

# **Earnix Enhances Processes, Compliance and Profits at Global Tier One Bank**



An understanding of dealer and customer behavior enables this Global Tier One Bank to set rates for auto loans in a more scientific way.

## Situation: Background of the Challenge.



This Global Tier One Bank provides a comprehensive suite of financial products and services. Their indirect auto financing division found it increasingly difficult to grow in a hyper-competitive market. The bank enables tens of thousands of pricing decisions across thousands of auto dealers from a variety of geographies every week.

## Challenge: Respond to competitive movement while controlling risk levels.

The market operates where rate changes happen constantly to correspond with competitive movement – and the bank was struggling to keep up. A clear tradeoff existed between volume and margin, though they didn't know how to address it. Profitable growth was needed, but not at the expense of increased credit risk.

The pricing process as a whole faced several challenges, including needs for:

- **Automation.** Changes to rate sheets were being made in a pro-forma process, with a series of manual inputs required to adjust values, which sometimes took hours. Essentially, the market was changing faster than the bank's internal procedures – they simply couldn't keep up. Inefficiencies were negatively impacting business performance, such as using standard spreadsheet software to manage rate sheets containing over 100,000 pricing cells, which was error prone.
- **Granularity.** The modifications being made were broad and made across the board; either all rates moved up or moved down. They certainly were not precise nor did they take into account customer needs and desires.



- **Simulation.** As revisions were being made, corresponding effects could not be simulated – which was frustrating. Although they knew they should test pricing scenarios prior to market deployment, performing those often lengthened the process by months or quarters. Additionally, they couldn't easily look back at past scenarios to determine what worked well and what didn't.

- **Compliance.** Heightened scrutiny from government regulators and internal governance processes required the lending group to increasingly demonstrate compliance, particularly in terms of risk management and underwriting policies.

Earnix helped this Global Tier One Bank discover that, without behavioral models for dealers and customers, they lacked a clear understanding of where the bank fit in the loan origination value chain. Earnix also was able to demonstrate specifically how this negatively impacted both volumes and margin.

**How do you match complex market demands and adjust auto loan rates across multiple geographies while considering over 100,000 pricing options?**

# Solution: Process, Compliance, & Profit improvements.

The Earnix Banking Suite provided an innovative solution that helped the bank improve its overall pricing process around indirect auto loans. Specifically, quantifiable advances occurred with processes, compliance, and profits.

**Processes:** An upgraded pricing decision-making process enables this Global Tier One Bank to easily view past pricing projects and performance, run what-if scenarios, and make more timely pricing changes that capitalize on changing market conditions.

1. What-if scenarios enable a simulation environment where the pricing analyst can better understand the impact of potential changes and the trade-offs between multiple business objectives.
2. Automating analytical tasks and reporting increases employee efficiency and reduces time spent on routine tasks. Forecasts not only are more accurate, those now can be calculated in a more rapid manner to support the business needs of stakeholders across the bank. For example, the areas of finance and sales can better participate in the process to decide when and where to adjust prices.
3. The bank now responds to changing internal and external business requirements in hours, much faster than before.

**Compliance:** With a single, automated solution in place that encompasses data management, analytical model building, simulation, and reporting — compliance has been greatly simplified. When regulatory or compliance officials make requests, the bank can easily respond with models and pricing cells from within the Earnix software. Earnix is a “white box”, completely transparent and accessible to satisfy the needs of the compliance organization.

**Profits:** The new pricing strategy also brought increases in profits. By taking into account information the bank already knew about their customers — including price sensitivities, preferences, etc. — it was able to present rates that much more closely fit the needs of the market.

1. As a result, conversions started to rise.
2. Response to pricing decisions can now be fed into downstream demand models, allowing future pricing calculations to better reflect market conditions and enable continuous margin and volume improvements.

## Results

The three above improvements have led to significant results across this Global Tier One Bank.

**Process:** Better operational processes generated numerous improvements. The bank is managing rate sheets of 2,000 Excel cells across over 45 geographies with the Earnix solution. Rate changes occur two times a week across these ~100,000 cells. The rate changes must take into account data that includes historical, market-based, competitive intelligence, and credit risk. A process that took days to complete can now be completed in a matter of hours. This translates to a **greater than 80% reduction in the pricing analytics cycle**. With additional time, analysts can evaluate and execute new segmentation strategies and add new pricing variables.

Instead of simply reacting to the market, as was done in the past, new models and scenarios can be tested and deployed with proactive control. As a result, the bank has a much better understanding of the trade-offs being made between volume and profit as well as what the market response will be before prices are deployed.

With improved administrative control, rate changes can be done in a precise manner. Customers receive a loan offer that is aligned with their specific needs.

**Compliance:** Since every data element, model and pricing cell in the Earnix solution is completely transparent and auditable, the bank can more easily and quickly respond to internal and external queries.

**Profits:** The improvement in this Global Tier One Bank’s pricing sophistication from using the Earnix Banking Suite software and methodology led to a **2x margin improvement**. As this new pricing strategy became more finely tuned, gross margins increased an additional **10-15%**. The bank’s latest ROI metrics include a financial benefit exceeding **\$10 million** and an ROI greater than **10X** on their Earnix investment. The ROI throughout well exceeded the pre-project estimates and will continue to improve as the bank continues to advance their pricing sophistication and market responsiveness.



## Future



Going forward, the bank will continue to leverage knowledge of consumer and dealer response to price by region to be more responsive to market conditions and to improve their financial results. Additionally, the bank is committed to continuing to advance the science by adding new variables to their rate sheet as well as refining those that are already used. Armed with a better understanding of response to price, the bank now has the ability to tie its decisions to key performance metrics, such as applications received, approvals, bookings, and loan performance.

# EARNIX

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## The Earnix Promise



We believe that for Insurance and Banking Institutions, personalization is key to increased customer satisfaction and loyalty as well as to improved business results. Recognizing the complexities of financial products, Earnix provides an end-to-end Pricing and Product Personalization Software Suite, driven by world-class data science, analytical modeling tools, and integrated machine learning.

The Earnix 3D Personalization Suite™ empowers Financial Institutions to offer the right product, at the right price, at the right time, while optimizing business results, maintaining governance & compliance, and improving the enterprise-wide pricing and product personalization process.

Earnix is a banking and insurance software company that has been consistently innovating for Banks and Insurers around the globe for over 18 years. We have offices in the Americas, Europe, Asia Pacific, and Israel.



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