READY, SET, NEXT

A guide for banks to drive growth with in-the-moment pricing

INTRODUCTION: CAN YOUR BANK AFFORD STATIC PRICING?

Market drivers—everything from rising interest rates, new customer expectations and fluctuating regulations to digital technology enablement and new digital competitors—are sowing continued disruption in banking. Adapting to these changes calls for optimized, personalized and dynamic banking, drawing on vast stores of customer and transaction data to offer the right product at the right price through the customer's preferred channel.

Pricing remains a top influencer of consumer behavior and an important lever for growth in the banking industry. While banks understand that their customers have varying degrees of price sensitivity, and bankers work hard to retain their price-sensitive customers—especially when there is a known risk that the customer may switch to a competitor—banks generally lack a holistic strategy to predict shifts in customer behavior and respond in real-time with relevant pricing and offers.

Accenture research shows that 80 percent of digitally active consumers are happy to share with their banks the kind of personal data that could inform such pricing and offer management. In return, 66 percent demand faster, easier services, which the bank may offer with discounts or cash rewards designed to keep their more price-sensitive customers loyal.[1]

Ability to optimally and dynamically set price for each customer in the moment is becoming a survival skill for banks in the digital economy. The traditional take-it-or-leave-it approach will increasingly fail with customers, and pricing strategies based solely on beating a competitor's latest offer will increasingly result in a zero-sum game. Success will come in getting moment-centric offers right, and the process begins well before the customer engages and the bank presents an offer.

We find that banks typically fall into three main stages of pricing and offer management maturity: Product Price Optimization, Customer-centric Pricing and Real-time Intelligent Adaptability. Most financial institutions are in the first stage, presenting customers with generic offers centered around products, with little or no customer personalization. In this point-of-view we discuss ways retail and commercial banks can advance their pricing and offer management maturity—from a product focus to a real-time, intelligent and customer-relevant approach—and capture high-value, analytics-based pricing opportunities.

WHY NOW?

Understanding both what the customer values and the customer's value to the bank—now and in the future—is key to cracking the pricing code.

SIDEBAR

IN-THE-MOMENT PRICING IS A CATALYST FOR VALUE CREATION… FOR THE CUSTOMER AND THE BANK

Customer wants and demands can change quickly. Banks that draw upon rich customer data, such as interaction history and lifecycle stage, to shift to in-the-moment pricing can optimize and personalize prices to each individual customer. Based on our experience and analysis, in-the-moment pricing can generate a median ROI of 15X—driving up to 30 bps in incremental value annually,[2] and a one percent improvement in price can mean a seven to ten percent increase in operating income.[3] Other outcomes include empowered front-line workers, greater efficiency, more satisfied customers, higher margins and increased share of customer wallet.

We have helped banks reap such results. A top twenty-five US lender achieved 11.2 percent higher NIBT revenue compared to a control group. A leading Canadian lender increased its net interest income by $600,000 per billion, and targeted, segment-based promotional pricing helped another bank improve near-term net interest margin on new balances by 20 bps.

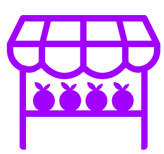
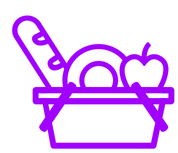
MAKING THE MOVE

Most traditional banks are working towards optimized, personalized and dynamic banking from stage one of the pricing and offer management maturity model: Product Price Optimization (Figure 1). To compete in the digital, Open Banking economy and to unlock significant profitable revenue growth opportunities, they will need to accomplish stage one and progress to the Customer-centric Pricing stage—ideally, positioning themselves to reach the Real-time Intelligent Adaptability stage.

FIGURE 1.
Bank pricing and offer management maturity model

Banks tend to fall into three main stages of pricing and offer management maturity:

About **10%** of retail banks have moved **BEYOND STAGE 1**

STAGE 1 Product Price Optimization	**STAGE 2** Customer-centric Pricing	**STAGE 3** Real-time Intelligent Adaptability
		
Fair prices that pivot on product rather than on customer	Price and offers that maximize customer's lifetime value across all product lines	Real-time prices reflected across products and channels

CUSTOMER EXPERIENCE

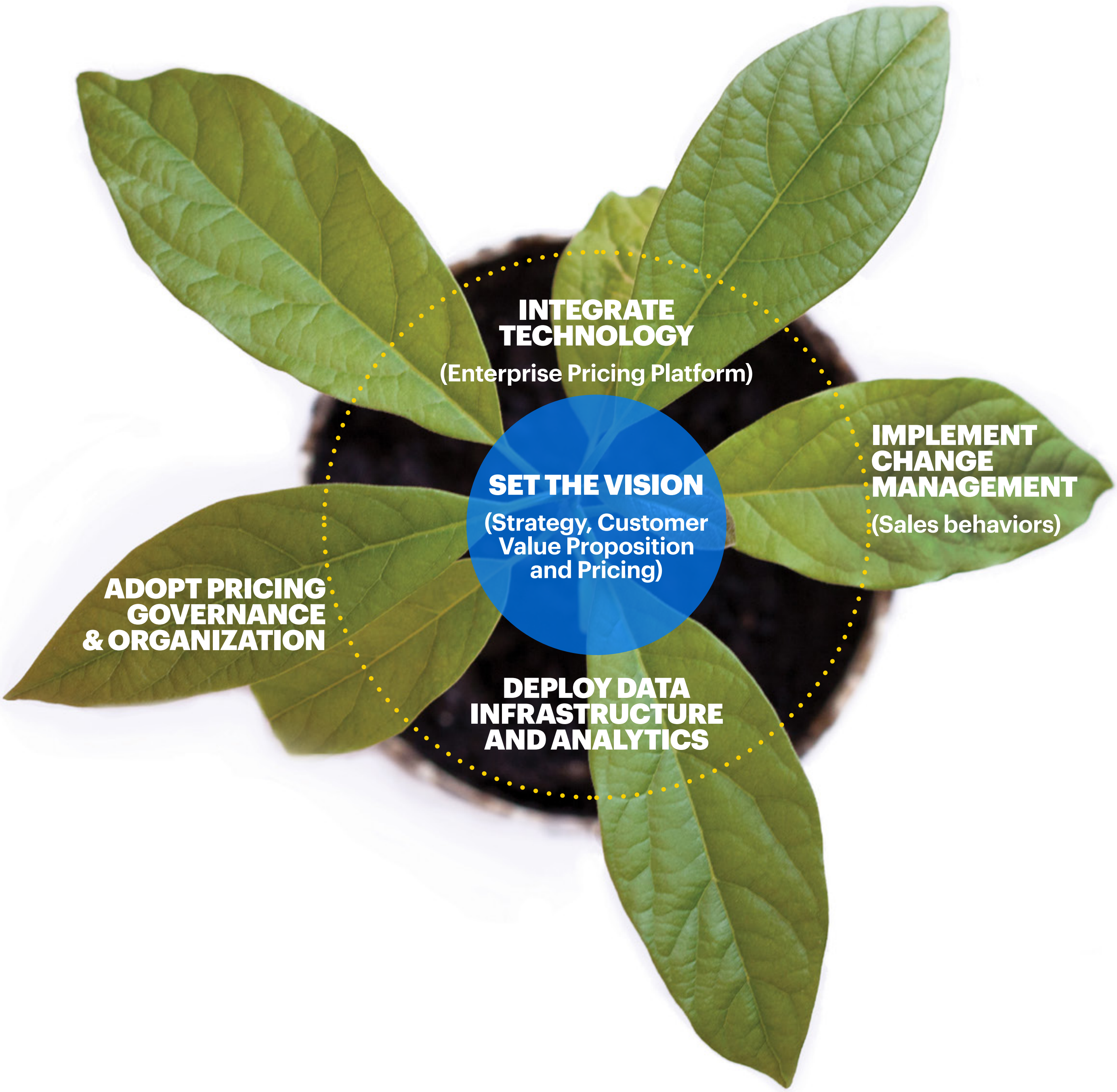
Fair product-line pricing, BUT...	Product bundles tailored to customer needs	Dynamic, in-the-moment engagement
Limited recognition of customer needs or value	Pricing that recognizes full customer value	Pricing/offers tailored in real-time
Frontline may push irrelevant "next best offer"	Frontline focused on guidance versus sales	Omni-channel engagement on the customer's terms

While the shift from stage one to stage two is a natural transition, it's not without its challenges. Consider that both siloed business units and the marketing, sales and service function must be integrated to promote collaboration of incentives and aggregation of P&Ls across business lines. Then, the skills of service reps will need updating. New training and tools are required to help them learn how to shape and personalize the customer experience. They will also need context and the ability to tap hard data to predict future needs and present personalized interactions and relevant offers. Equally challenging is establishing an effective and transparent governance model with the right controls and incentives for performance that ensures regulatory and policy compliance while enhancing customer service.

Where does a bank start? Often the needs and immediate applications of a pricing program are obvious. The bank needs to stem margin leakage on the frontline for its mortgage business, or it needs to up the ante on deposits pricing to support growth objectives, or it needs a more flexible pricing and offer engine that can manage conditional offers. Yet, with larger enterprise-wide programs across multiple lines of business that may at times have conflicting objectives, knowing where to start, where to focus and in what sequence can be difficult to determine.

Lessons from successful transformations suggest that segmenting them into smaller, more digestible pieces makes the task less overwhelming. Based on Accenture's experience, success comes from investment in five growth areas beginning with a strong vision at the core (Figure 2).

FIGURE 2.
Five growth areas for success in pricing transformation



SET VISION AT THE CORE

Moving to the next stage of pricing and offers starts with answering the question, “Why now?”

Ground pricing transformation in a clear, compelling and measurable vision and strategy. Without it, the shift will meander and sales opportunities will be missed as organizational focus is diverted elsewhere. Identify a range of strategic, financial and operational objectives to reach in the near-term, medium-term and long-term. Examples may include:

FINANCIAL
Volume, retention, margin or stability metrics.

OPERATIONAL
Enablement of cross-functional teams in analytics, product, pricing, and P&L management.

STRATEGIC
Articulate a value proposition for personalized customer experience that will set the bank apart from competitors.

SIDEBAR

A super-regional bank, sought to achieve a two-fold financial goal, 1) stabilize margins on long-term funding sources while growing the deposits portfolio to deliver more consistent profit results—enough to fuel the lending side of the bank—and 2) identify operational sources of price sensitivity friction with customers, even in the face of low interest rates. Underlying these challenges was the bank's move from a sophisticated, yet largely manual, pricing process to a more scientific, software-driven approach. The bank asked Nomis to help, and the core vision of a bank prepared for a more competitive higher-rate environment was set.

Over a five-month period, the bank and Nomis deployed the Nomis Price Optimizer™ for deposits, defining models for all products in the bank's deposit portfolio and identifying price sensitivity friction points. The solution made for a more stable, growing and profitable deposits portfolio. The bank can now measure all components that signal a customer's price sensitivity, enabling the bank to increase interest rates to retain more price-sensitive deposit account consumers while lowering rates on the accounts of less price-sensitive consumers. The bank also reaped a 31x return on the investment with insignificant impact on balances, a 30 percent increase in its ability to attract funding sources while optimizing the spread, and significantly better reporting and visibility on the portfolio's performance. The bank's pricing analysts benefit from automated analyses freeing them to focus on strategic pricing decisions. The bank's sales team has more confidence in their pricing function, and senior leaders have more insight into the bank's pricing processes and outcomes.

In tandem with setting a vision for business benefits and outcomes the bank wants, determine a purposeful pricing strategy to increase customer and bank value throughout the customer lifecycle in a fair, transparent and sustainable way. This strategy empowers the banker and informs more holistic pricing decisions.

There are a wide range of price strategy alternatives from which bank leaders can choose. Some are based on a company's underlying costs, whereas others are based on either the price charged for competitive offerings or the value customers place on the product or service being provided. Netflix, for example, drove tremendous growth by establishing a single, consistent low price for its offering, which was both easy for customers to understand and a compelling value proposition that undercut existing competitors. Meanwhile, Apple® developed premium products and priced them accordingly.

Setting the bank's pricing strategy is complex and should take into consideration a variety of factors, including the role the pricing strategy will play in meeting the objectives of key lines of business, compliance with bank policies, and the pros and cons of cost-oriented, competition-oriented and value-oriented pricing strategies. Variations of pricing strategies will need to align with broader corporate goals and brand value.

ADOPT PRICING GOVERNANCE AND ORGANIZATION

Strong enterprise-level pricing governance ensures the bank is both disciplined to operationalize the new pricing strategy and is clear on how to manage the six key organizational components:

WELL-DEFINED ROLES AND RESPONSIBILITIES

Structure the pricing organization, onboarding and linking advanced analytics, data management and campaign execution talent, assigning each clear roles and responsibilities. Perhaps the most critical role is that of the chief data officer, responsible not only for analytics strategy and its integration into business units, but also for defining data management roles and responsibilities, monitoring the quality of data, and ensuring regulatory compliance. By assessing, adapting and redirecting existing skills, banks can optimize their human resource investment and identify any gaps to fill through recruitment and training. Banks should typically start with small teams of data scientists, who can work with external partners to absorb the necessary competences and skills, then scale up gradually.

LEADERSHIP FOCUS AND PRICING COMPETENCE

Identify executive champions who will embrace the new organizational discipline and act as role models and program owners. Then, empower a cross-functional A-team by investing to build the skills needed to convert data into the prices and experiences customers want. Imaginative channels, such as innovation labs and a pricing center of excellence (headed by the chief data officer), can bring analytics-based insight closer to users. Frontline roles will require clear guidelines and skill development for point-of-sale negotiation such that profit is maximized and the need for price modification escalations is minimized.

RULE ENFORCEMENT AND QUALITY CONTROL

Establish discretion rules for pricing, analytics and data quality controls starting at the very beginning of the data life cycle. This includes "gold standard" data management processes that pinpoint accountability, maintain data quality and manage metadata. They should be automated wherever possible and monitored by a set of key quality indicators, so businesses are accountable for collecting the right data.

MONITORING AND SCORECARD REPORTING

Scrutinize adherence to data quality and rules, tracking each price to see how well it compares to established guidelines and highlight where exceptions occur. Even in a data driven pricing world, there will be times when customer-specific exceptions are needed, but pricing intelligence software and big data and cloud capabilities can help monitor prices 24/7, correlate information and make faster and more granular price adjustments.

REWARDS AND INCENTIVES MANAGEMENT

Reward "human" capabilities, such as judgment and personal service, that improve employee and customer experience.

MANAGE THE CHANGE

Successful change management is about increasing the pace, certainty and profitable outcomes of the pricing maturity effort. It takes a unique blend of strategy, tools and activities to influence user engagement, and mitigate people and organizational risk in progressing toward Real-time Intelligent Adaptability.

Six core components frame pricing change management and put the cultural and educational aspects of change front and center: stakeholder engagement, communications plan, organization design, business process and role design, training, and change readiness and deployment support (Figure 3).

Across the six components, it will be important for banks to engage key stakeholder groups—frontline staff, pricing teams, change network and enterprise leaders—early and often. Managing and tracking their activities, involvement and progress is essential to instill ownership and achieve a successful transformation.

Design matters. Too often, best-in-class algorithms that can enable organizational success sit idle because users distrust the unfamiliar or fear the impact it could have on their roles. To welcome the change and act on insights extracted by an algorithm, users need turnkey dashboards that give them relevant information quickly and enable them to make decisions and test potential scenarios that inform their daily business needs.

A comprehensive plan for bringing people along with pricing maturity enables a bank to improve the negotiation conversation, ensure transparency and steer the organization successfully through complex and rapid change.

FIGURE 3.
Pricing change management components

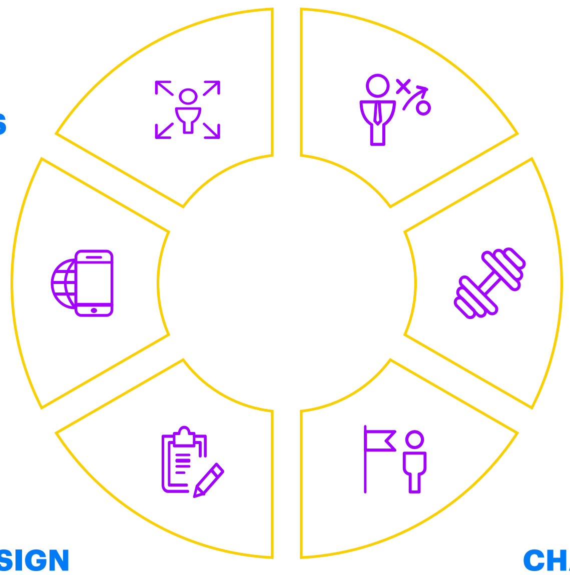
STAKEHOLDER ENGAGEMENT

Engage early and often with the groups impacted by the new approach to pricing

Achieve sponsorship to instill ownership and lead by example

BUSINESS PROCESS & ROLE DESIGN

Identify skills gaps and plan for the migration to the target state



COMMUNICATIONS PLAN

Foster transparency and clarity regarding the pricing journey and its significance

Ensure top-down and bottom-up communication

Prepare and manage external communication

TRAINING

Provide training on pricing tools and processes to foster curiosity and adoption

Support front-line with training on negotiation

ORGANIZATION DESIGN

Define cultural change of adopting mature, enterprise-wide pricing

Design new roles required to manage new pricing activities, processes and tools

CHANGE READINESS & DEPLOYMENT SUPPORT

Assess adoption, usage and performance of new processes and tools early & often

Maintain a closed-feedback loop between stakeholders

Provide ongoing support and training to ensure success and increased adoption

INTEGRATE TECHNOLOGY TO BUILD THE PRICING PLATFORM

A critical component of in-the-moment pricing is having the necessary pricing infrastructure that enables a holistic view of a customer's needs in the moment. It requires a purpose-built technology platform that addresses pricing end-to-end, across the entire customer journey through all products and channels. Creating such a platform requires three main activities (Figure 4):

ANALYZE AND OPTIMIZE

Traditionally carried out by Product and Pricing teams, this involves the process and capabilities to use data in analyzing and optimizing pricing for various products, either at an individual customer or, more typically, at a segment-level. Here, teams forecast and monitor the impact on key portfolio KPIs, including volume, margins and stability.

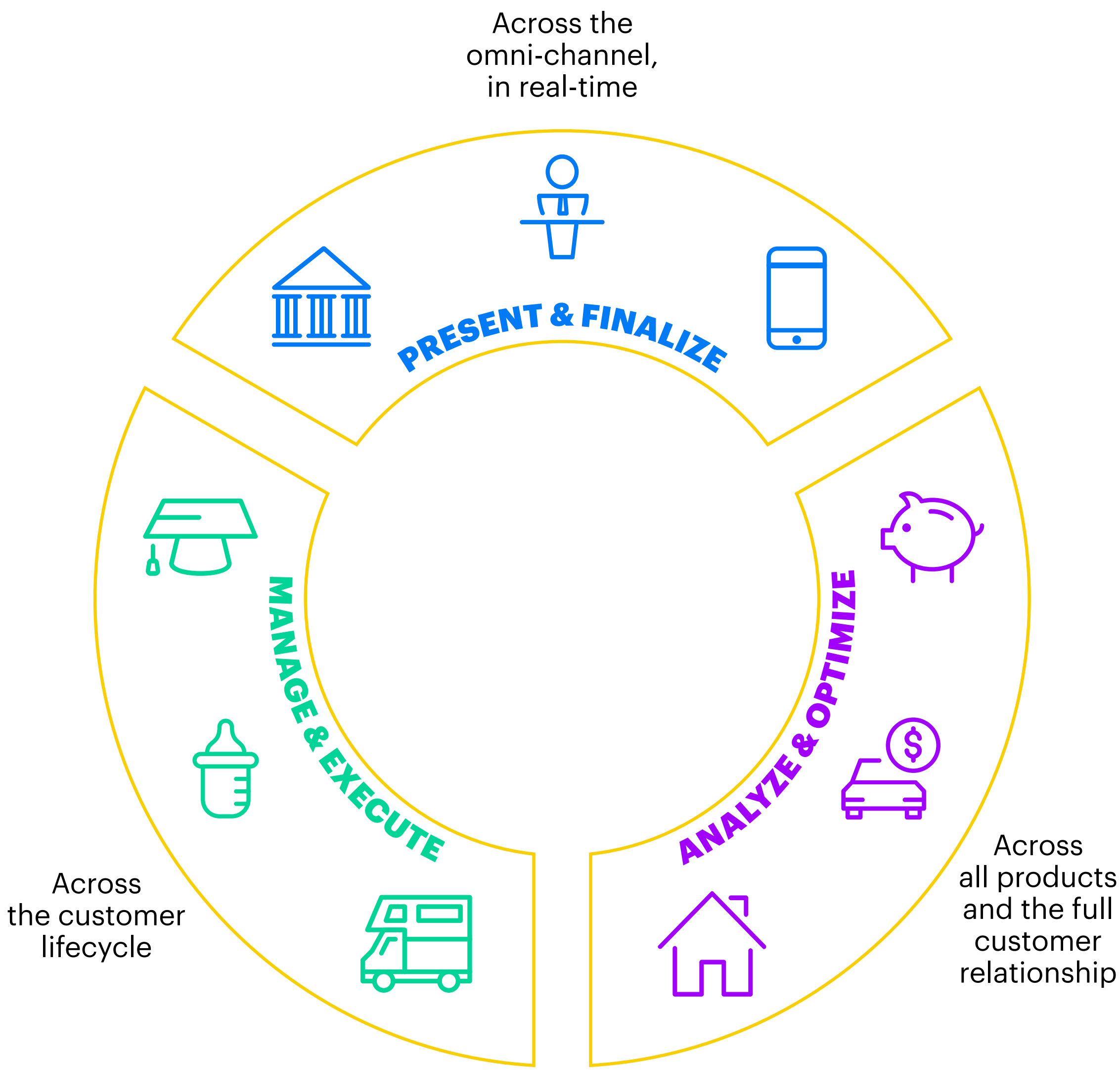
MANAGE AND EXECUTE

Once core pricing is established, the process and capabilities in this step work to manage relationship pricing and customer-specific offers, and then distribute those across the bank's systems and channels, without disrupting the existing core systems infrastructure.

PRESENT AND FINALIZE

Pricing and offers aren't realized until they are presented to a customer—whether in a branch facilitated by a banker or through a mobile app—ideally with feedback captured to analyze his or her responses.

FIGURE 4.
Three-part development of an end-to-end, in-the-moment pricing platform



While implementation may call for tackling individual components of the solution, a platform that only addresses one or two of these elements leaves glaring holes in the process and, ultimately, undermines a bank's ability to reach its goal. For instance, using the most granular data and the most sophisticated analytics to determine pricing without the ability to ultimately deliver it to customers due to systems limitations, defeats the purpose of investment in data-driven pricing.

Pricing initiatives, fortunately, are not core systems replacements. Increasingly, the value created from next-stage pricing initiatives comes from operationalizing pricing decisions across the bank. This requires data and integration into existing systems infrastructure, along with appropriate controls. Fortunately, modern service-oriented architectures and API-driven pricing platforms are making this a less arduous task. Characteristics of a systems-ready pricing platform include:

- Back-to-front enterprise infrastructure
- API-powered
- Templated for banking and lines of business
- Fully configurable and adaptable
- Highly scalable and performant
- Secure

Do you build or buy the platform? The answer is neither. It's best to partner. Getting to next-stage pricing requires data, analytical and technological sophistication than poses the risk of outstripping a bank's existing tool set and organizational bandwidth. As such, banks should approach the transformation with help from the right pricing partner—one that specializes in bank pricing analytics, brings the skills needed to efficiently implement the solution and offers operational support.

DEPLOY DATA INFRASTRUCTURE AND ANALYTICS

Data underpins dynamic, fact-based pricing decisions. It is the new currency, and there is plenty available for savvy retail banks to exploit. IDC forecasts that by 2025 the global datasphere will grow to 163 zettabytes, or one trillion gigabytes—10 times the 16.1ZB of data generated in 2016.[4] However, legacy infrastructure and silos across both products and channels at banks often limit their ability to use data effectively, creating high levels of what we call "enterprise data latency."

Fortunately, there are ways to overcome latency, and banks do not need to boil the data ocean to get started on the path to customer-centric pricing. Advancement to customer-centric pricing will require six key data types coming together:

CUSTOMER, ACCOUNT AND TRANSACTIONAL data to help understand customer needs and propensities as well as their behaviors and engagement across physical and digital channels

PRODUCT, PRICING, OFFER AND MARKETING data to understand your value proposition

CHANNEL AND SALES INTERACTION data to understand the role your frontline plays

COMPETITOR data to understand your peers and the choices your customers have

MARKET data, the macro, micro and interest rate drivers, that influence customer choice

PROFITABILITY data to help establish both product and customer-level value models

A lot of this is available within your own enterprise, but forward-thinking financial institutions and fintechs are beginning to look beyond their own walls toward the oceans of digital signals left behind by customers. An agile approach to data and platform that supports both increasingly sophisticated data and methodologies for pairing "big data" with advanced analytics will help extract insights and enable pragmatic decisions. As such, next generation pricing platforms will need to support:

ADVANCED ANALYTICS, including both traditional statistical methods as well as supervised and unsupervised ML (machine learning) techniques, such as XGB (extreme gradient boosting) for price sensitivity scoring and Kohonen Networks for behavioral segmentation

OPEN ANALYTICS ARCHITECTURES, enabling in-house teams to work with existing and open-source tools, such as R and Python, to evolve models that can be expressed in standard and portable formats, such as PMML or PFA

DOMAIN-SPECIFICITY, prediction and optimization algorithms purpose built for banking and pricing (as opposed to airline or credit line optimization)

SELF-LEARNING AND ADAPTIVE RECALIBRATION METHODS that enable not only models but decisions to be dynamically updated based on new and emerging information

AUGMENTED INTELLIGENCE AND MECHANISMS that leverage heuristics, analytics and, ultimately, AI to complement and augment business users' tasks and decisions

FRAMEWORKS whereby the rich data and powerful analytics you command are no longer trapped in the back office but consumed ubiquitously and contextually across the enterprise—delivering insight and value to your frontline bankers and, ultimately, to customers directly through self-service chatbots, offer recommendation engines and agent-based services that engage Open Banking services on your customer's behalf

GENERATE MOMENTUM—DRIVE VALUE—IMPROVE CONTINUOUSLY

By taking an incremental approach to their next-level pricing journey backed by digital technology, banks can innovate pricing in ways that create new value and momentum with each key milestone. It means plotting the course early-on to be dynamic and agile with ongoing evaluation and adjustment to ensure that the journey drives value incrementally. It's how banks can benefit from a constantly changing environment.

WHY NOW?

Because banking customers have more choices that ever before, and your nearest competitor is only a swipe away.

At Accenture, we have a dynamic, repeatable data-driven way to help our clients employ customer-centered and contextual pricing, enabling banks to maximize profits. By choosing us, you get a partner who knows it's not just about being first—it's about being trusted to get it right the first time.

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NOTES

[1] Accenture, Global Distribution and Marketing Consumer Study, 2017.

[2] Nomis.

[3] Accenture Strategy pricing analysis.

[4] IDC Research-Seagate, Data Age 2025: The Evolution of Data to Life-Critical Don't Focus on Big Data; Focus on the Data That's Big white paper, March 2017. Seagate, Data Age 2025.

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Nomis helps retail banks deliver win-win customer engagement through price optimization, customer-centric offers, and omni-channel sales enablement. More than 10,000 bankers worldwide leverage Nomis' cutting-edge Silicon Valley approach to big data, advanced modeling, and deep analytics to understand and anticipate the demands of their customers, competitor actions, and dynamic market conditions. With experience in over 80 implementations, Nomis has a proven track record of increasing customer and stockholder value, returning more than $300 million to its partner banks every year. Banks currently use Nomis technology to manage more than 270 million accounts and optimize over $1 trillion in banking transactions annually.

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