

# FICO® Optimization Solution for Deposit Pricing

A comprehensive solution for deposit portfolio management

## With FICO® Optimization Solution for Deposit Pricing, you can:



**Improve deposit margins** by 10%–30% through optimized pricing strategies



**Lag competitor rates** by 2–5 bps in a rising rate environment



**Leverage** industry leading analytics and innovative price-sensitivity modeling methodologies



**Develop** scenarios for stress-tests, understand the impact of deposit pricing on LCR, and achieve automated end-to-end auditability of pricing process



**Seamlessly collaborate** across stakeholders in treasury, finance, frontline, operations, risk office and marketing

Over the past several years, financial institutions have been flush with deposits operating under low but stable interest rates. This has resulted in reduced investment in advanced analytics to drive pricing decisions for deposit portfolios. However, significant change is on the horizon — a more dynamic rate environment will require organizations to make faster, more precise pricing decisions. Simultaneously, increased regulatory scrutiny mandates greater transparency and enhanced reporting. Banks that implement FICO® Optimization Solution for Deposit Pricing, the industry’s most rigorous analytical solution for deposit pricing decisions, can effectively grow margins and accurately forecast portfolio liquidity in a rising rate environment while meeting regulatory compliance.

Specifically, many forward-thinking banks are looking to answer the following questions pertaining to deposit rates:

- How can our bank provide the best rates to the best customers to deliver a great customer experience?
- Does our bank understand what pricing actions are required to retain existing balances when rates begin to rise?
- Does our bank understand how to adjust prices in the face of competitor pricing actions?
- How high would our bank have to set deposit rates to grow the overall portfolio?
- How should the bank price deposits if bank leadership wants to deliver near-term earnings?

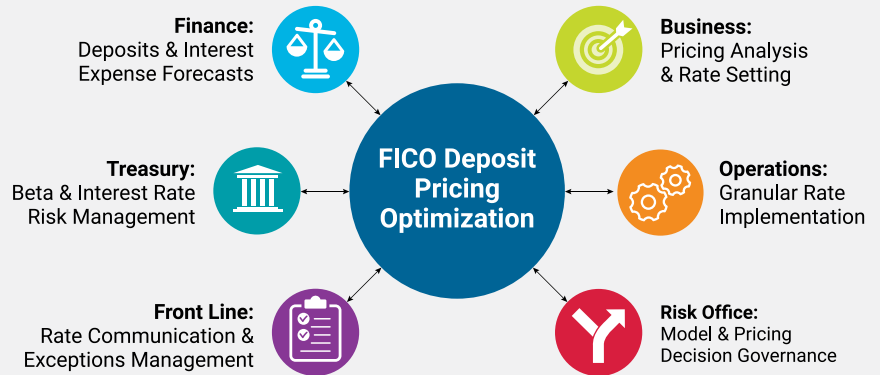
- How can the bank orchestrate products and pricing over a longer-time horizon, and not just one-offs, to achieve sustainable benefits?
- Does our bank have the necessary controls in place to effectively answer questions from auditors about our pricing process?

FICO® Optimization Solution for Deposit Pricing answers all of these questions and more, enabling the right pricing of deposits, collaboration across internal stakeholders and supporting regulatory compliance.

## How Deposit Pricing Optimization Works

Volume-margin optimization, shown in Figure 2, forms the basis for how organizations should optimally price deposits. However, numerous factors affect how optimal pricing is achieved, including changing customer preferences, competitive factors, dynamic interest rates, business/portfolio requirements and other scenarios. Many organizations have a combination of analytic and spreadsheet-based solutions to help achieve these goals in relatively stable rate scenarios, but lack the power and transparency to ensure profitable pricing in dynamic, highly regulated environments.

**Figure 1: FICO® Optimization Solution for Deposit Pricing**

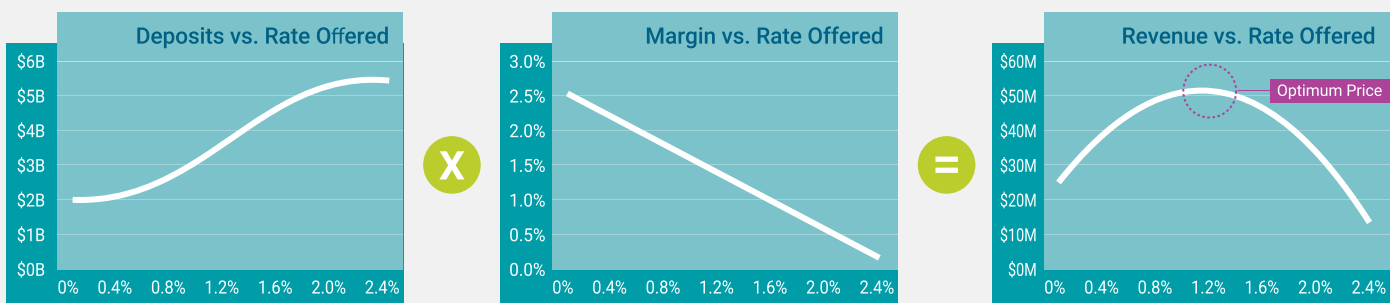


FICO® Optimization Solution for Deposit Pricing helps organizations develop analytically powered, optimized pricing strategies – compliantly and with customer-centricity – in highly dynamic rate environments.

FICO’s solution for deposit pricing includes:

- **Price elasticity models that accurately forecast deposit portfolio volumes** across a wide range of product offerings, rate environments and competitor pricing strategies. These models forecast deposit behavior across the entire product lifecycle, appropriately weighting myriad internal and external factors.
- **Configurable, de-aggregated decision variables that differentiate pricing** between various segments of the deposit portfolio. A large number of pricing decision points provides the necessary flexibility in identifying significant value-driving rate strategies.
- **A flexible mathematical engine that uses elasticity and profit models** to identify the set of prices that best achieve organizational goals while meeting all constraints. Complex elasticity models and large quantities of decision variables require mathematical optimization solvers that can address large-scale problem formulations. Excel solvers and many commercially available optimization algorithms simply cannot deliver the analytic rigor or computing power needed to solve such problems – ones that identify previously unknown, optimal pricing strategies.

**Figure 2: Volume-Margin Optimization**



The fundamental concept behind effective deposit pricing is an analytically rigorous understanding of volume-margin optimization.

## The FICO Advantage for Deposit Pricing

Superior Analytics	Comprehensive Configurability	Flexible Engagement
Industry-leading optimization solution that solves for a large number of price variables	Completely configurable solution delivers customized reports, models, objectives, price variables and rate sheets	Agile solution execution methodology rapidly delivers business value
Easily handles a large number of constraints and business policies	Develop and set new unique constraints dynamically within scenarios with no incremental development effort	Deploy solutions on-premises or hosted in the FICO® Analytic Cloud
Analytically rigorous price-elasticity models from the leader in analytic solutions for financial services organizations	Leverage models and valuation frameworks tailored for your organization	Access to all models, constraint configurations and profit formulas

### Key Features of FICO® Optimization Solution for Deposit Pricing

FICO Optimization Solution for Deposit Pricing helps not only set effective rates across deposit products, but also serves as the “command center” to manage the entire portfolio.



#### A complete solution for overall portfolio management

Access reporting, competitive analysis, model-based forecasting, price optimization, decision review/approval workflows and rate sheet distribution within a single environment.



#### Leverage FICO's proven, superior analytical capabilities

Rapidly construct predictive models that forecast deposit portfolio performance. Incorporate these models into the solution to customize specifically for the needs of your organization. Use what-if scenarios to fine-tune strategies.



#### Achieve comprehensive data, model and operational governance of pricing decisions

Intuitive governance dashboards allow users to review model parameters, monitor model performance and achieve compliance of model risk office requirements. An operational governance dashboard provides history of past decisions alongside inputs and assumptions used for analysis, identifying reviewers and approvers of decisions, and optimized pricing strategies.



#### Solve large-scale complex deposit pricing problems with proven optimization technology

The optimization algorithm determines rates across numerous segments of the deposit portfolio, helping profitably balance margins, customer satisfaction and portfolio growth.

### Benefits of FICO's Deposit Pricing Solution

FICO Optimization Solution for Deposit Pricing can be a critical component of a bank's profitability and regulatory transparency. The solution:

- **Helps executives and deposit managers feel secure that their rate strategy is optimized.** Pricing teams that use FICO's solution identify the best deposit rates that achieve corporate goals while incorporating rate environment and other external changes. Balancing customer satisfaction, corporate objectives and profitability — in a fully documented environment — has never been easier.
- **Empowers business users with complete transparency to underlying price-elasticity models.** At FICO, we believe that pricing managers need to know the makeup of the underlying models that drive pricing decisions. The solution's model governance dashboard provides insight into the pertinent variables, monitors model performance, and triggers model refreshes when established guardrails are breached.

- **Enables end-to-end auditability of pricing decisions.** Pricing managers no longer need to maintain spreadsheets, emails and decks documenting the business user identification, review and approval of pricing changes. FICO's solution autonomously captures and records every stage of the pricing change process. The decision trace is then made easily available in the governance dashboard to auditors and examiners, thereby eliminating overhead for decision audits.
- **Allows all deposit stakeholders to collaborate seamlessly in an automated environment.** The solution provides automated pricing decision review and approval to deposit executives, automated assessment of duration and volatility of deposits by Treasury, accurate and seamless submission of forecasts to Finance, and automated delivery of rate sheets to Operations.

## Part of FICO® Decision Management Platform

FICO offers a comprehensive suite of solutions for banks to strike the right balance between risk, profitable customer relationships and compliance. It includes the FICO® Decision Management Platform, a comprehensive set of analytics, decisioning and optimization products, complemented by integrated application development and productivity tools.

Decision Management Platform reduces implementation costs and total cost of ownership by connecting all the components necessary to power up your analytic decisioning capabilities. It also integrates flexibly with an organization's existing technology and data infrastructure, reducing the need for "rip and replace" systems that can deliver additional value when combined with Decision Management Platform.

Core system components include:

- **Automated decisioning, workflow and rules** to streamline and drive

consistency around all critical processes.

- **Model management** to enable ongoing model oversight and governance, including automated validations. Our solution is also able to incorporate any existing predictive models previously developed.
- **Optimization**, including FICO® Optimization Solution and pricing optimization capabilities.
- **An easy-to-use interface**, helping empower business users to make changes without the need for IT help, and test what-if strategies.
- **Full reporting** via interactive dashboards, to understand where optimization is providing value.

FICO® Optimization Solution for Deposit Pricing and the FICO® Decision Management Platform can be delivered as either on-premises or cloud-based solutions.

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For more information, please visit

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