eBook: Digital Auto Finance

Seizing *Opportunities* in Digital Automotive Finance

Your Path to Long-Term Success Begins Now



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Executive Summary

Preparing for the Increasing Digitization of the Car-Buying Experience

Driven by the lingering effects of the COVID-19 pandemic and the ever-growing popularity of online purchasing in every retail sector, consumer car-buying habits have changed dramatically. Online auto buying, driven by the preferences of the prized younger demographic, has captured nearly **a third of new car purchases**.[1]

With shrinking profit margins, auto manufacturers and lenders are embracing complementary products and services as never before. This has forced their thinking to evolve away from closed, legacy technology architectures and standalone software applications to a strategy that accommodates **flexible connections with those partners.**

This environment has created a new competitive playing field for all auto finance organizations. Whether the purchase decision is made in a dealer's showroom, online, or through some hybrid, lenders must now focus relentlessly on becoming more customer-centric, on providing better online experiences, quicker loan approvals, digital loan pre-qualification, and personalized offers, all while continuing to maintain stringent standards of risk mitigation and governance in a highly regulated industry.

These dramatic shifts have also introduced technology requirements that go well beyond most lenders' current capabilities. They are finding that today's disconnected lending operations are ill-equipped to keep up with the personalized, intelligence-driven world of tomorrow. This gap points to the need for **rapid and significant improvements in technology infrastructure.**

The opportunity is there for lenders to become more agile, to be more efficient and profitable, to compete successfully with neo-banks and technology-first lenders, and to capture greater market share in this rapidly-evolving automotive financing market.

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[1]https://abcnews.go.com/Business/consumers-shopping-online-cars-dealerships/story?id=76650042

What must you do to seize the opportunity?

You must **prepare and execute now** to provide a seamless digital experience that moves buyers smoothly from research to purchase to financing to delivery.

Your customer experience (CX) must meet shoppers and buyers wherever and whenever *they* choose to engage, delighting them with a personalized digital experience and product set—an experience that meets not only their immediate needs, but also opens the door to long-term, productive and profitable relationships.



What You'll Learn in This eBook

After investigating the dynamic and powerful forces shaping the auto finance market, we list **requirements for real-time advanced personalized** pricing technology to:

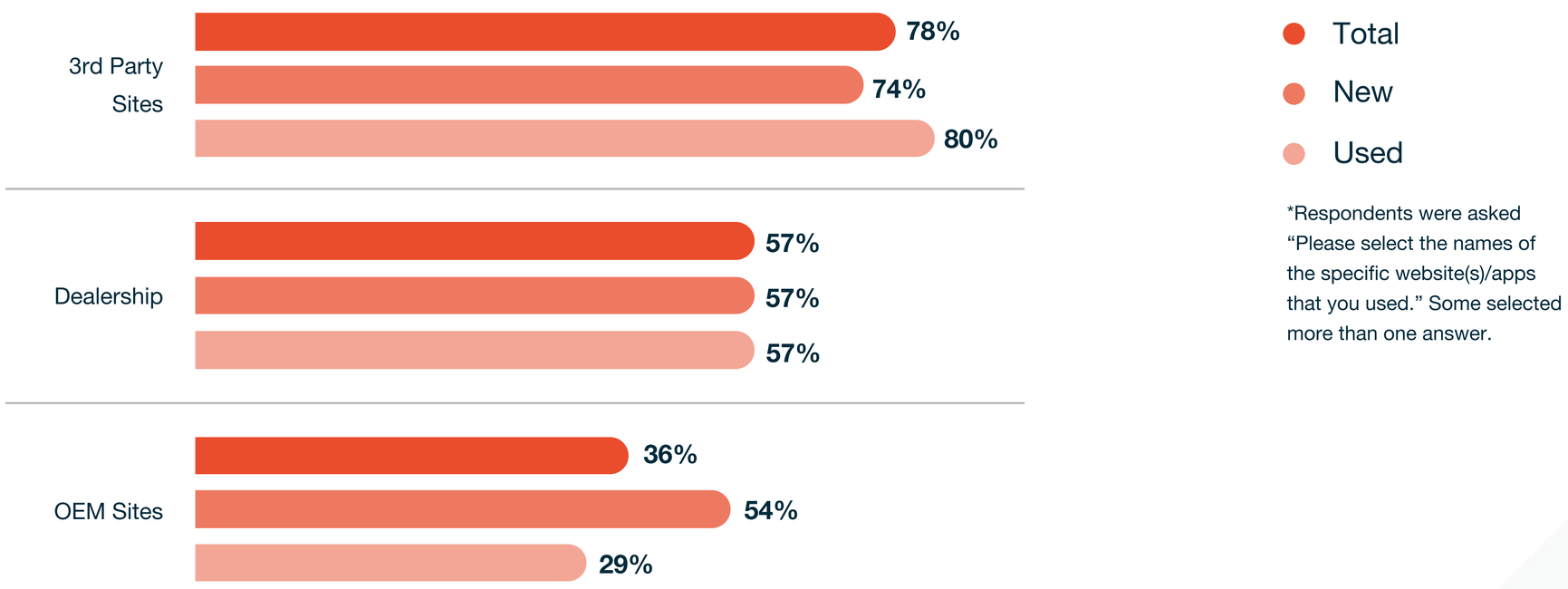
- ✓ **Implement** truly agile operations, conquering the industry's accelerating rate of change and rapidly evolving competitive landscape
- ✓ **Dramatically improve** consumer experiences with real-time pricing optimization solutions that integrate growing customer data sets and deliver increasingly accurate personalizations
- ✓ **Deliver** real-time digital decisioning tools with "what-if" scenario capabilities to identify, implement, and monitor strategic pricing initiatives and minimize manual processes
- ✓ **Compete** more effectively, grow market share, and boost profitability, all while decreasing risk exposure and optimizing internal operations

Radical Changes to the Automotive Financing Market

For decades, the world of automotive finance was relatively stable. Car buying was an in-person process, in which customers “kicked the tires” of their potential vehicles, road tested them, negotiated terms with the dealer, and arranged financing with one of the manufacturers’ captive credit arms or with a local lender affiliated with the dealership. Buyers were essentially “locked in” to a well-defined financing process as part of the buying experience.

Online research has become by far the **primary mode for buyers** to learn about potential purchases, approaching 80% of buyers in one study by Autotrader.com:

Sources Used to Shop

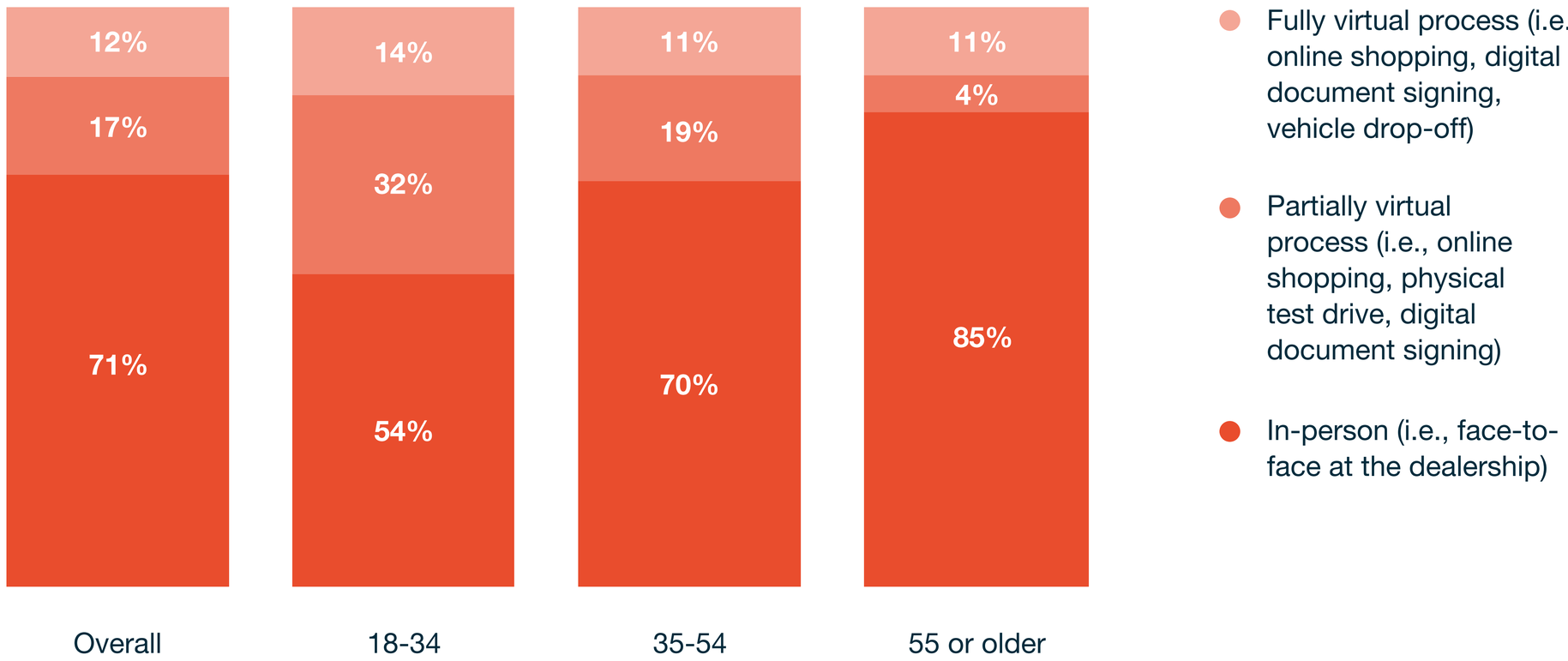


*Respondents were asked “Please select the names of the specific website(s)/apps that you used.” Some selected more than one answer.

Despite the heavy use of digital channels for research, the actual auto purchase and finance process seemed to be **one of the last few holdouts** in the online commerce revolution.

But that’s no longer the case. In the last two-plus years, buying and financing have been turned on their head. Younger buyers in particular express a willingness to **complete all or part of the purchase process online,** as seen in this breakdown of consumer preferences by Deloitte[2]:

Most prefered method for US consumers to acquire their next vehicle



This study reinforces a number of other trends we've seen in automotive finance:

Regardless of where and how the final purchase decision is made, EY reports that two-thirds (66%) of potential car buyers prefer to get quotations and secure their financing online.[3]

Across auto financing as a whole, according to Wolters Kluwer's Auto Finance Digital Transformation Index,[4] the industry saw a **78.9% growth** in digital financing transactions in calendar year 2021 over 2020. The company also reports a **98% increase** in digital transactions when comparing Q4 2021 with Q4 2020.

For 2021, Carvana reported its **US unit sales up 57%** over the year before, and that its revenue for 2021 more than doubled year-over-year (YoY).

Similarly, Cars.com reports that as of early 2022, 38% of current car shoppers expect to **complete the entire buying process online,** with another 38% intending to purchase a vehicle in person but complete all the necessary paperwork digitally.

[3]https://www.ey.com/en_gl/automotive-transportation/can-digital-and-physical-meet-at-the-dealership

[4]https://www.cpapracticeadvisor.com/2022/05/24/wolters-kluwer-index-shows-digital-transformation-of-auto-industry-finance-ops/49644/#:~:text=According%20to%20Wolters%20Kluwer's%20Auto,Q4%202021%20with%20Q4%202020.



The “New Normal” in Automotive Finance

All these trends have dramatically shifted the playing field in automotive finance.

Today, **lenders cannot count on incumbent relationships** with local dealers or their national brands in which borrowers are steered their way in a predictable manner. Consumers have too many financing choices, including from neo-banks and non-bank lenders, and have become accustomed to the timeliness, transparency and personalized experiences that are now part of the buying and financing experience.

With more purchases taking place entirely online, and with younger buyers’ expectations of instant gratification, **credit decisions must be immediate,** but still protect the lender’s business model and financial integrity.

Using Dynamic Decisioning to Win in Auto Financing

At Earnix, we create agile, composable, and intelligent solutions that enable the world to reimagine auto lending operations. We help leaders in banking and finance evolve their best practices and incrementally innovate all aspects of their operations to better serve demanding modern consumers. By creating more **agile and resilient infrastructure**, our customers can confidently take on large-scale transformation, while instantly unlocking more value from every engagement.

Our industry-leading analytical capabilities infuse world-class data science, predictive and machine language (ML) modeling, optimization algorithms, smart automation, and data-driven personalization capabilities into all of our composable solutions and products.

Earnix technology delivers four key and very tangible results in record time:

1	2	3	4
The Ability to Adjust Quickly to Changing Market Conditions	Make Every Customer a Personalized Offer in Real Time	Execute on Agile, Intelligent and Compliant Business Operations	Capture the Power and Adaptability of a Composable Technology Architecture

Adjust Quickly to Changing Market Conditions

The recent volatility exhibited by the automobile market is here to stay. This places a premium on your ability to **react quickly** to interest rate changes, competitors' moves, supply chain disruptions, and shifting consumer preferences.

The proven Earnix solution allows you to execute a vision in which you can:

- ✓ **Adjust** pricing strategy as often as you see fit, based on world-class analytics and easily-accessible "what-if" scenario modeling
- ✓ **Deploy** a sophisticated analytical engine to forecast demand and profitability at the customer level
- ✓ **Simulate** customer behavior in real time
- ✓ **Leverage** customer-level insights to generate portfolio-level strategies
- ✓ **Simulate** price changes on a portfolio of customers to calculate and compare pricing strategies
- ✓ **Deliver** profitability and booking forecasts for each offer to inform dealer negotiations
- ✓ **Automate** contract validation

Make Every Customer a Personalized Offer in Real Time

Today’s customers demand highly personalized pricing, based not on broad measures such as credit scores and income levels, but on data about them as **individuals**.

Earnix Price-It™ and Personalize-It™ allow you to

- ✓ **Create** offers that are compelling and personalized for each consumer, showing them that their needs are being recognized and accommodated
- ✓ **Deploy** dynamic pricing and personalized products to the market faster, smarter, and safer
- ✓ **Deploy** predictive modeling and utilize consumer data to its fullest potential
- ✓ **Shorten** time to value and close the deal before your competition can react

Execute on Agile, Intelligent and Compliant Business Operations

At Earnix we create the infrastructure needed to **navigate ongoing transformation.** By building a flexible and resilient organization, our customers can confidently take on new initiatives to stay on the leading edge.

Agile operations help teams across the organization thrive by making changessuch as implementing new decisioning models, rolling out new products, and evolving pricing strategies seamless and instantaneous.

Among the benefits of an agile and composable organization:

- ✓ **Transparency** and interoperability between various departments within your organization
- ✓ **Tools** tailored to the needs of each constituency, e.g., personalized dashboards and analytics
- ✓ **Ability** to confidently meet increasing regulatory scrutiny
- ✓ **Audit trail** readily-accessible for every pricing rule and decision, with that audit trail generated automatically as it is implemented
- ✓ **Peace of mind** of being able to store every quote for compliance and analysis
- ✓ **Assumption** of less risk, while increasing revenue and profitability.

Capture the Power and Adaptability of a Composable Technology Architecture

No modern automotive finance system is an island, and very few lenders have the luxury of a “clean sheet of paper” when it comes to technology design and implementation.

The answer to meeting the needs of the marketplace is a composable technology infrastructure, one that employs application programming interfaces, or APIs.

The Earnix solution works as an **intelligent layer that connects** existing systems, new technologies, and diverse teams to create more focused and flexible solutions. This unique approach enables our customers to:

- ✓ **Realize** immediate operational improvements while eliminating silos, to run a more connected organization
- ✓ **Reduce** reliance on legacy, core systems, and accelerating the adoption of new dynamic pricing methodologies
- ✓ **Enable** teams across the organization to incrementally innovate essential use cases and unlock the next level of individualized consumer engagement
- ✓ **Perform** transitions in steps, rather than subjecting their IT teams to a “rip and replace” scenario and the cost and disruption it entails

A composable architecture also opens up new and exciting possibilities for connecting with business partners who provide complementary solutions, increasing your reach and allowing you to potentially **offer a broader array** of products and services to borrowers.

The Bottom Line: Improved Strategic Outcomes

When all these measures are taken as a whole, Earnix will empower you to increase your market share of loans for both new and used vehicles, and to drive impactful digital transformation projects within your organization. The outcomes:

Improved **profitability**

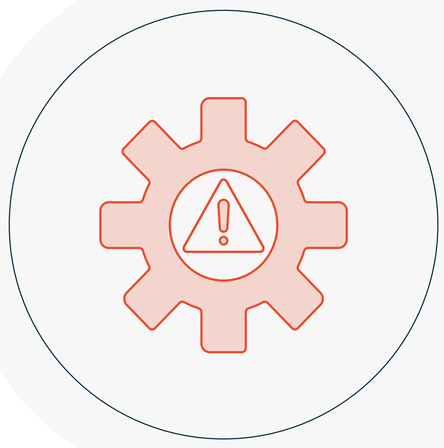


Increased operational **efficiency**



A new level of business **agility**





Less **risk**



A more well-rounded loan **portfolio**

Next Steps

The financial technology universe is vast, with many potential vendors jostling for your attention. You need not just technology - you also need **a dedicated partner** to help guide your decisions and implementation.

Earnix is that partner. You can **accelerate your time to market** and align pricing and product strategies to the real risk of the consumers you hope to attract, serve and retain. This means you can stay ahead of your competition and unlock more market value, instantly.

Partner with a world-class technology provider to help deliver on a powerful vision for your future.



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Seize today's opportunities for long-term success.

Contact Earnix today for a needs assessment and a review of implementation options and timelines.

Reimagine Banking and Finance with Earnix →

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Earnix is the premier provider of mission-critical solutions that are composable and intelligent and are designed to transform how global insurers and banks are run. Its solutions unlock value across all facets of the business, breaking away from the status quo imposed by legacy, inefficient systems.

Earnix's solutions offer systemized, enterprise-wide value with ultra-fast ROI. It has been innovating for Insurers and Banks since 2001 with offices in the Americas, Europe, Asia Pacific, and Israel.