



Retail Banking in Europe: **THE SECRET OF SUCCESS**

with **EFMA** and **Nordea** 

Presented by Christophe Angoulvant

Paris, March 14th 2008

Agenda

- 1 A fact based Benchmark on Performance
- 2 Strategy and Operating Model differences between Regional Clusters
- 3 Idiosyncrasies and Performance Drivers
- 4 A Path towards the Garden of Eden
- 5 Questions and Answers

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The context of the Survey

Europeanization of players

Different growth perspectives
between markets

Progressive harmonization of
solvency rules and regulations

On-going expansion of web banking

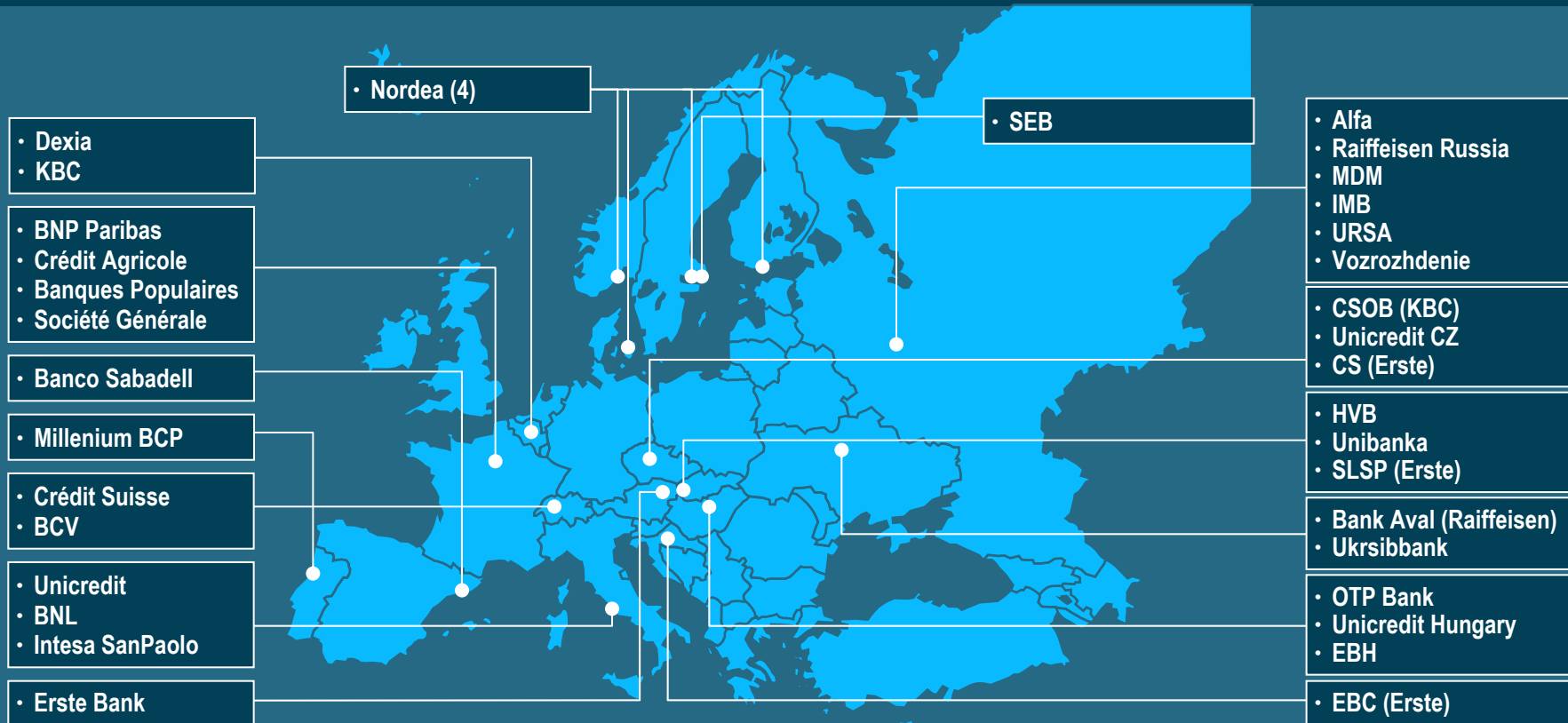
**Need for a fact based
benchmark on performance:**

> Across Europe

> For Retail Banks

> Linking Financial and
Operational data with best
practices and performance
levers

The participants: 37 banks representative of the geographical, financial & legal status diversity of Retail Banking in Europe



Scope excluded direct only banks, specialized banks or mono-product line businesses, non-retail activities of universal retail banks (asset management, private banking, ...)

The approach

Describe differences

Performance outcomes:

- > Revenue growth (2002-2006)
- > Cost structure

Strategy and operating models

- > Retail Business Model
- > Distribution approach
- > Make or Buy strategy
- > Industrialization

35 questions of which:

- 8 about performance outcomes
- 27 about strategy and operating models

Explain performances

Separate

- > Idiosyncrasy effects
- > Pure performance impacts

Identify

- > Key performance drivers on fact based approach

Emphasize key actions

By regional cluster

- > Northern Europe
- > Western Europe
- > Central and Eastern Europe
- > CIS (Russia and Ukraine)

For each participating bank (by comparison to its regional cluster and to the total sample)

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Strategies and Operating Models differ largely between Regional Clusters

- > Share of wallet battle
- > Stronger branch delegation
- > Internationalization of back-office processing

NE

- > More technology driven
- > Superior cost management

WE

- > More people driven
- > Superior revenue per client generation

CIS

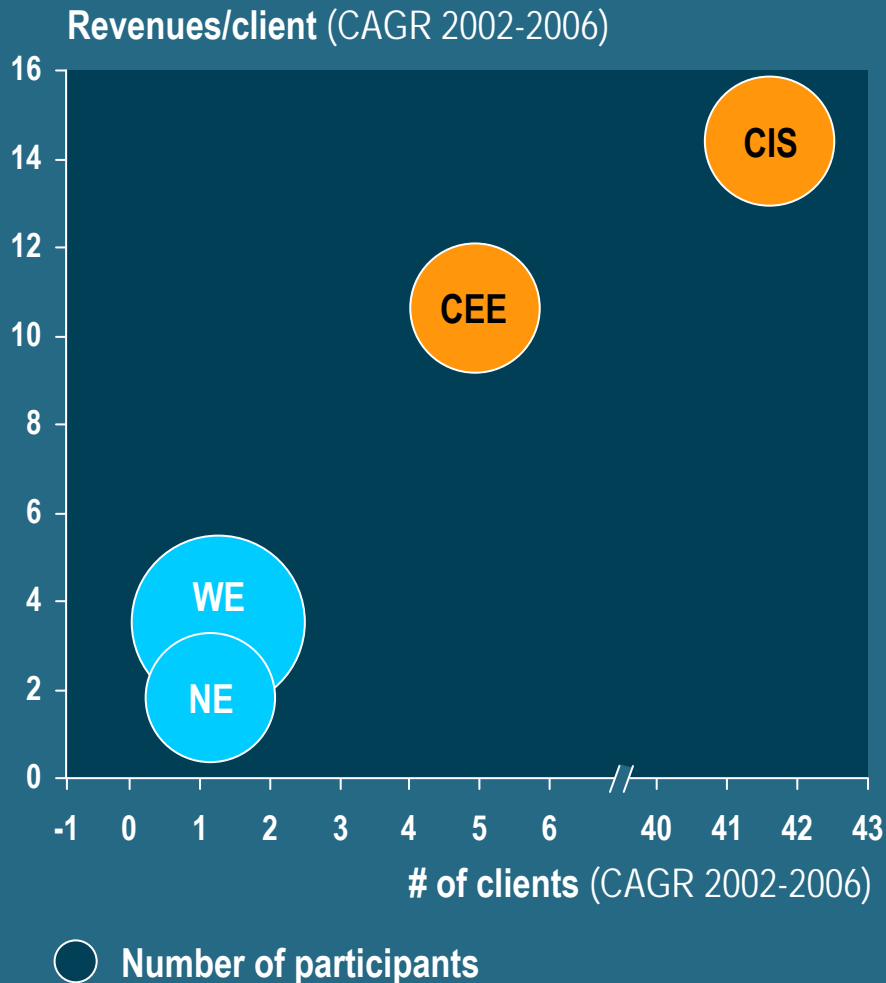
- > Strong flexibility in branch opening hours
- > Will advanced in back-office centralization

CEE

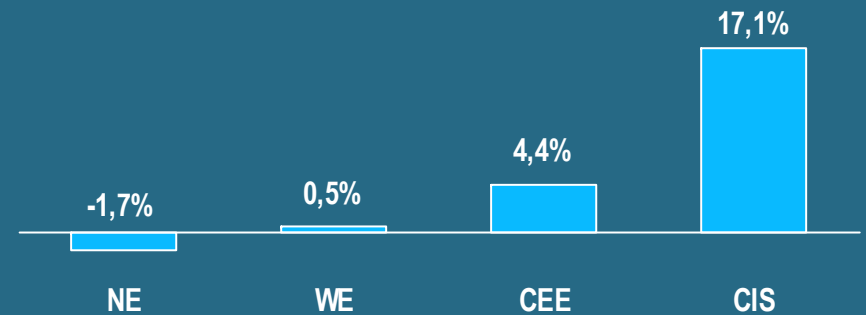
- > High use of web banking
- > Most advanced cluster in alternative branch strategy

- > **Field occupation battle**
- > **Lower branch delegation**
- > **Cost efficiency suffers from low scale**

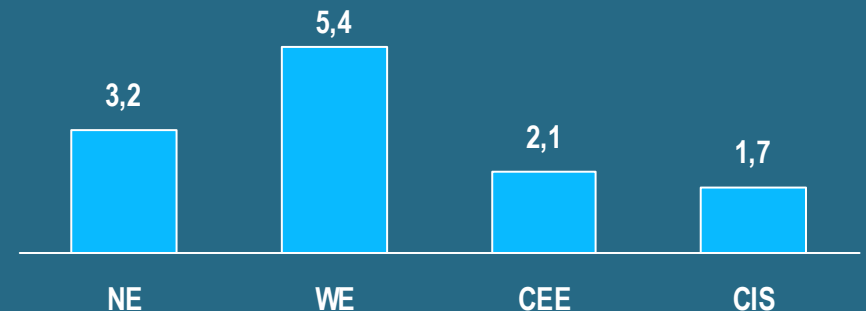
Bank strategies reflect differences in terms of market maturity



A field occupation battle in CEE and CIS (evolution of branch number; 2002-2006, CAGR)

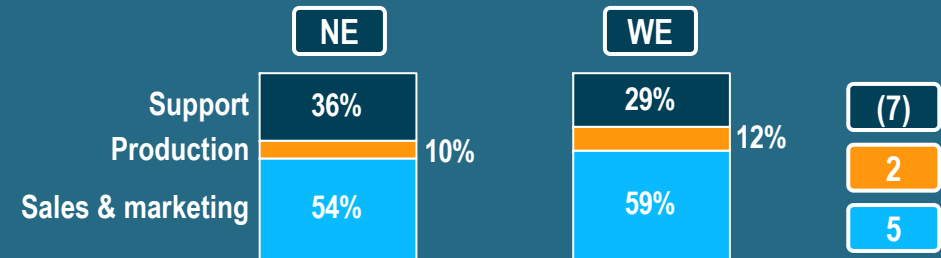


A share of wallet battle in NE and WE (Average number of products owned by client; 2006)



WE and NE banks have followed different strategies in similar competitive environment

More cost allocated to **Sales & Marketing** for WE banks in 2006



Higher **external expenses** (IT, outsourcing) for NE banks in 2006



Better cost income ratio for NE banks in 2006...

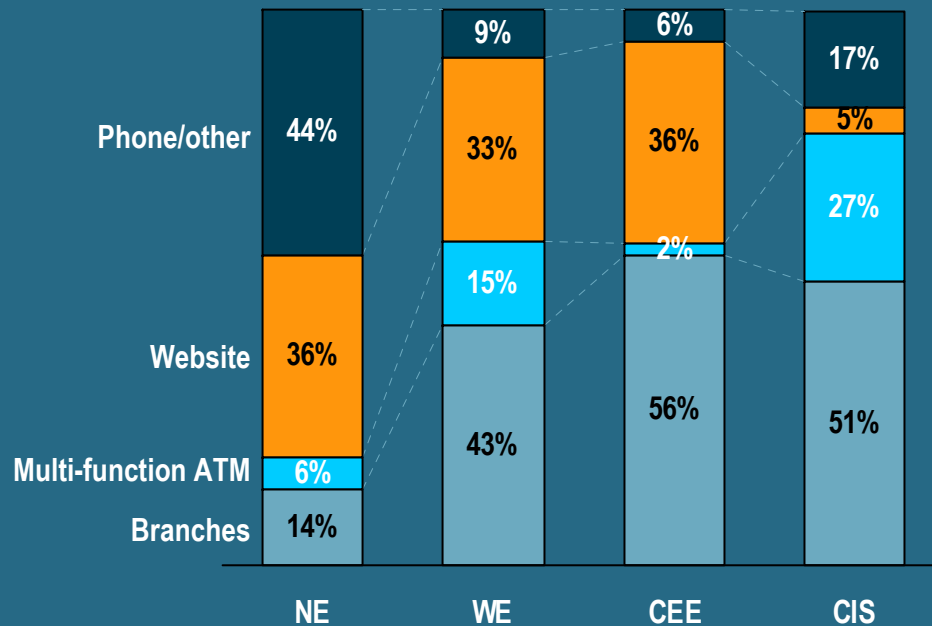


...but **lower revenue growth** over 2002-2006 (CAGR)

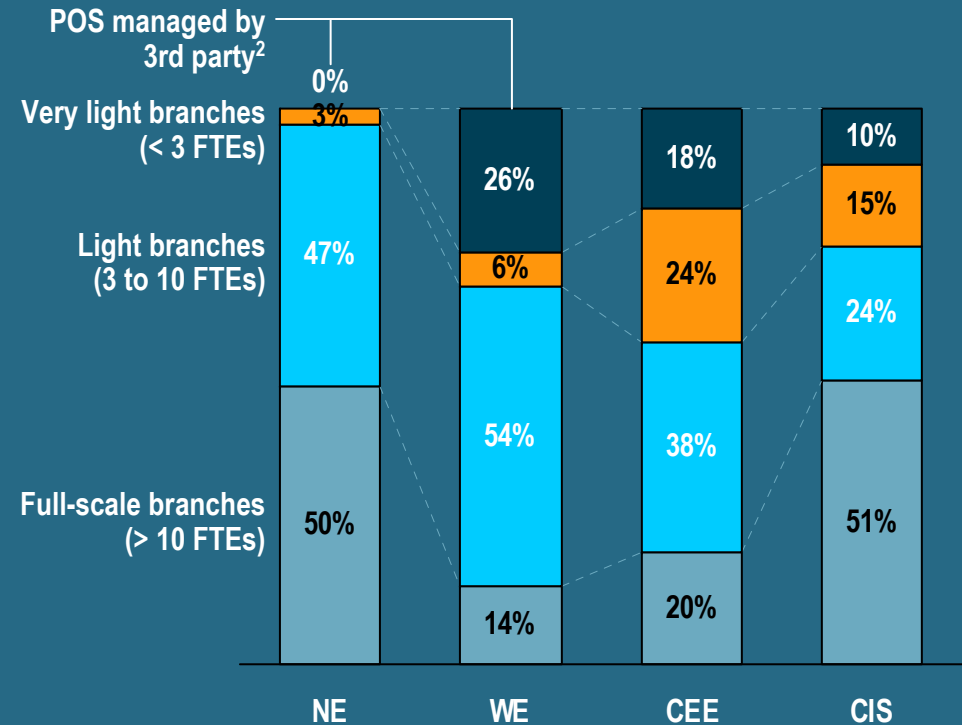


CEE banks are much into web banking and alternative branch strategies

Breakdown of transaction volume¹ by channel (2006)



Breakdown of retail branches by size and type (2006, number of branches)

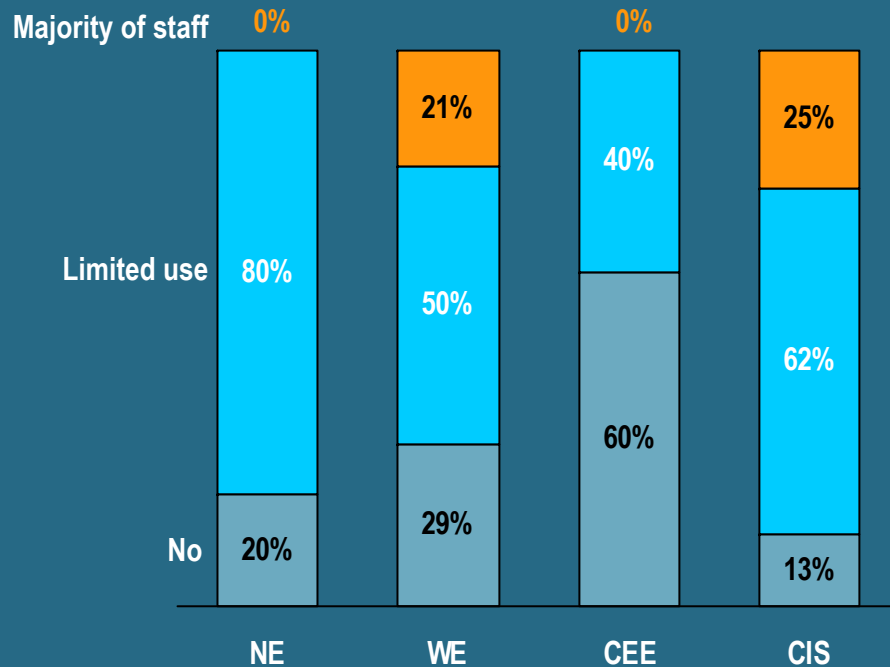


1) Excluding cash withdrawal and deposit

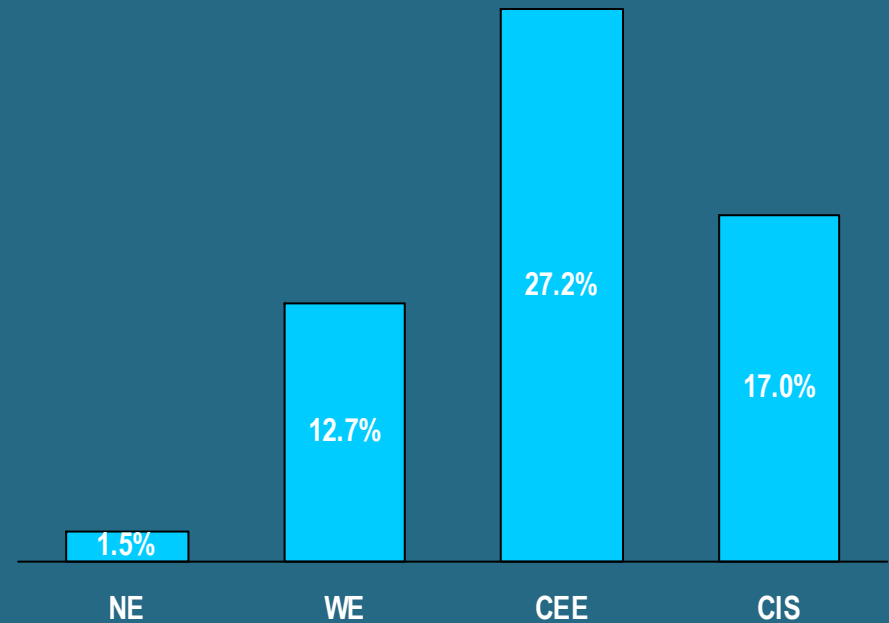
2) POS owned by a third party who is not franchised but who distributes the bank's products in exchange for fees or commissions

CEE and CIS banks are increasing flexibility in their branch operating mode

Use of variable / part time staff (2006)



Average bonus of branch staff (as % of salary, 2006)

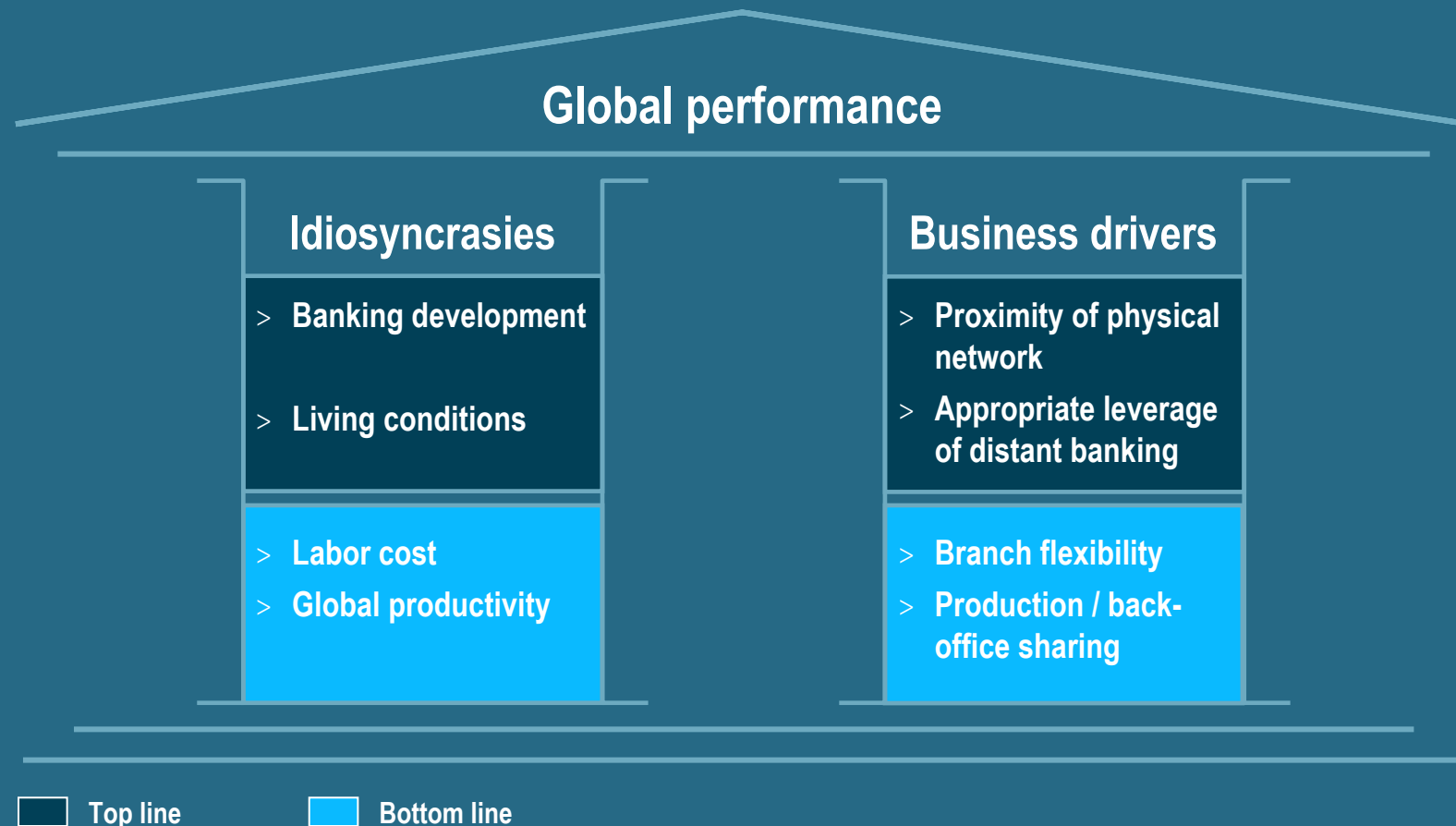


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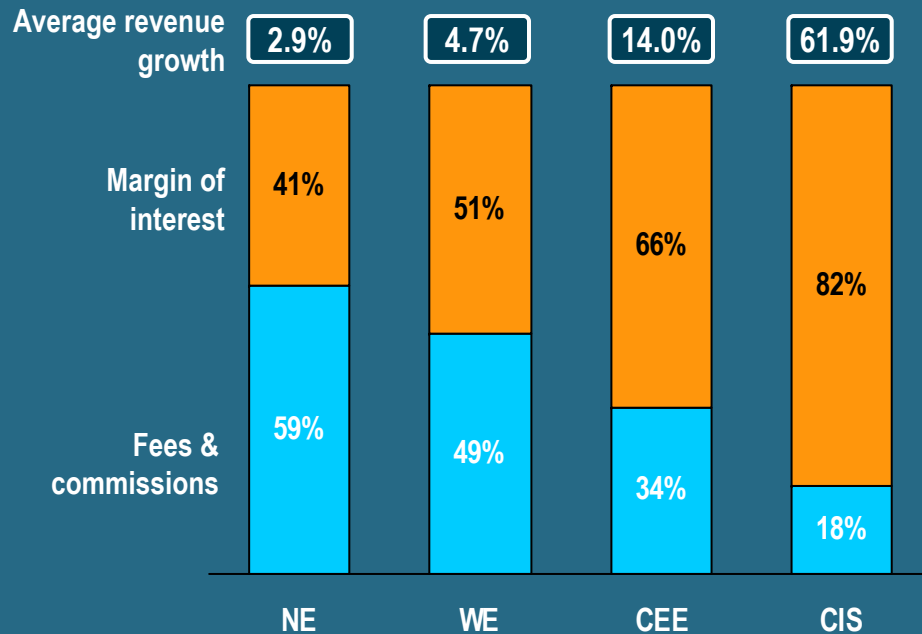
Banks' performance is explained by market idiosyncrasies and by pure business drivers

Performance factors overview



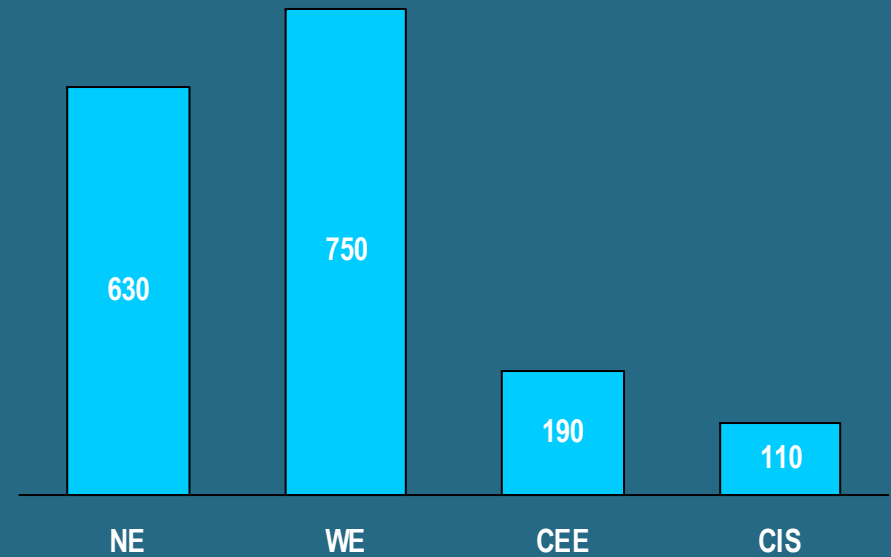
Consumption of financial services results from banking development and living conditions

Breakdown of growth by revenue type (2002-2006)



- > Margin of interest linked to credit
- > Fees and commissions based on savings (and transfer of cash to bank accounts in CIS)

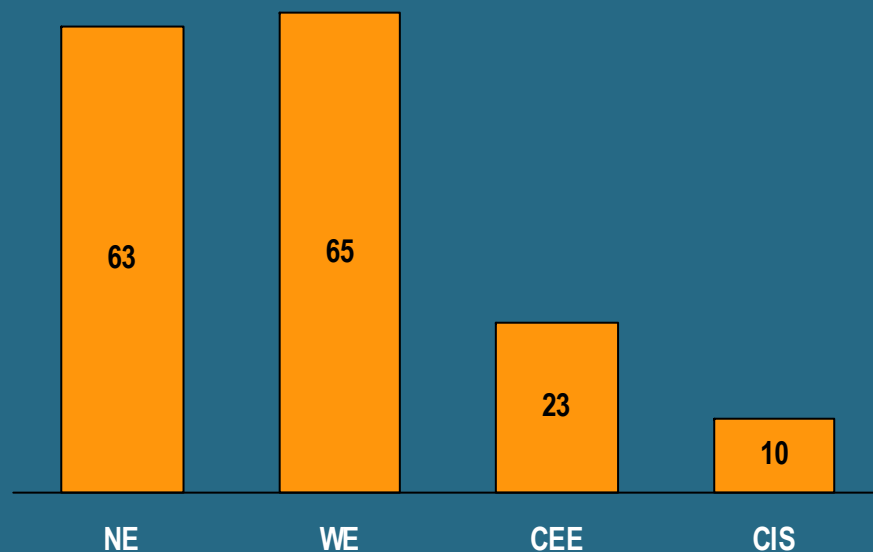
Average bank income per client (€, 2006)



- > Based on active clients

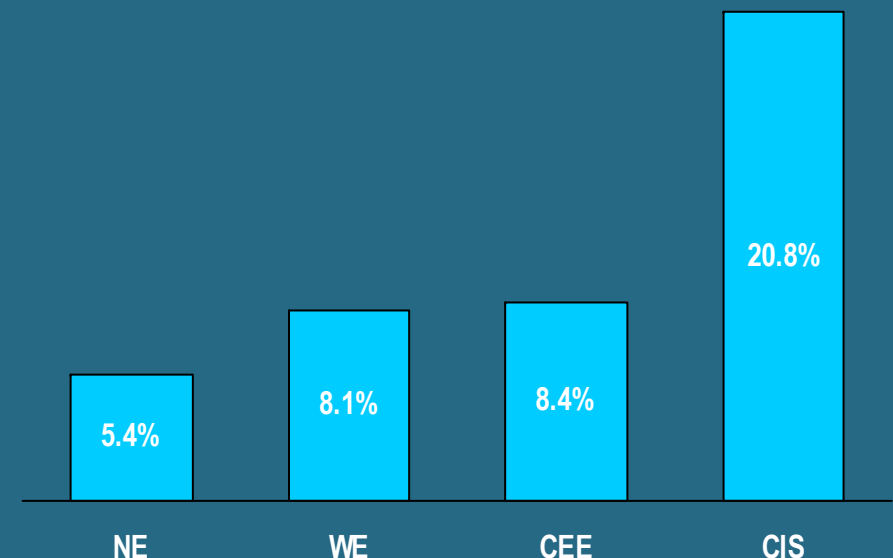
Market idiosyncrasies also explain a large part of differences in cost structure

Unitary cost of employees (EUR k, 2006)



> Driven by differences in salary index

Production costs to revenues (2006)

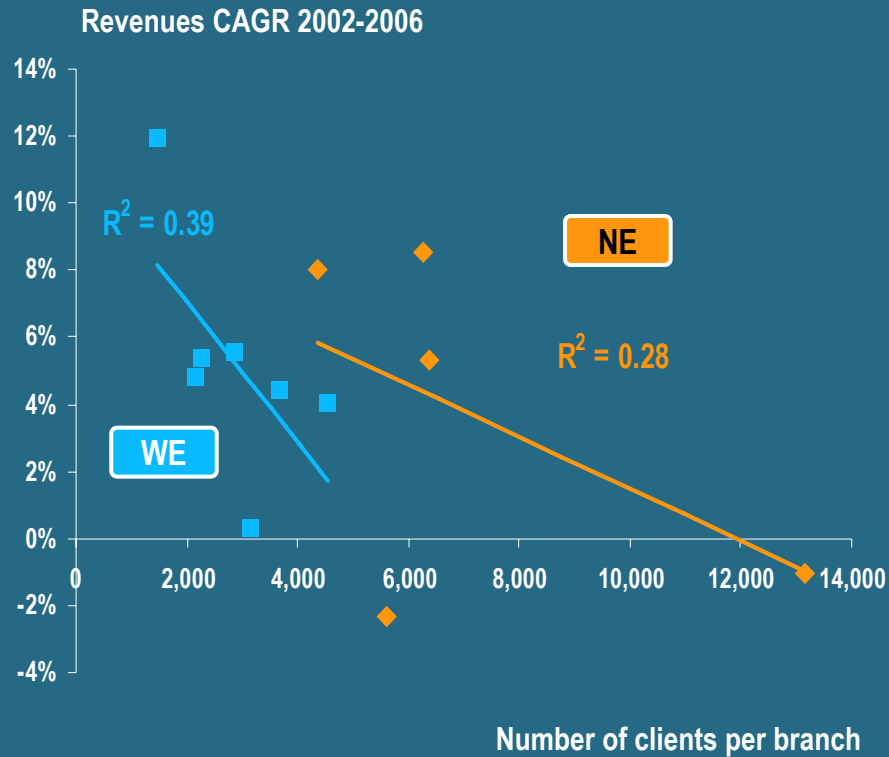


> Driven by differences in:

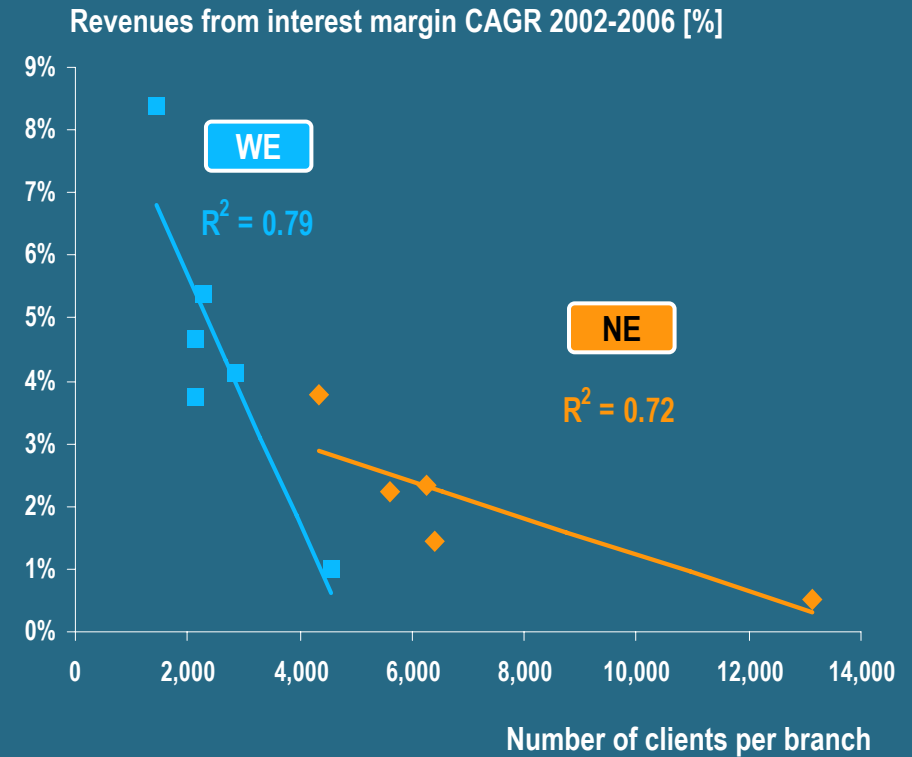
- Sophistication of IT systems
- Productivity of employees

Increasing proximity of branch network generates more growth especially in credit

Overall revenue development



Effect on credit revenues



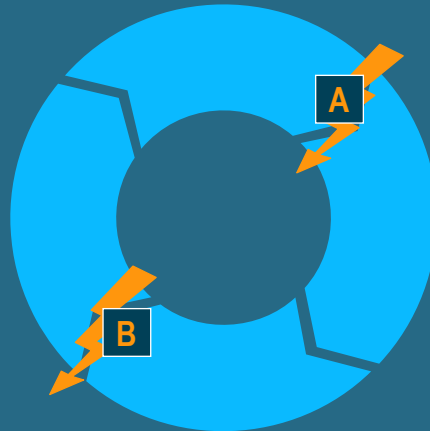
Tackling the challenges of distant banking is a key performance driver

More Web-banking

- Getting clients online

More clients and more revenue/client

- Developing "push" approach through direct marketing
- Devoting more resources to increase customer knowledge and develop differentiating products & services



Less operations in branches

- Getting clients perform transactions online rather than in branches
- Reducing cost per transaction to increase margins

More time to sell in branches

- Freeing branch staff time to focus on commercial tasks
- Reducing staff in branches with equal commercial effectiveness
- Re-deploying staff in call centers or in new branches to increase network coverage

THE CHALLENGES

- A** Turn website into transaction platform
 - Fully leverage costs upsides of web-banking
- B** Address the disruptive impact of web-banking on cross selling
 - Fully leverage revenues upsides of web-banking

Branch flexibility is a key driver for both commercial performance and cost efficiency

Variable staff working time

- > Vary staff size according to branch visits (share advisers between branches, ...)
- > Adapt staff qualification (more advisers on Saturday, ...)

Variable opening hours

- > Adapt opening hours to area type (office, residential, ...)
- > Create more opportunities to sell (outbound calls from branches)

Variable salaries

- > Motivate commercial staff through bonuses indexed on performance
- > Favor higher margin products with focused incentive schemes

IMPACT ON REVENUES

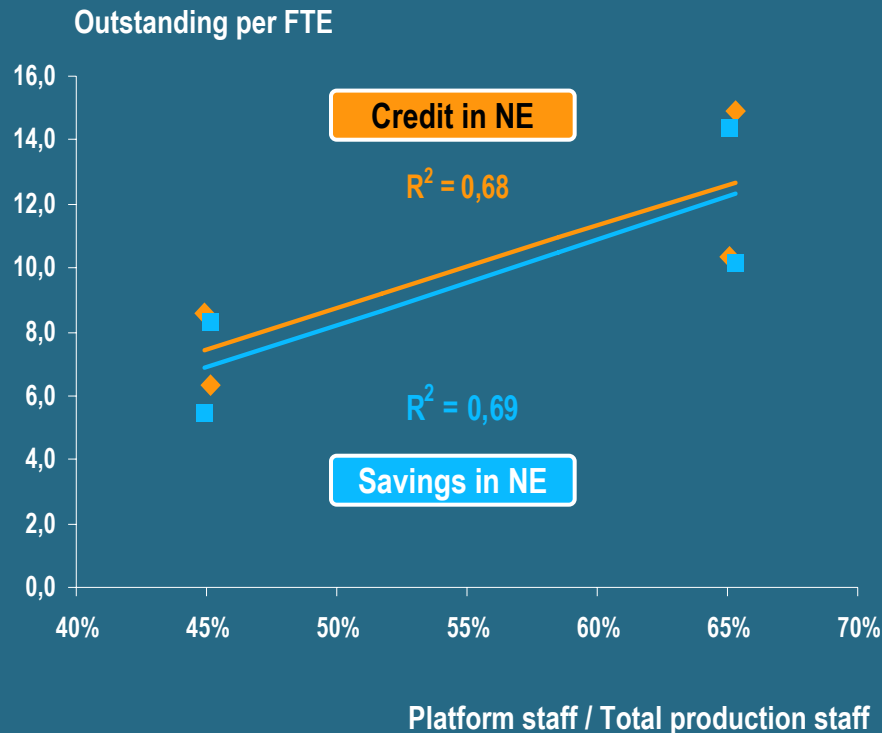
- > Improvement of sales effectiveness
- > Development of cross selling

IMPACT ON COSTS

- > Reduction of sales and marketing costs

Sharing of production has a positive impact on production as well as on sales & marketing costs

Platform staff / Total staff
vs. Outstanding per FTE



Platform staff / Total staff
vs. Sales & Marketing costs / revenues



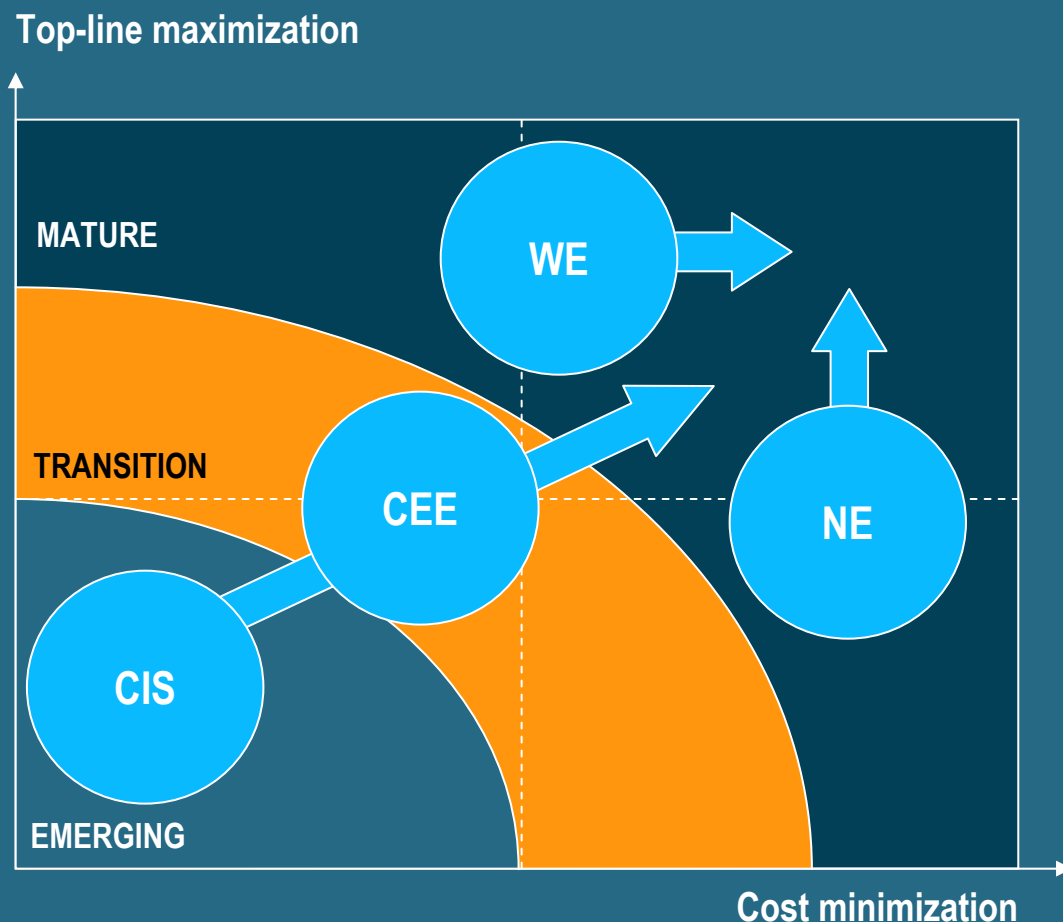
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European retail banks often face a dilemma between top-line and bottom-line, which results in several sub-optimal situations



As a matter of fact, banks follow different growth paths, partly determined by market maturity, partly resulting from strategy

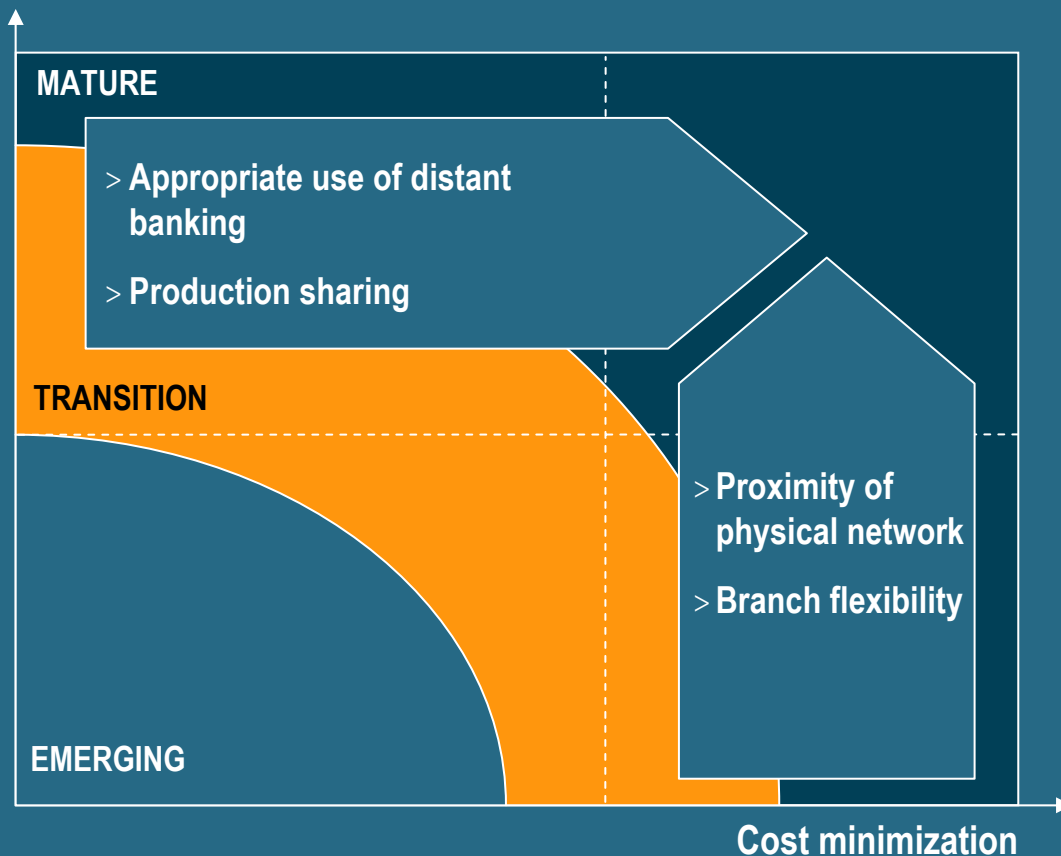


COMMENTS

- > Most banks in **NE** operate under a "factory" model, with state-of-the-art IT architecture, bringing them a clear cost edge, materialized by lower CIR
- > On the opposite, **WE** banks have a close proximity to their customers allowing excellent results on the revenue side. But legacy networks are very costly and production optimization is still under way
- > **CEE** banks see growth slowing down and will need to activate both revenue and cost levers, to reach cross-selling levels of the West and cost efficiency of Nordics
- > Banks in **CIS** are fighting to surf on high growth while not endangering cost and risk exposition. Managing growth takes over "optimization" as such

Two families of drivers can be exploited to reach the Garden of Eden

Top-line maximization



COMMENTS

- > Banks in need for revenue booster (typically **NE banks**) should turn to levers associated to higher proximity and increased flexibility of branches
- > Banks striving to improve cost position (typically **WE banks**) should focus on Production sharing and review the use of distant banking so that it produces full effect on costs without eroding top-line development
- > Banks in less mature markets (**CEE and CIS banks**) should give emphasis to revenues growth and improve cost position thanks to scale effect

Proximity is a key driver to maximize top line in all clusters and its effects can be strengthened by flexibility

Use of proximity should be adapted to the development phase

- > In mature markets, decrease average number of clients per branch staff to grow cross selling and subsequently margin per client
- > In emerging and transition markets, increase number of clients per branch to break-even distribution network
- > In both cases, grow light banking in combination with existing branches and production platforms

Rely on the double impact of branch flexibility to reinforce positive effects of proximity

- > Despite cultural and regulatory barriers that may exist :
- > Leverage impact of proximity on revenues through better answer to customer needs and behaviors
- > Reduce % of sales and marketing costs from optimized resource allocation

Use distant banking as an orientation and transactional tool and pursue production sharing internally or externally

Use distant banking as an orientation and transaction tool

- > Use web-banking as a recruiting and orientation tool to bring most valuable clients into branches
- > Get more clients on line and make them active on the transaction side
- > Grow calls to keep customers active and eventually get them in a branch for commercial purpose

Pursue production sharing internally or externally

- > Extend production sharing impact through:
 - Development of automated processes (e.g. mortgage and consumer loans approvals)
 - Specialization of staff
- > Consider partnership and co-sourcing as potential leverage to decrease costs
- > No clear impact of out-sourcing on cost efficiency

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