

Ridesharing and Carsharing, A Better Option?

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An automobile may be a necessity in a country such as Malaysia as the development of transportation links has not covered the entire country. While Malaysia has made progress in its rail links with the new Mass Rapid Transit (MRT) System, the last mile connectivity still leaves much to be desired. Thus, many young graduates' first major asset purchase would be a car instead of a property. However, with the advent of Grab and the likes of GoCar, Socar, Moovby and drive.my indicates that car sharing is catching on in the country. Car sharing essentially means the convenience of renting a car through smartphone applications for a minimum duration of 30 minutes, an hour, a couple of hours or even for a couple of days.

While the new Malaysian government has promised as part of their manifesto to lower the cost of purchase of an individual's first car and to have a targeted subsidy scheme for owners of vehicles under 1.3 litres capacity based on data to be retrieved through one's identification card, is purchasing a car then justified?

According to research by Navigant Research, worldwide membership in car-sharing programmes will grow from 2.3 million in 2013 to more than 12 million by 2020 as this model of shared personal transport is seen as a potential solution to the global issue of traffic gridlock.¹

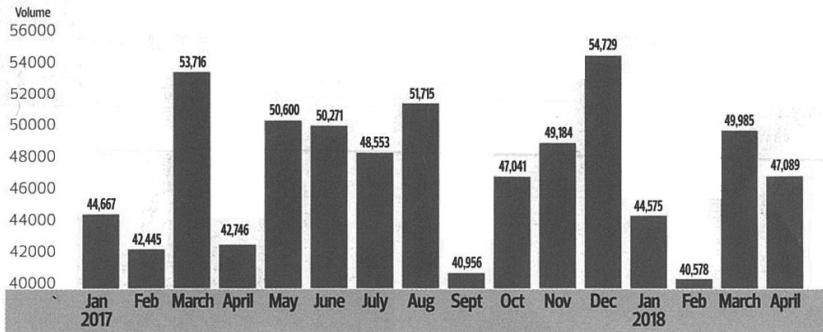
Measurement of vehicle sales is through Total Industry Volume (TIV). In the last two years, TIV has come in at a lower number of 576, 635 units in the year 2017 and 580,085 in the year 2016. Prior to these years, new car sales had been in the 600,000 units bracket. Annually, another 400,000 units are sold by second hand car dealers.² The Malaysian Automotive Association forecasts TIV to grow by 2.3% to 590,000 this year. This is after a second year of decline in new vehicle sales.

Malaysian authorities have suggested numerous times that the lifespan of cars be restricted to a certain number of years, a policy which was not popular with the masses and has never been introduced. In fact, vehicles that are not roadworthy are left abandoned

¹<https://www.navigantresearch.com/newsroom/carsharing-services-will-surpass-12-million-members-worldwide-by-2020>

²<https://themalaysianreserve.com/2018/02/19/used-car-market-losing-competitive-edge/>

Total Industry Volume Since January 2017



SOURCE: MALAYSIAN AUTOMOTIVE ASSOCIATION

Figure 1: Total Industry Volume Since January 2017

with little or no action taken by the respective municipal councils, creating nuisance to the populace. Having valid road tax would mean that all vehicles ought to be used or even if left idle, should still be taxed. Should one desire not to use such vehicles, a scrapping policy which is practised in developed countries needs to be introduced. Only such a move will then not dampen overall sales of new or used vehicles each year.

It was reported recently that many of the vehicles on the road do not have a valid road tax. This issue is simply mind boggling. Not only is it risky, any damage would significantly wipe out one's finances almost instantly. All this just to save a little bit of money by not buying an insurance for the vehicle.

HIRE PURCHASE FINANCING

Latest statistics in Malaysia reveal that personal loans have overtaken hire purchase as the main reason for bankruptcy in Malaysia. While hire purchase is second in this regard, it is still a core financing instrument most Malaysians undertake. This is especially so among younger consumers. With the automotive sector to benefit from the tax holiday, between 1 June 2018 until the reintroduction of the SST tax on the September 2018 in Malaysia, the auto sector is anticipated to witness robust growth.³ One has to bear in mind that upon conclusion of the "tax holiday" period, some auto makers may absorb the price increase of their make to entice and commercial vehicles should witness a reduction in price. In the longer term, the new government plans to reduce the excise duty for imported cars

³<http://www.theedgemarkets.com/article/automotive-benefit-zero-rated-gst>

	Perodua Viva	BMW316i
List price	RM24,936	RM209,800
Advertised interest rate	3.38%	2.53%
Loan period	9 years	5 years
Instalment	RM271/month	RM3,545/month
Total interest paid	RM6,827	RM23,886
Total interest paid/price	27.38%	11.39%
True APR	6.14%	4.79%

SOURCE: THE STATE OF HOUSEHOLDS (2014) KHAZANAH RESEARCH INSTITUTE

Figure 2: True APR for Cars

below 1,600cc for first car purchases by households with a monthly income below RM8,000, which could lead to improved sales of imported cars.⁴

Against this backdrop, one needs to understand the various financing options available to a consumer. Apart from the traditional financing route of banks, vehicle purchases could be financed by Non-Banking Financial Institutions (NBFIs), credit companies and even by vehicle manufacturers.

Figure 2 which provides a comparison of the true Annual Percentage Rate (APRs) paid for a Perodua Viva and BMW316i paints a clearer picture of the differences in the cost of borrowing borne by different income groups. While monthly payment of RM271 for a Viva may seem affordable, the reality is that the buyer pays more than a quarter of the purchase price in the interest payment.

Comparatively, interest payments for a BMW 316i amounts to just over 10% of the purchase price.⁵

As an example, financing for two wheelers is undertaken by AEON Credit, a company that has recorded better outturn of profits at the financial expense of young consumers who may not be aware of the implication of undertaking financing by the lender. Worse, NBFI financing provides no actual data of the borrower's credit ability as this information may not be reflected in an individual's Central Credit Reference Information System (CCRIS) or Credit Tip Off Service (CTOS) reports. Among the better known lenders are Boustead Holdings. The inability to afford a loan may not be a known fact to a consumer. With a prenotion misconception that one can afford to pay, a consumer undertakes such commitment.

⁴<https://www.keadilanrakyat.org/wp-content/uploads/2018/03/BUKU-HARAPAN-.pdf>

⁵http://www.krinstute.org/The_State_Of_Households-@-Chapter_4-:_-Housing_and_debt.aspx

Manufacturers such as BMW, through BMW Credit Sdn Bhd, provides financing for the purchase of their make of vehicles. Interestingly, *balloon financing* allows an individual to own a car for five years and at the end of the tenure, to return the car to BMW at a pre-agreed amount. As an example, an individual who may not have the financial ability to afford such a luxury could pay an upfront payment of RM50,000 for a BMW 330e M Sport at RM234,000 and then pay a monthly payment of RM3,500 for five years. At the end of the five-year tenure, the individual can return the car to BMW (at the projected market value of RM90,000). Certainly, the hidden cost of financing is much more than known to the buyer.

It should be correctly pointed out that despite reports of the increased of cost of living and depressed wage growth that Malaysians have been facing, the sales of luxury vehicles of Mercedes and BMW have been on an upward trend. In the author's view, this is due to the need for a status symbol, prevalent in many other countries as well. A status symbol is normal consumer behaviour which trades value with status, and it cuts across culture and geographic locations, perhaps differing in the type of desired object.

According to the Malaysian Institute of Economic Research (MIER),

the Consumer Sentiment Index (CSI) saw an improvement in the first quarter of 2018 at 91 points (below the confidence threshold of 100) Vehicle value depreciates faster than it used to. As an example, Malaysia's favourite MyVi has improvised its features with the new units selling at a lower price than in the years past. This affects the real value of such cars. Interestingly, Perusahaan Otomobil Kedua Sdn Bhd (Perodua), the manufacturer of MyVi, had more than 1/3 of the new car sales annually with over 200,000 units per year. As for the first fiscal quarter ended March 31, MBM Resources Berhad (MBMR), an automotive group with diverse investments in the automotive industry, saw higher sales, given strong demand for the Myvi.

Proton, meanwhile, with its lacklustre sales performance, has also launched special financing packages with Hong Leong Bank. Meanwhile Germany's automotive powerhouse, Volkswagen, is known for its creative 0.88% interest charges as part of their marketing ploy.

One needs to understand the Effective Annual Interest Rate of a hire purchase loan on a 0.88% interest loan is actually close to almost 3% of the interest charges. (This depends on the number of years of financing). A fresh graduate would then be bogged down by loan debts should a car be part of his immediate asset purchase.



Based on the stated or nominal rate for a given period, such as an annual interest rate, the effective rate is calculated by incorporating the impact of compounding interest periods into the stated, nominal rate. The effective interest rate formula is calculated like this⁶:

Effective Interest Rate Formula	
<i>Effective Rate</i>	
=	$100 \times \left(\left(1 + \frac{(\text{Stated Nominal Rate} \div 100)}{\text{Number of Periods}} \right)^{\text{Number of Periods}} - 1 \right)$

The purpose of calculating the effective rate of any financial instrument is to gain an accurate understanding of the true interest earned or paid over a period of time. While a financial institution may offer something like a mortgage loan with an annual percentage rate of 4.5%, it's critical to understand that the number of periods the interest is paid during the annual term will impact the true effective rate of the loan.

When an auto loan is settled before maturity, the Rule of 78 could be applied whereby fixed interest/financial charges are offset by a rebate. In a hire purchase or personal loan, a financier will gain a higher interest payment in the immediate months of the purchase having taken place. A consumer who wishes to settle the financing amount can save a considerable amount. Interestingly, companies like Boustead Credit Sdn Bhd provide better rebates for such full settlements.

Let's say you take up a loan of RM10,000 for 1 year with an interest rate of 8.88% per year. The interest amount would be RM888 (RM10,000 x 8.88% x 1 year). The loan would then amount to RM10,888 (principal and interest) with a repayment of RM907.33 per month across 12 months.⁷

When the Rule of 78 is applied to the loan, instead of spreading the cost of interest evenly throughout the repayment duration, banks apportion the majority of interest at the beginning of the loan. Clearly this is in the best interest of the bank as they are protected against consumers that want to settle early, but bad for consumers that want to settle early or wish to refinance.

The formula to calculate interest to be paid every month under the Rule of 78 is:

$\frac{(\text{Total no. of months} - \text{No. of months already paid}) + 1}{\text{Sum of no. of months}}$	\times	Total Interest Payable
$\frac{(12 - 6) + 1}{(1 + 2 + 3... + 12)}$	\times	$(8.88\% \times 10,000)$
Note: personal loan calculation for a 12 month loan of RM10,000 with an interest rate of 8.88%		

MULTI-FLEXES TRAVEL OPTIONS

The concept of multi-flexes options is thriving in Europe and the UK. The concept allows a consumer the freedom of optimising his travel by interchanging

⁶<https://www.myaccountingcourse.com/accounting-dictionary/effective-interest-rate>

⁷<https://www.comparchero.my/blog/decoding-the-rule-of-78>

between train rides, ride-sharing, bicycle sharing or even renting a vehicle hourly. The advent of ridesharing has brought numerous benefits to consumers the world over. Getting from Point A to Point B via ridesharing options is best used for short single stop trips. The current government of Malaysia has also promised to allow on-demand motorcycle ride taxi service platforms as is available in numerous Asian cities as one of the modes of multi-flexes travel option.

In Malaysia, Grab is the main player, having bought the San Francisco-based Uber platform in early 2018. There are other smaller players including EZCab (has a download of 10,000 users) and the lesser known MyCar and newer players eevom (allows advance booking), and MULA.

A good majority of people use Grab as a last mile connectivity option. The rates may not always be very cheap; however, with proper planning, it could have beneficial cost savings in the long run. A basic car with upkeep maintenance and monthly repayments will set a user back by RM14,000 annually. (It is estimated that RM70,000 is needed to own a basic car for five years.) Therefore, usage of ridesharing and combining this with hourly carsharing, and other multi flexes would be a good option as it gives users the flexibility of choice as well as savings on parking, time and also better quality of life.

At present, there are four main hourly rental companies. These are GoCar, SOCAR, Drive.My and Moovby. The intention of all the players is to help consumers complete the last leg of their journey. These on-demand car sharing platforms, some of which also allow peer-to-peer lending are means to enable a more diverse travel option for consumers.

Moovby had the first mover advantage and allowed peer-to-peer lending. Meanwhile, Kwikcar's founders found renting a car in Malaysia to be an expensive proposition, thus the idea of peer-to-peer sharing was introduced. Malaysia has the third largest car ownership ratio in the world.⁸ GoCar has a very similar storyline and functions in the same manner as the existing two players.

SOCAR, intending to replicate their success story in South Korea where many consumers have embarked on using such a platform, found Malaysia's capital of Kuala Lumpur their ideal launch pad. The rates charged for an hour's usage of a basic car is fair and this is inclusive of petrol charges. While the coverage areas are still limited within the Klang Valley, this would eventually change should consumers adapt to this change.

⁸<http://www.nielsen.com/my/en/press-room/2014/rising-middle-class-will-drive-global-automotive-demand.html>



SOCAR and GoCar provide brand-new car fleets for their car-sharing services. SOCAR charges RM8 per hour for its cheapest model, a Perodua Axia, while GoCar charges RM14.90 per hour for its cheapest model, the Nissan Almera.⁹

CONCLUSION

It is fair to conclude that a vehicle is a necessary travel need. However, with the developments seen in Malaysia, options are aplenty for an individual to choose his or her mode of travel. This would, in my view also ensure a more healthy populace if bike sharing is also part of the equation and certainly one's financials could be in a more healthy position with the options made

available. Among the young, the lack of knowledge of hire purchase financing, Rule of 78 and other basic financial knowledge is a cause for concern.

Whether it is carsharing or ridesharing or even for a person who already has a car, such platforms could help alleviate the high cost of living. Rather than leaving a car idle in the porch, earning money by the way of renting out may be the choice for some. Car sharing certainly helps in avoiding the burden of a car loan especially for the young. This trend would be more prominent in years to come in this country and the whole of South East Asia. ■

⁹<http://www.theedgemarkets.com/article/smart-mobility-car-sharing-catching-malaysia>