

# Car-as-a-Service

THE ROAD AHEAD

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# Car-as-a Service

For several years now, a new “ownership” model for vehicles has threatened to disrupt the three traditional incumbents: buying, leasing and renting. Car-as-a-Service (CaaS) has long been touted as **the next big thing in the automotive industry**, championed at various stages by OEMs, including **Porsche and Volvo**, rental firms, such as Hertz, and even ridesharing companies, like Lyft and Uber.

As yet though, Car-as-a-Service is yet to realize its lofty potential. In fact, during the past couple of years, there has been notable fallout, with **BMW and Audi** ceasing their short-lived CaaS operations.

Many of these bumps in the road can be directly sourced back to the pandemic. Travel restrictions have resulted in fewer drivers on the road; not to mention factory closures and serious problems with the industry’s supply chain.

Despite these setbacks, we and many others in the industry still believe that CaaS has a bright future. Its **flexible and commitment-free model** appeals to an ever-growing market. And if it as successful as many forecast, it will cause huge stirs throughout the automotive industry, with almost all players across the value chain being affected.

To make the most of those opportunities, it’s important for those players to be ready for what’s coming.



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**01**

HOW IT WORKS

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**02**

EXISTING SUBSCRIPTION MODELS

---

**03**

LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

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**04**

A GROWING OPPORTUNITY ON THE HORIZON

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**05**

FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

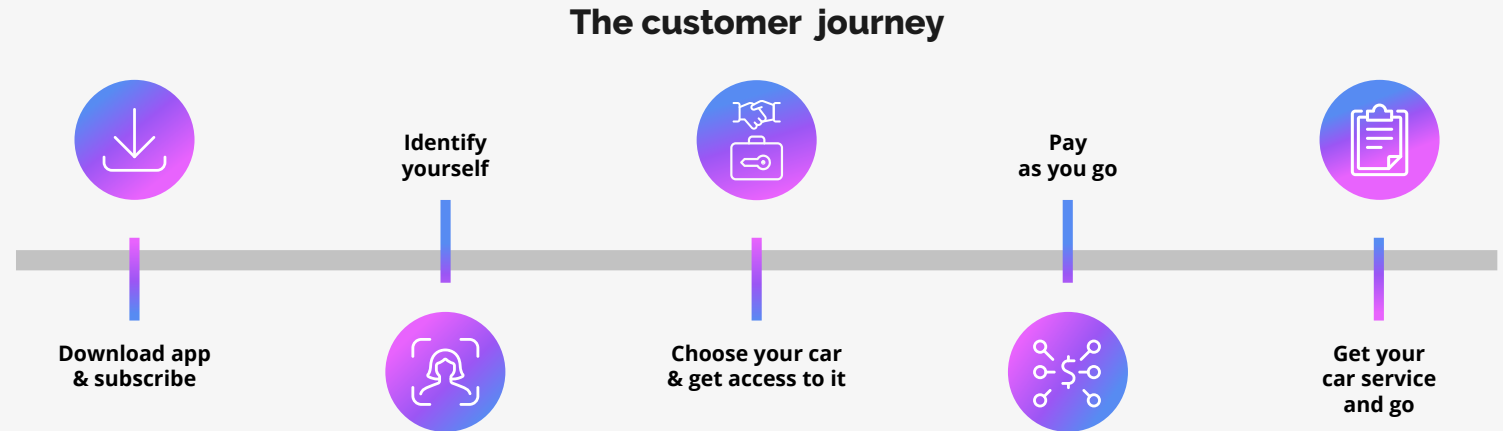
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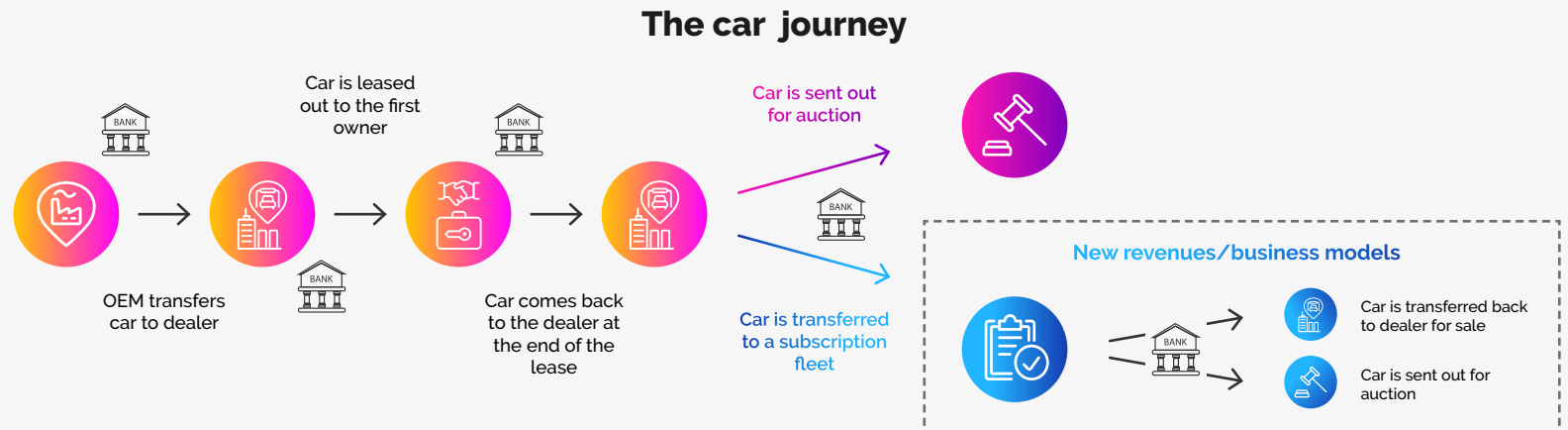
THE WHEELS ARE IN MOTION

# HOW IT WORKS

Car-as-a-Service offers customers flexible access to a vehicle through an all-in monthly subscription cost. It is similar to leasing, but tailored for convenience. Unlike leasing, subscription services don't require a down payment or long-term contract, and everything – from insurance costs to repairs – is covered within the monthly payments.



For companies, CaaS is an opportunity to appeal to a younger generation of driver, one less interested in owning a vehicle outright. Also, due to the model's lack of long-term engagement, it allows firms to easier poach customers from their competitors, by offering better prices, customer experience and options.



01 HOW IT WORKS

02 EXISTING SUBSCRIPTION MODELS

03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

04 A GROWING OPPORTUNITY ON THE HORIZON

05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

06 THE WHEELS ARE IN MOTION

# EXISTING SUBSCRIPTION MODELS

01 HOW IT WORKS

02 EXISTING SUBSCRIPTION MODELS

03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

04 A GROWING OPPORTUNITY ON THE HORIZON

05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

06 THE WHEELS ARE IN MOTION

## INTEGRATED

The provider handles every step in the value chain, internally or through partnerships.

### The provider:

- Sources vehicles
- Builds technology
- Has contracts with customers directly
- Manages vehicle delivery and operations
- Manages end-of-term asset recovery and sale

## SERVICE ONLY

Provider creates the brand but partners with another entity to handle logistics.

### The provider:

- Creates the brand

### The partner:

- Handles logistics
- Manages vehicle delivery and operations
- Manages customer facing activities

## MARKETPLACE

Provider manages front-end interaction and partners with vehicle provider.

### The provider:

- Manages marketing and listings
- Directs customers to dealers, leasing companies, etc. for the vehicle itself
- Manages contract with customer directly (in some cases)

### The partner:

- Provides the vehicle
- Manages delivery and operations
- Manages asset recovery and re-marketing

## SOFTWARE AS A SERVICE

Provider creates customer-facing platform to smaller subscription providers or those providing the car.

### The provider:

- Builds and maintains front-end software

# LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

01 HOW IT WORKS

02 EXISTING SUBSCRIPTION MODELS

03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

04 A GROWING OPPORTUNITY ON THE HORIZON

05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

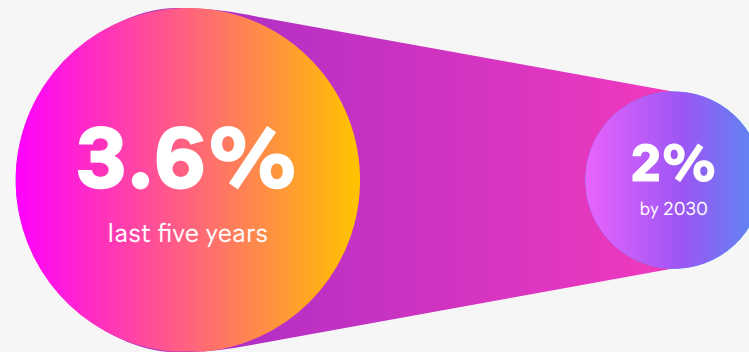
06 THE WHEELS ARE IN MOTION



## A GROWING OPPORTUNITY ON THE HORIZON

Trends around existing car “ownership” models suggest that car subscription services are on the right track, and likely to appeal to a growing population, interested in having better services and/or help contribute to the environmental issues of our day.

For a start, the numbers suggest that global car sale growth is on the decline and is unlikely to fully bounce back.



The annual growth rate of global car sales is expected to **drop** from the 3.6% over the last five years to around 2% by 2030.

Fewer people outright owning cars means that **drivers will likely turn to alternative, non-committal forms of “ownership,”** such as subscription models.

**Furthermore, we’re seeing a growth in the leasing sector across all markets.**



01 HOW IT WORKS

02 EXISTING SUBSCRIPTION MODELS

03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

04 A GROWING OPPORTUNITY ON THE HORIZON

05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

06 THE WHEELS ARE IN MOTION

# A GROWING OPPORTUNITY ON THE HORIZON

01 HOW IT WORKS

02 EXISTING SUBSCRIPTION MODELS

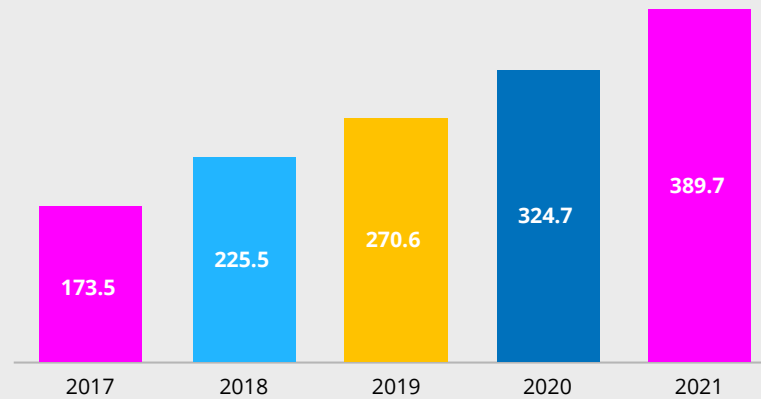
03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

04 A GROWING OPPORTUNITY ON THE HORIZON

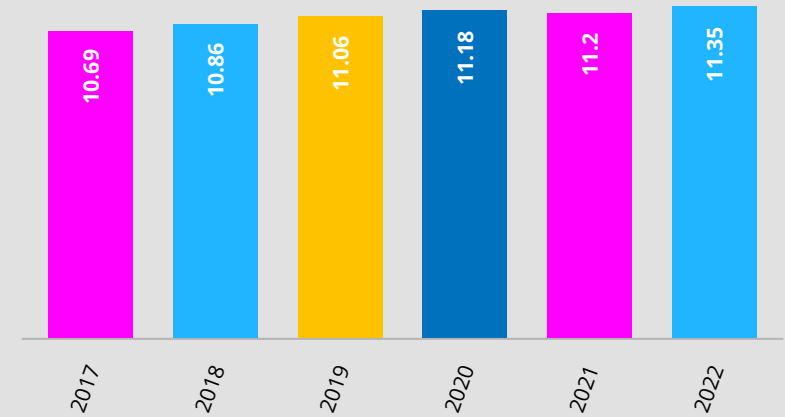
05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

06 THE WHEELS ARE IN MOTION

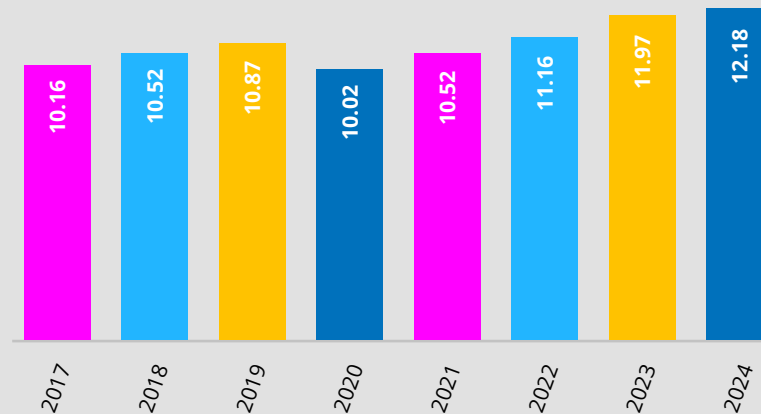
Market size of automotive financial leasing in China from 2017 to 2021 (in billion yuan)



Rental and leasing of cars and light motor vehicles revenue in France from 2017 to 2022 (in billion U.S. dollars)



Industry revenue of "passenger car leasing" in the U.S. from 2017 to 2024 (in billion U.S. dollars)



The car leasing market is **poised to grow by 23,696.77 thousand units** during 2021-2025, progressing at a CAGR of almost **18%** during the forecast period"

*Business Wire*

## A GROWING OPPORTUNITY ON THE HORIZON

This is indicative of a wider trend, one where consumers are less interested in owning a vehicle “full-time,” and instead are keener to rent, lease or subscribe to a monthly service.



Traditional ownership models **will not meet the future expectations of consumers**, as **42%** are very interested in subscription pricing, while another **24%** of respondents are very interested in fractional ownership of vehicles.

IBM

01 HOW IT WORKS

02 EXISTING SUBSCRIPTION MODELS

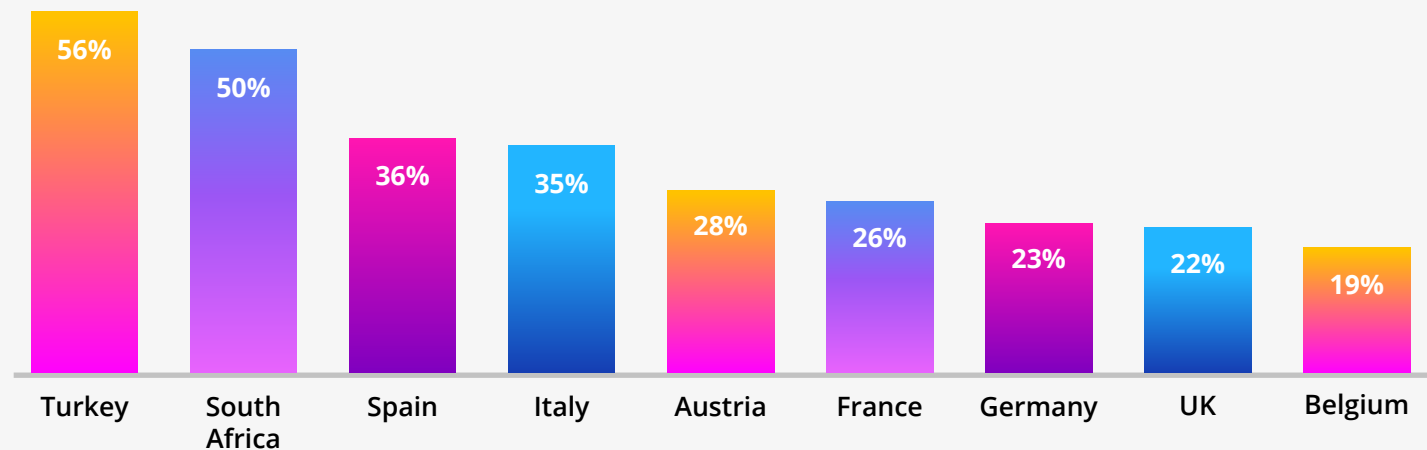
03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

04 A GROWING OPPORTUNITY ON THE HORIZON

05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

06 THE WHEELS ARE IN MOTION

Percentage of consumers who are somewhat/very interested in a subscription that allows access to different models from the same brand



# FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

01 HOW IT WORKS

02 EXISTING SUBSCRIPTION MODELS

03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

04 A GROWING OPPORTUNITY ON THE HORIZON

05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

06 THE WHEELS ARE IN MOTION

## INSURANCE

To maximize the customer convenience, CaaS packages must contain an all-encompassing insurance. However, it could be challenging for providers to find the right insurer while also keeping prices down.

## CYBERSECURITY

Due to the connectivity of CaaS vehicles, they could be at risk of cybersecurity breaches. Providers will need to develop a thorough and robust system that covers all bases and protects the vehicles and the end users' data.

## REGULATIONS

As the technology and adoption of CaaS increase, so too will the regulatory scrutiny. Indeed, the European Union is already developing new rules around customer data that may impact CaaS providers.

## PRICING

Knowing how much to charge per vehicle and subscription type will be key, both in terms of calculating risk and generating the most revenue.



# FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

## 01 HOW IT WORKS

## 02 EXISTING SUBSCRIPTION MODELS

## 03 LEVEL OF INTEGRATION OF DIFFERENT PLAYERS

## 04 A GROWING OPPORTUNITY ON THE HORIZON

## 05 FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

## 06 THE WHEELS ARE IN MOTION

### BRINGING DEALERS ONBOARD

Buy-in from dealers will be essential if CaaS models are going to succeed. But non-dealer providers will need to incentivize them to get involved early on.

### MANAGING FLEETS

Which financing packages to allocate to which vehicles, keeping track of vehicle availability and monitoring fleet performance. These are all novel skills that will have to be quickly learned and mastered.

### CUSTOMER AWARENESS

As previously mentioned, leasing is on the rise. This will be good news, but only if customers are made aware of exactly what CaaS is and its benefits.

### GEOGRAPHY

While much of CaaS's appeal is around customers' freedom in dropping off a vehicle in one location and picking up a new vehicle elsewhere, it would be logistically ambitious to be as far-reaching as some customers might like. Plus, cross-border models would introduce further regulatory challenges.





01 HOW IT WORKS

02 EXISTING  
SUBSCRIPTION  
MODELS

03 LEVEL OF  
INTEGRATION OF  
DIFFERENT PLAYERS

04 A GROWING  
OPPORTUNITY  
ON THE HORIZON

05 FUTURE  
ROADBLOCKS AND  
HOW TO OVERCOME  
THEM

06 THE WHEELS ARE  
IN MOTION

## FUTURE ROADBLOCKS AND HOW TO OVERCOME THEM

### How technology can help?

Technology can address many of the challenges that threaten the CaaS model.

#### BIG DATA

Advanced data analytics now play a vital role in the lifecycle of a vehicle. Analyzing vehicle data allows for predictive maintenance, provides managers with necessary updates about their fleets, and alerts the authorities in the case of accidents. Moreover, data allows for the optimization of supply chains, the enhanced product design for vehicles and the development of new customer insights.

#### CONNECTIVITY

Thanks to unique tamper-proof digital identities, today's vehicles are clearly identifiable from others in the same network. This allows for easy tracking of the vehicle's data, improving the efficacy of use cases, such as driver safety, insurance, fleet management and predictive maintenance. Sharing a vehicle's data helps not just the individual customer, but overhauls the entire mobility ecosystem.



01 HOW IT WORKS

02 EXISTING  
SUBSCRIPTION  
MODELS

03 LEVEL OF  
INTEGRATION OF  
DIFFERENT PLAYERS

04 A GROWING  
OPPORTUNITY  
ON THE HORIZON

05 FUTURE  
ROADBLOCKS AND  
HOW TO OVERCOME  
THEM

06 THE WHEELS ARE  
IN MOTION

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### How technology can help?

Technology can address many of the challenges that threaten the CaaS model.

#### CLOUD AND OTA

Cloud and over-the-air (OTA) technology means that vehicle software will be able to be updated quickly, safely and easily, as well as at scalable rate.

#### API AND MARKETPLACE

As the CaaS sector grows and demand increases, APIs, partner ecosystems and marketplaces will be key in driving forward innovation, creating new and exciting products and services for end customers. By having the option to connect with a wide array of different software providers, CaaS providers will be well placed to grow at the same rate of their consumers' demands.

Despite setbacks over the past two years – largely triggered by the pandemic and its impacts – the research clearly suggests that **there is a huge consumer appetite for CaaS models**. And the appetite among providers is returning, too. From incumbent OEMs and captives through to dedicated startups, the noise and excitement around CaaS are increasing every day.

Clearly, the time to act is now. Otherwise, interested parties risk being left by the wayside. However, a level of caution is required, too. As noted, there are plenty of challenges at play here, and as the model gains ground, more problems will likely arise.

Probably, the solution to these unknown but inevitable issues will lie in having a **solid system in place**, but without knowing for sure, it's vital to have enough **agility to make changes on the fly**.

## THE WHEELS ARE IN MOTION





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