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**EVALUATING CONSUMER WILLINGNESS TO PAY:  
INTEREST RATE A/B TESTING ACROSS SEGMENTS**

Master's thesis

Programme: Finance and Accounting, specialization: Finance

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## **ABSTRACT**

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Title: Evaluating consumer willingness to pay: interest rate a/b testing across segments

This research investigates the effectiveness of A/B testing methodologies in refining interest rate strategies within the highly competitive consumer lending market, focusing on a leading financial institution in Estonia. By examining how varying interest rate offerings influence customer behavior, this study aims to uncover patterns in willingness to pay across different segments. These insights are crucial for balancing risk management with profitability enhancement in a strategic environment, offering key advantages for increasing investor profits and achieving lower costs of funds for competitive positioning. Utilizing sophisticated databases and Python code, the study systematically categorizes customers into control or test groups.

From February 7, 2023, to April 3, 2024, using a dataset of 13 436 loan proposals, this research not only identifies the most profitable customer segments but also provides strategic recommendations for adjusting interest rates to maximize lender profitability while maintaining customer satisfaction. The findings contribute significantly to the field of lending pricing strategies by testing actual interest rates, emphasizing the importance of dynamic pricing and targeted customer segmentation as instrumental tools for financial sustainability and achieving a competitive advantage in the sector.

Keywords: A/B testing, lending, interest rates, net present value, consumer lending