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RISK MANAGEMENT OF LEASING COMPANY

Problem statement. In economic terms, risk is the likelihood / possibility of losses due to business. It is important to determine the sensitivity of portfolio companies to lease certain kinds of risks, ie to identify those types of risks that can lead to large losses and damages and to measures to reduce such risks.

The urgency of recent research and publications. The research of native and foreign scholars on risk credit including leasing transactions is reflected in the writings of M. I. Savluk, A. D. Zaruba, A. M. Moroz, I. A. Blank, V. Lyashchenko, Baranovsky A, and others. Various views on risk management and leasing companies need ways to reduce aggregation, allocation of management problems in the sector and their neutralization.

The main research purpose is the analysis of risk factors when entering into leasing agreements and lease of relationships and finding ways of reducing losses, neutralization the impact of risks on the performance of the leasing companies.

The main material: Our everyday life is connected with many uncertainties: economic instability, political situation, not predictable behavior patterns, unforeseen changes in legislation, technological advances, uncertainty needs of potential customers, weather conditions, inaccurate information as well.

The uncertainty arises every time we are not sure what happens in the future. If such uncertainties affect our decision, we call it risk. The general approach to building risk management systems based on the characteristic traits inherent in all types of risks:

1. Risk is present when making any decision whose results are determined in the future.

2. Completely impossible to avoid the danger, because the future can only predict.

3. Even the decision already has a risk of lost opportunities.

That confidence can only say one thing that we can not completely eradicate risk, but by using certain tools and measures we can minimize its impact on sustainability issues. Fig.1 presents one possible structural and organizational form of a leasing company that helps minimize operational risks.

Effective organizational structure of the leasing company must be based on the following principles:

— independence — services participating in the loan process should be subject to different managers and be procedurally independent. The question of credit, estimation-mortgaging, legal service, service, risk management and monitoring;

— formalization — Procedures relationship between services should be as regulated. The system of interaction and appropriate management reporting;

— collegiality — any solutions that contain the potential risk of the collective-based committees (Credit Committee, on problematic agreements, etc.). Committees formed of representatives of front-and back-offices to ensure a balance of interests;

— limit of liability — depending on the scale of the leasing agreement, a decision taken at different levels. The result of the following principles is a significant reduction in non-financial risks leasing company. Risk management (regardless of level) is performed in successive steps (Fig. 2).

All variety of risks faced by leasing companies can be divided into two groups — general, faced by all companies operating in Ukraine, and specific inherent in leasing activity (Fig. 3).

In each group, the risks are potentially weak spots available to the various con artists, scammers and other entities, whose main aim is misappropriation of another's property or financial assets.

The main types of risks that lie in wait for leasing companies at the conclusion of lease arrangements:

1. Provision of knowingly false, false, fixed documents in a leasing company for a positive decision on funding.

2. Concealment convictions senior staff or managers of accounting, as well as providing false information about the founders of the company.

3. Possible conspiracy unfair Manager Lessee.

4. Inconsistency leased their actual or stated requirements.

5. Unscrupulous supplier of the leased asset.

6. Conspiracy lessee supplier leased by overstating the value of property. The acquisition of property by intentionally high prices is made.

7. Extremely new kind of fraud — the winning of business reputation in the leasing company or Trojan horse principle.

Law Firm-manufacturer, which on the financial statements and other verification approaches on criteria and requirements of the leasing company, signs a lease agreement to finance the purchase of the property and pay the lease payments on it in time according to the schedule, what deserves positive credit history. After 6-9 months, based on the positive cooperation of the lessee applies to the leasing company for debt limit increase, for example, to purchase 5 new cars.

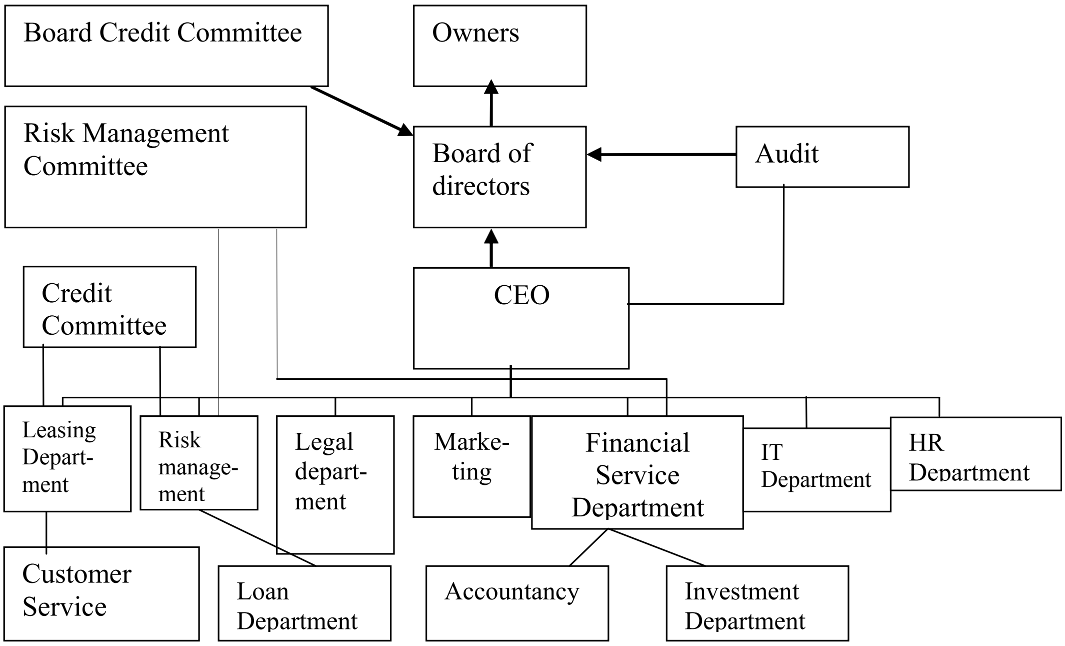

Fig. 1. Example of organizational structure of the leasing company

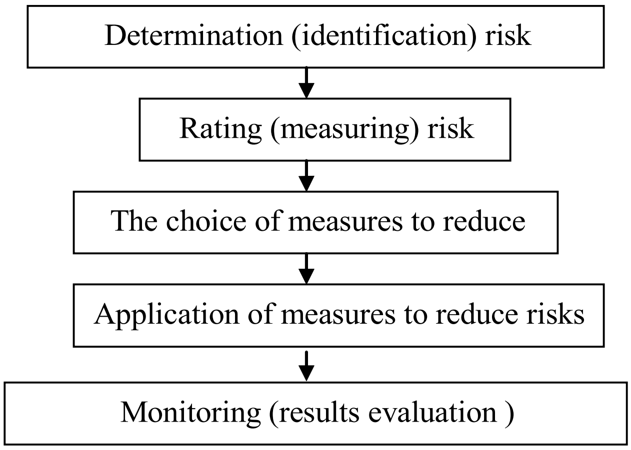

Fig. 2. Basic elements of risk management leasing company

8. Operation property violations: exceeding permissible carrying capacity, making design changes, the use of transport as a taxi, etc.

9. Theft imitation as theft, robbery or assault (cars mostly).

It should be noted that the leasing company is a financial intermediary, including the risks that are inherent to the leasing company such bank risk, except for one — a trade. Typically leasing company, unlike the bank, provides comprehensive services — financing plus additional service (current service, additional services related to the operation of a leasing, remarketing organization). Operating lease generally involves returning often subject to the lessor, with the subsequent sale or transfer to another lessee. Therefore, unlike the bank, for which removal of collateral is force majeure event, the leasing company for the return process, remarketing leased part of normal operational activities. If the leasing company is well versed in the liquidity of the specific type of equipment it can offer more competitive conditions for the lessee.

To assess the liquidity of the leased asset over the contract agreement and after the leasing company can choose two ways: to assess themselves (the method of expert evaluations or statistical methods of prediction), or apply to companies that specialize in such services. In the first case it is necessary to arrange the service of collecting and analyzing statistical data on specific types of equipment. Such a database is built on personal experience is an essential tool to minimize risk by structuring appropriate lease payments, and the establishment of reserves for specific agreements. Fig.4. schematically represented the events that could use a leasing company to reduce risks. There are four basic

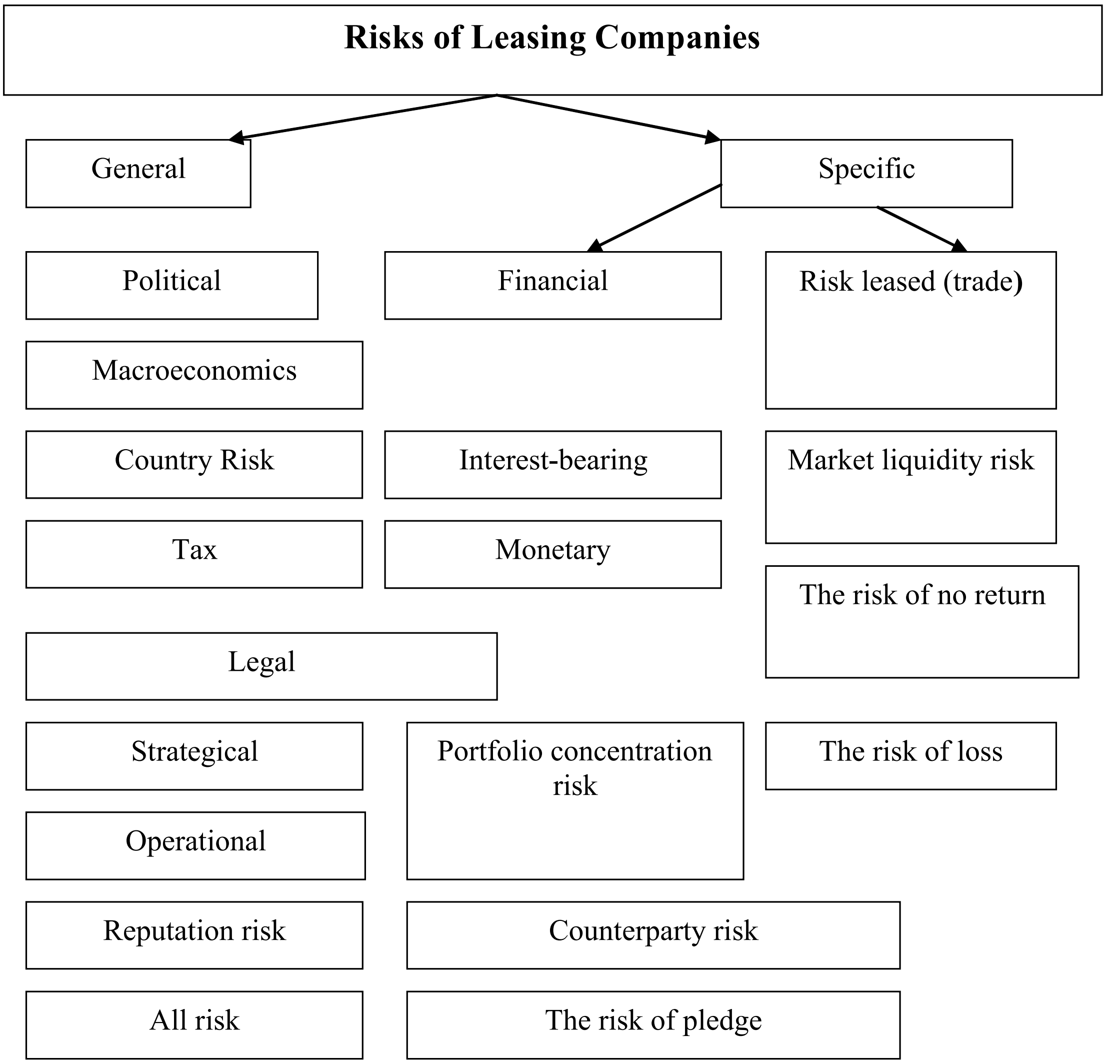

Fig. 3. The main risks of leasing companies

approaches to working with risk — avoidance, control and prevention, risk transfer and payment risk.

Each leasing company itself sets the degree of risk that it may assume, if the potential lease agreement does not meet internal criteria, then the rejection of the lease agreement is the best measure to minimize risks. Usually the leasing company has its own system of risk assessment of the original agreement. For example, Ukrainian companies often use the ratio of treated to revenue account to the monthly lease payment amount and the average maturity of existing loans. Acceptable value is 3-5.

Control and Prevention has a set of tools used at the macro and micro level. Transfer risk transfer involves the possible costs of a leasing agreement for the third person: vendors, insurance company, or individual surety. Payment risk — a conscious decision expected risks covered by the price. Leasing company knowingly undertakes defined / predicted risk and covers its back profits. This happens by creating a reserve for expected losses. Unfortunately, not all lessees appear to be good pay, delaying some payments, some not at all able to pay for certain reasons. Therefore, portfolio leasing company is necessary to evaluate from the point of view of security receipts as at the reporting date, accrued expenses for bad debts and provision for doubtful debts. Thus, the decreased amount of expected lease payments related to the same period costs, ie, we can see the real income in the income statement, taking into account possible losses. If the provision for doubtful debts is not charged the financial statements, profit reporting period is distorted and exaggerated. Moreover, when calculating each individual lease agreement, including costs for doubtful debts (different for different types of lessees, equipment), placed in the appropriate margin payments leasing company, including risks related to non-payment and lets keep the right of return. On the other hand charge reserve for bad debts to assess the real cash flow that is expected of lessees (receivable less provision for doubtful debts). There are

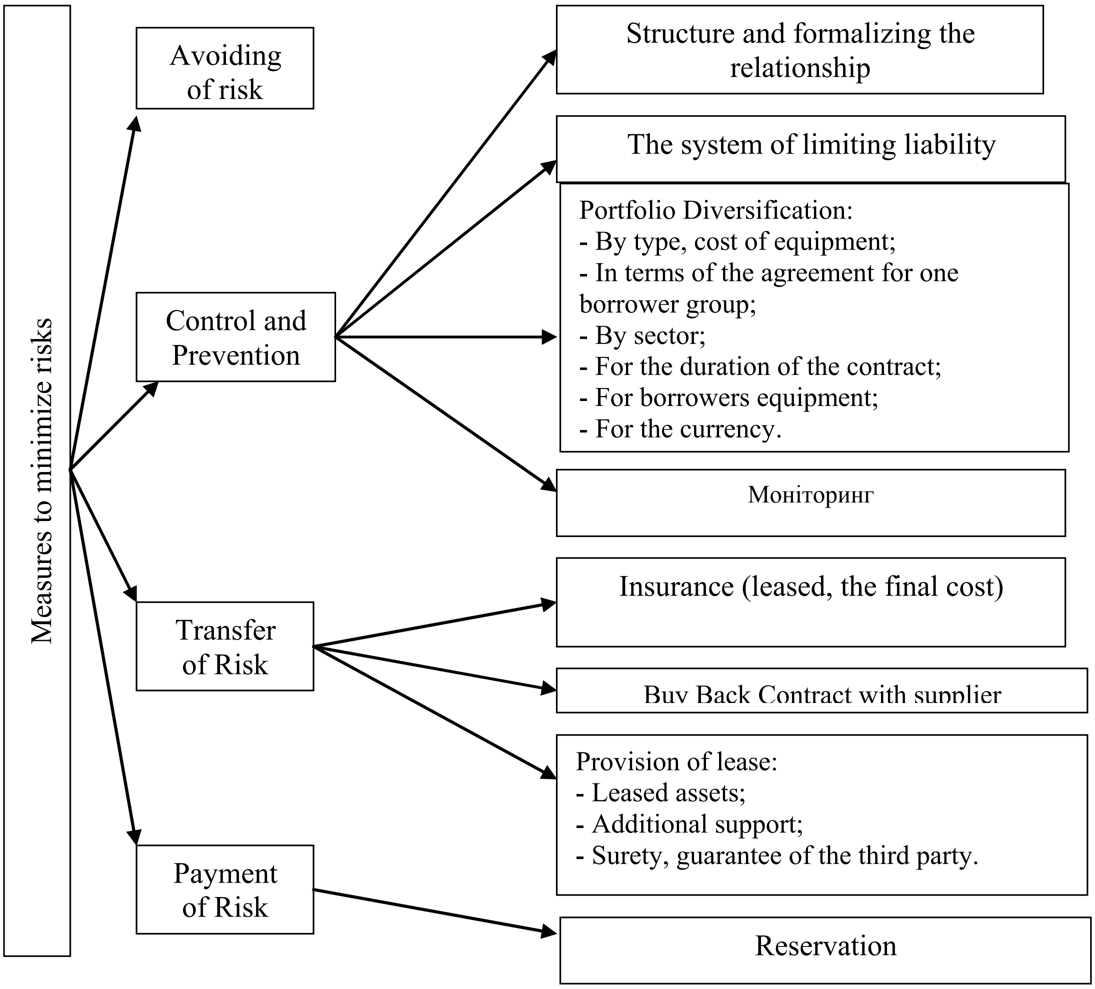

Fig. 4. Ways to minimize risks

Table 1

Calculation of allowance for doubtful debts

Lessee recipients by risk categories	Delayed payments	Reserve (conditionally)
A	Up to 15 days	2%
B	16 – 30 days	10%
C	31 – 60 days	25%
D	61 – 90 days	50%
E	90 – 180 days	100%

several approaches to assess the size of the allowance for doubtful debts. The accounting standards number 10 „Receivables" two methods for assessment of current receivables describe in details: use the absolute amount of doubtful debts; using the coefficient of uncertainty.

Both methods use historical information (personal experience of leasing companies) to receive payments from certain groups of taxpayers. This reserve is calculated on the full amount of debt the lessee, which is estimated to be uncollectable. For example, the table 1 presents the possible ways of calculating the value of the allowance for doubtful debts based on an analysis of solvency of individual debtors.

Fig. 5. schematically represents changing value of leased assets and debts of the lessee during the term of the lease agreement. According to the survey of leasing companies average advance payment in Ukraine is 20%. So at the beginning of the lease (conditionally year 0), debt lessee is usually lower than market cost. According lessee insolvency risk is significantly reduced due to a high level of security lease. But over time this ratio may change. As Fig. 5, from the fourth year, the picture changed dramatically: the lessee arrears greater than the market value of the leased asset. This means that the agreement has lost 100% software and the company was

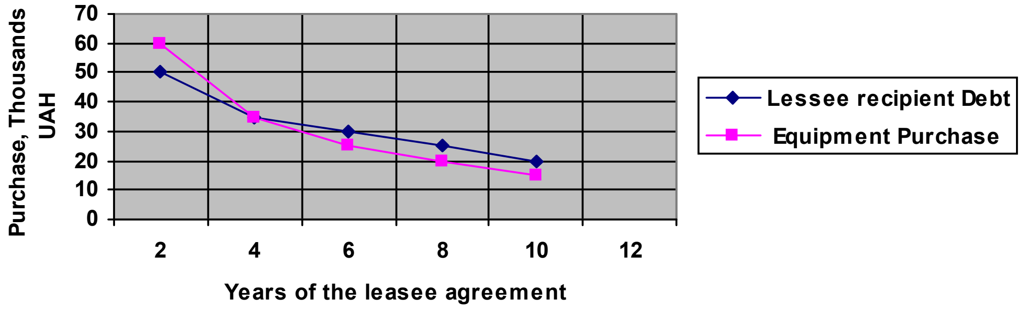

Fig. 5. The cost of leased assets and debts of the lessee

in the area of greatest risk. But this risk is not measured by the sum of all the lessee debt that can not be obtained, and the only difference between the market value of leased assets and debts of the lessee in each moment of the lease. This approach to assess the value of reserve is possible only under conditions of high awareness of the leasing company to market equipment that is leased and the availability of reliable forecasts of liquidity changes leased during the agreement.

In this case you can apply this formula to calculate the value of reserves:

$$OZ = PD * CE * LGD, \quad (1)$$

where OZ — expected loss, UAH; PD — probability of default; CE — the amount of debt, UAH; LGD — loss due to default,% (ratio of market value of leased assets and debts lessee).

Thus we are able to reduce the reserve for possible losses, both to reduce the margin of leasing companies are not reducing the profitability of the company. In such circumstances, the leasing company can offer more competitive terms to lease without increasing risks.

Conclusion. In general, building an effective system of risk management leasing company is a complex multi task, which depends on both internal and external factors. Today the largest part of the portfolio of leasing companies are cars and lorries. This is not surprising that this kind of asset has high liquidity, developed secondary market, ie the risks of such assets are minimal. But in an increasingly competitive of leasing companies have, on the one hand, the more risks to develop new products. At the same time there is a struggle for the „best" customers, and companies have to regard the less attractive applicants. Also in such circumstances must offer a reasonable price. In such circumstances, the presence of strong risk management systems in companies is critical to successful, profitable business leasing company.

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Саєнко О. О. Управління ризиками лізингових компаній

У статті розглянуто питання настання ризиків, їх форми та можливі напрямки нейтралізації втрат на результати діяльності лізингової компанії.

Ключові слова: лізинг, ризики, лізингова компанія, управління ризиками.

Саенко О. А. Управление рисками лизинговыми копаниями

В статье рассмотрены вопросы наступления рисков, их формы, и возможные направления нейтрализации потерь на результаты деятельности лизинговой компании.

Ключевые слова: лизинг, риски, лизинговая компания, управление рисками.

Saenko O. A. Risk Management of Leasing Company

The expounded questions of risks' offensive, their form, and possible directions of losses neutralization are on the results of leasing activity company

Key words: leasing, risks, leasing company, management risks.

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