



Unlock More Profitable Customer Relationships

profitability business customers customer retention

Summary: When it comes to pricing deposits and loans in a competitive market, CFIs must correctly strike a delicate balance between each customer's needs and their own profitability. Relationship pricing, based on customer profitability, can play a critical role in determining the best loan structure and deposit rates to maximize a customer's lifetime value to your CFI. We provide insights on what factors to consider as you price products based on customer relationships, as well as the impact of adopting relationship pricing on your institution.

Blowfish are named for their ability to inflate themselves and appear more intimidating to predators, and many are equipped with sharp spikes as well. But those are not their only defense mechanisms. Blowfish contain the poison tetrodotoxin in portions of their bodies that can lead to death by asphyxiation if consumed by humans. Nonetheless, the fish are a Japanese delicacy, [known as fugu](#). Given the risks of consuming fugu, its sale and consumption are strictly controlled by law in Japan and Korea. The fish must be prepared by chefs who have trained for a minimum of three years in how to avoid accidentally contaminating the edible portions of the fish.

Despite the risk of death, fugu is in high demand among foodies, with prices as high as \$265 per kilogram. Financial institutions are also familiar with situations that hinge on a delicate balance and have significant financial implications. Relationship pricing involves looking at the customer's entire relationship of loans, deposits, fee income, and other products to determine the customer's overall profitability and using this information to make strategic decisions on pricing for renewals or new products. This pricing strategy can have a significant effect on both customer relationships and an organization's overall profitability.

Analyzing customer relationship profitability and using those insights for pricing decisions has become a major component of many community financial institutions' (CFIs') plans to increase their profitability by attracting new customers and holding onto the most profitable of their existing ones. As financial institutions face rising competition from non-traditional banks, such as fintechs and neobanks, which don't have the same overhead and are able to offer higher interest rates to customers across the board, the importance of getting pricing right is higher than ever.

The Benefits of Relationship Pricing

Relationship pricing essentially gives financial institutions a tool to determine the potential profitability of customers by providing more attractive loan pricing and deposit rates to the individuals and small businesses that they believe will be most profitable to their CFI over the long term. This approach can be beneficial because it ensures the financial institution is balancing its own profits with the customer's needs. Competitive pricing also makes it easier for financial institutions to attract new customers and enhances the likelihood of being able to cross-sell additional products and services to customers and make their accounts with your CFI stickier. At a time when a rising number of customers are gravitating to fintechs and online bank offerings, analyzing the profitability of the full customer relationship and customizing pricing for your most important relationships is a critical component of financial institutions' abilities to remain competitive.

Loan Pricing. When structuring loans for customers, it’s important to consider how the components of a loan — such as term, interest rate, fees, prepay penalties, and other similar factors — impact your institution, and how they can be adjusted to make the most profitable deal for your CFI, while also pleasing your customers. A comprehensive profitability tool can help you strategize ways to offset the cost of originating and maintaining the loan with the potential profit from the loan. You’ll want to consider the risks associated with the loan as well, such as credit risk and interest rate risk. The pricing may also take into account the deposits a customer has with your CFI, or the potential deposits the customer may bring to your institution, along with their loan relationship.

Deposit Pricing. A profitability tool can allow your CFI to preview different scenarios of how the potential profitability for a customer relationship can change as interest rates fluctuate. The value of deposits, even with today’s higher rates, can still bring profit to each customer relationship and the institution overall. A solid profitability system helps your team understand the value of the deposit for your customer relationship. Profitability tools can also provide a breakdown of how migration between non-interest-bearing deposit accounts to interest-bearing deposit accounts, such as from a checking account to a certificate of deposit (CD) or a money market, can impact the customer’s relationship profitability.

The Impact of Discovering Your Most (and Least) Profitable Relationships

CFIs interested in utilizing full customer relationship profitability need to do so intentionally. Along with this, you might find that your most profitable customers aren’t who you might have assumed. For instance, a customer who has many deposit accounts and comes to the branch often may seem to be an active customer. However, that doesn’t mean that they’re your most profitable customer. The customer who brings in the most profit for your institution could just as well be a customer who has minimal deposits but also has a single well-priced loan that generates a lot of interest income. A robust profitability tool, like [PCBB’s Profitability FIT™ platform](#), can uncover insights to help your team understand the importance of each customer relationship. Your team can then use this data to find opportunities to increase the profitability of each customer by offering them other products they might need and pricing those products to maintain your relationship with your most profitable customers. It is equally important to measure the success of any such efforts on a regular, ongoing basis to gain learnings for increasing profitability in the future.

For CFIs considering relationship pricing as a way of attracting new customers and holding onto their most profitable existing customers, a comprehensive profitability tool can be a game changer. Relationship pricing is a crucial part of determining how to price loans and deposits to maximize the profitability of your current customer base, while also helping you determine the best price to attract new customers that also works for your CFI.

COMPETITIVE AND CONSISTENT LOAN PRICING

Achieve a 360-degree customer relationship view so you can determine the best loan pricing based on your customer data, while driving higher bank profitability. Learn more about our solution for customer [profitability to give you that comprehensive perspective](#).

ECONOMY & RATES

Rates As Of: 03/12/2024 10:34AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.48	0.03	0.08

6M	5.35	0.05	0.09
1Y	4.99	-0.01	0.22
2Y	4.59	-0.03	0.34
5Y	4.16	-0.09	0.31
10Y	4.17	-0.09	0.29
30Y	4.32	-0.06	0.29
FF Market		FF Disc	IORR
5.33		5.50	5.40
SOFR		Prime	QBER
5.31		8.50	5.32

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