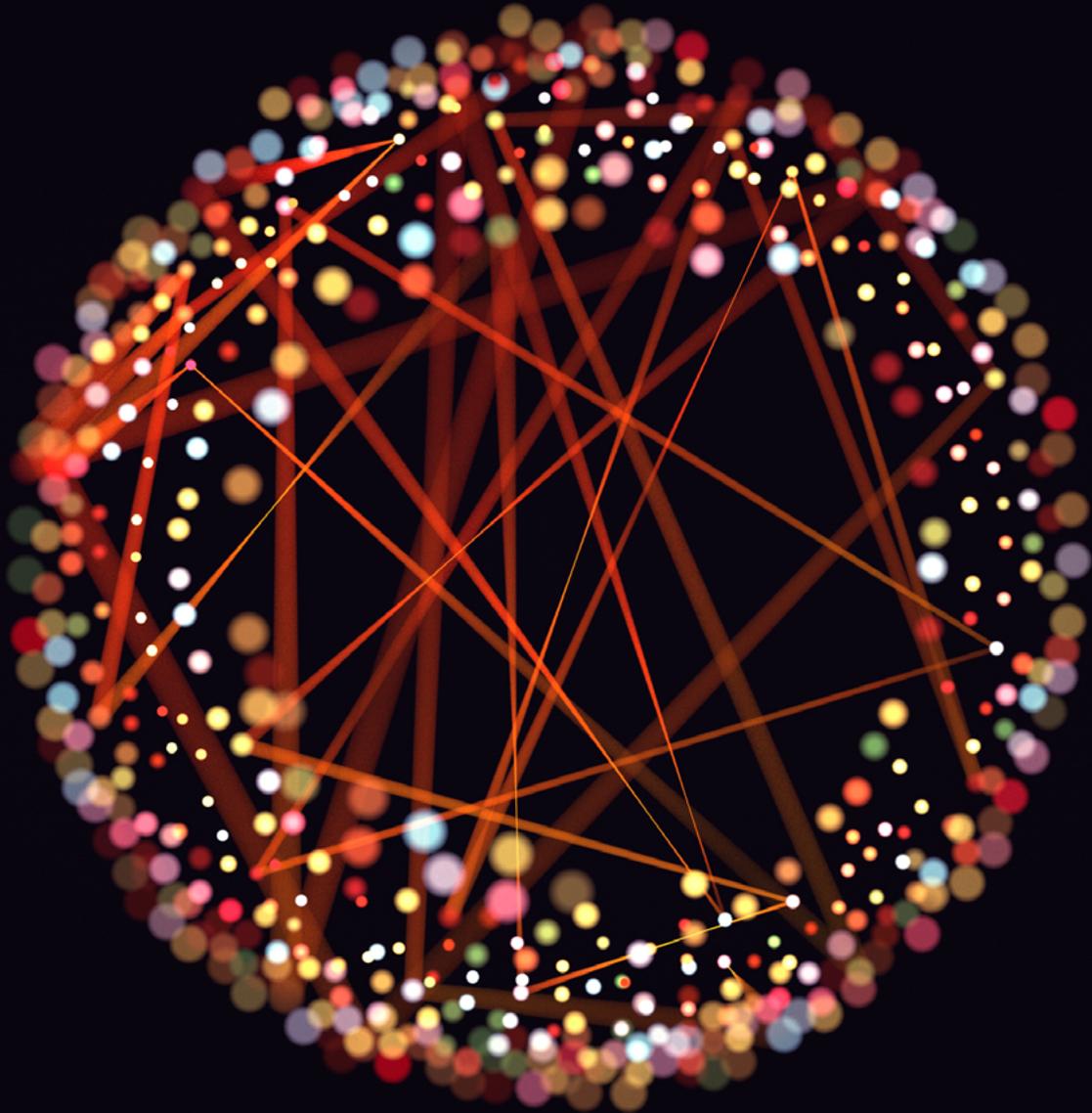




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Point of View

# Rethinking Floor Plan Finance

The financing of a Floor Plan is a revolving line of credit that allows the dealer to receive retail financing for their unsold inventory. This is a common practice amongst car dealerships to manage their working capital. The dealer gets the inventory, in this case vehicles, financed by the Bank. And, until the dealerships create sale transactions of their products, the lender i.e. the Bank, keeps track of the title and status of the financed items.

## Post pandemic challenges

The lender requires physical verification of all dealership unsold inventories. However, given the current pandemic crisis, introduction of a stricter regulation on dealership owners by lenders poses a problem since movement of human capital is limited globally. Thus, the lenders need to invest additionally on resources and tools to make sure that all transactions carried out on the sales floor of the dealerships are error-free. The global recession which followed the pandemic has led to a drastic situation for both the original equipment manufacturers (OEMs) and dealerships in terms of sales and earnings.

To avoid the economic stress of unsold inventories, dealers often resort to sales-out-of-trust (SoT), where unsold inventory is sold to end-customers without knowledge of the lender. This type of non-compliant transaction is used by the dealer to meet day-to-day expenses rather than recording the transaction in the lenders book and having to repay them instead.

As a precautionary measure, the lenders need to track the dealership inventories even more carefully to ensure that the dealership is not running in a defaulter zone, where its demand for financed inventories is far exceeding the number of sales. The lender must also ensure that the unpaid floor plan credit by the dealership correlates to the inventory on hand. Regardless of process compliance, lenders can benefit from real-time vehicle information update as the systems are disparate and disconnected in the real world.

# Dealership scenarios

In most cases, the disconnect between the units sold by the dealerships and payments received by lenders can be attributed to avoidable reasons, such as last-minute transaction update between lenders, dealerships and OEMs or poor data management at dealerships. Firm agreements and practices can be put in place between lenders, OEMs or dealerships to help mitigate such disconnects. Another scenario is that the dealerships are late in processing payments to the lenders, as dealers who bear huge inventories are given a short period of time to repay their debts, although there may be other reasons for such delays as well. Any indication that the distributor is delaying payment is a serious issue that must be handled and if possible, avoided.

Also, discrepancies between number of vehicles financed and inventory at hand could be suggestive of malpractices like SOT, which should be flagged immediately. These challenges prompt the lenders to perform more frequent in-person audits at dealership locations to track unsold inventories. All the above makes the floor plan financing programs time-consuming and resource-intensive for the lenders. These challenges increase the risks faced by the lenders, which in turn increases the cost for funding Floor Plan, which is typically passed on to the end-buyers.



# How can we leverage blockchain to solve these challenges?

Understanding the large number of problems that affect vehicle financing systems in the present. We at LTI are working on a plan for the future, this has prompted us to develop a vehicle tracking network that seamlessly shares information between dealers, lenders, and OEMs, all in real-time.

A **"tokenized inventory"** tracking distributed ledger can manage this more effectively by tokenizing the vehicle information at OEM as soon as it is booked by the dealer. Floor plan processing data relevant to every financed vehicle gets updated on an immutable ledger. The platform ensures every vehicle's quality assessment information in terms of aesthetics and telematics is updated against the inventory token. It enables the lender to track inventory being shipped and stored to dealerships and the sale contract being executed with the end user. Thus, eliminating the need for physical audits. The auditors will simply need to step in to ensure that the results adhere to the data submitted via the platform, in a way minimizing the time and resources required for filing audit reports.

In addition to handling the loan books, the tokenized inventory platform can provide accounting module will also help the lenders to manage dealer-specific credit sheets, distributor collaterals, insolvency, and debit-credit notes. The contracts established with lenders and dealerships will be translated to smart contracts making the process of floor plan financing, error-free and transparent. The smart contracts will monitor all inventory and allocated funds relevant to lenders in real-time to provide an enriching dashboard and popularity index for the financed vehicles, along with

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return on investment insights for the lenders. With real-time visibility of inventory movements at the OEMs and credit utilization by the dealerships, lenders would be able to effectively forecast their liquidity requirements. This can address issues that originate from malpractices like SoT. As a result, the lenders will be able to offer more competitive financing options for new floor plans, eventually creating more value for the end customers.

Thus, leveraging Distributed Ledger Technology will allow to democratize floor plan financing workflows in the real world. DLT allows decentralized checks and balances, which dealerships can use to self-certify a digital record. LTI has included floor plan financing into its Ready to Deploy solution suite to our Clients and are partnering with them to add new features onto the solution.



# About the author



## Sushant Mayekar

Chief Architect – Blockchain Practice, **LTI**

Sushant is primarily responsible for solution design and architecture for applications that leverage Blockchain, which solve real-world business problems for our clients. Prior to LTI, he held a key position in Designing and Implementing the next-gen Matching Engine for National Stock Exchange, Mumbai. He has deep expertise in most prominent Blockchain platforms such as R3 Corda, Ethereum, Hyperledger Fabric, Monax, and more.

**LTI (NSE: LTI)** is a global technology consulting and digital solutions company helping more than 400 clients succeed in a converging world. With operations in 31 countries, we go the extra mile for our clients and accelerate their digital transformation with LTI's Mosaic platform enabling their mobile, social, analytics, IoT and cloud journeys. Founded in 1997 as a subsidiary of Larsen & Toubro Limited, our unique heritage gives us unrivalled real-world expertise to solve the most complex challenges of enterprises across all industries. Each day, our team of more than 33,000 LTItes enable our clients to improve the effectiveness of their business and technology operations and deliver value to their customers, employees and shareholders. Find more at <http://www.Ltinfotech.com> or follow us at [@LTI\\_Global](https://twitter.com/LTI_Global).