

## Increasing interest income through a tailored re-pricing campaign: A customer price-sensitivity case study

### Nomis Score™ for Personal Lending Re-Pricing

**Challenge:** Increase margins while controlling for attrition risk when re-pricing personal lending customers.

**Solution:** Incorporated the Nomis Score as an incremental variable into the bank's existing re-pricing approach to more accurately align the revised interest rate with the customer's sensitivity to price.

**Results:** Opportunity to increase net interest income by 15% or more over existing business as usual re-pricing results by using Nomis Score as a variable to help set customer rates.

This equates to \$1,000,000 in incremental one year NII for a 100,000 volume re-pricing campaign where the percent lift in NII observed with the incorporation of the Nomis Score into the re-price decisions translates to \$10 NII increase per account.



## The Business Challenge

The decision to re-price an existing account is a complex undertaking. It requires a lender to find that optimal balance or trade-off between the opportunity for increased margins versus the risk of potential adverse customer reaction and customer attrition.

A top tier multi-national bank recently approached Nomis to explore how understanding a consumer’s sensitivity to price could be leveraged in their re-pricing strategies. Could we help them more effectively identify those existing customers more and less sensitive to price and leverage that insight when applying a premium or discount to the re-pricing rate recommended within their current re-pricing strategies? Additionally, they wanted a solution that was easy to integrate into their re-pricing process and was available for near-term use.

After learning 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, the lender decided to work with Nomis to test and quantify the value the score could provide when leveraged in re-pricing strategies. Using the score in conjunction with other re-pricing decisioning criteria and continuing to control for attrition and risk, the Nomis Score enabled this lender to better understand their customers’ sensitivity to price, and therefore create more targeted discount and premium rates to increase interest income.

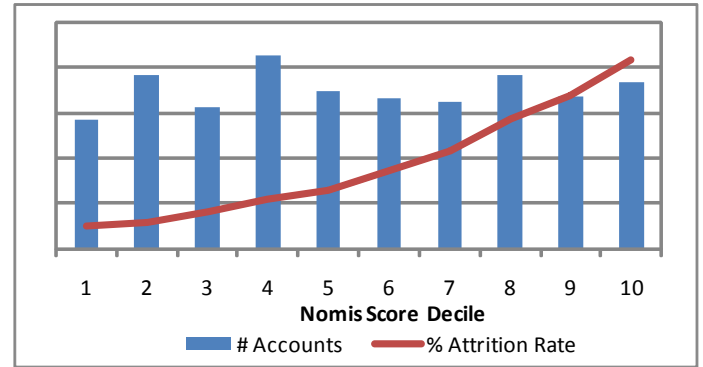
## Adding the Nomis Score to Current Re-pricing Practices

The bank’s historical approach to re-pricing consisted of using traditional pricing dimensions (such as risk, credit line, utilization) to segment customers and then assigning an appropriate rate. Such dimensions are commonly used as they help lenders capture some of the dynamics associated with attrition risk when re-pricing. However these traditional pricing dimensions do not capture the relative price sensitivity of customers. Incorporating a score tailored specifically to measuring price sensitivity can be used to yield a substantial uplift in interest income. In this way, the Nomis Score™ can be overlaid on top of the existing re-pricing criteria to ensure maximum benefits could be achieved.

## Case Study Design

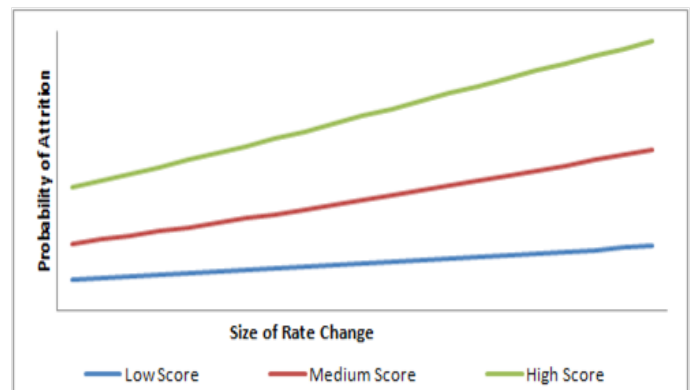
The lender provided Nomis with a robust sample of accounts that had been re-priced during the past year. We generated a Nomis Score on each record corresponding closely to the time in which the re-pricing decision was made. The records were then rank ordered into deciles according to their Nomis Score™ for each historical campaign. In order to validate the Nomis Score, we calculated post re-pricing attrition rates for each decile and campaign and observed that the Nomis Score

was able to successfully rank order attrition for all historical campaigns in the dataset.



This chart from one of the historical campaigns shows how effectively the Nomis Score rank orders attrition risk following the re-price. Decile 1 represents low Nomis Scores (low attrition/low sensitivity to rate increases) and decile 10 high Nomis Scores (high attrition, high sensitivity to rate increases). We observed this strong ranking of price sensitivity for all campaigns evaluated – even when they had very different Nomis Score composition.

As a next step, we used historical campaign data to calculate attrition curves for each decile of Nomis Score, and grouped the population into three broader groups (based on Nomis Score) of customers with similar price sensitivity. When grouping the customers, we are effectively balancing the trade-off between finding the greatest differentiation in price sensitivity across the groups and ensuring that each is adequately populated. Striking the right balance ensures that a substantial uplift may be achieved by overlaying the Nomis Score on top of the existing pricing grid.



This chart illustrates attrition curves for the three broad Nomis Score groups. Note that the highest Nomis Score grouping not only has the highest probability of attrition, but also exhibits the greatest sensitivity to rate increases (i.e. it has a ‘steeper’ curve). The reverse is true for the lowest Nomis Score grouping. It is this differentiation which provides a sizeable potential business opportunity.

Once customers were grouped into High, Medium and Low Nomis Score segments, we calculated final attrition curves for each of the three segments and used these to forecast the effect of changing rates on attrition. For each historical campaign, scenarios were run under assumptions of business-as-usual prices for customers with a medium Nomis Score™, business-as-usual plus a premium for customers with a low Nomis Score™ and business-as-usual minus a discount for customers with a high Nomis Score™.

## Results

Leveraging the Nomis Score to identifying the most and least price-sensitive customers and re-pricing appropriately resulted in an increase in net interest income (NII) of around 9.5% to 14% per account over the business as usual approach.

## Summary

Using the Nomis Score as an additional segmentation dimension in re-pricing programs can help lenders reduce attrition risk and increase margin by more insightfully applying rate discount, premium or no change based on understanding the consumer's sensitivity to the revised price. 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 Karen Beale, Vice President of Sales at Nomis Solutions at 650-588-9800 x223 or [Karen.beale@nomissolutions.com](mailto:Karen.beale@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.

The Pricing and Profitability Management™ Suite of business solutions includes the award-winning Nomis Price Optimizer™, the Customer Portfolio Optimizer™, and Nomis

Insights™. Driven by each customer's data and the Nomis Data Network™, our solutions provide analytic insight through predictive price-response models, the Nomis Score™, and the Nomis Market Schema. Each engagement is a collaborative process between our customers and our team of pricing experts, spanning data, analytics, software, and business consultants.

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.