

Achieving Differentiated Pricing with the Nomis Score™



Nomis Score™ can help you:

- Better tailor offers and prices down to the individual customer, improving pricing effectiveness to drive profit and volume growth
- Quantify price sensitivity to derive the optimal segmentation of customers and prospects
- Understand each customer's value for price relative to non-price factors, independent of product, channel or historical market footprint

Navigating the New Landscape for Financial Services

As the global economy recovers, lenders are cautiously loosening their lending criteria to increase volume. However, amongst tighter consumer-oriented regulation, ongoing concerns about risk, and the need for banks to regain consumer trust, pricing remains a delicate balancing act for banking executives. Therefore, finding the right, affordable offer and price point to increase volumes without over-exposure to risk and regulatory scrutiny is critical. Challenges include the ability to:

■ Effectively Align Offers and Pricing with Customer Values

Lenders have traditionally used a combination of risk and response scores to target prospects and priced by a matrix of risk, product, and channel dimensions. Using only these techniques, it is difficult to isolate the impact of price on the overall response, though it is the offer component that most directly influences profitability. Even those lenders already using price optimization techniques to better understand customer price-sensitivity are measuring changes in response within an existing segmentation, not at the individual customer level. Therefore, prices and offers are often misaligned to customers' value for rate relative to non-rate factors, resulting in lost profit and volume opportunity.

■ Acquire new profitable customers

With additional regulatory pressure on when and how initial prices can be changed, there is increased importance to determine the right price at time of customer acquisition. Furthermore, in a post-recession economy, consumers will face increased price competition and marketing, increasing their price-sensitivity, and the up-coming rising rate environment will affect their preferences for competing financial products. Lenders who do not understand the changes in consumer behavior will face adverse selection as more informed lenders cherry-pick desirable customers and may face long-term unprofitable relationships as new regulations restrict re-pricing.

■ Retain and grow valuable customer relationships

It is far cheaper to retain customers than to acquire new ones and often less risky as existing customers can also be better understood through historical behaviors. As market competition increases in an improving economy, existing customers will be under threat from more aggressive lenders and the ability to retain profitable customers will increase in importance. Banking executives will face increased pressure to reactivate dormant accounts and minimize attrition or early payout through proactive offers while controlling for profitability and risk.

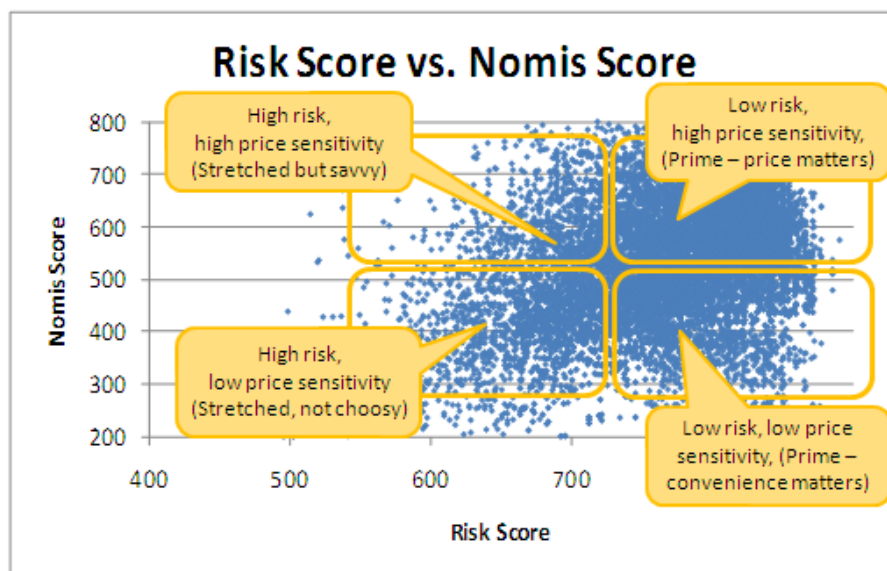


Introducing the Nomis Score™

The Nomis Score™ is a patent-pending price sensitivity score that allows you to predict the change in take-up rate as a result of a change in price. The Nomis Score™ ranges from 200 to 800, with a lower score indicating that a customer is relatively less sensitive to price than someone with a higher score. Built on readily available and broadly-based data sources the Nomis Score™ effectively isolates and estimates a consumer's sensitivity to price independent of the product being offered, their previous relationship with the lender, or the channel through which they are interacting. Used in conjunction with other decisioning criteria, **the Nomis Score enables lenders to better understand their customers' preferences and therefore create more suitable offers, translating into higher profits, volumes, and customer satisfaction.**

Understanding Customer Price-Sensitivity and Risk

Lenders have traditionally focused on risk as the primary driver of pricing decisions. Conventional wisdom assumes that individuals with good credit are also price-sensitive and individuals with poor credit are less price-sensitive. However, Nomis research identified that risk and price-sensitivity are only 33% correlated, indicating that **lenders are pricing inefficiently through risk-based pricing and segmentation alone.** In fact, up to 25% of the population with good credit is not very price sensitive, as they value other elements such as service and brand. Conversely, up to 10% of the population with poor credit is very price sensitive. By giving lenders the ability to identify these distinct groups or segments (as shown in the example below), the Nomis Score enables lenders to make more appropriate offers.



Applications of the Nomis Score

The Nomis Score can be easily integrated into your existing pricing process through various applications:

- **Campaign Management:** Segment and price prospects for balance transfer or other direct marketing offers based on their Nomis Score, aligning offers with customers' value for rate and non-rate features such as points or rewards
- **Discretionary Pricing:** Create negotiation ranges based on Nomis Score, differentiating customers who value discounts from those who value convenience
- **Rate Sheet Based Pricing:** Set rates based on the average Nomis Score of each pricing cell, tailoring rates to each segment based on probabilities of take-up in addition to return and risk hurdles
- **Optimized Segmentation and Real-Time Pricing:** Refine rate sheet segmentation to include customer price-sensitivity based on bands of Nomis Scores or as a continuous measure for real-time pricing

Benefits of the Nomis Score™ include:

Improved Financial Performance

- Increase ROI on marketing campaigns through a better understanding of price sensitivity
- Decrease acquisition costs through reactivation or retention of high-value customers
- Reduce margin erosion due to excessive price discretion based on a quantifiable understanding of the impact of discounting on take-up

Increased Strategic Insights

- Use price as a strategic lever to drive portfolio growth and profitability by understanding how customers' price sensitivity affects profit and response
- Isolate and estimate customer-level price sensitivity, independent of product, channel or historical market footprint
- Use a quantitative understanding of price sensitivity to derive the optimal segmentation of customers and prospects

Gain Operational Efficiencies

- Eliminate the guesswork from discretionary price discounts by using real-time scoring to enable advanced negotiation at branches or call centers
- Quickly and easily incorporate Nomis Score into existing pricing processes to speed time to benefit and increase efficiency by preserving resources for other initiatives

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 over \$100 billion in consumer accounts priced to-date through more than 100,000 pricing scenarios.



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