



# For leading Canadian bank, quest for risk-based pricing leads to new, unexpected opportunities

success story:  
customer management



- Client** National Bank of Canada (BNC), the sixth largest chartered bank in Canada, with assets in excess of \$75 billion. Headquartered in Montreal, the bank’s Canadian network boasts 546 branches, with offices in all four corners of the globe.
- Challenge** Intense competition for market and wallet share in the card segment, triggered by the arrival of new issuers with aggressive pricing strategies converging with a consolidation of portfolios by existing issuers.
- Solution** Upgrading FICO® TRIAD® Customer Manager while adding the Risk-Based Pricing, Authorizations Management and Reissue decision areas to the three already installed.
- Results** An estimated National Bank of Canada five-year return on investment of 65%.



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—Philippe St-Aubin  
Electronic Payment Solutions  
National Bank of Canada

What started out as a quest for a solution to aggressively fight competition led to additional opportunities for Banque Nationale du Canada / National Bank of Canada (BNC).

As an active social and economic force in the Quebec Province for more than 140 years, BNC’s commitment to excellence included maintaining its market share and providing the best customer service possible. With the entry of new competitors and consolidation of portfolios, BNC started feeling the effects of an eroding credit card marketplace.

Business units across the BNC organization came to the same conclusion: the bank needed to implement risk-based pricing to stay competitive. Working with FICO, an action plan was quickly put in place.

“We needed a tool that would enable us to strategically change the various elements of our customer pricing terms and conditions according to the level of risk,” explains Philippe St-Aubin, head of risk management in BNC’s Electronic Payment Solutions.

“As users of FICO® TRIAD® Customer Manager we were already aware of the significant advantages

of our existing three modules: Credit Line Management, Delinquent Collections and Overlimit Collections. Our success with TRIAD Customer Manager, coupled with our excellent working relationship with FICO, led us to evaluate the module of Risk-Based Pricing as a potential solution.”

After evaluating various other risk-based pricing solutions, BNC chose the TRIAD Customer Manager offering. “The principal reason behind our decision was the flexibility that the FICO module provided. We wanted a module with user-defined functionality designed to encompass all of our business needs. The bonus was that it also presented us with new opportunities we had not considered initially,” says St-Aubin.

### » The benefits of the upgrade

BNC’s decision to add the Risk-Based Pricing module to the three existing modules mandated an upgrade from TRIAD Customer Manager version 5.0 to TRIAD Customer Manager version 7.0. The associated financial investment required that a business case be developed for presentation to BNC’s senior bank management.

Through this analysis, significant advantages of adding the TRIAD system Authorizations and Reissue modules quickly became evident:

- Authorizations would reduce losses relating to high-risk accounts, while increasing revenue and improvements in customer satisfaction for low-risk accounts.
- Reissue would reduce losses by managing the reissue period for marginal-risk accounts, while increasing revenue by targeting low-risk dormant accounts for reactivation.

“Our analysis demonstrated that the implementation of ‘base-line’ authorization and reissue strategies would generate considerable additional revenue and operational efficiencies,” says St-Aubin.

“The Authorizations module gives us an additional flexibility to manage both the risk of the customer and the risk presented by the specific transaction type. Our conservative estimates suggest an increase in transaction volume of 3%,” adds St-Aubin. The Authorizations module also reduces operational costs by minimizing the number of transactions that are referred for operator intervention.

“The Reissue module enables us to automate a previously manual process and also to increase the number of times we review an account for reissue,” says St-Aubin. “The result of this functionality is better credit decisions for ‘marginal’ accounts. Having the ability to extend the expiration dates for our best accounts also leads to operational cost efficiencies.”

The results of BNC’s analyses drove the decision to upgrade to FICO® TRIAD® Customer Manager version 7.0 and to implement three new decision areas: Risk-Based Pricing, Authorizations and Reissue.

## » Rapid and successful implementation

FICO consultants worked closely with BNC’s Risk Management and Support & Implementation teams to ensure that objectives and deadlines were met. During the preparation period, strategy consultants played a key role in helping BNC overcome two challenges: how to implement the new modules and how to determine the timeframe in which its investment would break even.

A conservative, yet compelling estimate concluded that BNC’s investment will reach a break-even point after 16 months, or as rapidly as five months if the investment was amortized. Additionally, a five-year ROI of 65% was estimated, based on the assumption that 20% of the portfolio would be subject to the use of challenger strategies, while a conservative 80% of the portfolio would remain using the champion or “business as usual” processes.

As Phase I of the project began, the primary objective of transitioning from TRIAD Customer Manager version 5.0 to TRIAD Customer Manager version 7.0 and implementing the Risk-Based Pricing module was to do so without interruption to BNC’s standard procedures. Phase II involved implementing new strategies and functionalities.

“The implementation of TRIAD 7.0 was completed from conception to implementation in only 12 months. This was made possible thanks to the help and support of the dedicated FICO project team, for whom Montreal became a second home. BNC is well on track to achieve its implementation goals and revenue objectives,” says St-Aubin.

Not only was rapid implementation achieved, BNC also quickly saw improvements in TRIAD 7.0 scoring capabilities and execution.

Comments St-Aubin, “With the upgrade to TRIAD 7.0 come opportunities, such as FICO™ Blaze Advisor® business rules management system and online credit, the potential of which is yet to be fully explored.”

## » Risk-based pricing

Using risk-based pricing helps lenders tailor pricing and product features based on the credit standing of existing customers. The TRIAD Customer Manager Risk-Based Pricing module permits issuers to alter the pricing on individual accounts based on the behavior of their cardholders. An account-appropriate pricing strategy, for example, might lower rates for good customers, which can stimulate further usage (especially when combined with credit line increases), and increase rates for poorly behaving customers to compensate for risk.

## Decision Yield

### Agility

BNC moved quickly to maintain its competitive edge in the fast-changing card market by implementing FICO® TRIAD® Customer Manager 7.0 to manage more flexible risk-based pricing, authorizations and reissue strategies. User-defined functionality enables BNC to customize and adjust the system to respond to market developments.

### Precision

Pricing, authorizations and reissue decisions are made automatically according to a precise analysis of the risk presented by each customer and transaction.

### Consistency

Decision criteria are precisely targeted to individual account behaviors, yet are applied consistently across all customers based on decision parameters defined by BNC.

### Speed

Increased automation means BNC can handle its higher transaction volumes while improving customer satisfaction.

### Cost

Fewer transactions are referred for operator intervention, and processes that were previously handled manually are now automated, reducing operational costs.

Flexible and dynamic pricing strategies keep good customers satisfied with their accounts’ overall pricing. And by adjusting rates for customers that are about to reduce balances or close their accounts, a lender can reduce attrition. Risk-based pricing also improves customer satisfaction by enabling lenders to offer preferred rates for their best customers.



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