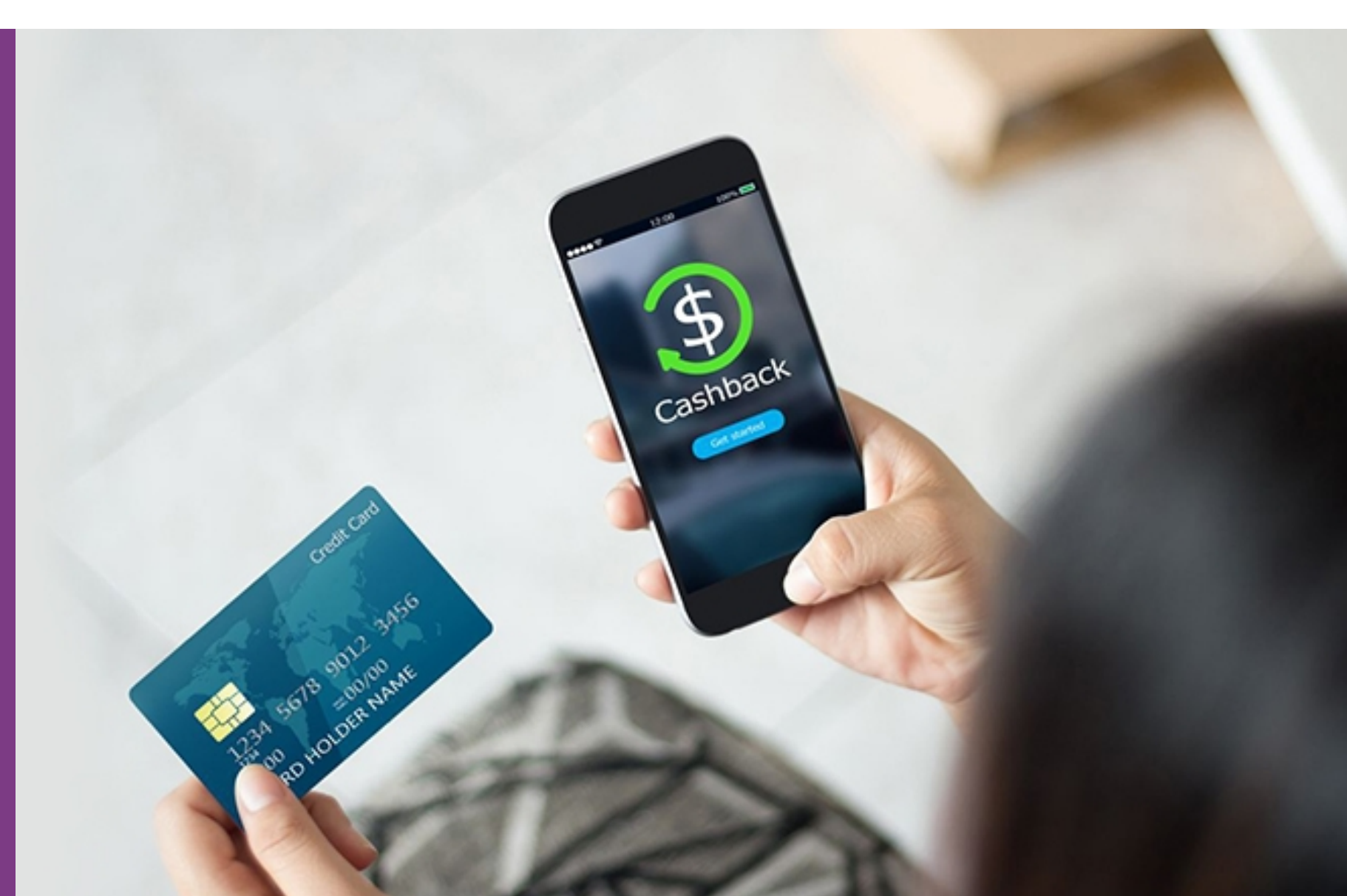


How Your Bank's Pricing Strategy Can Impact Customer Behavior?

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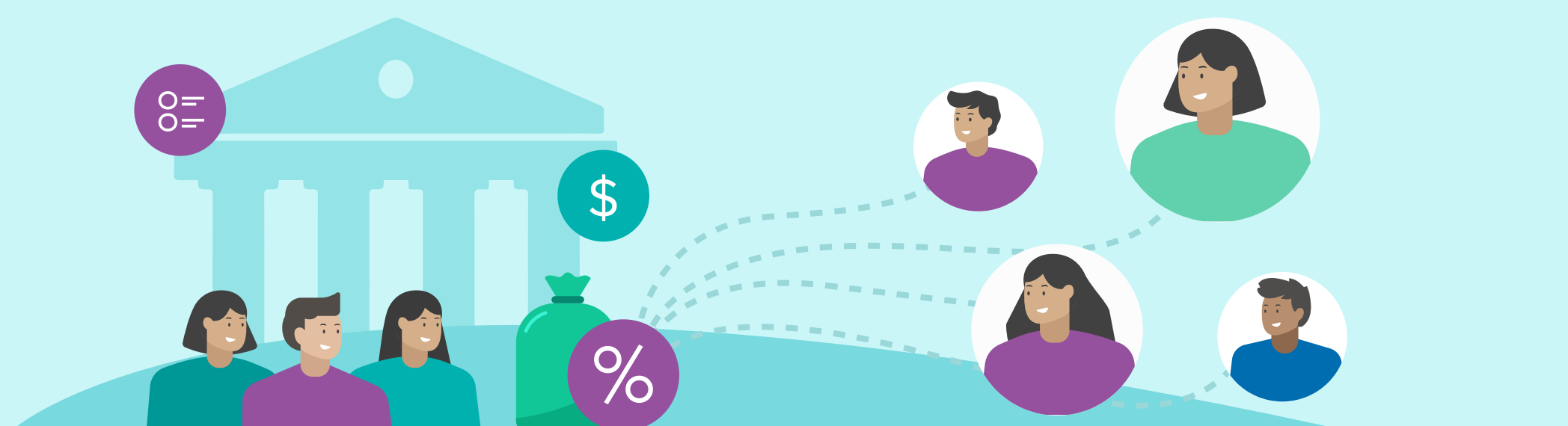
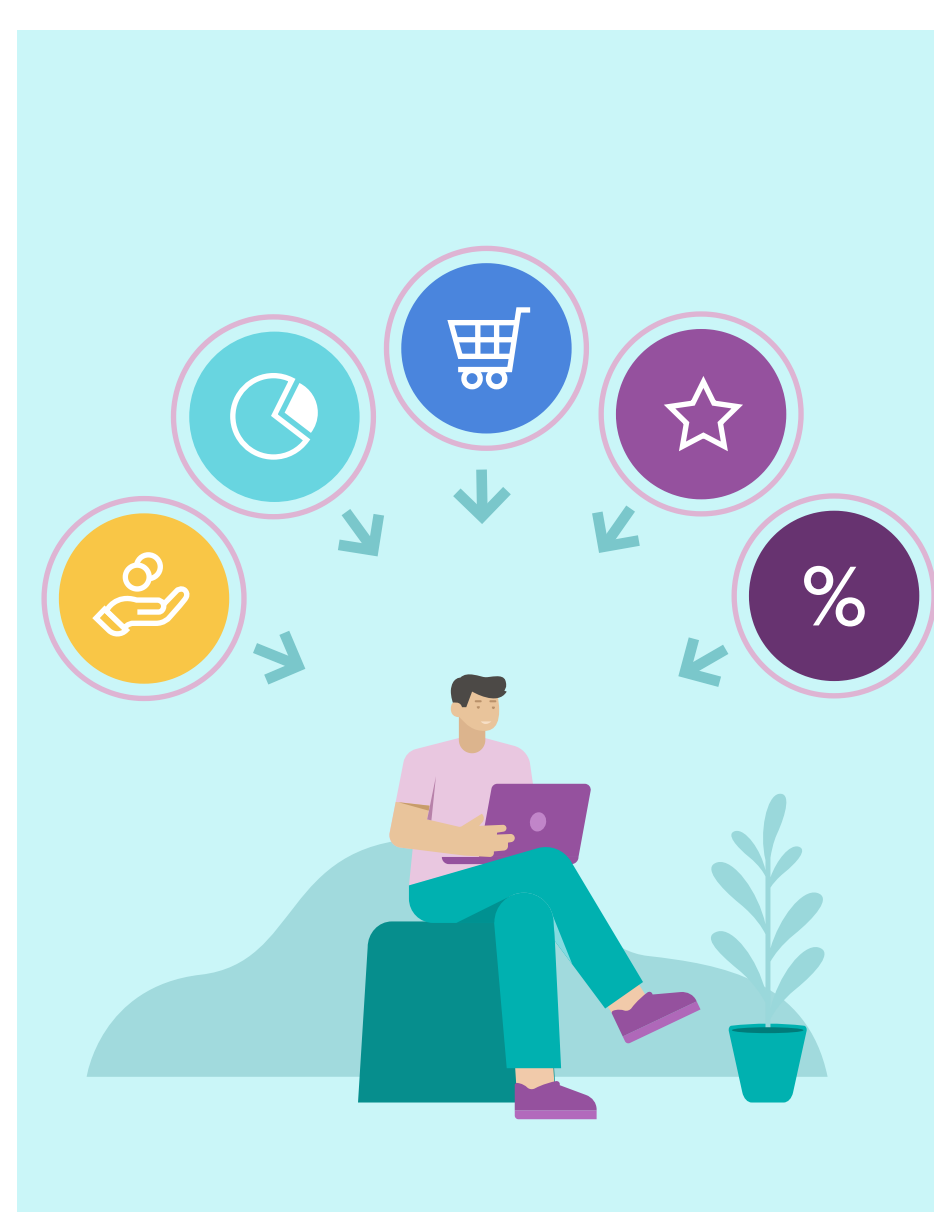


Customers are always on the lookout for the best price and where they can get the most value for their money. It's no different when it comes to banking. For instance, customers expect their banks to give them better interest rates on deposits based on their relationship with the bank or want rewards on credit card spend in line with their needs. Today customers increasingly value their personal relationships with their bank. While banks enjoy customer trust, offering products and services that lack differentiation has posed a potential roadblock to delivering consistent value. A Deloitte report points out that 75 percent people think that banking products and services are the same across all banks.¹



With customers willing to shift their loyalty for better prices and services, and with the emergence of new-age competition from Fintechs and BigTechs, banks have come to realize that this one-size-fits-all approach is counterproductive. Pricing, therefore, becomes a strategic imperative to retain and acquire new customers to create value across the enterprise.

As banks are increasingly shifting from a product-centric to a customer-centric outlook, placing customers at the heart of their product and pricing strategy is even more paramount in the post pandemic world. In fact, the tenth edition of McKinsey's Global Banking Annual Review suggests that from \$1.5 trillion to \$4.7 trillion could be forgone in cumulative revenue between 2020 and 2024 due to the severe credit losses caused by the pandemic and the challenge of ongoing operations that may persist beyond 2024.² Well-thought pricing strategies aligned with bank-wide goals, therefore, can go a long way in retaining customers and growing revenue.



The Role of Relationship-based Pricing



Relationship-based pricing enables customers to pay for services and products as well as get benefits based on the relationship they share with their bank. Using this strategy, banks can dynamically price their product portfolio and hyper personalize their offerings in line with the customer needs.



It entails incentivizing positive customer behavior to encourage them to do more business with the bank and make more investments in the bank. For example, some banks in the Middle East and APAC region offer conditional incentives to customers who maintain a minimum balance, which in turn is determined by the relationship. This not only helps them retain their existing customer base but also attract new customers.



However, it is also imperative for banks to strike the right balance between providing customer benefits and maintaining profitability. For example, a bank in the APAC focused on discounts to an extent which led to product cannibalizations. In such a scenario, it makes it important to constantly track customer behavior and incentivize them only for positive financial behavior instead of using a blanket approach. Dynamic and analytical pricing models based on product category and customer consumption patterns can help resolve this.



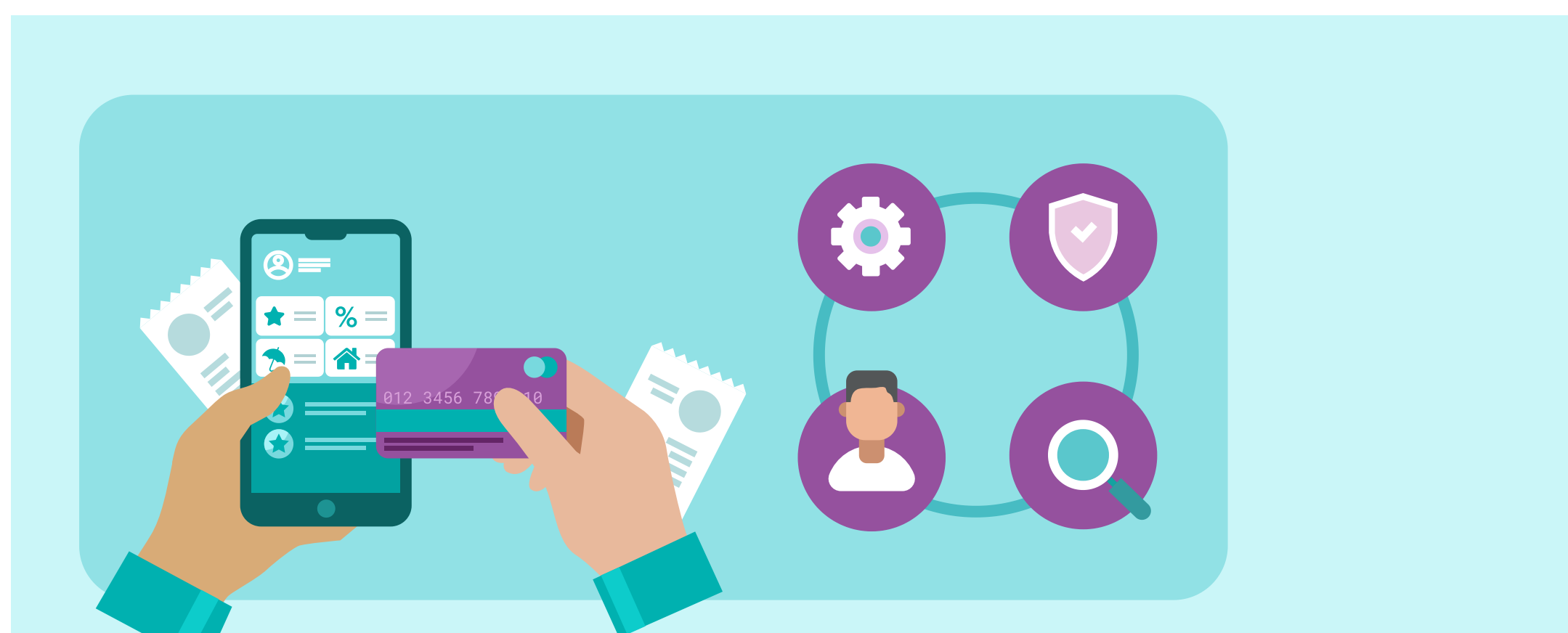
Here's another example, in a corporate setting, if a client takes an overdraft, and is repaying on time consistently, the bank could incentivize them by cross-selling products and services at better prices or even offer an extended overdraft limit. This offers long-term value to the customer and ensures longer and more profitable relationship. To maximize loyalty and profitability, banks must give its best value to its best customers.

Enhancing Loyalty with Dynamic Pricing



Dynamic pricing is contextual and offers the right price to the right customer at the right time. By understanding customer behavior banks can offer desirable and attractive price propositions to customers. It essentially entails using advanced analytics, including machine learning and artificial intelligence to analyze customer and transaction data and offer personalized, real-time prices and offerings to meet contextual customer needs. Dynamic pricing not only helps increase customer stickiness but also offers ample cross-selling and product bundling opportunities to Relationship Managers.

When customers are given such choice and control over their relationship, it enhances their experience, reiterates their trust in the bank, and promotes financial health for customers.



Make Customers Go Up Your Loyalty Ladder

Understanding your customer behavior can be worthwhile and rewarding to your bank. According to Bain & Co., increasing customer retention rates by 5% can increase profits by anywhere from 25% to 95%.³ Banks must work towards a progressive pricing strategy that taps into the reams of customer data to better understand their needs and behavior to offer prices, product bundles, rewards and offers that add value to the customer's life and business, and at the same time also help the bank grow revenue.

A sophisticated pricing solution with dynamic relationship bases, and analytical rules-based pricing will have a distinct advantage in bolstering customer relationships, monitoring revenues and optimizing relationship values. Banks can now leverage such a product to grow their revenue and profits faster than their competitors.

Sources:

¹Deloitte

²McKinsey

³Finance Monthly

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Sathish heads the Demand Fulfillment Group at SunTec comprising Product Engineering, Delivery, Support, Product & Delivery Assurance and CoE teams. With more than 25 years of experience in the software industry and nearly 15 years in revenue management and customer experience, he ensures delivery of our solutions with the highest quality, in the shortest time possible. He manages a proactive support organization which is aligned with our clients' needs.