



Treasury and Trade Solutions

Why Payments are at the Heart of the *Connected Mobility Sector*

The Current Mobility Landscape

The mobility sector is going through *profound and complex changes driven by regulations, changing consumer preferences and evolving technology*. The industry faces challenges from stalling electric vehicle (EV) sales in some major markets, technological issues with autonomous vehicle (AV) pilots and concerns on EV charging infrastructure and battery range.

Whilst the mobility sector sales appear to be stalling, *the overall global EV market continues to grow*.¹ Chinese EV manufacturers have gained huge momentum in their home market and now are looking to expand globally in markets such as Europe and Latin America. The focus on new cars has turned from superior engines to digital innovation with software features now central to the driving experience.

Introduction

Life is much more connected today and everyday life now involves buying goods/services with a few clicks. In the mobility sector, traditionally the relationship with the customer effectively ended after buying the car in a dealership. This is now changing to match our more connected lives as original equipment manufacturers (OEMs) are forging new relationships with their customers directly by leveraging software and connectivity to generate new revenue streams. For example, OEMs can receive recurring subscription payments for added features to the car which can be added in a software update like a smartphone.

As a result of this change in relationship with the consumer, OEMs have to adapt to collecting these micro-payments that are becoming critical to the future of the mobility sector. Whether it is the consumer buying the vehicle directly online from the manufacturer to paying for goods/services through the car – **payments and collections are becoming smaller for OEMs and 24/7**, which brings with it multiple challenges that they must prepare for.

¹<https://rhomotion.com/news/ev-sales-h1-2024-europe-slowest-growing-region/>



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1. An Evolving Omni-Channel Sales Model

Changing consumer preferences and digitization are transforming the automotive sales model to match buyer expectations and service standards in other industries. Current and emerging sales models include:

1. **Direct-to-Consumer Online Sales:** Enhanced online platforms enable customers to explore vehicles in *virtual showrooms*, complete purchases online, and arrange home deliveries. This direct-to-consumer model, enabled by ecommerce, has been most enthusiastically adopted by EV brands.
2. **Agency Model:** An omnichannel sales experience whereby the OEM sets the price of the vehicle and then the dealerships provide services, ensuring a *blend of digital and physical* in the sales model. This creates a seamless online buying experience for the customer and overcomes some of the challenges associated with an online-only sales process.
3. **Dealership Model:** Some OEMs are enhancing engagement with dealerships, leveraging their capacity as a marketing and aftersales tool, but with OEMs taking a larger role in the sales process. For certain markets, dealerships are expected to remain central to the car buying experience.

No single model is likely to dominate with brand values, price points and customer bases of OEMs likely to determine the model adopted. However, the trend is expected to be towards an omnichannel experience, where customers move between digital platforms and physical experiences at different stages of the sales process. A recent study found that a quarter of the 15,000 consumers across 20 countries surveyed, now look to buy through the OEM or third-party websites.² At the same time, 66% of respondents want to physically experience the car at a dealership.³

Regardless, as an increasing volume of auto sales move online, traditional payment methods are becoming inadequate. The industry is **moving towards real-time payment and reconciliation to facilitate immediate transactions**, particularly for online car purchases which may be collected outside of traditional banking hours.

² https://www.ey.com/en_gl/newsroom/2024/01/one-in-four-are-buying-cars-online-but-dealerships-will-remain-vital-for-move-to-evs-ey-mobility-consumer-index

³ https://www.ey.com/en_gl/newsroom/2024/01/one-in-four-are-buying-cars-online-but-dealerships-will-remain-vital-for-move-to-evs-ey-mobility-consumer-index

2. Enabling a More Frictionless Driving Payments Experience

OEMs are seeking to build stronger and more cohesive relationships with their customers as the car becomes more connected. Connected vehicles offer OEMs the opportunity to enhance the driving experience for their customers and create new payment flows that they can embed themselves into. Vehicles are now turning into smart devices and becoming more integrated with their customers' digital lives.

The digital experience of the connected vehicle has new payment flow use cases which OEMs can leverage, cementing themselves further in their relationship with the customer. The digital payments use cases can be summarized as:

1. **Over-the-air subscriptions:** Connected vehicles allow customers to buy additional functions and exclusive features for their car that can be applied via over-the-air upgrades. Examples include monthly subscription payments to get features like autonomous driving, parking assistance and automated high-beam adaptive lights.
2. **In-car payments:** Driving a car has unavoidable daily transactions that are essential to the use of the car, from paying for fuel/EV charging to toll charges and parking fees. Connected vehicles can serve as a payment aggregation point for these payouts – creating a lucrative opportunity for OEMs to embed themselves into these payment flows. In-car payments would allow the driver to pay and settle these daily car-related costs through the infotainment system in the vehicle's cockpit or through the car's app, saving the driver time and creating a more frictionless payment experience for them.
3. **Third-party marketplaces:** A marketplace approach involves the OEM providing a platform that enables multiple third-party service providers to sell products and services to the driver through the car infotainment system or the car's app. Examples include ordering and paying for a coffee or food through the in-car infotainment system and personalized pay-as-you-drive insurance.

It is estimated that by 2030, there could be 600 million connected vehicles generating \$537 billion of in-car transactions.⁴ Crucially, these features are seen as attractive and valuable by customers – one survey showed that half of 18 to 39 year-olds would be likely to order and pay for services and goods directly through their car's infotainment display.⁵

To support these new payment flows, OEMs need new payment solutions that are faster and more transparent to handle low-value, high-frequency transactions, in contrast to their traditional high-value, low-frequency transactions.

It is crucial for OEMs to offer payment methods that are easy, secure and convenient for consumers, such as direct debit, credit cards, or digital wallets – creating a more frictionless driving experience. They must also ensure an optimized customer experience through seamless payment integration, whether via embedded apps or existing mobile device connectivity platforms. Application Programming Interfaces (APIs) are critical for enabling these real-time payment systems, ensuring seamless connectivity between OEMs' apps and their banks.

3. Regulatory & Licensing Issues to Consider

There is still much for OEMs to consider with these changing sales models. For example, with marketplaces, it is uncertain whether OEMs, banks, or payment providers will act as intermediaries for these new sales model flows. The optimal payment methods for subscriptions will have to be cost efficient and cater for high volume, low-value payments – making alternative payment methods potentially more suitable.

As OEMs consider this, they must also think of the regulatory and licensing issues. OEMs wanting to integrate closely into a marketplace or in-car payments may need to navigate the complexities of becoming payment intermediaries. This includes dealing with licensing and regulatory compliance, which is increasingly burdensome due to expansive sanctions lists and complex third-party money laundering rules, such as the Second Payment Services Directive (PSD2) and PSD3, which is expected to be published by late 2024 or early 2025 (with a subsequent 18-month transition period).

Citi's Global Solutions to support and enable the Mobility Ecosystem as it shifts to Digital Commerce

As the mobility industry is changing and consumer buying preferences continue to evolve, treasury, payments and ecommerce teams must be ready to build a digital commerce framework to support these new sales models.

Citi's auto sector insight, mobility ecosystem relationships, comprehensive solutions, and experience in relevant adjacent sectors – such as technology, digital commerce and fintech – can help guide companies in the mobility sector. Our Treasury and Trade Solutions team can advise mobility companies as they adopt new sales models and build new digital commerce frameworks to support new payment mechanisms (e.g. for subscription services and in-car payments).

⁴ <https://worldline.com/en/home/main-navigation/resources/resources-hub/blogs/2022/in-vehicle-commerce-is-growing-rapidly-but-who-owns-the-car-wallet>

⁵ https://www.mercedes-benz-mobility.com/static/pdf/Mercedes-Benz_Mobility_In-car_payment_Guide_2023_EN.pdf?utm_campaign=guide2023,utm_content=page



As markets have evolved to keep pace with new technology and consumer buying behaviors, Citi has developed solutions that help provide the building blocks enabling OEMs to thrive in the new digital world of mobility:

1. **API integration** is crucial because APIs serve as the main communication layer between OEMs and their banks. They enable apps and real-time engagement methods, affecting how the bank processes instructions. **Citi's APIs** can help create effective customer experiences and journeys, regardless of the product.
2. **End-to-end digital payments** are essential to enable OEMs' digital commerce flows globally. While it is essential to offer market-relevant payment experiences, OEMs also need robust, globally consistent treasury solutions across pay-ins and payouts. **Spring by Citi®** helps optimize marketplace, business-to-business, and direct-to-consumer transaction flows – providing a unique set of collection instruments which integrates with Citi's reconciliation and reporting capabilities.
3. **24/7/365 real-time transaction processing** is essential as an increasing proportion of OEMs' sales move online. OEMs need solutions that are fully integrated into their platforms, accessed via a Banking as a Service (BaaS) model, and with capabilities delivered by APIs. **Citi® Payments Express** provides instant payment verification at scale (handling volumes of more than 5,000 transactions a second) with resilience (99.99% uptime). It delivers real-time transaction visibility for immediate reconciliation and payment and collection confirmation via notifications. Citi also offers **Payer ID**, which allows Citi's clients to assign a unique virtual number to, for example, their payers, in order to facilitate automated reconciliation of receivables, and **Virtual Accounts**, which help to streamline reconciliation and treasury management by enabling OEMs to set up virtual account numbers for business units, or subsidiaries.
4. **Real-time treasury and liquidity management** is required once OEMs pay and receive instantly and at scale. **Citi® Real-Time Funding** enables the automated movement of funds between cross-border accounts based on pre-defined rules set by the client, making cash available where and when it is needed.



At Citi, we are keen to work with and support the mobility sector through this period of consequential change by helping it navigate the changing payments and digital commerce space. Regardless of the markets that mobility companies serve or the models they adopt, Citi has solutions to help meet their payments and collections needs – from direct-to-consumer flows with digital product subscriptions to simplified receivables management, innovative real time solutions and reconciliation. Our solutions aim to enable OEMs to deepen their customer relationships and help to optimize the opportunities presented by the growing importance of payments.



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