

### **Is my bank mis-classifying our Customers' profitability?**

We see this constantly. There are three key things that should be present in any bank's profitability module if they're going to publish information at the account or customer level.

The first part is to make sure you are capturing fee and transaction information at the account level. If you don't have that, you risk mis-classifying your customers' profitability 26% - 28%.

The second is assigning funds-transfer pricing at the account level. That means assigning the value of the balance whether it's a loan or deposit to the bank. Instead of assigning those funds-transfer rates to an entire portfolio, they should be assigned individually to each account. Not assigning funds transfer-pricing rates at the account level accounts for another 18% to 20% of mis-classified customers.

Last but not least, if you're calculating this information, it needs to be calculated over more than one touch point. With our customers, they're taking multiple points - usually - three points in time, three months or quarters of annualized information, and smoothing it over that time-period.

This allows you to see if a customer is getting better or worse. If you smooth it over too long a period, you don't see a change in a customer. If the information is not smoothed properly, the profitability of customers can be mis-classified by 20%-22%.