

# ESTABLISHING THE PATH to Digital Sales Pricing Excellence

Explore the opportunities and risks that retail banks should consider when digitizing the client experience.



The shift toward digitizing the retail banking client experience came in an accelerated fashion and there is no turning back.

## INTRODUCTION

The last 15 months have seen a significant shift toward digitizing the retail banking client experience through evolved, contactless practices and technologies. While some retail banks were well-positioned prior to the COVID-19 pandemic, many others were forced to quickly adapt operational processes in order to respond quickly to the new normal that was unveiling itself, or risk being left behind.

A few of these processes include:

- Remote and/or contactless mortgage experiences
- End-to-end deposit fulfillment
- Digital doc capture and e-signature for real estate secured lending

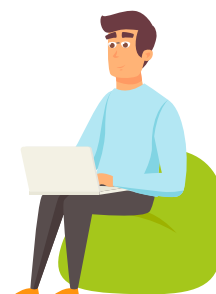
This shift came in an accelerated fashion and there is no turning back, now that market participants have experienced a far more efficient and client-centric approach.

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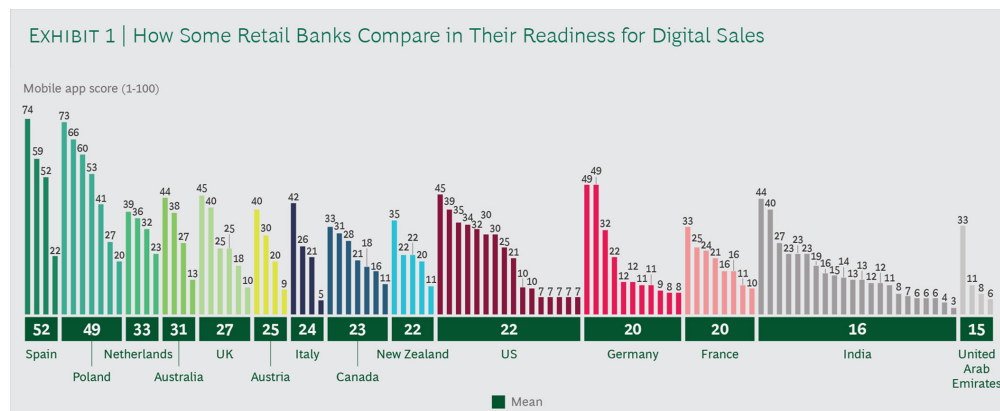
Although the aforementioned digital experience is likely here to stay, the path that retail banks take to get there is multifaceted. In this white paper, we will explore the associated opportunities and risks that should be considered as retail banks strive toward digital sales pricing excellence.

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## THE IMPORTANCE OF CROSS-CHANNEL STRATEGIES

According to a recent BCG<sup>1</sup> diagnostic, there are different global maturities for digital sales readiness.



Source: BCG digital sales diagnostic - Q4 2019.

One crucial digital sales readiness strategy infers that retail banks implement operational pricing strategies across all relevant channels. This requires both alignment and engagement with the pricing and product owners for the most effective execution.

## SEAMLESS INTEGRATION FOR DIGITAL & PHYSICAL DELIVERY CHANNELS

Digital engagement does not automatically lead to increased client satisfaction and sales. According to Deloitte<sup>1</sup> and J.D Power<sup>567</sup>, within the United States, overall customer satisfaction with retail banks has surprisingly declined as customers transition away from in-person (branch/advisor) to digital-only banking interactions and relationships. Similarly, in Canada and Australia where mobile banking adoption has increased, customer satisfaction with the digital movement has deteriorated.

A cohesive and well executed product and pricing strategy can help drive and reinforce a positive client experience.

**USE CASE:** A digital mortgage application was built with the intent for end-to-end completion. However, when a client needs assistance and prefers to speak to someone at the contact centre or branch, there needs to be a seamless transition. Considerations include:

- Are the rates and promotions available through the digital journey also available via other channels?
- Are the downstream processes and procedures for fulfillment similar?

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As noted in the World Retail Banking Report 2021<sup>8</sup>, there has historically been a divide in omni-channel client expectations and bank priorities. While 76% of customers had cited this as a top expectation, there was an 18-point difference in bank priority. Unfortunately, this might remain a point of friction until all aspects of the digital journey are seamlessly integrated, including the banks' cohesive pricing strategies.

## CONSISTENT PRICING STRATEGY FOR OMNI-CHANNEL EXECUTION

**Analyze data:** Generally speaking, banking products and services are generic. However, data is the key to differentiation. Banks armed with the right capabilities can create micro-segments by analyzing customer environment, lifestyle, personality, preferences, needs, and wants. The goal - building a personalized segment of one for the customer based on insight-driven personalization and a predictive or prescriptive approach. More and more banks, particularly tier 1 firms, are investing in their data capabilities to deliver hyper-relevant content, hyper-personalized products, and tailored pricing. However, the most strategic banks will extend the scope of this transformation beyond digital channels.

Source: World Retail Banking Report 2021.

So, does digital sales success imply leading with low rates and then altering a differentiated and/or personalized pricing strategy, with discretion, for in-person rate negotiation?

- No, adopting a digital sales growth strategy does not mean a bank needs to lead with low rates.
- It is important to create value when leveraging the digital sales experience.
- Encourage the client to go through the digital experience to receive their personalized rate.

## DISCRETIONARY PRICING IN DIGITAL SALES

Clients across many retail banking markets are accustomed to receiving discretionary pricing that is below posted or carded rates for a mortgage (most often), as well as deposits and personal lending.

- In Canada, more than 80% of mortgages, 60%-70% of GIC deposits, and 30-40% of unsecured loans and lines are originated or renewed at discretionary pricing.
- In APAC markets, the use of discretionary pricing is less, with approximately 60% of mortgages and 25% of deposits.

While some markets may rely less on discretionary pricing, executing on a pricing and discretion policy that delivers the right rate to the right client - at the right time - is critical and should not be ignored.

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Recent deposit trends may not imply that discretionary pricing is as prevalent in comparison to other normalized rate cycles, but it is prudent to be prepared as rates will eventually increase, some predicting sooner than initially forecasted. When normalized rate trends re-emerge, the retail banks that are ready for a digital and pricing strategy convergence will be far ahead of the curve.

Still, there is a fine balance for retail banks when it comes to their pricing strategy and there is certainly a parallel retail pricing thought to consider in terms of how to use discounted rates versus discretion.

According to Shopify<sup>2</sup>, the right type of discount can maximize sales. In fact, [ninety-seven percent of retailers cite discounting as their top pricing strategy](#). However, using the wrong type of discount can result in adverse consequences. Not only can the wrong discount reduce profits, but it can also devalue your brand.

## HOW TO EXECUTE AN OPTIMAL DIGITAL PRICING & DISCRETION STRATEGY

Analytically derived, personalized pricing and discretion should be executed across the omni-channels in which the retail bank operates. Deviation or oversimplification can lead to an unfavorable result.

1. Lead with price, lose to price, and risk devaluing your brand and value proposition.
2. Remember that not every product or client is created equal:  
Leverage robust datasets combined with Artificial Intelligence (AI) and Machine Learning (ML) to achieve personalized rates and/or offers at the customer, market, behavioural, socioeconomic, and demographic level(s).
3. Ensure client value, satisfaction, and rate acceptance by presenting personalized rates and using your best discretion.
4. Apply necessary control for any judgmental discretion(s) that could potentially lead to discriminatory practices and/or conduct risk.

**USE CASE:** The client is presented with an analytically derived starting rate of 2.04% for a 5-year fixed mortgage. Encourage the client to complete the application to identify any client- or deal-level attributes that can lower their rate. Through automation and robotics powered by AI/ML, this information can be delivered back to the client in real time to execute on a client-centric discretion policy. It is imperative that there is a value exchange with this transaction and there are opportunities to include personalized messages, calls from advisors, or MMS/text messages that replace the in-person negotiation that has been the historical norm.

As cited by Deloitte<sup>3</sup>, “hyper-personalized services that can factor in a customer’s financial well-being holistically should form the core of customer relationships. To achieve this goal, banks can integrate their disparate data architecture across lines of business and functions and combine it with AI-driven analysis to create a 360-degree view of customers. BBVA<sup>4</sup>, for example, built new data analytical capabilities through a global data platform and a dedicated AI factory.”

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## CONCLUSION

There is a significant opportunity to execute a flawless approach when it comes to digital sales, including a cohesive pricing strategy that is aligned to client expectations. The importance and implementation of a digital pricing strategy should not be an afterthought or done in a silo. Further, it should be thoughtfully executed across all channels to avoid any friction or disruption to the client throughout their omni-channel journey.

It is critical that all bank stakeholders, including pricing owners, are included from the initial kick-off of any new digital sales projects. There is a wealth of data to mine when executing personalized rates, offers, and messaging. Ensure your retail bank is equipped with the comprehensive solutions and tools necessary to seize this ripe opportunity to increase the retail banks' digital sales footprint, effectively.

## ABOUT THE AUTHOR

Derek Morris brings close to 20 years of banking and analysis expertise to his position as a Mortgage Solutions Consultant at Nomis Solutions. Prior to joining Nomis, Derek spent many years at CIBC with a focus on real estate secured lending pricing and policy, developing strategies to deliver a more client-centric approach for acquisition and retention pricing. His expertise also includes driving the methodology and implementation of client-level decisioning across retail banking, both in personal lending and deposits. In his current role, Derek is heavily involved in applying machine learning techniques to the analysis and prediction of retail banking and mortgage market participant behavior.

## ABOUT NOMIS SOLUTIONS

Nomis Solutions is a global, industry-leading pricing and profitability management solutions provider that delivers competitive intelligence to bankers and mortgage lenders to facilitate more advanced pricing strategies. The company's analytics platform and end-to-end pricing tools enable retail banks and mortgage lenders to achieve customer- and borrower-centric pricing backed by real-time, actionable data. The platform also supports banks and mortgage lenders in their understanding and anticipation of the evolving demands of customers and borrowers, competitors, and ever-changing market conditions. For more information, please visit [www.nomissolutions.com](http://www.nomissolutions.com).

## SOURCES

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