Digitizing Automotive Financing:
The Road Ahead

To fulfill the promise of digital technology, lenders and automotive makers must be able to connect anytime and anywhere with consumers, offer more meaningful interactions and transactions, and strengthen their overall brand proposition.

Executive Summary

In the current credit environment, auto finance and leasing companies have access to additional funding sources and an array of incentives for consumers — from zero-percent financing to more flexible payment terms. Also, consumers’ changing behaviors and expectations resulting from the infusion of digital technology are creating more opportunities, as well as more challenges, in this already competitive arena.

Consumers are redefining the way they discover, explore, buy and engage with products and brands. Thanks to greater mobile access, social networks, emerging wearable gadgets and connected cars, hyper-connected consumers are rewriting the rules of business. They can easily discover the best pricing, publicly critique products they don’t like, and influence the decisions of other customers through their reviews and ratings. By using the information available at their fingertips, consumers have flipped the power equation. They now demand what they want and decide with whom they will do business.

With the ever-increasing access to information from third-party data, research and expert views, consumers are empowered as “authorities” on auto financing (see Figure 1, page 2). They can discuss the best approaches with their peers, rather than relying solely on the advice of financial institutions. Furthermore, with more ways to finance car purchases, such as peer-to-peer lending sites that often offer more competitive rates for smaller loan amounts, buyers have more choices.

To remain relevant, auto lenders must rethink their business processes and their interactions with consumers. As end-to-end digital processes become more pervasive across customer segments worldwide (especially for Generation Y), lenders need to consider more fluid and more virtual ways to optimize costs and secure customer loyalty.

This white paper juxtaposes the evolution of digital technology and its impact on the automotive financing industry with conventional business practices, and recommends a new “e-mechanism” for engaging customers amid digital mind and market shifts.
The Rationale Behind Digitization

The Conventional Auto-Financing Model

Traditionally, financial institutions or auto dealerships led borrowers through the auto-financing process. As such, the borrower approached his or her financial firm or dealership for loan rates and terms (see Figure 2). Seeking the best loan was a tedious job, since the borrower had to physically visit or call each known financial institution or dealer. It was easier for consumers to merely follow the terms of their bank or credit union, or comply with the conditions offered by the dealership.

The borrower provided the supporting documents (i.e., proof of income, proof of employment, etc.) as and when demanded by the lender. From the borrower’s perspective, the process was lender-driven, and could be long and arduous. Making payments or inquiries frequently required the consumer to call customer service – resulting in long wait times and delays. More often than not, this contributed to a negative brand image and dissatisfied customers.

From the lender’s standpoint, the methods for generating leads were limited to TV and radio ads, or displays on physical banners and highway billboards. The customer base of lenders was limited to within a few miles from the lender’s branch or other place of business.

Auto Financing: An Evolving Process

When looking to purchase a new vehicle, most of today’s consumers first research their options on the Internet to learn about price and availability, and find dealers within close proximity of their home or workplace. Once this is done, they can estimate the total drive-out price, which includes the cost of the vehicle, tax, title and other overhead. They can search for information online to ascertain what other buyers have paid for the same model and find out how far they are from the median price.

After selecting a vehicle and determining a price, consumers begin the process of researching general loan rates and terms. Using that information, they can contact the financial institution that offers the best rate. All this is done before visiting a dealership or contacting a lender.

Figure 3 on the following page illustrates how digital technology works at each step of the process.

The Traditional Auto-Financing Model

Steve is looking for a new vehicle. Steve contacts his bank for a pre-approval. Steve walks into a dealership for a test drive. Steve applies for a loan at the dealership. Steve contacts his bank and dealership for loan documentation. Steve negotiates the loan terms. Steve signs the loan documents. Steve drives away with the vehicle of his choice.

Figure 2
Digital’s Growing Influence
Consumers generally begin their search for a vehicle by typing in a query (e.g., “Jeep Auto Dealers” or “best auto loans”) using one of several popular search engines. The consumer is transferred to the Web page or the Web site of the dealer or lender. (The consumer can also be transferred to the dealer’s Web site directly from an affiliate/sponsor’s Web site). This channel becomes the first point of contact for the consumer or the potential borrower.

The customer may decide to proceed, or abandon the Web site and move on to another if the site is unable to meet his or her needs (i.e., lack of mechanisms and information for engaging customers). Typically, consumers don’t think twice before deserting a Web site, which for dealers and lenders can result in lost leads and lost business.

The Web site in today’s increasingly digitally-focused world should be treated as a prime source for engaging customers, and a one-stop-shop for consumers to access dealer and lender information and bridge the gap between dealers, lenders and consumers. By approaching their Web site as a self-help, lead-management channel or point-of-sales solution, dealers and lenders can offer a complete package of services that fulfills their customers’ needs. The details of a product – whether a vehicle or a loan – should be packaged to provide coverage across processes, from selecting a vehicle to securing a loan. Offering consumers the opportunity to chat with a specialist at the dealership or at the lending company can help resolve their questions and move them to the next stage in the process. Chat can be in text or video format, based on the consumer’s preference.

Additional communication mechanisms that enable video chat sessions between dealers, lenders and consumers create a “virtual branch” atmosphere – bringing together the three entities at any time and from anywhere. This makes the lending process more comfortable and more personal compared with traditional brick-and-mortar concepts that require people to be physically present at a certain time and place.

More connectivity, more possibilities
Today, dealers or lenders can use their presence on social media to connect to their enterprise social networks or proprietary social applications to offer additional customer assistance. For example, a lender could connect with dealerships in different locations and by doing so, help consumers link to those sources. Lenders can indicate their preferred dealers on their Web site, and specify “star dealerships” based on their experience working with each dealer. This gives consumers access to all dealers within the network, using social platforms as a single point of contact and offering customers an easy way to post feedback about their buying experience.

The concept of a star dealership can ease the buying/leasing process, since both the dealer and the lender are connected to the borrower. It can also serve as a catalyst for helping consumers link to dealers, review feedback from other customers and choose a dealer from the network. Prospective customers can send messages to the lender/dealer requesting a quote or to schedule an appointment – all through social networks. By having lenders’ agents on the network, consumers will be motivated to connect with authorized sales agents, based on the feedback provided by social media.
With the widespread availability of mobile devices such as smartphones, tablets and “wearables,” consumers can do all the research and/or interaction they like using whatever device they prefer through the “Internet of Things.” Online features should be carefully optimized for each device to help ensure optimum functionality (i.e., bookmarking stopping points, allowing for return through a different device, etc.) and provide a consistent, seamless and satisfying omni-channel experience that is transparent across touchpoints.

Today’s mobile devices can also be used to process applications and serve customers. For example, a customer could take a snapshot of the required loan documents or checks using his or her smartphone or tablet and send them directly to dealers and/or lenders.

**Empowering Digital Technologies**

Incorporating messaging technology into iPhones, iPads, tablets, etc., for the purpose of processing applications and serving customers enables instantaneous delivery of important communications such as those concerning the stage of application processing, additional requirements for loan processing, payment reminders, account balances, payoff quotes and delinquent payments. These technologies can help eliminate the long wait times created by voice calls to service representatives to answer such queries. By doing so, they help to better align and utilize back-end resources and enhance operational performance.

It is important to note that today’s auto-financing industry is not as heavily regulated as other segments, including the mortgage industry, which requires more detailed paperwork from mortgage-seekers. The lack of regulation for auto financiers could lead to discriminatory lending by dealers or lenders based on a borrower’s race, ethnicity or gender. It could also lead to a high number of defaults and re-possessions if borrowers are not able to pay their monthly installments.

Using advanced analytics, lenders and dealers can make highly informed decisions concerning a consumer’s ability to stick with regular payments before selling a vehicle or giving out a loan. This helps protect the interest of buyers and lenders, while avoiding customers’ ire and regulators’ scrutiny. With so many communications channels and innovative mechanisms for engaging consumers, monitoring the efficiencies of digitization throughout the lending cycle becomes a necessity. Advanced analytics can provide dealers and lenders with a 360-degree view of the customer. Text-mining and speech analytics are other analytical tools that offer a holistic view of customer engagements spanning multiple channels.

Mining social media and employing customer analytics can also help manage and monitor consumer complaints, keep tabs on process efficiencies, and assure regulatory compliance management by gathering information from the voice of the customer. Using analytics and social customer relationship management (CRM) to track and evaluate information about a customer can help improve operational efficiencies for lenders by incorporating the process changes inferred as a result of analytics and accumulated data. Any negative feedback related to customer service or dealer/agent experiences can be captured through social CRM and interpreted through analytics to refine and/or redesign processes.

Lenders and dealers can also employ social CRM to:

- Enhance underwriting processes (with appropriate risk controls) and increase market share by launching products and/or programs that are easily adaptable and help reduce lender risk.
- Better serve customers by analyzing and using customer-related data to improve the overall customer experience throughout channels and increase customer gratification.
- Leverage analytics and the data collected through social media to examine and gauge the impact of current processes on consumers, and make necessary process changes that can enhance customer service, enrich the lender’s/dealer’s brand image and increase market share.

Yet for lenders and dealers, “going digital” could result in a tremendous amount of data that would need to be retained and managed. Contact centers would become critical for handling millions of customer interactions traveling over video, chat and the Web, as well as through traditional channels and across the lending cycle – from their
originations, to servicing, to collections. Hence, it is important for auto lenders to balance technology and business processes to reinforce the consumer relationship and provide superior customer service.

Lending enterprises would have to support multiple channels and find better ways of understanding customer pathways within them (i.e., where customers can switch from one channel to another seamlessly, or use channels concurrently during a single interaction). These capabilities will be in high demand over the next several years. Therefore, business agility within the contact center will be essential in order to quickly and efficiently meet changing customer demands and behaviors. This means contact centers will need to continuously modify their strategies.

Moving to the cloud
A cloud-based contact center is ideal for such environments – providing much-needed scalability and flexibility across originations, services and collections. These virtual contact centers can assist in reducing IT maintenance costs by virtue of their “pay for use” commercial models, with the ability to add functionality as needed. Moreover, they are supported by multiple contact centers across the globe, including at-home agents. By establishing a single cloud-based call center, lenders can more easily streamline operations and processes, and make the most of their human resources.
Moving to virtual contact centers thus offers many economic and strategic advantages that can help overcome the seemingly unresolvable restraints of legacy infrastructures, which are often further taxed by consumers who arrive from various digital entry points. (See Figure 4 on the previous page).

The Road Ahead
Converting to digital across the lending cycle will require auto lenders to rethink and re-write their policies and processes. With advanced technologies for analytics, messaging, video and social CRM taking their own course, financers will need to radically revisit their complex offers and rationalize their product suites. Digitization will require lenders to continuously offer value-added products, evolve and simplify their products and services, and stay competitive by locking in customer value.

Besides products and services, digitization will increasingly highlight the need for a uniform omni-channel experience. Traditional touchpoints will face the threat of being replaced by virtually integrated channels — underscoring the importance of creating an uninterrupted lending experience throughout all channels, from shopping for a dealer/loan to the closing of a loan, to servicing and collections. As a result, auto lenders will need to re-engineer their end-to-end business processes by leveraging digitization across the lending cycle (from the consumer buying experience to origination, servicing and default). In this way, they can deliver new and better customer experiences backed by faster processing times, greater convenience, any time/anywhere availability, and a seamless flow of information that gratifies consumers. Risk and compliance procedures must also be in place to ensure that the growing use of digital channels and models complies with ever-changing regulatory requirements.

To fully realize the benefits of digital lending (see Quick Take) lenders and dealers must have a clear action plan for shifting from having a digital capability to being a fully digital enterprise. Moving forward will mean choosing the best route to further advance the digital proposition, or taking a greenfield approach that removes the constraints imposed by previous processes and technologies. However, with the industry facing greater regulatory scrutiny from the Consumer Financial Protection Bureau (CFPB), and given the recent

Quick Take
Creating a Digital Blueprint

As electronic devices become part of every consumer’s life, embracing digitization is imperative for auto lenders looking to negate emerging business challenges. A digital roadmap for lenders would therefore need to focus on:

- Bridging the gap between dealer, lender and consumer by adopting the concept of social CRM during the buying experience.
- Improving the customer experience by providing services through messaging technologies and social channels.
- Making process improvements through advanced analytics to improve the overall customer experience and enhance the brand image.
- Integrating processes after implementing digitization across the lending cycle.
- Reducing costs by switching to virtual contact centers for origination, servicing and default.

Effective process digitization will help auto lenders lock-in customer value and build customer loyalty following the last decade’s credit crunch, which has pressured margins for and reduced trust in lenders.
US$80 million settlement by Ally Bank with the U.S. Department of Justice (DOJ) over regulatory violations,\(^2\) early adoption of these processes can help assure regulatory readiness.

Fewer customer complaints, a more positive brand image, closer customer affiliations, locked-in customer value and zero to minimal CFPB/DOJ penalties should be factored in by lenders for calculating the return on investment from digitization. To begin the digital journey, lenders can either prioritize the processes based on complexity or business importance then integrate them to achieve a seamless workflow, or choose to adopt a top-down approach that addresses each lending phase one at a time — leading to seamless integration. (Figure 4 on page 5 provides a high-level view of the processes associated with auto-lending, along with a roadmap for adapting digitization across the lending cycle).

Eventually, digitization will no longer be a trade-off; it will be a necessity for all lenders who want to remain relevant, ready and competitive.

Footnotes
\(^1\) Internet of Things is the network of physical objects that contain embedded technology to communicate and sense or interact with their internal states or the external environment.


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