



CAPTIVE AUTO FINANCE IN SERVICITIZATION ECOSYSTEM

Abstract

Captive Auto-Finance, like many other industry segments, is currently going through 'The digital disruption', which is redefining consumer experiences, process agility, compliance and enabling new business models from car lease/loan ('Asset-based model') to mobility solutions ('Service-based or Servitization model'). With declining car ownership predicted in the coming years, Automotive captive finance organizations not only have to survive through this disruption but also need to "NAVIGATE TO NEXT" focal point of equilibrium to carve out continuous growth trajectory. Automotive OEMs and Captives are trying to get control over the ecosystem and trying to quickly adapt to the changing market dynamics through the route of acquisitions and investments in technology companies. In accordance, this paper looks at current Auto Finance Industry, the landscape, business model with a sample customer journey and gives a point of view on how three major dimensions (landscape, business model and revenue cycle) will change in Servitization ecosystem with the rise in subscription, rental and shared mobility models with key take away for captives.

Finally, we conclude by presenting our point of view on "How Captives can be Future Ready" what IT capabilities captives should deploy and what should be their focus areas for success as a Hybrid (Asset and Service based) Organization.

Current Business Landscape

Captive auto finance companies have mainly acted as enablers, supporting sale of parent company vehicles by financing them. The dealership centric industry has been focusing primarily on asset-based revenue streams (selling loan/lease contracts) with some reports predicting 92% of revenue is contributed by asset-based business line while service-based business lines account only for 8% of revenue. Furthermore, lion's share of revenue contributed by asset-based revenue streams invariably meant captive auto finance companies relied on traditional customer journey, which is largely predictable with pre- defined customer touch points and channels across various loan / lease life cycle events with primary focus on financial products and its repayment rather than customer engagement.



Figure 1: Asset Based Revenue

Current Business Model

Current dealer centric business model of captives follows traditional customer journey as depicted below, let us look at it critically to understand its pitfalls.

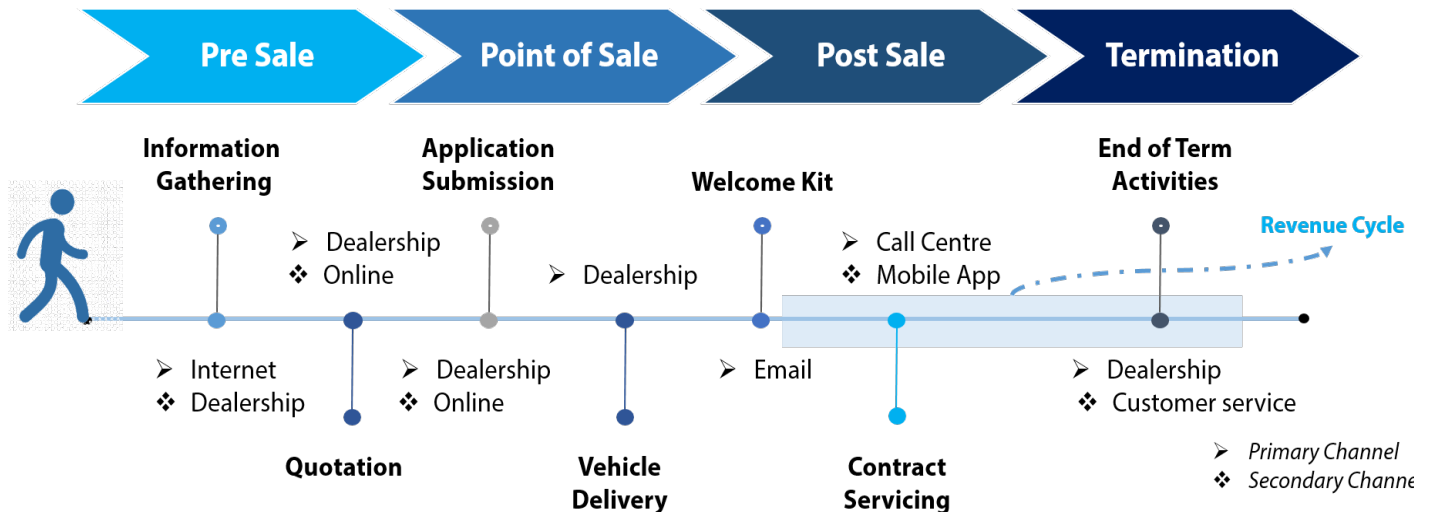


Figure 2: Traditional Customer Journey

Major drawback in traditional model is, post loan/lease approval event there is little or no focus for revenue maximization through cross-sell / upsell opportunities. Also, there is constant pressure for customers to abide by the terms throughout contract

life cycle or risk impacting credit profile. Customers also have limited opportunity to re-negotiate contract and amend them during difficult times, with requests to alter payment plans entertained only based on customer credit, delinquency status &

payment history. Hence, the traditional model is no longer appealing to customers of today's world with their changing preferences, a world of shared mobility and autonomous cars amidst mass movements to resist climate change.

Future Business Landscape: Rise of Servitization

Like many other industry segments, Captive auto finance is also currently going through the digital disruption, which is redefining consumer experience, process agility & compliance. Captive finance companies, driven by these major factors,

are expected to concentrate equally on their Services oriented business along with pure Asset oriented business, with services predicted to contribute as high as 80% of revenue by 2030. Here is a snapshot of some of the prominent service revenue streams that will shape the future of captive finance companies in digital era.

“Whether by public transport, car or bicycle, there are many options to reach your destination. We offer the right mobility options: flexible, nonbinding and future-oriented.”

--Daimler Finance Services

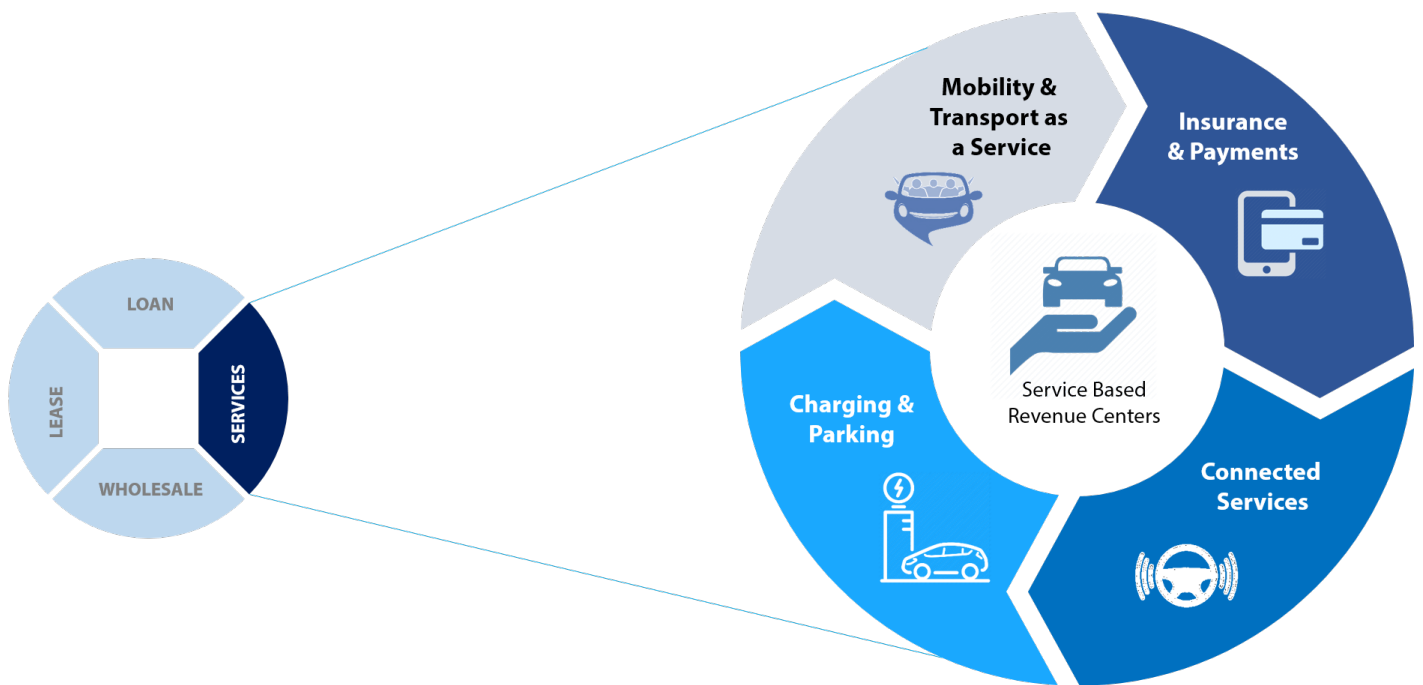


Figure 3: Evolving Business Landscape, Asset to Service Based Revenue

Mobility & Transport as a Service

Raise of shared economy, shift from car ownership and last mile transportation services are transforming captives into a full-fledged Mobility and Transport as-a-service provider. Example: Kinto: smart mobility solution by TFS

Insurance & Payments

Bundling of Insurance products along

with Usage based value added services like in-car infotainment will result in recurring short-term revenue for captives in handling commissions for insurance and in-car infotainment payments. Example: Ford Sync Services

Connected Services

Emergence of On-demand IOT based services resulting in additional revenues

for captives in the form of commissions

Charging and Parking

Emergence of electric vehicles and urban infrastructure-based services will result in dedicated charging points and parking spaces which gives captive a distinct revenue stream in charging and parking services. Example: Parking solutions by Daimler.

Future Business Model

To understand the role of captives in future with one or more of the above-mentioned services playing a key role, let us look at a mobility solution as an example from two

angles Supply side or Captive side and Demand side or Customer side.

Supply/Captive Side

A Captive finance organization decides to run a multimodal mobility service called as

“TravelZ”, the company decides to operate fleet of vehicles from its parent OEM and collaborates with other stakeholders to provide mass transportation options like flight/train tickets and bike ride for last mile connectivity.



Figure 4: Mobility Solution – Supply/ Captive side

Demand /Customer Side

Leo, sales manager in a retail chain decides to opt for multimodal mobility service

by captives to include flight, train and last mile connectivity using bikes. He registers at TravelZ, an app-based end to

end transportation service from a captive finance company and the below is his journey.

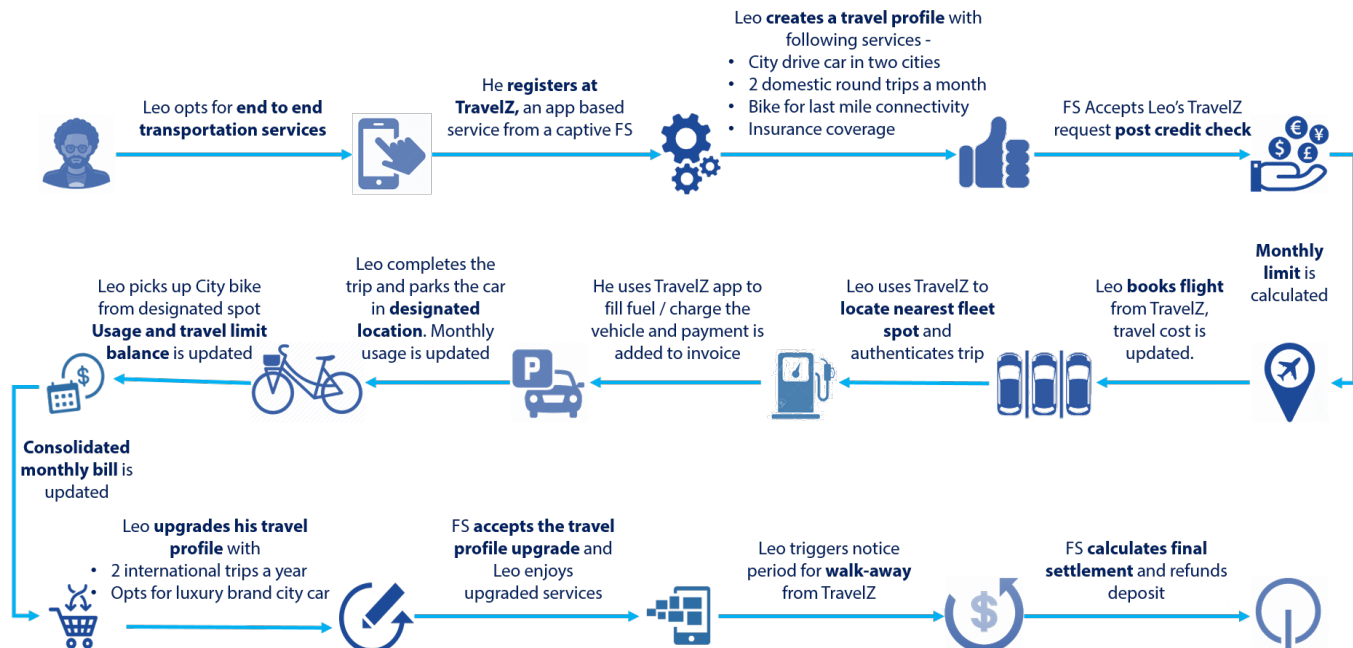


Figure 5: Mobility Solution – Demand/ Customer side

Fleet of multi range vehicles to choose from based on his nature of travel from business to leisure trips

with designated parking spaces in some of the prominent city spaces and consolidated billing for all his

monthly usage are some of the key factors that keep Leo a happy customer of TravelZ.

Revenue Model

The impending challenge for captives in Servitization ecosystem is to find the right revenue model for service-based business line. Though core financial products (loan/ lease) will continue to be a major revenue source, service-based business will grow exponentially with demand for shorter

revenue cycles with touch points for sales throughout customer life cycle. Future revenue cycles of captives, as show below will be driven by recurring as well as usage-based payments. Some of the key characteristics of such a revenue model will be,

- Gradual shift of focus from servicing contracts to selling services throughout

customer journey to maximize revenue over customer lifecycle.

- Customer will have flexibility to alter, restructure the services opted for, payment structure, payment options, etc.
- Brand Loyalty will be driven by digital online touch points facilitating sales of services, billing and payment channels

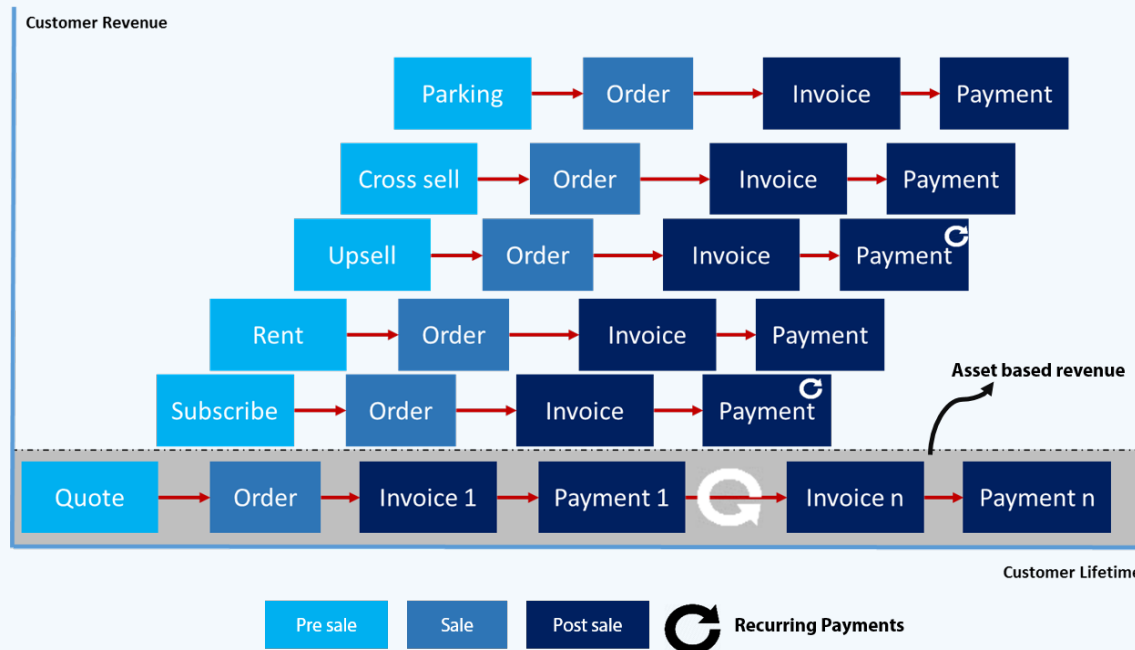


Figure 6: Changing Revenue Model

Considerations for Captives

Captive finance companies should understand the implications of changing

market dynamics to survive through the disruption, how major markets forces will evolve and what it would mean to them. The following are our key

considerations for Captives to get control over the Servitization ecosystem to quickly adapt and carve out continuous growth trajectory.

	1. Competition is Multi-front Captive Finance companies will not be the only players to offer mobility solutions. New age fin-tech startups with superior technological innovations and nimble organizational structure will play a key role in the supply side. <i>Example: Zipcar, lyft.</i>
	2. Changing Customer Preference Empowered customers expecting superior personalized services delivered with empathy and will disrupt the demand side. Customers will pay for usage and experience than ownership. Driving force will change from <i>Ownership -> Usage -> Experience</i>
	3. Customer Centric Organization is essential. Captives, OEMs and Dealerships should come together. Closely coupling with OEM and Dealership to share data and insights, establishing online retail capabilities are the first step in moving towards mobility organization <i>Example: Toyota SmartPath</i>
	4. Corporate/Fleet Customers are the Key in maintaining the top line, focusing on this segment in addition to Retail customers will result in increased deal value and redefining customer relationship. <i>Example: Toyota FS – Uber partnership</i>
	5. Partnerships Matter Collaborations/MoUs with other captives & fin-tech startups to offer various business offerings will be a norm in the industry. <i>Example: BMW and Daimler partnership, Toyota Mobility Foundation</i>
	6. Risk Assessment is Essential Servitization models will bring in additional risks to captives in terms of large capital requirements, new regulatory restrictions and huge operational risk with return on investment. Assessing and mitigating risks are vital for captives to succeed

Figure 7: Considerations for Captives

How to be Future Ready? – Captive IT Guide

Captives though best placed to win the tussle of mobility as they understand the intricacies of the business better due to their relationship with customer and car (asset) for the better part of the last 100 years, they need to revamp their technology capabilities to compete with tech players. In fact, Technology is the major front captives need to revive their course on, legacy core systems with mainframe technologies will seriously cripple captives in their leap towards digital world. Future IT Enterprise architecture of Captive auto finance companies will include a service management system catering to service based business models (e.g. subscription, mobility, etc.) integrating with other service providers in addition to traditional asset based business systems (Loan Origination System - LOS, Contract Management System - CMS, etc.), to ensure seamless customer experience. Configurable billing & rich Payment Gateway components would be at the core of new ecosystem.

Here, we present our point of view on technology capabilities that captives should equip themselves with, focus areas for success and IT strategy captives can employ to achieve greatness in servitization ecosystem.

Core IT Capabilities

The following are the core functional capabilities that we have identified for captive finance companies to equip themselves to excel in the servitization business ecosystem. Key goal here will be to offer personalized service along with modern billing and payment options through a seamless experience.

- **Product Management**

Product management with listing of all



Figure 8: Servitization IT Capabilities

asset and service based offerings like loan, lease, subscription services, etc.

- **Account Management**

Provide summarized view for customers for the list of services opted with their current usage, balance available & usage limits and option to customize services.

- **Billing**

Generate usage based invoices for all the services consumed by customers and sending out consolidated/split billing statements

- **Document Management**

View, download, upload & digitally sign documents from portal/app.

- **Payments**

Core receivables and Payment gateways

to facilitate customer payments including monthly, subscription, usage based payments, late charges & others

- **User Management**

User registration / login related features. Multi factor authentication and backend administration activities.

- **Customer Service & Communication**

Self-service requests for customers to manage their contracts & service accounts along with modern communication channels like chatbots. etc., to handle queries.

- **Analytics**

Customer centric analytics tool to focus on revenue and value driven metrics & reporting

Focus Areas

Once captive finance companies switch to asset and service based business model, it is imperative that customers will avail both the services. In fact the success of such a transformation will depend on customers

opting for both the services. A typical customer can have a loan/lease account for their first car and opt for subscription or rental service instead of their second car. Thus we recommend to focus on the key areas listed here while embarking on transformation journey.

"It's 'and' not 'or'." "One model won't replace another model. We need to prepare for both."

*--Vipin Gupta,
CIO Toyota Finance services*











 Single touch point for customers		 360° Customer view for captives	
	One platform for customers with seamless access to avail both asset and service based offerings.		Holistic view of Customer choice, preference, usage pattern to understand his changing needs and demands.
	Single view of all availed services, active loan/lease accounts, availed subscription rental services etc.,		Single view of all services availed by customer, their stages in lifecycle to generate lead, provide customized offer and loyalty benefits
	Consolidated billing and payment options for all availed services loan, lease, rentals and subscriptions, etc.,		Customer focused reports and metrics inclusive of entire service range to increase customer life time, revenue and profits
	Service requests for both asset and service offerings in one stop – changing due date for a loan/lease account and increasing monthly mileage for a subscription from the same portal		One view of customer delinquency, payment, service request across all services availed to provide benchmarking customer service

Figure 9: Focus Areas

How Infosys can help ?

It is imperative that captives will go through this transformation journey by NAVIGATING TO NEXT focal point of equilibrium to carve out continuous

growth trajectory. Infosys with experience in delivering consulting and technology services for auto finance clients across the globe, with our reusable artifacts and live enterprise suite, can help captives in their

digital journey to embrace change and align their digital offerings in-line with changing business models.

Contact us for further discussions :

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