

Leasing in Latin America: Long Live Operating Leases

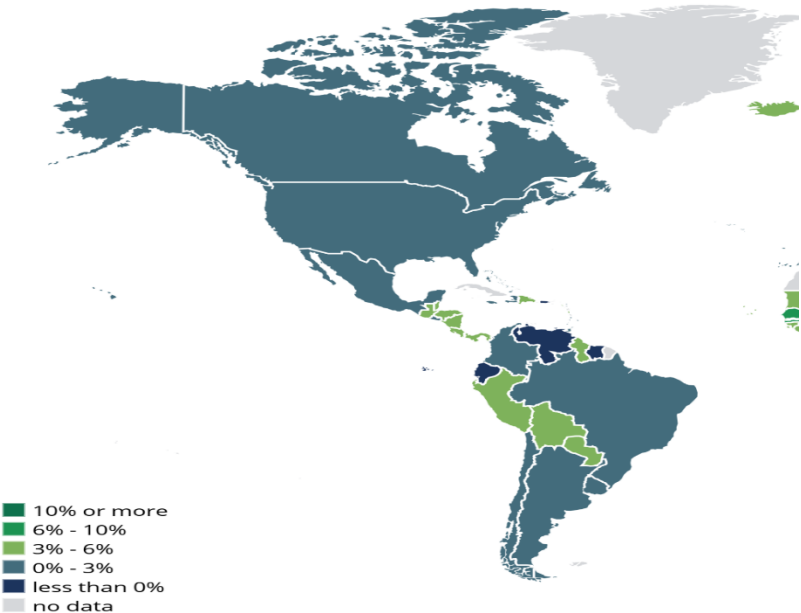
The Alta LAR 100 reports continuous and stronger than regional GDP growth of the Latin American leasing industry while business shifts from finance to operating leases

By: Rafael Castillo-Triana

In global and regional environments experiencing slow economic growth recovery, the performance of the Latin American leasing industry exhibits a much better landscape.

According to the International Monetary Fund, Latin American economies on average grew by a slim 1.1%, anchored by the declines in Brazil and Venezuela. The outlook for 2017 (2%) is better

International Monetary Fund Growth Outlook 2017 but lower than the expected growth in other emerging markets (4.2%).



The IMF predicts negative economic growth in Venezuela, Suriname and Ecuador (countries we will call the “2017 Dogs”), forecasts large growth rates in Mexico, Guatemala, Honduras, El Salvador, Nicaragua, French Guyana, Costa Rica, Panama, Peru, Bolivia and Paraguay (the “2017 Stars”), and suggests that Argentina, Brazil, Colombia, Peru, Chile and Uruguay will grow but at slower rates than in the past (the “2017 Cash Cows”).

For another consecutive year, the leasing industry managed to grow more than the overall economy at an average rate of 4.28%, measured in United States dollars, according to the latest Alta LAR 100 report. For the past 16 years, The Alta Group has been compiling information about lessors active in Latin America, ranking them in terms of size and extracting their key performance indicators. Results are released each year in The Alta LAR 100

Figure 2: Latin American Growth Forecast. Source: International Monetary Fund. World Economic Outlook, April 2017

report and the details and main findings are discussed every year in Miami in The Alta Group Latin American Annual Leasing Conferences.

Table 1: 2014-2016 Leasing Portfolio Size

COUNTRY/PAIS	USD\$000 PORTFOLIO 2014	USD\$000 PORTFOLIO 2015	USD\$000 PORTFOLIO 2016	SHARE	GROWTH 16/15	GROWTH 15/14
Mexico	\$ 13,837,222.64	\$ 13,474,671.33	\$ 15,024,128.00	27.0%	11.5%	-2.6%
Colombia	\$ 13,147,579.47	\$ 12,963,375.27	\$ 13,598,748.09	24.5%	4.9%	-1.4%
Chile	\$ 10,135,241.41	\$ 8,945,312.45	\$ 10,470,480.60	18.8%	17.0%	-11.7%
Brazil	\$ 9,765,994.06	\$ 8,204,452.33	\$ 7,324,131.62	13.2%	-10.7%	-16.0%
Peru	\$ 8,463,599.40	\$ 6,656,347.06	\$ 6,102,346.31	11.0%	-8.3%	-21.4%
Argentina	\$ 1,551,466.21	\$ 1,242,237.55	\$ 1,136,693.87	2.0%	-8.5%	-19.9%
Guatemala	\$ 109,279.28	\$ 128,784.85	\$ 132,200.36	0.2%	2.7%	17.8%
Puerto Rico	\$ 599,286.18	\$ 609,423.11	\$ 730,925.53	1.3%	19.9%	1.7%
Venezuela	\$ 329,990.76	\$ 386,927.32	\$ 286,590.67	0.5%	-25.9%	17.3%
Costa Rica	\$ 698,715.51	\$ 538,061.50	\$ 584,355.46	1.1%	8.6%	-23.0%
Ecuador	\$ 112,605.22	\$ 89,187.81	\$ 92,877.97	0.2%	4.1%	-20.8%
Bolivia	\$ 69,895.49	\$ 64,868.88	\$ 80,067.81	0.1%	23.4%	-7.2%
Honduras	\$ -	\$ -	\$ 22,027.90	0.0%		
TOTAL	\$ 58,820,875.64	\$ 53,303,649.48	\$ 55,585,574.20			

Leasing portfolio growth rates in United States Dollars Source: The Alta Group Latin American Region

Bolivia, Puerto Rico, Chile and Mexico were the growth leaders in Latin America. Venezuela and Brazil were great disappointments. Argentina surprises because we indeed have seen more dynamism in the Argentine leasing industry in the last two years than in the last decade.

The case of Mexico must be highlighted. The country has experienced a profound transformation of the structure of its players, while it has managed to grow. Mexico is a good benchmark of the features that we can in general observe in the region: while bank lessors are leaving the space, independents are taking care of the business.

The report highlights this year again that the main drivers of growth in a leasing industry that is changing are the independents, i.e. companies owned by a combination of family businesses and private equity and investment funds. The starring players are switching from banks and financial institutions to independent lessors. The industry realized that to be in business, it is no longer necessary to be a bank or belong to a bank. As a matter of fact, banks in Latin America are still increasingly suffering from the constraints of excessive regulation, which is making them behave as if they are terrified of assuming risks. As such, their contribution to real economic growth is fading. Most banks in Latin America are currently moving only in their comfort zones of consumer and mortgage financing, leaving the role of investment to other players.

Table 2: Portfolio Growth by Company Type

Type of Company	Year	Portfolio (US\$000)	Growth
Bank	2016	\$ 39,943,251.13	10%
	2015	\$ 36,214,543.19	
Captive	2016	\$ 9,688,998.76	-7%
	2015	\$ 10,392,591.85	
Independent	2016	\$ 8,143,951.40	42%
	2015	\$ 5,728,061.69	

Source: The Alta Group Latin American Region

Another interesting observation is that captives declined in Latin America. This may be a combination of decline in sales type leases in the region and a growing tendency of manufacturers and vendors to outsource their customer financing to independent companies.

As Table 2 shows, independent lessors managed to grow their portfolios 42%, while captives declined 7% and banks only grew 10%. This is partially explained by the fact that the leasing value proposition is changing. While banks concentrate their offerings in finance and full payout leases, assuming little to no risk on the equipment, independents tend to be more proactive and offer greater value by assuming larger risks on the equipment. Hence, the operating lease markets are growing in Latin America and this trend is expected to continue in the years to come. The reason for this is not only the need for independents to compete and for captives to generate sustainable value combining financing and services. Banks can remain in their comfort zones while upcoming legislation about secured transactions helps them close deals just financing equipment without the need to design complex leasing structures. In general, one can say that this seems to be a perfect world for all the players, and it should be, but there are some clouds on the horizon that need to be observed before jumping to such conclusions.

The same conclusion made last year is still valid nowadays: The extraordinary growth of independent lessors has been fueled by abundant access to capital in the last three to four years. Several private equity funds and institutional investors are betting on the leasing industry in Latin America, and in particular, in countries such as Mexico, Colombia, Costa Rica, Peru, Chile and even Brazil. How long will funding sources maintain interest? One may argue that this will last as long as the capital markets stay liquid. However, if the events that may bring drought to the capital markets take place, then most of the current independent companies could face challenges, starting with the impairment of their growth rates due to extreme liquidity

challenges. The Alta Group is monitoring the effect that a liquidity trap might have on some of the most important independent lessors.

As Table 2 shows, Captive companies declined in Latin America (7%) in 2016, while the former banks and multinational independents that used to finance their deals exited the Latin American market. That was the case of CIT Group and GE Capital, two large multinationals that exited. Once these companies left, most of the captives focused on developing their own financing solutions for Latin America. However, it must be observed that captives in Latin America are mainly concentrated in the two largest economies, Mexico and Brazil. Within the 100 largest leasing companies in Latin America, there are only 14 captives (eight in Mexico, three in Brazil, one in Argentina, one in Colombia and one in Costa Rica).

New Business Volume

Figure 3 shows the estimated new business written by the 100 largest lessors in Latin America, which represents more than 75% of the total volume in the sub-continent.

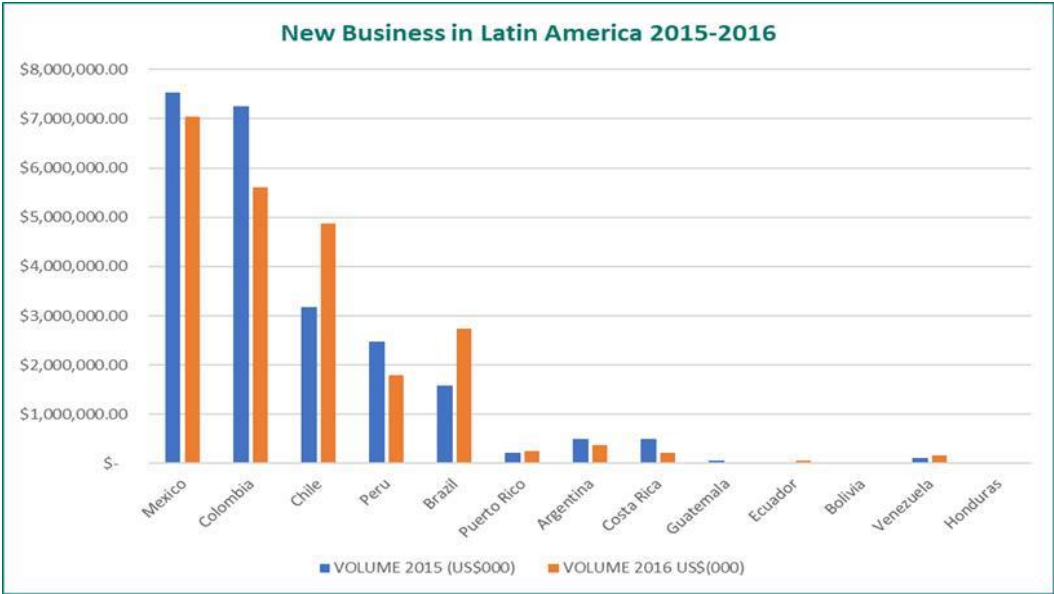


Figure 3: Estimated Volume by Country

Source: The Alta Group Latin American Region

Clearly, Mexico, Colombia and Chile champion their leasing industries as sources of capital goods financing in their countries. Brazil shows a comeback due to the fact that operating leases in the form of renting agreements (locação) are taking the place of the finance lease business (arrendamento mercantil) while banks and financial institutions in Brazil migrate from equipment leasing into other forms of equipment financing, such as secured loans with pledges and guaranty trusts (alienação fiduciária). Argentina is still an interesting case to observe, since it is coming back from a “dark age” when the country was experiencing minimal investment in

capital goods but the leasing industry players managed to stay alive. Alta anticipates that Argentina will soon play a key role in the region's new leasing business volume, consistent with being the third largest Latin American economy. However, the gap between Argentina and the lead players is still very large. There is a long way to walk.

There is no doubt that Mexico is the outlier. It has become the largest country in terms of leasing portfolio, new business and prospects for overall economic growth.

Real Estate Leasing

Certain countries such as Chile and Colombia record large portfolios in real estate leasing. In the case of Chile, real estate leasing represents close to 46% of the total portfolio, according to the Chilean Leasing Association (ACHEL). In the case of Colombia, real estate leasing represents over 31% of the total portfolio.

One of the most relevant financial products in both countries is household real estate leasing (leasing habitacional), which provides lease financing for houses or dwelling units. Chile was the pioneer, regulating the product in 1992, which by definition is supported by a subsidy granted by the state to the lessees. Colombia followed through with a statute enacted in 2003, and the subsidy for low income household lessees was enacted in 2012.

While real estate leasing does not represent equipment financing, it does signal capital investment and it fuels economic growth in the countries. The Dominican Republic (2011) and other Central American and Caribbean countries are following the same trend.

The Role of Regulations

The Alta Group has observed that regulations keep affecting the performance of Latin American lessors in interesting ways. As mentioned, most banks and bank-affiliated lessors have been losing dynamism because the regulations inspired by Basel III have created an "analysis-paralysis" culture. Banks feel constrained by ratios between required capital and risk weighted assets, and few of them have decided to drill down and understand risks associated with the leasing business. For that reason, we anticipate that their market share will continue to drop.

Most of the fastest growing players in countries such as Brazil, Colombia, Chile and Peru, to name a few, are non-regulated commercial companies. The space in leasing abandoned by banks and non-bank financial institutions has been taken over by more dynamic, commercial company players who understand equipment lifecycles, productivity and secondary markets, while also developing capabilities for delivering financing solutions. These players enjoy little to no regulatory supervision, but tend to become more transparent as they require more sophisticated funding sources.

The case of Mexico is especially interesting. While the country de-regulated the leasing business in 2006 and created the “non-regulated financial institutions” (SOFOMS, or *Sociedades Financieras de Objeto Múltiple*), over the years these companies became more and more regulated on their sidelines. First, they were subject to consumer protection regulations and monitoring by the Mexican Financial Consumer Defense Commission (CONDUSEF). Many regulations emerged from this government body. Second, all companies were subject to Anti-Money Laundering Compliance, supervised by the National Banking and Securities Commission, which requires internal certifications, periodic reports of customers (“Know Your Customer” routines), reports of suspicious activities, etc. Third, all companies issuing securities subject to public offering became regulated by the National Banking and Securities Commission.

As a normal development, the reaction to asphyxiating regulatory interference has been the migration of most of the active lessors from the financial systems. Alta has been watching how many of the key lessors are ceasing to be regulated SOFOMs, while others just transformed their legal structure from SOFOMs to SAPIs to become open companies, suitable for growth in capital markets but relinquishing their former privilege to be treated as financial institutions.

The Role of Multinationals: Back to the European Conquerors

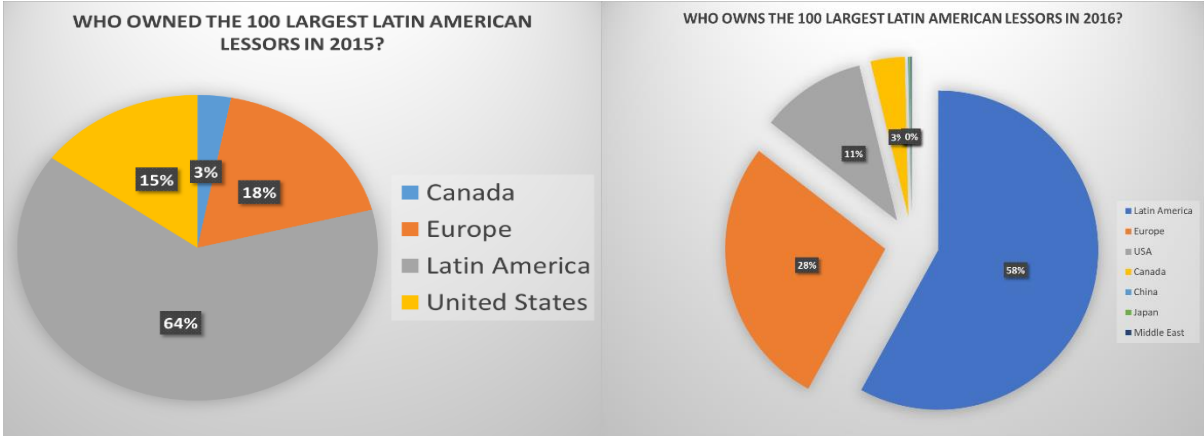


Figure 4: Who owned Leasing Companies in Latin America in 2015 - who owns them in 2016?
 Source: The Alta Group Latin American Region

An interesting trend can be observed in terms of who invests in Latin American lessors. Figure 4 shows the contrast of the composition of ownership based upon the country of origin. It is still clear that the majority of ownership of lessors remains in the hands of Latin American investors, but their share declined from 64% to 58%. Europe consolidated as the second largest and fastest growing source of capital and ownership in Latin America (from 18% in 2015 to 28% in 2016), and Alta has noted the still growing role of European companies moving into the region. New entrants are coming from Japan, China and the Middle East. Meanwhile, United States ownership keeps falling and fading away (from 15% in 2015 to 11% in 2016). This observation clearly shows another field where the United States of America surrendered its

former leadership. This is not a sign of a country coming back to be great again. In its own backyard, the United States lost its role of leader of the leasing and financing industry.

Here is the ranking of the largest leasing companies for year-end 2016 by The Alta Group LAR 100, 2017 edition.

The Alta LAR 100 List

Ranking 2015	Ranking 2016	Company	COUNTRY	Portfolio USD(000) 2015	Portfolio USD(000) 2016
1	1	Bancolombia	Colombia	4,492,904.60	5,058,899.61
2	2	NR Finance De Mexico	Mexico	3,739,196.43	3,708,284.94
7	3	Davivienda	Colombia	1,835,495.94	2,668,682.21
3	4	Banco Credito Del Peru	Peru	2,803,606.08	2,474,045.82
4	5	Banco Santander Chile	Chile	2,157,814.33	2,187,121.34
40	6	Banco Itau Chile	Chile	350,286.60	1,996,209.26
5	7	Banco De Chile	Chile	1,933,895.26	1,990,886.70
17	8	Unifin Financiera	Mexico	1,022,827.35	1,726,778.70
8	9	Banco De Occidente	Colombia	1,540,874.41	1,682,555.45
9	10	Arrendadora Inbursa	Mexico	1,516,643.56	1,669,004.11
14	11	BCI - Credito E Inversiones	Chile	1,227,737.20	1,577,509.37
10	12	BBVA -Banco Continental	Peru	1,481,092.72	1,563,666.96
18	13	Localiza	Brazil	1,014,009.25	1,497,791.17
11	14	Caterpillar Crédito	Mexico	1,306,661.86	1,232,320.07
15	15	Banco Corpbanca	Colombia	1,101,013.68	1,178,858.81
21	16	BBVA Colombia	Colombia	912,762.07	1,135,425.76
22	17	Ford Credit	Mexico	893,984.51	1,110,191.64

Ranking 2015	Ranking 2016	Company	COUNTRY	Portfolio USD(000) 2015	Portfolio USD(000) 2016
12	18	BBVA Leasing	Mexico	1,279,609.72	1,038,385.40
19	19	Banco Del Estado	Chile	945,560.32	1,031,120.20
16	20	Scotiabank	Peru	1,084,959.28	999,332.58
6	21	Volkswagen Leasing	Mexico	1,875,011.22	986,920.88
20	22	Banco De Bogota	Colombia	938,105.42	825,794.49
24	23	Bradesco Leasing S/A Arrendamento Mercantil	Brazil	767,172.15	809,730.96
25	24	Arrendadora Banorte	Mexico	710,967.43	725,629.79
59	25	Docuformas	Mexico	137,802.48	662,614.00
#N/A	26	Movida	Brazil	426,835.80	657,186.75
28	27	Banco Bilbao Vizcaya Argentaria	Chile	596,313.06	647,252.12
30	28	Santander Brasil Arrendamento Mercantil, Merging Santander Leasing	Brazil	549,287.79	624,323.64
31	29	Popular Auto	Puerto Rico	544,270.00	616,245.00
33	30	Banco Bice	Chile	511,735.66	605,123.99
32	31	Banco IBM S/A Arrendamento Mercantil	Brazil	521,932.05	538,946.06
27	32	Navistar Financial	Mexico	632,609.82	535,158.58
35	33	Arrendadora Banregio	Mexico	429,169.18	524,648.52
29	34	Interbank	Peru	582,616.20	524,639.61
23	35	Banco Itaucard S/A Arrendamento Mercantil	Brazil	776,592.89	519,820.32
34	36	Paccar Arrendadora	Mexico	444,676.53	479,626.40
43	37	Unidas	Brazil	298,447.61	449,355.91
36	38	Ouroverde	Brazil	414,048.78	434,981.50

Ranking 2015	Ranking 2016	Company	COUNTRY	Portfolio USD(000) 2015	Portfolio USD(000) 2016
37	39	Banco Interamericano De Finanzas	Peru	410,495.20	419,750.79
44	40	Renting Colombia S.A.	Colombia	281,173.24	367,696.49
41	41	Scotiabank Sudamericano	Chile	330,370.40	360,069.57
39	42	Safra Leasing S/A Arrendamento Mercantil	Brazil	378,923.64	329,563.64
45	43	HP Financial Services Arrendamento Merc. S/A	Brazil	264,540.89	305,484.75
52	44	Colpatria Red Multibanca	Colombia	220,811.83	287,898.08
48	45	SGEF S.A. A.M.	Brazil	237,662.68	285,408.17
46	46	Locamerica	Brazil	258,023.15	273,689.44
53	47	Mercader Financial	Mexico	197,140.66	264,290.89
51	48	ATC Sitios De Colombia S.A.S	Colombia	228,392.51	245,456.62
#N/A	49	Financiera Desyfin	Costa Rica	212,977.07	235,873.55
50	50	Cia. De Arrendamento Mercantil Rci, F.K.A. Renault Do Brazil	Brazil	231,800.62	235,430.00
54	51	Arrendadora Actinver	Mexico	197,070.32	228,403.12
69	52	Banco Occidental De Descuento	Venezuela	117,014.62	222,508.32
49	53	Santander Peru	Peru	235,665.73	197,674.26
57	54	Tanner	Chile	162,773.89	175,189.37
56	55	Banco Internacional	Chile	167,109.87	174,366.59
#N/A	56	Grupo BNS	Costa Rica	165,482.84	170,218.28
71	57	Carvajal Propiedades E Inversiones S.A.	Colombia	112,890.17	156,130.99
74	58	CHG Meridian Mexico	Mexico	105,914.06	152,166.76
66	59	Financiera Bajio	Mexico	125,897.76	151,499.23

Ranking 2015	Ranking 2016	Company	COUNTRY	Portfolio USD(000) 2015	Portfolio USD(000) 2016
#N/A	60	Arrendadora Bepensa	Mexico	152,802.92	151,476.00
60	61	Banco Financiero	Peru	156,859.97	149,325.44
58	62	Leasing Corfic Colombiana	Colombia	160,913.84	144,565.70
63	63	Arrendadora Ve Por Mas	Mexico	148,428.35	144,460.32
62	64	Operadora Mega	Mexico	150,155.36	142,139.47
73	65	Leasing Bancoldex S.A.	Colombia	112,531.99	138,332.41
64	66	De Lage Landen	Mexico	142,034.29	133,794.13
55	67	BBVA Banco Frances	Argentina	185,387.47	128,999.94
#N/A	68	Daycoval Leasing - Banco Múltiplo S.A	Brazil		126,562.55
72	69	Tattersal	Chile	112,710.75	126,128.35
65	70	John Deere Credit	Mexico	130,556.59	124,571.67
82	71	Finandina	Colombia	312,966.17	116,655.27
99	72	Equirent S.A.	Colombia	55,174.80	113,009.33
68	73	Value Arrendadora	Mexico	122,223.81	112,169.28
83	74	Banco Comafi (Incl, The Capita Corp)	Argentina	90,866.74	108,205.19
61	75	Banco De La Nacion Argentina (Incl, Nacion Leasing)	Argentina	155,003.64	103,386.82
78	76	Banco Supervielle	Argentina	101,050.67	98,185.03
97	77	Leaseplan Arrendamento Mercantil S/A	Brazil	56,708.01	93,335.39
77	78	CSI Leasing México	Mexico	101,147.50	91,972.37
79	79	Banco Patagonia S,A,	Argentina	99,033.19	91,495.40
67	80	BB Leasing S/A Arrendamento Mercantil	Brazil	124,641.38	89,910.92
90	81	Banco Popular	Colombia	76,831.09	88,766.07

Ranking 2015	Ranking 2016	Company	COUNTRY	Portfolio USD(000) 2015	Portfolio USD(000) 2016
86	82	Arrendadora Afirme	Mexico	81,799.64	87,748.50
92	83	Alfa Arrendamento Mercantil S/A	Brazil	68,380.88	80,588.26
81	84	Banco De Galicia Y Buenos Aires	Argentina	92,783.33	80,304.32
84	85	Corporación Financera Atlas	Mexico	84,717.51	78,697.25
#N/A	86	Comercial Administradora	Guatemala	67,172.71	78,488.69
89	87	AB&C Leasing	Mexico	78,667.74	72,934.52
105	88	Arrendadora Y Soluciones De Negocio	Mexico	50,344.26	72,143.29
#N/A	89	Kineret	Costa Rica	66,838.17	64,546.54
76	90	HSBC Bank Argentina S,A,	Argentina	103,152.31	61,318.38
131	91	HP Financial Services Colombia Llc	Colombia	30,029.68	57,962.18
103	92	Banco Consorcio	Chile	50,817.88	57,180.61
108	93	Rentandes S.A.	Colombia	46,603.55	56,657.68
#N/A	94	Corporacion CAFSA	Costa Rica	44,138.95	56,086.21
#N/A	95	Mareauto	Ecuador		55,309.00
102	96	Industrial And Commercial Bank Of China (ICBC)	Argentina	51,706.79	54,796.38
106	97	Banco GNB (Antes HSBC Bank Peru)	Peru	50,321.30	53,954.48
87	98	HP Financial Services	Argentina	80,312.03	53,724.48
109	99	Leasing Total	Peru	45,956.97	52,335.69
101	100	Citibank	Argentina	52,764.08	50,140.22

The 100 Largest Leasing Companies in Latin America

Source: The Alta Group Latin American Region

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