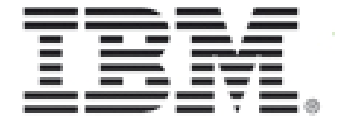


# SmarterBanking



## Customer Centric Pricing



# Market Forces & ROE Challenges – Banking Industry

## Tougher Banking Environment

- Increasing regulation & control
- Mature markets continue to deleverage
- Declining profitability
- Compounded by trust & reputation Issues



## Tremendous Growth Potential

- Banking the unbanked
- Leverage the SME opportunity
- Drive new revenue growth through customer centricity
- Continue to exploit cost efficiencies

## Smarter & More Demanding Customers

- Technology explosion
- More demanding, less loyal customers
- New entrants will exploit gaps

# Banking on the Future

*Financial services firms are capitalizing on global opportunities by pursuing information-led transformation*

## Customer

Create a **customer-focused** enterprise

Optimize data and leverage analytics to adapt to new behaviors, cultivate trust, and drive profitable growth

## Complexity

Increase **flexibility & streamline** operations

Improve operating leverage with variable cost structures that increase flexibility and reduce risk

## Cost

Drive **innovation** while **managing cost**

Deliver new services quickly that decrease cost per transaction and drive competitive differentiation

## Risk

Optimize enterprise **risk management**

Maximize return on equity, combat fraud and mitigate operational risk while achieving compliance objectives

## IBM's Banking Solutions

### Front Office (Customer)

#### Customer Care and Insight

- Customer Insight
- Sales and Marketing Effectiveness
- Integrated Multi-Channel Experience
- Operational Efficiency

### Back Office (Cost & Complexity)

#### Payments & Transaction Services

- Consumer Payments
- Commercial Payments
- Compliance and Risk
- Payment Transaction Platform

#### Core Banking Transformation

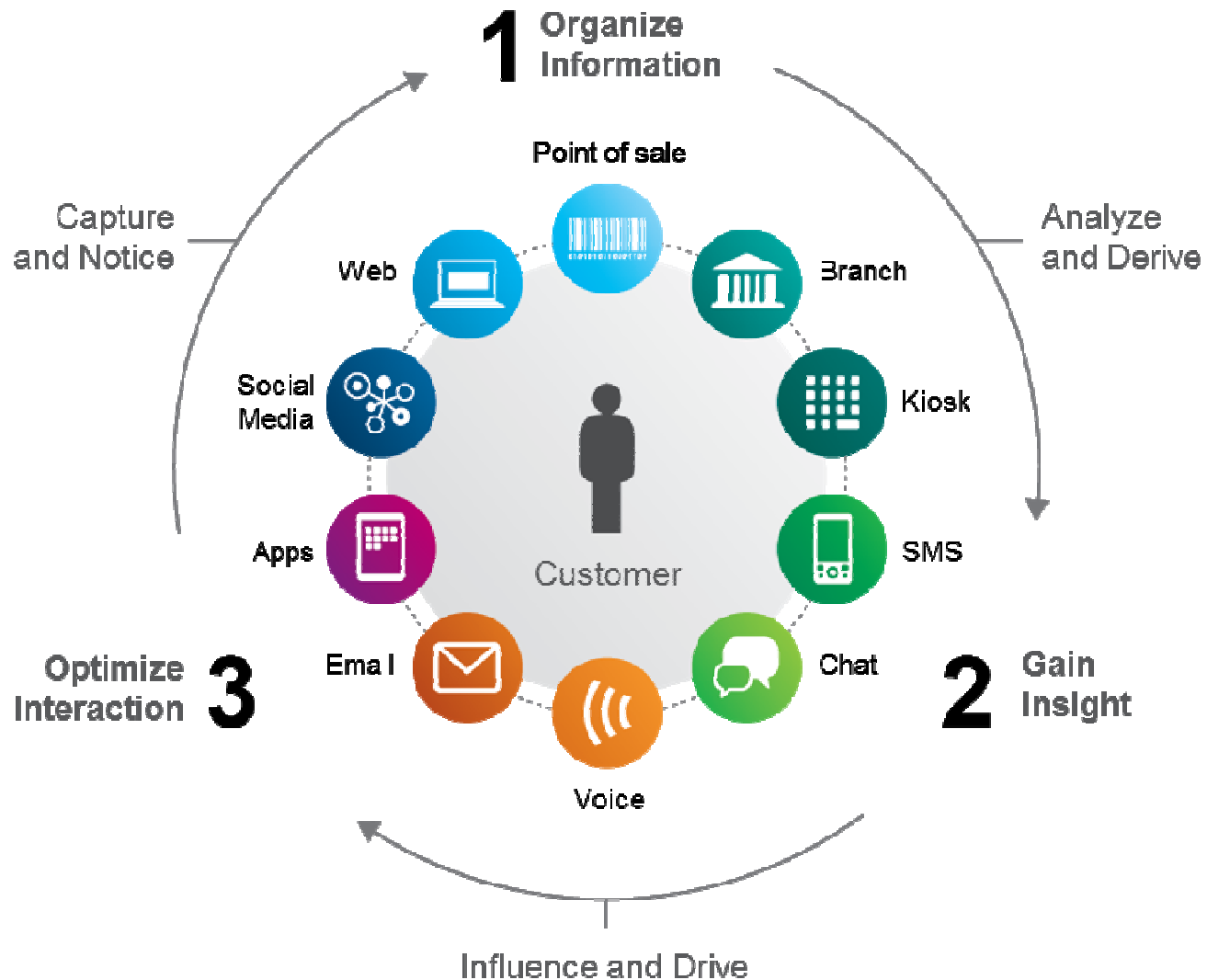
- Strategy and Roadmap
- Architecture Transformation
- Banking Process Agility
- Legacy Modernization

### Risk

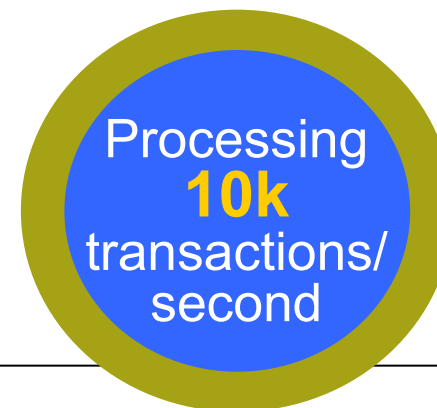
#### Integrated Risk Management

- Financial Risk
- Financial Crimes
- Operational Risk and Compliance
- IT Risk

# What does a customer-focused enterprise look like?



Introducing new offerings based on analytical insight from an Enterprise Data Warehouse



## Solving the Cross Sell Impreative

Cross-selling represents one of the most effective ways to grow revenue and its advantages are:

- Reduces customer acquisition costs
- Increases revenue
- Increases loyalty
- Increases the probability of retention

**But what are the inhibitors?**

- Lack of training
- Limited of understanding of the customer
- Lack of tools that give front line employees the appropriate insight
- Organized in product silos, with their own marketing and technology support



Excelling at cross-sell involves understanding the nuances of selling. These aspects include:

- **Being considered an advocate in the customer's eyes.** Customers must feel appreciated and valued by their existing provider. Advocacy affects the future purchase intent.
- **Having a relationship pricing strategy that customers value.** Consider better rates or reduced fees for having multiple relationships — known as relationship pricing.
- **Developing a proactive approach to cross-selling customers.** Getting the word out by targeting prospective cross-sell clients is the last facet of a successful cross-sell strategy. Interestingly while many customers valued relationship pricing, few customers know their bank offers it.

# Commercial Treasury/Cash Management Cross Selling

Typical Services:

- Cash Flow
- Cash Concentration
- Cash Collections
- Disbursement Accounts
- Vendor Payments
- Merchant Services
- Remote Deposit
- Wire Transfers
- Lockboxes
- Payments and Collections
- Positive Pay
- Cross-Border Payments
- Direct Debits
- Sweep Accounts
- Drafts
- Drawdowns
- Book Transfers
- Funds Concentration
- Bulk Service
- Real-Time Foreign Exchange Rates
- Wires
- ACH
- Account Reconciliation
- Factoring
- Balance Reporting Services
- Trade Finance
- International Letters of Credit
- Zero Balance Accounts
- Remote Deposit Capture

Commercial Banking is very competitive (banks must differentiate themselves)

Selling is still largely a human to human interaction.

Cash Management Services are customized and individually priced for each client.





# Smarter Workforce for Banking

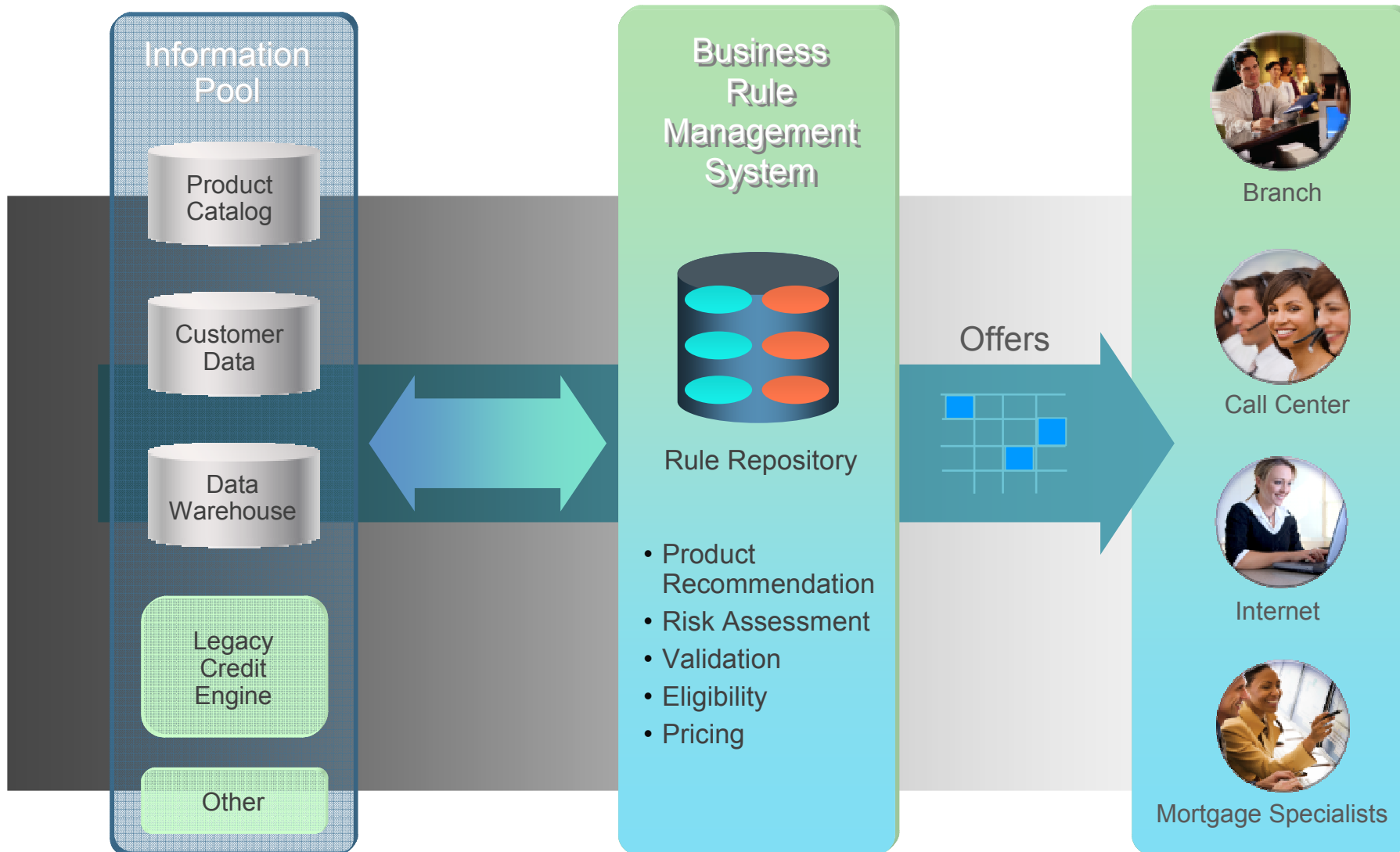
## Branch Performance

- Consider what is happening to the branch.
- Relatively straightforward to increase branch channel efficiency and effectiveness without a large capital investment.
- NatWest is using Kenexa to improve the caliber of branch managers/personnel.



Smarter Workforce	
Attract	<ul style="list-style-type: none"><li>• Expertise Locator identifies potential candidates for roles from within associated communities</li><li>• Identification is not only skills related but addresses cultural fit and is aware of resources current availability</li><li>• Jobs are filled through outreach to and through the community</li><li>• Recruiting services enable new ways of finding resources with less investment</li></ul>
Enable	<ul style="list-style-type: none"><li>• Enhanced employee experience which drives to faster time to value</li><li>• Learning becomes about capturing and sharing collective intelligence</li><li>• Learning is real time, driven through sharing of insight and expertise</li><li>• Learning is available whenever, where ever and however it is needed</li></ul>
Perform	<ul style="list-style-type: none"><li>• Transition from performance management to performance enablement</li><li>• Feedback is realtime and multi-sourced</li><li>• Real time coaching and mentoring is a natural part of the process</li></ul>

# Real-time pricing, credit decisioning & up/cross-selling



## Examples of automated pricing rules

### Transaction pricing

IF  
the event type is a credit transfer  
and the initiation channel is internet  
and the customer agreement includes online banking  
THEN  
this operation is free of charge

### Volume discount and bundle pricing

IF  
the event type is credit transfer operation  
and the monthly number of credit transfers is more than 20  
and the contract has agreement Small Business Bundle 20  
THEN  
apply a 40% discount on the fee for this operation

### Special Handling

IF  
the instrument of the 'payment transaction is one of { "BCT", "CCT" }  
and the priority of the 'payment transaction' is "HIGH"  
and the country of the destination bank is "Greece"  
THEN  
reduce margin by 20%

### Credit Decisioning

If  
LTV is greater than 95% and FICO is lower than 620 and Occupancy is Secondary Residence then add 0.125 to base rate  
If  
customer is high revolver and FICO score is greater than 700 and customer has a DDA account  
Then  
add to segment Bronze A

## VISA Europe

Simplifies cross-country credit card use with a unified payment authorization system

Video player interface for "Visa Europe - IBM SP Client Reference Video".

Channel: IBMCustomerReference | [+ Subscribe](#) | 175 videos

**Justin Snoxall**  
VP Clearing and Settlement Service  
Visa Europe

0:15 / 3:18



## How responsive is your bank? Are you running inefficient & high-touch loan origination processes?

### Bank Customers Experience

- Waiting time of **two weeks** for loan results
- **Numerous** errors and re-submissions of customer data
- **Frequent** call backs from bank for more information
- No **visibility** in status of loan

### The Impact on Business Results

- **15 days** for loan approval process
- **100's of man-days** lost to inefficient and manual processes
- **Numerous** loan origination systems increase IT support costs



Consider all the places for Automated Decisioning throughout the lending process



- |   |  |  |   |   |
|---|--|--|---|---|
| <ul style="list-style-type: none"> <li>• Pre-qualification</li> <li>• Pricing</li> <li>• Deal structuring</li> <li>• Product/deal selection (best-fit)</li> <li>• Loan disclosures</li> <li>• Fraud &amp; Compliance</li> <li>• Dynamic questionnaires</li> <li>• Validation</li> <li>• Workload balancing</li> </ul> | <ul style="list-style-type: none"> <li>• Credit scoring</li> <li>• Automated underwriting</li> <li>• Collateral valuation</li> <li>• Fraud &amp; Compliance checks</li> <li>• Doc generation</li> <li>• Delegated lending authority</li> </ul> | <ul style="list-style-type: none"> <li>• Pricing &amp; pipeline management</li> <li>• Document tracking</li> <li>• Quality control</li> <li>• Pricing (Calculation &amp; Distribution)</li> <li>• Loan Pooling &amp; Delivery</li> <li>• Compliance</li> </ul> | <ul style="list-style-type: none"> <li>• Alerts/triggers</li> <li>• Investor remittance</li> <li>• Collections &amp; recovery</li> <li>• Line management</li> <li>• Dispute management</li> </ul> | <ul style="list-style-type: none"> <li>• Customer service</li> <li>• Customer segmentation</li> <li>• Customer retention</li> <li>• Cross-sell</li> <li>• Profitability &amp; account management</li> </ul> |
|---|--|--|---|---|

# Loan Origination - Zuno Bank

Process Management & Decision Management platform to facilitate loan processing

## The Business Challenge

The bank wanted to build a loan application process based on a business process management solution to achieve end-to-end process control and higher automation rates

## The Business Solution

- Platform built upon IBM WebSphere Lombardi Edition software, WebSphere Message Broker and WebSphere MQ software.
- The solution facilitated a robust process flow from an internet originating loan application until the final account opening in the core banking system
- A business rule management system for credit decisions, a core banking system and a data warehouse).

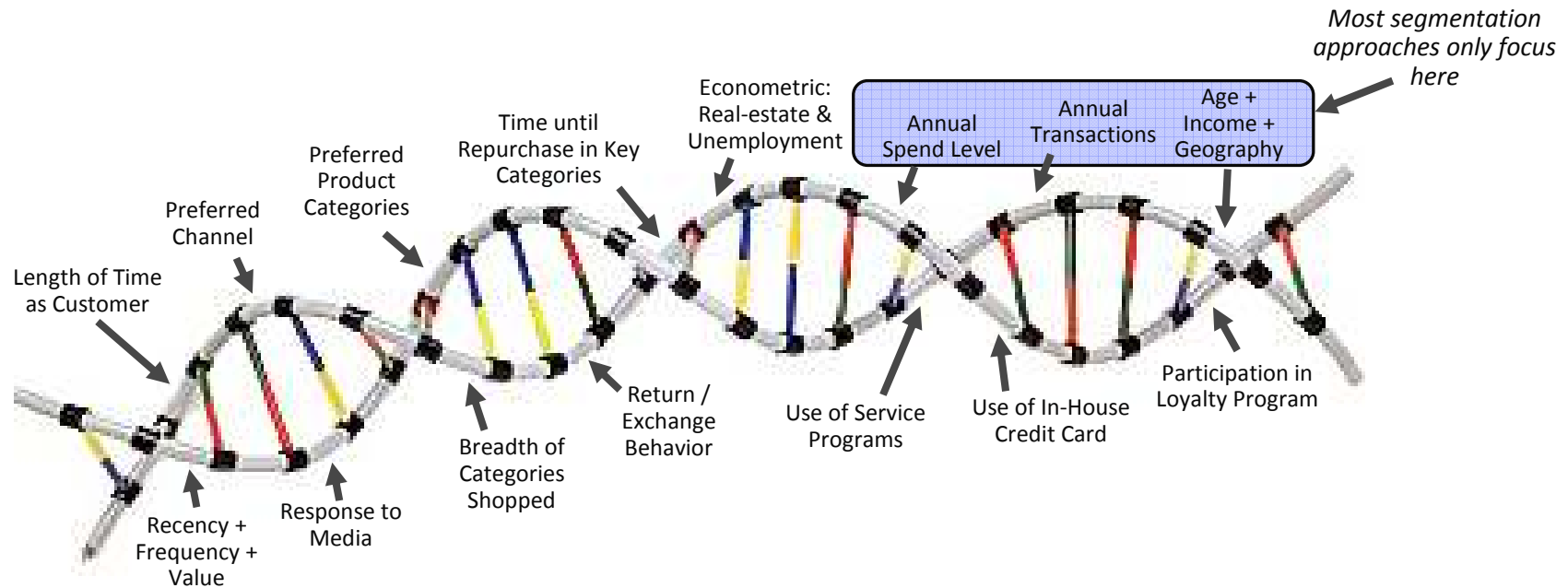
## Why Smarter Banking?

- A business-oriented solution with a quick implementation processes
- Increased efficiency in handling voluminous transactions.
- Reduced processing time due to higher automation
- IBM Business Process Manager
- IBM WebSphere® Message Broker for Multiplatforms
- IBM WebSphere® MQ

# How do you personalize?

Leverage a large set of customer variables

- Start with 30-40 modeled variables – “Feature Vectors”
- Each feature vector is like a gene, which describes a facet, or set of customer behavior traits
- 8-15 Feature Vectors are used to define Action Clusters, all 40 can be used to create sub-groups



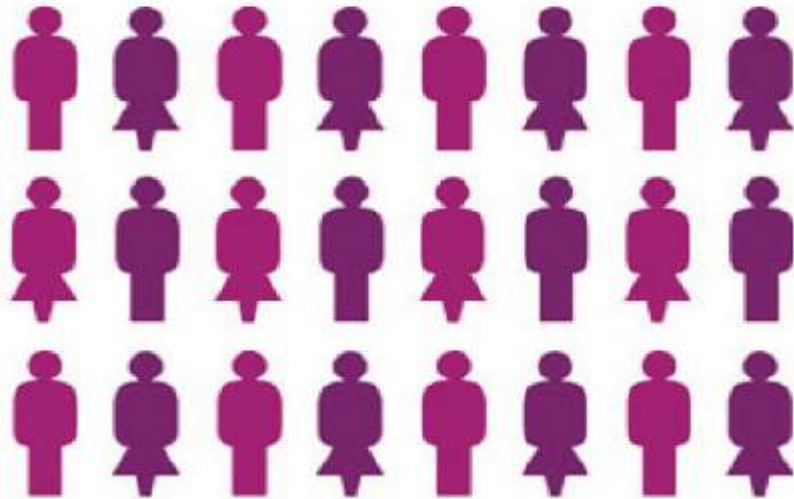




All Things Financial.

# analyze

each customer's transactions & behavior



# analyze

2 years of ROI and response data



1	1	0	0	0	0	1	0	1	0
1	0	0	0	0	1	0	1	0	1
1	1	1	0	1	0	0	0	1	0
1	0	1	1	0	1	0	0	0	1
1	1	0	1	0	0	0	0	1	1
1	0	1	0	1	0	1	0	1	0

**600%**  
ROI

**-20%**  
mailing costs

# Product Authoring – business led function responsible for creating products



**Collaborative Workplace**

**Collaborative Authoring**

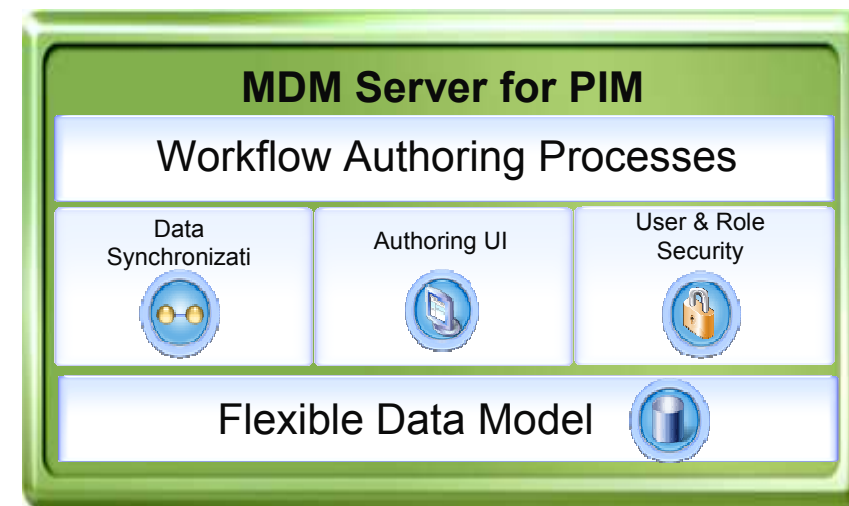
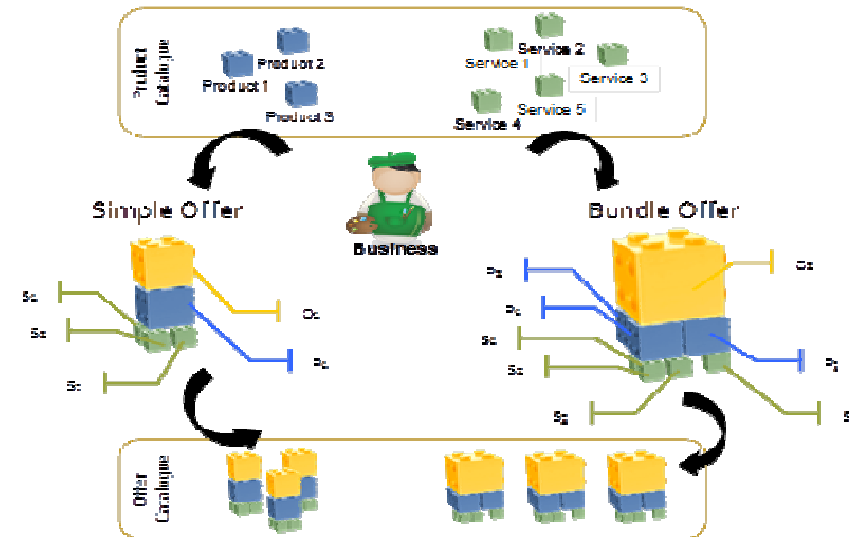
- Create Products & Bundles
- Create Variants
- Extensible Terms & Conditions
- Workflow

**Product Management**

- Product lifecycle management
- Product launch & fulfillment
- Product withdrawal

**Product Maintenance**

- Update products attributes
- Create product versions
- Purge obsolete products



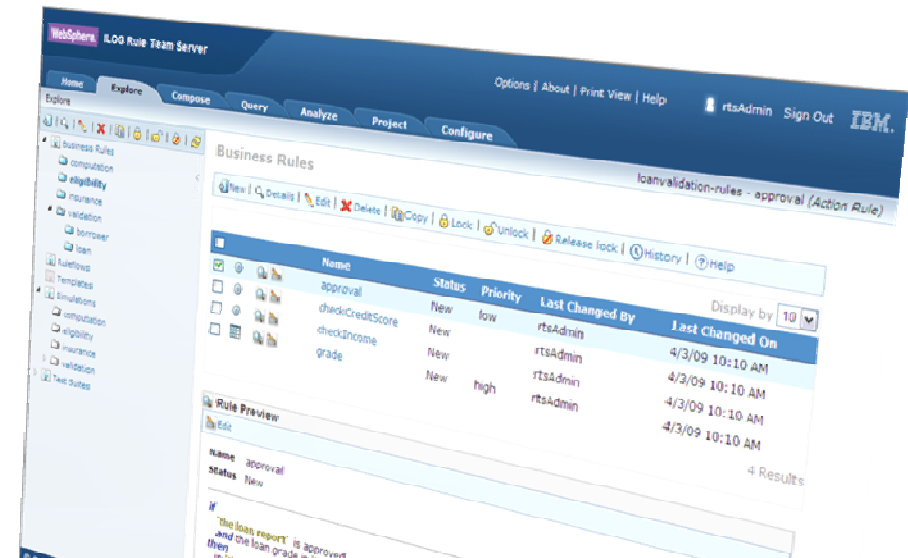
# Product Rules – Terms and Conditions defined externally



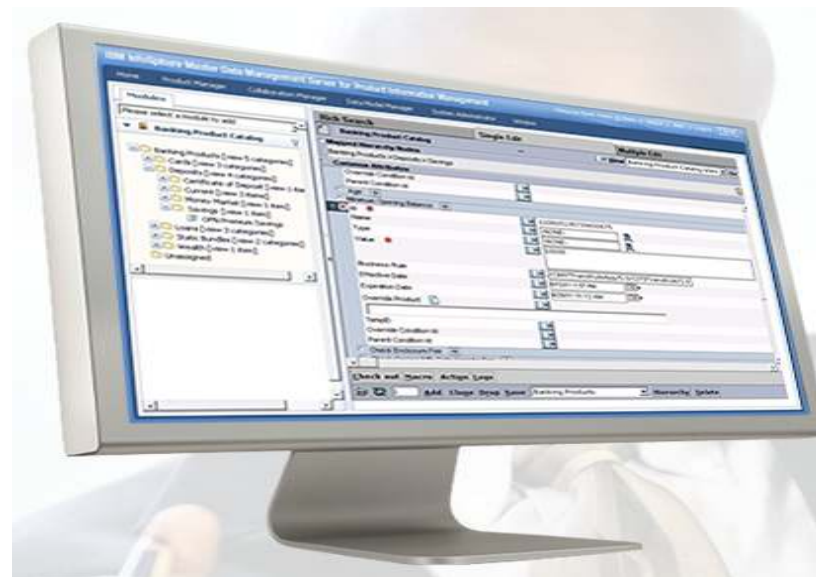
**Business Rules**

**Product Business Rules**

- Eliminate decision silos
- Allow business to manage rules
- Automate decisions providing boundaries for negotiation and personalization
- Control and manage terms and conditions
- Define profitability rules for pricing and eligibility for bundle and facilitate relationship pricing.

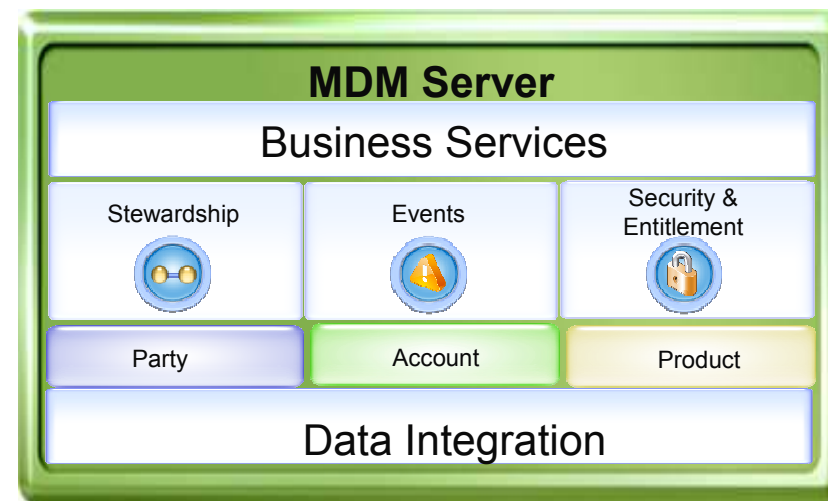


# Product Operationalization – management of operational product master data

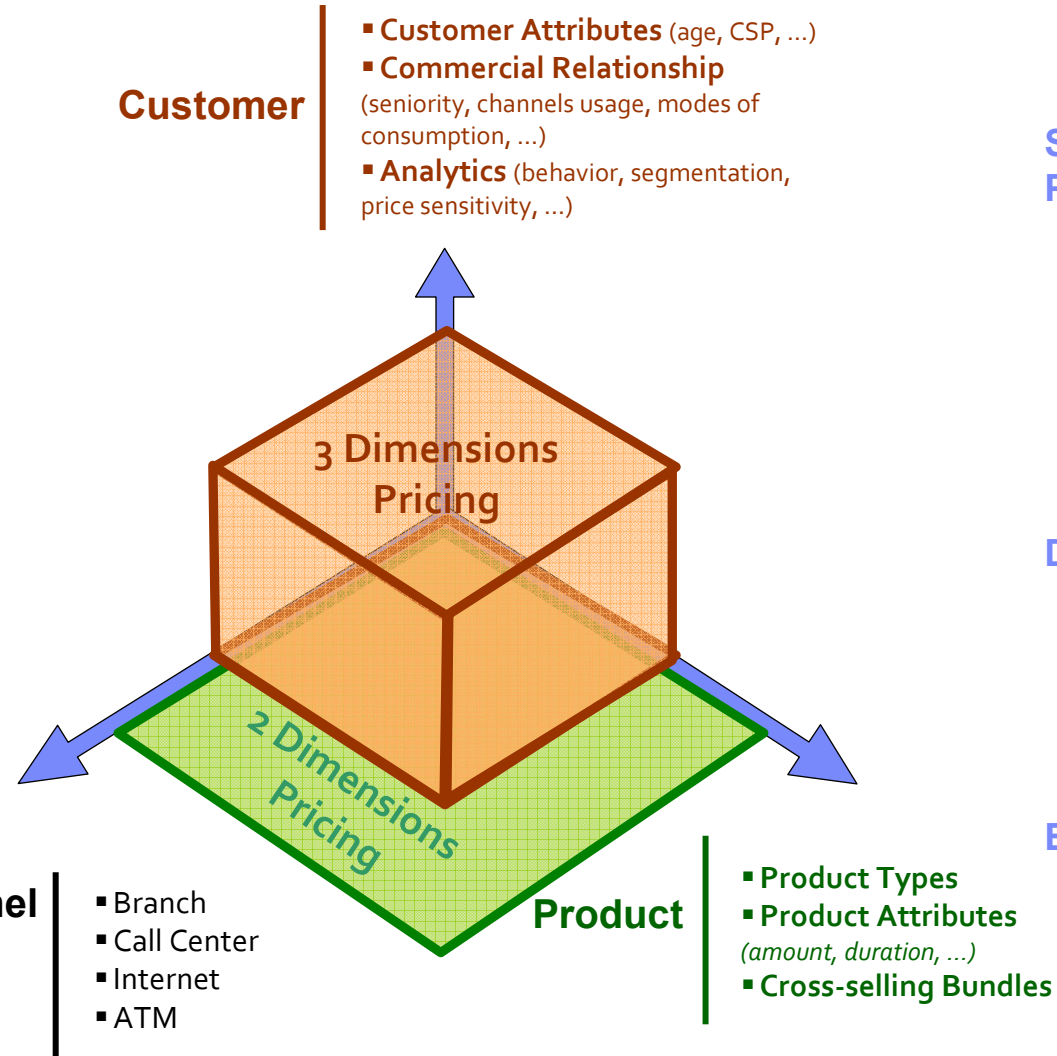


**Operational Master Data**

- Product Operationalization**
  - Search capabilities
  - Batch export & import
  - Real-time product Information
- Product Recommendations**
  - Best Fit Recommendations
  - Cross-sell / Up-sell
  - Eligibility Criteria
- Product/Bundle Monitoring**
  - Transaction Monitoring
  - Account Reconciliation
- Multi Domain Support**
  - Party, Account, Product



# Banking is moving towards a personalized pricing in 3 dimensions



**Customer**

- **Customer Attributes** (age, CSP, ...)
- **Commercial Relationship** (seniority, channels usage, modes of consumption, ...)
- **Analytics** (behavior, segmentation, price sensitivity, ...)

**Channel**

- Branch
- Call Center
- Internet
- ATM

**Product**

- **Product Types**
- **Product Attributes** (amount, duration, ...)
- **Cross-selling Bundles**

## Base Pricing

all customers are offered a product at the same price

## Segmentation (basic relationship) Pricing

the pricing of products and / or services based on pre-analysis of the customer's relationship to the bank; may include various factors such as credit exposure, life-time-value, profitability, etc.

## Dynamic Relationship Pricing

the pricing of products and / or services calculated during the sales process rather than based on pre-analysis

## Behavior Based Pricing

the pricing used to reward or penalize a customer based on behavior such as the use of a lower cost channel

## Dynamically Price Bundles



- Dynamically personalize the pricing, as well as the terms and conditions of the bundle
- Business rules system ensures selections are within a required profitability range.

## BNP Paribas improves customer loyalty and brand recognition with better customer information.

from weeks  
to days

BNP Paribas creates an agile infrastructure that allows the bank to rapidly build new product offerings and deliver targeted promotions

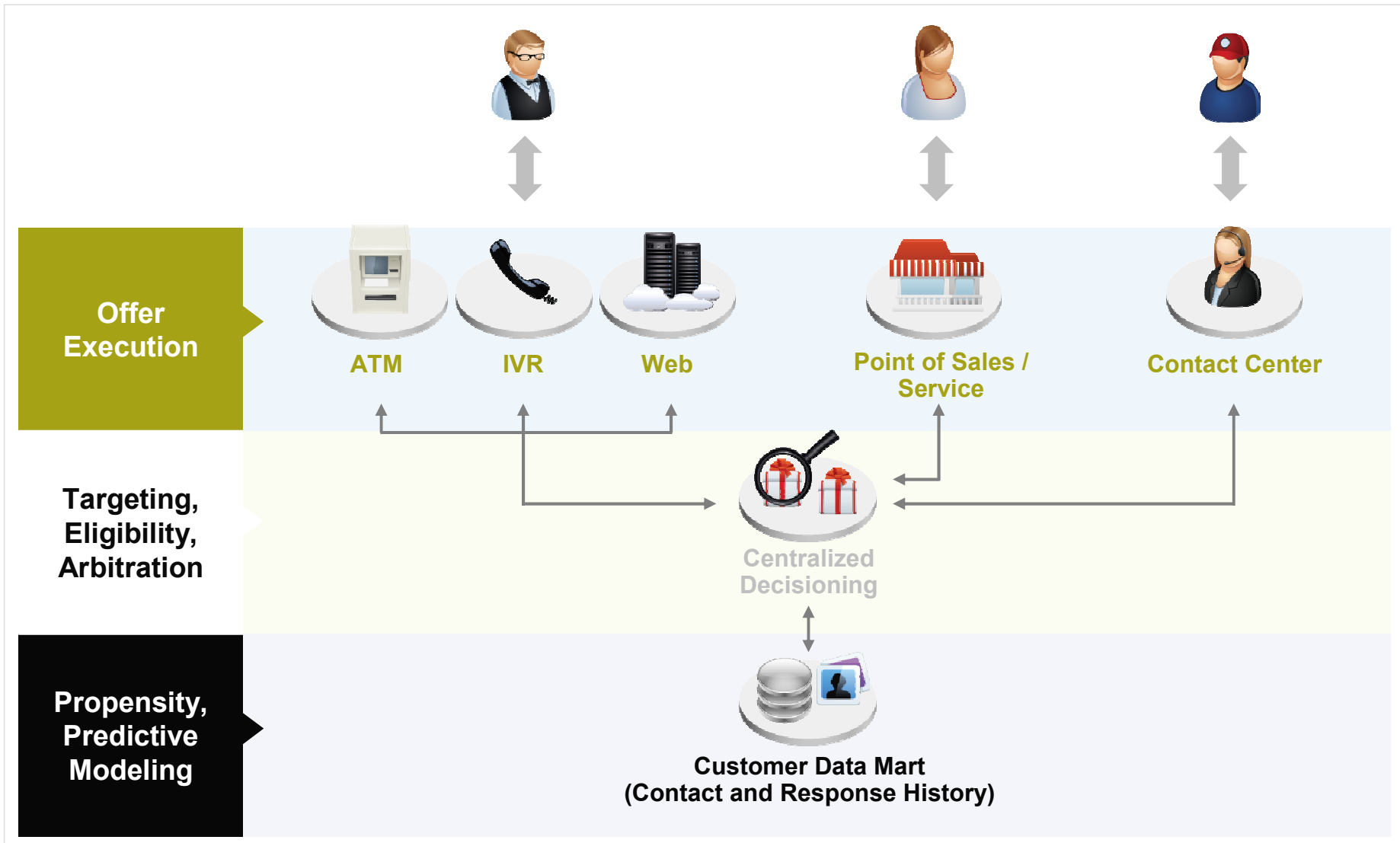


**Business problem:** BNP Paribas realized that customers were increasingly demanding products and services tailored to their personal needs—key to winning customer loyalty and increasing profits.

**Solution:** Use IBM software to develop, manage and access master data, quickly define product offers and identify complex relationships between offers and sales. Allows customers to receive product offers filtered according to individual profiles and eligibility.

“We will be able to reduce time-to-market for businesses from weeks to days.”  
—Vladimir Milojkovic, Prime Contracting Project Manager, BNP Paribas

# Interactive Marketing | Inbound Marketing Done Right



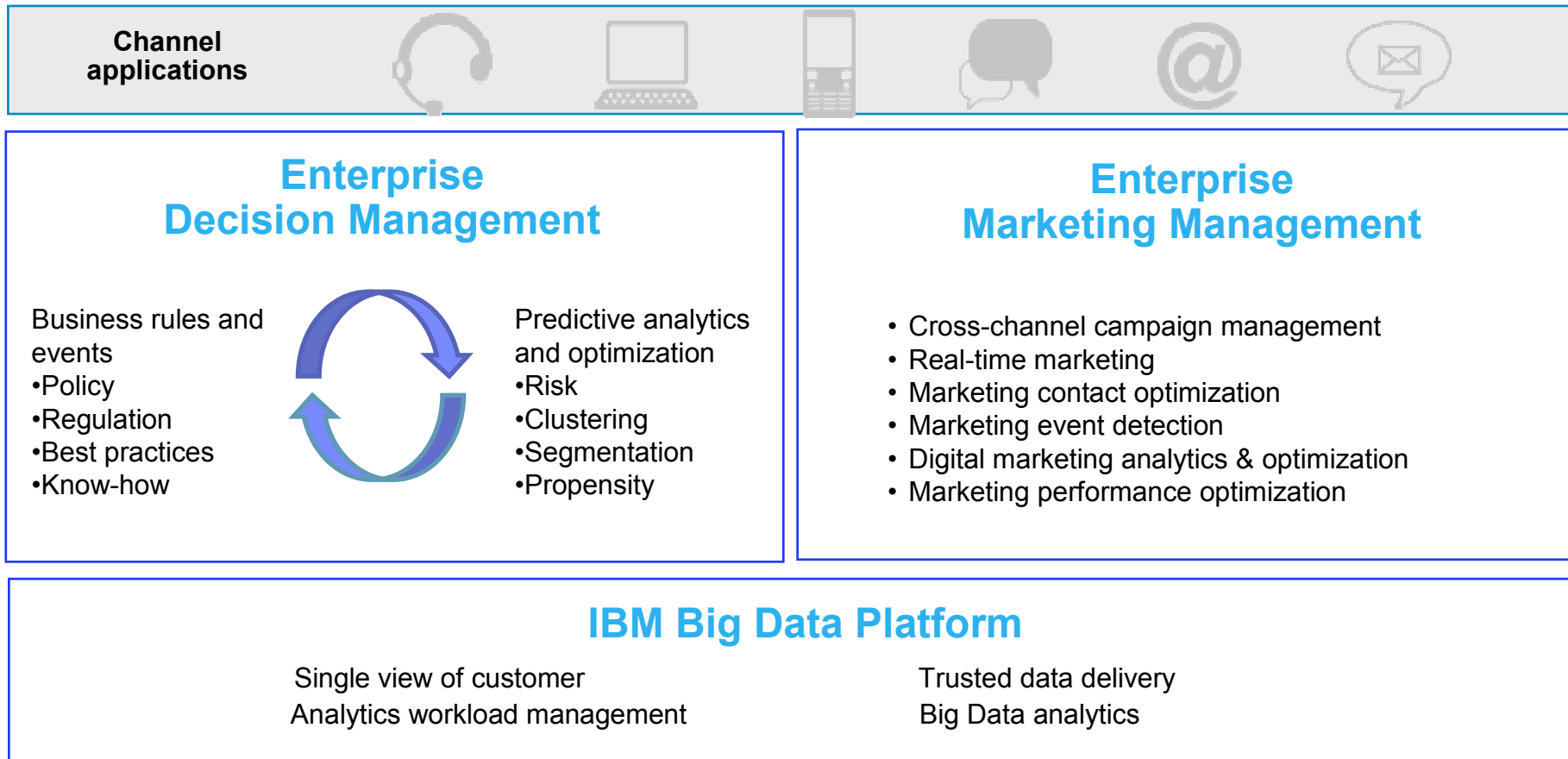


# IBM Smarter Analytics Signature Solution

## Next Best Action



How it works:

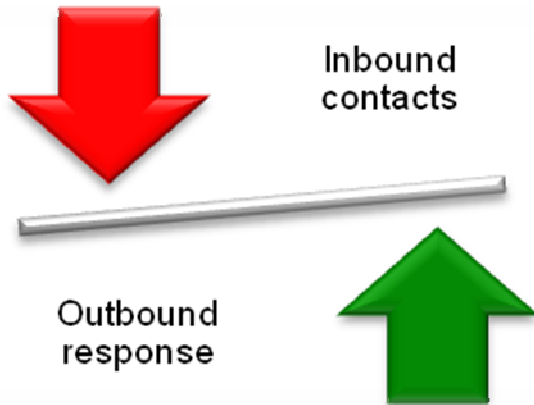




## Delivering personalized offers across channels in real time



*turns inbound interactions into profitable communications*



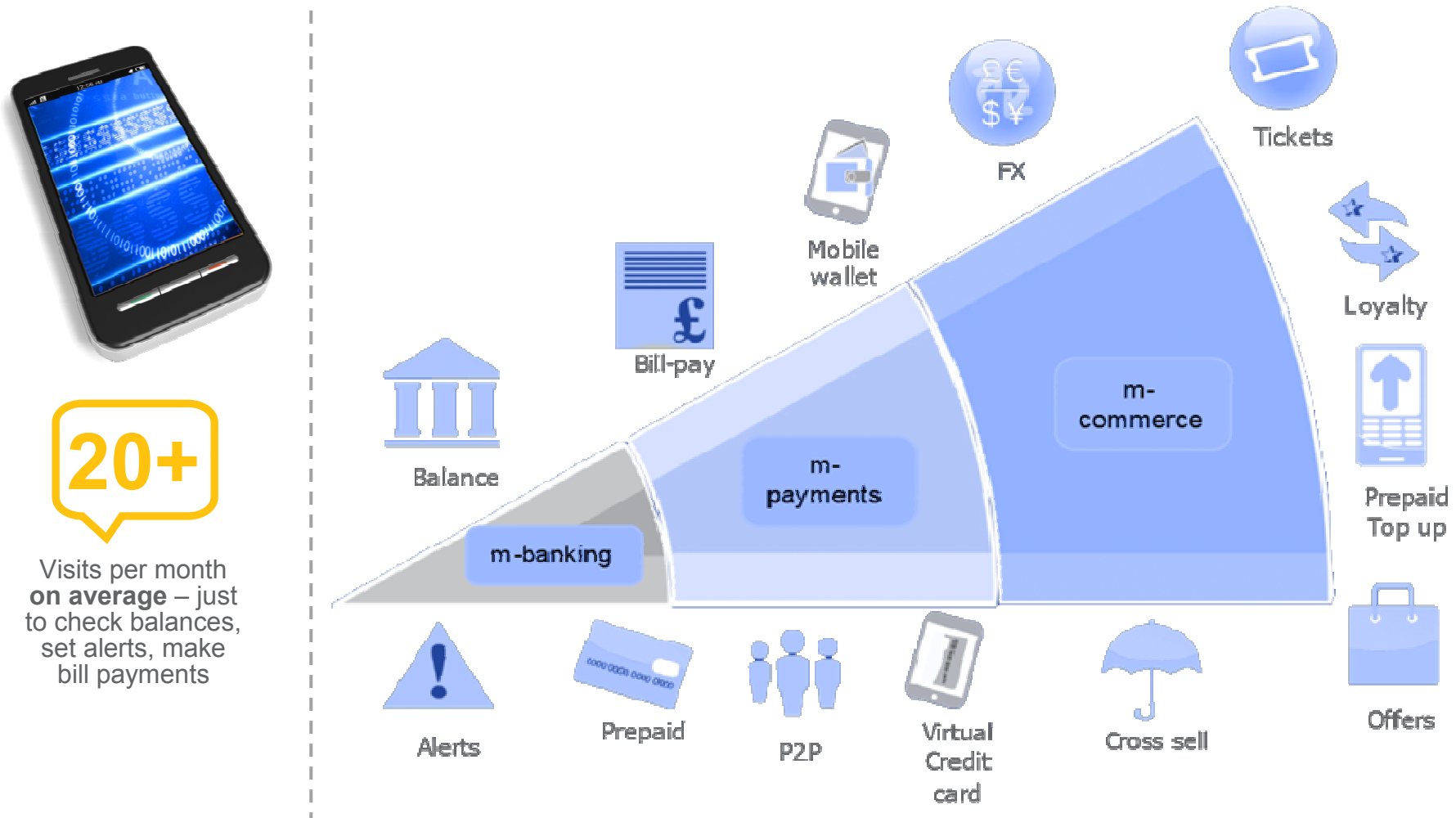
### Business Need

- Outbound campaigns were ineffective – not taking advantage of customer initiated interactions
- Needed to create a single, cross-channel, relationship with each customer
- Disparate teams managed customer dialogs
- Needed to reduce marketing costs

### Real Results

- Relevant, real-time campaigns drive higher response rates
- 85M targeted offers served each day across 5 channels – direct mail, email, web, call center, and branches
- €20M increase in earnings expected
- Lowered direct marketing cost 35%
- Faster campaign cycle times: from 26 weeks per campaign to just 4 weeks

# ...Yet Banks are Facing the Potential for Dis-Intermediation



traffic doesn't follow content, **content follows traffic**

# 3 Entry Plays

**Play # 1**  
**High Engagement Mobile Banking for retail customers**

- daily app usage
- bank anywhere



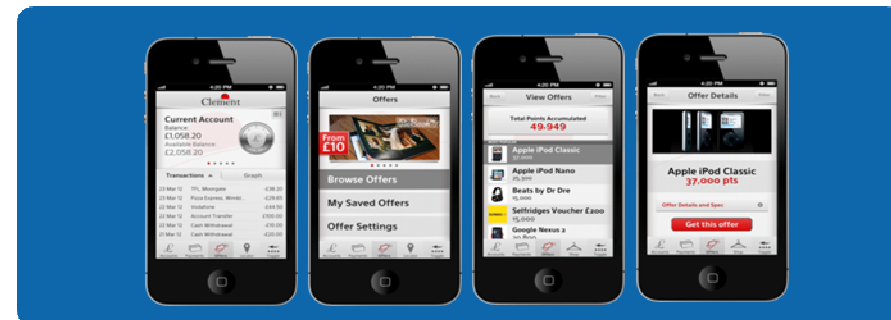
**Play # 2**  
**High Engagement Mobile Banking for SME customers (incl. mPOS)**

- twice daily usage
- pay anyone



**Play # 3**  
**Smarter Mobile Offers: Next Best Action for Retail & SME customers**

- an engaging targeted service within high engagement mobile banking
- buy anything



Thank You