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Relationship Based Pricing: *A Strategic Shift in the Financial Services Industry*

Over the last few years, the banking landscape has undergone a virtual makeover. The major trends triggering this change are commoditization of services, making it harder for banks to differentiate solely on features, and increased competition from local and international industry entrants. In order to meet with these trends, banks now compete based on price and rely on evolving long-term associations with customers. The focus has shifted from attracting new customers to sustaining profitable relationships. A shift from the conventional interest-based income to a more predictable and steady fee-based income structure suggests a change in the basic outlook of modern financial services firms.

Adopting Technology

There is no doubt that the financial services sector is under rapid transformation. There is a feverish implementation and adaptation of IT infrastructure, unheard of before, owing to various factors including global competition, deregulation, technological developments and increased transaction volumes. The constant demand for easy-to-use, integrated IT solutions for the multi-faceted requirement of a large customer base has created an urge in the banking fraternity to uproot the traditional back-end systems, replacing the same with cutting-edge technology that can work as an enabler to domain-complex banking functionalities. Heavy investments in solutions like business intelligence, customer relationship management, enterprise resource planning, core banking solutions and other ETL tools borne by financial institutions around the globe are aimed at bridging the ever-widening gap between customer needs and services offered.

In this searing hot competitive scenario, financial institutions have realized that the key lies in using a billing and charging solution that can give it an edge over its competitors in terms

of market advantage, shorter product lifecycle management, packaged product and services accommodation, effective introduction and strategic management of partners with the underlying thrust on customer retention and profitable revenue.

Complex Pricing Models

Modern pricing structures being adopted by financial institutions are highly complex, and understandably so. From contract pricing based on anticipated volumes over time, as in the case of corporate banking, to complicated product packaging, as in the case of retail banking, flexibility is of paramount importance. The erstwhile CRM strategy gave prominence to information, and sales and services, i.e. collection of maximum information about customers, their tastes and preferences, and bringing people to the front to give effect to these relationships. However, banks are now aiming at reflecting true relationships with customers through different dimensions, for example, organization and its financial structure in case of corporate banking. Clearly, banks do not possess the capability to dynamically drive such pricing models.

Relationship Based Pricing

Today customers are no longer subscribers of a service, but rather a challenge to their service providers. The banks have picked up the gauntlet and the mechanism they have adopted to counter this challenge is relationship based pricing. This pricing model advocates that each customer is unique, and deserves to be treated differently. Reward levels such as special pricing on loan and deposit products, along with other free services, based on the services and balances that the customer holds with the bank are typical instances where relationship-based pricing comes into the picture. Simply put, it is how a financial institution looks at a relationship, say, with its customer, partners like credit card or collection agencies and with other banks in case of inter-

bank clearances and settlements. It is about defining a relationship and charging the customer for the kind of services it offers to them.

Service personalization is perhaps the most critical aspect of gaining customer mind share. Financial institutions exercise market segmentation and achieve the desired personalization through product bundling based around the solution of particular customer problems. Product bundling is most appealing when it is tailor-made for specific customer segments, and at the right price. With dynamic pricing tools, banks can now introduce innovative service packages targeted at specific customer segments, thereby improving on their differentiation and profitability.

Financial institutions now realize the impact of customer retention on market dynamics, that rewarding customers for continued loyalty and their individual value offering is integral for sustaining long-term relationships. Although the initial examples in this direction are encouraging, breakthrough performance requires far more than having a few highly tailored products. To get the most out of relationship insights in packaging and pricing, institutions need to be strengthened in areas of product breadth and relationship value management.

Thus to adopt multiple strategies for various customer segments the banks require a sophisticated system to support flexible product packaging and pricing. With a drastic growth in the number of customer-centric products and services being introduced, the demand is going to be for an enterprise-wide relationship management framework wherein customers are differentiated based on the overall value they bring to the table.

An Innovative Approach

SunTec Business Solutions, pioneer of the relationship based pricing

concept, manages the complex transaction value management of the banking and financial services industry through its Transaction Business Management System for Finance (TBMS-F) suite. The TBMS-F suite has been designed to handle complex value chain dynamics in a financial supermarket, managing the four critical entities of business, namely, customer, product/service, partner and information.

The TBMS-F product suite consists of highly flexible and scalable processing engines capable of enterprise-wide relationship-based pricing, billing and discounting with the ability to compute profitability even at a micro-transaction level. The business rule driven solution is capable of performing functions like product management, centralized fee management, consolidated billing, customer profile management from a billing perspective and managing revenue sharing to facilitate partner settlement and internal transfer pricing.

The product suite will help the retail, corporate and investment banks as well as insurance companies to shift to fee-based direct revenue model, empowering them with relationship-based pricing and billing capability.

Conclusion

The focus of financial institutions has shifted towards empowering customers with the right financial solution comprising of the right product mix, and most importantly, at the right price. The concept of relationship based pricing, therefore, is not an opportunity, but merely an eventuality.

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