



# Strategic Pricing in Retail Banking

Retail Banking in Europe, March 2008

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EARNIX |



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- Why should I care?
- What is Business Optimization?
- What is Price optimization?
- How does it work?

# Key benefits delivered by Price Optimization solutions

## Benefits of Earnix Price Optimization solution:

### Profits



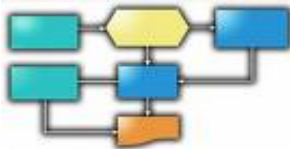
- Improves profits by 10-20%, typical ROI greater than X10 (start materializing within first year)
- Improve visibility into future results through use of predictive modelling

### Decisions



- Balance profitability and retention/acquisition to deliver corporate goals
- Better management decisions through better data-based understanding of pricing strategies (scenario planning)

### Processes



- Faster time to market and better collaboration within organisation through use of common platform for pricing decisions

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# EARNIX | Earnix introduction

- **Bottom line:** Earnix enables Retail Banks to improve bottom line by 10-25 Basis points (10%-20% improvement of margin)
- **Product focus:** Retail lending (Mortgages, Personal loans, Auto loans etc.), Deposits, Credit Cards
- **Global experience:** Implementations at leading Banks and Insurance companies in Europe and North America
- **Partner oriented:** broad echo system of leading technology and consulting firms
- **Software company:** >50 person years invested in product R&D. Multi year development road-map
- **Offices:** London, Frankfurt, New York; R&D centre -Tel Aviv



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# Optimization - the next frontier of Business Analytics

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EARNIX

**Automatic Business optimization**

- See what's going on, and do the best thing
- Learn as it goes

**Business optimization**

- What is the best thing to do?

**Predictive analytics**

- What is going to happen?
- What if?

**Data Mining**

- Is there a pattern?
- What else happened?

**Reports & Dashboards**

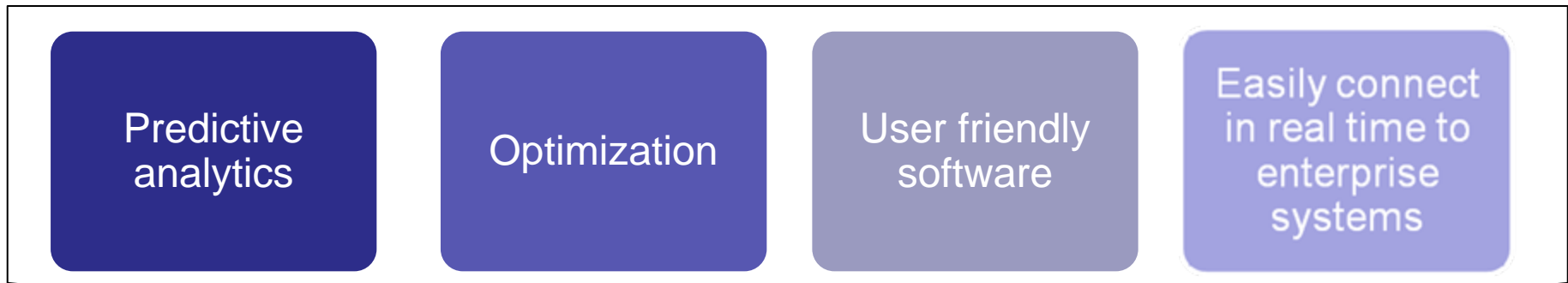
- What happened?
- What is happening

**Technology foundation:** Data Warehousing , CRM, Other data collection systems

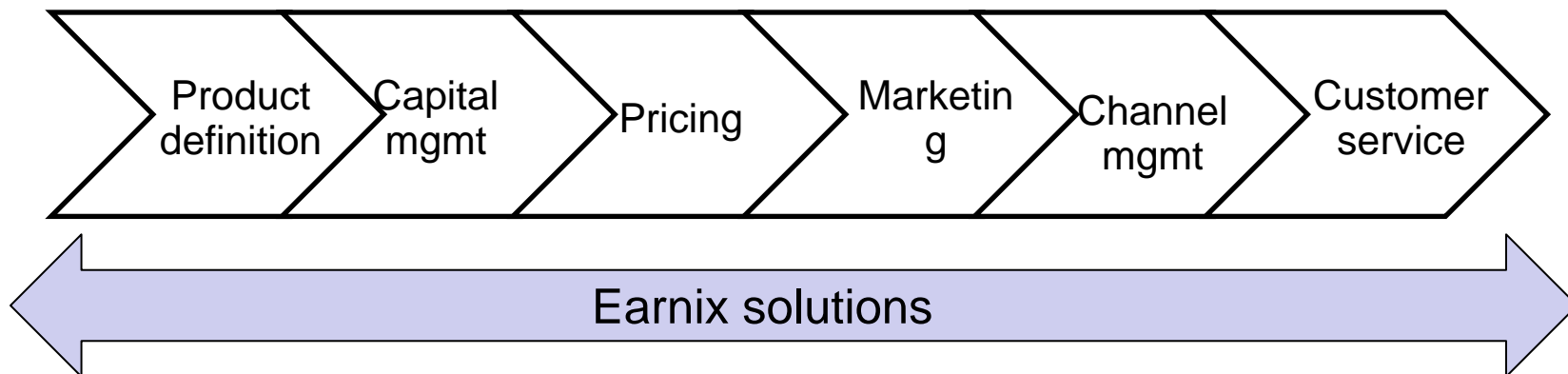
# End to End Customer Value Optimization

Increase the value of every customer touch point through analytical understanding of customer behavior and real time optimization of customer interaction accordingly

Earnix solutions foundations



Applied to the entire customer service cycle





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# What is price optimisation?

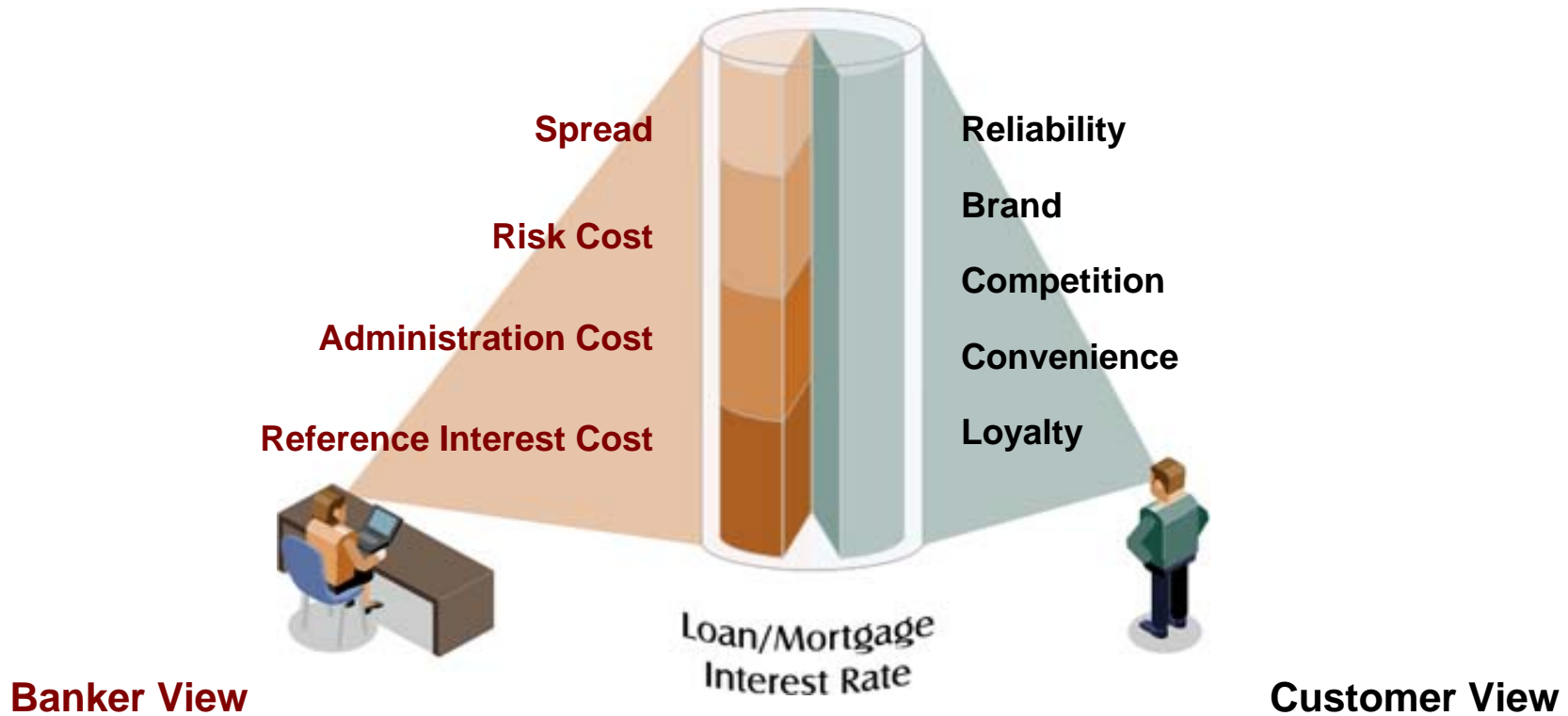
The art and science of finding the right price to offer each customer, for each product, through each channel, so as to best meet business goals.

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# Price Optimization – the basic concept

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## Align Product Pricing with Customer perceived value



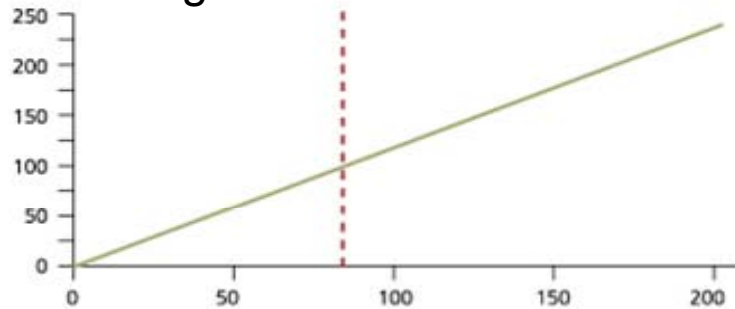
# What are we optimizing?

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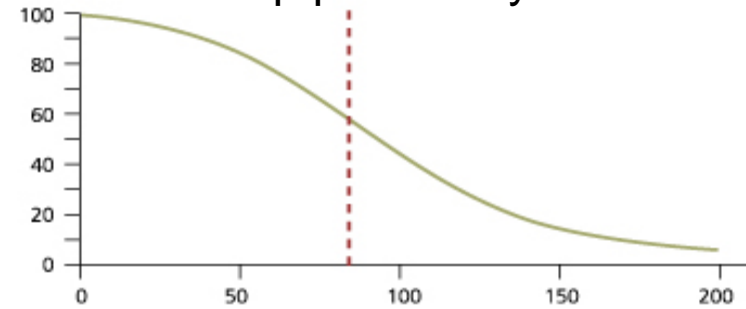
If I raise the rate for Barak my margin increases...

... But the probability he doesn't accept also increases

Margin vs. Price

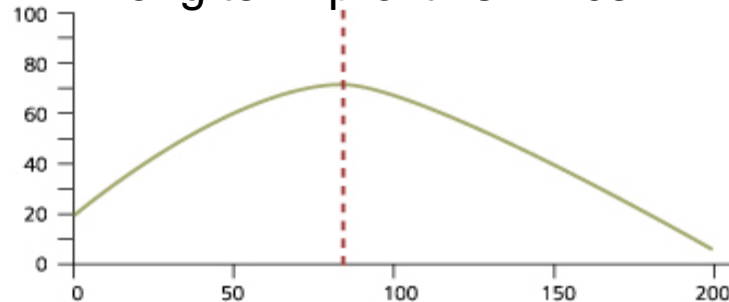


Take-up probability vs. Price



So what should the price be??

Long term profit vs. Price



# Misconceptions about Price Optimization

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“PO means raising prices. We don’t need a system to do that.”

- Raising prices is NOT optimization!!
- Matching prices to customer expectations & perceived value IS optimization
- Some prices increase, some decrease

“All you do is estimate user price elasticity – we do it already”

- Optimization is the core
- Statistical modeling tools are a prerequisite

“This is a tech system used only by geeks”

- PO is a management tool to choose pricing strategies - used by managers
- Yes, someone needs to set the models...

“Another enterprise software - doesn’t really work and no clear ROI”

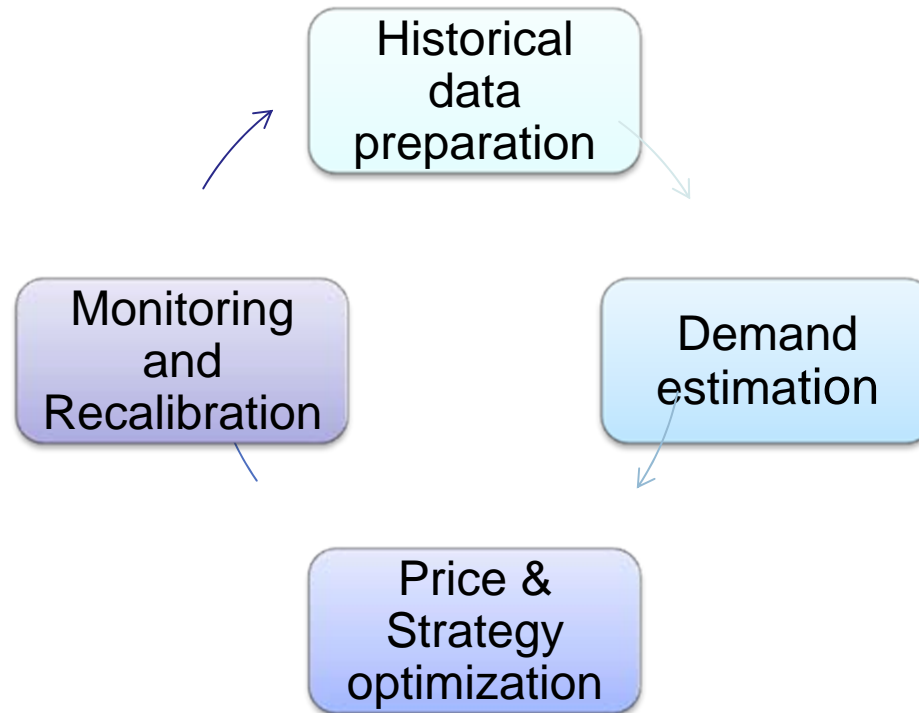
- PO consistently improves bottom line starting within 6 months – statistically significant and easy to measure



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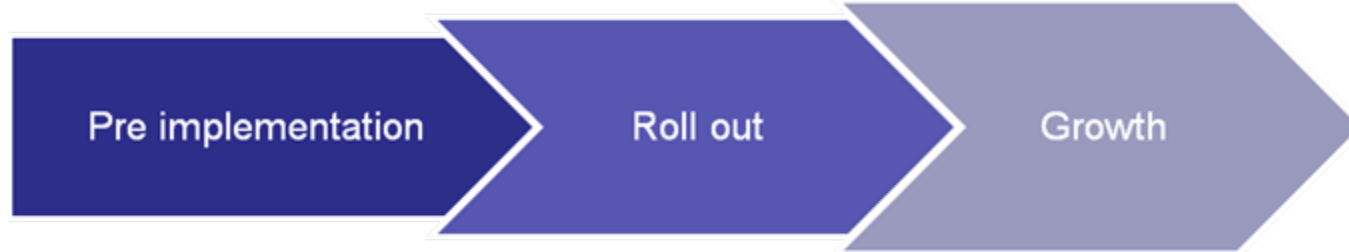
# General methodology for Price Optimization



**Optimization goal:** what price to give each customer/segment in order to maximize long term profits while achieving corporate objectives (e.g. volume targets, retention, risk level) and adhering to regulation

# Walk before you run

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**Duration**

3-4 months

3-12 months (results start within 3 months)

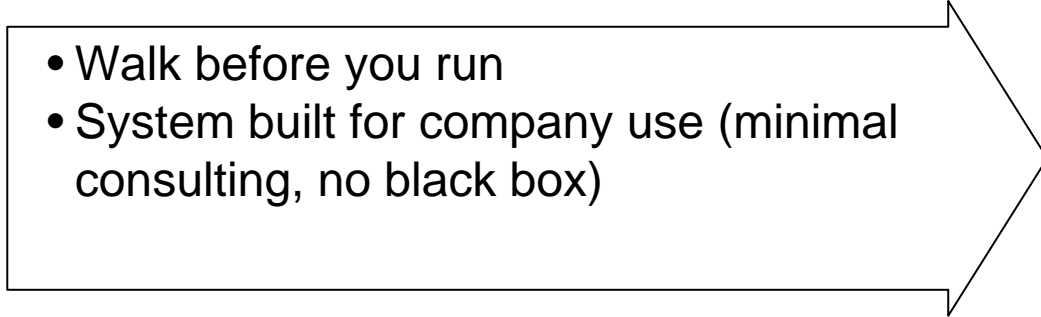
On going

**Key activities**

- Set strategy
- Run PO cycle for a sample book (e.g. scenario planning)
- Build benefits case

- Gradually apply across LoBs & products
- Build capabilities
- Integrate to IT
- Integrate into pricing processes

- Broaden user base
- Broaden functionality used
- Proactive & innovative application to solve business problems



Isn't this against regulation??

**PO Industry imperative:** Through superior technology, system flexibility and experience, we enable to maximize profits while adhering to local regulation

• **Improvement opportunity exists with most regulation –**

- The stricter the regulation, the lesser the impact
- However to date we have always achieved step change improvement
- Other benefits remain (improve decisions, better processes)

• **PO can help regulation** – pricing decisions can be formalized and tracked

• **Banks are doing it** - Leading banks and insurers in most major countries are implementing Price Optimization

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# EARNIX | Summary

Increase the value of every customer touch point through analytical understanding of customer behavior and real time optimization of customer interaction accordingly.

- Price Optimization has proven easy to measure ROI within less than a year
- Price Optimization is just the beginning (there are many more things to optimize...)
- Earnix: Proven track record, leading partners, global experience





# Thank you

Retail Banking in Europe, March 2008

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