WANT BANK REVENUE GROWTH? PRICE FOR CUSTOMER LIFETIME VALUE.

Three key pricing actions banks can take now to stay relevant and grow.

2018 RETAIL BANK PRICING SURVEY

accenture | nomis

IN THEIR EVOLUTION TO DIGITAL, MANY RETAIL BANKS ARE NEGLECTING A CRITICAL ELEMENT IN THE VALUE EQUATION; BECOMING FLAWLESS AND FRICTIONLESS IN PRESENTING CUSTOMERS WITH HYPER-RELEVANT OFFERS AT THE RIGHT PRICE. NEW RESEARCH FROM ACCENTURE AND NOMIS CONFIRMS THAT BANKS BOLD ENOUGH TO LINK PRICING TO CUSTOMER LIFETIME VALUE WILL BE BETTER POSITIONED FOR GROWTH AND PROFITABILITY.

BANK PRICING SHIFTS FROM A MARKET-GENERIC TO A VALUE-SPECIFIC CAPABILITY

When consumers don't get the personalized, real-time services they want from traditional banks, they look for them elsewhere—usually from disruptive providers like LendingTree, Bankrate® or MoneySuperMarket that better accommodate individual preferences in real-time or even from new intermediaries like Amazon® that hold a high degree of customer trust. Part of what's attracting consumers to such players is their ability to customize offers for certain segments of borrowers and depositors like digital-savvy Millennials.

Look how digital mortgage lenders—operating with lower overhead, highly efficient processes, and fewer regulatory constraints—can offer loans cheaper and in record time. It's one reason non-bank lender Quicken Loans® was able to originate $2 billion more in direct-to-consumer home loans than its nearest big bank competitor in the fourth quarter of 2017.[1] And, zero-fee moves in wealth management by JPMorgan Chase (100 free trades of exchange-traded funds)[2], Vanguard (commission-free online transactions)[3] and Fidelity Investments (its two no-fee index funds have already attracted nearly $1 billion[4]) are having a major impact. Deposit accounts are feeling similar pressure. With the FDIC national rate for savings

FIGURE 1.

Customer-Centric Pricing as a Tool to Drive Sustained Profitable Growth

Source: Nomis

accounts hovering around .08 percent[5], many online banks are offering rates closer to 2 percent in hopes of capturing more of the $9.1 trillion in savings that Americans have on deposit.[6] The result has been many regional banks in the US struggling to grow their balance sheets in what should be a boom period for banks given positive macroeconomic conditions.

With increased competition for both assets and liabilities and compression of fee income, balance sheet income will be more critical than ever for incumbent banks because credit intermediation and maturity transformation in the balance sheet are less susceptible to digital disruption than fee income. To remain competitive, particularly as interest rates rise, banks need to shift focus to their net interest margin (NIM) and use a customer-centric pricing (CCP) strategy to help generate balance sheet income.

Most banks recognize that to stay relevant to consumers, increase margins and grow, they must enable CCP infrastructure and capabilities that allow the bank to present offers at prices that reflect the value of the customer's banking relationship across all channels and product lines (Figure 1).

We recently surveyed 260 leaders from 195 banks around the world about the maturity of CCP at their banks. Slightly more than 10 percent of the banks in our survey represented High Performers, with average annual revenue growth above five percent and annual profit margin growth greater than 10 percent over the last year. We compared the CCP and offer management approaches at higher-growth and lower-growth banks and found some interesting differences. For example, 36 percent of High Performers—compared with just 19 percent of lower performers—say they have plans to deploy a pricing structure that crosses the bank's lines of business.

In two of our earlier reports, we introduced a three-stage pricing and offer management maturity journey for banks and how to advance along that journey ultimately to deliver in-the-moment pricing. This report draws on our Retail Bank Pricing Survey findings to offer insights on pricing that can help banks drive value in a holistic way. It discusses three key actions banks can take to move forward:

Truly know what each customer values

Be cohesive and adopt a mature pricing strategy and integrate it into the broader customer experience strategy

Cultivate mature pricing capabilities across product lines to enable CCP while advancing toward moment-centric pricing and offers.

SIDEBAR

HOW DO WE DEFINE "CUSTOMER-CENTRIC PRICING?"

What is relationship or customer-centric pricing (CCP)? Often, when we ask executives that question, we get different answers from within the same organization. There are varying interpretations of what it means, and the lack of a common definition of CCP can stifle a bank's growth strategy.

In our survey, we define CCP as pricing that allows banks to make dynamic, real-time pricing decisions tailored to their customers' needs and preferences. Customer activity is captured across channels and analytics are used to maximize customers' lifetime value across all product lines.

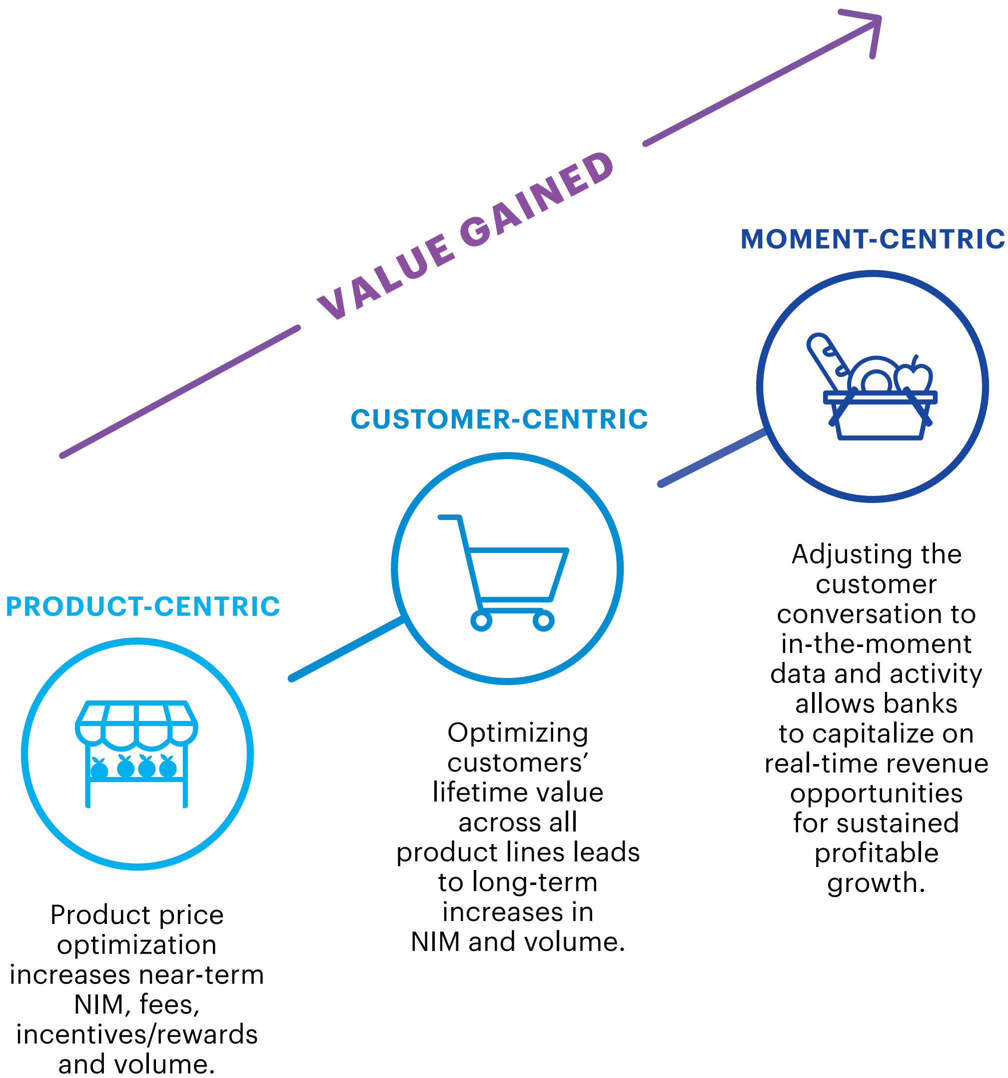
CCP goes beyond up-selling or generic cross-selling. Instead, it:

- Recognizes the customer as an individual
- Curates offers, such as product bundles, reward points, or other incentives, tailored to each customer's unique needs
- Focuses frontline staff on guidance versus sales

Importantly, CCP is the second of three stages of pricing and offer management maturity (Figure 2). It sits between the Product-centric stage, where most banks currently operate, and the more aspirational Moment-centric stage in which banks dynamically set prices for each customer in the moment. 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,[7] and a one percent improvement in price can mean a seven to ten percent increase in operating income.[8]

FIGURE 2.

Pricing and Offer Management Maturity Journey



Source: Accenture

TRULY KNOW WHAT EACH CUSTOMER VALUES

High Performers are much closer to understanding what bank customers want and thus are working to enable pricing and offers that build incremental value.

Customers expect their bank to know them and consider their needs (versus what the bank wants to sell) before making an offer. How well are banks meeting that expectation?

While survey respondents agree that exceptional customer service and competitive pricing and fees are what customers care most about when choosing a retail bank, High Performers also recognize the relatively high importance of customer access to financial products (Figure 3). They tend to understand that banking is a 24/7 business and that customers expect ready access to a full menu of financial products made available through user-friendly mobile and digital apps. Looking at the responses across all bankers in the survey, the focus turns more inward with the reputation of the service provider and transparency into pricing and fees outranking access-related factors. The customer-centric focus of High Performers suggests they are more mature in their pricing and offer management and more prepared to take on the next-level infrastructure challenges associated with CCP.

High Performers sift vast amounts of customer and transaction data through advanced analytics capabilities to truly understand customer needs. They see real-time data about a customer's life stage and banking relationship—everything from pricing history for all customer accounts to intelligence on why customers decline offers—as key to understanding the customer's price sensitivity and making offers based on individual customer needs. Such capability is at the heart of CCP.

FIGURE 3.

What Do Bankers Believe Customers Want?

After service and price, High Performers believe customers care most about access to a full menu of bank products and user-friendly digital channels.

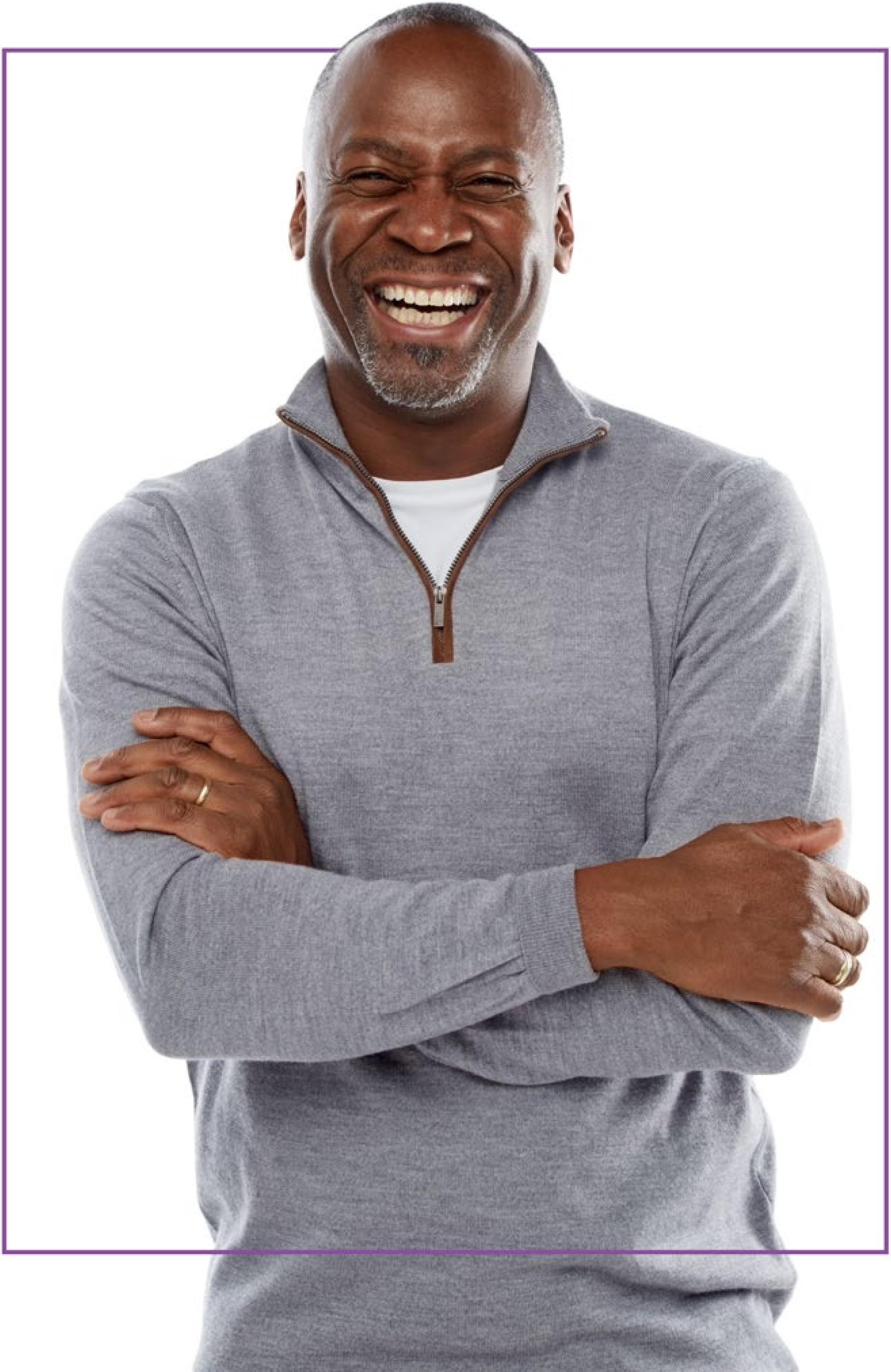
MOST BANKERS SAY...		*HIGH PERFORMERS SAY...*
Exceptional customer service	1	Exceptional customer service
Competitive pricing and fees	2	Competitive pricing and fees
Service provider reputation	3	**User-friendly mobile and digital apps**
Transparancy into pricing and fees	4	**Full menu of financial products**

Seventy-five percent of High Performers and 68 percent of lower performers emphasize the convenience and value of "one-stop" banking—a unified, omni-channel banking experience that delivers the full range of services, such as financial advice, accounts, loans and insurance. A thorough view of the customer that enables more tailored offers and loyalty rewards (e.g. discounts on entertainment or travel) may help nurture customer trust and retention. Unexpectedly, only 38 percent of all respondents make pricing a central piece of the conversation with customers—potentially a missed opportunity for a bank that wants to better understand its customers' price sensitivity.

SIDEBAR

WHEN IT COMES TO PRICING HIGH PERFORMING BANKS ARE MORE LIKELY TO:

- Integrate pricing strategy more closely with overall customer strategy
- Use technology to make individual offers more flexible
- Offer a menu of products and services linked to differentiated pricing structures
- Offer user-friendly mobile and digital apps
- Emphasize the convenience and value of "one-stop" banking



BE COHESIVE AND ADOPT A MATURE PRICING STRATEGY AND INTEGRATE IT INTO THE BROADER CUSTOMER EXPERIENCE STRATEGY

High Performers typically employ CCP strategies and can focus more on next-level challenges, like infrastructure and workforce, to improve customer experience.

Slightly more than 40 percent of bankers said they plan to compete on price to gain market share over the next three years. Yet, a lack of a coherent strategy or communication across different lines of business was identified as the top obstacle to implementing CCP. Interestingly, 30 percent of banks' lines of business have no CCP strategy.

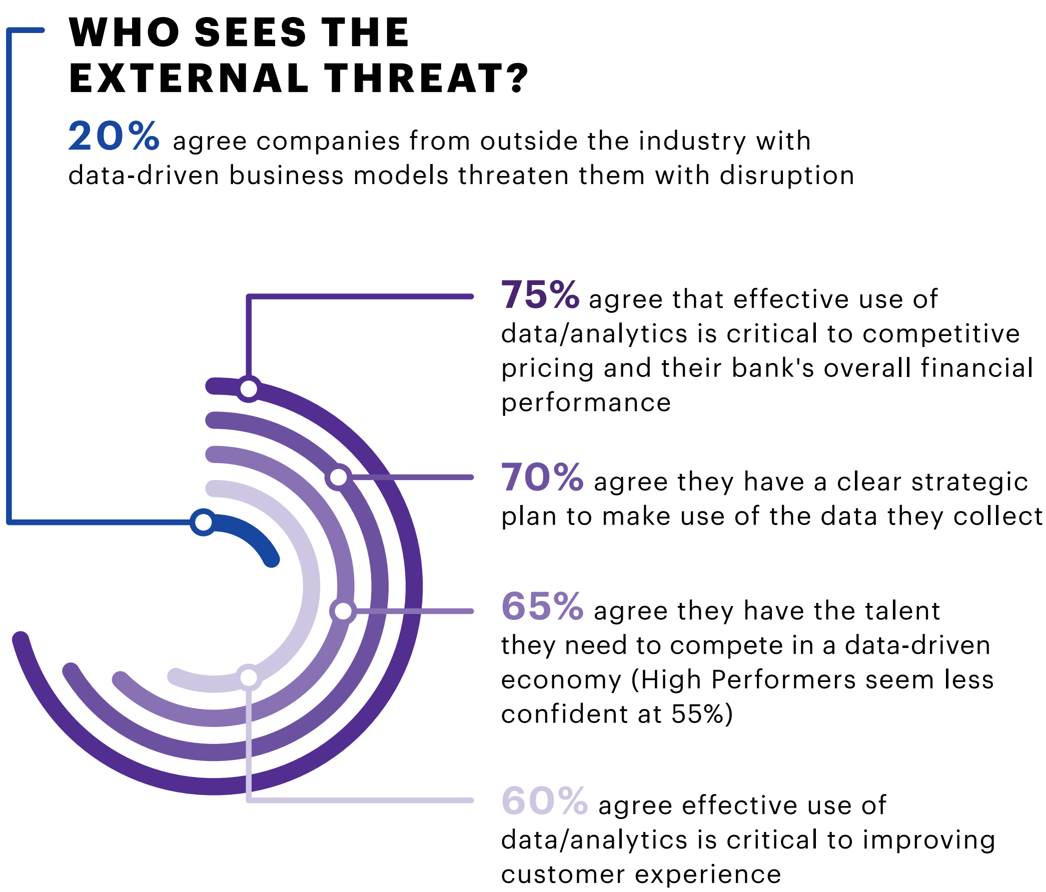
This lack of strategy can be costly. According to our survey, banks that do not make CCP a strategic priority require pricing exceptions for over 50 percent of deals, compared with less than 40 percent for banks that prioritize CCP.

To optimize margins and differentiate their customer service against digital competitors, banks need a clear, enterprise-wide strategy for maturing their pricing approaches in ways that increase value for both the customer and the bank—particularly in an ever more data-driven economy (Figure 4).

Some banks are recognizing the opportunity. Lines of business at 58 percent of banks we surveyed, for example, can simulate the impact of market changes on the portfolio and factor it into

FIGURE 4.

Do Bankers Have a Strategy to Compete in a Data-driven Economy?



pricing decisions. Sixty-three percent manage pricing across multiple lines of business within a central system; 67 percent use price optimization; 53 percent consider the lifetime value of the customer relationship across multiple lines of business when making pricing decisions; and 74 percent have forward-looking customer lifetime value models.

For High Performers, a lack of coherent strategy was not identified among the top-three obstacles they encounter in implementing CCP. They instead focus on next-level challenges. The obstacles identified by High Performers were more around technical and workforce-related deficiencies—a lack of systems flexibility, a lack of analytics expertise, and a lack of incentives for frontline staff to customize pricing.

> Banks that don't make CCP a strategic priority require pricing exceptions for over 50 percent of deals.

High Performers go even further to integrate their mature pricing strategy into their overall customer strategy. Fifty-five percent of High Performers, compared to 39 percent of lower performers, are starting to deploy this integration at scale. They are doing things like offering a menu of services backed by differentiated pricing structures and managing and capturing all pricing components in one centralized system. 75 percent of high-growth lenders and large banks have a pricing grid that incorporates 20 or more attributes, and more than a fifth (21 percent) incorporate 50 or more. These attributes may include data on products, geography, and loan amounts or terms that inform the bank’s CCP models.

CULTIVATE MATURE PRICING CAPABILITIES ACROSS PRODUCT LINES TO ENABLE CCP WHILE ADVANCING TOWARD MOMENT-CENTRIC PRICING AND OFFERS

Leaders combine governance, talent, and digital technology to price more flexibly, efficiently, and personally all the time.

Foundationally, banks need a structure for strengthening their price-for-value capabilities. This includes having a clear owner to drive the CCP strategy, a common CCP definition, and the right talent to compete against digital newcomers. Particularly, banks will need to empower frontline staff with the authority and the incentives to customize pricing—two of the four main obstacles to CCP cited by bankers.

It also means using technology to make the delivery of individual pricing and offers more flexible. Nearly all the respondents

(93 percent) are currently investing at some level to address the lack of systems flexibility as an impediment to CCP. For example, 38 percent are starting to deploy pricing technology at scale; 30 percent are deploying it across the organization; and 26 percent have a pilot program in place. Half of High Performers are deploying across the organization versus 37 percent of lower performers.

Three-quarters of bankers agree that effective use of data/analytics is critical to competitive pricing, and 57 percent say pricing will become more dynamic, customized, and flexible than it is today. The use of sophisticated lifetime value analysis to shape pricing decisions, drawing on vast stores of customer and transaction data to offer the right product at the right price through the customer's preferred channel is becoming table stakes in the banking industry.

> To effectively empower sales, accelerate pricing capability, and increase margin and volume, banks will have to invest in pricing infrastructure.

To effectively empower sales, accelerate pricing capability and increase margin and volume, banks will have to invest in pricing infrastructure. Just 20 percent of survey respondents said big data and analytics insights were "always available" to their pricing team. And, while 41 percent of banks procure third-party data along with internal data to make pricing decisions, an equal number say that most of the data they collect is not used constructively.

For all the innovation around artificial intelligence (AI), only 26 percent of bankers agree that their lines of business use AI to personalize pricing; just 13 percent of respondents say they will use AI in their future pricing decision process. This may be related to the cost and scalability of such solutions, as 21 percent of large banks agreed they would use AI in the pricing decision process versus just nine percent of smaller banks. The relatively low uptake of AI may also be a reaction to fears of regulatory requirements that AI decisions be explainable.

SIDEBAR

BANKS VALUE MACHINE LEARNING + BIG DATA + PREDICTIVE ANALYTICS

While only 56 percent of banks in our survey rated AI important to their pricing, the related technology of machine learning in combination with big data and predictive analytics was rated much higher: 78 percent overall (85 percent of High Performers) saw this powerful combination as important to their organization's pricing capability.

CCP IS A GAME-CHANGER FOR BANKS. SO, NOW WHAT?

The opportunity is broad for banks to use CCP now to drive revenue growth in an era of mass personalization, fluid expectations, and hyper-relevance. Every customer insists on banks using data securely to know who they are and anticipate their financial needs. Whenever a life-event nears—expanding family, new vehicle, new home, college, and so forth—the right tailored offer has to appear in the moment every time. And new, nearby competitors from within and outside the industry, are eager to tap their digital strengths to present such an offer with one-stop convenience.

Banks already enjoy a trusted relationship with their customers. Now, they need to augment that relationship with hyper-relevant interactions. They must manage pricing effectively to accelerate their journeys along the offer and pricing maturity model, shifting from market-generic to value-specific with a high understanding of and personalization for the customer.

Together, Accenture and Nomis offer our banking clients both a customer-centric pricing platform and end-to-end transformation capabilities. It means that banks can take advantage of market changes to offer the customer the right product at the right time; building advisory trust and a relationship that will make the customer a customer for life.

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[8] Accenture Strategy pricing analysis

SURVEY METHODOLOGY

Accenture and Nomis commissioned a survey of 260 leaders from 195 retail banks of varying size around the globe to assess their current view on and use of customer-centric pricing. The survey was conducted online by Oxford Economics on behalf of Accenture and Nomis between March and April 2018.

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 459,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

ABOUT NOMIS SOLUTIONS

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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