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EBOOK

Four Critical Pricing Analytics Use Cases for Auto Lenders

Develop Cutting-Edge Auto Loan Pricing Strategies to Overcome Challenging Market Conditions

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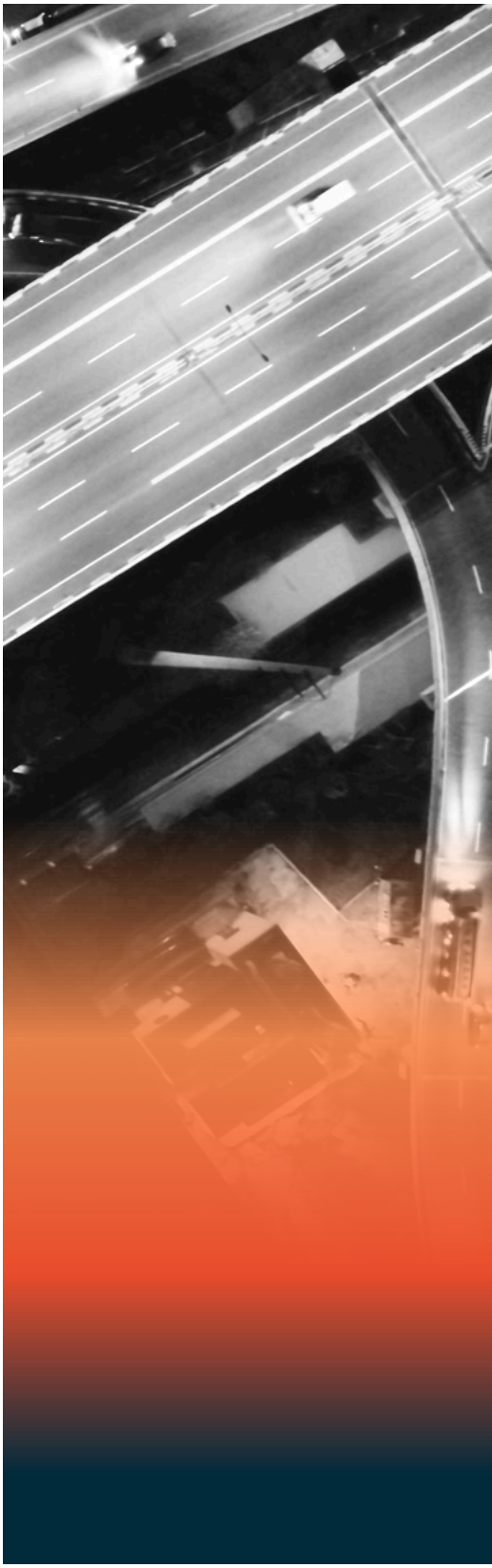
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Executive Summary



Auto lenders around the world now face unprecedented pressure to stay profitable while striving to keep pace with changing customer expectations, market volatility, and the ongoing need to respond to macroeconomic changes and competitive shifts quickly.

Meeting the accelerating pace of these changes necessitates new analytical technology that can live up to modern-day tasks.

This eBook will show how Earnix Price-It™ – a pricing optimization, analytics, and decisioning platform – gives auto lenders the effective, AI-powered analytical tools they need to create cutting-edge, competitive pricing strategies and meet their spread targets and KPIs.

You'll also see how Earnix Price-It allows lenders to manage the trade-offs between profitability, risk, and market share, and optimize their portfolios in a highly volatile market.

Key Use Cases for Auto Lenders

Let’s take a closer look at how Earnix Price-It supports a wide range of auto lending use cases – and how its powerful capabilities dramatically improve pricing processes and outcomes.

Customer-Level Price Modeling

Many auto lenders let the cost of funds and product type alone dictate the rates they would offer, leaving other data variables out of the equation.

These types of strategies may have an adverse effect on loan volume (if priced too high) or threaten profitability in the long run and increase the risk of delinquencies (if priced too low).

With the Earnix Price-It solution, auto lenders can rely on AI-powered analytics, elasticity modeling, and optimization algorithms to determine the perfect “sweet spot” for loan and lease pricing using many different variables (in addition to the cost of funds). These include the customer’s risk profile and willingness to pay, competitive pricing, market-level metrics, and various macroeconomic indicators.

Lenders can use also use price elasticity forecasts coupled with risk modeling and utilize price optimization to reliably determine the optimal loan price to charge any given customer.

Key Capabilities

Predictive Modeling

Understand differences in price sensitivity, profitability, and risk profiles at the customer level.

Price granularity for segment-level pricing

Use granular pricing management to influence demand across narrower, more targeted risk segments beyond typical swaths of consumers, such as those with certain credit scores, income levels, or past loan histories.

Data visualization

React quickly to market changes and market feedback to quickly assess the effectiveness of existing pricing strategies and adjust as necessary in a “test and learn” or “self-learning” cycle.

Real-time price monitoring

Make the best possible decisions fast using dynamic A/B testing capabilities and ongoing monitoring.

Portfolio-Level Simulation & Optimization

Earnix Price-It enables lenders to see how a given portfolio of customers would be impacted by a change in price. Now they answer questions like, “What will next week’s/month’s bookings look like, given a proposed change in price?”

Lenders can apply simulations to portfolio-level strategies to gain insights into how pricing can be used to shape an auto lending portfolio in exactly the way that is specified by the lender.

Additionally, product-driven optimization scenarios may be configured for longer loan terms without affecting the risk profile, thus serving previously untouched customer segments.

Key Capabilities

“What-if” scenario simulation and forecasting

Manage tradeoffs between volume, risk, and profitability using a data-driven approach. Avoid lengthy, manual spreadsheet analysis.

Profitability optimization

Increase profitability without impacting volume or risk profile. Establish pricing goals and configure a set of model constraints to identify the best scenario possible to hit targets and determine the optimal price at the user-defined segment levels.

Portfolio composition optimization

Control the shape of an auto lending portfolio by understanding what type of loans lenders should book and the volume of each loan type to achieve the desired results.

Fast (Even Real-Time) Pricing Deployment

Many lenders struggle with manual pricing approaches, siloed systems, and complex analytical tools. All of this can create significant delays between a decision to make price adjustments, approve them, and actually deploy them. These processes can sometimes take days or weeks, exposing lenders to more risk if the market changes.

With Earnix Price-It, lenders are able to take their newly created pricing strategy and deploy it directly to the market without any intermediate steps or handoffs between internal teams.

Key capabilities

Real-time price updates

Replace manual, lengthy deployment cycles with real-time or as-needed updates led by the business teams.

Vendor-agnostic integrations

Utilize your existing loan origination and management systems and speed up the implementation process.

Dedicated role-based workflows

Enjoy an easy collaboration between pricing committee members and ensure accuracy, speed, and process efficiency.

Built-in governance

Enable completely transparent processes and ensure an audit trail is readily available for every quote for regulatory compliance.

Alternative Deal Structures

The rise of the digital, on-demand economy has led borrowers to expect instant credit decisions along with multiple financing options to choose from. This is exactly what Alternative Deal Structures (ADS) are designed to do.

By leveraging ADS in auto finance, lenders can minimize rehashing, reduce processing costs, increase loan profitability, and essentially get more customers by not letting them walk away.

Key capabilities

Single, fit-for-purpose platform

Present data-driven alternatives to prospects in real time. Earnix Price-It is a single user-friendly platform that easily enables data manipulation, modeling, scenario simulation, price optimization, approval, and deployment.

Direct and indirect presentation

Allow ADS integrations with dealer-facing portals as well as consumer-facing sites, promoting faster loan closings and higher win rates.

Alignment with portfolio goals

Allow underwriting to review applications faster, or even before, they're presented to the borrower. This lets them see the effects on the profitability of that loan as well as that loan's effect on the lender's overall portfolio.

Challenging Times Require New Approaches



During one of the recent interest rate hike periods, some lenders got caught flat-footed as they were only able to update their prices every four to six weeks. This resulted in an increase in the share of unprofitable loans, lost volume, and other unhealthy consequences for many auto lenders.

Such a climate even gave some auto lenders a reason to pause – to the point of rethinking past aggressive strategies – to avoid pricing loans incorrectly and potentially affect their loan profitability in the long run.

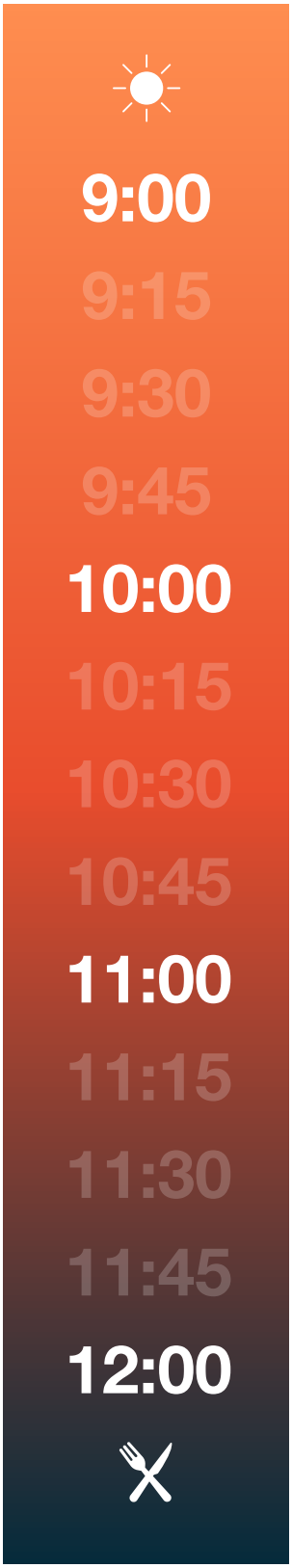
Ready for the good news?

With Earnix Price-It, you don't have to settle for these scenarios and outcomes. You can develop faster, more effective pricing strategies that give you a head start over the competition and on target to achieve your most important business goals.

The Earnix Price-It Platform in Action

Yet even facing these challenging market conditions, one of Earnix's U.S.-based customers was able to update their prices in a much more intelligent and effective way, sometimes even two or three times a week.

This is how they did it:



- Start each workday by **reviewing updated data** from the Treasury Department
- **Review updated data** on their competitors' behavior
- **Load updated data** into the Earnix Price-It platform
- **Enter constraints and goals**, such as profitability status quo or volume growth, depending on their requirements
- **Run "what-if" simulations** and create pricing strategies using optimizations
- **Use Earnix data visualization** tools to diagnose any potential problems
- **Forecast bookings** based on the new optimized pricing strategy
- **Approve** any proposed changes
- **Deploy updated prices** to their dealers within minutes of approval – by lunchtime, all of their dealers had updated rates

Results

The use of powerful AI-based analytics helped this lender navigate an extremely challenging time in the market. Not only did they avoid unnecessarily sacrificing market share, but they also didn't write a lot of unprofitable loans that would have resulted from slow update processes.

Within a year, this U.S. Tier-1 bank saw:

↘65%

A 65% reduction in unprofitable loans

An **eight-figure** impact on net present value

10-15

A 10-15 basis point lift in profitability

A Better Plan for the Road Ahead

Today, auto lenders face a wide array of challenges when it comes to optimizing their loan offerings and achieving their growth, profitability, or other financial goals. Traditional methods fall short in adapting quickly to market changes, leaving lenders at a disadvantage in a highly competitive industry.

Yet Earnix Price-It is the perfect solution. By leveraging advanced analytics and AI capabilities, Earnix Price-It empowers lenders to dynamically adjust their pricing strategies in real time. With Earnix Price-It, auto lenders can strike the balance between risk and their profit goals, all while automating pricing processes, increasing efficiency, and gaining a new – and sustainable – competitive advantage.



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Next Steps

Interested in learning more about Earnix Price-It, and how it can help you generate smarter auto loan pricing strategies

Download the Whitepaper
“Behind the Scenes with Earnix Price-It”

Download ↓

Earnix is the premier provider of mission-critical, cloud-based intelligent solutions across pricing, rating, underwriting, and product personalization. These fully integrated solutions provide ultra-fast ROI and are designed to transform how global insurers and banks are run by unlocking value across all facets of the business. It has been innovating for insurers and banks since 2001 with customers in over 35 countries across six continents and offices in the Americas, Europe, Asia Pacific, and Israel.