said that a whopping 24% of Brits who would forego a car are likely to subscribe to a car subscription service within the year. The details are here: https://bit.ly/2QCgL6D

A subscription service, sometimes called car-as-a-service, allows the customer to take a car on a highly flexible lease, usually for a small deposit, a short minimum fixed term and with the right to hand it back when they wish. The lease includes delivery, maintenance, servicing and insurance.

The study explains that demand for this product is being driven by millennials, who as we know have become accustomed to obtaining many services – music, newspapers, books, fitness services, etc – through flexible monthly contracts. They see it as natural that this option should be available on cars too. Some might say that consumers can already pay monthly for cars by taking PCP or PCH deals, but that's not what we're talking about here. Subscription services offer much more flexibility than those products.

The researchers said that this trend is "pushing companies to rethink their business models", and we can already see evidence of this with LeasePlan's launch of CarNext.com, which offers a subscription service on ex-lease cars. As LeasePlan said, “Increasingly, our customers – whether they are corporates, SMEs or private individuals – would prefer a 'Car-as-a-Service' with no strings attached in terms of car type or duration. They just want 'any car, anytime, anywhere'.”

Products of this kind are already offered by Wagonex, Drover and Volvo in the UK, and Porsche, BMW and others in the US.

It seems that alongside the big steps the fleet leasing industry has been taking in other areas – investing in mobility solutions and connected car developments, helping drive the uptake of low emission vehicles and the move to personal contracts, etc – it may now be about to launch into a new megatrend: subscription services.

Dangers ahead

The purpose of this article is to consider the risks before we get too carried away.

The first thing to say is that this is not a new service. Several specialist companies have tried to offer “flexible leasing”, as it used to be called, without much success.

To understand the reasons, I need to compare car leasing companies with daily hire companies.

Daily hire companies have cars available wherever there is likely to be customer demand. Through their own branches and relationships with other suppliers, they can nearly always come up with a car to meet a client’s needs. A client who wants a car for a few days or weeks is not too bothered about which model of car they hire, so long as it has a certain body shape, number of seats and boot capacity. That’s why hire companies offer cars in groups - Mini, Economy, Compact, Full-size and so on. It allows the supplier to be flexible.

Most car leasing companies have none of these price or operational advantages. Also, if someone wants to drive a car for say six or nine months it is likely that they will be much fussier about its make, model and specification. There are thousands of makes and model derivatives of cars available, and leasing companies aren’t going to be able to be able to needs of subscription service clients who want a specific model.

They could compensate for their lack of natural advantages by offering really attractive prices for subscription service vehicles (compared with leasing or daily hire), but they’re not going to be able to.

Daily hire companies buy cars in large numbers and at very keen prices, so when they sell them a year or so later they haven’t incurred much maintenance or depreciation cost. Leasing companies don’t get such big discounts, and historically they have mainly offered “flexible leasing” on ”’difficult” cars where they would otherwise bear a loss on sale, e.g. repossessed cars or cars where the predicted residual value is out of kilter with the market.

The nature of the subscription product means that the supplier has to deliver and collect the car several times during its life on the fleet, compared with the average lease car. Each one of those movements has to be paid for. Great if you can get the client to pay a one-off fee to cover this, but this just goes to increase the cost to the client.

Then of course we must consider “down time” – periods when the car is not out on hire. The cars that leasing companies supply over three or four years have no down time at all, but there will definitely be down time for subscription service cars, when the cars are being moved or are simply not out on hire. Down time will have to be priced into each contract if the leasing company is to cover its costs, which again makes this look like an expensive product.

If a client takes a car on a subscription service and can hand it back whenever they wish, without penalty, this gives them license to cause financial pain to the supplier.

Customer service

This takes us back to my colleague who said, “the customer is always right”. Truth is, it seems clear that there is a real and growing demand for subscription services and that there is a great opportunity out there for suppliers to meet this need. However, just because the client demands a service it doesn’t automatically mean

> If a client takes a car on a subscription service and can hand it back whenever they wish, without penalty, this gives them license to cause financial pain to the supplier.

that leasing companies should go out there and supply it. When you look at the natural advantages enjoyed by daily hire companies, it is clear – to me at least – that they are in a much better position to offer this product than the average leasing company.

Leasing companies already have close working relationships with daily hire companies. Indeed, many of the larger leasing companies have rental company employees in their offices, helping to meet the car hire requirements of the leasing companies' clients.

These things come down always to a cost benefit analysis, but it seems to me that for now at least, most leasing companies would do better by trying to leverage their existing relationships with their preferred daily hire partner to deliver subscription services, rather than striking out into unfamiliar territory and offering this service on their own.

Professor Colin Tourick
University of Buckingham

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Northern lights

Journalist Tom Seymour takes an in-depth look at the finance and pricing challenges facing the vehicle leasing and fleet markets in the Nordic countries

Popular images of the main Nordic countries – Sweden, Norway, Denmark, and Finland – tend to focus on their cold weather and long, summer nights. However, these are rich, technologically advanced nations with a track record of producing world leading businesses, including IKEA, telcom operators, oil and gas producers, food and drinks companies and forestry specialisms. While their economies are varied, and have seen some substantial challenges in recent years, the overall outlook is turning positive.

Indeed, positivity in Germany's wage growth and rising employment has spilled over to the Nordic markets, according to Nordea's Group Chief Economist Helge J. Pedersen. Nordea is the largest financial services group in the Nordic region and one of the biggest banks in Europe. It offers automotive leasing across the Nordic region.

> The labour market remains tight, but wage growth has been surprisingly stable. When the effect of the SEK depreciation fades and energy prices stabilise, inflation will drop next year.
>
> Helge J. Pedersen, group chief economist, Nordea

Sweden, the Nordics' largest economy by GDP, is doing well, supported by a strong domestic brand. House prices have stabilised after last autumn's downturn, but private consumption looks set to slow due to uncertainty in the housing market.

Pedersen said: "The labour market remains tight, but wage growth has been surprisingly stable. When the effect of the SEK depreciation fades and energy prices stabilise, inflation will drop next year."

Norway's economy, the second largest in the Nordics, is also looking good. The housing market is positive and building activity is expected to pick up following a sharp drop year-to-date. Oil investment is also expected to rise sharply.

Pedersen said: "Solid income growth and increased optimism among households and firms will boost growth in consumption and mainland investment in Norway. Wage growth will increase and in 2020 inflation will reach the target. Norges Bank will gradually increase rates and the NOK is set to strengthen."

Pedersen said the Danish economy is "limbering up nicely" on the back of falling unemployment, rising business investment and stronger consumer sentiment buoyed by low interest rates, rising housing prices and solid real wage growth.

The Finnish economy continues along a healthy growth track this year and next driven by consumption, which is fuelled by the favourable trend in the labour market and wage developments.

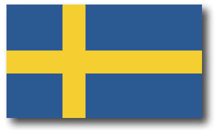
Despite this, economic growth for Denmark in 2018 has been weak, but Pedersen is expecting a better performance in 2019, before a slight slowing in 2020 due to growing labour shortages and lower demand.

The Finnish economy continues along a healthy growth track this year and next driven by consumption, which is fuelled by the favourable trend in the labour market and wage developments.

Pedersen said: "However, at the end of the forecast horizon, employment growth is likely to cool as the labour market mismatch takes a negative turn. In addition, export growth has already slowed and we expect growth in export markets to cool further in the coming years."

		2013		2014		2015		2016		2017	
		Registrations	Share	Registrations	Share	Registrations	Share	Registrations	Share	Registrations	Share
DK	Business	89,358	43%	109,559	50%	132,029	55%	153,745	59%	152,740	59%
	Private	116,734	57%	107,829	50%	108,005	45%	105,823	41%	105,144	41%
	Total	**206,092**		**217,388**		**240,034**		**259,568**		**257,884**	
FI	Business	69,145	61%	72,818	62%	78,721	65%	90,792	69%	94,652	71%
	Private	44,756	39%	44,078	38%	41,565	35%	41,701	31%	39,424	29%
	Total	**113,901**		**116,896**		**120,286**		**132,493**		**134,076**	
NO	Business	71,405	41%	68,479	39%	64,303	35%	74,454	39%	83,278	43%
	Private	82,959	48%	77,469	45%	88,327	48%	82,286	43%	77,705	40%
	Other	18,646	11%	27,865	16%	31,310	17%	33,871	18%	33,505	17%
	Total	**173,010**		**173,813**		**183,940**		**190,611**		**194,488**	
SE	Business	210,684	69%	231,578	67%	255,794	66%	272,085	64%	288,353	66%
	Fleet	93,159	44%	103,640	45%	120,013	47%	135,697	50%	150,854	52%
	Non Fleet	117,525	56%	127,938	55%	135,781	53%	136,388	50%	137,499	48%
	Private	96,258	31%	114,303	33%	134,112	34%	151,902	36%	146,422	34%
	Total	**306,942**		**345,881**		**389,906**		**423,987**		**434,775**	

Source: JATO Dynamics



Sweden

Total new car registrations in Sweden 2017 reached around 434,775 cars, according to statistics from JATO Dynamics. Out of that, around 30% are leasing, 60% private and the rest is made up of rental, taxi or municipality volumes.

The Swedish market is dominated by its native Volvo as well as strong representation from German brands like Volkswagen, Mercedes and BMW. Sweden is expecting a flat year for car registrations in 2019, as in 2018.

Cars in this market are taxed with 25% VAT, the same as most other products in Sweden. In addition, there is a yearly road tax, based on CO_2.

The Swedish government decided to wait to introduce Worldwide Harmonized Light Vehicles Test Procedure (WLTP) measurements for tax calculation until 2020. The tax is currently calculated using New European Driving Cycle (NEDC) values.

Johan Trus
Valuations & Data Head, Autovista

There have still been some tax changes for Sweden with the road tax system changing in July 2018 to a "bonus-malus" tax for the three first years, where zero emission cars get a "one time" bonus from the government of €5,800. For vehicles that emit under 60g/km of CO_2 they get a bonus of €730.

Johan Trus, Autovista head of valuations and data for the Nordics, said bonus-malus tax change was done to help speed up the switch to electric and hybrid cars.

Leasing customers will also get subsidies on their benefit-in-kind tax if they choose an electric or plug-in hybrid vehicle.

Sweden's official target is to have a car fleet that is independent from fossil fuels by 2030.

Swedish leasing market

The Swedish vehicle leasing market is led by Volvo Finans Bank and Volkswagen Financial Services (VWFS) on the captive side and then local banks Handelsbanken and Nordea.

There hasn't been much consolidation in the Swedish fleet market, with VWFS being the biggest new entrant five years ago.

Sweden is a strong finance lease-market, with approximately 70% of commercial customers using that route to market. The last couple of years has seen an increased interest in operational leasing, although this still represents a smaller portion of the overall market.

Small and medium sized fleets make up the largest portion and around 25% are big fleets of more than 350 cars.

Patrik Lindroth, head of fleet at Volkswagen Financial Services Sweden, said: "Governmental business and big fleets is an area where VWFS has seen potential and a sector we've actively been targeting the last couple of years.

"This is also a sector where VWFS management product, Fleet Support, is complementing our finance offer very well."

A new bonus for electric cars and plug-in hybrids, combined with higher annual vehicle tax for most petrol and diesel cars, led to a jerky few months in Swedish car sales.

Patrik Riese, Volkswagen Financial Services chief executive and managing director in India, started his career in the Swedish fleet market.

Riese said: "The user chooser market is by far the biggest in Sweden, as a company car is a very common fringe benefit in Sweden. That cuts across both large and medium size companies."

Riese believes private leasing is the biggest growth opportunity in Sweden right now.

He said: "Private consumers are beginning to behave more and more like corporate buyers. They want convenient mobility, not car ownership.

"Also the financing of car pools and car sharing schemes is going to be a big growth area too."

Riese said electric and hybrids are gaining traction in big cities (there are a lot of Teslas in Stockholm for example), but not in rural areas, due to lack of charging infrastructure and longer driving distances. Battery performance in cold weather can also be an issue in cases of extreme weather in Northern Sweden.

Patrik Lindroth
Financial Services Sweden
Fleet Head, Volkswagen

Lindroth thinks the biggest growth market beyond electric vehicles and hybrids is still a focus on lower emission vehicles in general.

He explained: "The attention from the corporate customers is of course driven by the higher tax and cost but also from a corporate social responsibility perspective.

"Given the overall focus on emissions we see an increased interest from the customers to show a movement from diesel/petrol to low emission vehicles, not only from a cost reduction point of view, but also to be able to talk about their footprint as part of their environmental work, both towards their customers as well as towards their employees."

There is high interest in alternative fuelled vehicles in Sweden, with many fleet customers looking to reduce total emissions.

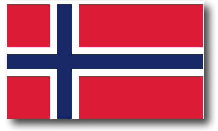
However, Lindroth echoed Riese, saying there is still some hesitation due to a lack of charging infrastructure across the country.

He said: "Bonus-malus taxation has pushed the buyers further. At the same time we see that drivers who have had a hybrid or electric car once are reluctant to go back to an internal combustion engine."

Latest technology innovations include the demand from corporate customers for self-service and the need for configurators.

VWFS Fleet responded to the trend by launching a service that lets corporate customers order their company cars on their own through an online car configurator that lists models and derivatives that fit a specific company's spec.

Lindroth said: "The demand for self-service and need for configurators have increased over the last year. What was a nice USP three years ago is now a hygiene factor."



Norway

The Norwegian car market is changing quickly. Hybrids increased from 12.4% of new registrations in Norway in 2015 to 24.5% in 2016 and 31.3% in 2017. Plug-in vehicles now represent over half of the new car market, compared with 15.7% in 2016.

Meanwhile, diesel cars' share of new registrations has plummeted, from 75.7% in 2011 to 30.8% in 2016 and 23.1% in 2017.

Members from the Association of Norwegian Finance Houses loan- or lease-financed 99,965 new cars in 2017 (63% of the total, up from 59.3% in 2016) and 137,902 used and imported used cars (29.4%, up from 26.2%).

Car leasing increased by 29.7% to NOK 21.4 billion in 2017, due mainly to a big increase in consumer leasing, which accounted for 61.5% of the total volume at member companies in 2017.

Norway's vehicle sales are led by Volkswagen and Toyota and like Sweden, small to medium sized businesses (SMEs) are the biggest corporate market for leasing companies.

Government contracts, including fleet deals from municipalities and cities are big business in Norway due to their size, with many contracts having higher potential volumes than large corporate fleets.

EVs MOST IMPORTANT MARKETS
JAN-SEP/17

By Volume (k)		By Market Share	
China	227	Norway	16.6%
USA	61	Netherlands	1.4%
Norway	24	Austria	1.3%
France	22	China	1.3%
Germany	17	Sweden	1.2%
UK	12	France	1.2%
Japan	10	Switzerland	1.1%
Korea	8	Korea	0.6%
Netherlands	5	Germany	0.6%
Canada	5	UK	0.5%

JATO

Vidar Eriksen Financial Services Norway MD, Volkswagen

Norwegian leasing market

Vidar Eriksen, Volkswagen Financial Services Norway managing director, said the biggest opportunity for growth in Norway is still with the bread and butter of the SME market.

He said: "The total cost of ownership is becoming increasingly important for more and more companies.

"They want to have a clear overview of all vehicle-related costs in one instalment and invoice."

According to Eriksen the fastest growing segment in Norway is actually the private leasing market.

He is seeing a trend for company cars to be replaced by privately leased vehicles, with employees often receiving a bonus from their employer to do so.

EV sales are actually driven by retail sales due to the strong incentives in place, but Eriksen said more and more fleets are using pure EVs when it's sensible to do so. That massive increase in EV sales is pushing Norway into largely unchartered territory, creating a large used car market for the vehicles.

Eriksen said Norway does have a mature remarketing sector with good data and digital infrastructure to deal with this challenge.

He added: "Our experience and knowledge of residual values is very good. However, it can be said that the rapid increase in demand for electric vehicles is putting RVs for plug-in vehicles under pressure."

Electric vehicles in Norway

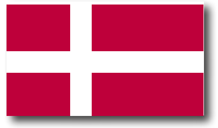
Norway has become a world leader in plug-in car adoption with more than half of its 160,000 unit new car market powered by alternative fuel technology. It is the third largest market for pure electric vehicles in the world, after China and the USA. This is particularly impressive when considering the vast population differences between those two massive countries. As a result, EVs have the greatest market share in the world in Norway, at 16.6%.

This rapid adoption of new technology in the automotive market is being driven by the Norwegian government's plan to have all vehicles zero emissions capable by 2025.

It's doing this through strong financial subsidies including exemption from 25% VAT, no road tax, no road tolls, half price ferries, free parking in cities and access to some bus lanes to avoid congestion.

The incentives have made plug-in vehicles on par or even cheaper than their petrol or diesel equivalents, making it an easier choice for many drivers to make the switch.

The Norwegian government has been caught off guard a little by the speed of adoption but is planning to ramp up its charging infrastructure to support the size of the plug-in vehicle market with fast charging stations every 50km on all main roads across the country.



Denmark

Denmark's leasing market has been hit with problems caused by WLTP with manufacturers struggling to get stock through to fleet customers.

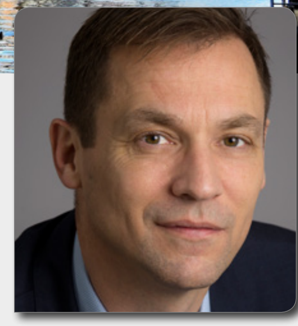
Nordania Leasing, part of Danske Bank Group, is one of Denmark's largest providers in the fleet market, leasing around 26,000 vehicles a year.

Peter Kragelund Andersen, Nordania Leasing business area manager, said: "VW Group, the biggest manufacturer by volume in Denmark has had a particular problem with WLTP stock and this has affected the market.

"The tax system also changed in October 2017 and this put a freeze on buying decisions."

Kragelund Andersen said that whenever the Danish government makes tax changes on vehicles, the market stalls as people hold off purchasing or leasing decisions to see how the changes will affect them or to wait for more beneficial tax changes.

He said this uncertainty can play to the leasing market's favour as companies move away from outright purchase and let the leasing companies handle the residual value risk, particularly on new technology like plug-in vehicles.



Peter Kragelund Anderson Business area manager, Nordania Leasing

He said: "More and more people are considering leasing and the market is around 60/40 between retail and fleet. Drivers can combine their business mileage along with private mileage in Denmark, so that's one of the additional benefits."

Large corporate customers make up the majority of Nordania's customers in Denmark.

The used car market is fairly mature, with online portals available to remarket vehicles that come off lease. The vast majority of used vehicles are exported out of Denmark.

Danish leasing market

The biggest challenges facing the market will be how hybrid and EV evolves in the fleet market and whether leasing companies can move quickly enough with vehicle quotations.

Kragelund Andersen said: "The vehicle taxation system is quite complicated in Denmark so any changes that are made can create a challenge when updating quotation systems quickly enough to reflect the changes.

"We'll be in the middle of the next election six months and it's likely we'll have a new government, so we will have to see how they view the plug-in vehicle market and what further changes that will bring."

Denmark has a fairly complicated tax system based around registration fees for new internal combustion engine cars and these had already been cut from 180% to 150%.

It was introduced in October last year as part of a €3.1 billion package in tax cuts by 2025 aimed at boosting Denmark's economy.

Denmark lowered the tax rate on the cheapest cars to 85%.

The rate of tax is currently set at 105% on cars priced at 106,000Kr (€14,200) or under. However, the new 85% rate will be based on vehicles up to 185,000Kr (€24,860). The tax on more expensive cars remains at 150%.

In addition to the general reduction, the existing deduction in the registration tax for the safest cars increases from the current 2,000Kr (€270) to more than 8,000Kr (€1,075).

Similarly the tax surcharge for cars with poor fuel economy increases from 1,000Kr (€134) to 6,000Kr (€806), while the limit for when a car is eligible for deductions for good fuel economy increases for both petrol and diesel cars.

Tax revenue as a percentage of GDP for Denmark amounted to 46.6% for Denmark in 2015, according to Organisation for Economic Co-operation and Development data, much higher than Sweden (43.3%), and Norway (34.1%), as well as Finland (44.0%).

EVs in Denmark

The tax reductions on new vehicles is hoped to help towards lowering the cost of electric vehicles after the Danish government phased out tax breaks on plug-in vehicles.

Electric vehicles previously had avoided import taxes in Denmark, but this was removed by the government in autumn 2015, citing budget constraints and wanting to level the playing field for all fuel types.

The removal of subsidies saw the EV market in Denmark drop dramatically, from a fledgling market of 4,762 units in 2015, down to 1,438 in 2016 and then 913 in 2017.

The current Danish government's plan will see the introduction of a 40% registration tax added to the sale of EVs in 2019, minus a 10,000 kronor (€1,344) tax incentive deduction, with this tax rising to 65% in 2021 and surging to 90% in 2021 and 100% in 2022.

However, this could all change with a new government, with the Social Democrat party saying it would ban all new diesel vehicles and reintroduce new subsidies for EVs if it gets into power.

It makes the plug-in market quite a volatile one for businesses in Denmark, particularly those that are making decisions for their fleet with three to four year lifecycles.

Nordania's top 10 most popular leased vehicles in Denmark:

- VW Passat
- Mercedes C-Class
- Mercedes E-Class
- BMW 4 Series
- VW Touran
- Ford Mondeo
- Volvo 90 Series
- Ford S-Max
- Nissan Qashqai
- Opel Insignia

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Finland

Finland's new car market was around 120,000 units in 2017 and the market is expected to be flat in 2018.

JATO Dynamics does not hold as detailed statistical information as the other Nordic countries for Finland, but of that total new car market, approximately 33% go to some sort of organisation. However, JATO could not determine from the stats whether these vehicles are leased or if they have been financed in another way.

In Finland, cars are taxed with first a VAT and then an additional luxury tax calculated based on CO_2. In addition there is a yearly road tax.

The luxury tax is dynamic depending on the CO_2. From 0% luxury tax for electric cars up to around 80% luxury tax for cars with over 300g/km CO_2.

A car with 145gkm CO_2 has a luxury tax around 30%. Electric cars are also subsidised for private buyers with a grant of up to €2,000.

These incentives have made it that chargeable cars stand for 6% of the new cars registrations in Finland in 2017. At the same time diesel share has reduced to 30%, down from 49% in the last peak year of 2008.

The tax system was shaken up dramatically this year due to the Finnish government deciding to calculate tax based on Worldwide Harmonized Light Vehicles Test Procedure (WLTP) figures as of September this year, rather than waiting until 2020 as had previously been communicated. This created a bit of a panic in the market.

Johan Trus, Autovista head of valuations and data for the Nordics, said: "At the same time all these tax changes were going on, the government also changed the tax curves for the calculations in order to make the change to WLTP values "tax neutral" for the end customer."

Trus said that after a few months it was then concluded that these new tax curves were not in fact "tax neutral" so they were changed and lowered again recently in December before the end of 2018.

The Finnish leasing market

The Finnish leasing market is more difficult to source data on, particularly for any years after 2016 as there is no longer a national leasing association and data on cars is no longer collected.

As, Elina Erkkilä, head of statistical and supervisory reporting at Finland Finance, explained: "We used to collect this data until the end of 2016 but since one of our biggest members left our association, we are no longer able to do that."

Jani Eriksson, JATO analysis and reporting consultant, Nordic, said: "If we look at the Finnish market in particular everyone is rather swamped with adapting to the WLTP taxation valid as of Sept 1st and the recent adjustment of the taxation in beginning of December.

"Also there is yet a tax change to come Jan 1st so it's a rather complicated market to run business in at the moment."

The main players in Finland's vehicle rental market are Europcar, Hertz, Sixt, Avis, Budget, AddCar, GreenMotion and Global Rent a Car. There are also more local ones like Scandia Rent, FiRent and Finnrent.

Mobility services

While there isn't as much data available on Finland's leasing market, it is a pioneer in the Mobility as a Service (MaaS) industry.

The Whim app was founded in Helsinki by Maas Global in 2016, and is now operational in the Finnish capital, as well as Antwerp in Belgium and the UK in the West Midlands.

Maas Global signed an agreement with Helsinki Region Transport (HSL) in November 2016. Users of the Whim app in Helsinki use public transport, taxis and rented cars for a monthly fee of €249. The company has since rolled out a pay as you go model too.

Pay as you go prices start from €22 for the first two hours and then €5 for every 30 minutes after that up to a maximum charge of €89 a day.

Whim works with leasing provider ALD Automotive, who is a top 10 leasing company in the UK and also has operations across Finland, Sweden, Norway and Denmark. ALD provides vehicles for Whim users to rent.

> Pay as you go prices start from **€22 for the first two hours** and then **€5 for every 30 minutes** after that up to a maximum charge of **€89 a day**.

Customers can currently choose from five cars: the VW Golf, Nissan Note, Skoda Fabia, Toyota Auris Touring Sport and Lexus CT 200h. Hertz also signed up in 2018 to the Whim platform, adding the Ford Fiesta and Volvo V40 for Whim users to rent from €49 a day.

Sampo Hietanen, MaaS Global chief executive and founder, said: "Our goal is to realize people's dream of free movement.

"HSL's open-minded and bold opening strengthens Helsinki and Finland's position as a pioneer in mobility services. HSL is a great example for international traffic operators and our common goal is to bring new alternatives to existing carriers to move by combining public transport and the car according to the user's own needs."

However, Satu Hyvärinen, Avis/Budget Helkama Rent sales director in Finland, is more sceptical that MaaS can work at scale across the whole of the country.

Sounding a note of caution, she said: "Everybody is talking about car sharing, but in Finland it's only profitable in the Helsinki area.

"Customers are geographically too scattered to make car sharing work on a wider scale across Finland and actually, car sharing is really just a new fashionable word for traditional car rental.

"Car renting is still sharing and only thing that is coming that will differentiate further from that is the connected car element."

Hyvärinen said the biggest challenge facing the fleet and rental market in Finland is the level of competition from leasing companies, banks, insurance companies and car dealers all after a slice of the pie.

She noted: "Taxation of the cars is also a really big issue and it is difficult to churn the fleet as fast as other countries that have a shorter life cycle on vehicles."

East meets West

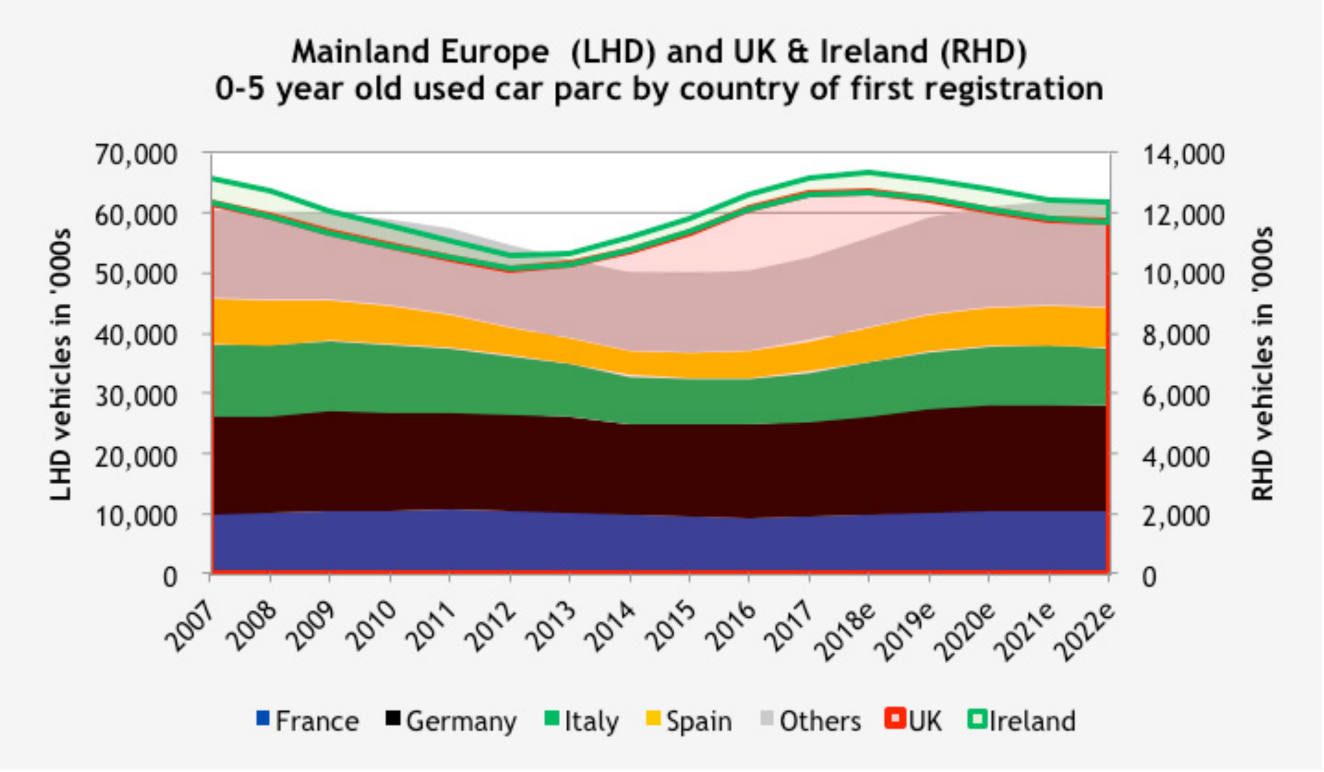
The car markets of Western Europe have long been seen as the bellwether of the industry, but 2019 is likely to see strong markets in former Eastern European countries, according to ExpertEye's analysis

The big five European markets still represent over 70% of the EU28 and EFTA3 region although the falling UK market and an easing back in Italy has resulted in a 1.1% fall to 71.2%.

Moving forward we believe the strength of growth in the Polish market will see it edge above Belgium to become Europe's sixth largest market by early 2020 as it records a third consecutive year of record growth in 2018 and again in 2019.

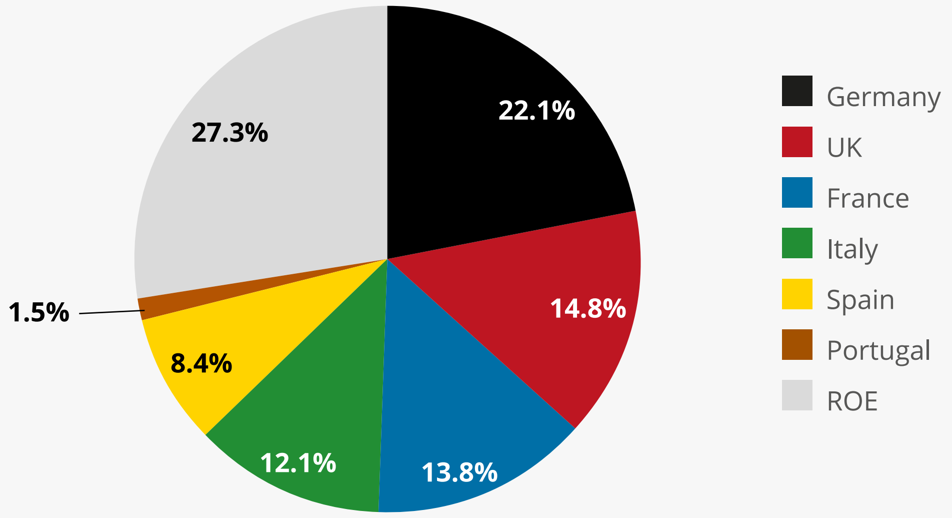
Poland more than halved the gap between it and Europe's sixth largest country, Belgium, in 2017 as sales have seen double digit growth for the last two years and this is expected to continue through 2018. With falling unemployment and strong economic growth it now looks likely to overtake Belgium in the next 12-24 months. With only 12.87 new cars currently sold in Poland for every 1,000 head of population even achieving the lowest density of the big 5, Spain (26.5 per capita) would make it a circa 1.1 million new car market.

The growth in new car sales in Poland may also start to impact the legacy demand for used car imports from Western Europe. With countries like Poland currently seen as a good option for selling Euro 5 and earlier diesel models some businesses are already looking at other Central European countries as a plan B to avoid being caught out.



Source: ACEA.BE – Historic data, Bowkett Auto Consulting Ltd – Forecasts

Total EU28 & EFTA3 Passenger Car Sales Forecast 2018



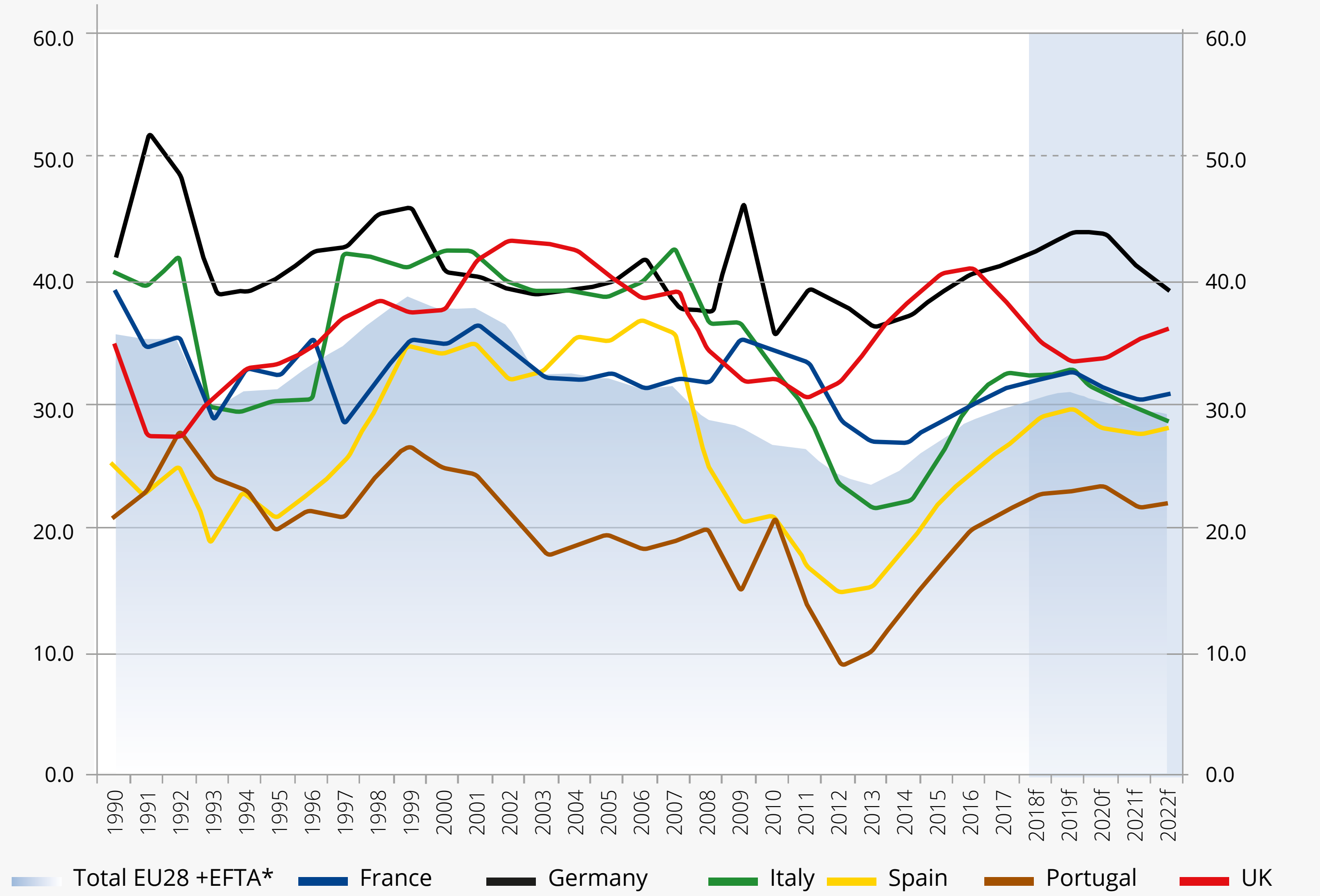
Passenger car sales per capital

According to the latest data from the World Bank the population of the EU28 and EFTA3 region is due to rise by 0.11% in 2018 and a further 0.10% in 2019. With new car sales on track to rise by 2.4% this year and 2.0% next year this will push the total new car sales per thousand head of population up from the 29.8 cars per thousand capita for 2017 up to 30.4 in 2018 and 31.0 in 2019.

Whilst pre-2003 the EU region was running at around 37-38 cars per thousand, the accession of a number of Central European countries has reduced the average. Since the most recent accession of Bulgaria and Romania in 2007, the average rate has been 27.42 cars per thousand. That means 2019 would be just 319,000 units or circa 3.9% of additional sales away from breaking the 2007 record of 31.6 cars per thousand capita for the EU28 and EFTA3.

Three of the six countries covered in this report had their best new car sales per capita in the 1990s, France (1990 – 39.5/thousand), Germany (1991 – 52.0/thousand) and Portugal (1992 – 27.8/thousand). The UK's best year so far was in 2003 (43.2/thousand) whilst Spain and Italy were in the years just preceding the economic crisis, (Spain 2006 – 36.8/thousand) and (Italy 2007 – 42.7/thousand). Of these only the UK is within 5 cars/thousand of beating that record as at 2017, with the rest varying from 6.2/thousand for Portugal up to 10.3/thousand for Spain and 10.4/thousand for Germany. But looking at the average rate for each country for the period from 1990-2017 there are only two countries who were below their average levels, Italy (2.6/thousand below) and France (1.2/thousand below). This may present a financial challenge when OEMs try to do more tactical registrations.

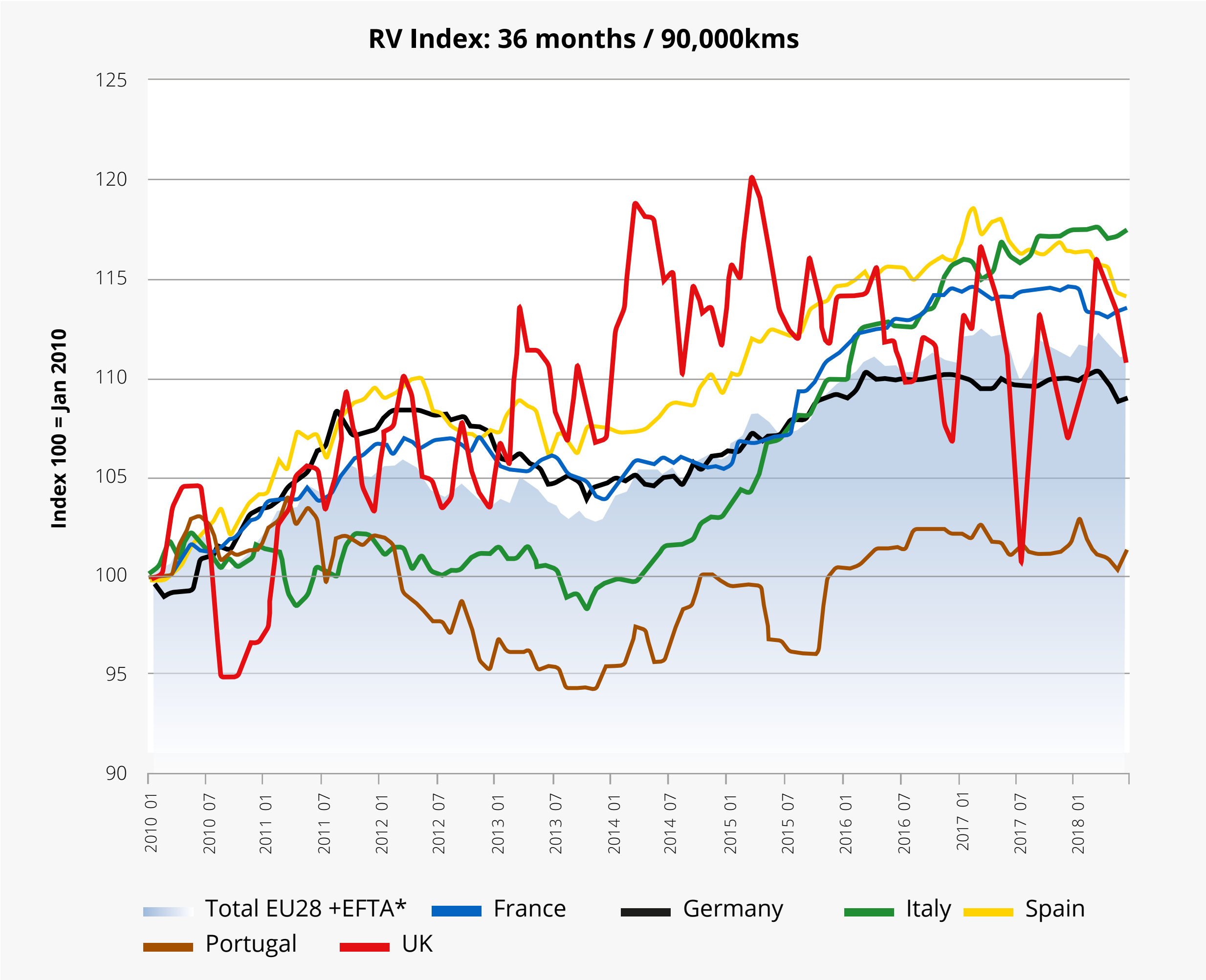
New passenger car sales per thousand population



**Reference to EU28 & EFTA based on EU membership as at the dates indicated*
Source: ACEA.BE, World Bank: Population Total, Bowkett Auto Consulting Ltd

After several years of volatility RV setters across most of the markets have settled back to normality with overall values moving in line with seasonality.

The most notable exception is in Spain where RVs have been falling for the best part of a year. However, it is important to understand the market development since the economic crash. During the crisis Spain saw one of the worst levels of unemployment in Europe and the worst collapse of any major European car market as buyers kept their cars for longer. As the labour market improved and demand increased for replacement cars it was inevitable that demand would exceed supply for a period enabling RV setters to set higher RVs than normal. The decline we are seeing over the last year is partly a result of RV setters realigning themselves back to reflect the more balanced market going forward, and the fleet weighting towards diesel vehicles.



Source: ExpertEye AG. Figures based on 36 Months / 90,000 KM forecasts

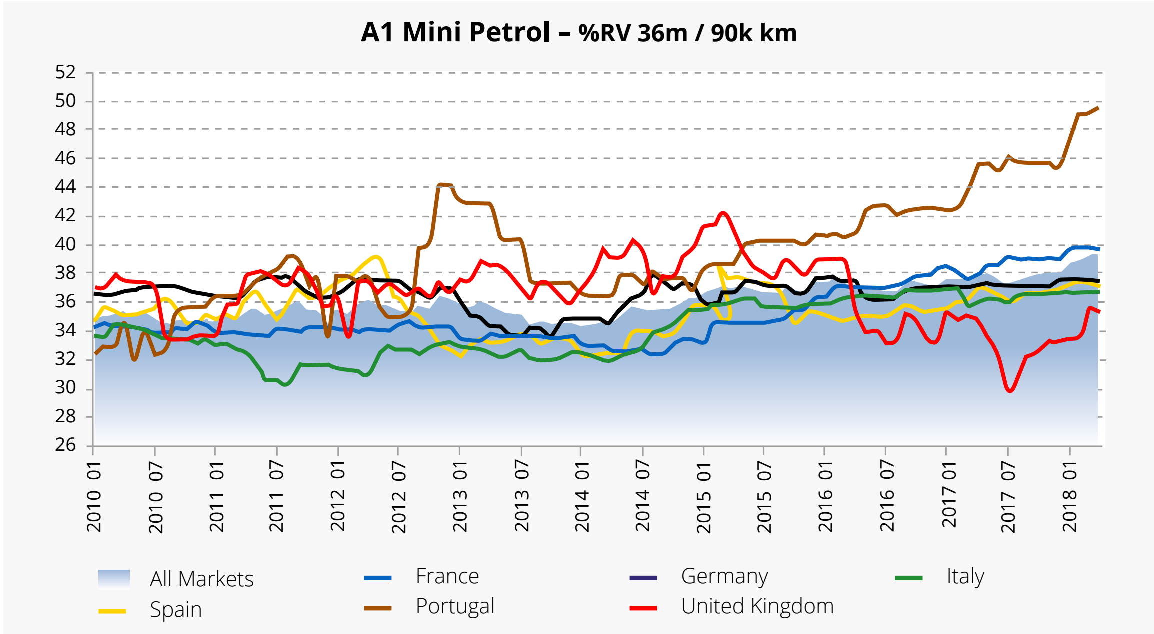
Diesel continues to be in demand for used car buyers although the major portals across Europe such as AutoTrader.co.uk, Mobile.de and Autoscout24 are all reporting search rates falling year-on-year. But whilst demand may be weakening, the prices being paid are still generally up across the whole region compared to 2017. Whilst acknowledging that there are some regional variances, the most common theme is a widening of prices with diesel increasing by 1%-2% generally compared to petrol up 6%-7%. Despite the demonisation of diesel supposed to be seeing buyers switch to hybrids and electric vehicles in the used market, that message is being generally ignored. ZDK President Jürgen Karpinski is even leading a fight back for diesel by calling for governments to legislate on the retrofitting of hardware to legally bring Euro-5 vehicles up to Euro-6 standards.

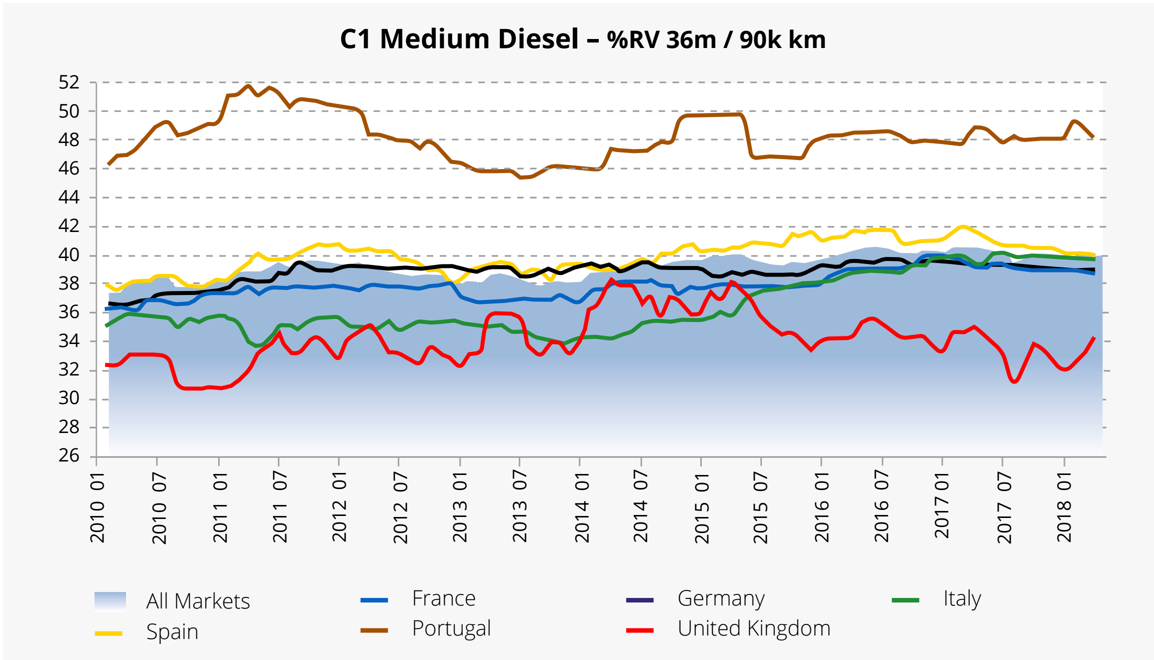
RV trends in most countries are likely to continue seeing a petrol/diesel divergence through 2018 and into 2019 with no major movements expected for the remainder of this year.

RVs for traditional saloons, hatchbacks and station wagons have generally remained stable across Europe. The geopolitical landscape remains fraught with so many issues, e.g. trade tariffs, Brexit etc, whilst government and media spin on different fuel types is leaving RV setters left with the choice to either take a bold decision and back a particular outcome, which risks being wildly wrong, or hold values relatively steady and hope the issues end up counterbalancing each other.

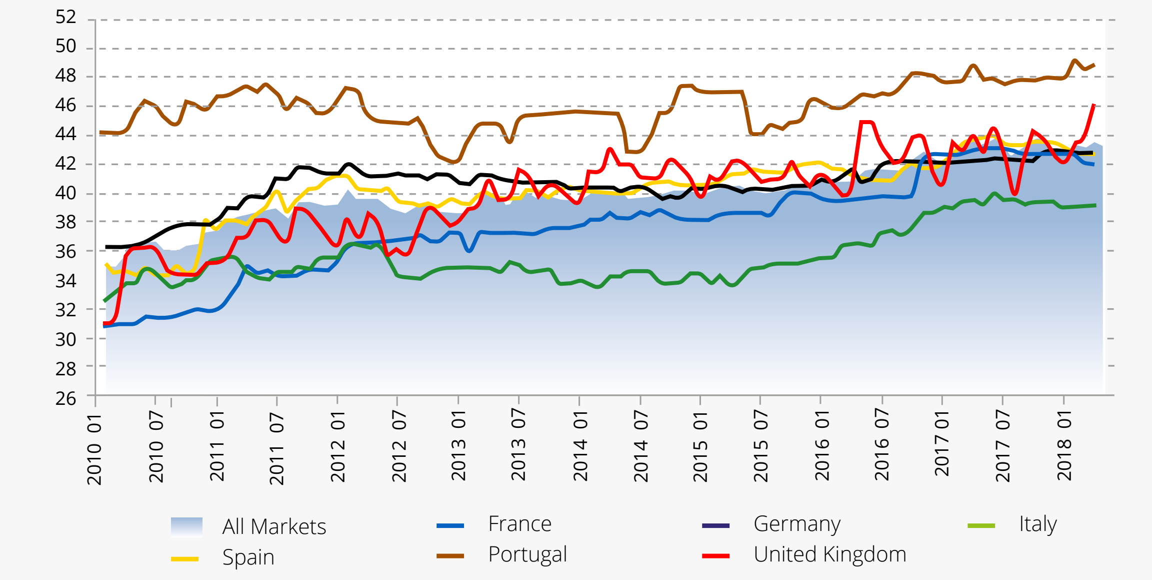
The diesel demonisation continues but, with most fleets across Europe heavily biased towards diesel, RV setters are reluctant to drag values down sharply and most are easing them back compared to other fuels.

WLTP also remains a key unknown for the industry with many fearing stealth taxes. Portugal has already confirmed it will make the new taxation tables tax neutral however that hasn't stopped RVs setters believing demand for small cars will increase even further.





E1 Executive Diesel - %RV 36m / 90k km



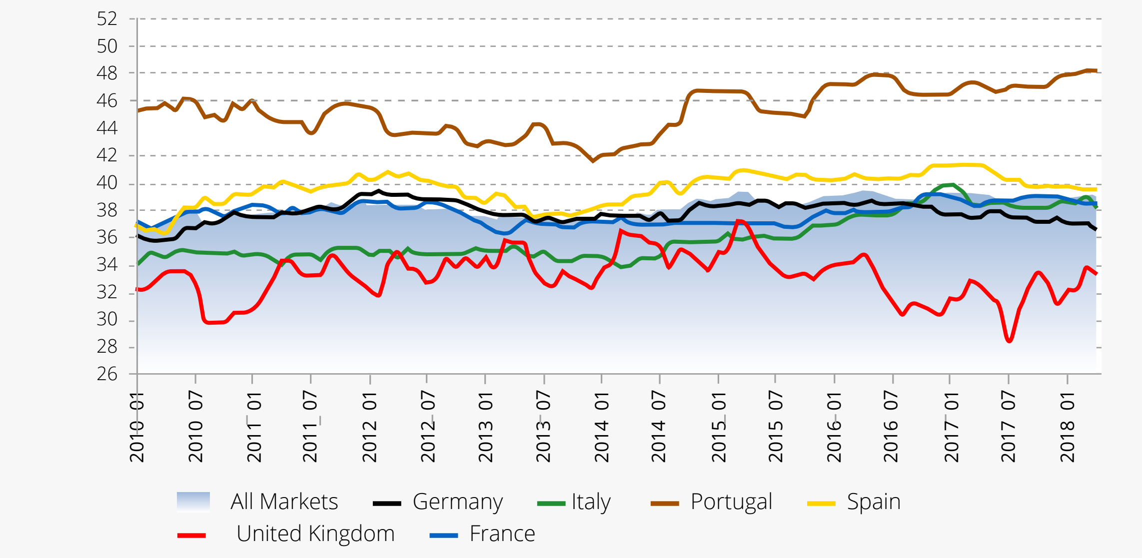
Source: European Commission – Economic Forecasts; Expert Eye AG – RV Index

RVs being set for MPVs continue to reflect how the styling of MPVs in general have fallen out of favour, with consumers now preferring the more stylish looks of SUVs.

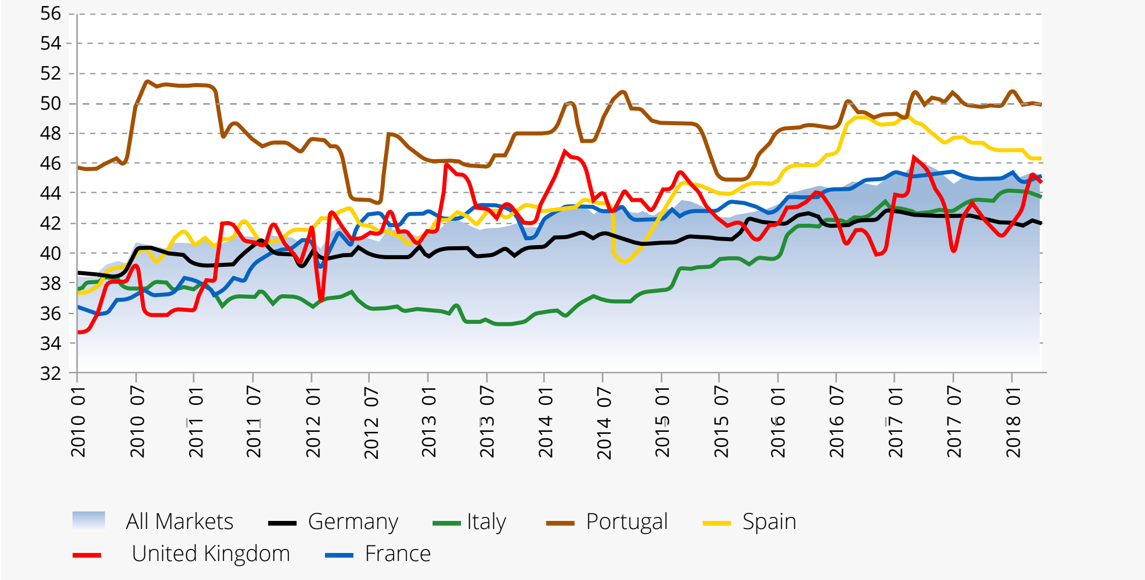
Some of the decline in Spain is due to the market realigning itself after strong RVs during the period of post-economic crisis recovery. However, diesel values are suffering across Europe, particularly younger diesel cars, and the situation is expected to worsen, hence RVs are falling.

In order to mitigate the falling domestic demand for diesel in Western Europe, some countries are resorting to exports. In 2017 it was reported that exports to Eastern Europe from Germany have risen by over 20% in 2017. Countries like the Ukraine and Croatia has seen German imports of diesel rise sharply with increases of 136% and 89.6% respectively.

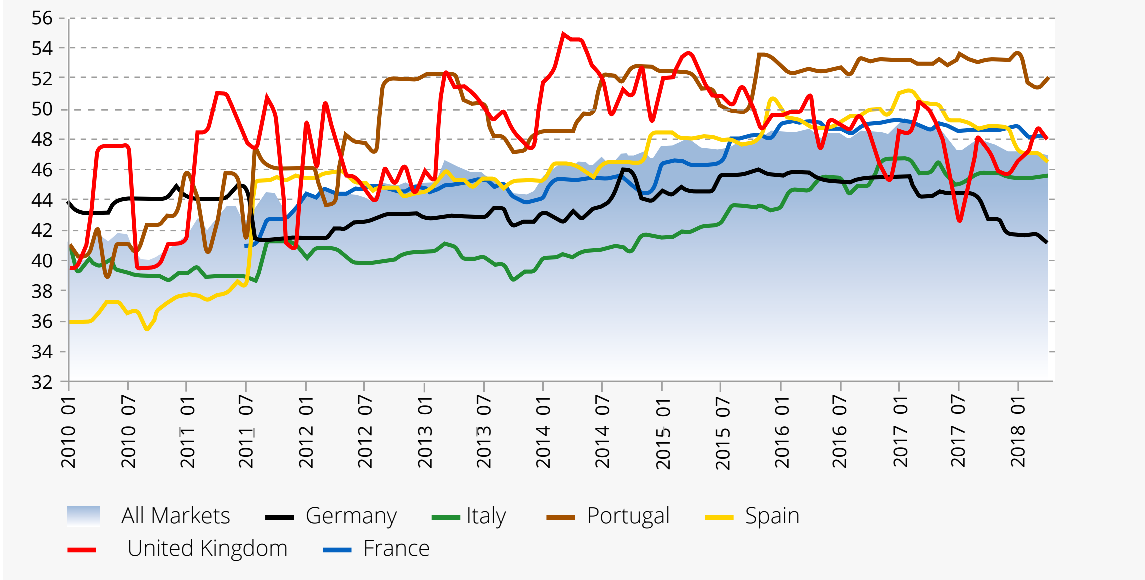
M1 Small MPV Diesel - %RV 36m / 90k km



J2 Compact SUV Diesel - %RV 36m / 90k km



J4 Compact Premium SUV Diesel - %RV 36m / 90k km



Source: European Commission – Economic Forecasts; Expert Eye AG – RV Index

For a full copy of the latest *ExpertEye European Automotive Industry Report* and more details of the reseach, go to http://experteye.com.

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