

FAQ: Nomis Solutions Acquires Perspecta

Chairman and CEO, Dennis Stradford, explains the significance of the Perspecta acquisition for Nomis Solutions and the financial services industry.

1) What is the news?

DS: Nomis Solutions has acquired Perspecta, LLC.

2) Who is Perspecta?

DS: Perspecta is a London-based software company that offers a more strategic approach to customer portfolio management based on an understanding of the motivations underlying consumer decision-making.

3) What do they do?

DS: Their flagship software product was called Intelligent Churn Management (ICM), now the Nomis Solutions Customer Portfolio Optimizer™. The Customer Portfolio Optimizer is a business solution that enables mortgage P&L owners in banks, mortgage companies, and building societies to more profitably and efficiently manage impairment risk, prepayment risk and cross-sell opportunities in their existing customer portfolio.

Because of market conditions, impairment risk in mortgage lenders' portfolios is a significant concern. Impairment risk results from a combination of the higher risks of delinquency and default and the decreasing value of the underlying assets in lender's existing customer portfolio, which can lead to a need for increased provision requirements. This is magnified by the effect of adverse selection, which arises from the greater likelihood that borrowers with a lower risk of delinquency and default may prepay their mortgages in order to get a better deal with another lender. If not managed properly, these factors may leave mortgage lenders' books with a portfolio that could have higher expected losses than anticipated.

The Customer Portfolio Optimizer provides executives with a more tailored approach to managing the business through a three step process that develops actionable customer segments based on their priorities and needs. First, by combining a lender's customer data with demographic, attitudinal and behavioral data, the Customer Portfolio Optimizer creates new data models and refined segmentations of the customer base. Second, the solution evaluates each customer segment's unique priorities and needs and determines customized offers that incorporate specific product features, rates and fees. Third, it allows lenders to develop the most effective outreach strategy in order to achieve business objectives and performance goals. This includes the tone of the message, the communications channel, timing and sequencing of the offer, in addition to the optimal price point in order to generate the best response rate.

Unlike point solutions such as customer-to-offer matching tools and direct marketing decision tools, the Customer Portfolio Optimizer provides a comprehensive optimization process that incorporates individual customer preferences to drive decision-making. Focused on customer retention issues, the Customer Portfolio Optimizer complements the award-winning Nomis Price Optimizer™ solution, which is primarily used for customer acquisition.

4) What benefits does the Customer Portfolio Optimizer deliver?

DS: Currently deployed by Yorkshire Building Society, Principality Building Society and Stroud and Swindon Building Society, the Customer Portfolio Optimizer is delivering the following benefits:

- Financial Results: generating 5 – 10 basis points of incremental income for assets at risk

- Customer Insight: leveraging actionable customer insights to drive business strategy and improve performance
- Process Improvements: fortifying customer management by using a more structured, efficient and compliant process

Although mortgage is the first line of business where this technology has been successfully applied, the solution has the potential to be used in other lines of business such as deposits, credit cards and personal lending.

5) Why did Nomis Solutions acquire Perspecta?

DS: There are three key reasons for the acquisition. First, our mission at Nomis Solutions is to materially improve the financial and operational performance of financial services organizations. With their expertise and experience in customer portfolio management, Perspecta fits this strategy very well. Both companies enable banks and finance companies to improve financial performance in the short- and long-term through a better understanding of their customers, the ability to better tailor offers to customers, and a more consistent and efficient process to improve decision making.

Second, Perspecta has a first mover advantage with its solution for financial services based on a detailed understanding of consumer motivations. No other company offers this type of advanced software solution. On average, the solution is generating 5 – 10 basis points of incremental income for assets at risk in the first year of use. Perspecta has begun building a solid base of satisfied customers and we see the potential to accelerate the use of the software to help more banks and building societies optimize their income and assets. Focused on customer retention issues, the Customer Portfolio Optimizer complements the award-winning Nomis Price Optimizer solution, which is primarily used for customer acquisition.

Third, the team's intellectual capital will help us accelerate our industry expansion in the financial services market, particularly within the mortgage industry which is experiencing a lot of volatility. Impairment risk, rather than prepayment risk, is now #1 on the boardroom agenda among UK banks and mortgage lenders. A recent report indicated that the provision requirements for prime mortgage impairments will have risen from 0.05% loans in H108 to 0.30% loans in H209, and the provisions for specialist mortgage impairments have risen from 0.28% H108 to 0.94% H209. This is bad for the big banks and building societies and even worse for smaller players where the proportion of fixed costs to total volume is greater.

Now, more than ever, it's important to keep good quality assets on the books to generate income to offset provisions elsewhere. With the acquisition, we are in a better position to help mortgage lenders improve their performance. The acquisition also reinforces our goal to be the go-to partner for improving pricing and profitability management across all lines of business.

6) How will Perspecta's customers be affected by the acquisition?

DS: With the acquisition, Perspecta's customers will gain a stronger services and customer support team. They will also gain a greater focus on software enhancement and research and development resources that are dedicated to helping them gain continuous improvements in efficiency and effectiveness of their customer retention efforts.

Will Nomis Solutions continue to develop the Customer Portfolio Optimizer?

DS: Yes. Our development team is now working on the Customer Portfolio Optimizer. We are investing in additional enhancements and upgrades through a combination of customer feedback and our own innovations. In the near term, our plan is to expand our reach and provide the Customer Portfolio Optimizer to more banks, mortgage companies and building societies in the United Kingdom

and Canada. Longer term Nomis Solutions sees the potential to accelerate the use of the Customer Portfolio Optimizer in Europe and North America and build upon the success of the Nomis Price Optimizer, which has been implemented by leading banks and finance companies and is generating significant financial improvements across the auto finance, home equity lending, personal lending, mortgage, and deposits industries.

7) What are the key features of the Customer Portfolio Optimizer?

DS: There are three key features of the Customer Portfolio Optimizer. First, it provides mortgage executives with the ability to develop actionable customer segments based on their priorities and needs. One of the most innovative features of the Customer Portfolio Optimizer is that it combines demographic and attitudinal data from market research with behavioral data in order to segment the customer base. Once the segments have been identified, executives have a better understanding of whom to contact and whom not to contact. Next, the Customer Portfolio Optimizer helps tailor offers for each segment, including specific product features, rates and fees based on an understanding of each customer segment's unique priorities and needs. Lastly, the Customer Portfolio Optimizer helps develop the most effective outreach strategy to achieve business objectives and performance goals. This includes the tone of the message, the channel, timing and sequencing of the offer in order to generate the best response rate.

8) What are the terms of the deal?

DS: The deal was completed in June 2008. We do not plan to disclose the terms.

9) Will the employees play a role at Nomis Solutions?

DS: Yes. The two principals of the company are taking roles at Nomis Solutions. Nick Young is taking on the role of Director of Mortgage Solutions in our Marketing division. Ben Rees is Manager of Mortgage Solutions in the Global Services division. They are now working out of Nomis Solutions' main office in London.