



CRYSTAL COLLECTIONS^{ltd}
SECURED ASSET COLLECTIONS



Vehicle Return Control



Best Practice



Introduction

Crystal Collections was established in 1996 and recovers assets on behalf of some of the UK's largest motor finance companies. Based in Upminster, Essex and Mold, North Wales, Crystal Collections offers a UK-wide service including Northern Ireland. In 2020 Crystal Collections collected more than 25,000 vehicles for its clients.

Authorised and licensed by the Financial Conduct Authority, Crystal Collections has a strong focus on compliance, and specialises in recovering assets that are subject to regulated agreements such as Hire Purchase (HP), Personal Contract Purchase (PCP) and, increasingly, Personal Contract Hire (PCH).

The last 10 years have seen a growing number of lessors who had previously been focused on business-to-business contracts, moving into the consumer regulated arena. With the Financial Conduct Authority increasingly focused on the whole life of agreements, and the requirement to treat customers throughout, it is clear that many of these lessors need to create new processes to accommodate the compliant return of end of contract assets; simply using existing Business to Business processes leaves a lessor open to the risk of scrutiny by the regulator and, in the worst case, penalties and sanctions.

Crystal Collections has, therefore, commissioned this paper to highlight the changing nature of the vehicle return process and, at a high level, highlight what we believe are the main issues all motor finance companies must consider.

We appreciate there are many specialists working in the vehicle finance sector for whom much of what appears in this report is well understood. Nonetheless, we believe it is important to highlight the complete process for the benefit of those Directors and Senior Managers who may not fully understand the end-to-end process involved. We are, naturally, happy to provide more detail on each topic should the reader wish to find out more.

For more information you are welcome to contact Rhys Hellen on 07970 516387 or Lloyd Hope on 07540 124526

The importance of vehicle return control

The success of the asset recovery and remarketing function in any asset finance or leasing company is a major contributor to the overall profitability of the organisation.

Personal contract purchase agreements (PCP) for consumers and operating leases for corporate customers have increased considerably over the past decade and generally require some form of asset recovery at the end of the customer agreement. With many vehicle finance agreements also having a residual value element to them, the success, or otherwise, of this activity can have a significant impact on an organisation's financial performance. Even an under recovery of £100 per returned vehicle can very quickly result in millions of pounds of lost revenue for even a mid-sized vehicle finance or leasing company.

In the past, the three main key performance indicators for asset recovery and disposal teams were: -

1. **Time to collect**
2. **Cost of collection**
3. **Value achieved in remarketing**

HOWEVER, WE SUGGEST TWO MORE

4. **Compliance with regulation**
5. **Recharge collection**

The purpose of this report is to highlight the changes taking place in the asset finance and leasing sector with a focus on Asset Recovery and Remarketing. We will look at the key elements of the process, how they might change over time, developments in technology and changes in legislation. We will conclude each section with key points to consider.





Customer contact

As customer agreements nears their end, it is important that the recovery and disposal process gets off to the right start, especially as it is not uncommon for customer to remember very little about the contract they signed three or four years previously. A courtesy call can help prepare a customer for what needs to take place at the conclusion of the contract, and it can also help avoid any last-minute shocks. Reminding the customer of the mileage and condition clauses in their contract at this stage also allows the customer time to plan for any excess mileage payment or to take remedial action if there are any issues with the vehicle's condition.

Arranging the collection of the vehicle is a process that, on the face of it, appears quite simple. However, it is a process which can easily go wrong if instructions are not clearly communicated to all those involved in the process.

The type of agreement the customer has will dictate the approach to collecting the vehicle

Is it a consumer or corporate agreement?

Is it a HP, PCP, lease, or PCH agreement?

Is it a regular termination, early termination, or an extended contract termination?

There may also be differences in the approach required and people involved depending on the client organisation involved. For example, a manufacturer's captive finance company may pass the customer back to the supplying dealer as part of a customer retention plan, and similarly a bank owned vehicle finance division may pass the customer contact back to an introducing broker for the same reason. As a result, there is a danger that dealers and brokers may take a slightly different approach to customer retention and the processes they follow.

With so many variables and people involved in the process, what on the face of it appears to be a quite simple task: contacting a customer, has the potential to become extraordinarily complex. Keeping track of where each agreement is in the process and making sure that the key tasks have been performed by the appropriate people at the appropriate time is therefore essential.

Most client organisations are members of the Finance and Leasing Association (FLA). As members they have agreed to a code of conduct. The key commitments regarding vehicle recovery are as follows:

Code of contact 2.G.8

Members are committed to explaining all the options available to customers at the end of an agreement.

Code of conduct 2.G.9

Where the agreement is introduced by a motor dealer member are committed to ensuring that dealers maintain high standards of quality and service.

Code of contact 2.G.10

If the termination is for non-payment and the vehicle is repossessed, members are committed to use professional agents.

THE OUTCOME OF THE CUSTOMER CONTACT CALL SHOULD BE

- 1. Mileage is known**
- 2. Condition is known**
- 3. Customer status is known**
- 4. Collection point agreed**
- 5. Collection date agreed**
- 6. Reminding them of the documentation needed i.e., service book, V5 etc.**

Having obtained this information, the instruction can now be passed to the collection agent. The earlier the agent is informed, the more likely they are to be able to meet the customer's preferred collection date.

Customer contact (continued)



KEY POINTS

1. Make the customer contact call at least three months prior to the termination date, as per the FLA Code of Conduct
2. Build process maps to ensure that each party in the process (dealers/brokers/agents) understand their responsibilities
3. Record each step in the process to ensure a consistent standard of quality are applied
4. Employ professional agents as per the FLA Code of Conduct





Asset collection

48 hours prior to the planned collection date, the customer should be reminded of their responsibilities as per their original agreement and reinforced on the “3 months to go” call. If the collection is for non-payment, care must be taken to establish whether the customer is vulnerable and may need assistance. Guidance on vulnerable customers is available from the FLA. Failure to take this step can have costly consequences later.

When the Collection Inspector arrives at the agreed collection point, they must assess the circumstances. Is it safe to complete a 360-degree inspection of the vehicle? If the vehicle is parked on a busy road there may be a health and safety issue. Can the vehicle be moved to a safer place? Is there enough light to do a proper inspection and take appropriate images? Is the vehicle clean enough to see any scratches and dents?

If safe to do so, an inspection will then take place. Following which, it is vital that the customer is given the opportunity to review the inspection results and there is an opportunity to address any recharge issues. This is where the Collection Inspectors' people skills are required. Hiring and training the right Collection Inspectors is key to the success of the process. Organisations that

are members of the British Vehicle and Rental Association (BVRLA) can take advantage of the training they offer to Collection Inspectors which includes customer service skills.

Of course, things can go wrong. Traffic delays are unfortunately quite common. Most customers will be forgiving if they are kept informed of any issues that will delay or prevent the collection. Tracking delivery Collection Inspectors and providing dynamic updates can help to improve the customer service in this regard.

The collection of the vehicle is one of the few times that the customer will have actual contact with anyone representing the organisation that provided their vehicle. It is therefore essential that this interaction reflects the values of that organisation. As a result, if there is not a close and ongoing relationship between the organisation and the collection agents, it is unlikely this will happen.

A final technical point. Many cars now have onboard navigation and communication modules that may have personal data in them. This data should be cleared upon collection to avoid any data protection issues.

KEY POINTS

- 1. Contact the customer two working days before the collection**
- 2. Communicate with the customer immediately if their collection is delayed or needs to be rescheduled**
- 3. Ensure Collection Inspectors are trained on customer care and negotiation skills**
- 4. Assess the customer's situation**
- 5. Assess the collection point for health and safety**
- 6. Clear any personal data from the vehicle to cover GDPR issues**

Vehicle Inspections

The type of inspection carried out at the point of collection will depend on several factors with the organisation's own policy on inspections and recharges the main influencing factor. However, we must also consider the type of agreement the customer has. The BVRLA have set out a standard that most contract hire, and leasing companies adhere to. Increasingly, motor finance businesses are applying these standards to personal contract purchase agreements. The important thing to note is that to be seen to be treating customers fairly, there must be a good degree of consistency in all inspections.

The most basic of inspections can be recorded on paper using a flattened diagram to record where the damage is, along with comments to provide further explanations. Most inspections are done using a mobile device to record the damage and other details of the vehicle. There are several providers of these systems and it is worth researching to find the software that best matches your vehicle return policies. We are likely to soon see scanning technology that will allow for body damage and tyre condition to be captured more accurately.

One feature to look for in mobile technology inspection software is the way that the software guides the Collection Inspector around the vehicle. This helps with the consistency of inspections and helps ensure that details are not missed during the inspection. The technology should also have the ability to capture images. We will cover images in the next section.

The results of the inspection can sometimes lead to difficult conversations with customer. This is when the professionalism of the Collection Inspector is vital and underlines the need for good training. The Collection Inspector must be able to explain the standards that are being applied, what rights the customer has, how to raise a complaint and how any complaint will be handled.

If damage is found, the best time to deal with any associated costs is at the point of collection. It is therefore helpful if the Collection Inspector has access to prices to rectify damage. Using a generic price list is the easiest option but the lack of vehicle model specificity makes this approach problematic. The more model specific you can be, the better, as it ensures a fair outcome for all parties. There are several software options available in this regard.

It is also important that the customer understands the importance of having all relevant vehicle documentation available at the point of collection and the consequences of not having the information to hand.

Getting the balance right between recovering costs and customer goodwill and retention is a challenge and will have a different value for each organisation. It is, therefore, important that each Collection Inspector clearly understands the policy for each client.

Once the inspection has been completed it is vital that the Collection Inspector gets the customer's acknowledgement of the outcome of the inspection.

KEY POINTS

- 1. Use technology to capture inspection data**
- 2. Have a clear policy on recharges that can be explained to the customer**
- 3. Make sure that Collection Inspectors are trained in handling customer issues and complaints**
- 4. Review all documentation handed over**
- 5. Always get the customer's acknowledgement (with complaints if appropriate)**

Images

The tools and systems available to Collection Inspectors are continually improving. So much so, in fact, that if a Collection Inspector is suitably trained, images captured at the roadside could be used as remarketing tools.

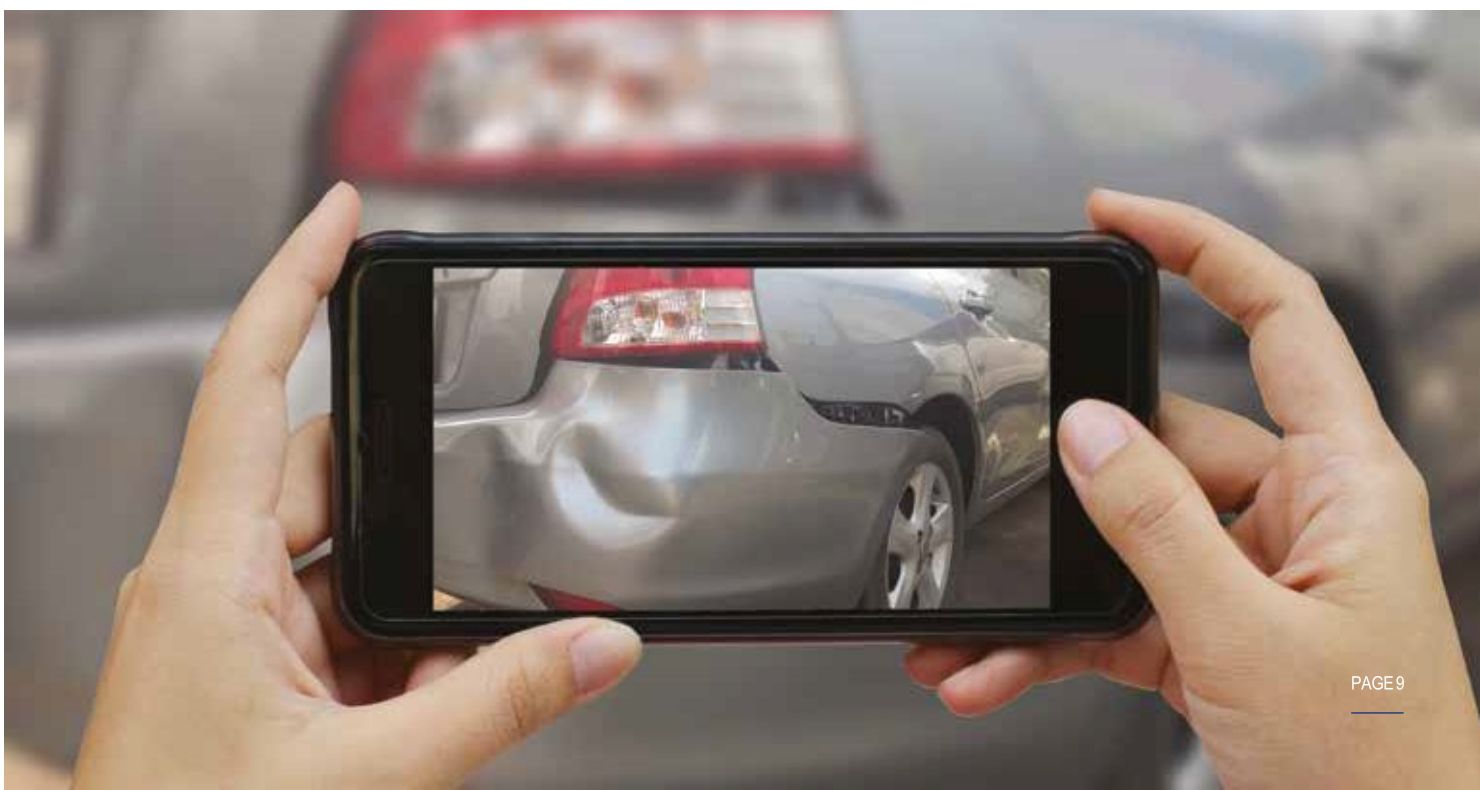
In the past, crude images were captured of proof of damage and sent back to the lessor for assessment and recharge. The improvements in hardware means that the detail captured in images are enough to make recharge decisions on the spot. This enables the customer to make choices on rectification.

The ability to take video images with sound recordings further enables the Collection Inspector to relay issues to the lender/ Lessor concerning the condition of the asset being collected. Engine issues are a great example of a situation where video with audio can be well utilised in this regard.

Recently, a few companies have been working on software that uses Artificial Intelligence to compare images collected by a Collection Inspector with a standard set by the Lessor, to provide a more consistent approach to damage recharges and fits well with the need to treat customers fairly as prescribed by the FCA. The producers of this software are also working on vehicle grading standards laid down by the remarketing industry. This means that as soon as images of a vehicle have been captured, a grading is applied, and the vehicle can be listed on any number of remarketing sites.

All these improvements mean that roadside Collection Inspectors must be trained to use the hardware and software to produce the desired outcomes. Those being:

- 1. The customer is treated fairly**
- 2. Recharges applied are accurate to the company policy**
- 3. Grading of a vehicle for remarketing is accurate and consistent**
- 4. The images are enough to enable instant remarketing**



Logistics

Once the vehicle has been inspected and images have been taken, the remarketing process can begin. With the advent of online marketing channels, the quicker vehicles are listed, the more likely you are to find a buyer. As a first step, the vehicle needs to be moved to a secure location. This need not be to the point of final remarketing though as a vehicle with significant damage that can be repaired cost effectively may need to go to a Refurbishment Centre first.

Clearly, the fewer times and the less the distance a vehicle is moved, the lower the cost to a company. The multi-channel marketing approach also means that the vehicle should go to the nearest remarketing centre, whilst still being listed on several different online channels.

Whatever a company's policy, Collection Inspectors need to be aware. Collection timing and scheduling is also vitally important to ensure there is sufficient time for the vehicle to be delivered to the correct secure location before it closes, thereby avoiding any issues with insurance.

Vehicle tracking devices are a useful tool to keep abreast of a collected vehicle's location. These devices can easily be plugged in to one of the on vehicle diagnostic ports, are relatively cheap and can be moved from vehicle to vehicle. The benefit is that all unsold stock can be located automatically, without contacting every remarketing centre or secure location.

KEY POINTS

1. **List the vehicle as quickly as possible on multiple sites**
2. **Move the vehicle as little as possible**
3. **Check that insurance requirements are being met regularly**
4. **Consider deploying tracking devices**



Listing

The inspections required for remarketing purposes are slightly different to those that are required for customer recharge. The purpose of the remarketing inspection is to grade vehicles in a way that online buyers can trust it to be a fair representation of the vehicles condition. The National Association of Motor Auctions (NAMA) have produced a 5-grade standard that is now well known to buyers. The question is do you have to do two inspections or is there an overlap between the collection inspection and the remarketing inspection?

A similar question can be asked of images. If the images taken at the point of collection are of a suitable standard, then could they not be used at the first stages of remarketing?

Of course, this will also depend on the condition of the vehicle at the point of collection. If the vehicle needs refurbishment then it might not be suitable for immediate listing and so it is currently something that can only be decided on a case-by-case basis. It may be that analysing vehicle types, locations or demographics allows a company to determine the proportion of vehicles likely to require further work and vary their approach accordingly. However, this is a largely unexplored area but improvements to technology employed in assessing vehicles could potentially enable companies to tailor their approach and reduce the cost and time required to get vehicles to sale.

KEY POINTS

1. **Aim to provide NAMA Grading at the earliest point**
2. **Consider using point of collection images for early remarketing**
3. **Test whether non-reconditioned vehicles can attract buyers at the right price**



Settlements

Keeping track of all the activity involved in contacting clients, organising a visit, inspecting a vehicle, collecting it and its remarketing can be challenging. Similarly, recognising and settling all costs and charges associated with a particular vehicle can be a complex for finance departments, who frequently must chase payments then have the unenviable task of reconciling expenses to individual customer accounts.

As result, it can be difficult for companies to track the fundamental KPIs listed at the beginning of this report in an accurate and timely manner:

- 1. Time to collect**
- 2. Cost of collection**
- 3. Value achieved in remarketing**

Nonetheless, the benefits in getting this right are that it helps highlight areas for ongoing improvement which can have a positive financial impact of an organisation. Crystal Collections' experience is that most organisations operating in this sector are relatively successful but the difference between good and great can be significant.

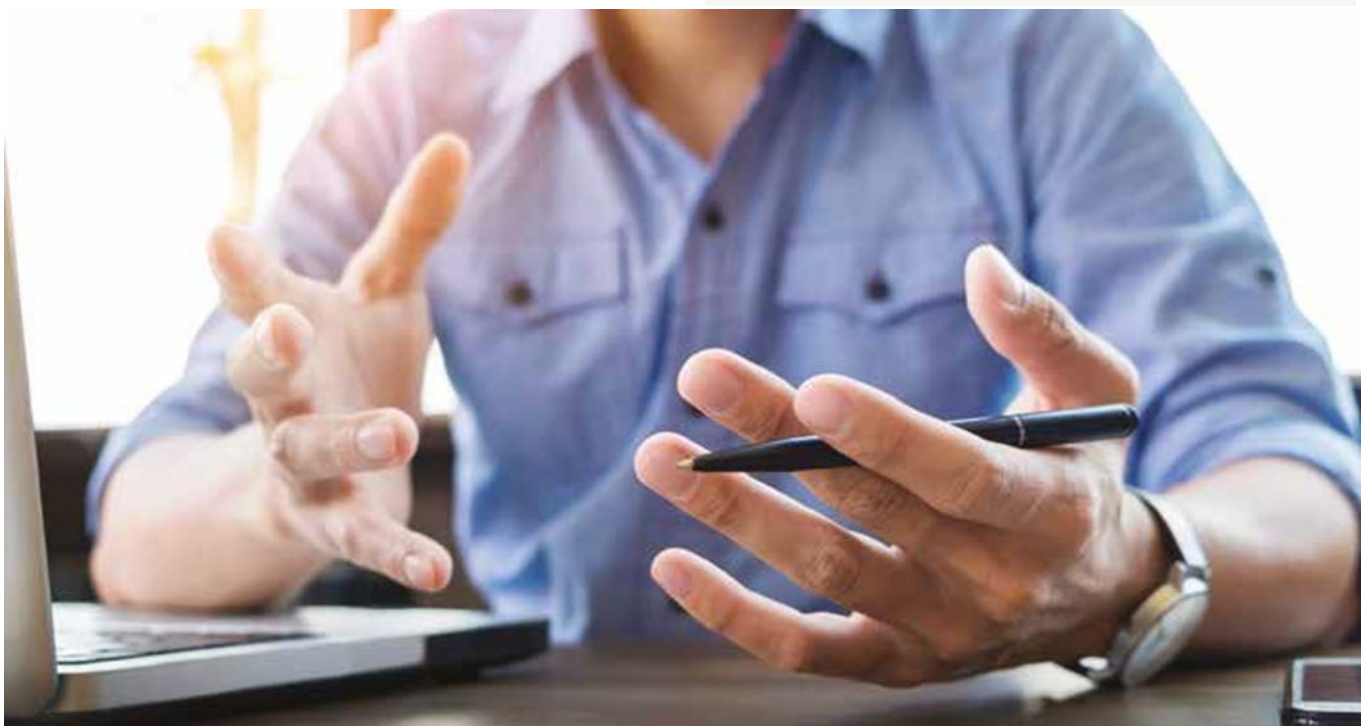
For example, an organisation recovering 20,000 vehicles per annum at an average value of £12,000, equates to £240 million of assets per year. Small improvements in processes and practices which are highlighted in this paper could have the following impact:

- 1. Time to sell – reduced by 5 days = £82,191 saved (2.5% cost of funds)**
- 2. Cost of collection and logistics – reduced by £12 per vehicle = £240,000**
- 3. Remarketing values – increased by 2% = £4.8m**

A £5.1m improvement to the organisation's bottom line

KEY POINT

- 1. Measure for better management**
- 2. Measure to improve financial performance**



Conclusions

To experienced operators in the vehicle finance and leasing sector, the content of this report may seem basic. However, that has been intentional.

We want the reader to challenge themselves on each point and ask: “do we do this?”. If they do not, they should. If they do, they should then ask: “do we do this to the highest standard in the sector?”.

Think of this document as a coaching tool. It is here for you to ask the simple questions that lead to better performance.

ASK YOURSELF THE FOLLOWING QUESTIONS

1. **Could we reduce the time to sell each vehicle?**
2. **Could we reduce the cost of collection and logistics?**
3. **Could we improve the values we achieve for each vehicle?**
4. **Are we compliant with all FCA regulations?**

If the answer is “no” to these questions, then apologies for the few minutes you have spent reading this report.

If the answer is “yes” to some of these questions, then we hope you found this report a useful reminder and it results in your organisation's improved performance.



Resources

BVRLA FAIR WEAR AND TEAR

<https://www.bvrla.co.uk/fleet-services/fair-wear-and-tear.html>

BVRLA CODE OF CONDUCT

<https://www.bvrla.co.uk/resource/leasing-and-fleet-management-code-of-conduct.html>

FLA CODE OF CONDUCT

<https://www.fla.org.uk/consumer-information/lending-code/>

NAMA GRADING STANDARDS

<http://www.nama-uk.com/grading/what-is-auction-grading/>





About the author

George Grant has spent over 35 years working in and around the motor finance and remarketing sectors.

He started his career in the early eighties working in the branch network of North West Securities, a Chester based Finance house. There he covered several different aspects of the sector including asset recovery and disposals. Following a couple of years at British credit Trust, another UK finance house he moved on to form his own Finance and leasing brokerage specializing in high value vehicles. After seven successful years running his own business, he then re-joined NWS which later became Capital Bank and then Bank of Scotland.

As head of Vehicle finance George was responsible for their management of the company's contract hire businesses which grew under his leadership from a fleet of 7,000 vehicles to over 70,000 in under 10 years. Following the acquisition of LEX vehicle leasing he went on to head up the Motor finance division with a portfolio of motor-based assets in excess of £5 billion.

In 2010 George join Manheim, the world's largest vehicle remarketing company. The he was responsible for several of the non-auction businesses including Inspect and Collect and the transport division. Latterly he was instrumental in the setting up of Nextgear Capital, Manheim's stock funding business.

Since going into semi-retirement in 2016 he has worked on several short-term projects for major players in the sector.



Since 1993 Crystal Collections has provided vehicle collections and debt management services to global financial service companies.



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