

Leaseurope Index signals increasing Risk costs

Source: Leaseurope Index, 2020-Q2

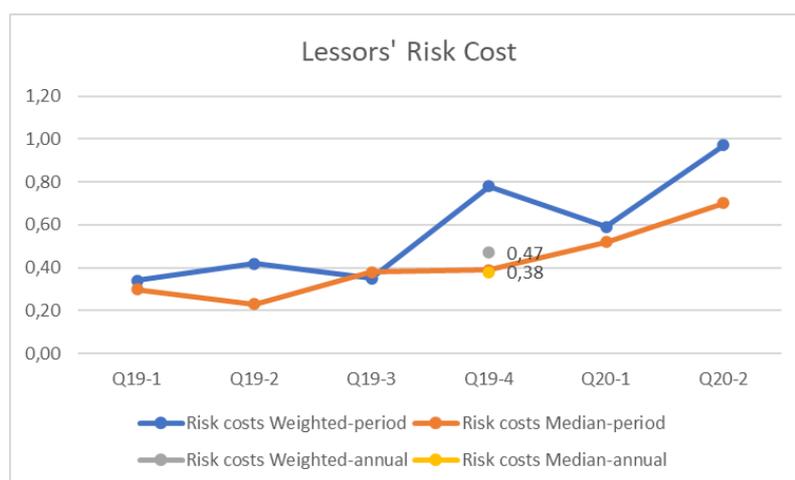
Leaseurope is the European Federation of Leasing Company Associations and as an umbrella body bringing together [46 national associations](#) throughout Europe representing bank-owned, captives and independent lessors as well as long and short-term automotive rental companies.

Leaseurope presents a quarterly survey, providing insight in developments derived from information from European lessors¹. Leaseurope monitors the plausibility of the data, however, this is not audited data. While the sampled data is broadly representative, one should be careful in interpreting the results. The information on leasing², derived as shown in the Leaseurope Index, should therefore only be used for indicative purposes.

Main development

The main development in leasing is the increase in Cost of Risk. As a result of increased Risk costs, other ratios are affected like the Return on Assets (RoA), Return on Equity (RoE) and Profitability in general.

The development of Risk costs, per period and for the year 2019, is presented in the below graph. The graph shows both the **Weighted average percentage** per period and the **Median percentage** per period, both against the average portfolio of the period.



Analysis

The annual Weighted Risk costs 2019 is **0.47%** and increased to **0.97%** in 2020-Q2.

The 2019 annual Median percentage of Risk costs of **0.38%** increased to **0.70%** for 2020-Q2.

Trends by country may vary, however, percentages will go up.

Graph 1: Lessors' Risk Costs, Weighted and Median, as percentage of the average (period's) portfolio.

From other information, it is known, that the UK (weighted) Risk costs have risen to over 1.00% already in 2020-Q2. With Covid-19 flaring up all over Europe, the end of an increase of Risk costs is not to be expected yet.

The **immediate effect** will be that banks will be restrictive in providing their cheap funds towards leasing, thus indirect to SMEs. This will certainly continue as long as banks apply their average risk cost percentages in comparisons, instead of the risk cost of the same (SME) population and risk profile of loans, compared with the funding of leasing.

¹ Consolidated figures are reported for the entire European activities of the participating companies. Europe is defined in the widest sense as EU27 + EFTA + other countries e.g. The United Kingdom, Turkey, Ukraine, Russia, Serbia, Croatia etc. Each company reports figures in euro regardless of which countries they operate in or which currencies they report in.

²The term "leasing" is used in its broadest sense, covering hire purchase, finance and operating leasing which includes long term rental. Leasing is defined according to International Financial Reporting Standards (IFRS16).