

### ***The Other Side of the Balance Sheet: Price Elasticity Modelling & Optimisation for a Deposit Portfolio***

The deposit portfolio is often the poor relation when it comes to the allocation of analytic resources, but correct deposit management is key to a full understanding of the liquidity of the balance sheet and directly impacts lending opportunities and ultimately the profitability of the whole bank. This paper discusses the application of price elasticity modelling to forecast the impact of pricing actions on deposit balances. These models must incorporate the effects of competitor pricing, the macroeconomic environment and, importantly, they should account for potential product cannibalisation to establish how price changes affect the interest expense of the entire portfolio.

A suite of deposit price elasticity models not only enables accurate forecasting of balances for new pricing strategies and 'what-if' analysis for events such as Central Bank rate changes, but also lends itself to optimisation, which has the ability to discover revenue where a simple forecasting tool cannot. An optimised pricing strategy trades off balances and revenue across every product in the portfolio and finds the most efficient path to achieve stated business goals and unlock the full value of the deposit portfolio.

**Key Words:** Deposits Pricing, Price Elasticity, Optimisation