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A revolution for motor financing

The future of mobility will transform the motor finance market

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Future disruption in mobility will have profound implications on a range of connected industries. Motor finance is emerging as a new battleground, situated at the crossroads between the automotive and finance sectors.

High APRs, lack of price transparency, a poor customer journey (most of which is offline), and lack of competition have become the accepted norm.

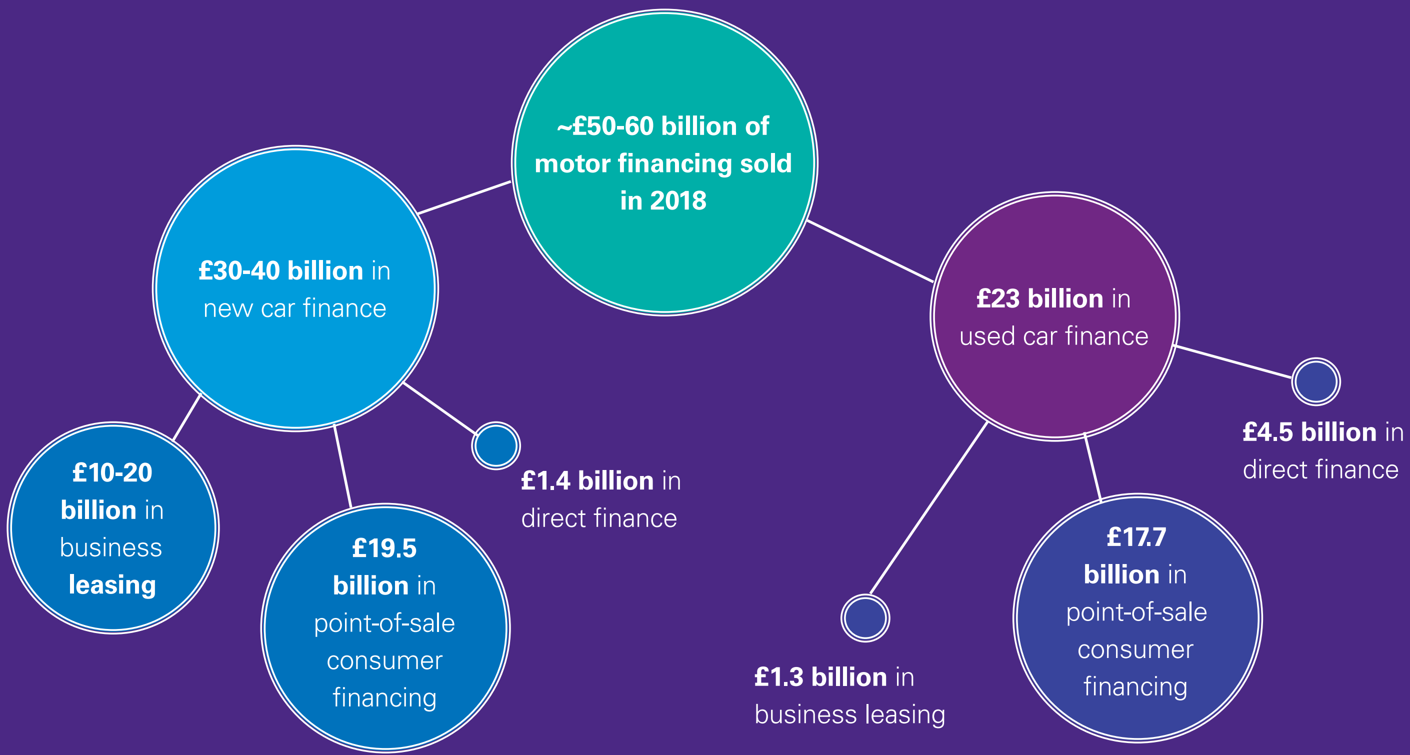
Just as vehicles themselves will transform dramatically over the coming decades, motor finance will also evolve. In future, this will be increasingly digitised, transparent and with products tailored to individual customers.

This article examines the mid-to-long term drivers of change, our view of the key impacts on the motor finance market, and what finance providers can do to prepare for the future.

Contents

What does UK motor finance look like today?

The UK motor finance market was worth up to £60bn[1] in 2018, with both new and used cars representing significant segments.

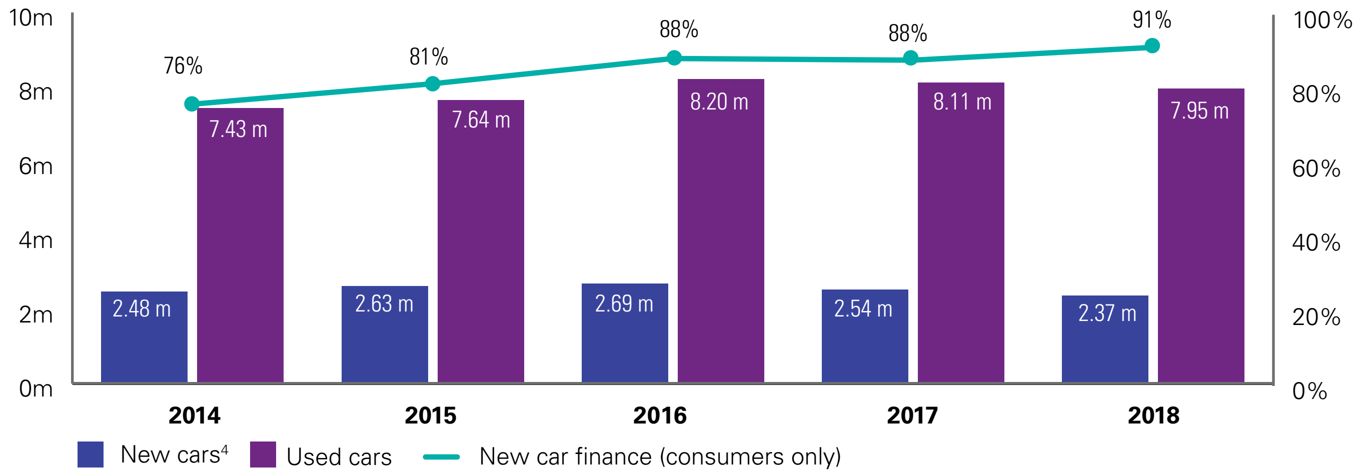


2018 vehicles sold
New – 2.4 million
Used – 7.9 million

The two fundamental drivers of the motor finance market are the number of automotive transactions (new and used) and the finance penetration within each segment. In general, the UK is a mature automotive market with a high penetration of new car finance and a relatively low but growing propensity to finance used cars.

[1] KPMG Mobility 2030 analysis, SMMT, FLA, BVRLA

UK new and used car transactions (m) and new car consumer finance[2] penetration (%), 2014-18[3]



The UK motor finance market at a glance:

1. Large overall market size (within Europe) of £50-60 billion as a result of a relatively large automotive parc and annual sales, alongside high finance penetration.
2. Motor finance primarily distributed through point-of-sale channels i.e. dealerships. New car financing is dominated by OEM captives / exclusive partnership relationships, while used car financing has greater diversity in terms of banks, specialist lenders, brokers and technology-led lenders.
3. High / saturated new car finance penetration – with around 91 percent of consumer cars[4] financed, leaving little room to grow. Much of this growth has been attributed to the popularity of Personal Contract Purchase (PCP) finance products in recent years that have allowed drivers to access more expensive vehicles for a lower monthly cost.[5] In used car finance however, lower finance penetration highlights the potential for future growth as consumers become increasingly comfortable with financing products for used vehicles.
4. New car volume headwinds – early indicators point to a decline in new car sales, attributed to Brexit uncertainty, lack of consumer confidence and stagnant wage growth.
5. Established start-up ecosystem – the UK and London are historically recognised as a hub for innovation in finance, venture capital, and emerging mobility services, leading to a number of new finance partners and propositions emerging.
6. Strong EV and AV ambitions – both are highlighted as part of cross-party industrial strategy and policy, pointing towards the need to finance EVs in the short term, and AVs in the medium / long-term.

[2] New cars includes both vehicles purchased by consumers as well as fleets and businesses.
[3] Society of Motor Manufacturers and Traders (SMMT) 2019, Finance & Leasing Association (FLA) 2019.
[4] Consumers cars excludes fleet and business car purchases
[5] Under a PCP contract, a consumer pays for the depreciation of the vehicle over the finance term, with option at the end of term to acquire the vehicle for an additional 'balloon payment' at a typically fixed price. This allows for a lower per-month cost compared to a Hire Purchase contract which results in ownership at end of the financing period.

Forces for change

Three broad classes of systemic change are likely to impact the future motor finance market:

Firstly, we see three technology-driven megatrends leading to significant disruption in both automotive markets and the wider ecosystem through to 2030:[6]

Electrification of vehicle drivetrains

69% of UK new car sales by 2030

- Opportunity to lead in new lending segment (EVs)
- Rise of personal EV leasing/ subscriptions as way of spreading initial cost profile to match lower operating expenses
- Turnkey EV transition solution for corporates (combining EV + infrastructure + finance)

Mobility as a Service

25% of UK new car sales by 2030

- Opportunity for finance companies to pivot their business models (asset owner vs. fleet manager vs. mobility service provider)
- Rise in importance of mobility fleets as sales channels / partners (B2B financing)
- Rise of car subscriptions and multi-modal aggregators
- Increase in alternatives to company cars (e.g. mobility budgets or MaaS subscriptions)

Connected and Autonomous vehicles

26% of UK new car sales by 2030

- Key accelerator for MaaS adoption in urban areas
- Implications of connected technology for asset tracking and management
- Potential for future fleet financing models – e.g. financing on future AV revenue streams

Secondly, these technology disruptions are happening alongside broader digitisation trends and shifts in consumer preferences, with customers increasingly demanding greater:

- transparency (particularly in pricing),
- flexibility,
- sustainability,
- personalisation,
- and convenience

…in how they research, purchase and consume products and services.

Thirdly, regulation is simultaneously emerging, which is accelerating trends around the sustainability of urban transport, as well as fair consumer outcomes and competition in motor finance.

Here are some recent examples:

- Support for reduction in urban transport emissions and battery electric vehicles – including the ULEV grant, a number of EV infrastructure grants and investment schemes, clean air zones and emissions targets in UK cities.[7]
- The recent FCA review into the motor finance industry commissions structures, lending controls, transparency and affordability assessments, with a view to determining whether policy action would be required to improve consumer outcomes.[8]
- General Data Protection Regulation that governs how finance organisations (amongst others) need to treat and protect consumer data.

[6] Read our Transforming the mobility landscape report for more information https://home.kpmg/uk/en/home/insights/2019/06/chapter-1-2030-transforming-the-mobility-landscape.html
[7] Multiple UK Government sources, including OLEV, HM Treasury, IPA and local authorities
[8] Our work on motor finance – final findings, FCA, 2019

What could motor finance look like in 2030?

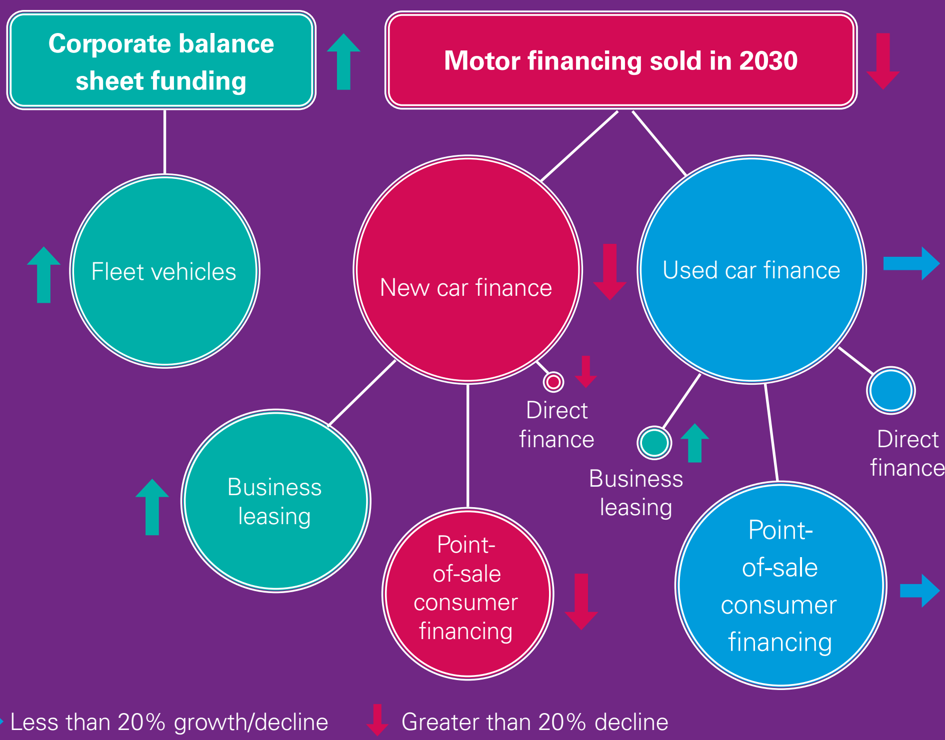
As a result of these drivers, we expect three broad categories of change in the motor finance market: a transfer of value between different segments of the market, increasing diversity of the customers and channels, and the emergence of new propositions to meet customer needs.

1. Shifts in market value

The future motor financing market will shrink, with new car financing experiencing the largest decline

Key variables

1. Adoption curve for robo-taxis and other mobility services, driving move from personal ownership to corporate-owned fleets
2. Extent of Government support for EV, AV and MaaS
3. Average new and used vehicle prices
4. Nature of new financing business models
5. Future motor finance penetration and product mix (e.g. PCPs, subscriptions, other leases etc.)



Source: FLA, Finaccord, BVRLA, KPMG Analysis

Fleets will rise as a financing segment: The share of vehicles under business ownership/usage will increase as mobility services grow and (in the future) AV-enabled 'robo-taxis' become available.[9] The share of personally-registered vehicles in new car sales is expected to decline as this trend develops. Finance providers need to consider whether to diversify into fleet funding and relationships as a future proposition.

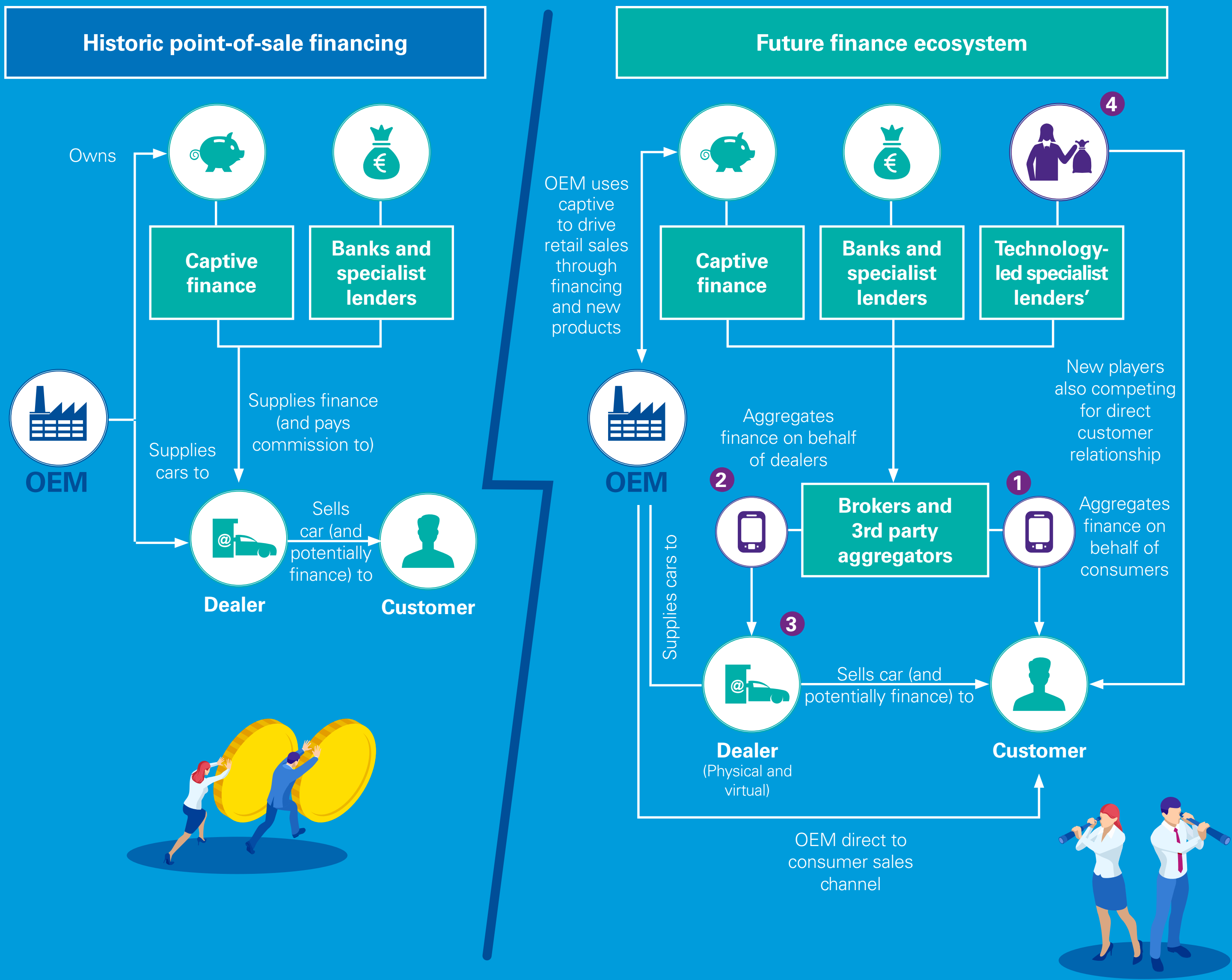
Motor finance will experience an overall decline in value: This will be due to reduced demand for new vehicles (shared vehicles will see higher utilisation) and used vehicles at a later point. This will be partially offset by higher-value (at least in short to medium term) EV and AV vehicle models as their share of sales increases.

Moderate growth expected in used car finance as a result of an increase in used car finance penetration over time, with consumers becoming more familiar with the concept, and motor finance product options broadening. This is expected to be partially offset by an increase in shared mobility options.

[9] A robo-taxi service is a ride-hailing service that operates without a human driver. These are expected to operate initially in geo-fenced areas, with the potential to offer services at a much lower cost-per-mile in the longer term.

2. Greater diversity of customers and channels

At the same time we expect the route to market will become much more complex...



In the business-to-consumer (B2C) market, traditional point-of-sale channels will diversify: These will move from purely 'bricks-and-mortar' formats increasingly into online and omni-channel[10], particularly as OEMs position themselves closer to the consumer. This will require financing solutions that can keep pace in terms of response time and transparency.

New mobility formats are expected to drive online sales, as lower-commitment models (e.g. usage or subscription) reduce consumer purchase anxiety through new channels, and, as digitally-native business models grow.

[10] The ability to offer an integrated / cohesive experience to consumers whatever channel they use – most typically focussed on ensuring that the online / offline customer journeys link together effectively.

New models proving themselves out in the market:

1. **Consumer-side finance aggregators** e.g. Zuto or CarFinance247, can act as brokers for the consumer, providing consumers with easy access to the best financing options from a range of finance providers.
2. **Dealer-side finance aggregators** e.g. Evolution, can act as brokers for the dealer, allowing the dealer to more easily access a range of financing options that be offered at point-of-sale (or increasingly in their online platforms).
3. **Online/virtual dealerships** e.g. Carvana or Cazoo, combine aspects of a digital dealership with online financing, offering an end-to-end online experience that potentially eliminates the need for physical storefronts.
4. **Technology-led specialist lenders** e.g. Oodle or Blue Motor Finance, will become vertically integrated and place emphasis on automating the financing approvals process and digitising the customer experience. This will provide a better service for dealers and end customers.

We will also see an increasing focus on the entire customer lifecycle and retention, with lenders trying to engage the customer beyond simply the finance transaction itself and focussing on experience, loyalty, and potentially the cross-marketing of supporting products to maximise customer lifetime value.

In the business-to-business (B2B) market, mobility service providers will become increasingly important as a future customer segment. This will require relationships to be developed with emerging providers (OEM-led or independent), and specific financing products to be developed for them. In many cases, existing fleet customers will be looking to pivot into more flexible services, changing how they use their corporate lending facilities.

Different mobility ecosystem players will increasingly collaborate to offer joint solutions as a growing sales channel (as outlined in the following bundled propositions section). Commission-based models, joint ventures and alliance agreements could all play a role in these arrangements, with experimentation in different partnerships likely to pick up in the near future.

3. Development of new propositions

In the B2C market, car subscriptions and flexible finance products will rise as a small but growing segment in motor finance caters to consumers that desire flexibility in their ownership model. Car subscriptions take the features of a traditional lease and add flexibility, in terms of lease term, access to multiple vehicles or mileage, for example, in order to adapt to consumers with uncertain or varied needs and commitments.

Bundled retail finance products will be an emerging opportunity, particularly to support the adoption of EVs, for which a wide range of supporting services (e.g. chargepoint access, home chargers, energy tariffs, insurance, solar) could be integrated at point-of-sale. EV finance is expected to be particularly helpful in offsetting the high initial purchase cost of EVs against lower operating costs (fuel, tax / congestion charges, maintenance) over time to make the proposition more attractive to consumers.

In the B2B market, fleet financing and one-stop shop solutions will grow to support both organisations offering fleet delivery or mobility solutions, as well as other companies with vehicle fleets looking to reduce their environmental footprint and/or reduce cost of ownership. Financing capabilities may need to be combined with expertise in EV/AV fleet deployment and experience in the installation of capital-intensive supporting infrastructure.

Corporate MaaS solutions are expected to compete with company car ownership in the future. Both sharing and on-demand transport models, as well as multi-modal subscription packages, offer increasing alternatives for corporate mobility budgets and could appeal to younger, urban employees as well as city authorities seeking to reduce congestion and pollution.

How should players in the market respond?

Different players in the motor finance market should consider how best to respond to (and indeed, seize) emerging mobility trends:

Market segment	Key considerations
Bank lenders	— Cross-sell of motor/mobility financing to other bank customers (e.g. retail) as an integrated proposition. — Commercial lending opportunity for fleets and infrastructure. — Management of counterparty / credit exposure to disrupted industry segments.
Specialist motor finance lenders	— Improving the customer financing experience and building customer loyalty. — Navigation of regulatory change, including changes in commission structures. — Development of new financing propositions (e.g. PCP for used cars). — Effective management of dealer partner base in period of channel disruption.
Technology-led specialist lenders	— Implementing flexible operating models to support rapid growth. — Entry into new markets to drive scale and sustain growth. — Continuing to improve the customer financing experience as a differentiator. — Effective management of dealer partner base in period of channel disruption. — Identification of long-term partners to drive channel volume / build new propositions.
OEM captives	— Development of new financing propositions e.g. subscriptions to support automotive retail; development of organisational capabilities to support this. — Requirement to support dealers through broader retail network transition to online / omni-channel / mobility services through education, platforms and products. — Opportunity to pivot to mobility fleet ownership and potentially mobility service operation.
Fleet management and leasing companies	— Deploying compelling fleet transition offering for EV. — Development of ecosystem partnerships to deliver turnkey solutions. — Increasing competition from mobility services / MaaS – opportunity to integrate D2C into service offering. — Integration with / sales into mobility fleets and other services e.g. peer-to-peer car sharing as new channel.

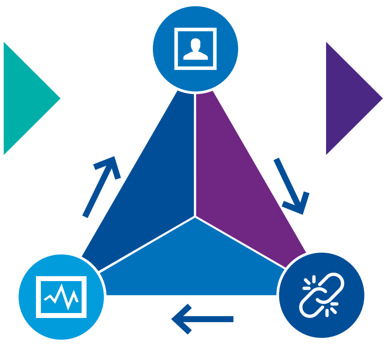
At KPMG, we believe that your organisation's approach to charting a path through future disruption needs to be based on an understanding of your organisation's strengths and position in the market, as well as an understanding of expected future market changes. This results in a response strategy that is tailored for your values and circumstances.

Based on our frequent discussions with clients on the nature of mobility disruption, however, we have identified five recurring themes and associated activities that can act as a starting point for formulating your approach.

Five themes: Making sense of mobility disruption

2 Fighting for the customer
Understand the future customer and decide your relationship with them (including where to play in the value chain)

1 Decoding disruption
Understanding the nature, timing and potential extent of disruption



5 Architecting for scale
Scaling proven business ideas and architecting an operating model for the new world

4 Monetising data
Using the increasing volume of mobility data to drive better products and decision-making

3 Un-stranding assets
Repurpose or pivot your current business model and assets, and build flexibility to do so in future

"Think"	"Design"	"Do"
For organisations at the beginning of the journey, your focus should be on understanding the impact of disruptive change on your market and adjacent markets you might want to play in, and "test-and-learning" from small experiments. Given the rapidly-changing mobility landscape, monitoring and refreshing this view is important as well.	Once this view of the future is understood, three key elements to designing your response include understanding where you will play in relation to the customer, harnessing the power of data in understanding the future customer, and setting your organisation up to be flexible in managing future change. We see these three building blocks as essential for an effective response to emerging disruption.	Finally, at the point a particular approach or proposition has been tested successfully, there is an imperative to scale this rapidly within and across markets to realise the benefits before competitors are able to close the gap.

Key questions for motor finance providers to answer at each stage of disruption:

Disruptive theme	What should motor finance providers consider?	How KPMG can help
01 **Decoding disruption**	— How will future mobility disruption impact my markets, and when is this likely to happen? — What new products and propositions (e.g. car subscriptions) are likely to compete with me in the future? — How can I rapidly prototype a new product or service to test-and-learn?	— Future of lending markets analysis (insights, competitor analysis, market sizing, value pool shifts, entry options) — Target search & deal support/ due diligence for exploratory acquisitions and market entry e.g. fintechs — Business case and new proposition design — Support developing internal innovation capability — Corporate venture capital advisory
02 **Fight for the customer**	— Where do I want to play in the value chain – as a B2C lender or as a B2B provider? — What are the future disintermediation threats? (e.g. from brokers or direct finance providers) — How do I engage and retain my existing finance customers to maximise lifetime value– during and beyond the end of the finance period?	— Customer, channel and pricing strategies — Value pool analysis and strategic options (deciding 'where to play' in future lending value chain) — Customer insight and analytics — Customer experience and journey design for new and existing finance products
03 **Un-stranding assets**	— Where can my existing capabilities be leveraged to give entry options elsewhere in the mobility ecosystem? — How do I ensure that I have the ability to pivot to other finance products (and assets) to meet anticipated future demand?	— Existing portfolio/asset reviews and maturity assessments — Cost strategy and process optimisation — Business model design and transformation — Regulatory and Brexit advisory services — M&A options and deal support

Disruptive theme	What should motor finance providers consider?	How KPMG can help
04 **Monetising data**	— How can I improve the targeting of my financing offers through data (my own and others) — How do I use data to improve and accelerate the finance approvals process? — How do I better understand customer behaviours in trials and launches of new products?	— Exploratory data analytics & insight — Partnerships and alliances strategy with data partners — Cyber defence and protection against external threats — Technology implementation and integration of new tools
05 **Architecting for scale**	— How do I scale a successful product model internationally, or across sectors? — How do I professionalise my operating model as my business grows? — How do I find the right vendors and partners to help me grow?	— International market entry/expansion strategies — M&A targeting and deal support — Restructuring and operating model design — Scalable KPMG managed services — Partnership and alliance structuring

Conclusion

Since its inception, motor finance has always been a meeting point between two industries – so it should be no surprise that in the coming years this sector will be facing a unique combination of technological and commercial disruption.

However, alongside this disruption we see great opportunity for organisations that are willing to take a decisive stance in the emerging ecosystem.

KPMG can help you at any stage of this journey. Our Mobility 2030 practice works with global organisations to help them take advantage of opportunities across the emerging mobility ecosystem, bringing together dedicated subject matter experts across a range of relevant topics, such as motor finance market insight, disruption strategy, regulation, M&A, and data & analytics.

For more information, reach out to any of the authors of this report.

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