



A sector in evolution

The consumer motor finance market is evolving in France

Hélène Yeches

DRIVE along any road in France, whether in the heart of Paris or through the rolling hills of Languedoc, and the chances are the vehicle coming the other way will be made in France. The French are, without doubt, the most loyal car buyers in Europe. In its recent sixth annual survey on the automotive sector (Cars Online 04/05), Capgemini stated: "French consumers indicate a particularly high degree of loyalty to their dealers", reflecting the fact that consumers in France value a personal, often longstanding relationship, based on trust. With all that loyalty to both manufactures and dealers alike, it comes as no surprise that Renault and PSA Peugeot Citroën, share over 60 per cent of the French new car market (Source: CFA).

It is certainly true to say that the French historically haven't had the same appetite or attitude towards credit as some of their European neighbours, but they do use credit when it comes to making the biggest purchase most consumers will make after buying a house. Last year, more than 55 per cent of new cars purchased were on credit and this percentage rises, not unsurprisingly, to 75 per cent when we include the second-hand car market. However, this historical attitude towards credit is changing across the entire credit

spectrum and the market is seeing more and more purchases made using credit, a trend that will be undoubtedly mirrored for auto finance over the coming years.

The automotive consumer finance industry in France is sophisticated and highly competitive. It is split between three distinct groups of providers. The automotive in-house financial subsidiaries target consumers mainly at the point of sale and on the internet. The financial institutions are also highly represented at the point of sale but also seek consumers through their own branches and via the internet. Within this group, banks offer packages consisting of the credit itself, insurance and servicing. More recently, insurance companies have joined the party, offering credit and insurance packages. Competition is high, and the consumer benefits with interest rates as low as four per cent.

The type of credit on offer is also varied. Personal loans remain the most common form of borrowing and grew at four per cent in 2004. Hire Purchase, however, is catching up, rising by 18 per cent in 2004. Interestingly, it was a foreign player, Ford Motor Credit, which was first to market with this 'new' kind of credit that has proved popular with consumers who like the lower initial instalments and

the built-in servicing packages. Renault followed shortly after with its 'New Deal' offer and hire purchase is now most commonly offered by the in-house financial subsidiaries.

The automotive finance industry is certainly buoyant in France but it also suffers from fraud and bad debt. Unfortunately, unlike its European neighbours, it has limited access to shared data sources to combat these issues.

Although the issue has been discussed for years, France has not yet developed a database that financial institutions can share. Criticism of the idea of a credit bureau is still strong and often fervent. The only information available today is payment default or negative data managed by the French central bank, La Banque de France.

Without a central source of both positive and negative data, financial institutions rely on their own databases to make credit decisions. Without knowledge of the consumers' other credit commitments and potential debts, the level of credit risk is high. Equally, fraud is an increasing issue that is being addressed in other countries using shared data. While there are always fears about centrally managed credit bureaux, there are clear and obvious advantages and a number of French organisations are currently in discussion with Experian, the provider of credit bureau services.

Certainly, the uptake of credit is set to increase and touch new sections of the French population. The automotive industry will be keen to tap into this expanding market but will also be keen to protect itself against fraud and bad debt, particularly as the amount of credit extended to each customer tends to be relatively high.

Hélène Yeches is senior business consultant in the Global Consultancy Group at Experian-Scorex in Paris