Point of View

Taking a New Approach to Auto Account Servicing to Increase Efficiencies and Deliver an Improved Borrower Experience

The auto industry continues to rebound from the economic downturn. As more and more consumers hit the road in new – or new-to-you – vehicles, auto finance retail loan balances are trending upward. Balances are expected to reach 1 trillion dollars by the end of next year – a 60 percent increase from a recession low in 2010. Lending organizations must have efficient, innovative systems in place to capture and manage this growth.

Today's consumers expect to manage their financial lives with 24/7 access to online and mobile channels, yet the lending industry has been slower to provide these self-service, digital capabilities. Innovative, redesigned auto servicing technology allows lending organizations to increase the number and quality of digital interactions. At the same time, seamless, multichannel integration and enterprise accounting management provide the experience borrowers and servicers expect. In short, technology, including a shift away from disparate, siloed systems, can change how auto servicing solutions are provided to the marketplace.

Why is updating and upgrading technology so vital? Despite a solid recovery, the industry is facing challenges from several directions. Bottom-line challenges include poorer overall returns from much lower interest rates, as compared to earlier portfolios. Every organization is looking to increase efficiencies – and cut operational weaknesses, which the Office of the Controller of the Currency cited in 2014 as a key risk metric in the auto finance industry.

As the complexity of auto lending has grown, the need to streamline business processes – do more with less – is increasing, along with pressure from the ongoing digital transformation. Increased oversight from the Consumer Financial Protection Bureau (CFPB) and state governments are compounding the challenges. Remaining competitive and profitable in this environment requires a fresh approach to auto account servicing that focuses on technology as a means to improve efficiency, the borrower experience and compliance.

Increasing Efficiency in Auto Lending

Auto finance executives are turning to their IT departments, asking how their organizations can streamline business processes and operate more efficiently. This quest for efficiency is often impacted by account servicing systems that are built on outdated technology.

This is changing, however, as more and more auto finance companies have seen the impact technology can have on efficiency, profitability and the borrower experience. According to an Aite Group survey, account servicing was one of the biggest areas for IT investment for lenders in 2014.. This trend is expected to continue throughout 2015 and beyond.

Specifically, technology built on a services-based framework that enables a universal lending experience across products, departments and processes can greatly impact efficiency. With this holistic approach, lending organizations can implement modules and functionality on an as-needed basis to improve efficiency and scalability.

Because of auto lending's thin margins, lenders must find efficiencies throughout the loan lifecycle. For example, it is more cost-effective when functionality, such as pulling a credit report, can be shared across lending verticals to support mortgage, auto and equity loans. Training time is also reduced when processes and tasks are the same across departments.

This shared services model – "build once, use often" – creates cross-function efficiencies across multiple lending products and lines of business. In addition, business-rules-based systems empower lenders to improve workflows and policies. By leveraging componentized services built on the most up-to-date web technology, lenders can create custom collection, bankruptcy and asset recovery tracking without the need for additional software development.

As an added benefit, the shared services model reduces the number of touch points required to obtain consumer information – a top frustration for borrowers. When documents can be shared across origination and servicing systems, especially those that are able to accept uploads and information directly from the consumer, borrowers are ultimately more satisfied with the process and the lender.

Meeting Changing Consumer Behaviors and Expectations

Growing demand for 24/7, self-service digital options is changing every aspect of financial services. From start to finish, today's consumers want a better, quicker auto lending experience.

Borrowers, especially millennials, are using online and other digital channels to research what to buy and how to finance it, from selecting a car's color to rate-shopping and completing the loan application. Lenders must appeal to the preferences of this influential demographic, who like to do things their own way. According to the 2015 National Consumer Research Study conducted by Raddon Financial Group, a unit of Fiserv, 32 percent of millennials typically finance their auto loan through a dealer, while 20 percent prefer to use the bank where they are currently doing business. Regardless of financing source, once a loan is secured, consumers expect a wide range of payment options – online, credit card, in-app, mobile point-of-sale payments, and new entrants such as Apple Pay to name a few.

In addition to providing multiple payment options, auto finance providers must offer digital self-service access to loan accounts to meet changing consumer demand for anytime, anywhere loan management. Leading auto finance account servicing systems enable online account access, including the ability to view statements, update profiles, print documents, and make and set up one-time or recurring payments.

Digital capabilities not only accommodate changing consumer behavior, but also help overcome the poor service levels that frustrate borrowers and cause them to switch to another financial institution.

Balancing New Regulatory Considerations

Ensuring compliance with new regulations is a growing burden for the auto lending industry. Savvy lenders are using innovative account servicing systems to facilitate reaction to regulatory changes in real time. Systems that offer real-time reporting tools provide insight across a number of lines of business, enabling lenders to be more confident about compliance while expediting audit requests.

Auto finance companies also must balance new regulatory risks with tighter budgets. For instance, in September 2014, the CFPB published a proposed rule that gives the bureau jurisdiction over nonbank auto finance companies. The rules are designed to ensure auto lenders are treating consumers fairly throughout the life of a loan, including marketing and disclosing financing information, providing accurate data to the credit bureau, and dealing with consumers equitably when collecting debts.

A Holistic Approach to Auto Finance

In the highly competitive lending environment, auto finance companies are increasingly prioritizing IT investments, including account servicing technology, to automate as many loan lifecycle operations as possible and make lifecycle loan management the center of their operation.

To remain profitable and competitive, auto finance companies will require componentized systems that enable them to better align integrated IT platforms with business strategies. A servicing system with an innovative, services-based architecture and components that support specific department functions such as collections, customer care and collateral management empowers the lender with tools to improve and automate processes and enhance policies, gain insights and efficiencies, and address compliance initiatives.

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