Oracle® Banking Relationship Pricing

Functional Overview

Release 2.4.1.0.0

E70795-01

February 2016

ORACLE®

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E70795-01

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Preface

Oracle Banking is a one-stop solution for a bank for its core banking operations, across retail and business banking operations. It is designed to help banks respond strategically to today's business challenges, while also transforming their business models and processes to reduce operating costs and improve productivity across both front and back offices.

Oracle Banking provides a unified yet scalable IT solution for a bank to manage its data and end-to-end business operations with an enriched user experience. It is a composed set of different modules wherein each of the modules is serviced by a set of services and other subsystems.

This preface contains the following topics:

- Audience
- Documentation Accessibility
- Related Documents
- Conventions

Audience

This guide is intended for the users of Oracle Banking Relationship Pricing.

Documentation Accessibility

For information about Oracle's commitment to accessibility, visit the Oracle Accessibility Program website at http://www.oracle.com/pls/topic/lookup?ctx=acc&id=docacc.

Access to Oracle Support

Oracle customers have access to electronic support through My Oracle Support. For information, visit http://www.oracle.com/pls/topic/lookup?ctx=acc&id=info or visit http://www.oracle.com/pls/topic/lookup?ctx=acc&id=trs if you are hearing impaired.

Related Documents

For more information, see the following documentation:

- For installation and configuration information, see the Oracle Banking Installation Guide - Silent Installation

- For a comprehensive overview of security for Oracle Banking, see the Oracle Banking Security Guide

- For the complete list of Oracle Banking licensed products and the Third Party licenses included with the license, see the Oracle Banking Licensing Guide

- For information related to setting up a bank or a branch, and other operational and administrative functions, see the Oracle Banking Administrator's Guide

- For information related to customization and extension of Oracle Banking, see the Oracle Banking Extensibility Guide

Conventions

The following text conventions are used in this document:

Convention	Meaning
boldface	Boldface type indicates graphical user interface elements associated with an action, or terms defined in text or the glossary.
italic	Italic type indicates book titles, emphasis, or placeholder variables for which you supply particular values.
`monospace`	Monospace type indicates commands within a paragraph, URLs, code in examples, text that appears on the screen, or text that you enter.

1

Overview

The objective of Relationship Pricing is to find the right price for a specific customer based on customer segment, geography, channel, market or product. The need for a dedicated Relationship Pricing product is increasing day-by-day as the Banking industry is focusing on:

- Customer-centric initiatives
- Increase in share of fee-based income in banks
- Product bundling and personalized product offerings
- Increased cross selling of products
- Using simulations to provide various options to customers to select the most suitable bank product among the available

Oracle Banking Relationship Pricing offers a very flexible and a detailed structural framework which enables Banks to define prices for various products and services offered to the customers. The solution provides specialized tools for deciding the price of a particular product or for a target customer segment.

The solution can be used by any other product under Oracle Banking suite. It works on the concept of returning price (fees and interest rates) on the basis of Rules created based on Customer, Transaction, Account and other attributes. Bank can define fees that are needed to be levied as per its operational policies, on various services or transactions that the customers may perform.

Banks typically deal in Loans, Deposits and other miscellaneous products. These products are priced in terms of Interest and Fees. Pricing requirements of Loan products vary from the Pricing needs of Deposit products. In the traditional Core Banking software systems, the core modules such as Current Accounts and Savings Accounts (CASA), Term Deposits, Lending and Corporate Finance have in-built Pricing definitions and structures. Thus, Price definitions and resolutions are enabled by the respective modules. This kind of maintenance consists of various product-centric, rigid and redundant maintenances which can be done away with Oracle Banking Relationship Pricing. In Oracle Banking Relationship Pricing, a common platform is designed, where the two main components of Price in Banking, namely Interest and Fees can be defined based on customer relationship with bank.

None of the products under Oracle Banking suite, such as CASA or Loans need to maintain Interest and Fees definitions. They utilize the common framework of 'Relationship Pricing' to maintain and achieve their Pricing requirements.

Thus, Relationship Pricing is a common utility product under Oracle Banking. All other products in Oracle Banking consume the required services from Relationship Pricing to meet their Interest and Fees functionalities.

2

Key Features

This chapter describes the key features of Oracle Banking Relationship Pricing. Following are the key features of Relationship Pricing product of Oracle Banking:

2.1 Setting up of Price Policy Chart

A Price Policy Chart allows the banker to create price plan for interest and fees. It facilitates setting up conditions and action using various facts. Condition columns have evaluation rules and action columns have output values like Interest Rate Chart, Margin Rate Chart, fees and so on.

The above functionality is addressed in the Price Policy Chart Maintenance (Fast Path: PR007) screen.

2.1.1 Price Policy Chart for Interest

Price Policy Chart for Interest can be defined at bank, product offering, product group, and account level.

2.1.1.1 Bank Level

Individual Price Policy Chart is defined for each domain (for example, Retail Banking is a domain), domain category (for example, Current Accounts and Savings Accounts (CASA) is a domain category) and price element (for example, Regular interest, Penalty interest).

- Bank level Price Policy Charts are defined for such domain categories where products groups are not defined (for example, Bank Drafts).

2.1.1.2 Product Group Level

Oracle Banking Relationship Pricing permits set up of specific Price policies. A Price policy can be set up for the Bank as a whole, for each domain and domain category. Price policy can also be set up for a Product group or for a specific Offer in a Product group.

- Price Policy Chart is defined for domain categories where Product Groups are defined.

- Accounting template is defined once Price Policy Chart is defined for Interest.

2.1.1.3 Account Level Pricing Plan

Based on the Price Policy Charts set up at bank or product group level, the system automatically evaluates a price plan for interest and fees.

- Pricing Plan is created for the account during account opening.

- The Pricing Plan contains the details of base Interest rates and applicable Margins rates to be applied on an account.

- Fees applicable for various events on the account.

- The Price Policy Chart for Interest and Fees and Price Benefit charts for Bundles or Campaigns are evaluated while evaluating the account level pricing plan.

- Account level pricing is displayed during Account Origination showing the Interest and event level fees applicable on an account. The same can be negotiated during Origination.

- Interest rates can be negotiated by way of providing User Discretionary Margin. Fees can be negotiated by way of providing discounts or replacing the fee by an absolute amount.

- Interest and Fees can also be negotiated any time during the life of an account.

2.1.2 Price Policy Chart for Fees

Similarly, Price Policy Chart for Fees can be defined event wise as well. Multiple fees can be linked to an event and each fee shall consist of a base fee and multiple additional fees applied on the base fee.

2.2 Event Definition

Banks normally levy fee on customer accounts for financial or non-financial transactions. For example, Periodic account maintenance Fee, Cheque book issue fee, Fee for closure of account, and so on. Such transactions or circumstances are recognized as 'Events' in Oracle Banking Products. One or more Price Definitions (PD) can be maintained in Pricing which is then linked to the respective events by defining a Price Policy Chart.

2.3 Fact Definition

A FACT is an attribute or parameter of an entity that can be recognized in the Oracle Banking products, which can hold values either as static or evaluated during run time, while performing a transaction. These attributes can be used as a basis to define fees for various events. The solution supports storing attributes (FACTs) related entities like Party, Transaction or Financial Terms. Facts such as LVR, customer credit score, state code, region code, and so on can be used to define pricing.

2.4 Interest Index Definition

Index can be defined for Interest and Margins. Index can be:

- Fixed Index

- Benchmark Index

- Derived Index

Interest Index has positive value and Margin Index can have positive or negative value.

Currency wise interest set up can be done through definition of Indices for various bank products. Oracle Banking Relationship Pricing supports maintenance of such indices for base interest as well as margins applicable.

An Interest index can be a simple index having a constant rate or a derived index rate based on a benchmark rate such as LIBOR, MIBOR, and so on.

- Rate charts can be defined for Interest and Margins separately.

- Different tier structures can be defined for Fixed Period and Variable periods in a rate chart.

- Margin Validity period can be defined.

- Interest indices have a refresh frequency. As per the maintained frequency, the change in index value is applied to the corresponding accounts.

The above functionality is addressed in the Interest/Margin Index Code Definition (Fast Path: PR005) screen.

2.5 Rules and Expressions

Oracle Banking Relationship Pricing provides option for creation of Rules and Expressions through its Rules framework. This enables the bank to create simple as well as complex rules to be defined in interest indices. This framework is also used to create Interest rate chart and Price definitions for fees.

The above functionality is addressed in the following screens:

- Rule Author (Fast Path: RL001)

- Expression Builder (Fast Path: RL004)

2.6 Tier Criteria and Rate Chart Definition

Oracle Banking Relationship Pricing supports simple as well as complex tier structures to define the interest pricing. Such tiers can be term based or amount based or a combination of both term and amount. The interest rates so defined can be attached with cumulative effect or incremental effect on tiers.

- Rates can be tiered based on Period, Amount or Both.

- Tiers can be Incremental or Cumulative.

- Rate charts can be maintained separately for Interest and Margins.

- Rate charts can also be maintained separately for fixed and variable term periods.

- Different tier structures can be defined for Fixed Period and Variable periods in a rate chart.

- Different index can be attached to different tiers in a rate chart.

- Margin Validity period can be defined to restrict applicability of a margin.

The interest index and the tiers are put together in the rate chart and Interest Pricing is created. The above features of Index definition, Tier criteria definition and Rate chart definition are specific to Pricing - Interest definition. These definitions can also be used to define Interest sensitivity rate which will be used in origination to determine the customer's debt service capability.

Apart from fixed, benchmark and derived index, Pricing also supports customized rates. Customized rates are taken directly from the treasury desk for an account or deposit. These are generally applicable for large value transactions or deals for which rate cannot be pre-determined. Hence, the bank prefers providing a tailored rate based on account or deposit details rather than using the card rates. Customized rate is a base rate and is defined through Rate Chart definition.

Pricing also supports step-up rates for TD by the way of a step-up margin. At a defined frequency (defined at offer level), the step up margin gets applied and net rates change accordingly.

The above functionality is addressed in the following screens:

- Tier Criteria Definition (Fast Path: PR009)

- Rate Chart Maintenance (Fast Path: PR004)

2.7 Price Definition

Price Definition enables setup for Fees or Rewards. Rewards are incentives provided by the bank to customer in the form of cash back. A fee consists of a base fee, multiple additional fees and discounts. It can be defined either, as an absolute amount/value or as a percentage based upon a particular amount fact. Additional fees such as Tax or Cess, are applied on the base fee (as per regulatory norms) and are payable to the regulatory authorities. Discounts are concessions applied on the base fee. Price Definition also allows the bank to define additional fees either on the base fee (gross) or on the base fee less discounts (net). Fees defined through Price Definition can be either tiered, non-tiered, simple, rule based or expression based. The bank can define the branch in which the fee income will be recognized. Bank can choose between the Transaction branch and the Account Branch to recognize the fee.

The above functionality is addressed in the Price Definition (Fast Path: PR006) screen.

2.8 Charge Attribute Definition

Various attributes that may require to be linked to a Price Definition can be defined. This definition decides the behavior of the fee deduction such as frequency to compute and apply the fee, whether to compute online and apply online or End of period, whether such application is calendar or anniversary based, duration for levy of fees, and so on.

- Online fee can be Charged:
    - Compute online and Charge Online
    - Compute online and charge End of Day
    - Compute online and charge End of a Period
- Charging frequency of Periodic Fees can be defined
- Non sufficiency of Funds (NSF) Treatment can be defined:
    - Force Debit
    - Reject Transaction
    - Part Waive Part Debit
    - Mark Hold

The above definitions of Price Definition and Charge attributes are specific to Pricing Fees definition.

The above functionality is addressed in the Charge Attribute Definition (Fast Path: PR008) screen.

2.9 Modifications to the Price Policy Chart

Versioning of the Price Policy Chart is a unique feature of Oracle Banking Relationship Pricing. This enables linkage of an earlier version of the Price Policy Chart to a product group or account.

Modification of the Price Policy Chart is allowed in addition to modification of the rate chart, index and the Price Definition. Applicability of the modification can be maintained for 'all' accounts or 'new' accounts.

Whenever there is a modification in the Price policy chart, the accounts will get re-priced and the interest and fee for the account may change. Pricing will trigger the re-pricing only for those accounts which will be impacted by the modification in the Price policy.

2.10 Negotiations

Oracle Banking Relationship Pricing supports negotiation of interest rates and fees at an Account level. Such negotiation is enabled during Origination and at any servicing event during the life-cycle of an account. Interest rate negotiation is done by setting up User Discretionary Margins (UDMs). UDMs so defined, are segregated as active, expired or future, based on their expiry date and displayed. Fee negotiations can be done either during transaction or at account level, if such negotiation is allowed at Price Definition level. Interest and Fee negotiations can be authorized by competent authority.

2.11 Price Benefit Chart

The solution allows bank user to define benefits for Interest by way of margins, and benefits for Fees by way of variance to an applicable fee or by way of replacing an applicable fee with an absolute value. This feature is very useful in promotion of Campaigns and Offer bundles by banks to capture market. Bank user can define all interest margins and fee benefits through maintaining details in Price Benefit Chart. Fee benefits can be provided either as a Discount in absolute terms or in percentage terms. Interest benefits are provided by linking margin rate charts.

The above functionality is addressed in the Price Benefit Chart (Fast Path: PR015) screen.

2.12 Entity Level Price Benefit Chart

Oracle Banking Relationship Pricing creates a pricing plan for interest and fees for an account during account opening. This chart also displays the Net Interest Rate applicable for an account along with its break-up (base rate and margins).

The above functionality is addressed in the Entity Level Price Benefit Chart (Fast Path: PR011) screen.

2.13 Re-pricing

Oracle Banking Relationship Pricing supports re-pricing of an account. Such re-pricing may be required due to changes in the customer attributes or account attributes or due to events in the account such as restructure, reschedule of a loan account or changes in the relationship of customer with bank.

2.14 Transaction Level Fee

A fee is defined for a particular transaction/event. While performing the transaction/event, the solution has the capability to display the applicable fee and allows bank user to negotiate the fee manually to facilitate negotiation of fee. Banker can negotiate the fees during the transaction by giving a discount. The fee negotiated during the transaction will be the final fee applicable on the account for that transaction.

2.15 Definition of Fee Groups for Free Transactions

Bank can group fee for different events and define the number of transactions in the group that can be free. The free transactions evaluation can be based on Occurrence, Cheapest or Costliest. Pricing will evaluate the fees across all the events defined in the group and will apply the free transactions. At the end of the period, it will apply the fees only for those transactions which are chargeable.

The above functionality is addressed in the following screens:

- Fee Group Maintenance (Fast Path: PR019)
- Map Fee Group to Offer (Fast Path: PR020)

2.16 Support For Fees at Facility Level

Banks normally charge fee at account level. Banks can open multiple accounts under a facility and may charge a fee at the facility level that is debited to an account nominated for the fee. Pricing can be set up to charge a periodic fee at the facility level.

The above functionality is addressed in the Entity Level Price Benefit Chart (Fast Path: PR011) screen.

2.17 Fees Inquiry

The Fees Inquiry (Fast path: PR022) page allows the bank user to inquire event wise for a particular account, the fees that are computed but are not charged to the account and the number of transactions for which fees is charged and not charged. As part of the fees inquiry, the following details are displayed for an account:

- The transaction events for which fees are not collected
- The computation date and the charge date for each fees associated with each event
- The net fee amount to be charged along with its break-up details (Base fee, Additional fee details and Discount details)
- Total number of transactions for which fee is charged and total number of transactions for which fee is not charged

2.18 Interest Inquiry

The Interest Rate Derivation Analysis (Fast Path: PR017) screen allows a bank user to inquire on the pricing interest plan linked for an account. The user can further drill down to the level of indices linked to the account from account opening date. The screen gives a vivid picture of the used facts and its value pertinent to the account inquired, while deriving the net interest rate.

The Account Interest Rate Inquiry (Fast Path: PR018) screen allows a bank user to inquire for a given period the Net Interest Rate applicable on an account. This screen

also displays the Net Interest Rate applicable for each pricing element (regular and penalty) along with the break-up of Net Interest Rate (base interest rate and various applicable margins).