Core Banking Solution vs Pricing and Billing Solution:
The Changing Paradigm

SunTec

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Introduction

The banking and financial services sector has witnessed sea changes in the recent years. Thanks to the emergence of the customer as the king in the services industry, banks and financial institutions across the globe have now realized the importance of pricing as a banking enterprise entity. Of course, core banking solutions such as Flexcube, Temenos or Finacle fit well as technology solutions for the day-to-day business in a bank. However, a core banking solution per se cannot cater to all the fee-based income needs of a bank. This shortfall can be attributed to the complex nature of the bank's operations across its business areas. Banks are often unintentionally blown up as complex structures with its various sections often referred to as silos, having their own systems tied together to a centralized core banking system.

Each silo has its own product bundles and offerings and a technology component to capture fee income for the bank. Over a period of time, the system loses the sensitivity to cognize fee income or pricing of such charges at an enterprise level. Let us see where do core banking solutions and associated systems fit in a banking enterprise and what more does a pricing and billing solution bring to the table, than a core banking system.

About Core Banking Solution and its functions

Core Banking Systems are applications that form the backbone of technical infrastructure. A Core Banking Solution (CBS) typically has a General Ledger (GL) subsystem at its core, with plug-in satellite modules that cater to the various businesses of a bank. The satellite modules (hereafter referred to as modules) cater to the functionalities of various business lines of the bank. A typical example of the modules shall include, but not limited to:

- Non-Financial Modules
  - Bank structure definition
  - Customer definition and accounts
  - Customer limits definition, lines of credit, central bank reporting structure
  - Messaging and advices
  - End of day processing modules, etc.

- Financial Modules
  - Loans and deposits
  - Money markets
  - Letters of credit and bills
  - Treasury
  - Foreign exchange
  - Funds transfer
  - Standing instructions
  - Liquidity management
  - Local payments and cross-border payments
  - Teller operations
  - Nostro reconciliations
  - Interest and charge definitions, etc.

Each silo or line of business employs one or more of these modules and some of the non-financial modules to run its business. The modules are used to create contracts with customers at the branch level for the various products. For example, a short-term fixed rate loan contract for an account of a large corporate customer: the contract has multiple components associated with it like the contract principal, tax component, interest component, product preference component, charge component, etc.

Transactions are generated from the multiple components of a contract on various events of the contract life cycle, like contract initiation, booking, accrual, liquidation, roll-over, advice generation, contract cancellations, etc. The components and events are different for each module and product type. Such transactions hit the accounting and GL subsystem of the CBS, which ties together the various silos. Also, the transactions that hit the CBS core include dollar (or any other currency) transactions that reference an account, contract and an event.

Thus CBS and its modules are used by the bank to manage their customer contracts and life cycles in various lines of business. The income that the CBS and its modules help to manage comes mostly from non fee-based revenue, though they have a charge component associated with this.

Core banking and fee-based income

The CBS modules have a charge component associated with a customer contract that allows the bank to charge fees for its services. This charge component generates transaction at various events of the contract life cycle for an account. However, the charges are only preliminary and can be charged at an account contract level.

But in practice, in addition to the charges that can be captured through CBS, there are several other fees and charge components involved. Such fee-based income has a considerable share in the business of a bank. Banks capture these charges using multiple fringe systems in each business silo.

Limitations in the growth of the traditional spread-based income have only led to an increase in the weightage of fee-based income in the bank's overall profitability. This trend is expected to grow in the future.

In this scenario, banks are looking for the ability to view the fee-based income at an enterprise level i.e., a single customer view for the entire fee-based income of the bank. This include the ability to develop enterprise-level pricing strategies, ability to charge the customer at the relationship level, ability to give a bundled fee offering to the customer, etc. However, a typical CBS and its satellite modules are not designed to perform enterprise-wide pricing and billing.

Pricing fee-based services

The services, maintenance and utilization charges are important revenue streams for the fee income of the bank. These charges are priced before billing a customer.

Typically, in a large bank, the number of charges could run into multiples of thousand. A small set of examples of a bank's fee income is:

- Multiple types of initiating charges for ACH (Automated Clearing House)
- Multiples charges for sweeps, target balancing and pooling products
- Multiple types of account receivable tracking and reconciliation charge
- Money market sweeps

- Charges for advices
- Different types of service charges for counter deposits
- Services charges for DD, collection and lockbox transactions
- Check-21 imaging services
- Account maintenance charges
- Multiple statement charges
- External service charges like fax, courier etc.
- One-time fixed types of charges for service utilization, etc.

These charges, hereafter referred to as transactions, (PS: the transactions here are not the same as financial transactions of CBS) have to be managed, priced and billed innovatively to stay competitive in the marketplace. This can be achieved by having:

- Enterprise-wide pricing strategies, for e.g. Relationship-based Pricing
- Enterprise-wide billing capabilities

Leading research groups advocate dynamic and relationship-based pricing as the future for pricing fee income.

Pricing and Billing Solution (PBS)

A Pricing and Billing Solution (PBS) has the ability to dynamically price millions of transactions based on multiple parameters and bill a consolidated charge to the customer.

One product offering in PBS is the ability to put together preferential price schemes for various charges under service lines like ACH, balance sweeps, etc. Product pricing can be based on the type of customer or the type of relationship the customer maintains with the bank. For example, a committed or a preferential charge for ACH and sweep product charges for a high-value customer and his subsidiaries. To add some complexity, there can also be minimum expected revenue for those service lines or minimum monthly volume commitment from the customer. The product offering in PBS can also be a bundled offering or a volume-tiered product or cross product-based pricing discounts. Hence, the products in PBS help the bank in charging a customer optimally.

Thereafter, the priced transactions are billed according to the billing preferences of the customer.

About TBMS-F and its role

TBMS-F is the flagship product of SunTec, the leading provider of Relationship-based Pricing and centralized billing solutions in the Banking, Financial Services and Insurance segment.

TBMS-F is a robust solution that accepts multi-currency, multi-parameter transactions as data from multiple systems and prices them systematically. It allows complete flexibility in managing a complex pricing configuration and product bundle offerings for a customized price to customers, based on their relationship with the financial service institution.

TBMS-F provides a customer-centric pricing and billing configuration. Hence, the bank gets a single consolidated customer level view at the enterprise level for all fee-based income across its product portfolio. This helps the bank to understand its profitability, trace revenue leakages that can be plugged, and strategize future pricing.

Conclusion

A Core Banking Solution is used mainly to manage the spread-based income of the bank. Fee-based income can be perceived as a key differentiator in the bank's profitability. Pricing – which is an enterprise entity – and pricing strategy attain much pertinence in the fee-based income of a bank. In such a case, a pricing and billing solution that helps to manage the fee income by providing a single customer view of all charges across the bank's product silos, becomes inevitable for the functioning of a bank. SunTec's Relationship-based Pricing and billing solution, TBMS-F, adds more value by helping a bank to maximize its fee income. It also helps the bank to position itself in the dynamically changing world of financial services, through proactive measures to attract and retain the most valuable commodity in the whole circle – the customer.

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About SunTec

SunTec Business Solutions, the first CMM Level 5 transaction billing company, is a leading provider of transaction value management solutions for the communications, media & entertainment (CME), banking, financial services & insurance (BFSI) and utilities industries. We leverage our extensive domain experience, acquired since inception in 1990, to successfully deliver timely and cost-effective solutions. Our concept of Relationship-based Pricing has been endorsed by industry leaders and innovators across the globe. Our product offerings, TBMS-T suite for CME, TBMS-F suite for BFSI and TBMS-U for Utilities, provide comprehensive solutions to our customers for measuring and monitoring transaction value and enable tighter control on their profitability. SunTec has a global presence with offices in US, UK, Germany, Singapore, Thailand and India.

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