

# DIGITAL SIGNATURES IN LEASING, the next evolution

By Murray Derraugh

Change, it's a fact of doing business, and while going "paperless" has been discussed for years, now it is finally possible. As companies look for ways to continue to attract and retain customers, effectively compete, and improve margins, adopting and leveraging technology should be foremost on the minds of industry leaders.<sup>1</sup>

Digital Signature is a process whereby all legal requirements of a signature made in ink (wet signature) are met using technology. In the world of high volume financial transactions the potential for savings from process efficiencies, improved customer service and greater security are substantial.

## Challenges with Current Processes

The current model in the leasing industry requires "wet ink" signatures that have to be faxed and or couriered back to the lessor and either filed, or scanned and filed. Even with scanning, companies find that they are still handling paper at several touch points in the process. Scanning is cumbersome and the storage of paper files with original ink signatures is still necessary.

Other challenges in the current process are missing signatures or initials in the various signing areas of lease documentation that causes real bottlenecks in the funding process and generates many unnecessary phone calls, e-mails, faxes and couriers.

And finally, one of the main weaknesses today is a reliance on paper documentation that creates the risk that original documentation could be damaged, lost or inadvertently destroyed at several touch points in the transaction's lifecycle.

## What is an eContract?

An eContract is a contract that is originated and signed electronically. An electronic signature is a broad term that refers to any electronic data that carries the intent of a signature. Any paper contract or document can be converted to an e-form.

## What is a Digital Signature?

A Digital Signature is used to simulate the security properties of a wet signature. Typically digital signatures have two algorithms; one for signing that involves the user's secret or private key, and one for verifying signatures that involves the user's public key. The public key infrastructure (PKI) is used to unbreakably bind user information such as name, address and phone number, to a public key, so that public keys can be used as a form of identification. The output of this signing process is the digital signature. Another way to look at it is to compare it to online banking where the bankcard is the public key and the PIN is the private key.

## What is an Electronic Vault?

An electronic vault is a high-speed repository that maintains print streams in their native format. The vault is similar to a database that holds scanned images or documents, except that it is more

robust with much higher security. If a Digital Signature is a car, then an Electronic Vault is the garage.

#### **Why Should a Lessor embrace this new technology**

- ✳ **Increase Productivity:** According to a recent survey, there is a 90% process speed improvement using electronic documents and process over a paper-based process. Document administrators can greatly speed the turn-around times for closing leases, all but eliminate the problem of lost documents, missing signatures and initials, due to automated error checking and verification.
- ✳ **Reduce Processing and Servicing Costs:** Cost of courier, cost of scanning of documents and data storage, both electronic and paper, can also be substantially reduced.
- ✳ **Reduce Errors and potential for Fraud:** When tied to an ID Verifier module, verification of identification is more robust than any manual process today of confirming you are dealing with the right party. With the proper verification checks in place, document preparation can be more accurate with name, SSN, VIN, zip code, and area code cross verifications.
- ✳ **Improve Data Integrity and Quality Control:** A key benefit to the lessor is that the documentation is a record within a transaction file. It does not physically move, reducing the risk of loss or misfiling. And for audit purposes, this process provides a full, irrefutable audit trail showing time stamp, sign-off and all client interaction with the documents.
- ✳ **Improve Ease of File Transfer to Funders:** A key benefit to the funder (securitizer) is the combination of digital signature and electronic vaulting speeds due diligence by allowing funders to review the lease files on line without the duplication and physical transmission of the file.

#### **Rating Agency Acceptance**

Sources of funding for finance and leasing companies are very aware of digital signatures and electronic vaults, in fact it has been a hot topic at several of the recent industry conferences in North America. In 2002, Standard & Poor's announced that it is comfortable that, under the ESIGN (Electronic Signatures in Global and National Commerce Act) and UETA (Uniform Electronic Transactions Act) laws, in regards to the issues of legality, validity and enforceability, eContracts can be viewed as equivalent to paper contracts for rating purposes. Therefore, Standard & Poor's have adopted the same approach to eContracts as it has to manually executed contracts. They stated that control of electronic chattel paper is analogous to possession of tangible chattel paper. This is great news and validates the use of digital signatures and electronic vaults in the leasing industry.

#### **Which Leasing Companies will Benefit the Most?**

Leasing companies utilizing only manual processes with moderate to high volumes would see the largest efficiency gain. However, companies that have adopted electronic application processes and are dedicated to continuous improvement would be remiss to not take advantage of the further productivity gains and cost reductions by implementing eContracts, Digital Signatures and Electronic Vaulting into their workflow processes.

One early adopter was Nissan Motor Acceptance Corporation who recently was awarded the Auto Finance Excellence Award for their launch of eLeasing across their finance network. "eLeasing provides customers with a easier and faster process for filling out contracts. It also eliminates many of the errors that occur when filling out contracts the traditional way with pen and paper. For dealers, eLeasing improves cash flow, lowers compliance issues, reduces contracts in transit, and improves customer service. Even though eLeasing has been a big challenge from the start, it's value to NMAC and to our dealers has been evident from the very beginning," said Jeff Edwards, vice president, Operations, NMAC.<sup>ii</sup>

### **What are the Next Steps?**

You need to do some research. Look for a technology partner that has the compliance issues addressed, has built or is committed to building the connection to your front-end systems, and has the ability to help your company realize a paper-less, electronic vision. Keep in mind when looking for a technology partner that not all providers can offer the complete process and have to piece together their technology components for electronic signature and vaulting capabilities, while other solutions offer the entire end-to-end process.

### **Summary**

The key is to automate your business processes and scale without adding headcount. In order to increase volumes in manual processes, additional human resources must be added, with an automated process, scale can increase with little or no impact to headcount.

By automating the contract process, the lessor increases productivity of personnel and maximizes investment in technology. Traditional business processes must give way to 21<sup>st</sup> century solutions, it's that simple. With a digital signature electronic vaulting solution, the leasing company will have a secure, fast, easy and scalable solution that is used to eliminate the time and cost of processing large volumes of contracts and agreements.

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- <sup>i</sup> According to a recent report, a company's ability to adopt and leverage technology is a consistent attribute of "OutPerformers." Equipment Leasing and Finance Foundation, *Business Differentiation, What Make a Select Few Companies Consistently Outperform their Peers?* (Oct. 1, 2006).
- <sup>ii</sup> Excerpt from the website [www.autospectator.com](http://www.autospectator.com). *Nissan Motor Acceptance Corporation Recognized by Industry Leaders*. (Oct. 17, 2007).