

Forrester Business Process & Applications Commentary

October 2007

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Good News About Price Optimization In Financial Services

Price optimization in financial services firms is slowly, but surely, moving towards relationship based pricing — and the UK is clearly ahead of the US.

The second annual Profit-Based Pricing Forum was held in Camberley, Surrey — just outside of London, on September 26th and 27th, 2007. Sponsored by Nomis Solutions, a profit-based pricing vendor specializing in financial services, the attendance was more than double that of last year. Representatives from all the large financial organizations in the UK, as well as from consultant and motor finance firms comprised this growing audience.

So what's new in price optimization? Frankly, it's been a fact of life for several years in the UK [even if the financial institutions (FIs) may only be "dabbling" in it, as one attendee noted]. However Forrester estimates that fewer than 25% of the top 100 US banks and lenders are using this strategy now. It is focused almost exclusively on lending products, with little attention currently to deposit products. But we heard more about relationship-based pricing at this conference than any such meeting to date. UK lenders have begun to identify the challenges and barriers — technological as well as cultural — to getting there. It's a start!

With the recent run on Northern Rock bank, the 5th largest mortgage lender in the UK, and the resulting bail out by the Bank of England, there are significant concerns about the financial economy and the credit crisis — and what that means for price optimization. This event actually bodes well for the process, as compliance is easier with optimized pricing due to the consistency applied to the lending and pricing decisions. But could pricing optimization have helped to prevent the events leading to the Northern Rock bank run? Many in the UK are blaming the subprime mortgage debacle in the US for the troubles. But David Smith, economics editor for The Sunday Times, offered his point of view during a speech on day one of the conference and felt that the regulators, investors, and Bank of England all had a hand in the problem. He commented that since the UK has seen 60 consistent quarters of economic growth, this was no time to panic, and he ended by cautioning the audience not to underestimate the resilience of the UK economy and its consumers.

What does it all mean? With a set of knowledgeable speakers, including the former Director General of the Finance & Leasing Association (a regulatory agency), pricing managers from Wachovia Bank, the former head of Brand and Consumer Insight at Egg Bank, Nomis Solutions professionals, and industry analysts following price optimization, the conference content began to move down the spectrum from pure education about WHAT price optimization is, to practical advice about WHERE it can take these firms. It's truly an integral step towards achieving full relationship-based pricing — the ability to dynamically price any product, service, or transaction at the point of sale based on the value of that individual customer's relationship.