

Car Lease Swap Business: Its Mechanism and Owner's Choice in Malaysia

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ABSTRACT

This paper describes the Malaysian car owners' preference to purchase their car through car lease swap arrangement. Since owning a car nowadays is a necessity for most individuals, people will try to find the easiest and fastest way to own a car. Hence, the aim of this paper is to describe the issues of car lease swap businesses conducted in Malaysia, in particular to understand the reasons, business mechanism, and benefits of buying a car via this method. Due to limited empirical studies on car lease swap arrangement in Malaysia, the research adopted a qualitative approach, which utilises the snowball method to identify its participants. Interviews were conducted with relevant parties, who were directly involved in car lease swap business, which include the car lease dealers, the car owners and third parties (buyers). The findings indicate that the car lease dealers were the most to gain out of this business, meanwhile the car owners were worse off. Compared to the third parties, the car owners benefited from the convenient arrangement of the business. Nevertheless, due to its vague legality, it is possible to have negative implications on all parties involved. As such, future research should look at all parties involved in investigating the issues of this car lease swap business, such as relevant government agencies and all other stakeholders.

Key words: *car lease, swap business, purchase car, mechanism and benefits, blacklisted, risk*

INTRODUCTION

Owning a car nowadays is a necessity for most individuals. According to The Star Online, (2017), the number of car ownership in Malaysia has reached up to 93% which is ranked third in the world and it also has the highest multiple car ownership globally with 54% of households having more than one car. Nevertheless, statistics has shown that more than 90,000 Malaysians have been declared bankrupt since 2013, with almost 97% of them failing to repay instalments to financial institutions (The Star Online, 2017). This includes failure to settle vehicle hire purchase loans, personal financing, housing loans, business loans, credit cards, social guarantors and corporate guarantors (The Star Online, 2017). In addition, a statement from the Prime Minister's Department quoted that people failing to repay hire purchase loans ranked the highest, which is at 28% (about 25,137 people) (The Star Online, 2017). Due to the above scenario, some people sort to purchase a car via car lease swapping or also termed as "Kereta Sambung Bayar" among Malaysians (Ammar, 2014).

In Malaysia, car lease swap business has been popular in recent years (World Population, 2018). Nielsen (2014) categorized car lease swap as a popular niche market in Malaysia. This is because the car lease swap activity does not require the third party to obtain any new car loan. However, the new buyer is supposed to settle the remaining loan to the bank, which in reality has not materialized. As emphasised by Chief Department Corporate Communication of Credit Management and Counselling Agency (AKPK), Mohamad Khalil Jamaldin, a car lease swap business occurs when a person wants to dispose his or her car, and unable to make the loan repayment, the owner will give the car to a trusted person without changing the legal ownership and expect the 'new owner' of the car to continue paying the bank loan. This method has been continuously used among Malaysians due to the trust they have with their close ones (Jumain, et al, 2017).

However, there are some negative downside to this. For example, if the car owner passed away during the duration of the car lease swap arrangement, the owner's heir may refuse to acknowledge the agreement between the late owner and the third party. This will result in the car being taken back by the owner's family.

Thus, car lease swap business demonstrates many risks associated with its arrangements, such as bankruptcy due to dishonesty as well as fraud as the car is still under the original car owner's name (Nielsen, 2014; Taub, 2016; Emily, 2018). Hence, the aim of this paper is to describe the issues related to car lease swap business that include, the main reasons for choosing car lease swap transactions, its mechanism and its benefits.

LITERATURE REVIEW

A 'car lease swap' is defined as an arrangement of taking over a car lease from the rightful owner without changing the ownership until the loan is paid off (Nielsen, 2014; Emily, 2018). As emphasised by Nielsen (2014) and Sahajwani, (2017), car lease swap happens when the owner can no longer afford to pay the monthly lease and has asked for other people to continue the monthly payment with the bank until the loan is fully paid. However, according to Taub (2016), the owner may remain liable for the payments of the car if the third-party defaults, damages the vehicle or other offences which involves the car. The reason is because the car is still under the owner's name until the loan is paid off.

"While a 'car owner' is a person who lets or has let goods to a hirer under a hire-purchase agreement and includes a person to whom the owner's rights or liabilities under the agreement have passed by assignment or by operation of law" (Hire Purchase Act 1967). Meanwhile, this business also involves a third party and a car lease swap dealer, as defined by Hire Purchase Act (1967), "a person, not being the hirer or the owner or a servant of the owner, by whom or on whose behalf negotiations leading to the making of a hire-purchase agreement with the owner were carried out or by whom or on whose behalf the transaction leading to a hire-purchase agreement with the owner was arranged".

The transaction of a car lease swap begins when the owner advertises the car for lease swapping to find a potential buyer (Arata, 2016). Websites such as Craigslist and eBay Motors help in finding potential buyers. On the other hand, the owner can directly deal with the potential buyers to swap the car lease. In some cases, the owner gives the car to either family or close friends to continue paying the remaining loan. This method has been continuously used among Malaysians (Jumain et al, 2017). Meanwhile, according to James (2017), the mechanism of swapping a car lease is by going through an arrangement with the car lease swap dealer. The owner of the car can deal with car lease swap dealer to find a third party who wants to continue the car loan. This third party gets to use the car and takes over the lease payments for the remainder of the lease period. The car owner will be relieved from all payments and responsibilities about their vehicle, and the third party will be responsible for all related payments and maintenance.

In addition, Arata (2016) suggests that the easiest way to do car lease swap is to pay for a listing on a lease swapping website that will find someone to pick up the lease as well as handling all the paperwork. For instance, as revealed by Nermal (2017), there are two leading lease transfer websites, LeaseTrader.com and Swapalease.com which operate like a typical online car-selling website. If the third party agrees to take over the lease, the dealer will settle all the paperwork needed. There will be a fee charged, but the charges are usually lower than any penalties for terminating a lease early (Ensign, 2013).

As such, a car lease swap business has its own set of benefits. According to Leah (2017), one of the car lease swap benefits is variety. The third party will have a better choice of car types and availability to choose from and with a shorter period of lease. Since the car was previously used by another person and part of the lease has already been paid off, the third party is therefore unburdened from paying the lease for many years as compared to buying a new car. Not only that, lease swapping is a method for individuals without great credit scores to enter a car lease agreement. Collins (2018) concurs as car lease swap is a much better option for people who have trouble qualifying for a loan to purchase a car due to bad credit scores.

The above statement was supported by Emily (2018), who claims that due to the car owners' financial constraint and the difficulty to settle the payment, it has led to car lease swap options. Meanwhile, changing circumstances such as an addition to the family member or the car no longer suits the owner's needs can also be reasons for car lease swap (Michele, 2018). James (2017) agrees and posits that these are the two common reasons why people choose to swap their car lease. Hence, this study discusses the various issues of mechanism, benefits and reasons for choosing car lease swap business in Malaysia.

METHODOLOGY

This paper adopts a qualitative research approach as not many empirical studies have been done on the issue of car lease swap in the Malaysian context. Apart from that, this qualitative research enables the questions of how and why people use car lease swap mechanism to obtain their desired car. According to Hennink et al (2011) as well as Denzin and Lincoln (1998), qualitative research allows the researchers to identify issues from the perspective of the study participants and to understand the meanings and interpretations that they give to behaviours, events or objects. As this research involves three different parties' opinions and experience regarding the issues related to car lease swap, hence adopting a qualitative approach is appropriate for this research.

Data collection was conducted via in-depth individual interviews with the car owners, third parties and car dealers to gain more understanding of their car lease swap experiences. As for 'consent and ethics approval', there was verbal consent as all the participants agreed to participate in the research.

A semi structured questionnaire was used in the interviews as it was more flexible in terms of order in which the topics are considered and allowed the interviewees to develop ideas and speak more widely on the issues related to car lease swap (Whiting, 2008). A snowball method was used to help identify the target participants. According to Kumar (2014), snowball is the process of selecting a sample using networks. Meanwhile, Hennink et al (2011) suggested that this method is particularly suitable for identifying study participants with very specific characteristics, rare experiences or 'hidden' population groups who may be difficult to identify with other recruitment methods. Hence, this study uses the snowball method due to the unclear legality of car lease swap, thus a 'hidden' population.

Figure 1 depicts the selection of two car lease swap dealers who were introduced to the researchers. The two selected car lease swap dealers then identified one car owner and one third party who has been involved in car lease swap arrangement for several times. This is to ensure that the participants chosen are well-verse about the car lease swap arrangement.

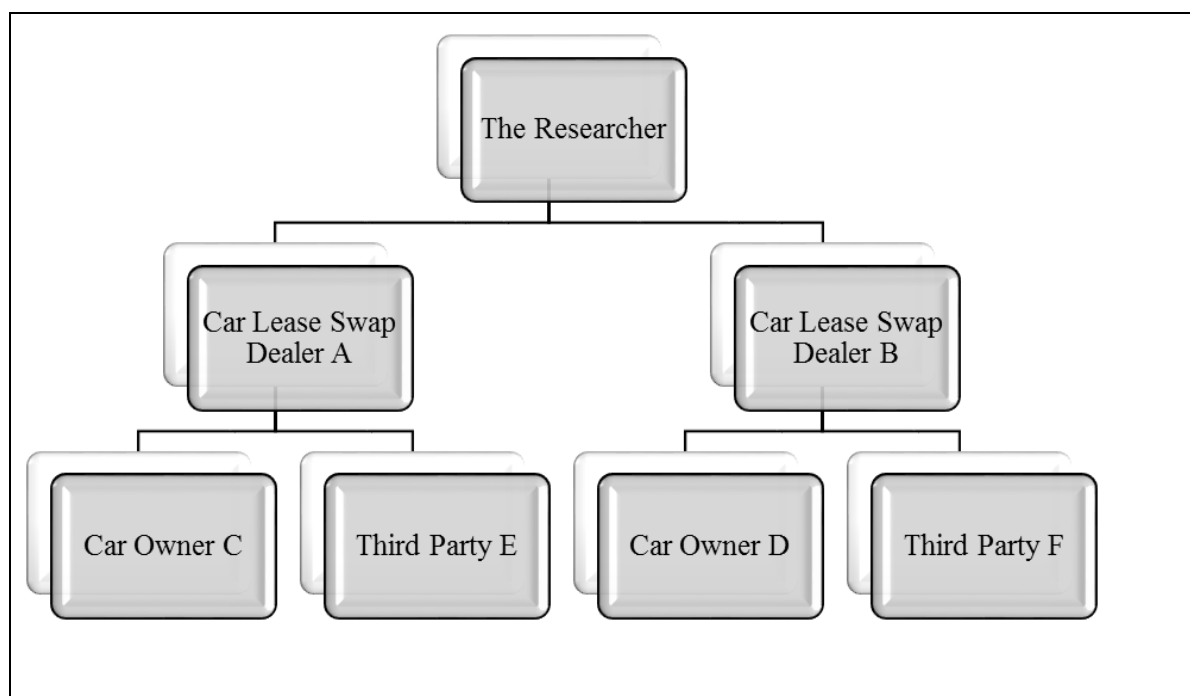


Figure 1. Car Lease Swap Dealers

Source: Researchers' Own Illustration

The analysis technique used followed the generic steps by Creswell (2003), which consists of six steps as shown in Table 1 below.

Table 1: Analysis Technique

Step 1	Organize and prepare the data for analysis	Involves transcribing interviews, optically scanning material, typing up field notes, and transferring the tape recorded-data onto paper to get clearer idea of the data in respect of the key issues, which are benefits, mechanisms and reasons for choosing car lease swap arrangement.
Step 2	Read through all the data	Involves recording general thoughts on all six interviews.
Step 3	Coding	Involves putting the data into categories and labelling them with the term based on the keyword of mechanism, benefits and reasons for choosing.
Step 4	Description	Involves a detailed rendering of information about people, places or events in a setting.
Step 5	Description and themes presentation	Involves using narrative passage to convey the findings of the analysis, which include a chronology of events, the detailed discussion of several themes (complete with sub-themes, specific illustrations, multiple perspectives from individuals, and quotations)
Step 6	Interpretation of the data	Involves making an interpretation or meaning of the data, which produces a finding in relation to the issues of car lease swap.

Source: Creswell (2003)

Creswell (2003) listed eight primary strategies to check the accuracy of the findings. Among adopted strategies in this paper include triangulating the data gathered from the car owners, car dealers and third parties. Any discrepant information that counters the themes were investigated from the interviews. In addition, peer review mechanism was also conducted to determine the accuracy of the qualitative findings.

FINDINGS AND DISCUSSION

The findings of this research were based on interviews conducted with two car owners, two car lease swap dealers and two third parties or the buyers. The profile of the participants and their identification by pseudonym is as shown in Table 2. For confidentiality purposes, anonymity is observed for all the participants in this study.

Table 2: Profile of Participants

Participants	Gender	Age	Experience in Car Lease Swap Business	Involvement in Car Lease Swap Arrangement
Car Lease Swap Dealer A	Male	44	5 years	Not Applicable
Car Lease Swap Dealer B	Male	47	7 years	Not Applicable
Car Owner C	Male	28	Not Applicable	Once
Car Owner D	Male	34	Not Applicable	Twice
Third Party E	Male	37	Not Applicable	Twice
Third Party F	Female	53	Not Applicable	Twice

Source: Researchers' Own Illustration

Car Lease Swap and Risk Involved

The findings revealed that the participants understand that car lease swap is the process of transferring the car to a new driver, but the ownership of the car will remain under the owner's name until the loan is paid off. As noted by Emily (2018), car lease swap is a process in which a car lease is transferred from the owner to a different driver and is understood by all participants. For instance, as mentioned by Car Owner C:

"...What I know is someone will buy my car and pay for the lease, but the car will still be under my name until the lease is paid off..."

As for Car Owner D the answers given:

"...What I know is.. I find someone to continue paying for my car lease. The buyer will get to use the car, but the car will still be under my name until the loan is paid off..."

Besides that, the Third-Party E also shared the same understanding as he mentioned:

"...From what I understand, car lease swap is an arrangement of buying a car without changing the owner's name until the loan paid off..."

The participants were also aware on the risks of being blacklisted especially if the buyer fails to fulfil the agreement and does not pay the monthly payment. As mentioned by Car Owner D:

"...For me, I think the most obvious risk will be the risk of being blacklisted..."

Meanwhile Car Owner C also agreed as follows:

"...From what I read, the owner will be blacklisted..."

The other possible risk is in the event of accident happened which involves insurance claim.

As noted by Third Party E:

"...The risk, in my opinion will be if I am involves in a car accident, it will be hard for me to make claims..."

Legal Aspect of Car Lease Swap Arrangement

In respect of the legality of car lease swap arrangement, the participants' answers varied from one another. For instance, Car Lease Swap Dealer A mentioned:

"...In terms of legality, the agreement between the owner and the buyer is legal; however, if any party breaches the agreement, they can just take action between them. The bank has no relation to the buyer. So, the bank will contact the owner if there is any default in payments..."

In contrast, Car Lease Swap Dealer B and Third-Party E believe that car lease swap arrangement is illegal. However, Car Owner C and Third-Party F, admit that they did not know about the legality of the car lease swap arrangement. Hence, the above findings, indicate that the understanding of public on the legality of car lease swap arrangement is questionable. From the legal aspect, car lease swap agreement is invalid according to the Contract Act 1950 (section 24) and also an offence under Hire Purchase Act 1967 (Act 212), which if found guilty, on conviction, be liable, to a fine not exceeding RM 25,000 or to imprisonment for a term not exceeding three years or both.

Mechanism of Car Lease Swap

Meanwhile, findings on the process of car lease swap indicate that the car owner utilises the services of the dealer to advertise the car to find any match for potential buyers. This dealer will then prepare the paperwork and inform the car owner. As said by Car Owner C:

"...First, I found an advertisement and contacted the dealer. The dealer tried to help me match with a potential buyer. All paperwork was done by the dealer. What I know is when there is a potential buyer, the dealer will arrange for the new buyer to start paying for the car..."

Similarly, Car Owner D also gives the same answers as follows:

"...The process is not so complicated. All I must do is deal with the dealer. I will give details of my car to the dealer and discuss on the payment and paperwork. The dealer will find the buyer and negotiate with them..."

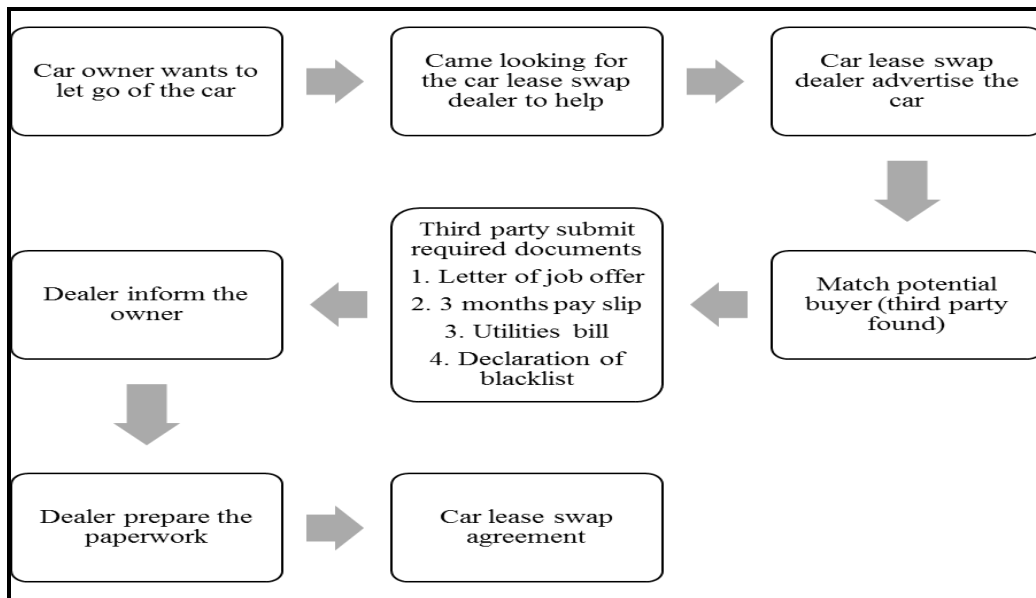


Figure 2. Flowchart on Process of Car Lease Swap Arrangement

Source: Researchers' Own Analysis

On the other hand, the third party is required to show their pay slips of three months, utility bills and sometimes a letter of job offer to the car lease swap dealer when doing the transaction. The pay slip is needed as an evidence that the buyer can afford to pay the monthly payment. Meanwhile, the utility bills are needed as an evidence of the third-party's house address. This is important to ensure that the arrangement goes smoothly, however the most important thing is the buyer must declare if he is being blacklisted.

This mechanism of car lease swap can be demonstrated in Figure 2 above, which shows the process of car lease swap arrangement. There are at least eight steps to follow beginning from the car owner's request to the dealer to find a buyer to take over his/her car lease. Car lease swap dealer will do everything from advertising the car up until the best match of third party is found and seal the agreement between the car owner and the buyer.

Benefits and Disadvantages of Car Lease Swap

Findings on the benefits for car owners include letting go of their cars when they no longer were able to afford to pay the monthly payments, which Zimmerman (2008) claimed that it is becoming a trend for drivers to get out of leases via car lease swap arrangement, as well as when the owner decides to purchase a new car. This statement was supported by the following participants:

Car Owner C:

"...For me the only benefit is I can let go of my car when I no longer can afford to pay as well as avoid my name from being blacklisted..."

Car Owner B:

"...The benefit for me is I can swap a car lease if I can no longer afford to pay or simply want to have a new car..."

As for the third parties, paying the car deposit is very cheap. According to Michele (2018), payment for car lease swap are typically lower than purchase payment. In addition, the process of car lease swap is much shorter compared to dealing with the bank. Apart from that, Collins, (2018) claims that the third parties can still have a car even though they have a bad credit score.

Despite the benefits, the third parties could be in a dilemma when the car owner violates the agreement and requests for return of his car. This will cause a problem to the third parties as legally; the car is still under the car owner's name. Apart from that, making a motor insurance claim is also a headache for the third parties as the original car owner is needed to be present for the claim process, thus dragging the process of claim. As alleged by Third Party F:

"...I met with an accident and the car lease swap dealer dealt with the owner. Sometimes, it is hard to contact the owner. This caused a delay and it took months to settle..."

On the other hand, the car lease swap dealers were not affected as the agreement was between the owner and the buyer (third party). As noted by the car lease swap dealer A:

"...In my opinion, as a dealer, there is no disadvantage that will harm me. I am not involved with the agreement between the owner and the buyer. My role is just as a bridge between the two parties..."

Similar answer was given by car lease swap dealer B:

"...In my seven years of involvement in this business, I do not encounter any problem related to car lease swap business. Unless the problem is caused by the buyer and it will involve the owner but I still will be not be affected..."

Reasons for Choosing Car Lease Swap Arrangement

Various reasons were revealed by the participants as to why they choose car lease swap arrangement. Table 3 summarises the reasons.

Table 3: Participants' reasons for choosing car lease swap

Participants	Reasons
Car Owner C	<ul style="list-style-type: none"> • No longer afford to pay the monthly payments • Looking for cheaper car
Car Owner D	<ul style="list-style-type: none"> • Wants to change to another car • The ease of arrangement
Third Party E	<ul style="list-style-type: none"> • Deposit for car lease swap is not too high • Can have the car at a lower price
Third Party F	<ul style="list-style-type: none"> • Currently being blacklisted, but through car lease swap arrangement can own a car
Car Lease Swap Dealer B	<ul style="list-style-type: none"> • Does not require a large sum of money to set up the business • Can get high profit or commission

Source: Researchers' Own Analysis

According to Michele (2018), incidents such as an addition to the family and existing car that no longer suits the owner needs can be the main reasons for car lease swap. This findings were supported by James (2017) as the two most common reasons why people choose to swap their car lease. In addition, Collins (2018) suggested that a car lease swap transaction is a much better option for people who have trouble qualifying for a loan to purchase a car due to bad credit scores. Thus, the above empirical studies supported the reasons given by the participants as in Table 3.

As for the limitations of this study, the small sample size of the participants does not necessarily represent all parties involved in car lease swap business. However, these participants may represent best experience and knowledge in car lease swap business in Malaysia.

CONCLUSIONS AND IMPLICATIONS

It can be concluded that car lease swap arrangement serves as an alternative for those who cannot afford to buy a car or for those having problems obtaining a loan as well as those who were no longer capable to pay their car lease loans. Among all parties involved in this business (the car owner, the third party and the car lease swap dealer), it was found that the car lease swap dealer stands to gain the most from a car lease swap arrangement as they can gain high profit from arranging the deals for the car owner and the third party with the least risk. In contrast, the brunt of the potential risks is borne by the car owner.

Although the car owner has the privilege to release his car when he can no longer afford the lease monthly payment, the car owner could still be blacklisted. Meanwhile, the third party benefits through the ease of arrangement in obtaining a car despite the possibility of losing the car, if the car owner refuses to transfer the ownership upon completion of the leased loan.

Thus, due to the ease of arrangement, some people choose the method of car lease swap to get a car. Apart from that, many adopt this method as it offers low price for those who cannot afford to buy a new car via the usual purchasing procedure. In addition, car lease swap method is available for everyone, even to those who are blacklisted. Nevertheless, it is unclear whether this method of procuring a car is legal in Malaysia.

Therefore, due to the negative implications of car lease swap business, government agencies should be on alert to prevent the public from being cheated. It is suggested that future research should involve the government and other appropriate parties such as the lawyer to investigate further on car lease swap issues and its legality. Apart from that, it is also recommended to obtain the opinions and views from insurance organisations such as Persatuan Insurance Am Malaysia (PIAM) and insurance companies on this car lease swap business, as its business arrangement could have implications on the underwriting and claims of motor insurance policies in Malaysia. As for the potential buyers planning to use this method, it is discouraged to adopt this method to get a car as all participants agreed that due to unforeseen risks and repercussions, the car lease swap is not the best way to buy a car.

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