Providing Profit and Supporting Sales

NAOTOMO UCHIMURA
President
Nissan Financial Services

"Sales finance is a core business in the auto world. Automotive financing supports car sales and provides additional income, which translates into increased profit for the Group. All Nissan finance companies operate under strict risk management control policies and must balance the drive for profit with active sales support.

In Japan, about fifty percent of customers use cash when buying a car. Corporate sales account for another 20 percent of the total, while the remaining 30 percent of customers use automotive financing. Therefore, we focus on capturing that 30 percent market, in addition to penetrating the cash customer segment. Nissan Financial Services, or NFS, has the highest level of market penetration in Japan, and our centralized customer center gives us a clear advantage over other finance companies.

A sales finance company is exposed to various forms of risk. One risk is interest rate fluctuation. NFS mitigates this risk by matching interest as much as possible. Almost seventy percent of our portfolio is on a match-funding basis. Another risk is credit risk. Fortunately, our portfolio is improving. The economy is getting better, and we've had success with a low-interest, 2.9 percent APR program. Because this is a competitive rate, it has attracted customers with good credit ratings who otherwise would have opted for bank financing.

We have also improved our scoring system for credit analysis. We have a new system that can automatically process 60 percent of all credit applications. Turnaround time for the credit decision used to take three to four hours, but with continuous improvement of our system it takes just 14 minutes. If the dealer submits the data online, turnaround is reduced to four minutes. This has really increased customer satisfaction. In addition, having a centralized system ensures that our credit standards are consistently applied.

The above improvements have reduced our loss ratio to below 0.3 percent. More importantly, 95 percent of applicants are approved for financing. The challenge is to reduce the loss ratio and rejection rate at the same time. We want to support sales by providing financing, and keep the loss ratio low.

In the past, NFS depended on the parent company for funding. Since Nissan and NFS had their financial ratings upgraded, we issued our first public bond in September 2003. We have also issued commercial paper and diversified our funding sources. As a result, our reliance on the parent company for funding has been reduced to almost zero.

Sales finance became actively involved in sales support during NISSAN 180. We have always been a source of profit, but now we are aiming to enhance the value chain as well. We have the largest number of business lines of any finance company, including credit loans, corporate and private leasing, car rentals, credit cards, insurance, maintenance and much more. Because we have more touch points with the customer, we have a great opportunity to easily cross-sell our products. Nissan is allocating more resources to light commercial vehicles, which is a perfect platform for us as well. And two years ago we created a fleet division with Nissan that provides both vehicles and a full range of services including total outsourcing of fleet management.

The Alliance with Renault has played a central role in our development over the past few years.

NFS and Nissan Motor Acceptance Corporation join with our counterparts from Renault and RCI Banque once a year for the Global Finance Synergy Meeting. We exchange ideas and best practices at this session, which has proved beneficial for both companies. The concept of offering fleet services, for example, originated with RCI Banque, which has been doing it in Europe.

Our performance is measured not only by volume, but also by return on assets. We will continue to increase revenues, reduce costs through process integration, and enhance the functions of our centralized call center and IT activities. We aim to diversify our sources of income through other business activities, such as insurance and maintenance, while improving the customer experience. We want to be the best sales finance company in Japan."

NORTH AMERICA

North America

STEVEN R. LAMBERT
President and CEO
Nissan Motor
Acceptance Corporation

"At Nissan Motor Acceptance Corporation, our mission is to maximize the value of Nissan by providing competitive financial products and exceptional customer service. We are continually striving to support our customers by being an integral component of the Nissan North America sales and marketing plan, being the first choice of dealership financing, and by being the preferred lender to Nissan and Infiniti retail and lease customers. Since we mainly contribute to the Nissan global profit objective when a car is sold, we work closely with Nissan North America to support this sales process. Our overall market penetration—one of our key performance indicators, or KPI—was strong in fiscal 2004 at 49.7 percent for retail and lease combined. That means nearly half of all retail Nissan and Infiniti vehicles sold in the U.S. are financed through Infiniti Financial Services or NMAC.

Performance during NISSAN 180 was very strong as well, with penetration and profit levels higher than our budget objectives for all three years. This was partly due to the higher volume, but also as a result of our tight controls we kept on loss ratios, which we accomplished through good buying practices and closely managing our portfolio. In fact, roughly 75 percent of our portfolio is categorized as Tier 1 and Tier 2, based on the FICO or Fair Isaac & Company score. As a result, in fiscal 2004 our retail loss ratio was 1.1 percent, and our lease loss ratio was 0.4 percent. Both ratios have improved since the previous year. We also grew our dealer inventory-financing portfolio. At the beginning of 2003, we had 359 dealerships in our inventory floor plan count. By the end of fiscal 2004, that had increased to 595. It's a profitable business, and one that sets the stage for a strong overall relationship with the dealer.

On the cost side of our business, we have effectively managed our operating expenses, which represent another KPI. From the beginning of fiscal 2003 to the end of fiscal 2004 we improved our operating efficiency metric by over 20 percent, and continue to be among the industry leaders in cost structure.

Regarding our funding strategy, approximately fifty percent of funding comes from asset-backed securitization, making that our largest funding source. However, that proportion has been declining because we began using a variety of other funding sources, including commercial paper and bonds, after our ratings improvement. As a result, our dependence on Nissan North America for funding via inter-company loans will be reduced in the future.

Under NISSAN Value-Up, we will work closely with Nissan Motor Co., Ltd. and Nissan North America to provide additional sales-financing capabilities in new global markets, which can be a key to increasing sales volume. To achieve the same kind of success we have achieved in our new Mexican sales-financing efforts under the NISSAN 180 plan, we will support the global Infiniti expansion and other geographic growth, including developing financial products for the light commercial vehicle market."