

# ARE BANKS USING PRODUCT CATALOGUE & PRICING ENGINE RIGHTLY TO ENHANCE THEIR REVENUE?

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Whitepaper

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## Introduction

With evolution of Fintech's and fast paced market changes, the basic concept of pricing has changed from traditional offering to the one adapting to innovations and considering customer first

Let us understand what does pricing mean for financial institutions

Pricing is the process where financial institutions set the price of products and service they offer and is mainly decided by Business teams based on various factors as below

- Central Bank interest rates
- Banks profitability targets
- Competitive landscape
- Promotional offers
- Sales Targets

E.g. Interest rates for Saving, Current accounts, fees and charges on accounts, credit card interest rates, fund transfer charges etc.

### **Key pricing strategies that are followed**

- Revenue oriented pricing
- Customer oriented pricing
- Value based pricing
- Relationship based pricing
- Promotional pricing

## Key components of Pricing

Product Catalogue and Pricing are very tightly coupled. Real time, dynamic and customer specific offerings are feasible only if these components are fully integrated

Billing systems are currently not considered as part of pricing component as every core sub-system will have its own rules and mechanism for billing

### Pricing-Overview

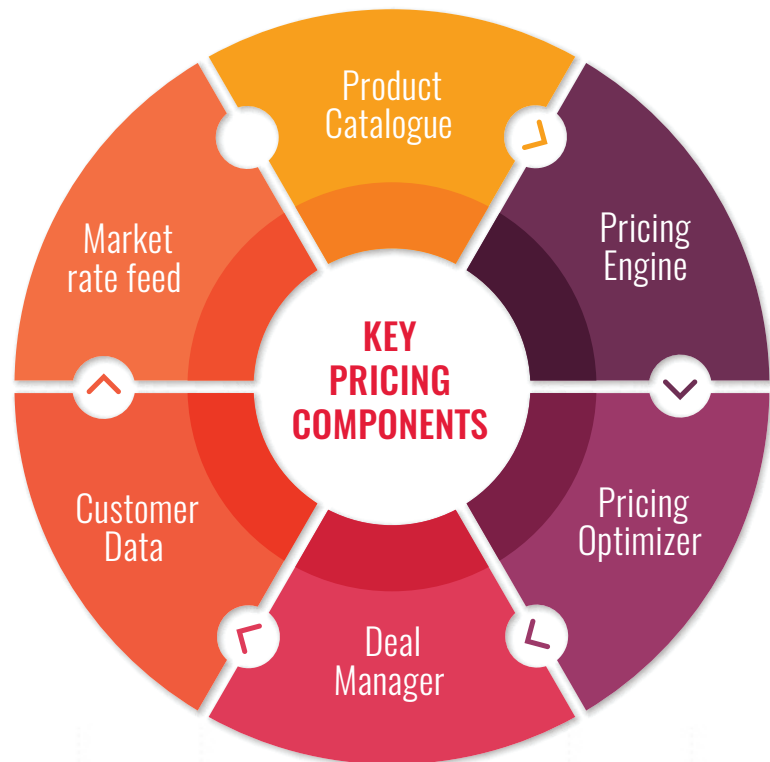
Many banks across the world have been traditionally pricing their product offering. Most of their offerings follow one solutions fits majority of customer segment approach. Personalization is a sure wish list for many banks but steps towards same have been slow

Financial institutions are addressing millennial needs via digital initiatives, focus on pricing to meet millennial expectations is not yet picking pace

Banks have been challenged by Fintech offerings. Fintechs are offering certain products with tremendous flexibility in pricing and taking personalized approach. This has been possible because of the minimal baggage of processes and turnaround time that they carry, which otherwise has been one of key hindrance for most banks.

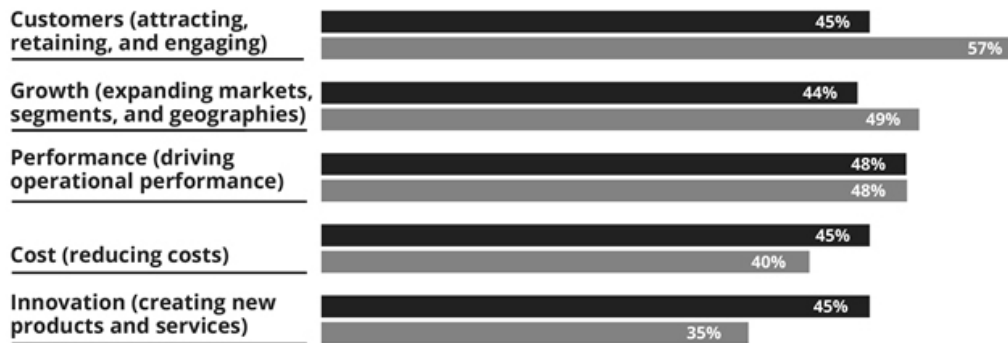
Reduced margins due to falling interest rates have put further pressure on banks revenue

While some banks have been innovative in their pricing they have not corrected the key issue of product rationalization. So even though banks introduced customer specific pricing, due to availability of many products bank sales team have not be able to use it effectively. This has resulted in insignificant revenue gains with senior leaders questioning the impact of adopting new pricing approach.



With digitization, Omni-channel offering and customer centric approach driving most of the offerings in Banking sector, Priority of most of the banking CIO’s has been to retain existing customers and attract new customers. Chart below shows top priority for CIO’s in 2020 as compared to 2017

### Shifting Business Priorities



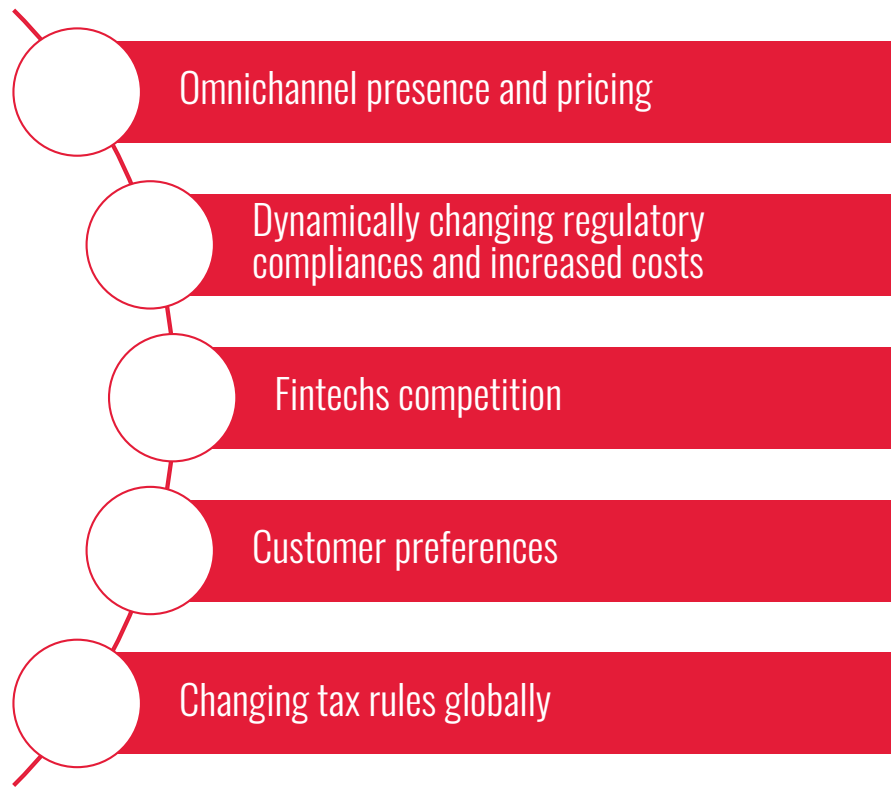
## Current pricing challenges for Banks and Financial Institutions

Many banks across the world have been traditionally pricing their product offering. Most of their offerings follow one solutions fits majority of customer segment approach. Personalization is a sure wish list for many banks but steps towards same have been slow

### Internal Challenges

- Currently pricing is product specific
- Not fully aligned to business strategy or customer strategies
- Pricing is often a reactive approach to market trends and competition
- Plethora of products to offer with minimal efforts on rationalizing the product
- Focus is on Sales as against guidance to customer as per customer needs
- Data capture during sales pitch/proposing a product to customer is not done systemically

## External Challenges



While few top global banks have tackled the above challenges and adopted latest innovations in this area, by far 80-85% of banks still not focused with right approach in this area.

Many banks have their own pricing models and derive pricing based on these models but don't always feed the required data to these models. Thus the output is not apt for the bank.

Constraints faced by most banks

- Some or most of these components not fully integrated into a single workflow. Most of these system are in silos with minimal integration
- No mechanism to derive the pricing value and \$ benefit for each price
- In most cases relevant data is not captured or not analyzed/feed back into these systems for appropriate analysis and decision making

## Market trends and Innovation in Pricing

Market has moved from fixed traditional pricing. Traditional pricing considers Risk, product cost, cost of borrowing but ignores the infrastructure, application and resource costs



### Customer Focus

Personalized products and price offerings  
Relationship based offerings,  
Dynamic Pricing



Offer business DIY capabilities to launch new products or pricing  
Reduce dependency on technology teams



### Event based / Conditional Pricing Support

Provide event based or conditional offers/products/pricing



### Flexibility & Time to Market

Have the ability to quickly adapt to new market condition and regulation.



### Predictive Analytics

Machine learning with Big data and predictive analytics seen a key lever to achieve growth.



### Cross/Sell Opportunities

Increase cross/sell opportunity by integrating with customer book of record systems and offering bundles based on the customer knowledge. .



### Real Time Performance Tracking

Plumb revenue leakage by automatically monitoring and managing customer arrangements and pricing performance

### Different types of pricings that are offered

- Dynamic Pricing
- Real time pricing
- Relationship based pricing
- Customer Specific personalized pricing
- Exception based pricing
- Event based Pricing
- Tiered Pricing

Further, these pricing are varied based on Line of Business (LOB's)

Pricing application solution providers are now providing cloud based, SAAS driven solutions with most of the above features, latest technology stack and upgrades

Banks are also realizing that only implementing pricing solution without product catalogue is a futile exercise.

Some of large recent implementations in financial institutions have seen product catalogue, pricing and offer/rewards closely integrated

## Key considerations for deriving right pricing

Global banks like JP Morgan, Citibank and lot of fintechs are offering customer specific value based pricing to their customers.

They take into consideration various factors as below before finalizing their pricing offering

- Customer Needs
- Bank Cost(Direct Indirect)
- Product Offering Cost
- Market Trends
- Customer Relationship analysis
- Benchmarks
- Competition offering
- Pricing Profitability analysis
- Rewards and Loyalty
- Customer Behavior Analysis
- Transparency
- Customer Experience



## Customer Experience

In current scenario, customer experience is of topmost priority and is driving new acquisitions. Customers are looking for quick, easy and instant solutions.

Scenario: One of millennial customer wants a personal loan to fund purchase of his mobile phone

### Option 1:

Bank A, offers him 5% interest rate and no processing fees but requires below

- Customer should visit the branch
- Submit all documents in person
- Wait for one day for approval

### Option 2:

Fintech is offering loan at interest of 5.5% with \$10 processing fee but approves loan in real-time. Further there is no need to visit the branch and customer can complete the entire application online in 10 minutes

It is very easy to guess that customers value the service and offering and will prefer option 2 unless he really has ample time at hand and that half % is going to hit him very hard

Based on above example it is clear that along with pricing the products correctly, banks also need to consider the entire process of selling the product and time take to complete the process.

Banks offering customer friendly digital process stand a higher chance of better sales of their products

Further, just pushing the customer for sales is not right approach. It is important to understand the customer well, his needs and then proposal a solution that suits his needs.

# Tech Mahindra Point of View: Business and Technology priorities for banks in Pricing and product catalogue

## Business Priorities

- 

Single view of the all products across the bank. Centralized and single source of truth for Pricing engine and product catalogue
- 

Time to Market in launching new products/changing products & reduce product lifecycle.
- 

Improve revenue and product/pricing profitability
- 


Enable product and operational innovations
- 


Enhance master data quality. Reduce Redundancy and Simplify products
- 


Enable growth by driving cross sell & improve customer to product ratio

## Technology Priorities


- 

Reduce Integration complexity
- 

Robust, highly available & maintainable design
- 

Build highly scalable and resilient solution
- 

Promote modular design and configurability
- 

Highly scalable always on architecture -e.g. Micro services and Devops
- 

Reduce risk and technology debt. Align with Enterprise technology roadmap.

## Conclusion

Banks need to take a holistic approach towards pricing. As part of this approach Banks need to look at current set-up, existing pricing ecosystem, do a thorough analysis and then decide on next steps based on organizational and business priorities.

Centralized and single system with rationalized product catalogue integrated with pricing engine offering various pricing options is surely the way ahead and will fetch 10-15% additional revenue for the banks if done in correct manner

Tech Mahindra understands this better than others, equipped with 100+ Industry experienced professionals, partnership with leading solution providers in product catalogue and pricing coupled with our expertise in consulting we have been successful in delivering results with a focused approach

## References

- Gartner Study
- PWC – Pricing Innovation in Banking
- Mckinsey Corporate banking study

## About the Author

Amit Surana is a Principal Consultant with Tech Mahindra and leads the Cards



Competency and Pricing/Billing Practice. In this role he is engaged in providing latest solutions in Cards area with a focus on digital, Fraud and Risk management and enhanced customer engagement. This is done leveraging internal capabilities as well as partnership with Fintechs. Amit has experience in Consulting, business analysis, product management and leading large transformation programs for Global banks and financial institutions. Amit brings with him 18+ years of deep domain expertise in Cards and Payments has worked with many leading

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