# Poll Question

What are the biggest challenges you come across in Comm. Loan Pricing?

A. Pricing not analytically driven

B. Lack of robust pricing tools/platform

C. Pricing governance & escalation processes not well set up

D. RMs not enabled/empowered to "price for value"

E. All of the above

*Note: You can select more than one option*

Q2

# Why does opportunity exist in Commercial Loan Pricing?

Cost-plus approach often based on minimal RAROC/hurdle rate

Significant price dispersion across like-to-like loans not explained by typical drivers
- 3-4x difference between yields for similar loans (same PD, LGD, size, loan term, relationship etc.)
- Significant variation in RM's pricing performance, not explained by portfolio size or segment

Poor pricing guidance without robust pricing tools
- Lack of benchmarks and insights to price effectively; governance focuses only on larger deals

Pricing/discounting typically done against promise for future business and inability to track that
- Renewals not always priced to client willingness to pay

In the current environment, risk of turning away good quality loans and making lower margin on riskier loans, if not priced appropriately

Q2

# We have delivered significant financial impact at several banks by addressing Loan Pricing capabilities

**BCG**

- BCG GAMMA — Deep Analytics/AI
- CATALYST BY BCG — Pricing center of excellence
- BCG Change Management — Change Mgmt. & Enablement

**Q2 | precisionlender**

| 150+ | ~$4T |
| Banks on the platform | Outstanding priced in 2020 |

15%+
Share of the commercial loan market

| 14k | $700B+ |
| Bankers in user base | Actual portfolio data refreshed weekly (incl. in market view) |

~**15**bps **+** ~**7**bps

~**30**bps **Higher spread margin from combined solution**

**+**

50% higher cross-sell

50% improved efficiency

# YieldBuilder solution uses 9 key elements to unlock potential and build ongoing pricing capability

## Our solution seamlessly integrates and reinforces each element

**Analytics**

**1** Revalidate RAROC model

**2** Target pricing algorithm

**3** Real-time market benchmarks

**Tech/Digital platforms**

**4** Software configuration & implementation

**5** Discounting logic powered by AI/ML

**6** Integrated digital RM interface

**Change Management**

**7** Pricing governance

**8** Performance mgmt. (incl. incentives)

**9** Real-time training

Q2

# Analytics Layer
## Pricing algorithm is "market" based; built on four key pillars

| Validation of RAROC | Micro clustering of loan accounts | Market benchmarks | Price elasticity of client |
|---|---|---|---|

**Validation of RAROC**

Target rate should cover marginal costs (risk, marginal operating costs)

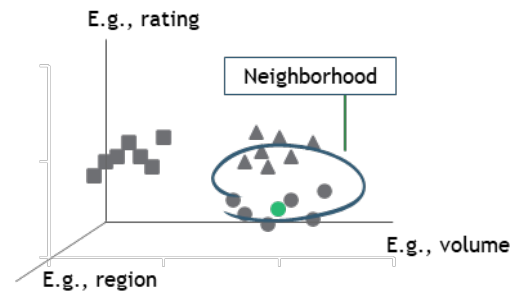Prices below marginal costs require clearance of management, accepted only for strategic purposes
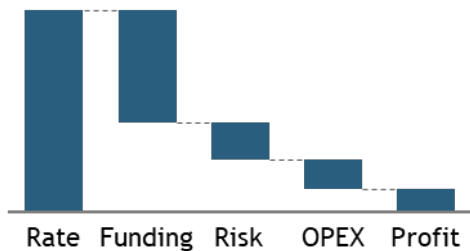
**Micro clustering of loan accounts**

Clustering based on determinants of pricing—loan type, duration, size, PD, LGD, etc.

Set target price based on what your clients can bear

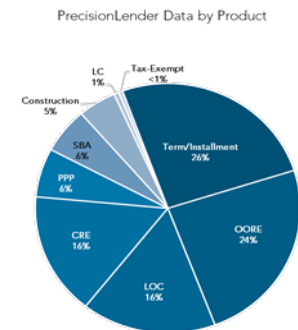Advanced analytics using appropriate weights for each driver of pricing

**Market benchmarks**

Leverage PrecisionLender's commercial banking market data: the largest and deepest dataset

~$4T structured in 2020

$700B+ daily portfolio updates

Used by 14,000 Bankers at 150+ Banks

**Price elasticity of client**

Data driven variables:

Client stickiness, historic win-loss ratio, share of wallet, payment terms, etc.

RM qualitative inputs:

competitive bids, client's strategic goals, etc.

**A** Risk threshold

**B** "Target" price

**C** Deal price



Rate   Funding   Risk   OPEX   Profit

E.g., rating · Neighborhood · E.g., volume · E.g., region

PrecisionLender Data by Product — LC 1%, Tax-Exempt <1%, Construction 5%, SBA 6%, PPP 6%, Term/Installment 26%, OORE 24%, CRE 16%, LOC 16%

Median 103% · Price insensitive clients
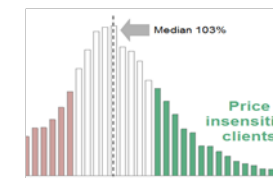
# Technology Layer

## Effective delivery of insights is as important as the insights themselves



Legacy technology turns a Commercial Bank's best opportunity for driving financial performance into just another step in a process

YieldBuilder combines analytics and an intelligent interface to link corporate strategy to financial objectives *at the transaction level*, causing Banker behavioral change

# Change Management Layer

## In our experience, significant impact driven by Business & RM enablement

### Business enablement

Re-designing pricing governance for ongoing discipline

Digitally enabling escalation guidelines and processes

Creating robust tracking and dashboards at multiple levels—RM, portfolio, market, segment, etc. to ensure revenue pull-up

### RM enablement

Upskilling RMs on value-based pricing, negotiations etc.; Real-time training embedded in the platform

Analytical insights delivered within the pricing tool, in a user-friendly way

Performance tracking empowers RMs to self-monitor and change behavior around pricing

# Summary: Client Best Practices from Scotiabank

## Q2 | precisionlender

**Build a Winning Team**: On-board dedicated Product Owners, Capital SME, Banking SME, Data Scientist and Change Lead. Identify Stakeholders and socialize commitment required for the project.

**Scaled Deployment:** Get your largest volume of users on the platform by deploying a Minimum Viable Product (MVP). Realize lift in margin (+bps) sooner.

**Operational/Data Readiness:** Evaluate your data readiness and availability to build your Relationship Awareness file. This will lead to a faster implementation and lower cost of implementation.

**Invest in Andi:** Leverage Andi to train bankers to execute strategic vision and drive adoption. Foundational for Yield Builder.

## Q2 | precisionlender ➕ BCG

**Build/Deploy Together:** For an immediate and significant impact on margin (+bps)

**Change Management:** Train on both platform, methodology, and core concepts once to improve adoption and establish best practices
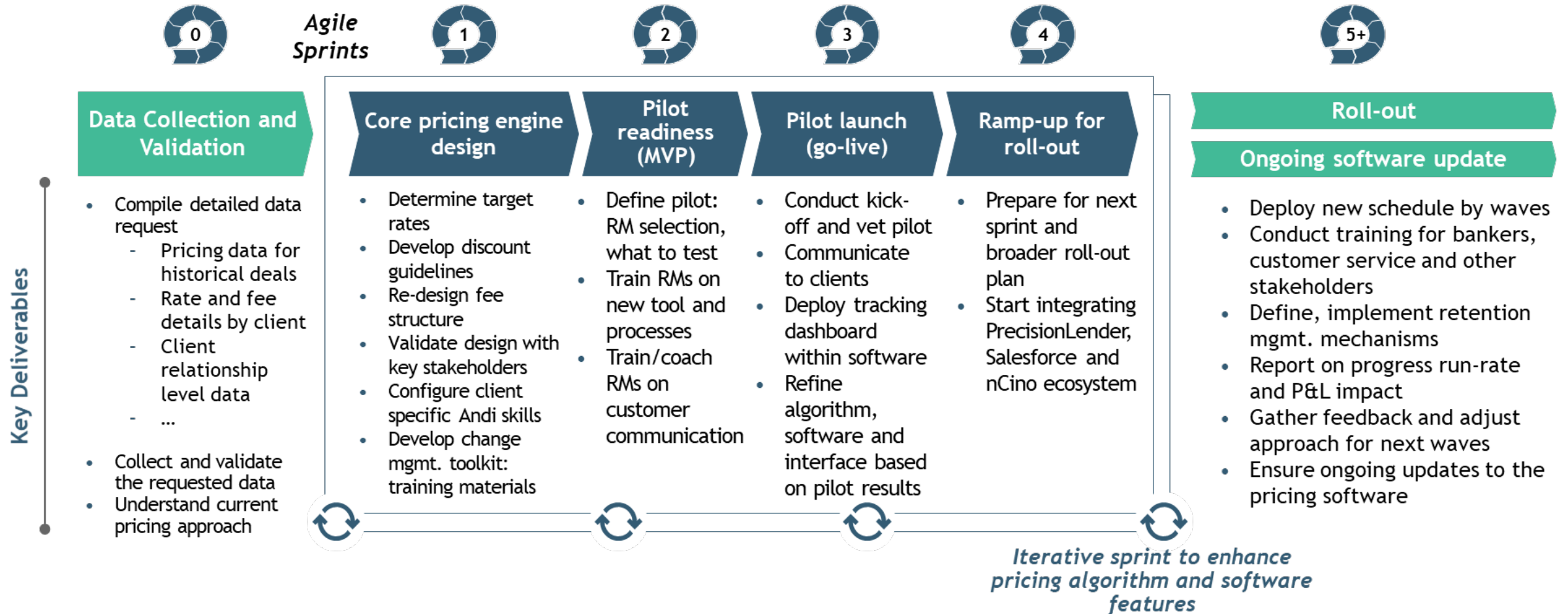
**Pricing 101:** Take this transformative opportunity to teach the basics of pricing like FTP. RMs are then more invested in hitting profitability targets.

**Cost Plus --> Market Based Pricing:** Compete in core geographies, segments, and industries based on growth areas and risk appetite. Flexibility to adjust as needed.

# Program structured to capture opportunity through continuous and iterative progress in each sprint

**Agile Sprints**

Stages: 0, 1, 2, 3, 4, 5+

| Data Collection and Validation | Core pricing engine design | Pilot readiness (MVP) | Pilot launch (go-live) | Ramp-up for roll-out | Roll-out / Ongoing software update |
|---|---|---|---|---|---|

**Key Deliverables**

**Data Collection and Validation**
- Compile detailed data request
  - Pricing data for historical deals
  - Rate and fee details by client
  - Client relationship level data
  - ...
- Collect and validate the requested data
- Understand current pricing approach

**Core pricing engine design**
- Determine target rates
- Develop discount guidelines
- Re-design fee structure
- Validate design with key stakeholders
- Configure client specific Andi skills
- Develop change mgmt. toolkit: training materials

**Pilot readiness (MVP)**
- Define pilot: RM selection, what to test
- Train RMs on new tool and processes
- Train/coach RMs on customer communication

**Pilot launch (go-live)**
- Conduct kick-off and vet pilot
- Communicate to clients
- Deploy tracking dashboard within software
- Refine algorithm, software and interface based on pilot results

**Ramp-up for roll-out**
- Prepare for next sprint and broader roll-out plan
- Start integrating PrecisionLender, Salesforce and nCino ecosystem

**Roll-out / Ongoing software update**
- Deploy new schedule by waves
- Conduct training for bankers, customer service and other stakeholders
- Define, implement retention mgmt. mechanisms
- Report on progress run-rate and P&L impact
- Gather feedback and adjust approach for next waves
- Ensure ongoing updates to the pricing software

*Iterative sprint to enhance pricing algorithm and software features*

# Want to learn more about YieldBuilder?

GAURAV
**ANAND**

anand.gaurav@bcg.com
347.601.1024

**BCG**

GREG
**DEMAS**

Greg.demas@q2.com
646.799.0868

**Q2** | precision**lender**

# Thank you!