

Risk based Pricing

What's New:

We've introduced a new configuration for risk-based pricing applicable for purpose Business and Vehicle Loans. With this new configuration, the base interest rate would be automatically added or discounted with the value of the configured risk pricing

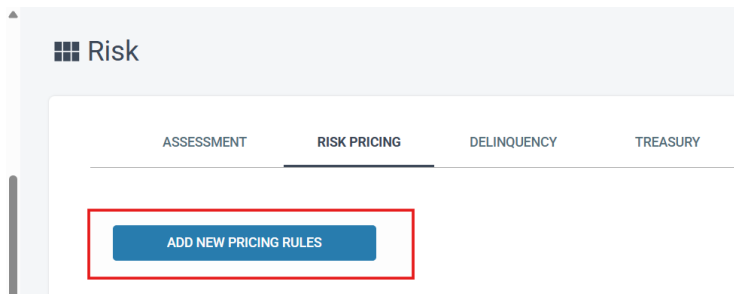
Benefits:

- **Greater pricing accuracy:** Ensures interest rates reflect the borrower's risk profile without manual intervention.
- **Improved operational efficiency:** Reduces manual calculations and decreases the chance of human error.
- **Consistent decisioning:** Guarantees uniform application of pricing rules across all eligible loans.
- **Enhanced lender flexibility:** Allows lenders to fine-tune pricing strategies for as per requirements.

How it works:

Creating new Risk Pricing rules

1. Navigate to Risk > Risk Pricing > Add New Pricing Rules



2. You will be prompted to name your Risk rule and be displayed the fields to be configured for Risk Pricing

The screenshot shows a web interface for configuring a Risk rule. At the top, there's a header with a grid icon and the word 'Risk'. Below it, the section is titled 'Risk Pricing Details'. There's a 'Rule Name' field with a placeholder 'Rule name'. Below that, a message says 'Updates the fields that you need from each module.' followed by an information icon. A list of modules is shown, each with a plus icon and a label: 'Purpose Vehicle Loan', 'Purpose Business Loan', 'Needs Analysis', 'Company Details', 'Related Parties', and 'Loan Security'. A 'SUBMIT' button is at the bottom right.

3. For applying Risk based rule to a component, Click on the Module > Click on the Question > Edit

This screenshot shows the configuration page for the 'Purpose Vehicle Loan' module. A red box highlights the module name. Below it, a question 'Why are you looking for a vehicle loan?' is shown in a red box. A table lists options: 'Purchase' and 'Refinance'. The 'Purchase' row has an 'EDIT' button highlighted in a red box. The 'Refinance' row has an 'EDIT' link. The table has columns for 'Option', 'Adjustment', 'Interest Rate', and 'Actions'.

4. Click on the dropdown for configuring the Adjustment (Discount / Add) and add it's respective interest rate and Save

This screenshot shows the 'EDIT PURCHASE' dialog. The 'Adjustment' field is a dropdown menu with 'Discount' and 'Add' as options. The 'Add' option is selected. There are 'SAVE' and 'CLOSE' buttons at the bottom.

This screenshot shows the 'EDIT PURCHASE' dialog. The 'Interest Rate' field is a text input with the value '0.5'. There are 'SAVE' and 'CLOSE' buttons at the bottom.

5. For Date type fields, you can configure the duration in Months.
For example: If you want to configure a discount rate of 0.5% For purchases less than a year, you can input the duration as 13 Months

Registration State

Is the vehicle for private or business purposes?

Is this loan a Lease?

Is this vehicle being purchased through a car yard or a private purchase?

Purchase date (estimated)

Less Than (Months)

Adjustment

Interest Rate

Refinance required date (if any)

EDIT 0

Duration in Month(s) *

Adjustment *

Interest Rate *

SAVE

CLOSE

Actions

EDIT

Purchase date (estimated)			
Less Than (Months)	Adjustment	Interest Rate	Actions
13 month(s)	Discount	0.5	EDIT

6. Repeat these steps for all the required components for which you wish to apply the risk rule and click on Update to save all your changes

Related Parties

Loan Security

UPDATE

Adding Risk rule in your Product

1. Navigate to Marketing > Product > select a Vehicle or a Business product on which you wish to apply Risk based pricing to
2. Navigate to Risk Pricing and click on Edit

Risk Pricing

EDIT

3. Select your newly created Risk Pricing rule and click Save.

Edit Risk Pricing

Risk Pricing

test

Describe the reason for the change

CANCEL

SAVE

No Change Log Found

This will apply the configured risk based rules when the respective questions are answered in the customer application form and would automatically add or discount the rate on top of the base interest rate.

E.g: For a scenario where for the question ‘Why are you looking for a Vehicle Loan?’

Risk Rate is set to Discount 0.5% and the base interest rate is 8.00% for the Loan product selected, the overall Risk based interest rate would be 7.50%

To verify if Risk pricing is correctly applied to the Interest rate after the application is submitted:

Navigate to Application > Product > Interest rate > Edit

You should see the summary of all the risk rules applied to your base interest rate.

EDIT INTEREST RATE

Base rate

8.00%

Risk based margin

Why Are You Looking For A Vehicle Loan?

- 0.5%

Rate change type

Discount

Increase

Rate change

0.00%

Effective Rate

7.50%

Describe the reason for the change

CANCEL

SAVE

Points to Note:

1. Ensure that any questions inside modules within which risk-based pricing is applied in the Risk layer are positioned in such a way that they appear before the Product Selection page for optimal Risk price calculation
E.g. In Risk Pricing there's a Risk rule set up for one of the questions inside the Related parties module

Risk Pricing Details

Rule Name

test

Updates the fields that you need from each module. [i](#)

☒ Purpose Vehicle Loan

☐ Needs Analysis

☐ Company Details

☒ Related Parties

☒ Loan Security

UPDATE

So inside the form builder respectively, Lenders need to ensure that the

Related Parties module should be positioned before the Products Selection module.

Wrong Placement of the Related parties module

Correct Placement of the Related Parties Module

2. In case of multiple **Related parties involved**, the system will compare and apply the **higher** risk rate to the base interest rate.

E.g: Base interest rate = **10.00%**

Risk Rate calculated for **Related Party 1:**

for Question: Your relationship with the applicant

Risk rate = **+0.2% for Director**

for Question: Are you an existing customer?

Risk rate = **+0.3% for Yes**

Total risk rate for Related Party 1 = **0.5%**

Effective interest rate = **10.5%**

Risk Rate calculated for **Related Party 2:**

for Question: Your relationship with the applicant

Risk rate = **-0.2% for Guarantor**

for Question: Are you an existing customer?

Risk rate = **-0.3% for No**

Total risk rate for Related Party 2 = **-0.5%**

Effective interest rate = **9.5%**

Since the new rate in case of related Party 1 is **higher**, the system will consider **10.5%** as the new and effective interest rate

3. In case of multiple **Loan Securities involved**, the system will compare and apply the **lower risk** rate to the base interest rate.

E.g: Base interest rate = **10.00%**

Risk Rate calculated for Loan Security 1:

for Question: Property type

Risk rate = **+0.2% for Apartment/Unit**

for Question: Registration State

Risk rate = **+0.3% for Yes**

Total risk rate for Loan Security 1 = **0.5%**

Effective interest rate = **10.5%**

Risk Rate calculated for Loan Security 2:

for Question: Property type

Risk rate = **-0.2% for Apartment/Unit**

for Question: Registration State

Risk rate = **-0.3% for Yes**

Total risk rate for Loan Security 2 = **-0.5%**

Effective interest rate = **9.5%**

Since the new rate in case of Loan Security 2 is **lower**, the system will consider **9.5%** as the new and effective interest rate