

CONNEXIONS BETWEEN MOTOR LEASING AND INSURANCE IN ROMANIA

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Abstract

The purpose of this paper is to show how important leasing is for companies and individual persons. We will analyze the leasing market, the auto market (because a great part of the leasing financing is for new vehicles) and present some real cases. Because every leasing contract involves an insurance policy, we will analyze the most important aspects of such a policy, the terms and some delicate problems. It will be presented how insurance differs from a leasing contract to a common insurance policy.

Keywords: leasing, insurance, risk assessment, loss handle

Is it known that leasing represent one of the financing techniques for all kind of entities (companies and individuals)? Romanian leasing market includes a lot of companies, and the establishment requirements are not so restricted: the leasing activity is the only activity of the company, and a 50.000 Ron (Ron is the local currency) social capital (that means almost 14.000 euro). There is a local association called Romania Leasing Association (ASLR) that includes more than 40 leasing companies, from more than 200 active. The market share of this 40 leasing companies is almost 60%. The others leasing companies, are small leasing companies.

At the end of 2004 the leasing market in Romania has the following structure:

- Leasing companies that are affiliated to banks (10%);
- Leasing companies affiliated to some producers or product suppliers (15%);
- Independent leasing companies (75%).

Also the leasing market is a very dynamic one, if we take into account the evolution of the leasing contracts values in euro, for the companies in the interval 1998 – 2004:

- mil.Euro

Year	1998	1999	2000	2001	2002	2003	2004
Members of ASLR	128,5	202,9	340,0	587,6	624,1	850	1029
Not members	n/a	82,1	82,2	374,4	275,7	550	786
TOTAL	-	285	422,2	962,0	899,8	1400	1815

So in the past 5 years, the leasing market has grown almost 7 times. There can be some explanations: in the local market appeared international companies with very good leasing experience and low rates, and the local competitors adjusted their offers to face the strengthen competition. The advantage of these policies is that a lot of companies decided to finance their activities by leasing. Once the market evolves itself, the companies get used with leasing operations.

In Romania there are 2 major leasing types: - operational and financial (both are intern leasing), and cross border leasing.

Financial leasing is addressing to persons and to companies and has some advantages: low banking costs, only the depreciation is deductible, no need to obtain BNR (National Romanian Bank), import operations made by the leasing company, the leasing payments are in Euro and paid in Ron. Also the auto insurance is included in the monthly leasing payment.

The operational leasing has the following advantages: all the monthly leasing payment is deductible, the payment are in Euro, import operations made by the leasing company, auto insurance is included in monthly payment.

The major contracts are internal, and the cross border leasing is used only as international financial leasing. Most of the results used in this research refer only to the members of ASLR, because the nonmembers don't publish this facts, and the National Statistic Institute don't have a special part for leasing companies.

	Financial leasing - members ASLR				Operational leasing - non members ASLR			
	2003		2004		2003		2004	
		cross- border		cross- border		cross- border		cross- border
Contracts	90.49%	2.16 %	94.96%	0.97 %	7.35 %	-	4.07 %	-
Values	80.23%	5.8 %	90.91%	2.05%	13.97 %	-	7.04%	-

As we can notice since 1998 the numbers of transactions has continuously grown, so at the end of 2004 the total financed goods were more than 1 billion euro that means more than 30% increase from 2003. These facts are emphasized by economical growth, companies' organizational behavior.

The financial leasing still remains the main orientation of the leasing contracts:

	Financial Leasing - members ASLR				Operational Leasing - members ASLR			
	2003		2004		2003		2004	
		cross-border		cross-border		cross-border		cross-border
Contracts	90.49%	2.16 %	94.96%	0.97 %	7.35 %	-	4.07 %	_
Values	80.23%	5.8 %	90.91%	2.05%	13.97 %	-	7.04%	_

The most important customers of the leasing companies are the commercial companies. In 2004 this segment enhanced a percent of 74.90 % from the total financing, 17.40 % were NGO (Non Governmental Organization) and Public Entities and the rest of 7.70 % are individual entities.

In the next table we have the statistic of the contracts with commercial companies, taking into account the value of the assets and the number of the contracts:

	Financial leasing legal entities		Operational leasing legal entities		Total	
	2003	2004	2003	2004	2003	2004
Value of assets (mil Euro)	492.5	704.14	32.8	30.06	525.3	734.20
% of the total market	72.97 %	83.71 %	4.86 %	3.57 %	77.83 %	87.28%
Contracts	28012	40963	2106	1948	30118	42911
% of the total market	82.32%	82.98%	6.19%	3.94%	88.51%	86.92 %

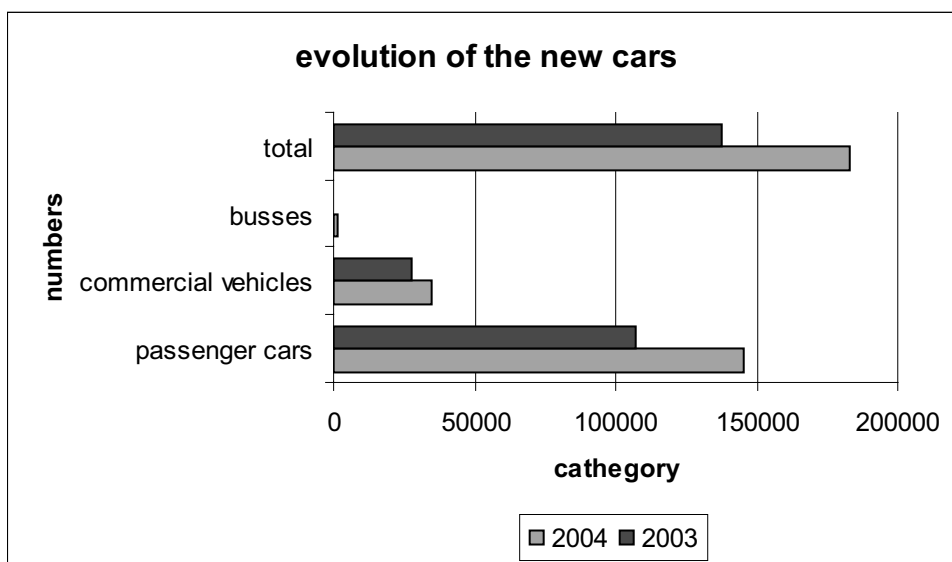
The leasing contracts (for ASLR members) referring to the object of the contract, have the following structure:

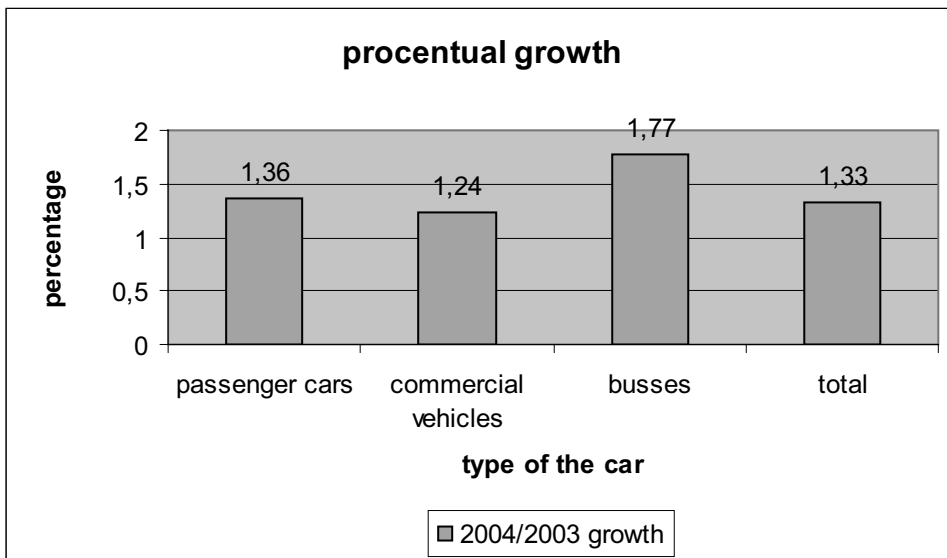
	% din total - 2003	% din total - 2004
Auto vehicles, out of which :	87.84 %	92.67 %
Cars	56.25 %	61.06 %
Utility vehicles &	31.59 %	31.61 %
Commercial vehicles		
Buses		
Industrial equipment	5.90 %	4.04 %
Agricultural equipment	2.32 %	0.67 %
Aircrafts, ships	0.03 %	-
Railway rolling stock	0.02 %	-
Others (medical technique)	2.19 %	2.36 %
Real estate – offices	1.60 %	0.21 %
Real estate – residential	0,10 %	0.05 %

Out of ASLR' members' data it results that, the most important segment of the leasing market is represented by the auto vehicles. The share of this sector is kept to 92.67 % at the end of 2004. The cars remained the most important segment of the leasing categories (61.06 % of the total leasing market). To be noticed the decrease (over seven times) of the real estate leasing that has reached 0.26% at the end of 2004 compared to 1.71% in 2003).

The leasing market is going in the same direction with auto industry in Romania. Both industry are growing constantly in the last years, and because the leasing became a usual financing alternative most of the companies are buying new cars using this technique. Following this idea the auto market evolve in the last year as we can see from the next table and graphics:

type	2004	2003	2004/2003 growth
passenger cars	145120	106763	1,36
commercial vehicles	34623	27873	1,24
busses	1184	669	1,77
total	182931	137308	1,33





	import2004	<i>import2003</i>	
passenger cars	59165	42144	1,403877
commercial vehicles	13809	10297	1,34107
busses	1184	663	1,785822
total	74158	53104	1,396467

Because of the real competition with the leasing companies, the offer of the Romanian Commercial Bank – the biggest Romanian bank (BCR), the motor credit is a very simple one, without a real guaranty. For example, if a person wants to buy a new car, with 30,000 euro, the credit period is up to 7 years. All it is needed is a proof of income and a credit history.

So the Romanian people have to make a decision related to buying a car with credit or by leasing.

For this research, they gave us the following simulation, the credit for a new limousine. We assumed that this is a CIP price (in order to have an accurate comparing with the leasing simulation). In the credit case we have a bank commission of 3% of the CIP price, 20% the first deposit, and the period of 3 years:

CREDIT OFFER

Currency	EUR	Initial commission (3%):	720.00
CIP price:	30,000.00		
First Payment:	6,000.00	20.00%	
Total Credit:	24,000.00	Auto insurance (4.7%/year) :	1,410.00
Rates:	36		
Interest (%):	9.75	Monthly payment:	771.60

	Initial Sold	Main payment	Interest	Monthly Payment	Final Sold
1	24,000.00	576.60	195.00	771.60	23,423.40
2	23,423.40	581.28	190.32	771.60	22,842.12
3	22,842.12	586.01	185.59	771.60	22,256.11
4	22,256.11	590.77	180.83	771.60	21,665.34
5	21,665.34	595.57	176.03	771.60	21,069.78
6	21,069.78	600.41	171.19	771.60	20,469.37
7	20,469.37	605.28	166.31	771.60	19,864.08
8	19,864.08	610.20	161.40	771.60	19,253.88
9	19,253.88	615.16	156.44	771.60	18,638.72
10	18,638.72	620.16	151.44	771.60	18,018.56
11	18,018.56	625.20	146.40	771.60	17,393.36
12	17,393.36	630.28	141.32	771.60	16,763.09
13	16,763.09	635.40	136.20	771.60	16,127.69
14	16,127.69	640.56	131.04	771.60	15,487.13
15	15,487.13	645.77	125.83	771.60	14,841.36
16	14,841.36	651.01	120.59	771.60	14,190.35
17	14,190.35	656.30	115.30	771.60	13,534.05
18	13,534.05	661.63	109.96	771.60	12,872.41
19	12,872.41	667.01	104.59	771.60	12,205.40
20	12,205.40	672.43	99.17	771.60	11,532.97
21	11,532.97	677.89	93.71	771.60	10,855.08
22	10,855.08	683.40	88.20	771.60	10,171.68
23	10,171.68	688.95	82.64	771.60	9,482.72
24	9,482.72	694.55	77.05	771.60	8,788.17
25	8,788.17	700.19	71.40	771.60	8,087.98
26	8,087.98	705.88	65.71	771.60	7,382.09
27	7,382.09	711.62	59.98	771.60	6,670.48
28	6,670.48	717.40	54.20	771.60	5,953.07
29	5,953.07	723.23	48.37	771.60	5,229.84
30	5,229.84	729.11	42.49	771.60	4,500.74
31	4,500.74	735.03	36.57	771.60	3,765.71
32	3,765.71	741.00	30.60	771.60	3,024.71
33	3,024.71	747.02	24.58	771.60	2,277.68
34	2,277.68	753.09	18.51	771.60	1,524.59
35	1,524.59	759.21	12.39	771.60	765.38
36	765.38	765.38	6.22	771.60	0.00
Total		24,000.00	3,777.57	27,777.60	

So the total cost of the limousine is the sum of the initial payment + total payment + 3 years of insurance + bank commission, that means **38,727 Euro**.

If a person wants a leasing contract, we have a simulation of an important Romanian leasing company – Porsche Leasing. The assumptions are the same, as for the credit.

LEASING SIMULATION

1. Leasing period	36 months		
2. CIP price - Euro:	30,000.00		
3. First payment (20%):	6,000.00		
4. Residual value (20)%	6,000.00	3 + 7 + 8 (without V.A.T.):	3 + 7 + 8 (V.A.T included):
5. Auto insurance	3,825.00	6,600.00	7,854.00
6. Financial need:	24,000.00		
7. Management fee (1.5 %):	450.00		
8. Logistic tax:	150.00		

	Capital payment	Interest	Monthly payment	Auto insurance	Total payment	Total payment (VAT included)
1	435.74	185.00	620.74	106.25	726.99	809.78
2	439.10	181.64	620.74	106.25	726.99	810.42
3	442.48	178.26	620.74	106.25	726.99	811.06
4	445.89	174.85	620.74	106.25	726.99	811.71
5	449.33	171.41	620.74	106.25	726.99	812.36
6	452.79	167.95	620.74	106.25	726.99	813.02
7	456.29	164.45	620.74	106.25	726.99	813.69
8	459.80	160.94	620.74	106.25	726.99	814.35
9	463.35	157.39	620.74	106.25	726.99	815.03
10	466.92	153.82	620.74	106.25	726.99	815.70
11	470.52	150.22	620.74	106.25	726.99	816.39
12	474.14	146.60	620.74	106.25	726.99	817.08
13	477.80	142.94	620.74	106.25	726.99	817.77
14	481.48	139.26	620.74	106.25	726.99	818.47
15	485.19	135.55	620.74	106.25	726.99	819.18
16	488.93	131.81	620.74	106.25	726.99	819.89
17	492.70	128.04	620.74	106.25	726.99	820.60
18	496.50	124.24	620.74	106.25	726.99	821.33
19	500.33	120.41	620.74	106.25	726.99	822.05
20	504.18	116.56	620.74	106.25	726.99	822.78
21	508.07	112.67	620.74	106.25	726.99	823.52
22	511.99	108.75	620.74	106.25	726.99	824.27
23	515.93	104.81	620.74	106.25	726.99	825.02
24	519.91	100.83	620.74	106.25	726.99	825.77
25	523.92	96.82	620.74	106.25	726.99	826.53
26	527.96	92.78	620.74	106.25	726.99	827.30

27	532.03	88.71	620.74	106.25	726.99	828.08
28	536.13	84.61	620.74	106.25	726.99	828.85
29	540.26	80.48	620.74	106.25	726.99	829.64
30	544.42	76.32	620.74	106.25	726.99	830.43
31	548.62	72.12	620.74	106.25	726.99	831.23
32	552.85	67.89	620.74	106.25	726.99	832.03
33	557.11	63.63	620.74	106.25	726.99	832.84
34	561.41	59.33	620.74	106.25	726.99	833.66
35	565.73	55.01	620.74	106.25	726.99	834.48
36	570.09	50.65	620.74	106.25	726.99	835.31
Total	18,000.00	4,346.75	22,346.64	3,825.00	26,171.64	29,591.62

Total payment		38,771.64	44,585.62
(included initial payments, taxes, residual value)			(VAT included)

So the difference of almost 5,858 Euro, make at the first sight the credit less expensive. But the credit has no VAT, and the leasing contract without VAT is 38,771 euro (the same value), and a company can deduce the VAT from all the payment.

The problems the Romanian leasing companies are faced with are: the legal background, still insufficiently structured and unstable, the lack of information of the possible clients about the leasing; the actual situation of the national economy; the medium country risk and implicitly the low level of the foreign investments, the reduced purchasing power of some population category.

The main solutions in order to improve some of those problems are the followings: the leasing companies should involve themselves into improvement of the Romanian legislative frame and a constant activity in auto-settlement and promotion of the leasing industry and of the leasing companies on that market.

We also must mention some factors that continuously generate increase of leasing market:

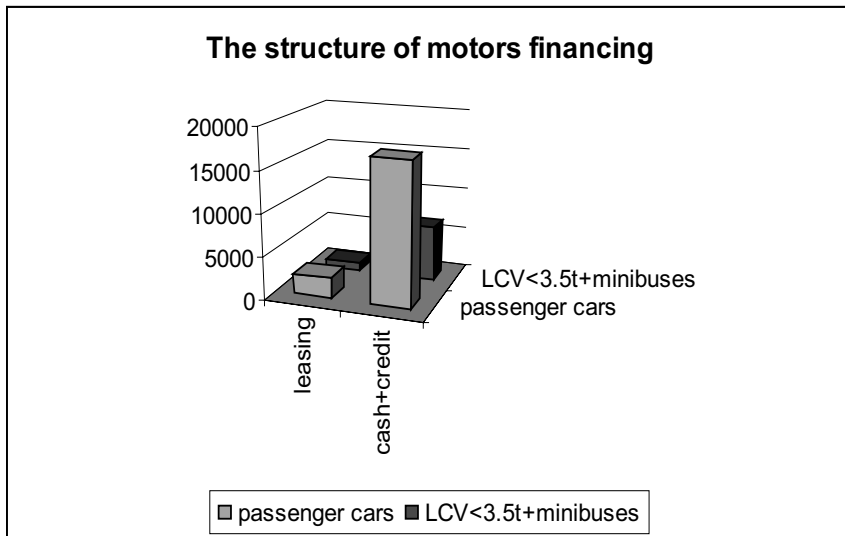
- The important economical development
- Local currency (Ron) appreciation towards euro, led to a decreasing of motors prices
- The existence of the unique profit / remuneration tax of 16% left more money to companies and individual persons

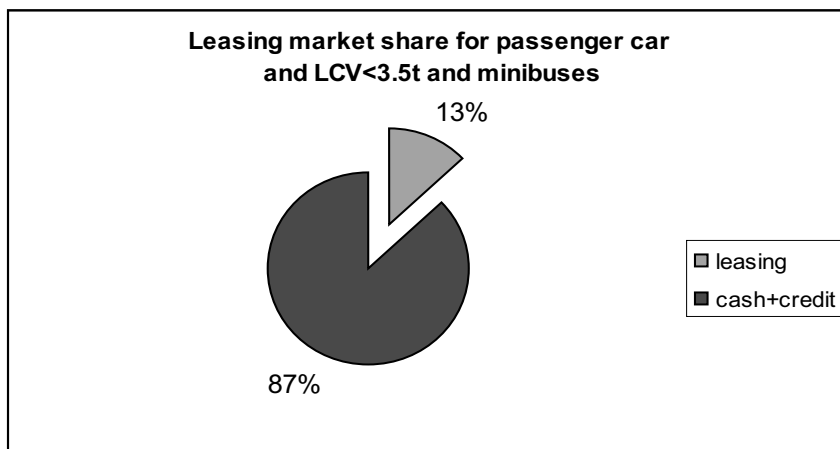
- The decreasing of credit rate and improving of credit conditions
- Romanian Govern offered a 1,000 euro for every motor older than 15 years, with the condition of buying a new motor
- Substantial discounts in some months of the year (discounts in money, or in free extra options)
- Huge publicity investments, luxury showrooms
- The increasing of domestic motor production

All these factors will create the premise of a leasing market very stable and dynamic

Using some statistics (unfortunately we received data only until the end of May 2004, and only for passenger cars and LCV<3.5t and minibuses) we can notice that an important part of new cars are bought by leasing system:

	Leasing	Cash & credit
Passenger cars	2460	16943
LCV<3.5t+minibuses	961	6612





As we can see from the following graphics, 13% of the new bought cars, LCV<3.5t and minibuses are financed by leasing. If we consider the factors mentioned above, it is expected that this percentage will grow every year.

It is usually known that the owner of a motor (and not only) financed by a leasing system, is the leasing company. So because the cars are used by other people or companies, the leasing company takes a safe measure for the car – insurance.

The lessee will sign an auto insurance contract, full risks policy that will cover the entire leasing period. All the leasing costs related to insurance will be paid by the user. The insurance premium is paid in advance once with the other monthly payment to the leasing company. In this case, it is very important to be respected the monthly maturity.

When the client leaves Romania for a few days, he must pay a Green Card, in order to be covered for liability from motor driving. This insurance is valid throughout all Europe. The user must pay the Green Card to the same insurance company that insures his own car. In that case, the insurance will offer – as a bonus – a free motor insurance, all risk policy outside Romania, for the period the Green Card is issued.

The price of Green Card in Romania is unique, and it has been established by BAAR (Romanian Motor Insurance Bureau). For example, for a period between 1 – 15 days the price for a personal car is \$60, for 1 month is \$100. So, because the price is the same at all insurers, the user is stimulated to pay it to his insurer in order to receive the bonus (free extension of the motor policy). There is another possibility;

the user will pay the same cost of the Green Card to the other insurer, and in order to receive risks covering outside Romania (the leasing company needs a proof of risks extension before to give the approval for the car to leave Romania) it will pay an international short term policy for motors outside of Romania. This second choice is more expensive than the first, as we can notice from the next example:

- let assume that a user want to go outside of Romania for a month, in business purpose, and the motor policy is issued by “A” Insurance, the full risks policy costs 1200 euro per year, so we will have the next 2 cost choices:

	Paying Green Card to “A” Insurance	Paying Green Card to Other Insurance
Cost of Green Card	\$60 = 50 euro	\$60 = 50 euro
Official accept of the leasing company	20 euro	20 euro
Monthly motor insurance payment	1200 / 12 months = 100 euro	1200 / 12 months = 100 euro
Risk extension outside of Romania – for a month	0	100 euro
<i>Total insurance costs for a months outside of Romania</i>	170 euro	270 euro

Risk assessment

Because every insurance policy has its risks exclusions the user is directly involved to cover those risks. The most important risk is the deductible principle upon the policy. Most leasing policies include a deductible of 1% of Sum Insured of the car, for every partial loss, and a 10 – 20% deductible of Sum Insured for stolen risk.

As we have noticed, the leasing company receives the insurance payment once with the leasing one, and after this it will send the insurance sum to the insurance company. The user must pay the leasing total invoice at its term, because if there is just one day of delaying and a loss appears to the car the insurance company will refuse the payment of the loss. In that case the user will repair the car by itself.

All these mentions are included in the leasing and insurance contract.

No matter if the insurance policy is paid or not at the right term, the user must announce the locator and the insurance company of any loss, in a 5 days term. It is strongly recommended to respect this term, even if the car will be repaired at other time.

A very delicate problem appears in the moment when a total loss appears, caused by a rutier event. In these cases the insurance company declare total loss if the loss exceeds 80% of the Sum Insured. The leasing contract mention, that in this case the next steps must be followed:

- because the leasing company is the owner of the car, it will receive the 80% of the Insured Sum and the motor wreck

- the leasing company will deduce from the 80% of the Insured Sum, the leasing payment until the end of the contract, and the rest of the money and the wreck will be given to the user.

The delicate problems reffers at the way of determining the amount to be retained by the leasing company. Some leasing companies calculate the value by adding all the payment to be done until the end of the leasing contract minus insurance ("A" variant). Other leasing companies just add the cost of the credit remained to be paid until the end of leasing contract ("B" variant).

We take an example to demonstrate what choice presents more advantages for the users. The leasing contracts is the one presented in the beginning of this paper, and we assume the total loss appears after 20 months :

	"A" variant	"B" variant
Sum Insured in the first year of the leasing	30.000 eur	30.000 eur
Sum Insured in the second year of the leasing	27.000 eur	27.000 eur
Total payment in the first 20 months	16.322,66 eur	16.322,66 eur
Sum received (80% of the Sum Insured) from the insurer	21.600 eur	21.600 eur
Leasing payment for the next 16 months	13.268,96 eur	13.268,96 eur
- minus insurance	1.700 eur	1.700 eur
- residual value	6.000 eur	6.000 eur
- minus interest	0 euro	1.804,66 eur
Total payment to the user	4.031,04 eur + motor wreck	5.835,7 eur + motor wreck

We can notice that the second variant is more advantageous for the user, but is very important to be mentioned in the leasing contract at the beginning the way of payment in case of total loss.

Another aspect of the leasing contract and insurance, is that in leasing case the insurance premium is less than an usual insurance for the same object.

In the next table we compare these aspects, for a new Mazda:

<i>Insurance elements</i>	<i>LEASING</i>	<i>WITHOUT LEASING</i>
1. Insurer	Allianz-Țiriac Insurance S:A.	Allianz-Țiriac Insurance S:A.
2. The insured	The leasing company, with the name of the user (X company)	X company
3. Risks covering (100% all risks)	Losses to the car and stolen risks	Losses to the car and stolen risks
4. Object insured	Mazda 2 1,25 Klima	Mazda 2 1,25 Klima
5. Period of the insurance policy	3 years	1 year
6. Sum Insured	First year: 11.429 Eur Second year: 10.286 Eur Third year: 9.143 Eur	11.429 Eur
7. Yearly insurance payment	612 Eur	709 Eur
8. Yearly basis cota	Fixed cota of 5,35% - for every year of leasing	6,2% in the first year, but there appears bonus / malus clauses, for the next years
9. Total insurance payments	1836 Eur for 3 ani	709 Eur only in the first year

Sum Insured

In the leasing cases the Sum Insured for motors is the real value of the car. If the car is a new one, the Sum Insured is the price on the invoice, and if there is a used car, the real value is calculated from the price of a new similar motor minus a percent of usage.

The value of a new car is established different:

- *for Romanian motors:*

- final invoice price, if the motors are new
- taking into account prices lists given by Romanian motors producers, if the motors are used

- *for foreign motors:*

- invoice price plus all necessarily taxes for definitiv import, in case of a new motor
- based on international catalogues (ex.Schwacke List, Nutz) for used cars

In leasing cases because the policy period is more than a year, the Sum Insured for the next years is established taking into account a usage coefficient (10% for one year, 20% for two years, 30% for three years) applied to the new value (Sum Insured of the first year).

This is a accurate example of determining the Sum Insured of a motor purchased by leasing: În cazul în care autoturismul face obiectul contractului de leasing, suma asigurată se calculează astfel [12]:

- for the first year of the insurance

1. C.I.P. (cost insurance price) value
2. Customs Tax + supertaxes (% on the CIP value)
3. Excise tax (% of the value din 1+2)
4. Sum Insured for year I = sum of the above values, multiplied by VAT:
 $(1+2+3)*1,19$

- for the year II, and year III (leasing cases with 18, 24, 36 months period)

5. Real Value (RV) = Usage percentage applied on the CIP value (% of 1)
6. Customs Tax + supertaxes (% on the Residual Value)
7. Excise tax (% of the value Residual Value + 6)
8. Sum Insured for the year II/III = sum of the above values, multiplied by VAT: $(5+6+7)*1,19$

Residual Value is usually 20% of the CIP price, and custom taxes and excise.

Conclusions:

This strengthened connexion between leasing and insurance is determined by the fact that in leasing cases the insurance appears in two different ways: the insurance of the object financed by leasing contract, and then the leasing contract insurance that offers financial stabilisation for the leasing company. In some cases, when the value of the leasing contract is a great one, the leasing company requests collateral guarantees from the users. All these guarantees will make the object of another insurance, with an important mention – the leasing company is the assignee of the insured guarantees.

All the specialists in both domains (and auto industry also) expect that these sectors will grow constantly in the next years. Once with the leasing increasing, and if we take into account that all the financed objects must be insured, the insurance sectors will add also the leasing percentage growth. But the insurer will have to work out for new insurance terms in order to eliminate the delicate problems we have mentioned.

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