CASE STUDY

nomis solutions™ Pricing and Profitability Management for Financial Services

Growing Balances Through a Price-Tailored Balance Transfer Campaign:

A Customer Price-Sensitivity Case Study

Nomis Score™ for Credit Card Targeting

Challenge: Substantially grow receivables and increase net profit while continuing to control for risk with existing card holders as the economy shows early signs of recovery.

Solution: Overlaid the Nomis Score onto the bank's existing pricing strategies to better align offering interest rate with their customers' sensitivity to price.

Results: Top North American credit card issuer achieved a 20% increase in receivables and a ~ 10% improvement in net profit incorporating the Nomis Score™ into their balance transfer pricing strategies.

In-Market Results

Impact of Nomis Score		
Receivables	**Receivables per Customer Mailed**	**Profit**
20% increase	$35 increase per customer mailed	10% increase

"Using the Nomis Score as a new approach to better understand each prospect's unique price-sensitivity helped this lender more accurately assign APR to substantially improve response, receivables and profit in their balance transfer campaign"

— Frank Rohde, CEO, Nomis Solutions

nomis score

The Business Challenge

As losses mounted and banks tightened credit standards during the recent financial downturn, total revolving credit outstandings decreased 17% from December 2008 to August 2010[1], resulting in stagnant growth rates for credit card portfolios. However, as the economy began to recover, a top-tier North American credit card issuer sought to grow receivables from existing customers through a balance transfer campaign.

The executives realized they needed to challenge the business-as-usual approach to targeting since response rates for credit card campaigns have decreased steadily over time. They had recently learned about the Nomis Score™, a patent-pending price sensitivity score that allows lenders to quantify the change in demand as a result of a change in price. Used in conjunction with other decisioning criteria and continuing to control for risk, the Nomis Score enabled this lender to better understand their customers' sensitivity to price, and therefore create more targeted offers to drive increased receivables.

Adding the Nomis Score to Current Pricing Practices

The card issuer's existing approach of conducting a balance transfer campaign consisted of using a set of potential 'teaser' and 'go-to' rates determined based on competitive offerings in the marketplace at the time. Customers were segmented based on risk, historical behavior and their likelihood to respond to an offer based on a custom response score.

While this approach provided insights into how to segment the target population, it did not isolate the customer's price-sensitivity to determine which rate to offer each prospect. The Nomis Score was overlaid onto the bank's existing pricing strategy to better align rate with customer's value for rate, or the customer-level price-sensitivity.

Case Study Design

Customers were randomly assigned to either a 'business as usual' control group or a Nomis Score pricing strategy test group.

The control group was priced using the credit card issuer's existing strategy with a set of three rates randomly assigned within each mailing cell. Since price-sensitivity was not used as a pricing factor for the control group, the average rate was constant across price-sensitivity bands. For the test group, the Nomis Score strategy assigned the best rate to the most price sensitive customers and the highest rate to the least price-sensitive customers.

Results

By identifying the highly-price sensitive prospects, the Nomis Score strategy enabled the bank to align the interest rate offer with the prospects' value for price. Offering the best rate to the most price sensitive group of customers allowed the issuer to significantly increase both response rates and average balance transferred, resulting in a 20% increase in receivables and ~10% increase in profit. The Nomis Score strategy returned an additional $35MM in receivables for every 1MM customers mailed.

Summary

Use of the Nomis score provides the opportunity to substantially increase response rates, receivables and campaign profitability by identifying those customers who are more price sensitive and offering them an attractive rate. The Nomis Score is a broad based price sensitivity score that has been designed to be used across industries and specific applications from acquisition to account management and can be integrated into the Nomis Price Optimizer solution.

To obtain more information or schedule a consultation on how your institution could benefit from use of the Nomis Score, please contact info@nomissolutions.com or 650-588-9800 or visit www.nomissolutions.com.

About Nomis Solutions

Nomis Solutions enables best-in-class Pricing and Profitability Management for financial services companies. Through a unique combination of data, advanced analytics, innovative technology, and tailored business processes, Nomis Solutions' Pricing and Profitability Management™ Suite enables banking executives to make more intelligent, data-driven decisions to align their pricing practices with customer needs and business goals. Through predictive insights about customer price-sensitivity, the Pricing and Profitability Management Suite™ provides banking professionals the ability to unlock the profit and volume potential of their consumer lending and deposits portfolios while satisfying risk, funding, and regulatory constraints.

Nomis Solutions has the largest depth and breadth of Pricing and Profitability Management experience in the financial services industry. We leverage this experience to bring similar results to your unique business environment and deliver the fastest time-to-benefit. Our solutions are used by executives responsible for pricing, product management, marketing, finance, and risk across consumer lending and deposits with $100 billion in new and pre-existing consumer accounts priced to-date.

[1] *Federal Reserve Statistical Release G.19, October 7, 2010*