The implications for financial services in mobility

Mobility 2030

There is growing consensus that there will be a decline of the number of vehicles on the road. This has mostly negative implications for providers of financial services with their current products, viz. asset finance. However, there are also opportunities to create appropriate products and services, especially with the availability of big data and the technologies to analyse them; writes Terence Singh, Manager at Matchi and KPMG South Africa.

New mobility models like ride sharing and ride hailing will impact personal car ownership.

- Rise in ride hailing services like Uber and Taxify, who processed over 2 million rides between them.
- The economic incentive to the average SA consumer who is estimated to save R14 000 annually by utilising Mobility-as-a-service (e.g. Uber).

Financial Services (FS) play a critical role in enabling both consumers and corporations to engage with the Mobility ecosystem. It is vital that FS recognises the needs within the market and transforms to become a 21st century enterprise, catering for the shift from Asset to Access based Mobility. Financial Services companies offer primarily lending and insurance products to the Mobility Ecosystem today, which is expected to continue in the future.

Despite the decline in personal ownership, the need for personal mobility remains and will be satisfied by other service providers. It is incumbent for financial services companies to identify these segments and design appropriate products and services.

Asset finance

The shrinking pool of cars will necessarily impact the lending book as well as margins. Banks will have to prepare for less revenue from traditional asset based lending to individuals. However, other ownership models are starting to emerge like car subscription – customers are able to rent cars on a short term basis, which bundles together insurance and lease payments. Consumers may blend ride-hailing services with vehicle ownership by purchasing smaller (and lower priced vehicles) for commuting. This presents an opportunity for both banks, insurers as well as new entrants.

There is also a specific segment of clients who are owners of car hailing services for whom banks should create differentiated models:

- There are over 12 000 Uber car owners in South Africa.
- They will require advice and the development of customised solutions for insurance and finance as well as the opportunity to treat them as small businesses rather than individuals.

Payments

Usage of ride-sharing and ride-hailing apps are increasing, along with the need for micropayments. Currently this is done through credit cards and/or cash. There is potential for alternative forms of payment – like mobile or NFC payments. Electric vehicles will also be able to charge at private charging points at variable prices (not currently possible with fuel). The ubiquity of single charging stations will drive micropayments (in some cases, peer to peer for personal charging stations).

In the longer term, similar opportunities exist where payments systems will be integrated into the car for self-payments for fuel or charging, e.g. for autonomous vehicles.

Insurance

Fewer insurable cars and lower margins are expected from increased competition for insurers competing for a declining insurable pool. The declining use of current vehicles will negatively impact newer insurance models like usage based insurance. However, there is potential for alternative insurance models, especially those that leverage technology to determine risks at a granular and personal level. Although the use of telematics for individual driver behaviour is well-known, it is also possible to create specific profiles of segments with similar driving characteristics. Telematics can also measure the length of time spent in different risk rated areas – and hence be able measure risk more accurately at a granular level. Driver assisted technologies, similar to those being incorporated in autonomous vehicles, are also expected to reduce the number and severity of accidents – which may also drive down premiums. This may be counterbalanced with insurance companies using technology to drive down costs of assessment, e.g. use of drones for assessing accident damage.

These present opportunities for using new models of estimating and preventing risk on the higher rates of accidents, breakdowns and criminal incidents by virtue of the increased utilisation of these cars travelling much more than the average driver.

Supply Chain Funding

A smaller vehicle population will impact the value chain from vehicle car manufacturers and retailers to lower demands for goods (like spares) and service (repairs, dealerships). However, several car manufacturers are expected to introduce electric vehicles into the market leading to the development of a different value chain for and, specifically, growth in charging infrastructure in non-traditional locations (like shopping centres). These create opportunities to develop funding models for smaller scale infrastructure funding – similar to the evolution of project finance from the development of large solar power renewable energy to smaller decentralised solar rooftop photovoltaic projects.

Conclusion

The evolution of industries, particularly if accelerated by technology, is often accompanied by either denial or defensiveness by incumbents. However, the response by established industry players is critical to leveraging the opportunities that change brings. Successful companies have always managed to analyse these changes, understand its implications and anticipate the growth areas that they could compete in. Financial services companies have the advantage of scale, infrastructure, trust and an existing client base. Government also have a vested interest in developing the industry both by promoting technology advanced services as well as creating and protecting jobs. The evolution of the mobility industry will undoubtedly negatively impact current service lines, but there exists a blank canvas on which both government and the private sector should collaborate to shape the development of innovative products to grow in the new areas of opportunity.

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