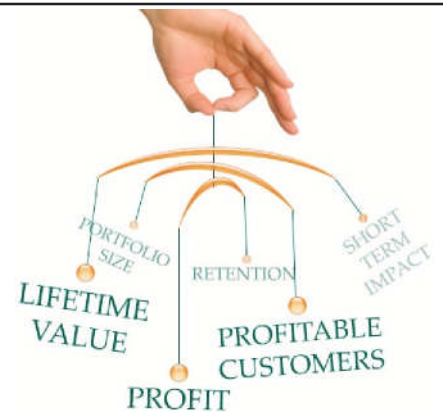




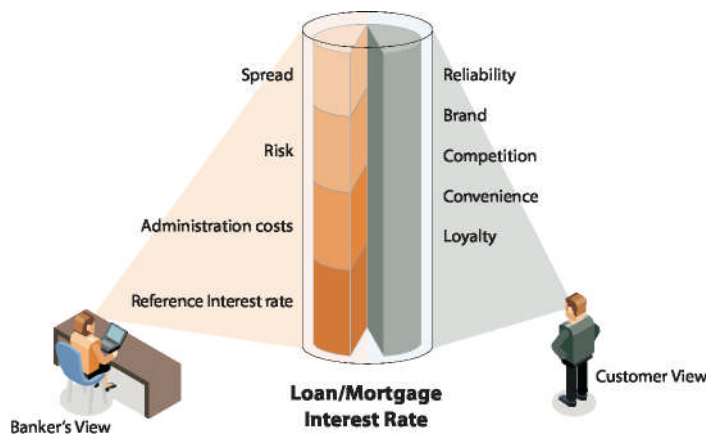
Understand demand. Manage profit



Earnix Price Optimization Solution

Improve Customer Profitability by Optimizing Prices Based on Demand Insight

The Value Perception Gap Between Bankers and Customers



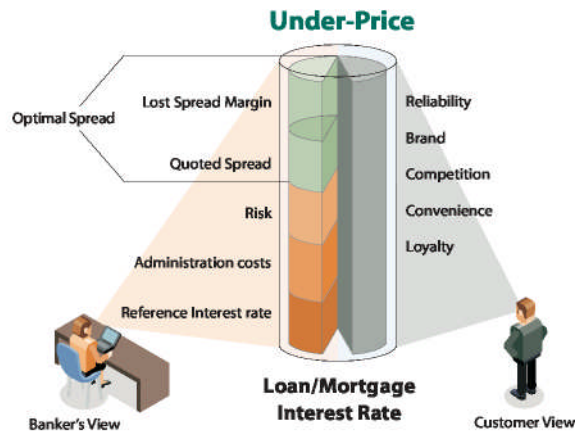
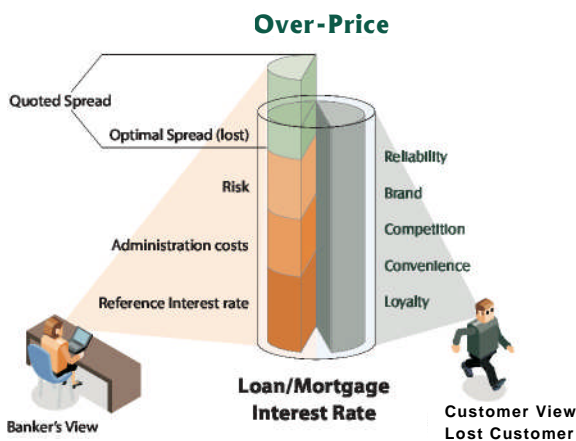
The Earnix Pricing solution can help:

- Improve net interest margin by 10-30 basis points
- Forecast demand at individual customer level by considering their price sensitivity
- Optimize the tradeoff between churn and margin contribution
- Forecast volume for different pricing scenarios by market, branch, channel, product and risk
- Fine tune pricing only for segments where better rate really matters
- Model and predict impact of competitor actions
- Optimize pricing strategy across various scenarios and channels
- Close feedback loop by measuring actual against predicted performance

The Pricing Challenge in Retail Banking

When it comes to an interest rate on a loan or a deposit or a credit card, bankers and consumers do not always see eye-to-eye. To the provider, the interest rate mainly reflects the costs of funds and administration. To the consumer, the very same rate reflects a value proposition involving emotional attitudes toward price, brand, convenience and competition.

In some cases, consumers may be willing to pay a higher price than what providers are actually charging. In these cases providers ask for more than what customers would be willing to pay. In these so called over-priced cases, providers are liable to lose the customers, including future repeat- and cross-sale opportunities, instead of retaining them for less profit than initially desired. Therefore, identifying the right price for the right customer at the right time is critical to sustain profitability and grow the customer base.



But it is far from easy to identify the right price in every case. Most banks use a risk-based pricing approach where a fixed spread is imposed on top of risk costs to determine the rate to charge customers.



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Typically, a wide gap exists between this “cost plus” price and customers’ price sensitivity, leading to lost customer or lost profits, or both. To systematically determine the optimal spread to be expected from each customer, banks must therefore understand each individual customer’s price sensitivity and balance it against the costs to serve and the bank’s strategic goal.

Diverse industries such as airlines and retail have addressed this issue by investing in sophisticated models and algorithms that predict customer price sensitivity, forecast expected volumes for each price point and determine the optimal price at which profitability and customer retention are maximized. Earnix now brings these techniques to the retail banking industry to augment current pricing approaches with insights into end customers’ propensity to pay, so that banks too can systematically set the right prices at the right time.

Making Profit-Optimizing Pricing Decisions

The key to success is winning the right business. This means to acquire and retain those customers that contribute most to company profitability. Profit optimization requires predicting customer response, understanding demand at different price points, optimizing price offering and continuously updating the underlying assumptions and mathematical models.

The Earnix solution offers these capabilities. It generates optimized price schemes for a variety of retail banking products such as mortgages, personal loans, deposits, credit cards and creditor insurance policies under varying assumptions. This allows retail bankers to increase profitability, control the long term implications of pricing initiatives and respond dynamically to changing market conditions. Bankers can always be certain that the interest rate quoted to individual consumers is in line with their price elasticity, and that the bank’s overall goals regarding portfolio profitability and size and customer lifetime value are successfully met. The easy-to-use Earnix software thus enables banks to make informed and profit-based pricing decisions repeatedly for each customer and delivers these following powerful benefits.

Maximize Profits: The Earnix solution helps maximize total profit. The Price Optimization module captures differences in cost to serve each customer and sets prices that drive margin improvements.

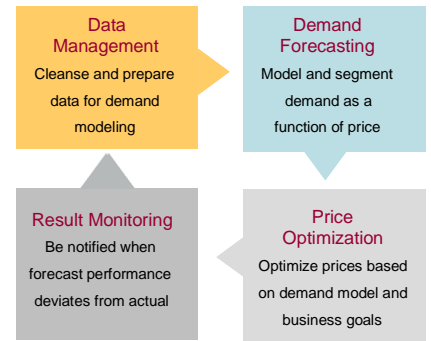
Minimize Customer Churn: The Earnix Pricing System allows an analyst to enter target retention rates as a constraint in the system, in order to recommend prices that meet the company’s retention goals, while optimizing the tradeoffs between retention and profit.

Meet Strategic Objectives: The Earnix Pricing System helps the company meet strategic objectives regarding market share or minimum margin by market segment by accepting these as inputs.

Integrate Pricing Strategy: Access to information and the automation provided by the software allows a bank to streamline its pricing process, close the pricing loops between channels and helps sales personnel price deals profitably.

Monitor and Recalibrate Models: When actual data becomes available, the software measures forecast performance against the actual and reports on variations out of the normal, allowing the analyst to focus on the exceptions that need attention. Demand and Price models in the system get updated so that results reflect all known current information. This monitoring capability also provides a powerful mechanism for monitoring sales effectiveness.

The Earnix Optimizer Software Modules



The Earnix Way

The Earnix software is typically implemented in several phases. The first phase involves profit impact studies and pilot projects, to help prospective customers identify the products to be priced and profit metrics to be used. This phase also determines the expected ROI from such an initiative and provides a basis for acquiring the capability.

A second phase involves rolling the software into production. During this phase TPG and Earnix consultants implement the software into production and provide implementation consulting to help develop in house price optimization capabilities. Performance metrics are finalized and processes are fine tuned to enable a successful pricing methodology adoption within the organization.

The Benefit

Based on existing customer experience, Earnix’s pricing approach and technology typically generate net interest margin increase of 10-30 basis points, which in absolute terms translate into millions of dollars year over year. Earnix’s customers realize profitability improvements and ROI within months of deployment

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