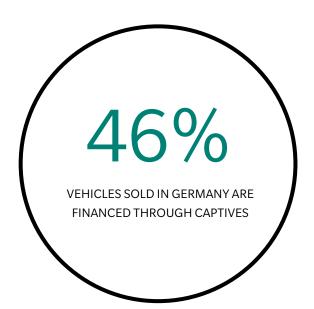


The role of automotive captive banks is changing. In the past, they served as a sales booster to the vehicle manufacturer by enhancing the value chain and offering innovative financing solutions, which helped subsidize the parent company's sales.

To ensure sustainability, however, captives need to move away from reactive, product-centric operating model driven by the automaker. They should consider offering a customer-centric portfolio of digitally based mobility solutions tailored to the fast-changing requirements of car buyers. Leveraging their unique position in the value chain – direct access to customers – provides captives an advantage that needs to be unlocked. If it is, captives could become the most powerful channel for future business.

SASCHA COCCORULLO



UNIQUE POSITION

Captives are uniquely positioned in the automotive value chain vis-à-vis the brands and dealers they are linked with. They can accumulate a vast amount of data as part of the financing and service contracts they enter into with customers. Automakers and vehicle retailers, however, get only limited access to this data because of their fragmented network coverage. The power of captives is growing as they gain market share (as is the case in Germany, where the captives' financing share increased to 46 percent in 2015, from 38 percent in 2009).

Despite these advantages, the product innovation rate at captives has been low. Major additions to their traditional financing and leasing products have been after-sales products, insurance, and rental solutions. Also, attempts in the 1990s and 2000s to offer mortgage, investment, and credit-card products have proved unsuccessful for most players. As a result, the products generating the lion's share of captives' revenue are the same as when they were started (for example, traditional installment and three-way credit typically account for up to 50 percent of the contract portfolio).

NEW RIVALS, NEW SOLUTIONS

Another reason captives need to re-invent themselves is because competition from other players is disrupting the industry. The new rivals are luring the younger, tech-savvy generation with peer-to-peer lending and mobility offerings. Digital loans providing immediate access to cash will come into the market soon. In addition, non-captive banks are also moving into captive segments such as mobility.

Hence, captives must replace their product-centric approach with a customer-centric approach by understanding customers' mobility demands throughout their car-using/car-buying life cycle. Automakers already have established departments that deal with mobility solutions. These units should be either within the traditional captive world or strongly tied to them to create a holistic portfolio of products. This includes mobility solutions such as car sharing, peer-to-peer lending, and autonomous driving, as well as classic options such as financing and leasing.

The captives that can cover both traditional and new needs will have an advantage. However, it is important to overcome artificial product silos between the business areas and create a mobility ecosystem for their customers. Revisiting the organizational design, incentive system, and steering concept is key because it will be just as important to measure "rides per customer" and "number of client interactions" as it has been to measure "cars sold" to determine business success.

UNLOCKING THE POTENTIAL

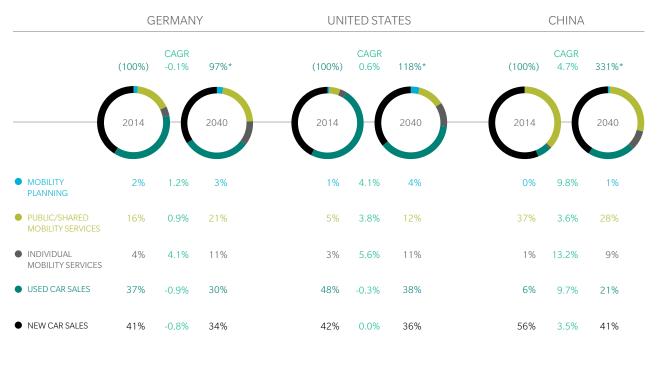
By providing new payment solutions to customers who use their mobility products, captive banks would gain access to a new and large stream of relevant transaction data as well as customer-usage patterns. This is an important source of information to determine changing customer demands and behaviors.

Doing this will require captives to integrate the data between different legacy contract management systems for financing, leasing, and insurance with data from new mobility services. This could be painful for many captives (especially from

Percentage of mobility segments in 2014 vs. 2040, by country

(100%) = indexed volume of passenger transportation in 2014

^{* =} indexed volume of passenger transportation in 2040 compared to 2014



Source: Oliver Wyman market model

a regulatory point of view), and the immediate benefit may be low. However, this is the crucial foundation for remaining competitive against new rivals that have a cutting-edge advantage because they set up their entire businesses around a holistic, single-customer view.

It is important to get access to new and younger target groups and tie them to the brand early on with a holistic mobility concept. The investment into such an effort can reap greater benefits later, when, for example, a person starts as a car-sharing customer and afterwards buys a vehicle from the automaker using a traditional financing product.

In this scenario, the captive bank jumps ahead of the dealer as the lead generator for future financing products. Structured behavioral analysis allows captives to detect patterns across customer groups. This can be used to understand the customers' needs during different stages of their lives. It is information that helps tailor future offerings to maximize value. In addition, as the customer lifetime value (CLV) approaches, the data can enhance the traditional return on equity (ROE) steering.

Establishing a competitive online sales and financing process is the minimum requirement for captives to succeed because up to 20 percent of all vehicle purchases will be done using digital products in the next five to 10 years. However, long-term success requires more than just bringing traditional financing products online. In addition, captives need to add innovative, connected services especially in the field of mobility. Also, because of the emergence of subscription-like models, captives need to move beyond a transactional-based view of the customer to a more behavioral view.

Although the traditional financing and leasing business is still growing for many captives, they need to make changes to their business models now to pre-empt a sudden disruption in the future. Moving away from old-fashioned product-centric offers toward a customer-centric mobility portfolio that addresses different customer demands along the person's life cycle is crucial. Automotive companies have to transform into mobility solution providers – and their captives are the ones best equipped to deliver these products to their customers. •