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PERSPECTIVES: NOMIS

STAYING COMPETITIVE IN BANKING WITH ADVANCED ANALYTICS

with Frank Rohde, President and Chief Executive Officer, Nomis, and Alan McIntyre, Senior Managing Director – Global Banking, Accenture

Q: Given customer expectations for tailored service in real-time, how can banks respond and stay relevant?

Frank: The most important thing is to get it right. If you are delivering offers in real-time to consumers on their smartphones while they're engaged in a purchase transaction, while they're shopping, while they're considering a major investment or a loan, getting the offer wrong is bad, because you're only an inch away—a swipe away—from your nearest competitor. So, the first and most important thing is to get it right, and that obviously begs the question, "Well, how do you get it right?"

Alan: Banks are going to need to be able to present the right offer at the right time and place and at the right price, using internal and external data, to truly personalize the experience. Customers expect to be known by their bank and to get offers and pricing that truly reflect that relationship. A traditional take-it-or-leave-it approach isn't going to work in the digital economy.

Frank: The way to get offers right in real-time to an individual consumer is to develop a deep understanding of their preferences, their needs, across channels, across life stages, and in the moment; that relevant, in-the-moment, contextual offer.

Q: How big a shift is this for banks?

Alan: For a lot of banks this is going to be a revolutionary shift. They have traditionally managed their business through product silos, and what we are talking about here really cuts across those product silos, and it's going to force the banks to really pull-up a level and provide a real relationship view for their customers that recognizes the totality of the relationship that that customer has with the bank and recognizes that relationship through the customer pricing and offer management.

Frank: It's a big shift. Banks have traditionally organized around product P&Ls and around infrastructure that has been built to support product P&Ls. So, the traditional bank has a mortgage operation, a deposits operation, payments, lending products, credit cards, but the consumer really looks at this and says, "Well, I have a relationship with the bank, and I'm engaged in a particular transaction, a particular purchase or consideration, and, therefore, I need the right offer and the right interaction with that bank regardless of where that interaction comes from." So, really, it's about building that layer of customer-centricity on top of what has historically been a product silo and product-centric view of the world, and that's a big shift for banks not just from an architecture perspective—data, analytics—but also from an organizational perspective.

Q: Why is being moment-centric vital for banks now?

Frank: The world as a whole is becoming more moment-centric. If you think about consumers' interactions with the rest of the world—whether that's travel, media consumption, purchasing—and you think about the services and providers you use, they all center around your smartphone, and most of those interactions are now driven through a real-time interaction. So, consumers are conditioned to expect a relevant offer, because that's what they're getting from Amazon®, that's what they're getting from Google, that's what they're getting from Apple®, and a number of others.

Alan: Consumers are already getting dynamic, or living, services from other big digital platforms, so they expect it in banking too, and they'll buy from a provider that can deliver it. Banks that offer more personalized deals at the right price in real-time will be better able to compete, make higher margins, and drive more volume. Over time, moment-centric banks will build both customer value and loyalty, and they are going to be the winners in the market.

Q: What role does analytics play in dynamic pricing and offers?

Frank: It's a huge role. It's really the core engine that drives the intelligence behind what offers, what recommendations, what actions you put in front of customers. So, the way we think of the world, there's three types of analytics:

There is descriptive analytics, which is about what happened and what is going on in your portfolio; what is going on in the market. That's the traditional world of BI tools; reports what has happened in my market in the past.

The second view of the world in terms of analytics is predictive analytics. So, can I predict how a customer will react? That's the world of response models, behavioral models around utilization, around product acceptance, around cross-sell, around retention. So, if I can predict customer behavior looking into the future I can start making assumptions around or building strategies around what will happen to a particular customer—a particular segment—if I make a particular offer.

And then the third step is really around prescriptive analytics, and that's where optimization comes into play, and you say, "Out of all the things I could do in this moment, given these customer characteristics, given all the data I can bring to bear to this question, what's the right choice?" And that's a large-scale, but real-time optimization that needs to run to determine for the bank and their interaction with the customer.

Alan: Analytics are critically important to provide these types of personalized offers. You need to have confidence as a bank that you're actually making the right decisions around pricing and offers that you make to customers. It's not only about pricing and analytics. Figuring out the right thing to do is only part of the challenge. If you take someone like Starbucks—Starbucks cycles through hundreds of thousands of different personalized offers every quarter—they have to get those offers right, but critically they also have the infrastructure to deliver those offers in real-time to their clients through the Starbucks proprietary app.

Q: Where do banks start in maturing their pricing and offers to be moment-centric?

Alan: The first step is to identify the areas of biggest return. For example, moving average pricing on a mortgage book by just a few basis points can have a huge profit impact. It's also critical to view pricing and offer management as an enterprise-level capability—just like risk management—and develop an overall roadmap to prioritize investments and share expertise. That's where an enterprise-level solution like Nomis is important, because it can scale with the bank's pricing and offer management maturity.

Frank: Obviously understanding the leverage points is important, and the leverage points are really across two dimensions. One is "Where are my portfolios? Where are the dollars?" So, mortgage portfolios are big. Deposits portfolios are big. If I can move the needle on these large portfolios even by a few basis points that's tremendous payback and tremendous return on the investment. So, it's prioritizing based on where the dollars are and starting with the big opportunities.

The second way of looking at the world is "Where are the leverage points in the interaction with the consumer? Is this about smarter list pricing—i.e. pricing products that I put out to the market and changing my pricing across advertised pricing? Is this about smarter targeting and real-time offer generation to very specific, individual consumers, or is the leverage point really in enabling the front-line banker to negotiate smarter? So, we think of the world as list-based pricing, customized pricing, and then discretion-management and negotiation, and depending on which product you are looking at and which portfolio and the particular sales process in a market, the leverage point may be different across portfolios and across the interactions.

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