

# Secure Automated Remote Floorplan Auditing

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## Introduction

Floorplan auditing is an integral part of the auto finance process and although the technology is available to provide secure, remote auditing, lenders have been slow to adopt this process. Whether the solutions are too expensive, cumbersome to integrate, or the contract audit companies refuse to see where the trends are going, all can contribute to the mentality of “we have always done it this way”. As technology advances, some companies will become early adopters and benefit greatly from innovative new practices, while others will suffer because they fail to respond to the call to action the industry requires them to address. Additionally, most technology solutions are being provided by the Audit Service providers which can cause a conflict of interest. Those truly wanting to move to automated solutions will realize their service side of the business could be at risk, which is often 3-4 times the costs of technology solutions.

## The “Classic Way” of Auditing

Auditing has not changed dramatically in the last 30 years. While most auditing companies talk about the use of technology in their auditing process, it usually involves an auditor showing up at the location with an iPad, or similar device to scan the vehicles. These new processes still do not address the needs of the lender, especially when the lender could have total visibility of the dealership at all times.

### Problems with the Classic Way

**Costs:** Cost of an audit will be composed of three factors.

1. The number of times an auditor visits the dealership,
2. The number of vehicles audited,
3. The travel time to the dealership

While an audit of a dealership is necessary, the cost can be a burden and a more cost-effective approach is needed. “Credit challenged” dealerships require *increased* monitoring and automation would be a cost-effective alternative. When a dealership is subprime, a lender is forced to audit on a more frequent basis that could include once per week. Many of these dealerships will only finance a few cars through the lender, so the cost per vehicle rises substantially.

### Human Error

Even with current technology, *auditors who enter data into the system are only human*. Missed entries, bad scanning practices, and carelessness all can contribute to a less than accurate audit report that is of reduced value to the lender. Using an automated secure electronic system, the human error is removed.

### Influence Factor



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*Many auditing companies* rotate auditors amongst the dealerships because dealers may form a relationship with the auditor and could be subjective, potentially influencing the auditor's behavior. This includes the auditor not being able to find a vehicle and taking the dealer's word that it is at a vendor shop being repaired, as an example. If there is not a surplus of auditors, the likelihood that the same auditor will visit the same dealership is much higher. While rotations are needed to ensure the integrity of the audit results, this adds to the cost of the audits. Finding solutions that eliminate the rotations is an important part of balancing the costs versus compliance.

### **Frequency**

As mentioned under the cost section, the lender can only afford to audit a dealership so many times a year before the cost outweighs the benefit. For example, if a dealership knows they are only audited approximately 4 times a year, they may tend to become undisciplined in managing the payoff of floored vehicles. With electronic auditing, the discipline is maintained between the financial institution and the dealer.

On a per vehicle basis smaller dealerships are more expensive to audit and automating the process would eliminate the need of frequent, costly audits.

## **Automated Remote Auditing**

### **Time Has Come**

The technology is now available for a lender to automate the audit process, allowing them to constantly view collateral on a dealer's lot. Technology has advanced to the point where the benefits are so obvious that organizations, such as OEMs, dealerships, auctions and logistics are taking advantage of this new technology. Now is the time for the financial world to also take advantage of this effective tool.

With the COVID-19 virus we are living in a time where sending people on site may not only be a logistical nightmare but could have a negative health impact. The industry has become comfortable with the status quo, and now have been shown how easily disruptions can occur when under prepared. The time is now to deploy a solution that can weather the next crisis.

Solutions that are integrated and allow both traditional auditing when needed but take full advantage of secure remote identification are even more relevant. 12th Tech's RTI auditing solution powered by AutoMap's secure vehicle location system provides a solution that can solve the industry's current and future auditing challenges.

### **Cost Effectiveness**

Lenders need a modern auditing solution that provides the most up to date information for the lowest cost. Remote auditing now provides the lender with total transparency of the dealership for less than what they currently pay for sporadic audits throughout the year. Lenders can continually verify the location of each floored vehicle, providing unprecedented auditing metrics.



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## Transparency

Remote auditing now provides the lender with total transparency of the dealership for less than what they currently pay for sporadic audits throughout the year. Daily, the lender can verify the location of the collateral, and movement history of each vehicle floored providing metrics of the dealership with an efficiency not seen in the industry, until now.

Real time auditing can now provide

- **Real-time Results** - Multiple sources for real time information.
- **Real-time Action Alerts** – A system that now can give you warnings on triggered events occurring daily, rather than waiting until the next physical audit.
- **Real-time Electronic ID** – Security built into the platform and databases that have already been approved for the financial services industry.
- **Dealer Self Audit** - Allows the dealer to self-audit (if desired) without the risk of fraud.

## Machine Learning Analytics

With today's powerful machine learning tools, the ability to analyze large amounts of data and present this information for clear decision making, has become more accessible. Solutions today need to give the finance company visibility of their risk at all levels of the portfolio from a dealership down to an individual asset. So once again though the ability to have data received daily rather than monthly dramatically increases the value of this process.

## Security

Patented, automated vehicle verification software assures that all vehicles seen by the system are verified vehicles and will not report "false" verifications. At no time can a dealership report that a vehicle is present on their lot, when it is not. Vetted through Trustwave, a leader in evaluating managed security services providers, the system fills out all the requirements needed to pass the cybersecurity requirements for the financial industry.

## Risk Management

We are now seeing that risk is growing in all sectors of lending. Our current crisis with the COVID-19 virus will see dealerships go out of business and vehicles being redistributed. Perhaps at no time has the risk been higher for defaults by dealers and the misplacing of vehicles during this process. The question is what a lender will do to mitigate this risk now and be prepared for the next crisis that comes over the horizon. Automated remote auditing is a technology that will reduce the risk better than any other option available today.

## Cash Flow

When an audit is performed or coming due, it is not uncommon for the dealerships to 'settle up' sold items. When audits are every 30-90 days, this is both a cash flow issue as well as "out of trust" potential. Moving to an automated audit system that is literally giving results daily can greatly reduce this issue.



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## Why Change?

As all companies know, if you don't adapt to the changes in the market and new technologies, then you won't find new opportunities that can directly affect your business. Just look at the difference in how Kodak didn't see the change, and how Netflix did! Capitalizing on new auditing capabilities not only save your company dramatic savings but provide higher confidence in your portfolio. These advantages can be utilized to increase profits, increase credit lines due to higher confidence in the portfolio; ultimately reducing losses. These solutions can address the unprecedented changes due to the COVID-19 crises while giving you a platform that adds value. Growth and planning for the future are more important now more than ever.

## Summary

The finance industry has been poised for a paradigm shift in floorplan auditing for a long time. Today the technology available not only makes this shift a reality, it has become a necessity due to the current COVID-19 virus outbreak and the social distancing norms. Few companies have been ready to provide this service even though it has become apparent to all that change is coming. Moving forward, efficiency and cost-effective technologies will replace the need for human interaction in many scenarios. Slow to adopt new processes, floorplan lenders will need to move quickly in today's environment, or they will be at a competitive disadvantage in terms of profitability and relevance. Financial institutions can mitigate their risk more than ever before and move ahead in this competitive marketplace.