INSURANCE NEEDS?
A STUDY OF OPERATIONAL VEHICLE LEASING COMPANIES

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1. PROBLEM DEFINITION

Companies competing in a market environment are trying to improve their competitiveness. This competition is becoming ever more apparent due to the globalization of business. A widespread company strategy is to focus on the core operations and competencies and outsource non-core activities. Managing companies’ vehicle fleets is often considered non-core operations which have led to the creation of the operational vehicle leasing industry. It means that the leasing company own, finance and manage vehicles companies use.

In 2007 2.6 million vehicles was managed by the leasing industry of which 100,000 was in Sweden. The industry grew 5.8% in Europe between 1990 and 2007 and current growth is now less in Western Europe compared to Scandinavia, Southern and Eastern Europe.

One part of the vehicle management operations is the vehicle insurance. Leasing companies can choose to include vehicle insurance in their offer to their corporate customers but they then first have to source the insurance product from an insurance company. Vehicle insurance has historically not been included in operational vehicle leasing but it is increasing and has become more common during recent years. Which new needs do these leasing companies have regarding vehicle insurance?

2. PURPOSE AND TARGET GROUP

The purpose of this thesis is to identify and analyze operational vehicle leasing companies’ need of vehicle insurance.

The target group of this Master Thesis is employees and stakeholders to traditional insurance companies and operational vehicle leasing companies. Master of Science students within mechanical and industrial engineering are also prospective targets groups.

3. METHODOLOGY

The research is conducted with a qualitative approach based on a descriptive and explanatory way of working to determine causality within the specific field. A case study approach is conducted on several objects and a comparative study is conducted that will determine similarities and differences. From these identified causalities probable conclusions can be made regarding the interaction and correlation between specific phenomena and criteria factors.

The collected empirics are not possible to quantify numerically which is one of the major reasons for the qualitative approach with words and reasoning being analyzed.

It’s in developed countries that operational vehicle leasing companies and grown large and started to include vehicle insurance in their offer to their customers. So it’s in industrialized countries it’s of importance to identify and analyzed leasing companies needs of insurance. Leasing companies purchase insurance from insurance companies which means that it is business-to-business relations that is affecting the needs that are to be identified and analyzed. Business relations can be assumed to vary between global regions such as South East Asia, Europe and US. To increase the reliability and minimize effects of cultural differences all case study objects are chosen in one region. Europe was chosen for the reason of available resources and the opportunity of good access to senior managers at leasing companies.

According to Kärkkäinen (2002) is analysis of customer needs a vital part of the development of business-to-business products. Vehicle insurance companies’ will to understand and analyze the operational vehicle leasing companies’ needs as a basis to their own product development and marketing is evident.

AIG Europe is an insurance company that sells vehicle insurance. It has operations all over Europe and has several operational vehicle leasing companies as customers. AIG Europe offered to through its relations within the field of operational vehicle leasing industry make sure that the key decision makers take the necessary time to get interviewed regarding their needs of vehicle insurance. Final choice of case studies was limited to current customers to AIG Europe.

The qualitative comparative case study is on three leading operational vehicle leasing companies. The data has been collected primarily by performing semi-structured interviews in Paris, France, Dublin in Ireland and Malmö and Stockholm in Sweden.

Company A is an operational vehicle leasing company with operations in 39 countries. It has 3,500 employees and is headquartered in Belgium. It manages 687,000 vehicles of which 300,000 are in Europe.

Company B is Europe’s second largest operational vehicle leasing company. 16 out of total 19 countries with operations are in Europe. It’s a French company with 3,700 employees, headquartered in Paris. The main focus in on corporate vehicle fleets. It manages 607,000 vehicles of which 600,000 in Europe.

Company C is an operational vehicle leasing company with operations in Sweden. It has revenues of 400 MSEK and 52 employees. It manages 11,000 vehicles and has an

1 Directeur Assurances, Company A, Paris, France, 29/6-07 & Operations Division Manager, Company C, Malmö, Sweden, 4/6-07
2 Fleet Europe, International Fleet Management & Trends, www.fleeteurope.com, 1/7-08
3 Nicolas Faquet, Regional Auto Manager & Karolina Klint, Major Segment Manager, AIG Europe, 3-07
5 Directeur Assurances, Company A, Paris, France, 29/6-07
6 Directeur Général & Aktuary, Company B, Dublin, Ireland, 15/6-07
annual growth of about 20%. The head office is divided between Stockholm and Malmö.\(^7\)

### 4. THEORY

Two theoretical frameworks have been utilized and also created the structure of the Master Thesis. Those two are The Business Chain Model by Kärkkäinen (2002)\(^8\) and The Organization’s Impact on Purchasing Needs by Grønhaug and Venkatesh (1990)\(^9\).

According to Bruzelius and Skärvad (2000) there are two ways to view what is affecting an organization. 1.) The external system is the environment that the organization is operating in and interacts with which affect an organization. 2.) The second view is the internal system inside an organization that is influencing and affecting the entire organization. Both perspectives should be utilized to create a comprehensible picture as possible.\(^10\) This aspect of both view points has given the Master Thesis its structure.

The purpose with the Master Thesis is to identify and analyze needs and therefore is it need analysis models that have been chosen. The external need analysis model is Business Chain Model by Kärkkäinen (2002) and the internal need analysis model is The Organization’s Influence on Buying Needs by Grønhaug and Venkatesh (1990). These two models are both created with the purpose of understanding and analyzing an organization’s needs, but with the two different perspectives and view points. They were chosen because they complement each other. The Business Chain Model is a model analyzing a company’s business environment that creates needs within an organization which is the external perspective. The Organization’s Influence on Buying Needs has on the other hand an internal perspective where the organization in its self creates needs. Bruzelius and Skärvad’s hypothesis that both view points is needed to understand an organization is utilized within the context of organizational needs.

The external influences on needs are customers, suppliers and other stakeholders that interact with an organization. This interaction leads to the creation of organizational needs as a consequence. Then there is also the internal influence on needs where mechanisms, relations etc. within an organization creates organizational needs.

It is operational vehicle leasing companies that is the focus in this thesis and a common denominator that motivates the usage of an external perspective is the type of business and similarity of business model within the industry that these companies operate in. It’s outsourcing of vehicles, which is administrative and practical service. The vehicle user has only contact with the leasing company while the operational leasing company manage the relations with several types of sub-suppliers and stakeholders such as service companies, governmental agencies etc. Operational leasing companies can hence be viewed as a hub or consolidation of contacts and business oriented relationships. The external contacts and their influence on leasing companies can be regarded as substantial and motivate the utilization of and external analysis model.

A second common denominator between operational leasing companies that motivate the usage of an internal perspective is that the companies are large and often multinational organizations. Large organizations have high internal complexity where interpretation of needs can vary between people, both within and between hierarchies in the organization. This leads to the necessity to regard the internal interaction and how it affects an organization comprehension of needs.

### 5. CONCLUSIONS

The basic activities to deliver vehicle insurance is not changing when leasing companies offer insurance as part of the total solution to their customers but the structure and organization that perform the insurance activities is drastically changing. All three case studies show that the leasing companies are all in the process of taking over more and more of the vehicle insurance activities by themselves. It includes the administrative tasks of offering insurance as well as taking over more of the financial risk of vehicle insurance by registering their internal insurance companies, called Captives. However there is no indication that the leasing companies who are gradually transforming themselves to be more like traditional insurance companies also want to take on the entire financial risk of vehicle insurance. They all in both short and long term want to keep and purchase the high financial limit reinsurance with traditional reinsurance companies.

The centralization within the leasing companies’ business is high and nothing indicates that the situation is about to change. The operational vehicle leasing industry is growing and with that the number of vehicles insured through leasing companies. Also the number of countries covered in the insurance coverage within the multinational leasing companies is growing.

The leasing companies are developing a more sophisticated view and work process regarding vehicle insurance. All three case studies show that they already have started or are planning to start to themselves manage more and more activities of the vehicle insurance product.

The needs of vehicle insurance in the view point of traditional vehicle insurance providers supplying the service to leasing companies is that the demand of such activities is being reduced. That doesn’t mean that the total needs of insurance of vehicles or insurance as product is declining. It is the entities that generate the

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\(^7\) Operations Division Manager, Company C, Malmö, Sweden, 4/6-07


A view on demand for vehicles insurance from merely traditional suppliers is thus generating an incorrect comprehensive view. The demand and needs of vehicle insurance is consequently consistent in relation to number of vehicles. Operational leasing companies that to a greater extent themselves wish to offer vehicle insurance to its corporate customers wish to tailor and adapt insurance solutions in regards to coverage, structure and pricing. In centralized organizations such as leasing companies the development is not progressing towards standard solutions which are common today but more and more towards customer tailored solutions according to specific customer needs.

There are in summation three categories of vehicle insurance. They are:

1. Issuance of insurance certificate, claim management and pricing of insurance premium
2. Financial risk up to a pre-determined limit
3. Reinsurance of financial risk above the pre-determined limit.

5.1. Issuance of insurance certificate, claim management and pricing of insurance premium

**Current status**

The market is segmented with a mix of traditional vehicle insurance companies and leasing companies that deliver the activities stated in 5.1. The fundamental need of activities to deliver the product is not dependent on type of organization.

**Trend**

Operational leasing companies want to manage as much as possible of a customer’s non core business and is increasingly taking over the operations from traditional vehicle insurance companies sub-supplying the leasing companies. The basic needs will however persist.

5.2. Financial risk up to a pre-determined limit

**Current status**

Some but not all companies in the operational vehicle leasing industry has created internal Captives to be able to internally manage financial insurance risk and reduce payment of risk premiums to external insurance companies.

**Trend**

The trend is progressing towards centralized multinational Captives that collect the financial risk for several countries up to a certain limit and a second step in the development is that leasing companies set-up captives in each country that can manage the risk and perform activities according to 5.1.

3. Reinsurance of financial risk above the pre-determined limit

**Current status**

Operational vehicle leasing companies choose to reinsure the financial risk above existing pre-determined limits. The need of high-limit reinsurance is not dependent on the existence of Captives or if it’s a bottom-to-top insurance where reinsurance is included in the base-insurance.

**Trend**

The needs will persist and external reinsurance companies are the entity that takes on the high-limit reinsurance. No trend or will has been identified that would indicate that leasing companies themselves would want to take on the entire insurance risk from bottom-to-top.

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