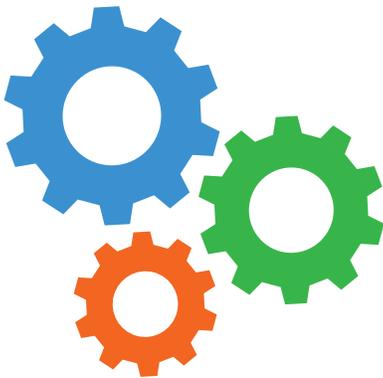


# Bank of Montreal Uses PriceTek® Deposits to Advance Pricing Infrastructure

## *The Making of a Successful, Client Tailored, Deposit Pricing Implementation*

*“We have great respect for Novantas’ knowledge and expertise in the deposit business[.] They helped us create a holistic vision for pricing from strategy to process, and change management and technology.”*

*— Chris Downing,  
Senior Manager —  
Core Banking Products,  
Bank of Montreal*



*After a year of working with the PriceTek® Deposits platform at Bank of Montreal (BMO), Chris Downing, Senior Manager — Core Banking Products and Ryan Ffrench, Director Term Investments, sat down with Novantas to share their experience.*

### The Challenge:

With the low rate environment in Canada, Bank of Montreal (BMO) was faced with a sustained and strong level of competition. “In that environment where additional points of spread can be the difference between being profitable and unprofitable, we were interested in using a pricing tool as a way to get a detailed understanding of our portfolio behavior and identify opportunities and insights to optimize our pricing in a way that meet customer preferences and needs” said Chris Downing.

### Why PriceTek?

BMO and Novantas worked jointly to define the potential benefit of pricing models. Based on a strong working relationship with the Novantas global advisory team, BMO selected PriceTek® Deposits as their price optimization and product management platform. “We have great respect for Novantas’ knowledge and expertise in the deposit business, and this translated to the platform,” said Downing. “They helped us create a holistic vision for deposit pricing from strategy to process, change management and technology. They were then able to back up the vision with the platform”. Ffrench added, “I was very impressed with the ability to integrate the solution with all our existing and complex product structures, and more importantly processes. Merging versus starting at zero provided a lot of value.”

### Overcoming a Complex Operating Environment:

At the outset, it became clear that BMO was going to have a wide array of implementation challenges based on product and process complexity. Working in partnership, Novantas experts and BMO product leaders were able to address the many custom requirements to ensure the platform delivered meaningful output. The flexible nature of the PriceTek platform and expertise of the Client Services team readily enabled tailoring the application to accommodate specific nuances. For BMO, this included:

**Uniqueness of Product Structure.** “We have a portfolio that is structured in a fairly complex way in that there are products and sub-products, and variations on those sub-products,” described Downing. To incorporate the full product suite in a useful way, the PriceTek team developed a methodology to handle inclusion of mutual funds into the Flow of Funds, by

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extracting customer-initiated share purchases and sales from the underlying market fluctuations. In addition, they adapted the methodologies to better track funds moving from maturing term products into liquid accounts, to better capture customer behavior at maturity. Finally, they creatively adapted the segmentation to fit the two main LOBs' respective needs, providing granularity to view individual chequing plans on the Everyday Banking side, while maintaining flexibility to monitor the myriad of price points on the Term side.

**Additional Complexities in Pricing Grid.** For the Term group, being able to set prices in a scientific way during peak periods is critical and the team relies on a daily pricing process. Within that process, BMO has a portion of the deposit book that follows a straightforward set of rules with regard to pricing, but there is another piece that is more nuanced and relies on managerial discretion. To ensure the pricing managers had the best possible information at their disposal, PriceTek was able to synthesize information from several disparate sources, including competitor rate information, cost of funds, and current rate position. These were ultimately used to create a set of decision management reports that could be used to present important information to stakeholders throughout the bank, and to configure the Rate Management module to allow BMO to react quickly to changes in either internal rates (e.g., Cost of Funds) or competitive position (e.g., based on rival banks).

## The Power of PriceTek in Action:

All of the tailoring to configure to BMO's specific demands paid off in high levels of adoption and improved pricing decision making. Since completion of the implementation, the BMO Everyday Banking and Term teams have been using the product for over 80% of business days across 15 core users to analyze over 100 unique products with impressive results.

**Improved Precision Pricing Decisions for Customers and the Bank.** The PriceTek platform provides the team with critical analytical insights to better match price offers with customer demands. PriceTek's elasticity modeling has been used by BMO in conjunction with Novantas to understand competitive differences across their pricing grid, allowing for a more scientific approach to rate setting than was previously employed. In addition, BMO was able to discover and exploit elasticity differences between registered and nonregistered term products to better optimize their margin. Finally, PriceTek's elasticity models helped with planning for the bank's "Fall Investment" campaign by providing guidance as to the new balances they could expect for a set of hypothetical rate positions.

**Increasing Control and Compliance.** Prior to PriceTek, BMO's daily pricing process was managed in Excel and there was execution risk given the complex and manual nature of the process. With the platform at their disposal, previously manual processes are now automated and centralized. The platform also maintains an archive on decision-making including the rate offered and who changed it, providing an audit trail and significantly decreasing the opportunity for error. "The amount of time and level of risk that's associated with some of our daily processes and our price setting processes are both improved," said Ffrench. "It's a big win for us."

**Adding Value Across the Organization.** With a high level of comfort established among the deposit business users of PriceTek, the platform has been extended to secondary users in the organization including marketing and business analytics teams. The expansion from core to secondary user has fostered an additional flow of insights that are opening new doors for the organization. "As a core business user, we're generally interested in how it's impacting overall balances, but when you get a marketing user dissecting what your

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acquisition looks like as a result of a campaign that was executed, there are highlights that come out of that and are now used to inform a marketing strategy going forward,” said Downing. “There is also a common language that comes out as a PriceTek user. It’s a self-propagating machine and I’m very happy with how the light is being shined across the organization,” added Ffrench.

**A Pricing Tool that Supports Collaboration between Business and Treasury.** In the spring of 2015, BMO Everyday Banking launched a new product and actively used PriceTek Deposits to support the implementation. Using Flow of Funds in the Bank Data Analytics module, the group analyzed typical migration behavior across deposit products to estimate cannibalization and assess what the likely impact would be on spread and revenue. When it came time for implementation, this readily accessible insight into customer behavior created a partnership between Business and Treasury. The two groups were able to understand the true value of the product and make refinements to the FTP model to support a higher rate. “It was a huge benefit for us,” said Downing. “Making advances to FTP based on a longer investment duration helps the profitability of the product and ultimately makes the bank more competitive.” Additionally, on the measurement side, the team validated business case projections using both the Flow of Funds and reporting data. “We shared a lot of it with the senior team within the organization and when we’re able to present the detail on how balances flow within products, across business lines, as well as inside and outside the organization there’s a whole lot of confidence that gets shown in the business’ ability to manage,” added Downing.

## ABOUT BMO

Established in 1817, BMO Financial Group serves more than 12 million personal, commercial, corporate and institutional customers in North America and internationally. With total assets of \$672 billion as of July 31, 2015 and more than 47,000 employees, BMO provides a broad range of retail banking, wealth management and investment banking products and services to more than 12 million customers and conducts business through three operating groups: Personal and Commercial Banking, Wealth Management and BMO Capital Markets.

## ABOUT NOVANTAS

Novantas is the industry leader in analytic advisory services and technology solutions for banks. We create superior value for our clients through deep and insightful analysis of the information that drives the financial services industry — across pricing, product development, treasury and risk management, distribution, marketing, and sales management. For more information, visit [www.novantas.com](http://www.novantas.com).