

## Event Report: Pricing in a Digital World: A New Age in Banking

Hosted by: SapienRazorfish

By Jasmine Butler-Burnham, Member Services, The Financial Services Forum

Over the past two years, retail banks have made significant innovations to their service proposition. For many banking customers, checking balances and transferring money via digital apps is now second nature and the branch has become redundant.

Added to this, fintech businesses, differentiating their services by offering superior customer experience and cutting-edge technology have also arrived in the sector.

And with PSD2 predicted to create a new sphere of 'open banking' in 2018, further disruption is on the horizon.

With the landscape continuing to change dramatically, questions are being asked as to how these changes will play out for both traditional and new financial services companies. Will open-API's remodel the traditional bank into a utilitarian Amazon-style product aggregator (selling both its own products and products from other sellers) - or will data transparency allow the bank to become a trusted money manager, a 'paid for' financial concierge, with a deep data-driven understanding of the customer's finances?

Or perhaps both?

PSD2 will undoubtedly offer new opportunities to better-understand our customers. Yet, we also know that open-API's will breed a wealth of new fintech money management tools and open marketplaces to compare and purchase financial services products.

Existing players must ensure that they have a clear product and pricing strategy to avoid losing out on opportunities to add value, drive loyalty and talk to customers about product offerings.

Three of the biggest challenges facing retail banks in this current environment were outlined by Alex Graham, Director at Simon Kucher & Partners at The Forum's 'Pricing in a Digital World: A New Age in Banking' event on Tuesday 4 April, hosted by SapienRazorfish:

- 1) **Banking relationships have largely shifted from interactions at the branch to interactions on digital.** Whilst some customers still wish to use a combination of both, many are only engaging with their bank via digital channels.
- 2) **Some banks have underinvested in digital and are struggling to catch up with fintechs, who offer superior digital user experiences.** While the business case up to now has relied on reducing costs (through fewer branch visits), direct monetisation will start to become increasingly important, with boards putting pressure on senior management to monetize digital investment and justify spend.

### Key Insights

- Utilise loyalty levers to drive engagement and keep your services front of mind.
- Ensure that communications are easy to understand and product benefits simple to process.
- Don't fear monetisation. Customers ARE willing to pay for services that add value.

- 3) **Open-API's will change the way that the industry operates and lead to more transparency for consumers considering product and pricing propositions.** To keep pace with new fintech offerings and remain relevant to the consumer, banks must ensure that the products and services they offer are priced to demonstrate value, whilst remaining competitive and relevant.

Confronted with these challenges, Alex suggested that there were several things banks could do to gain a competitive edge.

- **Offer customers a non-utilitarian incentive to remain loyal.**  
Data driven money management services – such as services that analyse spending and advise customers on budgeting – are more effective than monetary rewards such as cashback in driving customer loyalty (Simon Kucher Consumer Survey, 2015). This will help the bank to mitigate against losing out to fintechs and competitors.
- **Communicate product benefits in a way that is easy for consumers to process and understand. Language should be transparent and simple.**  
Avoid 'cognitive overload', overwhelming your customers with complex language. Communicate the key function of the offering and how it will help the customer solve their problem. Avoid using wordy text to describe the features.
- **Don't be afraid to monetize services.**  
Research carried out by Simon Kucher & Partners has demonstrated that consumers are happy to pay for services that will be useful and add value. For example, consumers said that they were happy to pay up to £1.50 a month for bill management services offered by their bank and up to £3.75 for an overdraft 'grace' period.

With so many big changes expected in a sector that has already experienced considerable digital disintermediation, there is no doubt that we will see both winners and losers over the next 18 months. Retail banks must proactively assess and manage the value-relationship between pricing and product, whilst ensuring that communications that keep the bank 'front-of-mind' in a fast-moving market.

*The Financial Services Forum would like to thank Simon Kucher & Partners for supporting this event. Download a copy of the Simon Kucher & Partners Global Pricing Study 2016 [here](#).*

**The Financial Services Forum**  
[www.theforum.co.uk](http://www.theforum.co.uk)  
0207 449 9000

**Simon Kucher & Partners**  
[www.simon-kucher.com/en-gb](http://www.simon-kucher.com/en-gb)  
020 7832 6700