CONSUMER LENDING EBOOK

Personal Lending: The Fundamentals of Digital Loan Personalisation

What is loan personalisation and why you need it today

earnix

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Executive Summary

After a rapid growth in interest rates for personal loans in 2023 despite a lagging increase in deposit rates, UK banks will face mounting margin pressures in 2024. The mortgage slowdown, regulatory scrutiny and deposit shifting — where customers move excess funds out of current and instant access savings accounts to take advantage of higher interest rates — will all work in the same direction: a tight squeeze in access to credit to contain costs.

On top of tighter margins, lenders will have to navigate a complex matrix of regulatory changes, consumer behaviour shifts and technological advancements to secure a competitive advantage and foster sustainable growth in personal lending. High interest rates will continue to strain affordability, lenders will need to compete to attract and retain responsible borrowers looking for easy credit access, and intensifying regulatory initiatives such as the Consumer Duty Act will necessitate a strategic overhaul of lending offers to ensure compliance. And like digital, the Age of AI and the presence of Account Information Services (AIS) is likely to have a transformative impact on the industry, affecting roles in virtually every part of the bank.

"A quarter of a century ago, banking stood on the verge of the Digital Age. The Internet was starting to reveal its potential and most bankers had a strong premonition that far-reaching change was coming. Today we feel a similar sense of awe as we contemplate the potential of gen AI, especially when powered by the cloud and rapidly expanding data capabilities. Banks have always known optimised pricing can hugely impact their top and bottom lines. Now they're starting to combine intuition with gen AI and more comprehensive data to turbocharge scenario planning and move closer to personalised pricing."

Accenture Research Report, "Top 10 Trends in Banking in 2024", January 2024

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

So, what does it mean for the lenders?

Lenders wanting to maintain their competitive advantage and capitalise on demand for personal loans need to be looking for ways to stand out in a crowded marketplace. Additionally, there is a need to consider pricing competition amid more stringent credit access, high interest rates and strained affordability.

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

What is Loan Personalisation?

Loan personalisation 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 optimised margin. Offer-influencing factors can include personal experiences, market trends, cost of funds, historical customer data and borrowing history, purpose of the loan and such.

What can be personalised?

→ Basic terms of the loan
- Loan amount
- Term
- Annual rate of interest
- Application fees
- Down payment

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



Consumer Loan Personalisation in Action

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

£7,500
LOAN AMOUNT

PAY IN 72 MONTHS

DOWN PAYMENT	CURRENT ACCOUNT DISCOUNT	MONTHLY PAYMENT
-	-	**£139.01**

APR	DISCOUNTED APR	FEES	TOTAL PAYABLE
10.49%	-	-	£10,008.60

ORIGINAL REQUEST
£7,500 over 72 months

GOAL
Optimise overall revenues from origination across all loans

PERSONALISE
APR

£7,500
LOAN AMOUNT

PAY IN 54 MONTHS

DOWN PAYMENT	CURRENT ACCOUNT DISCOUNT	MONTHLY PAYMENT
-	-	**£178.94**

APR	DISCOUNTED APR	FEES	TOTAL PAYABLE
12.24%	-	-	£9,662.95

ORIGINAL REQUEST
£7,500 over 72 months

GOAL
Offer alternative with lower total amount payable

PERSONALISE
APR & term

£7,750
LOAN AMOUNT

PAY IN 74 MONTHS

DOWN PAYMENT	CURRENT ACCOUNT DISCOUNT	MONTHLY PAYMENT
-	**0.50%**	**£139.02**

APR	DISCOUNTED APR	FEES	TOTAL LOAN COST
10.49%	9.99%	-	£10,287.51

ORIGINAL REQUEST
£7,500 over 72 months

GOAL
Offer alternative with same monthly repayment, current account offer and higher amount

PERSONALISE
Loan amount, APR, term, cross sell

Why is Loan Personalisation Critical Today?



A recent IPSOS survey found that Millennials and Gen Z show similar attitudes to borrowing and similar behaviour around credit and debt, when it comes to credit cards. For example, when each generation was aged 26 and under, four in ten said they repay their credit cards in full each month. This contrasts strongly with Gen X: in 1999, a third said they did this, compared with half of Millennials in 2015 when they reached the same age. But Gen Z are more comfortable using online and mobile banking platforms and are less likely to visit traditional branches or use cash. Gen Z have a strong desire for immediacy: long wait times for bank account, loan and mortgage approvals, and ineffective processes will cause frustration.

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 demanding.

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:

- **Personalisation**
  Offers and experiences as unique as each customer
- **Agility**
  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
- **Speed**
  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
- **Security**
  With increasing concern for issues such as fraud and identity theft, consumers need the security they traditionally feel at their branch — and more
- **Intelligibility**
  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.

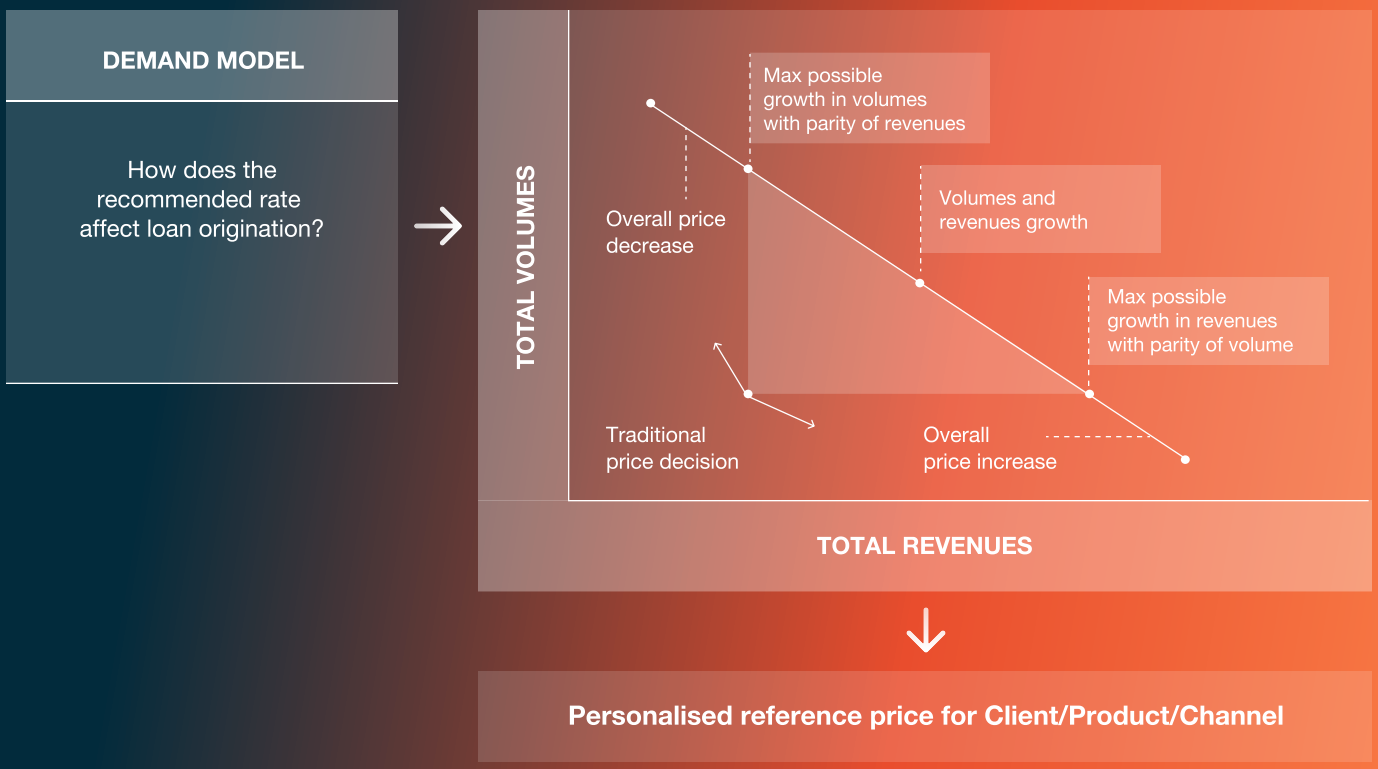
"The ability to leverage large volumes of data and new technologies to understand customers' journeys and deliver personalised offers and experiences is now considered critical to driving loyalty, engagement and, ultimately, growth."

– *Capgemini*
The Customer Engagement Imperative Report, 2023

What Can Loan Personalisation Do for You, the Lender?

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

Loan personalisation 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 prioritising certain targets over others, such as origination volume, revenue growth or other factors.



This graphic illustrates the potential for greater loan volumes and revenue growth from loan personalisation.

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 personalisation, 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 optimisation process leads to that "win-win" situation — consumers get the loan that works best for them, and lenders can optimise their outcomes to meet their strategic business objectives and KPIs.



How to Get Started with Loan Personalisation

The four critical components of loan personalisation in unsecured lending

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

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

"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.



This 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

- Personalisation 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 personalised 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 personalised 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 personalised offers will also improve close rates and increase loan volumes for customers sitting across the desk.

02 Presentation of Alternatives

Developing terms for personal loans is a multivariate process, requiring sophisticated analytics to optimise 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 personalisation 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 personalisation.

Price optimisation is a big part of the personalised loan.

A customer who is more concerned about the monthly repayment might be willing to take a longer-term loan with a higher annual rate, while a customer who is prioritising the total amount payable will be inclined to overlook all other aspects of the loan in favour of the lowest possible APR.

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

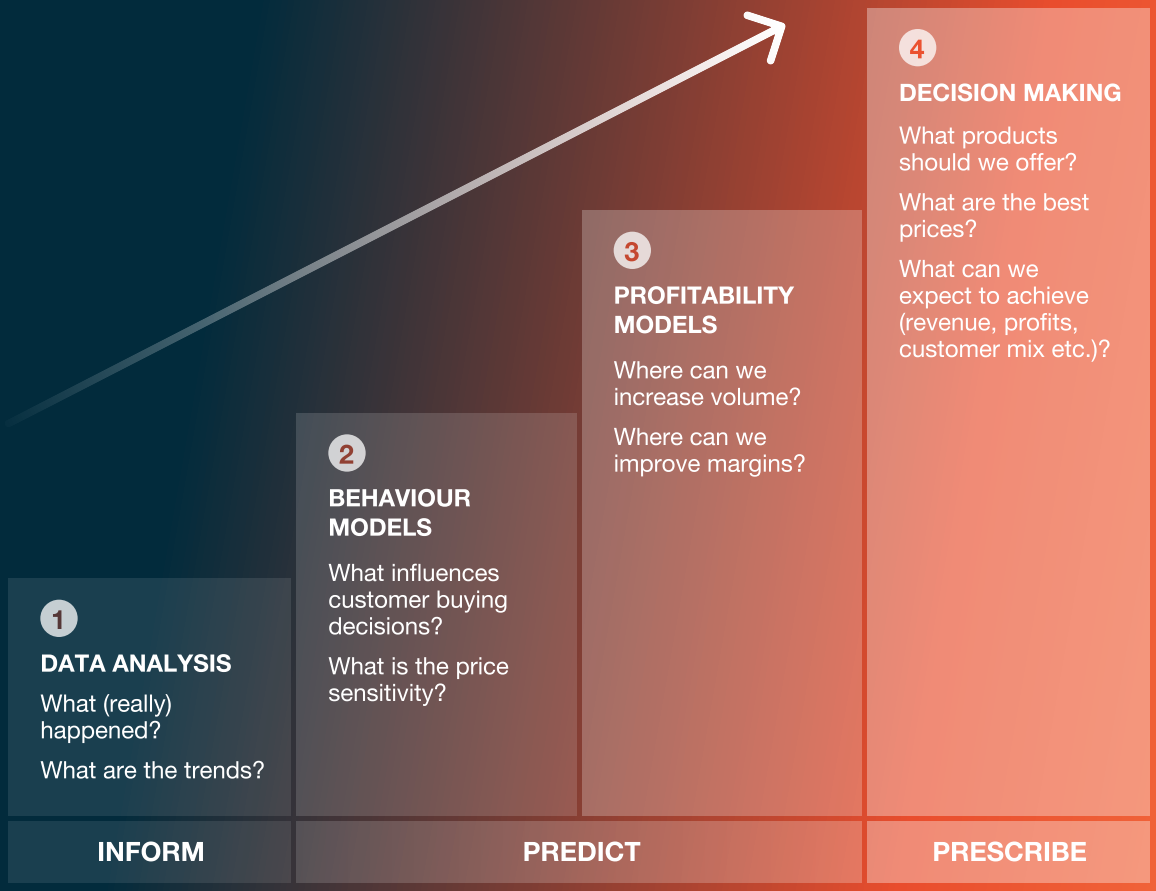
By optimising rates, a lender can offer individual prices. These prices are designed through the usage of advanced analytics such as loan conversion models and price elasticity models to maximise profitability for the lender and increase loan appeal for the borrower.

In the end, the consumer receives a highly personalised 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 personalisation 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 analysing consumer behaviours (on-time payments, late payments, interactions with other products and accounts, transfers to and from other institutions etc.), you can offer updated prices, more favourable 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 personalisation is a "win-win" approach — lenders who can meet customers' needs stand to deepen banking relationships and build loyalty.

With loan personalisation 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 personalisation contributed to a **300%** increase in loan sales among mobile users

€1 trillion | A European bank with nearly **€1** trillion in assets launched a personalisation 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

Personalisation 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 centre 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 personalisation will reap significant rewards.

Benefits of loan personalisation:

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

Key Technology Components of Personalised Lending

→ Predictive modelling

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 individualised lending offers. The personalised banking solution must include a wide set of optimisation 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 optimisation problems.

→ Advanced analytics

Analytics are at the core of every personalised lending solution. Analytics gives lenders the critical ability to craft an offer (or a set of offers) in real time, with a predictable outcome. By employing world-class data science, artificial intelligence (AI), pricing optimisation algorithms, and machine learning (ML), lenders can deliver the best-priced and most-personalised 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 personalised 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

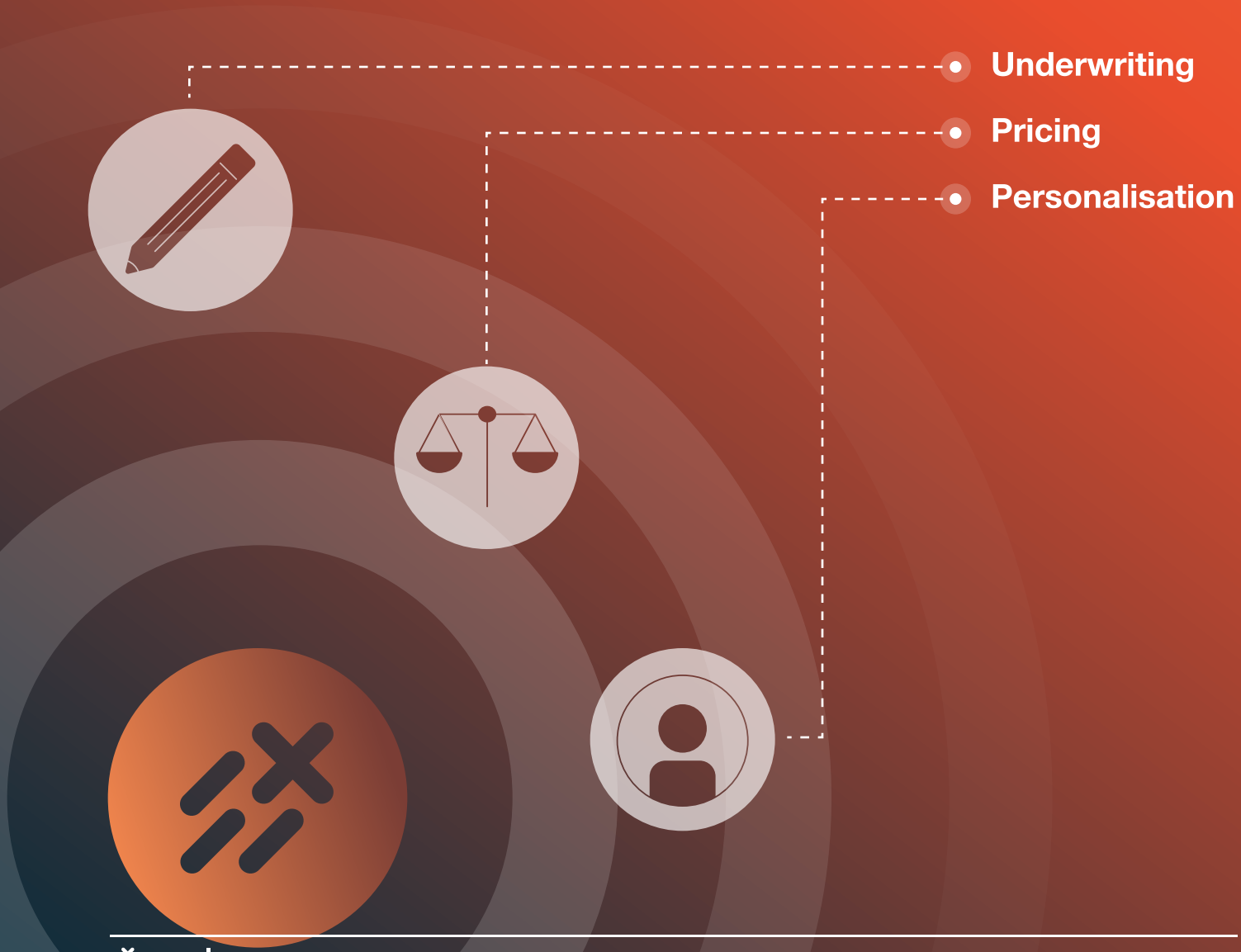
The personalised lending solution must not be a "black box". It must be open and transparent, with an audit trail for all transactions. This ensures that lenders can comply with fair lending rules and regulations, can back up their decisions and offers with an easily understood set of algorithms, and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

Benefits of loan personalization:

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

The Earnix Solution Set

The Earnix platform offers product owners, data scientists and pricing professionals a suite of tools to define, implement and operationalise loan personalisation logic under one roof. Personalisation 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 modelling, 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 behaviour, 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 personalisation rules for each customer journey, including a list of alternative offers for each customer, personalised in real time. This module integrates with servers that provide loan personalisation 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 Personalise-It™

The Earnix Personalise-It interface allows product owners to define and maintain the catalogue of offers and business rules that govern personalisation 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 optimise the rates offered for each loan, in order to achieve specific targets under stringent business constraints.

Summary and Next Steps

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

The road to implementing a loan personalisation 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 personalisation?

At Earnix, we have direct insight into how personalised 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 personalisation project in consumer lending.



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 personalised 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

These sorts of results can be yours when you embark on the path to loan product and pricing personalisation.

Here are additional resources for you to explore:

"Behind the Scenes with Earnix Price-It" — an in-depth guide to the Earnix pricing optimisation and personalisation solution.

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Reimagine Banking

Unlock personalisation at earnix.com →

About Earnix, Ltd.

Earnix is the premier provider of mission-critical, cloud-based intelligent solutions across pricing, rating, underwriting, and product personalisation. 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. Earnix 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.

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