Reflection 22. The Power of Pricing

Whilst I was at *MicroSave*, I wrote a short paper entitled the Art and Science of Pricing Financial Services. This summarised my experience at the time in how to cost and price financial services. However, over time, the power of pricing and related transparency and disclosure has become even more apparent.

Pricing to Influence Customer Behaviour **-** How you price matters. Following research in 2002, Equity Bank repriced its services. In doing this, it moved from monthly fees to transaction-based pricing. This meant that customers who transacted more, paid more, but it was also seen by customers as fair – as they had instigated the service for which they were being charged.

After Equity Bank launched agent banking in 2010 it repriced it's over the counter withdrawal fees from Ksh.50 to Ksh.100 and priced withdrawing from an agent at Ksh.50. Thereby encouraging a move of customers towards agents and reducing pressure on branches.

In 2008 the Bank of Uganda mandated MTN Money and Airtel Money in Uganda to interoperate. MTN and Airtel complied with the directive, but discouraged customers from intra operator transactions by setting a high price on withdrawals. This contributed to a significant growth in informal over the counter transactions where individuals would use agents of the network they wanted to transfer to, to make transactions on their behalf.

In mobile money we've seen the negative impact of the introduction of transaction taxes on the number and nature of transactions in Uganda and Tanzania, this clearly demonstrates that payment services are sensitive to fees. There has also been competition from Equity Bank offering merchants feeless transactions on One Equity tills.

In pricing to influence customer behaviour transparency and communication are key. Alongside its launch of fee-based pricing, Equity Building Society provided lists of fees and charges on all its products and services in its branches, a level of transparency which was unusual at the time. The impact of repricing and transparency together was significant – it showed in large numbers of new customers.

In a similar vein, inappropriate pricing and a lack of transparency can over time cause significant damage. After the launch of M-Pesa's MShwari loan product in 2012 the digital lending industry in Kenya grew rapidly, with hundreds of providers selling instant small loans, some at very high interest rates. Whilst the Digital Lenders Association of Kenya (DLAK), promoted a code of ethics for its members, there were many digital lenders who remained outside the network.

Alongside high pricing, poor behaviour, in many cases a lack of transparency from the providers there were mounting numbers of negatively listed Kenyans on Credit Reference Bureaus. This situation led to regulatory intervention and the regulation of the digital credit sector.

Pricing Caps vs. Risk based Pricing: A further issue in Kenya at least, was that of a price cap, where a price cap was imposed interest rates charged by banks, at 4% over the base rate in September 2016 until October 2019. In practice this restricted credit to only the best borrowers.

So, when the cap was rescinded the banking sector was now able to move towards risk-based pricing, at least in theory. Certainly, interest rates increased. However, this raises the question, how many institutions practice risk-based pricing?

I've already noted that most institutions I've worked with don't perform product costing. Product costing would only provide information on risks and costs at a product level. To perform risk-based pricing there would then need to be further risk assessment on a loan-by-loan level. But this is where the pricing conversation becomes even more important. Sadly, the data sets we need to fully adopt risk-based pricing are still being developed.

If this reflection speaks to you… speak to me so that we can inspire change, together.

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