

OPTIMIZED, PERSONALIZED AND DYNAMIC BANKING


HOW ADVANCED
ANALYTICS CAN
SHAPE NEXT-
LEVEL PRICING
AND OFFERS



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New and disruptive competitors are wooing bank customers with easy, personalized, “**fits me**” interactions and offers.

Consumers want and expect it, and reward providers who deliver it. Consumer switching to virtual banks is at double-digit levels¹ and forty-five percent of consumers say the top reason that they would stay loyal is if their bank offers discounts on purchases of interest.²

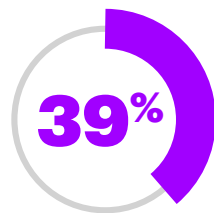
Established retail and commercial banks can counteract this trend by revitalizing the way they attract and retain customers in the digital economy. It means using advanced analytics to power hyper-flexible customer management that evolves banks’ pricing and offers from a product focus to a real-time, intelligent and customer-relevant approach. Banks who master this discipline can go beyond merely competing on price to building distinctive customer relationships that match customers’ in-the-moment needs to the best-fit offer, adjusting price to reflect customers’ profiles, and proactively steering renewals. Moving from narrow product pricing to sophisticated customer management presents a tremendous opportunity for banks to take their business and customer experience to the next level.



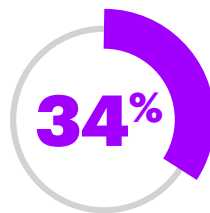
NEXT-LEVEL BANK PRICING AND OFFERS

Pricing and offers are key components that banks need to optimize in order to transform their value proposition and better satisfy customer needs. Pricing remains the first of three reasons why consumers say they switch banks: good competitive pricing (39 percent), high quality customer service (34 percent) and good value for money (32 percent).³ In the era of “living services” that sense and respond in real-time to people’s needs (for example, Google Now™, the predictive recommendation service⁴), consumers expect bank pricing to react in a similar way.

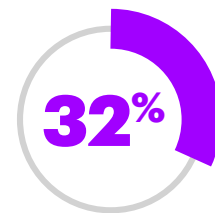
Top three reasons why consumers say **they switch banks:**



good competitive pricing

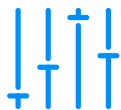


high quality customer service



good value for money

Indeed, consumer expectations are compelling banks to quickly evolve their customer management to deliver pricing and offers that are:



OPTIMIZED to maximize both customer value and bank profitability. Most banks already use logic- and rules-based methods to incorporate up-to-date pricing into their decision-making and more and more banks are adopting optimization technology in price determination. Better product pricing analytics is an important step on the journey to optimal,

where banks present the right offer to the right individual at the right time. When a customer enters a branch, calls into the service center, or visits a website, for example, they want to find solutions that meet their needs. With an analytics framework, banks can personalize pricing and offers to maximize value for both the customer and the bank.



PERSONALIZED AND CONTEXTUAL, driven by big data and advanced analytics in both the back and front offices to know who the customer is. Better analytical tools, such as pricing intelligence software, big data and cloud capabilities (coupled with more customer data) give banks the ability to better monitor customer needs, predict what customers will want, and react in real-time to changes in the environment and patterns of behavior. Banks can gain greater insights into customer segments more precisely and more empathetically (even down to the individual), and tailor prices based on customer sensitivities (such as preferences, propensity to purchase, loyalty profile, life-time value, rewards, risk and needs) and environmental factors (such as interest rates, supply and demand fluctuations, full-loaded costs and competitor pricing). They can also monitor prices 24/7, correlate huge quantities of information and make faster and more granular price adjustments. This is a discipline that online retailers like Amazon have already mastered and banks need to build the same capabilities.



DYNAMIC, according to the customer's preference and the market context. While 40 percent of consumers prefer digital channels to research new products and pricing, 81 percent prefer using the branch to finalize pricing and open new accounts.⁵ Banks that establish a cohesive and integrated omni-channel experience for their customers can more effectively close deals at the right price in real-time.

Such customer management features can help banks leap forward in customer attraction and retention enough to generate higher margin and volume, optimize customer lifetime loyalty and value, and deliver more personalized offers across a customer's banking relationship (savings, deposits, consumer loans, mortgages and so forth).

BANK PRICING AND OFFER MANAGEMENT: THREE STAGES OF MATURITY

Based on our industry experience, banks tend to fall into three main stages of pricing and offer management maturity (Figure 1): product-centric, customer-centric and moment-centric. Each stage centers around a particular pricing strategy that guides individual offer decisions and the broader customer experience. They also each emphasize varying degrees of optimized, personalized, and dynamic offers. Optimal pricing remains a primary goal across all stages as real-time offers are increasingly personalized, contextualized and dynamic through stage three.

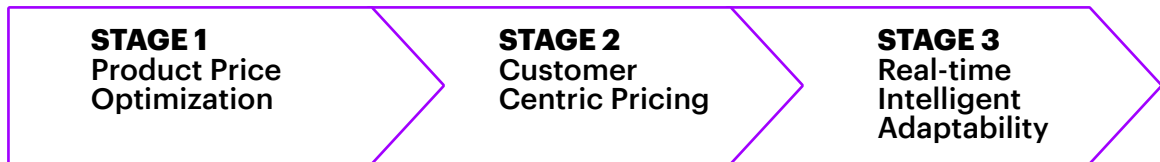
STAGE 1: PRODUCT-CENTRIC.

This stage is “ground zero” for most traditional banks where they offer fair prices that pivot on product rather than on customer. The goal of this stage is to increase the revenue and profitability of a single product line. Banks have successfully deployed optimization software and price management tools to increase the profitability of retail lending, deposits and mortgages by 10 to 25 percent.⁶ However, product-centric offers can often ignore the customer lifetime value across all products and, thus, may result in pricing strategies that optimize product line profitability at the expense of optimal customer relationship-level strategies.

FIGURE 1.

Banking pricing and offer management maturity model

PRICING STRATEGY AND CAPABILITY



VALUE

Increase Near-term Net Interest Margin (NIM) & Volume



Increase Near-term NIM & Volume Optimize customer lifetime value

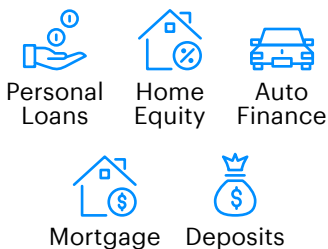


Increase NIM & Volume Optimize customer lifetime value Improve customer experience and loyalty

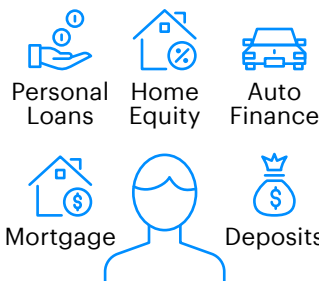


CUSTOMER EXPERIENCE

- Fair product-line pricing, BUT...
- Limited recognition of customer needs or value
- Frontline may push irrelevant "next best offer"



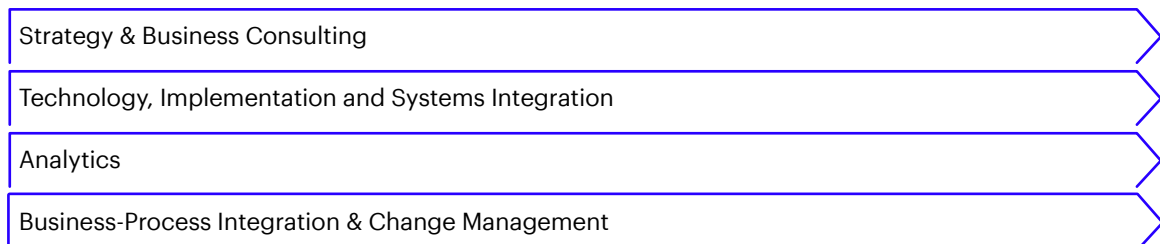
- Product bundles tailored to customer needs
- Pricing that recognizes full customer value
- Frontline focused on guidance versus sales



- Dynamic, in-the-moment engagement
- Pricing/offers tailored in real-time
- Omni-channel engagement on the customer's terms



ENABLERS



Source: Nomis

SIDEBAR

Leading North American Mortgage Lender's holistic product-centric pricing strategy increases renewals

Personalized banking is a key differentiator for this large mortgage lender, but it was finding execution difficult. To achieve a more holistic view, the bank decided to revamp its lending process, incorporating intelligent pricing, customer behavior insight, optimized renewal management, and discretion guidance for 6,000+ front-line employees, to create a closed-loop pricing and offer management process. The comprehensive approach helped the bank increase its net interest income by US\$12 million per year on its mortgage portfolio intake for both originations and renewals, and decrease its mortgage rate exception requests by 50 percent, which significantly improved margins and reduced operational cost. Among its many new capabilities, the bank can now efficiently and dynamically deploy optimized mortgage rates across a wide range of customer segments, and it can manage the customer negotiation and offer presentment processes while gaining deep insights into product performance and consumer responses.

STAGE 2: CUSTOMER-CENTRIC.

In this stage, banks devise prices and offers that maximize customers' lifetime value across all product lines. Individual product offers are part of a coordinated customer strategy where offer bundles are designed based on customer segment preferences, needs and value. Banks in Canada, for example, are using new technology to build an agile IT infrastructure that enables customer-centric pricing across channels. Customer activity is captured across channels so that resulting data can be applied in an analytical framework to better understand customers' needs, expectations, preferences, options and price sensitivity, as well as to predict customer behavior and relationship value. Relatively few retail banks currently use analytics-based pricing solutions across all products with only about 10 percent having moved beyond Stage 1.⁷ Growth in NIM and customer lifetime value can occur through tactics like service bundling or self-learning algorithms that quickly point to the next-best alternative offer if a first offer is declined.



About 10% of retail banks have moved beyond Stage 1.

STAGE 3: MOMENT-CENTRIC.

Banks in this stage operate across products and channels to price in real-time. They can adjust the customer conversation to in-the-moment data and activity. Bank staff have enough customer intelligence to know what services to pitch to customers at the right time. Tools allow for real-time flow of data between front-line and digital systems that enhance back-office analytics, ensuring that feedback mechanisms are in place to enable real-time price changes. Smart banks will look to run as a [living business](#), continuously refreshing its underlying models to make more accurate assessments of customer reactions to real-time, more equitable and more profitable pricing and offer decisions. Application programming interfaces (APIs) will be key enablers in this stage, as all interactions will go through them—fueling scale that can transform pricing strategies.

SIDEBAR

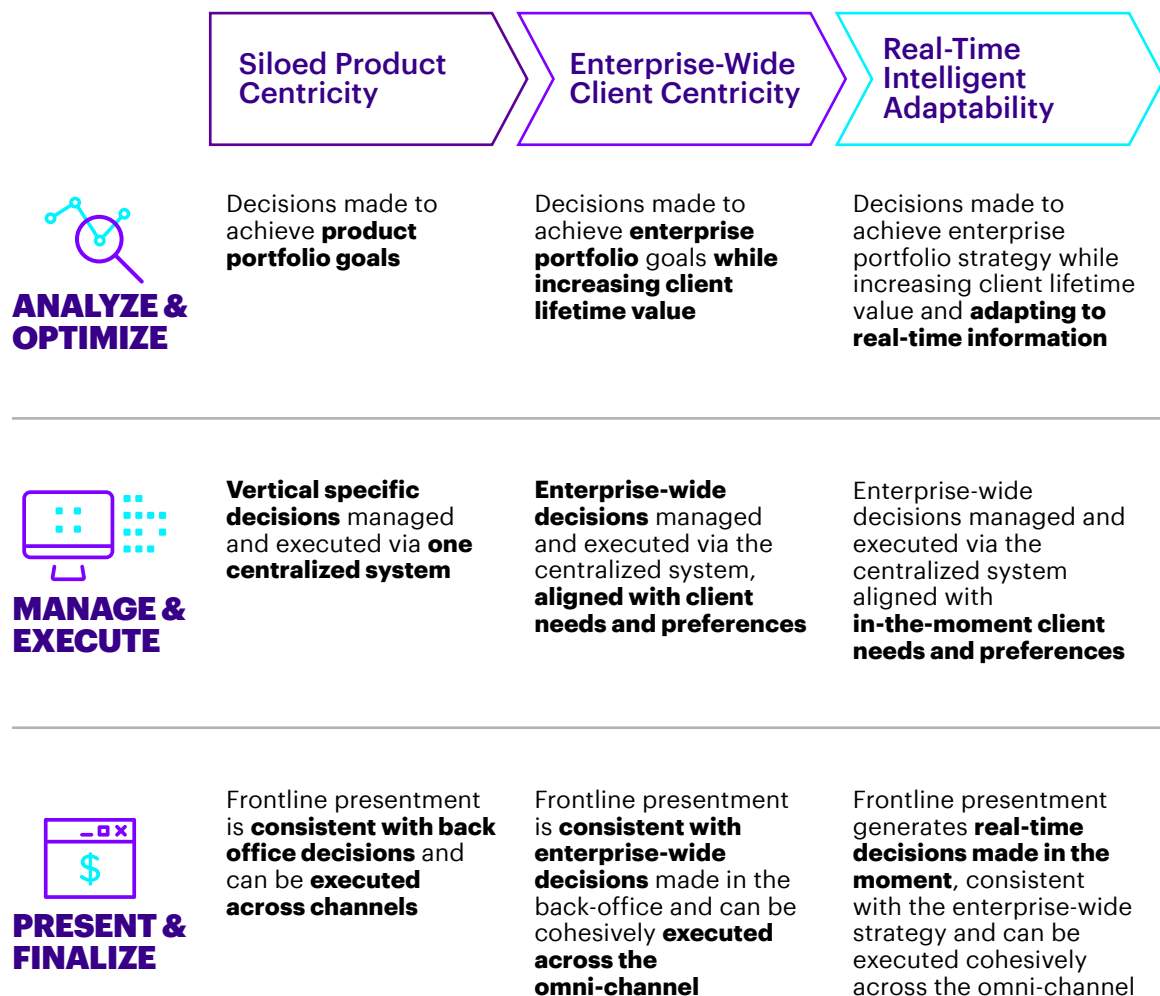
Intelligence-based offer strategy at Large Canadian Bank enhances customer experience

A large direct bank in Canada recognized the market and business challenges in continuously running mass-market rate promotions—especially in a prolonged period of low interest rates, high household debt and aggressive competitive pricing. The bank chose to use innovative data analytics to provide unique, relevant offers to specific customers. With greater insight on customer behavior, the bank can now target incentives, rewards, and special offers to customer segments with like attributes, which encourage customers to save and stay loyal. The outcome: stable and increased deposit balances, higher campaign productivity, higher long-term deposit portfolio value and a more compelling customer experience. The solution is helping the bank deliver a customer-centric experience that allows Canadians to bank on their own terms.

A HOLISTIC APPROACH

Real-time, personalized pricing and offers as part of holistic customer management should be a goal for banks to win in the digital economy. To get there, banks need to think about the journey and build cumulative and integrated capabilities in a number of areas (Figure 2).

FIGURE 2.
Progression to optimal, personalized and dynamic offers



Source: Nomis



There are a few **fundamental steps** that banks in any maturity stage can take now to optimize their pricing and offer management:

DETERMINE THE BANK'S CURRENT POSITION in the pricing and offer management maturity model (Figure 1), and where it needs to go. Quantify the short-, medium- and long-term business impact.

ADOPT A NEW PRICING MINDSET that recognizes pricing and offers as a critical component of the customer experience and how customers make decisions about their relationship with a bank. Banks will need to be flexible enough to price and make offers in the moment.

ESTABLISH STRONG GOVERNANCE structures to assign and facilitate pricing accountability, and match workforce talent with the desired experience for the customer. Start with a pricing leader, assigning a single person who will be responsible across products. Invest in building the skills needed to convert data into prices, offers and experiences that customers want (and are willing to pay for) in both the digital and physical worlds.

USE TECHNOLOGY AND ANALYTICS that can scale with the maturity of the bank's organization and processes. Big data and real-time analytics speed-up the entire process, and enable banks to execute at a pace that consumers now expect.

ALIGN PEOPLE INCENTIVES AND EMPOWER FRONT-LINE TEAMS to engage in meaningful customer conversations that yield intended outcomes. This means bringing in the tools and capabilities that enable teams to engage and win more customers faster. For example, they should be able to issue definitive pricing offers faster due to pre-approved, data-driven floors and ceilings.

GET STARTED!

While it's not required for banks to tackle these steps all at once, they would do well to embrace the broader vision and ecosystem upfront as a way to guide their holistic transformation journey. Banks should start by identifying the areas of biggest returns for personalized pricing and offers to tackle first and create the journey map for the bank. The road to customer management transformation will take different twists and turns, depending on the bank's pricing and offer maturity and where its specific challenges and opportunities lie.

Making it happen in today's new competitive banking era, however, means that banks can be what customers need them to be:
hyper-relevant.

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NOTES

¹ Accenture [2016 North America Consumer Digital Banking Survey](#).

² Accenture [2016 North America Consumer Digital Banking Survey](#).

³ [Accenture Banking Customer 2020 Report](#), 2015.

⁴ <https://www.google.co.uk/landing/now/>.

⁵ Gallup, [Channel Preference Survey](#), 2013.

⁶ In-market testing by Nomis clients.

⁷ Nomis.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 425,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

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Nomis is a fast-growing Fintech software company that combines cutting-edge Silicon Valley approaches to big data, advanced modeling, and deep analytics into the industry-leading price optimization SaaS software platform. We help large and medium-sized retail banks better understand their customers and grow their businesses. We help these banks deliver win-win products and pricing in an environment that is increasingly competitive and highly disruptive. With experience in over 80 implementations, Nomis optimizes nearly \$1 trillion in banking transactions annually and returns more than \$300 million to its customers every year. To learn more about Nomis, please visit <http://www.nomissolutions.com>.

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