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Analysis of today
Assessment of tomorrow

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The Uncertain Future of Captive Finance

I had the chance to review Deloitte's automotive report covering 27,000 consumers across 26 countries. The research shows that there are striking changes in automotive ownership trends.

The findings are summarised into four main sections:

Transition to electric vehicles: The research indicates that demand for electric-powered vehicles has started to decline in many countries due to rising interest rates and increasing list prices. Even automaker price reductions and incentives introduced by some governments have not been enough to overcome concerns about driving range, charging infrastructure adequacy, and charging times. In other words, electric vehicles still haven't gained the momentum expected.

Brand image: Particularly among consumers in EU-member countries, price now ranks higher than brand image in their vehicle choices. Conversely, in countries like Turkey, Poland, Spain, and South Africa, consumers prioritise vehicle quality and brand prestige.

Preferences: In terms of priority, consumers primarily focus on maintenance, road safety, and connectivity features related to traffic. However, consumers in the EMEA region appear unwilling to pay extra for these features. Nevertheless, Turkey, Saudi Arabia, and South Africa show a profile of consumers willing to pay extra for these functions.

Ownership: A significant portion of young people prefer to subscribe to vehicles rather than own them. In EMEA countries, young people are abstaining from vehicle ownership due to economic uncertainties and financial difficulties. Instead, they show a preference for vehicle subscriptions via digital channels.

In our country, 32% of the youth aged 18-34 have already chosen the subscription model. Factors like predictable costs and ease of service are the main reasons for this preference. The high costs of vehicle ownership, including maintenance and insurance expenses, are leading young people to give up on buying vehicles.

The other sections of the report highlight the following: Access to mobility elements is becoming easier and more accessible through subscriptions. Many dealerships in the region have recognised this trend and started developing subscription systems.

Naturally, the advancing digital infrastructure is another support factor. It is quite plausible that the automotive market will increasingly shift towards subscription models.

High inflation and high interest environment

If this indeed becomes the case, what will the captives finance? For example, nearly 30% of automotive financing in the US is carried out by captive finance companies.

I mentioned the US because the first real captive operation was carried out by General Motors. Founded in 1919, GMAC was established to finance consumers and boost sales of the company.

In fact, a 1964 advertisement from Ford says, “Ford Motor Credit is taking car financing out of the Stone Age.” I think it’s a striking ad that mocks the approach of banks. Since that day, it’s not wrong to say that banks have largely been enemies of captive companies.

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Since many retail systems and supermarket chains are established in the US, this development was not surprising to me. However, the systems that were set up during low inflation and low interest periods are no longer attractive under today’s high inflation and high interest environment.

As interest rates rise, loan tenors shorten—especially when the new generation's preferences mentioned above are taken into account.

Wake-up call for captive owners

Looking at the global picture, captive financing companies are now surpassing banks in automotive financing. In fact, the share of captive finance in total car loans has increased and now accounts for about 30% of the industry's annual $1.5 trillion volume. This increase in market share has also improved the quality of credit collection.

Nevertheless, I must warn: in the past, the industry often declared, "We can sell the loan as long as we have the vehicle," but in the future, they might say, "We sell the loan if there is car demand." I believe the actors in the automotive sector are aware of this shift. However, as always, the first-mover mentality may also be prevalent here.

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Therefore, I think conducting a serious analysis about how dealer stock financing will increasingly come to the fore and vehicle ownership will decline in favour of financing will be beneficial for the sector.

Finally, as in every business, the salesperson is the king in automotive sales. When selling a car, they also sell the financing, insurance, etc.

Naturally, the dealer will offer the most advantageous credit option for the consumer. Although captive firms may provide faster loans than banks, if they offer interest rates that are unattractive, they cannot compete.

These financing companies can only stay afloat as long as they get their capital from automotive manufacturers, but as they source funds from market interest rates, they will, regardless of how fast they act, be less competitive due to the interest rates they recommend to consumers. The same applies to stock financing for dealers — it wouldn't be wrong to say that.

This article must be a wake-up call for captive owners.