

Pricing for the Banking Industry Unlocking value through pricing excellence



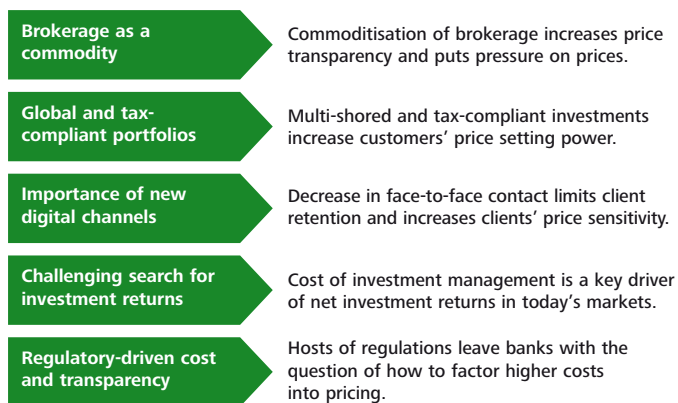
“In current pricing practices at most financial institutions, very little importance is placed on how much a customer is actually willing to pay.”

Deloitte Project Experience

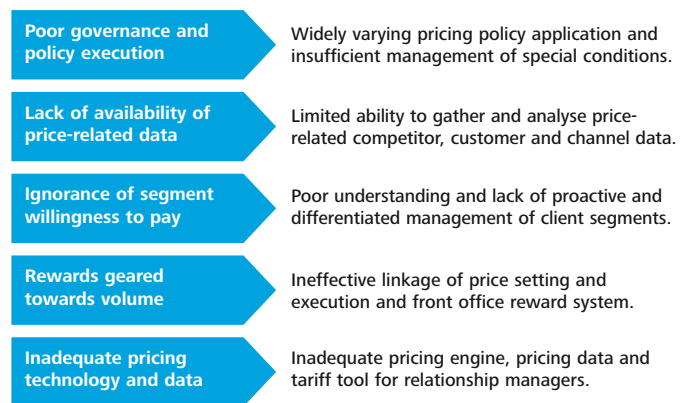
Why consider pricing now?

The challenge of how to increase profitability has placed the financial services industry under substantial competitive pressure. One way to achieve this goal is to grow revenues in a way which does not require risky acquisitions, branch expansions or staff growth. Price management has significant direct impact on the top line. Even if volume-based revenue growth is difficult, a 10% improvement in price can yield profit improvements of up to 25%! The external and internal challenges set out below show why banks are now turning to price management as a powerful catalyst to fuel profitable growth.

External Challenges



Internal Challenges



What capabilities are required?

Deloitte's Pricing Management Methodology

In order to tackle the above-mentioned challenges, our methodology consists of six core pricing capabilities that enable an organisation to realise the full benefit of an improved pricing function.

- Definition of the role of pricing in the context of the corporate and market strategies.
- Pricing principles, price positioning vs. competition and pricing boundaries.
- Pricing approaches tailored to different client segments.
- Incentive system aligned with price-driven profitability.
- Education on the importance of price-driven profitability.
- Continuous monitoring of the effectiveness of incentives in the light of a changing market environment.



- Flexible pricing engine.
- Support tools for RMs to help in negotiations, understand profitability and secure pricing consistency.
- Price analytics capabilities (e.g., price tracking and optimisation, data mining and reporting).

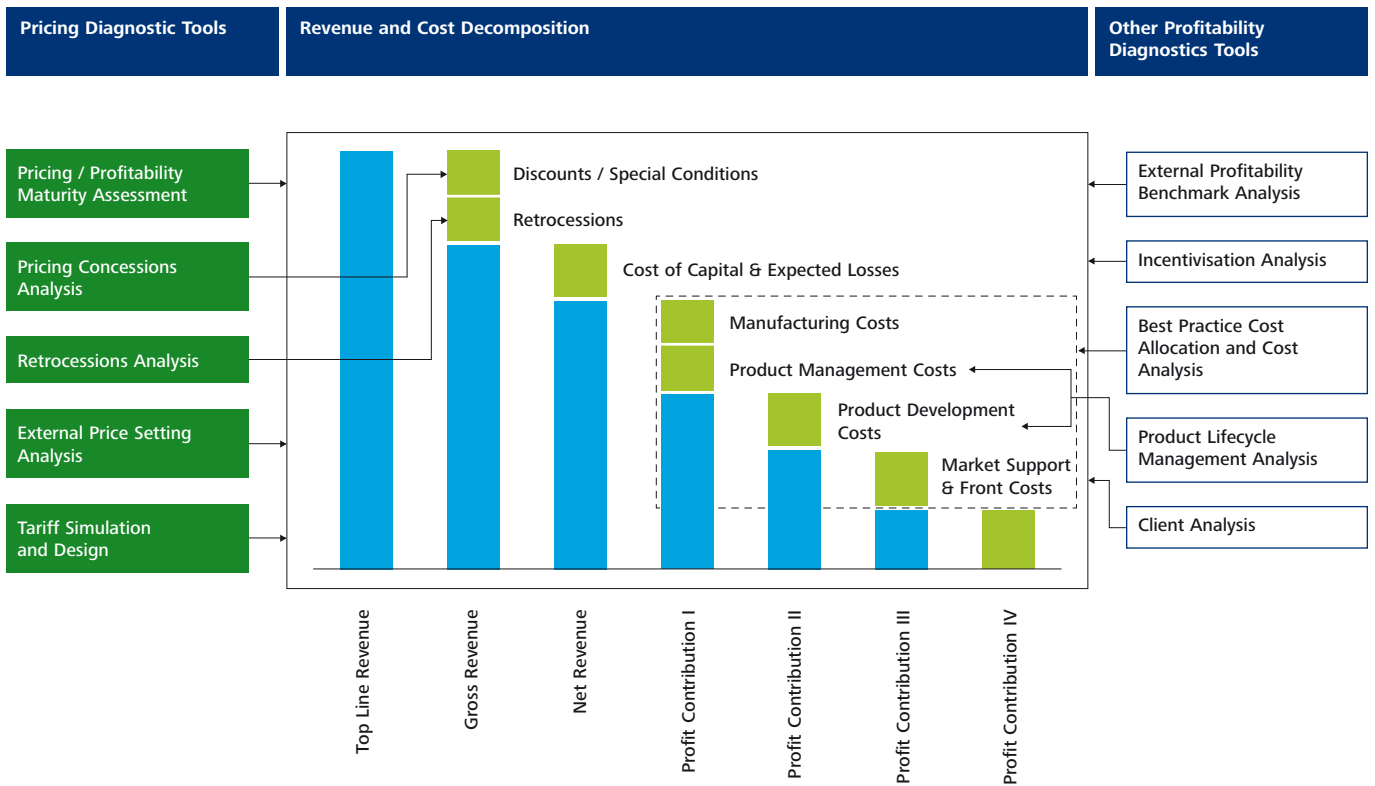
- Pricing organisation including appropriate staffing.
- Roles and responsibilities within pricing.
- Pricing policies, guidelines and processes.

- Tariff structure and price models in line with pricing principles.
- Price list aligned to competitors, customers and internal cost perspective.
- Institutionalised process continuously optimising list prices.

- Continuous market screening on list and market prices.
- Price controlling (periodical concession review, etc.) and central concessions management.
- Information and ongoing training for Front Office on pricing trends.

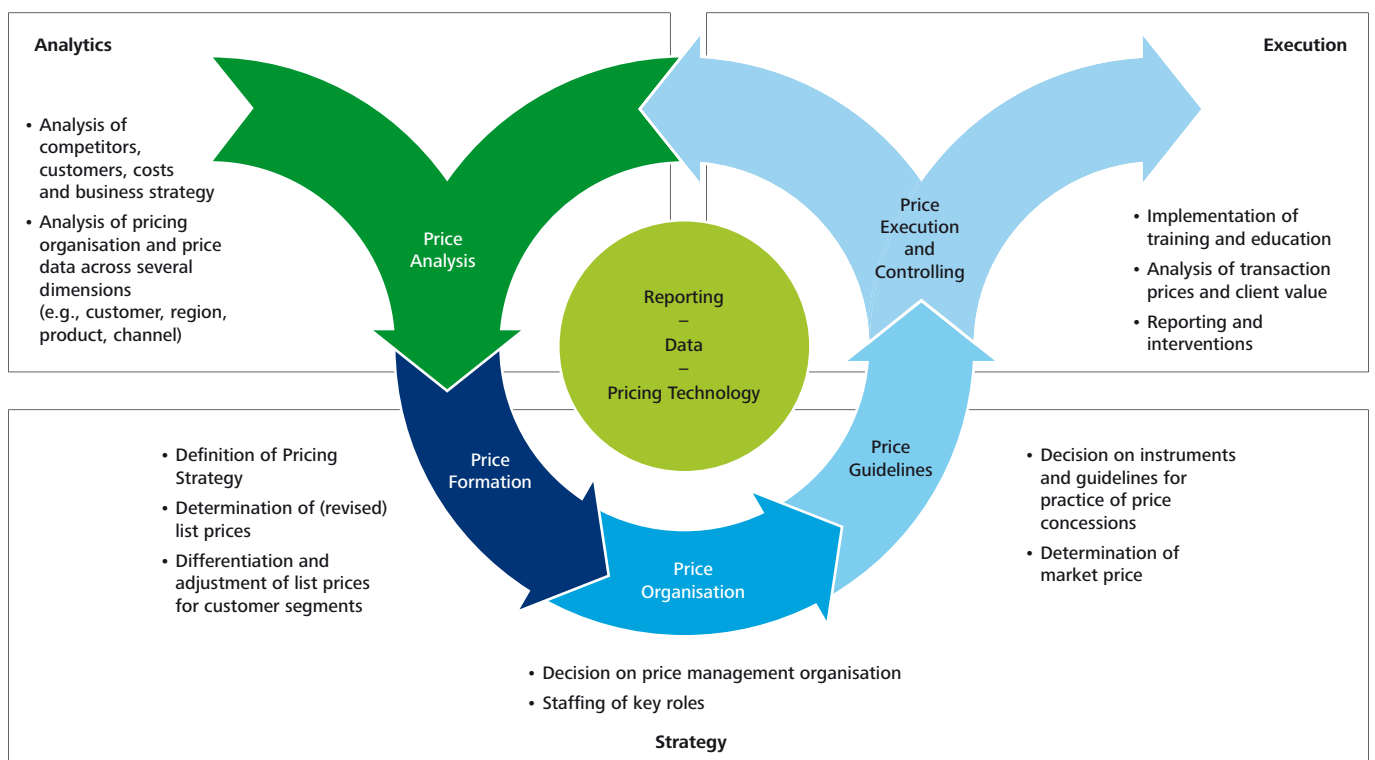
With which tools?

Key drivers for profit contribution are pricing and profitability. Besides using a range of frameworks to analyse profitability, Deloitte offers five key diagnostic frameworks for the pricing analysis. Whilst the analysis of price concessions and retrocessions focuses on specific blocks of the pricing strategy, the pricing maturity model, the external price setting analysis and tariff simulation focus on the overall pricing strategy.



How to move ahead?

Implementing and managing an optimal price level that maximises profit on a long-term basis is a continuous process with three distinct phases: Analytics, Strategy, and Execution. The process needs to be supported by efficient pricing technology, adequate pricing data and ongoing reporting. The most successful banks build a dedicated pricing organisation to run this process.



How to succeed?

Pricing improvement is not simply the implementation of new technology. It requires holistic change management efforts in order to realise the full potential of pricing programmes:

- 1. Secure strong executive sponsorship**
 - Establish top-down support to ensure that adequate resources are dedicated to the programme and that resistance to change is overcome.
- 2. Involve key stakeholders from day one**
 - Create a cross-functional effort, rather than a behind-the-scenes operation. This identifies concerns early on and communicates the potential benefits of the programme both broadly and consistently.
- 3. Prioritise initial areas of focus**
 - Lay out a blueprint for the programme but focus initially on quick wins to reinforce the value created and to encourage broader senior management support for the effort.
- 4. Focus on using and enhancing the fact base**
 - Base decisions on an improved understanding of customer, product and distribution channel revenue generation and profitability, built upon a robust set of data that is enhanced by rigorous collection and storage of internal and externally available data.
- 5. Select and deploy the right technology**
 - Power the programme with software that contains features and functionality to enhance insight, flexibility, and control and be willing to experiment in alignment with your pricing objectives.
- 6. Benchmark and monitor results**
 - Set clear objectives for the programme, report regularly on progress and hold staff accountable for results; demonstrate the value of the programme throughout the organisation.
- 7. Enhance skills and competencies**
 - Identify gaps in skills as a result of utilising more quantitative approaches and develop plans to fill those through training, recruitment and use of third parties.
- 8. Align organisation and performance incentives**
 - Maintain organisational consistencies with new processes and information and incorporate performance incentives into customer-facing personnel's goals so that they are consistent with overall business performance objectives.



What's next?

Answering a few simple questions will focus your thinking around pricing and give you an indication of where you might stand and whether there is potential to move to the next level in pricing:

1. Is there a consistent pricing vision throughout the organisation? Ask department heads to develop their best thinking and discuss their ideas at your next meeting.
2. Determine which of the six key pricing capabilities are critical to your business today. Which ones are already being addressed? How will you address the missing components?
3. Determine where your organisation is not aligned on pricing. Are you providing leadership? Is anyone following?
4. Are you aware of who in your organisation is ready and able to help you enhance your approach to pricing?
5. Ask your front office and financial accounting department to evaluate the realized prices on clients and products. Do actual and perceived concessions diverge?
6. Are you able to articulate the value each segment creates for you? Find the "balance of value" for each segment you service.
7. Is your financial accounting department able to take the first step towards building a transactional model that evaluates and maximises product and client profitability?

Why Deloitte?

With our broad set of pricing capabilities which have been applied extensively at countless clients all over the world, we are acknowledged by the industry as the number one pricing experts.

The Deloitte Difference

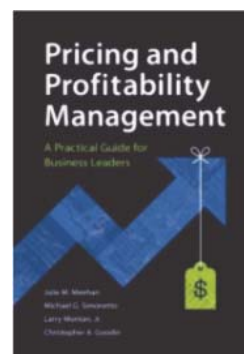
- We are a leading management consultancy with a strong banking footprint.
- With our unique combination of excellent management consulting capabilities, and profound implementation competency we offer end-to-end solutions with unmatched breadth of services.
- Global Access – Local Touch: we have a local face and our international network provides access to a wealth of insight.

Analysts rank Deloitte No. 1 in Pricing

- Kennedy Information names Deloitte as the leading provider of pricing and profitability management solutions.
- AMR research states that "This Pricing Centre of Excellence gives Deloitte a significant advantage over competitors..."
- Yankee group is saying "Deloitte's approach to pricing focuses on execution, with the emphasis on improving the pricing process rather than just doing high-level strategy work."

Proven Pricing Methodology

- We have delivered our capabilities through many pricing transformation programmes at leading companies across multiple industries, and specifically in banking.
- Our pricing methodologies and tools ensure an effective and structured approach from strategy to implementation with reduced project timing and effort.
- The Deloitte Handbook of "Pricing and Profitability Management" presents our holistic and comprehensive framework and serves as a reference book for professionals who want to deepen their understanding of this key strategic discipline.



With whom?

Please get in touch with us if you have further questions. We are happy to share our expertise with you.

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