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The Impact on Driverless Cars TRANSCRIPT

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Nathan: Good day, and welcome to the Harland Clark's The Informed Banker webcast, "The Impact on Driverless Cars on Financial Institutions." This webcast is being recorded, and a replay will be provided to you within a few days. If you have any questions, please use the chat box located in the control panel. Your questions are private and are only seen by the presenters. I will now turn the call over to Sheila Easley of Harland Clark. Sheila, you have the call.

Sheila: Thanks, Nathan, and welcome to everyone who's joining us today for this month's installment of The Informed Banker. The series is designed to cut through the noise and bring you succinct, timely information on topics that are critical to community financial institutions. Today's session, "The Impact of Driverless Cars," is presented by Amy Eagan of Filene Research. She'll cover recent research findings and ways to prepare for expected changes in auto lending due to the proliferation of driverless cars. Now, a little bit about Amy before we get started. Amy, Impact Manager at Filene Research Institute, is a ten year marketing professional with deep experience both inside and outside credit unions. She's held front line leadership positions at three different credit unions in three very different parts of the country. Amy, the floor's all yours.

Amy: Great, thank you, Shelia, and thanks for having me today. Thank you also to everyone who's joining us, and thank you if we happen to have any Filene members with us in the session. The resources and research we offer would not be possible without the support of our members, so thanks for anybody who is out there with us today. As Sheila said, I spent 13 years working in credit unions and cooperative financing. Now really enjoying this side of the industry where we help professionals who sit in seats just like I used to put research into action, and really figure out what do we do with the information that we have at our fingertips.

A little bit about Filene. We're a nonprofit independent think and do tank for the consumer finance industry. We deliver the thinking and the tools to stay competitive for cooperative finance. The impact team specifically that I work with is the group that takes the overall research Filene is doing on the industry's most pressing topics. For example, how to stay ahead of consumer trends like we're going to talk about today all the way to things like how millennials view money and how financial institutions can use that information. Our impact group translates those into programs and services and offerings that you can actually implement at your credit union so a little bit of background about me and little bit of background about Filene and some insight into our research overall. Of course, we're going to dig in particularly to vehicles here today.

I think Nathan has a poll that we're going to kick off with before we get too much further into the information, and this is a question that I think is just interesting and sets a tone maybe for today's presentation. Do you think autonomous vehicles will become the norm over the next 20 to 30 years? Pretty simple question, yes, no, and of course, not sure, a question that I asked myself as I dug into our most recent research and just got curious as to where everybody stands. Actually, really interesting, I think the results are up on the screen for everybody. Sixty-seven percent are saying yes. Twenty-three percent say no, and just 10% say not sure. Actually, really interesting just to see where everybody stands. I think I was in maybe the not sure category. As we get into the slides here, I think it'll give us some really interesting information and, really, some precursors to what might be coming for autonomous vehicles, so you can kick off the next slide.

Let's take a look at what we're going to think about today, and that's really how we treat this information in its really early research, gives us something to think about. We think it boils down to this general concept. Changing attitudes toward overall vehicle ownership and, therefore, attitudes probably towards driving in general plus advances in technology and the infrastructure of the world of vehicles, as we could say, equals or could have a large impact on our loan portfolios, non-interest income, and even membership and customer attraction. I'm going to go out on what I don't think is a huge limb and say I'm assuming all of these things are pretty important to everyone on the call today. Let's dig in a little bit on the research and what it shows and how we got there. Next slide, please.

The industry as a whole is really seeing a shift from the concept of ownership to overall access. It's the big word that we can use, this idea of access versus ownership. Even vehicle leasing, which has been around much longer than some of the newer services and technologies that we're going to talk about is what we think are the early indicator in this shift. That keeps increasing, and we're going to see some other things that are impacting that as well. Also, steadily increasing is the fact that more drivers and consumers in general are relying on things like ride-hailing services so think Uber and Lyft and short- and long-term car sharing, think Zipcar and Maven. This is not as commonplace by any stretch of the imagination as vehicle leasing, but it seems like it's on its way. This shows us that owning a car is no longer necessarily a key indicator of adulthood and independence like it once was. I think lots of us come from generations where that was the overall goal and the biggest thing on our plates was how do we get that independence of having our own vehicle? We're not necessarily seeing that as strongly as we used to.

As we shift to the next slide, another factor that points to the concept of changes in the auto ownership world is the fact that the percentage of adults with driver's licenses has been shrinking annually in nearly every age category. The one exception we do see to this trend is the drivers age 70 and older. Having a driver's license continues to mean freedom and mobility, unlike the younger age groups that are starting not to care as much. I'm sure it's pretty easy to say that the 70+ age group is also probably not as interested in the newer technologies and the newer services that are available, and those things create that exception for that group. That they are not declining in their overall driver's license adoption.

The next slide starts to talk about the predictions for autonomous vehicles. The ride-hailing business and the economy of sharing is in many ways a precursor to the autonomous vehicle. Although these services still employ drivers, from the perspective of the customer, the service provides as much autonomy as owning a vehicle but without the need and stressors to bear the costs of maintaining that vehicle. Ride-hailing and sharing services open really a number of possibilities for young people who cannot maintain a vehicle financially. They also change how people relate to the automobile. A ride-hailing service does not require or foster a personal connection with the vehicle because the person using the service neither owns nor maintains that vehicle. In this sense, for probably what seems like the first time, the independence that is usually affiliated with owning a car is separated from the relationship with the car itself, and that lack of a relationship with the vehicle may have a number of different implications for the role of an automobile for families and especially young adults in areas where these other services are accessible.

Like I said, these are all trends that are viewed as just precursors to the autonomous vehicle. That industry is clearly facing hurdles and lingering challenges, but many believe that widespread adoption is nearly inevitable and likely by 2050 with stops along the way, of course, as you go 2020, 2030 that begin the adoption of the technology so lots of things that influence that. In a more current timeframe, autonomous vehicles are a reality in the fleet arena. They're not as popular for everyday consumers, but new mobility models are beginning to emerge and, therefore, choices as it relates to autonomous vehicles. As you look ahead maybe 10 or 20 years from now, the predictions are that consumers will more widely begin to adopt these autonomous vehicles. The after sales service landscape is reshaped. There's obviously then a shift in the insurance industry from covering individuals to covering more broad technical failures and bigger groups of vehicles not aimed at individuals. Logistics are redefined, and that's the progression that seen.

Then, like I said, that prediction is that, in the 2050 realm, autonomous vehicles could become the primary means of transportation. There are lots of things that happen with that. It's seen that they could free up to 50 minutes or more a day for drivers, especially depending on where you are and what market you're in. Fifty minutes where I live in Atlanta would be a breeze for commuting, so there's upwards of an hour that could be freed up. Parking space, that's another thing that you don't really think about, but parking space could be reduced by billions of square meters. Vehicle crashes ideally also fall. This is saying by up to 90%, saving lives and dollars, and autonomous vehicle technology certainly accelerates the development of other technologies and other consumer uses. Interesting to see this prediction for where this is headed, and I think the thing that resonates the most with me are the precursors, the leasing and the ride-hailing and ridesharing and the disconnect from actual vehicles that consumers are feeling. That's what feels real right now and make a lot of sense as to why this trend is continuing.

On the next slide, we start to think about what does this mean for financial institutions? Cool technology, interesting industry of autonomous vehicles, lots of things already in the news about these fancy cars that are starting to emerge, but I think there are things that financial institutions could be thinking about today even though we are not in that complete adoption of autonomous vehicles yet. On average, 35% of total loan portfolios in cooperative financial institutions are made up of auto financing. I'm guessing there are probably people on the line that have much more than that invested in their auto financing portfolios but, nonetheless, just a huge portion of our overall well-being as financial institution. Going hand in hand with that are complementary products. We talked a little bit about insurance and the change of the insurance landscape, but lots of credit unions and cooperative community banks have a stake in the game when it comes to insurance and protection.

Those things provide non-interest income, which could also theoretically be at risk if overall auto financing is declining. The auto loan, it very often represents the strongest gateway for new member and new customer relationship. It's often viewed as an introductory service that is easy to get access to. People have a general understanding that financial institutions in their area can offer them auto financing. It often lends itself to increasing additional products and services with those consumers, so that certainly could have an impact too on the rest of the financial institution. All of these are important business generating products, and these services could be at risk if the trend continues toward less and less overall vehicle ownership.

Final slide before we get to some questions. This is really I think the heart of it and the meat is what on earth do we do about it? As we said a couple times, this is very early information that helps us get ahead of the trend and start to understand what needs to be considered. It's also really meant to be – much like a lot of the research and programs that we provide at Filene, meant to be brain food, and get us thinking and headed in the right direction. Not let it take us by surprise as we get closer and closer to potentially this trend taking over. The good news is that this isn't happening yet, but we're seeing those signs that vehicle ownership will continue to decrease, however that becomes. Whether it's autonomous vehicles or a continued sharing and access economy, those signs are there that the overall ownership in connection to vehicles is decreasing.

Overall, we can prepare for a changing vehicle marketplace. We're already seeing some institutions getting innovative with financing and offering options for leasing and car sharing services and the financing that's affiliated with those. New insurance offerings could meet the changing needs of consumers and what types of insurance they need and insurance they don't. For each vehicle change that happens, whether that's sharing, or hailing, or autonomous, there are still insurance needs there, so becoming innovative and thinking ahead of that trend for how to be in that game could be of interest to financial institutions. Also, the fleet market could represent an opportunity to build up vehicle financing offerings. Just in a way that's not necessarily aimed at individual owners and individual consumers. Something that I think is easy to forget but equally easy to leverage is our overall industry's reputation for cooperation and trust. These are already differentiators in an access economy where consumers are looking for the ability to have something or use something but not necessarily own it. Some of those companies that I mentioned that are already doing well in this access economy versus ownership economy are already using those differentiators, and cooperative finance I think can easily shout them from the rooftops as well.

Those are the things that feel like implications to financial institutions, and some preparation and some thoughts about how do we get ahead of this, and things to go back to your team and say, hey, are we thinking about this? Are we ready for this in the same way that we can prepare for other trends?

Sheila: Amy, this is certainly interesting information. Thank you. We have had four questions come in. I'm going to start with some of them, if that's okay?

Amy: Yeah, please.

Sheila: All right, the first one is are there financial institutions getting ahead of the trend already? You began to touch on this. Nevertheless, we got that question.

Amy: Absolutely, so in our research, there were some examples, and actually, I think the report that a lot of this is based on is about to be released so much more to come. The examples that I saw, these all happened to be credit unions. I'm certain there are probably other examples as well. Navy Federal Credit Union, of course, one of the biggest players in the game just in general. SchoolsFirst Credit Union and Billings Federal were working already on things like rideshare loans, insurance loans, and shared ownership loans, so those would be a few to check out if you were looking for some more specific examples and probably not surprising that some of those big players are already thinking about this.

Sheila: Awesome. All right, the next two questions are very similar. I'll start with the first one, and then tack on a second. It says I'm not sure I fully understand the link between more people not owning a vehicle, in other words using rideshares, etc., and using a driverless car, and the related question is is this becoming the norm?

Amy: Yeah, so it is not the norm yet I guess is what I would say. Research shows that only 15% of US adults, I've got some of the report stuff in front of me, say that they've used one of these services so a rideshare or a ride hail, which I actually thought was surprisingly low to me. I guess I live in an area where these are more popular so definitely not the norm, but it seems to increase exponentially year over year, which is why it's seen as a potential disrupter. I think that's the connection. These things are all precursors to people disconnect from owning a vehicle and from driving a vehicle. I think that's the best way to put it is they are all trends that start to tiptoe us toward that overall disconnect from vehicle ownership, vehicle driving, and set the stage, really, for that industry.

Sheila: Okay, great, excellent. Next question, do these themes have the potential to impact other areas and products for financial institutions?

Amy: I would say they certainly could. Cars aren't the only things that you can share or have access to over ownership of. You can lease and rent living space in the same way that you can lease and rent vehicles both in long- and short-term ways. Something as simple as renting an apartment and the vacation rental sites are simple examples of that but probably, I think, again, more indicative of that general trend and ambivalence toward the overall concept of ownership. This is definitely generational, and basically, younger generations that are now becoming adults seem to have a disconnect that has not been present in other generations to the concept of ownership and to the responsibilities and stressors and financial obligations of ownership I think is the interesting part of it. That's one example that I can think of, but I think you can probably apply that same thought process to other things that translate to products and services for financial institutions. I'm sure there are others.

Sheila: Very interesting. We still have quite a few questions coming in, Amy. I will continue to send these over to you until we run out of time. The next question is is there anything we can do to defend against car subscriptions?

Amy: I'm going to think that car subscriptions is the ridesharing concept, and I think the answer is not defending against it. It's figuring out where you fit inside of it. I think that's the biggest thing for financial institutions. I'm not sure that even a group of financial institutions can find a way to make it stop. I think the answer is in what we were saying maybe on that last slide where we need to figure out where we fit. How do we get innovative in our offerings to fit the needs of the consumers, whether that's the individual consumer or now thinking of consumer as a group or a company that needs that financing? I think, as with all trends, it's important to figure out how you can fit in and serve probably more so than making it stop.

Sheila: Excellent. The next question is about the data that you're referencing. Does the McKenzie study you referenced look at US data or global data?

Amy: I think it is US data. I will double confirm that. Maybe we can share that answer back, but the stat that I was seeing referenced US adults.

Sheila: Excellent. That would be great, Amy. Okay, the next question is I can see this catching on in the large cities. However, I do not see this catching on in the rural areas of this country. Any thoughts on this?

Amy: Yeah, I think it shows in the same way that some of the other services are catching on. Again, I think we are in the very early stages. Like I said, I was surprised by that stat that only 15% of US adults had utilized one of these ridesharing or ride-hailing services, but every time I travel, I see more and more of it in different cities of different sizes. When you think about – I'll just use the super popular example of Uber. That was in only the largest of large cities, and now you can really utilize that in almost any midsized and up city. I think, as we see those things filtering into other areas and maybe not necessarily completely remote areas but smaller cities, smaller towns, and especially because they are – I always think back to Uber started with, essentially, limousine drivers who needed something else to do while they weren't out on calls and the black car concept. Now, anybody can be an Uber driver. Of course, you have to go through all of the hoops and approvals and all that kind of stuff. I think we already see that filtering into other sized markets because they're making it more widely available to people, so I wouldn't be surprised if it continues that trend toward being available almost anywhere.

Sheila: That will be an interesting trend to watch for certain. I think we have time, Amy, for one more question. You mentioned rideshare loan. How would that work, and who owns the car?

Amy: That's a great question. I think it's probably different with each company. The ridesharing services are, typically, there is an overhead company involved, unlike Uber where the individual driver still owns that vehicle. Something like Zipcar or Maven, those companies own the vehicles, and I think that's what we were pointing to is, as more options become available there, possibly more companies getting in the mix. That's what might be looked at as a rideshare loan. I think those are the ownership differences between hailing and sharing services.

Sheila: Awesome. It looks like that's all the questions that we have time for today. Thank you for our participants who submitted those questions. As a follow up to today's program, you can expect an email from Harland Clarke with the follow-up survey along with links to a recording of this presentation. Please do feel free to share that recording with any of your colleagues who may have missed today's session. Our next session is July 26. Please join us for that next Informed Banker presentation, "The Laws of Attraction: Credit Union Recruitment in a Competitive Labor Market," and that will be presented by our friends at Filene Research as well.

Amy, thank you again for sharing with us today. I'd also like to extend a very sincere thank you to the many financial service professionals who made time in their busy schedule to be with us today. I hope to see you all again at future Informed Banker sessions, and that concludes today's session. Thank you again for joining us this afternoon.