# Pricing Strategies in Consumer and Auto Lending

## Where we are today and where we need to be

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GATEPOINT RESEARCH PULSE REPORT

# Contents


Executive Summary 02

Research Methodology 03

Main Findings 04

- Forecasting Models 05
- Market-Level Factors Affecting Pricing Strategies 06
- Time to Deploy Updated Rates to Market 07
- Top Challenges in Defining Pricing Strategies 08
- Critical Capabilities of a Pricing Analytics Solution 09
- The Role of AI in Pricing Consumer Loans 10

Recommendations and Next Steps for Lenders 12

- What's Next? 14

# Executive Summary

Today's landscape of consumer and auto lending is increasingly influenced by heightened margin pressures and rising loan risk due to increased delinquencies and declining affordability. Additionally, lenders must navigate a complex matrix of consumer behavior and competitive shifts, as well as, technological advancements to foster sustainable growth.

With higher interest rates still shaping the sector, understanding how your loan pricing strategies stack up against the competition is essential.

To help you stay ahead, Earnix commissioned independent market research aimed at discovering key trends in how consumer loans are priced and sold in today’s markets. This eBook presents a summary of our findings and recommendations for leveraging modern technology for decision-making, optimizing pricing models, targeting lower-risk borrowers, and maintaining profitability amidst challenging market conditions.



# Research Methodology

Earnix and Gatepoint Research invited selected executives to participate in a survey called "Pricing Strategies in Consumer Lending".

Candidates from the banking and lending industry were invited via email, and seventy executives have participated to date.

Management levels represented are all senior decision-makers:

**42%** Hold the title CxO

**32%** Are VPs

**18%** Are directors

**8%** Are senior or department managers

Some key topics covered include:

- Market factors they consider when setting their loan prices
- How long it takes lenders to deploy updated prices
- The most critical capabilities and functions in a pricing analytics solution

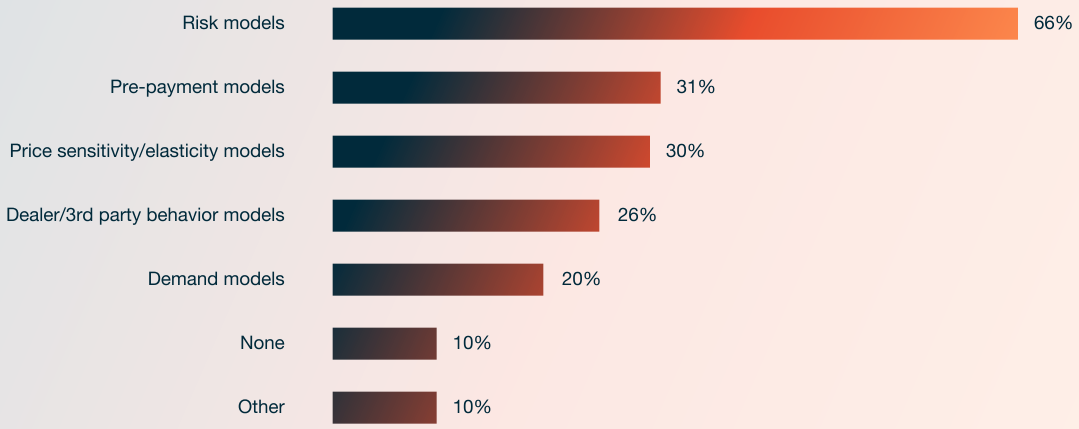
So, let's take a deeper dive into how organizations are optimizing their consumer lending pricing strategies.

# Main Findings

# Forecasting Models

Although 2/3 of lenders have invested in advanced analytics for risk-based pricing, only 20%-30% report using demand or price sensitivity models in their pricing decisions, indicating a lot of potential for embedding a better analytical understanding of customer behavior in pricing decisions.

**What forecasting models (statistical and/or Machine Learning) do you use in your pricing process?**

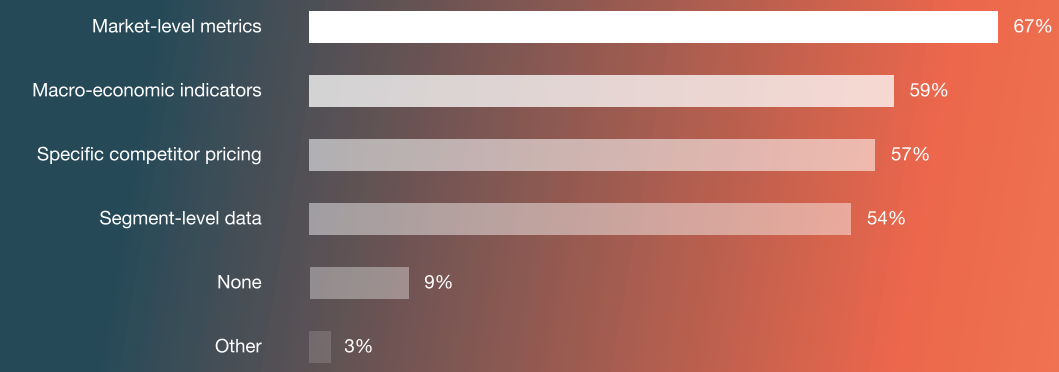



*Respondents are using risk models in their pricing process more than any other forecasting model.*

# Market-Level Factors Affecting Pricing Strategies

Market-level metrics, micro-economic indicators and Competitor pricing are crucial elements in determining pricing decisions. Pricing analytics platforms that can include this data in real-time in the pricing decisioning process will have a clear advantage.

**What factors in the market do you consider when setting your own prices?**



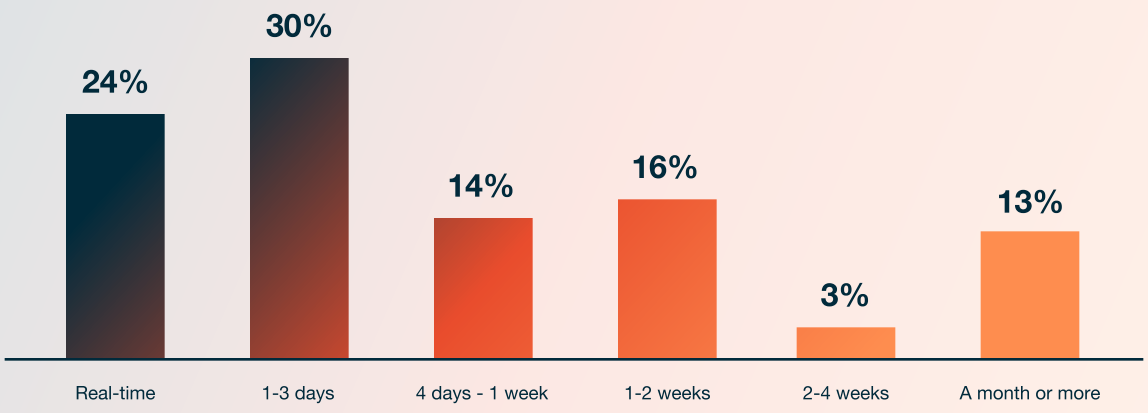

*While all of these factors are under consideration by at least half of those surveyed when setting their own prices, market-level metrics emerge at the top of the list, cited by 67%.*

# Time to Deploy Updated Rates to Market

Over 1/3 of respondents take a week or longer to update their rates, lagging the rest of the industry.  This results in a lost competitive advantage and an increase in the potential of writing unprofitable loans.

There is a lot of potential for efficiency improvement when deploying new rates to the market.

**How long does it take your organization to deploy updated prices?**

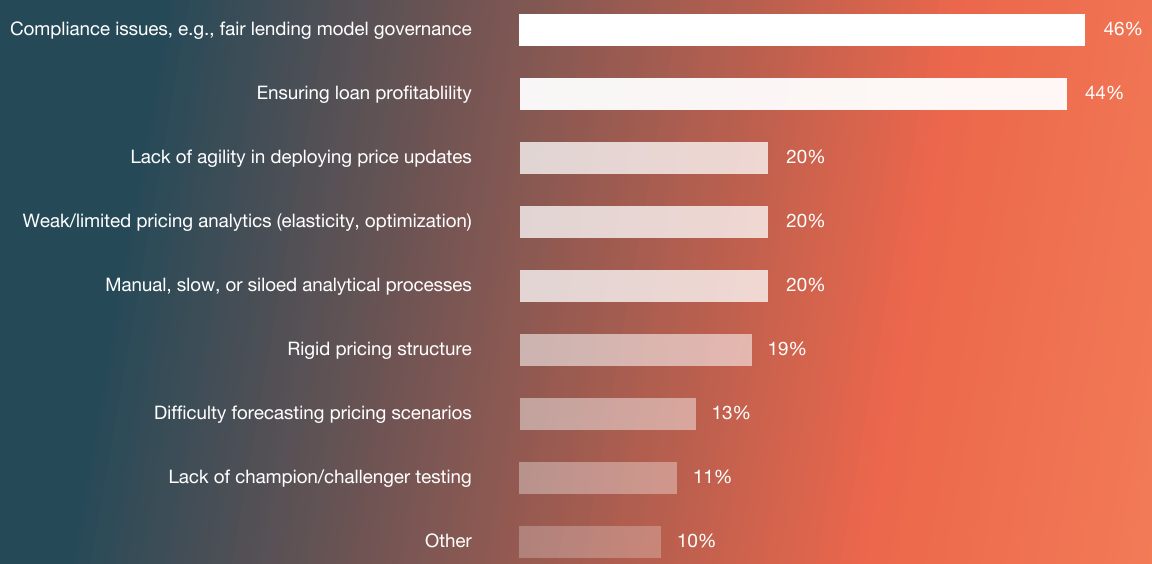


# Top Pricing Challenges

Dealing with compliance issues (46%) and ensuring loan profitability (44%) are the top challenges when pricing personal or auto loans/leases.

Combining pricing that ensures loan profitability and maintains fair lending principles is the top challenge for lenders. Platforms that provide granular, flexible, and transparent pricing structures seem to be preferred by lenders.

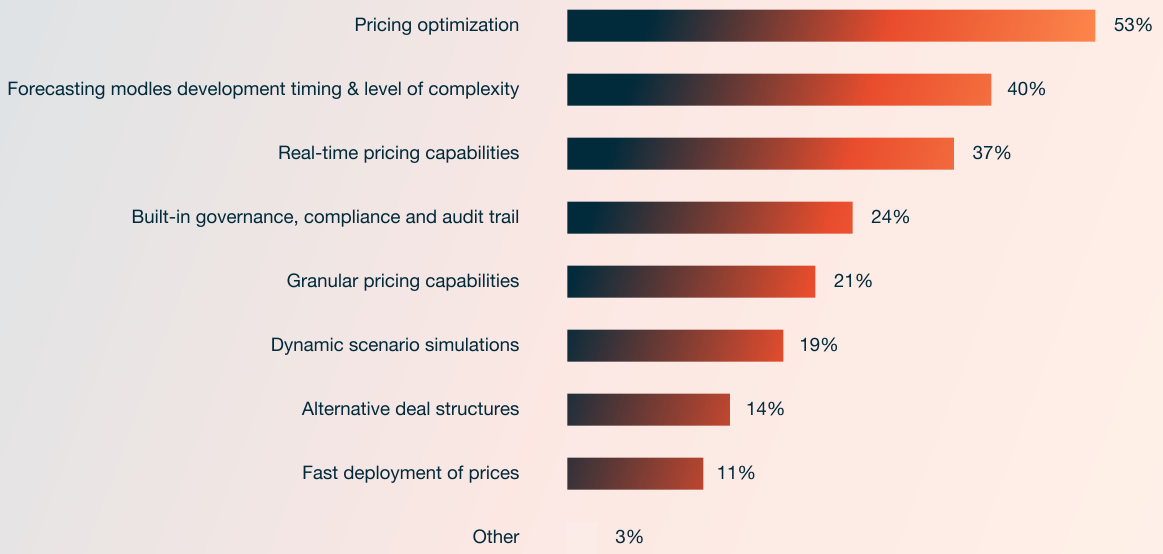
**What are your top challenges when it comes to pricing personal/auto loans or leases?**



# Critical Capabilities of a Pricing Analytics Solution

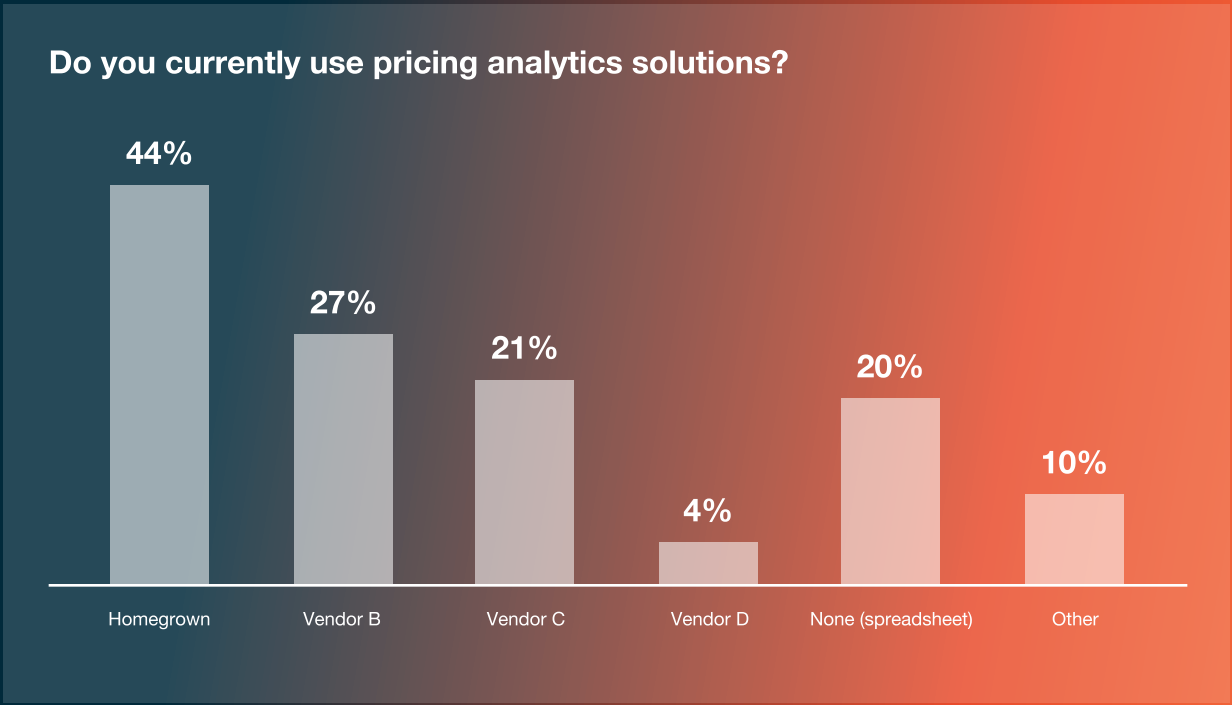
The most critical capability in a pricing analytics solution is pricing optimization (53%). Forecasting models (40%) and real-time pricing capabilities (37%) round out the top three. Therefore, solutions with dedicated price optimization capabilities are a must-have for lenders. No pricing analytics solution can pass the minimum system requirements test without such capability.

**What do you consider the most critical capability and functions in a pricing analytics solution?**



# The Role of AI in Pricing Consumer Loans

While many lenders surveyed reported using some sort of pricing analytics solutions, there is a still a fair amount of lenders using homegrown systems, spreadsheets or nothing at all to help them evaluate, visualize and define their pricing strategies.




It is clear that in today's market, lenders must invest in AI-driven pricing analytics and decisioning solutions to help them stay competitive and profitable.

AI-driven price optimization, scenario simulation, and predictive analytics are transformative tools that significantly enhance the agility, profit margins, and overall portfolio performance of lenders. By implementing AI-driven price optimization, lenders can dynamically adjust their pricing strategies with high precision and speed in response to fluctuating market conditions. This minimizes the risk of unprofitable loans and lost business volumes.

Additionally, scenario simulation allows lenders to project various pricing scenarios and their potential outcomes, helping them to effectively navigate challenges such as declining loan profitability, compliance issues, and inflexible pricing structures.

Furthermore, the integration of alternative data into the lending process enriches lenders' understanding of customer behavior and creditworthiness. This leads to more accurate risk assessments and informed pricing decisions. By adopting advanced pricing analytics and decision-making platforms, lenders not only bolster their resilience but also enhance their responsiveness to macroeconomic shifts and competitive pressures.

**Earnix - a leader in pricing analytics and digital decisioning for consumer lending - recommends focusing on key factors like:**

- Predictive modeling and simulation to help understand how a given portfolio of customers might be impacted by a change in price
- Fast (or real-time) pricing deployment to avoid intermediate steps or handoffs between internal teams
- Alternative Deal Structures to minimize rehashing, reduce processing costs, and acquire more customers by not letting them walk away
- The ability to offer fair credit access with real-time transparency and greater financial inclusivity
- Pricing and loan underwriting automation with lower operating costs and improved compliance



# Recommendations and Next Steps for Lenders

As you are reviewing the trends in pricing analytics for consumer and auto lending, you are likely to ask yourself what the next steps are for YOUR organization.

Here is the list of recommendations from Earnix that are likely to offer you the most immediate and visible improvements.

### → Predictive modeling

Using data available about the customer, you have the context to make individualized lending offers. Your Pricing Analytics 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 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 , lenders can deliver the best-priced and most-personalized product to every customer, every time. This leads to a significant competitive advantage over 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. Lender must be able to adjust pricing in real-time and present the offer to the customer at the point of decision.

## LOS integration

Once an offer is delivered and accepted by the customer, their 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

Your 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.

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# What's Next?

To learn more about implementing a sophisticated pricing analytics and digital decisioning solution purpose-built for consumer and auto lending, read our eBook "Pricing Analytics for Auto Lenders: 4 Critical Use Cases"

**Unlock Best Practices in Consumer and Auto Lending →**

**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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