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A mature market with good growth prospects

Equipment leasing in Sweden has reached a high level of penetration, especially in some of the fastest-growing product markets. Some strong global, regional and local players jostle for market share, and the current economic outlook seems very positive

Andy Thompson reports

FREEDOM from regulation and free thinking: if these are concepts not normally associated with Sweden, they do apply in relation to its leasing business. Says Svante Johansson of Nordea Finance: "The tax authorities have not made a strong attack on finance leasing in Sweden as in some other markets." As a result, finance leasing remains significant in the car fleet market, which accounts for 25 to 30 per cent of all new car sales in Sweden.

Also, operating leasing is on the increase, and hire purchase products are popular for both vehicles and yellow-goods financing as well as among smaller customers who, according to Johansson, "prefer to claim fiscal depreciation while taking advantage of asset based finance". Sweden's non-taxbased HP products are said to be similar to UK conditional-sale contracts, which reflects the fact that the Swedish leasing market has evolved on broadly similar lines to those seen in the larger West European countries.

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The players

The three largest players in the Swedish market are local banking groups, but some of the pan-European and global lessors are catching up fast – especially in vendor-based facilities for manufacturing partners. Nordea is part of a multinational Scandinavian financial institution, listed on the Stockholm, Copenhagen and Helsinki stock markets, while ForeningsSparbanken and Handelsbanken are specifically Swedish banks.

All of these banks offer a mixture of branch-based and other business direct with customers, and point-of-sale facilities with vendor partners. Some other local players, including Wasa Kredit and Barcken Finans, specialise in point-of-sale business with independent dealers.

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Dutch-based global player De Lage Landen (DLL) is now very big in Sweden and other Nordic countries, following its acquisition, two years ago, of the Telia Finans Scandinavian leasing portfolio, mainly in IT and office equipment from the Swedish telecoms company TeliaSonera.

Carlo van Kemenade, acting chief executive for DLL in the Nordic countries, comments: "We now offer a full range of finance facilities in office equipment, technology finance, materials handling and construction machinery, health care equipment, and food manufacturing and agricultural machinery. In addition we are looking at possibilities for expansion in telecoms equipment. Most of our business is vendor-introduced, but we also do some deals direct with end-users, in terms of financing projects with multiple suppliers. DLL also offers syndication type of opportunities and can structure more complex undertakings through a structured asset finance group based in Dublin."

DLL's vendor relationships in Scandinavia include, among many others, Sharp, Sony, Atea, Kinnarps and EMC in office equipment and technology finance, and Terex and Dynapac in the mechanical handling sector. Another strong player in vendor programmes is Key Equipment Finance. Jens Sjoeberg-Madsen, Key's Nordic Regional Director, comments: "75 per cent of our business is in IT equipment, mainly with vendor partners such as Unisys, though we are looking to diversify. Over the past two years 25 per cent of all our new business was arranged directly with customers through our own sales force."

Products and opportunities

Sjoeberg-Madsen points to one significant area where the Swedish market offers a distinctive leasing product. "The home PC concept is taking off in Sweden for corporate employees who work largely from their own homes," he says. "The employer guarantees the receivables, but the rentals are allowable against the employee's personal income tax. This has attractions in a country with a 50 per cent top tax rate. It needs a specialised approach, including insurance cover for cases where employees leave their jobs while the lease period is still running."

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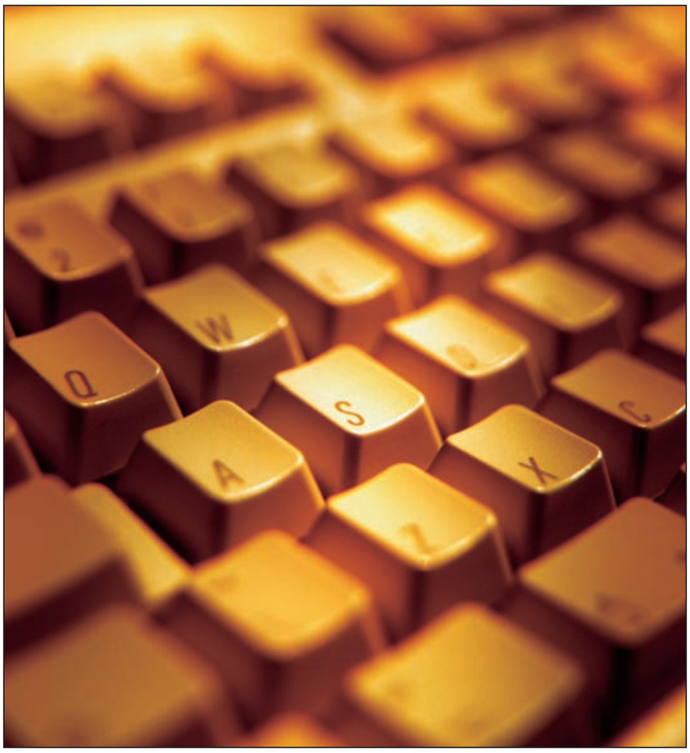
Operating leases present global challenges to the leasing industry, not least in a country like Sweden where the IT sector is of great importance in the product mix. "Even with threeyear leases on high tech equipment, there is often a residual-value risk and we



EQUIPMENT FINANCE BUSINESS IN SWEDEN 2004 (€ MILLION)

	Leasing	HP	Total
Machinery & industrial equipment	509.08	7.78	516.86
Computers & business machines	1,068.79	0.11	1,068.90
Fleet cars	902.97	572.32	1,475.29
Other road vehicles	255.25	219.52	474.77
Ships, aircraft & rail rolling stock	602.90	0.22	603.12
Other	467.10	40.44	507.54
Total	**3,806.09**	**840.39**	**4,646.48**

Source: Leaseurope

always take this risk in-house as a leasing company. We can do this only by specialised knowledge of the resale avenues", says Sjoeberg-Madsen. He adds that it was becoming difficult for vendors to assume RV risk themselves because of the resulting difficulty of recognising a sale up front under international financial reporting standards.

Johansson agreed on the importance of this aspect: "We work in partnership with suppliers to cover RV risks, but the accounting problem this poses for vendors is an issue that we see coming up repeatedly now." Van Kemenade suggested that manufacturers would react to these pressures by looking for joint ventures with lessors, or by outright sales of captive finance arms.

Key Equipment Finance sees strong potential in the Nordic medical equipment sector. "As a company it is an area where we see good prospects, building on our expertise in tracking of RVs. As well as the state-run hospitals, there is the general medical and dental practice sector, independently managed though substantially statefunded, where the credit risk profile is somewhat different", says Sjoeberg-Madsen.

All are agreed that the penetration of leasing, within total sales of capital equipment, has reached a relatively high level in Sweden. Sjoeberg-Madsen comments: "Among the various equipment types, lease penetration ranges from five to 30 per cent, but in the IT sector it is somewhere around 25 per cent." Johansson said: "Across all sectors, lease penetration averages around 20 per cent, though it fluctuates a little from year to year."

Sweden remains outside the Eurozone, so its economic trends are often likely to diverge from those in the larger European markets. The current outlook, however, seems very positive. Van Kemenade points out: "The latest forecasts suggest that Swedish national output will grow by 3 per cent in 2006 and by a further 3 per cent in 2007. There seems little risk of serious inflation, so it is questionable whether Sweden will be exposed to any interest rate hikes in the next year or two."

Most agree that leasing business should continue to prosper in these conditions, although Sjoeberg noted: "The high level of liquidity among the corporate customer base could limit the demand for finance leases."

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Those companies who are already in the Swedish leasing market see great strengths in many of the fundamentals. "Throughout the Nordic countries both the personnel and the systems in leasing are the best in the class, and this is certainly applicable to DLL", says van Kemenade.