

Future of European Consumer Finance

A joint Eurofinas/Roland Berger
Survey
(public version of the report)



Contents

Page

A. Introduction to the survey	3
B. Survey participants	6
C. Main findings	9
1. Growth & margins	11
2. Market structure & competition	17
3. Market trends & challenges	22
4. Transformation journey	28
D. Contacts	36
E. Glossary	38

A. Introduction to the survey



This survey provides top industry executives with an opportunity to share and compare their views with peers across the market



Success in today's highly regulated consumer finance environment still requires the ability to master traditional key success factors such as excellence in face to face selling, impeccable dealer service, risk control, sophisticated pricing, etc.

At the same time, consumer finance leaders need to reckon with trends that are reshaping the way people make their purchasing decisions and challenge the traditional business models: social networks and the sharing economy, big data, P2P, omnichannel customer, customer behavior, demotorization, among other trends.

This Eurofinas/Roland Berger European Consumer Finance Survey provides top industry executives with an opportunity to compare their views with industry peers from different geographies on market outlook, consumer trends, external challenges and future requirements to succeed in this challenging environment. It is also an opportunity to consider the impact of regulation and priorities for concerted industry action.

Top executives of European consumer finance providers were surveyed

Overview of targeted participants & applied methodology

Targeted participants



Consumer finance specialists/ motor & retail captives/ divisions/ business units of retail banks and credit brokers



Country level CEOs, local heads of consumer finance division/ business unit of retail banks

Out of scope



Specialized institutions whose main business focus is mortgage lending or leasing

Methodology

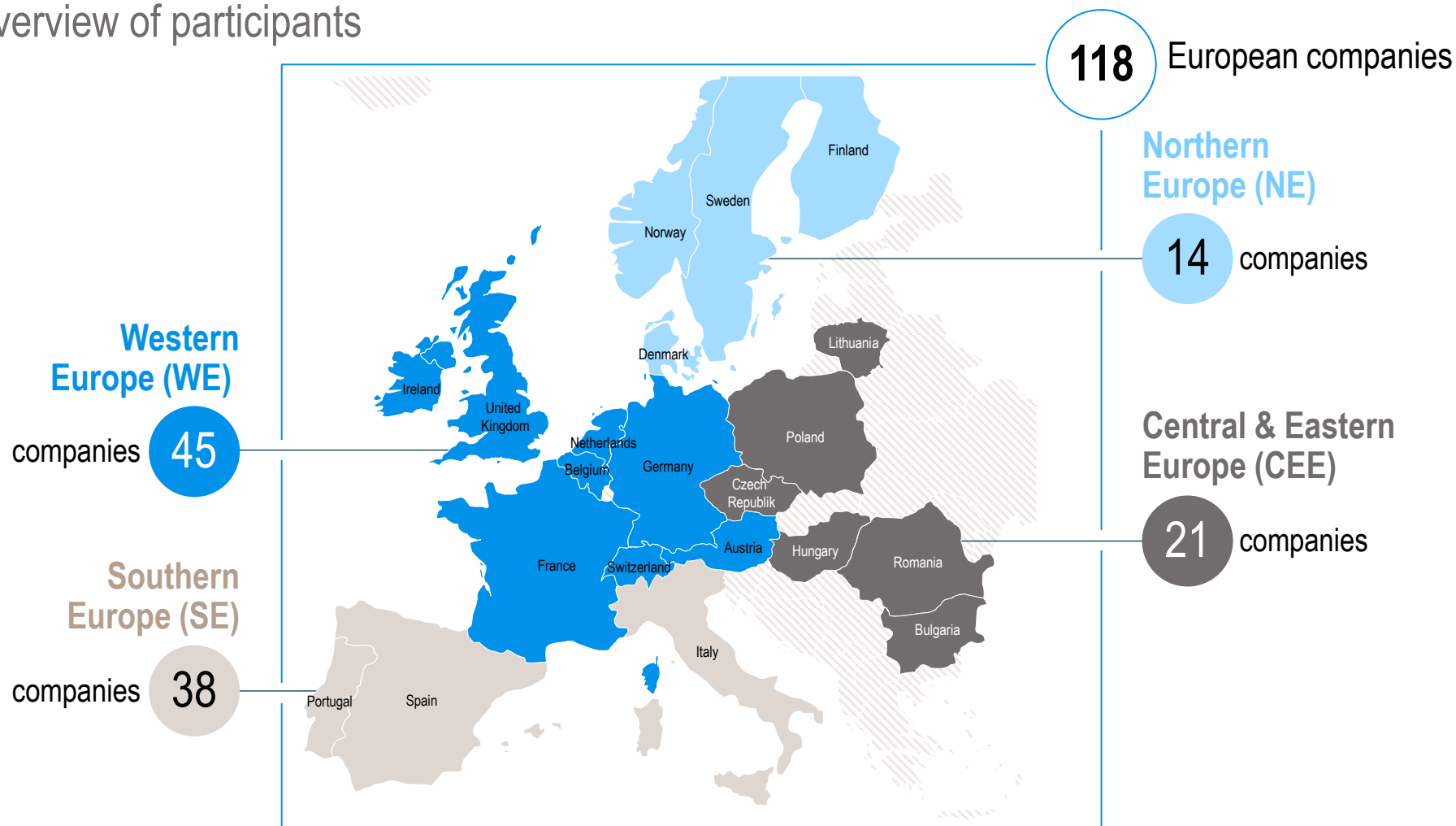
- > Qualitative survey in the form of multiple choice questionnaire and some open ended questions
- > Opinion-based questions
- > Questions comparing 2014 actuals vs. expectations for 2018
- > Time to complete: ~30-45 minutes
- > Survey took place between April to August 2015
- > Data analysis based on aggregated data
 - By country, business model, etc.

B. Survey participants



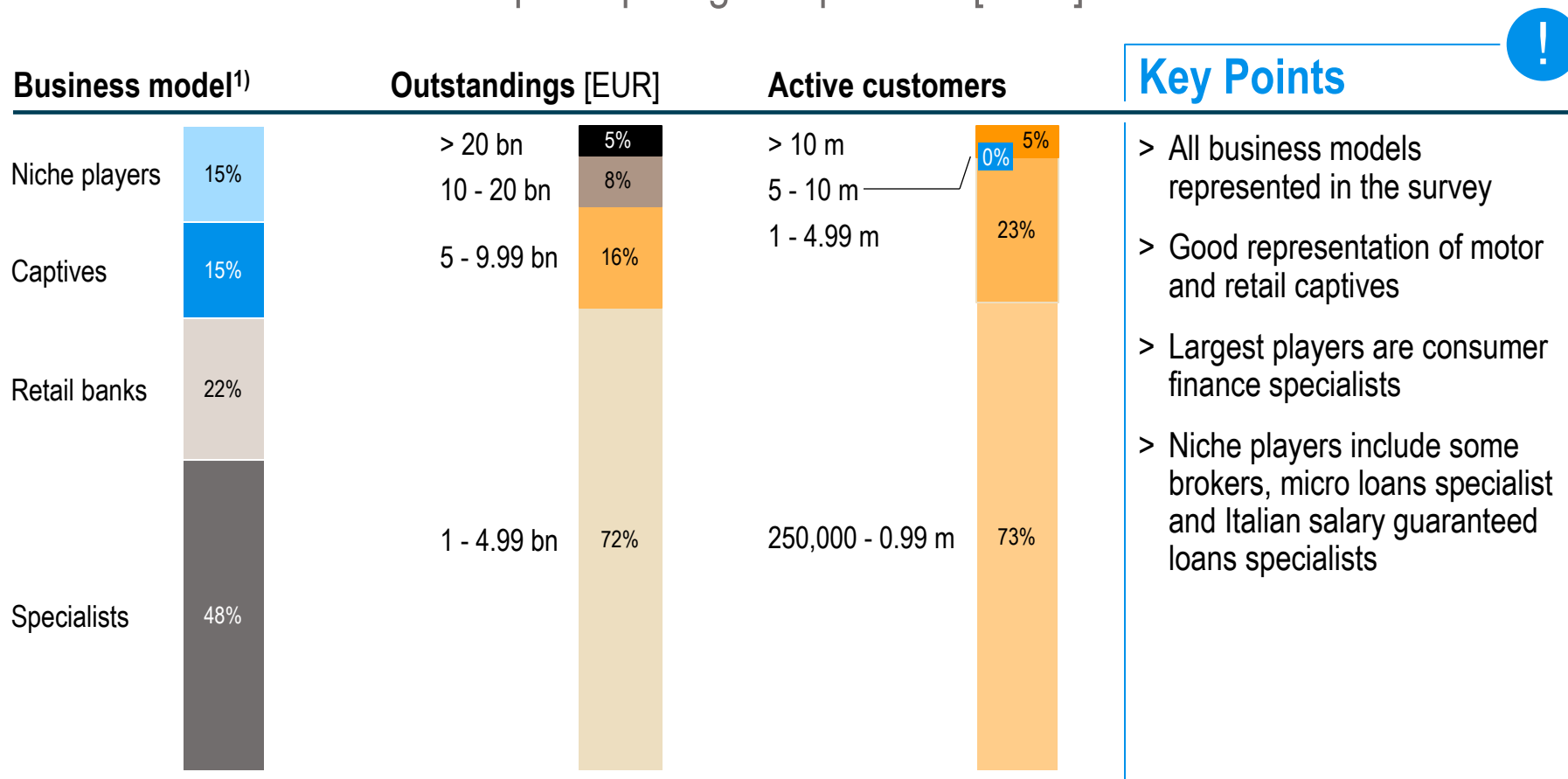
118 companies in 21 European countries took part in the Future of European Consumer Finance Survey

Overview of participants



Participants account for over 1/3rd of the European consumer finance outstandings and represent four different business models

Business model and size of participating companies²⁾ [2014]



1) Certain types of business models have been aggregated: (1) "Niche players" include credit brokers; (2) "Captives" include both retail captives and motor captives

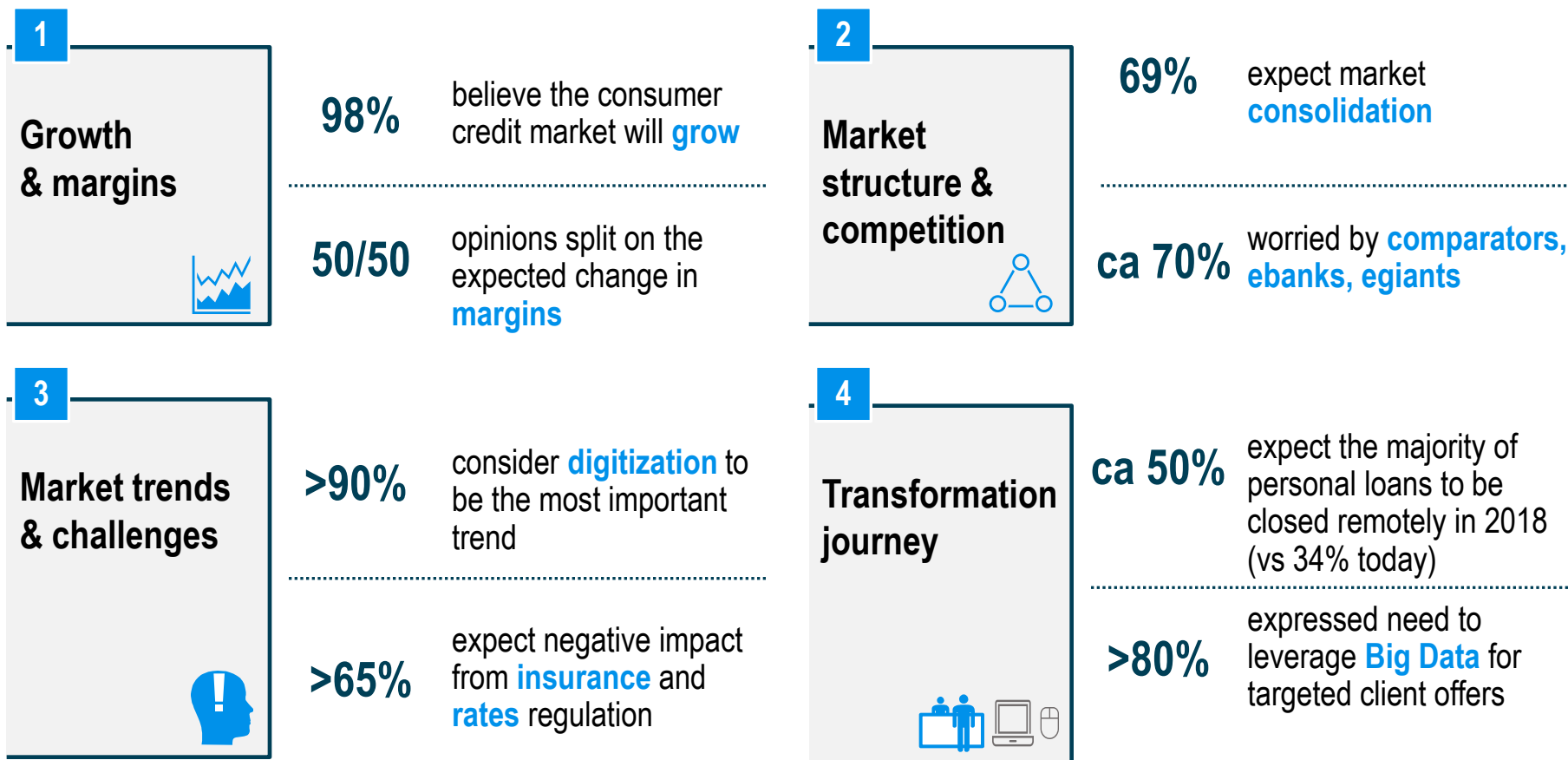
2) Percentages do not always add up to 100% due to rounding

C. Main findings



Consumer finance executives shared their 2014-2018 perspectives on four major topics

Survey's key dimensions and selected highlights



C.1 Growth & margins



Section Summary














- 1 Industry players expect growth in the consumer finance business across all product categories analysed






 - > 98% of respondents believe the consumer credit market will grow in terms of volumes by 2018
 - > Growth is expected to be stronger in Southern and Central & Eastern Europe as well as for captives (automotive and retail).
 - 53% of respondents in CEE and 73% in SE expect growth to be above 5% (CAGR) compared to 33% of respondents on average for other regions
 - 75% of captives expect growth of over 5% (CAGR), compared to 25% for retail banks
- 2 Margins are expected to remain under pressure from 2014 to 2018






 - > Slight decrease in margins is expected for car & motor loans and in revolving credit, whereas margins on other point of sale financing are expected to increase moderately

Survey results point towards market growth with margins being squeezed across most product lines

Market growth and profitability [2015 to 2018]

	Expected growth of new business volumes	Expected evolution of financial margins	Key Points  <ul style="list-style-type: none"> > The consumer finance market is expected to grow in the coming years > In Europe, other point of sale financing is expected to see a slight increase in margins in 2018 while margins in other categories are expected to decrease
 Car and motor loans			
 Personal loans			
 Revolving credit			
 Other point of sale financing			

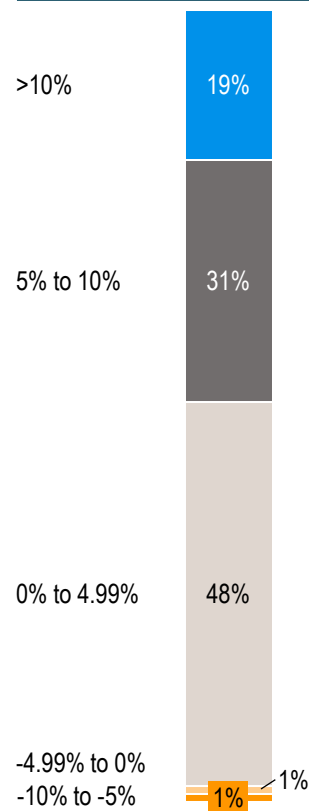
 > 5%
  0%-5%
  No change
  -5%-0%
  < -5%

 > 50 bps
  0-50 bps
  No change
  -50-0 bps
  < -50 bps

Almost all respondents believe the consumer finance market will grow in terms of volumes

New business volume – Growth expectations per country¹⁾ [CAGR 2015-2018]

All participants



Key Points

- > Growth expectations are highest in Southern and Central & Eastern European markets and lowest in Western Europe
- > Personal loans are a strong growth area in Southern and Central & Eastern Europe
- > Compared to other regions, growth prospects in Southern Europe are significantly:
 - lower regarding revolving credit
 - higher regarding car and motor loans

1) Country data is based on the mode

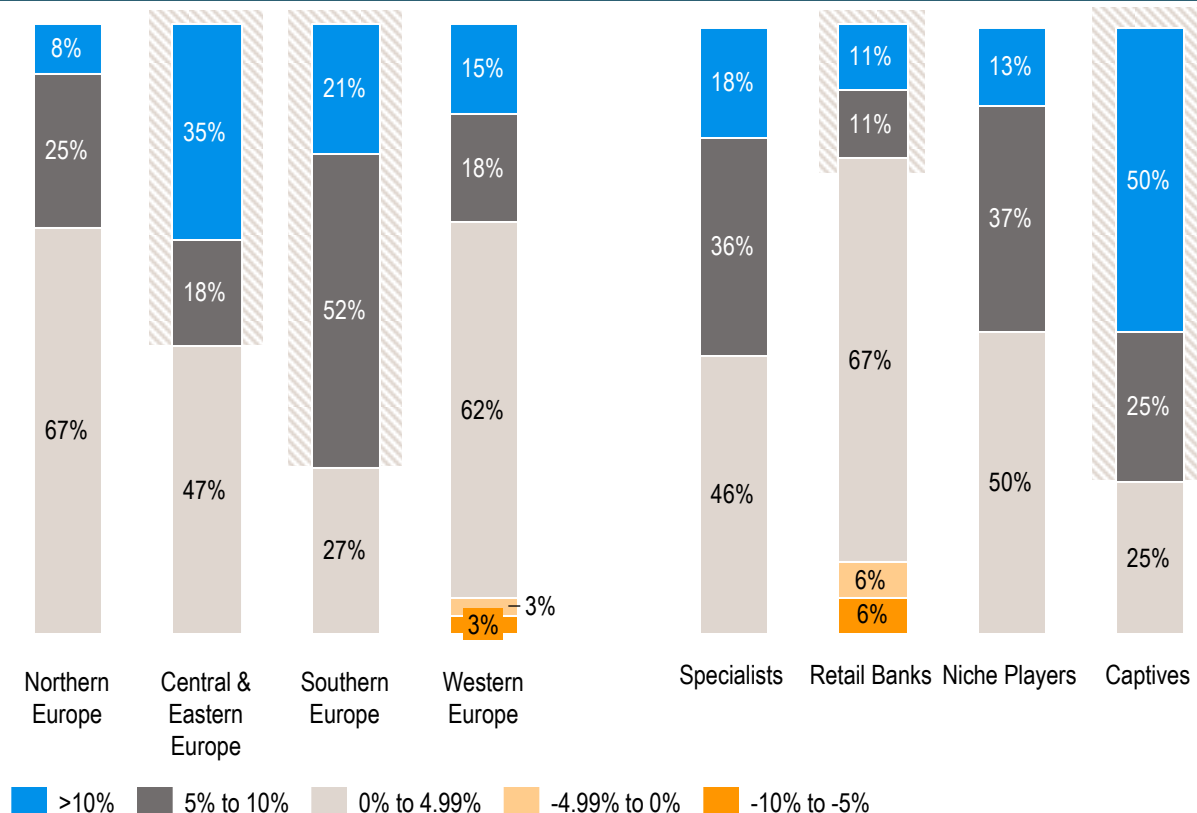
While growth in new business volumes (NBV) is expected, some specific regions and business models are likely to outperform others

NBV expectations, by region & business model¹⁾ [CAGR 2015-2018]

Per region

Per business model

Key Points



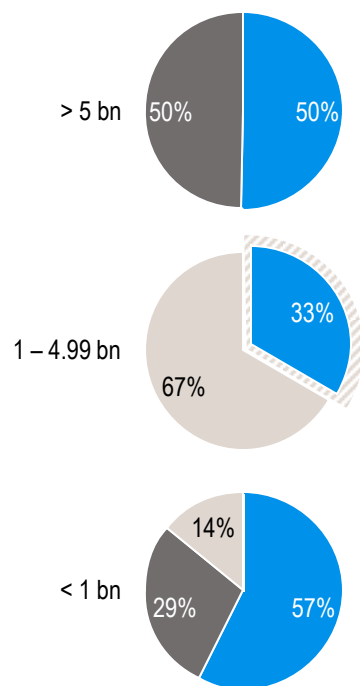
- > All participants were positive about NBV growth except for a 6% minority of Western European companies
- > Growth in Southern and Central & Eastern Europe is expected to be significantly higher than in the other regions
- > 75% of captives (automotive and retail) anticipate growth of over 5% (CAGR), which is higher than other players
- > The majority of retail banks (67%) forecast growth of between 0 and 5% (CAGR)

1) Percentages do not always add up to 100% due to rounding

Captives generally feel very positive about future new business volume (NBV) growth

Captive NBV growth expectations [CAGR 2015-2018]

Expectations per size



Expectations per country



■ >10%
 ■ 5% to 10%
 ■ 0% to 4.99%
 ■ -4.99% to 0%
 ■ -10% to -5%
 ■ No captive respondent

Key Points

- > Captives in general are positive about NBV growth: 38% of them expect growth of over 10% (CAGR)
- > The highest NBV growth expectations are from captives in the United Kingdom, followed by Germany, Poland and Sweden

C.2 Market structure & competition



Section Summary

- 1 The majority (69%) of respondents expect national markets to consolidate over 2015-2018

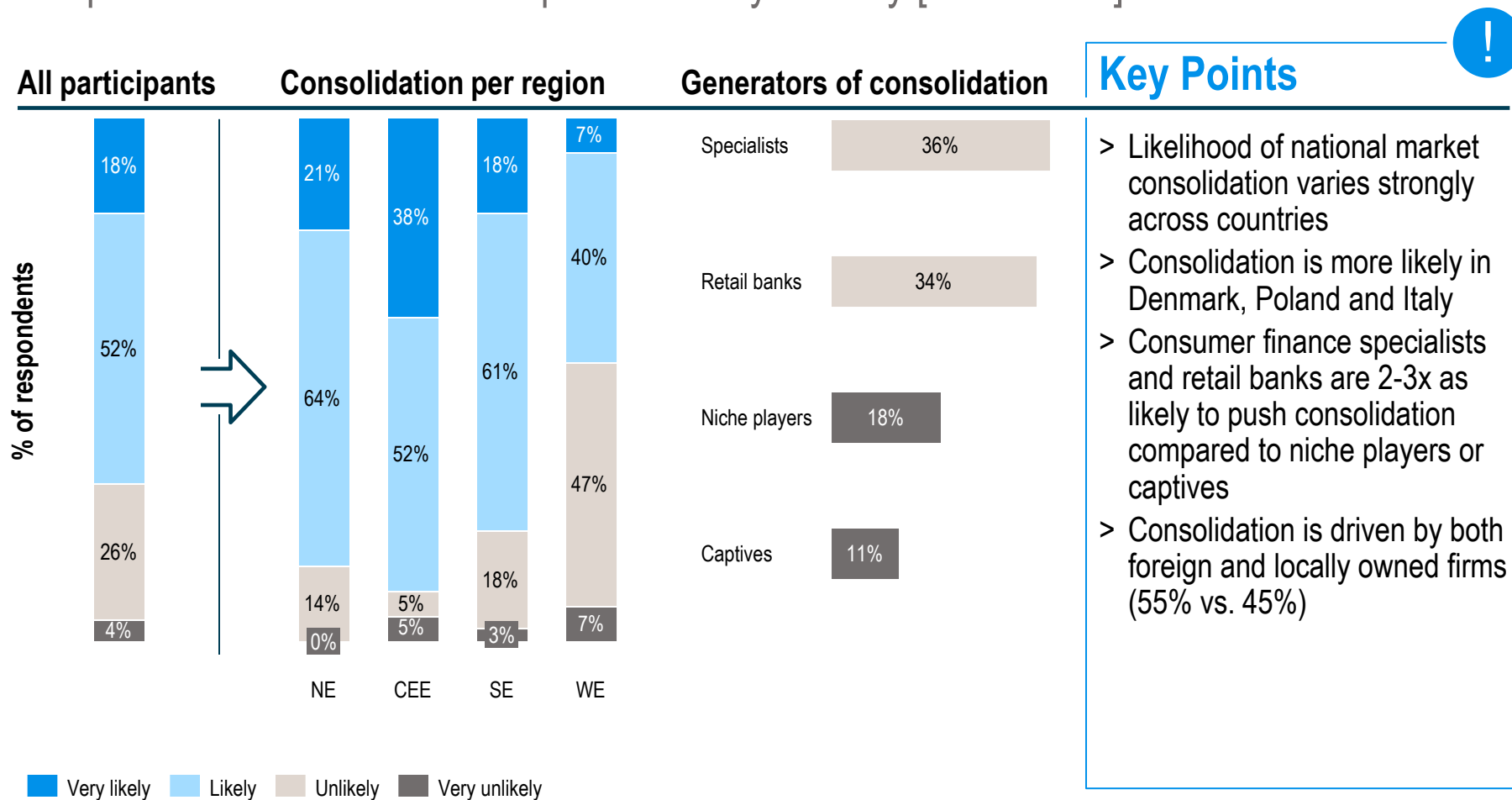
 - > Countries with particularly high expectations for market consolidation include Denmark, Poland and Italy, where more than 90% of respondents stated that consolidation is (very) likely in the coming three years
 - > Consolidation is expected to be driven by both foreign and locally owned players
- 2 Online banks and Internet players (e.g. Google, PayPal) are expected to be the most challenging consumer finance competitors in the future

 - > Nearly 70% of respondents think online banks and internet players (e.g. Google, PayPal) are a (high) threat, and this is consistent across all regions
- 3 Most respondents see the 'Consumer Finance Specialist' business model as the best-performing business model in the coming years

 - > Captives and retail banks are relatively less bullish about consumer finance specialists
 - > Consumer finance specialists are relatively less bullish about retail banks

The majority of respondents anticipate consolidation in their national markets

Respondents' consolidation expectations by country [2015-2018]¹⁾



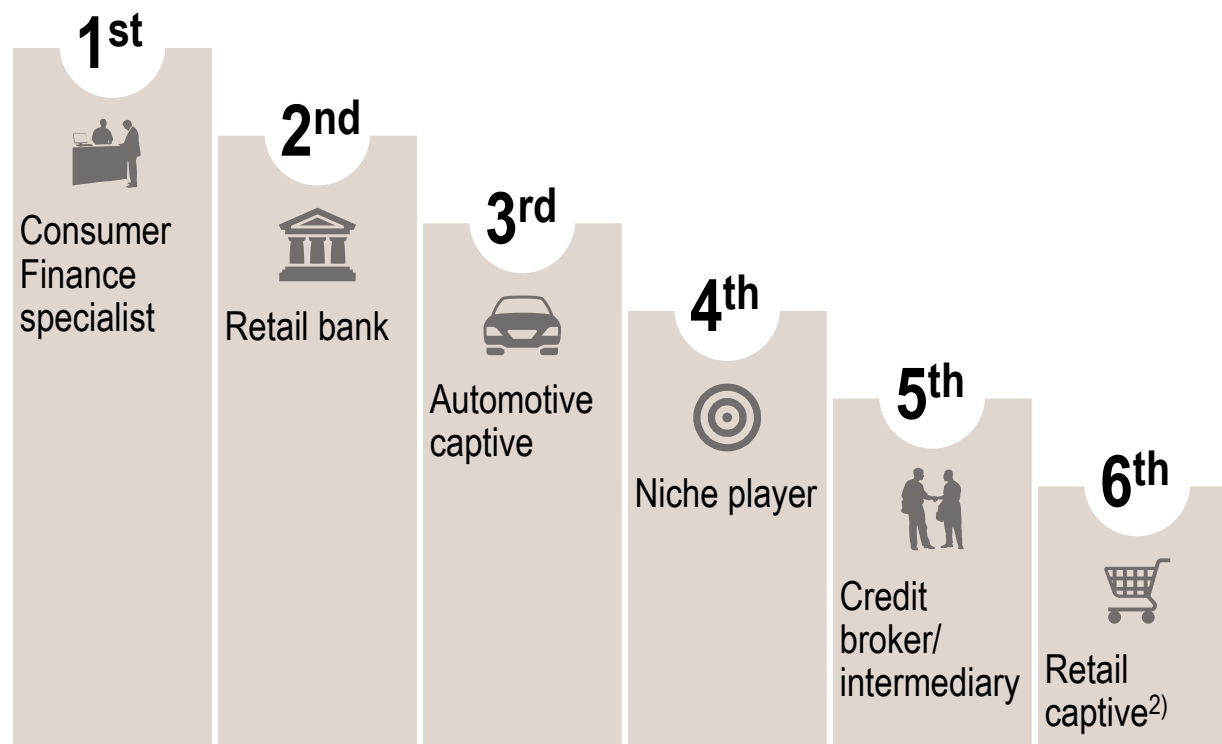
1) Percentages do not always add up to 100% due to rounding

The 'Consumer Finance Specialist' business model is expected to perform best in the coming years

Ranking of business models' performance expectations [2015-2018]¹⁾

Key Points

- > The highest proportion of votes for best performing business model was for the consumer finance specialist model²⁾
- > Despite more retailers entering the consumer credit business, retail captives were not considered to be the best business model for the coming years



1) Ranking based on a scoring system: # of votes for 1st – 8 pts; 2nd – 7 pts;...

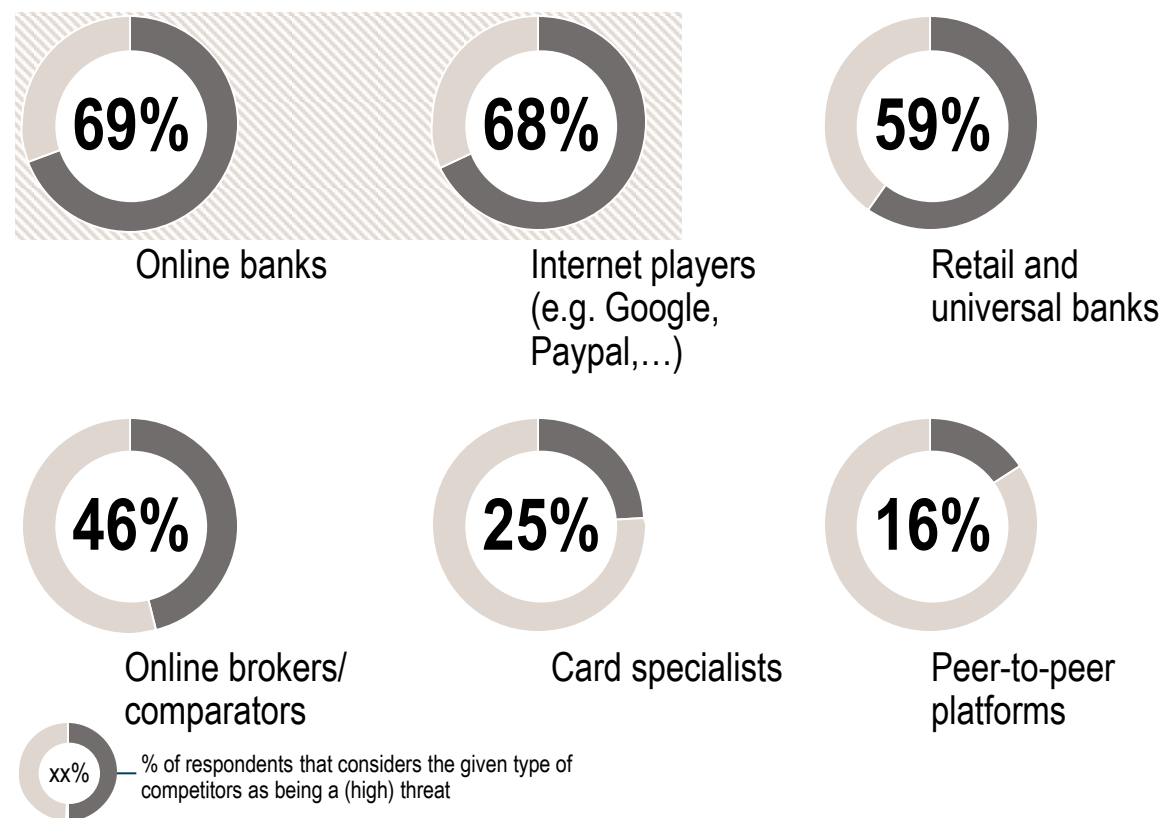
2) The representativity of each business model in the sample should be taken into account

Online banks and internet players are expected to be the greatest threats by 2018

Level of threat expected from different types of competitors [2015-2018]

Key Points

- > Nearly 70% of respondents think that online banks and Internet players (e.g. Google, PayPal) will be a threat
- > Survey results point out that P2P platforms are not considered to be a threat to the consumer finance industry



C.3 Market trends & challenges



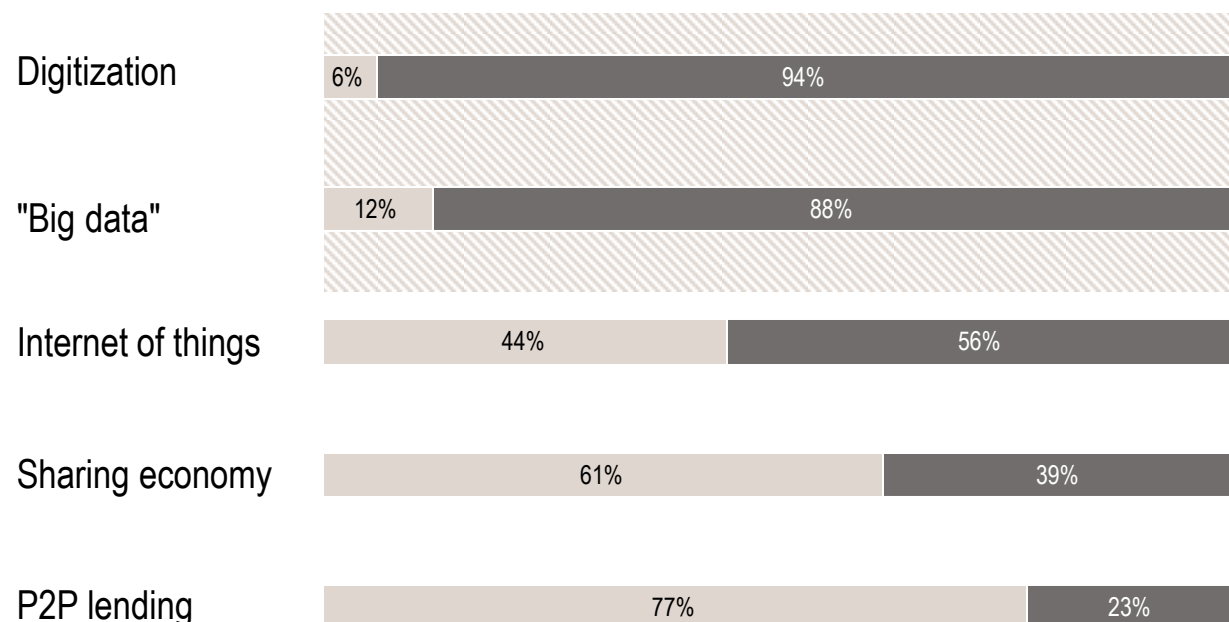
Section Summary

1	Digitization and big data were considered the most important technological trends	<ul style="list-style-type: none">> Digitization and big data are expected to be (very) important by 94% and 88% of respondents respectively> Fewer companies see the 'sharing economy' & P2P lending as having a great impact, 39% and 23% of respondents respectively
2	Insurance cross-selling and interest rate caps are the regulatory issues anticipated to challenge the industry the most	<ul style="list-style-type: none">> Most of the regulatory changes analysed were considered to have a negative impact on consumer finance – insurance cross-selling regulation and interest rate restrictions were considered to be the changes with the most negative impact (68% and 65% of respondents respectively)
3	Securitization is the only source of funding expected to increase in importance	<ul style="list-style-type: none">> About 50% of participating firms think that securitization funding will increase in the next three years and only 10% expect it to decrease
4	Changing purchasing power is believed to be the most important socio-economic trend in the coming years, driven by shifting income distribution and youth unemployment	<ul style="list-style-type: none">> About 70% of respondents indicated that youth unemployment is a (very) important challenge for 2015-2018> In Southern Europe, nearly 90% of participating firms think that youth unemployment is a (very) important challenge for consumer finance

Digitization and "big data" are regarded as the most important technological trends in the coming years

Respondents' assessment of the impact of technological trends [2015-2018]

Key Points

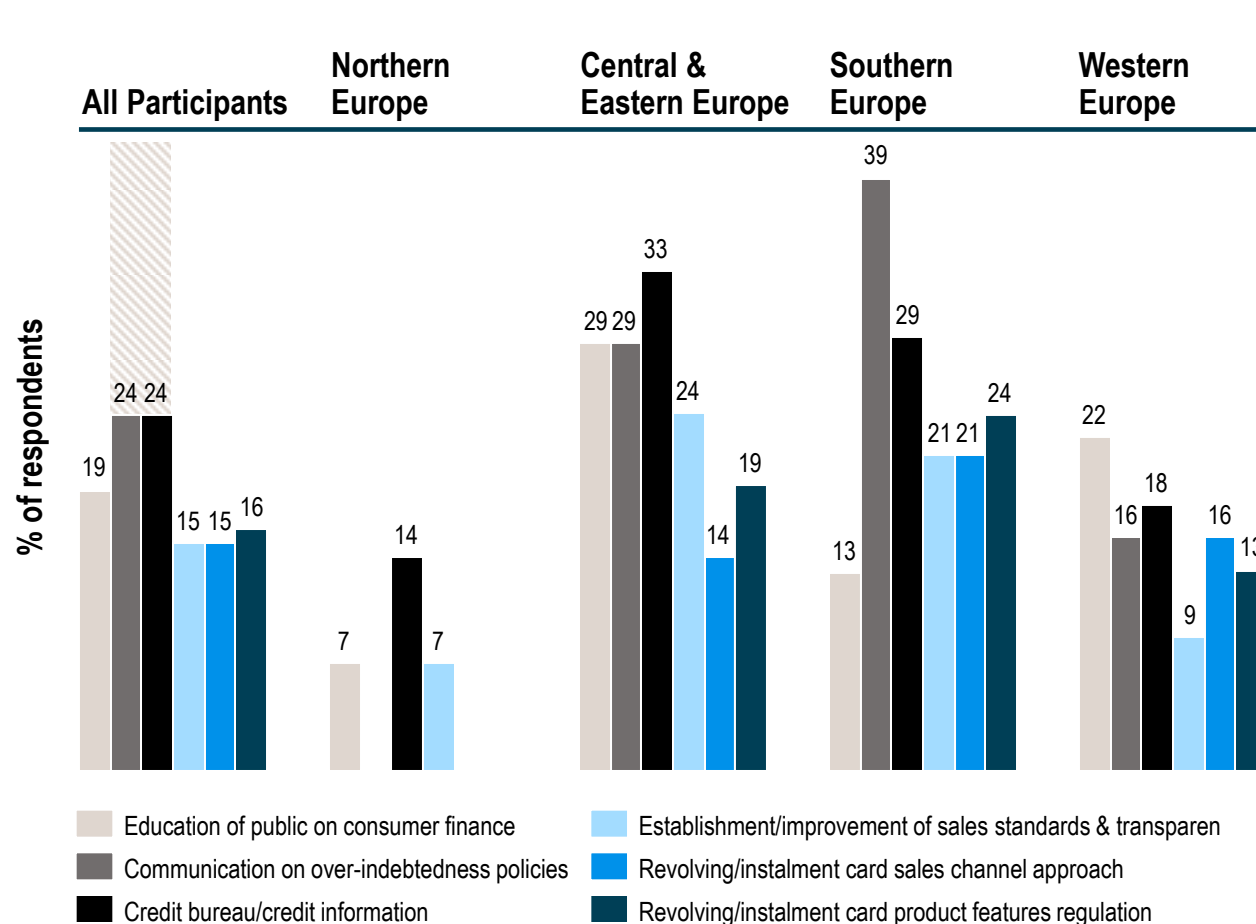


- > The vast majority of respondents considered digitization and "big data" as important or very important
- > Only 23% of respondents considered P2P lending as an important trend

 Not important / Somewhat important  Important / Very important

Credit bureau and over-indebtedness policies are priority issues at European level

Respondents indicating further coordinated action is critical [2015-2018]



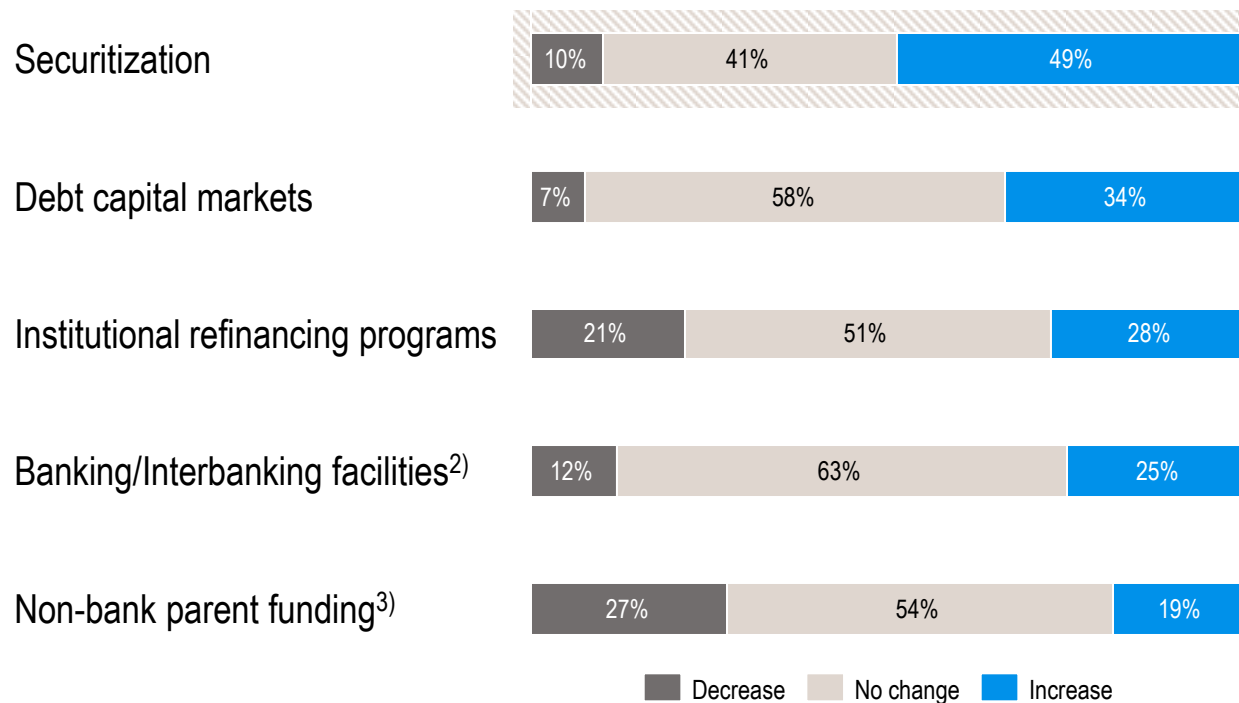
Key Points

- > In Southern Europe, there is a stronger wish for further coordinated action in communication on over-indebtedness
- > In Northern Europe, there is relatively less need for further coordinated action across all topics
- > In Western Europe, respondents view public education on consumer finance as the most important area for coordinated action
- > In Central & Eastern Europe, credit bureau/credit information is most in need of coordinated efforts

Securitization is expected to become a more important source of funding

Expected change in importance for sources of funding [2015-2018]¹⁾

Key Points

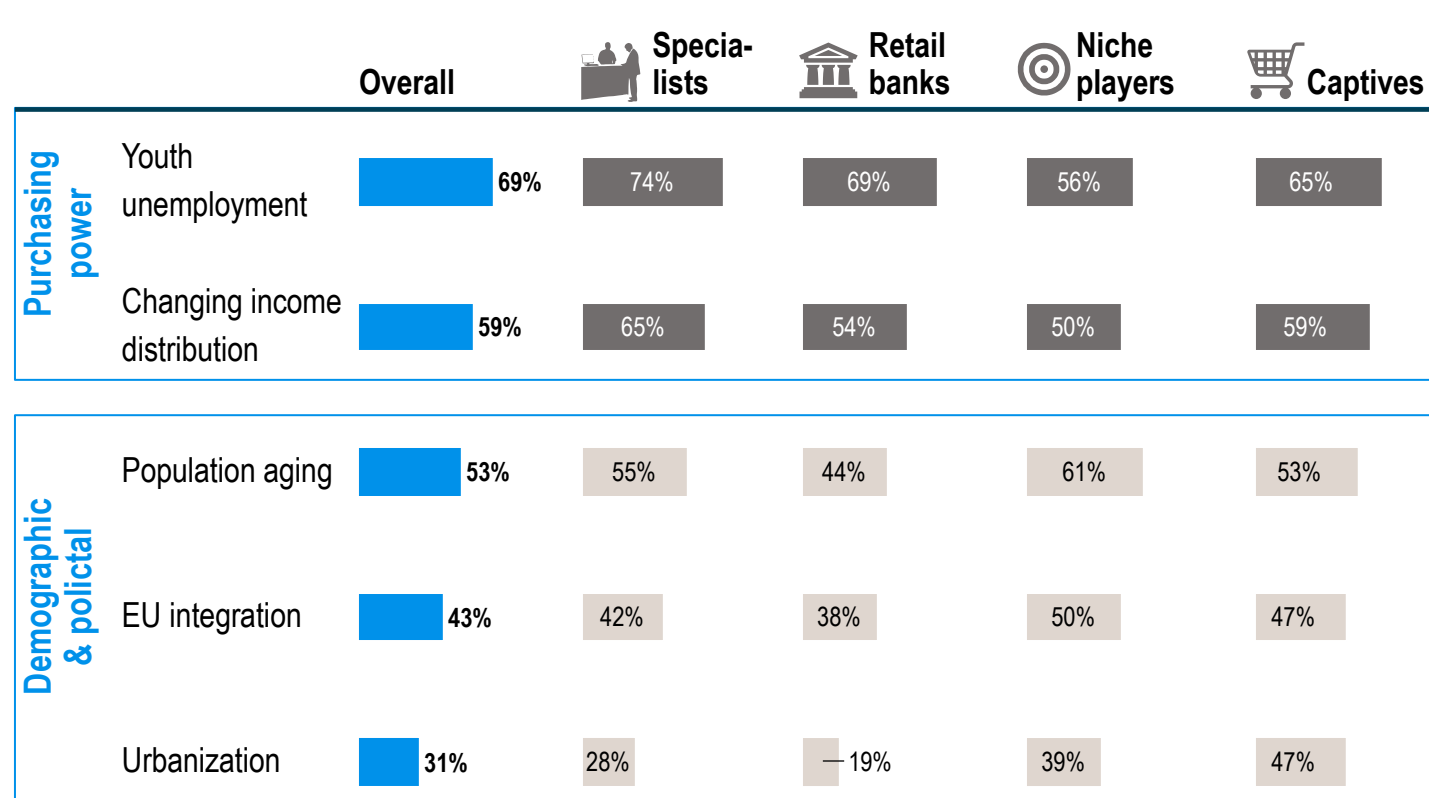


- > Almost half of participating firms think that securitization funding will increase
- > Northern Europe is less optimistic than other regions around the use of securitization
- > Western Europe expects relatively less use of banking facilities in 2018
- > In Southern Europe, almost half of the participants expect increasing use of non-bank parent financing
- > All niche players expect an increase in debt capital market funding by 2018

1) Percentages do not always add up to 100% due to rounding
 2) ECB /National Central Bank and other Institutional refinancing programs
 3) Including intra-group funding


Socio-economic factors directly impacting purchasing power are considered to be most important trends

Respondents' outlook on importance of future trends [2015-2018]

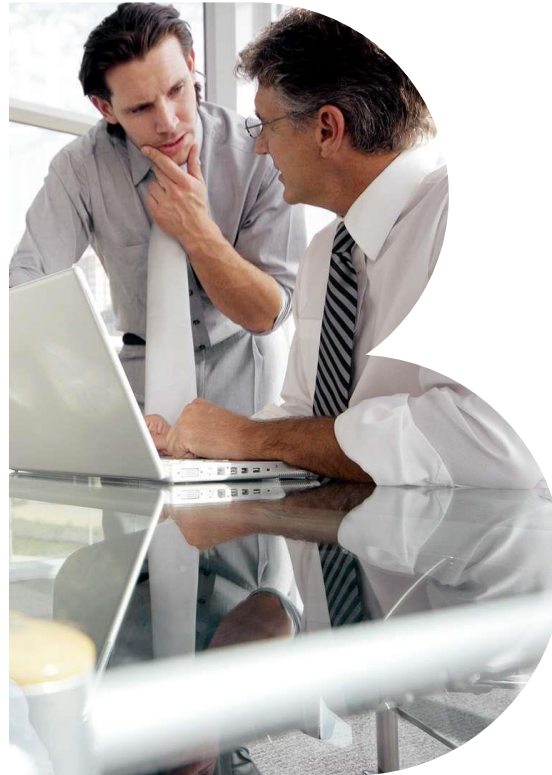


Key Points

- > Youth unemployment and changing income distribution will influence purchasing power and hence consumer finance
- > In Southern Europe, almost 90% of respondents believe that youth unemployment will have a (very) high impact
- > In Northern Europe and parts of Western Europe, the focus will be on population aging
- > Urbanization is the least important socio-economic development

 Highest threat  Lowest threat

C.4 Transformation journey



Survey reveals transformation efforts will need to focus on 3 areas

Key findings



Implications



Massive digitization

~60%

will have most of their contracts fully digitized by 2018 (up from **25%**)

B2C: Customer journeys going digital

50%

of players will close majority of contracts in person in 2018 (down from **66%** today)

>80%

will strive to improve omnichannel experience and Big Data leverage

B2B2C: anchored at POS but changing

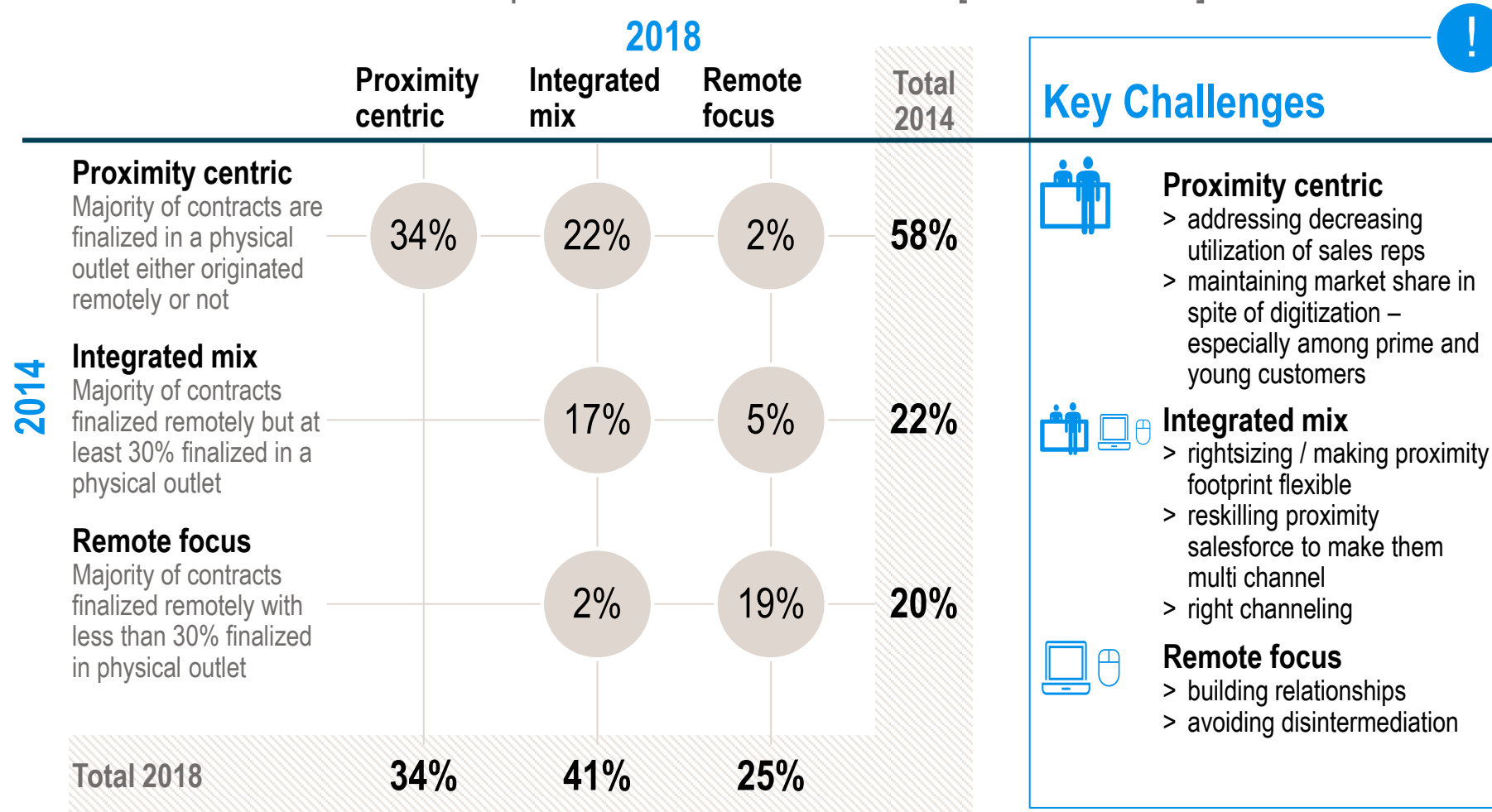
only 21%

of captives (down from **43%**) and **41%** of specialists (down from **59%**) will continue to sell motor loans offline only

- > Operations **digitization** will be a **new normal** rather than a differentiator
- > **Complex workforce rightsizing** and (physical) network restructuring to be managed
- > Besides technical improvements, consumer finance specialists need to develop **value proposition versus banks** and online players who have broader client relationships
- > **Need of new partnership models between CF players and dealers/OEMs** – integrating the respective customer journeys

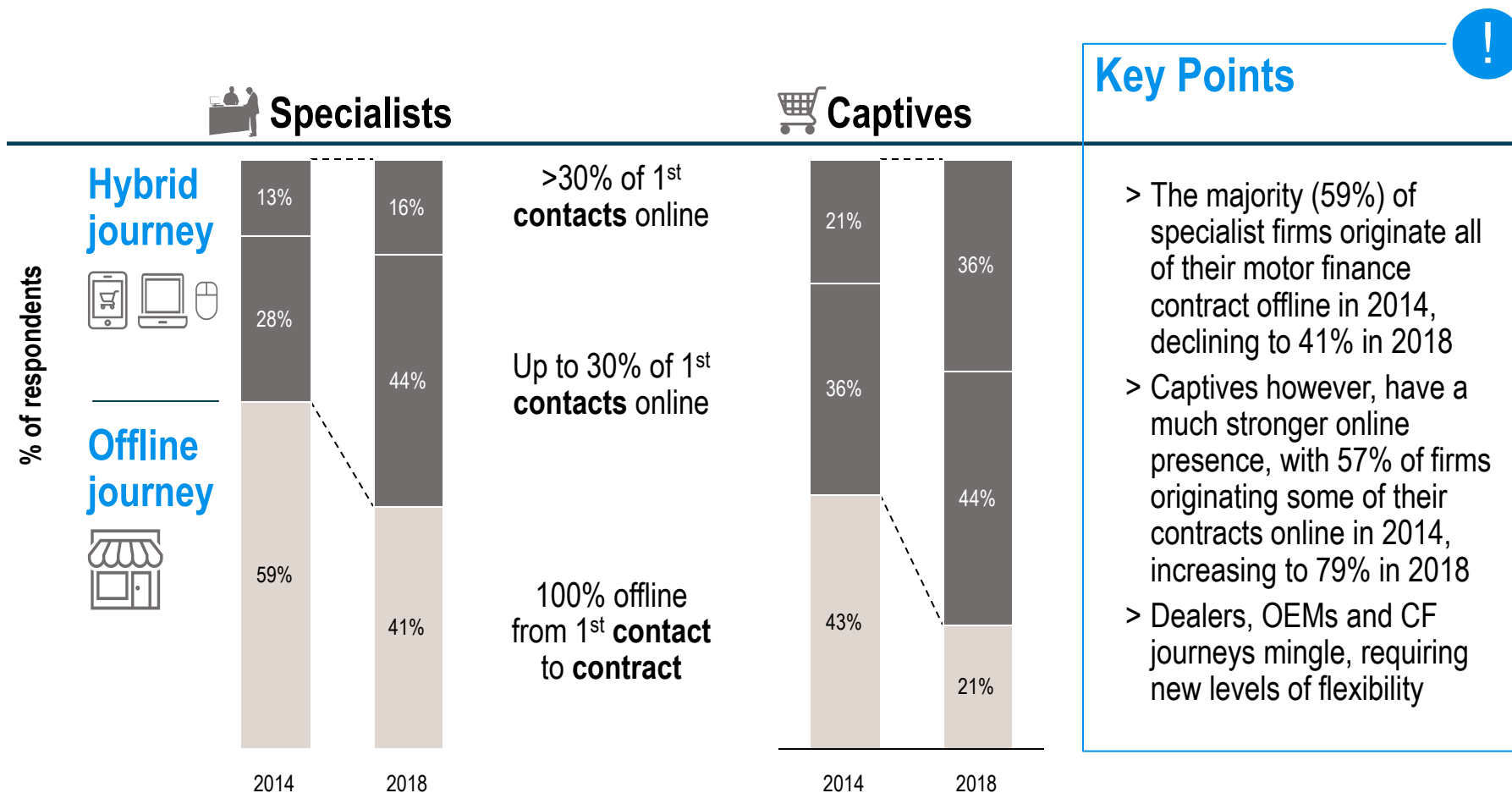
B2C customer journey will be significantly more remote but different models will continue to co-exist

B2C distribution models for specialists and retail banks [2014 vs 2018]



Motor finance is going digital – most firms expect significant share of their new business to originate online/via mobile

Motor finance: role of online contact¹⁾



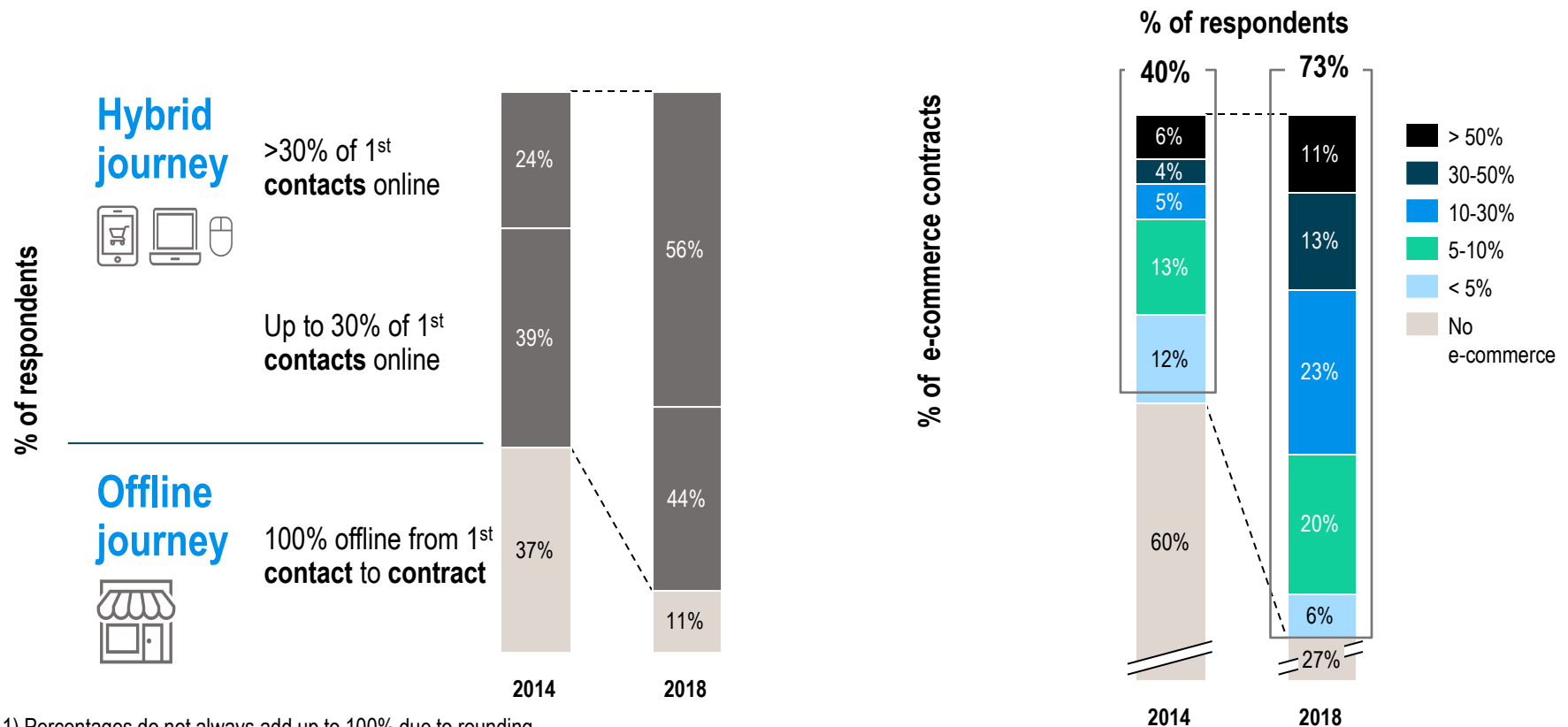
1) Percentages do not always add up to 100% due to rounding

Other purpose loans changing dramatically: e-commerce growing exponentially and more use of online contact initially

Other purpose loans: role of online contact and e-commerce¹⁾

Online vs offline customer 1st contact

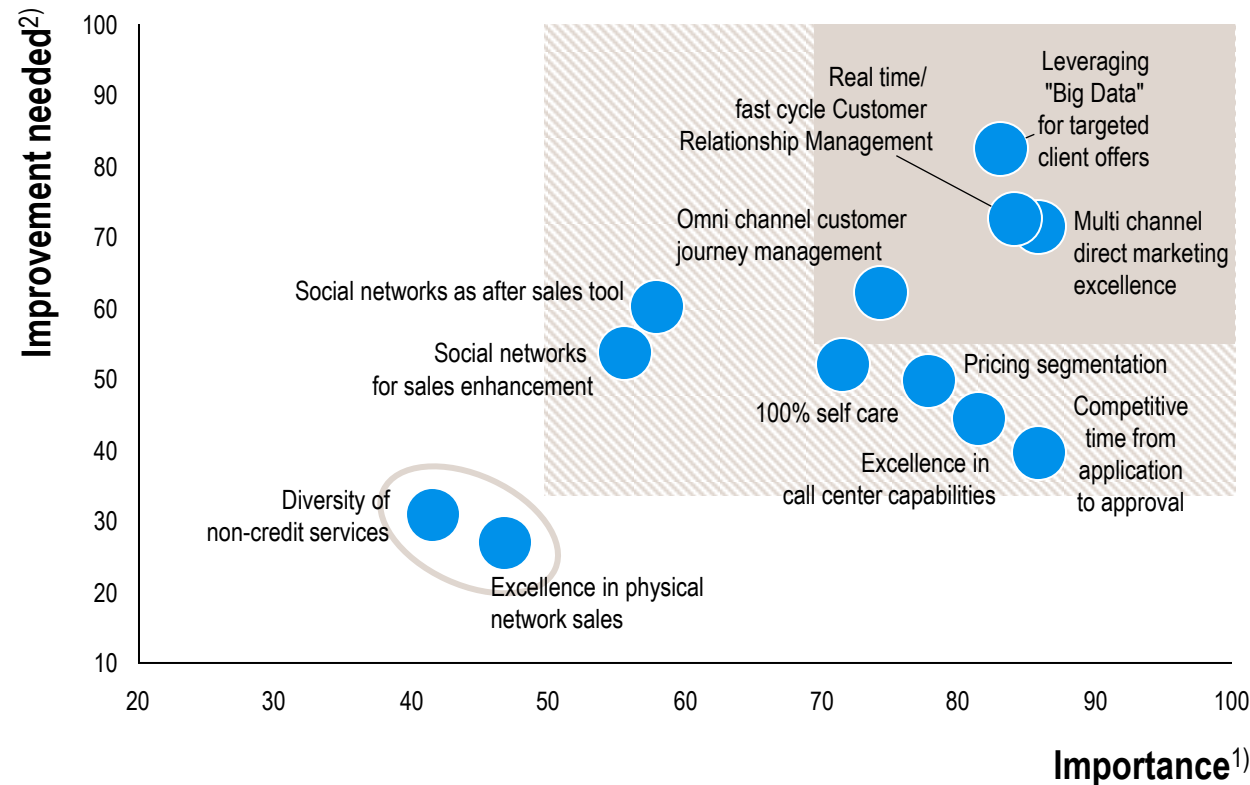
Participants' use of e-commerce



Survey participants will concentrate their transformation efforts on digital – few firms see traditional factors as critical

Improvement vs importance for B2C business capabilities [2015-2018]

Key Points



- > Non-credit services and physical networks need less improvement but are also viewed as less important
- > Customer service areas such as call centres, application times etc. are seen as very important, although major improvement is not required
- > Big data is the elephant in the room for most firms: it's seen as vitally important yet much improvement is needed
 - risk of copycat approaches
 - need to think big but start small

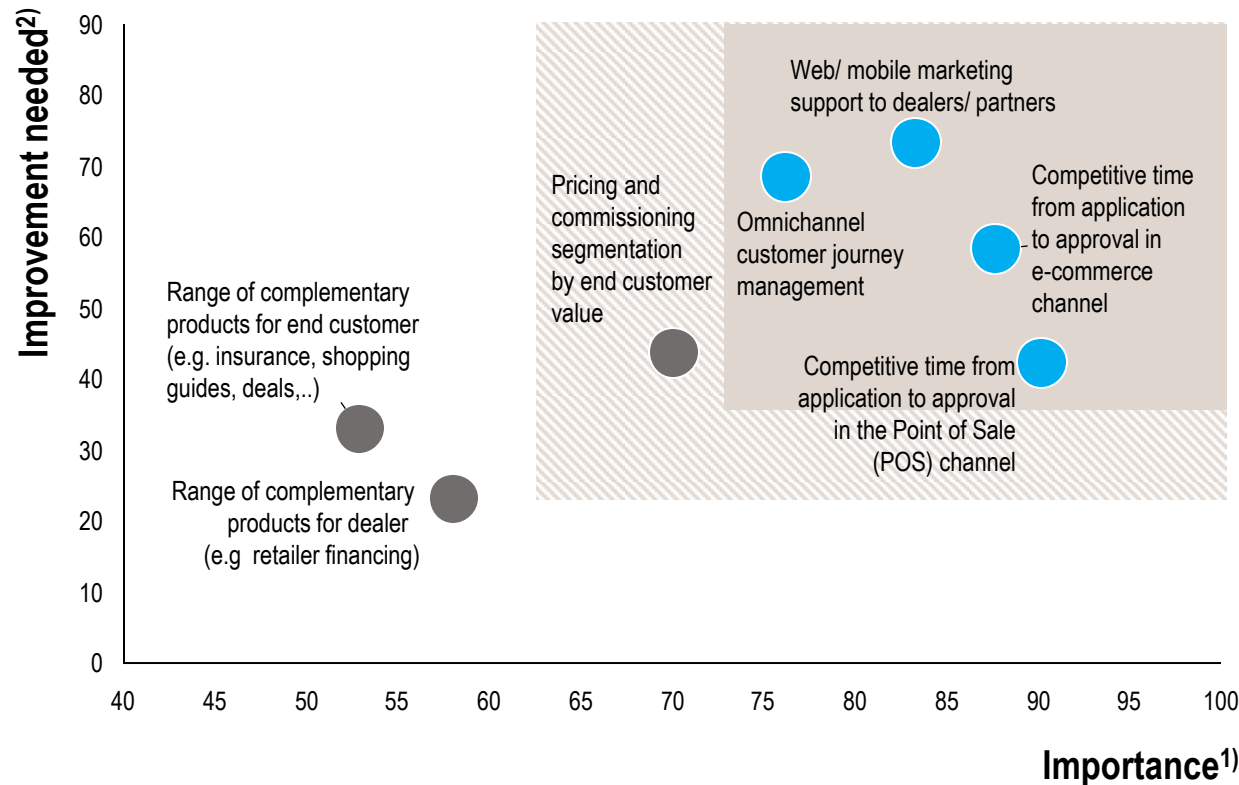
1) percentage of respondents indicating that a certain business capability will be (very) important in 2015-2018

2) percentage of respondents indicating that a certain business capability will need (very) significant improvement in 2015-2018

Time to approval, web/mobile marketing and omnichannel customer journey are the main success factors in B2B2C

Improvement vs importance for B2B2C business capabilities [2015-2018]

Key Points








- > Range of products for end customers and dealers are considered as being less critical
- > In B2B2C competitive time from application to approval is most important, while omnichannel customer journey and web/mobile marketing are viewed as requiring the most improvement

1) percentage of respondents indicating a certain business capability will be (very) important in 2015-2018

2) percentage of respondents indicating a certain business capability will need (very) significant improvement in 2015-2018

Five areas of transformation requiring difficult decisions and complex implementation

Key areas for strategic transformation

Main threats	Opportunities	Resulting challenges
Traditional players risk losing the repeat business of their best customers to newcomers or “360 degree” banks with stronger customer relationships	I  Review value proposition	Choosing between relationship and “product push” strategy, and therefore integrating product portfolio and experience accordingly
Time to Yes and Time to Cash , as well as customer experience, will change dramatically by 2018	II  Rethink end-customer journeys	Implementing true omnichannel for customer journeys, preserving margins and volumes
Growth of e-commerce and online customer journeys create risk of ‘disintermediation’ by new players	III  Re-invent partnership model	Integrating your customer’s journey into your partners’ increasingly online customer journeys
Traditional data models and large historical risk and marketing databases no longer sufficient to maintain competitive advantage	IV  Build new data skills	Thinking big as well as “learning by doing” to overcome constraints of legacy organization and systems
‘Dematerialization’ will create significant capacity slack way beyond planned redundancies	V  Exploit dematerialization for value creation	Accelerating adaptation of business model: geographic footprint, sizing to new levels of productivity and new mix of customer journeys

D. Contacts



For questions or comments, please contact the authors of the study or our local experts

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E. Glossary



Glossary (1/4)

Terms	Definition
B2B2C	Business-to-business-to-consumer - a marketing model which involves marketing through an intermediary, typically another business that acts as a distributor to the ultimate consumer of a product
B2C	Business-to-consumer - a marketing model which involves direct distribution from the distributor to the end-client
CAGR	Compound annual growth rate - the year-over-year growth rate of an investment over a specified period of time. The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.
Captives	One of the four consumer finance business model categories in the survey - refers to financial services arms of Automotive OEMs, dedicated mainly to financing auto / motor sales or retailers offering consumer finance solutions to their clients, mainly purpose loans and cards, through specialized entities
Comparators	New intermediaries (typically websites), which increase product transparency and customer education by aggregating product information from different market players and making comparison of product features easier
Cost income ratio	Operating expenses (administrative and fixed costs, such as salaries and property expenses, but not bad debts that have been written off) divided by operating income. The ratio gives a clear view of how efficiently the firm is being run – the lower it is, the more profitable the bank will be.
Cost of risk ratio	The cost of risk ratio measures the proportion of a financial institution's total loans that have been lost due to bad and non-performing loans. It is calculated as the average of all companies' annualized loan loss provision as a percentage of average interest generating loans over the period.
Customer Relationship Management (CRM)	System for managing a company's interactions with current and future customers.

Glossary (2/4)

Terms	Definition
Digitization	The integration of digital technologies into everyday life
European central bank	The central bank for the Eurozone of the European Union and administrator of the monetary policy of the Eurozone
NBV	See new business volumes
New business volumes	The volume of new consumer finance credits over a defined time horizon, both from existing and new clients; also the difference in outstanding volumes between the end and start of the defined time horizon
Niche players	One of the four consumer finance business model categories in the survey - refers to players focused on specific client segments (e.g. near prime) or channels (e.g. motor dealers, phone/ internet) or product (e.g. cards, salary guaranteed loans,..)
Non-performing loan (NPL)	A loan that is in default or close to being in default. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms
Optical character recognition (OCR)	Is the process of recognizing printed/ written text characters by a computer. This process involves the scanning of the underlying document, the analysis of the scanned-in image, and the translation of the character image into character codes commonly used in data processing

Glossary (3/4)

Terms	Definition
Omnichannel	Omnichannel is a distribution approach that has the objective to provide customers with a seamless client journey across multiple channels (brick, contact center, desktop, mobile...)
Other point of sale financing	Consumer finance solutions offered at point of sales which are not car & motor loans, personal loans or revolving credit, for example payment of consumer electronics in instalments
Payment protection insurance (PPI)	Insurance taken out by the borrower to ensure the repayment of the loan in the event that the borrower passes away or is unable to earn an income due to illness or disability.
Peer-to-peer	Peer-to-peer (P2P) lending is a growing trend and describes a lending process where investors bypass intermediaries (such as banks) and lend directly to borrowers, often through online (peer-to-peer) lending platforms.
Physical channels	Brick & mortar channels
Point of sale (POS)	The point of sale is the time and place where a transaction is completed

Glossary (4/4)

Terms	Definition
Property and casualty insurance (P&C)	Represents insurances that protect against property losses to your business, home or car and/or against legal liability that may result from injury or damage to the property of others
Retail banks	One of the four consumer finance business model categories in the survey - refers to players offering wide range of consumer finance solutions distributed both via the group's bank channels and other channels including a mix of via own branches and direct channels (call center, internet), agents, brokers and dealers/ retailers
Self-care	Self care solutions refer to applications & functionalities enabling the customer to have a centralized access point to bank-wide solutions in a simple, user-friendly set-up, empowering clients to trigger the execution of transactions or activation of functionalities themselves.
Specialists	One of the four consumer finance business model categories in the survey - refers to players offering wide range of Consumer Finance solutions distributed via own branches and direct channels (call center, internet), [and/or] agents, brokers and dealers/ retailers; separate legal entity within
Value chain elements	Value chain elements are the activities which make up the value chain, which in itself is a representation of chronological (potentially simultaneous) activities and processes required to produce a product/service

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