



Open banking set to grow in automotive sector

It can remove cost and speed up processes once car buyers have gained confidence in paying via banking apps. *Alex Wright* reports

Open banking will have a profound impact on the automotive sector, according to industry insiders. The payment technology, which enables customers to securely pay a dealer directly using their banking app, has grown rapidly in recent years, with more than one-in-nine of UK consumers now active users.

It can be used for everything from paying deposits and balances on car purchases to aftersales bills and add-ons such as GAP and extended warranties.

Total payments for 2023 have doubled compared with 2022, up 102.4% – a trend that is forecast to carry on into 2024 and beyond. As it continues on this trajectory, it is predicted to become consumers' preferred payment method for car deposits and purchases by 2030, say experts, as mirrored by the 57% growth in Google Pay and Apple Pay transactions over the past year.

Dealerships have been embracing the move to open banking by adding payment facilities to their dealer management systems (DMSs) and omnichannel platforms to streamline their existing operations. But to make it truly mainstream by 2030, retailers and OEMs need to ensure that the necessary infrastructure and integrations are in place to provide a seamless consumer experience.

The consumer of today demands a truly omnichannel buying journey where the transition between showroom and online is fully integrated and frictionless. Implementing open banking within the key touchpoints throughout that experience, for example, using a QR code to seamlessly transfer from a point-of-sale tool to the consumer's mobile device, makes the process far more efficient and trustworthy for both the customer and salesperson.

Above all, there are a host of benefits that open banking will bring to motor retailing, chiefly making the payment process quicker and more convenient, efficient and secure.

Yet, it isn't without its challenges, namely transaction limits, training and education, and trust.

"Open banking is already making its mark on the automotive industry," says Karl MacGregor, co-founder and CEO at Vyne. "By automating instant bank-to-bank payments, dealers are able to cut

cost, remove friction and speed up back office processes. For an industry going through huge change with D2C, digital propositions and challenges on margins, open banking and account-to-account payments in particular have come to market at the right time for retailers and dealers."

For decades, dealers have been tied to card and manual bank transfer payments, which are costly, inefficient and subject to manual error. But, thanks to the introduction of open banking, that is changing.

"The offering that open banking brings to the industry is very closely aligned with what today's automotive consumers, dealers and OEMs are demanding from the current car-buying journey," said Tim Smith, CEO of Automotive Transformation Group, which has partnered with Vyne to provide open banking technology that has enabled retailers to cut their transaction fees by up to 73%.

"It offers easier and faster ways to pay without the need to remember long card, account or security numbers and instead uses biometric authentication methods like Face ID to increase both convenience and security," says Smith.

"It also offers retailers and OEMs complete and real-time visibility of cashflow, while also enabling instant full and partial refunds to consumers."

MULTIPLE BENEFITS

The primary benefit for the retailer is that it's far cheaper than traditional card payments, which come with several associated costs such as interchange, scheme and acquirer fees. As payments are made directly from one account to another, dealers also avoid incurring any high card fees.

Additionally, it costs a fraction in transaction fees, typically anywhere between 40-80%. For example, Bumper's open banking charges a fixed fee of 50p for transactions of less than £1,000 and £1 for those £1,000-plus, versus a credit card fee of, say 0.7%, for a £1,000 car deposit, which would amount to £7.

"Even at seemingly small rates, online debit and credit card transaction fees can cost retailers tens of thousands of pounds a month, which has a significant impact on their bottom line," says Smith. "Open banking removes card acquirers and their associated fees from the transaction process, helping


dealers and OEMs to maximise the cost efficiency of their operations."

Another key advantage is speed of payment and settlement times. With open banking, the retailer can now receive funds in a matter of seconds rather than having to wait for days or even weeks to be paid. The advisor also receives instant notification of the transaction, allowing weekend payments to be processed without having to wait for accounts to confirm that the funds have been received. This helps to improve the dealer's cash-flow too, as well as meeting the ever-evolving needs of consumers, who are looking for smarter, digital payment methods.

Open banking also makes the payment process easier: It does away with the need for customers to use cards and share their details, and dealers having to request card details and issue payees with account numbers and sort codes for them to make a bank transfer. All customers need is a mobile phone and an open banking app.

Because the margin for error is also greatly reduced by using open banking compared with traditional payments made over the phone or by bank transfer, there is less opportunity for money to go missing or fraud. In addition, there are fewer follow-up support calls and requests required.

Another application of open banking is used car payouts. Traditionally, when paying out to customers, dealers have to verify account ownership through manual document collection and data entry, with the customer having to wait more than 24 hours for the funds to arrive. With open banking, dealers can automatically verify bank account ownership and make an instant payout.

"Open banking can provide consumers with the fast and seamless purchase experience they're accustomed to in the broader retail sector, while helping automotive businesses significantly streamline the payment process and associated costs in their operations," says Smith. 

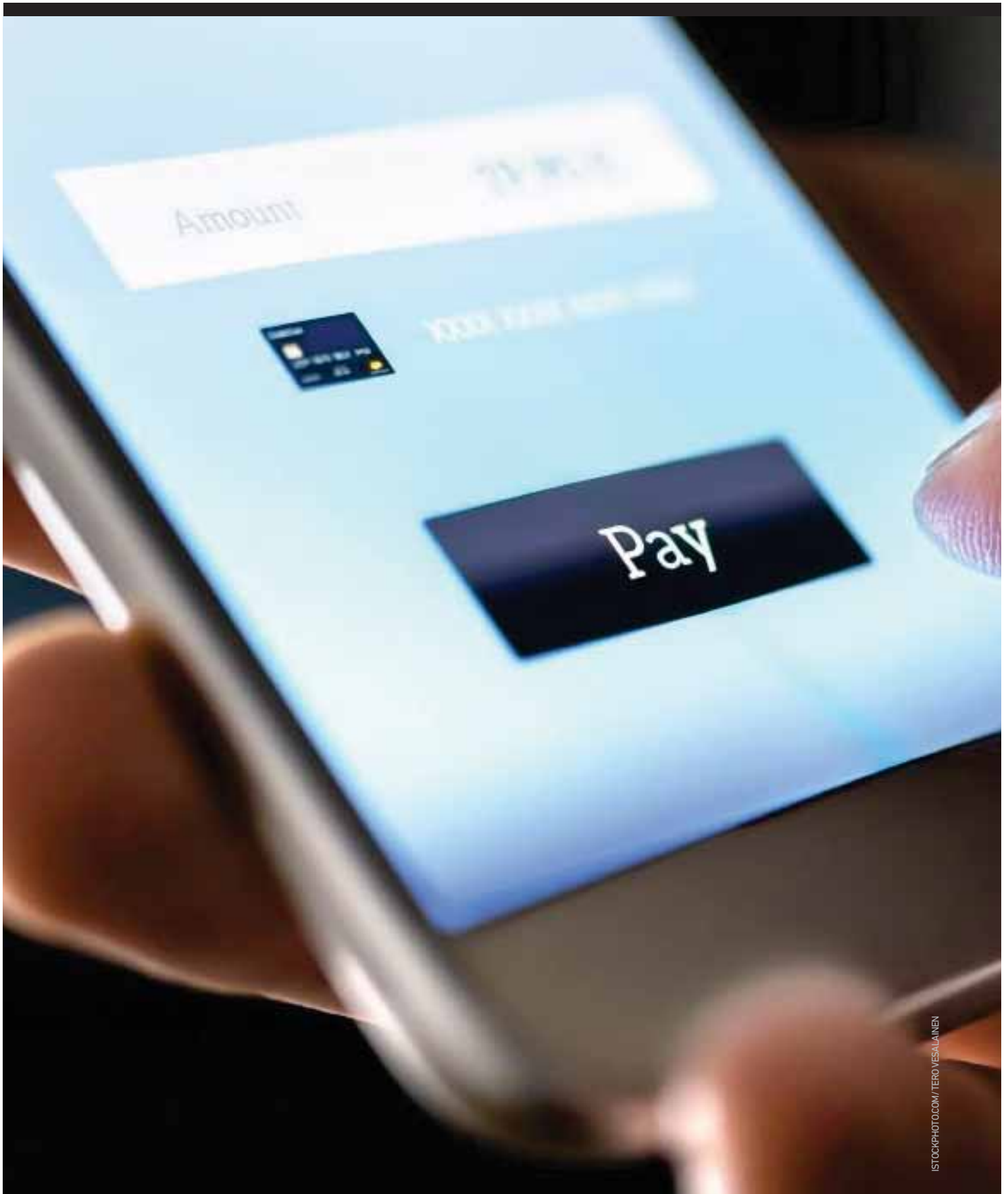
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Using a QR code to seamlessly transfer from a point-of-sale tool to the consumer's mobile device, makes the process far more efficient and trustworthy

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C Security is another redeeming feature. Because transactions are initiated via the consumer's mobile banking app and are typically authorised by biometrics, this greatly mitigates the fraud risk for both retailer and consumer. It also gives the customer greater peace of mind and control over larger transactions.

Jack Allman, co-founder and chief commercial officer of Bumper, says: "It is digital first – it can be seamlessly embedded into a dealer's customer journey, providing an intuitive and efficient way for the customer to pay. Bumper's API is integrated with all the major DMS, VHC and video platforms – meaning dealers can enable open banking in seconds.

"As a result, we are seeing a drive from our customer base to ensure all transactions have open banking available to their customers – whether relatively small invoice values in service and parts, or large balance transfers in sales. In some cases, our dealer groups are aiming for 70-80% of their transactions to be paid by open banking."

All of this adds up to a more satisfied customer.

KEY CHALLENGES

But as well as the clear benefits that it brings, open banking also has its challenges. The first is that because banks often have different transaction limits, more than one payment may have to be made, thus complicating the buying process. However, banks are taking steps to address this.

Second, service advisors may not have the necessary training needed to ensure open banking is offered at the point of payment. This requires significant investment by dealers to make sure that they can deliver the service properly. However, this is outweighed by the long-term cost savings and operational benefits that can be derived.

Then there is the issue of trust. There is a degree of caution and scepticism surrounding open banking while it's still in its relative infancy. Consumers need

CONSUMERS CAN BE RELUCTANT TO PROVIDE SENSITIVE INFORMATION IN A DEALER ENVIRONMENT. OPEN BANKING ALLOWS THIS TO BE DONE IN A FRICTIONLESS AND CONFIDENTIAL WAY

CHRIS JONES, BLUE MOTOR FINANCE

to understand the payment process in order to trust the outcome. But, given that open banking can be completed a few easy steps, this shouldn't be a big problem in the future.

"Open banking will only increase consumer confidence in the industry," says Chris Jones, co-founder and chief operating officer at Blue Motor Finance. "Consumers can be reluctant to provide sensitive information in a dealer environment. Open banking allows this to be done in a frictionless and confidential way, while reducing costs for dealers and reducing the opportunity for fraud."

James Tew, CEO of iVendi, says: "We have spent the past 10 years telling people not to give out their bank details to anyone. In a world where fraud has become more prevalent than ever, they are going to be wary about moving to a new system such as open banking. So, it's going to take time for everyone to adopt it and trust it."

Smith adds: "Consumer education is key here. This transition requires clear communication of the efficiency and security benefits that open banking can offer, with clear signposting at every phase of the car-buying journey from home page to payment."

Despite the speed of adoption, open banking hasn't become standardised across the industry yet. But, as education around it increases, its uptake will surely become more widespread.

Dealers and OEMs also need to incorporate open banking into their wider sales process, both in-store and digitally. To create the best possible experience, they must establish methods of efficiently connecting the online payments journey with showroom visits. For example, providing consumers with the ability to find the right vehicle for them in a dealership and complete the payment swiftly and securely at home through a user account or in-showroom QR code integration. That's where finding a technology partner that provides the required open banking coverage and the ability to integrate it seamlessly into the consumer experience is key.

In the future, open banking will be used to make seamless recurring payments. Variable Recurring Payments will provide an alternative cost-saving to direct debit. Instead of having cards on file or direct debit mandates, recurring or subscription payments will be taken directly from customers' accounts. The process is also more secure.

"As consumers' lives revolve around their mobile phones, open banking payments will play a vital role in the payment landscape," says MacGregor. "As a result of the roll-out of contactless payments, consumers expect frictionless payment experiences wherever they pay.

"Paying a deposit online on a car in a dealership is no exception. Consumers want the security and peace of mind that the payment will land in the right account and they want to be able to make the payment quickly and easily without going through arduous security questions over the phone. Open banking payments offer secure, seamless, instant experiences, and could even play a role in the extinction of plastic cards in the UK."

Open banking is here to stay. And the advantages are clear – it enables dealers to reduce their own transaction costs, while improving the car-buying journey and making it more secure for customers.