

4 Ways Your Pricing Spreadsheet Is Failing You

Four Areas

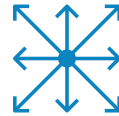
Where Spreadsheets Cause Bankers Pain



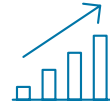
Banking Coaching



Risk Mitigation



Cross-Selling



Scalability



The commercial side of your bank plays a massive role in the overall profitability of the institution. The world's largest banks report that more than half of their annual revenue is generated by their commercial lines of business, and across the industry, commercial loans make up more than 43% of bank loan portfolios. And commercial pricing – your ability to win and broaden client relationships through negotiating and structuring commercial loans, as well as cross-selling additional products – is central to your commercial bank's performance and risk profile.

Yet the vital cog at the center of that all-important function and trillions of dollars of industry assets is...a spreadsheet?

That's like flying cross-country ... in a biplane. Yet most banks are content to stay with their spreadsheet, relying on technology that's changed little in the last quarter century

Why? Frankly, because it's cheap.



In terms of a purchase price? Sure. But rest assured there are countless ways in which banks pay dearly for the upkeep and the shortcomings of their pricing spreadsheet – every day.

The first step to solving a problem is admitting you have one. The next is understanding just how pervasive that problem is.

To that end, we've detailed some of the most glaring examples of spreadsheet deficiencies in the pages that follow. The pain caused by these shortcomings is generally felt in four main areas: **Banker Coaching, Risk Mitigation, Cross-Selling and Scalability.**

Banker Coaching

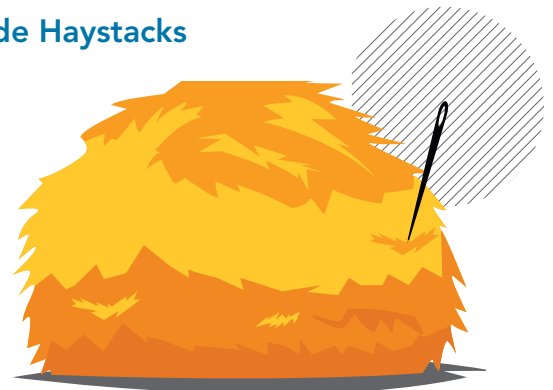
The whole point of a pricing tool is to help bankers put the right kinds of deals to the right kind of customers on the books. But when your spreadsheet falls short, bankers aren't motivated to use it. And if bankers don't properly use your pricing tool, then nothing else really matters. There's no way for bank management to impact the behaviors of their front-line bankers, and no way to shape what's getting booked on the bank's balance sheet. That's a costly way to do business.

Here's why your spreadsheet is a shoddy tool for coaching bankers:

Bankers Need Needles; Spreadsheets Only Provide Haystacks

Bankers only need suggestions about how to price a CRE loan when they're pricing a CRE loan. They only need to know whether a deal requires special approval if it's actually met the criteria for that scenario. The coaching they need is dependent on the context of their current deal.

A static spreadsheet can't deliver that. It offers no way for managers to communicate with the banker when they're actually pricing a deal. Instead, information on as many options, alternatives and scenarios is usually thrown into a tab, for the banker to sift through. It's like giving someone a complex piece of machinery to operate and then handing them a massive owner's manual. The information they need is likely in there, but where? And when should they look for it?



"If bankers don't properly use your pricing tool, then nothing else really matters."

If Coaching Isn't Timely, It's Just Hindsight

Coaching needs to adjust to the bank's strategy and what's going on in the marketplace. Management needs to be able to adjust it week-by-week, month-by-month, to let bankers know what's vital at that moment in time.

Changing those things on a spreadsheet is basically impossible, especially when banks can't even ensure that everybody's on the same version (more on that later). For example, if a bank decides that this week the focus needs to be on making introductions to the wealth

management team, getting somebody to actually put that in a place that's going to be applicable and useful, as well as timely, is basically a non-starter.

It's Not Coaching if It Doesn't Affect Behavior

A pricing spreadsheet can be built to tell if your \$5 million real estate loan is below target, and if not, to issue a message that says the deal requires SVP approval. But it can't auto-generate an email to that SVP, with all the deal data already filled in. And it can't offer your bankers specific actions they can take to reach the target – change the maturity to this length, add this much collateral, etc. Imagine an actual coach telling the players what they're doing is wrong but offering no direction on ways to improve – that's essentially the spreadsheet experience.



If It's Not Trackable ... What's the Point?

And what about the directions and suggestions bank management actually does offer to its front-line bankers? With a spreadsheet, there's no way to know if that coaching was received. And if it was, if it led to any action. And if it did, what resulted from that action.

Basically, you can't tell if your coaching mattered at all.

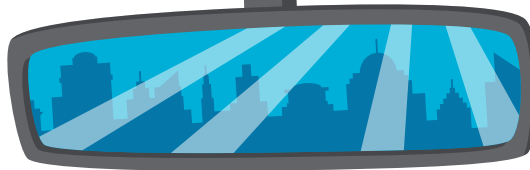
Risk Mitigation

Your pricing tool should make sure you are booking the right kind of deals, properly measuring the risk, and then getting compensated for that risk. Spreadsheets can do some of that, but not nearly enough.

Risk-Based Pricing Requires a Varied Approach – not One-Size-Fits-All

A pricing spreadsheet can let you know whether you're charging enough for the level of risk you're taking on a deal. That's great, if your only available tactic is to charge more.

But what about when the client won't budge off that rate? Then bankers need something the spreadsheet won't offer - actionable paths to take to reduce the risk. Like, say, offering a 57-month term instead of 60; asking for 70% LTV instead of 80%; or adding a guarantee from a silent partner. All of those are ways to structure a deal so that it's priced appropriately for risk. None of them are options proactively put forth by a spreadsheet.



It's Hard to Drive Forward Using the Rearview Mirror

Spreadsheets can only measure risk by looking backwards. For example, users can input the risk grade on a deal based on the last set of financial statements from 60 days ago, which measures the prior three months before that. There's no way to incorporate real-time changes for that customer, things such as declining cash balances, increased uses of lines of credit, deteriorating collateral, etc.

That's not a big deal when the economy is steady and predictable. But when it makes a sudden shift, it's a huge problem. If you were having a renewal conversation in March 2020 – what would have been more helpful – financial performance data from Q4 2019, or a real-time snapshot of what was happening to your client then and there?

Sometimes even current information isn't enough, because by the time the renewal conversation is happening, the damage has already been done. You needed to be alerted to the potential risk earlier, but spreadsheets are by their nature passive instruments. They don't do anything until you open them and use them to calculate something. They can't proactively notify bankers of danger on the horizon.



Spotting Risk When It's in the Pipeline > Spotting Risk When It's on the Portfolio

In the world of spreadsheets, there's no connection between pricing and portfolio management.

Banks can see what's already on the books, and they can plan for what to do (or not to do) in the future, but there's always a significant pipeline – new deals being negotiated and old deals being renewed – that's going to have an impact when it lands on the books. When these deals are priced via a spreadsheet, there's no way for a portfolio manager to view them, and direct any potential changes – stop doing this type of deal, raise targets on these, require special approval on those, etc. – before they're booked.

Let's say your bank had multiple hotel deals in the pipeline when the pandemic began impacting the economy. You now want those deals to be no greater than 60% LTV and no longer than five years. With a pricing spreadsheet, you can't see this unfolding on the portfolio level and make those changes fast enough to alter those deals already in progress.



Cross-Selling

Margin compression has been a reality for commercial banks for years now. While the price of the loan is still important, the ability to expand the relationship into other income-generating products has become essential. Spreadsheets were built to handle the former, not the latter.

Cross-Selling Is About Relationships; Spreadsheets Are About Transactions

A spreadsheet is built for transactional pricing, not relationship pricing. Most of them don't automatically pull in existing customer information to give you additional context when you're pricing a particular product. Even if bankers do have access to that information, they're often forced to key it into the spreadsheet themselves – a recipe for potential error. And those inputs have rarely been measured for pro forma profitability by the same metrics and assumptions used for pricing new transactions.

With no broader view, the deal becomes a transaction in a vacuum. There's no understanding of what the client already has and no insight into what additional product(s) to recommend. Should you try to get aggressive on credit pricing and make it up in cross-sell? Or is that not going to be possible?

The answers those questions aren't found at the transactional level. They're at the relationship level – out of reach of the pricing spreadsheet.

It's Hard to Cross-Sell with Only a Partial View of Profitability

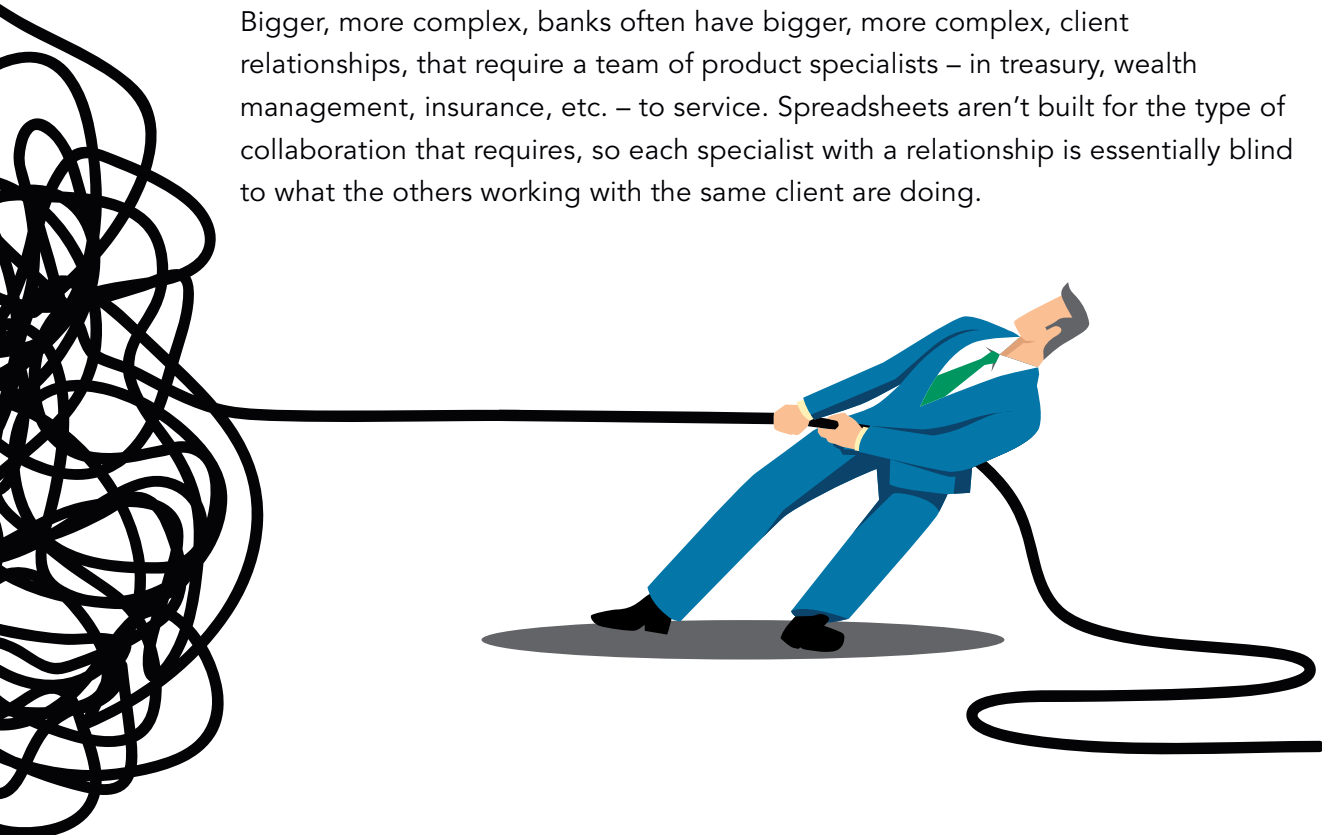
Even if you do know which products you want to cross-sell, your spreadsheet will likely only help you price them one transaction at a time, instead of as a bundle. That means you have no sense of the blended profitability of everything you're offering and no idea how much cross-sell is needed to have an overall impact on the deal.

Did That Cross-Sell Deal Turn into Portfolio Reality?

If you've somehow overcome the aforementioned issues and made a cross-sell, how do you follow through? Once the spreadsheet prices the transaction, that information goes no further. It doesn't get moved into other systems, so there's no way to confirm, for example, that those deposits the client promised in the original deal were ever brought over to the bank. Without that accountability, a cross-sell that looked good initially in theory can turn later turn bad in reality.

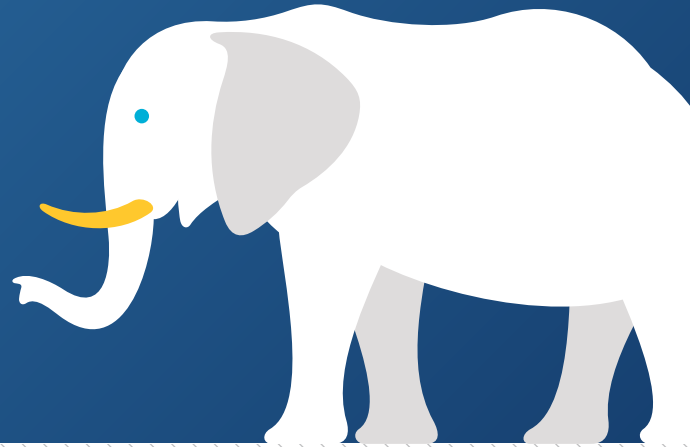
You Can't Cross-Sell When You're at Cross-Purposes

Bigger, more complex, banks often have bigger, more complex, client relationships, that require a team of product specialists – in treasury, wealth management, insurance, etc. – to service. Spreadsheets aren't built for the type of collaboration that requires, so each specialist with a relationship is essentially blind to what the others working with the same client are doing.



So you end up with some version of this sad scenario, the banking version of the parable of the blind men and the elephant:

A banker does exception pricing on the credit because they're cross-selling treasury services. Meanwhile the folks in treasury are doing exception pricing on their product because there's a loan relationship as well. Each group is giving on price because, when the spreadsheet is the tool of choice, nobody sees the bigger picture.



Scalability

In early October, the number of COVID cases reported in the United Kingdom suddenly spiked massively. After a reported rolling 7-day average of about 6,000 cases in late September, the daily infection count shot up to more than 12,000 on Oct. 3, and then to more 22,000 the next day.

While cases had been rising recently in the U.K. the main reason for the sudden jump in numbers was an error in reporting. It was discovered that more than 16,000 previous cases had mistakenly not been uploaded to the government dashboard.

"The extraordinary meltdown is believed to have been caused by an Excel spreadsheet containing lab results reaching its maximum size, and failing to update," the Daily Mail reported.

It was a stark reminder of the scalability limitations of Excel. The problems that causes at a bank may not generate national headlines, but they will put a major dent in the bottom line.

Making a Mess of Model Risk Management

How does your pricing spreadsheet calculate economic capital? How is that documented? Who's ensuring the calculations are correct? Who made the changes? What changes were made? Is everyone using the latest version? Is there an audit trail for all of this? Are third-party reviews being conducted?

If your bank uses a pricing spreadsheet, producing answers to all those questions is theoretically possible, but it requires a set of steps – and likely additional resources and personnel – to ensure everything goes smoothly. Even then, it rarely does. There's a reason why regulators view them with such skepticism.

"Academic studies suggest that close to 90% of spreadsheets have errors."

Spreadsheet Errors Are Disturbingly Common

The earlier story about the reporting problem with COVID cases in the United Kingdom is far from an isolated one. In fact, academic studies suggest that close to 90% of spreadsheets have errors. Anecdotally, the infamous "London Whale" fiasco was due at least partially to errors in using Excel.

The mistakes can be as simple as copying and pasting data into the wrong cell. Or referencing the wrong cell by accident. Now, instead of, say, pulling the denominator, you're pulling the numerator. Then that error flows through every deal you've priced for the past few years.

That ... doesn't seem like an ideal way to run a commercial bank.

When Changes Aren't Easy, They Usually Don't Get Made

Think about the last time you added a product, or a rate type to your bank's spreadsheet. How about when you needed to change funding costs, or add a new market? Odds are, the process to make those changes was anything but "quick and easy." In many cases, it's such a pain that the changes don't ever get made.

Side note: If you're trying to switch over your funding curves from LIBOR to SOFR, you're acutely aware of this spreadsheet struggle.



What Happened in the Spreadsheet Stays ... in the Spreadsheet

After you use a spreadsheet to price a deal that deal gets saved as an individual file and ... that's it. It doesn't flow into any sort of system that allows for analysis. You can't see trends over time, or won/loss rate, or whether the priced deal matches the booked deal ... the list goes on.

And More ...

Because your spreadsheet doesn't scale you'll also likely lacking:

- Cloud redundancy to act as a fail safe.
- A safe environment for testing changes before they go live.
- QC that can do rigorous high-volume testing.
- Data integration with other systems.

Conclusion

We get it. There's never a good time to spend more money on new banking technology. And it's really hard to overcome that inertia when the price tag on the tool you're using seems so cheap.

But that's a backwards way of looking at cost – the spreadsheet way, if you will. It doesn't factor in all the ways a pricing spreadsheet becomes more expensive moving forward.

Each deal that is lost because the bank couldn't offer the right structure and pricing options; each deal that's won, but with money left on the table because the banker lacked flexibility and context; each deal that adds too much risk to the balance sheet; each deal that suffers from subpar data **It all adds up to an immense cost that grows with each passing quarter.**

A pricing spreadsheet isn't something banks can't afford to replace. It's something they can't afford to keep.

Ready to Retire Your Spreadsheet?

We'd love to show you what's possible with the PrecisionLender commercial pricing and profitability platform.

[See A Demo](#)



About PrecisionLender

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