# Leasing on the Gulf

**Could you briefly describe your job at Aston Martin, and how came to work there?**

I'm in charge of the finance function. Previously I had my own consulting business in financial services. I came to Aston Martin originally as a consultant helping set up financial services programs, and then they asked me to join them full time after that.

**The expatriate population on temporary work assignment is quite substantial in Gulf Coast states, and has driven the rapid growth in car leasing in those markets. Are there any risk assessment challenges associated with leasing to expatriates?**

First of all, it's important to note that leasing in its pure form, such as an automotive operating lease, is remarkably rare here in the Middle East. What we have is kind of like a hybrid lease, where it's much more financing, rather than the traditional U.S./European model where there's an operating lease and residual value. Part of the reason for that is that there is an aversion to residual value risk in the region. The majority of contracts are finance-oriented, in terms of the underwriting and the risk assessment. They're much more cash flow based, as opposed to asset-based.

That's a challenge for the automotive industry here. Elsewhere financing and leasing is dominated by the captive finance companies. However, due to foreign ownership rules in most GCC states, captives cannot own their own finance companies. Instead, they must work with a local financial institution, such as a bank, and their risk assessment/underwriting criteria is from a banking perspective.

The biggest challenge for leasing to expats is the transient nature of foreigners in the Middle East, for whom residency is generally limited to two years. The lessor does not want to take on a contract where the lessee can simply disappear. When the last financial crash happened, there was a regional problem of foreigners leaving that was particularly notable in the large Indian community. Furthermore, the only underwriting criterion for the lessor is a letter from the lessee's employer stating how much they earn. Therefore, contracts tend to be written with the goal of minimizing risk, and working within the foreigner's visa requirements.

Nonetheless, the consumer financial regulations in the Middle East are very strict. Bouncing a check is a criminal offense, not a civil offense. If there is a claim against you, the authorities can block you from leaving the country. Furthermore, there are rules with regard to loan-to-value criteria, and typically the lessee will need to make a minimum deposit determined by the central bank.

All financial institutions are regulated by the central bank, which tends to intervene a lot. An advantage of the operating lease model is that it is a non-regulated business. The authorities can regulate in terms of trade license, but not with regard to capital requirements that a central bank would impose.

**What value-added services can Aston Martin offer its lessees that a traditional car rental company cannot?**

Differentiation for a company such as Aston Martin revolves around the brand, and the brand experience. Our advantage is in customer engagement. We are not a volume business, so we pretty much know every single customer. The added value factors in through the increased communication, immersing the customer in the brand, and bringing them to functions. We also offer special campaigns, and special editions that only the customers in financial services have access to.

We regard the financial services offer as an enabler, to allow the customer to access our cars at more affordable prices. In addition, we add value by including all of the additional services such as insurance, banking, maintenance and eventually all the customer has to do is add fuel.

**Unlike with consumers in Europe and the United States, there is a dramatic preference for buying new cars over used cars in the Middle East, a ratio of 16 to 1. Does this create challenges for de-fleeting cars that have already been leased?**

New car retailing is still a relatively profitable business in the Middle East, compared with the business models of Europe and the United States. Financial services, used car trading, and all the aspects of the European business model, exist because dealer margins are very thin. A new business in Europe will struggle if it isn't involved in used cars. For example, if you're an Audi retailer in London, you're most likely to lose a customer to one of the dozens of other Audi retailers in the UK.

In contrast, here in Dubai, the retail franchises are run by powerful families, with exclusive territorial rights. If you'd like to buy a new GM car, there's only one place to go. There's competition for customers from other brands, but there's no internal competition. This is true of most of the major car brands. Because of the lack of internal competition the dealers have been able to achieve much better margins than in other regions. The desire to be involved in the used car business is not as high, though this is beginning to change.

This impacts the disposal rates for lessors. As a captive we believe that we're well-positioned to approach disposal, because we're well connected to the network. We have a ready-known disposal route for our end-of-lease vehicles. Generally speaking however, lessors are looking to pass that risk to independent traders. The challenge is that the independent traders are only prepared to take minimal risk, and this makes the pricing less competitive.

Because the market isn't mature for operating leases, residual value risk-taking has not been a big force impacting pricing. In Europe and the United States everything depends on the residual value. That's less so in the Middle East, because the only residual value risk-takers are the independent traders, who are interested in making low-ball offers.

Most lessors are looking to have a contingent liability elsewhere, for buy-backs and known disposal routes. We don't have access to mature auction routes, so the used car disposal routes are slightly more risky than in other regions. There are a range of options for disposal, which include, selling it back into the trade, going to the independent traders, and exporting it to other markets, notably Iran and Africa which lack a huge number of franchises, seem to have a lot of cars that may have been in Dubai.

Most lessors are not experienced in doing this, and are extremely reliant on channels familiar to them. Lessors prefer to end with lease disposal, and move on from there. As a consequence, re-marketing as a lessor strategy is undeveloped.

**What are your thoughts about car-sharing as a viable model for consumers that value flexibility?**

The difficulty for car-sharing in the Middle East is in the simple logistics. Walking 100 meters outside in the summer in 50 degree heat can be taxing, and if I had to deal with a neighbor who lives 300 meters away, it would be a challenge arranging the meeting without having to stand outside for some period of time. It's the same if you arranged a meeting on a street corner and were waiting for ten minutes to pick up a car. With a luxury brand such as Aston Martin, car-sharing is not particularly relevant, and with the regional challenges I described, it's not something that's imminent.

**What are the future prospects for the auto rental & leasing business in the Middle East?**

Leasing is an underdeveloped market here. Coming from a low base, the prospects for growth are very good. I see leasing outperforming traditional finance, particularly because the regulatory framework is less burdensome. Any opportunity for "non-regulated" business without capital requirements is viewed as attractive. The challenge relates to risk models, as the people in the industry are bankers rather than lessors, and possess a different skill-set.

A significant hurdle is the foreign ownership requirements. I've worked with other captives who are interested in setting up financial services businesses here, but they cannot own them. It's very difficult, for instance, to convince a German manufacturer to set up a captive business if they cannot own it. Instead, they'd have to rely on local partners, and take on shareholders, but cannot own more than 40% of the financial institution.

Another important consideration is that the majority of people in many Gulf Coast states are from elsewhere, and have buying patterns that reflect their home markets. I spoke of the large Indian community earlier, which is the dominant expat population, and they have an ownership culture. Alternatively, an American expat would be perfectly happy leasing a car. Our business does much better with the Western expat demographic, because we are a European brand.

Ultimately, I do see operating leases and the taking on of residual risk, as a growing business sector, with a more promising future than traditional finance.