

KPMG INTERNATIONAL

# Global automotive finance and leasing:

The role of product  
diversification and  
emerging markets in  
future growth

[kpmg.com/automotive](http://kpmg.com/automotive)



# Acknowledgements

We would like to thank the following senior executives who participated in our in-depth interviews to provide further insight, as well as the additional nine senior executives from China (two captives), France (bank), Germany (non-captive), India (bank), Japan (captive, non-captive), Russia (captive) and UK (captive), who participated anonymously in our survey.

**Sumit Bali**

Director, Kotak Mahindra Prime Limited, India

**Sergey Dianin**

General Manager, Arval (BNP Paribas Group), Russia

**Paul Errington**

CEO, Connaught Finance Investments, China (Hong Kong)

**Erich Ebner von Eschenbach**

CEO, BMW Financial Services, Germany

**Tom Gilman**

Vice Chairman and Chief Executive Officer, TD Auto Finance LLC, US

**Vamsi B Kumar**

Business Head – Vehicle Loans & Equipment Leasing, Reliance Commercial Finance, India

**Dmitriy Novikov**

Fleet Sales & Used Cars Director, Renault, Russia

**Rajan Pental**

Executive Vice President, HDFC Bank, India

**Brian Rogerson**

Editor, Asset Finance International, UK

**Vincent Rupied**

Director Strategic Marketing, Arval (BNP Paribas Group), France

# Foreword

Since the 1920s, the finance and leasing business has become an integral part of the automotive industry, particularly in Japan, North America and Western Europe (the Triad markets). More recently, it has also begun to gain a strong foothold in the emerging markets. Our aims in this study are to examine the industry's key markets (the US, Western Europe, China, India, and Russia), understand how business models are evolving, and consider the major risks and long-term trends impacting the industry's stakeholders.

The auto finance industry is very dependent on the developments and current risks affecting the financing industry. Nevertheless, it has proven so far, to be agile and resilient. Even after some of the most difficult years in the sector's history, car finance organizations present solid business plans and captives make a substantial contribution to their OEM's success. However, particularly in established markets, many have vertically integrated their businesses, pursuing full banking licenses to diversify their financial portfolios. They have also pushed more deeply into services to enhance sell-through and customer experience. In addition, with electric vehicles and the increasing trend towards mobility services, many are looking to expand their product portfolio and develop new ways of financing and leasing.

The challenges are different, but no less difficult, in the rapidly growing economies of Asia and Russia, where car financing remains a relatively new concept. Banks must get used to structuring loan terms, and captives must get to grips with high entry costs and the need for significant market education. While competitors in North America and Western Europe tussle for their share of the customer's wallet,

banks and car financiers elsewhere, especially in China and Russia, struggle to overcome customer reluctance to use credit.

Our research shows that the auto finance industry remains a globally diverse sector. Just as there is no single global standard for cars, there is no standard suite of financing products. The ability to localize products and services is a sure sign of the industry's dexterity. But at the same time, differing rules, regulations and capital requirements can make it difficult for some businesses to scale efficiently.

We are grateful to all who participated in the study. We hope the findings provide compelling, forward-looking insights, generate fresh ideas and highlight new opportunities to support, challenge and guide your business strategy and decision-making.

Enjoy the read!



**Mathieu Meyer**  
Global Head of Automotive







# Contents

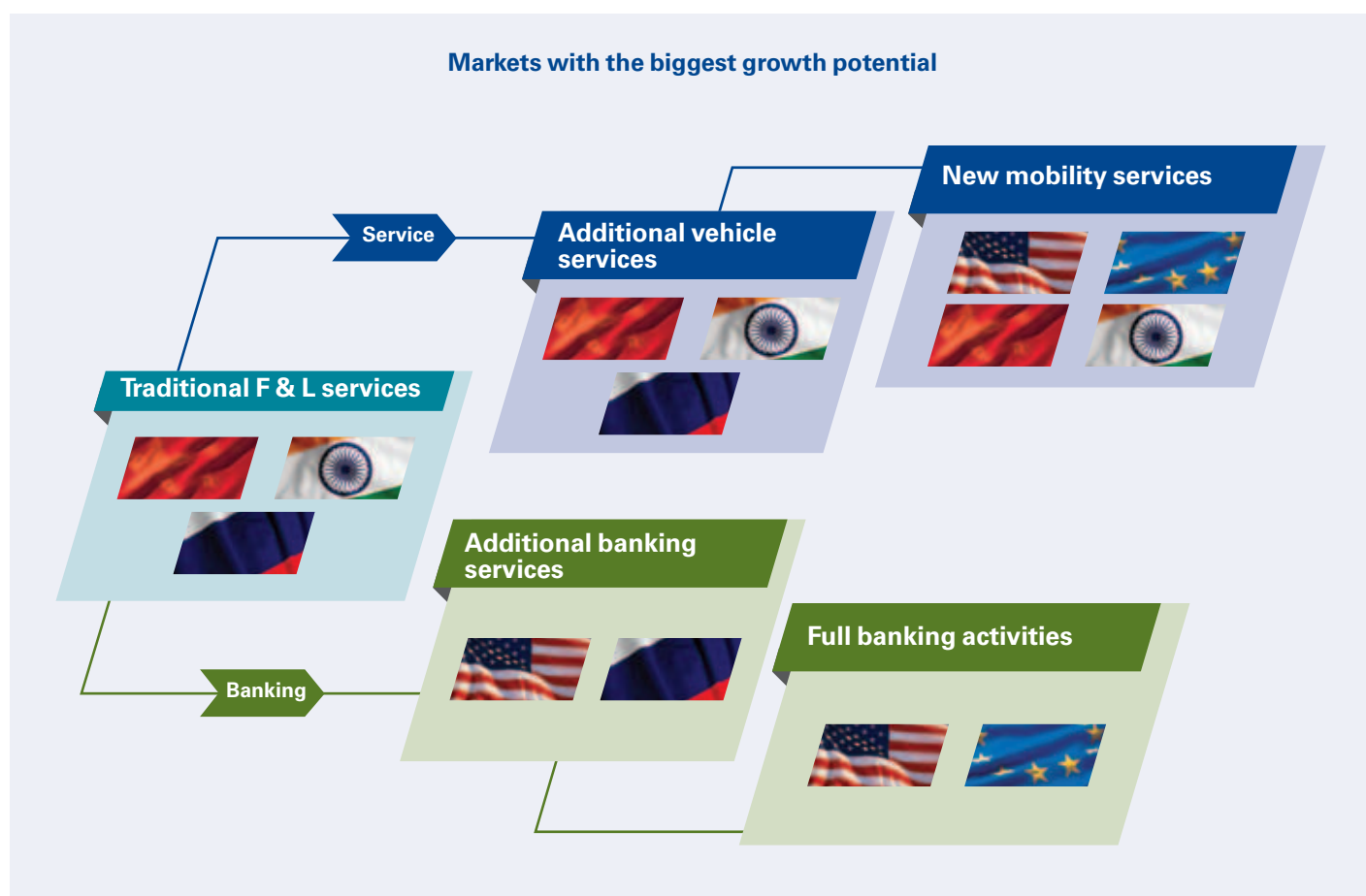
<b>Acknowledgements</b>	<b>ii</b>
<b>Foreword</b>	<b>iii</b>
<b>Executive Summary</b>	<b>2</b>
<b>1 Current state of the finance and leasing market</b>	<b>4</b>
<b>2 Setting the stage for continued growth</b>	<b>8</b>
2.1 Evolution of auto finance and leasing products	8
2.2 Expansion into new markets	21
<b>3 Auto finance and leasing around the world</b>	<b>24</b>
3.1 Finance and leasing landscape: US	26
3.2 Finance and leasing landscape: Western Europe	36
3.3 Finance and leasing landscape: China	48
3.4 Finance and leasing landscape: India	60
3.5 Finance and leasing landscape: Russia	72

# Executive summary

## Evolution of the finance and leasing business

Ongoing changes in the automotive industry influence the finance and leasing business. Captives have started to grow their businesses in two ways:

- 1. Diversification of their product portfolio into new mobility and banking related activities**
- 2. Expansion into emerging markets with a high growth potential**





# Key Findings

## Finance and lease products

- Ongoing product harmonization in established and emerging markets
- Car loan market is saturated in established markets and constantly increasing in popularity in emerging markets
- Leasing is an almost untapped business with immense opportunities
- Electric cars increase residual value risk tremendously

## Product diversification

- Insurance, service, maintenance and fleet services offerings are growing in the emerging markets
- Additional banking products are well established in Western Europe and offer huge market opportunities in all other markets
- Obtaining a full bank license remains challenging in most countries, but is steadily increasing

## New mobility

- The green agenda offers vast opportunities in:
  - Battery leasing
  - Green company cars/fleets
- Changing customer behavior, from car ownership to car usership, enables mobility solutions to become a profitable new business for captives
- In addition to car-sharing, demand for multi-mode transportation is constantly increasing

## Emerging markets

### China

- Customer acceptance is still low but steadily increasing
- Regulations are constantly improving

### India

- Market is dominated by banks
- Finance is already well accepted – leasing is untapped and presents huge opportunities

### Russia

- Customer acceptance is increasing after a difficult start
- Managing the size of the country remains challenging

# Current state of the finance and leasing market

Way back in 1919, General Motors (GM) was the first Original Equipment Manufacturer (OEM) to establish a non-bank financing source for automobile loans to support their car sales.<sup>1</sup> Since then, the finance and leasing business has become an essential part of the automotive industry, especially in traditional car markets like the US and Europe. However, interest in car finance and leasing is also increasing in emerging markets, such as China, India and Russia.

In Europe and the US, the financial crisis led to a substantial decrease in car financing and considerable consolidation.

**“There were a number of independent automotive financing specialists, but a lot of them have disappeared since the financial crisis in 2008/09. As they have difficult access to funding, I currently do not foresee independent automotive financing specialists playing a significant role in the future.”**

Erich Ebner von Eschenbach,  
CEO at BMW Financial Services

## The influence of the automotive and banking industry on finance and leasing

The performance of the finance and leasing business is clearly linked to the state of the automotive market. The lack of a clear technology roadmap, the rise of the emerging markets and changing customer behavior, are only a few of many challenges the automotive business is faced with that have a direct impact on customers' attitudes towards finance and leasing.

As well as its close connection to the automotive industry, the finance and leasing business has always been closely linked to the wellbeing of the banking and finance sector, and was therefore severely affected by the recent financial crisis.

Europe and the US, the two largest markets for auto finance and leasing, felt the effects most keenly. In the US, leasing arrangements, which used to represent about 25 percent of all new car sales, fell back to just 19 percent at the height of the recession in 2009.<sup>2</sup> Former captive heavyweights, GMAC and Chrysler Finance, were both spun off as their holding companies struggled with bankruptcy. In Europe, a fall in consumer spending saw the number of new passenger cars purchased through point-of-sale

plummet by more than 20 percent between 2008 and 2009.<sup>3</sup> The result sparked consolidation among many independent finance companies. It also prompted many captives to explore new ways to entice consumers, through extended loan terms and deferred monthly payments.

As the credit environment started to improve, finance and leasing companies had more funding sources to make available to consumers. The result was increased competition, and captives responded with an array of incentives, from zero percent financing to flexible payment terms. Banks and credit unions, flush with high deposit levels and cheaper interbank borrowing costs, targeted consumers with low interest rate loans.

Building on this, OEMs such as General Motors (GM) and Chrysler picked up finance and leasing business for their own vehicles again and started to move deeper into the subprime market. To do so, GM acquired sector leader AmeriCredit (renamed General Motors Finance Company) and Chrysler entered into a subvention agreement with Santander Consumer US for loans to subprime retail customers.

<sup>1</sup> 1919, GMAC Revolutionizes Retail Finance, GM Heritage Center, 2012.

<sup>2</sup> State of the Automotive Finance Market – Fourth Quarter 2011, Experian Information Solutions, 2011.

<sup>3</sup> European Fleet Market Database, 2011.



## While the near future remains unpredictable, a positive long-term automotive industry outlook bodes well for finance and leasing

A rise in car sales is essential for the success of the auto finance and leasing business. Captives and other providers of car related financial services should pay special attention to sales development in the automotive industry. Although the global auto sector has rebounded faster than many expected from the past crisis, the situation still remains precarious.

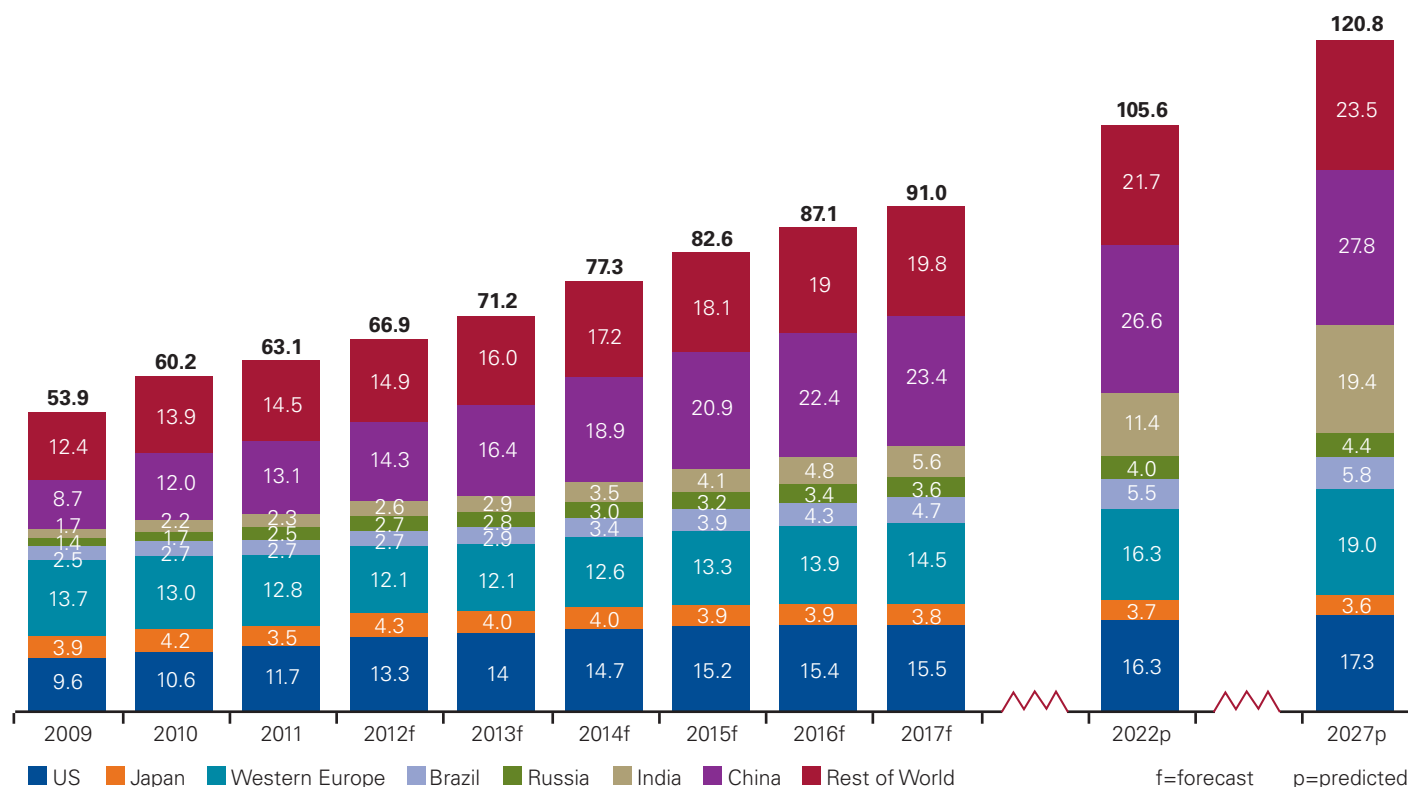
Major OEMs like Daimler, Volkswagen, BMW and GM reported record sales for the first half of 2012, with growth mainly

coming from the US and Asia, whereas the established markets in Europe are facing ongoing reductions in demand. The current European economic crisis, especially in Southern Europe, influences the automotive industry, with mass market manufacturers struggling while premium brands can still profit from their success in export markets like China and the US. However, China is facing a decline in its GDP and car sales growth rates, but is still showing positive trending.

US captives have started to get back into the subprime market in order to increase their customer base.

Global car sales are rising and forecast to exceed 91 million by 2017.

### Worldwide passenger vehicle registrations between 2009-2017



Note: Total may not add up due to rounding off

Source: LMC Automotive, second quarter 2012

Facing these current developments it is very hard to give accurate forecasts on the near term outlook. According to experts it is very likely that the industry in Europe has to face a reduction in capacity, as well as potential consolidation.

In the longer term, however, global car sales are expected to rise, at a

compound annual growth rate (CAGR) of 6 percent over the next five years, exceeding 91 million cars annually by 2017 and even 120 million by 2027.<sup>4</sup> These prospects promise great growth potential for OEMs and their financial services arms, but local developments can of course be diverse, especially in the short term.

## A sector dominated by three main routes to market

The finance and leasing market is quite diverse. Nevertheless, in most parts of the world consumers can finance their car through one of three ways: an OEM captive, a commercial bank or an independent finance company.

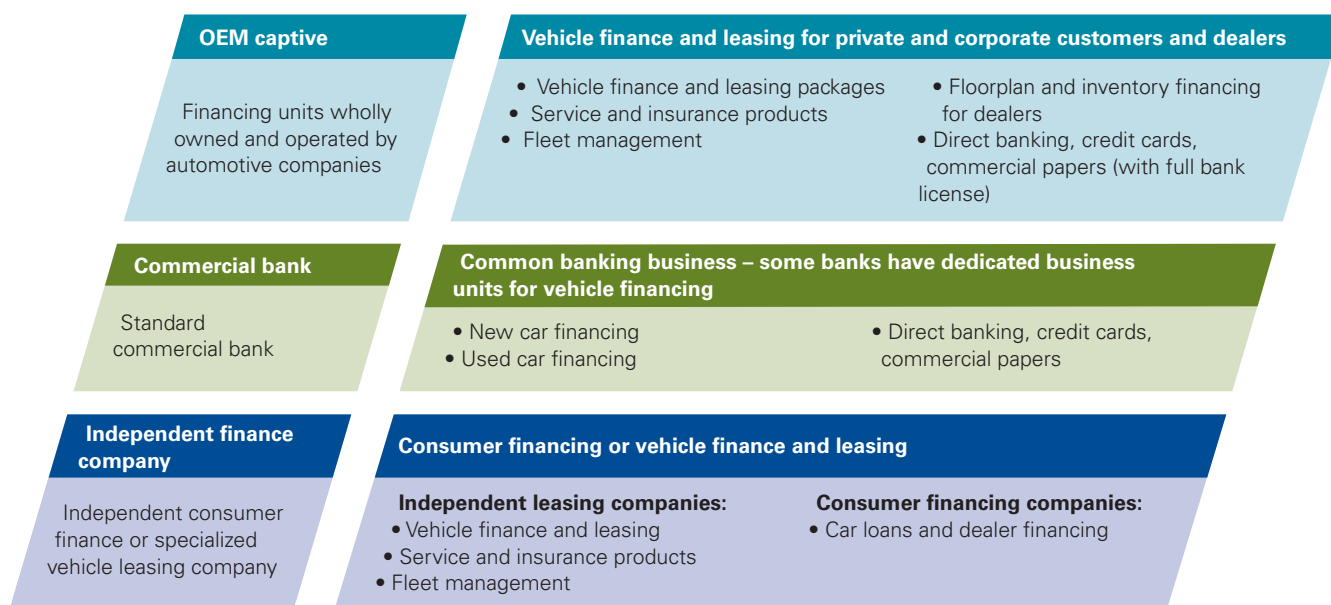
Each of these routes to market operates through a different business model, but they compete for the same customers. Banks are dominating the emerging

markets, whereas captives are popular in the mature markets. In China, for example, banks benefit from their long-standing customer relationships. Over 80 percent of car loans are provided by domestic banks.<sup>5</sup> India is a similar market. On the other hand, captives dominate the US and especially the European finance and leasing market.

**“Banks and non-captives have two problems. They cannot offer niche products, since their business is all about scale, and they do not have the same intelligence on residual values as a captive does.”**

CFO at Captive, UK

### Automotive finance and leasing market players



Source: KPMG International 2012

<sup>4</sup> LMC Automotive, second quarter 2012.

<sup>5</sup> Auto Finance Industry Analysis, University of Melbourne, 2012.

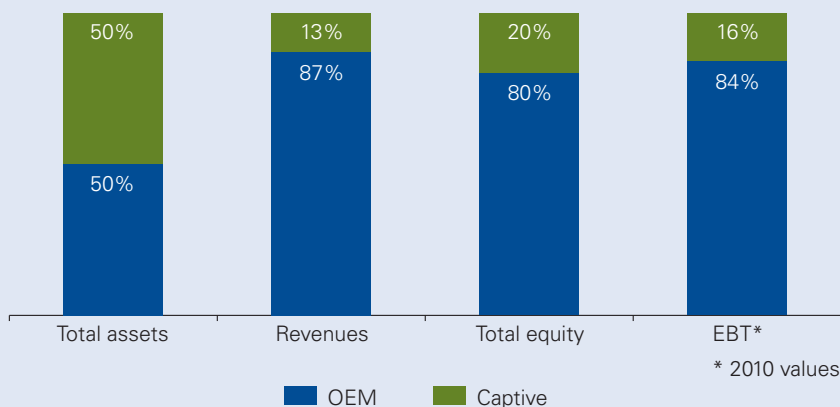
# KPMG Insights

## Captives have a significant positive financial impact on the OEM's balance sheet

Given the fact that all major international OEMs currently run their own financial services arms, the captive business model has obviously proved to be a real benefit. To find out how and to what extent captives influence the business performance of their OEM, KPMG conducted an analysis of the balance sheets of five major OEMs and their captives.

The analysis covers a five-year period (2006-2010) and comprises the balance sheets of BMW AG, Daimler AG, Ford Motor Company, Toyota Motor Company and Volkswagen AG and their respective captives. The analysis focuses on a number of commonly used performance indicators, such as total assets, total equity, revenues and Earnings Before Tax (EBT). The results show the impact that captives have on the OEM's financial situation.

### Analysis: Influence of captive on the OEM's balance sheet



Source: KPMG International 2012

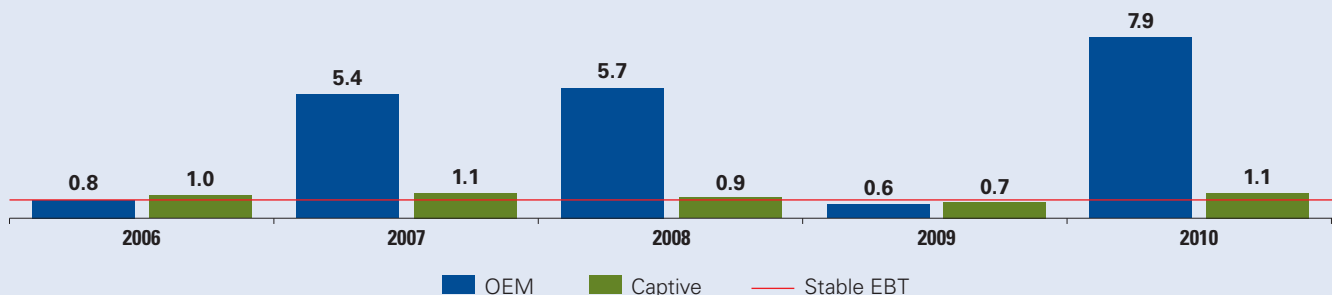
### Key findings of balance sheet analysis:

- **Total assets:** Captives typically comprise approximately 50 percent of the OEM's total assets.
- **Revenue:** On average, captives make up more than 10 percent of the OEM's total revenue.
- **Total equity:** On average, the captive's share of total equity is around 20 percent.
- **EBT:** Captives' share in EBT varies heavily over time (from 11 percent to 100 percent) due to fluctuating EBT values of the OEMs.

Furthermore, the analysis showed that captives tend to deliver more stable EBT than the industrial part of the OEM's business. While the average EBT of the OEMs observed fluctuated heavily from one year to another, the average EBTs of their captives stayed at similar levels for all years. This is due to the annuity structure of most finance

and leasing contracts and the use of the reducing-balance method, which leads to higher values over the length of the contract and therefore counter-balances dips in other business lines. The OEM can profit from a continuous revenue stream, which enables it to stabilize its balance sheet in a certain time frame even in turbulent conditions.

### Analysis: Development of Earnings Before Tax (EBT)



Source: KPMG International 2012



# 2

## Setting the stage for continued growth

The ongoing change in the automotive business model towards electrification, coupled with an increasing demand for mobility solutions such as car-sharing, and the saturation of Western markets, means that captives have to develop new markets. In the quest for new profits, captives have started to grow their business in two ways:

1. Diversification of their product portfolio
2. Expansion in emerging markets with a high growth potential.

Both strategies open up new perspectives and growth areas, but also bring an array of new challenges.

### 2.1 Evolution of auto finance and leasing products

**“The major challenges for the captive industry are the growing importance of banking regulations and the fundamental change in customer behavior. The growing importance of banking regulations requires sustainable risk management, so captives will have to act more like a bank. The fundamental change in customer behavior requires new, flexible products and services that address the trend from car ownership to car usage and the trend towards new sales and service channels.”**

Erich Ebner von Eschenbach,  
CEO at BMW Financial Services

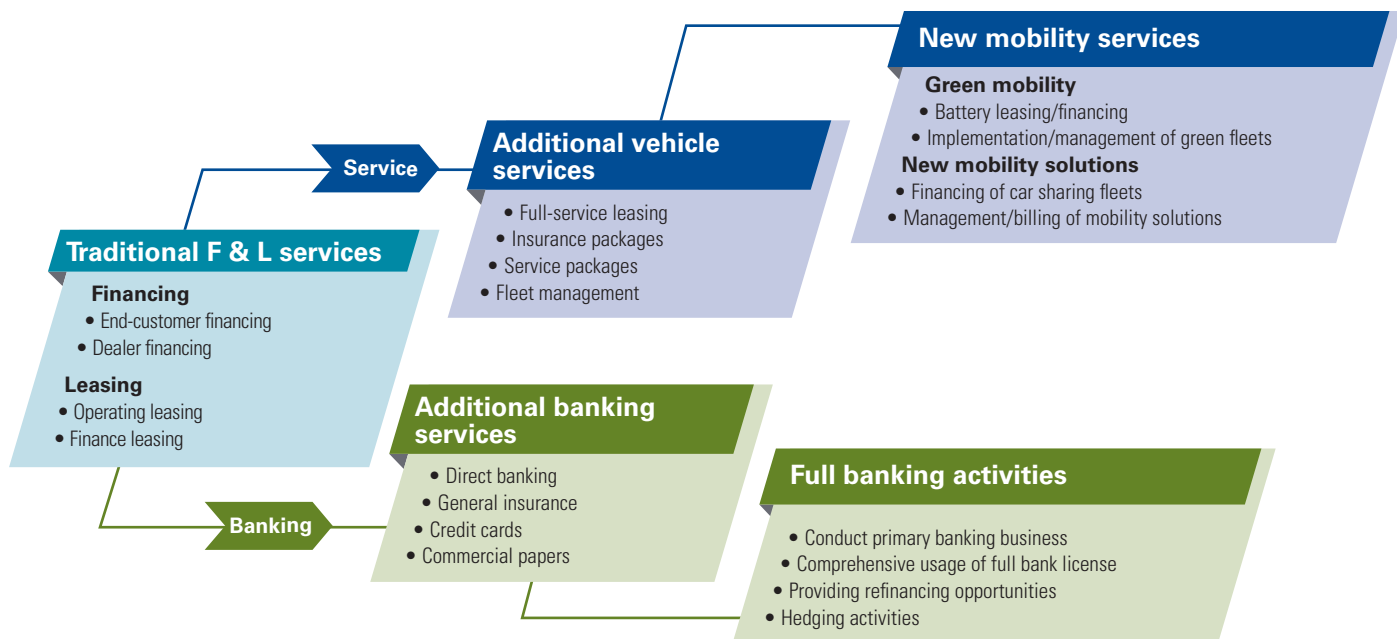
The finance and leasing business is continually evolving. As sales support for the OEM, offering standardized financing products to customers, the captive's business has increasingly diverged in two directions: services and banking.

In order to further satisfy their customers' needs, captives initially tried engaging with them after a car was purchased. They refined their finance and leasing products and developed special service and insurance packages. In addition, they even went beyond the traditional automotive value chain and tapped into the banking

business to get access to low cost funding and reach more customers.

This evolution is still ongoing and is about to enter a new stage. New mobility concepts and the technological development of hybrid and electric vehicles will force captives to come up with new mobility services tailored to changing customer needs and preferences. The credit crisis, on the other hand, pushed captives towards deeper involvement in the banking business in order to lessen their reliance on banks for refinancing.

## The next phases of the finance & leasing industry's growth



Source: KPMG International 2012

## The 'green agenda' and new mobility services will further expand the product portfolio of captives

During the last few years, service and product bundles have mushroomed from basic maintenance services into an array of offerings tailored to different parts of the industry value chain. This trend looks set to continue, driven by innovations in car propulsion

technology and car usership models. Population growth, congestion and the rising total cost of ownership (e.g. fuel, maintenance) have spurred interest in green products and new mobility services.

**“The green movement in the automobile industry has taken rapid strides in the last two years. It is moving very, very quickly and is certainly being helped in the UK by government tax incentives to choose green cars.”**

Brian Rogerson, Asset Finance International, UK

## Opportunities from the green agenda

In the last decade, the market for hybrid and electric vehicles has taken off in mature markets. Research and development investments in alternative propulsion systems, especially electric propulsion technology (hybrid and pure electric), will likely remain one of the hottest growth areas for the automotive industry, particularly in light of continued fuel price volatility and stricter carbon reduction targets.

For captives, however, electric vehicles challenge the traditional way of doing business. Residual value formulas, for instance, become very complex and can only be based on unknown estimates. The value of an electric car is highly dependent on the expected lifetime of the battery, which can vary widely and usually differs from the lifetime of the vehicle. Also, the uncertain direction of technological development will influence the residual value calculation. A high-tech solution introduced in three to four years, at the time a lease contract ends, could make the battery out of date and the car almost worthless. Furthermore, because the market is young, there is little empirical estimation to support the market.

New concepts have to be developed which are in line with technological improvements. Given the high

degree of uncertainty over the battery lifetime, plus the high costs of batteries themselves, the idea of battery leasing is one possible solution. In this scenario, the vehicle and the battery will be handled as two different products which can be bought separately. The car will be purchased outright, financed or leased, and the battery can be leased under a separate contract.

Separating the battery from the vehicle will help to reduce both the high purchase price of the electric vehicle and the incalculable risk of residual value deterioration. In addition, captives would have a clear competitive advantage in battery leasing, as independent finance companies and banks can only provide finance and leasing products for the entire vehicle, not for single parts of it.

French car maker Renault, for instance, provides this option for its electric vehicle, Twizy. The electric two-seater is available from EUR6,990, plus a monthly leasing fee of EUR50 for the integrated battery.<sup>6</sup> Similar concepts are provided by various Renault models and the Smart Fortwo Electric Drive. Providing battery management services could also become an attractive business model for the captives, while adding value to customers.

Separate battery leasing reduces the risk of uncertain residual value development.

***“ We closely monitor possible shifts in the automotive industry with regard to electric vehicles and their implications on our financial services. Battery management could be incorporated into leasing services if it becomes a key element of managing electric vehicles, for instance. ”***

Executive Vice President at captive, Japan

<sup>6</sup> Renault company information, Twizy urban 45, Germany, 2012.



## Fleet market goes green first

The fleet market has also turned its attention to promoting vehicles powered by alternative fuels or electric and hybrid batteries. Many fleet operators offer special financing packages or additional features, such as continuous carbon reporting, to encourage companies to integrate hybrid cars into their fleet. Companies like Daimler, through its EcoStar program, and Volkswagen (VW), through its Grüne Flotte (Green Fleet)

initiative also provide driver training, with tips on how to reduce emissions and drive in a more eco-friendly manner.

Despite the ambitious activities of European and US companies, globally there are huge differences in the emergence of green fleets, particularly in the emerging markets, where the topic is not very prominent.

The pressure for greater corporate social responsibility is intensifying demand for greener cars.

### How captives promote “green mobility” in their fleet business



“Companies have more and more demand for hybrid and electric vehicles because they want to have a very good environmental image.”

Source: KPMG International 2012

Fleet Development Director at captive, France

## Mobility solutions: a key strategic development

Congested streets, narrow and expensive parking spaces and driving restrictions in large cities have prompted more and more people to question owning a car. The option of just ‘using’ a car through car-sharing companies, for example, is one of the popular alternatives. The car-sharing model offers customers the chance to easily book their desired car online, pick it up and then return it at a variety of locations in their city. Above all, the consumer benefits are clearly seen in the reduction in fixed costs, due to the cost allocation to all parties, while maintaining mobility. Particularly in Europe, the US and Japan, car-sharing companies have enjoyed a rapid increase in membership over the past few years. Experts predict this growth will accelerate even more in the years to come, with memberships increasing. According to KPMG’s 2012 Global Automotive Executive Survey, experts see a potential market for mobility services of at least 110 million customers by 2026.<sup>7</sup>

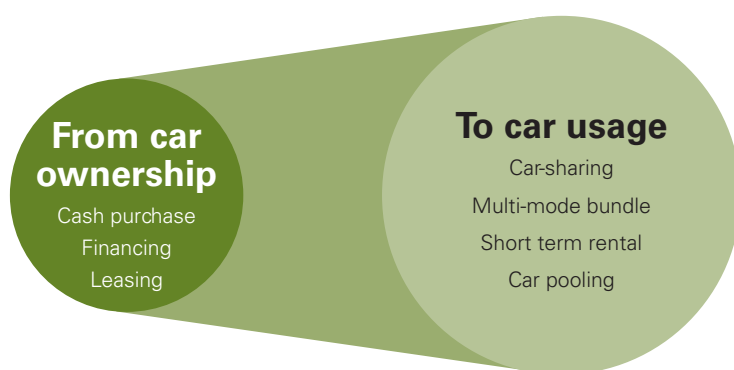
In light of these growth figures, the change in customer behavior from car ownership to car usage is undeniable. And with most car-sharing members aged between 20 to 35, it is clear that this trend is mainly driven by the younger generation and will therefore have a significant impact on the future landscape of the automotive industry. In Stockholm, Sweden, for example, it is considered chic not to do the driving test. And in Japan, young people prefer to spend their money on the latest smartphone or computer rather than on owning a vehicle. Regardless of these trends, however, mobility will remain a core desire of humanity – it will simply be satisfied differently in the future. Experts agree that future mobility will be based on the flexible usage of cars and other means of transportation, with travelers paying only for the time they use it.

**“In the future, customers will require global multi-mode mobility. Instead of a car budget, they will have a mobility budget.”**

Fleet Development Manager at captive, France

Car-sharing is increasingly popular in Europe, the US and Japan.

### Changing customer behavior



Source: KPMG International 2012

<sup>7</sup> KPMG’s Global Automotive Executive Survey, 2012.

## Opportunities and challenges of new mobility solutions for OEMs and their captives

New mobility solutions like car-sharing bring challenges as well as opportunities for both OEMs and their captives.

To date, the car-sharing market is dominated by independent car-sharing companies like Zipcar (US), Mobility (Europe) and Orix (Japan) and a large number of small, local car-sharing providers. OEMs are starting to pick up on this trend and get into the car-sharing business quite quickly. Their aim is to serve other customers who have decided against owning a car, as well as maintaining their leadership position in the automotive world.

Major OEMs like Daimler (Car2Go), Volkswagen (Quicar), Peugeot (Mu) and BMW (DriveNow) have already entered the market by launching their own car-sharing programs in a few cities across Europe and North America. And these initiatives are just the beginning, as OEMs plan to establish further fleets in major cities and are already thinking about supra-regional networks.

Those upcoming new car fleets lead to new assets which have to be financed between the OEM and its car-sharing subsidiary. To increase turnover for the captive, and to minimize assets for the car-sharing subsidiary, regular leasing contracts could be used. From the captive's perspective, special attention to residual values should be paid, as long-term experience is lacking and the re-sale value of heavily used cars is questionable. Insights from the car rental business might give some indication: they usually depreciate their vehicles over two or three years.

Besides fleet financing, the captive must review the structure of customer contracts and offer integrated bundles of individual mobility services for maximum customer convenience. Captives can rely on their established strengths like brand awareness, customer relationship instruments (mobility cards, credit cards), call centers, and their expertise in effective fleet management.

**“It is a sort of leasing, but more complicated, because it is all about residual values and how to get the right cars at the right time in the right location. In this context, you're almost into a car rental business. It would be a big change.”**

CFO at captive, China

OEMs have to engage in car-sharing in order to maintain their market position.

## Car-sharing is only one aspect of mobility

But car-sharing is only one element of the new holistic mobility approach. Customers will require access to multi-mode transportation (bus, train, car, bike and plane) while only paying a single flat rate for the whole package. Such mobility concepts will increase

the need for OEMs to align even more closely with other mobility providers, such as public transportation providers, and will force their captives to develop corresponding pricing models and mobility products for their customers.

The financial benefits of the car-sharing model are on captives' agendas.



Captives have to be aware that the pay-per-use pricing of mobility services creates a far more variable revenue stream than traditional finance and leasing. It also increases the probability of customers switching between different mobility providers, as there is no long term financial obligation with the car-sharing provider.

Additional benefits could also be generated by exploiting positive synergies between the new mobility services and electric vehicles. By using electric vehicles in the car-sharing model, the high acquisition cost of these cars can be spread over several customers, and current technical uncertainties, like the low driving range, do not play such a prominent role as the car is mainly used for short inner city journeys. In addition, there is no better way to make customers familiar with new driving technology and to overcome some of the prevailing prejudices that still impede the broad adoption of electric vehicles.

OEMs and their captives have to be quick in developing new mobility concepts. Moreover, they need to integrate electric vehicles into their concepts, as there are a number of new players pioneering the electro-mobility market. In addition, IT giants Apple, Google and Microsoft are trying to get a slice of the new mobility pie. A possible scenario is that they provide the necessary software for new mobility concepts, such as Apps that allow customers to make car-sharing reservations from their smartphone or to find a free car-sharing vehicle in their immediate vicinity.

Apart from the pricing of new mobility services, it will be special features like Apps that make mobility services convenient and appealing to customers, and important factors in their decision-making processes. In this context, OEMs should also secure IT specialists as partners for the development and implementation of their future mobility services.

**“The situation for mobility services is quite comparable to the IT industry 20 years ago. In the early 1990s, hardly anybody could imagine that we would be using smartphones and iPads today.”**

Erich Ebner von Eschenbach,  
CEO at BMW Financial Services

Car-sharing solutions require new pricing models.

Car-sharing and electric vehicles go together perfectly to create business synergies.



# KPMG Insights

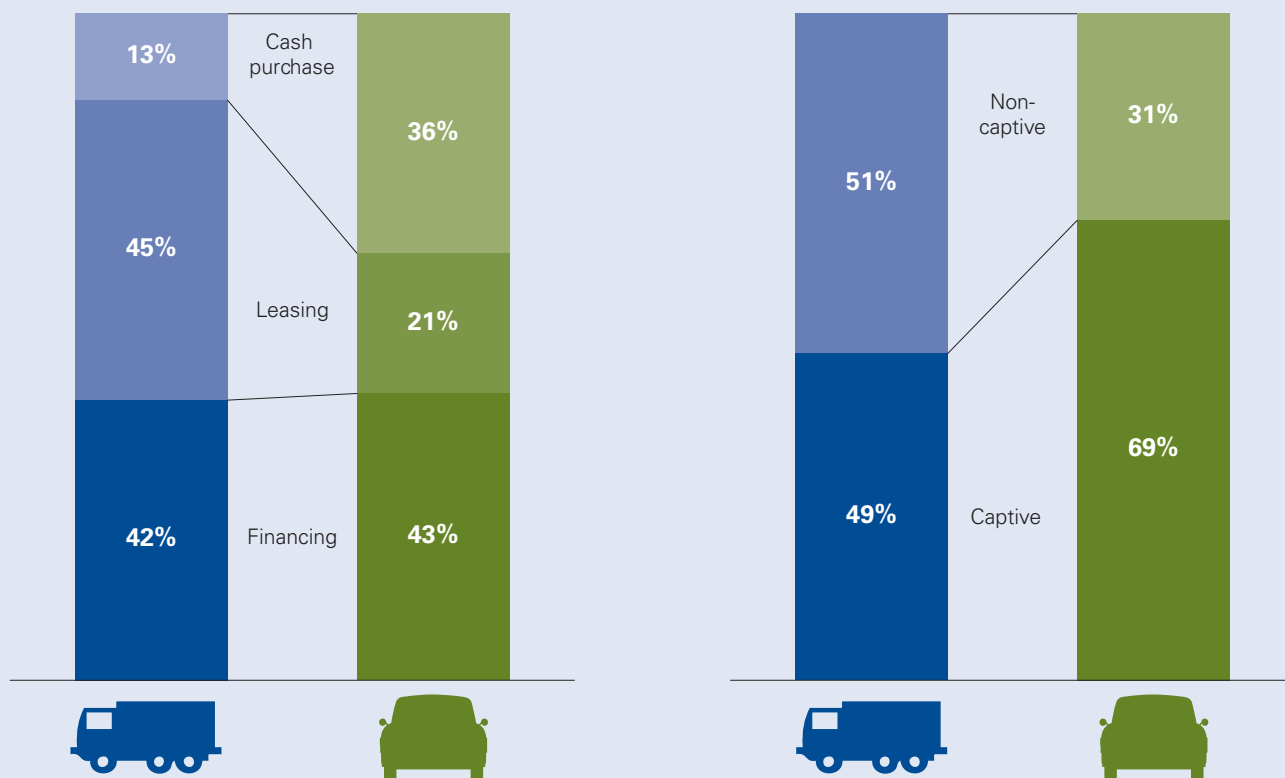
## Finance and leasing in the commercial vehicle industry

Financial services have a long history in the commercial vehicle industry. The 2011 KPMG truck study *Competing in the Global Truck Industry – Emerging Markets Spotlight*, revealed that OEMs in the commercial vehicle sector established financial services offerings some time before OEMs introduced similar services in the passenger car sector. This is due to the different customer profile of commercial vehicle buyers who consider the total cost of ownership as the primary criteria in the purchase decision. In mature markets, the leasing penetration rate for new trucks is considerably higher than in the passenger car business. In Germany, for instance, 45 percent of new trucks are leased, compared to 21 percent of passenger

cars. With regard to the market share of financing partners, captives dominate the market for passenger cars, while in the truck market the share is equal.

In the emerging markets, the picture is quite different. Although the commercial vehicle industry is growing at tremendous pace in these countries, the financing and leasing of trucks and other commercial vehicles is at an extremely low level. Furthermore, car buyers who are interested in financing or leasing are usually catered for by commercial banks.

### Financial services in the commercial vehicle and passenger car industry in Germany



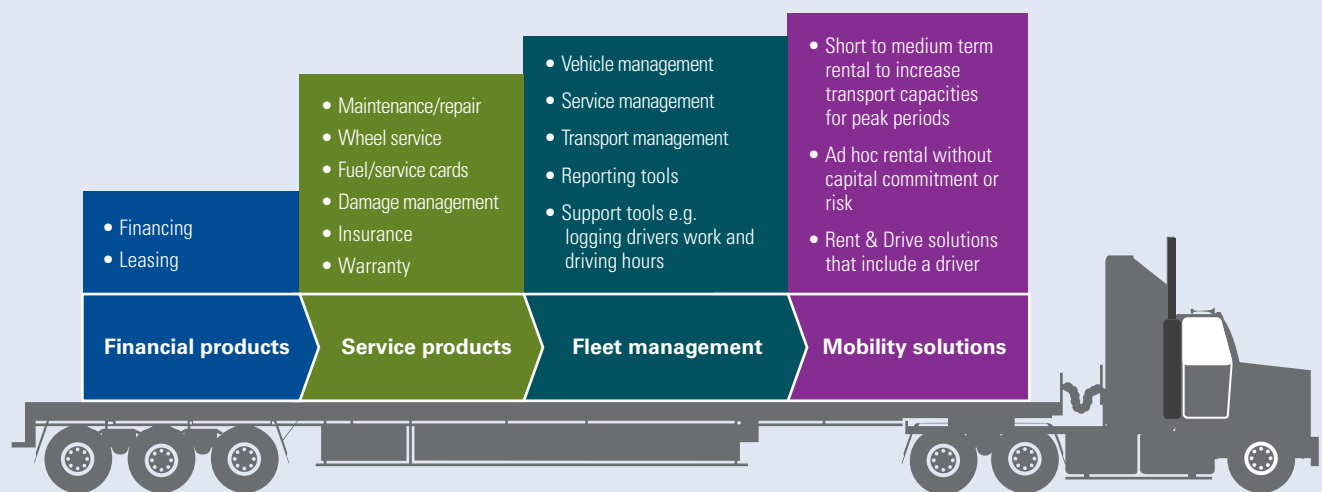
Source: *Competing in the Global Truck Industry – Emerging Markets Spotlight*, KPMG 2011; *puls Marktforschung*, 2010.



Besides offering basic finance and leasing products, OEMs in the commercial vehicle sector have been increasingly expanding their value chain by adding service products and fleet management solutions to their portfolios. In particular, fleet management services are gaining more interest and reaching higher levels of sophistication, enabled by the rapidly developing information and communications infrastructure in many countries. Such solutions allow large fleet operators to focus on their core business, as they can leave the controlling and optimizing of logistical, organizational and information processes to their dedicated service providers.

Today, most European and US truck manufacturers provide a variety of mobility solutions to their customers. Offerings range from ad hoc one-day rentals to short-to-mid term rentals, and usually include comprehensive service packages. Daimler's international commercial vehicle financial services and fleet management arm, Mercedes-Benz CharterWay, for instance, provides customized mobility solutions that allow commercial vehicle fleet operators to flexibly upgrade their fleet due to seasonal fluctuations, additional workload, driver absences or vehicle failures.

### Truck manufacturers expand their service portfolio



Source: *Competing in the Global Truck Industry – Emerging Markets Spotlight*, KPMG 2011; *puls Marktforschung*, 2010.

## Retail banking becomes a common business model for captives

The boundaries between traditional banking and captive finance have begun to blur, especially in the mature markets. Prior to the mid-1990s, the work of captives was primarily limited to car financing. Since then, many vendor finance companies have expanded their service lines to include regular banking activities.

This is particularly true in Europe, where most of the major captives now offer a range of banking services, from direct banking to commercial paper. Several German captives have already established a network of bank branches. For example,

Volkswagen Financial Services operates Volkswagen Bank GmbH, with branches in nine European countries,<sup>8</sup> and Mercedes-Benz Bank serves customers in the UK and Spain through its branch affiliates and would like to increase the branch numbers within Europe.<sup>9</sup> Some even issue their own vendor branded credit cards. In Sweden, for instance, the Volvokort, or Volvo Visa card, has become a staple even for those who do not own a Volvo. Holders can use the cards, which often come with generous interest-free payback periods, to pay for parts, service, fuel and merchandise.

**“Credit cards are a nice way for captives to increase customer loyalty.”**

Erich Ebner von Eschenbach,  
CEO at BMW Financial Services

## Low-cost funding is the major reason to hold a banking license

In mature markets, an increasing number of captives are applying for full banking licenses. Lower cost of funds is one part of the appeal. Usually, interest rates for bond placements are several percentage points above the overnight deposit rate for banks. Having a full banking license therefore gives captives access to these more favorable conditions. In addition, the banking model allows captives to consolidate their refinancing operations and cross-sell banking related finance and leasing products to customers. This flexibility can help OEMs diversify their portfolio, giving them a natural hedge

against swings in the business cycle. In the US, for instance, OEMs had enticing reasons for turning their captives into bank holdings, not least the change in their legal status, which gave them access to government support and helped them to overcome capital squeezes during the financial crisis.

In time, it is expected that captive-banks will continue to develop in this direction, expanding into investments, hedging and derivatives to capitalize on the banking business and to achieve more independence from banks with regards to refinancing.

<sup>8</sup> Volkswagenbank annual report, 2011.

<sup>9</sup> Mercedes-Benz Bank annual report, 2011.

## Banking business increases government regulations on OEMs

While this change in legal structure creates new opportunities, it also subjects captives to much greater regulation, in areas such as liquidity, internal lending, underwriting, reporting, and internal control. The activities of captives holding a full banking license are supervised by the banking authority in the country where they hold their license.

In addition to the higher regulatory burden, a full banking license can add to

an OEM's risk base, as a major revenue loss or data breach of the captive bank could negatively affect the brand's reputation and car sales. Chrysler learned this the hard way 20 years ago when an over eager credit card partner began a heavy marketing pitch to lure Chrysler's clients. The effort backfired, annoying customers and this, in turn, led to a drop-off in sales.

## Emerging market regulations keep captives out of the banking business

In markets like India and China, where the banking sector is heavily regulated, market entry is usually restricted to commercial banks. Full bank licenses are not easily available, although there are some exceptions. In India, a branch banking license can be obtained if there are entities with banking operations abroad.

Besides this, until now the strategic purpose of captives in these countries

has been mainly focused on their core activities, increasing vehicle sales through consumer financing and supporting the expansion of the dealer network through wholesale financing. But as these markets mature, captives will try to introduce the full range of business activities they conduct in mature markets, including banking.

**“In the past, the regulator has had a view on the subject (banking licence to manufacturing companies). It will be interesting to see what criteria they set this time around.”**

Rajan Pental, Executive Vice President,  
HDFC Bank, India



# KPMG Insights

## Other industries follow the same approach to the banking business

### Other industries have also discovered the advantages of having a bank inside the organizational structure.

North America's General Electric (GE) has a long-standing history in the financial services business. Through GE Capital, it provides working capital and asset financing to small and large companies, as well as credit cards, retail sales finance programs, home, car and personal loans and credit insurance, to private customers. In Germany, more than half of the 30 DAX companies have a banking license, including Siemens. At the end of 2010, Siemens received a banking license from the German BaFin which allows it to offer services to its customers like financing solutions, deposit banking and credit cards. Furthermore John Deere, the heavy equipment manufacturer, holds a banking license and offers a full range of financing options including installment credit and leasing and rental financing in 12 countries through John Deere Financial.

Reasons for holding a banking license include:

- offering financial services to companies to manage large engineering projects, such as wind parks
- driving sales through retail financing products
- achieving more flexibility in refinancing company activities
- accessing low interest central bank money
- optimizing risk management.

Some manufacturing companies, such as ABB, Phillips and Alstom, have joined or created their own venture capital companies in order to invest in innovative technology enterprises.



## 2.2 Expansion into new markets

### Growing business through global expansion requires great due diligence

The expansion plans of captives are clearly linked to their OEM's growth plans, as both businesses depend on each other. The general approach of captives when entering a new market is initially to support the development of a comprehensive dealer network by providing floorplan and inventory financing and then to help increase car sales through consumer finance and leasing. Despite their close

connection to their OEM, however, captives actually require certain market conditions to be different. To ensure successful market expansion, they should develop special scorecards to apply to the decision making process, with strict criteria concerning the OEM's market position, the governmental framework and the economic conditions in the respective country.

Global expansion remains a key value driver as long as appropriate criteria are met.

#### Market entry criteria for captive financial services

	Criteria	Importance
<b>OEM's market position</b>	Critical sales volume of OEM	↑
	Wholesale function is owned by the OEM	↑
<b>Governmental framework</b>	Reasonable legal framework	↑
	Convenient regulatory framework	→
<b>Economic conditions</b>	Well developed financial market that allows fundraising	↗
	Availability of financial instruments to hedge interest rate and currency risk	↗
	Market transparency through credit information bureaux	↗
	Customer acceptance of auto financing and leasing	→

 Very important
  important
  Preferable

Source: KPMG International 2012





To ensure that investments in a new region are worthwhile, the OEM's vehicle sales have to achieve a critical level. To most captives, the OEM's ownership of the wholesale function is also a very important requirement. It guarantees direct customer contact – vital for the finance and leasing business – and reduces competition from existing market players like banks.

Besides sales related aspects, the commercial environment needs to be robust and secure. This includes a reasonable legal framework that, for example, ensures security on the title of vehicles and allows reposessions in case of counterparty default. Combined with a stable regulatory framework, it ensures equal market conditions for everyone. Even though many countries do not require uniform standards, global implementation of the International Accounting Standards (IAS) and the Basel legislation ensures that worldwide standardization is slowly gathering pace.

Economic conditions also play an important role when it comes to entering new markets. A well developed financial market that

provides easy access to funding and instruments for hedging interest rates and currency risk is one requirement. Market transparency is also highly rated, as a lack of information on the credit history of a customer both increases the workload and, even worse, significantly increases credit risk. In contrast, a convenient regulatory framework and customer acceptance of finance and leasing do not seem to be of primary importance. This becomes apparent when looking at captives entering markets like China and Russia. At first glance, these show a high burden of governmental regulation and a generally low acceptance of car financing among consumers. But the attractive growth potential seems to outweigh any perceived obstacles.

Captives usually enter a market where the wholesale function is owned by the OEM.

Access to funding and market transparency are important market entry requirements.

**“All eyes are definitely on the major growth markets in Asia Pacific, with all the challenges that are involved in setting up business there.”**

Brian Rogerson, Editor, Asset Finance International, UK



**“As a group, we always try to implement the same things across the world. But that’s not always possible due to different regulations and customer requirements. It would be great if we could ‘copy and paste’ between almost 60 countries, but it just doesn’t happen. You have to focus on what you can do in that specific market.”**

CFO at captive, China

Most OEMs have entered several such critical markets in the last few years, among them China, India and Russia. If particular conditions are not met, captives will often work with a local partner to enter a new market. They will usually form a joint venture or a commercial agreement with a local bank to support the sales function of the OEM. These deals are structured carefully in order for the captive to retain control over the marketing, content and promotion of their financing programs, while assigning the risk, funding, accounting and handling responsibilities to the bank. In China, for instance, BMW Brilliance and China Minsheng Banking Corp signed

a strategic cooperation agreement in 2011 to target high-end customers with low service charge credit cards. This also opens the door for BMW to issue their own credit card.<sup>10</sup>

But even in markets that qualify for expansion plans, market entry comes with a multitude of challenges, with customer preferences being a major one. These differ not only from country to country, but sometimes even from city to city. In order to satisfy each customer around the world equally, captives have to adapt their products and business models to the local requirements of each new market they enter.

In some cases, OEM captives enter markets that do not fulfil the required criteria but offer huge growth potential, such as China.

In most cases, captives enter a new market through a commercial agreement or a joint venture.

<sup>10</sup> BMW opens the door to CMBC finance deal, China Daily, June 2011.

# Auto finance and leasing around the world: US, Western Europe, China, India, Russia

The growth of the finance and leasing business is distinctive all over the world. An analysis of the global market and expert interviews carried out by KPMG's Global Automotive Practice in five major automotive markets (US, Western Europe, China, India and Russia) has revealed significant differences between mature markets, like the US and Europe, and emerging markets, such as China, India and Russia.

In the mature markets, the establishment of the finance and leasing business started in the 1930s while in emerging countries the business started just a couple of years ago.

To give an overview of the current state of markets around the world, the following chapter summarizes the situation in the US, Western Europe, China, India and Russia, in terms of the following key features:

- **Market structure:** including overall description of the market environment and the role of captives.
- **Business environment:** including the necessary steps to obtain a business license, the legal and regulatory

framework, the risk potential for credit default and residual value risks and the refinancing opportunities,

- **Business characteristics:** including the level of product portfolio sophistication, the acceptance among private and corporate customers, and the maturity of the captive business model.
- **Business prospects:** including the expected evolution of the auto finance and leasing industry, from finance and leasing services, to additional vehicle services, consumer/full banking activities, and new mobility services.

## Global automotive finance and leasing landscape overview

				Mature markets		Emerging markets		
				US	Europe	China	India	Russia
MARKET STRUCTURE	High	Market potential	Low	●	●	●	●	●
	High	Market power of captives	Low	●	●	●	●	●
BUSINESS ENVIRONMENT	Easy	Obtaining business license	Tough	●	●	●	●	●
	Well defined	Government regulation (legal framework)	Vaguely defined	●	●	●	●	●
	Low	Risk potential	High	●	●	●	●	●
	Various opportunities	Refinancing	Few opportunities	●	●	●	●	●
BUSINESS CHARACTERISTICS	Wide	Product portfolio scope	Selective	●	●	●	●	●
	Well accepted	Customer acceptance	Hesitant	●	●	●	●	●
	Deve- loped	Captive business model	Under- developed	●	●	●	●	●
BUSINESS PROSPECTS	Growing	Traditional F&L services	Stable	●	●	●	●	●
	Growing	Additional vehicle services	Stable	●	●	●	●	●
	Growing	Additional/full banking services	Stable	●	●	●	●	●
	Growing	New mobility services	Stable	●	●	●	●	●

\*Characteristics vary between the different criteria. For the respective criteria, please see the descriptions next to it.

Source: KPMG International 2012

## 3.1 Finance and leasing landscape: US

### Market structure

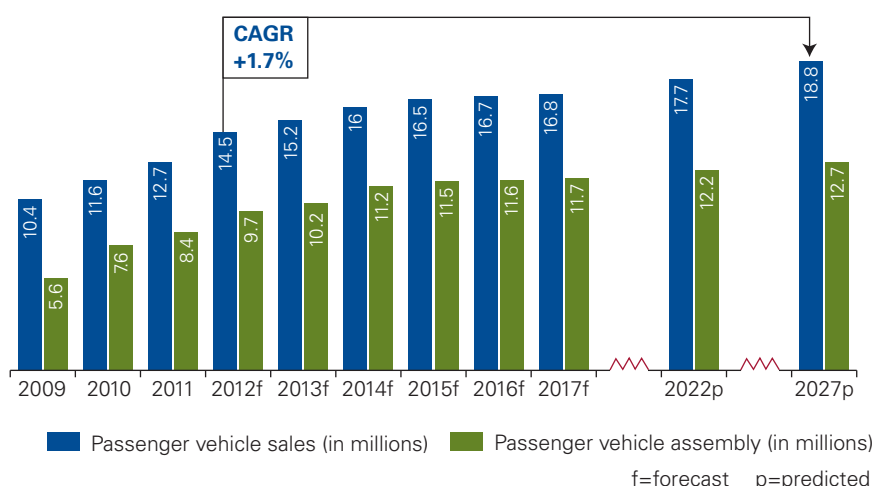
#### Automotive market recovery will also drive car financing

The overall economic outlook for the US, particularly in regard to the automotive industry, is positive. Projections show a low but constant growth for GDP and private consumption, and decreasing unemployment until 2015. This trend also applies to the automotive industry, where car sales and production are already back on track after some difficult years at the height of the crisis.

Demand remains strong from people who delayed big purchases during the recession. Car sales are expected to grow at a CAGR of 2 percent over the next 15 years, reaching a total of nearly 19 million cars in 2027.<sup>11</sup> And since most car sales in the US are financed, the market for auto finance and leasing will naturally grow in tandem.



#### Projected light vehicle sales and production in the US



Note: Sales figures include passenger vehicles, light trucks and light commercial vehicles

Source: LMC Automotive, second quarter 2012

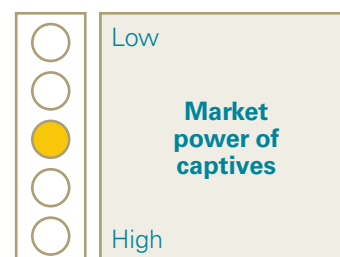
<sup>11</sup> LMC Automotive, second quarter 2012.



## Finance and leasing market is highly fragmented

The US finance and leasing market is well diversified. Consumers and commercial buyers can choose from a large number of captives, banks and independent finance organizations. Although the top 20 lenders account for 75 percent of the market for new car finance, market fragmentation is high and competition is fierce. While captives are very successful in the market for new car financing with a market share of 36 percent, they only provide 6 percent of used car financing, which is dominated by banks (36 percent). Overall, banks dominate

the market with a market share of 40 percent, while captives lost some ground with a reduction of 11 percent in Q1 2012 in automotive loan market share.<sup>12</sup> According to 2012 Auto Finance Big Wheels data report, the most successful auto financier in the US is Ally Financial, with US\$73.2 billion of loans and leases outstanding. The finance arms of Toyota, Ford, Honda, BMW and Nissan are the biggest captives in the US market, ranking in the top 10. Among the banks, Chase, Wachovia (Wells), Bank of America and Capital One rank highest.<sup>13</sup>

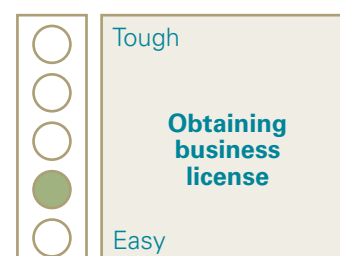


## Business environment

### Periodic renewal of license required

Financing entities receive their license through the Federal Reserve Bank and are bound to its rules. In most states, a consumer credit regulatory agency

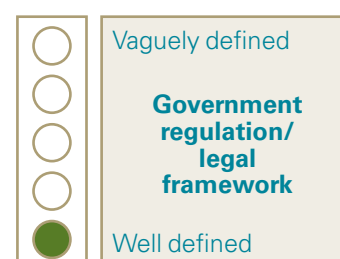
requires finance companies to apply for a business license at a state level. These licenses have to be renewed periodically.



### Regulatory framework is getting tighter

Captives are subject to regulation, supervision and licensing under various federal, state, and local laws and regulations. Federal regulation includes the Truth-in-Lending Act, the Equal Credit Opportunity Act and the Fair Credit Reporting Act, among others. These require captives to provide certain disclosures to prospective purchasers and lessees in consumer retail and lease financing transactions and prohibit discriminatory credit practices. Moreover, several states have laws that limit interest rates on

consumer financing. If interest rates are high, these rate limitations could have a negative effect on operations if captives are unable to purchase retail installment sale contracts with finance charges that are high enough to cover the extra costs. In certain states, license holders are subject to periodic examination by state regulatory authorities. In addition, financing companies are also subject to international regulations, such as the Basel Accords. (For more details on changes in the Basel Accords and IAS 17, please see KPMG Expert Boxes).



<sup>12</sup> State of the Automotive Finance Market First Quarter 2012, Experian Information Solutions, 2012.

<sup>13</sup> 2012 Big Wheels Data Report, 2011.

Regulations were increased once again in 2010 with the passing of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the purpose of which is to reform practices in the financial services industries, including automotive financing and securitizations. The act requires federal agencies to adopt rules to regulate the consumer finance industry and capital markets, including certain commercial transactions such as derivatives contracts. In addition, the Consumer Financial Protection Bureau has been created. It has indirect authority for a wide range of consumer protection laws to regulate consumer finance businesses, such as the retail automotive financing business, through an alternative liquidation framework.

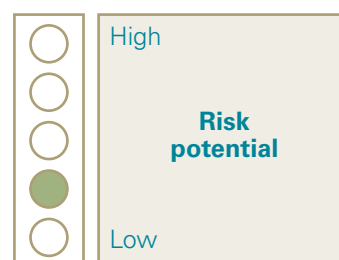
Under this framework, the Federal Deposit Insurance Corporation (FDIC) may be appointed as receiver of a non-bank financial company if the

Treasury Secretary determines that it is in default, or danger of default, and the resolution of the company under other applicable law (e.g. US bankruptcy law) would have serious adverse effects on the country's financial stability. The FDIC's powers under this framework may vary from those of a bankruptcy court under US bankruptcy law, which could adversely impact securitization markets, including the funding activities of captives. It is also possible that a finance company could be designated a "significant non-bank financial company" by the Financial Stability Oversight Council and thus be subject to regulation by the Board of Governors of the Federal Reserve System. This would mean that, in effect, a non-bank finance company could be regulated like a bank with respect to capital and other requirements, but without the benefits of being a bank – such as the ability to offer FDIC-insured deposits.

## Residual value risk remains high

In the US automotive industry, a steady rise in prices for used cars came to a halt due to declining gasoline prices and the regular seasonal slowdown in demand for used cars. This significantly increases the probability of defaults from leasing contracts that will expire in the near future. The US market therefore faces an increased residual value risk. Nevertheless, there is a

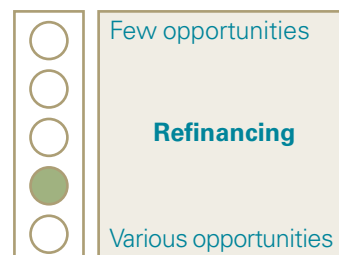
well-established credit scoring process, making it relatively easy for dealers, distributors and financial parties to obtain the information they need to assess credit worthiness and loan agreements. Even the sub-prime market, which collapsed during the 2008/2009 downturn, has recovered. This means that credit avenues exist for all classes of buyers once again.



## Easy access to capital markets

With the US capital market recovering, car finance providers have a range of funding and securitization options available. These range from credit lines and bank deposits to shareholder investment. Securitization continues to be a substantial part of the funding

mix as it is more cost effective than unsecured funding and provides access to a wider investor base. However, it is expected that unsecured funding will rise, as short-term unsecured funding becomes available on increasingly favorable terms.

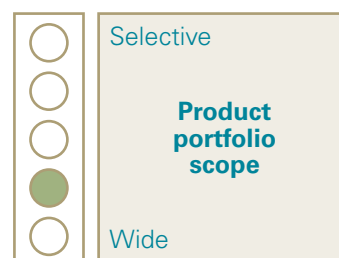


## Business characteristics

### Service levels are increasing

The product portfolio of captives includes the whole range of finance and leasing products, as well as car and banking related services. However, the banking business is not that popular among captives in the US, with only four out of 11 active captives holding a full banking license. General product bundles comprising end-to-end leasing,

warranty, maintenance and insurance elements serve as key differentiators for captives in the market. But banks are increasingly trying to access this additional profit stream as well, reaching out to garages and dealers to secure joint service offerings. This is expected to lead to significant M&A activity in this area.



## Product portfolio scope of captives active in the US\*

Captive	Legal form	Banking license	Products					
			Consumer		Fleet management	Dealer financing	Service/ insurance products	Banking products
			Leasing	Financing				
<b>Toyota Motor Credit Corporation</b>	100 percent subsidiary of Toyota FS America	✓	✓	✓	✗	✓	✓	Credit card
<b>GM Financial Inc.</b>	100 percent subsidiary of GM	✗	✓	✓	✗	✓	✓	✗
<b>Volkswagen Credit, Inc.</b>	100 percent subsidiary of Volkswagen of America, Inc.	✓	✓	✓	✓	✓	✓	Credit card via partner
<b>Hyundai Capital US</b>	100 percent subsidiary of Hyundai Motor America	✗	✓	✓	✗	✓	✓	✗
<b>RCI Banque (Renault)</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Ford Credit</b>	100 percent subsidiary of Ford Motor Company	✗	✓	✓	✓	✓	✓	✗
<b>Banque PSA Finance</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Honda Financial Services</b>	100 percent subsidiary of American Honda Motor Co.	✗	✓	✓	✗	✓	✓	✗
<b>American Suzuki Financial Services</b>	American Suzuki Financial services was acquired by Ally Financial Inc. in 2010.							
<b>Fiat Finance</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Mercedes-Benz FS US LLC</b>	100 percent subsidiary of Daimler AG	✓	✓	✓	✓	✓	✓	Credit card via partner
<b>Chrysler</b>	Chrysler Financial was acquired by Toronto Dominion Group in 2011. TD Auto Finance now provides a wide array of financing options for Chrysler customers and dealers.							
<b>BMW Financial Services</b>	Business unit of BMW AG	✓	✓	✓	✓	✓	✓	Credit card

\*Based on company information, desk research. Full accuracy or completeness of the information provided can not be guaranteed.

Source: KPMG International 2012

## A limited percentage of new cars are purchased outright with cash

Finance and leasing products are well established in the US. Most consumers have access to credit and are familiar with traditional financing options.

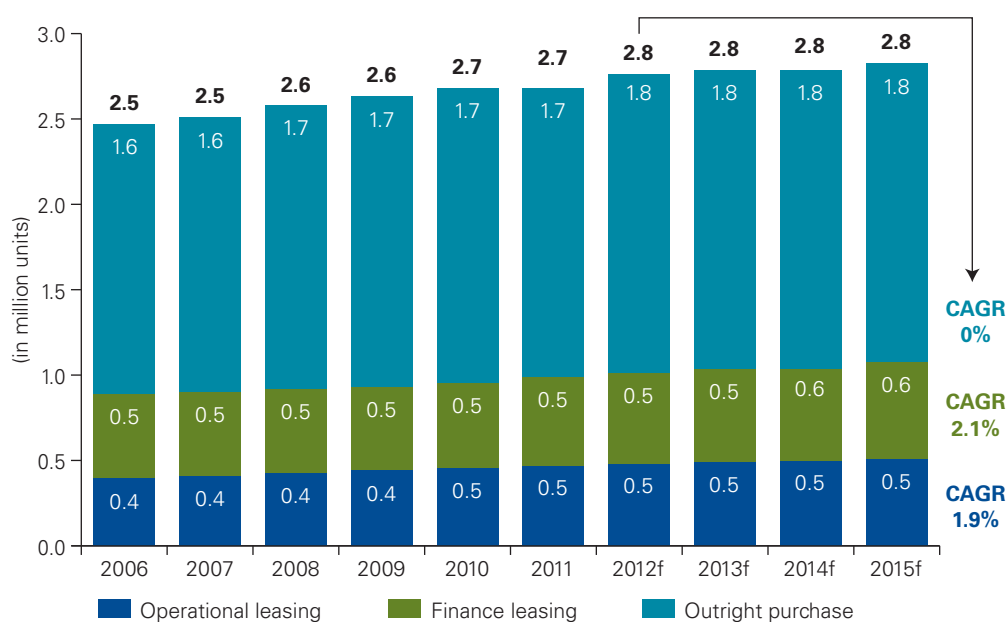
Car loans are the most popular purchasing method, accounting for almost 99 percent of car sales. But with lenders increasingly promoting leasing, this form of financing has gained momentum during 2010, especially in the luxury car segment. For some captives, the proportion of leasing contracts even exceeds the proportion of finance agreements. Despite this recent development, the overall penetration of leasing is only around 11 percent, which is one reason

banks do not usually provide leasing contracts.<sup>14</sup>

It is a different picture in the corporate sector, where companies are still ambivalent towards vehicle finance and leasing. Sixty-two percent of company car sales are made outright in cash. Finance and leasing contracts for company cars are almost equal, at 21 percent and 17 percent respectively. The company car business seems to be saturated. Significant growth is not expected over the next few years and the overall CAGR between 2012 and 2015 is expected to be lower than 1 percent.<sup>15</sup>



### The US company car market from 2006 to 2015



Note: Total may not add up due to rounding off

Source: Datamonitor 2011

<sup>14</sup> State of the Automotive Finance Market – Fourth Quarter 2011, Experian Information Solutions, 2011.

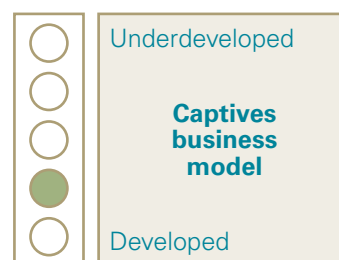
<sup>15</sup> Global Company Car Market Database, Datamonitor, 2011.



## The financial crisis endangers the captive model

All active captives in the US are subsidiaries of the local parent company, except for BMW which operates its financial services arms as a business unit of BMW AG. Captives were affected more severely by the financial crisis than in most other regions. Many struggled under high credit default loads, as they had been used to accepting higher risk customers in order to sell more cars. In response, many captives were spun off and

partnered with banks to offload and restructure their bad debt obligations, like Chrysler and General Motors. This trend is expected to continue, with dealers increasingly partnering with banks instead of their OEM's captive for floorplan financing in order to safeguard their sources of funding. Nevertheless, the captive business model is very well established and is expected to continue to thrive in the future.

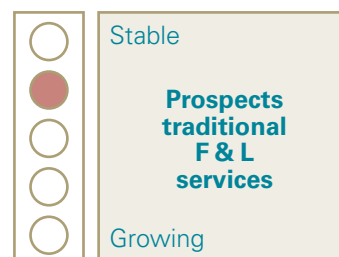


## Business prospects

### Growth potential is exhausted

With the highest penetration rates for financing and leasing services, additional growth potential within the US is very limited. Nevertheless, as the US car market is growing once more, the finance and leasing sector will benefit as the majority of US car

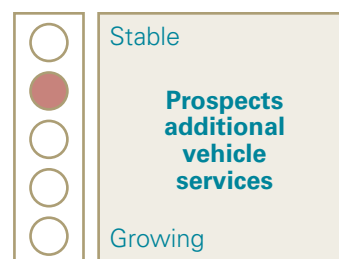
buyers will continue to use the finance and leasing offerings of their car dealer. Captives in the US could also expand their finance offerings to the used car market, where penetration is currently about 4 percent of all car purchases.<sup>16</sup>



### Fleet management is well established

Already, leasing arrangements in the US often include maintenance, repairs or tire services and insurance packages. Customer awareness of full service leasing and additional product offerings is very high and nearly all active captives provide such services, therefore

limiting growth potential. It is a similar situation in fleet management. Although company car sales will grow over the next few years, average growth rates of 1 percent to 2 percent do not provide huge growth opportunities.<sup>17</sup>



<sup>16</sup> State of the Automotive Finance Market – Fourth Quarter 2011, Experian Information Solutions, 2011.

<sup>17</sup> Global Company Car Market Database, Datamonitor, 2011.

## No comprehensive approach established yet

Banking services like credit cards or deposit banking provided by captives are not very common in the US. Captives should capitalize on this opportunity for cross-selling to win new customers. The establishment of a nationwide branch network, as in Europe, would also

help banking businesses to increase revenues in the US. Additionally, in-house banking activities enable captives and their respective OEMs to access diverse refinancing possibilities and affordable capital.



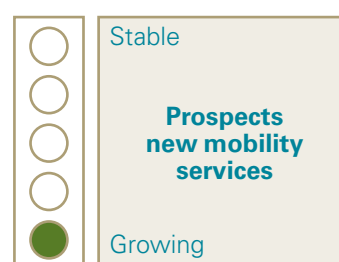
## Customer acceptance is gaining ground

Interest in hybrid and electric vehicles is growing. In addition to federal grants and tax credits, several states have their own incentive programs at both the OEM and customer level, to support the development and purchase of electric vehicles. The US government has set a target of one million plug-in hybrid vehicles (PHEVs) on America's roads by 2015.<sup>18</sup> Nevertheless, experts believe a real change in customer behavior will only happen if gasoline prices exceed the US\$4 threshold on a long-term basis. When this happens, it is predicted that people will begin to rethink their transport options and how they move from one place to another.

Growing support for electric vehicles in the US offers captives the opportunity to tap into the green agenda and offer products like battery leasing or battery management. Green fleets could also generate new revenue streams, as company cars are already very popular.

In addition, mobility services are increasing, with car-sharing members predicted to be between 2 and 10.5 million in 2026.<sup>19</sup> Currently, Zipcar is one of the most successful car-sharing companies in the world, with the number of members, fleet vehicles and service stations constantly increasing. At the beginning of 2011, Zipcar counted more than 577,000 members across the US, sharing more than 8,000 vehicles, with university students comprising the largest part of the membership.<sup>20</sup>

Even though car-sharing has become very popular, OEMs and their captives are still very reluctant to provide car-sharing solutions to their customers. To date, only the German OEM Daimler has entered the US car-sharing market. Its Car2Go concept launched in 2009 in Austin, Texas with a fleet of 235 Smart Fortwo cars. It has subsequently expanded to San Diego, Washington DC, Miami and Portland.<sup>21</sup>



**“Four-dollar gasoline will change the US market dramatically – and we are slowly approaching that level. So you have to be adaptable with your marketing and your product offerings to respond quickly to these kinds of changes.”**

Tom Gilman, Vice Chairman and Chief Executive Officer, TD Auto Finance LLC, US

<sup>18</sup> Institute for Energy Research, 2012.

<sup>19</sup> KPMG's Global Automotive Executive Survey, 2012.

<sup>20</sup> Zipcar company information, July 2012.

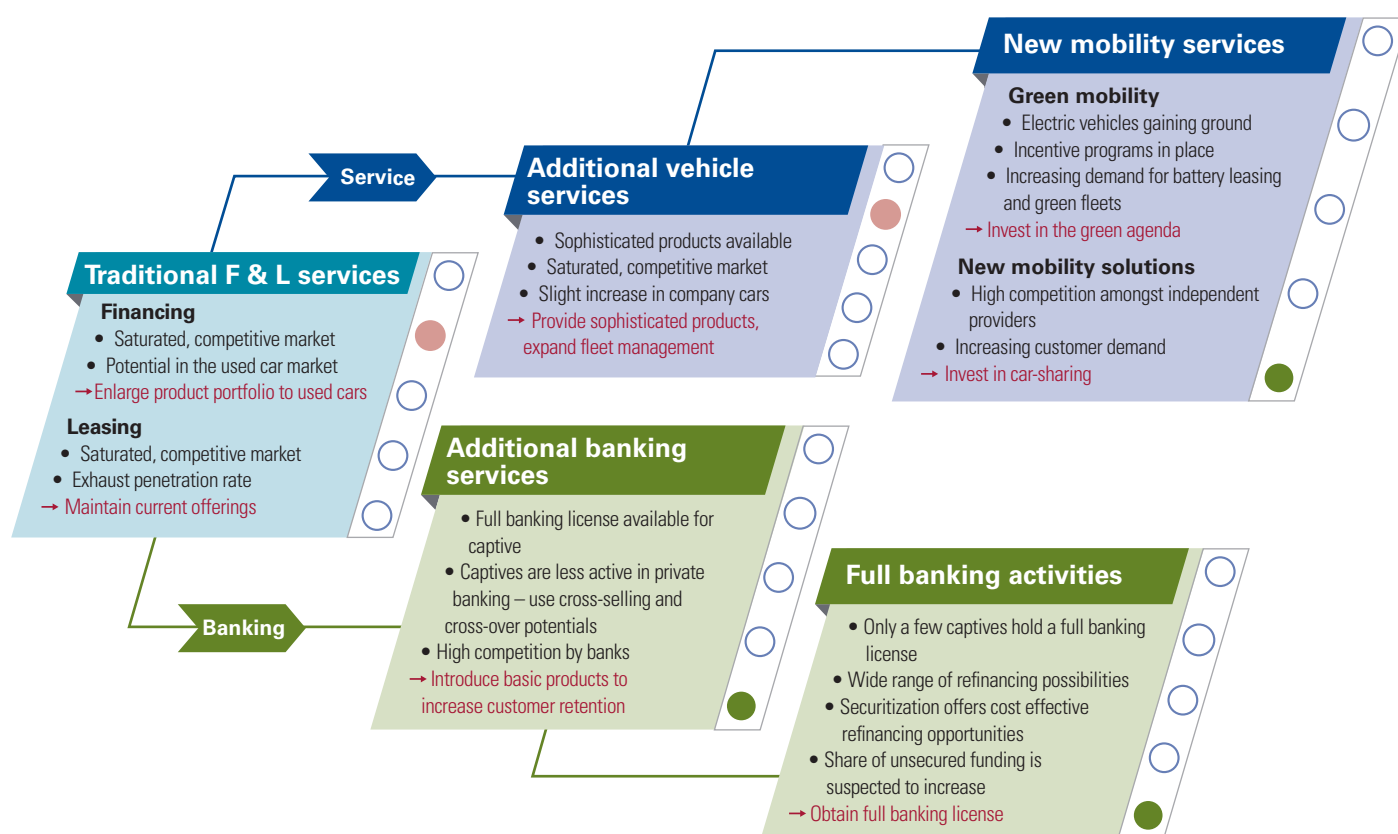
<sup>21</sup> Car2Go company information July 2012.

There is huge potential for car-sharing in the US and still room for more providers. OEMs should try to harness this promising revenue stream and position themselves as soon as possible in this new market segment.

Holistic mobility services covering diverse modes of transport are only

feasible for megacities like New York, as many parts of the country still lack sufficient public transport networks. To overcome this gap and to enforce the expansion of a green transport infrastructure, the US government has initiated an US\$8 billion investment in a high-speed rail network and related programs.<sup>22</sup>

### Key Findings: Evaluating future financing and leasing growth in the US



Source: KPMG International 2012

<sup>22</sup> Passenger Rail Investment and Improvement Act, 2008 & American Recovery and Reinvestment Act, 2009.

## KPMG Expert

### Organizational integration of captives in the OEM's structure

Although legal structures vary across the industry, with some captives folded into the main OEM and others operating as stand-alone entities, the majority of captives remain closely integrated into the OEM's organizational structure.

There are practical as well as strategic reasons for OEMs tending to exert strong influence over their captive. In the parlance of the industry, the OEM wants to move metal, and the symbiotic operating relationship between the OEM and captive facilitates sell-through. In return, the OEMs will often back the captives' residual value calculations, usually providing some type of loss agreement if values decline.

From an investor point of view, separate financials give investors and analysts greater visibility into the captive's core business. In fact, independent bank holding companies sometimes face a tougher burden with investors: as autonomous entities, they do not have the same tie-ins with OEMs as captives do. Therefore, the sell-through potential is less certain.

OEMs also play a role in how much credit captives extend. Although the aggressive lease arrangements common before the recession have largely disappeared, OEMs have shown

a willingness to re-engage the credit market, using financing as a sales tool.

With healthier balance sheets and more effective risk management practices, captives seem to be striking a good balance from a credit risk point of view, offering more credit but applying greater due diligence. In the past, there was a greater tolerance for a certain amount of bad debt risk. But today, before captives extend credit, they will interview the loan or lease applicant, check employment, and contact the applicant's insurance company. This gives them far more visibility to reclaim the vehicle if there is an early payment default.

Looking ahead, the outlook for the sector remains quite positive. While most auto financing organizations took large write-downs at the peak of the crisis, it allowed them to clean the slate and focus on moving the business forward. Today, most captives have healthy balance sheets. Over the next 12-18 months, the industry is expected to continue its return to growth and most analysts expect to see sustained integration between OEM and captive business models. Driving that are the tailwinds of an improving economy, the flexibility captives have shown in creating and pricing a range of financing options, and OEMs' growing sophistication in tailoring car models and production volumes to consumer demand.



**Adam Levy**  
Manager,  
KPMG in the US



## 3.2 Finance and leasing landscape: Western Europe

### Market structure

#### Car sales will increase slightly

Across Europe, recovery from the financial crisis has progressed differently. While economies in Northern Europe can report a slight growth in GDP, private consumption and employment, many Southern European countries have significant struggles with declining GDP growth, high government debt, increasing unemployment rates and even national bankruptcy. This means the overall outlook for the European economy is only moderate, with GDP and private consumption growth expected to remain low for some time.

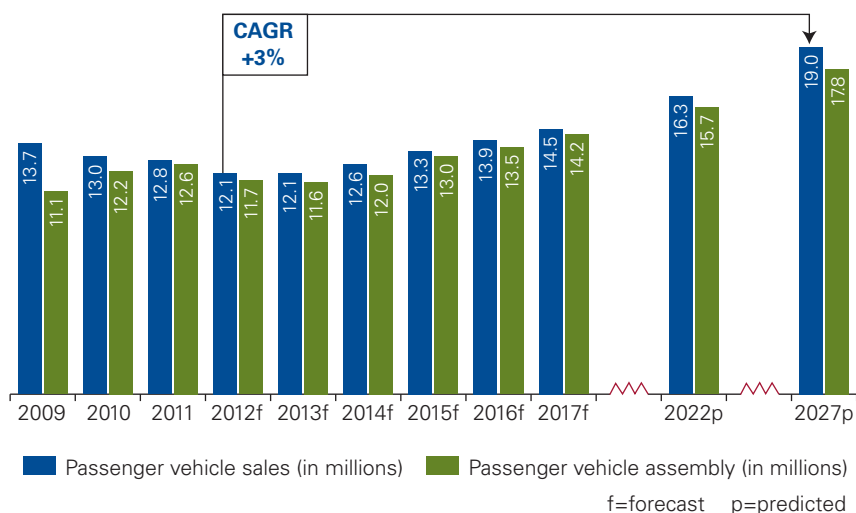
This trend is also reflected in the fortunes of the Western European automotive industry. In most countries,

car sales are falling in 2012, for example Greece and Portugal are showing negative growth rates of more than 25 percent. For example, Germany and Norway record positive growth rates but those are still very low and not expected to increase. Overall, car sales are predicted to grow at a CAGR of 3 percent over the next 15 years, reaching a total of 19 million cars by 2027.<sup>23</sup>

For the finance and leasing sector, experts think that growth will come primarily from enhanced service and insurance offerings around the core finance and leasing contract.



#### Projected passenger vehicle sales and production in Western Europe



Source: LMC Automotive, second quarter 2012

<sup>23</sup> LMC Automotive, second quarter 2012.

## Captives hold a strong market position

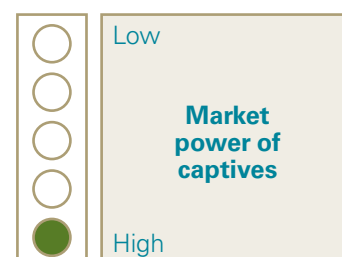
The Western European auto finance and leasing market is highly competitive. It has almost reached saturation and the number of players is immense.

Captives have historically held the dominant market position. In the UK, for instance, captives represent 70 percent of the market, with banks and independent finance companies about 30 percent.<sup>24</sup> Germany shows a similar spread, with captives claiming 68 percent market share, leaving banks and independents to tussle over the remainder.<sup>25</sup>

During the financial crisis market contraction took its toll. Some banks and independent financial organizations, such as Welcome Finance and Park Motor Finance, exited the market because they had no access to funding.

In the private sector, the captives Volkswagen Financial Services, Daimler Financial Services and BMW Financial Services dominate the market. With regards to banks, private customers most frequently turn to major banks like HSBC, BNP Paribas, Deutsche Bank and Santander Group.<sup>26</sup> Examples of prominent independent finance companies include ADAC, CreditPlus Bank, ACF Car Finance, Imagine Finance, Cetelem and Sofinco.

Companies across Europe most frequently finance their company fleets through Volkswagen Leasing (an affiliate of Volkswagen Financial Services), Daimler Fleet Management and Banque PSA Finance, as well as leasing specialists LeasePlan, ALD Automotive and Arval.<sup>27</sup>



## Business environment

### National European Banking Authority registration required

The open market of the EU is generally considered to be business friendly, with strong oversight and regulation of the licensing regime for financial services companies.

Captives have to register at the national banking or financial service authority of their headquarter country. The approval process usually takes between six and 12 months and in general requires a minimum capital stock,

a sound business plan and qualified management personnel.

In addition, the EU requires dealers to be a certified credit or insurance intermediary before they can sell a credit or insurance contract. To receive a certificate, dealers have to complete a special education program and pay an annual fee to the registration office. This procedure is mandatory in France, Germany, Italy and Spain.



<sup>24</sup> *Dreaming of Life in the Fast Lane: Overview of the Motor Finance Market*, Datamonitor, 2010.

<sup>25</sup> AKA, 2011.

<sup>26</sup> BanksDaily, 2011.

<sup>27</sup> *The European Fleet Lessor Database*, Datamonitor, 2010.

There is a similar approval process for obtaining a full banking license, necessary for deposit taking and credit card services. Captives have to apply for a full banking license at the national banking authority of the country where they are seeking banking status. In contrast to the financial services license, banking license approval can take up to one or two years, or even longer.

In general, companies with a financial services license are allowed to provide financial services in all EU member countries.

Additionally, the European Passport Act allows non-EU companies to operate in any EU member state as long as they hold an Investment Service License from the Malta Financial Services Authority (MFSA).

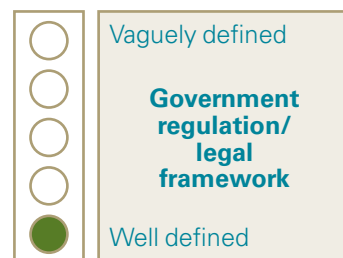
## Consumer protection and Basel III increase compliance needs

Since January 2011, the regulation of financial services across Europe has been overseen by three European Supervisory Authorities (ESAs). The ESAs work with the newly established European Systemic Risk Board (ESRB), which ensures financial stability and strengthens and enhances the EU supervisory framework. Coordination between national supervisory authorities is continually improving, raising the standards of national supervision across the EU.

The ESAs are: the European Securities and Markets Agency (ESMA), the European Banking Agency (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). They replace the level three committees: Committee of European Banking Supervisors (CEBS), Committee of European Securities Regulators (CESR) and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

The ESAs aim to create a single EU rule book by developing draft technical standards that will be adopted by the European Commission as EU law. The ESAs will also issue guidance and recommendations that national supervisors and firms must make every effort to comply with. The ESAs have direct supervisory responsibility for credit rating agencies. They will conduct regular peer reviews of national supervisory authorities to improve the consistency of supervision across the EU.

As well as these changes in the supervisory functions of regulatory authorities, financial services companies in the EU also have to face regulatory challenges from the new Basel III Accords. These require them to comply with new regulations around reporting, risk management and equity ratios. There are also changes in the IAS 17 standard, and new customer protection laws under the EU Consumer Credit Regulation, both of which will have an impact.

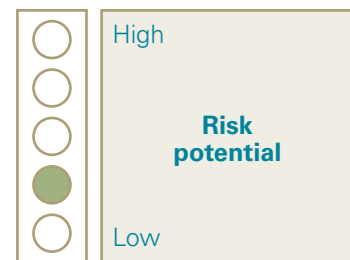


## Deterioration of residual values increases loss potential

The potential for residual value defaults will remain the biggest risk for a considerable time.

Conversely, credit risk does not seem to be a major issue. There is a high degree of transparency over customer credit

histories and information is accessible to all financial institutions. Furthermore, recent experience has shown that Western Europeans are very responsible in paying back their loans, even in times of financial strain.



**“We were surprised that when the credit crunch came in 2009 and unemployment and short-term working increased, many people were still trying to make their payments on their cars, so the defaults were not that high.”**

Managing Director of Bank and Leasing Company, Germany



## Diversification is key for refinancing

In the finance and leasing business, wholesale debt, unsecured debt and bonds are common sources of funding. Asset backed securities (ABS) transactions are also widely used, but scale is a factor. For private finance companies with smaller volumes, for instance, ABS securitization plays less of a role.

For most companies, the need to have diverse sources of refinancing is a key lesson of the past few years. Captives,

therefore, are focusing on balancing their funding portfolios to protect themselves from unexpected market fluctuations. Many of them rely heavily on bonds to reduce exposure, as bonds are known for their relative stability. For example Volkswagen Financial Services has a clear funding strategy, which is to be achieved by 2018, of a balanced refinancing portfolio of asset backed securities, capital market and customer deposits in equal parts.<sup>28</sup>



## Business characteristics

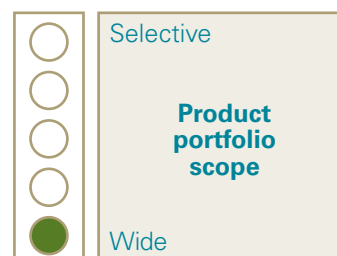
### Customers can choose from a large variety of highly sophisticated product bundles

Captives provide the broadest and most sophisticated product range to their customers. They also use Western Europe as a test ground for the world market.

Service and insurance packages, along with core finance and leasing contracts, are very common among private customers. For corporate consumers, captives offer full service leasing and fleet management services to help companies manage their fleets. Service and insurance packages around

the core financing contract is a key differentiator. Captive product bundles that include additional services like insurance, warranty, and maintenance have become very popular. Volkswagen Financial Services, for instance, sold 4.2 million finance and leasing contracts and 2.6 million service and insurance contracts in 2011.<sup>29</sup>

In addition, most captives in the market hold a banking license, providing deposit accounts, credit cards and commercial paper to their customers.



<sup>28</sup> Fixed Income Investor Update, Volkswagen, December 2010.

<sup>29</sup> Volkswagen company presentation, 2012.



## Product portfolio scope of captives active in Western Europe\*

Captive	Legal form	Banking license	Products					
			Consumer		Fleet management	Dealer financing	Service / insurance products	Banking products
			Leasing	Financing				
<b>Toyota Financial Services</b>	100 percent subsidiary of Toyota Motor Corp.	In Germany	✓	✓	✓	✓	✓	✗
<b>GMAC (Ally Financial)</b>	GMAC was acquired by Ally Financial in 2009 which is now the preferred provider of finance and leasing products for the GM brand.							
<b>Volkswagen Financial Services AG</b>	100 percent subsidiary of VW AG	In Germany	✓	✓	✓	✓	✓	✓
<b>Hyundai Capital Europe</b>	JV between Hyundai Capital and Santander Consumer Bank	Full bank license is held by JV partner	✓	✓	✓	✓	✓	✓
<b>RCI Banque (Renault)</b>	100 percent subsidiary of Renault	In France	✓	✓	✓	✓	✓	✓
<b>Ford Credit</b>	100 percent subsidiary of Ford Motor Company	In the UK	✓	✓	✓	✓	✓	Deposit taking in Germany
<b>Banque PSA Finance</b>	100 percent subsidiary of Peugeot	In France	✓	✓	✓	✓	✓	✗
<b>Honda Finance</b>	100 percent subsidiary of Honda Motor Co.	In Germany	✓	✓	✗	✓	✓	✓
<b>Suzuki Finance</b>	In cooperation with CreditPlus Bank (GER), Black Horse Group (UK), Cetelem (FR)	Full bank license is held by partners	✗	✓	✗	✓	✓	✗
<b>FGA Capital (Fiat)</b>	50:50 JV between Fiat Automobile Group and Credit Agricole SA	Full and restricted across Europe	✓	✓	✓	✓	✓	✗
<b>Daimler Financial Services AG</b>	100 percent subsidiary of Daimler AG	In Germany	✓	✓	✓	✓	✓	✓
<b>Chrysler</b>	Finance and leasing for the Chrysler brand is undertaken by FGA Capital.							
<b>BMW Financial Services</b>	Business unit of BMW AG	In Germany	✓	✓	✓	✓	✓	✓

\*Based on company information, desk research. Full accuracy or completeness of the information provided can not be guaranteed.

Source: KPMG International 2012

## Customer base in the private sector is increasing

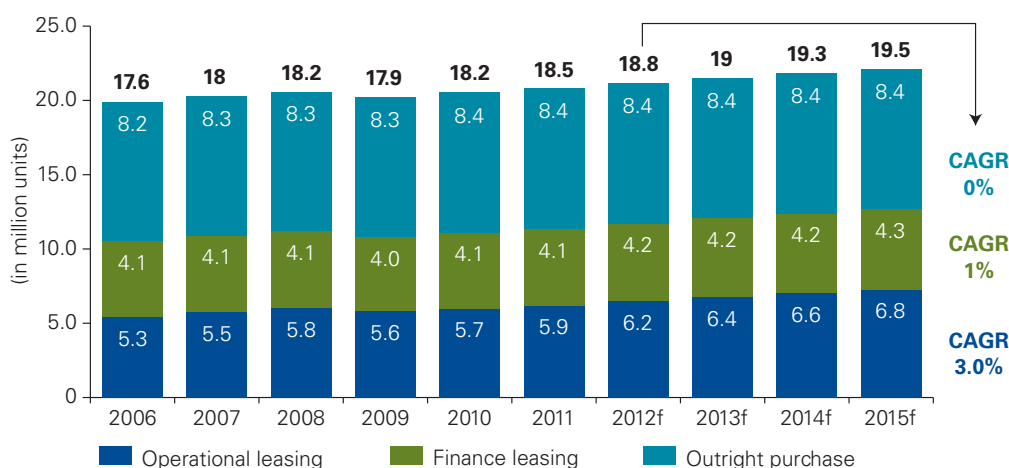
Within most countries in Western Europe acceptance of car finance and leasing among private customers is very high. In Germany, financing accounts for 65-76 percent of vehicle purchases, which is one of the highest penetrations globally (similar to the US and France) and leasing accounts for roughly 43 percent of new car purchases. Point of sale finance, generally arranged at dealerships, accounts for 33 percent of sales with the remainder accounted for via direct or cash purchases.<sup>30</sup> In the UK new car finance market, 66 percent of new cars purchased by consumers were financed in dealerships. Closed-end leasing is the most popular way to finance a used car and accounts for almost 65 percent of all consumers' used car financing over the past year. Personal contract purchases account for nearly 21 percent of the used car finance market and personal loans

from car dealers represent 14 percent and leases 0.3 percent.<sup>31</sup>

The fleet market has different characteristics. About 55 percent of company cars are leased, but overall the percentage varies between countries. In Switzerland, around 93 percent of company cars are leased, whereas in France the figure is only 49 percent. Operational leasing is generally more popular in Western Europe. Nevertheless, in Austria, Germany, Greece, Ireland, Norway, Sweden and Switzerland, financial leasing is more attractive. The lowest percentage of financial leasing, with only 5 percent of all company cars, is in the UK and the Netherlands. In Austria, Denmark, Finland, France, Germany, Italy, Spain, and the UK more than 40 percent still pay cash for their company car.<sup>32</sup>



The Western European company car market\* from 2006 to 2015



Note: Total may not add up due to rounding off

Source: Datamonitor 2011

\* Countries included Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK

<sup>30</sup> GfK 'Grundlagenstudie zur Konsum- und Kfz-Finanzierung' 2010 & 'Der Finanzierungsmarkt in Deutschland', Bankenfachverband, 2009.

<sup>31</sup> Finance and Leasing Association, June 2012.

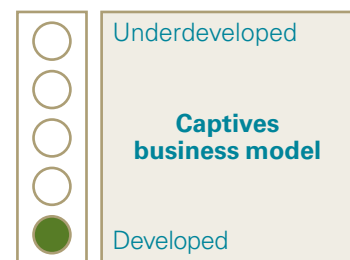
<sup>32</sup> European Fleet Database, Datamonitor, 2011.

## Captives have become a core strategic part of European OEMs

European OEMs have long recognized the benefits of having their own financial services arm within their organizations. Since the mid-1990s, the majority of captives in Europe have operated on full banking licenses, enabling them to access cheaper funding. What is more, they have not only expanded their portfolio through banking products like deposit banking and credit cards, but also by adding insurance packages and services around the car to their core finance and leasing products. Over the

years, European captives have evolved from their role of sales support for the OEM to being a core strategic part of the overall organization.

Some German captives have even taken it one step further and started to provide finance and leasing services for non-OEM brands online under a product neutral name. BMW, for instance, operates under Premium Financial Services, and Volkswagen (VW) with AutoEuropa Bank.



**“A big car manufacturer can no longer compete in the automotive industry without a captive.”**

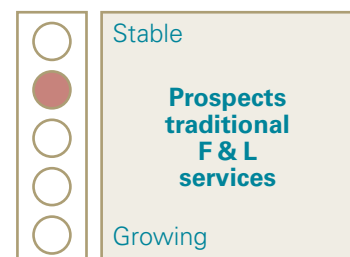
Erich Ebner von Eschenbach, CEO at BMW Financial Services

## Business prospects

### Market almost saturated

Captives in countries like the UK and Germany have already reached maximum market share, as some customers will always prefer to finance their car purchase through a bank or an independent financing organization. Growth potential from traditional products like financing and leasing is therefore very limited,

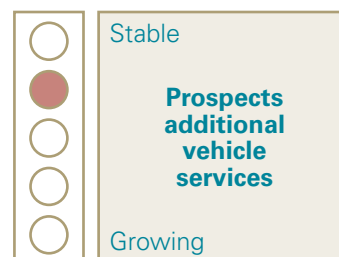
due to high product sophistication, entrenched customer perceptions and fierce competition. Growth prospects in the used car market are slightly more promising, as finance options in this area are not as widespread. With dynamic and innovative ideas, new customers can be won.



## Further growth potential is limited

The high product sophistication and saturation of the market is also apparent for service-related offerings like maintenance and repair services, or established insurance services. To open up new business areas, captives are trying to diverge from traditional approaches by acting as independent insurance companies, rather than simply acting as brokers.

It is the same situation for company fleets. In most European countries 50 percent of company cars are leased. Sophisticated product offerings like fleet management, including controlling and monitoring the company fleet, are also being offered by various market players. Nevertheless, demand for company cars is only expected to rise by 4 percent by 2015, especially in operational leasing.<sup>33</sup>



## Independence of traditional banks drives business

Most captives in Western Europe are already active in the banking business and provide credit cards and deposit banking to their customers. Nevertheless, the sector is not completely exhausted and provides some substantial growth potential, especially in consumer banking products that also increase customer awareness. By more effective cross-selling, captives can increase their car sales and the distribution of banking services on both sides.

Besides consumer banking activities, there are significant opportunities in the diversification of refinancing options. In particular, the opportunity for low cost funding makes the banking area interesting for captives. Also, further expansion into investments, hedging and derivatives increases the independence of banks and allows captives to manage market cycles more effectively.

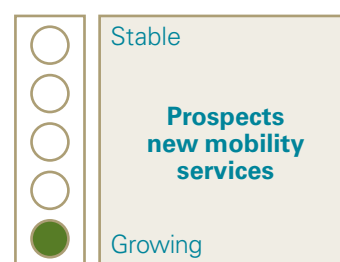


<sup>33</sup> European Fleet Database, Datamonitor, 2010.

## Electric mobility and car-sharing models are gaining momentum

Captives and independent leasing companies see huge opportunities in the alternative propulsion and electric vehicle market. To tap into it, developing specialized financing products has become a top priority. This particularly applies for electric vehicles, or more precisely, for the battery that drives the vehicle. Catchwords like battery management or battery leasing are often heard in connection with green mobility financing products. And the clock is ticking for captives: several European governments have already published their ambitious plans for electric vehicle penetration of their country's roads. Germany targets one million electric vehicles by 2020 and six million by 2030,<sup>34</sup> and France has planned for two million by 2020,<sup>35</sup> whereas the UK has not set a concrete number. However the Committee on Climate Change recommended a target of 1.7 million electric vehicles by 2020, to achieve the long term targets.<sup>36</sup> What is more, it is not only private customers who are interested in green technology, but also corporations, where green fleets, including carbon reporting services, are top of the agenda.

Europe is the most active market for new mobility services, with an estimated 7 to 17.6 million<sup>37</sup> car-sharers. The number of OEMs in the car-sharing business is growing rapidly. Most European OEMs already have their own car-sharing model. In addition, captives are working with partners to provide mobility packages that include several other transportation modes besides the car. For example, project BeMobility allows customers to use public transportation, an electric car fleet and bikes, while only paying one monthly flat rate. The project is a cooperation between Deutsche Bahn and various industry partners including Daimler and Toyota's automotive group. Furthermore, Daimler recently announced their own mobility platform "moovel" which allows users to book different modes of transportation using a Daimler App. The pilot phase started in a limited urban area, and as soon as the project proves successful Daimler will start making a profit by charging a fee to the other mobility participants.<sup>38</sup> The strong customer awareness and increasing demand around electric and mobility developments offer huge growth potential for captives in the area of new mobility related services.



<sup>34</sup> *Mobilität aus der Steckdose*, Government announcement, 2011.

<sup>35</sup> *France targets 2 mio electric cars in 2020*, Reuters, September 2010.

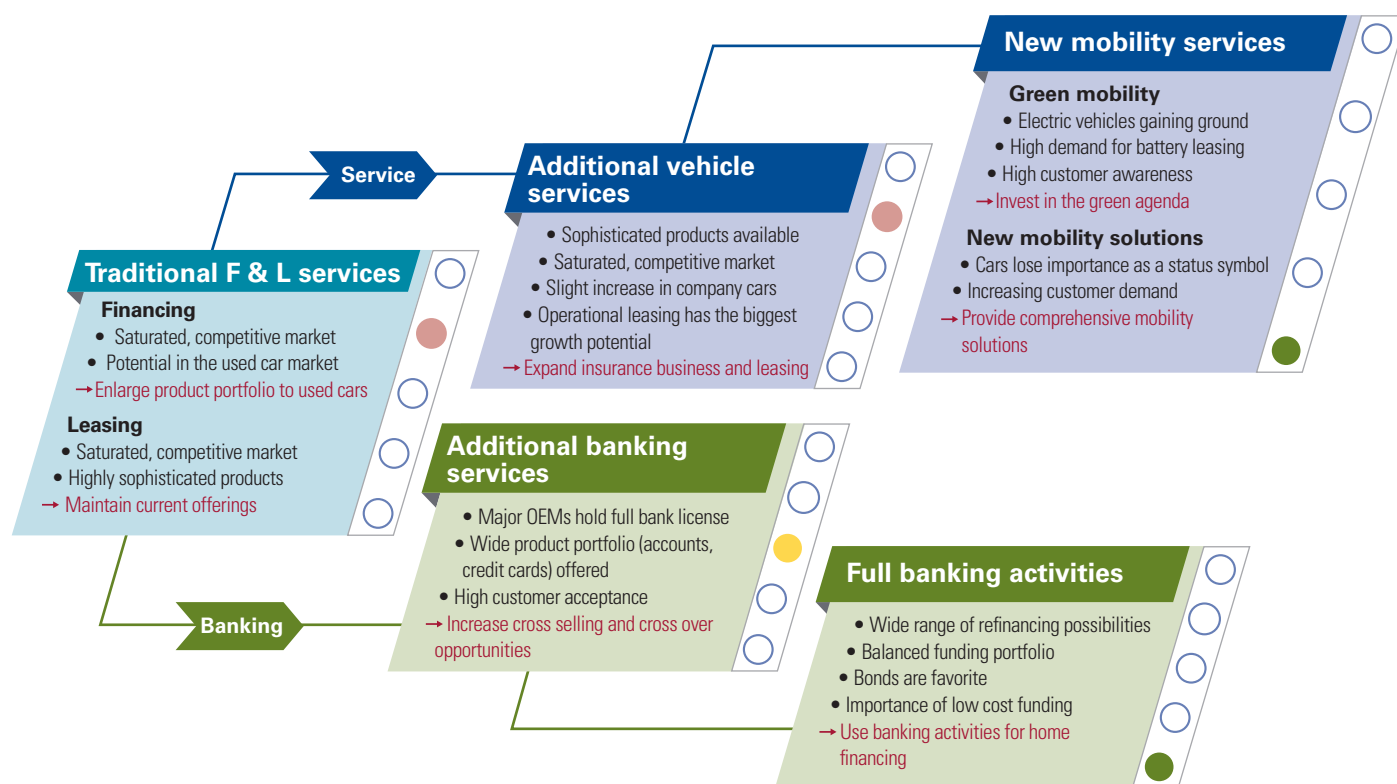
<sup>36</sup> *Committee on Climate Change – 2nd Progress Report to Parliament*, June 2010.

<sup>37</sup> *KPMG's Global Automotive Executive Survey*, 2012.

<sup>38</sup> *Daimler startet App für intermodale Mobilität*, Automobilwoche, July 2012.



## Key Findings: Evaluating future financing and leasing growth in Western Europe



Source: KPMG International 2012

## KPMG Expert

### Impact of future changes in IAS 17 on lease accounting

In August 2010, the International Accounting Standards Board (IASB), jointly with the Financial Accounting Standards Board (FASB), published an Exposure Draft 'Leases' (ED Leases). It is expected that the project will lead to a revolution in lease accounting. The aim of the project is to ensure that all assets and liabilities arising under lease contracts are recognized in the balance sheet.

To achieve this, ED Leases proposes that lessees and lessors should apply a right-of-use model in accounting for all leases, instead of a risk-and-reward approach. Under the right-of-use model, the lessee recognizes an asset for its right to use the underlying asset and a liability for its obligation to make lease payments. If a lessor retains exposure to significant risks or benefits associated with the underlying leased asset, the exposure draft proposes that a lessor recognizes at commencement of a lease an asset representing its right to receive lease payments and a liability representing its obligation to permit the lessee to use the underlying asset (performance obligation approach).

If a lessor does not retain exposure to significant risks or benefits associated with the underlying asset, the lessor would derecognize a portion of the underlying leased asset, representing the lessee's rights, and reclassify the remaining portion as a residual asset, representing its right to the underlying leased asset at the end of the lease term (derecognition approach).

The Boards of IASB and FASB have received over 760 comment letters on ED Leases. The overall feedback was supportive of the right-of-use model for lessees, providing a better view on assets and net debt, establishing a converged standard for US GAAP and IFRS, and overcoming the current bright lines of operating versus finance leases. Significant concerns were raised with regard to the cost of reassessments on all existing leases, the measurement complexity of minimum lease term and payments, the two different lessor models and the treatment of lease contracts with combined lease and non-lease (service) components. Some users believe the right-of-use approach will require even more judgment than the existing standard (e.g. recognition of income, adjustment of recognized asset and lease liability due to changes of expected variable or optional lease payments). Many respondents think the boards should focus on providing a high quality standard, rather than meeting project timelines (final standard was planned to be issued in 2011).

Based on the feedback received and outreach sessions held with preparers and users, the boards of IASB and FASB decided that a re-exposure draft of ED Leases is needed. This is planned to be issued in the second half of 2012. Therefore, the new standard will not be published before the end of 2012.

The new accounting rules proposed by the exposure draft give rise to various areas that will impact OEMs and their captives. Above all, there are substantial effects

on balance sheets and net debt, income and cash-flow statements and accompanying notes. Profit realization during the lease term of lessors can change substantially and frequently-used management ratios, like upfront sales margin, equity ratio or return on assets, will change. As captives, next to their main business as lessors, also often act as lessees, there will likely be impacts on the leasing strategy. The on-balance treatment of all leases creates burdensome accounting complexity and can trigger covenants in loan agreements. In addition to the effects on the financial statements, there are implications on the business operations to be considered. These include, on the sales side, the development of leasing contracts that reduce accounting complexity of lessees (leases without complex payment features and clear separation of services and financing), the training of sales staff and the development of new sales tools. Internally, substantial resources will be required to adjust lease processing and accounting, IT systems and risk and performance reporting.



**Konrad Göller**  
Partner,  
KPMG in Germany

## 3.3 Finance and leasing landscape: China

### Market structure

#### Continued growth in car sales will support demand for car financing

China's frenetic growth rate may have slowed, but it still remains one of the world's fastest growing economies, with predicted annual GDP growth of more than 8 percent. Unsurprisingly, given this tremendous economic expansion, the country's automotive market became the world's largest in 2009 and it appears it will remain the largest.

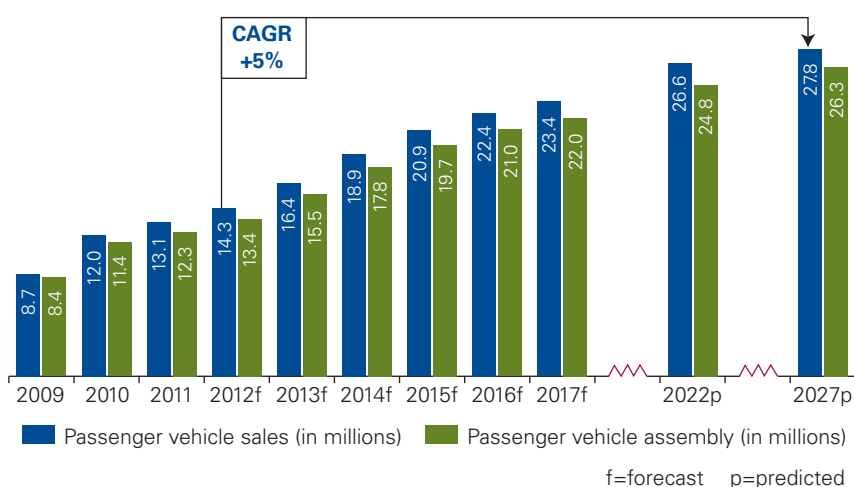
Even with the decision to phase out some tax incentives and limit new car sales (e.g. in Beijing), demand for vehicles is soaring. Car sales are expected to grow at a CAGR of

5 percent over the next 15 years, reaching nearly 28 million units in 2027.<sup>39</sup> Furthermore, national policy, particularly as laid down in China's twelfth five-year plan, specifies that increasing domestic consumption will be a key focus to 2015.

It all adds up to an ideal environment in which to promote automotive financing options. With more of the population becoming wealthier and better educated, financing is expected to grow substantially in the years to come.



#### Projected passenger vehicle sales and production in China



Source: LMC Automotive, second quarter 2012

<sup>39</sup> LMC Automotive, second quarter 2012.

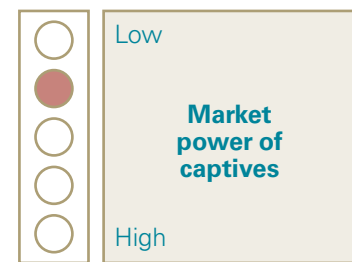
## Commercial banks dominate, but captives will gain market share

Finance and leasing in China can trace their roots back to 1995, but they remained relatively insignificant until 1998. The first players were commercial banks, as personal loans were the most traditional way of financing a vehicle purchase.

In 2004, the first captives entered the market, with GMAC-SAIC and Volkswagen Financial Services being the early movers. In 2008, in an attempt to increase the popularity of finance products, some captives, like BMW and Mercedes-Benz, even offered interest rates equal or close to zero percent. But it is banks that still command the biggest slice of the market, with a market share of almost 80 percent (2008).<sup>40</sup>

Currently there are 13 captives active. According to current legislation, financing services are limited to the affiliated auto brand of the captive. In addition, captives need to rely on strong OEM dealership networks and relationships, as the strict requirement of operating from a single branch is unlikely to change in the next three years. The entry of any non-captive finance companies also appears not overly common yet.

Major banks in China that provide car financing include: CITIC Industrial Bank, Industrial and Commercial Bank of China (ICBC), Bank of China and Agricultural Bank of China.

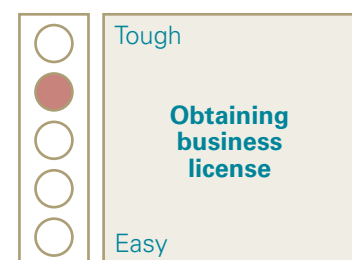


## Business environment

### Tight requirements have to be fulfilled

Since 2003, companies aspiring to provide car financing have to apply for an Auto Financing Company license from the China Banking Regulatory Commission (CBRC). Licensing requirements are strict and applicants have to have, among other things, a minimum of RMB500 million in registered capital, a capital adequacy ratio of at least 10 percent, total assets of no less than RMB8 billion and an annual business revenue of RMB5 billion, a profitable business performance for the last three years,

a strong dealership network, a sound organizational structure, an effective management, and proper risk controls and procedures. Senior management, namely the CEO, CFO and the Chairman, also have to be approved by the CBRC. To obtain approval, they have to attend a CBRC assessment. This requires that they understand China's banking regulations, China's auto finance regulations, and Chinese auto laws relating to the regulations. The approval process itself can take several years.



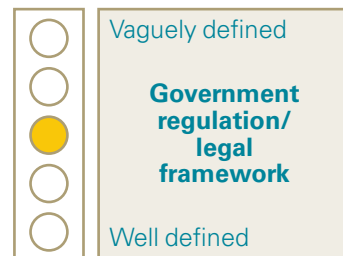
<sup>40</sup> *Auto Finance Industry Analysis*, University of Melbourne, 2012.

## Government aiming to soften strict regulations

The Chinese market is heavily regulated and characterized by complex rules. Auto finance companies are classified as non-banking financial institutes and are subject to the supervision and regulations of the CBRC and its local offices. Numerous regulations limit the business activities of auto finance companies. Principally, they are only allowed to provide simple financing loans to their dealers and customers. For anything beyond that, such as leasing, service and insurance, approval

from the CBRC is required. In contrast to these heavy regulations, vendors lack basic protection from defaults and have fewer rights regarding repossession.

With the ongoing stimulation of private consumption and automotive demand being among the key policies for the Chinese economy, and the relatively low risk that captives have presented since 2004, it is likely that the strict regulatory framework around auto financing will be relaxed over the next few years.





## Transparency and credit information is improving

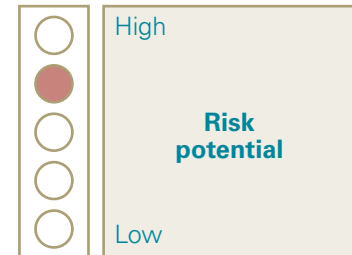
Residual value will become a major consideration for captives as soon as the leasing market opens up entirely. China's relatively young leasing and used vehicle market makes it difficult for banks and captives to price residual values according to historic data.

A particular feature of the Chinese financial system is the lack of a well developed credit checking database. This would enable lenders to increase transparency and thereby reduce the cost of providing loans. Although the Chinese government initiated both individual and corporate credit information databases in 1997, the ready to use operation started only in 2006.

Today, only 60 percent of the adult population is covered by the databases.<sup>41</sup> The regulation of the national credit registry also remains a problem, as well as data protection. To complicate matters further, some local

governments have set up competing systems and databases.

In an effort to address these issues, The People's Bank of China is already trying to improve transparency with the draft "Regulation on Credit Information Management". Unfortunately, however, the draft still includes the requirement to issue licenses to credit information providers. As yet, only financial institutions are required to submit information to the PBC. However, it is intended that this will be extended to non-bank financial institutions in the coming years. The situation will be further improved by the standardization of credit checking systems that has been ongoing for the last five years. Although credit tracking is still not highly developed, the government is making enormous efforts to improve the situation and experts are confident that within the next few years the situation will have improved significantly.



**“If a customer wants to buy a fleet of two or three cars, the lender actually visits the customer's home, sits down over tea and conversation, and then looks at the assets.”**

Brian Rogerson, Editor, Asset Finance International, UK

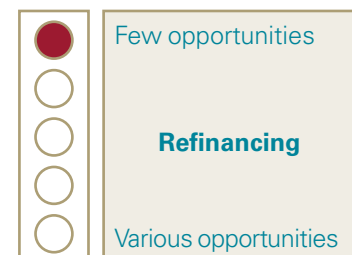
## Financing regulations include issuing bonds

The limited refinancing options in the car finance business are still a bottleneck for captives. In general, the CBRC prevents captives from issuing bonds and borrowing money from overseas, which means most financing comes through domestic banks.

Regulatory amendments in 2009 eased some of these financing restrictions, and in 2010 GMAC-SAIC Automotive Finance was able to become the first captive issuing bonds in China. It is expected that more will

use the same strategy to raise capital in the near future.

Asset-backed securitization (ABS), common in more mature markets, is not yet an option in China. The government started a trial ABS program before the financial crisis in 2008, but it was stopped as ABS came under criticism for its role in the crisis. More recently, it seems that China is planning to resume its plans and explore ABS as a refinancing option again.



<sup>41</sup> Auto Finance Industry Analysis, University of Melbourne, 2012.

## Business characteristics

### Simply structured car loans dominate the market, but increased product sophistication is expected

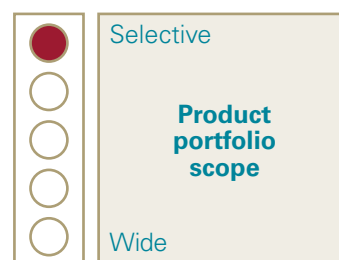
Banks, which dominate the Chinese market, traditionally provide plain vanilla loans for both dealers and retail customers. But with the market entry of international captives, more advanced financing products, like balloon-financing, have been introduced. The most successful entities in China's auto financing sector are those that can offer a relatively non-differentiated product (i.e. a loan) and customizing it towards a specific client, generally by tailoring the interest rates, repayment terms and loan structure. Unfortunately, the business activities of captives are limited to auto financing, as per the CBRC regulations.

However, restrictions are also softening in this area and Mercedes-Benz became

the first OEM in China to offer leasing arrangements to its private and commercial customers from August 2012. Mercedes plans to further develop its finance offerings, including new service options.<sup>42</sup>

Full service leasing, as provided in other countries, is generally very unpopular in China. This is not only due to government restrictions, but also a lack of demand.

Insurance services are gaining in popularity and a number of captives already offer complementary credit insurance to cover the risk of loan defaults, as well as vehicle damage and related insurance needs.



**“Financing products are straightforward in China and not as sophisticated as in Western Europe or the US.”**

Brian Rogerson, Editor, Asset Finance International, UK

<sup>42</sup> Mercedes-Benz to offer more financing options in China, China Daily, June 2012.

## Product portfolio scope of captives active in China\*

Captive	Legal form	Banking license	Products					
			Consumer		Fleet management	Dealer financing	Service/ insurance products	Banking products
			Leasing	Financing				
<b>Toyota Motor Finance (China) Co. Ltd.</b>	100 percent subsidiary Toyota FS	AFC license	✗	✓	✗	✓	✗	✗
<b>GMAC-SAIC</b>	JV of Shanghai General Motors Corporation, Shanghai Automotive Group Finance Company, Ally Financial	AFC license	✗	✓	✗	✓	✓	✗
<b>Volkswagen Finance (China) Co. Ltd.</b>	100 percent subsidiary of Volkswagen FS AG	AFC license	✗	✓	✗	✓	✓	✗
<b>Hyundai Capital</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>RCI Banque (Renault)</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Ford Automotive Finance (China) Ltd.</b>	100 percent subsidiary of Ford Motor Credit Co. Ltd.	✓	✗	✓	✗	✗	✗	✗
<b>Dongfeng Peugeot Citroen Auto Finance Co. Ltd.</b>	JV between Banque PSA and Dongfeng (75:25)	AFC license	✗	✓	✗	✓	✓	✗
<b>Honda Finance</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Suzuki</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Fiat Automotive Financing Co. Ltd.</b>	100 percent subsidiary of FIDIS SpA	AFC license	✗	✓	✗	✓	✗	✗
<b>Mercedes-Benz Auto Finance Ltd.</b>	100 percent subsidiary of Daimler AG	AFC license	✓	✓	✗	✓	✓	✗
<b>Chrysler</b>	Finance and leasing for the Chrysler brand is provided by Fiat Auto Financing Company.							
<b>BMW Financial Services</b>	JV with Shenzhen Development Bank	AFC license	✗	✓	✗	✓	✓	✗
<b>Chery Huiyin Automobile Finance Co. Ltd.</b>	JV between Chery and Huishang Bank (80:20)	AFC license	✗	✓	✗	✓	✗	✗

\*Based on company information, desk research. Full accuracy or completeness of the information provided can not be guaranteed.

Source: KPMG International 2012

## Chinese attitudes to credit are softening

In 2000, credit consumption within Chinese households was only 2 percent of total credit used within the market. Additionally, the personal savings rate in China is one of the world's largest, at 40 percent.<sup>43</sup> Therefore, it is not surprising that approximately 90 percent of cars in the private sector are bought for cash.<sup>44</sup>

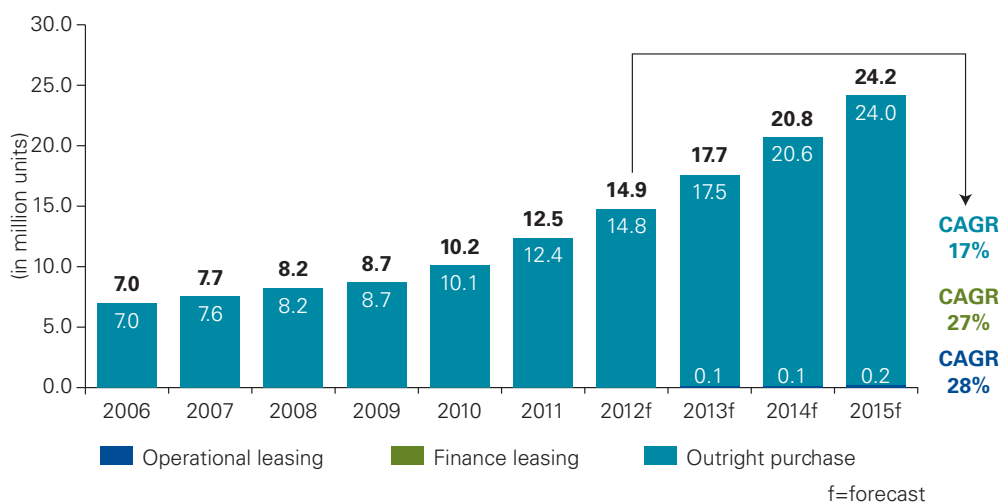
It is even higher in the corporate sector, where outright cash purchases account for around 99 percent of the market. Currently, China's company fleet comprises more than 14 million cars, with a forecast CAGR of 17 percent until 2015. Although the market share of

leased cars is small today, huge growth is predicted, with a CAGR of 28 percent for operational leasing and 27 percent for finance leasing by 2015.<sup>45</sup>

However, studies predict that behavior will change in the next few years and using credit will become much more common. Already, 30 percent of potential new customers plan to purchase a car through auto finance.<sup>46</sup> With increasing levels of education, the acceptance of auto financing is also improving, which suggests a potential penetration rate of 50 percent for consumers born between 1980 and 1990.<sup>47</sup>



The Chinese company car market from 2006 to 2015



Note: Total may not add up due to rounding off

Source: Datamonitor 2011

**“The Chinese market is still, to a large extent, a cash society. There are more vehicles bought by cash than by financing. People have to warm up to using financing.”**

CEO at captive, China

<sup>43</sup> Auto Finance Industry Analysis, University of Melbourne, 2012.

<sup>44</sup> Mercedes-Benz to offer more financing options in China, China Daily, June 2012.

<sup>45</sup> Global Company Car Market Database, Datamonitor, 2011.

<sup>46</sup> Credit Suisse emerging consumer survey, 2011.

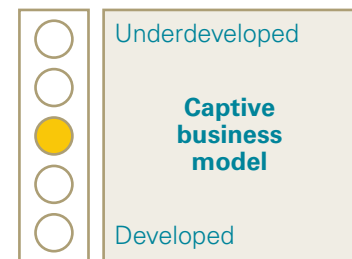
<sup>47</sup> Auto Finance Industry Analysis, University of Melbourne, 2012.

## The opening of the market will provide further potential for captives

With the introduction of the “Administrative Rules Governing the Auto Financing Company” late in 2003, the market environment has been steadily improving.

A prerequisite for successful market entry is a solid and broad dealer network, something which is required by the CBRC but which also provides a strong negotiating position among dealers. With dealerships wanting to maximize profits, they seek to find cheaper deals with state-owned banks, which intensifies the competition. To a certain extent, captives support their dealers to strengthen their loyalty, for example, by providing IT systems and infrastructure, sales training and incentives.

In future, it is expected that captives will be able to extend their business. Softening regulations will also help them to gain a bigger market share. Currently, commercial banks still have the price advantage, with relatively low interest rates. However, captives have a much better understanding of consumer consumption behavior and also provide greater flexibility (e.g. repayment methods, tenure, down payment, conditions) and premium in loans. Undoubtedly, as financing channels for captives increase, the price differences will be equalized and the market share of captives will gradually increase.



## Business prospects

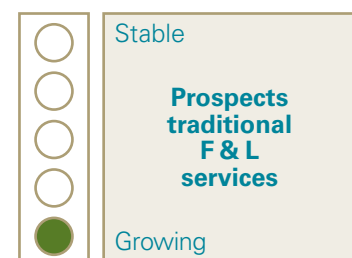
### Finance and lease products will attract more customers

Although car financing is still in its early stages, the Chinese market offers huge potential. The younger generation is eager to use new financing options, and it is expected that an increasing share of new car sales will be financed in the future. Currently, the car financing rate is only 10 percent.<sup>48</sup> By 2015, it is expected that this will increase to just below 20 percent, and by 2020, it is expected to grow to about 32 percent.<sup>49</sup>

In big cities, financing is already much more common than rural areas. In addition, as the authorities recognize that auto finance is a healthy and

growing business, it is expected that they will allow auto finance companies to provide more products to customers.

Leasing, on the other hand, is further behind financing and might need more time to develop. One of the reasons is that Chinese buyers place great importance on ownership, but with leasing ownership usually stays with the seller. Mercedes-Benz recently announced the establishment of a leasing arm within its financial services business. This may be an indication that leasing will gradually become more popular in China. The



<sup>48</sup> Mercedes-Benz to offer more financing options in China, China Daily, June 2012.

<sup>49</sup> Auto Finance Industry Analysis, University of Melbourne, 2012.



potential is especially apparent in big cities like Guangzhou, Beijing or Shanghai, where restrictions on the number of license plate registrations are in place. Here, leasing offers the possibility of bypassing the restrictions

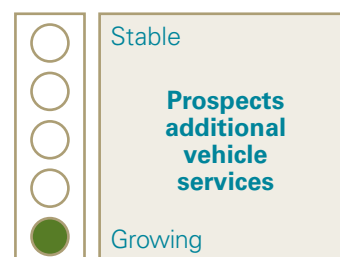
by obtaining an already registered car. One significant step in the right direction is allowing captives to provide motor vehicle financing services, as well as the sale and disposal of leased vehicles at the end of their terms.

## Insurance and service offerings as differentiating factors

As customers in China become more sophisticated and regulations soften, demand that goes beyond simple financing options will increase. For example, Mercedes-Benz Auto Finance already offers a well-developed insurance package, offering the consumer a range of options including basic insurance and additional coverage sold through policy riders. It also provides a developed customer service network which enables clients to obtain product information online and via the telephone. Chinese companies have

also entered the market, with GMAC-SAIC and Dongfeng-Peugeot providing simple credit default insurances as a first step.

Mercedes-Benz Financial Services already offers fleet financing services and the next logical step would be to offer a whole fleet management package. Given that the number of company cars is expected to almost double by 2015, fleet financing and management offer huge potential and might be further developed.



## Securitization is on the way to approval

According to CBRC rules, activities which go beyond providing loans – including normal banking activities – are generally not permitted for non-banking financial institutions. However, according to recent regulations, captives that show at least two years' profit can refinance themselves through bonds.

Generally, there are a limited number of financing channels for captives, which leads to certain lending limits and less competitive prices.

Government plans to reintroduce ABS could also be an huge opportunity, but lenders must submit their securitization plans for approval.



## First movers will most likely be rewarded

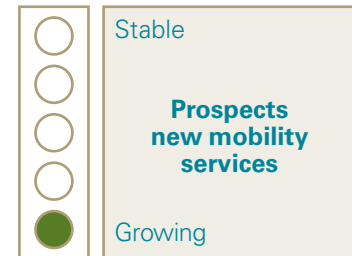
In terms of electric vehicles, China is more advanced than any other automotive industry in the world. The government is very active in promoting electric vehicles through incentive programs for OEMs and customers. Its target is to have five million electric vehicles on the country's roads by 2020. To achieve this, the government is offering subsidies of 3,000Yuan for each kWh of battery capacity, up to 60,000Yuan for the private purchase of electric vehicles and 50,000Yuan for PHEVs.<sup>50</sup> Additionally municipal subsidies, which vary from city to city, can be claimed as well.

There are also tax exemptions on the purchase of electric vehicles. Furthermore, it is expected that by 2015 a range of other subsidies will be made available to captives that provide finance to consumers purchasing electric vehicles. These initiatives demonstrate the strong potential for financial services, as financing solutions for batteries will most likely also be supported.

As finance and leasing is still in its infancy in China, however, there are no special offers for electric cars on the market yet. Nevertheless, China's huge interest and

investment in electric cars should be seen as an ideal environment for captives to increase customer awareness and win significant market share. Providing customized products for electric cars and making them available for a wider group of customers will clearly help them to increase their business. Captives, therefore, have the chance to enter the market and increase their market awareness, as well as stepping into the management of green fleets.

Overall mobility solutions are still not very common in China. At the moment, the desire to own a car still dominates and the acceptance of shared cars is very low. However, increasing pollution, lack of parking spaces and an increasing number of car restrictions suggest that new mobility concepts are inevitable in megacities. China is also already investing heavily in establishing a comprehensive infrastructure. This provides a great opportunity for captives. First movers should try to enter the market now and establish a parallel mobility solution, while still promoting their traditional products.

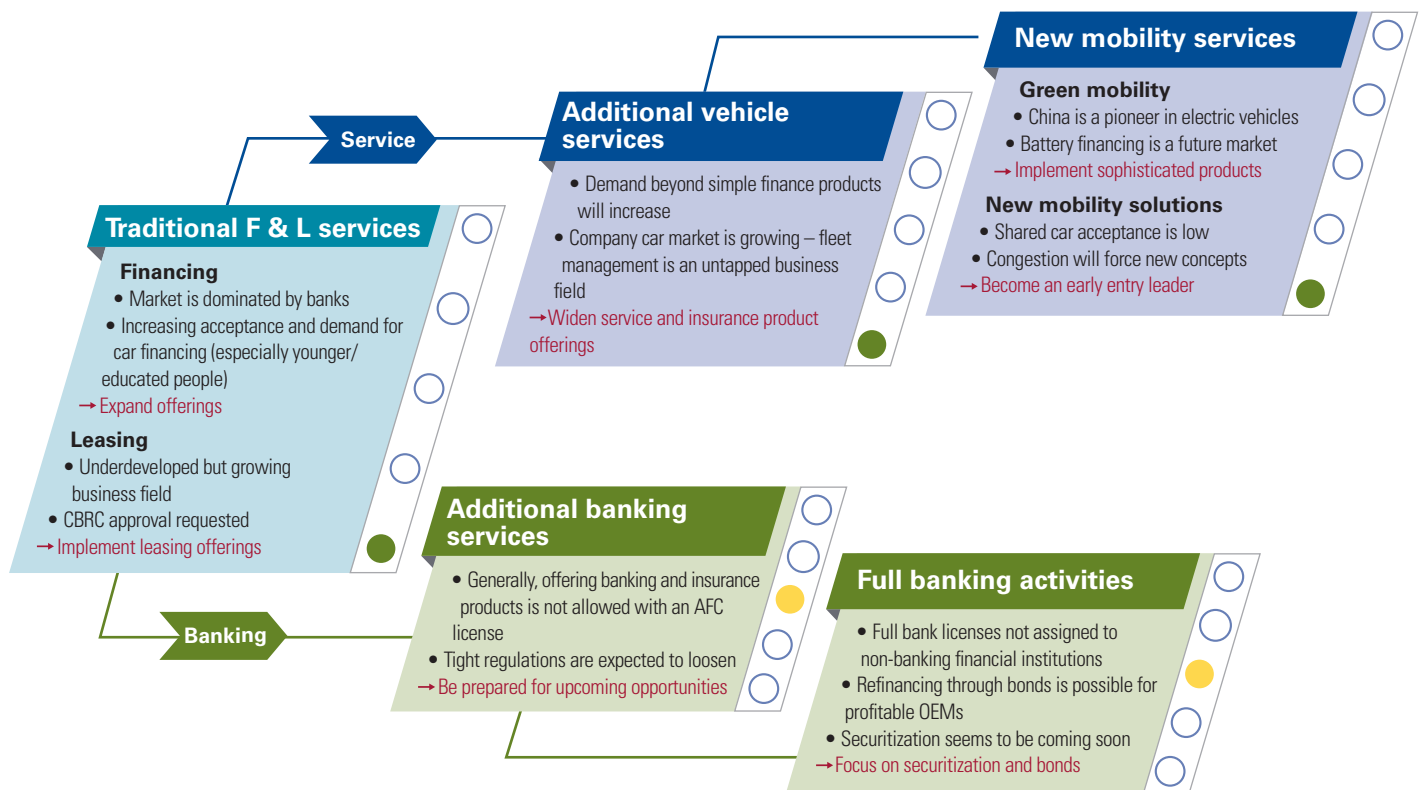


**“China is definitely very advanced in terms of electric technology. They are working on it and have a couple of pilots running. In certain cities there is relief on taxes and other incentives if you drive an electric vehicle, and they have installed charging stations.”**

CFO at captive, China

<sup>50</sup> China Announces Plan to Subsidize EVs and Plug-in Hybrids in Five Major Cities, Auto Observer, June 2010.

## Key Findings: Evaluating future financing and leasing growth in China



Source: KPMG International 2012

## KPMG Expert

### **Residual value risk in the automotive finance and leasing business**

As the automotive business continues to grow in line with the overall economy, it is critical for OEMs to properly address the inherent risks associated with lending activities, such as residual risk. Failure to properly address risks may drastically impact an OEM captive's financial performance by increasing expenses associated with loan and lease activities, such as lease impairment due to the declining residual values of used cars.

Vehicle residual value risk is defined as adverse market conditions in vehicle prices during a one-year time horizon which negatively impacts the residual value of all outstanding lease contracts, not just those maturing within the next year. While the risk of net proceeds of a vehicle disposal being less than the contract's end value is becoming less common as a result of improving economic conditions, it is still a large risk, especially in instances where lease payments are being driven down with higher residual values in order to sell more vehicles.

Many factors affect residual values, including current economic conditions, vehicle brand and resale values. Ongoing management of residual values is necessary to maintain the proper mix of risk versus profit. The more aggressive the residual value is, i.e. the higher it is, the lower the payment may be for the lessee. However, a higher residual value may result in a greater likelihood of lease impairment, as seen during the economic downturn over the

past few years when vehicles such as SUVs experienced sharp depreciation coupled with higher oil prices. As a result, many leasing companies had to take large write downs of their lease portfolios. Therefore, precise determination of residual values is one of the core risk management tasks of OEMs and their captives.

Traditionally, residual values are calculated using a number of hard measurements, such as market value, mileage amount, pricing policy of the manufacturer and historical performance. But such measurements do not always provide an accurate residual value, resulting in unaffordable lease terms for a lessee or possible lease impairment for the lessor. Consequently, finance and leasing organizations have recently started to integrate soft measurements in their residual value calculation, such as brand performance, quality and reliability, as well as the current position of the vehicle in its lifecycle, in order to achieve more indicative values.

Beyond that, there are new tools in the market that provide even more precise value calculations, as they are not only based on historical values, but also factor in macroeconomic forecast figures. Scenario planning tools allow captives to calculate the development of residual values in light of different economic conditions on the automotive and financial market. They help them to improve overall lease portfolio management by improving the accuracy of potential impairment analysis for at risk leases.



**Michael Cwiok**  
Managing Director,  
KPMG in the US

## 3.4 Finance and leasing landscape: India

### Market structure

#### Development of rural and semi-urban areas drives car sales

In general, India's economy is booming, but it still faces many obstacles, such as the lack of infrastructure, state bureaucracy and corruption. These may hamper the enormous growth of India's GDP and private consumption, but the potential is still huge.

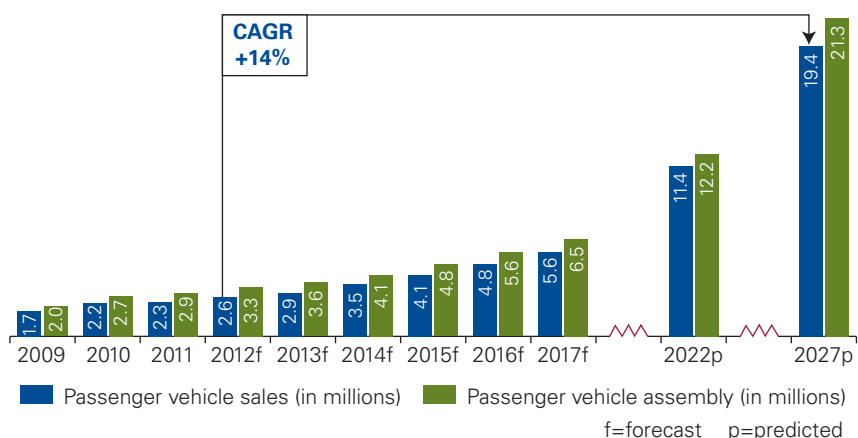
Despite these problems, GDP growth rates of between 7 percent and 8 percent will remain high compared to mature automotive markets. Car sales are expected to grow at a CAGR of 14 percent over the next 15 years,

reaching levels of 19 million units in 2027.<sup>51</sup>

The improving road infrastructure in rural and semi-urban areas is one of the main drivers of this development. In addition, India has a growing young population with an increasing number of well educated workers and a strong demand for luxury products, like cars – which is also an ideal environment for the finance and leasing market, as financing will allow them to meet all their needs more easily.



#### Projected passenger vehicle sales and production in India



Source: LMC Automotive, second quarter 2012

<sup>51</sup> LMC Automotive, second quarter 2012.



## Indians have a high degree of trust in their banks

In total, India has more than 35 financial institutions that provide car financing.<sup>52</sup> In particular, public and private sector banks dominate the market. For example at Maruti, one of India's biggest car manufacturers, public banks have a 70 percent vehicle finance market share and 30 percent is held by private banks. Back in 2006/2007 this scenario was reversed.<sup>53</sup>

Banks have several implicit advantages, such as lower rates, better access to credit histories and the ability to process loan approvals more quickly. Customers are used to working with their local bank for a variety of day-to-day needs. Turning to them for car financing seems like the natural next step.

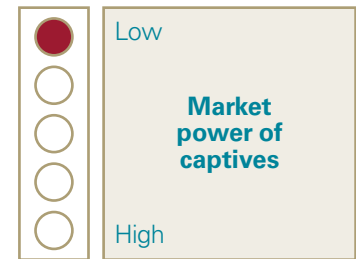
The captives of some major international OEMs like BMW, Daimler and Volkswagen, only recently entered the Indian market. Others, like Ford and GM, have been and gone, choosing to return to their partnerships with local banks. This is because competition from banks is severe. Captives can only survive in the long run if they have good sources of refunding, can maintain cash flow and

choose their customers carefully with regards to credit history.

The market for foreign companies is largely concentrated in urban areas, due to the high cost of penetrating rural areas with a much sparser customer base. To compete with domestic banks, captives have to find ways to effectively engage with customers and offer products and services that are not provided by regular banks.

Banks like HDFC Bank, ICICI Bank, State Bank of India (which linked up with GM in 2009), PNB (who linked up with Mahindra and Mahindra for financing their vehicles), Siam, Inducing, Magma, MMFSL, Tata Capital, Tata Motor Finance, Citibank, Bank of Baroda, Punjab National Bank, Kotak Mahindra Prime Limited (KMPL), Sundaram Auto Finance and United Bank of India, rank among the top lenders for car and commercial vehicle loans.

The country's company car fleet is small, with multinational leasing companies like LeasePlan, Orix and ALD Automotive holding the major share.



<sup>52</sup> *Top Auto Finance Companies in India*, Business map of India, July 2012.

<sup>53</sup> *PSU banks dominate the auto loan market*, Rupee times, February 2009.

## Business environment

### Obtaining a license is relatively easy for captives with less than 75 percent foreign ownership

An active captive in India is classified as a "Non-Banking Finance Company" (NBFC), and is considered a separate area of business to standard banking activities.

Companies interested in providing financial services in India have to apply to the Reserve Bank of India (RBI), where under the Reserve Bank of India Act, 1934 (Chapter III B) and the directions issued by it, the activities and operations of such institutions are recorded.

In general, there are no major restrictions on obtaining an operating license. However, if an NBFC has more than around 75 percent foreign direct investment (FDI), it must maintain a minimum capital threshold of

US\$50 million to receive the license. The capital threshold reduces with the percentage of FDI and does not apply at all if there is no FDI involvement. The critical amount is only mandatory for the in-flow and can, for example, be used afterwards to accumulate upcoming losses of the NBFC.

The NBFC experience to date shows that approvals can take up to seven to eight months, before a company can start operations in the Indian market. Furthermore, captives are restricted to providing financing products for vehicles and related services. Standard banking activities, like deposit taking, would require a full banking license from the RBI - but these are only assigned to commercial banks.



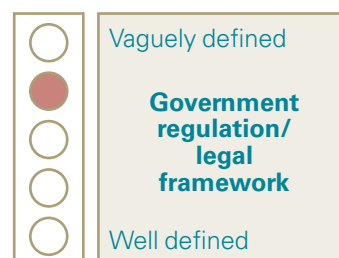
**“Receiving a license for a non-banking finance company is getting tougher.”**

Sumit Bali, Director, Kotak Mahindra Prime Limited, India

### Regulatory burden is increasing

There are seven regulatory institutions which oversee the development of India's financial market. With regard to NBFCs, the RBI, India's central bank, is responsible for regulation. Banks and NBFCs have to continually report the progress of their business operations to the RBI. With regards to international regulations like the Basel

Accords, standards for Basel II have been implemented in India since 2009. The stricter capital ratio requirements of Basel III should not be a challenge for financial services companies, as in March 2012 the RBI increased to 15 percent the capital adequacy ratio for deposit-taking NBFCs.<sup>54</sup>



**“Regulators have steadily increased capital requirements for non-banking finance companies. Five years ago, capital adequacy ratios were set at 10 percent. Three years later, they increased it to 12 percent. Now it is at 15 percent.”**

Sumit Bali, Director, Kotak Mahindra Prime Limited, India

<sup>54</sup> RBI raises capital adequacy ratio for deposit-taking NBFCs, Business Standard, 2012.

## Improved Credit Information Bureau India Limited (CIBIL) data means that credit risks are falling

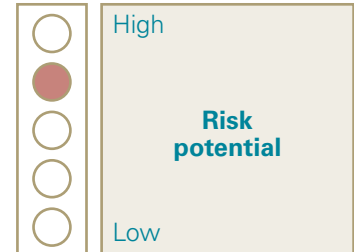
Even though leasing is at very low levels in India, residual value risk is an issue for providers of leasing products. Due to the highly disorganized used car market and generally poor treatment of cars, residual values are difficult to estimate and often decline quickly. The lack of transparency also creates problems.

The government's attempt to increase market transparency by introducing several credit information bureaus has shown some initial signs of success, as the CIBIL now holds significant data. CIBIL was founded in 1999, when a working group of representatives from several public sector banks was formed

by the RBI to explore the possibilities of setting up a credit information bureau.

Even so, more than one third of adults do not have a credit score yet, particularly in rural and semi-urban area. This lack of credit history information could increase the credit risks for captives who depend on the credit information provided by the credit bureaux. Weak laws around asset titles could also increase the credit risk.

Captives should therefore be very cautious in terms of customer selection, despite the tempting growth potential in rural and semi-urban areas.



## Broad refinancing portfolio

There are a number of different refinancing methods in operation. Funding is favored through national or private banks, mutual funds or insurance companies. Unfortunately, Indian domestic banks operate on very high margins, lending their money to corporates at 9 percent to 12 percent.<sup>55</sup>

Securitization is also an option and a constant improvement in securitization legislation over recent years has strengthened the procedure. Securitization has existed in India since the early 1990s, and auto loans have been a popular asset-backed security since then. For example,

in 2007 ICICI Bank was responsible for the country's largest securitizations with an underlying asset pool of auto loan receivables of INR19,299 million.<sup>56</sup>

There is not yet a clear regulatory framework for securitization, however, although it is generally regulated by the RBI. And while it may have a firm position in the market, there are still some hurdles facing the further development of securitization, such as stamp duty structure, lack of effective foreclosure laws, tax and legal issues and regulatory gaps within the SARFAESI Act.



<sup>55</sup> Interview with an Indian bank, 2011.

<sup>56</sup> ICICI Bank carries out largest securitisation deal, The Financial Express, November 2007.

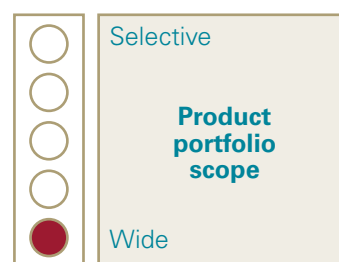
## Business characteristics

### Increasing demand for more sophisticated products

As the majority of car finance providers in India are banks, their products are largely simple loan offerings. Usually they range from loans for two-wheelers up to commercial vehicles, for both new and used vehicles.

Additionally, some banks, such as BAFL, offer free personal accident insurance, and Bank of Baroda offers a unique facility for installing a CNG/LPG gas kit. Nevertheless, leasing and additional service offerings are rare. Even local captives, like Tata Motors

Finance or Mahindra Finance, do not offer additional banking services or service products, other than insurance broking. But with more Indians owning cars, maintenance, warranty and insurance packages have become more attractive and international captives have begun to respond with a variety of product bundles. This could become a competitive advantage for them as they are much better positioned to satisfy these customer needs than domestic banks.



**“Customers have matured a lot. It’s not about interest rates anymore, it is about how fast you reach the customer and what is the initial value proposition that you have to offer them.”**

Vamsi B. Kumar, Business Head – Vehicle Loans & Equipment Leasing, Reliance Commercial Finance, India

## Product portfolio scope of captives active in India\*

Captive	Legal form	Banking license	Products					
			Consumer		Fleet management	Dealer financing	Service/ insurance products	Banking products
			Leasing	Financing				
<b>Toyota Financial Services</b>	Toyota Financial Services	NBFC license	✗	✓	✗	✗	✓	✗
<b>GM Financial Inc.</b>	GMAC was acquired by Ally Financial in 2009 which is now the preferred provider of finance and leasing products for the GM brand.							
<b>Volkswagen Finance Private Limited</b>	100 percent subsidiary of Volkswagen FS AG	NBFC license	✗	✓	✓	✓	✓	✗
<b>Hyundai Capital</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>RCI Banque (Renault)</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Ford Credit</b>	Ford sold its financing arm to Bear Stearns in 2007. Ford earlier had two JVs for auto finance. In 2005, Ford exited one JV (formed to finance non-Ford cars) completely by selling its stake to the JV partners (Kotak Mahindra), while it bought out the partners (Kotak and Mahindra & Mahindra) in the other one formed for financing Ford cars.							
<b>Banque PSA Finance</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Honda Finance</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Maruti Finance</b>	Various JV e.g. with Citicorp, SBI	NBFC license	✓	✓	✓	✗	Provided by Maruti Insurance	✗
<b>Fiat</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Daimler FS India Private Limited</b>	100 percent subsidiary of Daimler AG	NBFC license	✓	✓	✓	✓	✓	✗
<b>Chrysler Finance</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>BMW Financial Services</b>	Business unit of BMW AG	NBFC license	✓	✓	✓	✓	✓	✗
<b>TATA Motor Finance</b>	100 percent subsidiary of TATA Motor Company	NBFC license	✗	✓	✗	✗	✗	✗

\*Based on company information, desk research. Full accuracy or completeness of the information provided can not be guaranteed.

Source: KPMG International 2012



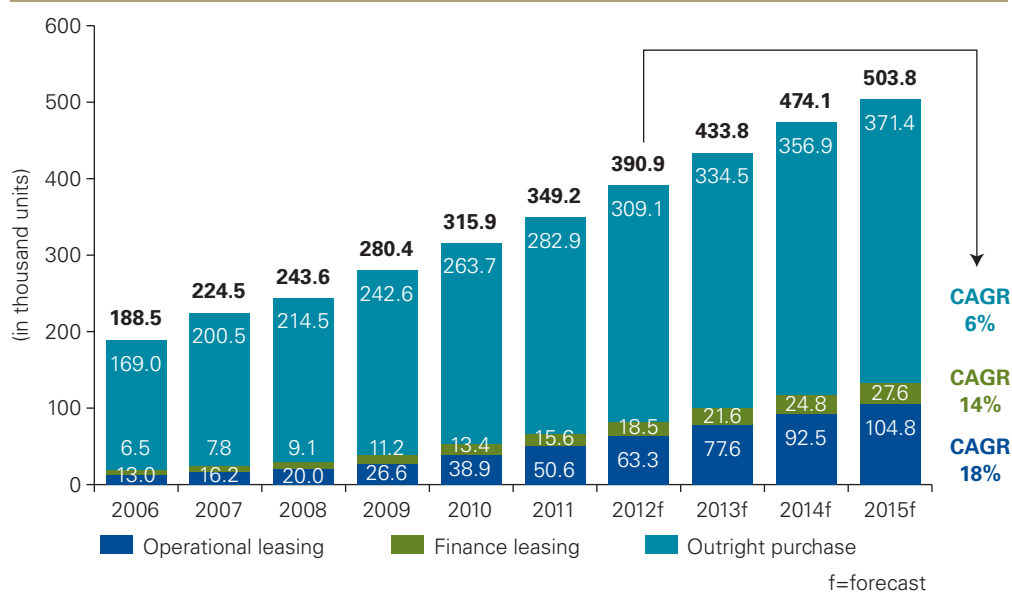
## Car loans dominate the vehicle financing market

Even though car financing only began around 20 years ago, it is already very common in India. For years, a good portion of new cars, between 60 and 80 percent, have been purchased through a car loan.<sup>57</sup> In contrast, penetration for leasing remains low, given the cultural norms that favor ownership. In addition, an unstructured used car market and the absence of a developed aftermarket have hindered the expansion of India's leasing market.

In contrast to the private car market, 79 percent of India's company cars are purchased outright with cash, operational leasing makes up 16 percent and financing leasing the remaining 5 percent. However, this does not impact captive businesses significantly. The company fleet market is still very underdeveloped in India, as the concept of incentivizing employees through a company car is quite new – in 2011, only 0.7 million company cars were purchased.<sup>58</sup>



The Indian company car market from 2006 to 2015



Note: Total may not add up due to rounding off

Source: Datamonitor 2011

<sup>57</sup> *Auto Finance Industry Analysis*, University of Melbourne, 2012.

<sup>58</sup> *Global Company Car Market Database*, Datamonitor, 2011.

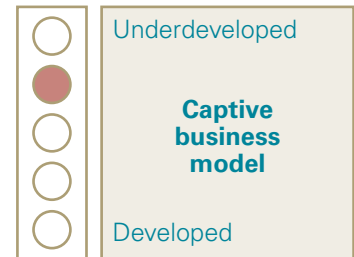
## Captives continually improving their footprint in the market

The Indian car finance industry has traditionally relied on intermediaries. Sales agents, working on behalf of banks and NBFCs, earned commission for marketing and selling loans directly to customers.

When international OEMs started to enter the market back in the 1980s, they solely focused on selling cars. For car financing of their own brand, they partnered with domestic banks, using their comprehensive network of sales agents. That model has proven costly, since agents used to earn commission regardless of whether or not a loan was signed. As soon as OEMs realized that the

Indian market was maturing and their unit sales reached higher volumes, they began setting up their own finance arms and formed subsidiaries. The captives initially only supported the expansion of the OEM's dealer network, through floorplan and working capital financing. Consumer financing was only added to their portfolio some time later.

It is only in the last two years that captives have started to introduce more sophisticated products, such as insurance and service packages. Offering standard banking services is still some way off the agenda.



**“Entering the Indian market today, you will have to work hard and have deep pockets to invest over a period of four or five years, before you start making a profit.”**

Executive of Bank, India



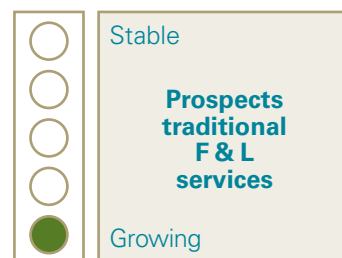
## Business prospects

### Customer acceptance lays a perfect foundation

As customer perceptions of financing products are already quite positive, it is expected that as the demand for cars increases, so the number of car loans will also rise. For captives, one major challenge is the widespread presence of banks. Many feel that banks will continue to dominate the market due to their entrenched relationships and strong customer loyalty. Innovative product offerings, like balloon financing,

can help captives to attract an increasing number of customers.

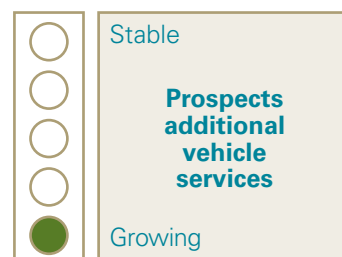
With regards to leasing, the opposite is true. Neither the banks nor the captives have a strong presence in this area. But as soon as customers become familiar with the benefits of leasing, it could provide huge business opportunities for captives as well.



### Additional service offerings a key differentiator from banks

As additional vehicle services are not very common, this sector offers great opportunities for captives to differentiate themselves from competing consumer banks. In particular, customized and sophisticated products, like maintenance or insurance packages,

could help captives to raise customer awareness. As the service business promises high profitability, there is huge potential to realize additional revenues. To achieve these targets, captives have to invest in their distribution networks.



### Offering captive banking services will remain challenging

Most captives are classified as NBFCs and do not hold full banking licenses. As an NBFC, they are not permitted to engage in full banking activities, like credit cards or hedging, although hedging is generally allowed. Entities with banking operations

abroad can apply for a branch banking license in India and carry out a wide range of banking activities. The process is lengthier than obtaining an NBFC license, but is fairly straightforward.

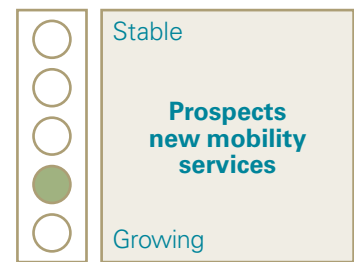


## Electromobility is heavily pushed through government initiatives

Currently, India's production of hybrid/electric vehicles is negligible. However there are a significant number of government initiatives in the pipeline. For example, the National Electric Mobility Mission (NMHEV) 2020 Plans are now expected to be launched in 2012. These national goals include various investment, policy, subsidy and incentive programs which will support achieving their targets. The plan also includes a Rs. 13,000 crore investment over eight years to promote electric and hybrid vehicle sales and production in the country.<sup>59</sup> Additionally, the NMHEV includes a recommendation that public banks (PSU) offer customer loans to increase electric vehicle sales. Captives

need to ensure that they become an essential part in supporting these plans and can then profit from the incentive programs related to car loans.

Despite heavy congestion in India's megacities, mobility services have not yet taken hold. A few small car pool platforms operate in major cities, but the overall perception is relatively weak. This is largely because car ownership is still seen as a status symbol. Car-sharing solutions are therefore not a particularly promising line of business at the moment, although as pollution, congestion and urbanization continue to take their toll, this will probably change.

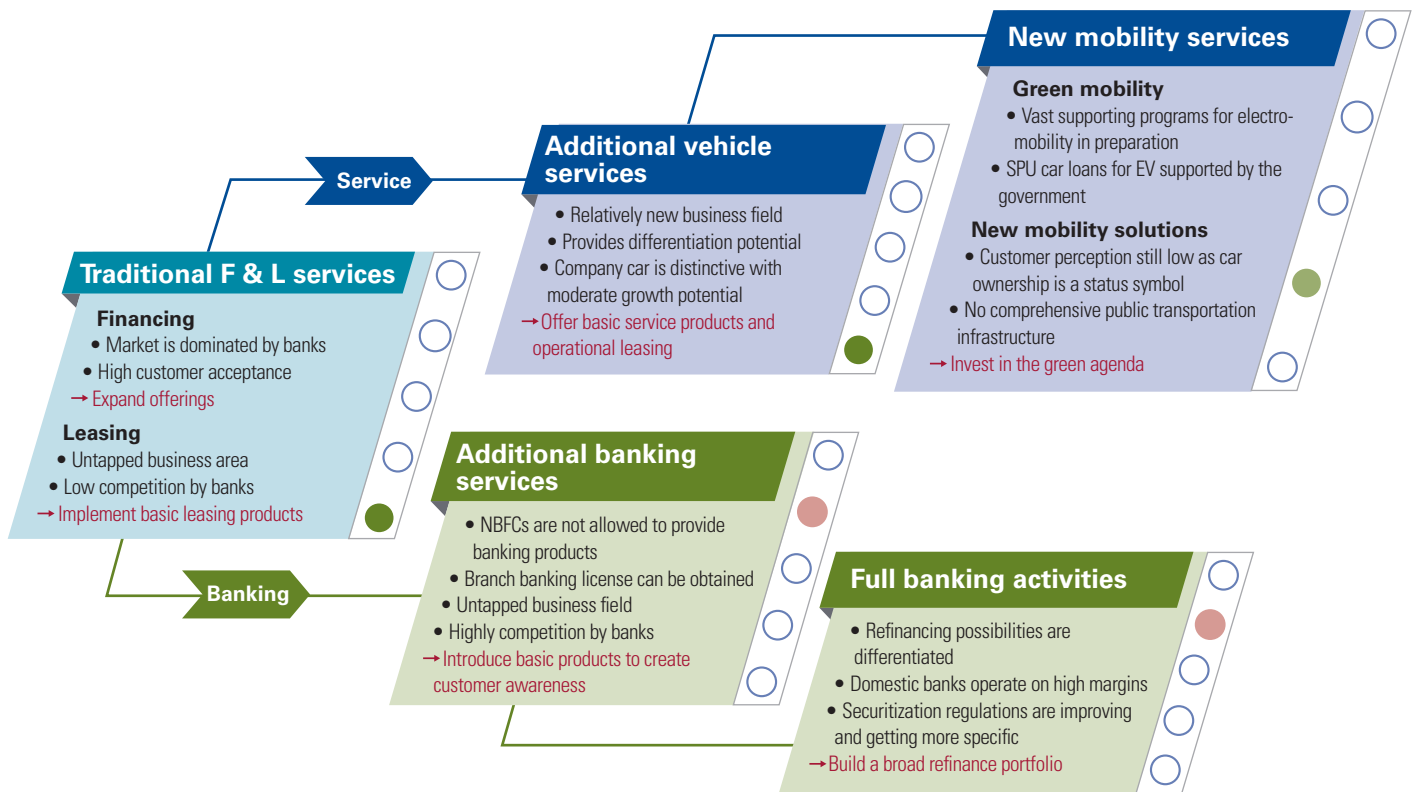


**“It is too early to comment on the development of new technologies. It is only two or three years since Indian auto manufacturers started to take these global trends on board.”**

Vamsi Kumar, Business Head-Car loans, Equipment Leasing & Group businesses, Reliance Commercial Finance, India

<sup>59</sup> Rs 13,000 cr booster for electric, hybrid vehicles on the anvil, The Economic Times, July 2012.

## Key Findings: Evaluating future financing and leasing growth in India



Source: KPMG International 2012



## KPMG Expert

### Impacts of Basel III on leasing business

Basel III is making waves as part of the regulatory reform agenda impacting banks and other financial institutions. Standalone lessors are not directly impacted by Basel III. However, banks that carry on leasing activity would be subject to its requirements, as would other financial institutions in Europe covered by the Capital Requirements Directive.<sup>1</sup> Standalone lessors are therefore indirectly impacted by how the prudential capital regime impacts their competitors and changes the competitive landscape.

Basel III is an extension and an enhancement of Basel II, the prudential capital regime that was introduced from 1 January 2007, just before the financial crisis struck. Basel II differentiated between finance and operating leases. The provision of finance leases was treated as a secured loan, and arguably Basel II was beneficial for firms providing such products that had access to good default and loss data on their activities. Firms providing operating leases effectively had an additional residual value component which was considered in a similar way to a fixed asset.

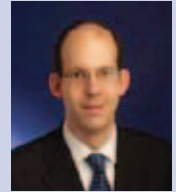
Basel III doesn't fundamentally change the structure of how outstanding credit obligations are treated. For straightforward credit business, the introduction of more onerous capital ratios means that increased common equity capital will need to be held, which will put pressure on margins and firms' returns on equity. The new leverage ratio will mean that firms must examine the overall un-risk weighted shape of their portfolio and may drive them further

down the risk spectrum to maximize their income for any given capital usage.

Further changes to how securitization positions are treated that have been introduced between Basel II<sup>2</sup> and Basel III may also play a part. Some lessors rely on securitization as a source of funding. Strict new requirements on retention of parts of the securitization structure by the originators, new requirements on due diligence at both origination and on an ongoing basis, and enhanced monitoring of the portfolios, put pressure on investors and originators and may restrict the availability of securitization funding in the new environment.

A final source of change arises from the interaction between the accounting and prudential capital standards. The proposed accounting changes for operating leases has a further impact where banks and financial institutions have operating leases themselves. Although historically this would have represented an off-balance sheet commitment, with payments going through the P&L on a periodic basis, the proposals would see the net present value of the future commitments come on balance sheet as a 'right of use' intangible fixed asset. It would appear likely that such an intangible would be written off reserves for regulatory capital purposes and therefore represent a direct hit to capital immediately, rather than over the lifetime of the lease.

The implications of all the accounting and regulatory changes outlined above is pressure on margins, lower returns on equity and potentially higher funding constraints. Basel III continues to highlight the importance to both lessees and lessors of considering changes in a holistic sense.



**Steven Hall**  
Director,  
KPMG in the UK

<sup>1</sup> The Capital Requirements Directive (CRD) is the implementation of the Basel Accords in the European Union. The CRD applies to all banks and financial institutions.

<sup>2</sup> CRD 2 and 3 are waves of regulation in the EU that have amended the original CRD (Basel 2 implementation).

## 3.5 Finance and leasing landscape: Russia

### Market structure

#### Russian car market is expected to grow constantly – again

After a massive collapse in 2008 and 2009, the Russian economy is back on a growth path again. Recovery is slow, however, as the country has to struggle with decreasing demand for crude oil – the country's major export product.

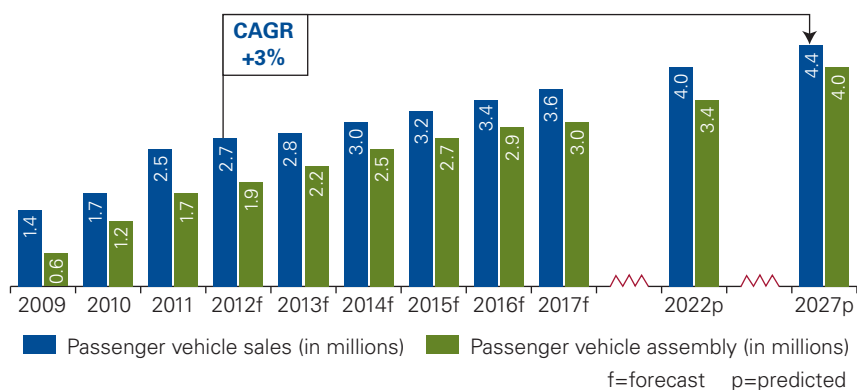
In addition, as in other rapidly growing economies, the Russian ruble has seen major currency swings and inflationary pressure in the last few years. However, monetary injection from foreign investments has put GDP and private consumption back on course, with a growth rate of around 4 percent.

The automotive market was hit hard by the crisis. Production and sales dropped by more than 50 percent in 2009, although by 2010 the picture was already improving, and car sales are expected to grow with a CAGR of 3 percent over the next 15 years,<sup>60</sup> overtaking Germany as the biggest car market in Europe by 2020.

Growth expectations for car financing are also positive, not only because of rising car sales and discretionary incomes, but also because customers are becoming more familiar with financing options in general.



#### Projected passenger vehicle sales and production in Russia



Source: LMC Automotive, second quarter 2012

<sup>60</sup> LMC Automotive, second quarter 2012.

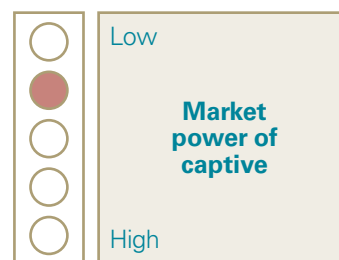
## Banks and independent leasing companies dominate the market

The market is dominated by banks. State-owned domestic banks have a particularly strong market position, not at least because of their huge customer base and ability to offer tailored low-cost financing products to their customers. They also have a comprehensive infrastructure and extensive insights about market intelligence.

Independent banks were among the first to enter the auto finance market. According to the president of a Russian captive finance house, 70 of the 900 banks active in Russia provide auto finance. The dominant banks in Russia's lending market are Sberbank, VTB,

Gazprombank, Rosselkhozbank and Alfa Bank. For captives, the market environment is very tough; however some captives have found that 70–75 percent of customers who financed their car through the captive returned to the same dealer for the purchase of a subsequent car.<sup>61</sup>

The competitive landscape for company cars is very different, as banks do not offer fleet management solutions. Competition mainly comes from independent leasing companies, such as Europlan, which dominates the company fleet market.



<sup>61</sup> Interview with President of captive finance company, Russia, 2011.



## Market environment

### Straightforward approval process

Obtaining a license that entitles foreign companies to provide basic financial services to Russian customers, such as car loans, is relatively straightforward. The license is obtained from the Central Bank of Russia, which is responsible for issuing banking licenses and regulating banking operations and accounting

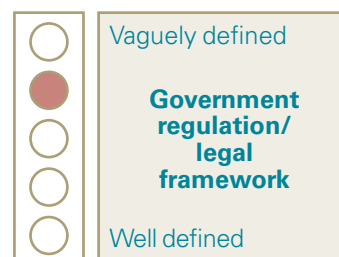
standards. The picture is quite different when it comes to other bank-related products, like deposit taking or credit cards. A full banking license is required to provide these services, also from the Russia Central Bank, and the approval process can take several years.



### Government is working to improve the legal framework

Russia is an underdeveloped market for auto finance and government restrictions on leasing and funding have created barriers to entry. Russian legislation, for instance, limits

the leasing market to commercial enterprises only. In addition, a lot of areas are not covered in the legislation, making business and transactions more challenging and risky.



**“Right now, if a bank finances a car, the customer may turn around and sell it instantly, and the bank will never know.”**

President of captive, Russia

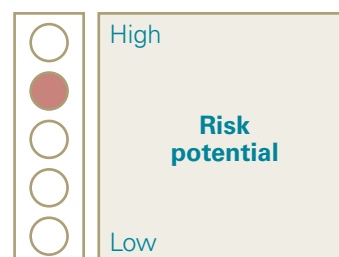
### Residual value estimations remains difficult

Bad road conditions and challenging climatic conditions have a negative effect on the residual values of cars, making residual value calculation quite difficult.

Even though the credit bureau has been up and running for a decade or more, the system is hindered by weak data collection, poor linkage between banks, credit agencies and dealer networks, and inconsistent or inaccurate customer profiles. This means a higher risk of credit defaults. To minimize their risk exposure, some companies

therefore take a very conservative risk management stance.

For foreign entrants, the problem is exacerbated if they assume that the scoring models that work in their home markets can be applied in a distinctly different environment such as Russia. Western financial models need to be adapted to country specifics. Local Russian companies have a clear competitive advantage as they are more flexible in their risk assessment and have developed deeper market intelligence.



## Application of funding tools is very restricted

Most financing organizations rely on credit lines from local banks, since there are very limited securitization options available for refinancing auto loans. To maintain a government mandated capital threshold, many need to inject fresh capital from investors on a periodic basis. Recognizing that these

issues can act as a brake on growth, the government is developing legislation that would make transactions in the auto finance market more secure and transparent. The hope is that these changes could come into effect over the next few years and create room for different funding tools.



**“ We have a very low appetite for risk. Our delinquency for bad credit is 90 days and we allow a maximum of just 2 percent risk in our portfolio.”**

President of captive, Russia

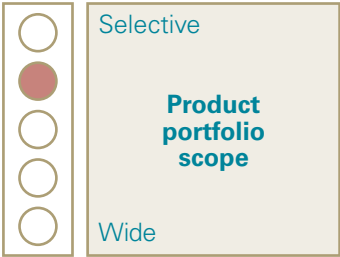
## Business characteristics

### Straightforward vanilla loans dominate

Auto financing products in Russia are usually very simply structured loans, as the legislation and regulations rarely allow financial services companies to implement the full scale of products they provide in other countries.

Leasing as a service, for instance, is restricted only to the corporate sector.

Despite these restrictions, some captives have started to add additional services like repair and maintenance to their product portfolio. Although a proven success in Western markets, the Russian market has not yet shown a clear response.





## Product portfolio scope of captives active in Russia\*

Captive	Legal form	Banking license	Products					
			Consumer		Fleet management	Dealer financing	Service/ insurance products	Banking products
			Leasing	Financing				
<b>ZAO Toyota Bank</b>	100 percent subsidiary of German Toyota Kreditbank GmbH	✓	✗	✓	✗	✓	✗	✗
<b>GMAC CIS</b>	GMAC was acquired by Ally Financial in 2009 which is now the preferred provider of finance and leasing products for the GM brand.							
<b>LLC VWFS RUS, LLC VW Group Finanz OOO</b>	100 percent subsidiary of Volkswagen FS AG	✓	✓	✓	✓	✓	✓	✗
<b>Hyundai Finance</b>	In cooperation with various banks, e.g. VTB24, Credit Europe Bank, Raiffeisenbank, Gazprombank	Full bank license held by co-operation partner	✗	✓	✗	✗	✓	✗
<b>RCI Banque (Renault)</b>	Commercial agreement with Unicredit Bank Russia	Full bank license held by co-operation partner	✗	✓	✗	✓	✓	✗
<b>Ford Credit</b>	JV with BNP Paribas ZAO (Cetelem)	✓	✗	✓	✓	✗	✓	✗
<b>Banque PSA Finance RUS</b>	100 percent subsidiary of Peugeot	✓	✓	✓	✓	✓	✓	✗
<b>Honda Finance</b>	✗	✗	✗	✗	✗	✗	✗	✗
<b>Suzuki Finance</b>	In cooperation with VTB 24, Gazprombank and Raiffeisenbank	Full bank licence held by co-operation partner	✗	✓	✗	✗	✓	✗
<b>Fiat</b>	Finance and leasing for Fiat cars is provided by Sollers Credit (in cooperation with Sherbank)							
<b>Ltd Mercedes-Benz Financial Services Rus</b>	100 percent subsidiary of Daimler AG	✓	✓	✓	✓	✓	✓	✗
<b>Chrysler</b>	In cooperation with various banks, e.g. with Credit Europe Bank	Full bank licence held by co-operation partner	✗	✓	✗	✗	✗	✗
<b>BMW Bank OOO</b>	Subsidiary of BMW AG	✓	✓	✓	✗	✓	✓	✗
<b>Sollers Finance</b>	100 percent subsidiary of Sollers. In cooperation with VTB24 and Sberbank	Full bank licence held by co-operation partner	✓	✓	✓	✓	✓	✗

\*Based on company information, desk research. Full accuracy or completeness of the information provided can not be guaranteed.

Source: KPMG International 2012

## Russians still prefer to pay cash

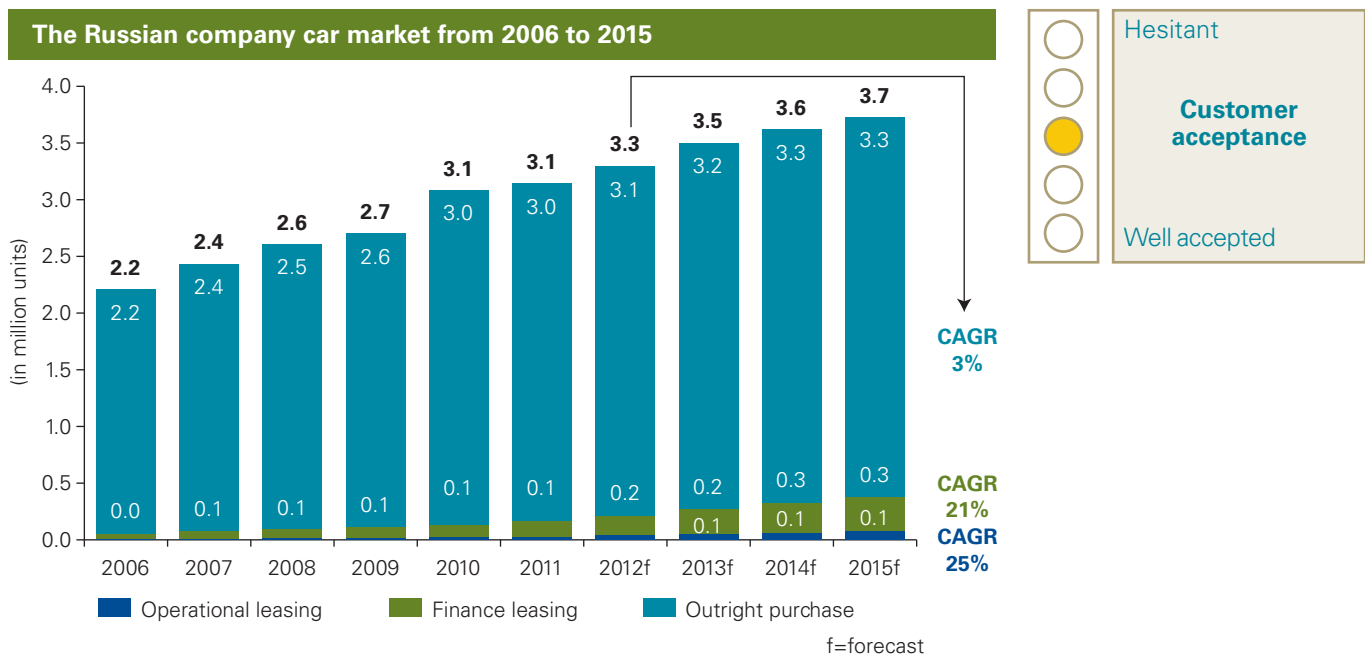
Apart from the fact that regulations limit the range and availability of financial products, the habit of ownership remains very strong for Russians. Cash sales therefore dominate the fleet and private consumer markets. Financing penetration fluctuated in Russia from 25 and 50 percent.<sup>62</sup> One reason for the low penetration rate is dealer behavior. Russian dealers have very little interest or motivation to promote financial services because, in general, their sales are very high and there is a shortage of cars. As a result, they are primarily focused on cash sales. However, that may change as the demand for car ownership rises, prompting

customers who lack the means for outright purchase to look at financing arrangements instead.

The same is true for the company car market, where leasing only makes up 6 percent of the market. Nevertheless, the market is promising, with an annual growth rate of between 21 percent and 25 percent.<sup>63</sup> It is also influenced by an increasing number of international companies expanding into Russia who are interested in outsourcing their fleet solutions. Many captives see this area as a key opportunity to build up their presence.

**“Back in the 1990s, when the first international companies came to Russia, there was no operational leasing available, so companies had to switch to outright purchase and create their own fleet management organization. Over time, that custom became ingrained. Now the challenge is to encourage customers to change that mindset.”**

Sergey Dianin, General Manager,  
Arval (BNP Paribas Group), Russia



Note: Total may not add up due to rounding off

Source: Datamonitor 2011

<sup>62</sup> *Auto Finance Industry Analysis*, University of Melbourne, 2012.

<sup>63</sup> *European Fleet Database*, Datamonitor, 2011.

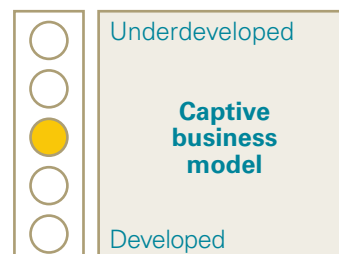
## Huge initial investments pose a natural barrier to entry

Captives have a very short history in Russia. It was only in the 1990s that the first international OEMs established financing arms in the country.

Consequently, and influenced by the challenging market conditions, most of them only provide a very basic product portfolio. In terms of market entry, it is not the government that puts a strain on captives, but the sheer size of the country and its scattered population, which make it extremely costly to reach

out to potential customers. To overcome the high investment costs, many captives decide to initially run their business in cooperation with domestic banks, using their comprehensive customer base to enter the market.

Despite a time-consuming approval process, several captives, such as Volkswagen Financial Services, have obtained full banking licenses in order to reach more customers and open up other sources of funding.



**“Foreign companies can easily enter the Russian market. There are no government constraints. Instead, the challenge is the immense fixed costs companies face as they build out the necessary infrastructure, because to be successful in the Russian market, you need to be present in all our cities.”**

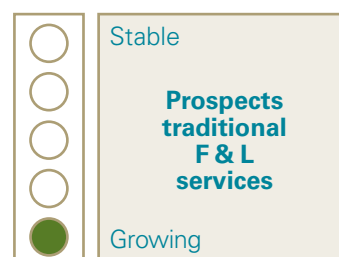
Dmitriy Novikov, Fleet Sales & Used Cars Director, Renault, Russia

## Business prospects

### Leasing provides particular opportunities for captives

Russia will continue to attract domestic and foreign interest in light of its strong growth prospects. Although cash purchases dominate, OEMs have started to launch their own financing programs in cooperation with local or foreign banks. Leasing, in particular, presents huge growth potential for captives, as it is not very common yet. There are no opportunities in the private sector due to restrictions, but the corporate sector is expected to grow steadily.

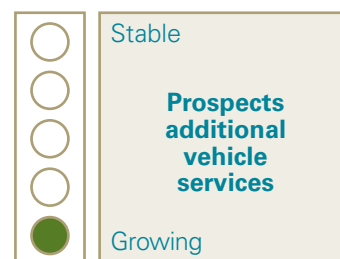
In addition, the Russian government and the State Duma are working to improve the current legal framework, with new laws and regulations to create a more favorable business environment. This should ensure that Russia attracts a large number of new market entrants, and therefore increased competition.



## Improvement of service network

At present, the service infrastructure is very sparse, with the nearest service point often 1,000km away. To make the most of the market's potential, captives and leasing companies will have to invest in improving the reach and continuity of service locations. Additionally, the success of new products will depend heavily on changing the mindset of Russians themselves, who have been quite skeptical until now about various products being combined into product

bundles. For example, fleet customers are not interested in extra services as they prefer to control everything themselves. They usually have their own relationship with insurance companies and with other suppliers for service issues. Nevertheless, captives and leasing companies are expected to extend their existing product portfolios with service and insurance products, in line with upcoming changes in legislation.



## Full banking licenses are not restricted

Some captives already possess a full banking license, but none of them currently offer banking products like credit cards or saving accounts. As there are no regulatory barriers to providing banking products, this could be an attractive and as yet undiscovered business model with which to differentiate themselves from the competition. Captives already have some plans to initiate credit cards, but not in-house. They are partnering with a supplier on their product expansion

into a different operating platform and this requires support from outside their organization. However, the immense competition from commercial banks should not be underestimated.

As securitization is not widely developed, there is little potential for proactive refinancing models. To become active in private banking products, government regulations must be monitored to stay abreast of possible changes.

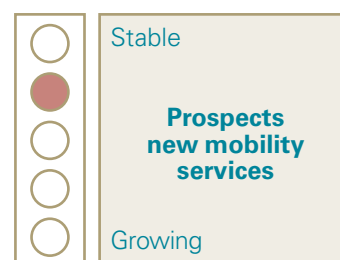


## Green and mobility trend is sluggish

Compared to other countries, there is less domestic pressure for green cars and fleets in Russia. The main push comes from European companies doing business in the country which require low carbon emissions for their company fleets. But the Russian population itself shows little interest in alternative fuels, as petrol is still very cheap and there is no special support from the government for the purchase of hybrid or electric vehicles. Although captive finance companies offer special rates on hybrid cars, which are even below their funding cost, the consumer attraction to the product is negligible.

In addition, the Russian climate, with its very low temperatures, has a detrimental impact on the performance and capacity of batteries. Coupled with the enormous distances that have to be bridged, it is a natural barrier to entry for all recent e-technologies. Green mobility is not expected to play a significant role in the Russian market for several years yet; therefore, captives will not be able to provide green product offers to customers for a long while.

Mobility services in general are still about a decade away from taking root and as long as leasing as a service is not



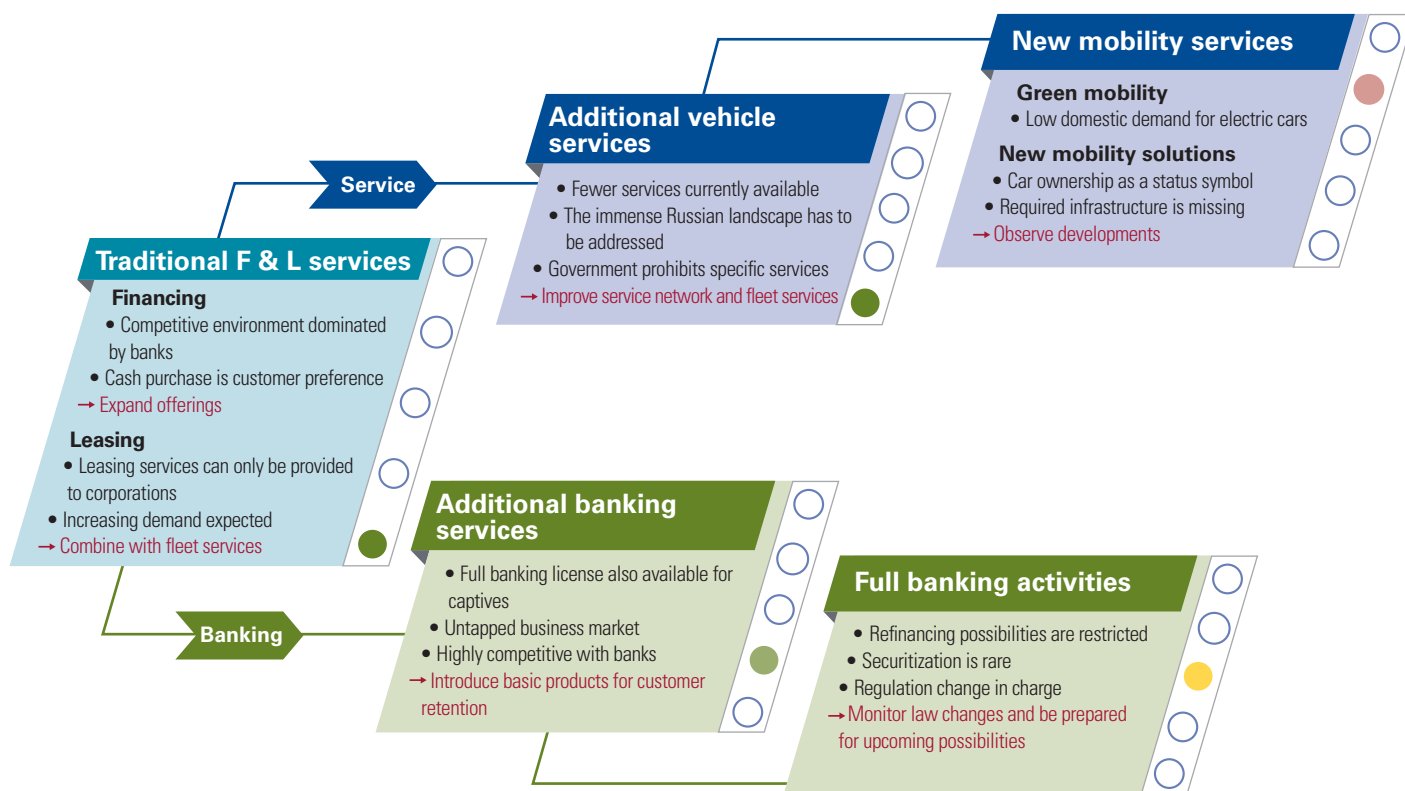
available to private customers, mobility solutions are of little interest in Russia. However, global experts see a potential market of four to 11 million mobility service customers by 2026.<sup>64</sup> But the culture of car ownership is strong and

the country still needs to build up the required infrastructure – itself quite a challenge given the immense size of the country. Mobility services may be a shorter term option for urban areas like Moscow, which currently has none.

**“To be honest, nobody really cares about green cars in Russia. The cost of fuel is relatively low and the segment of car buyers is relatively narrow, so the people who buy cars do not care about it. The general interest in such cars is very, very low.”**

President at captive, Russia

### Key Findings: Evaluating future financing and leasing growth in Russia



Source: KPMG International 2012

<sup>64</sup> KPMG's Global Automotive Executive Survey, 2012.

## KPMG Expert

### **Indirect taxes are gaining ground on the tax side of asset finance**

Over the past few decades, the tax side of asset finance (including automotive finance) has largely been driven by the direct tax treatment of leasing transactions. The question of whether the lessor or the lessee has to recognize the lease asset in their accounts, and which corporate tax qualification derives from that, was paramount.

While this is still an important consideration, it is noticeable that indirect tax issues are increasingly taking center stage. In several countries, more and more asset finance discussions with the fiscal authorities focus on the indirect tax consequences (such as VAT). Quite often this qualification does not automatically follow the direct tax qualification.

A potentially incorrect treatment from an indirect tax perspective can lead to additional taxes, interest and penalties. The unpleasant thing about a corresponding indirect tax requalification is that, in general, it will have no timing effect: other than the typical tax accounting adjustment, an indirect tax correction does not automatically “reverse out” in later years. If indirect tax adjustments cannot be implemented jointly together with the contractual counterpart and all involved tax authorities (which can be particularly challenging in sale-and-lease-back and/or cross-border situations), costs and cash outflow will occur.



**Karsten Schuck**  
Tax Partner,  
KPMG in Germany



## Notes

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

## Notes

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

## KPMG's Global Automotive Leaders:

### **Mathieu Meyer**

#### **Global Head of Automotive**

+49 711 9060 41730  
mathieumeyer@kpmg.com

### **Ulrik Andersen**

#### **Partner**

#### **KPMG in Russia**

+7 495 937 2981  
uandersen1@kpmg.ru

### **Laurent Des Places**

#### **Partner**

#### **KPMG in France**

+33 15 568 68 77  
ldesplaces@kpmg.fr

### **Jeff Dobbs**

#### **Global Head of Diversified Industrials**

+1 313 230 3460  
jdobbs@kpmg.com

### **Seung Hoon Wi**

#### **Partner**

#### **Samjong KPMG in Korea**

+82 22 112 06 20  
swi@kr.kpmg

### **Michael Jiang**

#### **Partner**

#### **KPMG in China**

+86 10 8508 7077  
michael.jiang@kpmg.com

### **Megumu Komikado**

#### **Partner**

#### **KPMG in Japan**

+81 33 2667 852  
megumu.komikado@jp.kpmg.com

### **Charles Kriek**

#### **Partner**

#### **KPMG in Brazil**

+55 11 2183 3102  
ckriek@kpmg.com.br

### **Kimberly Rodriguez**

#### **Principal**

#### **KPMG in the US**

+1 313 230 3000  
kdrodriguez@kpmg.com

### **Brigitte Romani**

#### **Partner**

#### **KPMG in Germany**

+49 69 9587 2221  
BRomani@kpmg.com

### **Gary Silberg**

#### **The Americas Head of Automotive KPMG in the US**

+1 312 665 1916  
gsilberg@kpmg.com

### **Andrew Thomson**

#### **Asia Pacific Head of Automotive KPMG in China**

+85 22 143 8875  
andrew.thomson@kpmg.com

## Additional Key Contacts:

### **Simone Beutel**

#### **Global Executive for Automotive KPMG in Switzerland**

+41 58 249 53 58  
simonebeutel@kpmg.com

### **Martha Collyer**

#### **Senior Marketing Manager KPMG in Canada**

+1 416 777 3505  
mcollyer@kpmg.ca

### **kpmg.com/socialmedia**



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2012 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Global automotive finance and leasing

Publication number: 120892

Publication date: September 2012