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World Leasing Yearbook 2023

44th Edition

The future of the automotive leasing and broker industry

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LIKE A LOT OF INDUSTRIES, the automotive leasing and broker industry has been turned on its head in the last five years. Trends in consumer expectations, technological advancements, and demand for service have undergone extreme turbulence and acceleration very recently, propelling the entire sector through decades worth of change, in just a few short years.

Throughout the pandemic, leasing and rental companies were some of the worst impacted service providers in the UK. Practically overnight, the demand for vehicle rentals, be it for travel, business or courtesy car hire, ground to a halt, and the widespread shift to remote and hybrid working models had a dire impact on the sector: 40,000 employees were laid off, globally, and around a third of the industry's operating fleet in the US was sold to open market.

By 2021 however, the industry was growing again by 6.0% p/a with predicted estimated revenues of £37.5bn for the UK alone by the end of 2022.

This is because, as lockdowns lifted and travelling demand increased, consumers quickly looked to car rental services as the safest way for business and leisure travel. Vehicle renting also posed a short-term solution in case Covid-19 returned, which it did, several times. The only difficulty arose in the form of availability: with many rental companies selling off their assets during the peak of Covid, they couldn't keep up with consumer demand, leading to rising prices, higher costs, longer wait times, and poor customer service.

For the opportunistic automotive rental and leasing institutions, however, this presented fresh opportunities to reinvent their platform, invest in digital platforms, develop new products, and effectively overhaul their offerings.

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The leasing and rental industry is also benefitted by surging prices in the second-hand vehicle market – with prices growing by 9.2%[1] over the last 12 months – providing a welcome boost to disposal revenues.

Of course, the world is slowly but surely easing itself out of the restrictions imposed by Covid-19, such as lockdown measures and social distancing rules, but in its place comes economic strife, political instability, supply constraints and an overhaul of the UK regulatory framework which tell us that the automotive leasing and broker industry will encounter yet more significant change.

Sustainability goals (EVs). One of the biggest drivers of change in the sector is the shift towards sustainability. The UK has committed to Net-Zero carbon emissions by 2050, and targets will be introduced from 2024 for zero-emission vehicle sales. Similarly, the sale of new petrol and diesel cars and vans will be banned by 2030, and the government will commit an additional £620m to electric vehicle charging infrastructure and targeted grants.

In the automotive rental and leasing sector, the Covid-19 pandemic and aforementioned sell-off of rental fleets, presents the opportunity to rebuild those fleets – but with electric vehicles. Doing this has the potential to strengthen the rental car market's buying power and accelerate movement toward government sustainability goals. It is believed that the rate of adoption and innovation is also likely to increase by engaging in large scale infrastructure investments and exploring ways to evolve the use of technology systems.

Furthermore, consumer demand for electric vehicles has never been higher. In Q2 2022, it was reported that demand for BEVs increased by 72%, and demand for all electrified vehicles (BEVs, hybrids and plugins) increased by 48% compared to Q2 in 2021, while demand for internal combustion vehicles (petrol and diesel) fell by 25% in Q2, with petrol demand also falling 14% in the same period.

The research from Leasing.com[2] also revealed that electric vehicles are closing the gap on petrol's dominance in the new car leasing market. Electric vehicles saw a 36.5% share of total sales enquiries via the website in Q2 compared to petrol's 54.5% market share. The gap between the fuel types continues to narrow each month, and this is a trend which will only continue.

Car manufacturing is the sector most impacted by this shift towards sustainability, and it's likely that within five years' time, the top car manufacturers today, typically those who are best at combustion engines, will be replaced by the manufacturers best at adapting quickly and thoroughly to the new world.

Of course, the future of EVs is still to be fully realised. It's still not convenient to wait around for hours for a car to charge, and we don't have the critical infrastructure which promotes car charging ports, over a quick fill-up at a petrol station. We have spent decades with the latter, so shifting to an electrically driven world will still take time. Electric vehicles are still not quite perfect, and the leaders in this space; the Polestars, Teslas and Taycans of the world, are so expensive that they are inaccessible to a majority of consumers.

This is yet more reason why the shift towards EVs is having such a profound impact on the automotive leasing and rental industry. Savvy consumers are less willing to spend tens of thousands buying an electric vehicle outright when technology is still evolving so rapidly, and so they are encouraged to opt for a shorter-term solution through leasing.

Beyond general public demand, businesses are also likely to be an even bigger audience for leasing EVs. Businesses, particularly global enterprises and large organisations, typically have their own ESG targets to meet, and leasing EVs to their staff, delivery drivers, or even their own customers, is a great look for them. Additionally, they are typically in a better position to put in place accessible charging ports and contribute towards the critical infrastructure required to make electric vehicle ownership not only possible, but convenient.

New technology (IoT). Another major trend is a push to create a fully connected fleet by leveraging the power of the internet of things (IoT). This creates tremendous operational efficiency by allowing the fleet to be monitored digitally for maintenance, safety, recalls, and loss management. As well as providing operational advantage today, the millions of data points created each day can be used for future gain by providing teaching data to

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improve Advanced Driver Assistance Systems (ADAS) and fully autonomous vehicles.

IoT presents leasing companies with a great opportunity to become the repositories for all the IoT data streaming out of cars and assets – they can be manufacturer agnostic and hence provide a central place where all their fleet data can be gathered and analysed.

What's more: IoT has the capacity to simplify processes and procedures. With everything now available online, and services now manageable via an app or website, the automotive leasing industry has an opportunity to create a more connected ecosystem, which values quality of service for customers: connecting them with instant and automated customer service management bots, live updates on their vehicle health, and swift payment processes for e.g. fine recharges.

The technology also allows vehicles to be tracked, and is fantastic for usage-based pricing, as well as allowing users to observe everything from fuel efficiency to tyre pressure, and detect any faults instantly, with unprecedented accuracy. In theory, all of this can be paired to a customer's phone so they can receive push notifications about the state of their car. Having the ability to remotely access odometer and diagnostic trouble codes (DTCs) in real-time can optimise the leasing contract and make sure vehicles go through the adequate maintenance cycles; as well as better predicting the residual value of the vehicle.

For the service provider, this leads to far reduced operational costs, with fewer employees needed to handle physical data, less paperwork, fewer mistakes.

Car rental companies, on the other hand, can use IoT technology to automatically obtain information about their vehicle at the exact point of return, flagging to them metrics such as fuel level, or allowing them to instantly detect any damage or faults. This automation reduces operation time and improves the overall customer experience. Car rental companies can also use IoT to locate lost cars or alert them when an EV is fully charged.

It makes sense then, that the use cases for IoT and other technological advancement will increase in the automotive sector quite considerably in the years to come, and we should expect to see the use cases in adjacent technologies such as ML, cloud computing and even blockchain have a similar impact on the evolution of this sector.

Regulatory shifts (Consumer Duty Act). Shifts in the regulatory landscape are inevitable, but by the end of July 2023, the UK's Consumer Duty Act will apply to all financial services firms, requiring them to 'act to deliver good outcomes for retail customers'. This is expected to have a significant impact on business operations across the entire financial services sector, as it will more closely regulate charges and fees, ensuring they are not too high, make it easy to change or cancel products, and ensure vital customer support channels are in place.

Regulated firms will also be required to provide clear and timely information about products and services to help customers make informed financial decisions and offer products and services that are right for them. Furthermore, the diverse needs of customers, including those who are vulnerable will need to be addressed more closely.

From a practical perspective, leasing companies will need to review all of their business processes to ensure compliance with the duty – while those processes that directly involve customer contact are obvious candidates for focus, everything from pricing to end of lease processes has the capacity to breach the requirements of the duty, and so will need to be examined through the new lens.

We suggest that firms should go one step further by considering how they are engaging not just their customers, but also with their employees. Regardless of the work done by the compliance and executive teams on the duty, at the end of the day it is the front-line team that has the direct customer contact and will be putting these new processes and principles into place day-to-day.

For this to be truly successful, the whole company should feel engaged with, and ownership for, the change; not feel like those changes are being imposed on them from above. Furthermore, we say that firms need to be careful in messaging on the impact of new technology – it shouldn't be seen as eliminating jobs, but rather taking away mundane tasks to enable staff to focus on that human touch, freeing them to deliver excellent, compliant and delightful customer experiences.

The UK has one of the most advanced regulatory landscapes in the world – one that is taken note of by regulators worldwide – so its move from prescriptive to principles-based regulation is worth examination by forward-thinking operators in all markets.

Notes:

1 https://www.mirror.co.uk/money/see-how-much-most-popular-28169147

2 https://www.am-online.com/news/market-insight/2022/07/27/leasing-ev-demand-increases-72-in-q2#:~:text=Leasing.com's%20latest%20figures%20show,continues%20to%20narrow%20each%20month.

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