

Relationship Pricing for Commercial Banking Solution Overview



Relationship Manager / Lender Activities

Relationship Pricing is one of the most important responsibilities performed by Commercial Bankers/ Relationship Managers. Specifically, the responsibility of determining pricing for credit and non-credit deals (Treasury Services/CM, DDA, hedging) for large corporate, middle market and small business customer segments.

The resulting climate at most banks is now one of caution and internal focus. Two major business drivers are organic growth and operational efficiency. Major strategic responses to these drivers include an increased focus on financial and performance management, improved risk mitigation policies, and improved customer acquisition, retention and cross-selling.

Climate effective pricing of products and services for customers is critical. With more competitive pricing, banks can increase organic growth and drive new customer acquisition and cross-sell opportunities.

Pricing deals consistently and uniformly lead to improved efficiency and better predictability, therefore driving better financial management. Pricing at the relationship level improves both overall profitability and risk management. Unfortunately, most banks fail to experience these benefits because their pricing tool does not include existing relationship information to support pricing activity. In the commercial banking area of most bank's pricing is done using spreadsheets. Managing a spreadsheet model effectively is time-consuming and inaccurate. Most spreadsheet models don't include an analysis of a deal-pricing decision on the entire relationship.

In addition, these models are generally not well-aligned with the bank's corporate strategy and can't be changed or aligned centrally.

The IBM Relationship Pricing for Commercial Banking Solution addresses these issues. The Solution provides a quick-start solution that provides discipline and consistency to pricing both credit and non-credit deals, and helps align daily decisions with performance management objectives. It further supports relationship pricing and analysis with the ability to combine existing deals with proposed deals. Equally important is the enhanced ability the Solution brings to evaluating Risk-adjusted Return on Capital (RAROC) on each scenario. More specifically, the solution provides:

- A Commercial Banking Executive dashboard, including revenue, profitability and risk information.
- A Relationship Manager dashboard, displaying book of business, profitability and proposal information.
- A Relationship Summary report, detailing all of the products and services currently used by a customer.
- A pricing model that includes a relationship summary, pricing capabilities for Credit and Treasury Services / DDA offerings, and deal and relationship profitability analysis capabilities for numerous pricing scenarios.
- A workflow component that allows for exception pricing to be reviewed by appropriate levels of management efficiently to progress deals at an optimal pace.