Afi

AfiSTB

Bank Charges Simulator

Afi

www.afi.es

Why a Bank Charges Simulator?

Among other factors, the current environment for banking activity is distinguished for:

- A sharp increase in competition (due to globalization, innovation, new channels, etc.), which has resulted in a significant narrowing of financial margins.
- The publication of the new Solvency Circular (the adaptation of the New Basel Capital Accord) advocating a greater link between the risk assumed in a transaction and the capital requirements arising therefrom.

The combination of these two factors makes it more difficult to obtain an adequate return on the capital used in each transaction, in an increasingly complex environment.

In this context, a tool is required which can assist in setting transaction prices on a case-by-case basis. Market-based pricing should gradually be giving way to an environment in which pricing is adjusted to the characteristics of the customer and the transaction.

Goals

Strategic reasons:

- To increase customer loyalty through the cross-selling of products (assets, liabilities, off-balance sheet products and services).
- To contribute to improvements in **profitability, efficiency and solvency**.
- To establish a fair financial and commercial relationship.
- To introduce a system of prices and margins which is consistent from a financial and competitive point of view.
- To ensure that the components that make up the price are included in the **setting of charges**.
- To help develop a **risk-adjusted return** philosophy.
- **To measure** and reward the real **marketing efforts** of the branch network.

Operational reasons:

- To establish a target framework of prices and margins.
- To adapt prices constantly to the situation of the bank, the market and the customer.
- To streamline marketing channels, paying special attention to rate-setting at the various business centres (branches).
- To implement monitoring systems to verify the effectiveness of the **pricing policy**.
- To have a product recommendation system, based on the analysis of customer positions and needs.

Development principles

The internal algorithms of this financial tool ensure consistency in setting charges and in completely integrating these prices into the bank's competitive strategies, and their application when negotiating pricing with each customer.

From the point of view of financial consistency, the simulator ensures:

- **Independence and objectivity** in price-setting.

www.afi.es

- **Consistent** with the bank's assets and liabilities policy.
- Indexation to market rates, **eliminating** the commercial area's **exposure to interest rate risk**.
- Integrated with the structure of the bank's **Management Profit and Loss Account**.
- And, in particular, it reflects the bank's **liquidity** and **credit risk positions** in the market, its structure of **overhead costs** (staff, administration, depreciation, etc.), the **solvency target** and the risk/reward balance (**remuneration of capital**) decided by the bank.

From the point of view of competitive consistency, the simulator facilitates and ensures, both when applying the price and prior to this:

- Consistency with the bank's commercial policy.
- Elaboration of a basic **price framework**, which can be modulated by terms and amounts, customer segments and markets.
- Alignment with the **bargaining** power of the bank/franchise value by customer segments and markets, as well as respecting the bargaining power of the customers themselves.
- Consistency with the customer's **price sensitivity** when applying the price and flexibility or negotiating capacity in setting the price in each case
- Link to the customer's **loyalty/profitability** considering his other positions with the bank, integrating with the bank's other applications to provide information on the customer
- Delegation of **powers** to the area or branch manager to facilitate the negotiation of the price and its adjustment to the customer's circumstances
- **Ex post monitoring** of the commercial actions arising from the application of a price below the threshold of individual profitability of the transaction or the overall profitability of the customer

On the other hand, the application **can be integrated with the bank's other applications**, systems and tools in order to obtain and provide information (Management P&L Account, CRM, commercial agenda, etc.) that enrich its use in the branch as well as the subsequent monitoring of the transactions with the help of the bank

Functionality

- Proposals for cross-selling opportunities to the customer.
- Possibility of simulating multiple portfolios / commercial offers.
- Simulation of price tariffs for asset, liability, off-balance sheet and services products. For the simulation, the specific characteristics of each product and limits set for it by the bank (minimum and maximum rates, margins and commissions, durations, terms and roll-over frequencies allowed, etc.).
- It considers all the customer and product variables for a correct simulation based on the following elements:
  - **Financial income or costs** of the transaction (according to whether it is an asset or a liability).
  - **Capital consumption** (regulatory, economic, or corrected for the solvency target) (assets only).
  - **Generic provisions / expected loss** (assets only).
  - Associated **operating costs**.

www.afi.es

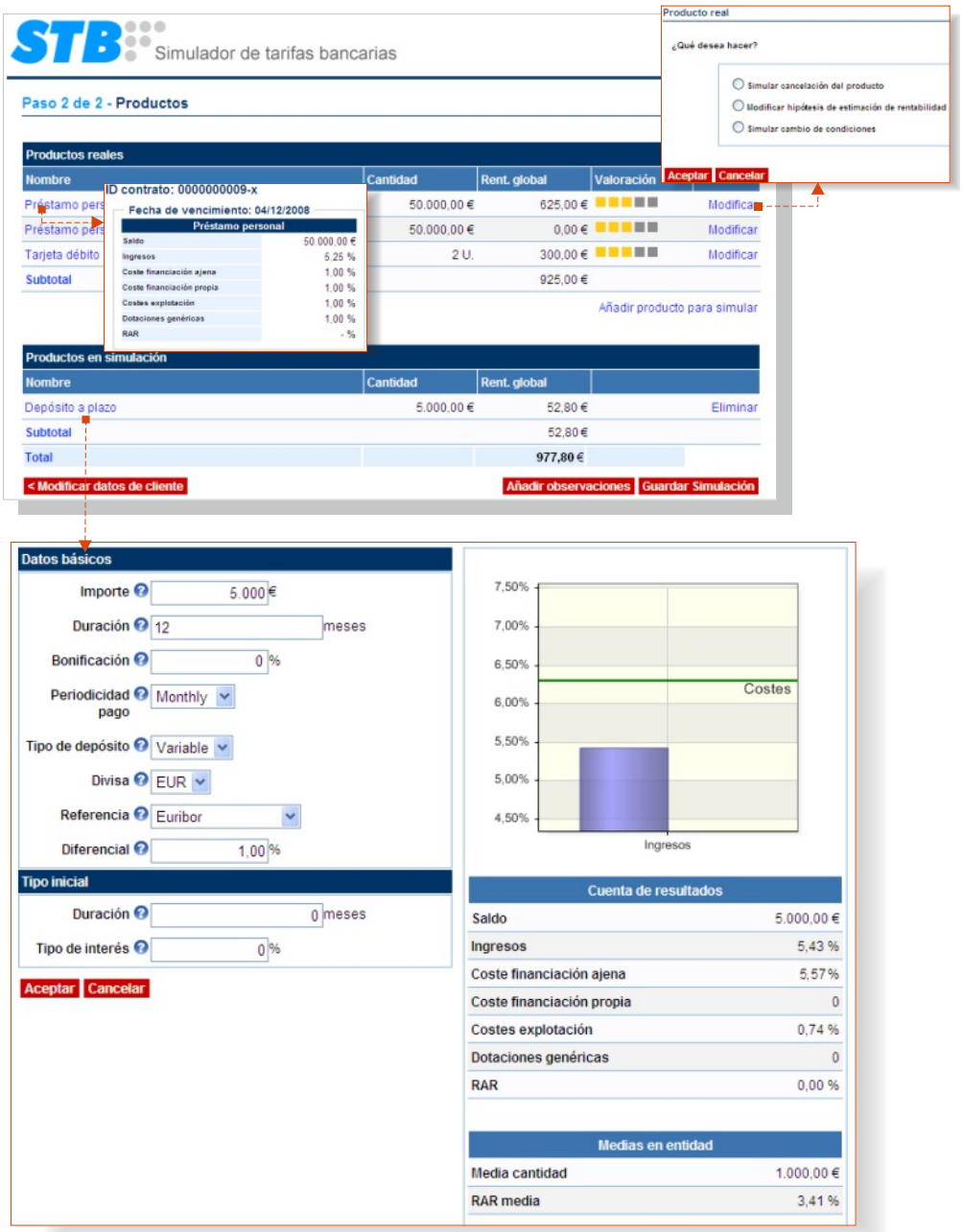
- **Target margin** (liabilities only).
- Other **adjustment factors** (strategic, cross-selling, or other).

⇢ Calculates the financial profitability or cost of the transaction in real time. The application even calculates the break-even margin for the manager.

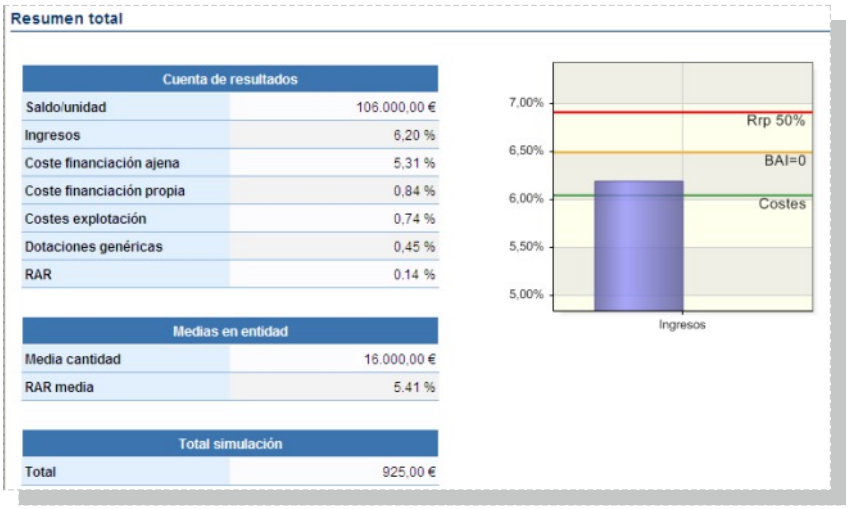
⇢ Integrated vision of:

- Current **customer** profitability (the historical for the past year and that expected in the next year).
- Expected return on the **committed sale**, with a breakdown of the individual profitability of each transaction

The application's screens



www.afi.es



Technical characteristics

- **STB** is a fully web-based application, zero-footprint (does not require plug-ins to be installed in the client's browser).

- The service is provided through Microsoft Internet Information Server 6.0 or higher, with .NET Framework 2.0.

- Integration with the bank's customer databases, product catalogues, profitability systems, etc. is performed via the implementation of web services, inside or outside SOA architecture. The default installation allows communication between the bank's systems and **STB** via XML or a database management system.

- The user authentication system, based on hash signature (SHA-1) allows it to be integrated with any authentication/authorisation system and direct links from the corporate intranet.

- The solution can be implemented with a “look and feel” adaptation of the tool as per the bank's style specifications.

Contact

Should you need any additional information or have any queries about **STB** please contact:

Contact: Esteban Sánchez
Borja Foncillas

E-mail: esanchez@afi.es
bfoncillas@afi.es

Phone: +34 915 200 103 | +34 915 200 106

Website: www.afi.es