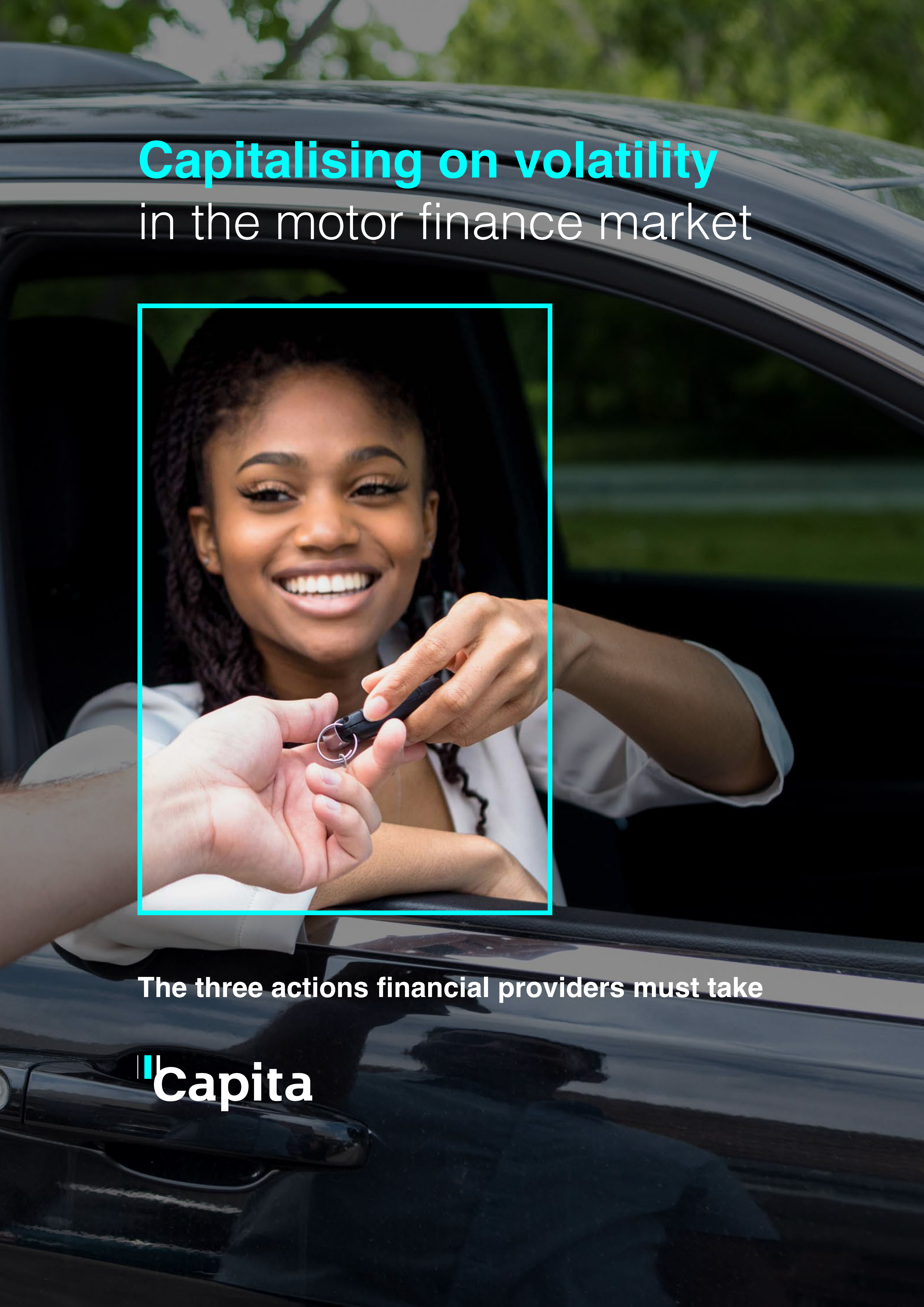
Capitalising on volatility in the motor finance market



The three actions financial providers must take

Capita

Foreword

Aps Ajit
MD Financial Services, Capita Experience

The convergence of so many disruptions all happening at the same time in the Motor Finance industry creates the most extraordinary set of challenges for those who look to navigate a path to sustainable growth. This whitepaper, created alongside industry experts Finativ, offers an honest and considered view on the main behaviours needed across the industry from those who look to overcome and take positives from the seismic disruptions felt by so many. Keeping a firm focus on the customer and our shared duty to their experiences is surely the biggest test being faced so it is excellent to see this whitepaper offering such a detailed view on how we need to act, together as custodians of the industry and the customer.

In association with Finativ

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Navigating a perfect storm

The motor industry is facing a perfect storm of difficulties: lower consumer spending power; drivers rethinking how they use their cars and even whether they need a car at all; an increase of available data; the growing popularity of diverse fuel options – all of this has created greater volatility within the market.

Following **our first paper on this topic**, which went into detail about the current state of the industry, we now look further ahead to tackle a crucial question. How can financial providers ensure they turn the current volatility into an opportunity to grow and further establish themselves in the motor finance market?

What are the three actions?

Financial providers have the opportunity to get a firm foothold in a fast-changing motor finance industry. To do this, these providers must:

- Embrace the modern consumer's desire for flexibility and control.
- Harness data and become indispensable for connectivity in drivers' everyday lives.
- Leverage their scale and brand value to become the consumer's all-encompassing mobility solution provider.

Embrace the modern consumer's desire for flexibility and control

The current economic squeeze (due to the collision of post-Covid recovery, supply-chain cost increases, higher energy costs and other constraints arising from the war in Ukraine), combined with existing trends in the automotive sector – electrification, servitisation and connectivity – means that many consumers are not feeling well served by the established motor finance and leasing business model.

It is fair to say that, in terms of new cars, consumers have often benefited from a subsidised interest rate, as well as sometimes a deposit contribution, when taking advantage of an OEM's (original equipment manufacturer) captive finance company's PCP (personal contract purchase) product offering. Indeed, PCP has for many years been almost the only game in town in terms of new car financing; even overtaking HP (hire purchase) for the financing of younger used cars.

While the product itself provides equitable early settlement terms and gives the consumer protection against a reduction in future car values, the providers could do more to enhance the customer experience in life more broadly. This could be addressed with the enablement of more digital, self-service functionality in respect of contract changes for customers who find themselves exceeding their contracted mileages (or even, for those now working from home more and commuting less, covering a lower mileage than they expected), allowing them to adjust their payments in line with actual recorded mileage, rather than waiting for the contract to end and being faced with excess mileage charges. Similarly, end-of-life processes could be improved, with automation of extension or re-financing options, where customers need to, or wish to, retain their cars beyond the original contract-end dates.

Since January 2021, finance companies have controlled the interest rate charged to consumers at the point of sale via their introducers[1]. The majority have moved to a fixed interest rate, so fulfilling the 'consistent and transparency' wishes of the FCA (Financial Conduct Authority). However, this has left the more creditworthy consumer facing a showroom interest rate offer somewhat above what they might reasonably expect to obtain on the open market, for example from their own bank.

> **A move to a 'rate for risk' model provides rates based on the consumer's credit worthiness, which would also be fairer and more transparent for anyone seeking finance approval before visiting a dealer showroom.**

While presenting a marketing and advertising challenge around 'typical' rates, this could be a positive and proactive move in bringing pre-approved customers to the dealer's door and reducing consumer anxiety around the negotiation process.

> **We know that younger generations are happy to conduct much more of their lives digitally, including researching and accessing cars.**

However, we also know they are learning to drive later and will drive less in their lifetime than the older car-driving population. While it is true that these same younger generations are probably not the most economically able to buy cars today, OEMs and automotive financiers ignore them at their peril, unless they are willing to accept declining sales and financing volumes in the future. However, this challenge also presents a big opportunity for a financing organisation willing to think holistically enough to provide a wide variety of mobility solutions in parallel. This is especially true where that challenge is not being met by the OEMs and their captive financial services providers themselves.

[1]Financial Conduct Authority (FCA), PS20/8: Motor finance discretionary commission models and consumer credit commission disclosure – feedback on CP19/28 and final rules, www.fca.org.uk/publication/policy/ps20-8.pdf

Finance product market share development

% by volume (no. of cars financed)		Finance penetration	PCP	HP	Leasing
New cars	2017	87.8%	76.6%	12.0%	11.4%
	2019	91.7%	75.2%	12.3%	12.5%
	2021	91.9%	74.4%	11.2%	14.4%
			PCP	HP	Other (incl. Leasing)
Used cars	2017		33.9%	61.4%	4.7%
	2019		36.1%	60.0%	3.9%
	2021		37.0%	59.9%	3.1%

Chart references:

- All data relate to point of sale finance provided to retail consumers for new and used cars.
- Finance penetration figures only available on new cars (used car sales volume data is not so reliable).
- In new car finance PCP retains its dominant position, though there is a year-on-year marginal reduction in PCP's market share since the introduction of PCH products (included in Leasing) in recent years.
- Meanwhile, PCP continues to gradually grow in the used car segment, particularly in the youngest used cars, as evidenced by a more than 50% share of the business when measured by financed amount, (not shown here).
- Data provided by FLA (Finance & Leasing Association).

Industry Statistics – Finance & Leasing Association (fla.org.uk)

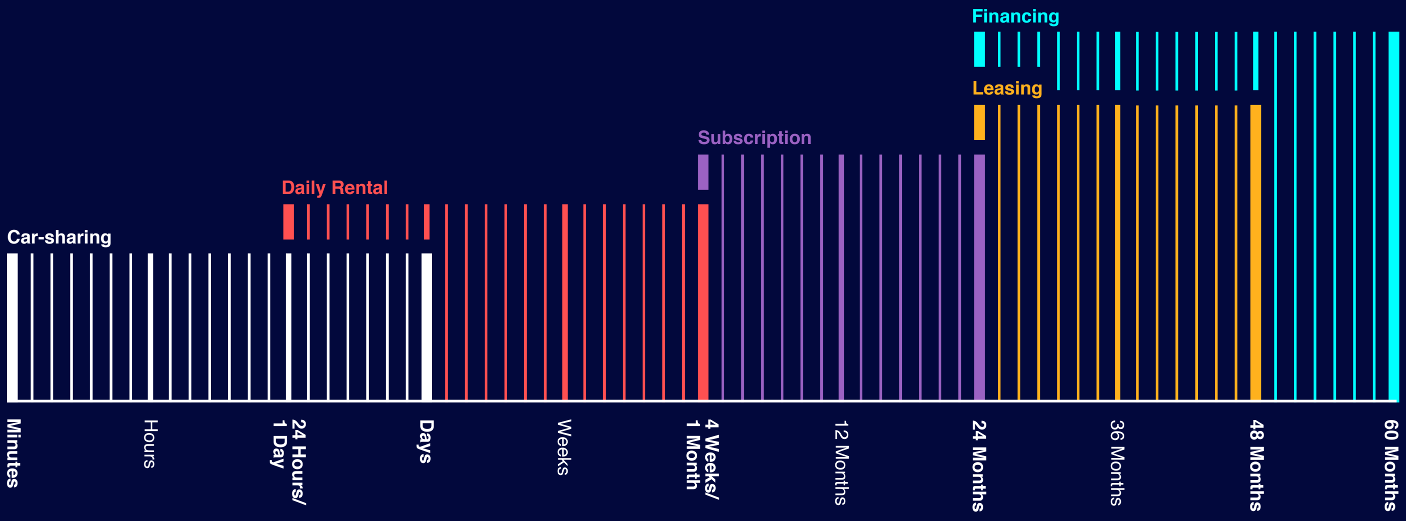
One example is the automotive subscription product. Genuine subscription rewards consumers willing to commit to a longer-term arrangement in the form of lower monthly payments, in much the same way that a longer lease deal costs less per month than a short-term lease. Most subscription products offered in the UK today are based on a PCH (personal contract hire) arrangement, which legally speaking is a lease. Customers are attracted by apparently competitive monthly payments, a concept familiar to them from their typical three- to four-year PCPs, though experience with PCP has also shown that the majority will change their vehicle before the end of the contract. Until recently, many customers went further and exercised their right to a 'voluntary termination' (under the Consumer Credit Act), returning the vehicle when only 'half-paid', even if this trend has diminished of late due to the boom in used-car values resulting from new-car supply restrictions.

Importantly, this termination option is not available to consumers with PCH, and any early settlement of the arrangement comes with punitive costs – usually the sum of all remaining monthly rentals. It is likely that this loss of flexibility with the PCH product is a ticking timebomb for the finance providers, as it would not appear to be in consumers' interests and is thus running against the trend for increased vigilance regarding affordability and customer vulnerability. Whilst it is currently an unregulated product, noises from both the FLA (Finance & Leasing Association) and the FCA suggest that any continued growth in market share will lead to regulatory scrutiny, especially if customers start to protest at termination conditions, which were potentially not made entirely clear to them at contract inception.

Pay-per-use (PPU) products such as subscription, based on a rental-contract, buy into the servitisation trend, where the car itself represents a smaller proportion of the price paid by the consumer and allows the offering of additional added value provisions beyond service and maintenance. This brings the company-car experience to the private consumer, with the inclusion of such 'extras' as insurance coverage, annual taxation, charging for electric vehicles (EVs), accident recovery and management, replacement vehicle, or access to short-term rental cars. Increased connectivity will enable and automate provision of other use-based services and cost-management such as congestion-charging, tolls-and fines-management, and future road-pricing schemes, as well as other location-based services – for example enhancing availability of and accessibility to EV charging-provision.

In giving the private consumer the company-car experience, it is important not to forget the company-car driver and their employer, the corporate customer. The UK has for decades had a particularly large corporate-user segment and that is currently set to grow further through the adoption of salary sacrifice schemes. These are especially attractive for EV-drivers with current taxation incentives, such as benefit-in-kind. Of course, taxation rules can change, but once again, established financial players, with the benefit of existing scale and fleet operator expertise, are well placed to use their buying power to act as service aggregators and offer competitive pricing to the employees of their corporate clients.

Car driving and utilisation use-based products



A provider prepared to offer a suite of use-based products could thus be seen as addressing three consumer issues at once: flexibility, affordability and consumer education.

This is a radical change in business model for most financiers, as rental-based products represent a shift from credit-risk evaluation, something in which banks and leasing companies are highly experienced, to utilisation-risk, where they would now have to actively seek a pool of customers ready to take on the vehicles they own on any number of different occasions in the vehicle's lifecycle. Rental, like leasing, confers ownership of the asset on the financier, which is not a problem for established lessors, but does present funding and balance-sheet challenges to disruptors trying to enter the market. Most established players already have the advantage of scale and accepting the utilisation-risk challenge for subscription could act as an enabler for other PPU products and services. Providers would neatly fill the gap between daily/short-term rental and traditional finance and leasing terms, as well as augmenting existing finance and leasing products, with different financial products lending themselves more naturally to different times in a vehicle's extended lifecycle, not to mention attracting and retaining new customer segments.

More honesty is needed from the industry about the hard, economic facts around car ownership; consumers are increasingly uncomfortable with the idea of paying so much money for a car that stands parked for 95% of the time they own it. When even a government transport minister comments that "car ownership is an outdated concept" (as did Trudy Harrison), then perhaps the required direction of travel is becoming clearer. Financial institutions have a role to play in educating consumers about the features and benefits of the different solutions available and their suitability to a customer's needs at a given time. Careful, thoughtful and proactive initiatives to deliver this information would increase the chances of these same institutions becoming trusted providers of those solutions.

Leverage their scale and brand value to become the consumer's all-encompassing mobility solution provider

It is not just younger, digital-natives who are demanding instant and automated solutions to their mobility needs – this is increasingly applying to drivers of all ages. Consequently, financial institutions, the providers of financial solutions for car ownership and usage, must make their products and services available in the digital space directly to the end-user. Technology can already enable incredibly speedy customer verification, authentication and credit-approval processes, which is the most important part of the customer on-boarding process for the banks and leasing businesses. However, even the banks themselves have been slow to apply this technology to motor finance and leasing, often from fear of damaging their relationships with dealers and other intermediaries.

Dealers themselves are already contending with the entry of disruptors into their market, most often a direct-to-consumer channel with a slick digital customer experience that is familiar to consumers from other areas of their daily lives.

Carwow gives customers the opportunity to provide details of their new car specification[2], reaching out to their dealer partners to 'bid' for that business. Although this could be seen as a race to the bottom in terms of margin for dealers, as well as the dealer likely foregoing a future after-sales opportunity when selling to a customer outside of their catchment area, it would seem to work well for consumers, at least until recent new-car supply issues became an issue for everyone. Dealers have also seen Cazoo[3] and Cinch[4] take them on by offering cars direct to customers through digital channels, but these new businesses have realised, somewhat late in the day, that they still require physical delivery hubs located in some proximity to their geographically spread customers.

As well as these physical issues of supply and distribution, many of the disruptors are struggling in the face of the perennial challenge for any new entrant when taking-on incumbents: their lack of scale. Based on the experience of Cazoo, with what now seems an optimistic NYSE listing in March 2021, intended to raise capital and build scale, it seems the investor-jury is out on the ability of some disruptor-models to clear these traditional hurdles and reach maturity. By offering a compelling combination of car and financing solution in a fair and transparent fashion, the motor finance and leasing providers are arguably a more natural and direct source than established retail/dealer environments (even if they might actually be the provider to both), due to more transparent (and fixed) pricing and the absence of dealer commissions.

In the meantime, the OEMs are busy moving their dealers to the agency model, often to enable their own digital and direct-to-consumer offerings. On top of this, the switch to alternative fuel sources, especially EVs, will reduce dealer and OEM revenues from traditional aftersales activities such as service and maintenance. This double-whammy could be seen as an existential threat to dealers in the long term, but the change will not come overnight and there is likely to remain a role for dealers for the foreseeable future, especially outside of urban conurbations. Many car-dealers themselves are recognising the need to shift the emphasis away from retailing and to becoming the point of delivery for a variety of mobility-related services. And it is exactly this expansive network of local points-of-delivery for the services attached to new financial products that the motor finance and leasing industry will need, if these products are to succeed for the consumer and convince them to stay loyal to the solution provider.

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[2]CarWow, What's your budget? Choose a range for your new car, www.carwow.co.uk/car-discovery I [3]Cazoo, Cazoo cars, www.cazoo.co.uk/cars
[4]Cinch, All cars, www.cinch.co.uk/find-vehicle

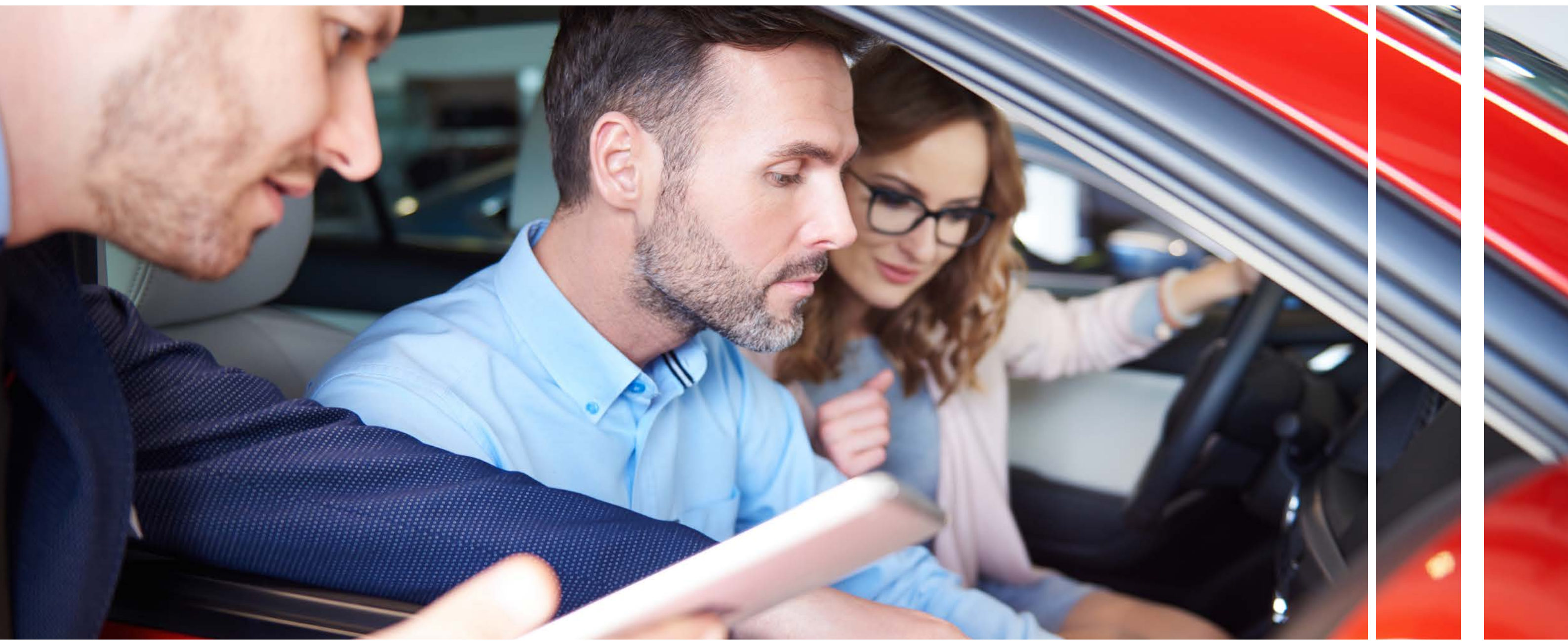
Why move dealers from franchised to the agency model?

A quick summary:

- Primary motivation for OEMs, is to fix the retail price of cars nationally: Dealers will receive a reduced, fixed margin and will no longer be able to negotiate sales prices with their customers.
- Opportunity for independent motor finance and leasing providers: Agency will accelerate trend towards 'selling to order', lowering dealers' stocking requirements and reducing the captives' leverage over dealers, giving dealers more freedom to place their finance business where they prefer, especially on used vehicles.

Dealers have always been better at selling cars than manufacturers. And dealers have an established position in many communities as the go-to representatives of mobility solution providers. If the motor finance and leasing industry proactively takes on the development of servitisation and the dealers willingly take on the delivery thereof, both may find themselves in a much stronger bargaining position with the OEMs, whose main objective remains finding customers for their output – at a time when their traditional customers are experiencing increasing pressure on disposable income and decreasing propensity to buy and own cars. The current supply-chain issues, driven by external factors, could just accelerate the market reaching a new equilibrium with fewer car owners, lower volumes and extended lifecycles, catered for by innovative and holistic solution providers delivering through an established network of agents located in convenient proximity to the end-user.

One of the greatest cost challenges in delivering MaaS (mobility as a service) products, such as subscription services and car-sharing, is logistics. A car remains a costly and substantial physical asset, one that must be in the right place at the right time for the consumer at their point of need, which requires another human being to move the vehicle to that place (if not the consumer themself). That requires a new level of sophistication in the coordination between the solution provider – the financier – and the service delivery agent(s), as well as a physical network with some local proximity to the consumer. Dealers would appear to be ideally placed to take on that challenge, making them indispensable to the financier, but less well disposed to car-brand exclusivity. The OEMs might find that the move to agency agreements has the unintended consequence of further accelerating the dilution of brand loyalty, as dealers become less reliant on retail sales revenues and more invested in being the local delivery agent for the providers of service-based products.



Even without the prevailing supply constraints, both dealers and OEMs face the likelihood of a steady decline in the absolute numbers of new car sales.

As the after-effects of Covid diminish, there is likely to be a resumption in the trend away from individual private transportation and towards shared models, such as car-clubs and car-sharing, and public transport in general, at least in urban environments.

The excess of demand over supply for new EVs is amplified by the current restrictions in that supply, possibly masking other growth inhibitors such as range-anxiety, which derives from limited EV-charging infrastructure. Furthermore, as the 2030 ban on sales of new ICEVs (internal combustion engine vehicles – i.e. petrol/diesel[5]) gradually draws nearer and the sales thereof decline (by over 4% in YTD market share by end of April 2022 for both petrol and diesel), current favourable tax treatment of EVs will have to become less of a carrot and more of a general road-pricing stick, as the government seeks to replace lost fuel-duty revenues.

For urban dwellers, growing numbers of clean-air-zones will push older, more polluting vehicles off the road.

At the same time, the drivers of those vehicles are often the least able to afford new ones, so will be looking for new ways of accessing use of a car without taking on the full cost of ownership. Without some of the current subsidisation of EV ownership and use, EVs still represent a cost premium over their ICEV equivalents – and we know that private consumers have limits to their willingness to pay a premium for features such as alternative fuels and environmental friendliness[6], likely even more so in times where disposable income is being squeezed from so many other directions. However, lessors and the owners of rental fleets have different motivations, with both legislative and corporate obligations to fund zero-emissions vehicles. The same goes for their corporate customers, meaning that the focus will not only be on switching from ICEVs to EVs, but also on retaining those vehicles for longer, which for the financiers means finding more customers over a longer period of time for the same vehicle, rather than disposing of it at the end of a single leasing-cycle.

Even without the prevailing supply constraints, both dealers and OEMs face the likelihood of a steady decline in the absolute numbers of new car sales. As the after-effects of Covid diminish, there is likely to be a resumption in the trend away from individual private transportation and towards shared models, such as car-clubs and car-sharing, and public transport in general, at least in urban environments.

[5]The Society of Motor Manufacturers and Traders (SMMT), SMMT vehicle data: car registrations, www.smmt.co.uk/vehicle-data/car-registrations
[6]Deloitte, Who's going to pay for the future of mobility? www2.deloitte.com/content/dam/insights/us/articles/automotive-news_industry-4-0-in-automotive/6470_whos-going-to-pay/6470_whos-going-to-pay.pdf

The trick for the finance provider – and now asset-owner – will be to become the consumer's solution-provider of choice by offering the appropriate financial product to suit their changing needs and mobility requirements, independent of their choice of vehicle. Indeed, as customers' car brand loyalty reduces, especially among newer and younger drivers, the finance providers have the opportunity to capitalise on that diminishing loyalty and retain the customer for themselves. Banks and leasing subsidiaries of banks do have strong brands and will usually enjoy strong consumer confidence and trust – certainly more so than car dealers, who are viewed with increasing scepticism by consumers of all ages. Some innovative solutions are coming to market, but their provision is via an inconsistent and somewhat uncoordinated patchwork of providers. The motor finance and leasing industry has the advantage of scale over both dealer and disruptors, many of whom limit themselves to offering just one product.

Maintaining such a diversity of product offerings comes of course with its own cost, but that same diversity increases cross-selling and upselling opportunities, as well as the likelihood of successful customer retention. Offering a service as part of a MaaS product does not mean the finance provider is delivering the service, rather it takes on the role of aggregator, utilising its scale to optimise purchase of both the services, as well as constructing the technology-architecture to enable effective delivery. The risk associated with some of the individual services, even parts of the technology involved, can be shared with selected providers. For example, just because a mobility-product includes occasional access to a rental-car, this does not mean that the bank has to take on the daily-rental business itself – the cost is part of the product pricing and the utilisation-risk associated with daily rental business stays with the provider. Nevertheless, where there is an opportunity to fund other assets involved in service delivery, the traditional business opportunity of funding those assets also remains.

There is one more tantalising innovation that has the potential to turn the idea of car ownership on its head: the separation of the roles of owner and driver that comes with autonomous travel. For those for whom exclusivity is of paramount importance, then outright ownership, or a singular financing arrangement, will remain relevant. But as long as cost remains a factor, significantly reducing those costs via shared usage could become compelling for certain customer segments. Whatever the consumer choice and whatever the outcome, the financier – increasingly the owners – of the vehicles should be in the position of providing the appropriate solution. They can continue to fund the one-off purchase for exclusive use. But they can also be the owners of the autonomous vehicle fleets, generating revenues from multiple users, likely replacing the need for multi-vehicle households. In fact, perhaps even replacing the need for exclusivity in usage at all – a scenario could emerge wherein a transport solution is delivered to your door on demand, according to your situation and budget, and you won't even have to drive it yourself, nor will you have to pay the cost of someone else driving it for you. And if you're happy to share it, you can reduce your costs even more.

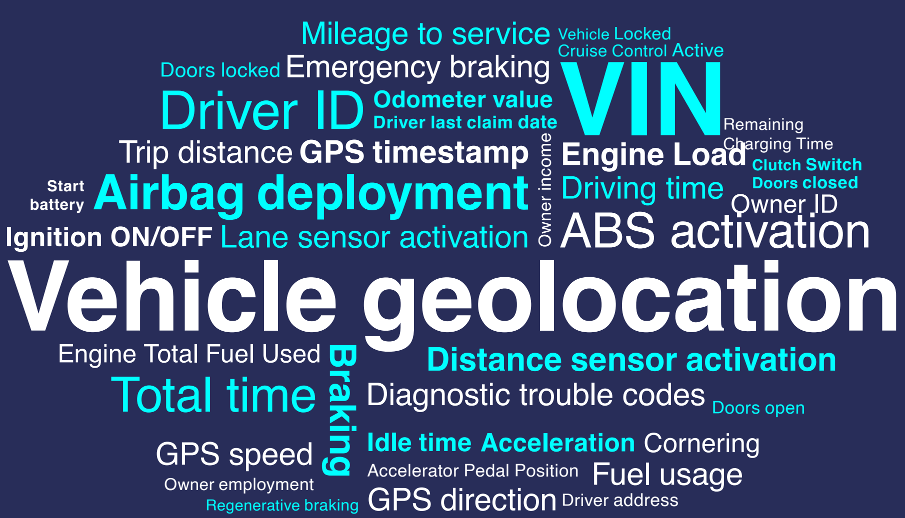
Harness data and become indispensable for connectivity in drivers' everyday lives

The development of electrification and connectivity in cars has been driven largely by the OEMs themselves, delivered in the cars they build, responding to market developments and changes in customer preferences and behaviour. Innovation in the delivery of financial products and the services around them rests with the providers of those products and services; that is, the motor finance and leasing industry. As well as shifting the emphasis away from the metal and towards the services, there also needs to be joined-up thinking around the nature of the services and the realisation that these do not necessarily have to relate to the car. Of course, some will, most obviously the opportunities afforded by EVs and charging them, whether in funding home-charging equipment or building partnerships with charging infrastructure suppliers or even the energy providers themselves. The combination of usage data via improved connectivity means charging opportunities can be optimised according to proximity, time of day, provider costs, average journey times, distances and so on.

But with all this information on where a vehicle is and for what purpose, other services could theoretically be offered to optimise customer convenience and experience.

- Is the car the customer is in the best means of getting them to their destination?
- Is that car the optimal vehicle for their destination?
- Do they even want or need access to a car when they get there, or is it going to be lying idle for some time?
- Could we offer access to public transport or shared mobility as part of a service, or parking?
- Or connect to the grid and provide unused/unneeded electricity back while the vehicle is idle at peak times and re-charge when costs are lower?
- What accommodation is available?
- What entertainment is on in the local area and where is a good place to eat or drink?

Typical data already gathered or held today by diverse vehicle-usage stakeholders



The key to all of this is data and the key to data is permission. In the early days after the introduction of GDPR (General Data Protection Regulation), there was understandable hesitancy and anxiety on the part of service-/product-providers regarding their access to and use of customer data, as the rules were open to interpretation and the industry was unsure how zealously they would be applied. There has always been one straightforward way of dealing with this and that is by obtaining the customer's consent. There are some mobility providers, such as Care by Volvo, who even make that consent part of the terms and conditions around their provision of the services[7]. In the case of mobility solutions, tracking and location-data are integral – most subscription and shared-mobility vehicles are fitted with trackers – so privacy rules need to be robust and anonymity in particular must be assured.

Some examples already exist, perhaps most obviously in the automotive industry in the growth of insurance telematics, where customers allow insurers to gather data on their driving behaviour in exchange for lower insurance premiums. In the wider world of financial services, there is the growth of open banking, where data access is traded for faster credit approval and better interest rates. This so-called monetisation of data doesn't go so far as attributing an absolute monetary value to the data provided by the consumer and directly paying them for it, but it does have to deliver tangible financial benefit. It can also go some way to mitigating consumer reluctance to pay a premium for features such as electrification and connectivity. In the case of MaaS products in general, this is also offset by spreading the capital cost of the asset across multiple customers and financial products, as well as shifting the proportion of the price paid by any one customer away from the asset and towards the services. Indeed, where a provider can secure a competitive price for buying the asset, as well as spreading the depreciation over an extended useful life, it is already the case in some models that the car itself is no longer the most expensive component in the product pricing, with that privilege increasingly belonging to the insurance premium.

[7]Volvo, Privacy notice – care by Volvo subscription, www.volvocars.com/uk/legal/privacy/privacy-cbv-subscription

A common challenge with insurance telematics is that it relies on some sort of device separate from, albeit connected with, the vehicle, most often a dongle. In the case of mobility products, it needs to be easier for the provider to obtain data directly from the vehicle itself. One of the obstacles is removed (in the case of rental-based contracts for example) when the financier is clearly the vehicle-owner and no one driver has a clear economic interest in the car, due to their use of it only being a small part of its lifetime and the lessor's ownership. OEMs remain reluctant to share vehicle data, but a fleet operator will have more influence and buying power. Through their provision of multiple services associated with the vehicle-use and their interest in aggregating data from multiple sources, there is an opportunity for the motor finance and leasing industry to promote itself as a 'neutral host' for all this data – the customer's interests are served via attractive pricing and the OEM's interests are served via access to additional (anonymised) third-party usage data. This has been common practice in the aviation industry for decades and would make increasing sense in an automotive context, especially as momentum builds in electrification and autonomous vehicles.

Vehicle usage data and customer driving behaviour can be combined with many other data sources, ones that may not just be relevant to the consumer in terms of pricing, but also to the optimisation of the motor experience in general. Dealers and service agents can be engaged in an optimal location and at a convenient time, with the ability to more accurately predict and schedule maintenance, inspections, tyre changes, etc. Car usage data can be combined with satellite navigation information, weather data and traffic data. It can mitigate against insurance fraud, help resolve disputes and ultimately reduce industry costs, when combined with the vast pool of existing claims data from the world of insurance. Some data is in fact public and available under the Open Government Licence, but its value is enhanced when it is combined with the fleet operator's data. It can even be fed back in augmented and consolidated form to the various data sources to help improve services, guide policy, assist city and traffic planners and provide evidence for 'nudges' in support of the need for behaviour change.

Lifestyle eco-system powered by user and 3rd party data integration to drive deeper engagement, connectivity, insight and a seamless user experience.

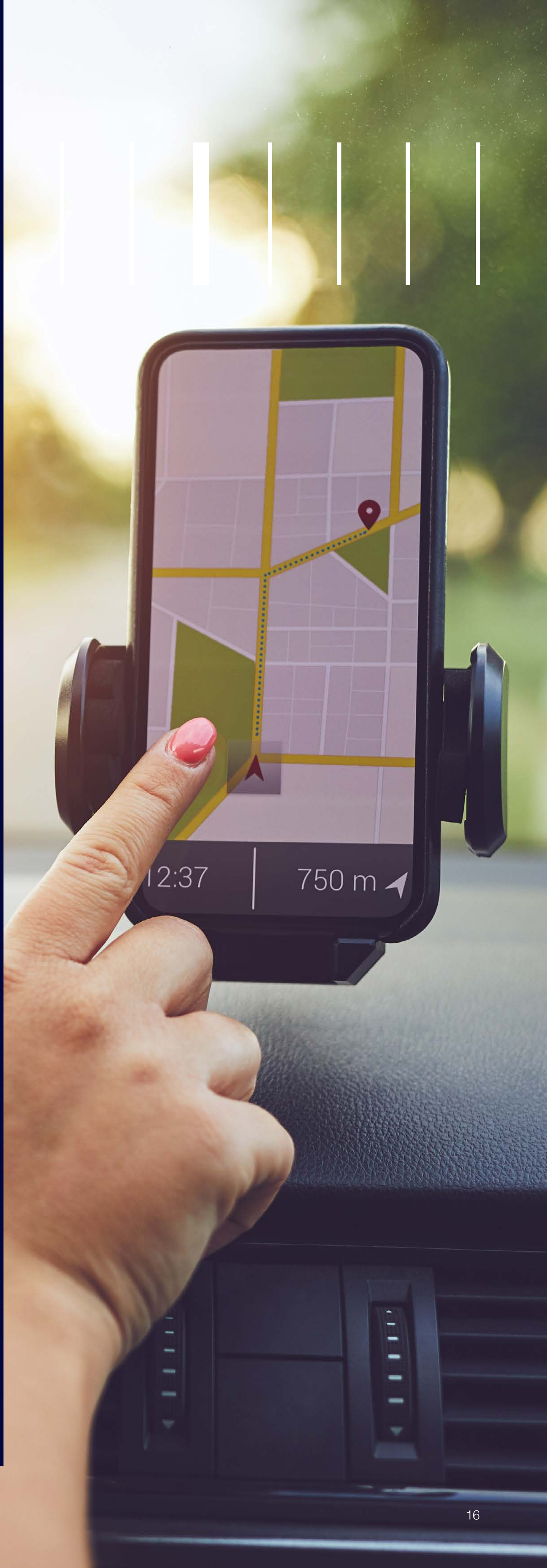
Key benefits: Customer centric I Cross sell / upsell I Retention and brand loyalty

Data monetisation is still alien to many individuals and businesses. It needs to be about more than just marketing and advertising – it needs to genuinely win the public's trust. Much is said about the apparent willingness of people to share data for little or no gain, via everything from their social media profile to their health app. Due to the fragmented nature of the sharing, for example across a multitude of apps, and the lack of any consolidation and feedback, many are unaware of the volume of data they are (perhaps inadvertently) putting out there, and they are certainly blissfully ignorant of its potential power and value. The same goes for companies. Banks and finance companies talk about the creation of data lakes for interrogation and interpretation, for virtuous feedback into product and service improvement and enhancement of the customer experience, but most industry leaders will tacitly admit to having so far succeeded only in creating a data 'swamp'.

> **A business that combines the roles of financial institution and mobility provider would be well placed to become an indispensable part of a consumer's daily life.**

It would also be better positioned than a social media platform to provide tangible products and services of value to the average consumer. It would need to demonstrate value with genuine tailoring and personalised offers, learning from the data it gathers and optimising services in real time. Utilising the connectivity available in all new vehicles today, such a service provider would keep its customers mobile 'on demand', as well as accurately informed of opportunities relevant to them – whether on the move at that moment, or looking ahead to likely future destinations, which the provider would already know about by way of the customer's own input or from their past behaviour.

Mastering customer data in this way for such purposes has not really been seen to date, probably because it is a complex exercise that delivers its business benefits over the longer term, making the case for it challenging. However, ignoring this opportunity also ignores a fundamental business truth that pre-dates whizzy technology and debates about data: true customer centricity can pay for itself via vastly improved retention because retaining customers costs less than acquiring new ones.



Summary and recommendations

Established and respected financial providers have a great opportunity to establish a solid and secure hold in the motor finance and leasing sector, even as it faces severe economic challenges. They are uniquely placed to become a holistic solution-provider, bringing together what dealers, OEMs and disruptors simply cannot do by themselves, as long as they are prepared to:

Embrace the modern consumer's desire for flexibility and control

by diversifying their product offerings, enabling genuine usership and not just traditional ownership, and winning new customer groups, as well as securing their existing customers for the longer term.

Leverage their scale and brand value to become the consumer's all-encompassing mobility solution provider

by adjusting their strategy and mindset, for example with a move from credit-risk evaluation to utilisation-risk, and preparing ahead of big changes in the motor industry itself, whether positive – electrification and autonomous travel – or negative, such as the declining number of new car sales.

Harness data and become indispensable for connectivity in drivers' everyday lives

by making the most of the myriad data possibilities offered by new vehicles and their use, to design products and services that genuinely meet customer needs, often before the customer even realises they had the need, and most importantly to pre-empt the customer looking for a solution somewhere else.

The motor finance and leasing industry has spent many years and many millions on accelerating and automating credit-decisioning processes, whilst OEMs continue to spend millions on glossy marketing and dealers millions on shiny premises.

And yet all seem content to let their hard-won customers drift away with only intermittent and half-hearted attempts to retain them. The opportunity remains for at least one of those business sectors to bring genuinely attractive and 'sticky' MaaS products to market, all the while gathering data on how drivers are using them, constantly developing and innovating their services and, simply put, give the customer no excuse to look elsewhere, regardless of what it is they might be looking for. Who can take on that challenge – and who will be first?

How can we help?

To find out how Capita can help your business grow **get in touch today**

This paper was produced by Capita in association with Finativ Ltd

Finativ

Newly formed, Finativ is a dynamic advisory and consulting firm for the business and consumer lending markets. Combining deep practitioner expertise in motor, asset, and invoice finance with highly skilled functional specialists, Finativ provides leading edge capability in transactional advisory including acquisition and business sale, debt raising, transactional structuring and due diligence; business model optimisation including strategic reviews, process improvement and strategies for growth; technology and data advisory including project management and rescue, vendor selection and solution proving, new market entry and partnering, data strategy and MIS, BI, ESG and regulatory reporting, thought leadership and ideation.

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A highly experienced and well-respected industry expert, and a former Chair of the FLA Motor Division, Peter held commercial leadership roles in Lombard and Bank of Scotland with responsibility for a number of OEM and retailer relationships including Managing Director of Jaguar Cars Finance and PSA Finance, as well as board positions with other JV businesses. He is an active participant in industry initiatives, to which he brings deep product, sales, compliance, and risk insights. Since 2009 he has acted as a consultant within the motor arena, most recently joining Finativ as a Consulting Director.

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After nearly 30 years of operational automotive and captive financial services experience, including Black Horse, Daimler and Allianz, since 2016 Simon has spent his time in consultancy and advisory roles for a number of OEM and automotive financial services clients. Based in Berlin for many years now, much of Simon's experience has been accumulated in major, international RfP and implementation settings, both as client and service provider, gathering valuable insights into a wide variety of business and delivery models and sales channels, as well as the related digital solution architecture.

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As a domain expert, Phil provides business development, sales and strategy expertise to the energy and transport sectors specialising in new technologies, innovation and digital transformation. His key focus is on decarbonisation, particularly in relation to smart grids, energy storage, smart cities and the link to transportation electrification strategies, as well as emerging mobility services such as mobility-as-a-service.

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My journey started in the outsourcing industry 20 years ago working on the front-line of CX, but I now specialise in helping some of the UK's leading brands seek better outcomes through contact with their customers. Using my first-hand experience of the work we do, solutions we create and how customers behave I help clients in the Financial Service market to achieve their needs through creative outsourcing solutions, partnership models and commercial constructs.

The perfect moment doesn't just happen.

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