

CUSTOMER SUCCESS STORY

U.S. Based Fintech Increases Margin using Price Optimization

The Challenge

Fintechs are transforming the banking industry by leading the way in faster, more dynamic, customer-centric solutions. A leading Fintech company whose mission is to help its customers borrow money at the best rates possible was finding success through segmentation, targeted offerings and by recognizing the opportunity of giving customers what they really want, when they want it. Focused on driving exponential growth in unsecured personal loans (UPL), the management team realized the importance of pricing their products correctly to hit their growth goals and to win and keep their customers. Given the wide range of borrower profiles and borrowing needs & preferences, the head of product management recommended the implementation of a price optimization solution to balance the potential of deteriorating risk quality with their growth and profitability objectives.

Outcomes

10:1RETURN ON INVESTMENT
IN THE FIRST YEAR**Significant** 

IN NET INVESTMENT INCOME

Optimized

PERSONAL LOAN ORIGINATIONS

**Closed Looped
Pricing Process**REALIZES ONGOING RETURN
ON INVESTMENT



The management team saw a significant opportunity to increase their revenue and better predict and manage expected losses through price optimization. They sought out a partner who deeply understood the pricing problem and who could provide the same nimbleness and speed that they provide to their customer base. As a digital disruptor themselves, they required a data-centric solution, a strong industry point of view and pricing expertise to help them optimize their pricing based upon their objectives.

They partnered with Nomis to implement price optimization, leveraging the Nomis Price Optimizer (NPO) solution. Key to the decision to choose Nomis was a forward-engineered platform that could easily integrate into the API-enabled technology platform of the Fintech.

Key Requirements for the Solution

- The platform should capture how customers respond to a wide range of prices and take into account that price does not directly correlate to risk.
- The platform should ensure that speed and pricing accuracy would not be lost while taking in voluminous amounts of constantly changing competitor data.
- Demand and price elasticity models should adapt to the Fintech go-to-market strategy through lending aggregators where multiple offers are presented at the same time on the same page.
- The platform should provide pricing dimensions at a greater level of granularity to ensure that they outperformed all the other offer rates.

Compared to the Control group, NPO delivered a significant increase in the Net Interest Income of the production optimized, ensuring a 10:1 Return on Investment in the first year.



- The platform had to apply the right logic to understand which of the multiple offers made for each application or which of the multiple applications made by one customer were eventually booked and create datasets and models to account for all these simultaneously moving parts.

The Solution

Through their partnership with Nomis, the Fintech successfully deployed the Nomis Price Optimizer and generated demonstrable results in the market. The Nomis Price Optimizer answers the most critical question of portfolio pricing: what is the optimal price for my product given my customer needs and preferences and my strategic goals and constraints?

The optimization and forecasting engine implemented now enables the Fintech to create best-in-class, closed-loop analytics tailored to their unique needs and portfolio goals. Price sensitive demand, behavioral, and profitability modeling is fueled by transaction, customer, macroeconomic, and competitor data to manage goals and constraints across thousands of pricing cells.

The Results

The Fintech conducted a controlled experiment to test the impact of price optimization on production and profitability. They ran an A/B test where customers were randomly assigned to receive either optimized rates generated using the Nomis Price Optimizer ('NPO Test Group') or rates from their business-as-usual process ('Control Group').

- Compared to the Control Group, the NPO Test Group delivered a significant increase in the Net Interest Income of the production optimized, ensuring a 10:1 Return on Investment in the first year.

During this campaign, Nomis assisted the Fintech in strategically altering rates based on granular predictions of interest rate sensitivity for different customer segments. For example, based on the different sensitivities across online channels and credit scores, we decreased rates for the prime segment within a channel by 90bps and saw a 15% booking lift which translated into a 9% increase in Net Interest Income for that channel. Nomis further helped the client to truly understand their data by:

- Demonstrating the most and least price sensitive segments (e.g. channels and risk bands) so the Fintech could focus on the right areas to adapt rates.
- Highlighted the main drivers of conversion propensity so that the Fintech could set their pricing strategy appropriately.



The Nomis pricing engine helped the Fintech account for asymmetric information by extrapolating a relationship between higher rates being accepted and expected losses which helps project more realistic future lifetime profitability.

The Nomis' profit calculator was also able to account for differences in credit rating, so if a customer with better credit rating is given a higher rate, the expected loss increases exponentially. More credit worthy customers follow a steeper curve in the relationship between increasing rates and losses so as credit scores deteriorate, losses flatten. In addition to the near-immediate implementation results, price optimization continues to improve over time. Models are regularly re-calibrated through continuous learning, which increases predictive accuracy by using the software to create a closed-loop pricing process that regularly reviews and iterates pricing scenarios based on past performance and current goals. As a result, the Fintech will be able to meet changing corporate or market dynamics and realize an ongoing return on investment.

The Fintech now considers the Nomis Price Optimizer to be part of its standard analytical horsepower to optimize personal loan originations. These capabilities give the Fintech a foundation to further expand and refine its price optimization strategy.

Why Nomis

- Best-in-class technology platform – Open API platform combined with best-in-class predictive modeling and optimization engine
- A Trusted Partner & Expertise – More implementations in lending than all competitors combined
- Cost Efficient – Nomis Price Optimizer was more time and cost efficient than bringing in the numerous internal teams needed to build a price optimization solution
- Accurate – Nomis Price Optimizer allowed the Fintech to change dimensions after testing to ensure that data was more granular to beat out the competition
- Operational Support – Nomis' experience in fully operationalizing pricing strategies allow them to anticipate and plan for execution from back to front office by providing support and training throughout the entire project rollout
- Agile – Nomis is able to adapt quickly to deliver the best outcomes for each customer's unique requirements





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About Nomis

Nomis is a fast-growing FinTech focused on ensuring on-going value creation for the world's smartest financial institutions through optimized, end-to-end, customer-centric pricing capabilities. Institutions of all sizes leverage Nomis' unparalleled domain expertise and their market-leading Nomis Platform™ to operationalize cutting-edge Big Data and AI to understand and anticipate customer demands, competitor actions, and market dynamics.

Nomis has a proven track record of increasing customer and stockholder value, returning nearly \$800 million to its partner banks every year.

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