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EXPERT ANALYSIS

The Impact of Driverless Cars, Uber, Lyft and Fewer Teen Drivers on the Auto Finance Industry

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The technology is unbelievably exciting — cars that have the ability to literally drive themselves by sensing their environment and navigating their surroundings. The capacity to summon transportation to your precise location at the very moment you want it by merely accessing an app on your phone. Skype, FaceTime, Facebook, Instagram, Twitter, Snapchat, Tumblr, Flickr, Reddit — social media platforms on which a person can share everything from his political views to a picture of his mouthwatering dinner and post videos of important cultural events or a dog chasing its tail. Exciting stuff. Jetsons-esque, even.

This technology will impact the auto finance industry. That impact — which has already begun to affect the market in small ways — may be extreme in the long run. The auto finance industry must keep a watchful eye on developments in this arena and adapt to the changes coming its way in order to remain successful.

THE CURRENT AUTO FINANCE MARKET

Anyone familiar with the industry knows that the auto finance market is hot right now. In fact, in 2015 the auto industry experienced its highest sales in 15 years, and interest rates for new cars are at a three-year low. According to the National Automobile Dealers Association, 2016 is expected to be the seventh consecutive year of growth in new-car sales. The NADA forecasts an uptick of 2.3 percent.[1]

That said, it seems difficult to fathom that the car-obsessed society to which we belong may well be shifting. Indeed, it may take several more years before the public sees, feels and senses a real change.

There are about 250 million cars on America's roads. Since people are unlikely to dump vehicles for which they have already paid or are making payments on and move toward autonomous cars and/or Uber and Lyft services, it will take some time before all or even a large number of those cars leave the road.[2]

Even so, as Bob Dylan said, "The Times They Are a Changin'." If fully driverless cars can be summoned with a smartphone just like services from Uber or Lyft, it is easy to imagine that the American public might eventually forgo car ownership altogether or opt for one car rather than two. The auto finance industry has taken note of this probable threat.

THE IMPACT OF CAR-SUMMONING SERVICES

My family recently took a trip to St. Louis. We drove there but left our family car in the hotel garage. We are not ultra-marathoners, nor did we stay in the hotel all weekend. Instead, we used Uber during the entire stay, getting back in the family car only to return home.

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Uber was efficient, the cars were newer models and clean, the drivers were incredibly friendly and eager to share their knowledge of the city, and — most importantly — we didn't have to risk life and limb by trying to monitor our navigation system while driving.

The cost was minimal and likely less than what we would have paid to park in the city (assuming we would have been able to find spaces). It is no wonder that these ride-summoning services are taking the world by storm.

Ally Financial, which holds the lion's share of the auto finance loans in the market ($78 billion in consumer loans and leases as of March 31), has had its eye on the driverless car and Uber situation for some time.

In 2000, it launched SmartAuction, an online auction intended for commercial buyers and sellers, including automakers, dealerships and owners of vehicle fleets. More than 5 million vehicles have been sold on SmartAuction since its launch.

The auto finance giant has even launched an app — available on iPhone and Android smartphones — that allows a potential buyer or seller to access the SmartAuction inventory while on the go.[3] This technological gadget appeals to the millennials who have become accustomed to accessing everything they need on their smartphones.

The platform also serves to tap into the fleet and commercial market for automobiles, which Ally must do in order to remain an auto finance leader in this new technological environment.

In addition, Ford and Jaguar Land Rover are launching car-sharing experiments, and driverless vehicles could accelerate the concept. Last but not least, General Motors has purchased 10 percent of Lyft, which is Uber's largest competitor.[4]

Another issue that will inevitably impact the auto finance industry relative to car-summoning services is that of the permitted use of financed and/or leased vehicles. Many auto finance contracts and leases include a provision on the permitted use of the vehicle during the time the auto finance company's lien is in effect, stating that the vehicle may be used only for individual, consumer or personal purposes. Capital One, for instance, "only finances new and used cars, light trucks, minivans and SUVs that will be used for personal use."[5]

If the finance company allows only consumer use of the vehicle, the Uber/Lyft driver may well be breaching his retail installment agreement or lease by driving the vehicle for a commercial purpose.

Some auto finance companies, such as Toyota Financial Services, are offering Uber drivers the ability to lease vehicles from them and make payments with funds earned through their Uber compensation, thereby ratifying the non-consumer use of these vehicles.[6]

Although there are no reported court cases on this particular issue, it is reasonable to expect that there will be litigation over this issue until, and unless, the industry clarifies its position in the language of contracts and leases.

THE DECLINE IN TEEN DRIVERS

Teens simply are not driving in the same numbers as they formerly did. Many years ago when I turned 16 (which was the legal driving age in the state where I grew up), my birthday fell on a Sunday. I was so thrilled to be able to drive that I set my alarm and went to early church service so I could drive … *by myself*. Many people reaching the legal driving age today, however, do not share that excitement.

According to a new study by Michael Sivak and Brandon Schoettle at the University of Michigan Transportation Research Institute, the percentage of people with a driver's license decreased between 2011 and 2014 across all age groups.

The decline is especially pronounced for teens. In 2014, just 24.5 percent of 16-year-olds had a license, a 47 percent decrease from 1983, when 46.2 percent did. And at the tail end of the teen years, 69

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percent of 19-year-olds had licenses in 2014, as compared to 87.3 percent in 1983, which represents a 21 percent decrease.[7]

The study's authors did not speculate on the cause of the decline, but they cited to a previous survey they conducted in 2013 of 618 respondents between the ages of 18 and 39. That survey revealed that the primary reason reported for not having a driver's license was that people were basically too busy (37 percent), followed closely by the cost of owning and maintaining a vehicle (32 percent) and the ease of getting a ride from someone else (31 percent).[8]

The reason for the decline in teen drivers has been a matter of debate for some time. Some say that the drop is due, in large part, to the recession, which hit young people especially hard. With a lack of jobs and the stagnation of their parents' income, many teens just don't have the extra cash to fund their driving and all it entails: gas money, insurance premiums, car payments and maintenance costs.

There may also be an attitude shift the air: Kids today simply do not place as much value on automobiles as their parents and grandparents did, and they may be more open to other forms of transportation.[9] The prevalence, low cost and ease of use of car-summoning services is clearly partially to blame for the deterioration of the teen driver population.

When studying the significant decline in the number of teen drivers, one has to ask, "What's so different in a teen's life in 2016 than in, say, 1983?" It doesn't take a rocket scientist to figure it out: the internet, generally, and social media, specifically.

If fully driverless cars can be summoned with a smartphone, it is easy to imagine that the American public might eventually forgo car ownership altogether.

Researchers at the Transportation Research Institute found that the percentage of teen drivers is inversely related to the proportion of internet users.[10] It appears that Facebook, Instagram, Twitter, Snapchat, Tumblr, Flickr and Reddit may be taking the place of motorized transportation.

Teens already converse, shop, learn to play instruments, check out art, watch movies, socialize, get help with homework and listen to music online. There's just no need to be physically present when their online presence is so strong and so many platforms are readily available.

My 16-year old son did get his license on his 16th birthday and spent much of that day driving all over town (while his father and I anxiously checked the police scanner, television news and the internet to make sure he had not had an accident).

He has friends, however, who have been slow to get their licenses due to the prevalence of, and immediacy provided by, social media. According to our son, one simply does not need a car and license to study at the library when he can study with a buddy through FaceTime. And unlike driving a car, there is no need to beg dad for the keys and no need for insurance, gas money or tuneups. All one needs is an internet connection.

If the auto finance market were to begin to dip after its excellent performance as of late, the typical strategic marketing response would be to seek out a new customer base. That is normally found in the younger generations. In light of the decline of teen and other young drivers, however, such a strategy might have dreadful results for the auto finance industry.[11]

The auto finance industry will be forced to find a way to retain its older drivers while making the idea of driving enticing to the younger crowd. The stimulating technology being developed and placed in the newer vehicles is certain to help. Nevertheless, the industry will have to be on the cutting edge — of technology, of "green" developments, of social media — to keep and increase its diminishing young driver base.

For the auto finance industry, the rise of shared access to vehicles and drop in the number of teen drivers — and, thus, presumably, in consumer purchases — could dramatically alter the number and size of loans and the volume of those who need them.[12]

As a result of the upcoming introduction of autonomous cars to the market, in addition to the popularity of car-summoning services, finance customers will increasingly be corporate rather than retail. Overall loan volume, and its associated revenue, could decline dramatically in the long run.

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Kids today simply do not place as much value on automobiles as their parents and grandparents did.

CONCLUSION

Change can be good. It's only good, however, for those who anticipate it, incorporate it into their plans and are flexible as it develops.

For auto finance industry members that maintain their current business models, there may be a continuing role for traditional loans and leases made to individual consumers. But it's likely that the market will be significantly smaller due to the greater emphasis on commercial lending.

Those companies that are already in the fleet financing market, or are willing to enter that market, as Ally and Toyota have done, have the opportunity to establish themselves in a rapidly growing market of new and technologically progressive consumers.

There will be new opportunities for auto finance companies in the near future. The question is whether they're savvy enough to make the most of them.

NOTES

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