The Future of Retail Banking in Europe

Top Executives' Survey 2013

Brussels, September, 2013
A. Introduction to the study
The survey aggregates the opinions of top executives in retail banks across Europe on key topics about the future of the sector.

**KEY TOPICS SURVEYED**

1. **Future profitability of retail banking** – collecting insights on changes in NBI, costs and profitability, as well as banks' efficiency.
2. **External impact on banks** – assessing the impact of new entrants and governments and regulators actions.
3. **Multichannel distribution** – understanding banks' view on the expected development of (direct) channels.
4. **Value proposition** – evaluating the impact on each client segment of the changing bank environment and defining the levers to extract additional revenue/profit.
5. **Challenges and opportunities** – gathering input on the most important challenges and opportunities in the medium term.
6. **New capabilities** – examining the essential capabilities that will be necessary to improve strategic positioning and economics in the medium term.

*Source: Roland Berger*
More than 60 banks across 15 countries were clustered into four large regions.

Clustering of results

**WESTERN EUROPE (WE)**
- France
- Belgium (BE)
- Netherlands
- Luxembourg
  - 17 banks – EUR 2,700 bn deposits

**CENTRAL EUROPE (CE)**
- Czech Republic
- Hungary
- Romania
- Slovakia
  - 13 banks – EUR 230 bn deposits

**NORTHERN EUROPE (NE)**
- Germany
- Switzerland
- Austria
- Nordics
  - 14 banks – EUR 2,600 bn deposits
  - (excl. Switzerland)

**SOUTHERN EUROPE (SE)**
- Italy
- Spain
- Portugal
  - 18 banks – EUR 2,400 bn deposits

Source: Roland Berger
B. Retail Banking outlook: Challenging times ahead
Most of surveyed retail banks expect limited to negative Net Banking Income growth with varying expectations across regions

Net Banking Income growth expectations

<table>
<thead>
<tr>
<th>Region</th>
<th>Expected annual Net Banking Income growth [2013-2015; % of respondents]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>16 [-2%] 34 [-2%-0%] 35 [0%-2%] 15 [&gt;2%]</td>
</tr>
<tr>
<td>SE</td>
<td>17 [-2%] 11 [-2%-0%] 56 [0%-2%] 17 [&gt;2%] 0.1%</td>
</tr>
<tr>
<td>WE</td>
<td>12 [-2%] 24 [-2%-0%] 47 [0%-2%] 18 [&gt;2%] 0.9%</td>
</tr>
<tr>
<td>NE</td>
<td>7 [-2%] 64 [-2%-0%] 14 [0%] 14 [&gt;2%] 1.5%</td>
</tr>
<tr>
<td>CE</td>
<td>31 [-2%] 46 [-2%-0%] 15 [0%-2%] 8 [&gt;2%] 1.7%</td>
</tr>
<tr>
<td>BE</td>
<td>0 [-2%] 33 [-2%-0%] 33 [0%-2%] 33 [&gt;2%] 0.9%</td>
</tr>
</tbody>
</table>

1) Average annual forecasted GDP growth, IMF, April 2013
2) BE = Belgium as an example of an individual country

Source: Roland Berger, Annual reports, ECB, IMF. Figures don’t add up to 100% due to rounding
In an uncertain economic context, European retail banks expect to further grow their deposit base, while credit perspectives are less clear.

Deposit & credit volume growth expectations

**Expected annual deposit volume growth [2013-2015; % of respondents]**

- **< 0%**
  - 13
- **0% - 5%**
  - 74
- **> 5%**
  - 12

**Level of in-country consensus credit outstanding volumes growth [2013-2015]**

- **Consensus on negative growth**
  - Hungary
  - Netherlands
  - Spain
- **Mixed views**
  - France
  - Portugal
- **Consensus on positive growth**
  - Austria
  - Belgium
  - Czech R.
  - Germany
  - Italy
  - Luxembourg
  - Slovakia
  - Sweden
  - Switzerland

> There is a consensus that **deposits will continue to grow** at a similar pace as in recent years (+3.2% p.a. in 09-12\(^1\))

> Incremental deposit volumes forecasted of **EUR ~300 bn\(^1\)** p.a. (+2%) in line with previous years\(^3\)

> Further growth of deposits faces **strong challenges**
  - Important efforts already made by banks to achieve Basel III
  - Ability of households to **maintain high savings ratio** in a weak economy
  - NBI threat given opportunity loss vs. off balance sheet products

> There is **no consensus among banks on deposit margin** evolution as it is largely dependent on interest rate level

> In most countries, the bulk of banks believe that **loan outstanding will experience limited growth**

> Consensus is **consistent with historic credit growth** (+1.4 % p.a. in 09-12\(^2\)), but early signs of deterioration are visible within a set of EU countries which faced a **decrease in outstanding volumes** in 2012

> The few countries showing negative or mixed views have entered a period of uncertainty with **decreasing volumes or decelerating growth**

> In a largely **intermediated financing EU market**, negative trend in loans could **jeopardize SME financing** and economic growth

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1) EU non-MFI deposits base (source: EBF)  
2) Households and Non-Financial corporation loans (source: EBF)  
3) +250bn€ in '11 and +310bn€ in '12

Source: Roland Berger, Eurostat
Repricing of loans and of banking fees are seen as major profit contributors but probably hard to carry out.

Repricing expectations for credit margins and banking fees

<table>
<thead>
<tr>
<th>Expected annual credit margin growth [2013-2015; % of respondents]</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; -5%</td>
<td>+5%</td>
</tr>
<tr>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>9</td>
<td>82</td>
</tr>
<tr>
<td>21</td>
<td>64</td>
</tr>
<tr>
<td>89</td>
<td>11</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expected annual banking fee growth [2013-2015; % of respondents]</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; -5%</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>13</td>
</tr>
</tbody>
</table>

> Credit repricing is seen as a major profitability lever already applied on SMEs
> However the challenges to reprice for private individuals might be underestimated
   - Regulation on consumer protection
   - Public scrutiny and mistrust towards banks
   - Pressure from competition, esp. on the best risk profiles (less ability to raise prices)

> Banking fees repricing is also seen as a major lever but similar challenges apply as for credits
> Historically, banking fees have grown at a slower pace than inflation in the EU (0.7% p.a. since 2007, i.e. 1/3 of inflation)
> More than price increase, extra fees could stem from a better management of gratuities and discounts

Source: Roland Berger, ECB
The cost of risk outlook varies markedly across European retail banks

Cost of risk outlook

% of respondents who think cost of credit default will stay below / exceed 30 bps [average 2013-2015, %]

<table>
<thead>
<tr>
<th>Region</th>
<th>&lt;30 bps</th>
<th>&gt;30 bps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>36</td>
<td>64</td>
</tr>
<tr>
<td>WE</td>
<td>68</td>
<td>32</td>
</tr>
<tr>
<td>NE</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>SE</td>
<td>11</td>
<td>89</td>
</tr>
<tr>
<td>CE</td>
<td>8</td>
<td>93</td>
</tr>
<tr>
<td>BE</td>
<td>75</td>
<td>25</td>
</tr>
</tbody>
</table>

Forecasted GDP growth [%]

- WE & NE: Cost of risk expectations are almost in line with historical levels, however:
  - Risk of portfolio write-offs is emerging due to poor economic conditions
  - Limited consensus amongst banks is observed in several countries
  - Cost of risk very much depends on each bank’s portfolio and policy

- SE & CE: Cost of risk expectations are higher than historical benchmarks: 67% of SE banks and 62% of CE banks expect a Cost of Risk in excess of 50 bps

When combined with the decrease in expected revenues and the weak GDP growth prospects in SE, the situation appears even more complicated

Cost of risk has proved to be instrumental to profitability level requiring extra attention to underwriting practices and proactive and efficient collection processes

1) Average annual forecasted GDP growth, IMF, April 2013

Source: Roland Berger, Annual reports, Financial presentations, Thomson Reuters
Strong focus on **operational costs** is still dominant but with varying expectations between regions

Cost base outlook

<table>
<thead>
<tr>
<th>Region</th>
<th>Expected annual growth of cost base [2013-2015; % of respondents]</th>
<th>Operating cost CAGR '10-'12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>16</td>
<td>41</td>
</tr>
<tr>
<td>WE</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>NE</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>CE</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>SE</td>
<td>23</td>
<td>54</td>
</tr>
<tr>
<td>BE</td>
<td>12</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: Roland Berger

> 57% of retail banks expect to be able to reduce their cost base

> Historical figures show that only a few banks in 3 countries have managed to reduce their cost base since 2010 (Belgium, Italy, Netherlands)

> 90% of them believe they will have to close branches or cut front office FTEs to reduce costs further in the coming years. Very few banks have done so at this stage

> Reducing costs is a strong challenge as ~2/3 of expenses are staff-related and thus semi-fixed
  - Managing natural staff outflow is only a partial answer
  - Given state aid, public opinion would scrutinize large FTE cuts
  - Current business models are still staff-heavy

> More than 80% of banks expect other factors to exert additional pressure on costs
  - New consumer law constraints
  - Deep impact from the EU Banking Union
  - New government taxes

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\[ Decrease < 5\% \quad Decrease 5\%-0\% \quad Increase 0\%-5\% \quad Increase > 5\% \]
European banks expect a single-digit ROE in the context of sluggish revenue growth

European Banks Expectations in Terms of ROE
[Average 2013-2015]

- **WE**: 88% expect <5% ROE, 12% expect 5-10%
- **NE**: 64% expect <5%, 21% expect 5-10%
- **SE**: 50% expect <5%, 39% expect 5-10%, 11% expect 10-15%
- **CE**: 23% expect <5%, 38% expect 5-10%, 39% expect 10-15%

> For WE and NE, ROE level will mainly depend on banks' capacity to control their cost base.

> SE and CE banks' level of ROE will mainly depend on their Cost of Risk level knowing that:
- ~70% of SE banks expect their NBI to grow
- ~85% of CE banks and ~80% of SE banks believe they will manage to reduce their cost base over the period

Source: Roland Berger
C. Distribution: the rise of direct channels
Executives’ expectations show that direct channels will continue to gain importance in terms of income and client acquisition.

### Direct channels

#### NBI generated by direct channels by 2015 [% of respondents]

<table>
<thead>
<tr>
<th>Region</th>
<th>&lt; 10%</th>
<th>[10% - 20%]</th>
<th>[20% - 30%]</th>
<th>&gt; 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>29</td>
<td>43</td>
<td>24</td>
<td>5</td>
</tr>
<tr>
<td>WE</td>
<td>17</td>
<td>50</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>CE</td>
<td>17</td>
<td>17</td>
<td>58</td>
<td>8</td>
</tr>
<tr>
<td>EE</td>
<td>36</td>
<td>43</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>SE</td>
<td>42</td>
<td>53</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>BE</td>
<td>10</td>
<td>60</td>
<td>20</td>
<td>10</td>
</tr>
</tbody>
</table>

#### % of new clients acquired via direct channels by 2015 [% of respondents]

<table>
<thead>
<tr>
<th>Region</th>
<th>[0% - 5%]</th>
<th>[5% - 10%]</th>
<th>[10% - 20%]</th>
<th>&gt; 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>22</td>
<td>25</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td>WE</td>
<td>19</td>
<td>13</td>
<td>31</td>
<td>38</td>
</tr>
<tr>
<td>CE</td>
<td>33</td>
<td>8</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td>EE</td>
<td>29</td>
<td>21</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>SE</td>
<td>33</td>
<td>28</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>BE</td>
<td>12</td>
<td>50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Strong majority of banks expect NBI coming from direct channels to increase to more than 10%…

…while these will also increasingly be used to acquire new clients…
Especially mobile banking will continue to grow but challenges will need to be managed carefully.

Direct channels – zoom on mobile banking

|                | 0% | 10% | 20% | 40% | 60%+
|----------------|----|-----|-----|-----|-----
| **Overall**    | 3  | 22  | 33  | 20  | 22  |
| **WE**         | 18 | 24  | 29  | 30  |     |
| **CE**         | 8  | 42  | 42  | 8   |     |
| **EE**         | 38 | 38  | 23  |     |     |
| **SE**         | 6  | 28  | 33  | 11  | 23  |
| **BE**         | 22 | 11  | 33  | 33  |     |

Comments

> **Digital channels** (social networks, low cost digital offers,..) have been identified as the primary investment area for banks to develop non branch-acquisition.

> With regards to **major challenges** banks face with the rise of mobile banking

- 90% believe it will **facilitates the entry of new/disruptive players**
- 80% believe clients will **switch products more easily** to other banks.

Source: Roland Berger
Nearly all respondents believe that ongoing branch consolidation will accelerate over next three years

### Branch density

<table>
<thead>
<tr>
<th>Region</th>
<th>Expected Evolution of Branch Density (%)</th>
<th>Change '09-'11</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>5, 31, 39, 21, 5</td>
<td>-5%</td>
<td>In all four regions branch density has already shown a decrease over the last three years, however, an acceleration of this trend is clearly foreseen.</td>
</tr>
<tr>
<td>WE</td>
<td>29, 29, 35, 6</td>
<td>-5.8%</td>
<td>Whereas WE &amp; SE show similar historic consolidation rates, expectations for the latter are clearly more pessimistic.</td>
</tr>
<tr>
<td>CE</td>
<td>36, 36, 29</td>
<td>-1.4%</td>
<td>CE's moderate decline in '09-'11 is explained by growth in Sweden (7%) partially offsetting the decline in Germany (-2%), Switzerland (-2%) and Austria (-8%).</td>
</tr>
<tr>
<td>EE</td>
<td>23, 46, 15, 15</td>
<td>-4.7%</td>
<td></td>
</tr>
<tr>
<td>SE</td>
<td>17, 33, 44, 6</td>
<td>-5.7%</td>
<td></td>
</tr>
<tr>
<td>BE</td>
<td>44, 33, 22</td>
<td>-7.7%</td>
<td></td>
</tr>
</tbody>
</table>

1) Calculated as the average across constituent countries

Source: Roland Berger
D. Back on track: Restore profitability and confidence
Retail banks share a strong consensus on five levers to restore profitability and confidence (see annex for more details)

**FIVE LEVERS TO RESTORE PROFITABILITY**

<table>
<thead>
<tr>
<th></th>
<th>ENHANCE SALES PERFORMANCE</th>
<th>Banks' views¹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>95% want to enhance sales force productivity</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>REVIEW PRICING</th>
<th>90% consider pricing model and approach as major revenue levers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>75% will reduce branch density by at least 5%²)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>80% will reduce/differentiate service level to adapt costs</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>REINVENT PROXIMITY</th>
<th>90% will use delayering and end-to-end process optimization as levers</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>75% will reduce branch density by at least 5%²)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>ADAPT CLIENT SERVICING MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>80% will reduce/differentiate service level to adapt costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>CHALLENGE EXISTING OPERATING MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>90% will use delayering and end-to-end process optimization as levers</td>
</tr>
</tbody>
</table>

¹) % of survey respondents  
²) 35% consider reduction of their branch density above 10%

Source: Roland Berger
Conclusions
We believe clients of retail banks will experience bigger changes in the next 5 years than they have felt in the previous 5 years.

**IN THE LAST 5 YEARS, WE HAVE SEEN A FOCUS ON CLEANING THE BALANCE SHEET**

- Very big and necessary changes, but...
  - ...internal orientation of change
  - ...largely focused on technical risk and asset & liability management topics
- Cost reductions, mainly in the distribution network

**IN THE NEXT 5 YEARS, WE WILL SEE A REAL BATTLE FOR CLIENTS AND A REARRANGEMENT OF THE BANKING LANDSCAPE**

- Upcoming changes concerned with:
  - Client acquisition: new forms of marketing and data driven approaches
  - New service models, specific per client segment, leveraging new technologies
  - New entrants (Telco's, crowd funding,...)
  - More outspoken specialization of banks (selective in activities, cherry picking, niche banks)
- Rearrangement of banking landscape as result of:
  - Structurally lower ROE
  - State – bank relation
  - Consolidation on European level

Source: Roland Berger
Annex – levers to restore confidence
Increase sales productivity and effectiveness using real time CRM

FOLLOW NEW COMMERCIAL APPROACH

> "Permanent" campaigns
> Tailored offerings for all clients
> Micro segmentation (e.g. affinity, context driven offerings)
> "Test and Learn" iterative approach to foster agility (e.g. pre-scoring, adaptation on interim results)
> Experimental channels (e.g. online display, mini-sites, web communities)
> External sourcing and short cycle development

Illustrations

- Use client data to target promotional offers
- Outsource data analysis to specialist player
- Multiply product push outside of own channels
- Trace and optimize efficiency of actions
- Offer partners a secured access to client data
- Use API to deliver campaign tools "in a box"
- Trace simulation from clients
- Create qualified leads in real time for Relationship Managers

Source: Roland Berger
The share of digital sales in Europe is low

<table>
<thead>
<tr>
<th>Share of Internet sales in Europe (2011)</th>
<th>EU</th>
<th>France</th>
<th>Germany</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings and investment products</td>
<td>21%</td>
<td>12%</td>
<td>16%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Current account</td>
<td>19%</td>
<td>5%</td>
<td>17%</td>
<td>21%</td>
<td>16%</td>
</tr>
<tr>
<td>Personal loans</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>

> Some **specific requirements** are integrated to optimize effectiveness on direct sales rather than a copy/paste of in-branch approaches

- Wide set of alerts (client/product/contextual events)
- Tailoring and contextualization to maximize conversion rate
- Steady level of stimulation to encourage demand

> **New and alternative revenue sources** can also be explored

- BBVA & Smarty pig, NAB & People like U, ...

Source: Roland Berger
Review the pricing approach

Across a single bank network, discounts up to 4 times higher in some regions than on average

Discounts on listed fees (client example)

- Local differences and competitive environment do not fully explain differences in pricing level
- Internal best practices are often not fully spread/leveraged across the network

Significant improvement potential from systematic questioning of pricing approach

Impact on fee-based revenues (client example)

<table>
<thead>
<tr>
<th>Pricing levers</th>
<th>Impact</th>
<th>Eligible perimeter</th>
<th>Total impact (% of fee-based revenues)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce leeway and enhance discipline</td>
<td>1-2%</td>
<td>50-70%</td>
<td>3 to 5%</td>
</tr>
<tr>
<td>Better target discounts</td>
<td>1-2%</td>
<td>50-70%</td>
<td></td>
</tr>
<tr>
<td>Optimize penalties¹</td>
<td>2-3%</td>
<td>40-60%</td>
<td></td>
</tr>
<tr>
<td>Optimize pricing structure on specific lines²</td>
<td>0.5-1.5%</td>
<td>70-80%</td>
<td></td>
</tr>
</tbody>
</table>

1) Minimum charge, calculation formula, …  2) Minimum interest charge, semi-annual custody fees, …

Source: Roland Berger
Explore the benefits of innovative pricing approaches

Repricing objectives are difficult to reach with traditional approaches

Get inspiration from alternative pricing approaches that might change the rules

**TRADITIONAL PRICING DRIVERS**

- Revenue contribution
- Client sensitivity/perception
- Image & visibility
- Positioning vs. peers

> Limited capacity to increase prices...
  - Scrutiny from regulators and consumer association
  - Competitive disadvantage and difficulty for RM to apply
  - Negative impact on client satisfaction while banks work hard to improve their image

> ...with a risk of steady erosion of fees without some changes in the rules

**FREEMIUM**

- Free basic service financed by premium option users
- Requires to operate at marginal costs and to offer extra features truly valued by clients

**WIN-WIN**

- Discounts applied as a function of the intensity/value of the relationship
- Need to communicate around differentiated client status/service levels

**ALL INCLUSIVE**

- Fixed price for a set number of transactions (with different pricing levels when bought unitarily)
- Find the right trade off between simplicity and profitability

*Source: Roland Berger*
Meanwhile, clients seem to be prepared to trade off physical proximity for different approaches.

Frequency of branch-based contacts is steadily decreasing...

Time to access a branch in cities [min]

While banks are still over-delivering on proximity in cities...

...and clients primary value accessibility

Client preference score for relationship improvement

> Slow evolution of branch density in most countries (first mover dilemma)...  
  - Drop in client satisfaction and retention  
  - Decrease of client acquisition capacity  
  - Lower level of sales performance  

> ...but examples from banks who made the move show  
  - Limited impact on market share (primary focus is on overlaps and retention actions bear their fruit)  
  - Low impact on client perception thanks to service level adjustments and introduction of alternative branch formats
Therefore, relationship manager role needs to be reinvented and supported by alternative acquisition models.

### Evolve RM role to position at the cornerstone of the multichannel relationship

1. **Direct access**
   - Reachable through all communication channels
   - Supported by a repositioned call center (Middle Office, lead generation, support to complex sales)

2. **Superior customer care**
   - Reactive to solve problems
   - Able to provide support on scarce but key events
   - Focal point for business as usual services and Tx

3. **Management model**
   - Integrated to a multichannel organization
   - Incentivized according to new priorities (client experience retention, sales)

4. **Banks’ expertise navigation**
   - Coordinating various experts (wealth planning, tax...)
   - Leveraging new technologies (e.g. videoconference) to deliver support

### Alternative client acquisition models to support the commercial set-up

**Examples of alternative acquisition models**

- Partnership with universities going beyond financial services:
  - Scholarships
  - Support to special projects
  - Academic and non-academic awards

- Dedicated set-up targeted at senior clients
  - RM for seniors
  - Visit clients at home/hospital/retirement house
  - Affinity logic, centered on specific needs of seniors

**Source:** Roland Berger

**Issued 5.4m smart cards - 50% conversion rate**

**11% CAGR in premium since 2004**
Design more cost efficient servicing models

"Mass Market" clients generating limited NBI are likely to move to a negative contribution if no action is taken.

- All clients used to have a positive contribution, however this statement is currently at risk.
- Large chunk of mass-market clients might move to a negative risk adjusted contribution due to combined effects of externalities:
  - Consumer protection constraints that lower fees
  - Increased price pressure from alternative models
  - Cost of compliance

- Potential actions may include changes in selected areas:
  - Lower acquisition target
  - Reduce marketing intensity
  - Focus effort on equipment/cross-selling ab initio
  - Limit advice to key client events
  - Reconsider allocation of clients to dedicated RMs

Digital technologies create opportunities to optimize cost to serve while increasing client experience.

- Reinvent ATM functionalities and interface to enhance client experience
- Mimic online banking look and feel to create an intuitive and simple experience
- Integrate contextualized campaigns and offers linked to fast CRM
- Simplify offerings (low-cost)

As a result expand self-service usage even for clients a priori reluctant.
Drive the transition from asset allocation to true wealth planning

Mass affluent clients are directly impacted by significant evolutions of their environment…

> Several dimensions are triggering **incremental risks and volatility** but with different time horizons:
  - Progressive **disengagement from the state** on healthcare benefits
  - **Long term care** of ascendants, partner or own self
  - Decrease of **purchasing power** especially when reaching retirement age
  - **Uncertainty of career** path and instability of compensation

> **Generating new needs** and changes in behavior:
  - Growing **aversion to risks**
  - Greater sensitivity to **new risks** and appetite for protection/hedging solutions
  - Increasing dynamic and change of **clients’ priorities** along their lifecycle

...leading to new opportunities for wealth planning approaches going beyond simple asset allocation

Illustration – As part of HSBC Premier offer, a structured wealth planning approach is being offered encompassing several objectives

- **Growing wealth**
- **Planning children future**
- **Planning retirement**
- **Becoming tax efficient**
- **Protecting what matters**

> Specific **new expertise** needs to be developed to deliver advice, calling for more cost optimization in other areas
> Beyond competition from banks, multiple **non-bank players** such as independent financial advisors and insurers, try to leverage their legitimacy to position on similar approaches

Source: Roland Berger
Adapt SME banking model to new realities

Priorities to adjust banks’ proposition for small businesses and SMEs

- **Develop alternative financing solutions**
  - Provide advice to navigate SMEs across the growing diversity of financing options
  - Expand financing capacity through alternative funding partnerships (e.g., insurance companies)

- **Support business development abroad**
  - Meet demand from high potential clients
  - Offer seamless multi-universe solutions from cash management to FX and Trade finance
  - Reach beyond own international network and offer non-banking support

- **Investigate low cost models**
  - Breakthrough with secure and simple direct lending solutions for SMEs
  - Meet demand for low cost value proposition dedicated to autonomous small businesses owners

- **Adapt risk management and control**
  - Manage lending conditions to balance regulatory risk requirements and client value
  - Fully roll-out early-signs and multi-step collection management

Source: Roland Berger
Execute cost reduction measures across all dimensions

"Perfection is achieved, not when there is nothing more to add, but when there is nothing left to take away”
Antoine de Saint-Exupéry

PERFORMANCE FROM SIMPLICITY

1. FIT OPERATIONS
   - Optimize sourcing and external expenses
   - Simplify controls/compliance
   - Digitalization

2. STREAMLINE ORGANIZATION
   - Sales support simplification
   - Resize front/middle/back
   - Optimization of network footprint

3. REFOCUS FOOTPRINT
   - Rationalize product offering
   - Carve-outs functions
   - Cost synergies across business lines (insurance, SFS…)

Illustration from banks which have undertaken a streamlining of their product offering (# products)

Source: Roland Berger
Learn from other industries

**"COST CONTROL"**

1. Go to right level of **granularity** to provide true transparency and understand the **inducers** of each cost bucket
2. Provide analytical input on **cost of complexity**
3. Costs reviewed by all stakeholders from **Marketing** to **Operations** in order to establish dialogue on complexity trade-off

**AUTO**

Dedicated department for "Cost engineering" developing new methodology/tools

**Capital Intensive Industry**

Investment optimization process for a new industrial equipment

**"INVESTMENT MANAGEMENT"**

- Deploy frugal engineering methodologies well proven in other industries
- Solution deconstruction
- Value modeling
- License to challenge expert views
- Transversal trade-off co-construction

**"PROCESS DESIGN"**

- End-to-end process governance
- **SMART**:  
  - **Simpler**  
  - **Monitored**  
  - **Automated**  
  - **Real-time**  
  - **Traceable**

**TELCO / CUSTOMER EXPERIENCE**

Definition of a new "end-to-end" customer journey

Source: Roland Berger