07

WORLD RETAIL BANKING REPORT

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Contents

Preface

Capgemini, ING, and the European Financial Management & Marketing Association (EFMA) are proud to present this study of the global retail banking market. For the fourth consecutive year, it provides the financial services community with overviews and insights into the industry's dynamics, with special attention to the pricing structure and how it is evolving.

The geographic scope of this year's pricing index and spotlight has been expanded to five new countries: Croatia, India, Japan, Romania, and South Africa, and now includes 25 countries. The number of banks studied has risen from 142 to 180.

This 2007 edition of the *World Retail Banking Report* continues our investigation into the worldwide pricing of day-to-day banking products and services, presenting our findings on a yearly pricing index. In addition, we provide dashboards of each country's national banking industry on our web site, www.wrbr07.com. In response to the widespread adoption of packaged offers within the banking industry, we have paid special attention to this method of selling banking products in the following seven countries: Austria, Belgium, France, Germany, Italy, Poland, and Slovakia.

As in earlier editions, our 2007 report presents a spotlight section highlighting a major trend in the retail banking industry. This year we focused on "Transforming Operating Models." In a constantly changing and competitive marketplace, managers in the industry are seeking ways to optimise their operating models. Based on interviews with banking executives across the world, we have assessed the major trends in retail banking's current and future operating models, and offer the results here.

We are delighted to publish the 2007 edition of the *World Retail Banking Report*. We hope and trust that its findings will stimulate debate and provide retail bankers with information they need to make informed and effective strategic and operational choices.

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Pricing Index

PRICING INDEX KEY FINDINGS

- This year the average price of core banking services across the 25 study countries, based on the local active customer profile, was €77.
- The average price fell slightly from last year (down 0.3%), but price changes by geographic area ranged from a 1.8% decrease in the eurozone to a 2.9% increase in the Asia Pacific region.
- Spain's average price decreased by 31%, the sharpest decline of any individual country, as the pioneer SCH launched "zero commission campaigns" and most large banks followed suit; fees there were sharply cut in account management (down 81%) and payments (down 15%) compared to 2006.
- Eurozone banks continue to price in a narrower range than banks in the other regions surveyed, and they appear to be reinforcing the trend towards greater convergence.
- Account management prices decreased (down 7%), but increased in payments (1%), cash utilisation (4%), and—the biggest mover—exceptions handling (7%).
- Banks appear to be using day-to-day pricing strategies to influence consumer behaviour rather than to increase revenues; banks cut online and call centre fees, for instance, and raised desk operation fees, pointing customers towards automated channels for common operations.

- Electronic products accounted for approximately 63% of this year's total pricing index, compared to last year's 64%. Although prices for electronic payments decreased by 3% in the Single Euro Payment Area (SEPA) over 2006, they are still 21% higher than in the rest of the world; however, because the SEPA effort is promoting transparency and convergence, retail banks are likely to continue reducing prices for electronic payments products.
- In the seven countries of the package analysis, packages include half of core banking products on average. In Germany, Belgium, and Austria they contain more than half of these products, but significantly fewer in France, Italy, Poland, and Slovakia.
- In Austria, Italy, France, and Slovakia, non-core banking products are also included in packages, e.g. long-term fixed-price guarantees, discounts on overdraft interest, and payments insurance protection.
- When buying packages, customers in countries with the highest proportion of non-core banking products get the highest discounts, but consumers might use these products only infrequently.

METHODOLOGY

For the 2007 report, we have expanded the geographic scope of the pricing index and spotlight to 25, adding 5 new countries—Croatia, India, Japan, Romania, and South Africa. The number of participating banks rose from 142 to 180 (see Figure 1.1). Like last year's methodology, we make comparisons across four regions: Asia Pacific, Europe eurozone, Europe non-eurozone, and North America.

We analysed prices by geographic region, and we have provided data when the region comprised a minimum of two countries. As a result, the Africa region does not appear on the graphs, even though the South Africa data is considered in the analysis.

FIGURE 1.1

Banks Surveyed in 2007

Region	Countries in 2006 WRBR	Number of Banks	New Countries in 2007 WRBR	Number of Banks
Europe eurozone	Austria	6		
	Belgium	4		
	France	11		
	Germany	7		
	Ireland	5		
	Italy	6		
	Netherlands	6		
	Portugal	6		
	Spain	18		
Europe non-eurozone	Czech Republic	5	Croatia	7
	Norway	6	Romania	9
	Poland	11		
	Slovakia	7		
	Sweden	6		
	Switzerland	7		
	UK	5		
North America	Canada	6		
	US	9		
Africa			South Africa	4
Asia Pacific	Australia	5	India	9
	China	9	Japan	6
Sub-Total	20	145	5	35
TOTAL countries/banks				25/180

We collected all data for the 2007 edition of the *World Retail Banking Report* during the last three months of 2006.

Like last year, we continue to focus on four categories of banking products and services: account management, payments, cash utilisation, and exceptions handling. Figure 1.2 shows the components of each category.

We identified three consumer banking usage patterns at both local and global levels: less active, active, and very active (see Figure 1.2). The local profiles indicate what a country's consumers at these frequency-of-use levels pay for their day-to-day banking services. The global profile, in contrast, applies to all banks in all countries. This is the only practical way we can generate a meaningful comparison of prices around the globe.

FIGURE 1.2 Scope of Products and Services in the Global and Local Pricing Indexes

Retail Banking Products and Services

Scope of WRBR

Core day-to-day banking needs

- Account management
- Cash utilisation
- Exceptions handling
- Payments

Savings

- Certificates of deposit
- Mutual funds
- Other savings vehicles

Credit

- Overdrafts
- Consumer credit
- Revolving credit
- Mortgages
- Loans

Other products & services

- Insurance
- Real estate
- Concierge services

Global Profile: Frequencies of Use

Core day-to-day banking needs	Products and services detailed	Less active	Active	Very active
Account Management	Current account	1	1	1
	Online banking	0	12	52
	Call centre	0	4	12
Cash Utilisation	Cash deposit at desk	0	1	3
	Cash deposit at ATM	0	0	0
	Withdrawal at desk	0	2	3
	Withdrawal at bank's ATM	12	24	60
	Withdrawal at other banks' ATM network	12	36	60
Exceptions Handling	Debit card stop payment	0.2	0.2	0.2
	Cheque stop payment	0	0.2	0.2
	Document search	0	0.1	1
	Banker's draft (cashier's check)	0	0.2	0.2
Payments	Cheque	1	3	6
	Debit card	1	1	1
	Credit card	0	1	1
	Internal wire transfer	2	5	6
	External wire transfer	1	2	5
	Standing order (regular amount transfer)	0	12	36
	Direct debit	0	12	24

Source: Capgemini analysis.

PRICING ANALYSES

Prices fell slightly on average

We reviewed pricing profiles on two levels, local and global. Following our usual pattern, we begin with the local profile pricing index, and consider the global index later.

Local active users pay an average of €77 a year for their day-to-day banking needs. As Figure 1.3 illustrates, price levels varied from one region to another this year, ranging from €44 in Asia Pacific to €84 in Europe non-eurozone.

The average price that the less active user of bank products and services paid was €39, compared to the very active user's much higher €136. While entry-level prices were comparable among the four geographic areas, upper-level prices varied considerably. On average, very active users paid three times the price paid by less active users. Again, these are averages, and the situation varies by region.

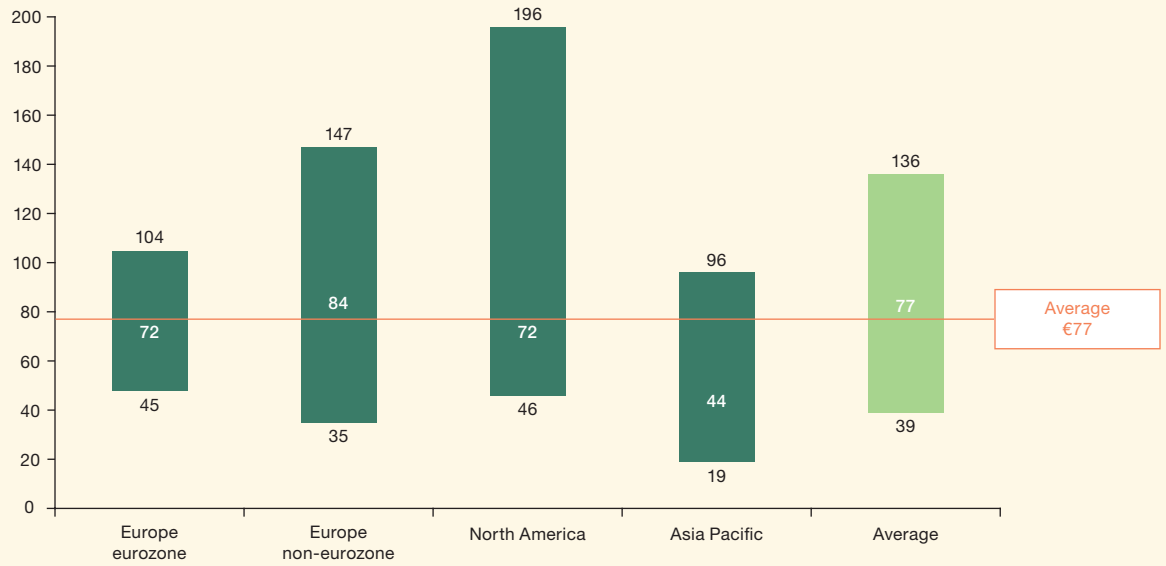
Banks are now taking two pricing approaches.

First, as exhibited in the eurozone, some banks are not making a large distinction between customer profiles, and prices paid by the different user patterns are relatively close to each other: very active users are charged only twice the price paid by less active users.

Second, as in the other regions we studied, the distinction between profiles is greater: in Asia Pacific, North America, and Europe non-eurozone, very active users pay four to five times the price paid by less active users.

FIGURE 1.3 Local Profile Prices in 2007

Annual prices of core banking services by geographic area and usage pattern, 2007 (€)*



Source: Capgemini analysis, 2007.

* The lower, central, and upper numbers of each bar respectively indicate the average price charged in countries of a given geographic area, for the less active (bottom number), active (middle number), and very active users (top number). The average was calculated among all countries' indexes for active users.

Prices for active users averaged 0.3% below last year. At the same time, less active users' prices remained stable and very active users' prices fell by 2.2% (see Figure 1.4). It appears that banks are trying to attract high-frequency users.

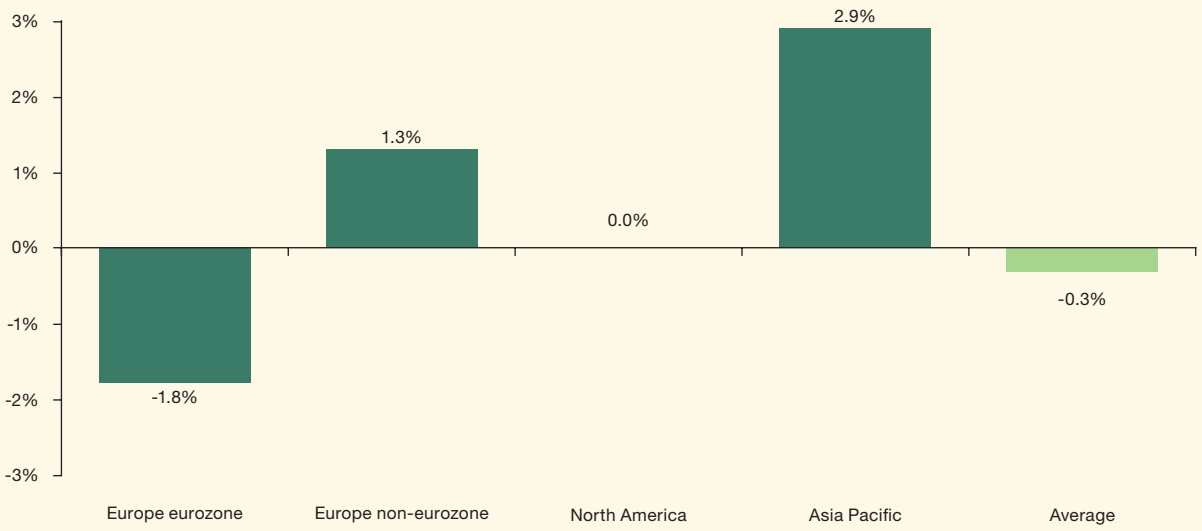
Figure 1.4 also indicates that this apparently stable average hides variations from one geographic area to another.

The biggest increase was in Asia Pacific, where the average price went up by 2.9%. Australian banking has been following a trend towards packaged transaction accounts and away from unbundled services. Some banks in that country have lowered fees for packages and raised fees on traditional accounts to encourage customers to switch to packaged transaction accounts. The price of exceptions handling also rose significantly in Asia Pacific, by 3.9 € compared to last year's price (see Figure 1.5).

The biggest price decrease was in the Europe eurozone (down 1.8%), where prices in Spain dropped by 31%—the largest price cut this year. SCH, a pioneer in a bid to win market share, launched "zero commission campaigns" and decreased its price levels by 65%. Most of Spain's large banks followed suit, cutting their prices by 15%-60%. Fee cuts in account management (down 81%) and payments (down 15%) were also recorded. However, this reduction affects only clients who deposit the majority of their assets in the banks that decreased their prices.

Without Spain, the eurozone price increased by 1.9%. The rise results primarily from higher fees for operations at branches, including 7% more for cash deposits at desk and 8% more for withdrawals at desk.

FIGURE 1.4 Evolution of Local Profile Prices, 2006-2007
Average price evolution, 2006-2007 (%)



Source: Capgemini analysis, 2007.
Note: Excludes new countries in 2007 WRBR (Croatia, India, Japan, Romania, and South Africa).

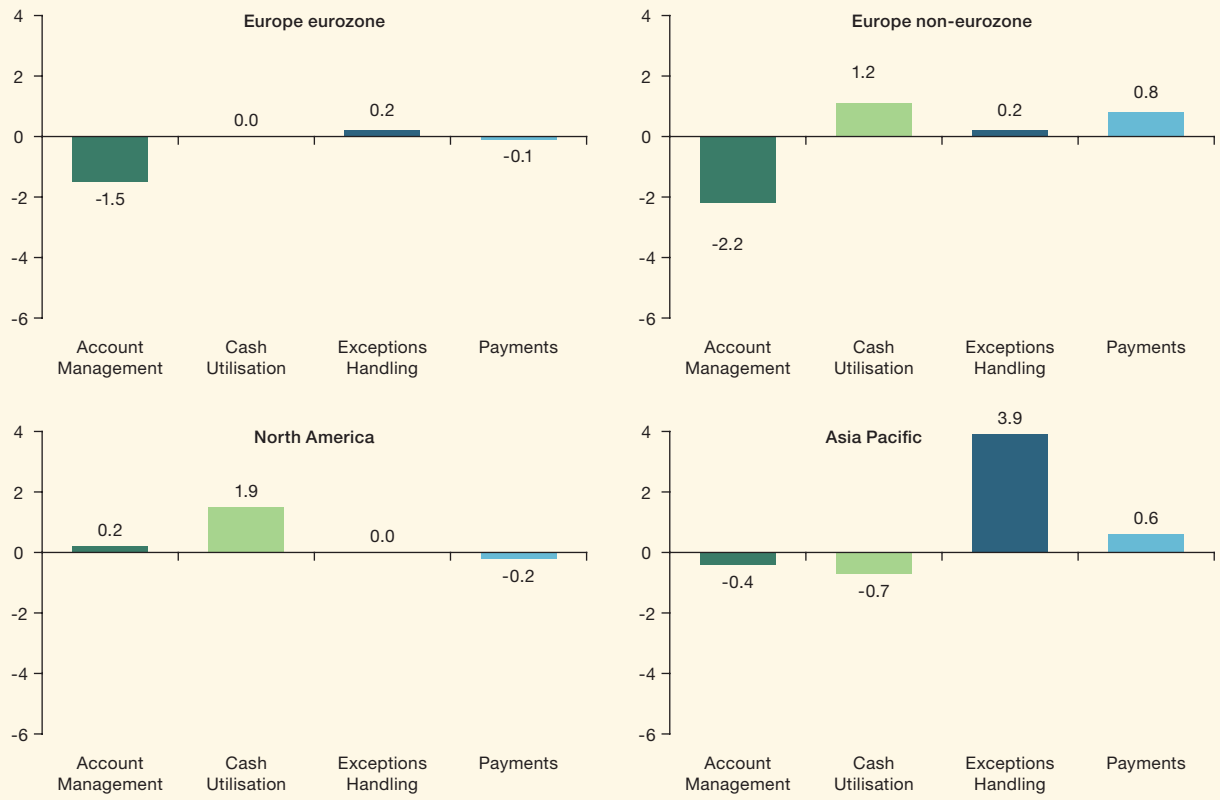
In Europe non-eurozone, prices increased by 1.3%. Although fees in account management dropped, along with online banking fees (down 25%) and call centre fees (down 6%), prices for cash utilisation rose, particularly due to higher prices in withdrawals at desk (up 21%). The clear implication is that banks are trying to discourage customers from using the branch channel.

In North America, prices remained stable. This stability results from some apparently contradictory trends.

In the US, account management and payments fees declined for three major reasons. To begin with, competition has substantially increased, both between retail banks and with non-traditional competitors (brokerage houses, retailers, etc.) that now accept deposits. This competitive landscape has forced prices down. Second, US banks are taking a longer term view, seeking a virtuous circle. As clients purchase a larger number of a bank's products, they are less likely to switch banks and more likely to further consolidate accounts, which lowers costs. The bank can then reduce prices. The third and final reason is that technological innovations help lower fees. Automated clearing houses and "time-order posting" of credits and debits, for example, allow banks to lower fees, and banks may get higher yields since clients end up paying overdraft fees or penalties for insufficient funds.

In Canada, banks are raising cash utilisation and payments fees. To avoid high charges, consumers reduce their transaction frequency by transferring bigger amounts at a time. Furthermore, they are encouraged to use packaged products.

FIGURE 1.5 Evolution of Local Active Profile Prices, by Product and Service Category, 2006 - 2007
Average price evolution, 2006-2007 (€)



Source: Capgemini analysis, 2007.
Note: Excludes new countries in 2007 WRBR (Croatia, India, Japan, Romania & South Africa).

EUROZONE IS STILL THE MOST HOMOGENEOUS ZONE

Figure 1.6 illustrates the price discrepancy we found around the regions' average price for day-to-day banking services from 2005 through 2007. A minor discrepancy means that a region's prices are close to the average and relatively homogeneous, while a larger discrepancy indicates that price levels vary greatly among banks in a region. Figure 1.7 illustrates how country prices are spread around the country average.

In our 2005 and 2006 reports, we noted signs of price convergence in the eurozone. For this year, as Figure 1.6 illustrates, price discrepancies in the overall eurozone banking community keep descreasing compared to 2006. The trend towards convergence is confirmed.

FIGURE 1.6 Price Discrepancy in 2005, 2006 and 2007 for the Local Active Profile

Price discrepancy among all banks of each geographic area, 2005, 2006, 2007 (%)

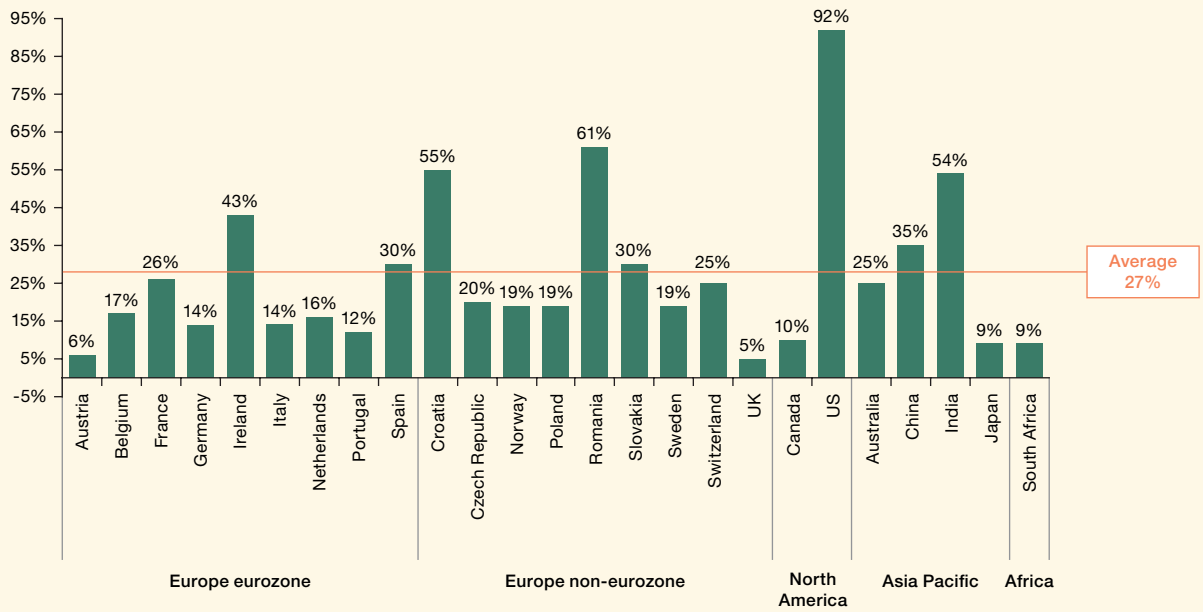
Source: Capgemini analysis, 2007.
Note: Excludes new countries in the 2006 (Ireland) and 2007 (Croatia, India, Japan, Romania and South Africa) editions.
Discrepancy in North America decreased from 2005 to 2006 in WRBR 2006, while increasing in this edition because of recalculation based on a new scope for the US banks.

Banks in Europe typically price in a much narrower range than banks in the other regions surveyed, and eurozone price levels are the most homogeneous. As Figure 1.7 indicates, prices remain the most homogeneous in the eurozone. Seven out of the region's nine countries recorded a below-average discrepancy this year.

In Europe non-eurozone, prices are getting more homogeneous. Price discrepancy decreased by 3% this year. We will continue to monitor this trend to determine whether prices remain on a converging path. At the country level, with three exceptions, prices are quite homogeneous.

FIGURE 1.7 Price Discrepancy in the Local Active Profile

Price discrepancy among banks for each country, 2007 (%)



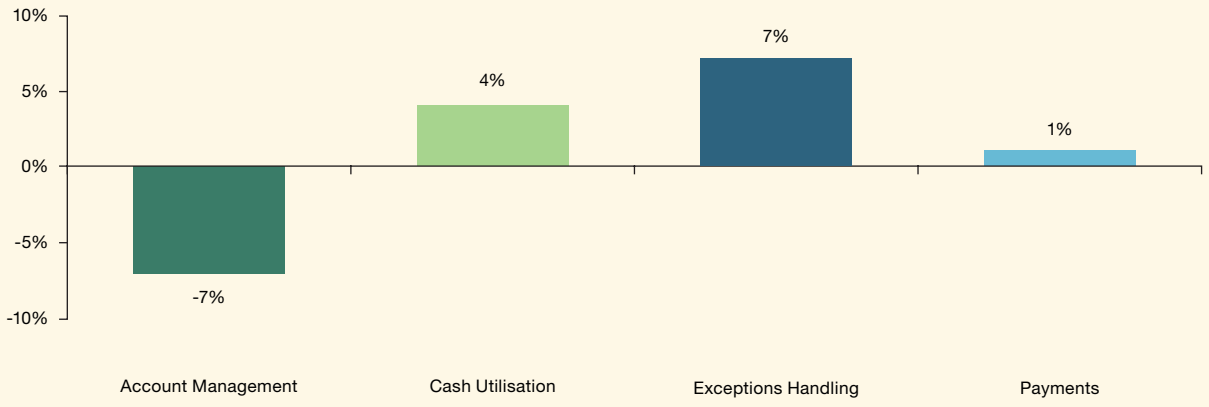
Source: Capgemini analysis, 2007.

PRICING STRATEGIES TO DRIVE CONSUMPTION PATTERN

Exceptions handling (up 7%) and cash utilisation (up 4%) exhibited the highest price increases. On a global scale, exceptions handling and cash utilisation were the categories with the most significant price variation (see Figure 1.8). Exceptions handling is often subject to the highest price increases, and as Figure 1.9 illustrates, all components of this category increased. But the impact of exceptions handling on the total price of day-to-day banking is the lowest, so its increase had a relatively small effect on that figure. As for cash utilisation, fees for withdrawals at desk rose by 13%, and fees for withdrawals at other banks' ATMs went up by 2%.

Payments prices increased by 1%. While the price for cards dropped a bit, other payments fees increased. All types of transfer rose: internal and external wire transfers, standing orders, and direct debits.

FIGURE 1.8 Global Average Price Variation, by Product and Service Category, for the Local Active User, 2006-2007 (%)

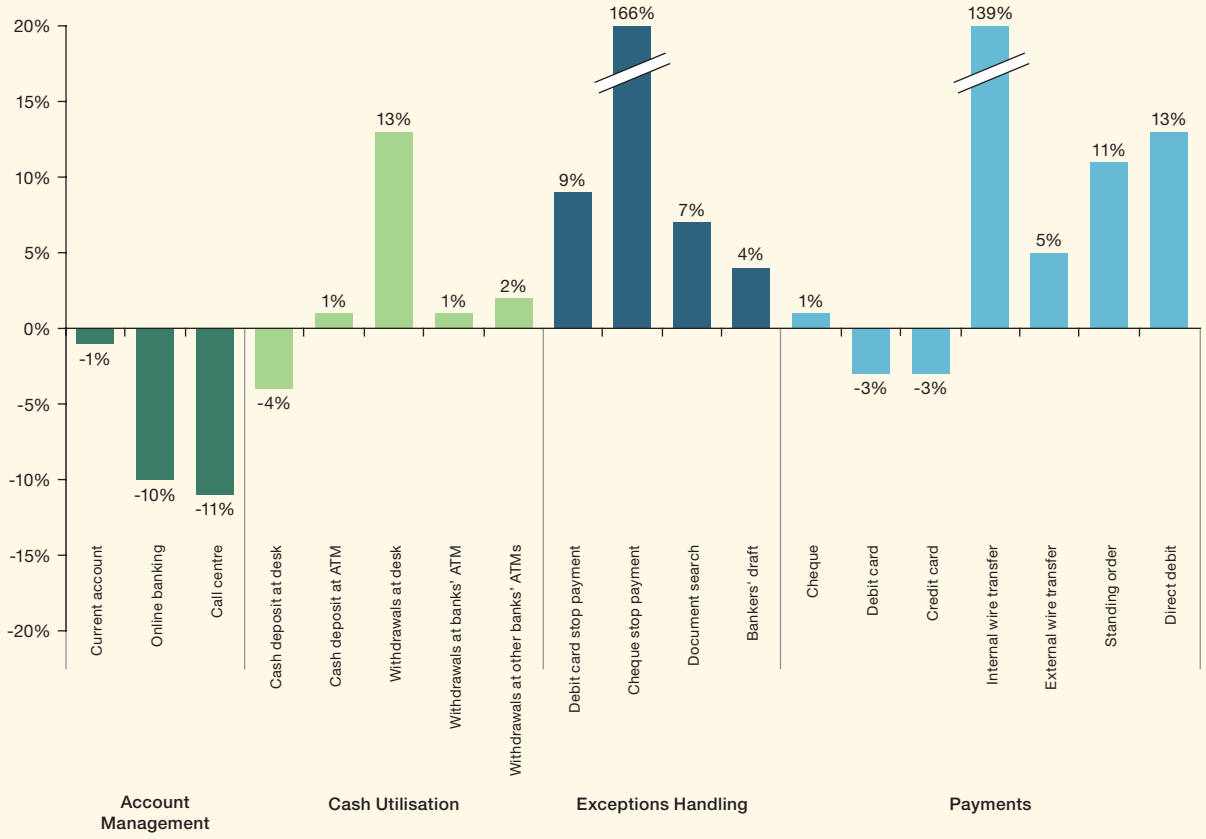


Source: Capgemini analysis, 2007.
Note: Excludes new countries in 2007 WRBR (Croatia, India, Japan, Romania, and South Africa).

Those increases were counteracted by a drop in the second major fee source, account management, for which prices decreased by 7% this year. This category benefits from a bank strategy of multi-channel pricing. From a product and service perspective, the largest decreases were in call centre (down 10%) and online banking fees (down 14%).

Banks are visibly trying to redefine their interactions with customers, directing them towards automated channels for common operations and reserving branches for more advanced services. In all four categories, banks are raising prices for operations at desk and cutting non-branch-based prices.

FIGURE 1.9 Product and Service Variation for the Local Active User, 2006-2007 (%)



Source: Capgemini analysis, 2007.
Note: Excludes new countries in 2007 WRBR (Croatia, India, Japan, Romania, and South Africa).

NO INTERNATIONAL, HOMOGENEOUS STRUCTURE

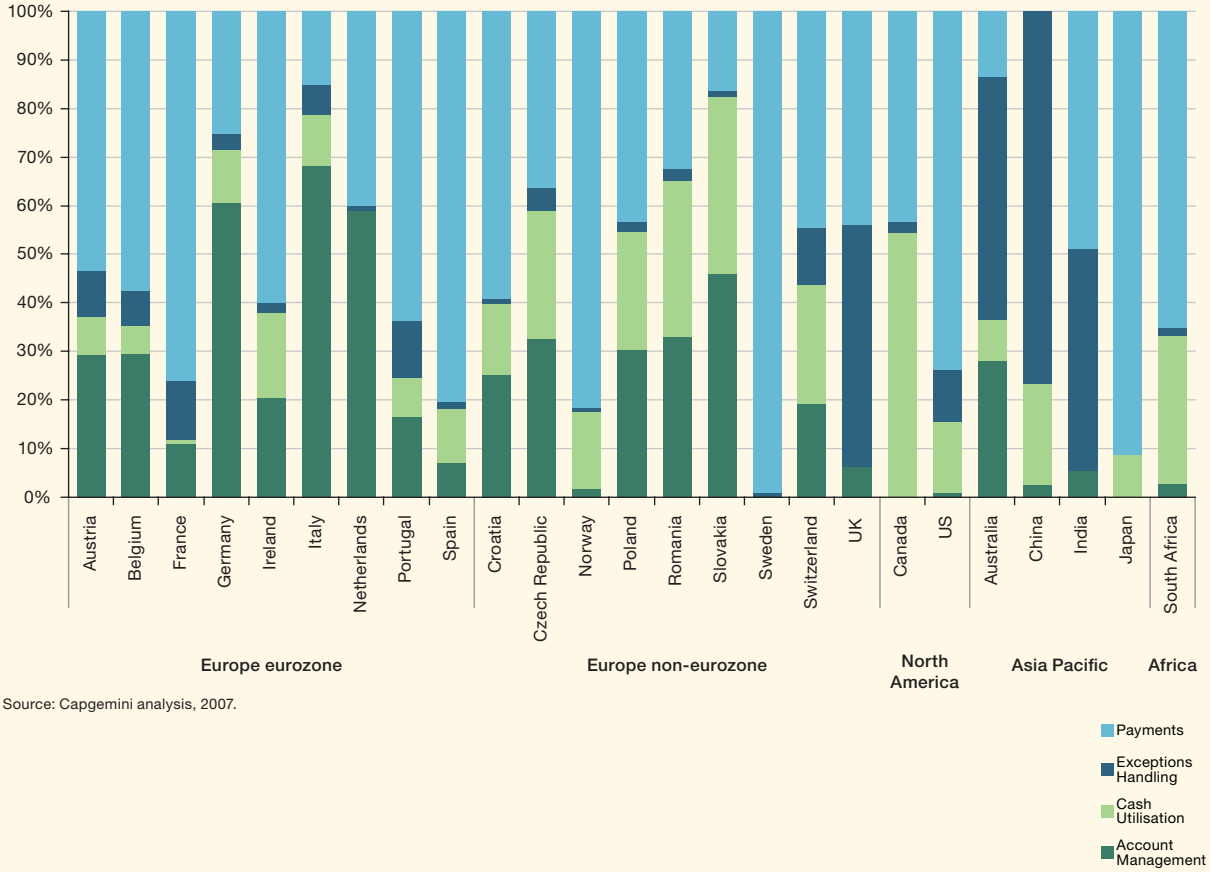
As Figure 1.10 illustrates, price structures still vary substantially across national boundaries, and no simple pricing model emerges from an analysis of the data.

For four of the twenty countries sampled both this year and last year, significant changes occurred in the pricing model. In Germany, Spain, Slovakia, and Poland, payments and cash utilisation's part in the total price increased, offset by a decrease in account management's portion.

These pricing model variations have different root causes. A change in a single product's price might explain it — for instance, the sharp decline in online banking fees in Poland, and the steep rise in wire transfer fees in Germany. In Slovakia, changing the contents of a package had a serious ripple effect — when a product is added to a package, that product's price falls, decreasing its impact on the total price of day-to-day banking in that country. In Spain, a sharp cut in fees for current account and payments had a strong impact on the overall pricing structure.

FIGURE 1.10 Source of Fees for Core Banking in 2007

Components of average annual price of core banking services by country, 2007 (%)



Source: Capgemini analysis, 2007.

New Countries in 2007 WRBR

Japan

Japanese banks' pricing approaches are traditionally indirect revenue-based (lower right quadrant of Figure 1.11). However, banks there are now trying to move towards a transaction-based approach (upper right quadrant), and adjust fee levels to the appropriate standard by providing more value-added services to retail customers.

Today, payments account for almost 90% of day-to-day banking's total price in Japan. Account management and exceptions handling are not a factor, because personal cheques are not widely used.

Japanese bankers rely on innovation to enlarge market share. Large banks, for instance, have introduced mobile phone payments to capture the younger generation. Small banks, however, find it hard to keep up with new technology and so form alliances with other banks. In a relatively fragmented market, we expect further consolidation through M&As and organisation integration by bank holding companies. This could have an impact on fee structures.

India

Banking customers in India incur most of their day-to-day banking fees in payments and exceptions handling, as these categories account for 90% of that country's total price.

With a very small proportion of banking clients compared to the total population, all market participants have a huge opportunity to tap into India's very fast-growing customer base. This has led to intense competition to acquire customers. Banks have been expanding their reach by installing more and more ATMs, and most of the customer-facing staff in bank branches perform double-duty as customer-service agents, as well as counsellors for other financial products such as mutual funds and insurance.

South Africa

South African bankers have adopted both transaction-based and package-based approaches (see Figure 1.11). The payments category, meanwhile, represents the highest proportion (over 60%) of the South African price profile.

A large majority of South African bank users are low-income earners who use hybrid transaction-based accounts that do not offer cheque-payment facilities. For comparability purposes, therefore, we focused on current account holders—middle- to high-income earners. Although this segment represents only about 20% of South Africa's banking population, it accounts for almost half of the country's bank revenue.

Croatia

Bank pricing approaches in Croatia are mostly transaction-based (Figure 1.11), with payments accounting for approximately 60% of the total day-to-day banking price. Exceptions handling is almost nonexistent.

Croatia is in the process of aligning monetary legislation and regulations to EU requirements.

New branches and ATMs are being opened in the northern and eastern parts of the country, while the biggest concentration remains in its large urban areas.

Romania

Romanian banks have generally adopted transaction-based pricing approaches (Figure 1.11), with fixed fees per transaction, depending on the amount.

Today's revenue structure is relatively balanced between payments, cash utilisation, and account management, each accounting for about 30%.

Internet banking is not yet widespread, but it is increasing fast, enabling customers to forego the branches. Future pricing approaches are likely to direct customers towards automated channels for common operations, reserving branches for more advanced services, as observed globally.

FIGURE 1.11 Four "Pure" Approaches to Pricing

ACCOUNT-BASED

A range of fees is applied to account management:
- Could be based on balance to ensure relative stability or increase non-interest-bearing deposits

All other P&S are linked to the current account:
- Must open a current account before getting day-to-day banking products and other financial products (savings, credit, mortgages)

P&S pricing is based on current account balance

TRANSACTION-BASED

- Fees are applied to transactions, often including any form of:
  - Debit (check, money transfer, point-of-service purchase, ATM withdrawal) or credit (deposit at desk, deposit at an ATM, etc.)
- Fees consist of a fixed amount per transaction, a percentage of the transaction amount, or both:
  - A free-of-charge limit may exist; transactions across service channels are aggregated for each statement cycle, and when the transaction limit is exceeded, the customer is charged accordingly.

PACKAGE-BASED

- Similar to account-based model, except that the bank charges an annual fee for a suite of services, rather than just an account:
  - Fees/commissions are directly linked to the bank's ability to increase cross-selling rates

INDIRECT REVENUE-BASED

- A majority of day-to-day banking is free of charge
- Income is generated by other types of products, such as credits and savings:
  - Interest spread on credits, as well as a commission to set up credit
  - Interest spread on savings, as well as fees to manage savings account

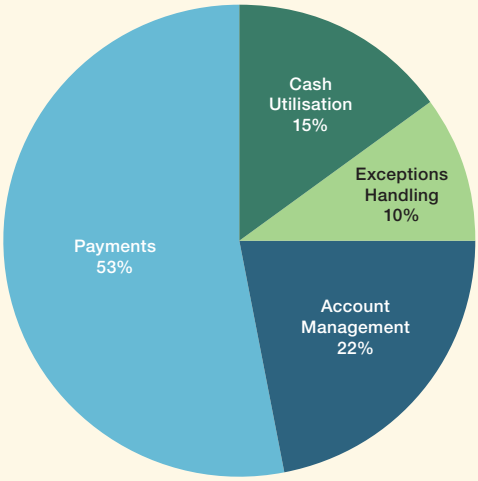
Source: Capgemini analysis, 2007.

For the 25 countries we studied this year, payments represents the most important part of the total day-to-day price of banking services, accounting for 53%. Account management was next at 22%, followed by cash utilisation at 15% and exceptions handling at 10%. Compared to our 2006 findings, account management fees as part of the core price of banking dropped by 1.9%, while the other three categories all increased: cash utilisation (0.8%), payments (0.8%), and exceptions handling (0.3%).

Despite the fact that we found no standard pricing model that applied globally, several trends can be observed when examining data from the last three years.

On a region-by-region basis, Asia Pacific's increase in the proportion of exceptions handling and cash utilisation fees in the total cost of core banking was offset by a decrease in account management.

FIGURE 1.12 Components of Average Annual Price of Core Banking Services, by Category of Products and Services in 2007 (%)



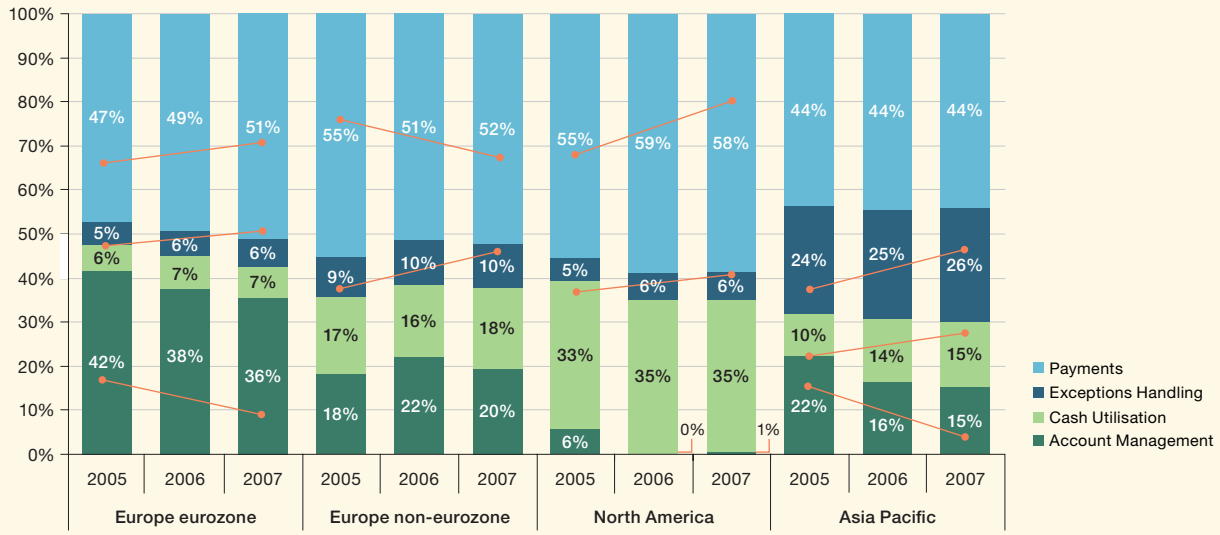
Source: Capgemini analysis, 2007.

In the Europe eurozone, meanwhile, the decrease in account management fees' influence on core price, due to a big price cut in Spain, was counterbalanced by an increase in payments and exceptions handling's portion of the total price.

In Europe non-eurozone, the impact of payments fees on core pricing decreased, offset by an increase in account management, due mainly to a rise in online banking fees in one country and current account fees in another.

Finally, in North America, the trend towards free account management observed last year prevails, but this phenomenon is offset by an increase in the impact payments and exceptions handling fees had on the core banking price.

FIGURE 1.13 Evolution of Fee Sources for Core Banking in 2005, 2006, and 2007
Components of average annual price of core banking services, 2005, 2006, and 2007 (%)



Source: Capgemini analysis, 2007.
Note: Excludes new countries in 2006 (Ireland) and 2007 WRBRs (Croatia, India, Japan, Romania, and South Africa).

SINGLE EURO PAYMENTS AREA (SEPA): TOWARDS CONVERGENCE

Like last year, we examined the possible effects of the Single Euro Payments Area (SEPA) initiative. We calculated the price of electronic payments means that SEPA will affect, including debit cards, wire transfers, and direct debits. To be consistent, we added fees for current accounts, which are required for electronic payments.

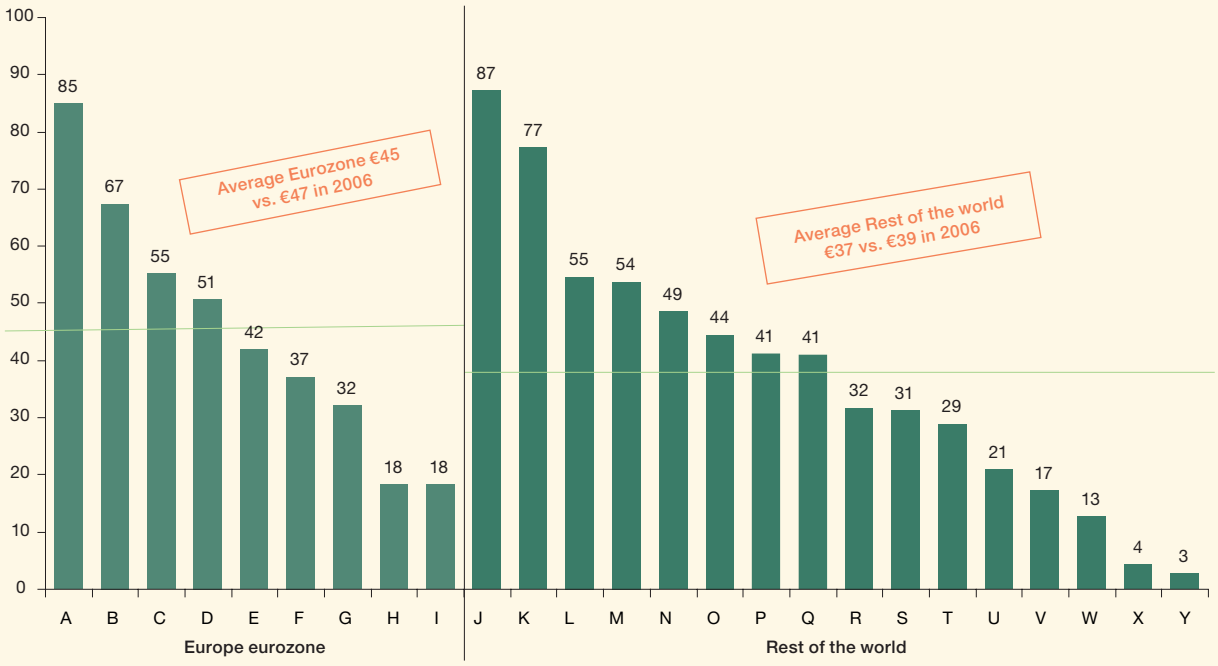
In 2007, consumers in the SEPA area (same as Europe eurozone) paid an average of €45 for electronic means of payment, compared to €47 in 2006. Electronic products in 2007 accounted for approximately 63% of the total pricing index, whereas last year's proportion was 64%. Banks are lowering fees for electronic payments products in an effort to move customers towards these alternatives instead of traditional payments products.

Even though prices for electronic payments decreased by 3% in the eurozone, they are still 21% higher than in the rest of the world, where consumers are charged an average of €37 for electronic payments.

This has to be counterbalanced by the fact that the drop in Spain's current account price this year decreased electronic payments' part in the total price.

Nevertheless, because the SEPA effort is promoting transparency and convergence, retail banks are likely to continue to reduce prices for electronic payments products.

FIGURE 1.14 Price of Electronic Payment Means for the Local Active Profile, 2007
Aggregated cost of current account, debit card, internal and external wire transfers, direct debit, 2007 (€)



Source: Capgemini analysis, 2007.
Note: 2006 figures have been recalculated according to 2007 frequency pattern and exchange rate.

STILL UNEQUAL CONSUMERS

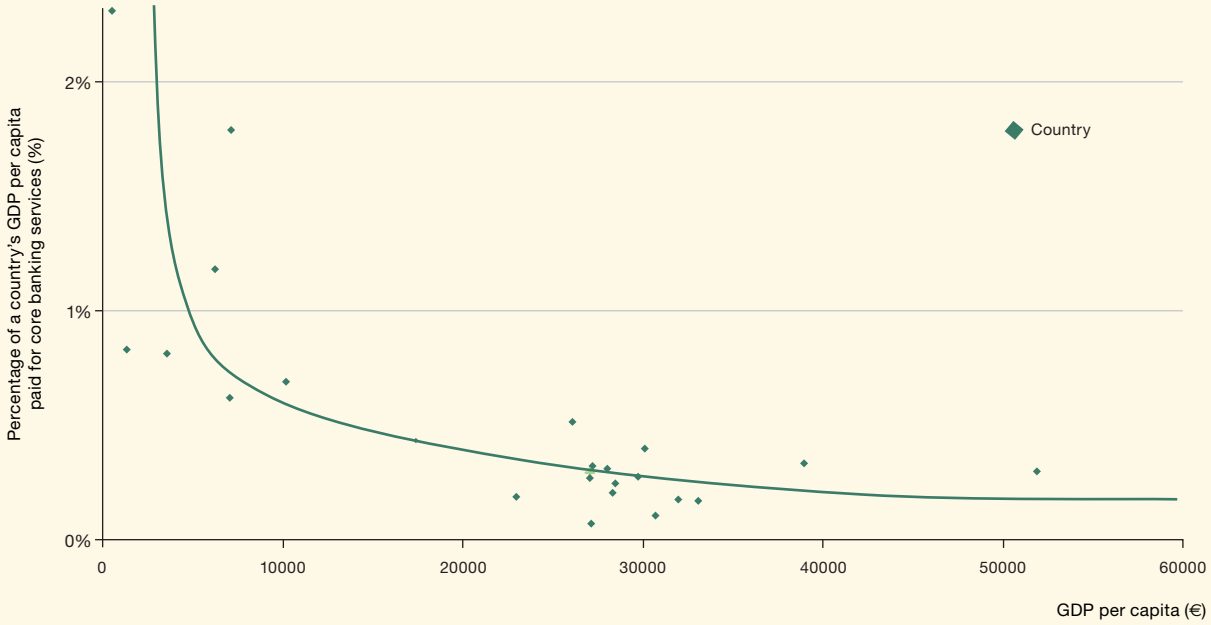
On a global scale, the price consumers paid for day-to-day banking products and services averaged 0.74% of a country's GDP per capita in the 25 countries studied this year (see Figure 1.15). When considering the twenty countries sampled both this year and last year, the average remained at 0.4%, as in the 2006 edition.

This finding confirms that banking services generally follow the standard industrial development pattern — that is, the proportion of GDP per capita allocated to banking services generally declines as an economy matures.

Some countries, however, stand as exceptions to this rule. In India, for instance, banking services are relatively inexpensive, while in Croatia, prices remain high.

FIGURE 1.15 Local Profile Prices versus GDP per Capita

Cost of core banking services as a percentage of GDP per capita, by country, 2007 (%)



Source: Capgemini analysis, 2007.

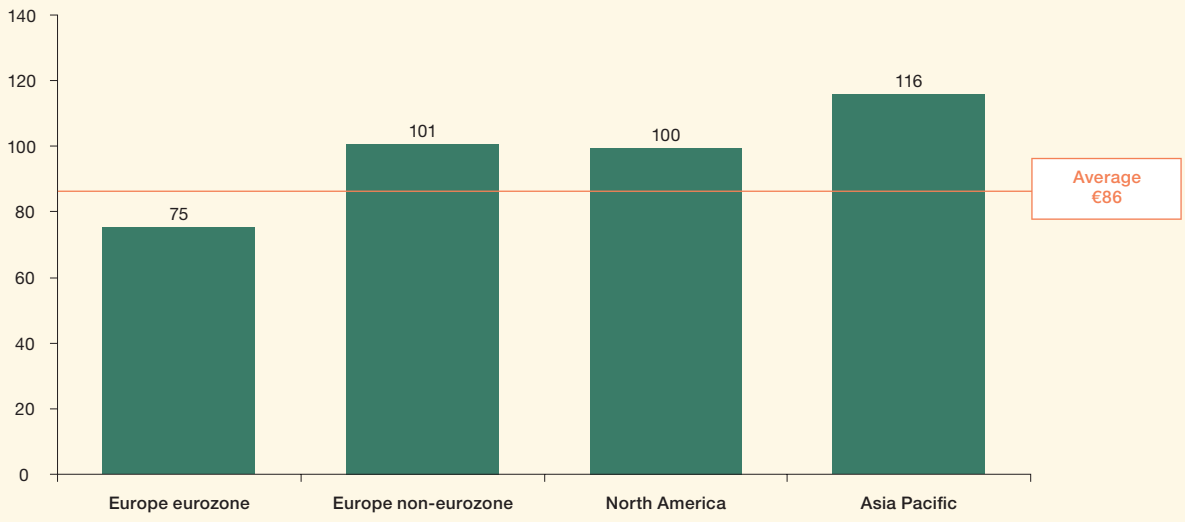
GLOBAL PROFILE

No Major Price Variation

Unlike the local index, which reflects local usage patterns, the global index is based on a single consumption pattern across all regions. As Figure 1.16 shows, the global average price for core banking services in the 25 countries was €86 in our study for 2007. Taking a constant subset of countries from 2006 to 2007, the price dropped slightly, by 0.5%.

FIGURE 1.16 Global Profile Prices, 2007

Average price of day-to-day banking services, by geographic region, 2007 (€)



Source: Capgemini analysis, 2007.

The eurozone recorded the lowest price for core banking services this year, with an average price of €75. In Europe non-eurozone, the average price was €101. Despite these price-level differences, prices in both European regions were lower than in 2006, down 1.8% in Europe eurozone and non-eurozone (see Figure 1.17).

The Asia Pacific price level was the highest recorded this year, at €116, but included two new countries—India and Japan. Using instead a constant 2006-2007 subset of countries, prices increased by 7.2%. Particularly in Australia, banks are raising fees on traditional accounts to encourage customers to switch to packaged transaction accounts.

In North America, the average price was €100, increasing by 2% over 2006 due mainly to rising prices in Canada, particularly in payments.

Even if regional price levels seem relatively close to the global average, important differences remain within each region and within each country.

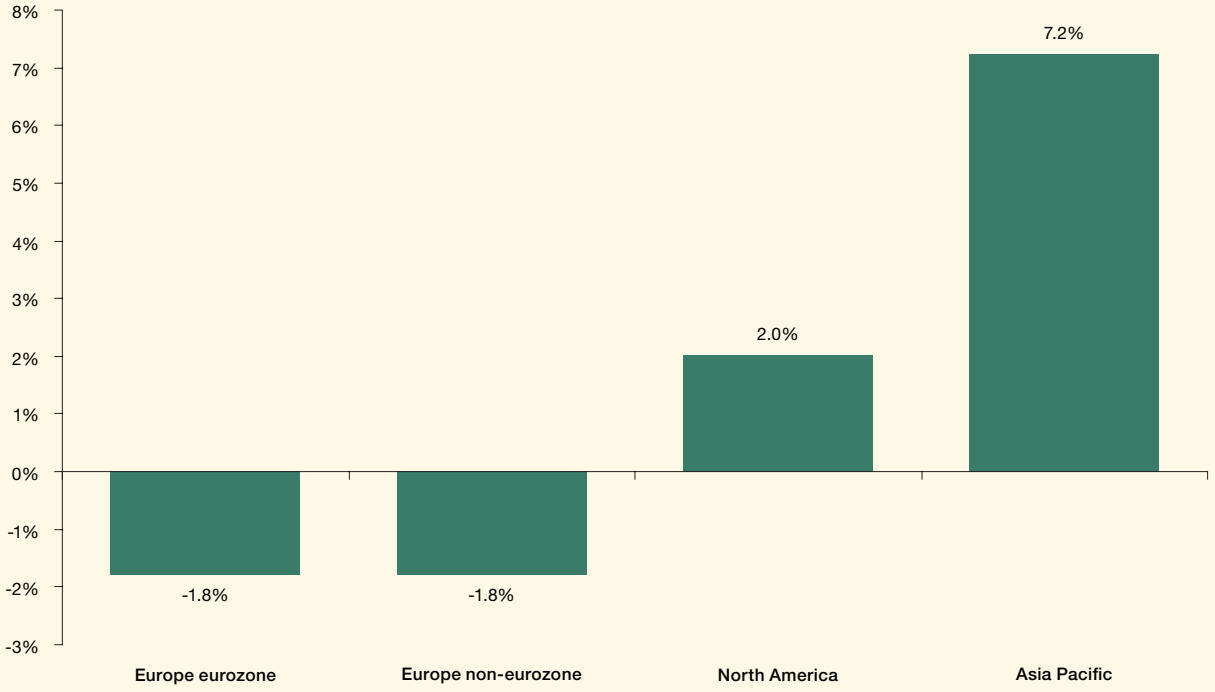
NEW THIS YEAR: PACKAGE ANALYSIS

A trend towards packaged offers is occurring in most retail banking markets, and this year we analysed both the content and value of packages.

Packages are a mix of products and services, containing a fixed quantity of each. Consumers pay once a month, or each year, instead of paying a fee each time they use a banking product or service. We limited our analysis to seven countries where packages are widespread. These include Austria, Belgium, Germany, Italy, Poland, and Slovakia, where more than 75% of customers buy packages, and France, where approximately 50% purchase bundled products.

We asked country teams to research the three banks with the largest market shares in their country, and to determine the price and exact content of each bank's best-selling package.

FIGURE 1.17 Evolution of Global Profile Prices, 2006-2007
Average price evolution, 2006-2007 (%)



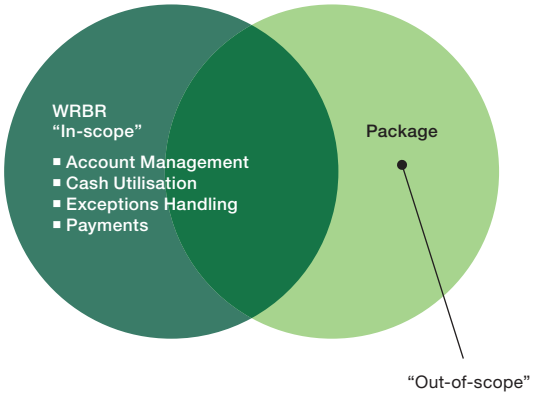
Source: Capgemini analysis, 2007.
Note: Excludes new countries in 2007 WRBR (Croatia, India, Japan, Romania, and South Africa).

Package Content Analysis

As noted at the outset in Figure 1.18, the products and services in the WRBR pricing index are labelled as "in-scope". Packages, however, often include both these in-scope products and others -"out-of-scope"- that are not included in the WRBR pricing index. To provide an accurate picture, our package analysis includes both in-scope and out-of-scope products and services.

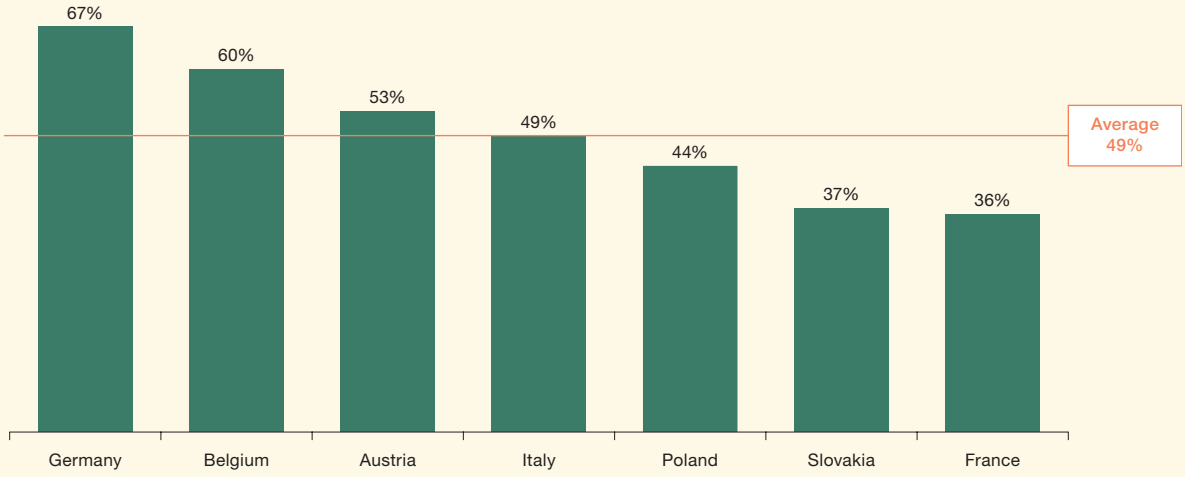
As Figure 1.19 illustrates, an average of 49% of the in-scope products and services are included in the seven countries' packages. Packages in Germany, Belgium, and Austria cover the most in-scope products, while in Italy, Poland, Slovakia, and France, packages cover the fewest in-scope products. Account management was the best-covered category, with current account, online banking, and call centre services included in almost all packages. Except in France, exceptions handling was the least-covered category.

FIGURE 1.18 Package and WRBR "In-scope" Products and Services



Source: Capgemini analysis, 2007.

FIGURE 1.19 Proportion of WRBR In-scope Products Included in Packages (%)

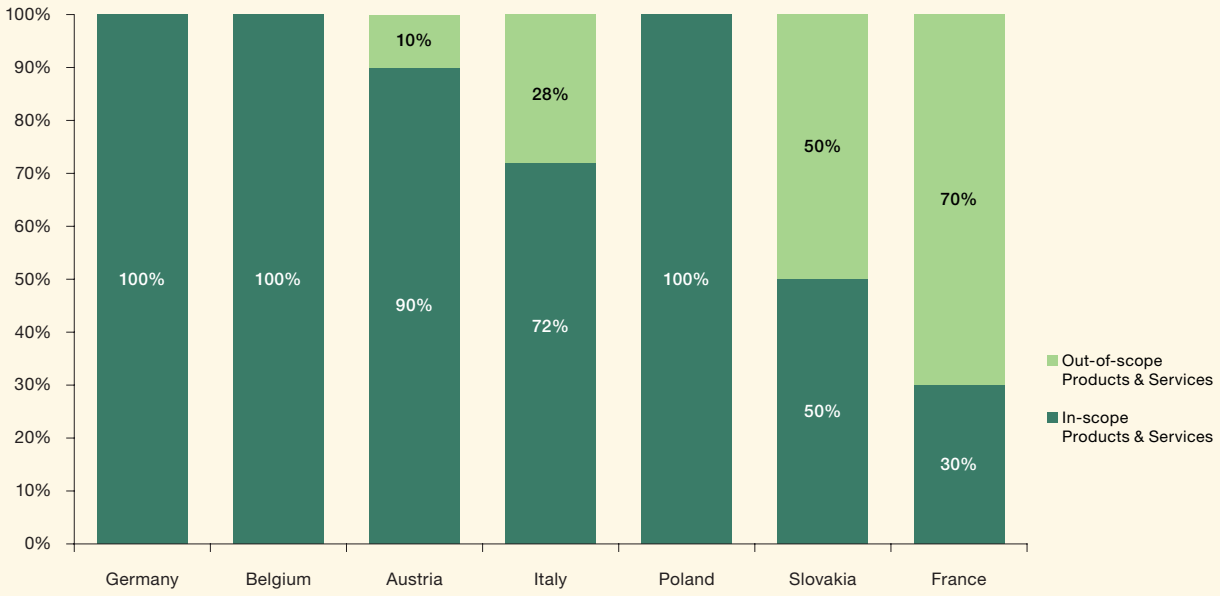


Source: Capgemini analysis, 2007.

When looking package content, two types of product mixes emerge, as illustrated in Figure 1.20. In Germany, Belgium, and Poland, packages contain exclusively in-scope products. For the other countries, out-of-scope products are also included in packages, either in low proportions, as in Austria and Italy (below 30%), or in a higher proportion, as in Slovakia (50%) and France (70%).

Out-of-scope products are very diverse, and include printed statement self-service in Austria, long-term fixed-price guarantees in Italy, transactions at points of sales terminals or assigned overdraft limits in Slovakia, and discounts on overdraft interest and payments insurance protection in France.

FIGURE 1.20 Proportion of "In-scope" and "Out-of-scope" Products and Services Included in Packages (%)



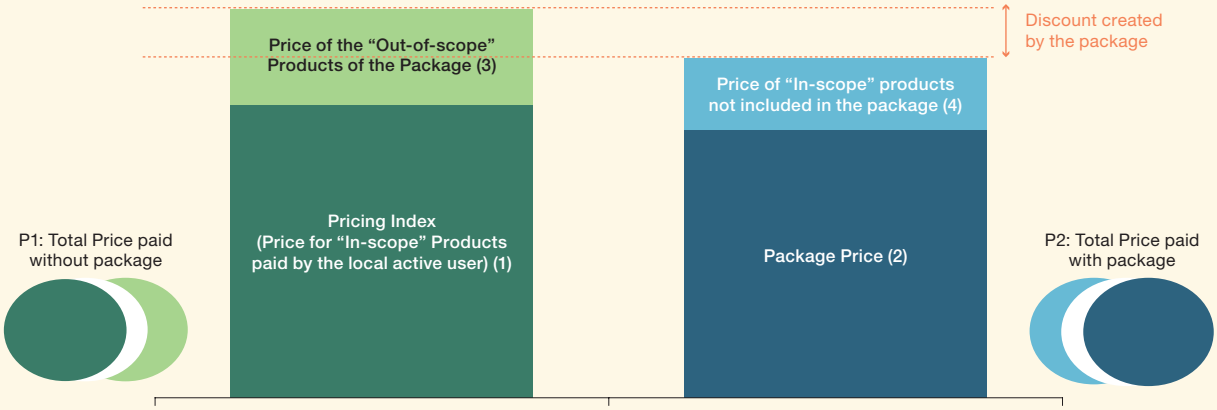
Source: Capgemini analysis, 2007.

Package Value Analysis

When marketing their packages, banks highlight the price savings consumers will achieve by buying a package of products. To evaluate a package's value to the consumer, we considered both its in-scope and out-of-scope products and services.

We calculated two prices for this set of products, as illustrated in Figure 1.21. P1 denotes what consumers would pay if they bought all the products independently — that is, the price a local active user would pay for the package's in-scope products and services (1), plus the price for its out-of-scope products (3). P2 corresponds to the price the consumer would pay for a package (2) plus the price of the in-scope products and services not included in the package (4). The difference between the two is the discount a consumer receives by purchasing the package.

FIGURE 1.21 Discount between Prices Paid with and without Package for "In-scope" and Package Products



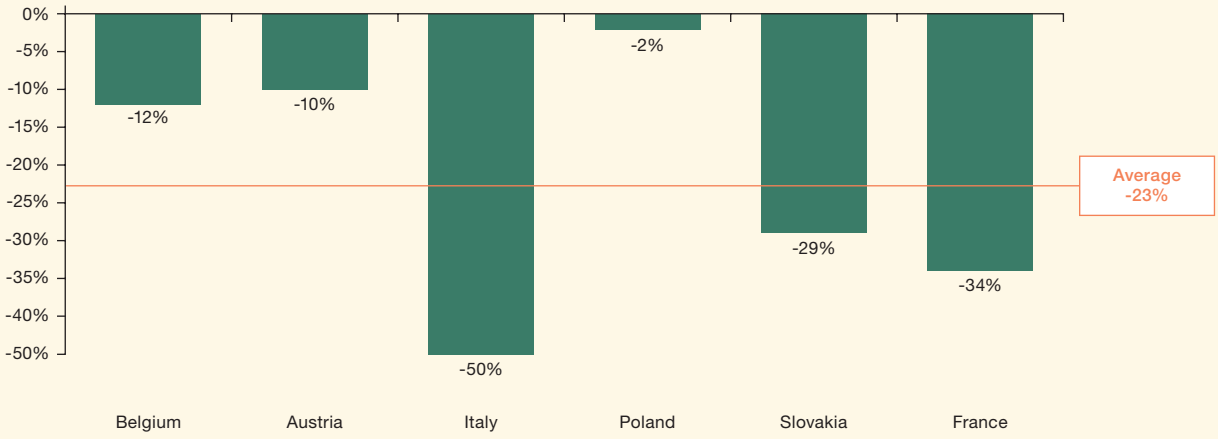
Source: Capgemini analysis, 2007.

Figure 1.22 provides the result of the discount expressed as a percentage of P1 (in Figure 1.21) for all the sample countries except Germany. We have excluded this country because most German banks do not offer unbundled prices for their current accounts, and without unit prices, we could not compute the discount.

Package discounts averaged 23% below the price a consumer would pay if buying the same products and services separately. As Figure 1.22 illustrates, this discount varies by country, and ranges from a small fraction in Poland to 50% in Italy.

When buying packages, depending on the country, customers both receive non-core banking products and benefit from relatively high discounts, or the discount is low. When comparing these discounts to package content, indicated in Figure 1.20, countries with the lowest proportion of out-of-scope products and services receive the smallest discounts. Comparing figures 1.20 and 1.22 indicates that Austria, Belgium, and Poland fall into this category. In Italy, Slovakia, and France, where packages contain the highest proportion of out-of-scope products, consumers receive the largest discounts. In these countries, however, consumers buying the package might not use these out-of-scope products very often.

FIGURE 1.22 Discount Created by Packages, by Country, in 2007 (%)



Source: Capgemini analysis, 2007.

Conclusion

On a global scale, the price for core banking services, based on the local active customer profile, was €77 for our 2007 study, a decline of only 0.3% from 2006. Nevertheless, this global stability hides price variations between countries and geographic areas. The price in Spain, in particular, dropped sharply.

From a product and service perspective, a few trends are occurring. For the second consecutive year, banks are actively trying to redefine their customers' touch points, and directing them towards automated channels for common operations and away from branch interaction except for more advanced services. Many banks have raised their fees for operations at desk, and cut fees for online banking and call centre services. It was not surprising that exceptions handling, which is usually subject to the biggest price variations, increased the most in 2007.

Our results indicate that pricing strategies for day-to-day banking are less a means banks are using to increase revenues than a way to change consumer behaviour. Banks naturally want consumers to move towards the most cost-effective solutions, encouraging them to use remote channels and discouraging their use of desk operations and branches in general.

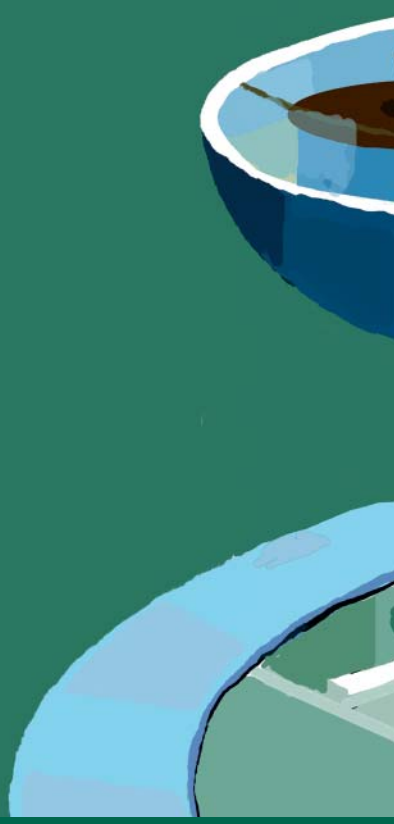
Banks in the eurozone typically price in a much narrower range than banks in the other regions surveyed. And the trend towards convergence is confirmed.

In the SEPA (or eurozone) area, prices for electronic payments decreased by 3%, but are still 21% higher than in the rest of the world. Since the SEPA effort is promoting transparency and convergence, retail banks are likely to continue to reduce prices for electronic payments products.

Packaged offers are being sold in the countries we study annually for our World Retail Banking Reports. This year's analysis highlighted that 49% (about half) of the in-scope or core banking products and services are included in packages. Countries where packages contain out-of-scope products offer consumers the highest discounts, but in these countries, consumers buying a package might not use the out-of-scope products very frequently.

Transforming

Operating Models in Retail Banking



MAJOR FINDINGS

1. The situation today: What retail banks' operating models look like

- Retail bank top managers set three primary objectives for transforming their operating models: increasing revenue growth, improving customer service, and cutting costs.
- Operating models vary greatly, due largely to each retail bank's market maturity. Banks tend to adopt more global models for payments, specialised financial services, and mutual funds.
- Less than 10% of the banks we studied have a global operating model today. IT and management seem to be the first levers that retail banks use to globalise their models:
  - Today, retail banks' governance is partly driven on a global scale—while only 41% of the international banks have a global retail manager, most retail banks have set up global management tools.
  - Only 28% of the retail banks in our study have developed a global strategic marketing approach for some products (primarily mortgages and mutual funds).
  - IT organisation is halfway through globalisation, with 59% of the retail banks we studied consolidating some of their IT systems at the cross-country level.
  - Consolidation of back offices nationally is currently practiced by 60% of the banks surveyed, but only 41% of the international banks have consolidated on a cross-country basis.
  - In our sample, 39% of the banks have consolidated support functions at the cross-country level (mainly treasury and procurement functions).
  - Of all the retail banks we surveyed, 58% distribute products from other financial institutions ("open-finance").
- Back offices and IT functions are partly outsourced by more than half of the retail banks we studied, while support functions are much less-frequently outsourced. Outsourcing growth will come mainly from retail banks that already outsource some activities and plan to enlarge the proportion of outsourced staff.
- Today almost half of retail banks we examined have adopted offshoring practices, essentially in back offices and IT functions. India outstrips all other countries as the preferred provider of offshored business processes.
- There is no correlation between a retail bank's level of globalisation and its cost/income ratio.

2. The situation in five years: What drives retail banks' operating model transformations and what they will look like in five years

- Four main drivers will lead retail banks to transform their operating models: Stock market and competitive pressures, regulation, increasing use of the Internet, and Web 2.0 technologies.
- Retail banks will increasingly globalise their operating models over the next five years, with two-thirds of them targeting either what we define as an "intermediate" or "global" operating model.
- Retail banks will transform their models across all dimensions; however, IT globalisation will remain their priority:
  - IT globalisation appears to be the most important transformation trend for the next five years, with more than 90% of the banks we interviewed willing to have a common architecture and modular application suite and a ready-to-go approach to IT implementation.
  - Back offices are expected to be further consolidated at a cross-country level. Our findings indicate that more retail banks in five years (increasing from 41% to 67%) will be focusing on cross-country consolidation.
  - More than 50% of the banks expect to have global marketing practices within five years, whereas only 28% have them today.
  - Other major changes will occur in the development of career management programmes for international managers (rising from 55% to 77%) and the consolidation of support functions at the cross-country level (rising from 39% to 66%.)
- Outsourcing growth will come mainly from retail banks that already outsource some activities and plan to enlarge the proportion of outsourced staff.
- In the next five years, offshoring practices will largely expand for back offices, IT, and support functions.
- Top retail bank managers must focus on five key success factors to globalise their operating models: developing international governance, ensuring consistency with market and product strategies, investing upfront in IT transformation, building a very thorough HR vision, and focusing on execution quality.

ADAPTING OPERATING MODELS TO A CHANGING ENVIRONMENT

Most retail banks are seeking ways to transform their operating models. They need to adapt continuously to an environment that changes on a daily basis. They must adjust to a long list of forces, including intensifying market consolidation (both national and cross-border), fast-growing economies in emerging countries, competing with and for high-quality technical and human resources at competitive costs in new markets, continually changing consumer needs, technological changes, new market regulations, and the pressure of financial markets.

Many ways of transformation exist, not all of which promise increasing or optimal performance. To better understand this, we focused our survey on two major issues: (1) what retail banks' operating models look like today; and (2) what drives their transformation and what these models will look like in five years.

Surveyed banks

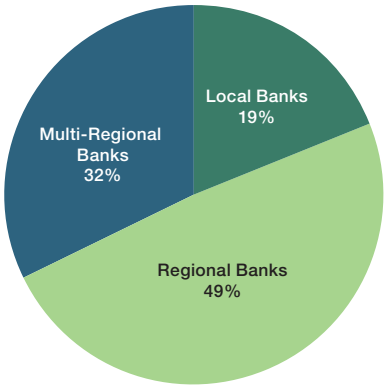
We based our analysis on interviews conducted all over the world at 50 multi-channel retail banks, of which 41 are international–either regional (with operations in several countries on one continent) or multi-regional (with operations on at least two continents). Total retail operating income of those banks is €225 billion, and total assets amount to €10,257 billion (see figures 2.1. to 2.3).

THE SITUATION TODAY: WHAT RETAIL BANKS' OPERATING MODELS LOOK LIKE

Retail bank top managers we interviewed set three primary objectives for transforming their operating models: increasing revenue growth, improving customer service, and reducing costs. Most managers in the retail banks we surveyed did not name reducing costs as their first objective (see Figure 2.4). Rather, 40% cited revenue growth as their first objective. Improving customer service was the first choice of 24%. Cutting costs (14%) and increasing shareholder value (14%) were the other two major first priorities that surveyed banks selected. Banks rarely cited other objectives (accelerating international expansion, improving business responsiveness, developing cross-selling, learning from new experience abroad, and benefiting from outsourcing partners' expertise) as high-priority.

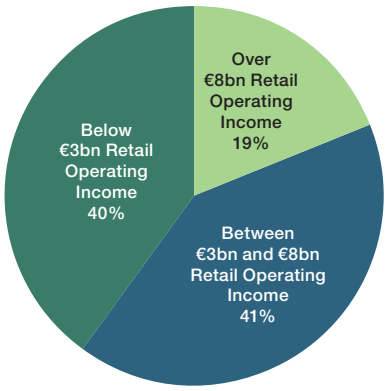
Operating models vary greatly, primarily due to retail banks' market maturity. International banks rarely operate a single pure operating model, but generally operate at least two models tailor-made to the type of market in which they operate. In mature markets—where cost optimisation is often the first objective—they tend to develop a cross-border integrated model. In emerging high-growth markets, however—where acquiring market share is key—they tend not to integrate the local operating models, especially in cases of recent acquisition. Banks that operate in both types of market, meanwhile, tend to structure their organisations accordingly by adopting specific strategies for each market (see case study on UniCredit).

FIGURE 2.1 Breakdown of Surveyed Banks' Geographic Reach (%)



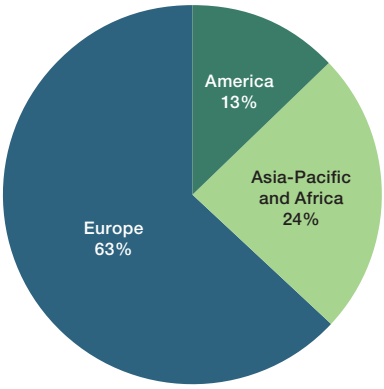
Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE 2.2 Breakdown of Surveyed Banks' Size, in Operating Income (%)



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE 2.3 Total Assets of Banks in Our Panel, Breakdown per Region of Origin (%)



Source: Capgemini interviews with 50 surveyed retail banks.

CASE STUDY

UniCredit Group: An Operating Model Aligned to Its International Expansion

EXPANDING INTERNATIONALLY WHILE IMPROVING SUSTAINABLE GROWTH

UniCredit Group is a leading European banking group with top positions in some of the richest areas in Western Europe, including Bavaria, Austria, and Northern Italy, which is a source of Group stability. Through the merger of UniCredit, HypoVereinsbank, and Bank Austria Creditanstalt in 2005, the Group has become the clear leader in the Central and Eastern European (CEE) banking markets. In expanding its banking business to the 17 CEE countries, the Group has focused on retail banking in 13 of them, and now serves approximately 24 million customers from more than 3,000 offices in that area.

UniCredit's strategy has two main directions: continue growth in the CEE region, and further consolidate its domestic markets (Italy, Germany, and Austria). In each of its markets, UniCredit is growing quickly and meeting its main objectives in terms of revenue and market-share growth. Its model is also particularly efficient, with a cost/income ratio of 52% in 2005.

ALIGNING ITS OPERATING MODEL TO ITS INTERNATIONAL EXPANSION STRATEGY

A cross-border retail division. UniCredit Group's business approach is based on a divisional model. The Group established a cross-border retail division, with responsibility for Italy, Germany, and Austria, and named a head of retail CEE and Poland's markets. This position is responsible for overseeing the various local banks on a management by objectives (MBO) basis. Within the CEE, the Group has decided to "clusterize" its organisation by pulling together three groups of countries according to their market conditions and maturity.

Tailored strategies. For each of these groups, UniCredit adopts a tailor-made strategy. In the Growth Strategy Countries (Romania, Ukraine, Bulgaria, Serbia, Bosnia and Herzegovina, Hungary, Slovenia, and Russia), the Group's objective is to acquire market share quickly and increase revenues. In the Positioning Countries (Slovakia, Turkey, and Czech Republic), its main objective is to increase shareholder value to gain financial capability. In the Champion Strategy Countries (Poland and Croatia), the goal is to increase productivity and efficiency by consolidating back-office and processing operations.

IT. UniCredit has started to optimise its operations across the entire CEE region, especially on the IT side, by working towards a common IT architecture. Consolidating IT systems presents some challenges, given the cultural differences and the different technical specifications developed over time by each legal entity to provide products and services to its local customers.

Support Function. UniCredit Group plans to set up competence hubs and a unique support functions platform at an international level.

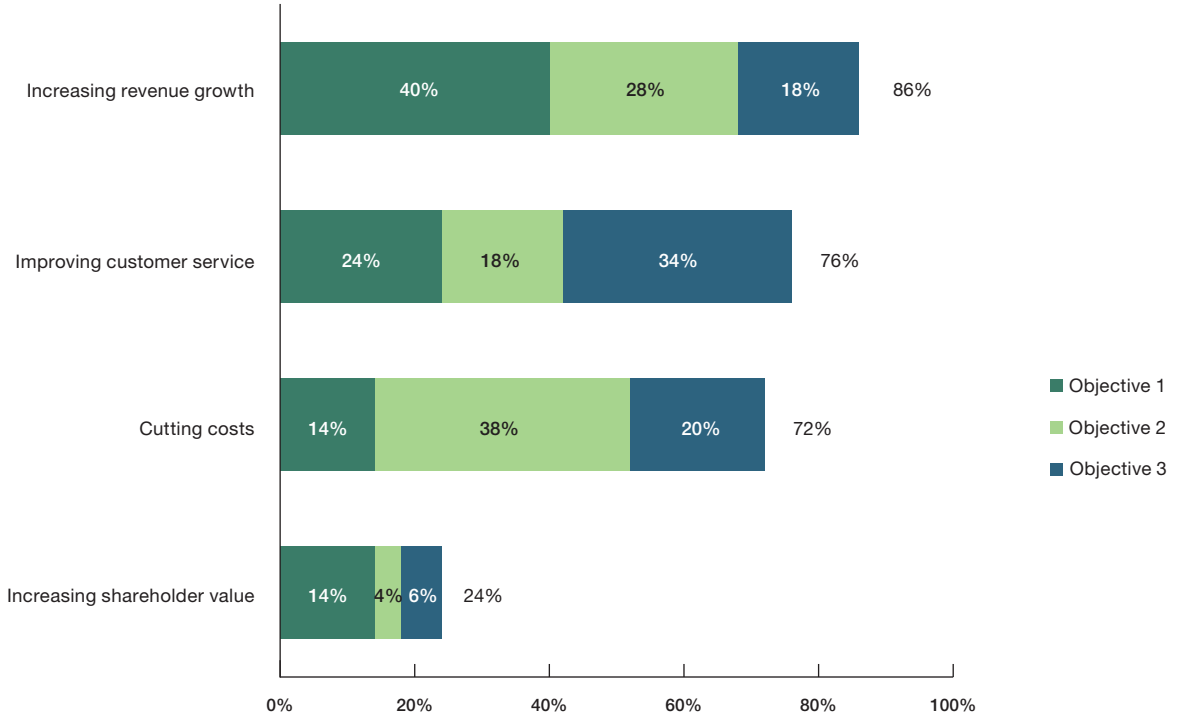
Pilot approach. To manage market strategies and new market-entry strategies, UniCredit uses a pilot approach. Product development and sales processes best practices are shared between the CEE countries and the rest of the Group. For example, in Bulgaria, consumer lending is considered a successful best-practice case, and UniCredit plans to roll out similar projects in two other countries. In Italy, a pilot Internet banking strategy is in progress, and this experience will be used to bolster existing e-banking strategies in the other countries.

For servicing their products, banks tend to adopt more global models for payments, specialised financial services (SFS) (which include consumer credit, mortgage, and leasing), **and mutual funds**, than for their other retail activities (savings, life insurance, and property and casualty insurance). This applies particularly to global strategic marketing and back-office cross-country consolidation.

Reasons retail banks cited for beginning to globalise payments and SFS products first include regulatory (e.g. SEPA), economic, technical (scale and skills), and political (less resistance to change) factors. Starting with these products also represents an opportunity to learn about a new market before launching full-scale retail activities. To minimise risk, some European retail banks have created a single organisation division that includes both their international retail banking division and their specialised financial services branch.

New entrants seem more able to design and develop operating models highly adapted to their market and product strategies. The ING Direct case study illustrates this point well, as that bank quickly succeeded in entering a mature market with its online banking products.

FIGURE 2.4 Three Main Objectives of Retail Banks' Operating Models (%)



Source: Capgemini interviews with 50 surveyed retail banks.

CASE STUDY

ING Direct: Combining Global Strategy and Systems with Local Customer Focus and Operations

In 1995, ING Group decided to start retail banking operations outside the Netherlands, next to its already existing retail insurance and corporate banking activities abroad. As the increased use of direct channels opened up new opportunities for financial services providers, ING Group decided to export its direct banking expertise (from Postbank) instead of building or buying branch networks. The group chose Canada for the pilot implementation, and it launched ING Direct there as a stand-alone direct bank.

Following this initial entry, ING Direct grew quickly, and by 2002 became a profit contributor to the ING Group. Today, ING Direct has 17.5 million customers in nine countries (Australia, Austria, Canada, France, Germany, Italy, Spain, UK, and the US), with a client retail balance of €195 billion.

Simple and straightforward strategy. ING Direct achieved this goal by developing a strategy based on a strong customer focus and a limited range of simple financial products, offered primarily through direct channels at very low cost and providing good value for money to its clients:

- Enter sufficiently large, mature markets with developed infrastructure for direct banking.
- Launch with a simple, transparent, and attractive savings product to reach critical mass as soon as possible.
- Subsequently, introduce a second product—generally mortgages—adapted to the specific conditions of the retail market in the different countries; currently, in addition to savings and mortgages, ING Direct focuses on mutual funds (mainly in Europe) as its key development product.
- Establish a unique global brand and an effective marketing strategy, minimising the acquisition cost per client.
- Enable customers to interact with the bank through direct channels (Internet, phone, or mail) with excellent customer service and convenience (24/7 access).
- Simplify products, services, and processes.
- Reach large volumes per product to ensure operational efficiency.

Strong performance. ING Direct delivers outstanding performance on a set of quantitative and qualitative key performance indicators, including the following:

- Compared to other direct banks, ING Direct holds the number 1 position in all countries where it operates. Compared to all banks, ING Direct is always in the top ten (except in the US).
- Brand awareness was built in a very short time and exceeds 70% in most countries.
- High customer satisfaction: on average, 94% of the clients are likely to recommend ING Direct.
- Operational cost to assets ratio (excluding marketing costs) reached 42 basis points (bps) by the end of September 2006. The cost base of a traditional branch bank is more than five times as high (250 bps).
- ING Direct's business units become profitable in the fourth year, on the savings products only.
- ING Direct generated a pre-tax result of €717 million in 2006 (€617 million in 2005).

Effective governance. One of the major factors in this success lies in the governance based on the "Fleet of Companies" principle, which allows ING Direct to "think global and act local". Every company is free to determine the order of product introduction based on its own market circumstances. The role of the lean head office (70 people only) is to keep the organisation's strategic focus, provide strategic guidelines, facilitate knowledge-sharing and best practices, provide risk management and control, and support the business units.

Global knowledge sharing is encouraged through membership of various councils (e.g. General Management Council, Marketing Council, Sales and Operations Council, and IT Council) and an annual Global Conference where the top 200 managers meet.

HR vision. ING Direct's HR vision is to focus on competitive advantage, ensuring that efforts are aligned, supporting and adding value to the business focus and the customers. Business management programmes are delivered to 400 middle managers each year, and employees are encouraged to spend time working outside their home countries.

Customer management. ING Direct uses a mix of global and local approaches to customer management in order to leverage its position. Each country has its own customer approach, and the bank aims at sharing experiences and best practices learned in the different countries. ING Direct administers a global customer satisfaction survey, and each country additionally tailors questions to its local customers.

A solid and standardised IT infrastructure. ING Direct has a solid and stable IT infrastructure and business application framework. Its reliability, flexibility, and user-friendliness are key to ING Direct's success. Every business unit runs its own standardised IT infrastructure locally. The IT Council agrees on a standard application architecture as a whole, which is replicated in other countries in slightly modified form to match local requirements. As a result of these policies, ING Direct can launch new products quickly, and adjusting the conditions (such as interest rates) of an existing product can be done rapidly. To ascertain the robustness of new IT solutions, first a Proof of Concept (PoC) is established in one of the countries, and the findings are shared with the others. Only when a PoC is clearly successful are new solutions implemented globally.

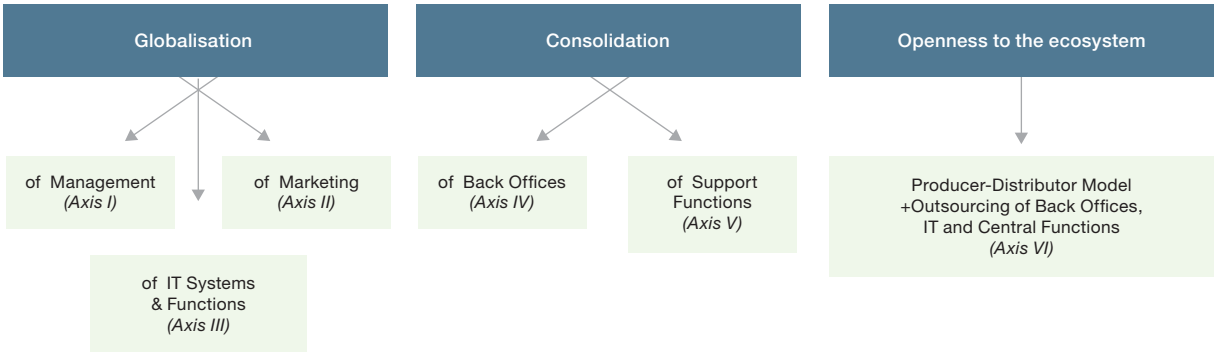
Core activities are neither outsourced nor offshored. This principle is especially true for operations and call centres that contribute to developing a better customer experience. Activities in Canada are even split between the English-speaking and French-speaking regions. Cross-country consolidations are rare. Examples include the shared operations between Germany and Austria (where language is not an issue) as well as the investment centre for the European business units.

New challenges. After many years of fast growth, ING Direct has proven the quality of its strategy and the soundness of its operating model. Today, however, it faces new challenges. Competition is one of them, with the largest banking groups entering the direct banking industry seeking market share. Another challenge is the current interest rate environment, where yield curves have flattened and central bank rates across the globe have risen.

Future growth. In existing markets, growth will be realised by exploiting the current product portfolio, specifically savings, mortgages, and mutual funds, and by broadening the product range to fulfil customer needs, such as payments accounts in Germany, Spain, and the US. ING Direct will continue to expand its geographic footprint, based on three key entry criteria: a potential savings market, a large middle class, and a highly developed Internet and telephone infrastructure.

Building on the four key principles—meeting and surpassing customer expectations, simplicity and transparency, low-cost model, and its Fleet of Companies concept—ING Direct's ambition today is to become "The world's most preferred consumer bank".

FIGURE 2.5 Operating Model Characteristics



Source: Capgemini analysis, 2007.

We have developed six key characteristics that help categorise retail banks' operating models (see Figure 2.5). We used these characteristics to calculate a global score for each bank (see scoring methodology in the appendix). Taking into account the six characteristics in Figure 2.5, we identified three types of operating model categorised by their most prevalent characteristics (see Figure 2.6):

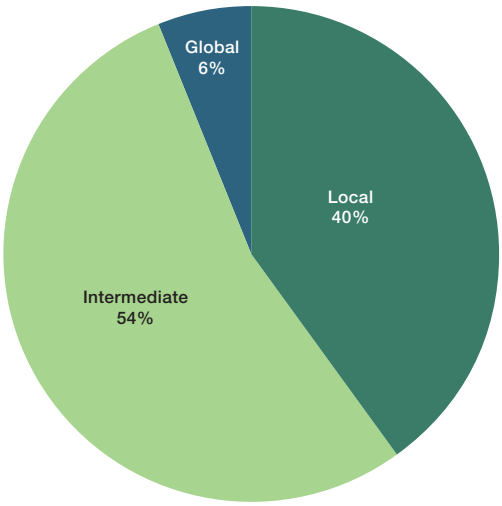
- **Local:** No global management of the retail bank; very little or no cross-country or even national consolidation of back offices, IT, or support functions; little or no outsourcing; very few or no partnerships with other banks to distribute products.
- **Intermediate:** Some management or marketing efforts of the retail bank are driven on a global basis; part of back-office, IT, and support functions are consolidated at a cross-country level, with some outsourcing; some products use an outsourced and open-finance distribution model.
- **Global and open:** Management and marketing efforts are global; most of back-office, IT, and support functions are consolidated at a cross-country level, much of it outsourced; open-finance distribution model for many products.

Less than 10% of the banks we surveyed have a global operating model today.

A bank's size and geographic reach correlate with its operating model type. Multi-regional or large regional banks (those with operating incomes above €3 billion) have a large proportion (64%) of operating models that fall into our intermediate classification. Global operating models are only present in this category, where they account for a low 12% (see Figure 2.7.).

All operating models might be found in a geographic area. For instance, there is no single European retail bank model. Nonetheless (and despite the limited size of our sample), some geographic similarities did emerge. For example, Swedish and Dutch retail banks' operating models are mostly intermediate or global, while Japanese banks appear for the most part to be minimally consolidated at a cross-country level and very internal.

FIGURE 2.6 Distribution of Banks' Operating Model Types (%)



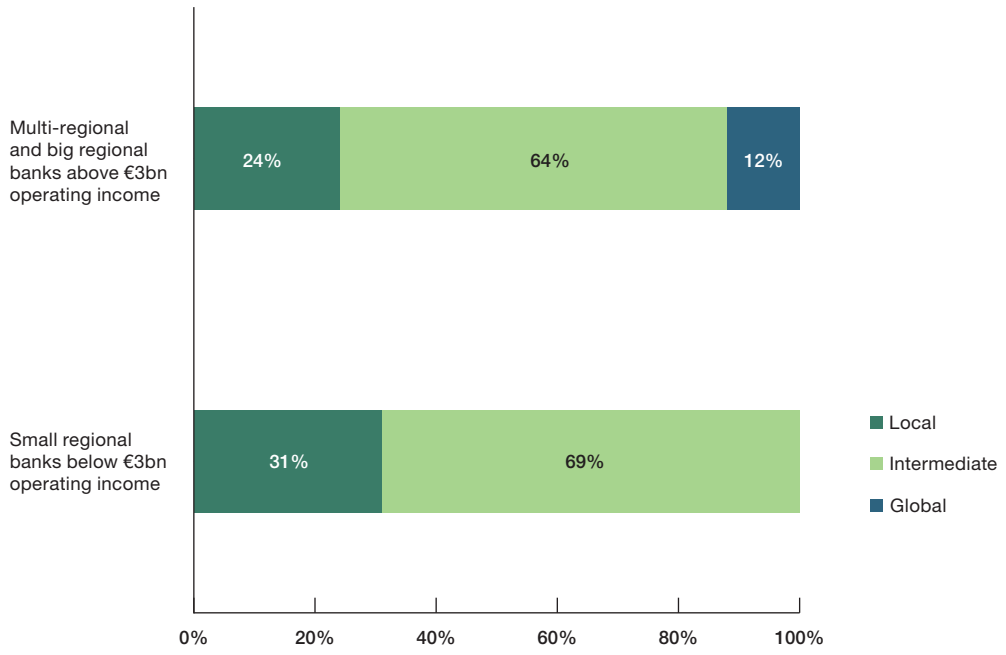
Source: Capgemini interviews with 50 surveyed retail banks.

Today, retail bank governance (Axis I in Figure 2.5) is partly global—41% of banks surveyed have a global retail manager, and most already have some global management tools in place (see Figure 2.8). Retail banks are working at globalising their management teams by creating tools that help them drive their business on an international level. Among the international banks in our survey, two-thirds have set up global knowledge-sharing tools to capture and exchange positive operations experience around the world. Many banks, however, have not yet industrialised these processes and are still in the process of implementing them. Over half of the international banks we studied have already instituted career management policies for their international retail managers.

Examples of global management practices. Some of the banks in our survey have initiated one or more of the following global moves:

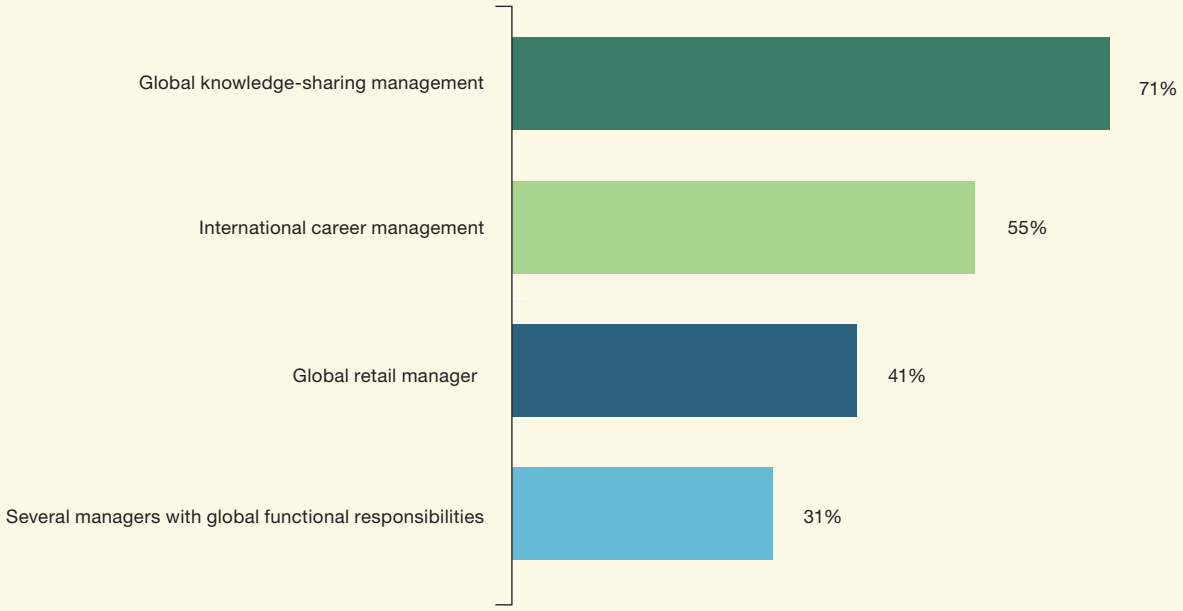
- Involving executives of acquired companies in creating the new corporate vision, giving a clear signal that integration did not end with the closing of the deal.
- Creating a distinct international retail business unit.
- Investing in training to develop executives' international outlook.
- Ensuring the continuity of management to guarantee the consistency and durability of the company's strategy.

FIGURE 2.7 Distribution of Operating Model Types across Bank Categories (%)



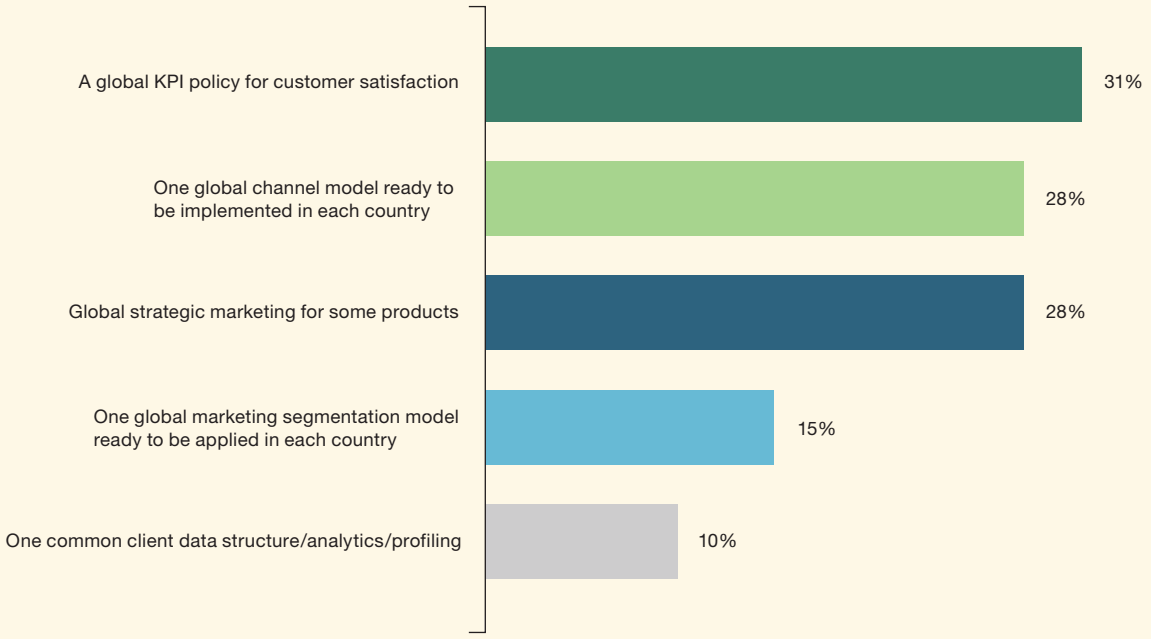
Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE 2.8 Global Governance and Management of Retail Banks Today (%)
(Percentage of international banks)



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE 2.9 Global Marketing Strategies and Global Client and Channel Management (%)
(Percentage of international banks)

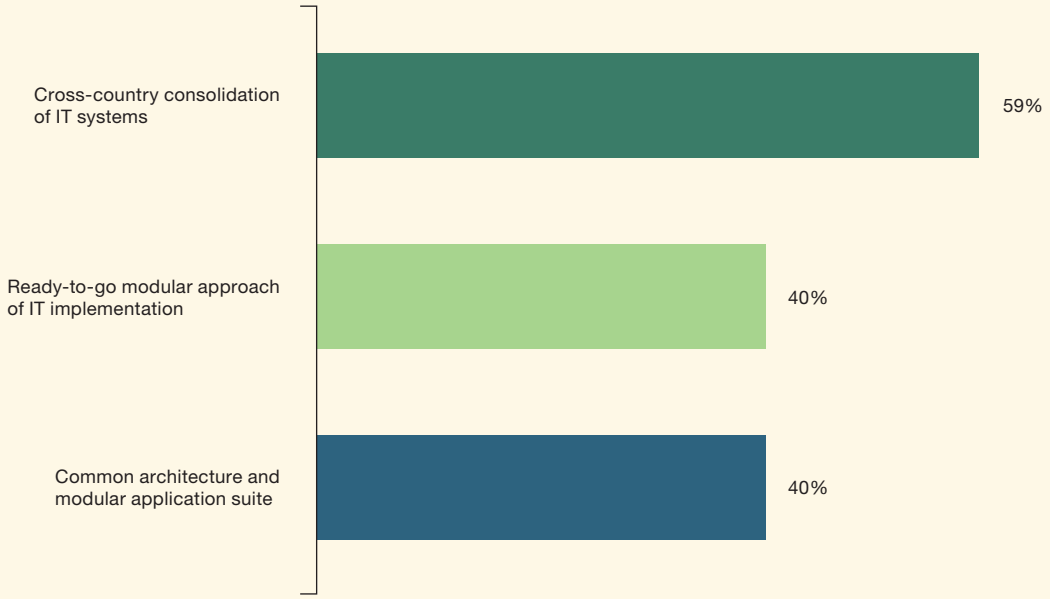


Source: Capgemini interviews with 50 surveyed retail banks.

As indicated in Figure 2.9, only 28% of the international retail banks surveyed have developed global strategic marketing for some products (Axis II, Figure 2.5); this is especially true for mortgages and mutual funds. Less than a third of the retail banks we studied had global channel models, and global client management is not very advanced today, either. Many retail banks are reluctant to globalise their marketing strategies for all their products, preferring instead to concentrate on a few. The banks we surveyed tend to establish broad global marketing policies, while allowing local branches to customise products according to local needs. The adaptability of a bank's marketing approach is a key element in its globalisation.

IT organisation (Axis III, Figure 2.5) is halfway into globalisation. Of the fourty-one international banks in our survey, nearly 60% have already consolidated their IT systems at the cross-country level (see Figure 2.10), and 40% have a common IT architecture, a modular application suite, and a ready-to-go modular approach to IT implementation.

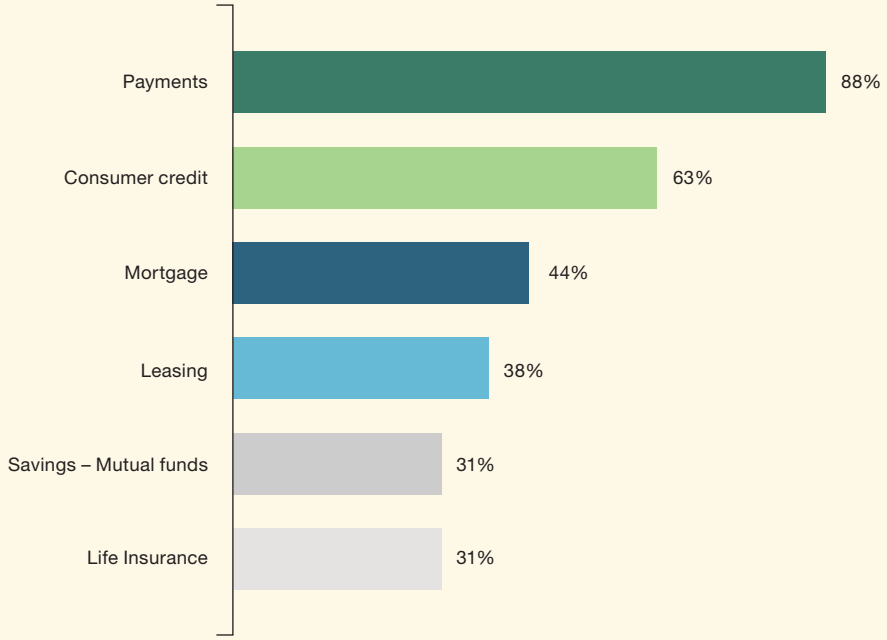
FIGURE 2.10 IT Globalisation (%)
(Percentage of international banks)



Source: Capgemini interviews with 50 surveyed retail banks.

Consolidation of back offices (Axis IV, Figure 2.5) is well advanced on a national level. Of the banks surveyed, 60% have consolidated between retail networks and specialised networks, especially for payments and specialised financial services (consumer credit, mortgages, and leasing). However, few international banks in our survey (41%) had adopted cross-country consolidation. Overall, of those retail banks, 88% did so for payments, 63% for consumer credit, and 44% for mortgages (see Figure 2.11).

FIGURE 2.11 Banks Consolidating Some or All of Their Cross-Country Back-Office Tasks, by Product (%)
Percentage of international banks reporting that some of their back offices are consolidated at a cross-country level

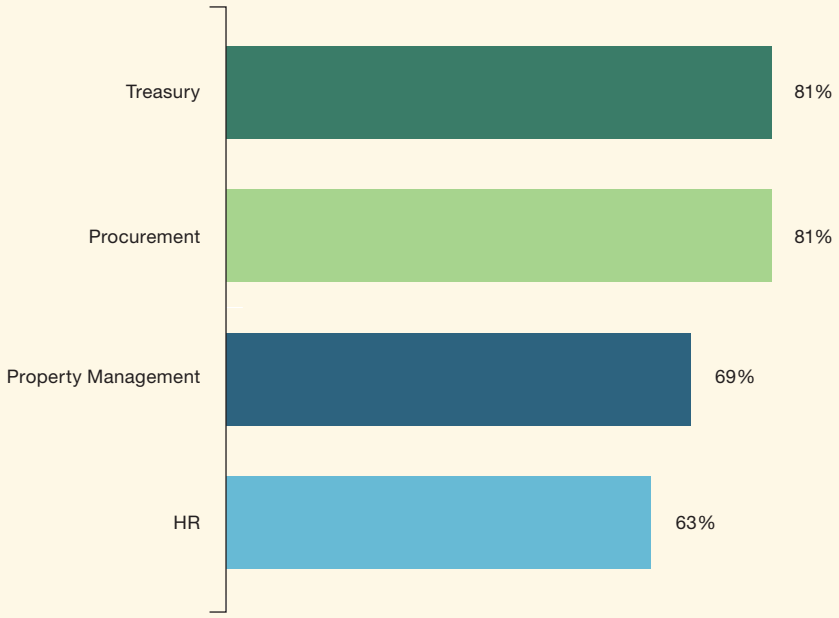


Source: Capgemini interviews with 50 surveyed retail banks.

Many of the international banks surveyed (39%) consolidate support functions (Axis V, Figure 2.5) at a cross-country level. Most of these support functions are shared with the rest of the bank's divisions, and not just retail. Treasury and procurement are the most consolidated functions on a cross-country basis, followed by property management and HR (see Figure 2.12).

A small majority of surveyed banks (58%) distribute products from other financial institutions ("open-finance"), mainly life insurance, property and casualty insurance, and mutual funds. A quarter of the banks distribute some of their products through other bank channels, mainly for mutual funds.

FIGURE 2.12 Support Functions Consolidation at a Cross-Country Level (%)
Percentage of international banks reporting that some of their support functions were consolidated at a cross-country level

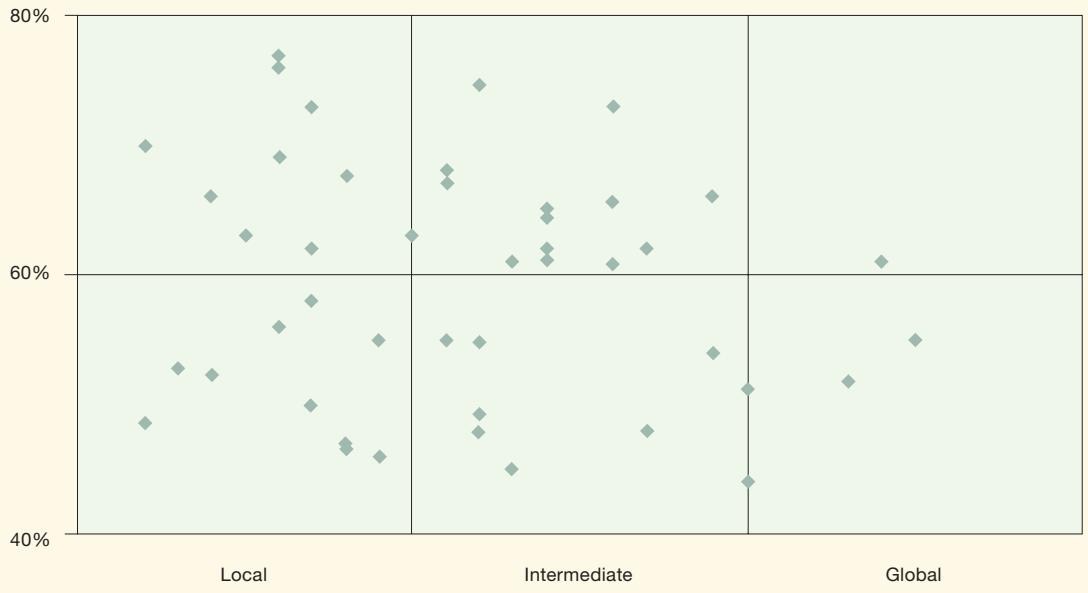


Source: Capgemini interviews with 50 surveyed retail banks.

There is no correlation between a retail bank's level of globalisation and its cost/income ratio. In analysing our panel of banks, we looked for a relation between a bank's operating model type and its cost/income ratio, but we found no evidence of such a link (see Figure 2.13).

The absence of such a correlation is best explained by two observations. First, several factors other than the operating model have a major impact on a bank's economic efficiency, including the quality of its markets and its commercial positions in those markets. Second, as in any transformation program, the implementation and execution quality of the operating model is as important (if not more so) than its design. For instance, in a European market, one bank enjoys the lowest cost/income ratio despite having a particularly decentralized organisation.

FIGURE 2.13 Operating Model versus Cost/Income Ratio



Source: Capgemini analysis, 2007; bullet points represent the banks in the panel.

THE SITUATION IN FIVE YEARS: WHAT DRIVES RETAIL BANKS' OPERATING MODEL TRANSFORMATIONS AND WHAT THEY WILL LOOK LIKE IN FIVE YEARS

Four main drivers are convincing retail banks to transform their operating models.

Stock market and competitive pressures push banks to review their strategies and eventually change their operating models accordingly. Analysts and investors often express concerns about whether a single country bank can survive and grow in one local market. Many banks that have reached the limit of growth in their home market tend to look outside. When doing so, they need to ask what competitive advantage they have over the local players in the foreign markets they are thinking of entering. To start with, they can examine their home market operating model to see what can be leveraged or transferred to the new market. This self-examination sometimes leads a bank to rethink its operating model.

Competitive threats driven by the stock market can pressure banks into changing their operating models. The threat of US entrance into Nordic markets, for example, might have been a key force in convincing Nordic banks to consolidate their operations at the cross-country level.

Regulation also strongly drives retail banks' operating models. In the eurozone, the creation of a Single Euro Payments Area (SEPA) by 2010, in which retail payments in euros will be treated everywhere as domestic payments, will have a major impact on a bank's strategy and organisation. To maximise revenues, banks will need direct access to 300 million end-customers in 29 countries across the SEPA area. Banks will have to rethink their payments strategies and decide on several key strategic options—such as insource, outsource, or offshore payments processes. Multi-country banks already have a definite advantage in the SEPA world, benefiting from economies of scale, consolidated platforms, and optimised processes.

In November 2006, China issued landmark rules allowing foreign banks to offer a full range of retail services to local customers, a liberalisation promised as part of its 2001 entry into the World Trade Organisation. The rules, which took effect on 11 December 2006, mark a historic step in the gradual opening of the country's financial sector. Facing the potential new competition from foreign banks, Chinese banks need to transform their traditional decentralised operating model. The centralisation is underway. Branches will function as a sales and marketing channel, and provide face-to-face customer service. Banking operations will be centralised in back offices or shared service centres. The ongoing key initiatives include realigning customer-facing business units, streamlining operational structures, enhancing and centralising risk management and internal control, centralising operation and financial management, and improving employee incentive schemes.

As consumers conduct more financial services transactions on the Internet, banks will need to transform their distribution models. The Internet is transforming the way clients buy financial products. It allows them, from anywhere at any time, to compare offers and prices very easily.

In Sweden, the UK, France, and Italy, 77% of on-line banking clients use the Internet to get information before buying a financial product. This relatively new situation creates three main challenges for banks:

- How can salespeople in the branches cope with much better-informed clients?
- How can banks capture the Internet's flow of consumers looking for financial products?
- How can a retail bank compete with on-line brokers and specialised financial services companies?
- How should banks change their distribution models? Should they reduce the number of branches within their network? Should they create call centres specialised by product to support commercial websites?

Web 2.0 technologies will help banks build faster, more flexible, and less expensive IT systems. Information technologies are undergoing three key changes:

- ***Service-oriented architecture:*** Architectures can be more flexible because they are made of components able to interact together, like a neurological system.
- ***Open source:*** After the legacy era and the ERP era, the open source era has begun. When banks want to develop a software, they can find open source components very easily at very low prices (or even for free); once integrated, these components represent approximately 70% of the software.
- ***India:*** The last 30% of the software can be developed by very efficient and low-cost IT skills now available in India.

The case study on ICICI Bank is a good example of technology's impact on a bank's operating model.

CASE STUDY

ICICI Bank: Using Technology as a Differentiator and an Enabler

The Indian population increasingly needs core day-to-day banking services, and the market's growth potential is enormous. India's middle-income group was projected to grow by 320 million from 2003 through 2009. In parallel, material consumption is developing, creating credit needs and potential growth for retail banking.

ICICI Bank is the largest private-sector bank in the country. It is a market leader in life insurance, mutual funds, and loans. With a 30% market share in the retail credit business, it is the nation's largest retail financial creditor. For example, one in every four cars sold in India is financed by ICICI.

The bank has transformed itself from a traditional financier of projects to a very efficient retail bank. With a total income of €3 billion in 2006, ICICI's retail division has a particularly low cost/income ratio of 39.4 %, benefiting from emerging market characteristics and leveraging the recent progress in information technology. It has grown extremely fast, from 100 employees in 2000 to over 25,000 in 2007, and its customer base has skyrocketed from 3,000 in 1995 to 15 million today.

Focus on IT and innovation. Mr. Vaidyanathan, executive director, ICICI Bank Ltd., says the success can first be attributed to macro-economic factors, the buoyancy of the Indian economy in the past few years, and by ICICI's innovative use of technology. ICICI's IT systems have no mainframe and are highly flexible. The resulting lower cost of ownership represents 15% to 20% of mainframe-based systems. Technology has been used both as a differentiator to transform delivery channels and as an enabler to improve back-office efficiency, processing, and internal management systems. All this could not have worked if the customer had shown a reluctance to the use of new technology. "The customer in India definitely surprises you with his willingness to use new technology … provided the offer is clearly explained", he said. "Looking ahead, the opportunities in India are simply endless. Over 70 million jobs will be created in the next five years … banks can make the most of it by staying ahead through innovation."

The other key reason for this bank's success is its focus on innovation: ICICI Bank always looks at forward-thinking practices, whether in service, distribution models, or emerging opportunities.

Multi-channel delivery network. ICICI has developed an efficient commercial delivery network. Technology-enabled delivery channels have helped the bank scale up quickly, both by maintaining a very low-cost structure and gaining strong market share. ICICI has succeeded in moving customers' routine transactions to the Internet, ATM, call centres, and mobile networks, and has moved non-routine transactions and cross-selling activities to its branches. Less paperwork has helped the bank speed up its processes and provide customers convenience and fast service. To adapt to the immense geographic Indian market, ICICI calls itself "a reachable bank", saying the bank can be reached anywhere, anytime. It offers home delivery of products through over 22,000 direct sales agents.

Efficient back-office and processing operations. These are managed in central and regional processing hubs equipped with banking software and high-end technology infrastructures. To accommodate the rise in transactions from the rapidly increasing customer base, ICICI has improved its turnaround time and established economies of scale by industrialising its processes, such as account openings and cheque clearings. Its IT system handles 2.5 to 3 million transactions per day, is scalable to 8 million, and is a key element of ICICI's efficiency.

ICICI's next goal is to go global. After securing its position in the Indian market, ICICI's next main objective is to accelerate its international expansion. It currently has a presence in the UK, Canada, Russia, Singapore, Bahrain, Hong Kong, Sri Lanka, and Dubai. When entering a new country, ICICI's primary differentiation point lies in its ability to outsource effectively to India. Basing middle-office and back-office teams in India gives the bank a huge cost advantage over its local competitors. The sharing of technology platforms based in India adds to this saving.

The bank's expansion strategy is decided on a case-by-case basis, and depends on the situations and regulations in the countries the bank plans to enter. Organic growth is the usual approach, except in Russia, where the regulators require two years of operations in the country before granting permission to accept retail deposits. An acquisition in Russia gave ICICI Bank a two-year head start.

Retail banks will increasingly globalise their operating models over the next five years, and we expect two-thirds of them to adopt either an intermediate or global model (see Figure 2.14).

HSBC provides an excellent example of a global bank model (see HSBC case study).

Banks will focus on transforming their models along four main axes: IT globalisation, back-office consolidation, global marketing, and global management (see figures 2.15 and 2.16).

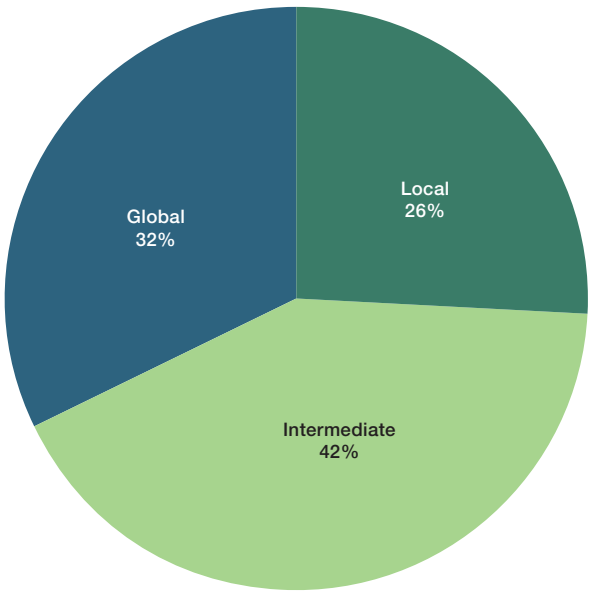
IT globalisation appears to be the most important transformation trend for the next five years. More than 90% of the banks we surveyed were willing to have a common architecture, and 82% would accept a modular application coupled with a ready-to-go approach to IT implementation. This represents a strong mandate for change, as only 40% have such IT configurations today. IT transformations will be critical to transforming other areas of the banks' operating models over the next five years.

Cross-country consolidation of back office and support functions. Based on our research, we expect further back-office consolidation of core operational processes at the cross-country level; 67% of the retail banks we studied expect to consolidate these processes over the next five years, compared to only 41% that enjoy consolidated processes today. The same evolution is expected for the cross-country consolidation of support functions, with 66% of the international retail banks surveyed expecting to do it in five years, while 39% do it today.

Global management. Over the next five years, international managers will be offered global career management programmes by 77% of the banks we studied (up from today's 55%).

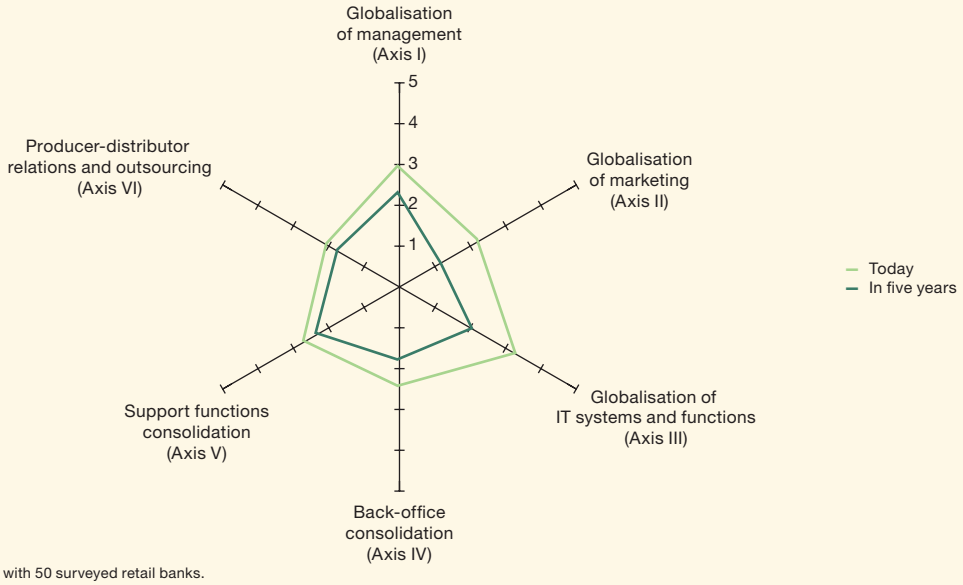
Global Marketing. While only 28% of surveyed banks have global marketing practices today, more than 50% expect to have them in five years. The main changes will occur in the implementation of global strategic marketing, common data structure/analytics/profiling, and client segmentation models ready to be applied in each country.

FIGURE 2.14 Projected Distribution of Operating Model Types in Five Years (%)



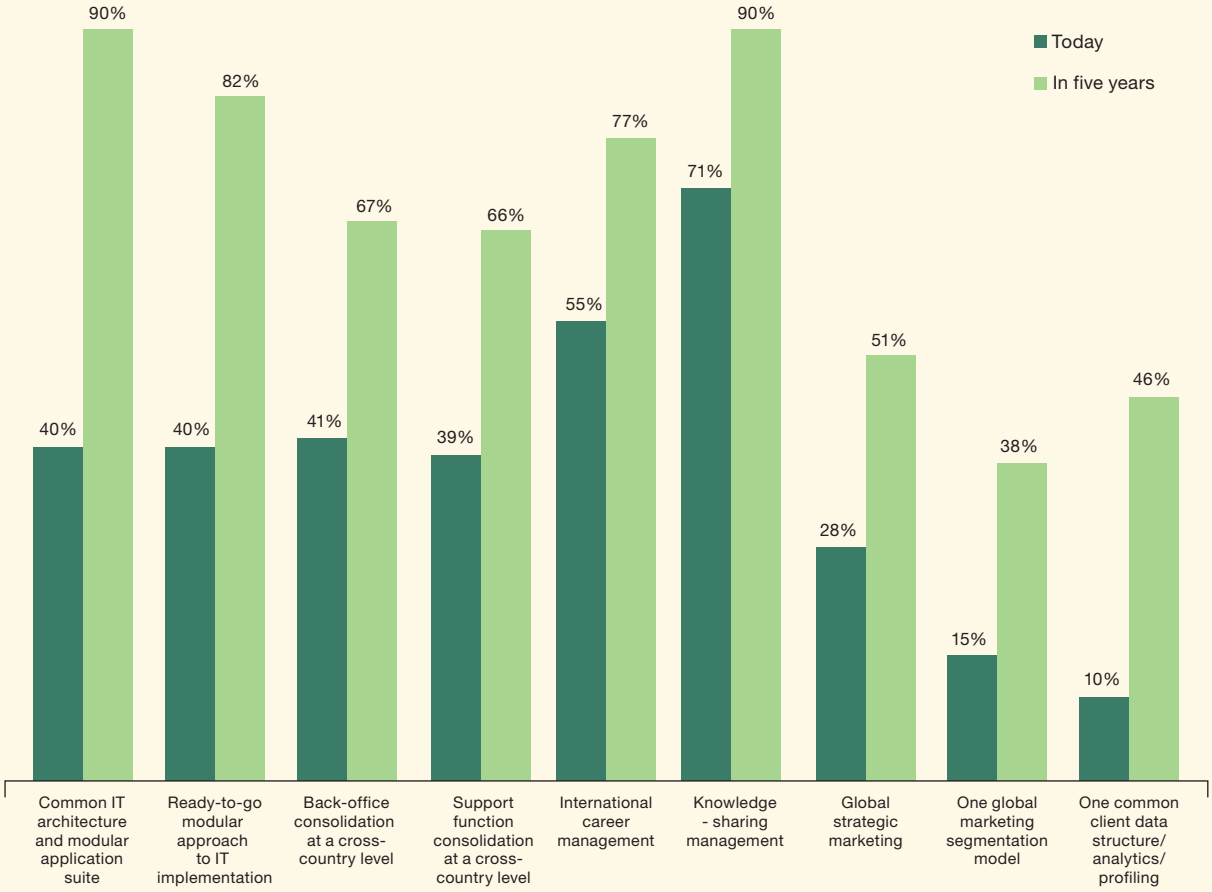
Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE 2.15 Operating Models Today and Bankers' Projections for Five Years from Now



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE 2.16 Projected Major Changes in Five Years in Global Management, Back Office, IT, Support Functions, and Global Marketing (%)
(Percentage of international banks)



Source: Capgemini interviews with 50 surveyed retail banks.

CASE STUDY

HSBC: A Global Operating Model in Retail Banking

HSBC has transformed itself from a large Asian commercial bank to a diversified global financial services provider. Its expansion strategy has been through a mix of organic growth and strategic acquisitions, always with the desire to establish a global brand with local understanding.

HSBC's governance relies on two main characteristics: the training of international managers and the continuity of its leadership team. HSBC operates an HR programme that manages expatriate careers of three-year assignments in challenging markets. Its stated aim is to create HSBC elite bankers with a strong esprit de corps. As one executive puts it, they form the "organisational glue" of the company. These international managers constitute the Global Processing Team that implements dedicated corporate governance to achieve both strategic and tactical objectives on a global scale.

One of HSBC's great strengths is management continuity. The top 35 executive directors and general managers between them have 800 years of experience at the bank.

HSBC's retail banking is structured in Customer Group divisions: Personal Financial Services (including Consumer Finance), and Commercial Banking, which is managed globally and locally (76 countries). The group level is responsible for driving middle-term and long-term strategic orientations in any field—such as customer propositions, use of technologies, and core processes—and ensuring that these strategies are fully implemented locally.

Branding strategy aims at communicating HSBC's capacity to be a global bank that understands local differences. When integrating new companies, HSBC preserves local branch networks and the client base. In 1999, HSBC wished to be seen as a uniform, international brand name, and launched one logo and one slogan: "The world's local bank".

Today, local marketing activities are implemented locally, and the company's product portfolio varies depending on the local market. Marketing initiatives and advertising campaigns have been significant in driving the brand's increasing presence in emerging markets and supporting new, local products.

Nevertheless, ***customer propositions*** (in terms of customer experience) are designed globally by teams representing the group and country levels. Several product lines are designed globally, such as asset management, insurance, and cards, and for each of those, one country can be designated as the "champion" that elaborates it.

For commercial banking, segmentations are homogeneous around the world, but for personal financial services, ***customer segmentations are generally local*** (with commonalities more and more developed for commercial and value segmentations). ***One segment, however—people with financial needs in more than one country—is treated in a very global way.*** HSBC provides these clients with a single customer proposition called HSBC Premier International Services. When people are moving abroad, HSBC can set up their accounts in the new country or provide them with credit facilities at a similar level they enjoy in their home country. This is done through 22 International Banking Centres operating with exactly the same processes and tools. In the front offices, dedicated HSBC Premier Centres offer exactly the same look and feel.

IT. Three years of sustained investment in technology have resulted in HSBC's HUB IT system, a global, proprietary system built in-house, with key functions combined into one IT platform. To develop solutions for HSBC's group offices, HSBC Software Development (India) Private Limited has established a software centre. Today, 42% of HSBC's IT development work is done in low-cost offshore centres like these.

"Global service centres" for back-office operations. HSBC has these centres in six countries (India, China, Sri Lanka, Malaysia, Philippines, and Brazil) to manage business tasks, mainly data processing and call centre inquiries. In Sri Lanka, another 3,000 people work in a call centre to handle inbound calls from HSBC's UK customers. In addition, HSBC has wholly owned business process outsourcing subsidiaries, notably HSBC Electronic Data Processing India (HDPI), based in Kolkata and employing 8,000 people.

Support functions have remained substantially unchanged, although some positions at London's Canary Wharf head office have been transferred overseas to Cyberjaya, Malaysia. For all components of its operating model, HSBC plans to double the size of its offshore operations to 25,000 employees by the end of 2007 to help reduce costs.

As a result, although having a single branding logo and working to set up fully global and rationalised back offices and IT systems, HSBC still aims to benefit from a local public image at the local level.

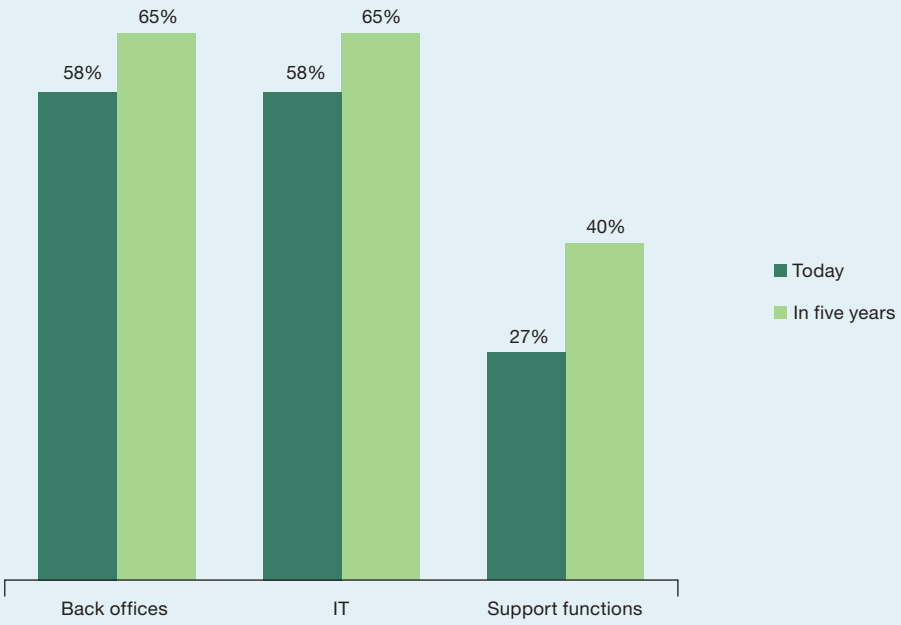
FOCUS

Trends in Outsourcing and Offshoring in Retail Banking

Like many other industries, retail banks consider outsourcing and offshoring as key ways to transform their operating models. While outsourcing involves transferring or sharing the management control and decision-making of a business function to an outside supplier or partner, offshoring concerns the relocation of business processes from one country to another. Several objectives are at stake, including cost savings, customer service improvements, economies of scale, access to skills, and business responsiveness.

Among the banks we surveyed, 77% outsource and 47% offshore at least one function of their operating model—from their back-office, IT, or support areas.

FIGURE A Outsourcing in Retail Banking Today and in Five Years (%)



Source: Capgemini interviews with 50 surveyed retail banks.

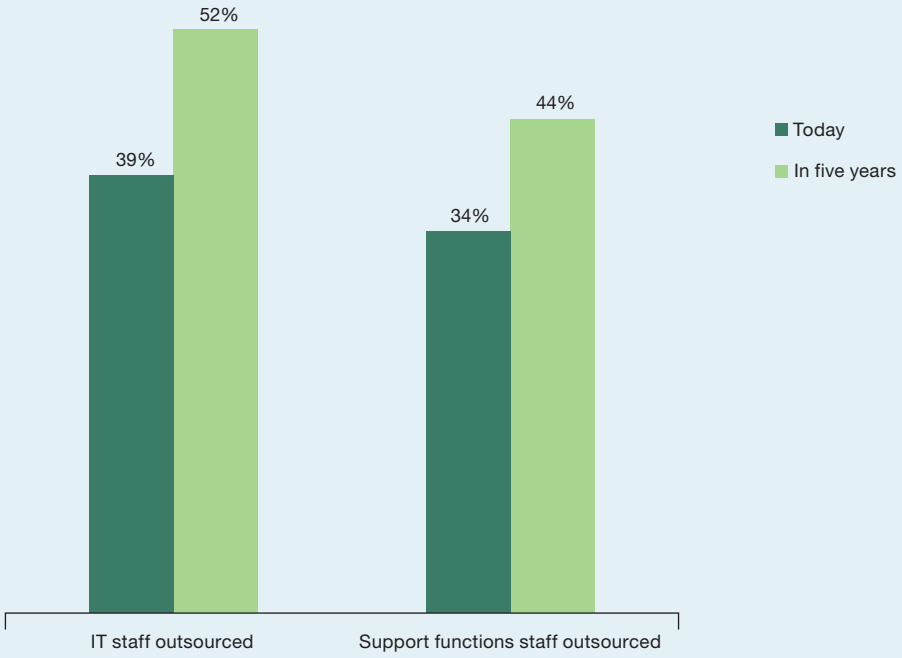
OUTSOURCING

Back-office and IT functions are partly outsourced by more than half the retail banks in our study, while support functions are outsourced much less frequently (see Figure A). Based on our survey results, retail banks appear unwilling to change their current outsourcing practices. Our findings indicate that banks not outsourcing today are unlikely to do so in the next five years. Nevertheless, support function outsourcing practices will grow rapidly (by 13% over the next five years) (see Figure B).

In the retail banks we surveyed, approximately one-third of the IT and support function staff is outsourced. Over the next five years, this proportion for IT will jump to 52%, and the rate for support functions will also increase, but more slowly. Outsourcing growth will come mainly from retail banks that already outsource, by enlarging the proportion of their outsourced staff.

FIGURE B Retail Banks with Staff Outsourced Today and Five-Year Projections (%)

Percentage of banks that outsource IT and support functions today and that will outsource IT and support functions in five years



Source: Capgemini interviews with 50 surveyed retail banks.

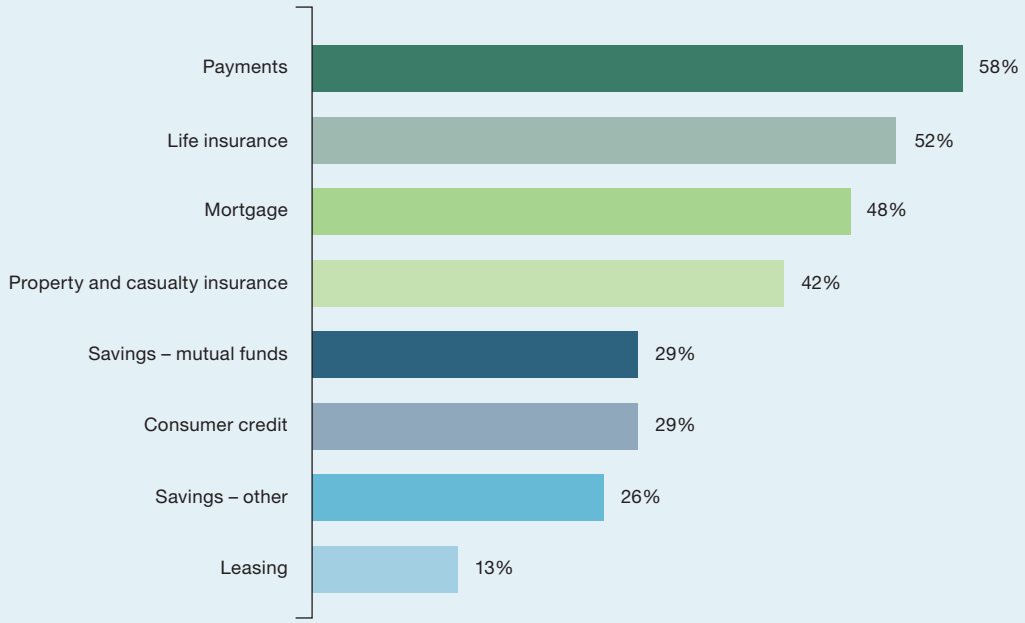
Back offices. Our findings indicate that payments, mortgages, and life insurance products are the most frequently outsourced today, and they will remain so over the next five years (see Figure C). Mortgages will grow fastest, rising from 33% to 48% among banks we surveyed over the five-year period. Administrative tasks will be the most affected over the next five years, while client-facing tasks, which are the hardest to rationalise and industrialise, will naturally be outsourced the least.

IT functions. For banks outsourcing their IT functions, development, maintenance, and operations are usually the primary concerns, and no major changes are expected in the next five years (see Figure D).

Support functions. For banks outsourcing their support functions, HR (payroll), property management, and procurement are and will be the three most outsourced functions (see Figure E). Outsourcing of financial functions (accounts payable and accounts receivable) will grow fastest over the next five years.

FIGURE C Back-Office Outsourcing in Five Years

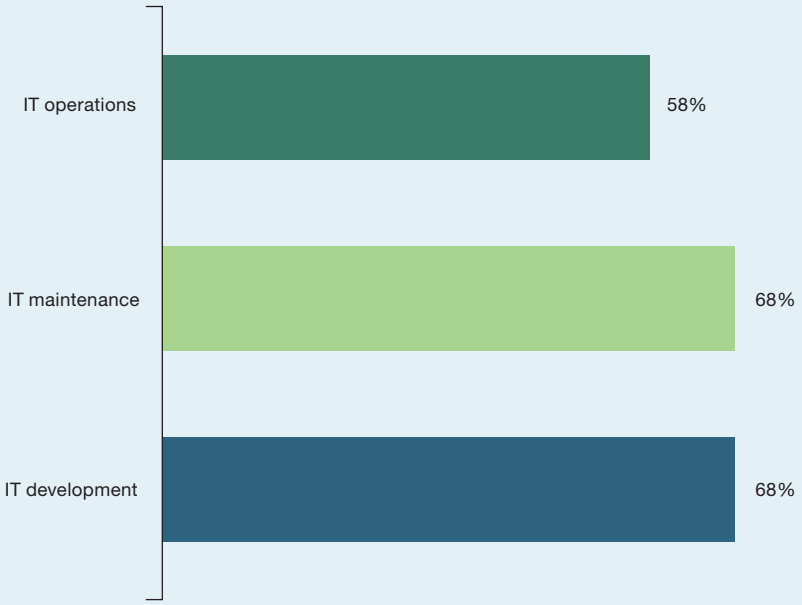
Percentage of banks that will outsource their back offices in five years



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE D IT Functions Outsourcing in Five Years

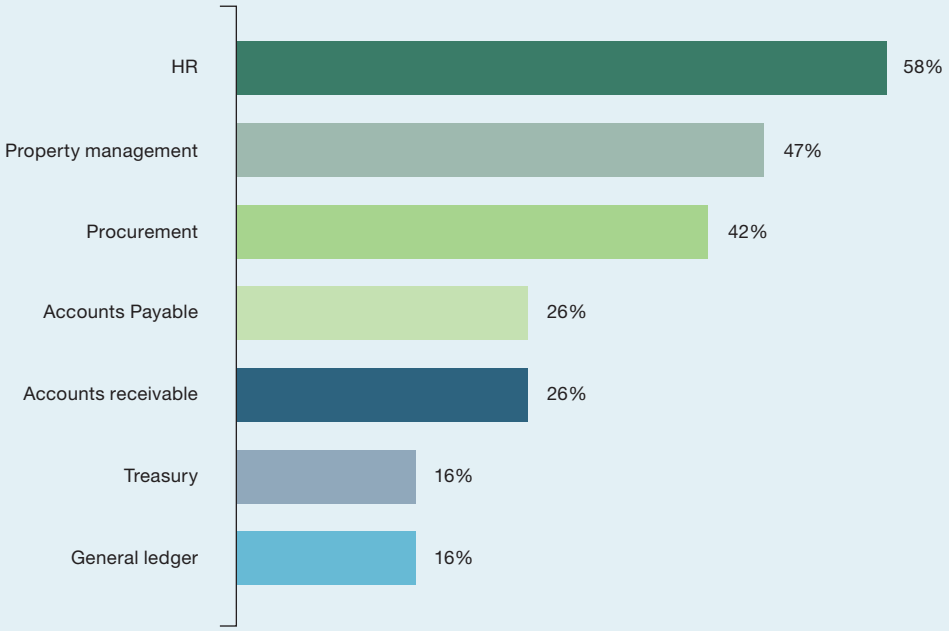
Percentage of banks that will outsource their IT functions in five years



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE E Support Functions Outsourcing in Five Years

Percentage of banks that will outsource their support functions in five years



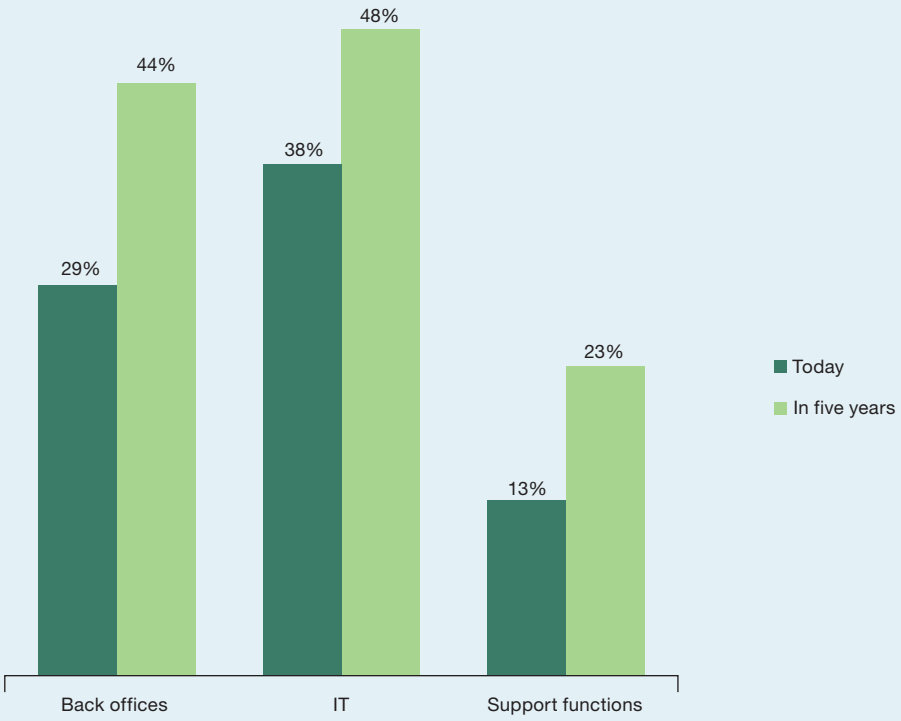
Source: Capgemini interviews with 50 surveyed retail banks.

FOCUS ON OFFSHORING

Today almost half the retail banks we studied have offshoring practices, mostly in back-office and IT functions. In the next five years, these practices will largely expand whatever the function. In the future, retail banks expect to have a substantial portion (approximately one-third) of their IT and support function staff offshored. Offshoring will grow rapidly, especially in IT (see Figures F and G).

Back offices. Back-office offshoring in our surveyed banks primarily concerns payments, consumer credit, and leasing products (see Figure H). Mortgages will also be involved in five years. Administrative and network-facing tasks are the most often offshored tasks, while client-facing tasks are much less frequently offshored.

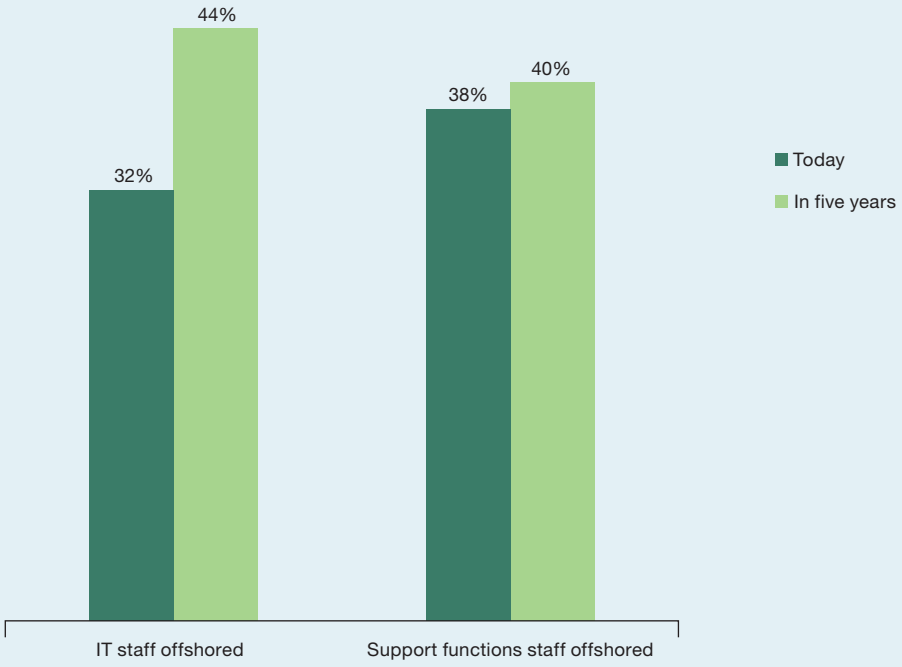
FIGURE F Offshoring in Retail Banking Today and Banks' Five-Year Projections (%)



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE G Average Proportion of IT and Support Functions Staff Offshored, Today and in Five Years (%)

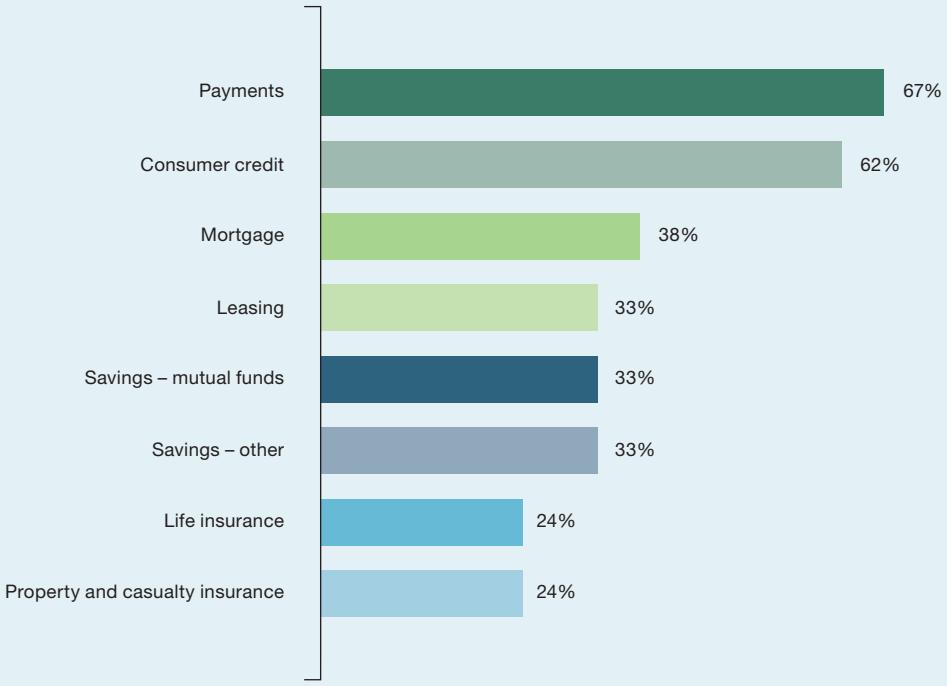
Percentage of banks that offshore IT and support functions today and that will offshore IT and support functions in five years



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE H Projected Back-Office Offshoring in Five Years (%)

Percentage of retail banks that will offshore their back offices in five years



Source: Capgemini interviews with 50 surveyed retail banks.

IT. When offshoring IT, development is almost always the first to go (85% in our sample), with maintenance functions second (approximately 67%) and operations third (41%) (see Figure I). IT functions are most often outsourced to India (see Figure J).

Support Functions. In support functions, retail banks most often outsource accounts payable, HR (payroll), and accounts receivable, and this trend is likely to continue for the next five years (see Figure K).

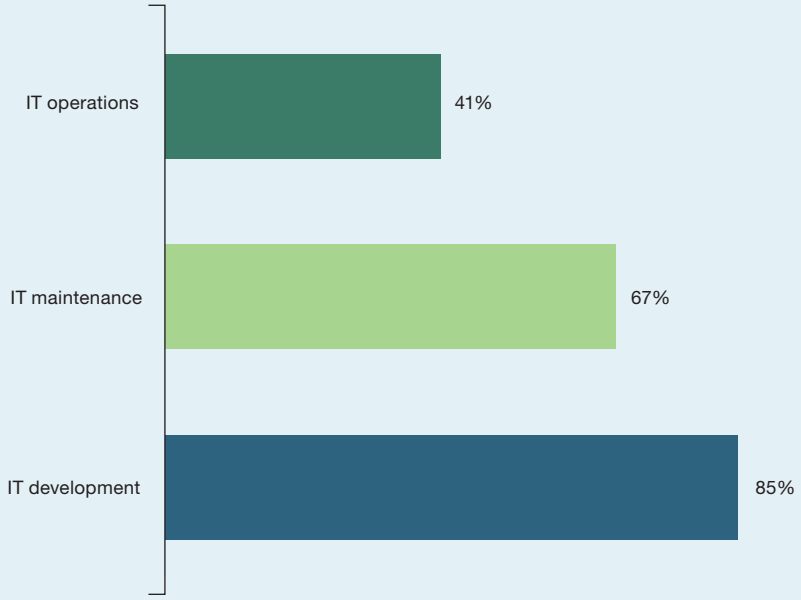
India outstrips all other countries as the preferred provider of offshored business processes, and this will also be true in five years. India's strength in delivering solutions and services to the financial services industry is the result of several factors: labour arbitrage, staff and infrastructure scalability, lower costs/usage, skilled workforce (language and qualifications), availability of staff qualified with financial degrees (accountants, chartered accountants, MBAs in finance).

OBSTACLES AND KEY SUCCESS FACTORS

When outsourcing and offshoring any functions, retail banks must be cautious. Some of the obstacles our survey revealed include rejection by employees and local management; bad communication on the project; unfavourable political, legal, and social environments; overestimation of the partner's ability to execute the required job; unavailability of key people with a trans-national mindset; and cultural and language issues. To minimise outsourcing or offshoring obstacles, retail banks need to rationalise their processes before exporting them.

FIGURE I IT Offshoring in Five Years

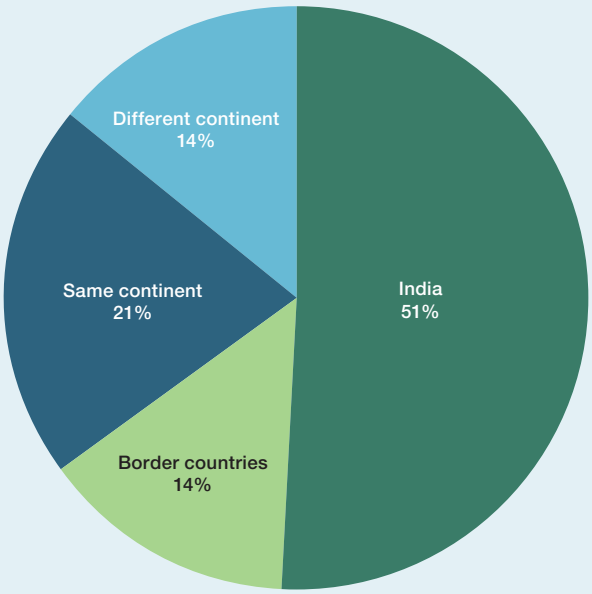
Percantage of retail banks that will offshore their IT functions in five years



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE J Where IT Functions Are Offshored Today

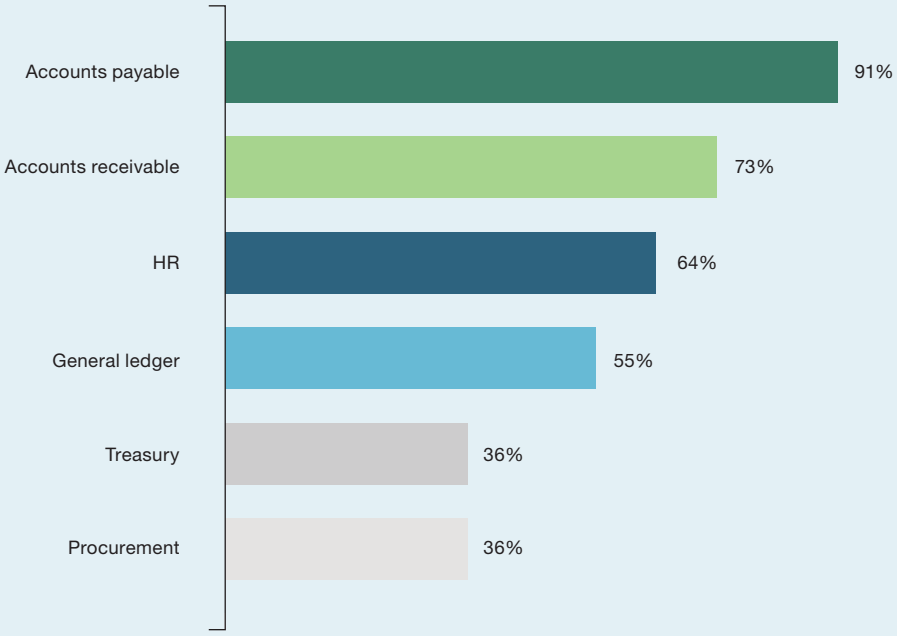
Percentage of banks that offshore IT functions, by location of their use



Source: Capgemini interviews with 50 surveyed retail banks.

FIGURE K Support Functions Offshoring in Five Years

Percentage of retail banks that will offshore their support functions in five years



Source: Capgemini interviews with 50 surveyed retail banks.

Conclusion

Most of the retail banks we studied want to develop more global operating models over the next five years. But will they succeed? Based on what we have learned in studying the marketplace, retail banks' top managers must focus on five key success factors to achieve global reach.

International governance is a key enabler. A bank with a global retail structure, knowledge-sharing values and practices, and a leadership team with an international mindset and exposure is better armed for globalising its operating model. For more and more retail banks today, one component of success lies in creating a specific top management function in charge of defining the industrialisation strategy and steering the transversal industrialisation process.

Retail banks with clear long-term strategies will be able to target the right operating models. There is no single "winning" global operating model. Some banks might develop an operating model slightly customised according to local requirements, while others set up a smart combination of two or three distinct models, clearly distinguishing between the mature and emerging markets it serves. In any case, consistency between the chosen models and the product and market strategies is a must.

IT transformation will become even more critical. As many new opportunities emerge thanks to Web 2.0 technologies, IT transformation (architecture, systems, and functions) will clearly be the main step towards operating model transformation, for back-office cross-country consolidation, global knowledge-sharing, global marketing practices, and so on.

A very thorough HR vision will also be required. Operating model transformation is tightly linked to HR management, quantitatively and qualitatively (skills, cultures, and languages), and this will become even more important as the spectrum of outsourcing and offshoring solutions broadens.

Quality of execution will make the difference. Success will depend on top management involvement in the different transformation phases, the availability of operational managers with a trans-national mindset, and continuous communication inwards and outwards. Building a dedicated cost and performance measurement system for the operating models will also be essential.

Appendix: Methodology

For this fourth annual edition of the *World Retail Banking Report*, we have continued to refine the methodology used in previous reports and expanded its coverage. Each of the 25 country teams contributed to the dashboards (www.wrbr2007.com), the pricing analysis, and the spotlight interviews.

Overviews of the national banking industry for each country surveyed are presented in the dashboards. In every country studied, the team identified the major macroeconomic indicators, described the retail banking environment, the type and size of players, the products sold, and the main trends in the retail banking industry. These insights have then been mapped in a detailed and consistent format (see Figure A.2). This work also helped us determine which banks to include in the pricing index. Figure A.3 provides a complete list of the banks surveyed.

PRICING INDEX METHODOLOGY

The main principles of our methodology remain the same as for the 2006 study.

The pricing analysis provided both local and global views based on prices and frequency of use. We calculated prices on the basis of usage patterns for three kinds of user: less active, active, and very active. To determine those three groups, we split the total customer community as follows: the 20% adopting the lowest consumption are called "less active users", the 20% consuming the most are "very active users", and the remaining 60% are the "active users". Figure A.1 (below) shows how local profiles vary by usage pattern. In countries where consumer behaviour is tracked, bankers were able to provide this data or refine previous patterns; in other countries, local frequencies were estimated by local retail banking experts.

All comparisons between 2005, 2006, and 2007 were made on the basis of:

- A flat exchange rate: To compare price evolution from 2006 to 2007 in euros, the currency of the pricing index, without those figures being skewed by exchange rate effects, we recalculated last year's prices for Europe non-eurozone countries surveyed using 30 June 2006 exchange rates.
- A same country scope: Countries that we added in 2007—Croatia, India, Japan, Romania, and South Africa—are not included in the analysis comparing 2005, 2006, and 2007.
- One frequency pattern: The consistency of the comparisons was ensured by recalculating last year's local profile prices based on this year's frequencies of use.

As a consequence, the average recalculated prices for the 2006 local profile is €76.9, compared to €76 in the 2006 analysis.

Some definition refinements have also been made. In case of several possible choices in one product category, we tried to weight the different products' prices by their proportion of use. For instance, in Sweden, prices for direct debit differ if ordered at branch or through the Internet. The proportion of direct debit done through both channels was estimated to get a weighted average for the unit price. When it was not possible to assume the proportion, the most popular product was considered. In line with this principle, in China, treatment of the credit card has changed compared to the 2006 edition, since it was not the most widespread product. To remain consistent, we recalculated last year's prices based on these refinements.

FIGURE A.1 Examples: Local Profile Variations by User Type

	Australia			Germany		
	Less Active	Active	Very Active	Less Active	Active	Very Active
Account Management						
Call Centre	5	24	52	0	4	8
Cash Utilisation						
Withdrawals at bank's ATMs	0	36	60	8	16	24
Withdrawals at other banks' ATM network	4	12	14	12	24	36

Source: Capgemini analysis, 2007.

As in last year's edition, package prices have been considered for countries where they are widespread: Austria, Germany, Poland and Slovakia.

The discrepancy is a statistical formula, corresponding to the square of the standard deviation relative to the mean value.

PACKAGE ANALYSIS METHODOLOGY

The discount created by the package was calculated as follows (see Figure 1.21 – page 25):

P1 = price for all products and services without buying a package

= pricing index value (price of the in-scope products) for the local active user (1)

+ price for out-of-scope products included in the package (with package frequencies) (3)

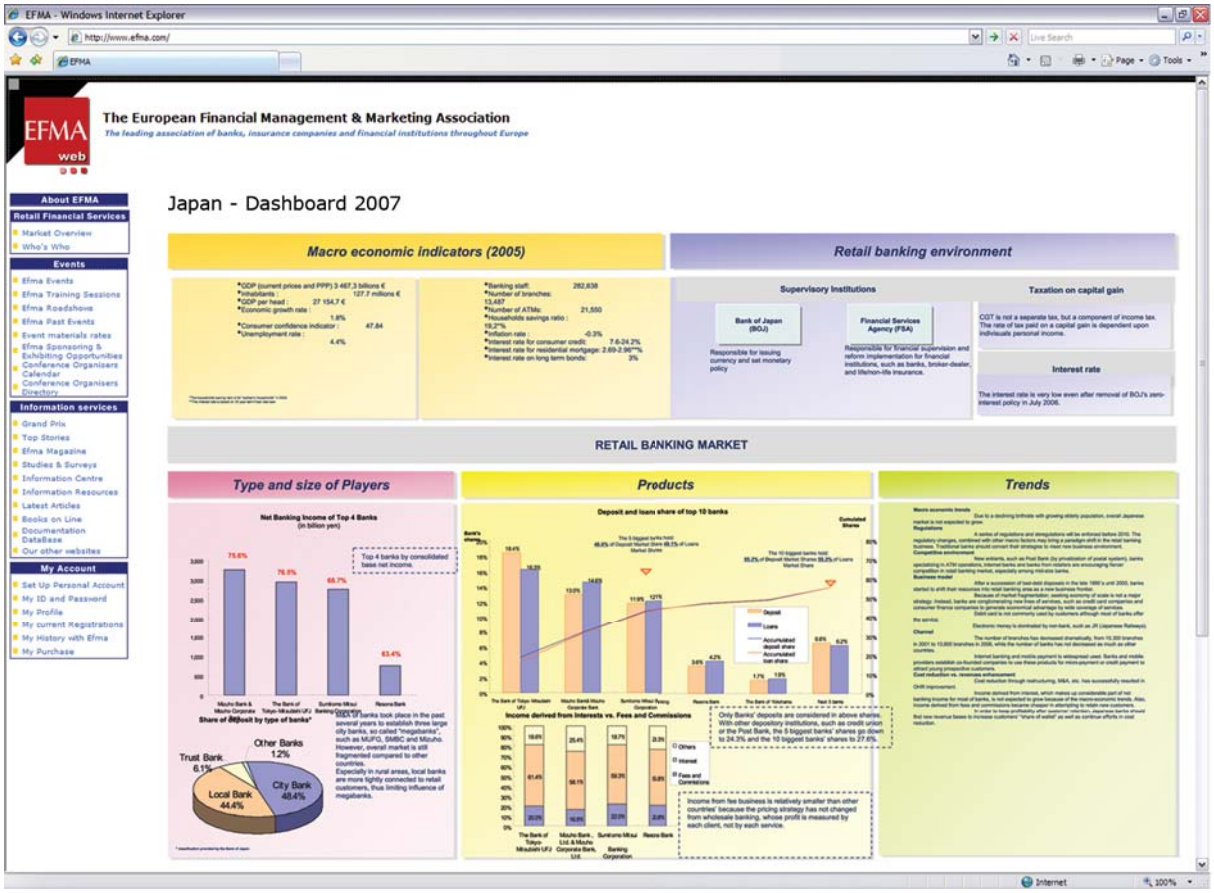
P2 = price of all products and services in buying a package

= package price (2)

+ price for in-scope products not included in the package (with local active user frequencies) (4)

P2 is then subtracted from P1 to establish the discount created.

FIGURE A.2 Sample Dashboard: Japan



Sources: Japan Banking Association, financial statements; all figures are 2005 unless otherwise specified.

FIGURE A.3 Pricing Index Survey Sample: 180 Retail Banks in 25 Countries

Europe eurozone

Austria	Belgium	France
Share of deposits 70%	Share of deposits 67%	Share of deposits 93%
BA-CA Erste Bank BAWAG P.S.K. Sparkassen sector Raiffeisenbanken sector Volksbanken sector	Fortis Bank Dexia ING Bank KBC	Banque Populaire BNP Paribas Caisse d'Épargne CCF HSBC CIC Crédit Agricole Crédit Lyonnais Crédit Mutuel Société Générale La Banque Postale

Germany	Ireland	Italy
Share of deposits 100%	Share of deposits 100%	Share of deposits 50%
Deutsche Bank Commerzbank HVB Saving Banks Mutual Banks Postbank Dresdner Bank	AIB Bank of Ireland Permanent TSB National Irish Bank Ulster Bank	UniCredit BancaIntesa San paolo imi MPS BNL Capitalia

The Netherlands	Portugal	Spain
Share of deposits 86%	Share of deposits 82%	Share of deposits 74%
ABN AMRO ING Bank Postbank Rabobank SNS Bank Fortis Bank	CGD BCP BES Totta BPI MG	BBVA SCH La Caixa Cajamadrid Banesto Banco Popular Caixa Cataluña Banco Sabadell Bancaja CAM Bankinter IberCaja Unicaja

Europe non-eurozone

Czech Republic	Croatia	Norway
Share of deposits 86%	Share of deposits 84%	Share of deposits 58%
CSOB CS KB GE Money Bank HVB	OTP banka Hypo Alpe Adria bank SG-Splitska banka Erste bank Raiffeisenbank Zagrebačka banka Privredna banka Zagreb	DnB Nordea Fokus Sparebank 1 MN Sparebank 1 SR Sparebank 1 N-N

Sweden	Switzerland	United Kingdom
Share of deposits 85%	Share of deposits 100%	Share of deposits 86%
Svenska Handelsbanken Swedbank Nordea SEB Danske Bank SkandiaBanken	UBS CS Cantonal Banks Cooperative Banks Other Banks	HSBC RBOS Barclays HBOS Lloyds TSB

Poland	Romania	Slovakia
Share of deposits 86%	Share of deposits 78%	Share of deposits 88%
PKO BP PEKAO BPH CitiBank BRE ING Kredyt Bank BZ WBK BGZ Millenium Raiffeisen	HVB Bank Romania Bancpost CEC Alpha Bank Banca Transilvania ING bank Romania Raiffeisen Bank BRD Groupe SG Banca Comerciala Romana	HVB Bank Slovakia Slovenska Sporitelna Tatra banka UniBanka Vseobecna Uverova Banka Ceskoslovenska obchodni Banka Dexia

Asia Pacific

Australia	China
Share of deposits 74%	Share of deposits 46%
CBA NAB ANZ Westpac St George	ABC BC BOC CCB CMB ICB Minsheg Shenzen Pudong

India	Japan
Share of deposits 44%	Share of deposits 63%
Standard Chartered Bank Punjab National Bank Bank of Baroda HDFC Bank Ltd. ICICI Bank Ltd. State Bank of India Citibank N.A. Canara Bank Bank of India	Bank of Tokyo-Mitsubishi UFJ, Ltd Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corp. Resona Bank, Ltd. Bank of Yokohama, Ltd. The Sumitomo Trust and Banking Co., Ltd.

North America

Canada	USA
Share of deposits 85%	Share of deposits 33%
BMO CIBC Desjardins RBC Scotia TD	ABN AMRO (La Salle Bank) Bank of America Citigroup J.P. Morgan Chase Sun Trust U.S. Bancorp Wachovia Wells Fargo HSBC

Africa

South Africa
Share of deposits 94%
ABSA Bank Ltd First National Bank Nedbank Ltd Standard Bk of SA Ltd

Source: Capgemini analysis, 2007.

SPOTLIGHT SECTION – SCORING METHODOLOGY

We calculated a globalisation score based on answers surveyed banks provided to a questionnaire. This score provides a measure, for each bank, of its operating model's maturity stage, in terms of the globalisation and internationalisation of its organisation; the consolidation of its processes, functions, and systems; and its openness to its ecosystem.

The score is built on six axes and measured according to the following criteria:

- Axis I—Governance: Existence of a global retail manager, percentage of foreign members on the bank's executive board, existence of a specific career management strategy for international managers, existence of global knowledge-sharing management.
- Axis II—Marketing: Existence of global strategic marketing for some products, existence of a global client segmentation model, existence of a common client data structure, analytics, and profiling, existence of a global key performance indicator for customer satisfaction, existence of a global channel model ready to be implemented in each country.
- Axis III—IT Strategy and Organisation: Existence of a common IT architecture and a modular application suite, existence of a ready-to-go modular approach of IT implementation, existence of an IT system consolidated at a cross-country level, number of IT functions consolidated at a cross-country level.
- Axis IV—Back-Office Organisation: Number of products for which back offices are consolidated at a national level between retail and specialised retail networks, number of products for which back offices are consolidated at a cross-country level.
- Axis V—Support Function Organisation: Number of support functions consolidated between the retail division and the rest of the bank, number of support functions consolidated at a cross-country level.
- Axis VI—Producer-Distributor Relations and Outsourcing: Existence of an open-finance distribution model (products produced by other financial institutions distributed through the bank's network), number of products for which back offices are outsourced, number of IT functions outsourced, number of support functions outsourced.

Each axis is scored on a scale of 0 to 5, with the total score ranging from 0 to 30. Questions on offshoring are out of scope for the scoring, and they are analysed separately in the report.

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Capgemini would like to particularly thank the following banks interviewed for this report:

Abbey
ABN Amro
AIB
ANZ
BA-CA
Banca Marche
Banca Popolare di Milano
Banca Popolare di Sondrio
Banco Popular
Bancpost
Barclays Bank / Absa Bank Ltd
BCR
BNP Paribas
Citigroup
Crédit Agricole / Lukas Bank
DaimlerChrysler Bank AG
Danske Bank / NIB
Deutsche Bank AG
First National Bank
Fortis Bank
Glarner Kantonalbank
HPB
HSBC
Hypo Alpe-Adria-Bank
ICICI Bank
ING Group
ING Direct
KBC Group / CSOB
KeyBank
Mizuho Bank
NAB
Nordea
Rabobank
Raiffeisen Bank
Resona Bank
Scotiabank
SEB
Skandiabanken
Société Générale / Splitska Banca / KB
St George
State Bank of Mysore
Sumitomo Mitsui Banking Corporation
Sumitomo Trust Bank
Swedbank
TD
The Bank of Tokyo-Mitsubishi UFJ
The Bank of Yokohama
UniCredit / HVB
Wachovia
Westpac

We also thank the following people for collaborating to produce this report:
The Development Team for analysing, writing, and compiling the findings of the report: Olivier Ducass, Frédéric Roux, Aurore Laflandre and Claire Guiraud.
World Retail Banking Report Executive Steering Committee for providing their insights, industry expertise, and overall guidance: Patrick Desmarès, Bertrand Lavayssière, Marion Lecorbeiller, and Felix Potvliege.
All our Local Survey Contributors.

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