

The end of free banking

Perspectives from an international Pricing Consultant

Financial Service Forum presentation – 13 November 2014

London 13 November 2014

Jens Baumgarten

London office

3rd Floor, 1 Plough Place
London EC4A 1DE, UK
Tel. +44 20 7832 6700
jens.baumgarten@simon-
kucher.com

www.simon-kucher.com

My perspective

#1 Pricing Consultancy

World leader in giving advice to companies on how to price their products



BusinessWeek

The world's leading pricing consultancy



The Economist

Pricing strategy specialists



The Wall Street Journal

In pricing you offer something nobody else does



Peter Drucker



>2,000

Pricing projects completed in the last 3 years alone



700

Strategy professionals in 27 offices worldwide

Recent Financial Services clients



| | |
|---------------|-------------------------|
| Barclays | MPS |
| BNP Paribas | Postbank |
| BSI | Rothschild |
| BW Bank | Sal. Oppenheim |
| CIBC | SEB |
| Credit Suisse | SIX Group |
| Deutsche Bank | Scotiabank |
| DZ Bank | Société Générale |
| DZ Privatbank | Sparkassen |
| Erste Bank | UBS |
| First direct | Union Investment |
| GE Money Bank | Volks-/Raiffeisenbanken |
| Goldman Sachs | Western Union |
| HSBC | West LB |
| Julius Bär | Wüstenrot |
| Lombard Odier | Zürcher Kantonalbank |

What matters in pricing?: Banks need to balance value with price



Value to customer

- Financial needs
- Emotional values
- Service quality
- Brand

Customer investment

- Rates, fees, and restrictions
- Gap between actual and best market rate

- ✓ Price balanced with value = Fair price
- ✓ Value is perceived and dependent on the customer
- ✓ Price on value, not by competitors or cost

Customer perceptions of value and price sensitivity need to be understood!

Call for Action: The 'end of free' banking requires banks to deliver on three dimensions

Understand value



- Needs, not products matter
- Understand your customers' motivations
- Segment the customer base based on preferences and behaviours, not demographic profiles

Deliver & communicate value



- Offer more value and set your offer apart from competitors
 - Help customers understand and manage finances
 - Provide convenience through mobile technology
 - Cash management solutions
- Break down value using a modular approach

Align price with value

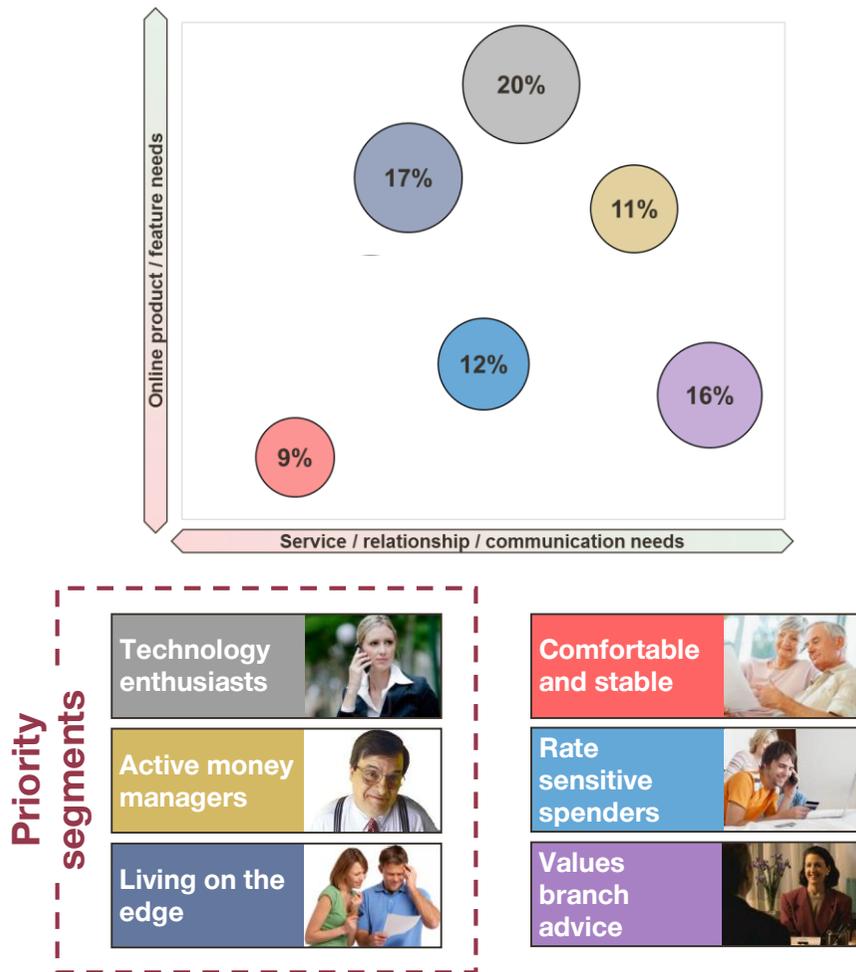


- Understand customer price elasticity
- Rethink interest and fee structures
- Use behavioural pricing to pull on emotional drivers

Understand value: Value means different things to different customers

Value based segmentation: Research your customer's underlying needs to really understand what they want and what motivates them to buy

Value mapping: Prioritise product development initiatives based on what's important to priority segments and on your specific strengths and weaknesses



Understand value: Understanding customers can be challenging!

Two customers: Alike....



Prince Charles

Born in 1948
Raised in the UK
Married
Has 2 children
Lives in a castle
Wealthy and famous



...but very different



Ozzy Osbourne

Born in 1948
Raised in the UK
Married
Has 2 children
Lives in a castle
Wealthy and famous

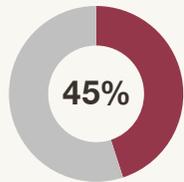
Deliver & communicate value: Provide services that stand your bank apart in the minds of customers

Automatically setting aside money for direct debits:

Think banking splits out regular commitments before transferring remaining cash to a “card account” for spending

USA

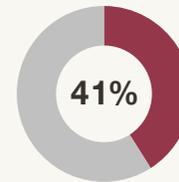
Simon-Kucher survey:
“This would really set my back apart!”



Seven-day grace period: Société Générale provides a “peace of mind” insurance that lets customers go up to €500 overdrawn for up to 7-days

France

Simon-Kucher survey:
“This would really set my back apart!”



Piano,
une exonération totale ou partielle d'agios sur vos découverts passagers

Complément de votre Facilité de Caisse, Piano est la formule idéale pour réduire, voire supprimer vos agios lorsque votre compte est à découvert.

Souplesse en cas de découvert

- Un forfait d'exonération d'agios équivalent à une utilisation de votre facilité de caisse à hauteur de 450 EUR pendant 7 jours consécutifs ou non par mois calendaire
- Les agios ne sont comptabilisés qu'au-delà de cette utilisation

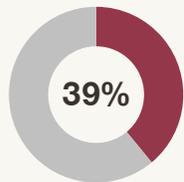
Tranquillité d'esprit

- Prise en charge des frais d'opposition sur vos chèques perdus ou volés
- Prise en charge du remboursement de votre découvert en cas de décès accidentel, dans la limite de 4 000 EUR

Waiving foreign transaction fees: Kreissparkasse's Gold account targets regular travellers by waiving foreign transaction fees and providing travel insurance

Germany

Simon-Kucher survey:
“This would really set my back apart!”



MasterCard Gold
Preis: 6,- € p. M.

Motivkarte

Includes

- Customers can choose an attractive picture from the catalogue
- Or even an individual can print motif on the credit card

Reisevorteile

Insurances

- Travel insurance
- Overseas health insurance
- Overseas breakdown recovery

Foreign cash

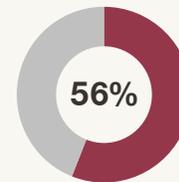
- Free cash withdrawals abroad (saving potential: Mind €5 per reference.)?

NEU

Rewards and cashback: Credit Suisse's Bonviva range provides greater loyalty point earning power for a higher monthly fee

Switzerland

Simon-Kucher survey:
“This would really set my back apart!”



| | Silver bonviva | Gold bonviva | Platinum bonviva |
|---|---|---|---|
| Bonviva Banking Package | | | |
| Offer | THE FIRST YEAR AT HALF-PRICE! Thereafter: CHF 15 per month | THE FIRST YEAR AT HALF-PRICE! Thereafter: CHF 40 per month | THE FIRST YEAR AT HALF-PRICE! Thereafter: CHF 80 per month |
| Rewards Shop | | | |
| Welcome Points | 5,000 points | 15,000 points | 30,000 points |
| For every CHF 1 spent, you get with Bonviva American Express | 1 point | 1.5 points | 2 points |
| For every CHF 1 spent, you get with Bonviva World MasterCard / Visa | 0.6 points | 1 point | 1 point |

Deliver & communicate value: Examples for online budgeting tools

Example 1: Barclays

UK

A backward looking tool that helps customers categorise and track their spending



Set and track budgets according to different spend types

Example 2: PNC Bank

USA

A forward-looking tool that helps customers plan their future finances

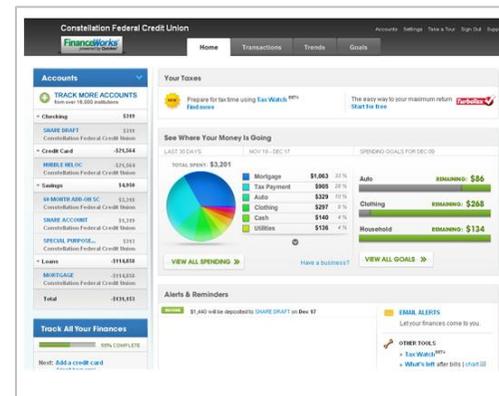


Customers allocate money to scheduled payments, spending, reserve, a savings account

Example 3: M&T Bank

USA

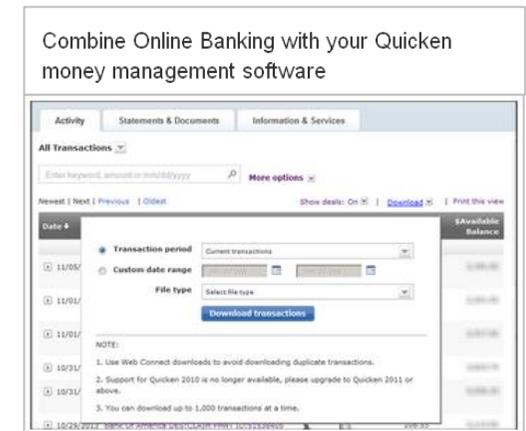
M&T offers access to an outsourced solution provided by FinanceWorks for 99¢ per month



Example 4: Bank of America

USA

Bank of America customers can download Quicken money management software for free

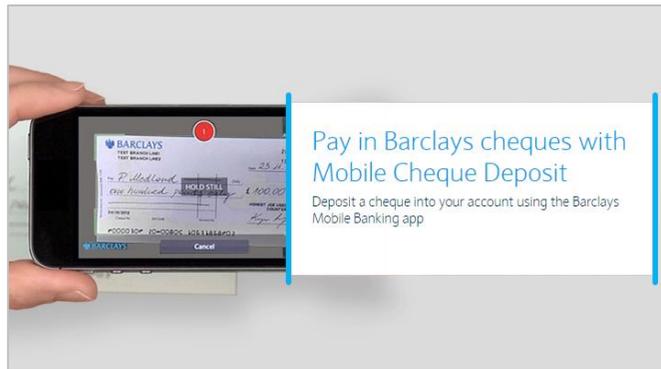


Deliver & communicate value: Provide more mobile convenience to your customers

UK

Barclays: Mobile cheque deposit

With recent UK regulation changes, Barclays is now piloting Mobile Cheque Deposit



- ✔ Customers no longer have to visit a branch to deposit cheques

USA

Southern Bank: Picture Pay

Southern Bank allows customers to pay their bills instantly by taking a picture of the bill



Picture Pay:

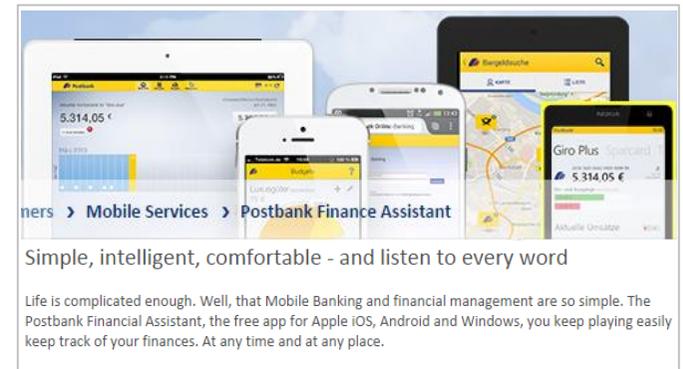
There's no need to write checks when you have picture pay. Snap a photo of your bill, select the account that you would like to use, and our team will take care of the rest.

- ✔ Customers no longer need to enter the payee's account details and their own reference number, these are automatically captured

Germany

Postbank: Financial Assistant

Postbank has simplified mobile payments even further by using voice recognition technology to accept payment instructions



Simple, intelligent, comfortable - and listen to every word

Life is complicated enough. Well, that Mobile Banking and financial management are so simple. The Postbank Financial Assistant, the free app for Apple iOS, Android and Windows, you keep playing easily keep track of your finances. At any time and at any place.

- ✔ Paying friends and family is now even easier, while the voice recognition technology maintains security

Deliver & communicate value: Other industries have effective product differentiation strategies

Leading brands "Family of products" conquering the markets

Mercedes

C-class

CLASSIC 

ELEGANCE 

AVANGARDE 

Airlines

Outbound flight: Zurich - Dubai
Tue, 12.03.2013

| Prices for 1 adult from CHF 415.- | Economy Saver | Economy | Economy Flex | Business | Business Flex | First Class |
|---|---------------|-----------|--------------|-----------|---------------|-------------|
| 12:45 ZRH - 21:40 DXB LX 242 Operated by SWISS | CHF 415 | CHF 831 | CHF 1'171 | CHF 2'498 | CHF 3'063 | CHF 3'424 |
| 19:25 ZRH - 20:20 MUC LX 1110 Operated by SWISS EUROPEAN 21:50 MUC - 06:45 +1 DXB LX 4008* Operated by LUFTHANSA | .. | CHF 1'115 | CHF 1'225 | CHF 2'552 | CHF 3'117 | CHF 3'478 |

Second luggage + Express security + Special menus +

Apple

iPad iPhone iPod touch iPod nano iPod shuffle iPod classic Apple TV

MacBook Air MacBook Pro Mac Mini iMac Mac Pro App Store iTunes

How many banks achieve this?

! What this means for banks

Versioning & Bundling

Develop 'solutions' for different target groups

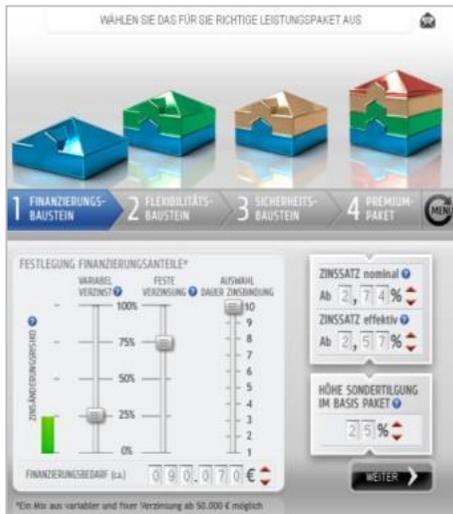
Offer flexibility and meet customer needs

Modularise the service range

Let clients build their own solutions - with a la carte combinations of products and service levels

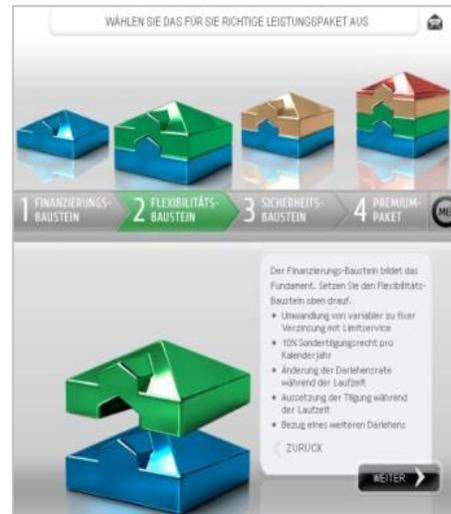
Deliver & communicate value: Example of flexible mortgage solutions

Germany - Mortgages



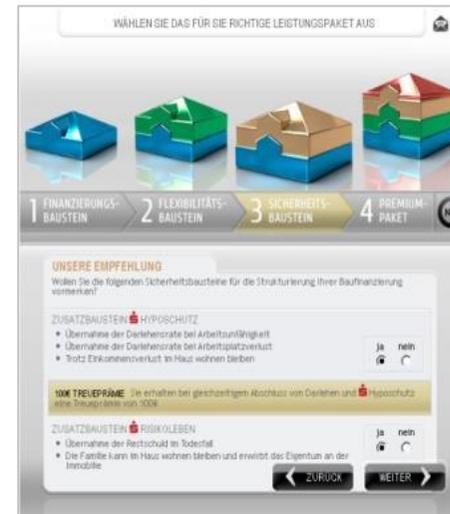
"Basic" mortgage

Financing needs for home improvements or equity release



+ Flexibility options

Pre-packaged combinations of doubling payments, payment holidays, and prepayment limits



+ Insurance options

Pre-packaged combinations of life, critical illness, and disability insurance



+ Premium features

Pre-packaged combinations of other products, such as credit cards or current accounts

Providing flexible bundles meets multiple customer needs simultaneously

Deliver & communicate value: Union Bank and Barclays have broken down their current accounts into modules

The image shows two screenshots of bank account feature selection interfaces. The top screenshot is from Barclays (UK) and shows a 'Choose Features' screen with a sidebar of categories like 'My Alerts and Statements', 'My Rewards', 'My Packs', 'My Travel', 'My Barclays Apps', and 'My Money'. The main area displays various features such as 'Use your debit card abroad', 'Manage Text Alerts', 'Loyalty Mortgage', 'Loyalty Reward ISA', and 'Home Pack'. The bottom screenshot is from Union Bank (USA) and shows a 'Review and' screen with a grid of feature modules. The total cost is listed as \$3.50/month. A 'Direct Deposit Waiver' section is also visible. The feature grid includes: Debit Card or ATM Card (\$0/mo), Online Banking (\$0/mo), Online Statements (\$0/mo), Mobile Banking (\$0/mo), Email Alerts (\$0/mo), Text Alerts (\$0/mo), Non-Union Bank ATM Transactions (\$3.00/mo), Online Bill Pay (\$0/mo), Paper Statements (\$1/mo), Unlimited Check Supply (\$1/mo), Savings or Money Market Account (\$1.50/mo), Safe Deposit Box (\$2/mo), Incoming Wire Transfers (\$1/mo), Money Orders (\$1/mo), Expedited Card Delivery (\$1/mo), Express Phone Customer Service (\$1/mo), and a large Safe Deposit Box option for \$6.50/mo.

Features positioned towards meeting explicit needs e.g. "tech" or "home"

! What this means for banks

Break-down reinforces value offered

By breaking down services given for free such as mobile banking or text alerts, banks reinforce the value they're offering

Deepen relationships through cross-selling

Offering additional paid for products such as a savings accounts, a home pack or an express phone service, increases revenue and deepens relationships

Customers' acceptance for price increases (self selection) + better capture of willingness to pay

Deliver and communicate: Account finders intuitively direct customers to the right account first time

Dynamic account configuration:

Customers run through an intuitive journey to highlight their needs and the tool dynamically adjusts its product and price recommendation to align to these needs

! What this means for banks

Make buying simple

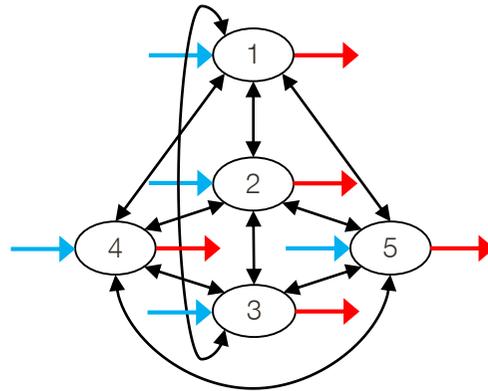
Account finders guide the customers to the best-fit account based on their stated needs and wants

Increased cross-selling

The dynamic tool can identify needs beyond the current account to provide a more holistic customer journey

Align price with value: Carefully deriving willingness to pay is essential for effective pricing

Be scientific about measuring price elasticity



! What this means for banks

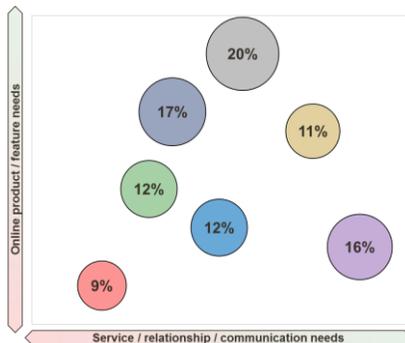
Introduce new fees

Introduce fees for services currently given away for free, where appropriate

Price for value

Introduce fees for newly introduced services that set the bank apart from competitors

Break down price and value at a segment level



Introduce behavioural pricing principles to influence buying decisions



Align price with value: Example of switching from 'free' to 'fee'

Germany

Berliner Volksbank introduced a €6 maintenance fee with options to subsequently lower it

VR-PrivatGiro im Vergleich

| | Aktiv | Komfort | Premium |
|---|---------------|---------------|---------------|
| Kontoführungsentgelt pro Monat | 6,00 € | 8,00 € | 13,00 € |
| Preisvorteil bei monatl. Geldeingang von mehr als 1.250 € (Gehalt, Lohn, Rente) | - 4,00 € | - 4,00 € | - 4,00 € |
| Preisvorteil für Mitglieder | - 2,00 € | - 2,00 € | - 2,00 € |
| Kontoführungsentgelt pro Monat für Mitglieder mit monatl. Geldeingang von mehr als 1.250 € (Gehalt, Lohn, Rente) | <u>0,00 €</u> | <u>2,00 €</u> | <u>7,00 €</u> |

*Für Mitglieder bei monatl. Geldeingang von

Welche Kreditkarte wünschen Sie?

| | VR-ClassicCard | VR-ReiseCard | VR-GoldCard | Keine Kreditkarte |
|--|----------------|--------------|---------------|-------------------|
| Rückvergütung pro Jahr bei dem von Ihnen gewählten Umsatz | 18,00 | 18,00 | 36,00 | |
| Reisevorteil bei dem von Ihnen gewählten Reisebudget | 0,00 | 46,25 | 137,64 | |
| Gesamtvorteile pro Jahr | <u>18,00</u> | <u>64,25</u> | <u>173,64</u> | |

Umsatz pro Monat (in EUR): 0 100 250 500 750 1000

Reisende: 2 | Reisebudget: 500

- **High standard fee levels:** This bank charges €6 per month for the most basic account
- **Options to waive fees:** Customers can lower fees up to €6 per month with a minimum monthly deposit
- **Options to earn fees back:** Customers get additional cash back when meeting certain credit card spending thresholds

Align price with value: Interest and fee income from other financial products

SIMON • KUCHER & PARTNERS
Strategy & Marketing Consultants

Germany

Volksbank Aurich reduces account maintenance fees when customers spend on their card and use additional retail products

The screenshot displays the Volksbank Aurich mobile app interface. The top navigation bar includes 'Start', 'Transactions', 'Credit card', 'Extras', and 'Recommendation & personalisation'. Below this, there are tabs for 'Travel benefits', 'Cashback', 'Other benefits', and 'Decision'. The main content area features a 'MONTHLY SPENDING' scale from €0 to €1,250. A text box states: 'We'll give you an annual cashback bonus on your credit card spending. Find out how much money you can earn based on monthly spending and card choice.' Below this, two boxes show 'Cashback each year' for a 'Classic Card' at €060 and a 'Cashback bonus per year' for a 'Gold Card' at €100. At the bottom, a section titled 'Set your own account price: For each banking product you pick, we'll reduce the maintenance fee by €1.' lists five product categories: Savings, Loans, Investment account, Insurance, and Mortgages, each with an icon. A 'Membership-bonus' icon is also present. 'back' and 'continue' buttons are visible at the bottom left and right respectively.

- **High standard fee levels:** Volksbank Aurich charges maintenance fees between €2.90 and €12.90 per month
- **Options to lower fees:** Customers can lower fees by €1 per month for each additional product held (savings, loans, investments etc.)
- **Reward good customers:** Customers earn up to €100 cash back per year for credit card use

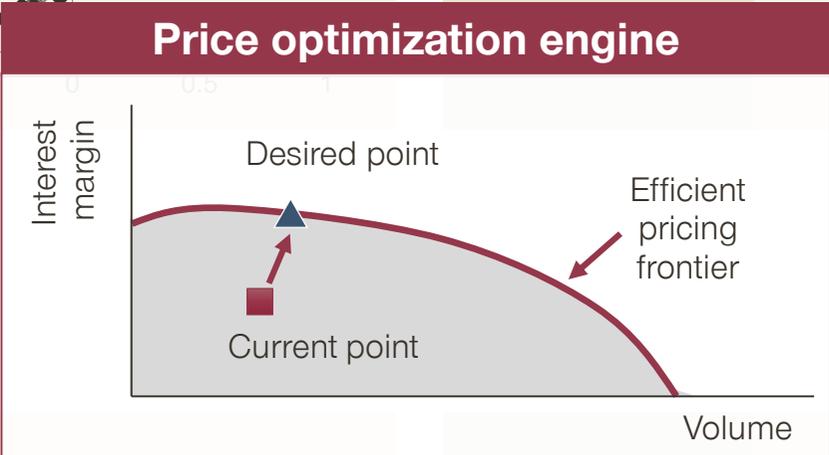
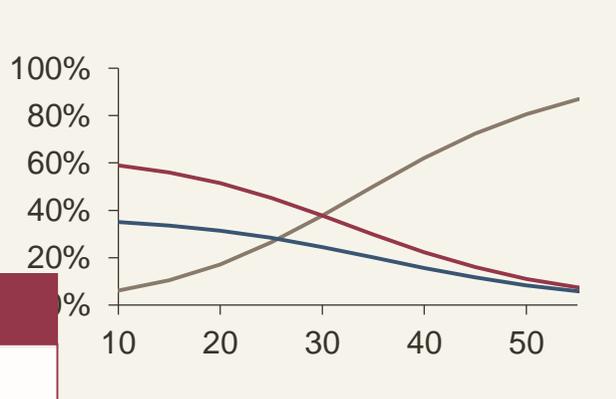
Align price with value: Use science to determine price elasticity and set prices

Are you still pricing by gut feeling?

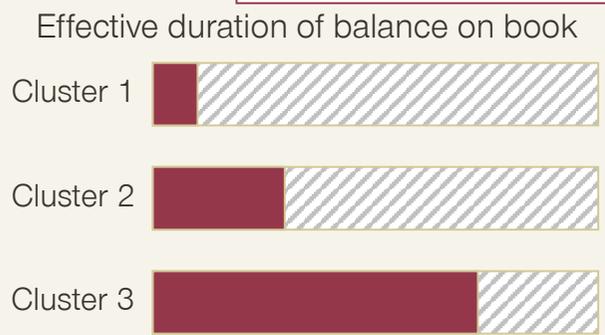
Acquisition elasticity
(new money to the bank)



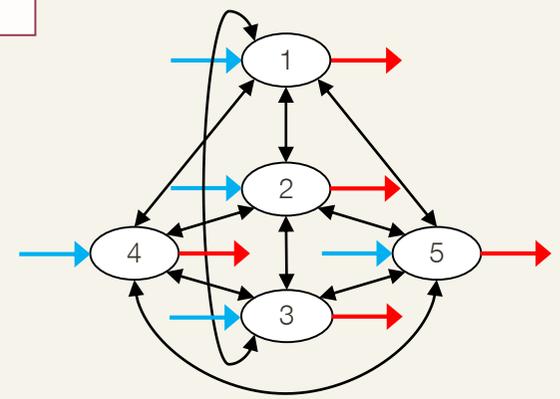
Retention elasticity
(attrition from the bank)



Behavioural life
(stability and effective duration)



Cross-product price elasticity



Align price with value: Use behavioural pricing to leverage and positively influence price sensitivity

Compromise effect:

Don't want the basic option, but the premium is too expensive. How about the middle option?



Endowment effect:

Dropping this option means you lose coverage in case of job loss or natural disaster. Are you sure?

Price sensitivity of customers can be influenced

Behavioural Pricing:

- Compromise effect
- Endowment effect
- Reference price anchor
- Deal effect
- Budget un-constraint



Thank you

SIMON ♦ KUCHER & PARTNERS

Strategy & Marketing Consultants

Amsterdam
Beijing
Bonn
Boston
Brussels
Cologne
Copenhagen
Dubai
Frankfurt
Istanbul

London 3rd Floor
1 Plough Place
London EC4A 1DE
UK
Tel. +44 20 7832 6700

Luxembourg
Madrid
Milan
Munich
New York
Paris
San Francisco
Santiago
de Chile
São Paulo
Singapore
Sydney
Tokyo
Toronto
Vienna
Warsaw
Zurich

www.simon-kucher.com