CHAPTER VII
SUGGESTIONS:

After liberalisation all industries faced many problems with stiff competition and new rules of the doing business. Leasing is no exception. The following suggestions are some, to overcome some of the problems of the leasing industry.

The sustainable competitive advantage is human resources. Leasing industry is facing the problem of lack of quality human resources. A right person in the right job is an asset. And the firms should be very careful in the selection process. Today's delayed payments are tomorrow non-performing assets. Leasing companies should calculate costs of delayed lease rentals in advance.

By diversifying companies can reduce the risk. It is better for leasing firms to concentrate on operating lease also. Successful firms always create opportunities. Vendor leasing is untapped opportunity for leasing.

A big fire accident would have been avoided by putting little water, when it is little. By taking necessary measures in evaluating customer creditworthiness, it can avoid future non-performing assets.

Caveat Venditor (sellers beware) is the order of day. Leasing companies must customize their services and should keep in touch with the customers continuously, i.e. collecting feedback regularly, with both internal and external customers. Companies shall give much importance to long term profits than short term profits. Window dressing, leasing for tax deferment are such moves. Industry cannot sustain without the Government support in the long run. The regulatory bodies are required to concentrate in making guidelines on debt recovery, double taxation, and deposit regulations and most importantly on consistency on policies.

1. LACK OF QUALITY PERSONNEL:

For any business, success or failure depends on the quality of qualified and experienced people running it. The nature of the leasing and hire purchase business is nothing but financing the capital equipment. Hence, all procedures like appraisal, judging, integrity and capability of the
borrowing party, legal matters, etc., have to be looked into before the finalisation of the matter. Similarly, the recovery of rentals, maintenance of accounts etc., have to follow a special system. Further, the type of these personnel also depends on the training and experience they have gained in their previous jobs. It is difficult to get the right human resources for these jobs. Many leasing companies are choosing retired bank officials for top positions, perhaps on the presumption that they, being in the finance line for quite a long time, can perform the task well. But one should take note of the fact that the modus operandi of working in a banking system is different from that of leasing business. On account of this fact, the right person should be appointed for the right job.

The Spearman Coefficient of Correlation between factors affecting customer satisfaction and qualities required by the employee is highly positive. i.e. 0.97 from lessee's point of view when compared to that of the lessor (0.51). Which highlights the importance of the competent employees. And ultimately for any company the only sustainable competitive advantage is its' human resources.

2. CALCULATING THE COST OF DELAY IN LEASE RENTALS:

One common problem faced by the lessors is delay in recovery of lease rentals, which has some cost. While fixing the lease rentals it is better the lessor takes this into consideration so that lessees know in advance if there are delays in payments how much extra he has to bare. And to some extent it may avoid the creation of the bad debts.

3. DIVERSIFICATION OF RISK

There are tremendous opportunities for operating lease in India. Because infrastructure development is a must for the development of the nation. Presently many companies are concentrating on financial lease only. (at present, only 24% of the lessors operating exclusively in operate lease among
the respondents). It is the right time to change the direction towards operating lease. In addition to the above, operating lease has clearly defined benefits (since financial lease benefits are not clearly defined and changes from State to State).

A leasing company can diversify its risk by concentrating on both operating lease and financial lease. (In India operating lease is less practiced compared to financial lease). The table shows the advantages of operating lease when compared to financial lease.

<table>
<thead>
<tr>
<th>FINANCIAL LEASE</th>
<th>OPERATING LEASE</th>
</tr>
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<tbody>
<tr>
<td>Single lessee</td>
<td>Several lessees</td>
</tr>
<tr>
<td>Full cost recovered from one</td>
<td>Full cost recovered over many</td>
</tr>
<tr>
<td>lessee</td>
<td>lessees</td>
</tr>
<tr>
<td>Maintenance burden on the lessee</td>
<td>Maintenance burden on the lessor</td>
</tr>
<tr>
<td>No need to calculate residual</td>
<td>Crucial to calculate residual</td>
</tr>
<tr>
<td>value</td>
<td>value</td>
</tr>
<tr>
<td>No question of secondary market</td>
<td>Hinges on secondary market</td>
</tr>
<tr>
<td>Maintenance expenses are variable</td>
<td>Included in lease rentals</td>
</tr>
</tbody>
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In a financial lease, lessor takes credit risk, while in operating lease he takes asset risk. A leasing company needs to develop knowledge about the assets regarding what kind of assets can be covered through operating lease, what would be the secondary market of it, etc.,

4. Leasing business has tremendous opportunities provided one selects the right customer and lease the right equipment. Leasing companies shall not only merely depend on credit worthiness of the lessee, but also foresee the future prospects of the lessee's business, while selecting the lessee. And also concentrate on how the lease rentals, the lessee is going to pay i.e. whether the business provide for regular cash inflows or lump sum business in one year or business is seasonal etc.
5. Many companies do not have good leasing business for the last three years. It is time for introspection themselves. Many of the competitive advantages are taken over by its' competitors. For example

- Banks are lending loans at much lower rates of interest compared to the leasing companies.
- Leasing companies are struck at the same rate of return what they were expecting five years ago.
- Many banks are sanctioning the loans within a week. (some banks are ready even within 24 hours)

Now leasing companies should compete not only on cost of funds but also on speed of disbursal, treatment (the way the employees deal with the customer, of course many banks improved tremendously in this aspect compared to the past) towards the customer. And to compete in such a highly competitive environment, a leasing company should be a complete solution provider to the customer rather than simply as a funds provider. A leasing company should become a partner with its customers so that it can build a relationship with the customer.

6. Many leasing companies still depend on their IRR for lease evaluation rather than market IRR. Now funds are available at lower rate of interest compared to the past. Now leasing companies have to cut down their costs as well their ROI to compete better in the market.

And one more interesting finding is that many companies are now concentrating on recovery of lease rentals. Now the recovery tribunal is much stronger and therefore they should make the best use of it. Sometimes allowing the lessee to breath freely for sometime will also work. That is what happened to Heeramba Leasing Company. According to Managing Director of the company, he waited patiently when a lessee did not pay regularly (instead of repossessing the asset) and it worked for him. When the lessee's business revived, the lease
rentals started coming regularly. The researcher will not recommend the same strategy for all the leasing companies, because its success is on case-to-case basis.

7. Value added Tax may change the rules of the game. The researcher used the term 'may change' because what exactly the rules & regulations of VAT, how it is to be calculated is not clear to many State governments. So all the leasing companies should be aware of VAT, and its affect on leasing with special reference to sales tax.

8. One more area where leasing companies should concentrate is vendor leasing. Leasing companies can have a tie up with the different OEMs and go in for business for mutual benefit.

9. As majority of the lessors do not have a standard format for evaluations of creditworthiness of lessees, they may develop their own standard format for evaluation including future prospects of the business in that. Credit worthiness evaluation need not be restricted to the time of sanctioning lease but also during lease period. As the Japanese Quality Gurus preach, 'unless you measure it, you cannot improve it'. Not only companies have a standard format for assessing creditworthiness but also it should be reviewed periodically so that they can learn from their mistakes and make further improvement.

10. Defaulting by lessee is a common problem among many leasing companies. This is happening because Leasing companies are not in touch with their lessees continuously. This problem could be avoided when they collect the quality information periodically. Leasing companies should not depend upon written information submitted by lessee (like balance sheet, etc). Leasing companies shall look for quality information and more importantly conduct and character of the lessee (because old habits die hard) should be looked into. All
the companies can share the information about the defaulters among themselves so that they can avoid such defaulters.

11. Among the most important four factors, which satisfy the customers according to lessors are speed of disbursal, attitude towards customer, quality of work and cost of leasing. Three of the above can be easily met with the help of right human resources. Cost of leasing can also be cut down by avoiding unnecessary expenditure by the employees of the organization. To satisfy the customer employees play major role. So companies should satisfy the employees first and in turn, satisfied employees satisfy the customer. This is the key element in the CRM.

12. In order to achieve this, management of leasing companies should concentrate on developing knowledge of employees, leadership skills, honesty & sincerity for employees. And every employee is expected to know all types of jobs. As only 12% of the lessors have retained customers more than 80%, efforts should be made to retain more and more customers. This can be achieved through training the employees and increasing their skill with respect to job knowledge, quality of work, teamwork, communication skills and most importantly attitude towards customers and attending to customer complaints. Leasing Companies shall think customer problems as their own problems and provide solutions for them, by which both are benefited.

13. The main problems faced by the lessees include the lengthy procedures, lower speed of disbursal of funds and asking for many securities. Lessors shall take into consideration the above problems. Not only lessors collect information from the lessees periodically but also collect feedback regularly.

14. Not all the lessors opined that employee satisfaction and customer satisfactions are positively correlated. All the lessors shall recognize that satisfied employees can satisfy the customers, which is also highlighted in CRM.
4. Segregation of customers:

Segregation of customers is one of the important elements in the CRM. 64% of the lessors and 78% of lessees opined that customer segregation is required. And those who had opined, highlighted that the basis might be on number of years doing the business with them, the number of referrals they made and turnover they bring to the business. A leasing company can give some financial incentives for those companies who referred the prospects to the company and who pay the lease rentals regularly.

16. Only 8% of the customers come to leasing through referrals. This percentage should be increased for any business (not only for leasing). This is possible only when lessors build relationship with the customers.

17. FLEXIBILITY: As many lessees are optimistic about the future, one can expect the leasing business will grow in future. But leasing is first choice for few lessees because of the numerous problems (including the economies of lease) they faced with the lessors. If their problems are solved, the number of prospective customers may increase. Another more important point to be observed is customization of lease agreements. Customization of lease is suggested for every leasing company as they have limited number of customers.

When the lessee is not in a position to pay lease rentals regularly, the lessor should not hesitate to incorporate changes in lease rentals like up fronting, down fronting, etc., so that there exists a win-win situation.

18. Everyone (both lessor and lessee) accept the importance of customer feedback but only few of them collect feedback and for which, they do not have standard format for it. As long as one is in the business, he is a customer to someone and he is also a service provider for another. For example, what ever a lessee expects from the lessor, he should provide more than what his customer expects from him, to survive in the business successfully. If you want to improve,
you have to measure it through standard format. All the leasing companies shall develop a standard format for getting the feedback from the customers.

19. Majority of the respondents did not consider their employees as their customers expect some like First Leasing Company, Sasswath leasing company, who consider their employees as more than customers and as their valuable assets. Researcher observed that all those companies who gave much importance to their employees are profit-making companies. Efforts shall be made by all the companies to give importance to their employee, which is also highlighted in the CRM.

20. Awareness about CRM and call centers among lessees is more compared to the lessors. Even though these are high sounding words, the basic rules of the game will not change. Everyone should put all the efforts to build the relationship with the customers, suppliers, lenders, and distributors and most importantly with their employees.

21. From the data analysis it is clear that there is a lack of confidence among the lessees about lessors. For example only 54% lessees are sure that their lessors are going to pass the benefit of the lowering rates of interest. It is the lessors’ duty to build the trust and confidence with lessees by which both will benefit and long-term relationship can be built.

22. Call centers are helpful in financial services even though it may not be suitable for leasing. One should keep in mind the additional cost incurred in that. If possible one may think about better way of communicating to the customers continuously like e-mail, a visit by the lessor to the lessee once in a while, etc.

23. Companies may not only concentrate on customer satisfaction through quality service but also give much importance towards perception towards
service quality, because ultimately perception is more important, as it is rightly said "no one gets a second chance for getting first impression".

24. Surprisingly, many lessors do not know about the customer's opinion about their service. And only few of them are confident that their customers are delighted about their service. And for many (56%) it is only satisfaction. Customers return to the same service provider when they are delighted rather than merely satisfied with their service provider.

25. For CRM, it is the employees that count most. Surprisingly except for a few companies, most did not give much importance to their employees and their satisfaction. There is no standard format to collect the feedback from them. Improvement is possible only through measurement. A sample format to collect the information regarding employee satisfaction is provided in appendix.

26. Customer retention and employee retention are interrelated. And only around 60% of them accept this fact. Companies should concentrate on employees first, so that in turn they will build relationship with the customers.

27. **LEASING IS NOT A TAX-DEFERMENT DEVICE:**

There is a general belief prevailing that leasing shelters the lessor's taxes and therefore, it is a tax saving device. This impression is based on the fact that a lessor claims depreciation against his earning which is not available to any other financier. This is an absolutely mistaken perception. Leasing is neither tax saving device; nor is it a tax deferment device. In absolute terms, a lessor pays as much amount by way of tax as any other financier would. What this common perception fails to realise is that whereas a traditional financier pays tax only on the interest earned, a lessor pays tax not only on the interest but also the principal repayment which is inherent in the lease rentals (since the whole of the lease rental, and not merely the interest comprised therein is taxed as a tax shield). Over a period of time, the tax shield obtained by him in form of
depreciation equals the tax charge suffered in the form of tax on principal recovery.

As the tax, a lessor pays on principal (which is an incremental tax charge not applicable in case of any other financier) is not timed at par with depreciation shelter he obtains, at times, there is a deferment of tax (if the initial value of the latter is more than the former); but then, quite often, there is also a preponement of tax. For any real life leasing company, the deferment of taxes in some cases evens out with preponements in others, leaving to neutrality in final analysis. Hence, it is a myth to perceive leasing as a tax-planning tool. And thus one should not opt for leasing only for tax planning purpose.

28. BUILD DEPOSITOR CONFIDENCE:

If a leasing company accepts the deposits from the public, the depositor’s confidence is most important irrespective of the guidelines by RBI. Adhering to it, company can opt for deposit insurance cover for the depositors. This is required because already there is asset liability mismatch. If any company looses the confidence of the depositors it will create more problems for the company even though it has good leasing business.

29. KNOW THE CUSTOMER:

Knowing the customer thoroughly in advance will avoid many future problems. By collecting information from the customer continuously and periodically and by maintaining close relationship, fruitful results may be obtained. The leasing companies should never hesitate to give ideas for improvements to the customers if any, as the success of leasing company depends on the success of their customers.
30. SAY NO TO WINDOW DRESSING:
Undisputedly window dressing has come to be known as a regular feature with corporates since the accounting system as it exists now gives much leeway to corporates. Much efforts go into presenting the picture as rosy as possible. It needs no reiterating, the finance companies had joined the bandwagon in this aspect too for getting good credit rating that will create more troubles in the future. By accepting more deposits without proper planning one is creating more mismatch of asset-liability.

31. BANK FINANCE:
The banks have doubts about the RBI policy on bank finance to NBFCs especially after the regulatory measures were announced on 2nd January 1998. As a result of the restrictions imposed on acceptance of deposits from the public, bank finance has become an important alternative sources to the NBFCs. It is advantageous for the banks to route the finance through NBFCs instead of lending loans directly to a large number of borrowers. When finance is routed through NBFCs both the transaction costs and risks are lower to the banks. The RBI may impress upon the banks to extend need-based credit on merits to NBFCs at concessional rates of interest.

32. CONSISTENCY IN REGULATORY/POLICY MEASURES:
There should be consistency in the regulatory and policy measures announced by the RBI. Frequent changes in bank financing norms, in rate of interest on public deposits and liquidity requirements etc., upset the operations and affect liabilities/assets position of NBFCs. The regulatory and policy measures might be subject to prior discussion with the AFLCS. There should be a regular dialogue between the RBI and association to sort out the operational problems of NBFCs.
33. DEBT RECOVERY TRIBUNAL:

Recovery of dues is as much a problem for NBFCs as for the financial institutions like banks. Civil proceedings take several years. The delays in court proceedings encourage the borrowers to default. The loans given by NBFCs should also be brought within the purview of Debt recovery Tribunals set up for the recovery of dues of financial institutions.

34. REMOVE THE DOUBLE TAXATION:

By levying sales tax, State Government is not taxing something, which was otherwise escaping the tax. In other words, at the back of every lease transaction, there is a purchase of goods by the lessor, which has already been subjected to tax. The same can be explained as below.

When the leasing company buys the goods from the supplier, the goods have already beared tax. If the lease transaction suffers tax as a second leg of the commercial transaction, the tax burden is multiplied. Even though sales tax is levied, in some States, issue of C- forms is denied. Even though a number of High Courts have admonished the administrative machinery for doing so. If the States levy the Sales tax, C forms may be issued to lessor in case of inter State transactions.

Sales tax may be removed as leasing also contribute to the industrial development of the State.

35. The Central Government needs to define lease under the CST Act, define principles under which lease will be regarded as inter-state, and declare leases as taxable only at a single point levy and fix the limit order.

36. The most common misuse has been through the route of sale and lease back by manufacturing companies, which are eager to avail of the depreciation benefit. This has been particularly rampant in the case of items eligible for 100 per cent depreciation, where the entire asset value can be written off in just one
year. But this can easily be countered by restricting sale and lease back of assets to new assets financed through leasing companies only (In some States sale and lease back transaction are not allowed). One more alternative is, the benefit could be extended to only those leasing companies, which are registered with RBI (with the provision that the set off should be done only against lease income).

38. The employee turnover among CRM package providers is high (30%) which shows the service developers do not understand the basic theme of CRM. Many of them think, CRM is more a technical /information sharing skill rather than developing the human skills. All the CRM package developers shall first make it clear to their employees about the basic theme of CRM, so that they can pass it on to others. Not only they make clear, but also maintain good relations with them, thus practicing what they market. As it is rightly said it is not the software but human ware is important for success of the organisation.

There is a gap between lessor's perception and expectations and lessee's perception and expectations towards customers' satisfaction. For example according to the lessors' opinion, 'speed of disbursal' is the top most priority for lessee's satisfaction. But according to the lessees' opinion it is the 'quality of work'. The details gap analysis is given the data analysis.

The most important four factors that satisfy the lessees according to the lessees are quality of work, attitude towards customers, attending customer complaints and cost of leasing.

The most important four factors that satisfy the lessees according to the lessors are speed of disbursal (I), attitude towards customers (II), quality of work (III), cost of leasing (IV).

The expectations and perception with respect to attitude and the cost of lease are the same by the lessor and lessee. But quality of work and customer complaints takes more priority by the lessee. As lessors have to build up
relationship with the customer, lessor should think from the lessee’s point of view and should put all his efforts in this direction.

Lessors should improve the quality of work and should attend customer complaints regularly. It is not sufficient to doing it right at first time, but one has to do right first time and every time.

According to the lessees, the least important factors for the customer satisfaction are honesty and sincerity, quality of suggestions, dependability, and communication skills. And according to the lessors they are honesty and sincerity, flexible in work and possession of good communication skills. Even though lessees are not serious about sincerity and honesty, the lessor should give much importance to the honesty and sincerity, because it goes a long way in establishing the long-term relationship with the employees, which in turn build the morale of the employees and also relationship with the customers, which is a essential feature of Customer Relationship Management.

The suggestions mentioned are neither exhaustive nor rigid. A future study can be made in this direction. The gap is limited not only to leasing industry but also to all the service providers (companies) and are required to concentrate on filling the gaps.

CRM is the right choice in financial services, even though it may not perfectly suit to the leasing. However for fee-based services, where service counts a lot, CRM is the right strategy.

There are no universal solutions for all companies. Each company is unique. It has to build relation on its own. And most importantly, the service mission, relationship with the employees, collection of feed back from the employees and customers regularly, quality conscious among the every employee, play significant role in implementation of CRM. The service provider
shall keep in mind that every problem is an opportunity in the implementation process and CRM is continuous process.

The only non-imitable competitive advantage is the customer. Companies shall know the customers better and better for delivering the service. By which, they can provide better and better service and could build relationship with the customers. The father of the nation rightly quoted it as follows:

"Who is a customer? A customer is the most important person ever in our company -- A customer is not dependent on us, we are dependent on him. A customer is not an interruption on our work; He is the purpose of it. We are not doing him a favour by serving him; he is doing us a favour by giving us the opportunity to do so. A customer is not some one to argue, to match wits with; no body ever won an argument with a customer. A customer is a person who brings his wants—it is our job to handle them profitability to him and to ourselves."