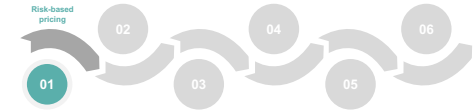# Risk-based pricing ensures that shareholders' return expectations are adequately reflected in every external client rate

Risk-based pricing

Design and implementation of a shareholder value management framework

Main components:

- Value-based pricing strategies
- Value break-even prices for business
- Value-based KPIs and reports
- Value mindset instead of profit mindset
- Risk-adjusted performance metrics

Cost transparency

Pricing initiatives require cost transparency:

- Budgeted overhead cost to be broken down to management units/ products
- Seasonalities to be considered

Pricing ecosystem
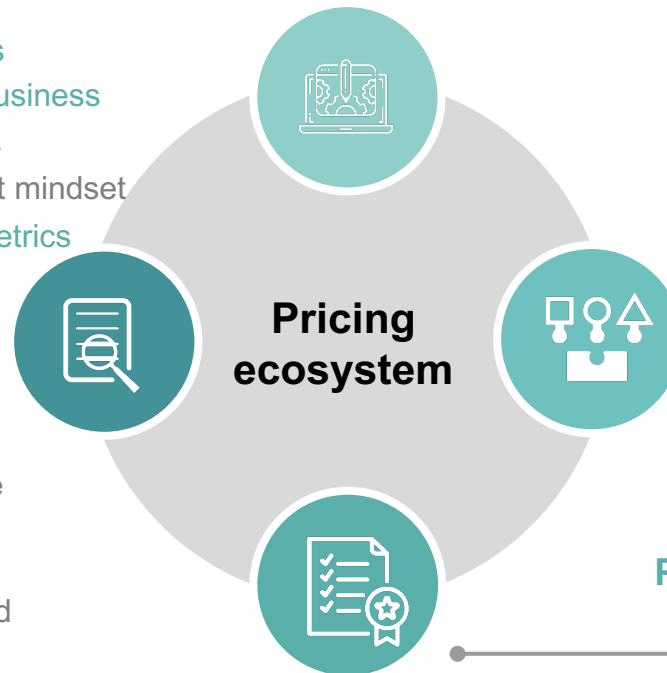
Product modularization

- Every product feature has its price (analogous to car pricing)
- Customers can choose (and pay for) the features they really need

Pricing governance framework

Implementing a robust governance framework to make pricing models effective:

- No transaction can be concluded without upfront measuring its shareholder value
- Approval based on value, not price

The new pricing model enabled modular and optimized client-specific loan rates

Example of a (shareholder value driven) pricing model project
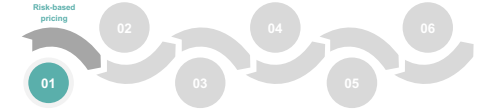
Deliverables

- Modularized all-in pricing model

- Optimized product offering: modularized product offering where borrowers can cherry pick the lending features they want (to pay for) without any undesired cross-subsidization between products

- Transparency on shareholder value generation/ destruction of each transaction
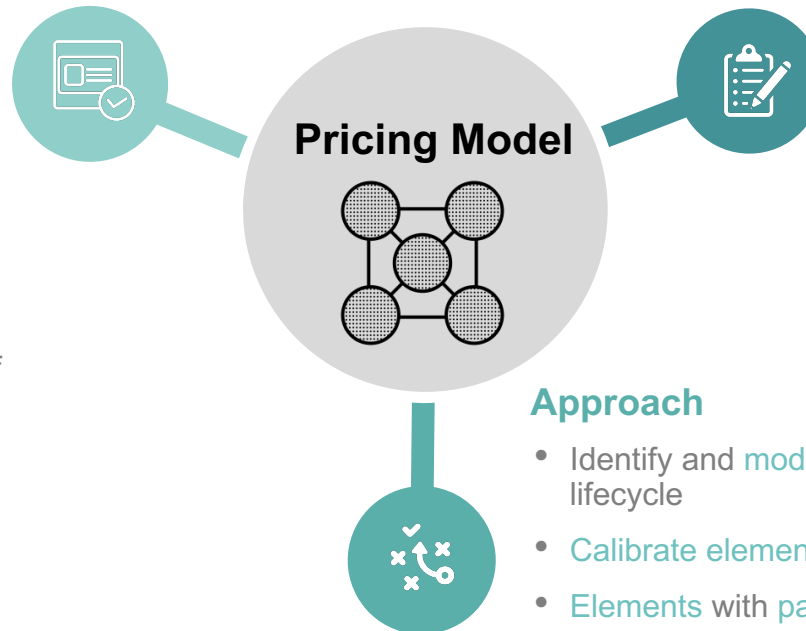
Pricing Model

Task

Develop an end-to-end pricing model that …

… captures all costs and

… measures the risk-adjusted lifetime performance of funded and unfunded lending products

Approach

- Identify and model cost elements along the lending lifecycle

- Calibrate elements "through the cycle"

- Elements with particular attention:
  - ✓ unhedgeable fair value fluctuations
  - ✓ derivative collateral cost
  - ✓ market liquidity and handling cost of funding channels
  - ✓ capital and liquidity buffer consumption