

Four Steps to Data-Driven Lending Transformation

Step 1: Improve targeting

STEP 1:
IMPROVE TARGETING

STEP 2:
MAKE BETTER, FASTER AND MORE ACCURATE DECISIONS

STEP 3:
TAKE PRE-EMPTIVE ACTIONS

STEP 4:
INCREASE COLLECTION WHILE REDUCING COSTS

60%

INCREASE IN LEAD CONVERSION

38%

DECREASE IN COST OF CUSTOMER ACQUISITION

Business Scenario

Financial services organizations across the globe are embracing predictive analytics at an increasing rate in order to explore new opportunities fine-tune existing programs, minimize risk and improve efficiencies. There are 4 key ways in which analytics-derived predictive insights can enable banks to not only grow their lending business but also make it more profitable. In this document, we investigate how banks can use analytics to improve their targeted marketing activities, helping them acquire the right customers while lowering the acquisition costs.

With a considerable amount of their marketing budget spent on lead generation, lenders are looking to launch their marketing campaigns through the right channels and target the right set of prospects for enhanced business impact. The conversion rates of the generated leads can then be increased by providing a priority list to the sales team. Figure 1 captures how leads generated across the digital channels by the marketing team are then converted by the sales teams.



Figure 1: Loan Demand Flow

'PREDICTIVE LEAD SCORING' IS THE KEY

Combining the lender's data and additional relevant data with machine learning algorithms; predictive models can be built for scoring the generated leads. Lead scoring aids in identifying quality leads that should be targeted in the order of propensity for accepting a loan. Nucleus Lending Analytics brings easy, robust and quick-to-use predictive modelling capabilities enabling lenders to develop and deploy lead scoring models in their lead management system. The achieved efficiency would be reflected in their Costs Of Acquisition

ABOUT NUCLEUS SOFTWARE

Nucleus Software is the global leader in advanced digital technology platforms that power Lending and Transaction Banking businesses worldwide. With over three decades of expertise, it supports the mission critical operations of more than 200 financial institutions in 50 countries across Retail and Corporate Lending, Transaction Banking and Cash Management, Automotive Finance and other business areas.

AWARDS

Celent Model Bank Award For Retail Lending

2020
RattanIndia Finance, India

IBS Intelligence FinTech Innovation Award

2019
Roha Housing Finance, India

Best Lending Technology Implementation Award

2018
SPFC, India

Celent Model Bank Award

2016
Celent Model Bank Vendor Award

2014
ICICI Bank, India

2013
Vietnam Prosperity Bank, Vietnam

2010
HDFC Bank, India

2009
ICICI Bank, India

IDC Insights Award

2015
DCB Bank, India

Asian Banker Technology Implementation Award

2014
ICICI Bank, India

RBI Trailblazer Award

2013
CIMB, Malaysia

FINNONE NEO

FinnOne Neo is the next-generation lending solution built on an advanced technology platform, designed to shape the future of lending across Retail, Corporate and Islamic sectors for banks and financial service companies. The multi-channel solution which helps digitize the complete loan lifecycle end to end, supports both cloud and on-premise deployments. The solution handles complete loan lifecycle covering:

- Customer Acquisition
- Loan Management
- Collections
- Lending Analytics
- Lending Mobility

LENDING ANALYTICS

Nucleus Software's Lending Analytics is a powerful and user-friendly solution enabling informed decision making through data visualization and business insight generation. The solution focuses on the four key tenets of efficient end-to-end loan lifecycle management :

- Improved Lead Generation
- Faster On-boarding
- Comprehensive Loan Servicing
- Efficient Delinquency Management

(CAC), and Customer Lifetime Value (CLV) which are calculated as:

$$CAC = \frac{\text{Sales \& Marketing Costs for Acquisition}}{\text{New Members Acquired}}$$

$$CLV = \frac{\text{New Members Acquired} * (1 - \text{Default Rate})}{\text{Average Interest Income} * \text{Loan Tenure}}$$

By combining both segmentation (to identify good quality customers) and lead scoring (propensity to accept the loan), lending companies can improve effectiveness. Segmentation (Figure 2) helps as a first-level filter to identify the credible prospects out of the lead pool.

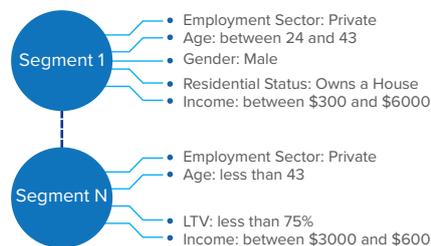


Figure 2: Representative segments having lower credit risk profiles

Applying predictive lead scoring to these credible customers would then help sales team to prioritize the leads. For instance, if the first 10% (or 1st decile as per the lead scores) of the leads are pursued, then the lender can acquire almost two times as many customers as acquired without lead scoring. This takes the conversion rates up north between 40% - 50%. The customers thus acquired, will also improve the profitability of the lending business since the default rates will be low.

BUSINESS CASE EXAMPLE

A personal loan provider with an average annual net interest income

of \$500 per customer gets 1000 leads on an average per week. Approximately 90% of the leads are pursued by the sales team and they achieve a 25% conversion rate. With a sales and marketing budget of about \$2 Million spent predominantly for new customer business, it costs about \$50 per lead pursued.

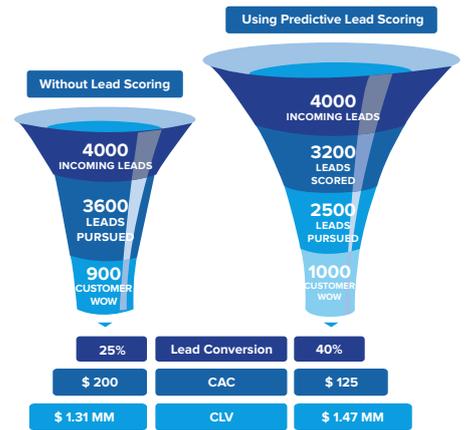


Figure 3: Funnel Chart showing how Lending Analytics can improve the conversion rates, CAC & CLV with predictive lead scoring

Implementing lead scoring with Nucleus Lending Analytics delivers many benefits to the lender as depicted in Figure 3. The number of leads pursued has been decreased by 30% (3600 v/s 2500), and there is a direct reduction in the total acquisition costs. The customers acquired are not just more in number but also less prone to default. The decrease in default rate (say 2% after lead scoring), gets reflected in the increase in CLV. The solution can also be put to use to score existing customers in order to enhance the cross-selling and up-selling of loan products.