# Driving the Future: Trends and Insights in Auto Lending

Strategies for success in today's auto finance landscape

EBOOK

***Shifting technology preferences and evolving fraud trends have brought the auto lending industry to a crossroads***

As the automotive industry evolves with more consumers opting for omnichannel approaches to car ownership, auto lenders face increasing challenges related to first-party and synthetic fraud. To navigate this landscape effectively, lenders must deploy advanced tools to thoroughly understand and vet consumers across their preferred shopping channels.

LexisNexis® RISK SOLUTIONS

# Preparing for the future of digital retailing

*How technology enhances the traditional automotive buying experience*

**71%** *of consumers would take an omnichannel approach to buying their next car.[1]*

New car sales are down from pre-pandemic levels but have grown steadily since the end of 2022. The COVID-19 pandemic has changed the way consumers research and buy goods and services, with more customers preferring online shopping and transactions.

**Digital retailing technology enables consumers to buy and sell vehicles online, providing a seamless sales experience that integrates digital and in-person interactions.**

*A wide range of websites and apps allow individuals to customize their shopping experiences*

*The amount of information available for pricing and loan comparisons, for example, puts the consumer in a stronger bargaining position*

Customers can now browse, finance and purchase online, making in-person dealership visits as needed. The result is a more convenient and flexible car buying process. As this omnichannel approach becomes more common, there are a few trends to watch out for.

# The escalating threat of fraud

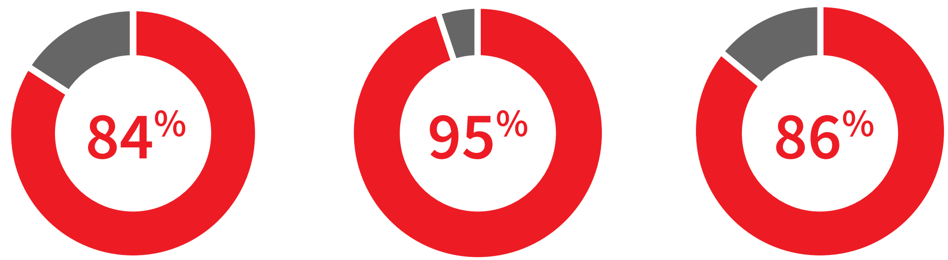
*Can lenders use data analytics to prevent auto lending fraud?*

**Increased auto demand and the shift toward digital buying combine to create increased risk of first-party and synthetic fraud.**

Traditional patterns of auto lending fraud are shifting as fraudsters adjust to emerging technologies and capitalize on system weaknesses. This trend has accelerated since the pandemic, leaving dealers and lenders feeling vulnerable.

In 2022, 700 U.S. dealerships agreed that rising fraud risk can be tied to increased digitization of car buying, and 67% said they lack adequate identity fraud protections.[2]

**U.S. dealerships expect challenges with fraud to continue:**[2]




have experienced identity fraud since the pandemic

attribute fraud to increased digitization

believe fraud will increase and be harder to prevent

**To fight this trend, lenders should consider the following options:**

- Enhance dealer fraud screening by deploying advanced tools to identify and prevent fraudulent activities at the dealership level
- Implement fraud and identity verification solutions designed to integrate seamlessly within an omnichannel customer workflow
- Cooperation with law enforcement is essential for criminal investigations and to bolster your knowledge of fraud trends

*LexisNexis® Fraud Intelligence helps mitigate first-party fraud, synthetic identities, and a multitude of other fraud types.*

# Streamlining pricing strategies with alternative data

*How can lenders utilize differentiated insights to minimize risk without sacrificing profitability?*

**Traditional credit scores alone may not thoroughly reflect a consumer's creditworthiness.**

Alternative data can enhance traditional credit scoring models, providing a more robust view of a consumer's financial behavior and allowing lenders to more accurately segment their audience within specific credit bands. This creates the possibility of:

- *More accurate risk assessments*
- *Individually tailored pricing strategies*
- *An overall improvement in understanding customer credit*

As a result, lenders can offer more competitive rates to low-risk borrowers while managing risk exposure.

**With the rising cost of credit and auto credit delinquencies, lenders can grow their auto book by leveraging alternative data and different scoring methods.[3]**

The integration of this data can improve lending decisions and increase targeted customer acquisition, all while optimizing pricing strategies. In an environment where profit margins are under increasing pressure, automotive lenders must incorporate alternative data to build a comprehensive credit profile of consumers. This strategy is essential to stay competitive as it provides a more accurate assessment of creditworthiness and helps mitigate the risks associated with evolving consumer behaviors.

*Increase qualified approvals, develop more competitive offers and maximize profitability. Acquire a new perspective on consumer creditworthiness across the customer life cycle with **LexisNexis® RiskView™ Credit Solutions.***

# Overcoming compliance hurdles in auto financing

*How should lenders be managing compliance?*

*Don't let bad or incomplete data prevent you from maintaining collections compliance. Stay on top of things with **collections compliance solutions from LexisNexis® Risk Solutions.***

**Auto finance lenders face unique compliance challenges, especially with respect to bankruptcy notifications, deceased records and military status.**

For example, active duty servicemembers are afforded additional protections by the Servicemembers Civil Relief Act (SCRA). Remaining SCRA-compliant requires lenders to address potential name variations between their CRM systems and the Department of Defense (DoD) records. Ensuring data accuracy and alignment is essential to safeguarding compliance and mitigating legal risks relating to overlooking customers entitled to protection under the SCRA.

When it comes to bankruptcy, similar levels of vigilance are required across the bankruptcy lifecycle, from filings and assets to dismissals and discharges. And close attention must be paid to the Automatic Stay, during which collections activities must cease.

The penalties for noncompliance can be detrimental to your profitability and reputation.

# Maintaining accurate and actionable data over time

*How can lenders improve business outcomes with relevant, predictive insights?*

**The indirect lending model utilized in the automotive sales space doesn't always produce immaculate data.**

To make profitable business decisions and best serve their customers, lenders depend on more accurate and up-to-date data. When dealers convey incomplete or outdated data, it can lead to missed opportunities. Sometimes that means fielding unnecessary stipulation requests. But it could also mean missing out on booking a qualified loan.

To make more informed lending decisions and manage accounts effectively, auto lenders must continually enrich their consumer data both before issuing loans and throughout the account lifecycle.

**This ongoing enhancement to maintain accurate consumer profiles is critical for:**

*Compliance*

*Customer satisfaction*

*Marketing*

From the lender perspective, a well-run indirect lending program can deliver certain benefits. However, when improperly managed, they can expose the institution to unwanted risk.

Some of the key tools to mitigate that risk exposure include:

- Paying attention to loan officer incentives
- Maintaining sufficient documentation protocols
- Closely monitoring dealer relationships to ensure best practices are followed[5]

*Learn how improved data quality can deliver a more comprehensive view of consumers with **LexisNexis® Consumer Data Management.***

***The auto lending industry is at a turning point.***
*It is time for new insights across the customer lifecycle to help decrease fraud, deliver more profitable offers, manage evolving risk and prioritize collections.*

Interested in learning more about navigating the evolving auto lending landscape?

**risk.lexisnexis.com/auto-lending**


Sources:

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