CONSUMER LENDING EBOOK

Unsecured Loans: Price and Product Personalization Are the Name of the Game

Now is the Time to Make It Happen

earnix

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Executive Summary

After a blockbuster first half of 2022, the market for unsecured loans came back to earth in the second half of the year, and has stabilized, recording fewer originations in 2023. This more stable market is expected to continue its long-term growth path, as unsecured balances reach new record levels and demand for unsecured loans remains high, driving banks across the globe to invest in growing their unsecured loan portfolios.

"Although originations continue to fall from 2022's record levels, total unsecured loan balances and consumer-level balances still reached records, driven primarily by super prime consumers, representing a continued shift by lenders towards less risky borrowers. While originations in Q2 2023 were down **14.5%** from last year, they remain elevated compared to the pre-pandemic period, demonstrating continued demand in this market. **60+** DPD delinquencies saw their first year-over-year decline in borrower-level delinquency in over a year, led by improvement in the performance of originations by below prime borrowers. This is something worth watching in the months to come as we look for potential impacts of the restarting of student loan payments for millions of borrowers. Lenders should continue to find opportunities given strong employment rates and a continued desire by consumers to refinance higher interest card debt."

Q3 2023 TransUnion Credit Industry Insights Report

Unsecured personal loans showed the 2nd highest YOY balance growth at 21.1% (behind home equity (HE) loans)

TransUnion Q2 '23 Credit Industry Insights Report

So, What Does it Mean for the Lenders?

Lenders wanting to maintain their competitive advantage and capitalize on the healthy demand for unsecured loans need to be looking for ways to stand out in a crowded marketplace. Additionally, there is a need to consider pricing competition amid market volatility, rising interest rates, and increasing cost of funds.

This eBook will offer direct insight into how personalized loans are changing the way banks sell their products. We will explain what loan personalization entails, explore the fundamentals of digital loan personalization, and the tools needed to support them.

How do you cut through the noise to reach those buyers trying to find the loan that's just right for them? The answer: loan personalization. That's exactly why personalization has been gaining popularity in the past several years across all consumer lending lines.

What is Loan Personalization?

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, in effect, 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 such.

What can be personalized?

→ Basic terms of the loan
- Loan amount
- Term
- APR
- Application fees
- Discount points / buydown
- Down payment

→ Other features of the offer
- Income loss insurance
- Co-signee
- Credit card limit increase



Consumer Loan Personalization in Action

This is what the personalization of a single loan request may look like:

$7,500 LOAN AMOUNT	PAY IN 72 MONTHS	
- DOWN PAYMENT	- DISCOUNT POINTS	**$161.17** MONTHLY PAYMENT

APR	DISCOUNTED APR	FEES	TOTAL LOAN COST
10.49%	-	-	$9,670.03

ORIGINAL REQUEST
$7,500 over 72 months

GOALS
Optimize overall revenues from origination across all loans

PERSONALIZE
APR

$7,500 LOAN AMOUNT	PAY IN 48 MONTHS	
- DOWN PAYMENT	- DISCOUNT POINTS	**$198.39** MONTHLY PAYMENT

APR	DISCOUNTED APR	FEES	TOTAL LOAN COST
12.24%	-	-	$9,522.66

ORIGINAL REQUEST
$7,500 over 72 months

GOALS
Offer alternative with lower total loan cost

PERSONALIZE
APR & term

$10,000 LOAN AMOUNT	PAY IN 84 MONTHS	
- DOWN PAYMENT	$550 DISCOUNT POINTS	**$155.82** MONTHLY PAYMENT

APR	DISCOUNTED APR	FEES	TOTAL LOAN COST
9.29%	7.99%	-	$13,638.78

ORIGINAL REQUEST
$7,500 over 72 months

GOALS
Offer alternative with lower monthly cost and larger loan amount

PERSONALIZE
Loan amount, APR, term, discount points

Why is Loan Personalization Critical Today?

A recent BAI survey found that over half of the GenZ and Millennial borrowers surveyed had already closed on a loan online. Although GenX (**45%**) and Boomers (**20%**) trail in this respect, the appetite for online borrowing in all demographic groups is there for the capture.

The potential customers that are out there, though, are increasingly selective when it comes to who they'll borrow from and whether they will remain loyal over the long term. Driven by the "Amazon Effect," borrowers have become ever more demending.

While a traditional brick and mortar presence is still relevant today, giving customers a compelling digital experience (DX) is a central requirement to maintaining competitive position and winning business for the future, especially as digital adoption grows.



When customers are ready to commit to a loan, they are ready to move decisively. They expect the process to be timely, painless, predictable, and efficient. For all borrowers, but particularly younger ones, this means the lender's experience must provide the following on a consistent basis:

→ Personalized

Offers and experiences as unique as each customer

→ Agile

As in the physical world, digital loans must present options to reach just the right combination of loan amount, term, interest rate and other parameters

→ Easy to Use

A straightforward and efficient lending process, delivered through state-of-the-art digital apps and compelling, 24/7 online experiences

→ Fast

A real-time decisioning experience across every channel, both online and physical, at every turn – an "omnichannel" experience independent of how, where and when the consumer applies for credit

→ Secure

With increasing concern for issues such as fraud and identity theft, consumers need the security they traditionally feel at their branch - and more

→ Easy to Understand

A process that ensures fairness and transparency

Unless all these conditions are met, customers will describe the loan application process as cumbersome, too long, too "one size fits all," and unnecessarily opaque, and they will walk away in the end.

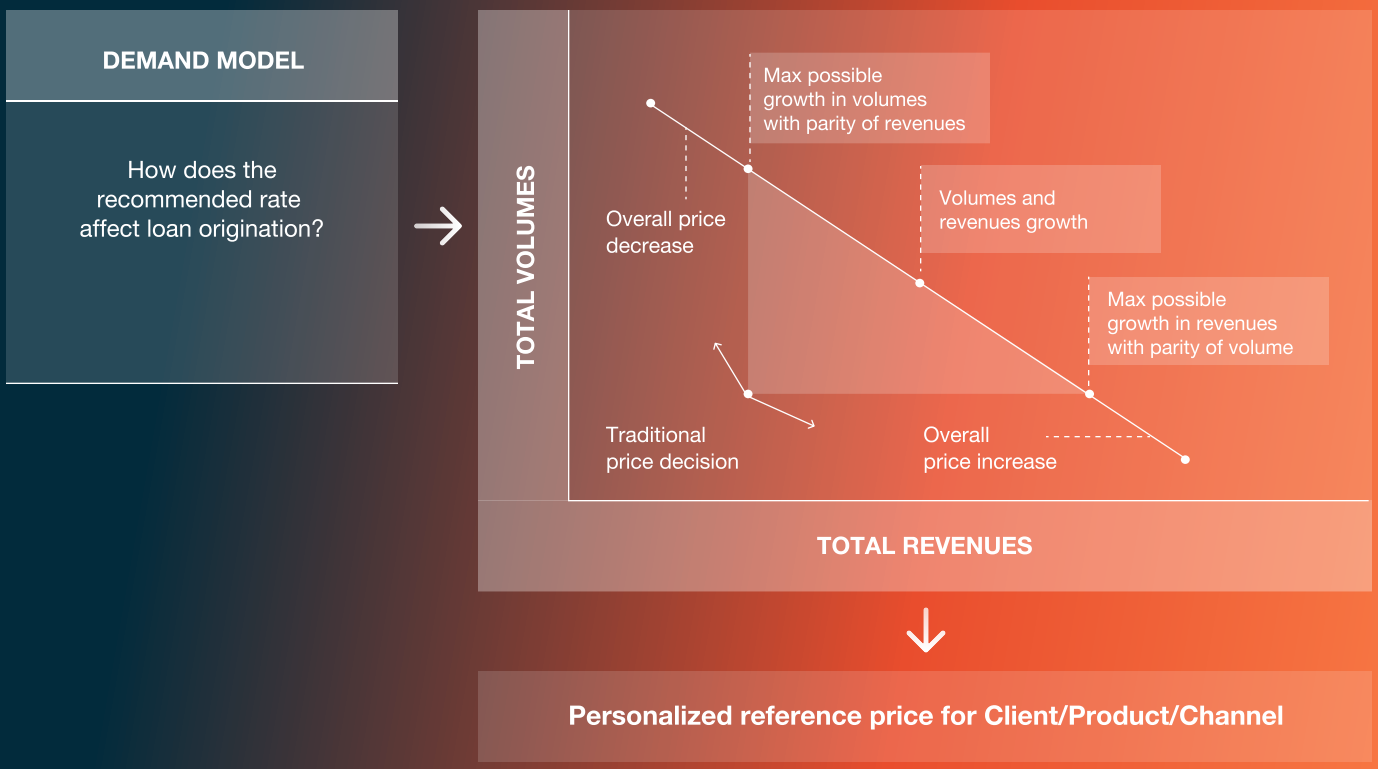
"The ability to leverage large volumes of data and new technologies to understand customers' journeys and deliver personalized offers and experiences is now considered critical to driving loyalty, engagement and, ultimately, growth."

– *Capgemini, The Customer Engagement Imperative Report, 2023*

What Can Loan Personalization Do for You, The Lender?

Apart from increasing loan conversions, optimizing margins and increasing customer satisfaction, what does loan personalization deliver for lenders?

Loan personalization represents a way to maintain profitability and avoid delinquencies. Additionally, 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.



The preceding graphic illustrates the potential for greater loan volumes and revenue growth from loan personalization.

In a traditional pricing decision, every consumer is offered the same generic loan package. While this is easy to accomplish, and is the current norm for many lenders, it is suboptimal.

With loan personalization, the lender can “throttle” the terms of the loan offer to each applicant, and vary the parameters with multiple adjustments, increasing the likelihood of acceptance of the offer. At the same time, that “throttling” allows the lender to trade off growth in origination volume and revenue.

This optimization process leads to that “win-win” situation – consumers get the loan that works best for them, and lenders can optimize their outcomes to meet their strategic business objectives and KPIs.



How to Get Started with Loan Personalization: The Four Pillars of Loan Personalization



Lending personalization must evolve beyond these sorts of all-too-common, undifferentiated messages:

“Welcome back, [first name here], are you interested in a loan today?”

“Hey, today’s loan APR is X.XX%, click here to learn more”

These types of greetings universally annoy customers and don’t lead to conversions often enough.

Lenders instead must get down to real business quickly and with the best possible lending offers. In order to convert, we need real world options of better offers, including alternatives, presented in real time.

The following graphic illustrates the four pillars of personalized lending, enumerates the key ingredients of the practice, and the critical impacts it can deliver to lenders.

01

Digital delivery

- Personalization loan terms, conditions and alternatives
- Fully digital underwriting process
- Delivery of pre-approved offers on direct channels
- Use of advanced analytics in real-time

02

Alternatives

- Present basic alternatives for term, amount and APR

03

Smart decisioning

- ML models for complex decisioning
- Limited questions plus external data: API integrations
- Informational enrichment for risk decisions and for income assessment
- Integrated risk analytics, pricing analytics and LOS

04

Impact

- Maximize acquisition rates with personalized offers
- Optimize operational costs with smart routing of applications to call center
- Dynamically monitor and adjust risk exposure using dynamic pricing and underwriting

01 Digital Delivery

As mentioned earlier, loan applicants, particularly younger ones, are primed to engage directly with lenders who digitally deliver personalized loan offers. Having “grown up digital,” and in an instant gratification world, these consumers prefer to research, compare, apply for, and close loans online.

Loan terms, conditions and alternatives must all be made available for their consideration in real time, with the underwriting process automated and instantaneous as well.

Sometimes overlooked is that digital delivery is also important in the branch setting. Enabling bank advisors with instantaneous digital access to personalized offers will also improve close rates and increase loan volumes for customers sitting across the desk.

02 Presentation of Alternatives

Developing terms for unsecured loans is a multivariate process, requiring sophisticated analytics to optimize the key parameters of the loan, tailored to each customer:

- Loan amount
- Term
- APR

Alternative deal structures (ADS) can also be applied here, allowing lenders to offer up several financing options in response to a single credit request. ADS are quickly becoming a must-have way for lenders to keep potential borrowers from walking away, by giving them a range of pre-approved options at the moment of decision.

ADS demonstrate a level of creativity and personalization on the part of the lender, giving borrowers realistic options that might not otherwise be available, or that could require extensive human intervention and back-and-forth negotiation.

03 Smart Decisioning

Smart decisioning revolves around machine learning (ML) models and their constant tuning through artificial intelligence (AI). This allows a lender to understand which offers are most relevant to each applicant, leading to higher conversion rates and customer satisfaction.

Lenders' sophistication with analytics takes several forms, and typically follows a path from initial discovery to full-fledged pricing personalization.

Price optimization is a big part of the personalized loan.

A customer who is more concerned about a monthly payment might be willing to take a longer-term loan with a higher APR, while a customer who is prioritizing the total cost of the loan will be inclined to overlook all other aspects of the loan in favor of the lowest possible APR.

These variations are numerous, creating a favorable environment for AI-driven analytical tools where data about a specific consumer, market trends, behavioral models, and profitability models are all coming together for a real-time decision on what loan can be offered to a consumer.

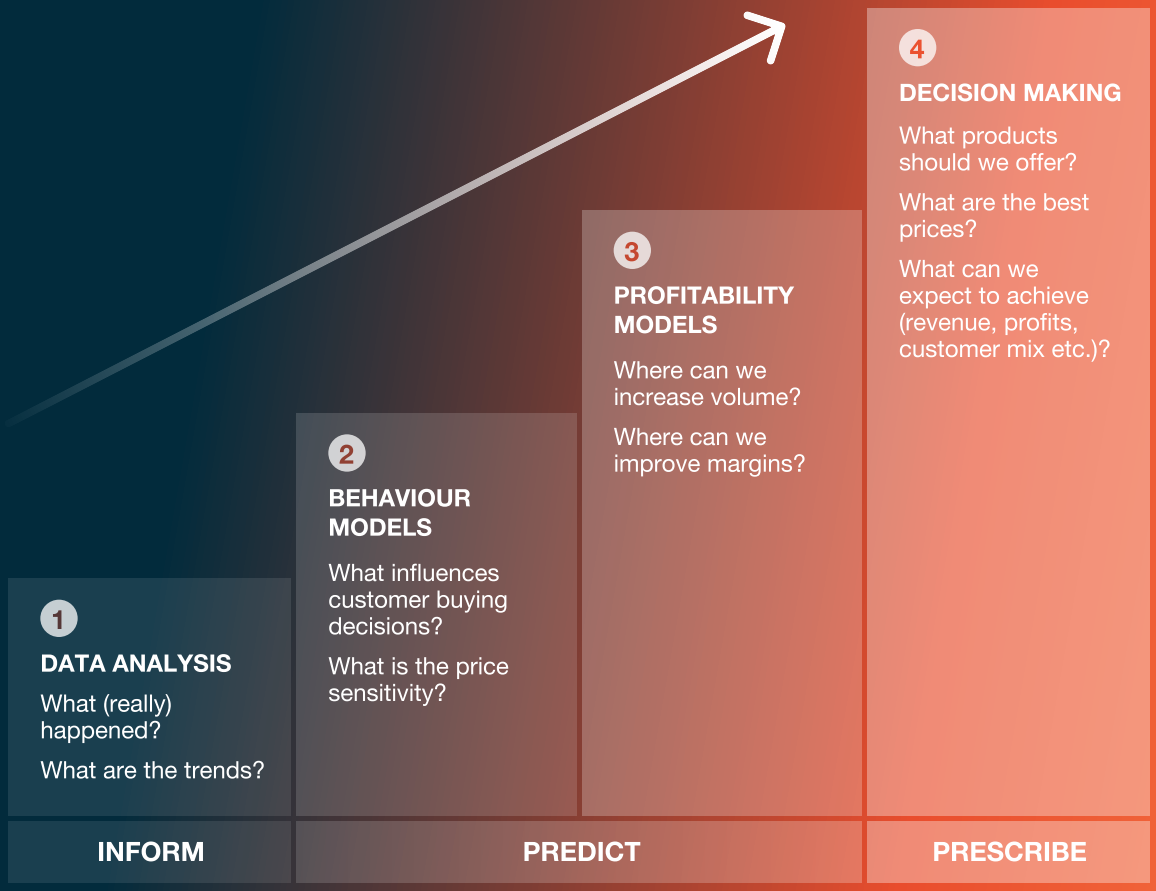
By optimizing rates, a lender can offer individual prices. These prices are designed through the usage of advanced analytics such as multi-variant statistics and behavioral models to maximize profitability for the lender and increase loan appeal for the consumer.

In the end, the consumer receives a highly-personalized loan offer that fully aligns with their individual willingness to pay.



Data is also key to analytical prowess. Some data, of course, is gathered during the application process itself. For existing or return customers, the bank already has access to data that aid in personalization and relieve borrowers of having to find and input that data when applying for a loan.

By tracking the "whole customer" during the entire life of the relationship, and analyzing consumer behaviors (on-time payments, late payments, interactions with other products and accounts, transfers to and from other institutions, etc.), you can offer updated prices, more favorable terms and conditions, additional offers, complementary products and services, and improved customer service. The more products and services each customer accepts, the deeper your relationship with them, and the more intense their long-term loyalty.



04 Impact

As mentioned earlier, loan personalization is a “win-win” approach – lenders who can meet customers’ needs stand to deepen banking relationships and build loyalty.

With loan personalization just beginning to gain traction in consumer lending, publicly-available statistics are hard to come by. Early experiences, though, show that dramatic results are possible.

In the realm of customer acquisition and lifetime revenue, some banks have already reported transformative results:

300% At TSB in the UK, real-time personalization contributed to a **300%** increase in loan sales among mobile users

€1 trillion A European bank with nearly €1 trillion in assets launched a personalization effort that increased its unsecured booked loan volume by 9% in just the first year

€180 million That same bank experienced a 17% increase in “all-in” revenue (interest and fees) from those loans, adding what is projected to be €180 million in top-line revenue over the life of the loans closed in that first year

Personalization has other business benefits as well. Operational costs are reduced, as human intervention is not required in most lending scenarios, and smart routing to call center personnel can also take place to keep costs under control and provide continuity in the customer experience.

Risk exposure can also be monitored and adjusted on a continuous basis, and the system can also aid in regulatory oversight and compliance. Clearly, lenders who master personalization will reap significant rewards.

Benefits of loan personalization:

- → **Reduced operational costs**
- → **Increased loan conversions**
- → **Decreased risk exposure**
- → **All-in revenue growth**

Key Technology Components of Personalized Lending

→ Predictive modeling

Using data available about the customer (both as they input and as may be available for existing customers within the lender's systems), we have the context with which to make individualized lending offers. The personalized banking solution must include a wide set of optimization algorithms geared to handle various pricing structures, regulatory and business requirements, and market scenarios. The algorithms must also support solving for complex portfolios, Customer Lifetime Value (LTV), multi-product variants, rank, and customer-centric optimization problems.

→ Advanced analytics

Analytics are at the core of every personalized lending solution. Analytics gives lenders the critical ability to craft an offer (or a set of offers with ADS) in real time, with a predictable outcome. By employing world-class data science, artificial intelligence (AI), pricing optimization algorithms, and machine learning (ML), lenders can deliver the best-priced and most-personalized product to every customer, every time. This leads to a significant competitive advantage against less sophisticated lenders.

→ Real-time capabilities

Markets are highly dynamic. Prices must change often – due to seasonality, changes in competitor pricing, fluctuating interest rates, and other marketplace variables. Developing and implementing the best pricing strategy for personalized lending can no longer take weeks or months. The lender must be able to adjust pricing in short order, and present the offer to the customer at the point of decision.

→ LOS integration

Once an offer is delivered in real time and accepted by the customer, that loan information must be passed seamlessly to the lender's loan origination system (LOS), so that the completed loan application can enter the workflow, document management, and compliance tools already in place.

→ API-based architecture

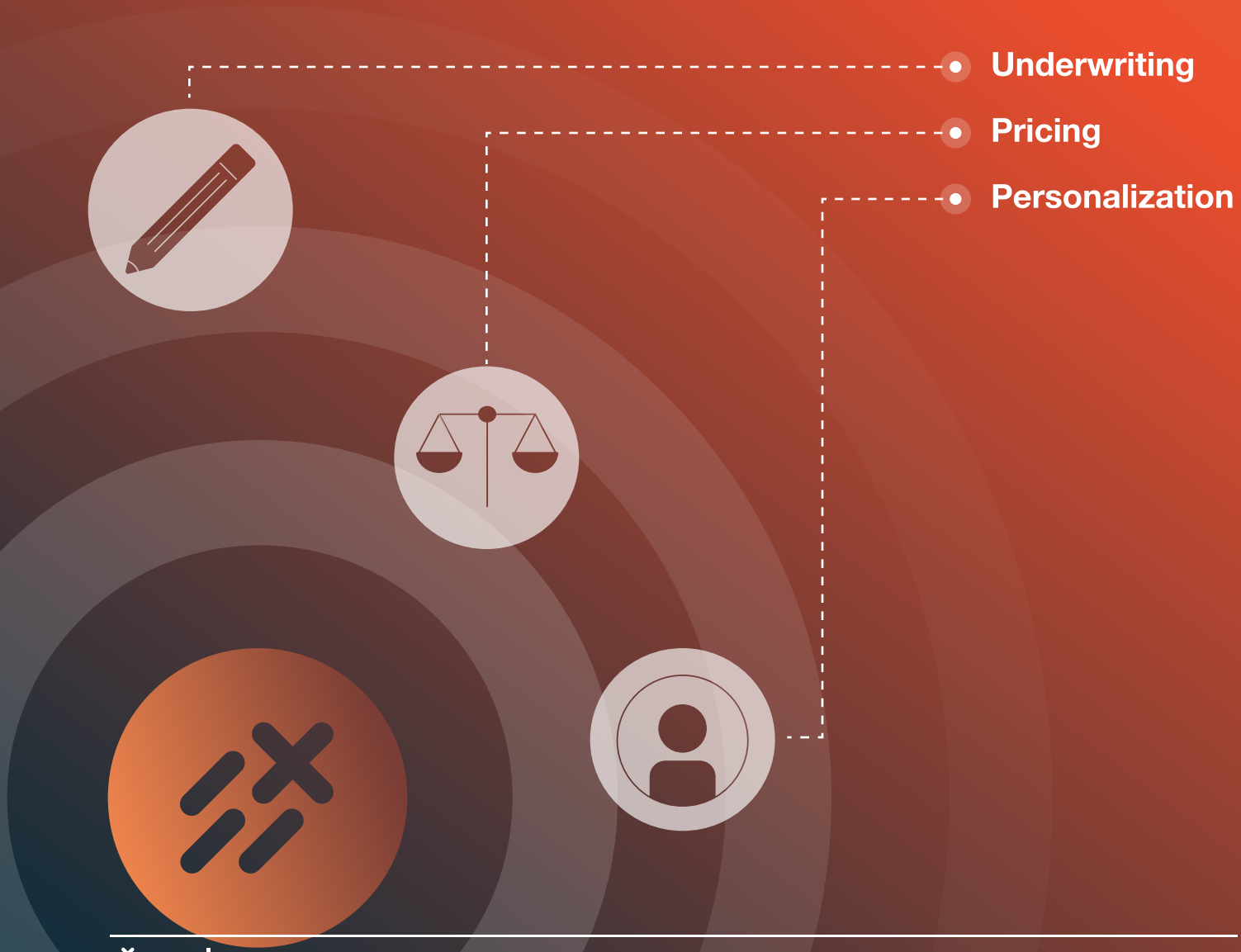
Application programming interfaces (APIs) allow seamless connections to complementary technology. In the case of legacy applications and infrastructure, APIs allow transitions to take place in steps, so that software can be replaced or augmented over time. APIs also open new possibilities for connecting with business partners who provide complementary solutions, increasing your reach and allowing you to potentially offer a broader array of products and services to borrowers.

→ Governance and regulatory compliance

The personalized lending solution must not be a "black box." It must be open and transparent, with an audit trail for all transactions. This ensures that lenders can comply with fair lending rules and regulations, can back up their decisions and offers with an easily-understood set of algorithms, and have immediate access to a transaction history that can be reviewed internally and by any external auditors.

The Earnix Solution Set

The Earnix platform offers product owners, data scientists and pricing professionals a suite of tools to define, implement, and operationalize loan personalization logic under one roof. Personalization projects are adaptable to different customer journeys, and can be directly integrated via API to the lender's customer experience platforms, whether on an app, on the website, in a chat, or on the workbench of a virtual branch assistant.



Earnix Price-It™

Earnix Price-It is a single platform for price modeling, simulation, and deployment, so you can react quickly to changing market conditions and bring new products to market faster. Within the Earnix analytical hub in the platform, the Data & Modelling modules allow data scientists to develop and maintain ML predictive models of customer behavior, with those models able to quickly identify complex patterns of customer preferences, price sensitivity, and buying decisions.

These models are usually trained through A/B testing data gathered from package tests designed by the bank's specialists, together with Earnix Professional Services consultants.

The Deployment Module within the Earnix solution allows lenders to define personalization rules for each customer journey, including a list of alternative offers for each customer, personalized in real time. This module integrates with servers that provide loan personalization micro-services connected to the lender's customer experience platforms, and the rules can be deployed using fully-governed and compliant procedures without any IT interventions.

Earnix Personalize-It™

The Earnix Personalize-It interface allows product owners to define and maintain the catalog of offers and business rules that govern personalization projects for different customer journeys.

Earnix Underwrite-It™

Earnix Underwrite-It enables lenders to define the underwriting rules for different loan packages. Pricing professionals use the Pricing Module within Earnix Price-it to run scenarios on the expected outcomes of specific pricing schemes and to optimize the rates offered for each loan, in order to achieve specific targets under stringent business constraints.

Here are additional resources for you to explore:

"Behind the Scenes with Earnix Price-It" – an in-depth guide to the Earnix pricing optimization and personalization solution.

Summary and Next Steps

Loan personalization is not just a buzzword. It is a transformative approach to pricing, marketing, and underwriting your unsecured loans that allows banks to reap significant benefits by growing revenue, increasing origination while reducing regulatory and risk exposure.

The road to implementing a loan personalization solution for unsecured lending begins with implementing AI-based technology to bring disparate data, siloed systems, and analytics together for a modern, data-driven loan operation.

Wonder what your peers are doing in the area of loan personalization?

At Earnix, we have direct insight into how personalized loans are changing the way banks market their products. These are the results achieved by an Earnix customer - a large European bank - in just the first year of their product and pricing personalization project in consumer lending.



The following types of results can be yours when you embark on the path to loan product and pricing personalization.

3 Million	Number of preconfigured offers with real-time prices
>80%	Accuracy of demand model
~50%	Conversion rate
25k	Number of loans booked monthly with a personalized price
+9%	Number of loans booked
+15%	Amount granted
+17%	All-in revenue (interest + fees)
+180mln€	All in revenue earned during the full duration of the loans

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About Earnix, Ltd.

Earnix is the premier provider of mission-critical, cloud-based 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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