UNSECURED CONSUMER LENDING GROWTH EBOOK

A Guide to Unsecured Lending Growth

Six Strategies to Help Grow Your Personal Lending Business

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Unsecured personal lending market continues to present a notable opportunity for growth and portfolio diversification. Therefore, many banks are entering this market in their attempt to fuel new growth objectives. So, what do banks need to do to differentiate, compete, and win in the unsecured consumer lending space?

This Earnix guide takes a closer look at this emerging opportunity and offers six ways lenders can win more business and increase growth in unsecured personal lending – without losing sight of profitability.



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Introduction: The Unsecured Lending Opportunity

As the mortgage industry continues to contract, lenders are looking for opportunities that offer growth as well as higher margins. Many banks have been increasingly incorporating unsecured personal loans in their portfolios, resulting in the banks' share of the unsecured loan market growing from just under 20% in Q1 2023 to 23% in Q1 2024.[1]

The appeal of this market is evident from the sustained high demand for unsecured loans since the pandemic's end. Consumers are increasingly drawn to unsecured loans because they typically offer lower interest rates compared to credit cards, provide quicker disbursements, and do not require collateral. Data from TransUnion's Q1 2024 Credit Industry Insights Report supports this opportunity, showing a 4.5% increase in the number of consumers with unsecured personal loans in the first quarter of 2024 compared to the same period in 2023, and a nearly 25% increase since the first quarter of 2021. Additionally, the balances of these loans have grown by 9% year-over-year in Q1 2024.

Despite these positive trends, loan originations have slightly decreased in the first quarter of 2024 due to stringent underwriting standards and a focus on lower-risk borrowers. This cautious approach may cause banks to miss out on broader market segments. Considering that unsecured personal loans currently make up only a small fraction of the total outstanding consumer debt in the U.S.—especially when compared to mortgages, auto loans, and credit cards—there is considerable room for growth in this sector.

In order to offer a sustainable and risk averse growth in unsecured consumer lending across all credit segments, a strategy supported by data-driven decisioning must be implemented. In this guide, Earnix SMEs look at using AI-driven decisioning and pricing analytics to provide tips and action items for the banks to help grow their unsecured lending portfolios.

[1] TransUnion, "Unsecured Personal Lending Industry Insights Report", Q1 2024.

The Unsecured Loan Market by the Numbers

- **23.5** million Americans have a personal loan as of the first quarter of 2024 – an **8.1%** year-over-year increase.[1]
- The average account balance increased by nearly **5%** year-over-year to **$8,737.**[2]
- Balance per consumer also grew by nearly **5%** year-over-year to **$11,829.**[3]
- FinTechs' share of originations has decreased consistently throughout recent quarters from **30.7%** in 2021 to **21.2%** in 2023.[4]
- FinTechs also have a smaller share of total new account balance, just **41%** from **49%** a year ago; meanwhile, banks' share grew from just under **20%** to **23%.**[5]

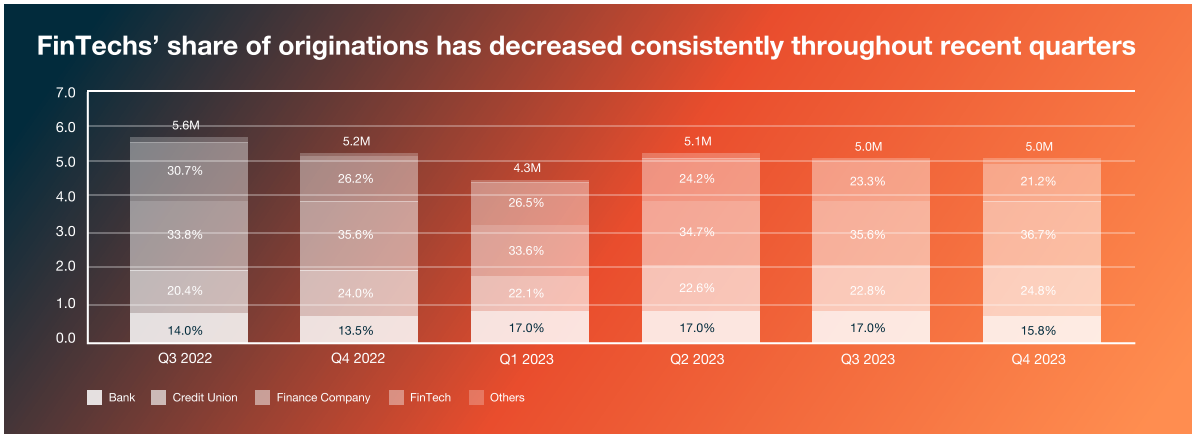


[1-5] TransUnion, "Unsecured Personal Lending Industry Insights Report", Q1 2024.

Possible Bumps in the Road

Let's look at possible issues that banks are currently facing. As banks look to capitalize and drive growth in a relatively new part of their business, there are important factors to consider – as well as potential obstacles to avoid.

- **Competition:** The market stays quite competitive as well-established banks and financial services firms seek market share. Additionally, many new non-traditional players will continue expanding and entering the market, including aggressive FinTechs, smaller financial services firms, and niche-focused startups. However, the recent trend demonstrates that FinTechs' share of unsecured loan originations has decreased consistently throughout recent quarters, while the share of Finance Companies has grown.[1]



- **Economic uncertainty:** Changing macroeconomic conditions such as continued inflation and the risk of higher unemployment rates may pose challenges for lenders. For example, if the Fed continues to increase interest rates, higher rates could lead to lower demand.

- **Higher delinquency rates:** The industry has been seeing a stable delinquency rate increase YoY up until Q1 2024, when the delinquency rate for unsecured loans has stabilized a bit compared to Q1 2023. The trend may be attributed to more stringent underwriting rules in an attempt to curb risk exposure.

Yet, by embracing modern technology to drive better pricing strategies and make more informed decisions, banks can overcome these possible issues and position themselves for success in the unsecured lending market.

[1] TransUnion "Unsecured Personal Lending Industry Insights Report", Q1 2024

Six Best Practices to Fuel Unsecured Lending Growth

Six Ways Technology Can Help

1. Improve risk assessment and reporting to balance overall risk and profitability
2. Take advantage of simulations and predictive analytics
3. Optimize pricing
4. Accelerate the approval process
5. Increase conversion rates (and do it faster)
6. Personalize pricing and product offers

This guide will help you understand how you can achieve your unsecured lending growth targets while avoiding unnecessary risk exposure. This is where AI-based pricing analytics and decisioning solutions can help pave the way.

Let's take a closer look at each one of these best practices.

Risk Factors to Consider

- → Increased competition, both from traditional firms, FinTechs, and other aggressive new players
- → Higher risks of delinquency, especially from lower credit-tier borrowers
- → Potential interest rate increases could lead to higher APRs and decreased demand
- → Economic uncertainty such as a possible recession and/or rising unemployment
- → Inflexible pricing or product strategies that adversely impact profitability

01 Improve Risk Management Strategies for a Stronger Bottom Line

As you develop your growth strategies in the unsecured lending market, you may be tempted to focus on increasing loan volume by attracting as many prospective customers as possible, and hopefully, converting them into your overall portfolio of business.

On one hand, increasing loan volumes is always an important strategy since it helps you generate topline revenue growth and win market share. Yet too many firms attempt to do this just by offering lower rates. Not only does this leave real money on the table, but it also increases the risk of delinquency – adversely affecting profitability.

How Technology Can Help

Best-in-class lenders take advantage of advanced pricing analytics and decisioning technology to put the best possible offers in front of potential customers corresponding to their willingness to pay and their overall risk profile. This will give them the highest probability of conversion and limit the likelihood of default.

Analytics-driven, risk-based pricing has the potential to help improve profitability and increase market share. This is especially true in cases where lenders can offer loans to customer segments that they wouldn't have under normal circumstances – such as consumers with low FICO scores – without assuming too much blind risk.

For example, in consumer and auto lending, risk-based pricing enables lenders to take advantage of a more accurate pricing method – especially over cost-plus pricing. It also eliminates the use of rough customer segmentations that don't address risk effectively enough.

Risk-based pricing accurately predicts credit risk and other potential risk as the offer is developed. Using past data related to financing offers and bookings and merging it with a variety of other variables, such as loan lifetime value, prepayment, loan termination, and other information, lenders can validate new pricing models using advanced machine learning pricing technology.

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02 Take Advantage of Simulations and Predictive Analytics

When it comes to pricing loans and delivering compelling offers to prospective customers, there is so much you need to weigh: consumer demand, elasticity, target conversion rates, retention, and of course, profitability.

Also, in a highly competitive market such as unsecured lending, you also need the ability to monitor your competitors' behavior. This is vital, especially in a market served by FinTechs who may be offering smaller loans that may be easier to close.

All of this needs to be included in your modeling efforts to develop and deploy the best offers possible.

How Technology Can Help

One way to improve your modeling efforts is through the use of technology that provides powerful predictive analytics. Using auditable artificial intelligence, these advanced pricing and decisioning solutions enable you to run extremely detailed "what-if" simulations using your own data or even third-party data.

Advanced analytics and simulations let you see how your strategies will perform and give you the best-case scenarios before you deploy your offers in the market. It's a significant advantage over reactive pricing strategies that require you to make a first guess and then apply retroactive changes after the fact – far too late to produce real-time results.

The "what-if" simulation capabilities of an AI-driven pricing system also enable lenders to identify new business opportunities (in addition to predicting the outcomes of their pricing strategies). For example, you can isolate the potential effect of a competitor's move on the total booked unsecured loan volume and net income. This helps you understand the general decreasing trend and estimate the size of the decrease and how significant it will be.

03 Optimize Pricing

When it comes to attempting to develop the right pricing loan offers, many lenders err in one of three ways:

- Offer rates that price the loan too low, leading to lost revenue and higher risk exposure.
- Attempt to offset risk by pricing their loans too high, resulting in lower conversions and lost business.
- Create flat offers that are essentially the same for all customers.

The problem with these approaches is that they lack the real insight needed to optimally price loans and may leave lenders “flying blind” when it comes to knowing the best price to maximize loan volumes without affecting profitability.

How Technology Can Help

The answer lies in more effective, agile pricing that can generate much more detailed insights to create and deploy better prices. Today, powerful pricing solutions use next-generation technologies such as machine learning, artificial intelligence, and autonomous monitoring to enable pricing teams to improve the way they manage all aspects of their lending program.

Additionally, advanced data analytics uses a wide variety of internal and external data to simulate and test many different pricing strategies prior to deployment to help your teams determine the ideal sweet spot for every customer group in your portfolio. All of this gives you the best chance to predict a customer’s probability of closing a loan at a given price.

04 Accelerate the Approval Process

Let's face it: consumers now expect instant approval processes and faster disbursements of funds from unsecured loans. They're no longer willing to put up with time-consuming reviews, as typically needed for home equity lines of credit (HELOC), and will take their business to lenders who can provide the speed and overall experience they now demand.

How Technology Can Help

All of this means you need to embrace digital solutions to deliver offers the way your customers prefer. Ideally, this should include digital applications, fast approvals, and instant delivery of loan funds. Additionally, automation and decisioning capabilities can help you improve internal workflows and develop and deliver pre-approved personalized loans based on data analysis and scenario simulation outcomes.

For example, alternative deal structures play a big role in speeding up the approval process by allowing lenders to offer several pre-approved financing options in response to a single credit request.

With advanced analytics in the form of machine learning and artificial intelligence, you can deliver personalized products (and alternatives) and optimized pricing to each borrower in real time. It also allows pricing managers to forecast demand and profitability at the customer/loan level, and quickly assess the impact of any alternative deal structure strategy.

> **Modern pricing and technology – part of comprehensive financial technology solutions – deliver the power of automation to speed up model development, improve decision-making, and accelerate the deployment of personalized, pre-approved offers.**

05 Increase Conversions

On average, conversion rates for online unsecured consumer loans have traditionally been on the lower side. According to Experian, the banking industry sees **97%** of online apps abandoned meaning that only **3%** who start an application actually submit it.

For this reason, it is imperative that lenders not only have a seamless application process but also provide a timely response and funding. Quite often a slower approval and underwriting process negatively affects conversions, especially in a crowded market where consumers have grown to expect the “Amazon Effect.”

While the Retail/Branch channel tends to have much better conversion rates than online, timely responses and competitive offers go a long way in improving customer and banker satisfaction. This helps create a positive feedback loop where bankers can accurately identify a need for an unsecured loan, confidently walk the customer through an application, and close the deal with relative ease. In the end, this will lead to more applications, increased conversion, and ultimately a better customer experience.

How Technology Can Help

Pricing automation, systemization, and smart decisioning capabilities powered by AI and machine learning allow lenders to put the most relevant, personalized offers in front of each applicant, leading to higher conversion rates and customer satisfaction. Operationalizing the pricing and offer presentation process will also help eliminate too many manual handoffs and other internal inefficiencies.

All of this helps you develop more appealing loan offers to successfully improve much better results in your entire unsecured lending portfolio, including key metrics such as conversion rate, total amount borrowed, time to close, revenue growth, and profitability.

For example, a leading European bank was able to achieve impressive results in its unsecured lending portfolio with Earnix pricing analytics and decisioning solution, including:

- 9% Growth in loan conversion rate
- 15% Increase in the amount borrowed
- 17% Increase in total revenue

Achieve the Results That Matter Most

Modern pricing and decisioning solutions can help you achieve success in your entire unsecured lending portfolio, including significant improvement in:

- Conversion rates
- Total loan amounts borrowed
- Revenue growth
- Time to close
- Profitability



06 Personalize Pricing and Product Offers

Consumers' expectations are constantly changing when it comes to what they value in a relationship with their banking partner. They are looking for new digital experiences, faster approvals and overall service, and creative offers above and beyond what they once received from traditional loan processes.

They also want their banks to demonstrate that they know them as an individual. This includes the idea of using the customer's own data as well as other creative approaches to develop better pricing and product offers to give them exactly what they're looking for in terms of rate, term, down payment options, and other factors.

How Technology Can Help

Instead of attempting to guess what offers will be most appealing to your prospects, lenders can develop AI-driven models that result in very specific offers based on consumers' actual data and history as well as the desired lender's objective. The power of predictive analytics allows lenders to create flexible models that consider various strategies for prioritizing certain targets over others, such as origination volume, revenue growth, or other factors.

Loan personalization is about delivering the **right loan** (amount), with the **right offer** (terms), to the **right customer** (the one most likely to accept), at the **right time** (the moment of decision).

This creates a win-win scenario for the customer and the lender. The customer wins by getting a market-competitive rate and terms that are acceptable to them, and the lender wins by increasing conversion at an optimized margin.

Offer-influencing factors can include personal experiences, market trends, cost of funds, historical customer data, purpose of the loan, and other variables.

A Comprehensive Pricing Solution for Complete Business Results

Earnix Price-It is a comprehensive, enterprise-level solution for price modeling, simulation, optimization, and deployment. It is a true SaaS solution that is more intelligent, scalable, and agile than outdated technology and legacy infrastructure systems that rely on a patchwork of disconnected applications.

Earnix Price-It has a real advantage of most other pricing methods that attempt to cobble together too many other software tools. These types of approaches inevitably lead to too many manual efforts, handoffs, and other workarounds between siloed solutions and internal teams. Not only do these challenges make true collaboration difficult, but they significantly increase the risk of errors and compliance issues.

In contrast, Earnix Price-It allows all analytical tasks – everything from the development of pricing strategy to deployment – to occur within the same software solution. When combined with our Pricing Accelerator, the Earnix Price-It platform delivers proven pricing capabilities, including:

- Flexible ingestion of data
- "What-if" simulations
- Price optimization
- Loan personalization
- Dynamic pricing and decisioning
- Real-time pricing deployment
- Alternative deal structures
- Visual dashboards and reports

The Earnix Price-It solution is perfect for banking teams looking to improve their pricing strategies and operations, especially when it comes to unsecured consumer loans.

Summary: The Technology Advantage

The unsecured consumer lending segment has been mostly served by FinTechs, niche-focused startups, and other non-traditional players. Yet the market growth has not gone unnoticed by banks, and many have decided this is a product that can grow in its own right.

The technological advantage of many FinTechs lies in their agility, digital-first approach, and heavy reliance on AI/ML in their risk and pricing decisioning practices, allowing them to enjoy an improved credit risk assessment capacity above and beyond their peers using traditional approaches. Banks too have an advantage in brand trust, relationship strength, and perhaps most importantly, in their access to customer data.

This is why it is crucial for financial institutions to adjust their loan pricing and decisioning strategies in favor of AI and Machine Learning based solutions to truly unlock and capitalize on the power of their existing data. The use of modern pricing technology, including in-house and alternative data, intelligent modeling, and digital loan approvals will position banks for growth in the unsecured lending segment and better prepare them for the unexpected market tumbles. Scenario simulation and prescriptive analytics will allow financial institutions to evaluate credit risks more accurately and to expand credit access to subprime consumers, without taking on excessive risks. This will also give banks the ability to deepen relationships with existing customers and target key prospects to help banks meet key objectives.

The result? Improved ability to meet customer demand with just the right price, at precisely the right time, to maximize growth and bottom-line profitability, as well as deepen customer relationships.

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Next Steps

Download the Earnix Whitepaper

“Behind the Scenes with Earnix Price-It” →

About Earnix, Ltd.

Earnix is the premier provider of mission-critical intelligent solutions designed to transform how global insurers and banks are run. Earnix solutions unlock value across all facets of the business, connecting with customers, and breaking away from the status quo imposed by legacy monolithic, single systems. Earnix’s solutions offer systemized, enterprise-wide value with ultra-fast ROI. It has been innovating for Insurers and Banks since 2001 with offices in the Americas, Europe, Asia Pacific, and Israel. For more information visit: earnix.com.

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