Asset Finance Pricing Review

sponsored by bynx

Tourick's tips for top finance performance

Experteye sees European leasing rentals fall

Multimodal mobility on the up

Fleet leasing powers Belgium's car market

Introduction

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

In this edition we turn the spotlight on the Belgian fleet leasing market to try and gauge how much of a barometer it is for other countries, in and outside of the European Union, and what lessons can be learnt from its experiences of late. It seems now is an interesting time for lessors in the country.

By way of introduction, our resident industry veteran commentator Professor Colin Tourick kicks off with an article looking at the pursuit of excellence in asset finance. It highlights a key issue we've experienced regularly with certain companies - that they continue to do the same thing the same way for years for no other reason than because that's how they've always done it. This thinking often results in gross inefficiency, stifled productivity and slow growth but it's a natural human instinct to resist change until you can see the benefits. The problem is, you often can't see them until you've made the change. It takes an act of faith. Professor Tourick compares the experiences of the British cycling team at the 2012 London Olympics and the lessons that can be learned from them.

On page 7, our very own Belgium-based non-executive director at Bynx, Alain Vervaet, himself a seasoned authority on the leasing industry, gives his views on the opportunities and threats facing the country's vehicle leasing sector and its impact on Belgians' love affair with the company car.

Nigel Carn begins an interesting and fact-filled overview of fleet leasing in Belgium on page 10 that demonstrates how the company car segment is so important to the sector right now. It echoes Vervaet's earlier warning, which is not to be complacent, and contains insightful commentary from sector specialists from two of the country's primary leasing providers, LeasePlan and Alphabet.

Starting on page 16, we deliver a roundup of the latest auto finance news stories influencing asset finance pricing in our industry, including mixed news for diesel residual values, political attitudes, economic realities and Europe's car safety framework. We also investigate attitudes towards driverless cars and climate change and, as ever, we end with Experteye's report on residual forecasts and market summaries.

Do enjoy and, as always, your comments and opinions are welcome.

Gary Jefferies
Sales and Marketing Director, Bynx

Professor Colin Tourick

The pursuit of excellence in asset finance

Success in elite sporting competitions offers a lot of lessons for business, and the fleet leasing sector could benefit from looking at just how the UK's cycling team rode their way to an unprecedented gold medal tally in the last Olympics

Some 30 years ago the CFO of a small start-up leasing company started using a paper spreadsheet to calculate how much he needed to borrow from the company's banks and over what period. [If you are under 40 you may not realise that before Excel and other spreadsheet programs were invented, businesses used A3 sheets of paper ruled with columns and rows to do business calculations. They had to manually add up the numbers in the columns and then add up or "cross cast" the numbers in the rows to double check that the total amounts shown in the rows equalled the total amounts shown in the columns. These sheets of paper were called … erm... spreadsheets!]

Every time he took out a new loan the CFO would enter the details onto a new row in the spreadsheets and would show the repayments in the monthly columns. By totalling the spreadsheet he worked out one element of the company's cash flow. The company grew and he delegated this task to someone else.

One day three years later, by which time the company had written hundreds of contracts totalling £100m and borrowed £90m in small tranches with different maturities and different interest payment dates, the CFO walked into the accounts department and was amazed to see the floor covered in dozens of paper spreadsheets, all butted up against each other. You can imagine his amazement when he was told that this was how his simple spreadsheet system had developed. They had just carried on doing what he had started and as they run out of space on the spreadsheet they had simply added more and more paper spreadsheets.

It took him just a few minutes to work out how to automate the system into something that would be more robust, efficient and scalable.

This sort of inefficiency exists throughout all organisations, with countless examples of systems that were set up a long time ago by people who are no longer involved, that are still followed without being reviewed or challenged. Management consultants know all about this: it's one of the ways they make their living. They go into organisations with fresh eyes, lift up the metaphorical stones and quite quickly see the worms crawling around below.

These spaghetti junctions of processes become barriers to efficiency because they slow down the internal workings of the organisation and act as barriers to efficient growth.

This is just one example but quite a good one if we are to start looking at the topic of business excellence.

Would you describe your business as “excellent”?

Before answering this question, we need to ask what we mean by excellence. For the purpose of this article, let’s define an excellent company as one that delivers much more to its stakeholders than is usual in its market. “Stakeholders” here include shareholders, employees, customers, suppliers and (in the context of our industry) regulators. And let’s also say that an excellent company should be meeting the needs of all its stakeholders, not just meeting the needs of some of them at the expense of the others, and should be striving for constant improvement.

“Re-cycling” good ideas

Leasing companies are complex businesses operating in complex markets, so before we talk about the pursuit of excellence in our industry, let’s look at a case study from somewhere completely different.

Competitive cycling involves very few elements: the cyclist, the bicycle, the track, the rules and the tactics for the race. When Dave Brailsford (now Sir David Brailsford CBE) started coaching the Team GB cycling team to prepare for the 2012 London Olympics, he knew that he had a good group of top cyclists but that the competition was fierce. He also knew there was no single thing that he could do that would deliver a massive improvement in performance. So instead he looked at everything that contributed to success that he could have an impact on, and set out to improve performance in all of those elements by just 1%.

Cycle of success: teamwork on track for excellence

Source: iStock Images

The results were astonishing. The GB cycling team won 12 medals including eight golds, beating the Germans (six medals including one gold) into second place. Brailsford had truly delivered excellent performance.

Asset finance might seem to be a million miles away from the world of competitive cycling but there are still lessons we can learn from this example. In our market, as in cycling, we face fierce competition and have controllable and uncontrollable elements, identifiable goals and objectives and an imperative to succeed. There are a few things you can do that will deliver a massive improvement in performance (moving from an old IT system to modern one might be one of those), but for the most part any changes will have to come in small increments – just as they did for Team GB, and for many of the other national teams competing in the Olympic Games.

Small change: big reward

This raises the question, where to make those small changes which can have such a big impact?

Most management teams have a good handle on what's going on in their companies. They carry out customer surveys as a matter of course. Many of these surveys are now trimmed down to just asking the client to rate the service they have received, which is a reflection of the fact that customers are fed up with receiving so many survey requests. Some companies also carry out employee surveys, but these tend to relate to the employees' satisfaction with their own jobs rather than having anything specific to do with improving overall business performance. All of this is fine but none of it is enough.

To be excellent a business needs to operate like a well-oiled machine firing on all cylinders. But often things are happening that are sub-optimal and hold back the company without the management even being aware. Staff usually pick up on this before management and there is a risk that client-facing staff will inadvertently – or sometimes deliberately – make the client aware of the frustrations they feel with their own organisation.

Clients can discover that if they press for a discount they get it, which can be a sure way of detecting that the salesperson feels that their own organisation or product offering is not as good as it should be, feels intimidated and therefore moves too quickly to offer a discount in order to win the deal. They know that their organisation is far from first-class and so has to compete on price.

How does change happen?

So how should an organisation determine where to change things in order to move up the excellence scale? No matter which industry or country you operate in, there are some techniques which will always stand you in good stead.

One tried and tested way is to ask your staff: all of them. Set up a small project team of people who are knowledgeable and passionate about the business and who want to see it move from "good" to "great". (As it happens that was the title of a project that a fleet leasing company ran some years ago when it set out to move up the excellence scale.)

Give them the brief to seek out opportunities to improve every aspect of the business: products, customer interaction, risk management, compliance, accounting, data management, IT, and absolutely everything and anything.

As their first task they should send out a note to every member of staff, explaining the team's objectives and inviting staff to complete a short survey in which they list all of the key functions they are involved in and then rank how well that function is organised or delivers on its purpose. The ranking should be on a six point scale: awful; poor; OK but nothing special; good; very good; and excellent.

For any mark below “excellent” the staff member should be invited to say what changes they would like to see made in order to be able to change their answer to excellent. The survey should then ask what benefit this would deliver to the bottom line (if they know this), operational efficiency, customer satisfaction and (not to be forgotten) staff satisfaction.

Once the results of the survey have been summarised and tabulated and the team members have followed up on some of the more interesting-looking opportunities it will become clear where attention needs to be focused: those areas where it really is possible to take giant strides towards excellence and where the cost benefit analysis justifies the effort.

This is a simple but highly effective way to move your organisation from good to great. And it can be adopted by any asset finance company anywhere in the world.

Oh, and the CFO of that small start-up leasing company I mentioned at the start of the article? That was me. But you knew that anyway.

Colin Tourick, Grant Thornton Professor of Automotive Management at the University of Buckingham Business School. Colin is a management consultant, 35-year leasing industry veteran and the former MD of Citibank’s fleet leasing business.

Alain Vervaet
Non-executive director,
Bynx

Is Belgium's love affair with the company car under threat?

These are interesting times for the vehicle leasing sector in Belgium. Threat and opportunity loom large on the horizon with equal measure – but isn't that the everyday in business? The answer is to be prepared for both.

On the one hand, Belgians love their leased company cars and as a result the industry has enjoyed a boom of late. Luxury makes are doing particularly well. On the other hand, there are those, including academics and environmentalists for example, who question if that's a good thing and who continue to pressure the government for a change in taxation policy. Meanwhile, our slightly conservative, coalition government is posing the question: should we review the taxation benefits in kind of the company car?

Tax incentives have helped Belgians develop an appetite for leasing new company cars - often better models than they could otherwise afford. For years the VW Golf took the podium for best selling car in the country but luxury brands (BMW 3 Series and Audi A3) have now taken the lead. The stronger residual values enable leasing providers to offer high-end affordability. Now that the people of Belgium are used to it, gaining support for any political decision that could force a step change is going to be hard; parties do not want to alienate their voters.

More cars – more congestion

However, congestion is a real issue now and something has to be done. Not only is it damaging to the environment but it has a bearing on the way cities operate and run. We're already seeing problems in Antwerp (Flander's largest city) and Brussels. In recent years, there has been devolution between Flanders, the Dutch speaking region in the North, and the rest of the country. In Flanders, they have increased the road tax on the most polluting vehicles (primarily diesel models). In Wallonia, the French speaking region, things are a little different. The Flemish government's plan is to have 60,000 electric and 40,000 CNG-powered vehicles on the country's roads by 2020. Antwerp is already inaugurating a Low Emission Zone.

Also, like many places in the European Union, Belgium has a deficit and whereas tax incentives have helped stimulate organic growth in the vehicle industry, increasing taxation on vehicles now could help boost the public purse.

Environmentally, however, the argument is that having more newer, eco-friendly cars equates to a reduction in harmful emissions. Newer vehicles are much less polluting than older ones - then again, it depends on how many there are on the roads – and some people think for now there are too many!

A difference of opinion

One thing is certain: everyone has an opinion on what should be done but hardly any of them agree and no one knows for sure what will happen. That makes it hard for leasing providers and vehicle manufacturers to plan ahead. Any changes in the political landscape could have a serious impact on car sales – particularly for the high-end luxury brands. As much as 10% of their business could go and that's a big hit in a market where margins are tight.

When things are uncertain, it's hard to innovate but that's exactly what vehicle lessors in Belgium should be doing right now. Technology plays a key role in this process. If they haven't done so already, leasing and finance providers should be getting their next generation technology in place, teaming up with business partners to provide the products and services their customers want and making it possible to interact with them online using PCs or cellular/mobile devices.

Drivers, customers and other external stakeholders can be given secure access through applications that allow them to see their account information or perform simple transactions like booking a rental vehicle or paying a fine. This is what's known as front-end technology and it's becoming ever easier to develop and get new products and services to market quickly. Any lessors relying on old, outdated technology should ask themselves if it's going to help them move quickly when change comes, as it inevitably will.

Prepare for change

If changes happen - and it's not so much "if" as "when" – and the government starts to increase taxes on company cars, personal leasing may be an option. Are leasing companies set up to offer it? Some lessors have started to but it's not popular here right now because there is no incentive. I know it's starting to gain traction in the UK and Netherlands, where there are associated tax advantages, but even in those countries uptake has been slow. In the UK, salary sacrifice is making inroads against operational leasing but I don't know if this would legally be acceptable in Belgium because of the way the lease is set up as a contract with the employer rather than a leasing provider. This would not currently work in Belgium.

Another big change that could happen in the near future is in the second hand car market in Belgium. Most (80%) of the country's used vehicles are exported now, primarily to Eastern Europe where there is an appetite amongst the growing middle classes. They are not yet ready for new car purchases, but like decent older cars. Belgians love their new cars very much but any political changes may incentivize growth in the domestic used car sector. The industry needs to be ready to take advantage of any opportunities to finance used vehicles.

Multimodal mobility

Another change that is partly politically motivated is that businesses are keen to upgrade their green credentials and are looking at ways of doing so alongside reducing transport and travel costs. Obviously, if you live in a rural area where public transport is limited, an employee is going to need a company car. However, in large towns and cities, many businesses are exploring mobility budgets with employees instead of company cars. In the longterm this could affect the sale of vehicles, in terms of numbers sold, but it also presents leasing companies with a new opportunity to get together with OEMs, technology and service providers and package together fleet mobility services.

Growth for fleet leasing in Belgium is expected to continue at a rate of 3%-4% this year. Diesel cars will decline as petrol vehicles increase alongside hybrids. Residual values will remain stable but the supply of second hand vehicles will increase, and this will have a downward effect on pricing of second hand cars.

Multimodal mobility is gaining momentum and the leasing sector has been asking for it for some time. It will finally allow the industry to offer alternative mobility services and solutions that will ultimately reduce car use and/or increase existing vehicle utilization. Having said this, the company car will remain the cornerstone of corporate mobility in Belgium. Lease companies have started to take a closer look at the fleet mix of their customers in order to determine whether their vehicle and driver profiles are attuned to each other.

We can't do this alone

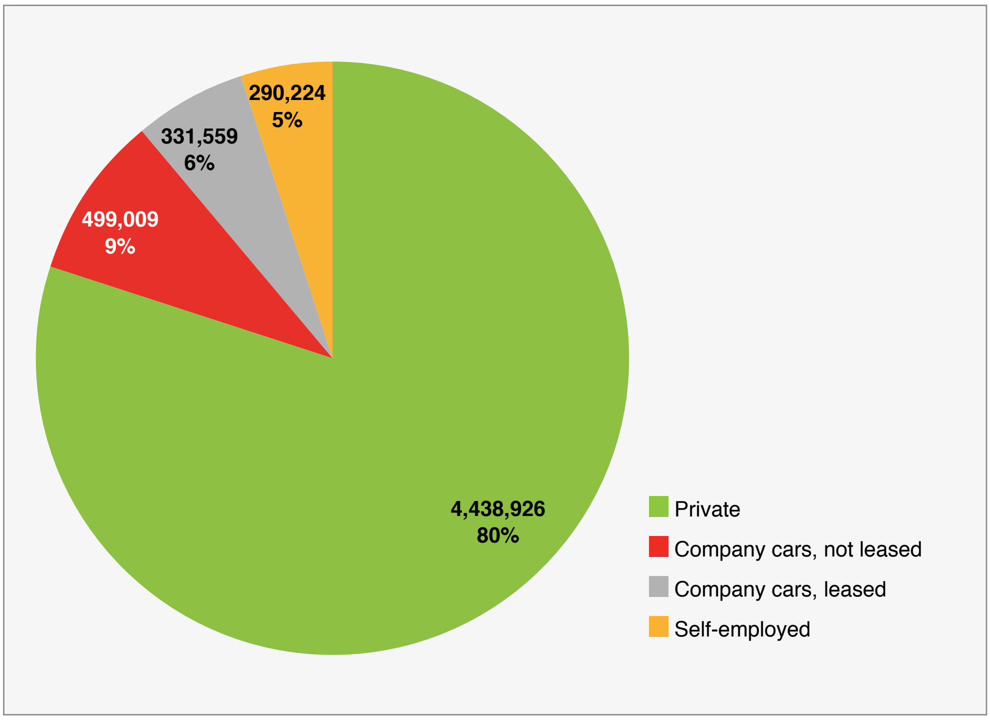
I guess really the future here is about partnerships. No one leasing provider can do this alone, they need to be prepared to innovate and collaborate with suppliers, technology companies and industry experts such as re-marketing specialists to stand the best chance of making the most of new opportunities and minimizing the impact of threats.

Fleet leasing in Belgium – underpinning growth in the auto market

Nigel Carn, author of Asset Finance International's country reports, takes a look at the finance and pricing challenges facing the vehicle leasing and fleet markets in Belgium

There were some 7.7 million vehicles in the Belgian parc in 2015, including over 5.5 million passenger cars of which the company car segment represented 20% – more than 1.1 million units, according to FEBIAC, the Belgian motor industry body. Not only is the company car segment important in Belgium, it is growing at a faster rate than the overall market.

Belgian vehicle parc by owner type



Source: FEBIAC

There is little doubt the Belgians like their cars. Belgium had the second highest volume of new car registrations per thousand inhabitants in the EU in 2014, according to the European Automobile Manufacturers' Association (ACEA).

Company car market vibrant

However, although new passenger car registrations in 2015 rose 3.8% year-on-year to above the half-million mark, this was well below the EU average of 9.3% growth.

The relatively depressed state of the Belgian car market is demonstrated by ACEA data for January 2016 which show that, while total new passenger car registrations across the EU rose 6% compared with the same month the year before, the figure for Belgium went in the opposite direction, declining by over 6%.

This makes the comparatively vibrant company car market all the more important. The reason total Belgian auto sales grew by as much as 4% year-on-year in 2015 was because fleet sales increased more than 9%, and it should be noted that this strong annual performance from the fleet sector came after a slow start with the rate of growth rising steadily as the year progressed.

Registrations of new alternatively fuelled vehicles (AFVs) in Belgium rose 9% in 2015, a much lower rate of growth than the EU average. Out of the total of some 11,500 AFV registrations, a third were of electric vehicles including plug-in electric hybrids, a year-on-year increase of 87% – impressive as a percentage, but a long way short of the progress in this sector compared with neighbours the Netherlands.

Meanwhile, total new commercial vehicle (CV) registrations rose by over 13% in 2015 compared with 2014, slightly ahead of the EU average. Registrations of light commercial vehicles (LCVs) under 3.5 tonnes rose nearly 15% (EU: 12%) and those of trucks over 3.5 tonnes increased by close to 7% (EU: 16%).

FEBIAC figures for 2015 show that within the new car registration total there was exceptional growth in the company car segment, while private ownership fell. FEBIAC notes that the long-term trend is for the popularity of company cars to increase steadily in terms of numbers and market share; it puts the gradual decline of the self-employed segment down to a move to company car take-up.

New car registrations, 2015

Owner type	Total	Change on 2014
Private	238,890	-2%
Company, leased	129,542	12%
Company, not leased	117,471	9%
Self-employed	15,163	-7%
TOTAL	**501,066**	**4%**

Source: FEBIAC

Official statistics

The main association for the asset finance industry in Belgium is the Belgian Leasing Association, or Belgische Leasingvereniging - Association Belge de Leasing (BLV-ABL), representing 32 member companies, mainly bank subsidiaries plus motor manufacturer captives.

According to the last available BLV-ABL annual report, leasing new business volume (NBV) by its members in 2014 totalled €1.05 billion for passenger cars and €678 million for commercial vehicles, representing 28% and 18% respectively of the total equipment leasing market. Compared to NBV for the previous year, the car sector grew 8% and the commercial vehicle sector 13%.

However, in terms of units, the leasing volumes of BLV-ABL members are fairly small – fewer than 40,000 cars and 15,000 commercial vehicles – with the majority being funded through finance leases (55% for cars and 75% for CVs) as most of this finance stream is through the banks.

The more important association for vehicle lessors and fleet lessors is Renta, the Belgian Vehicle Rental Association, which represents long-term and short-term leasing firms and has 50 member firms. Some lessors are members of both Renta and BLV-ABL, so there is some cross-over of figures. With different sources of information, even the main players sometimes produce conflicting figures and the associations are in some areas finding it hard to provide the most up-to-date data.

At the end of 2014, the combined fleet of Renta members amounted to more than 360,000 units – around 95% of the Belgian vehicle rental market at the time. The great majority of vehicle leasing by Renta members is via operating lease, or full service lease (FSL), with five companies dominating the market: KBC Autolease, LeasePlan, Alphabet, Arval and ALD Automotive. In addition, Renta reports a much smaller finance lease sector among its members, which is dominated by KBC Autolease.

Leading vehicle lessors, as of Q4 2015

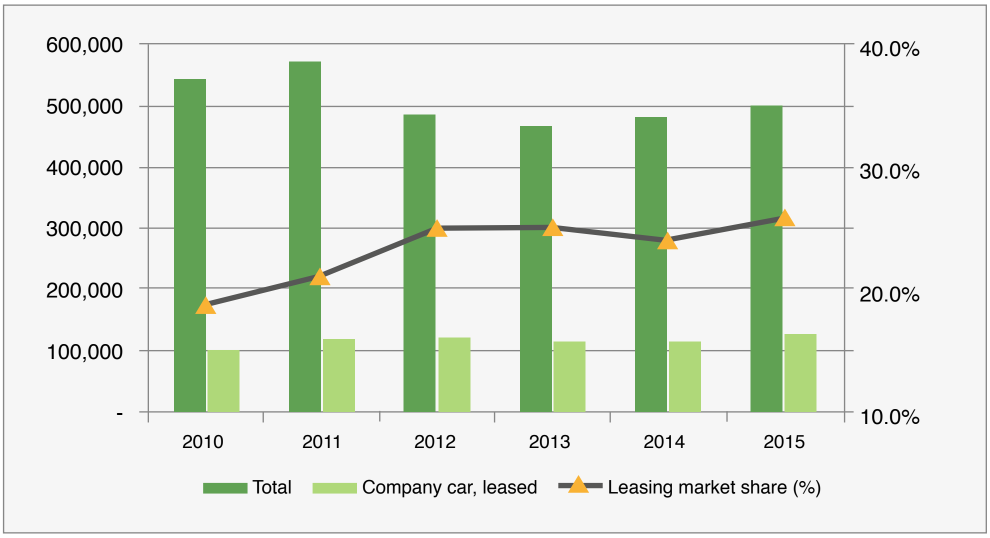
Company	Cars, full service lease	LCVs, full service lease
KBC Autolease	43,529	2,665
LeasePlan Fleet Management	39,734	5,036
Alphabet Belgium	41,450	2,348
Arval	38,840	2,270
ALD Automotive	34,044	6,371
Athlon Car Lease	23,876	4,252
D'Ieteren Lease (VW)	19,627	2,478
BMW Financial Services	16,979	22
Belfius Auto Lease	14,033	1,259

Source: Renta

Fleet sector strengths

As already noted, the company car holds a prominent place in the Belgian vehicle parc and its popularity is gradually increasing. The number of new company cars topped 50% of total in 2015, and the number of company cars that are financed by leasing is now at its highest level since 2001. The share of the new car market held by leasing is growing and now stands at more than 25%.

Fleet car registrations, 2010-15



Source: FEBIAC

According to Renta, nearly 90% of current vehicle lease arrangements are operating leases, but Johan Portier, Managing Director of LeasePlan Belgium, pointed out to Asset Finance International that there are differences regarding the most favoured finance product, depending on company size.

For small and medium-sized enterprises (SMEs), estimates by the Corporate Vehicle Observatory (CVO) are that around 40% use their own capital, 20% choose finance leasing and 10% operating leasing to finance their fleet, with the rest using loan credit. By contrast, in the large company segment, fleet finance is made up of around 50% operating leasing, 20% finance leasing, and the rest mainly through own capital. (Source: CVO Barometer)

Johan Portier, Managing Director of LeasePlan Belgium

The important point regarding SMEs, according to Portier, is that "as leasing companies are increasing their focus on SME segment, operating leasing will grow in the future."

The provision of cars is seen by many companies as a significant tool in staff recruitment, partly due to labour taxes in Belgium being the highest in Europe, which increases the benefit of a car. In the view of LeasePlan, its prevalence means it is less important in staff retention, at least at senior levels. Johan Portier comments: "As it is a common offer at management level, it is not seen as a retention tool," adding that "at the non-management level, cafeteria plans are used as a way to keep employees in the organisation."

Christel Reynaerts, CEO of Alphabet Belgium

According to Christel Reynaerts, CEO of Alphabet Belgium, company cars are used to both attract and retain employees. She notes the importance of the public perception of the car, shown by the comparatively high figure of 80% of 18-24 year-old Belgians having a driving licence, and that “over 50% of young graduates in Belgium get a company car in their salary package.”

Belgium has one of the highest population densities and Reynaerts stresses that the car remains popular “both because of the comfort and because of the geographical spread of companies in Belgium (basically, Belgium is a huge urban area), so most working places can best be reached by car.”

This popularity of the company car is demonstrated by the fact that its share of the market leaps to 37% in the major commercial region around Brussels.

Carbon emissions and tax incentives

There are tax incentives for fleets to increase usage of low carbon-emission vehicles, with sliding rates of tax deductibility for petrol/hybrid and diesel/hybrid engines culminating in 120% deductibility for CO_2-neutral (full electric) vehicles.

However, Belgians are fond of comfort when driving and so lessees tend to demonstrate a preference for luxury cars. FEBIAC figures show that around two-thirds of new leased cars in 2015 were in the medium, large and SUV segments. This contrasts with the situation with regards to privately owned cars, where more than half of privately owned cars are classed in the small car segment.

Nonetheless, carbon emissions are falling generally and company cars are at the head of the downward trend. Between 2010 and 2015, average emissions for company cars have reduced by 18%, compared with a 12% fall for privately owned cars. This is no doubt helped by the faster turnover of company cars, with the average duration of a company car lease being under four years, while the average age of the total parc is nearer nine years and rising.

As Christel Reynaerts says: “Evidently, vehicles with higher CO_2 emissions have to pay a higher tax,” and the benefits of lower-emission vehicles are not lost on fleet lessors. Reynaerts says reasons for CO_2-efficient vehicles becoming more common include: “Restrictions in car policies (for example a maximum amount of emissions) and higher awareness among drivers, and the potential cost reduction through higher tax-deductibility for lower emissions, lower CO_2 tax for lower emissions, and the high correlation between CO_2 emission and fuel consumption meaning that cars with lower emissions use less fuel, thus leading to a more favourable total cost of ownership.”

A major factor in the company car sector having lower carbon emissions is because 85% of leased cars were diesel in 2015, compared with just 34% of private cars. FEBIAC notes the overall diesel/petrol ratio is moving towards parity, citing the closing of the excise gap between the fuels over 2015-18 as a major factor – in 2016, duty on diesel will rise but will go down on petrol.

These numbers demonstrate the low uptake so far of AFVs – only petrol hybrids have over 1% market share, and the total number of EVs is barely in the thousands. The number of plug-in hybrid vehicles grew at the fastest rate of all AFVs in 2015, and CVO research shows 31% of fleet operators are considering using this fuel type in the next three years, with 20% considering plug-in hybrids.

Developments in mobility solutions

Innovations in mobility and greater collaboration between finance providers and technology developers are starting to happen in Belgium, although the take-up tends to be below the EU average. LeasePlan's Johan Portier comments: "It is already available in the market (public transport, bike sharing, bike leasing, holiday cars) but the adoption rate is rather low, due to delays in governmental processes, as it is a very complex fiscal product."

Although the latest CVO Fleet Barometer shows just 16% of larger Belgian fleet operators have implemented car-pooling against an EU average of 21% and 26% in France, Portier is confident this will grow in the near future. "Innovation is expected towards 'use' of a company car instead of 'ownership' – meaning car sharing," he says.

Alphabet's Christel Reynaerts shares that confidence, stating: "We believe that as a major provider of mobility for companies, the way we move and travel will really evolve within the next 10 years. We think that there will be a shift from cars only to a combination of car/bike and/or train."

She continues: "At the same time, the additional services offered with the car will gain in importance. Think for instance about parking, car-wash, mobility cards for all types of public transport… We believe that as a major mobility provider we will have to talk to other, new and flexible mobility services providers, with only one goal: making mobility even more convenient, sustainable and reliable for our customer companies."

To give one example of such collaboration, in 2015 both LeasePlan Belgium and Alphabet Belgium linked with Netherlands-based mobility card specialist XXImo, using the XXImo platform to expand their mobility services.

However, for now, the Belgium fleet leasing market remains buoyant, if perhaps more conservative than some of its more innovative neighbours.

What’s driving fleet car pricing?

A round up of some of the key auto finance industry stories in recent weeks

Mixed news for diesel residual values in Europe

Diesel engines are likely to be phased out within small vehicle segments over the next five to 10 years, according to recently released analysis by Automotive Intelligence and Consulting (AIC), part of EurotaxGlass’s Group.

The forecast covers all Europe’s major markets including France, Germany, Italy, Spain and the UK and it reflects the swift decline in diesel use among the smallest sectors of the car market, such as city cars and superminis.

The proportion of diesel registrations in these two segments fell from 32% in 2008 to 21% in 2015, according to separate research by IHS Automotive.

The decline in diesel in the small vehicle sector is in marked contrast to other areas of the market, as diesel still accounts for the majority of registrations in most other car segments, particularly executive and luxury cars.

However, there has been a downward trend in the total proportion of registrations of all diesel cars for the past few years across much of Europe, according to the figures from ACEA (European Automobile Manufacturers Association).

This data shows the proportion of diesel car registrations among the EU15 countries fell from a high of 56.1% in 2011 to less than 53% last year.

Across the EU, the share of car registrations taken by diesel is currently falling at a rate of about two percentage points per year and if this continues diesel will account for less than half of registrations across Europe by 2017.

Some countries are experiencing a swifter fall in diesel registrations than others. For example, in France where once eight out of every 10 cars registered each year were diesels, this now fallen to six in 10, ACEA says.

By contrast, diesel penetration in Germany has remained fairly constant in the past few years.

Political attitudes

A key factor driving the disparity in diesel’s use is differing political attitudes towards the fuel across Europe. France, for example, which has traditionally supported the use of diesel via a lower tax regime, has signalled its intention to reverse this policy.

Diesel is currently taxed at some 20 cents cheaper per litre than petrol and represents the majority of fuel volumes sold in France. Within the next five years, petrol and diesel will be taxed equally.

Ongoing concerns about the impact of vehicle emissions on public health are part of the reason for the change in stance. While much of the focus previously has been on limiting vehicle CO_2 emissions as a cause of global warming, attention is now turning to diesels which produce greater volumes of particulates and more nitrogen-oxide NOx, both of which have been linked to severe breathing difficulties, especially where concentrations are high, such as in urban environments.

Where legislation leads, buyers are likely to follow so as government policies start to penalize diesel ownership, it is likely that consumer and business behaviour will also begin to change.

Economic realities

One of the factors in favour of diesel cars has been their low running costs, based on a combination of high fuel economy and typically lower pump prices than petrol.

Historically, this efficiency has been enough to offset the higher front-end prices of diesels compared to petrol alternatives and give them a total cost of ownership advantage, particularly if there is the additional benefit of lower vehicle taxation. This advantage is being undermined in two ways.

Firstly, more stringent emissions standards mean diesels require more extensive systems for treatment of exhaust fumes, which adds to their front-end costs.

Secondly, the falling price of oil on international markets has led to lower pump prices, which means that the proportion of a car's running costs taken up by fuel is declining.

A further element has been the negative publicity following the discovery of Volkswagen's use of a "defeat device" during independent tests of diesel car emissions performance, and concerns that this practice may be more widespread in the industry.

Impact on residual values

The results of analysis carried out by AIC indicate that over the next five years residual values for city cars and supermini diesels (the A and B segments) are likely to fall by up to 5% in key markets including Spain, Italy and the UK, while in France they are expected to reduce by more than 5% in response to the overt official stance against the fuel.

This is likely to heavily sway future cost comparisons in these sectors in favour of petrol units or alternatives.

By contrast, residual values (RVs) for diesel in Germany are expected to remain relatively unchanged, in the absence of any major destabilising factors, such as legislation or political announcements.

Dr. Christof Engelskirchen, AIC's managing director, said: "Diesel has been under pressure for some years, in particular due to decline in the A/B-segments and we expect an end for small diesel cars in the medium term, along with a general continued decline in diesel RVs."

Europe's car safety framework needs 'overhaul'

Vehicle safety innovations are still benefitting too few road users in Europe due to an over-reliance on a voluntary testing programme rather than regulatory standards, according to a new report by the European Transport Safety Council (ETSC).

The report says that for almost twenty years, increases in levels of car safety in Europe have been driven mainly by the voluntary Euro New Car Assessment Programme (NCAP) which awards the safest cars with a five-star rating. However, it points to new data which states that only around half of new vehicles sold in 2013 had achieved the top score.

Car occupants have also benefitted more than other road users from safety improvements according to ETSC, as cars have generally performed worse on pedestrian protection criteria than on adult or child occupant protection. ETSC is calling for vulnerable road users to also benefit from tighter vehicle safety standards through higher minimum standards for pedestrian protection from both regulators and from Euro NCAP.

The report also found that green vehicle tax shifts in countries including Denmark and the Netherlands had failed to take account of safety, leading to higher sales of cars with lower safety ratings. ETSC is calling for countries to offer tax incentives only to “clean and safe” vehicles.

Call for new standards

According to ETSC, the main block to faster progress on safety is that legally-mandated safety standards are years out of date. A car that only meets the current minimum safety standards in the EU would receive a zero-star rating today from Euro NCAP according to the report. Euro NCAP only tests a selection of vehicles each year, and also does not test every variant of each model.

Antonio Avenoso, ETSC’s executive director, said: “While Europe is still a leader in vehicle safety, this report shows that the benefits are far from being equally spread. We need an overhaul of vehicle safety in the EU to ensure that the latest advances benefit the many not the few. The starting point must be bringing today’s regulatory tests and required standard equipment bang up to date.

Technology

The EU is set to revise vehicle safety standards, as well as the vehicle “type approval” process over the coming year. ETSC is calling for a range of vehicle technologies including intelligent speed assistance, advanced seat belt reminders and automated emergency braking, to be made standard equipment and for mandatory crash tests to be upgraded to match the current Euro NCAP tests.

Henk Stipdonk, head of road safety assessment at SWOV, the Dutch institute for road safety research, commented: “To get a better understanding of how advanced driver assistance systems are behaving in the real world, we need to get a picture from across Europe of precisely what happens when these vehicles are involved in collisions. This will require in-vehicle electronic data recorders and a pan-European database of collision investigations. With this information, we can ensure that these systems are optimised and improved over time to save even more lives.

“Real world investigation, and shared data across Europe, will also enable regulators to react faster to pick up potentially lethal safety problems. For automated vehicles, in-depth real world collision investigation will become absolutely essential, that’s why regulators need to move fast.”

ETSC is calling for an open EU database of collision investigation information, that could be funded by a nominal contribution on the cost of every vehicle sold.

Climate factors fuel gloom and boom

A new report, analyzing 15 of the world's largest automakers with combined market capitalization of $846 billion, has found that tightening regulations on emissions is having a significant business impact in the wake of the Volkswagen scandal which dominated headlines six months ago.

The report uses data from international climate research specialist CDP, and shows Volkswagen is not the only car maker potentially facing significant penalties as regulations on fleet emissions tighten around the world.

CDP claims seven other car makers potentially also face up to $4.8 billion in penalties (from the EU and US combined) for non-compliance on their fleet emissions. It says the two US car giants General Motors and Ford are the companies at most notable risk – their penalties could potentially equate to a combined $1.8 billion and $1.2 billion respectively.

Advanced vehicles

The report also identifies several automakers who have taken a lead on "advanced vehicles", putting them at a competitive advantage in light of developments such as the Paris Agreement to limit emissions reached in December 2015 and increasing measures to disadvantage diesel vehicles.

Nissan, Renault and Volkswagen are the only car makers to receive an 'A' grade from CDP in this area. The consultancy also identifies explosive opportunity in China from advanced vehicles where some of the most stringent passenger vehicle fleet emissions targets combine with a booming market (CDP estimates China could have nearly two million advanced vehicle sales in 2020).

CDP's automotive "Super League Table (SLT)" highlights those best prepared for climate regulation:

Condensed summary of the Super-League Table for global OEMs

2016 SLT rank	2015 SLT rank	OEMs	Country	Market cap 2015 (US$bn)	Global market share (2014)	Overall SLT score	Fleet emissions grade	Advanced vehicles grade	Manufacturing emissions grade	Carbon regulation supportiveness grade	CDP Performance based
1	1	Nissan	Japan	45.0	7%	4.42	C	A	D	A	A
2	3	Renault	Fance	27.5	3%	4.87	B	A	B	A	A
3	8	BMW	Germany	70.0	3%	5.34	B	B	A	B	A
4	2	Toyota	Japan	222.0	11%	5.76	A	B	B	B	B
5	5	Daimier	Germany	96.2	3%	7.05	A	C	A	E	A
6	7	Honda	Japan	59.3	4%	7.30	C	D	D	A	A
7	10	Ford	US	59.3	8%	7.38	C	B	D	D	B
8	9	PSA Peugeot Citroën	Fance	14.0	4%	7.41	C	D	C	B	A
9	4	Mazda	Japan	11.9	2%	7.94	A	E	B	D	B
10	12	General Motors	US	54.6	13%	8.39	E	B	D	B	A
11	6	Volkswagen	Germany	97.1	13%	8.70	E	A	A	C	N/A
12	11	FCA	Italy	19.0	6%	9.29	D	D	A	E	A
13	13	Hyundai	South Korea	30.5	6%	9.63	D	C	C	E	C
14	14	Tata Motors	India	22.1	1%	10.27	C	E	E	C	C
15	N/A	Suzuki	Japan	18.1	4%	11.14	D	E	E	C	C
				Total	**89%**						

Source: CDP

Paul Simpson, chief executive officer of CDP, said: “Today’s new investor research shows that too many companies still fall short in the light of stringent regulation and possible penalties on fleet emissions and that’s a significant risk for the sector as a whole. By performing well in areas such as advanced vehicles and supporting low carbon regulation manufacturers such as Nissan, Renault, BMW and Toyota are putting themselves in the fast lane for future growth.”

Nissan maintains its leadership in battery electric vehicles (BEV) in CDP’s rankings, as its LEAF is the best-selling BEV globally. Renault, BMW and Toyota are the other clear leaders in the overall ranking.

James Magness, CDP head of investor research, said: “Around the world, regulation on fleet emissions is tightening and this research shows investors which auto companies are responding well to this challenge, and which are driving into trouble. The research also shows that regulations need to tighten even more if global warming is to be limited to a two-degree rise as agreed by world leaders in Paris last year.”

“We also need more to be invested in advanced vehicle technologies, and it is clear from this research that some companies are capturing growth opportunities in this area much more effectively than others.”

UK fleets leading way on green issues

New figures from the British Vehicle Rental and Leasing Association (BVRLA) confirm the fleet leasing sector’s position as the UK’s leading adopter of cleaner and more fuel-efficient vehicles.

The BVRLA’s latest quarterly survey found that almost one in 20 (4.7%) of all new leased cars registered in the final quarter of 2015 was a plug-in, well-ahead of the market penetration achieved across all new registrations, which stood at 1.3%.

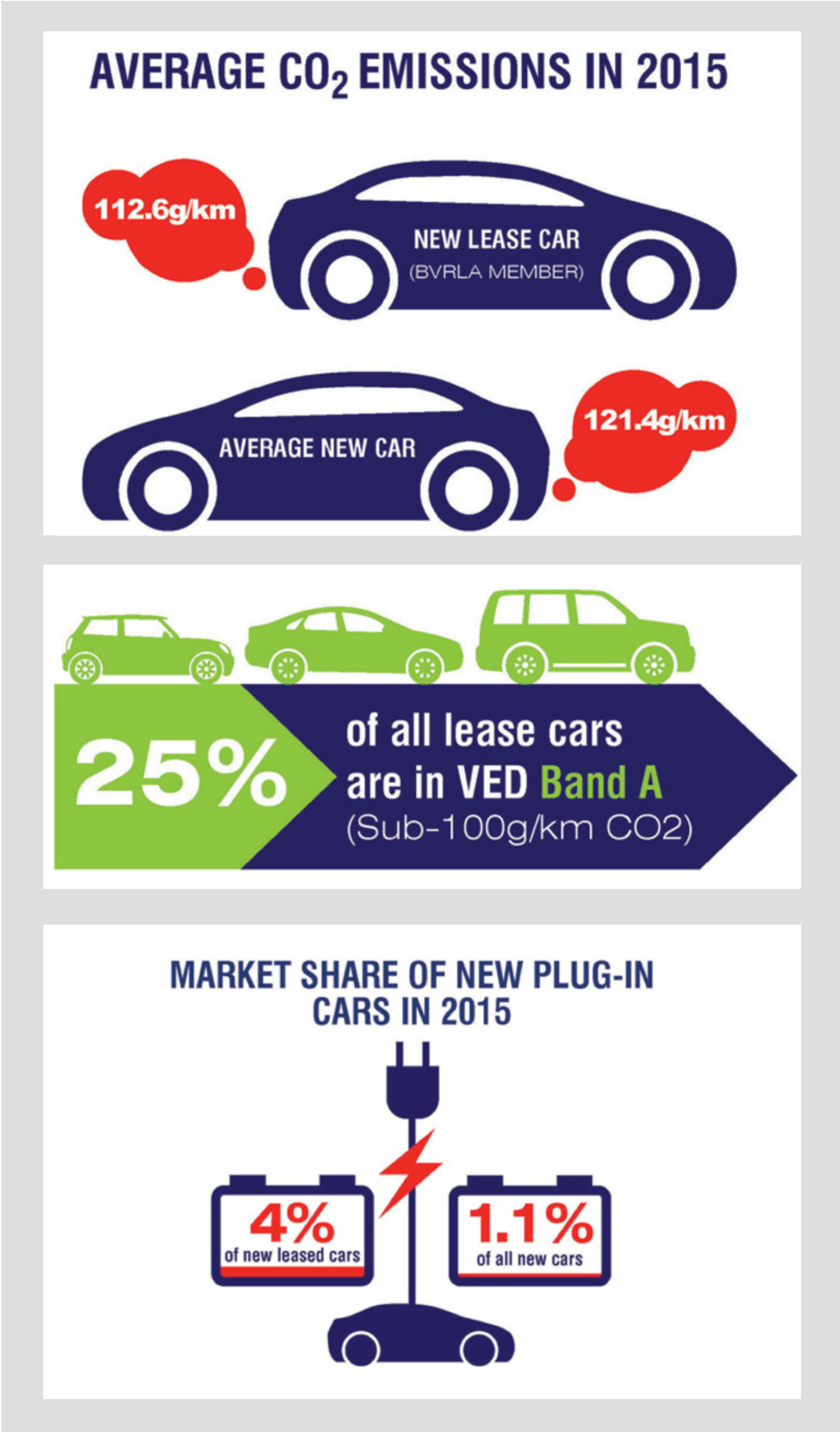
The leasing sector’s low-emission credentials are also demonstrated by the fact that more than 25% of lease cars now sit in VED band A (sub 100g/km CO_2) while the overall market share for all new cars sold in 2015 stands at 20%.

Thanks to this ever-increasing adoption of pure and plug-in hybrid electric cars as well as low-emission petrol and diesel vehicles, the average lease car added to a BVRLA member fleet in 2015 emitted just 112.6g/km CO_2, more than 7% less than the average new car registered in 2015.

Poppy Welch from the Go Ultra Low government and industry pressure group, said: “We’ve been encouraged by the growing number of fleets realising the multiple advantages of electric vehicles – and BVRLA members continue to play a pivotal role through education on whole-life costs and employee benefits. More businesses need to be bold, opening their thinking to incorporate electric vehicles and the cost-savings they bring.”

According to the BVRLA survey, leasing companies were responsible for around 1.3 million business cars and vans at the end of 2015, which was a 5.5% increase year-on-year.

BVRLA chief executive Gerry Keaney said: “The government needs to recognise that the company car or van is more than just a taxable perk and a valuable source of revenue for the Treasury. These vehicles are vital business tools that can play a huge role in reducing the UK’s road transport carbon emissions. Without a fair and simple tax regime for company vehicles, this won’t happen.”



Source: BVRLA

Autonomous vehicles out of lab, on the road

In the UK Budget in March, the Chancellor signalled his intention to make the UK a global centre for excellence in connected and autonomous vehicles.

George Osborne said the government will conduct trials of driverless cars on the strategic road network by 2017, with a consultation promised for this summer on removing the regulatory barriers to enable autonomous vehicles on England's A roads and motorways.

Osborne also announced the government will fund a £15 million "connected corridor" from London to Dover to enable vehicles to communicate wirelessly with infrastructure and potentially other vehicles.

In addition, there are plans to start trials of comparative fuel price signs on the M5 between Bristol and Exeter by spring 2016 to drive fuel price competition and help motorists save money, as well as a project to try out "truck platooning" or strings of connected lorries, on the strategic road network. This is when fleets of commercial vehicles "digitally connect" so they follow one other at a set, close distance, using automated driving support systems, an approach which is reported to reduce CO_2 emissions by up to 10%.

User reaction

Phil Harrold, automotive partner at professional services firm PwC, said: 'The real question is what would it take to get the general public to readily accept more automotive autonomy? It is highly likely that with an aging population and increased urbanisation the economic case can be easily made.

"One big hurdle developers, manufacturers and the UK government will have to cross is the public's perception of safety, particularly given recently reported safety issues."

According to the latest survey from Venson Automotive Solutions, 28% of motorists are excited about the future of driverless cars, saying that "progress is good", rising to 43% who identified truck platooning as a sound investment.

However, 30% of people Venson asked are concerned that the technology is not ready, with 34% casting doubt on the likelihood of testing happening as soon as 2017, simply because the public themselves are not ready for driverless cars.

"Overall, our survey shows that people feel positive about the future of the UK's transport infrastructure and driverless cars, with many seeing the safety and environmental advantages that this new technology brings," explains Simon Staton, director of client management, at Venson Automotive Solutions.

"Interestingly 18% welcomed how driverless cars could benefit mobility for the disabled. Naturally, people do have some concerns, which are mainly focused on the technology being ready, the hacking of technology and how data collected from driverless cars will be used by businesses and the government."

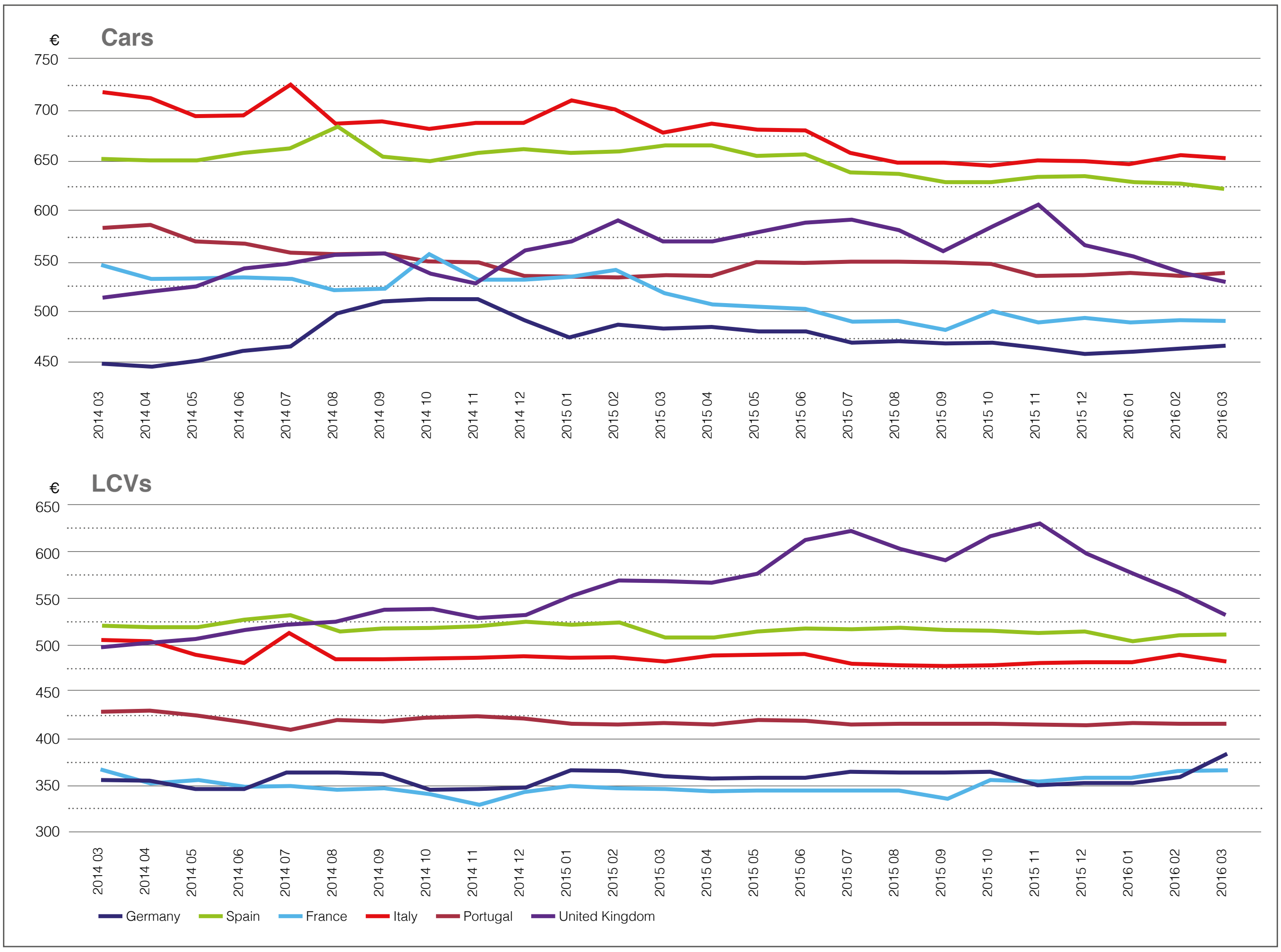
An academic team from NUI Galway in Ireland is among several European groups working on the development of technology for autonomous vehicles. Their research focuses in particular on signal and image processing technology for applications such as automatically detecting pedestrians and other vehicles using cameras and other sensors. The objective of technology like this is to provide "advance warning" of hazards on the road and give the driver or the vehicle more time to avoid a collision.

Rentals fall in key European markets

Leasing rentals have fallen significantly in three key markets across Europe in the last 12 months, according to the latest Experteye Leasing Index which uses data supplied by major leasing companies in six key European markets.

The research looked at leasing rates, new car prices, residual values and serving, maintenance and repair (SMR) costs in Germany, Spain, France, UK, Italy and Portugal for the 12 months to March 2016.

European Market Trends – Monthly Rental



Source: Experteye Leasing Index March 2016

It found that during that period, leasing rates had fallen in Germany and France by 6.7% and in Spain by 6.6% in the last 12 months. However in the UK and Portugal, leasing rentals had risen by 0.9% and in Italy they had gone up by 5.3% in the same period.

At the same time, new car prices had fallen in four of the main markets in the last 12 months. Spain saw the largest fall at 4.1%, followed by France at 2.4%, Germany at 1.7% and in the UK by 0.5%. Portugal, on the other hand, had seen increases in new car prices of 3.2% while in Italy they had gone up by 1.4% over the same period.

In terms of forecast residual values (RVs), leasing companies in five of the six countries were bullish in their optimism about second-hand car values.

In Italy, leasing companies expected RVs to rise by 6.4%, in France by 5.3%, in Spain by 2.6%, in Germany by 0.9% and in Portugal by 0.3%. Only in the UK was there pessimism towards RVs and here they were forecast to fall 4.2%.

When it came to forecast SMR costs over the last 12 months, however, the survey found that five of the markets predicted a fall in SMR costs, while one, Italy, predicted a small increase.

Leasing companies in Spain and Portugal forecast that SMR rates would fall by 4.3% over the last 12 months, while in France the figure was 3.5%. In Germany SMR costs were predicted to fall 1.6% and in the UK they were forecast to fall by 1.2%. Only in Italy were they forecast to rise, by 1.1%.

The figures come from the latest Experteye European Leasing index survey, for the period April 2015 to March 2016, which tracks forecasted RVs, SMR costs and rental rates in the six European countries using data supplied by major leasing companies.

The survey was based on up to 250 representative vehicles with a contract duration of 36 months /90,000km in each market.

Rick Yarrow, managing director of Experteye, said: “For the last 12 months we have seen significant falls in leasing rentals in three of the mainstream European markets – Germany, France and Spain, while in three others – the UK, Italy and Portugal – we have seen varying increases.

“This trend was largely repeated in the last three months when Spain saw falls in leasing rentals of 1.6%, Germany of 0.6%, and France 0.5%. Italy also saw slight falls of 0.2%, while in the UK and Portugal leasing rates increased by 1.8% and 0.7% respectively.

“However, we are now seeing new car prices back on the increase again and, in the last three months, five of the six markets have seen their new car prices rise by varying amounts. Only in Spain have they fallen slightly.”

Changes in RV forecasts, SMR costs, and lease rental rates to March 2016

	Forecast residual values		Forecast service, maintenance, and repair costs		Current rental rates	
	3-month change	12-month change	3-month change	12-month change	3-month change	12-month change
Germany	0.2%	0.9%	2.3%	1.6%	0.6%	6.7%
Spain	0.7%	2.6%	0.8%	4.3%	1.6%	6.6%
France	0.9%	5.3%	0.2%	3.5%	0.5%	6.7%
UK	2.2%	4.2%	0.5%	1.2%	1.8%	0.9%
Italy	1.7%	6.4%	0.2%	1.1%	0.2%	5.3%
Portugal	0.7%	0.3%	3.5%	4.3%	0.7%	0.9%

Editor: Pat Sweet
Editor in Chief: Brian Rogerson