

Increase profitability with optimized loan pricing

Are you looking for a proven approach to profitably grow your unsecured personal loan volume? We can guide you.

Overview

Competition is heating up for new growth. Personal loans are continuing their steady year-over-year growth trend. Are your pricing policies optimized for this opportunity?

When it comes to loan pricing decisions, many lenders don't factor in supply, demand, and detailed information on each customer to offer optimal loan terms. Different customers have different profitability. And while maximizing profit is essential, quantifying the tradeoffs among different outcomes and understanding the implications are also critical.

Without an effective loan pricing strategy:

- Low-risk borrowers may be overcharged, compromising volume and relationships and leading them to look elsewhere.
- High-risk borrowers may be charged too little. As a result, their loans are unprofitable, subsidized by the low-risk customers and resulting in lost revenue.

Lenders who have implemented our pricing optimization solution have increased profitability by 33% to 100% while reducing bad rates by 8% to 18%.

What about using risk-based pricing?

Most lenders use simple risk-based pricing strategies that don't fully consider risk and reward tradeoffs. Pricing based on risk works to a degree since it equalizes margins among low-risk and high-risk customers. However, a business needs to understand the price elasticity of customer demand to maximize profitability.

Understanding that customers are individuals with different characteristics allows a lender to price each customer accordingly. Some customers only want a lower rate, while others prioritize better or more convenient service. Some like digital channels, while others prefer branches. The same offer may generate a different reaction among customers. A risk-based approach generally doesn't take a holistic customer view.

To increase takeup rates and profitability, lenders should consider a profit-based, analytical approach to pricing that helps them assess tradeoffs and optimize decisions.

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Pricing optimization benefits

Pricing optimization allows you to develop an overall pricing strategy that generates a high level of profit while adhering to your business constraints. This helps you assess the best tradeoff among competing objectives and then implement personalized customer decisions to meet these objectives.

An effective loan pricing optimization strategy requires robust analytics, proven software and industry expertise to help you tie it all together.

Implementing loan pricing optimization strategies helps you achieve:

- Profitable growth — Increase loan volumes and return on investment while controlling risk.
- Improved customer experience — When you understand your customers better, you can offer more relevant and personalized pricing.
- A competitive edge — Compete more effectively with lenders who use traditional risk-based pricing.
- Smarter decisioning — Use data at a more granular level based on an individual's specific characteristics, not on a group of customers within a segment.
- Compliance — Reduce the fair lending risk inherent in manual price exceptions. Comply with state and federal regulations.
- Efficiency — Decrease the manual effort needed for rate reviews and price exceptions.
- Flexibility — A dynamic response to different economic, operational or competitive environments results in decisions that can be implemented quickly and efficiently.

How we help

Experian® now offers a comprehensive loan pricing optimization solution for unsecured personal loans. Our innovative solution uses Marketswitch Optimization®, predictive analytics and industry consulting so you can design and implement profitable pricing decisions.

Our optimization software allows you to make expert-level decisions by incorporating a range of sophisticated analytics, including risk and price elasticity models, so you can offer optimal prices and terms to each customer. We also can help you improve your rate sheets by using our data and analytics to optimize your strategies at the individual or segment level.

Don't know where to begin? Our comprehensive package includes consulting from seasoned industry experts who'll help you design and implement the right pricing strategies.

About Decision Analytics

Our Decision Analytics business combines data intelligence, analytics, software and consulting to help you optimize profitability and improve performance. Our enterprisewide decisioning capabilities help you manage and mitigate credit risk; prevent, detect and reduce fraud; meet regulatory obligations; and gain operational effectiveness. Trusted by leading businesses worldwide, we provide the intelligence to make accurate and informed decisions to help you better manage your customer relationships.

Let us help you increase profitability with our loan pricing optimization capabilities. Contact your local Experian representative or call 1 888 414 1120.

