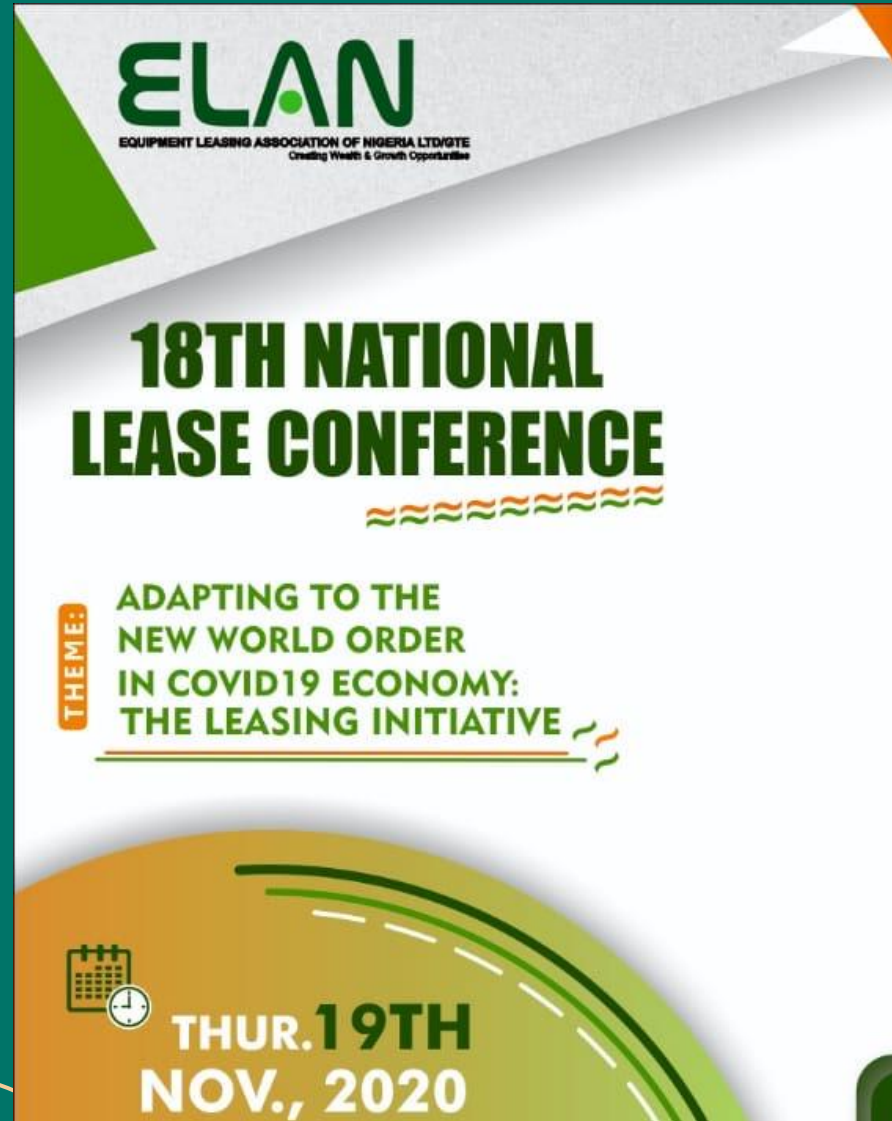


IMPERATIVE OF LEASING TO STIMULATE DOMESTIC ECONOMY

Rafael Castillo-Triana,
CEO The Alta Group
Latin America and
Emerging Markets



ELAN
EQUIPMENT LEASING ASSOCIATION OF NIGERIA LTD/OTE
Creating Wealth & Growth Opportunities

18TH NATIONAL LEASE CONFERENCE

THEME: ADAPTING TO THE
NEW WORLD ORDER
IN COVID19 ECONOMY:
THE LEASING INITIATIVE

**THUR. 19TH
NOV., 2020**

The poster features a white background with green and orange accents. At the top left is the ELAN logo. The main title is in large, bold, green letters. Below it is a decorative line of wavy lines in the colors of the Nigerian flag. The theme is presented in a smaller font, with 'THEME:' in a vertical orange box. At the bottom, the date is displayed in a large, bold, black font, accompanied by a calendar and clock icon.



18TH NATIONAL LEASE CONFERENCE: OUR PARTNERS



SOVEREIGN INVESTMENTS LIMITED

Plot 1707A, Olujobi Close, off Bishop Oluwole Street, Victoria Island, Lagos.
P. O. Box 74798 Victoria Island
Tel: +234 - 909 444 4051, 909 444 4053
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NIKKY TAURUS

Vehicle Hire & Leasing



Barcorp Finance Limited





We watch the Leasing Industry Worldwide

Credentials

- I lead the Emerging Markets Practice of The Alta Group, a USA headquartered Advisor to the Leasing Industry worldwide
- More than 80 senior professional executives working in the leasing industry since the 1960s
- We provide business intelligence and insight to all stakeholders of the leasing industry worldwide (This includes OEMs, Investors, Banks, Captive, Independent, Governments and Multilateral)



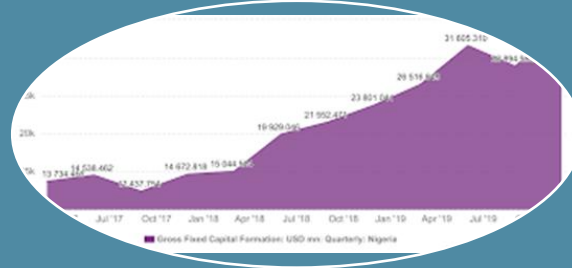
The Alta GroupSM

Role of Leasing in Domestic Economy



Leasing Companies Business entails purchasing capital Goods:

- Movable Assets
- Buildings and Constructions
- Intangible



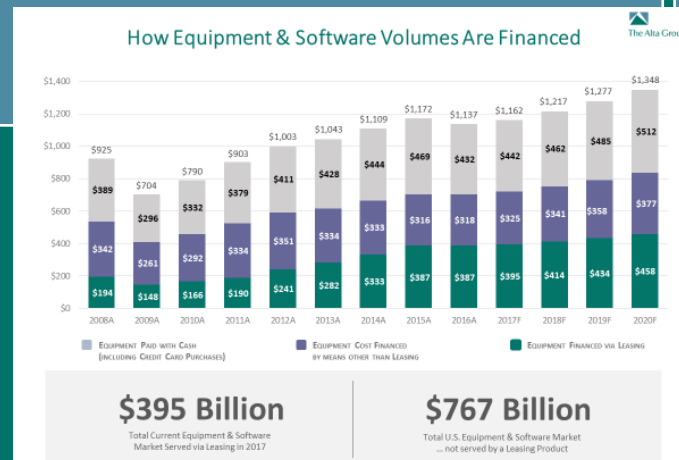
Hence fueling fixed capital formation in the economy



Fixed Capital Formation drives:

- Job creation
- Revenues
- Economic Growth
- Better Quality of Life

Leasing makes 40% of new Investment in the United States



\$395 Billion

Total Current Equipment & Software Market Served via Leasing in 2017

\$767 Billion

Total U.S. Equipment & Software Market ... not served by a Leasing Product

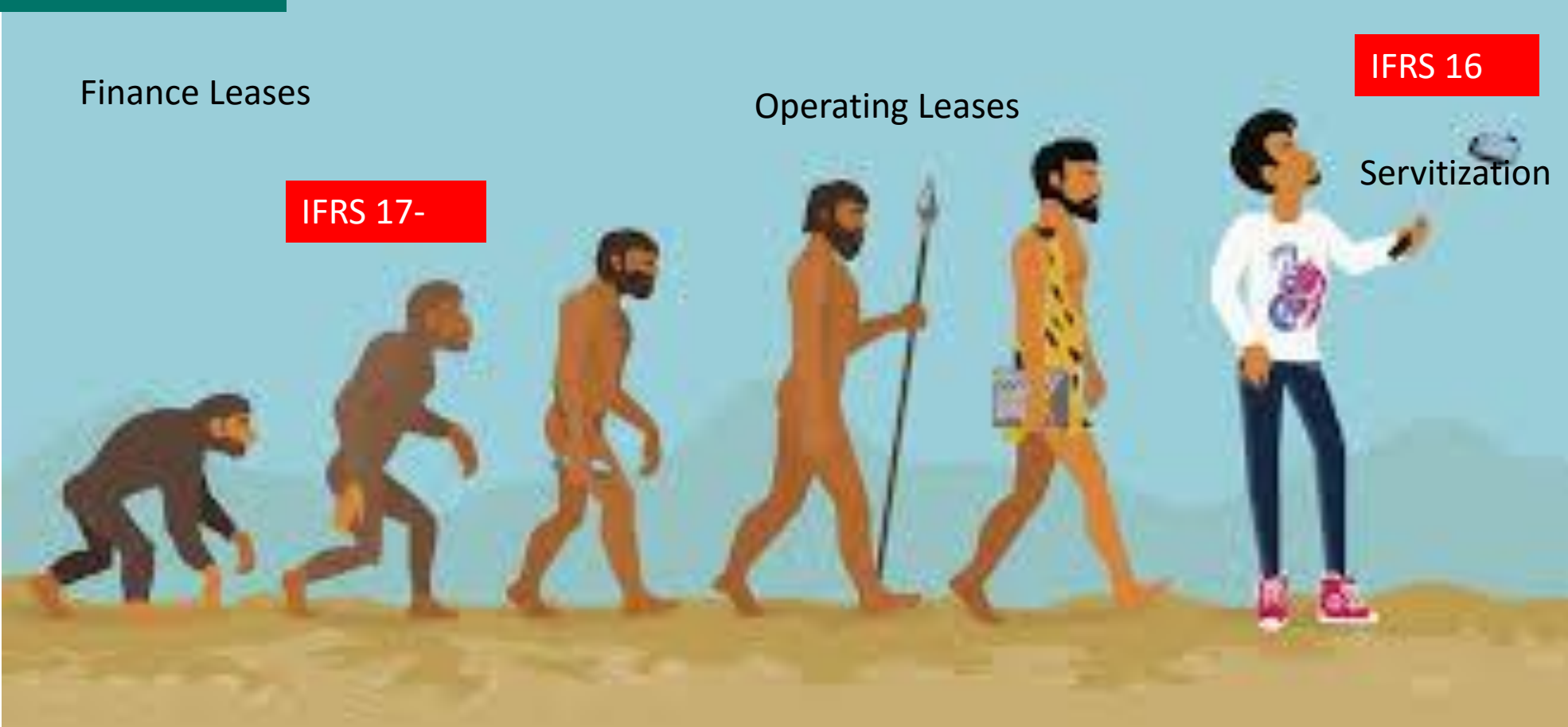
Sources: U.S. Government Bureau of Economic Analysis (BEA) - Tables 3.6.6 (R/17) and 3.6.5 (R/17); Equipment Leasing & Finance Foundation: U.S. Equipment Market Study 2006-2017 by IHS Markit, Ltd. (October 2016)

Evolution of Leasing driven by Customer's mindset

From L2O
(Lease-to-Own)



To L2U
(Lease-to-Use)



That's how 2019 ended and how 2020 was looking forward

Pre-Covid-19 Outlook of the Nigerian Leasing Industry (1)



The continued absence of appropriate funding mechanism in terms of availability, variety and cost



Market focus on Small and medium markets due to inadequate funds and expertise.



Continued predominance of finance lease, mainly of general assets e.g. vehicles



New opportunities in construction industry, agriculture, mining and health care sectors



Greater lease awareness and visibility for the industry leading to new entrants and patronage



Low competition across market segments, the extent of competition remained low due to fewer lessors compared to level of demand.

Pre-Covid-19 Outlook of the Nigerian Leasing Industry (2)



The coming into effect of International Financial Reporting Standard (IFRS 16.) which replaced the old standard IAS17, and abolished off balance sheet financing



Slow turnover of equipment due to high cost and equally necessitated the increased demand for fairly used assets especially vehicles.



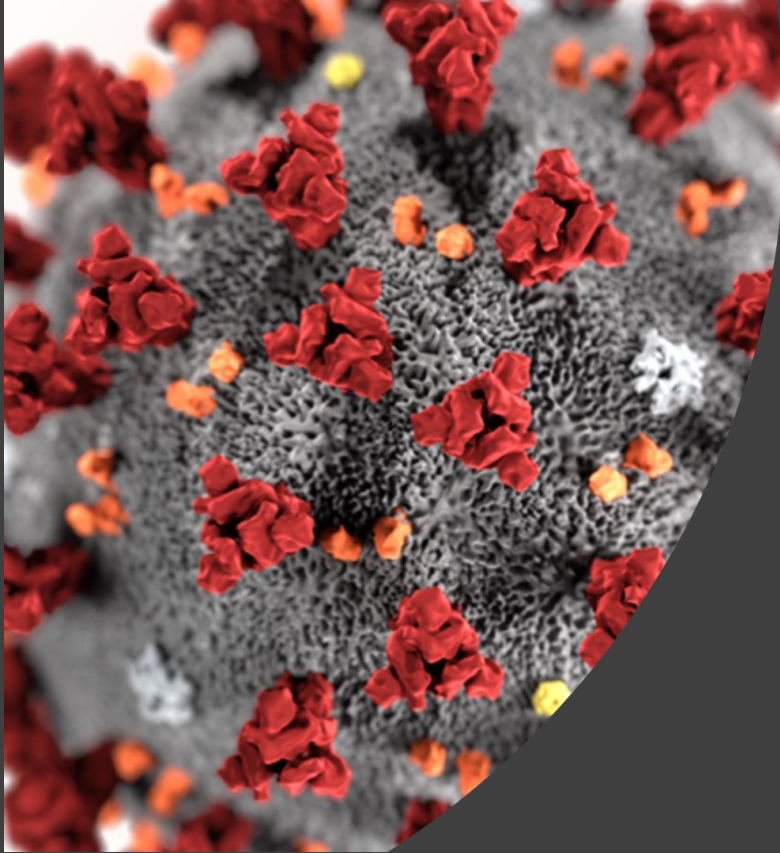
Dwindling appetite from banks for direct leasing investment due mainly to inadequate fiscal incentives and motivations amidst competing products.



Continued interest on the Equipment Leasing Act 2015, especially from foreign investors but the delay in the inauguration of the Equipment Leasing Registration Authority, remains a major setback to the full realisation of the benefits of the Act.



Improved understanding on leasing intricacies through various capacity building and advisory programmes of ELAN.



Covid-19



- A Sudden Impact that is changing our lives and our business
- Could we, Should we, predict and prevent?

Welcome to our new business imperative: Predictive Analytics



Risks that lead
to expected
losses



Risks that lead
to unexpected
losses

Predict: Law
of Large
Numbers vs.
Fat Tail
Distribution

Estimate
Impact

Recovery
Plan (Plan B)



Calculate
Probability

Plan
Mitigation
(Plan A)

A top-down view of a dark wooden desk. In the top left corner is a white smartphone with a black screen. Next to it is a black pencil. In the center is an open white notebook with a pair of black-rimmed glasses resting on its pages. Below the notebook is a white laptop keyboard. A portion of a white circular object is visible in the bottom right corner of the desk area.

And we learned a lot of lessons...

- Lockdowns taught us how to work remotely... or did it?
- We can manage better the balance between work and family life...or can we?
- We can manage better how we use mobility
- We learned that technology can solve more needs than we thought
- We learned that we need to improve our leadership skills
- We learned that we can drive a cleaner environment

Covid-19's impact on the Lessor's Perspective

Strategy



New Businesses



Funding



Pricing



Equipment/Asset
Management



Credit Risk



Productivity



Technology



Innovation



Tax Planning



The affected pillars



STRATEGY



TECHNOLOGY



PRODUCTIVITY



CREDIT RISK



NEW BUSINESS

How to adjust strategies?

The Leasing Industry has proven through crises to be:



Resilient



Countercyclical

Strategic priorities of the Global Leasing Industry


The Alta Group™

CREATE YOUR NEW NORMAL



SOLVE YOUR PANDEMIC-TRIGGERED CHALLENGES



A man in a dark blue suit and light-colored tie is balancing on a thin tightrope. He is holding a long, dark pole horizontally across his body to maintain balance. The background shows a dense cityscape with many skyscrapers under a cloudy sky. The image is used as a metaphor for maintaining balance while growing.

How to keep growing while keeping the balance

Maintaining or improving portfolio quality

Liquidity
challenges
impose a
strategic
dilemma



"Cash is King"?



Should the money circulate?

Emerging Risks and Opportunities



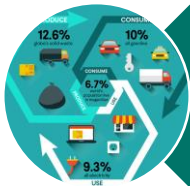
The Impact on the Poorest and Most Vulnerable



The weakening of SMEs



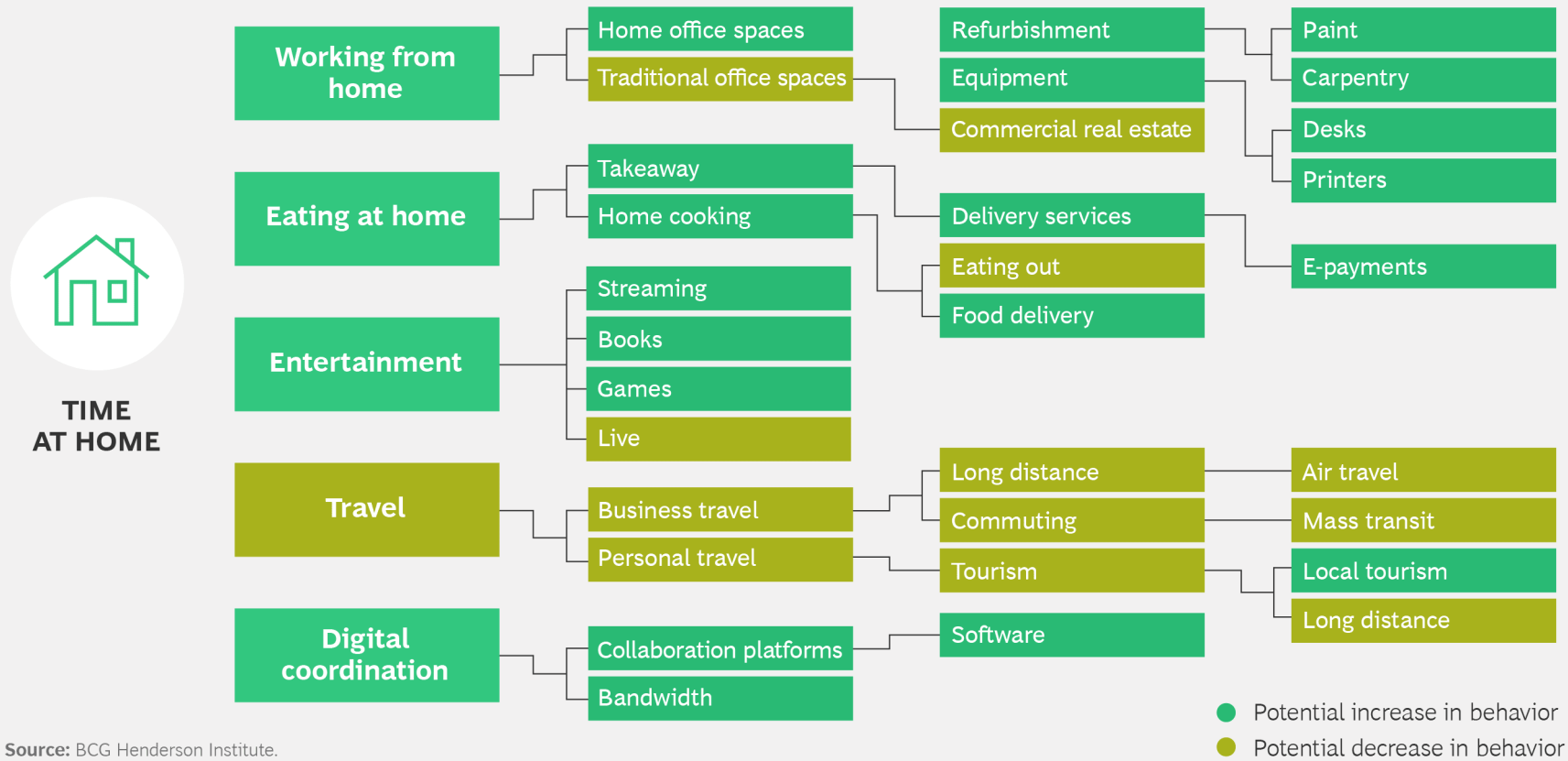
Digital Divide



The mandatory redesign of cities

So this is how life after Covid-19 would look like

Exhibit 3 | Potential Implications of Spending More Time at Home



Source: BCG Henderson Institute.

Recomposing Supply Chains



There are multiple immediate, end-to-end supply-chain actions to consider in response to COVID-19.

Supply-chain actions

Create transparency on multitier supply chain

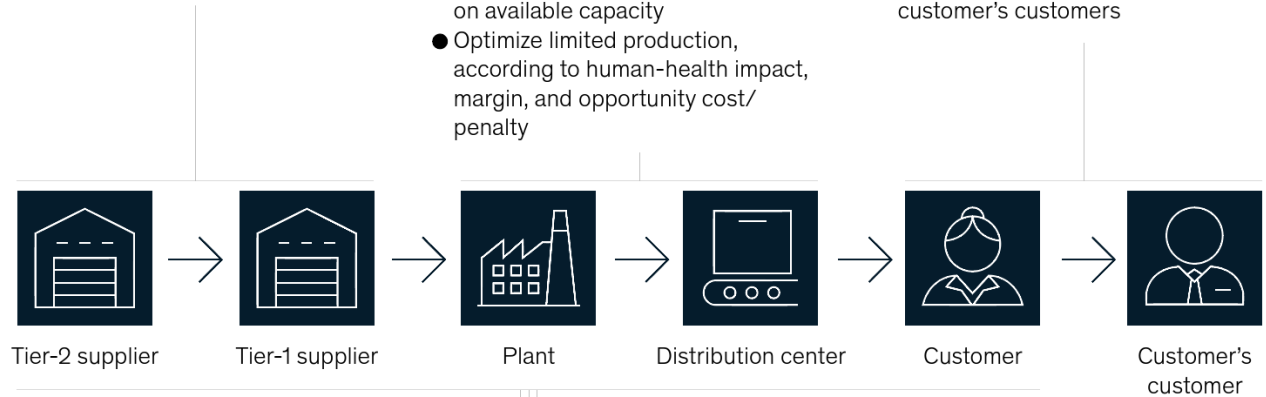
- Determine critical components and determine origin of supply
- Assess interruption risk and identify likely tier-2 and onward risk
- Look to alternative sources if suppliers are in severely affected regions

Optimize production and distribution capacity

- Assess impact on operations and available resource capacity (mainly workforce)
- Ensure employee safety and clearly communicate with employees
- Conduct scenario planning and assess impact on operations, based on available capacity
- Optimize limited production, according to human-health impact, margin, and opportunity cost/penalty

Assess realistic final-customer demand

- Work with sales and operations planning to get demand signal to determine required supply
- Leverage direct-to-consumer channels of communication
- Use market insights/external databases to estimate for customer's customers



Estimate available inventory

- Estimate inventory along the value chain, including spare parts/remanufactured stock
- Use after-sales stock as bridge to keep production running

Identify and secure logistics capacity

- Estimate available logistics capacity
- Accelerate customs clearance
- Change mode of transport and prebook air/rail capacity, given current exposure
- Collaborate with all parties to leverage freight capacity jointly

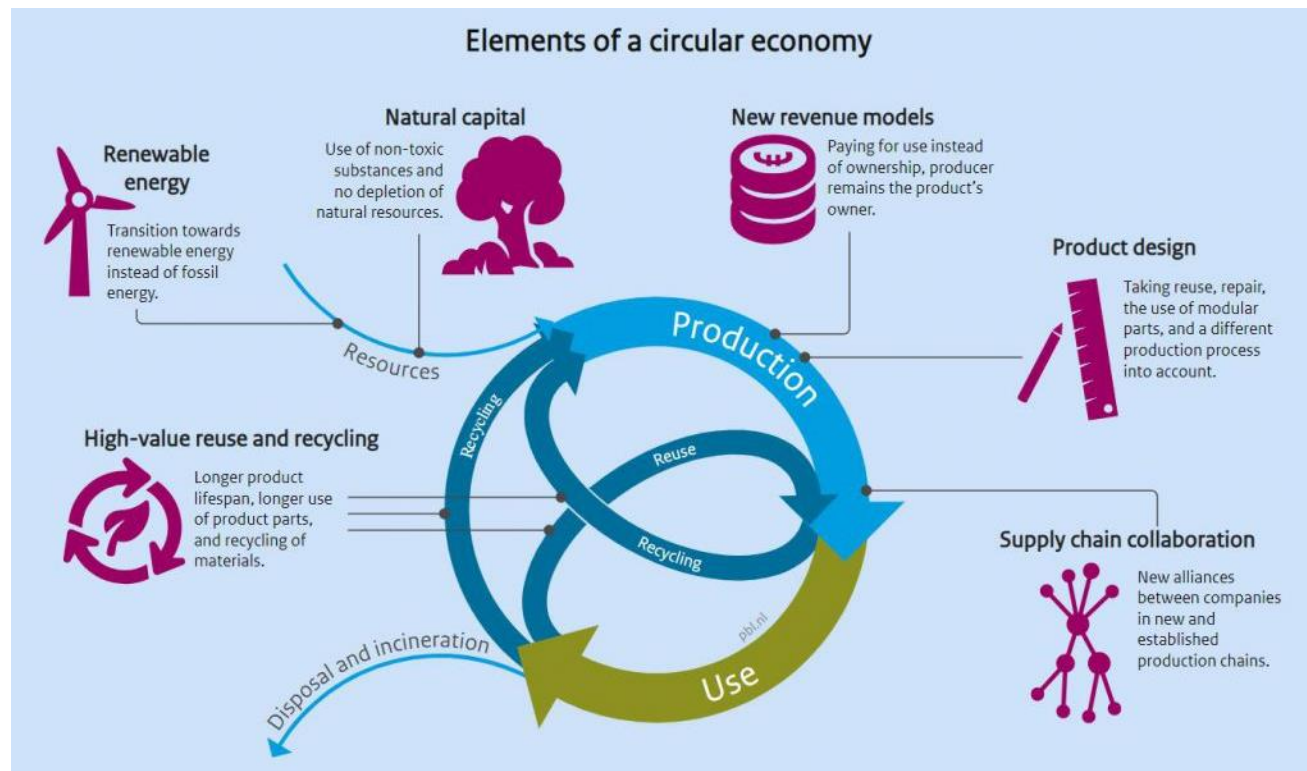
Manage cash and net working capital

- Run supply-chain stress tests vs major suppliers' balance sheets to understand when supply issues will start to stress financial or liquidity issues

Reengineering the Country's Capital Goods



Green Financing



- Asset Financing within the Context of the Circular Economy
- Renewable energies as a Service
- Maintain greater control of Assets (Equipment-as-a-Service)
-

Areas that are going to suffer disruptions



Changes in Real Estate
Leasing



Changes in Mobility Leasing



Changes in Technology
Leasing



Changes in Logistics Leasing

DIGITAL TRANSFORMATION IS **YEARS** AWAY. I DON'T SEE OUR COMPANY HAVING TO CHANGE ANY TIME SOON.



Technology and Productivity



Productivity

How to have it in front of household priorities



Should we
apply strict
discipline?

What we have to face



Globally, on average, only 13 out of 100 employees are really committed to their work.



What this tells us is that there is a leadership crisis because leadership is what unveils people's talents that can be used



Leadership is not just that of the top command: Medium and low levels must have the ability to (sell their) leadership (In front of their subordinates and in front of customers)



That's why you have to show leadership in the 3 levels: Top, medium and front office



All of this is accentuated when the work becomes remote

Blue Ocean Leadership



ELIMINATE What acts and activities do leaders invest their time and intelligence in that should be eliminated?	RAISE What acts and activities do leaders invest their time and intelligence in that should be raised well above their current level?
REDUCE What acts and activities do leaders invest their time and intelligence in that should be reduced well below their current level?	CREATE What acts and activities should leaders invest their time and intelligence in that they currently don't undertake?



Technology

The Basics



Ensure that the software licenses used by your officials are legal (e.g. Microsoft Office 365, etc.), otherwise enable them



Network: If you have VPN (Virtual Private Networks), enable remote access to your employees. Define the levels of access you have to give based on their function and scope of responsibilities



The Network: If you don't have a VPN, you need to use the Cloud

Communication with Customers



Telephone



WhatsApp or similar (Monday, Zendesk, Live Agent, etc.)



Videoconference



Portals to capture information/ Mainly credit

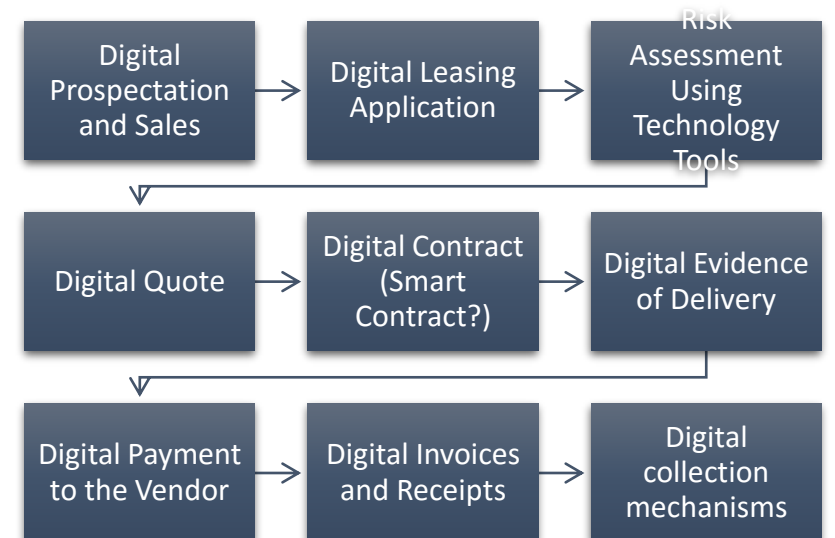


Electronic file exchange (E-mail and Cloud)



Electronic and Digital Signature Solutions

Process Digitization





Could the Credit Risk Come and Bite you?

Impacted by Covid-19

Which are the tigers that would bite you?



Character:

If a character rating has been applied, these customers should be given priority to explore with them restructurings and Work-outs

With low character rating customers, don't waste time looking for workouts



Capacity:

Working a stress test with customers to determine the impact of the crisis on the customer's cash flows



Collateral:

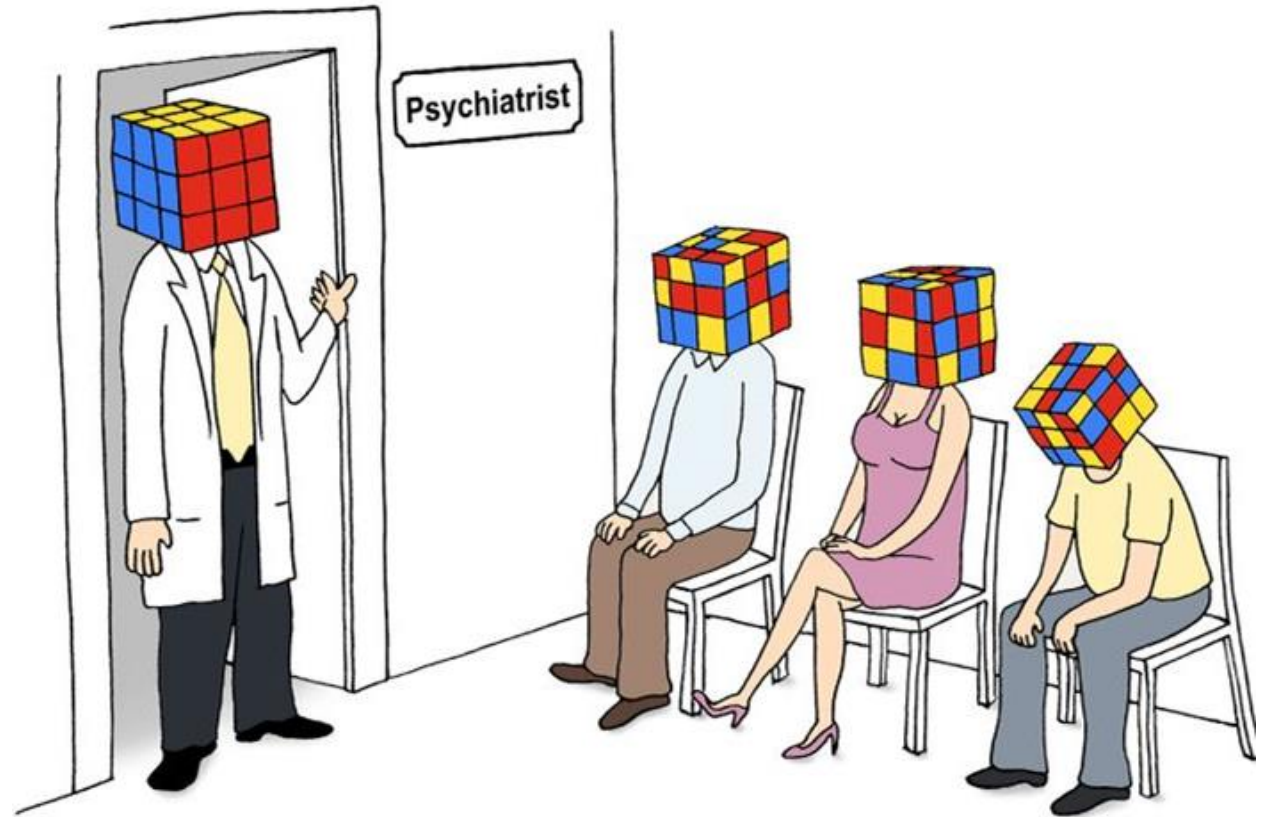
Update the inspection of leased or renting assets using remote technologies

Use tracking applications to locate assets

Examine secondary market trends in leasing goods after crises

It's time to re-evaluate the character of your Obligators

Did you evaluate it, in the first term?



The Traditional- old fashioned method

Nobody has brought a
better analysis since 1955
and this method is
obsolete and unfair



- + Bank references
- + Trade references
- + KYC routines: SDN lists

Character Strengths and Virtues

A HANDBOOK AND CLASSIFICATION

Christopher Peterson
Martin E. P. Seligman

Character Evaluation must be more Scientific

Wisdom

- Creativity
- Curiosity
- Judgement
- Love of learning

Courage

- Bravery
- Persistency
- Honesty
- Zest

Humanity

- Love
- Kindness
- Social Intelligence

Transcendence

- Appreciation of beauty
- Gratefulness
- Hope
- Humor

Justice

- Teamwork
- Fairness
- Leadership

Moderation

- Indulgency
- Modesty
- Prudency
- Self-control

Updated Character Credit Scoring

Character	Impact on Default	Importance	Numeric Value	Weight
Wisdom			19	22%
Creativity	Paralysis in front of adversity	Large	5	
Curiosity	Inability to innovate	Median	3	
Judgement	Misjudgment errors	Median	3	
Love of learning	Inability to innovate	Median	3	
Perspective	Inability to adapt	Large	5	
Courage			18	21%
Bravery	Search of alternative solutions	Large	5	
Persistency	Resiliency to frustraci3n	Large	5	
Honesty	Self justified as a victim when defaulting	Large	5	
Zest	Energy to look for a way out	Median	3	
Humanity			9	10%
Love	Respect and empathy with the creditor	Median	3	
Kindness	Shame of defaulting	Median	3	
Social Intelligence	Value of reputation	Median	3	
Transcendence			14	16%
Appreciation of beauty	Positive attitude in front of adversity (Faith)	Low	1	
Gratefulness	Acknowledge value received from creditor	Alta	5	
Hope	Search of solutions	Alta	5	
Humor	Don't take him/herself too seriously	Median	3	
Justice			13	15%
Teamwork	Understand Your creditor is an allied	Median	3	
Fairness	Awareness of damage caused to creditor	Alta	5	
Leadership	Ability to overcome adversity	Alta	5	
Moderation			14	16%
Indulgency	Overcoming emotional incidents	Median	3	
Modesty	Acknowledge of own mistakes	Median	3	
Prudency	Savings discipline to comply	Alta	5	
Self-control	Overall discipline to comply	Median	3	

Sources: Over 40 years empiric and Positive Psychology School-Petersen & Sellgman- Pennsylvania University & Michigan University



Evaluating Capacity (“Capital and Cash flow”)



Economic capacity breaks...

...when Lessee's cash flow drains...



- Inflows and outflows of any business get reflected in the financial statements thereof
- To very sophisticated businesses and corporates, the cash flow statements must comply with ASC-230 (US GAAP) or IAS 7 (NIIF)
- Essentially all inflows and outflows fall into any of these 3 categories
 - Operating activities
 - Investing activities
 - Financing activities



Preserving Value with The Asset

The Asset is the reason why this sector is
Resilient and Countercyclical

Updating the collateral



Analyze the overall behavior of secondary markets for leased goods



Examine the effect of devaluation of the local currency on the local market value of competitive goods or substitutes for leased goods



Organize a voluntary repossession plan for customers with good character and weak financial resilience



Organize effective repossession strategies for low-character-rating clients



Capital Goods Fall in Adam Smith's Value Paradox

- Usage Value
- Exchange Value (Market Value)



Diamond-Water Paradox of Value



Water is more useful and is necessary for human life, yet diamonds are valued more highly.

A Capital Good



It has Exchange Value to the extent that there is a market that buys and sells it. For example, A Vehicle



It has Usage Value when its value is given by the utility that generates its use. For example, Software



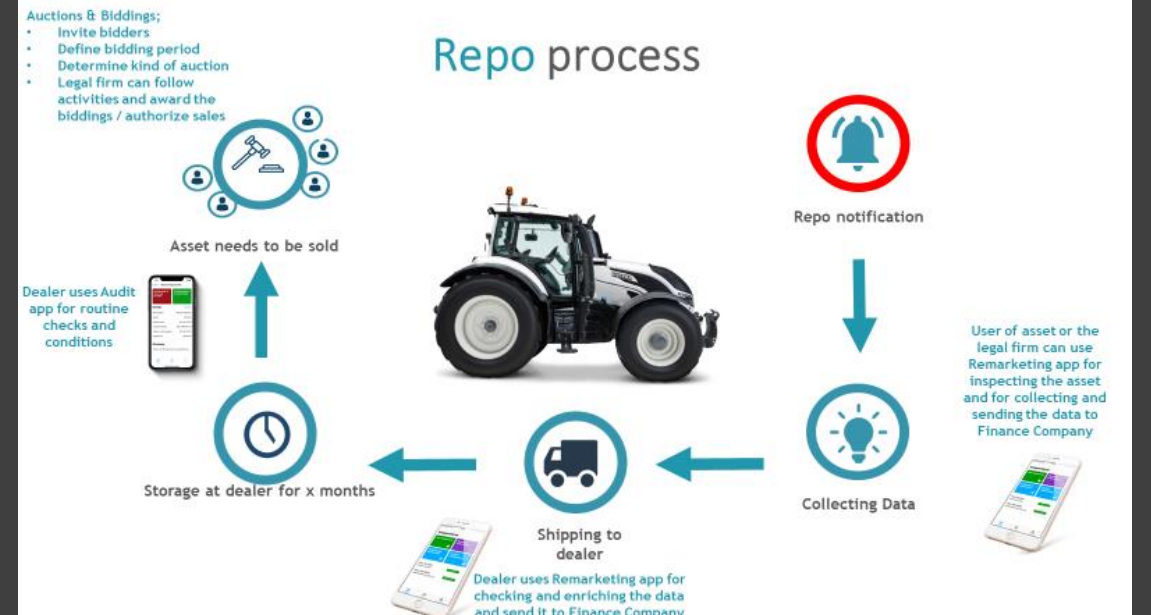
Best Practices in Asset Management

- Asset Assessment:
- Life Cycle
- Value Curve (Loan to Value) for LGD or PDI
- Asset Inspection
- Periodic (Total Cost per Inspection: €10 with Machine Learning)
- Continuous (Internet of Things)
- Restitution of Assets
- Remarketing

SCREENSHOTS APP



INTRADOR



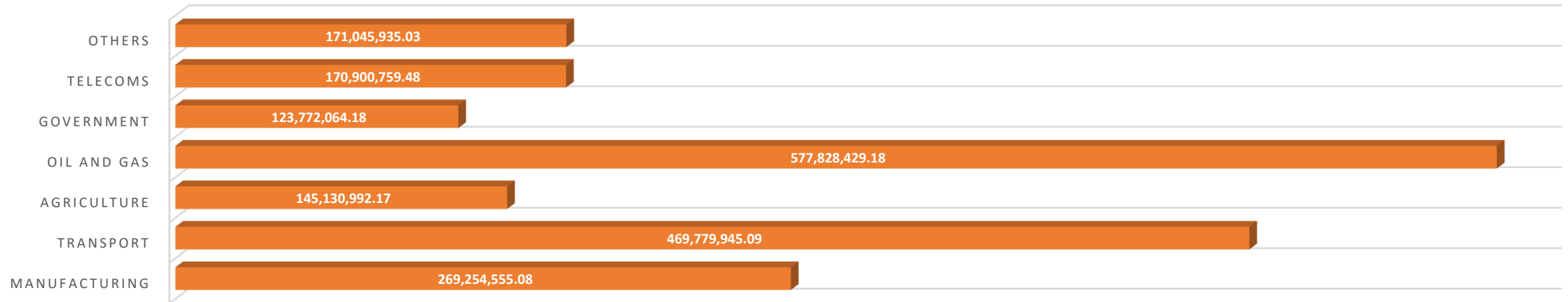


Takeaways for Nigeria

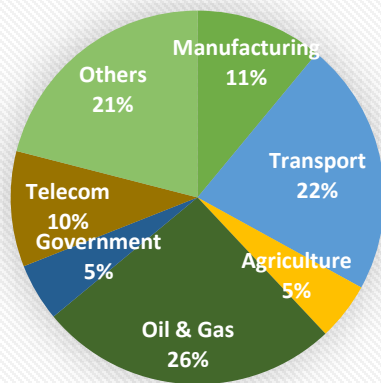
Where should we go from here and now

Profile of the Nigerian Leasing Industry

VALUE (N'000)

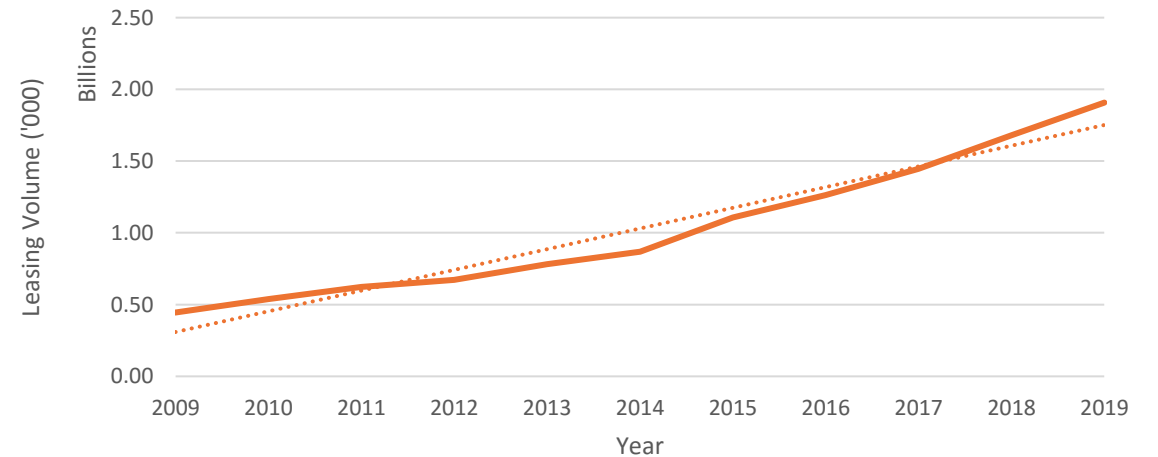


Percentage (%)



■ Manufacturing
 ■ Transport
 ■ Agriculture
 ■ Oil & Gas
 ■ Government
 ■ Telecom
 ■ Others

Leasing Volume ('000) increases over time.



Key Growth Areas

- These industries will show raising demand but different to the past



Transport (Mobility)



Telecom



Clean Energy



Manufacturing



Agriculture

Key Areas to reduce

- Oil but not Gas
- Traditional Hospitality but not Innovative Hospitality





How to achieve it?

Welcome to the Leasing Company of the Future™

THE FUTURE
IS NOW

Pillars of your New Architecture

The Behavioral Economy
Efficient Onboarding
Customer's Supply Chains

Customer
Lifecycle

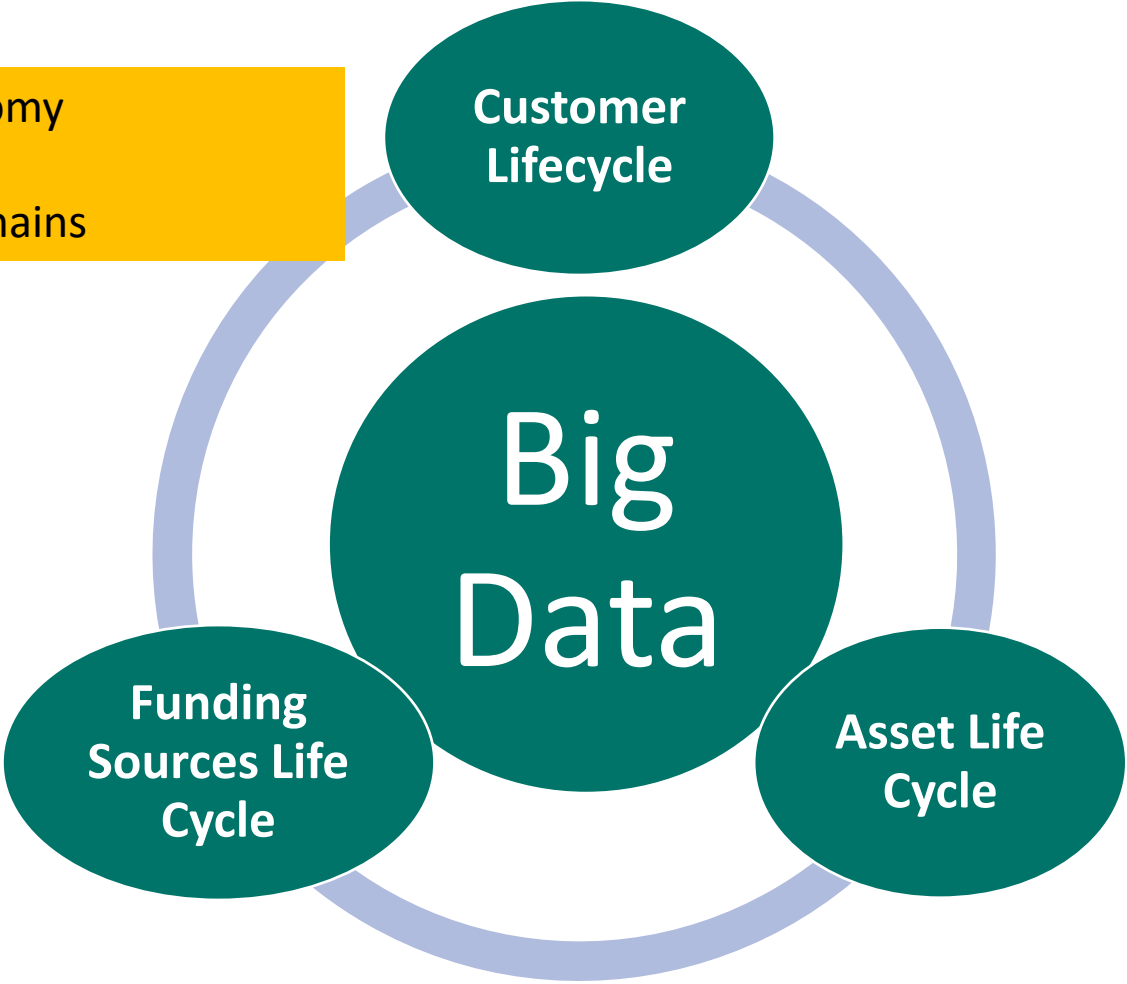
Big
Data

Funding
Sources Life
Cycle

Asset Life
Cycle

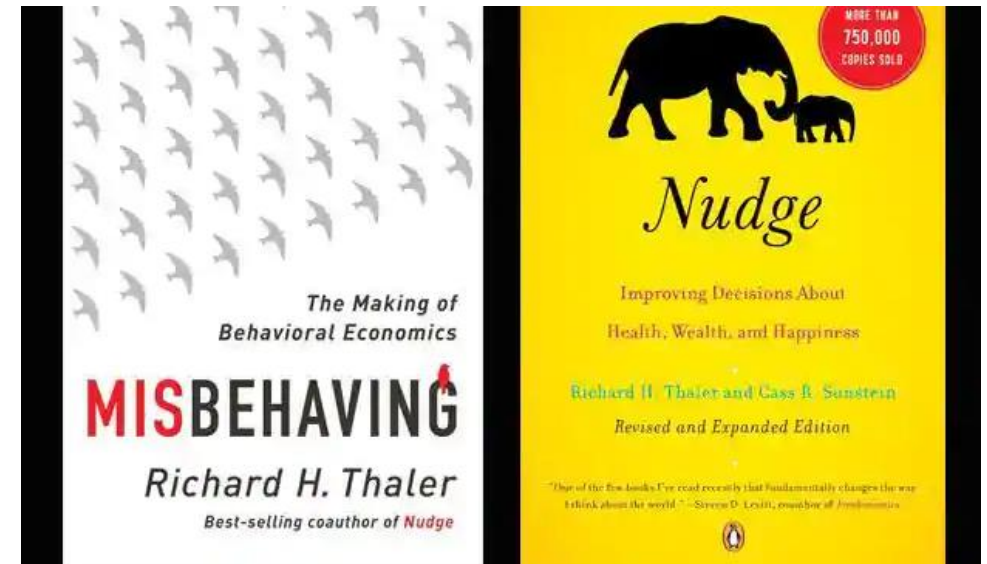
Asset Data
Daily inspections
The Internet of Things
Its effect on the environment

Capital Markets
Fin-Tech



Customer Lifecycle

- The Behavioral Economy:
 - Discover that we don't make rational economic decisions
 - We get carried away by the way the Options frame us
 - Overconfiding that leads us to misunderstood the risks
 - We are anchored to our Comfort Zone
 - We get carried away by inertia because we want to avoid losing and we're afraid to repent
 - Google, Facebook and others exploit these weaknesses of our mindset



The process: Alta's Onboarding

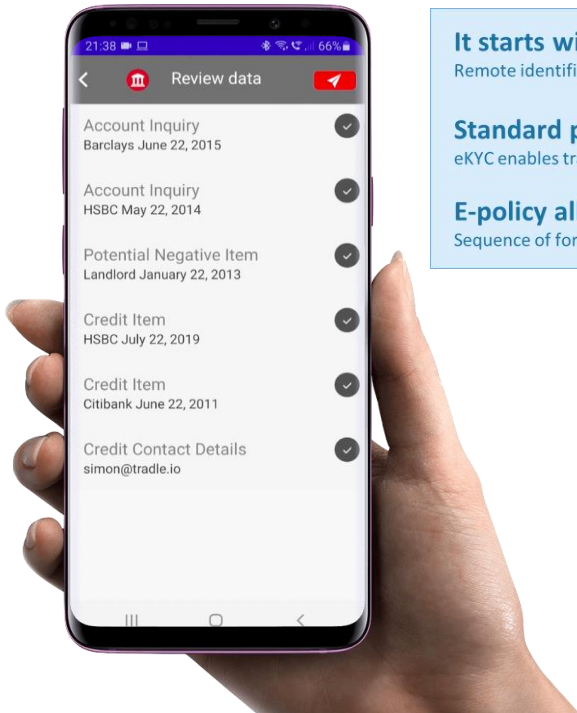
Customer onboarding

Know your Customer/KYC

Respect your customer's dignity through respect for the privacy of their data in accordance with the law

Gather relevant information to better understand the risk associated with your client

Gather and use the information to better serve your customer for mutual, customer/business benefit



It starts with eKYC

Remote identification in 2 minutes

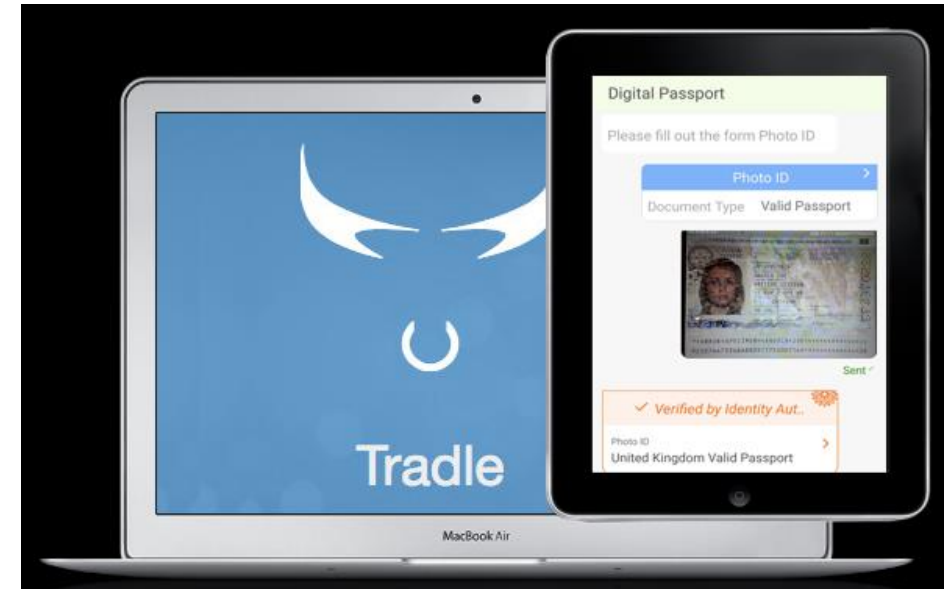
Standard protocol for interactions

eKYC enables transactional conversations

E-policy allows enforcement

Sequence of forms & rules. Policy is self-executing

ePolicy



Do you know
where your
assets are
right now?



Do you know their current wear and tear?



Do you know where are they located?

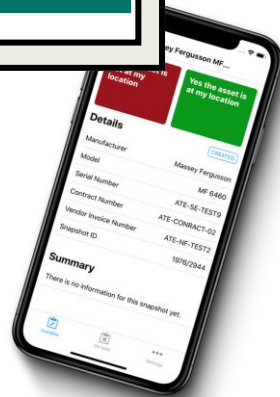
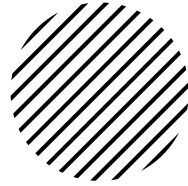


Do you know if they're standing or operating?



Do you know what is their market value today?

The Alta Group
has a solution
to answer
those
questions



- The Alta Group and Intrador offer digital toolkits that enable lessors to maintain full strategic control of all leased and funded assets:
- Application of Intrador Audit Inspections™
- Market-Watch Intrador App™
- Intrador Remarketing app™
- Auxiliary Application Auction Intrador™
- Alta Inspect™ a database of applied knowledge

These
applications
transit over



The Cloud



Artificial Intelligence (Machine Learning)

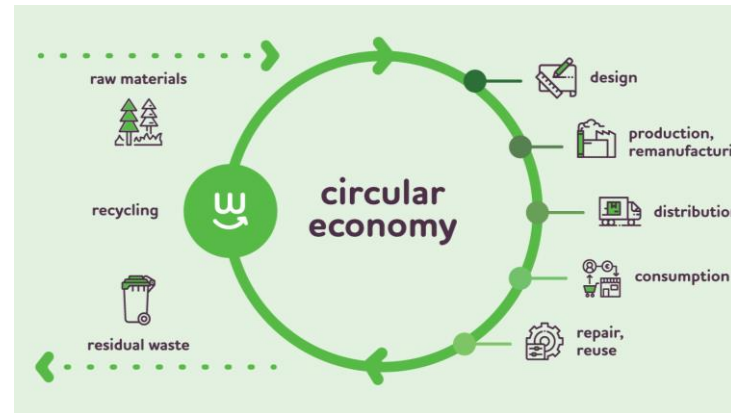


The Internet of Things



Blockchain

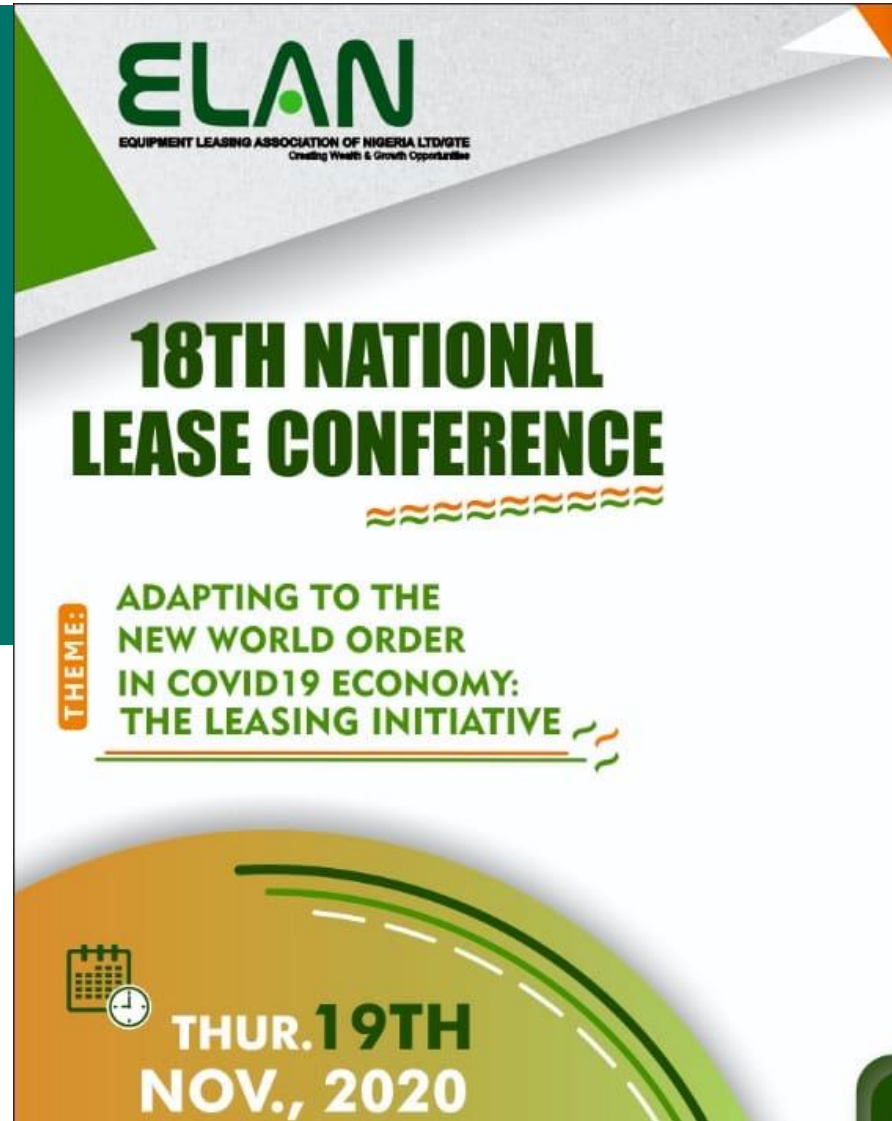
With these tools the life cycle of the asset is better controlled



- When should the Lessee change them?
- When should they be handed over to other Lessees?
- How to raise asset productivity by relocating it in the short term when idle?
- How to dispose of the good when its useful life ends: Circular Economy ?

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