World Retail Banking Report

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Preface

The global retail banking market changes constantly. Capgemini, ING, and the European Financial Management & Marketing Association (EFMA) have for the second year studied this market—particularly its pricing structure—and produced this second annual *World Retail Banking Report*. Its goal is to provide people in financial services around the world with a clearer view of the dynamics of today's retail banking industry.

Each report presents a yearly index of prices of basic banking services across national markets, and highlights a major retail banking trend. The international pricing indexes are restricted to day-to-day banking products and services, and do not represent an all-encompassing benchmark of retail banking prices. Dashboards reviewing the national banking environment of each country surveyed are available online at www.efma.com.

We have expanded the scope of this year's survey, increasing the number of countries from eleven to nineteen. We have also raised the number of banks surveyed from seventy-four to a hundred thirty, to include not only Western Europe and North America, but also reach into Eastern Europe and the Far East. For comparability purposes, we have maintained last year's single global index. However, we have added a local profile that allows us to examine prices through a more locally focused lens.

Both profiles consider a common set of products and services, but the new local profile improves our view of each market. The global profile applies the same consumption pattern to all countries (e.g., an average consumer in any country is assumed to have one credit card). In contrast, the local profile pricing index is based on a typical local customer's use of products and services in each country (e.g., the actual number of credit cards per customer is approximated).

Our spotlight this year focuses on a tough challenge retail banks face in mature banking markets: How can they increase their share of wallet from high-potential, mass-affluent customers? Based on interviews with banking executives across our survey locations, we found that most institutions are attempting to establish or refresh a relationship approach with these clients. Their objective is to meet customers' needs more effectively and increase the perceived value of the banks' services and retail solutions.

However, we found that very few financial institutions have set up a fully structured approach to a client-advisor relationship, or attempted to align the critical elements required to produce results, such as understanding and segmenting customers, product and service offerings, organization structure, ways of working as advisors, IT and tools, and performance management. Several key success factors in a performing relationship approach are highlighted in the spotlight section.

We are delighted to publish this second annual report, which we hope will stimulate discussion and help retail banks develop more effective growth strategies and better serve their customers around the world.

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Findings

SUMMARY OF MAJOR FINDINGS

1 Based on this year's local pricing index, the average price of basic banking services was €78, with prices between countries ranging from €25 to €137, a 1-to-5.5 range.

2 Like last year, global profile prices varied significantly between countries, ranging from €34 to €252, a 1-to-7.4 range, with an average price of €108.

3 Changes in global profile prices within countries ranged from -6% to +16%.

4 The average price in North America declined, with a 6% decrease in the United States and a 1% decrease in Canada.

5 Within six major Euro zone markets, the average price increased by 3% and moved slightly closer to convergence. Initiatives such as the Single Euro Payments Area (SEPA) should move Euro zone banks' prices ever closer to one another in the medium term.

6 Banks charged fees for more products and services this year, due primarily to added countries; banks in developing and in transitioning economies (e.g., Eastern Europe and China) charge for more products and services than do banks in mature markets.

7 The local profile revealed that frequency-of-use patterns for particular products vary significantly by country, most notably in means of payment (checks vs. cards vs. transfers).

8 To maximize efficiency, many banks are using pricing to convince consumers to use certain products and services and not use others.

9 In some countries, day-to-day banking is a promotional product aimed at client acquisition, with other products (such as lending, savings, or insurance) expected to generate profits.

10 Banking services cost more in less-mature banking markets, representing 2.1% of GDP in Poland and 3.3% in China, against only 0.2% to 0.6% in more mature markets. Banking services apparently follow the standard industrial development pattern in which relative prices go down with maturity.

Pricing Indexes 2005

Global and Local Profile Price Indexes

Last year's *World Retail Banking Report* found that pricing of core banking services varied substantially across developed countries, and varied also across domestic markets. We identified local structural factors that have developed over many years as the primary drivers of local country price levels. Pricing was found to reflect a delicate balance between regulators' efforts to maintain a stable banking system, consumer associations' and governments' pressures to hold prices down, and the banks' determination to convince customers to use more cost-efficient (and profitable) products and services. Banks seldom considered pricing in other countries, even neighbors, as an essential factor in their pricing strategies.

The current study relied essentially on the same methodology as last year's, covering the same four main categories of day-to-day banking products and services (account management, means of payment, cash utilization, and exceptions handling), and we were able to compare prices and assess how prices have evolved in the eleven countries surveyed last year. To expand the geographic scope, we added banks in eight new countries to our sample, bringing the total to nineteen countries and one hundred thirty banks (see Figure 1). Adding the eight new countries gave us a more comprehensive view of Europe by including the Eastern European countries of the Czech Republic, Poland, and Slovakia; better covered OECD countries by including Australia and Austria; and developed a more complete global picture by adding China, a fast-growing market in the Far East. In addition, we developed a local profile pricing index based on each country's specific consumption patterns. It reflects more accurately the actual banking prices consumers paid for basic banking in each country and buttresses last year's global profile.

The global profile is based on frequencies of use of bank products and services applied equally to all banks in all countries surveyed. For example, the global profile includes the cost of holding one credit card, which means that whether for Slovakia, Germany, or Canada, the price shown includes one credit card per consumer. While this global profile provides a good overall comparison of prices, given the differences in consumption patterns across countries, the average prices it generates do not reflect precisely what end-consumers pay in a given country for their day-to-day banking services. Going back to the credit card example, the actual average number of bank credit cards held in Slovakia was 0.1 per inhabitant over 16 year old, in Germany 0.3, and in Canada 1.9.

This year's study, therefore, includes local country profiles based on each product and service's frequency of use by an average local customer. We used public data where possible (such as number of cards issued, number of transfers, and number of withdrawals) but could not obtain exact data for all countries and all products and services. Given lack of consistency of product definitions across national markets and of statistical periods, we preferred using approximations for all figures of the local profile. Hence, the ownership of a credit card in the local profile is approximated to be 0.0 for Slovakia, 0.5 for Germany, and 2.0 for Canada. As Figure 2 indicates, depending on the country, the effect of using the global versus the local profile is significant, and the local profile improves the overall accuracy of the findings.

Figure 1. BANKS SURVEYED IN 2004 AND 2005

Region	Evolution of 2004 Coverage			Additional 2005 Coverage	
	Countries	2004: Banks surveyed	2005: Banks surveyed	Additional Countries	2005: Banks surveyed
Euro Zone	Belgium	4	4	Austria	6
	France	10	11	Portugal	5
	Germany	7	7		
	Italy	6	6		
	Netherlands	6	6		
	Spain	9	13		
Europe: non-Euro Zone	Norway	5	4	Czech Republic	3
	Sweden	6	6	Poland	11
	UK	5	5	Slovakia	6
				Switzerland	6
North America and Asia-Pacific	Canada	6	6	Australia	5
	US	10	11	China	9
Total	11 Countries	74 banks	79 banks	8 countries	51 banks
	19 countries / 130 banks				

Source: Capgemini analysis, 2005.

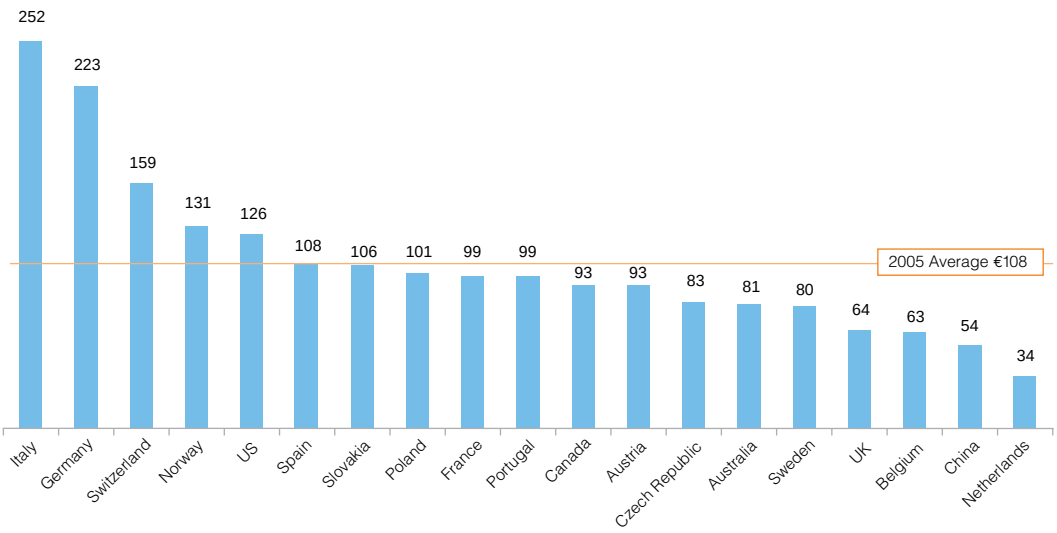
Figure 2. EXAMPLE OF CREDIT CARDS TO EXPLAIN GLOBAL VS. LOCAL PROFILE PERSPECTIVES

	Slovakia	Germany	Norway	Canada
Number of credit cards per hbt over 16 year old	0.1	0.3	0.7	1.9
Global Profile				
Number of credit cards in Active profile	1.0	1.0	1.0	1.0
Cost of credit card for average user	€18.0	€12.4	€43.3	€0.0
Credit card cost as % total global profile cost	17%	6%	33%	0%
Local Profile				
Number of credit cards in Active profile	0.0	0.5	0.5	2.0
Cost of credit card for average user	€0.0	€6.2	€21.7	€0.0
Credit card cost as % total local profile cost	0%	6%	21%	0%
Unit Price				
Average unit price of credit card in country in 2005	€18.0	€12.4	€43.3	€0.0
Average unit price of credit card in country in 2004	n/a	€28.0	€43.0	€0.0
Price change for 1 credit card	n/a	- 56%	1%	0%

Source: ECB data; Capgemini analysis, 2005.

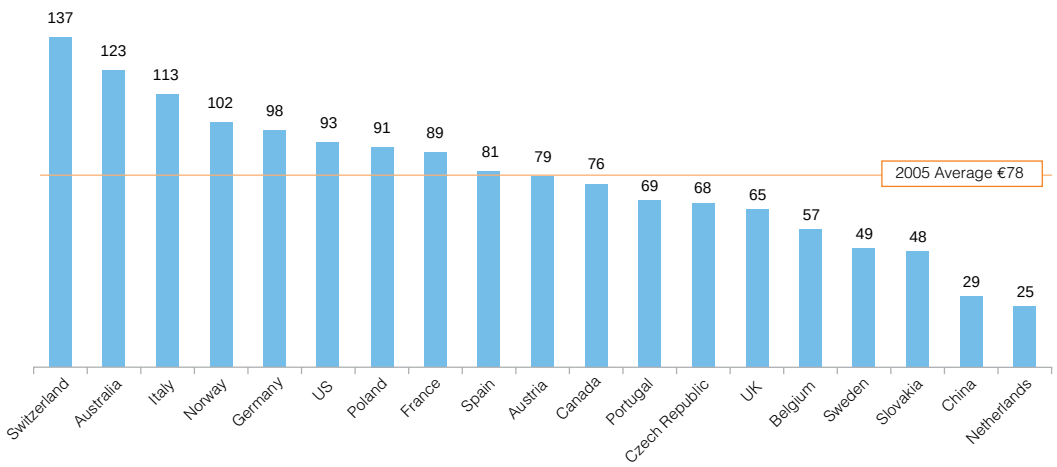
On the global scale, the average price of basic banking is €108 (see Figure 3). Prices based on this year's local profile show a different picture (see Figure 4), with an average price of €78, 28% less than the global profile price. More precise frequency- of-use data is the reason. Less-frequently-used products are typically more expensive, while more-frequently-used products tend to be cheaper. The local pricing model, therefore, better estimates the average price local customers pay by more accurately reflecting their actual frequencies of use of particular products and services at the local country level. We will start by addressing the global profile pricing index and then consider the local index.

Figure 3. | **GLOBAL PROFILE PRICES IN 2005**
Annual weighted prices of core banking services by country, 2005 (€)[a]



Source: Capgemini analysis, 2005.
a. Checks excluded for Belgium, Norway, and Sweden. Italy prices are packages, because public prices are not representative.

Figure 4. | **LOCAL PROFILE PRICES, 2005**
Annual weighted averaged prices for the local profile, 2005 (€)



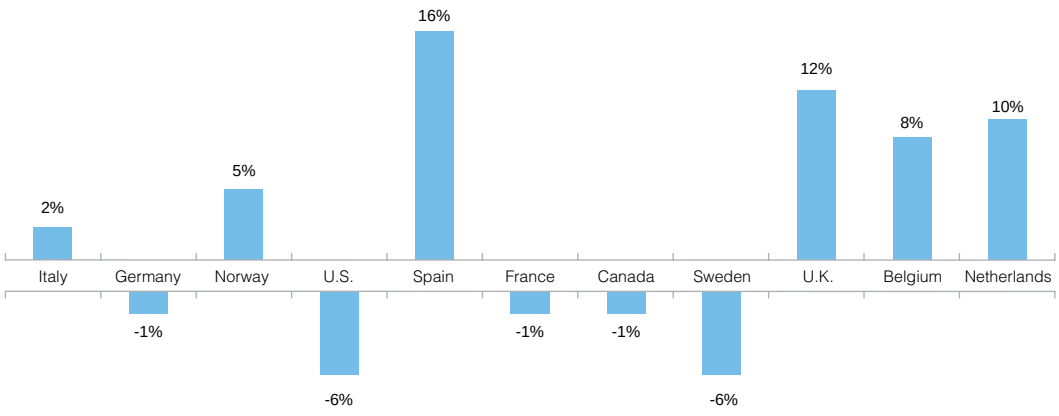
Source: Capgemini analysis, 2005.

Global Profile

Like last year, average prices by country in the global profile (see Figure 3) varied significantly between countries, ranging from €34 in the Netherlands to Italy's €252. Most countries ranged from €80 to €159 if we omit the extreme ends of the spectrum. At the high end, Italy and Germany's prices were above €200, while on the lower end of the spectrum, the UK, Belgium, China, and the Netherlands had prices of €64 and below.

The average price of banking services in 2005 increased by over 3% across the eleven countries surveyed last year. Prices rose in six of the eleven countries (up 16% in Spain), while prices declined in the other five (down 6% in the US and Sweden), indicating that prices for day-to-day banking services can vary significantly year by year (see Figure 5).

Figure 5. | EVOLUTION OF GLOBAL PROFILE PRICES, 2004 - 2005
Average price change, 2004-2005 (€; % change)[a]



Source: Capgemini analysis, 2005.
a. Limited to the eleven countries of last year's study.

A Wide Range of Price Evolutions

Prices in North America declined versus last year, by 6% in the US and by 1% in Canada, excluding the impact of the declining value of the dollar. In the US, the decrease resulted from major cuts in the cost of account management (down 40%) and the cost of means of payment (18% lower).

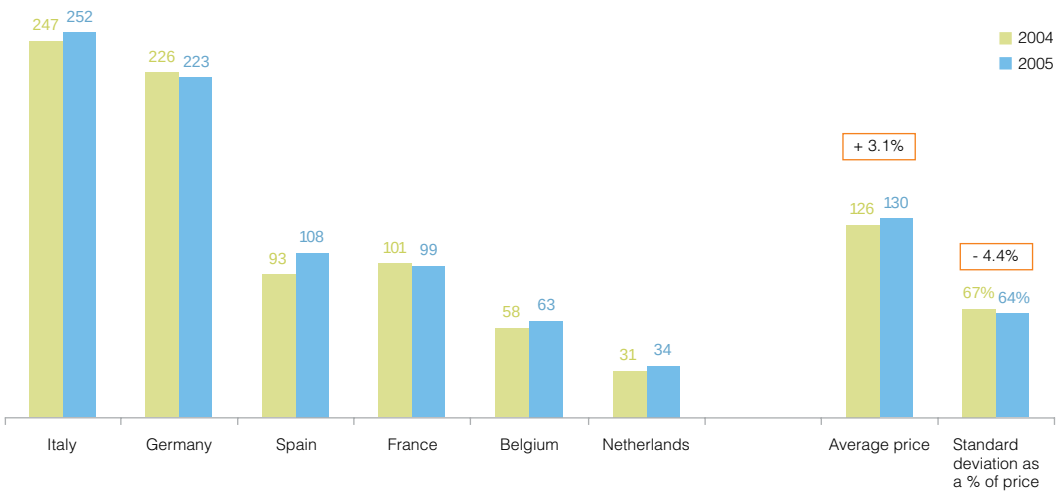
One major driver of falling account management fees is the increased prevalence of "free checking" in the US. Only three out of the eleven US banks sampled charged a traditional current account fee. Most, however, imposed stricter account-balance requirements, charged more for insufficient funds, and employed other means not within the scope of this study to recoup the foregone income. A second key driver of lower account management fees is the rapid spread of free online banking.

Regarding means of payment in the US, banks have adopted many opposing strategies. The 18% average decrease in cost of means of payment was caused by different moves by particular banks—some eliminated direct debit fees, for example, while nearly as many added or increased their direct debit fees. In Canada, means-of-payment costs dropped by 6%. In both the US and Canada, cash utilization costs rose, but more substantially in Canada (18% vs. 7% in the US). Overall, however, Canada remains significantly cheaper than the US with a €33 lower overall average price.

In the six countries of the Euro zone surveyed both last year and this year, the average price on the global index rose from €126 to €130, a 3% increase (see Figure 6). The 3% increase is quite similar to the 2.5% inflation rate for services as measured in 2003 by the European Central Bank in its Harmonized Index of Consumer Prices.

As indicated in Figure 6, banking prices in Euro zone countries have begun to converge over the past two years. Prices rose in Euro zone countries that were below last year's average (Netherlands, Belgium, and Spain), while prices in countries above or at last year's average were relatively stable (Italy with +2%) or decreased (Germany and France). We expect this convergence to continue as the effects of the common currency take hold. Central initiatives, such as the Single Euro Payments Area (SEPA), triggered by the European Central Bank (ECB) and led by the European Payments Council (EPC), will also bring prices closer together.

Figure 6. | EURO ZONE PRICE EVOLUTION
Evolution of prices in six Euro zone countries, 2004-2005 (€)



Source: Capgemini analysis, 2005.

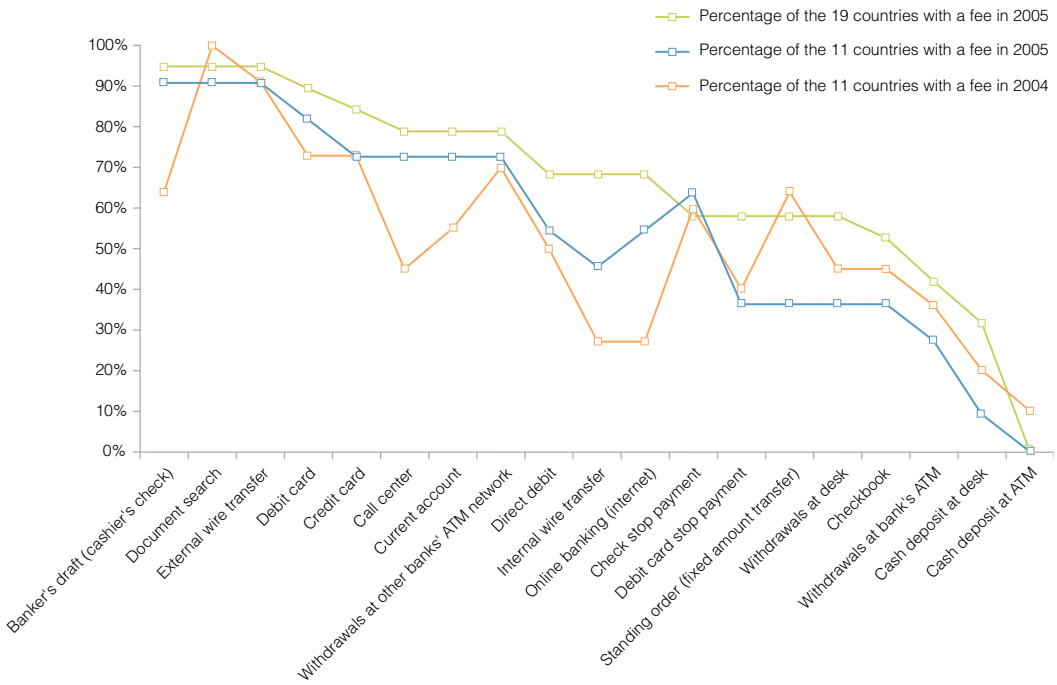
According to ECB's *Third Progress Report on SEPA* (December 2004), the SEPA initiative aims to transform the Euro zone into an area where "customers can make payments from a single bank account, using a single set of payment instruments as easily and safely as in the national context today." For customers, "it should not make any difference where or with which bank in the Euro area the account is held." Because the means of payment product category accounts for 50% of the average price for Euro zone countries, the SEPA initiative and others should move Euro zone banks' prices ever closer to one another in the medium term.

On a country-by-country basis, variations were wide and had different causes. For instance, Spain's 16% increase resulted from a rise in the price of cash utilization and means of payment, while the 10% upward adjustment in the Netherlands was caused primarily by higher call center and credit card fees. Norway's average price, meanwhile, rose 5% as a result of increased prices for online banking and withdrawals at other banks' ATMs, while credit card prices went down. In Sweden, prices on all means of payment declined, resulting in a 6% drop in the average price. The average UK price rose 12%, due primarily to higher fees for external wire transfers. In Belgium, the 8% average total price increase was due to a 14% rise in average current account management fees (up from €8.6 to €9.8), a 4% increase in the price of cards, and one bank raising the price of withdrawals from other banks' ATMs and initiating charges for withdrawals at its own.

Charging for More Products and Services

The number of products and services for which fees were charged in 2005 rose slightly in the eleven countries also surveyed in 2004 (see Figure 7). In Canada and the US, banks charged for more products and services in 2005, even though their average price went down. In both countries, a few banks started charging for debit cards. Some US banks eliminated account management fees and online banking charges. On the other side of the ledger, some banks began charging for standing orders and cash deposits at the teller's window.

Figure 7. **PRODUCTS AND SERVICES FOR WHICH BANKS CHARGED FEES, 2005 VS. 2004**
Percentage of countries with a fee – per product and service[a]



Source: Capgemini analysis, 2005.
a. Indicates at least one bank in the country charges for the service or product.

In all but two of the European countries surveyed, product carrying charges did not vary substantially. One of the exceptions was Italy, where some products and services, such as call center, cash deposits at the bank, and withdrawals at own banks' ATMs were made free of charge. Belgium was the other exception, as one bank in that country started charging for withdrawals made at its own ATMs.

Across Western countries, charges for cash utilization remained infrequent. Banks in these countries seldom charge for withdrawals and deposits, for example, except for withdrawals at the desk or from other banks' ATMs. Out of the eleven countries surveyed in 2004, three—the Netherlands, Sweden, and the UK—did not charge at all for those services, and only Belgium and Canada charged fees for more than half the products in the cash utilization category.

Taking into account the eight new countries we added to the study this year, however, the average percentage of products banks charged for increased in all product and service categories. The percentage of cash utilization products carrying charges, in particular, rose from 31% to 43% because Eastern European banks charge fees for 60% of their cash utilization products and services.

This year's global profile price index identified differences between North America and the Euro zone in terms of price evolution. US day-to-day banking prices went down 6%, and Canadian prices dropped 1%, while European prices rose with inflation. The global index indicates that banks charged for more of their products and services, particularly in developing countries where banks assess fees for a much higher proportion of their offerings.

Local Profile

The local profile we added this year to last year's global view has several advantages. For each country surveyed, we estimated local consumption patterns by establishing an average frequency of use for each product and service included in the pricing index. The local index enables a more realistic view of what customers really pay banks for their day-to-day services.

Differences in usage and customs

Usage and customs vary substantially from one country to another. Usage patterns often result from historic factors and are slow-moving trends, but over time similar products and services become popular around the globe. As a product gains global acceptance, a country's lower level of development can sometimes explain its lower frequency of use of that product, a good example being credit and debit cards.

The US and Canada are the biggest consumers of cards, especially credit cards, with approximately 2 per inhabitant over sixteen years old. Card usage in the Euro zone countries is lower than in the US; except for Italy, however, it is still a widespread product there, with approximately 1 debit card and 0.5 credit cards per inhabitant over sixteen. In Italy, possession of a card is half as frequent as elsewhere in the Euro zone. In the fast-developing countries of Eastern Europe (Poland, Slovakia, and the Czech Republic), retail banking customers use half the number of debit cards and substantially fewer credit cards—under 0.1 per inhabitant over 16, against the Euro zone's 0.5.

Check usage is influenced by such local factors as legal obligations to use checks for certain transactions, local habits, the cost of transfers as an alternative, and the investments that banks have sunk to reduce check-processing costs (which lessen their incentive to push check usage down). We found a wide frequency-of-use range, from 70 checks per year per US individual over sixteen years of age to less than 0.4 per year in the Netherlands, Belgium, Sweden, Norway, and the less-mature markets studied. The main users of checks were customers in the US, Canada, Australia, the UK, France, and Portugal. In other European countries surveyed, customers used fewer than ten checks per year.

In some countries, such as Germany, Switzerland, and Austria, consumers used credit transfers, direct debits, and standing orders instead of checks. Consumers in Poland, Slovakia, and the Czech Republic took the same route, indicating the influence of Germany and Austria on the Eastern European banking environment.

Self-service channels, such as online and call center banking, however, are being adopted in less-developed countries. In Slovakia and the Czech Republic, for instance, consumers used more online banking than in most other European countries. Banks in some less-developed countries were apparently adopting these new technologies, avoiding the cost of infrastructure build-up, and "leap-frogging" more developed countries that have large branch networks. In China, our research found that retail banking services are low-profit activities today, and banks there are trying to convince their clients to use self-service channels from the start.

Pricing affects customer behavior

Banks use pricing to persuade their clients to select certain products and services rather than others. A good example is check usage, which is broadly on the decline. European Central Bank statistics in the Euro zone countries indicate that checks represented 22% of all transactions in 1998, and the number was down to 16% by 2002. That decline was exceptionally strong in Belgium, where check use represented over 7% of all transactions in 1998 and had dropped to below 1% by 2005. Continuous increases in price, along with the suppression of the Eurocheques warranty and the promotion of alternatives, are responsible—in 2004 alone, the average price per check in Belgium went up by 60%.

Banks in many countries were encouraging consumers to use ATMs, particularly their own. To promote their ATM systems, French banks have progressively charged more for transactions at the cashier's window and for withdrawals from other banks' ATMs. Withdrawal frequency at other banks' ATMs was higher in countries where no charges were

applied—for example, in Austria, Sweden, and the UK. In France, Norway, and Spain, banks were attempting to influence customer behavior by increasing charges for withdrawing money from other banks' ATMs. Banks in less-mature economies, such as Slovakia, the Czech Republic, Poland, and China, were adopting a similar strategy by charging customers for making withdrawals from other banks' ATMs.

Charging for products and services

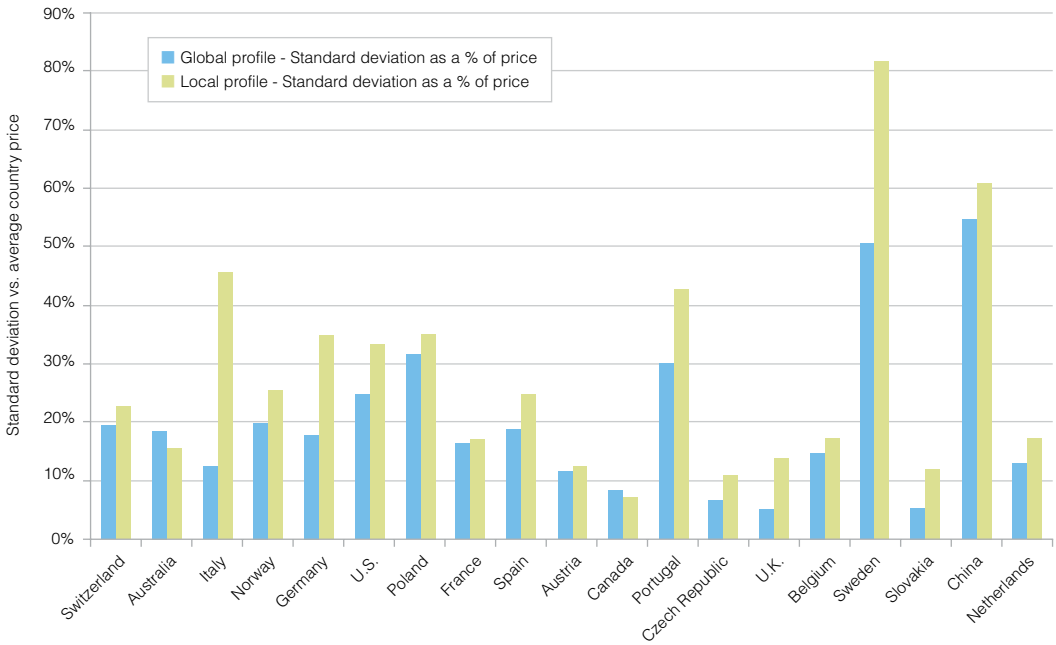
The number of products and services banks charge for has little to do with the total price paid by customers. Austrian banks, for instance, charged their clients for 18 out of the 19 products and services in our survey, while Italy charged for only 13, yet Italy was 30% more expensive than Austria based on the local profile. Similarly, banks in China and Eastern Europe (Poland, Slovakia, and the Czech Republic) typically charged for more products and services than other countries did, yet the total price customers paid was often lower. In those lower income countries the total price paid by customers was spread across all products, whereas in more mature markets, the price was concentrated on just a few. This reflects both different regulatory histories and marketing strategies. In some Western countries, such as the UK and the US, many banks promoted certain products (such as checking) as free in order to attract customers, but in less-developed economies with faster growing markets, banks seldom used this strategy.

Local price comparison

When considering prices based on local consumption patterns, the average price was €78, 28% lower than the global price. The price range was also smaller, from €25 a year for China to €137 for Switzerland, a ratio of 1-to-5.5 instead of the global price index's 1-to-7.4 (see figures 3 and 4).

The ranking between countries is also quite different. Whereas Italy and Germany were the two most expensive countries in the global profile, in the local profile, Switzerland and Australia had higher prices than Italy for day-to-day banking services. At the lower end of the spectrum, the Netherlands and China had the lowest local profile prices, just as they did in the global profile.

Figure 8. PRICE DISCREPANCY WITHIN COUNTRIES – GLOBAL PROFILE VERSUS LOCAL PROFILE
Discrepancy between banks' prices[a]



Source: Capgemini analysis, 2005.
a. Discrepancy is calculated as the standard deviation of a country's bank prices divided by the country's average price.

Pricing depends on comparability

Discrepancy between banks' prices within a country were significantly higher in the local profile, at 22%, versus 15% for the global profile, which held true for all countries except Australia and Canada (see Figure 8). This indicates, counterintuitively, that price differentiation between banks results from a wide range of fees charged for the most frequently used products and services in a given country. Simple logic suggests that banks would try to compete more actively on those products by matching competitors' prices, but the data suggests the opposite is true.

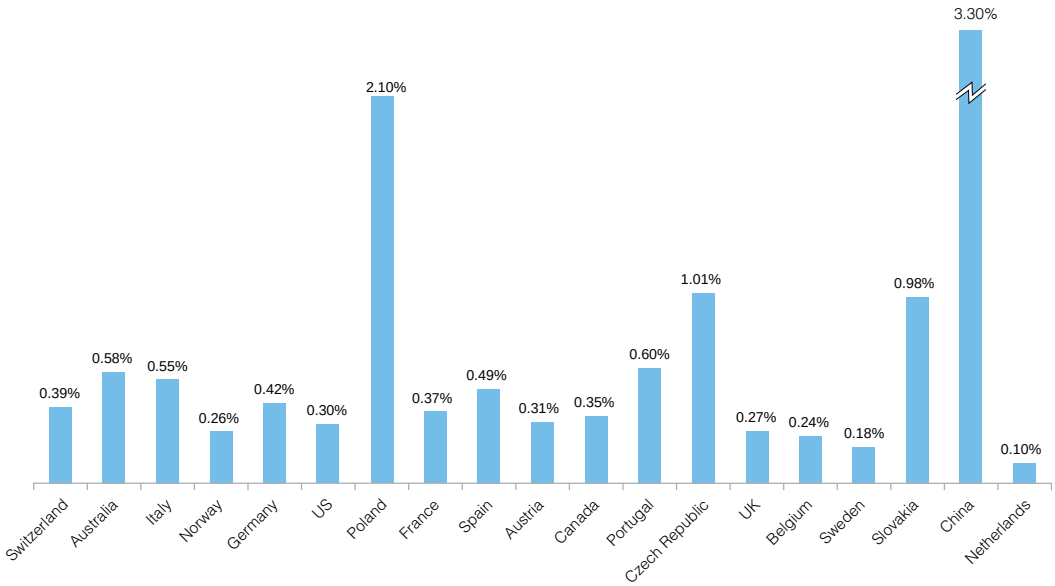
Frequently used products and services come in two varieties: those that customers can easily compare on price and those they cannot. For products that are difficult to compare, including those less advertised (such as account management or cash utilization), customers are not aware of the actual price they pay. The discrepancy in pricing of these products between banks is typically the highest.

For directly comparable products, or for which the price is more often advertised (such as debit or credit card charges), prices tend to be closer. We found this to be the case for debit cards in twelve of the nineteen countries surveyed, and for credit cards in fourteen of the nineteen. The obvious reason is that customers can readily make price comparisons, so banks tend to react strongly to competitive pricing moves by other banks. In Portugal, for example, where the discrepancy between prices for account management exceeded 86%, and a massive 260% for cash utilization, the discrepancy on debit cards was 12%, and on credit cards, less than 40%.

More expensive in less mature markets

Having established a local profile price reflecting the actual price paid by consumers in each country surveyed, we compared the local price with GDP per capita (see Figure 9). In mature economies, the cost was always below 0.6% of GDP per capita, with an average of 0.4%. In less-developed economies, the cost was significantly higher. In China, for example, charges for basic banking represented over 3% of GDP per capita; in Poland, 2%; and in the Czech Republic and Slovakia, 1%. In those countries, banking is still a high-premium service, indicating a clear link between a country's level of development and the price of day-to-day banking services. Banking services apparently follow the standard industrial development pattern in which relative prices decline with maturity.

Figure 9. | LOCAL PROFILE PRICES VERSUS GDP PER CAPITA
Prices of core banking services versus GDP per inhabitant, 2005



Source: Capgemini analysis, 2005.

Conclusion

Based on how difficult it was for our extensive research teams to gather comparable bank pricing data in each country and across countries, customers would have an even harder time comparing banks on the overall price of day-to-day banking services. Instead, customers compare the prices of specific product and service categories, such as credit and debit card fees, or for some of the more financially significant products, such as mortgage and savings rates. Price competition applies to the more easily comparable products, and banks use these as strategic differentiators for client acquisition and retention.

Price variations on specific categories of highly visible products and services, such as ATMs, checks, and self-service channels, have the strongest impact on client behavior. Because their customers are not provided with a holistic view of bank prices, banks let their advisors use rebates as commercial gestures, which have more impact on their customers' perceptions and represent the strongest tactical lever for banks.

Increasing Share of Wallet from High-Potential Clients in Mature Markets

After an early part of the decade focused on cost-cutting, retail banks have reaped most of the easy wins and adapted their organizations to a faster pace of change. Most banks now feel that while continuing to monitor costs closely to avoid any slippage, they now need to concentrate on growth. We interviewed twenty-three banks this year in mature banking markets, as well as four Chinese banks. The four Chinese institutions were predominantly focused on growing through client acquisition. For the twenty-three other banks, revenue growth was the focus: those institutions estimate that 72% of their profit growth in the next three years will come from revenue growth, and only 28% from cost-cutting (see Figure 10).

Within revenue growth, these banks will focus on extracting more value from existing clients. In mature markets, excluding mergers, 80% of future revenue is expected to come from existing clients, and only 20% from new client acquisition. Banks can generate more value from existing customers by raising prices, expanding product lines, or increasing share of wallet. Interviewed banks in mature markets expect 65% of their revenue growth will result from increasing share of wallet. In mature markets, therefore, most well-established banks recognize that growing share of wallet is their primary objective.

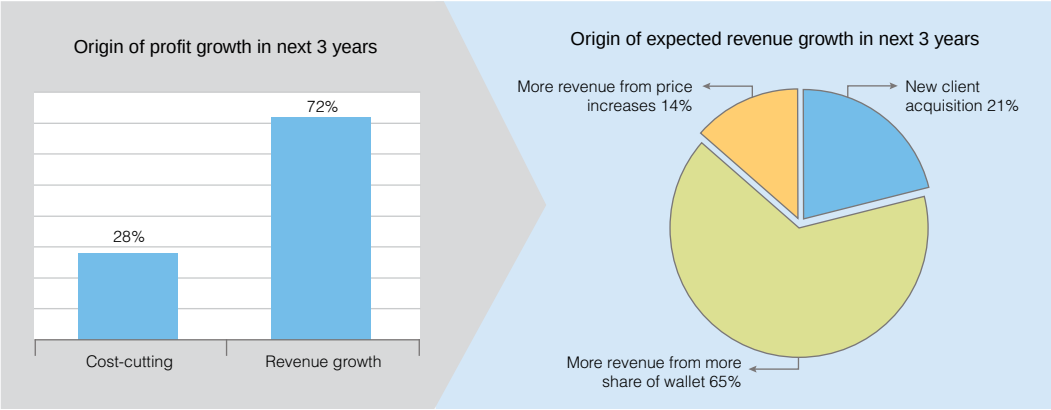
As a result of this finding, this year's spotlight falls on how banks can extract more value from existing customers by increasing share of wallet. Taking advantage of Capgemini's experience, combined with interviews with bank executives and industry experts, we have concluded that a relationship approach is critical to meeting this goal. Our interviews with executives of the twenty-seven banks focused on their institutions' experience with the relationship approach. This helped us determine where banks stand in implementing such an approach, recognize the difficulties they encounter in implementing it profitably, and identify best practices and lessons learned from those experiences.

Beyond "Product Push"

Conventional banking wisdom holds that a relationship strategy that goes beyond a traditional product-push approach can capture untapped client potential.

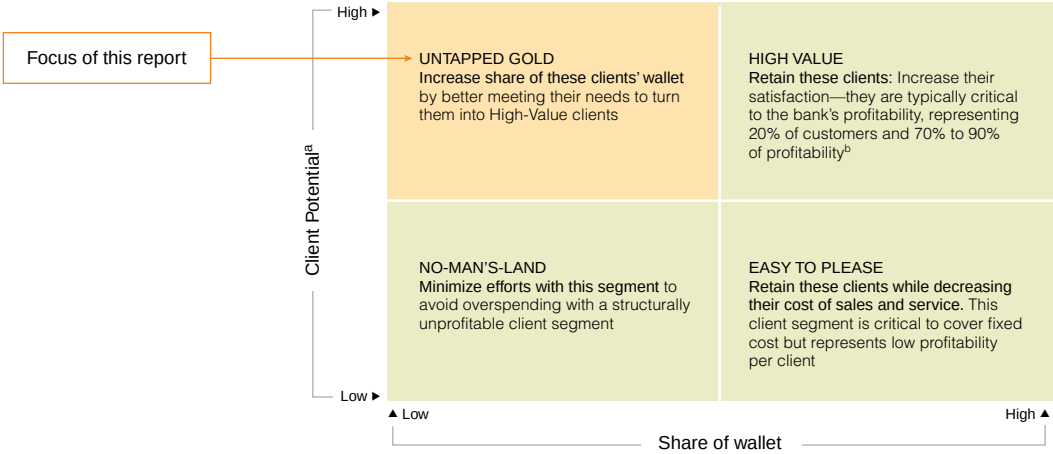
Banks have successfully leveraged push approaches to increase sales effectiveness. As Figure 11 suggests, this push approach was successful in capturing market share of high-value and easy-to-please customers. These segments are currently either very or somewhat profitable to the banks, so there is no reason to change approaches with them.

Figure 10. | INCREASING SHARE OF WALLET TO GROW PROFITS



Source: Capgemini interviews with 23 banks in mature markets, Q4 2004 and Q1 2005.

Figure 11. | TARGET SEGMENT
Low-share-of-wallet, high-potential clients represent an "untapped gold" segment.



Source: Capgemini analysis, 2005.
a. Client potential is measured through net banking income by client or sum of assets, debts, credits, and overdraft.
b. Capgemini research, 2000 to 2003.

Some clients, however, are unreceptive to the product-based push approach commonly used by retail banks, because their needs are not fully identified in that way. They feel they receive low value, and finally end up making themselves unavailable to their banks' advisors. This group represents an "untapped gold" client segment.

Despite computing advances, complex customer needs cannot be well predicted by automated systems. Understanding client needs requires a perspective no automated solution can offer. Client needs frequently originate with events that systems cannot predict (weddings, major purchase decisions, deaths of relatives, divorces). Because sales forces are often compensated on the basis of number of products sold, and because advisors are too often unprepared to give advice that goes beyond a product's generic benefits, advisors typically seek out easy-to-sell-to clients rather than clients with more complex needs. Ignored clients soon begin to distrust their bank, and do not maintain contact with their advisors. The

traditional product-push approach is ineffective with this group, because they often regard such efforts as "pushy," and it is inadequate in meeting their more complex needs.

A relationship-based approach for these high-potential clients—who may not yet qualify for private banking services—could create a virtuous circle through a win-win relationship in which the customer's perception of increased value generates more share of wallet, which gives the bank a better view of the client's needs, resulting in better advice, which increases still further the customer's perception of value. A Towergroup survey of June 2002 indicated that 70% of clients would want to use a single institution if it were able to serve all their financial needs well, and a Capgemini survey in February 2004 found that 64% feel that having companies collect information on their individual interests and lifestyle in order to better personalize services is a good thing.

A relationship approach, as described by Professor Arnoud W. Boot in "Relationship Banking: What Do We Know?" *Journal of Financial Intermediation* (2000), is one where the bank "invests in obtaining customer-specific information, often proprietary in nature, and evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products." The objective of a relationship approach is to understand client needs and meet them, and to develop such strong trust that the client does not even consider moving to another provider. Creating such a relationship is an iterative and progressive process, is long-term, is personalized, and requires the client to share information with the advisor.

Who wants a relationship? The alternative, a low-price position and self-service

"Not everyone wants a relationship," according to Rick Spitler and Sherief Meleis in an article in the BAI newspaper *Banking Strategies* (November/December 2004). "It does no good to position 95% of the brands and products as being relationship-based when only 50% of the market is interested in that value proposition." Evidence that not all clients value relationships include:

- Over 25% of the US commercial passenger air travel market is captured by discount carriers.
- Discount US commercial banks grew deposits 50% faster than others between 1998 and 2003.
- A banker Capgemini interviewed said: "We put in place a relationship approach for all high-value clients, but a significant number do not appreciate the extra attention."

The reason is that clients fit into different buying categories:

- Price-focused
- Expert comparatists, who look at price but also at all other product characteristics
- Loyal-to-a-brand
- Followers, who will do whatever the majority, friends, neighbors, or family members do.

A relationship approach only matters to clients who are either expert comparatists or loyal-to-a-brand, and will recognize the value of the bank's efforts. The alternative to a relationship model for capturing the untapped potential is to satisfy price-focused customers by adopting the lowest price position.

In banking, self-service is a good option for many people not wanting a relationship: their expectation is seamless transactions that can be carried out at low cost. Capturing those clients requires a well-thought-out multichannel customer experience, and robust and cost-efficient systems to meet service-level expectations at minimum cost.

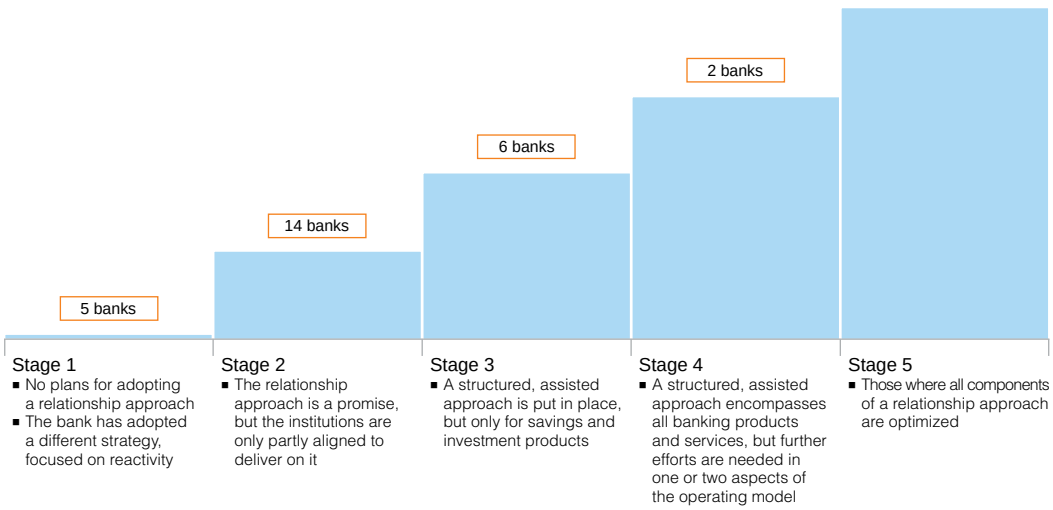
Banks that have focused on such an approach for their high-value/high-potential clients have obtained excellent results, as demonstrated by a North American bank and a European financial institution in our survey. The North American bank has focused on a client-centric, relationship approach toward its domestic clients, which has established it as the benchmark in terms of service. Its approach has significantly increased the bank's share of wallet of high-value clients and in average profitability. The approach also enables the bank to position itself with a premium, as demonstrated by its consistently superior net interest margin (20 to 60 basis points higher). These excellent results are reflected in the bank's share price, which outperformed the Dow Jones Index over the 5 years from February 2000 to February 2005 with a 250% increase against a flat Dow.

The European financial institution we identified as being a top performer in relationship management has also benefited from its successful relationship approach toward its "A" clients, where a relationship manager "owns" the client relationship and conducts one-to-one advisory meetings on the full spectrum of the client's financial needs. The approach was derived from the successful method used with small and medium size enterprises. The bank's approach is driving up its market share in banking and cross-sold products, notably insurance and mutual funds. The profit contribution from banking has been multiplied by 5 over the past two years. These results are also reflected in stock price, which outperformed the Euro Stoxx 50 from January 2003 to February 2005: its stock price doubled in that period (while the Euro Stoxx 50 increased by only 20%), helping the bank move up the ranks in terms of market capitalization.

A Structured Approach

Many banks are attempting to implement relationship strategies, but few are adopting structured approaches covering the full scope of retail banking. Of the twenty-seven banks we interviewed for this study, twenty-two had adopted or were adopting a relationship approach. After developing a framework with the essential components of such a strategy, we mapped the components in each bank's approach, gained in the interviews, against our framework (see Figure 12).

Figure 12. MATURITY STAGES, RELATIONSHIP APPROACH[a]



Source: Capgemini research, 2005.
a. Out of twenty-seven banks interviewed.

Five levels of maturity in the relationship approach emerged from our interviews:

Stage 1: No relationship approach strategy.

Stage 2: The relationship approach is a promise, but the institutions are only partly aligned to deliver on it.

Stage 3: A structured, assisted approach is in place, but only for savings and investment products.

Stage 4: A structured, assisted approach encompasses all banking products and services, but further efforts are needed in one or two aspects of the operating model.

Stage 5: All components of a relationship approach are optimized.

Stage 1 banks

Five of the banks we surveyed, representing approximately 20% of the sample, did not have any component of a relationship approach in place. Their perspective was different in that they were either targeting price-focused or transaction-oriented clients, or did not feel the market situation required them to adopt such an approach yet. One bank said it did not believe in a relationship approach and thought its success factor of the future was self-service and reactivity.

Stage 2 banks

Just over half of the banks we surveyed were in Stage 2, promising a relationship approach but only partly aligned to deliver it. These banks have developed a relationship approach as a reaction to the trend of weakening relationships with clients due to branch automation, deskilling of bank manager tasks, and quality issues arising from multiple channels. These banks recognized that they needed to take better care of their most important clients, and launched relationship programs, typically adapting the elements of segmentation, organization structure, some tools supporting the advisors, and marketing planning, but too often neglecting changing ways of working, performance management, and processes.

Banks segmented their clients according to a mix of present and potential value and established levels of service, including frequency of client contact, depending on client segment. For those clients identified as high-potential, they have assigned specific advisors and reduced the number of clients per advisor to improve availability. In terms of tools, a few banks have given their advisors an extended view of their clients, developed automated ways to identify product opportunities, and created contextual scripts to help them present product benefits to clients. Marketing plans have been adapted by segment, and multichannel customer solicitation has been developed to generate opportunities for advisor contact with clients.

In the process, however, many banks have neglected key aspects necessary to move toward a more relationship-based approach, especially in the ways their advisors work and are managed. Available tools have failed to provide holistic advice or establish a diagnosis of each client's situation and needs. As a consequence, retail advisors still often lack the ability to give substance to their client relationships and lack good reasons to call clients. Without this necessary advice-product architecture, advisors find it difficult to recognize client needs. And they are encouraged to stay product-and campaign-centered because their performance is still measured by number of products sold. Having only partly aligned the organization to a relationship approach, success remains out of reach.

Stage 3 banks

A smaller proportion of the banks we interviewed—approximately 20%—have developed a structured relationship management approach, but only for their savings and investment products. These banks believe that cross-selling savings and investment products to banking clients will generate significant profits. This is especially true in such countries as the Netherlands and Sweden, where day-to-day banking is a loss-leader, with profit made on savings and lending products. The European banks that have universal banking models have traditionally excelled in delivering savings products to their clients. As customers became more sophisticated and the number of products expanded, a need for better advice emerged that some banks chose to address with a structured advisory process, especially in Belgium, the Netherlands, and Sweden.

Establishing a structured process for savings and investment products can deliver excellent results, as specialized institutions in wealth management have shown. Yet the downside of having a structured approach limited to savings and investment products (or other specific products) includes the inability to gain a complete understanding of a client's overall needs and financial situation. It can also cause client frustration if it involves a very professional but unstructured process, and can translate into the client perceiving the bank as a partial solution provider. Our research indicates, therefore, that only a structured relationship covering the complete set of retail banking products and services can generate a strong increase in client satisfaction and a bank's share of wallet.

Stage 4 banks

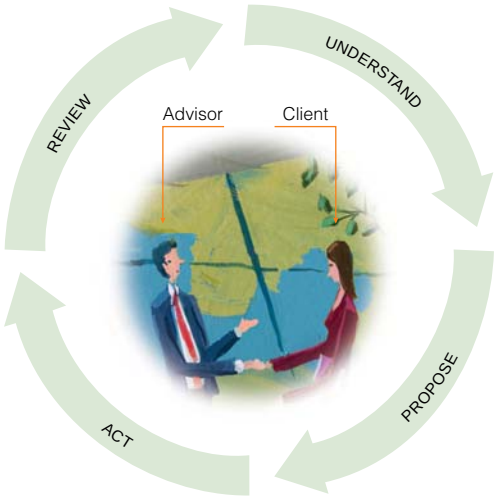
Only two banks in our survey, one in North America and the other in Europe, representing less than 10% of the sample, have implemented a robust relationship approach. Our interviews revealed that executives at both banks believe they have not yet achieved Stage 5 status, and have further improvements in the pipeline. As noted previously, these banks have already benefited from a very positive impact on their share price, having increased both revenue growth and profitability by adopting a structured relationship approach.

Our interviews with executives in these top banks also identified several best practices involved in implementing and growing a relationship approach that increases revenue and improves the profit margin. An underlying key factor is time and commitment. These managers have repeatedly reaffirmed their commitment to a comprehensive relationship approach, and have implemented it over time, progressively aligning its key components (see Figure 13).

Figure 13. | KEY COMPONENTS OF A RELATIONSHIP APPROACH

Key Components

- Client understanding and segmentation
- Product and service offerings
- Organization structure
- Ways of working
- IT and tools
- Performance management



Source: Capgemini research, 2005.

Interview sound bites

- "Revenue growth requires proportionately more effort than cost-cutting for equivalent results."—*North American bank*
- "Product innovation will give me a 1- to 2-month lead, whereas a process innovation such as a strong relationship process will give me a 6-month to 1-year lead...guess where I'm going?"—*Central European bank*
- "Our foremost problem is identifying client potential. We need to do a better job at selecting the right clients to focus relationship efforts on."—*Iberian bank*
- "When triggering a relationship approach with a client, one must choose the right moment; it's wrong to think you have a second chance to make a first impression."—*Central European bank*
- "What...is working well is a selected marketing campaign for convincing customers with attractive prospect profiles to enter the branch: then you grab them."—*UK bank*
- "Learned from the past: don't throw your customers out of the office to cheaper channels, let the customer decide!" —*North American bank*
- "We don't want to be proactive and lose an arm and a leg; we want to be reactive and always have the best answer to a client request."—*Benelux bank*
- "Performance-driven payment to employees does not do all the work; the attitude of the branch manager counts just as much."—*French bank*
- "If it's a true relationship approach, then performance is not only increasing profit per customer, it is also increasing customer satisfaction; so we measure satisfaction of clients and efforts of the advisor."—*Benelux bank*
- "Collaboration or team spirit is essential to break through the product silos and create a governance model where the customer balance is owned by the division."—*Nordic bank*

How to Implement a Structured Relationship Approach

As indicated in Figure 13, implementing a relationship approach requires moving all components to a client perspective:

1. Client understanding and segmentation
2. Product and service offerings
3. Organization structure
4. Ways of working
5. IT and tools
6. Performance management

1. Client understanding and segmentation

Measuring client potential

Potential includes all assets and debts. Most banks have developed measures of potential, but many banks are not yet comfortable that their measure is accurate enough. Methods used to assess potential include compiling data on average assets of inhabitants of neighborhoods, employing statistical methods based on similar client profiles, and offering sales force incentives to capture and update client potential. In Germany, more and more banks are using external providers to establish accurate figures of client potential. In France, one bank decided to provide a better base for analysis by paying its advisors a bonus based on their completing client data in the information system.

Understanding client trigger points

There are right and wrong moments to start a relationship with a client. And once the relationship is going, there are key points in this relationship when the advisor—and the bank in supporting him or her—has to take special care to avoid client disappointment and seize a development opportunity.

One North American bank we surveyed has focused substantial energy on better meeting its clients' needs by identifying "reasons for defection" and ensuring their advisors and the institution succeed in what that bank calls "the moments of truth." It has established a customer service blueprint to capture the emotional responses of clients to rational experiences with the bank. Advisors are trained to identify those moments of truth and react appropriately.

Building loyalty through trust

Clients are looking for advisors they can trust, and banks should also be looking for their advisors to be trusted. A recent Forrester study demonstrated that customer loyalty was most correlated to trusting one's advisors, and that trust resulted from clients feeling that their advisor was honest and open and an advocate of their interests. Good relationship advisors understand clients' desire for these traits, and do everything they can to ensure they adopt them.

Advisor/client dialogue

The prerequisite for an effective advisor/client dialogue lies in the advisor's ability to frame a holistic view of the client's situation. The client will soon be aware of whether the advisor has such a view, and will make critical relationship decisions based on this perception.

Clients know themselves better than strangers or systems do, especially when it comes to assets they hold outside the bank. Once an advisor wins the client's trust, it becomes much easier to ask the key questions about the client's current situation and understand his or her needs. It is also the most effective way to establish a client's true potential.

Clients have expectations and preferences, which advisors should learn. There is no point in repeatedly telephoning someone who does not like to be called. However, that same client may be comfortable exchanging emails. The best advisors ask clients at the outset what their expectations and preferences are.

2. Product and Service Offerings

A needs-advice-product architecture

A critical component of a relationship approach is the matching of client needs with advice and finally with products. To help ensure they fully capture client needs, advisors often develop and administer questionnaires. At one European financial institution, advisors are trained to identify and work into predefined scenarios based on combinations of client needs, and to suggest solutions that bundle products to meet those needs. Another European bank has created packaged products to fit points in the client life cycle, so advisors can readily match their clients' needs. Some banks have experimented with a central support center to assist advisors in customizing their proposals.

3. **Organization structure**

Sales force specialization and branch sizing

A single bank employee cannot operate effectively in two different modes, applying a relationship approach to some clients and a push-based approach to others. Too many differences in terms of time allocated yearly to a client, performance management, tools to be used, and so on, can make it a no-win situation.

In a Benelux financial institution, for example, two categories of customer are recognized, each with a specific approach and type of advisor. Mass consumers are offered an event-driven push approach. Affluent customers are offered a financial advice approach managed by a financial advisor. Relationship managers usually handle from 100 to 300 clients, and this bank has merged some branches so each has over 100 affluent customers. This ensures that the presence of a financial advisor is profitable.

4. **Ways of working**

The people factor

Ensuring that people change their ways of working and managing, and fully adhere to the relationship approach, is essential. Our interviews suggest that change involved in implementing a relationship approach faces some resistance at all levels, from central teams, to branch management, to the advisors themselves. Central teams sometimes resist changing their management style from measuring performance based on campaigns and product sales objectives. Advisors might not believe the institution will provide an approach to help them better understand their clients, could worry about the amount of time and effort required to learn the new way, and are often very cautious about the impact on their compensation. Approaching the move to a relationship approach as a major change program is the most effective way to overcome this potential resistance.

At a large European financial institution, for example, the most critical success factor identified was "the attitude of the branch manager." During the change process, 25% of the branch management work force was progressively replaced to enable the necessary change in culture.

Other methods used by banks include identifying specific employee concerns and addressing them, rolling out a comprehensive communication plan to alleviate fears and align employees, identifying change agents at all levels who are willing to endorse the change, lead by example, and conduct pilots to obtain positive results. Pilot programs can both motivate others and help gain a better grasp on potential implementation issues, which can be mitigated when the program is rolled out later across the branch system.

Developing an entrepreneurial culture at the branch level can also generate positive results. Encouraging and rewarding employees for teamwork and for going the extra mile to satisfy their clients' needs is a proven way to change mindsets. Top banks use these incentives to motivate their branch managers, and make sure they recognize high-performing branches that accept change and adopt a client-focused relationship approach.

A rigorous, iterative, standardized process

The structured process should be geared toward a recurring effort to match client needs and build a positive customer experience. From the client perspective, as illustrated earlier in Figure 13, it can be a four-step process: (1) understand; (2) propose; (3) act; (4) review. This process begins with a dialogue between the client and the advisor to ensure the client's overall situation, needs, and preferences are understood. Second, the advisor develops a proposal and discusses it with the client to ensure the proposed solution addresses those needs. Third, the client lets the bank act on the agreed solution. Then, after some time, comes the review to ensure the solution is serving the client's evolving needs.

A few banks interviewed in Europe are currently rolling out such advice-oriented processes. Their purpose is to ensure clients receive high-quality service and advice while the banks' commercial efficiency improves. Such guidance and support brought to the advisor is key to maximizing the bank's profitability.

Internal recruiting and competence management

These new ways of working need to be learned. Most banks recruit their relationship managers from the existing sales force based on their ability to listen, react, and have a broad perspective on customers' financial needs. Even then, strong training efforts are a must. Both of the top-performing banks in our survey relied on excellent training programs to ensure their personnel developed a complete understanding of the portfolio of products and services and the structured advisory process.

5. IT and tools

Adapting tools to a relationship approach

To provide effective advice, advisors need a complete, integrated view of the client's situation, a good measure of client potential, and an accurate record of the client's past interactions with the bank, including through other channels.

Advisors also need tools supporting the structured process to guide dialogue, enable rapid advice-generation, and develop customized solutions. Questionnaires can help guide dialogue. For rapid advice, tools replicating the need-advice-product architecture are very helpful. To customize solutions, advisors should be able to group products and be guided through the pricing process so they can adjust the price based on the value perceived by the client, within acceptable boundaries of profitability for the bank.

Managers also need monitoring tools to help them know where to direct their efforts and whom to coach. The best tools provide an aggregated and detailed view of how advisors follow the structured process as well as the benefits obtained.

An adaptive IT architecture

In a client-needs-driven relationship, flexibility and a holistic view are essential. Flexibility is necessary to enable customization of product bundling and pricing, and to allow for accessing products across all product lines based on identified client needs.

A holistic customer experience is a key concept. It refers to customers having access to online channels, which empowers them to get advice and act on their own. This requires an adaptive architecture for synchronized data exchange. Advisors also need a readily accessible view of all the client's interactions with the bank (including self-service). In this way the advisor can ensure the client does not become frustrated with the bank's service, and instead gives the client the feeling that the advisor has a firm grip on his or her banking matters.

Developing customer insight and "institutional memory" is also critical. This includes records of processes executed for the client, and a record of client preferences and past interactions through all channels. The prerequisite is an advice-offering database architecture that enables advisors to react to client needs quickly and effectively, and to conduct analyses that produce better targeted offerings.

A multichannel customer experience

A relationship is about the bank viewing the customer as an individual (and the customer perceiving it that way) with a specific situation and needs, and how to meet those needs with a broad spectrum of offers—not by pushing products in campaigns or boxing them into a segment category, even a small one. The bank can be represented by a human advisor or a technology interface. In Nordic countries we found the concept of a relationship through technology interfaces more advanced than elsewhere.

A multichannel focus can help considerably by:

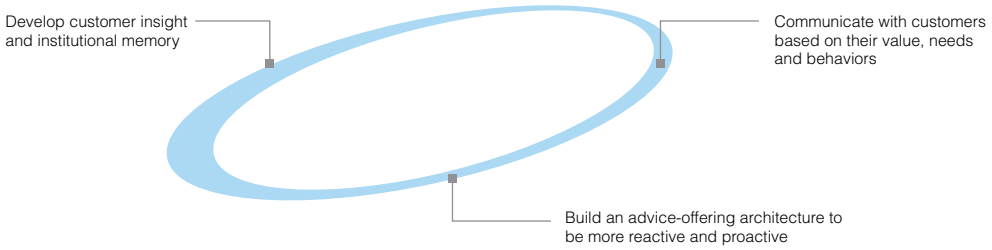
1. Lowering the cost of providing a relationship approach, albeit through technological means, to satisfy lower segments of revenues.
2. Providing a multichannel relationship that enhances the customer experience to satisfy higher standards of more affluent client segments who either prefer self-service to people-based service or are very active users of all channels.

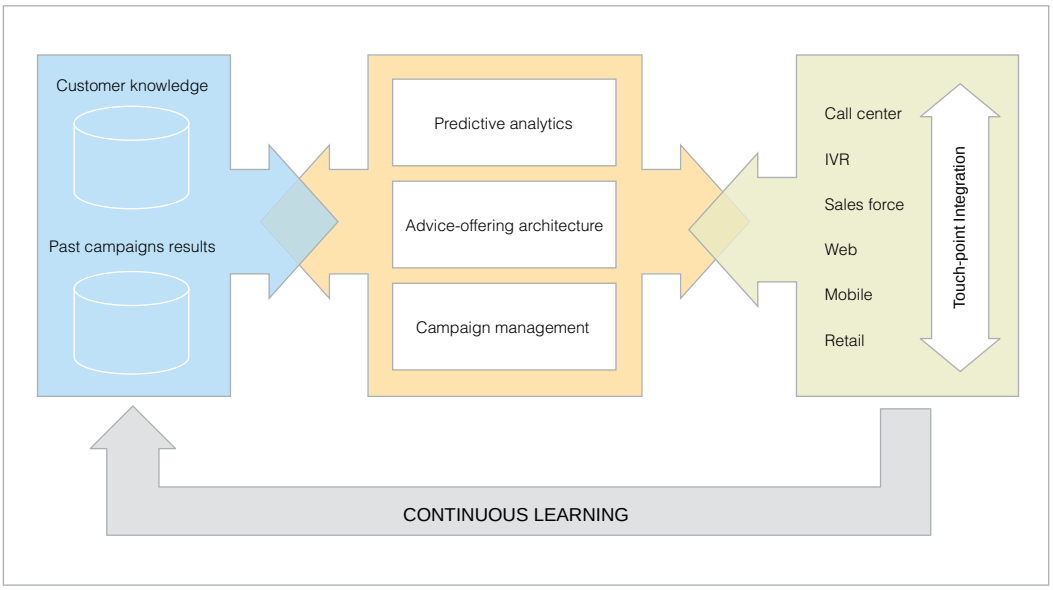
As a Nordic banker we interviewed put it, "This personalized approach can be achieved through people, or systems, or a combination." His bank has decided to drive up its share of wallet by lowering the cost of personal service. Its goal is to provide relationship-based approaches to less-affluent segments, and offer its affluent clients a multichannel relationship that includes self-service, not one restricted to the branch advisor. This approach recognizes that self-service is as much a part of the relationship approach for affluent clients as it is for the less-affluent segments.

The bank's key objective is that every customer be treated on an individual basis. All activities toward a customer, in whatever segment, are generated on an event basis, so people in the branch have a stack of activities toward customers every day, with individual assignments of bank employees for each customer. Events are logged in all channels. Records, or institutional memory, are the key; systems can help organize it and leverage it through analysis for human-machine interaction, or provide the information in an organized way for an advisor to be more effective.

However, this same leading Nordic bank recognizes its human advisors are still the critical success factor. Despite its efforts with technology, it insists that clients with a contact person are distinctly more satisfied and more loyal; hence clients have a named contact person they can reach out to when they want...and most of the time they do so by email or chat.

Figure 14. | CLOSED-LOOP MULTICHANNEL EXPERIENCE





Source: Capgemini analysis, 2005.

6. Performance management

Alignment with a relationship approach

The relationship approach's objective is to match each client's needs with the bank's products, and thereby increase the bank's revenue stream. Unlike a product-push approach, where employees' performance is measured by the number of products they sell, a relationship approach takes a broader view. It encompasses all revenue generated for the bank and also a view over time of the revenue/profit contributed by the client accounts.

A large part of the relationship approach's success is based on advisors' efforts to be close to their clients. Advisors' efforts are, therefore, broken down by steps in the process and tracked, including number of first-step meetings with clients, number of proposals submitted, number of proposals accepted, timeliness of review meetings, and so on.

A good example is the performance measurement approach of the European bank in our sample that we judged to represent best practice. It tracks its advisors' efforts against short-term and long-term profitability metrics. All employees in the branch are assigned personal objectives in terms of number of specific interactions, depending on their role. Profitability performance is measured by a mix of financial results, customer satisfaction, quality of credit portfolio, and volume of long-term savings and lending products.

Benefits tracking through internal benchmarking

The best benefits-measurement programs track benefits at the branch level and fine-tune them through internal benchmarking. Such programs focus on measurable results. A good way to stimulate change is to compare these results between branches to highlight best practice, recognize top performers, and motivate laggards to catch up.

Key learning points on the relationship approach

- Measuring client potential accurately to focus the relationship effort and ensure its profitability.
- Recognizing the client's trigger points in his or her relationship to the bank in light of the multichannel customer experience, so the advisor can provide informed support at those critical times.
- Building customer loyalty through trust that the advisor is the client's advocate and that the bank offers clear pricing and excellent service.
- A relationship is a two-way dialogue: listening to what customers have to say about themselves, their objectives, their preferences, and their needs, and taking it truly into account when proposing a solution.
- Developing a specialized sales force for the relationship approach through internal recruiting, appropriate training, ongoing competence management, and a long-term effort to ensure people change and adhere to the new approach:
  - Aligning performance measurement and incentives with the relationship approach.
  - Establishing a rigorous, iterative, standardized relationship process—one supported with tools that develop a holistic view of clients, while providing guidance in the diagnostic and solution phases of the relationship (through an architecture encompassing situation, needs, and products).
  - Establishing an IT architecture reflecting the business architecture of a closed-loop relationship approach.
- Benchmarking speed of adoption of the new approach at the branch level.

Conclusion

For the next three years especially, increasing share of wallet from high-value customers represents a significant challenge for banks operating in mature markets. Most banks recognize that implementing a relationship approach for these high-potential/low-share-of-wallet clients represents an effective way to grow revenue and profit. Through interviews with bank executives, we identified the best practices detailed above.

In addition to providing excellent advisors, a bank that succeeds with relationship management will have a flexible IT architecture aligned with the operating model, and user-friendly systems to help advisors meet their clients' needs. People throughout the institution will recognize that the relationship approach is a multichannel customer experience, and let customers choose their channels. While advisors offer consistent solutions and service levels, the bank will also deliver seamless data across channels. All client contacts, through whatever channel, will be captured and learned from so the relationship will continuously grow and prosper.

Maximizing profit growth depends on the advisors' effectiveness and efficiency. With the appropriate incentives, the best of them will focus on the right clients, be guided in the relationship by a robust, standardized process, and be supported with excellent technology in conducting analyses, providing advice, and managing the relationship. With all the relationship management components in place, they will offer service levels that delight their clients and ensure the bank's long-term position as a marketplace leader.

Appendix: Pricing Methodology

For this second annual *World Retail Banking Report*, nineteen country teams completed the research in four stages over eight months. Like last year, each country team scanned its entire domestic banking environment and mapped it in a detailed dashboard format (see Figure 15 for an example with a dashboard of Italy's retail banking environment).

Based on this data, local banking experts in each country established consumption frequencies for their particular country for the day-to-day banking products and services covered in the report (see Figure 16). This local profile is new this year, and will remain the standard for subsequent annual editions. For comparison purposes, we also measured for the global profile index we created last year.

We expanded the number and geographic range of countries from last year's eleven to this year's nineteen, including fifteen European and two North American countries, as well as Australia and China. We analyzed the pricing schemes of one hundred thirty selected retail banks across the survey countries (see Figure 17 for a complete list) to calculate the average price of day-to-day banking services in each country. This data became the basis for both the global and local profile price indexes. We then ranked each country's average on the two pricing indexes so we could offer clear comparisons to last year's findings.

Subsequently, we conducted a series of forty interviews with executives from twenty-seven banks out of the hundred thirty we surveyed this year. This information forms the basis for the spotlight section, which this year focuses on growing revenue in mature retail banking markets.

An Evolving Approach

This year's report parallels last year's proven approach, providing an average price of basic banking services based on a pricing survey of the top banking institutions in each of an expanded group of selected countries. Because last year was a first, adjustments to some of last year's numbers were made to align interpretations of the methodology. Also, given what we learned from last year's analysis, we made a few changes to the core methodology but covered the same products and services. Most important, we created the local profile index, which more accurately reflects the true cost of day-to-day banking services for an average consumer in each country.

We have, therefore, taken two approaches to benchmarking the pricing of day-to-day retail banking products and services across the nineteen countries covered this year. The global profile index, like last year's, reflects the average annual price a country's banks charge for a set of products and services based on an identical consumption pattern

Figure 15. SAMPLE DASHBOARD - ITALY

Sources: Banca d'Italia, Istat, company reports.

Figure 16. SCOPE OF PRODUCTS AND SERVICES IN THE GLOBAL AND LOCAL PRICING INDEXES

Retail Banking Products & Services

Core day-to-day banking
- Account management
- Means of payment
- Cash utilization
- Exceptions handling

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

WRBR Index Scope

Core day-to-day banking needs	Products and services detailed
Account management	Current account Online banking Call center
Means of payment	Check Debit card Credit card Internal wire transfer External wire transfer Standing order (regular amount transfer) Direct debit
Cash utilization	Cash deposit at desk Cash deposit at ATM Withdrawals at desk Withdrawals at bank's ATM Withdrawals at other banks' ATM network
Exceptions handling	Debit card stop payment/blocking Stop payment/check blocking Document search Banker's draft (cashier's check)

Source: Capgemini analysis, 2004.

Figure 17. | SURVEY SAMPLE: 130 RETAIL BANKS IN 19 COUNTRIES[a]

Euro Zone

Austria | NEW		Belgium		France		Germany	
BA-CA WBC Bawag Sparkassen sector Raiffeisen sector Volksbanken sector		Dexia Fortis ING KBC		Banques Populaires BNP Paribas Bred Caisses d'Épargne CCF HSBC CIC Crédit Agricole Crédit Lyonnais Crédit Mutuel Société Générale La Poste		Deutsche Bank Commerzbank HVB Postbank Dresdner Bank Savings banks sector Mutual banks sector	
74% deposits	65% credits	67% deposits	66% credits	91% deposits	69% credits	89% deposits	89% credits

Italy		Netherlands		Portugal | NEW		Spain	
Unicredit Banca Intensa SanPaolo Imi MPS BNL Banca di Roma		ABN AMRO ING Postbank Rabobank SNS Fortis		CGD BCP BES Totta BPI		BBVA SCH La Caixa Cajamadrid Banesto Banco Popular Caixa Cataluña	Banco Sabadell Bancaja CAM Bankinter IberCaja Unicaja
66% deposits	51% credits	85% deposits	N/A credits	70% deposits	71% credits	54% deposits	54% credits

Non-Euro Zone Europe

Czech Rep. | NEW		Norway		Poland | NEW		Slovakia | NEW	
CSOB CS KB		DnB NOR Nordea Sparbank 1 Alliansen Fokus		PKO BP PEKAO BPH CitiBank BRE ING	Kredyt Bank BZ WBK BGZ Millenium Reiffeisen	HVB Bank Slovakia Slovenska Sporitel'na Tatra Banka UniBanka Vseobecna Uverova Banka Ceskoslovesnka Obchodna Banka	
73% deposits	57% credits	69% deposits	63% credits	96% deposits	89% credits	83% deposits	79% credits

Sweden		UK		Switzerland | NEW	
Svenska Handelsbanken Swedbank Nordea SEB Danske Bank SkandiaBanken		HSBC RBOS Barclays HBOS Lloyds TSB		UBS CS Raiffeisen Postfinance Kantonalbanken sector Regionalbanken sector	
89% deposits	90% credits	87% deposits	87% credits	100% deposits	100% credits

North America and Asia-Pacific

Australia | NEW		China | NEW		Canada		U.S.	
CBA WBC NAB St George ANZ		ABC BC BOC CCB ICB CMB Minsheg Pudong Shenzen		BMO CIBC Desjardins RBC Scotia TD		ABN AMRO Bank of America - FleetBoston Bank One Citigroup J.P. Morgan Chase Sun Trust U.S. Bancorp Wachovia Wells Fargo Washington Mutual HSBC	
86% deposits	90% credits	75% deposits	89% credits	94% deposits	94% credits	51% deposits	N/A credits

Source: Capgemini analysis, 2005.

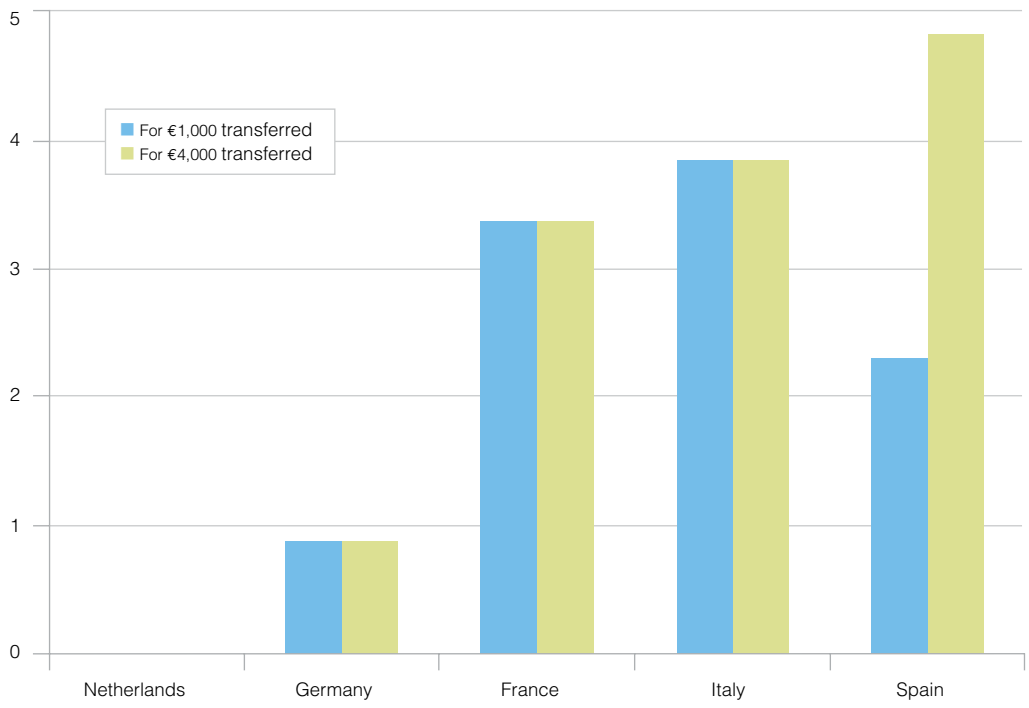
a. Last year, 74 banks and 11 countries.

across all countries. This approach makes it possible to compare this year's prices directly against last year's eleven-country sample. Two minor exceptions: (1) we excluded check usage in Norway, Sweden, and Belgium, because checks are so seldom used there; and (2) we included package prices in Italy, because they are commonly used and much less expensive than list prices.

The local profile index, new this year, reflects the annual price from the standpoint of a local customer. Each of the nineteen country teams established its local profile by identifying the approximate average use of each product and service in its country, where possible using central bank data. We believe this provides a more accurate assessment of the actual pricing situation in the sample countries.

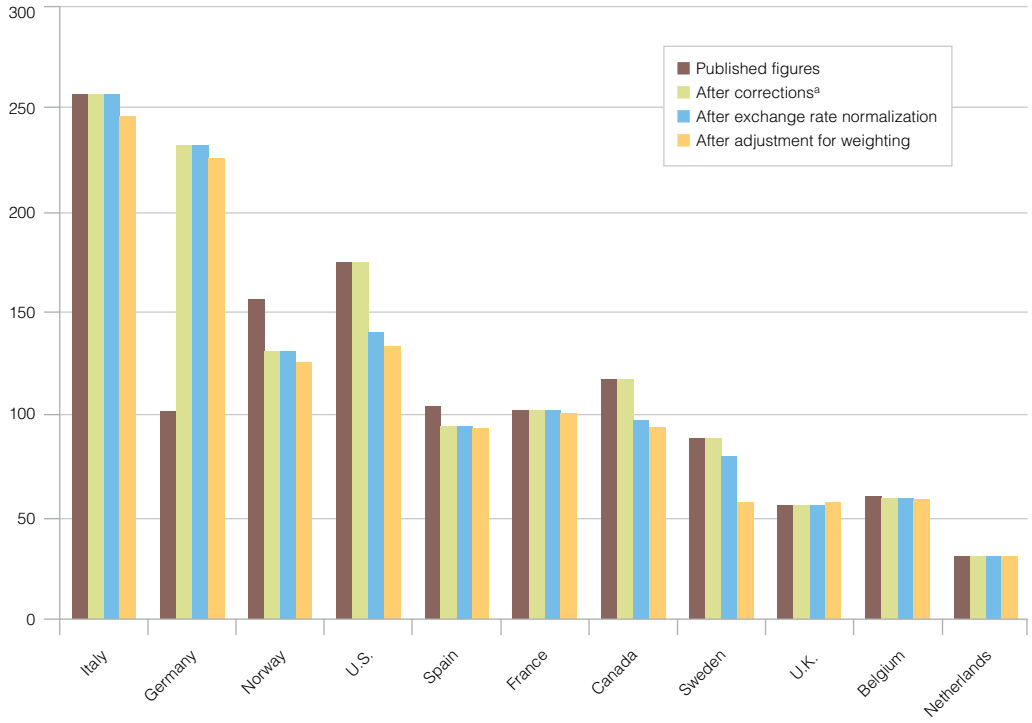
Despite our efforts to reflect accurate prices, an index is necessarily based on choices that can skew results. For instance, for certain services, such as withdrawals or transfers, the amount of the typical transaction can often be as important a variable as the frequency of use. In cases where an amount was key, therefore, we established a common amount for all countries, adjusting for purchasing power in less-mature markets. For external wire transfers, for instance, we calculated the cost on the basis of a €1,000 transfer. It is clear that assigning a less-frequently-used, larger transfer amount in some countries would have produced significantly different results (see Figure 18).

Figure 18. | COMPARISON OF EXTERNAL WIRE PRICE DEPENDING ON AMOUNT TRANSFERRED
Price of an external wire transfer (€)



Source: Capgemini analysis, 2005.

Figure 19. | 2005 GLOBAL PROFILE PRICE ADJUSTMENTS (€)



Source: Capgemini analysis, 2005.

a. Italy's price has been recalculated and reduced from last year's €503 because package prices in Italy are substantially lower than the published prices used last year. As we did last year, we excluded check usage from the prices in Norway and Sweden, and this year added Belgium and the Netherlands to this group, because consumers in all these countries use fewer than one check a year.

Last year's study broke new ground, and our research this year revealed a few necessary corrections to last year's data (see Figure 19). Germany's average price of €102 should have been €238, because the withdrawal frequency at other banks' ATMs used for Germany was twelve times lower than the one established for the global profile. A revision to account management fees in Spain moved its average price down from €104 to €99. And Norway's price had to be brought down from €156 to €131 because of confusion last year on what product corresponded locally to a banker's draft.

To be able to compare price evolutions from 2004 to 2005 in euros (the currency of the price index) without those figures being skewed by exchange-rate effects, we recalculated last year's prices for non-Euro zone countries surveyed using average 2004 exchange rates.

Finally, to increase accuracy, we moved from an arithmetic average across banks, which considers all banks as equals, to a weighted average based on a bank's market share of deposits. This reflects more precisely each country's average price of basic banking services.

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