06

World Retail Banking Report

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Preface

The 2006 report includes pricing analyses by geographic zone only: eurozone, non eurozone, North America and Asia Pacific. For a presentation of detailed country information, we invite financial services professionals to email requests to retailbanking@wrbr06.com.

For the third consecutive year, Capgemini, ING and the European Financial Management & Marketing Association (EFMA) have studied the global Retail Banking market with the aim of providing insights to the financial services community. The 2006 World Retail Banking Report gives an overview of the dynamics at work in this industry, in particular the structure and evolution of pricing.

This report investigates the pricing of everyday banking products and services worldwide. Readers will note that prices are compared by region—eurozone, non eurozone, North America and Asia Pacific—rather than by country. The study team also reviewed the national banking industry of each country surveyed. These country Dashboards are available on the web site www.wrbr06.com. Finally, the report turns a spotlight on a major trend in the retail banking industry.

For the 2006 report, the study team fine-tuned the pricing index methodology in order to create more accurate comparisons. Readers will therefore find pricing analyses based on the distinct usage patterns of less active, active, and very active users. We also expanded the scope of the survey from 19 to 20 countries, adding Ireland to improve eurozone coverage. Furthermore, the number of banks surveyed rose from 130 to 142.

The Spotlight section focuses on Multi-Channel Strategies. While developing remote channels for their customers, bankers have physically separated sales and service. This phenomenon, as our survey of 41 top executives shows, is expected to increase. In addition, bankers have undertaken initiatives to reposition their channels, but not without hazard: we believe that some of these initiatives could deliver counterproductive results. Bankers may therefore wish to revisit their distribution model.

The study team is delighted to publish the 2006 World Retail Banking Report. We hope that its findings will enrich debates and help bankers make informed strategic and operational choices.

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Summary of Major Findings

Pricing Indexes

- The average price of basic banking services, based on the local active customer profile, was €76 in 2005.
- With a 1.5% drop in the local profile, price levels decreased slightly over the past year.
- In a given region, prices varied according to usage patterns, with a ratio of up to 1 to 4.6 between prices paid by very active and less active users.
- Across regions, we observed comparable entry level fees for retail banking services, even though there was no common price structure.
- For the second consecutive year, prices moved towards convergence in the eurozone, as pricing discrepancies among banks decreased by 4%.
- In the eurozone, the SEPA initiative's spur to competition and transparency is likely to affect pricing strategies in the near future.
- Although the team observed similar prices within a given region, they were the result of very different pricing models.
- Fierce competition (US) and evolving retail banking markets (Eastern Europe, China) have prompted changing price structures.
- Banks are reducing remote channel prices in order to drive greater customer use.
- The prices of seldom-used products have steadily increased over the past two years.
- Banking services follow the standard industrial development pattern, in which prices decline with maturity.

Remote Channels

- Banks share a common vision of the evolution of their remote channels.
  - Sales through remote channels are expected to increase dramatically in importance.
  - Services are losing the human touch.
  - Branches will focus on proactive advisory sales.
- Banks face steep obstacles to achieving this vision, which raise these important issues.
  - The profitability of proactive advisory approaches.
  - The efficiency of remote channels as launching pads to push sales.
  - The ability to meet customers' high expectations for the multi-channel experience.
  - The capability to strengthen customer relationships via electronic channels.
- A new client relationship model is emerging as banks rethink their distribution models.
  - Continue to develop competitive remote sales and service offerings.
  - Craft outbound campaigns with greater precision and attention to feedback while also leveraging inbound customer contacts.
  - Adapt branches to deliver key “account moments” and enhance relationships.

Pricing Indexes

Introduction

Last year's World Retail Banking Report found that the average price of banking services increased by over 3% in the countries surveyed. However, we observed that this trend masked differences between zones, especially between North America, where prices went down, and the eurozone, where they rose. We also found that prices were converging slowly in the eurozone, even as price differences between countries—including neighbours—remained high. The study team expected this convergence to continue as a result of central initiatives such as the Single Euro Payments Area (SEPA). As the key findings indicate, average prices fell, driven by a major decrease in North America. Prices in Europe did in fact continue to converge, unlike the other regions.

The previous report introduced local profiles based on frequencies of use of products and services by an average local customer. These profiles indicated what end-consumers pay in a given country for day-to-day banking services. This year we are introducing three usage patterns, and the key findings show tremendous variation in what less active, active and very active users pay.

The global profiles, on the other hand, are based on the same frequencies of use applied to all banks in all countries, to provide an overall comparison of prices. Prices remained stable on a global basis this year. The 2005 local profile revealed that usage patterns for particular products vary significantly between countries, leading to major differences between global and local prices. We noted these differences in 2006 as well.

Figure 1. Banks Surveyed in 2006

Region	Countries	Number of Banks
Europe - eurozone	Austria	6
	Belgium	4
	France	11
	Germany	7
	Ireland	5
	Italy	6
	Netherlands	6
	Portugal	6
	Spain	13
Europe - non eurozone	Czech Republic	5
	Norway	6
	Poland	11
	Slovakia	7
	Sweden	6
	Switzerland	7
	UK	5
North America and Asia Pacific	Australia	5
	Canada	6
	China	9
	US	11
Total	20 Countries	142

The 2006 report highlights the diversity and complexity of the retail banking environment. The team found different regional approaches to product categories, different patterns of price evolution within countries, and different underlying pricing models. In spite of all these differences, the report shows a common move to drive customers to remote channels through pricing structures.

This 2006 edition of the World Retail Banking Report provides a thought-provoking overview of retail banking markets worldwide. The combination of local and global profiles and the three usage patterns enables us to follow and share with you the significant moves in retail banking markets.

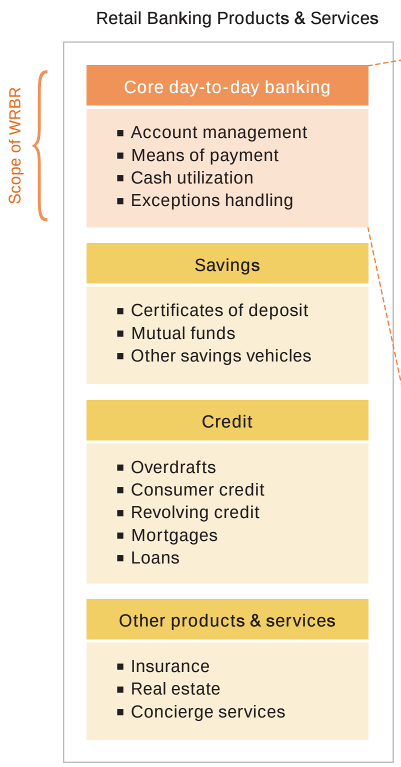
New This Year: Methodology Refinements

For the 2006 report, the study team expanded the scope of coverage to 20 countries, adding Ireland, and increasing the number of banks to 142, up from 130 (see Figure 1). We also compared prices across four regions—eurozone, non eurozone, North America and Asia Pacific—rather than by country.

We continued to focus on four categories of banking products and services (account management, payment means, cash utilization, and exceptions handling). Figure 2 shows the components of each category. However, we refined two definitions.

- ATM withdrawals:
  - In countries such as Germany and Spain, banks have created cooperative ATM networks. The price of withdrawals varies from almost nothing within the network, to considerably more outside it. Consequently, for these countries, we took the most representative price between withdrawals inside and outside the network to reflect the majority of withdrawals executed.
  - In other countries including China, we had to define the geographic parameters for withdrawals. Prices vary widely depending on where the withdrawal is carried out—in the customer's town or elsewhere—regardless of which bank's ATM is used.

Figure 2. Scope of Products and Services in the Global and Local Pricing Indexes



WRBR Index Scope

Core day-to-day banking needs	Products and services detailed
Account management	Current account
	Online banking
	Call centre
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
	Withdrawal at desk
	Withdrawal at bank's ATM
	Withdrawal at other banks' ATM network
Exception handling	Debit card stop payment/blocking
	Stop payment/checking blocking
	Document search
	Banker's draft (cashier's check)

- Checks:
  - Because the number of checks in a check book is not standardized, we compared prices of a single check rather than a full check book.

We retroactively adjusted last year's prices to account for these changes. In most cases, we revisited 2005 prices and recalculated the 2005 index. All comparisons between 2005 and 2006 are based on a flat exchange rate.

In addition, we fine-tuned the local profile. We asked each country team to challenge local frequencies in order to reflect customers' habits as accurately as possible. Finally, to enrich the analyses, we used three different patterns of consumption for the local and global profiles: less active users, active users, and very active users. Less active users and very active users each represent 20% of total customers. Active users represent 60% of the population.

Other notes on methodology can be found in the Appendix.

Pricing Analyses: What Consumers Pay

This report examines pricing profiles on two levels. Local profiles reflect what consumers pay in a given country for everyday banking services, based on the local frequencies of use for each product and service. Global profiles, on the other hand, compare prices based on the same frequencies of use applied in all countries. Since local profiles were introduced last year, we can now observe year-to-year price variations for the first time. We will therefore begin with the local profile pricing index and then consider the global index.

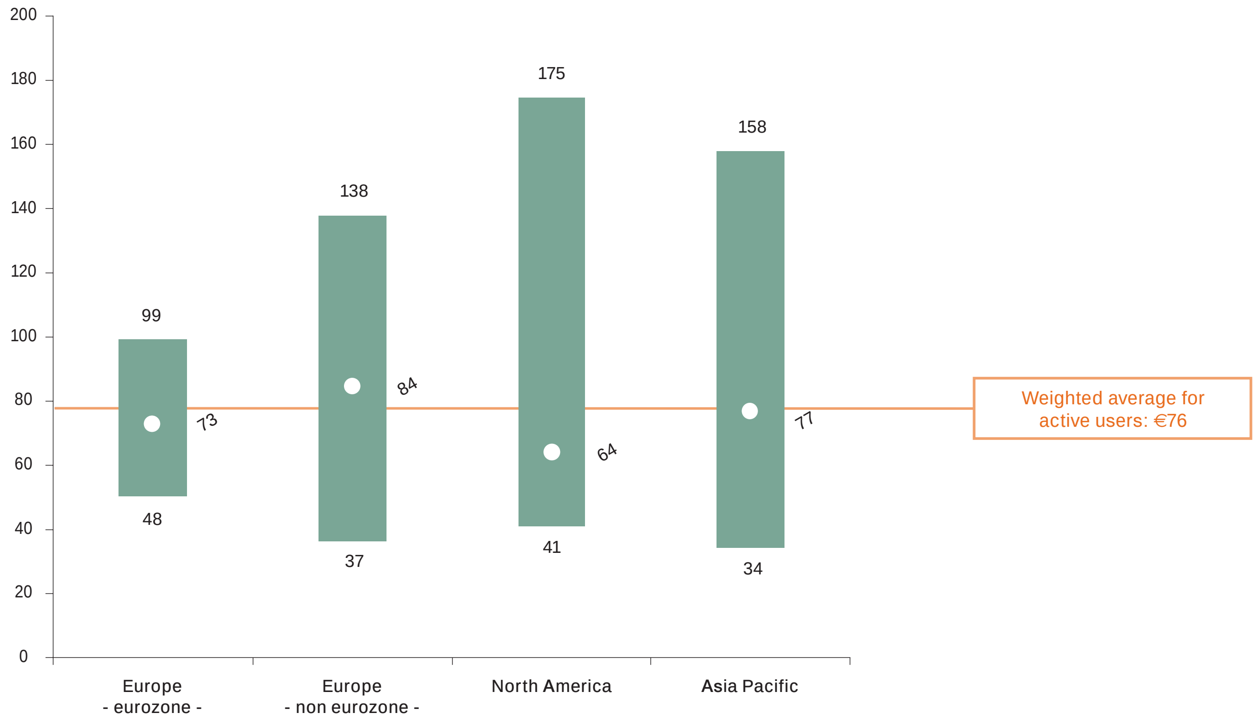
Local Profiles

Two different approaches to pricing

As Figure 3 illustrates, the average price for the local active profile is €76, which represents a 1.5% decrease from last year's figure of €78 (based on a constant subset of countries). At the same time, the less active users' price is 0.2% lower, while very active users pay on average 3.3% less.

Figure 3. Local Profile Prices in 2006

Annual weighted prices of core banking services by geographic area and usage pattern, 2006 (€)*



Source: Capgemini analysis, 2006

* 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, active, and very active users.

The chart also shows that the range of prices among profiles varies greatly from one zone to another. The eurozone, in which prices vary the least among user profiles, demonstrates a “one price for all” approach with a least-to-most-active-user price multiple of only 2.1. On the other hand, a more “tailored pricing” approach prevails in North America and Asia Pacific, with multiples of 4.3 and 4.6 respectively. Accordingly, the eurozone has the lowest average upper price at €99, but the highest entry level price at €48. Compared to last year’s prices, the eurozone’s multiple has decreased, thus reinforcing the single pricing approach.

Tailored pricing yields high prices at the upper end and low entry fees. As a result, entry level prices are comparable among the four geographic areas, ranging from €34 to €48, whereas upper-level prices vary considerably more.

Price evolutions: wide range continues

The major decrease is in North America, where prices for the local active profile dropped 7.6% (see Figure 4). This decrease is due primarily to fiercely competitive pricing in the US on current accounts (-13%) and means of payment (-27%), as Figure 5 highlights. (Please note that the breakdown in Figure 5 represents North America as a whole, not just the US.) Many banks in the US have cut fees for direct debit services and reduced limits on the number of transactions per statement. These actions continue trends toward competitively-mandated “free checking” and lower prices that were highlighted in last year’s report. However, banks continue to impose strict account balance requirements in order to maintain minimum margins.

In the eurozone, prices for active users decreased by 2% as contradictory trends played out. Figure 5 shows that prices for account management and payment means decreased slightly (-1.6% and -2.4% respectively), with these two categories representing almost 86% of the total price. When the drop in cash utilization prices (-11%) was factored in as well, the strong increase in exceptions handling (+17%) was not enough to overcome the reductions.

The decrease in account management prices reflected a sharp cut in the price of online banking (-28%) and a smaller decline in the price of call centres (-12%). In almost all countries where banks used to charge for online banking, customers now receive it with the current account or as a free basic service. Turning to means of payment,

Figure 4. Evolution of Local Profile Prices 2005-2006
Average price evolution, 2005-2006 (%)

Source: Capgemini analysis, 2006

* Europe – eurozone: Ireland not included in 2005; joined report analyses in 2006. Germany not included for the less active and very active patterns.

** Europe – non eurozone: Poland not included due to a change in methodology of data collection between 2005 and 2006.

credit card customers benefited from a reduction this year of almost 11%. This price cut should lead to greater use of these cards, generating new income for banks. On the other hand, wire transfer prices have increased by almost 14%. Looking at cash utilization, withdrawals at other banks' ATM networks represent two-thirds of the index. These costs have decreased.

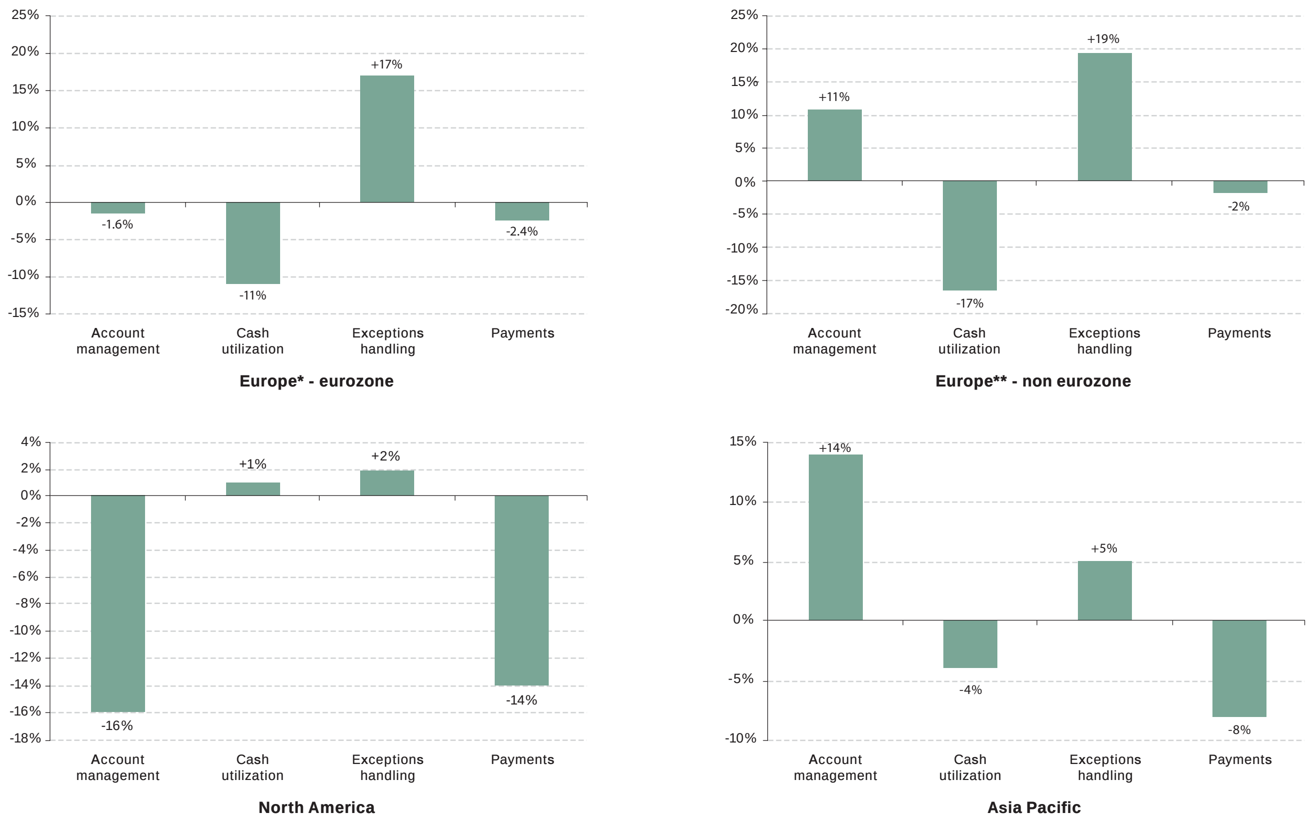
In the six countries of the non eurozone where comparisons are possible, the active user price essentially remained stable with a decrease of 0.7%, due to contradictory trends. As in the eurozone, exceptions handling accounted for the greatest increase (+19%). Prices for account management also rose. Although the price of online banking services decreased, an increase in current account prices more than compensated for that decline.

Prices decreased in the other two product/service categories. Payment means pricing dropped minimally (-2%), while the cost of cash utilization fell by almost 17%. ATM withdrawal pricing fell by 22%, yet this decrease was offset by the increased price of deposits and withdrawals at teller desks. The combination of the two phenomena—the increase in desk operation prices and decrease in online banking and ATM prices—illustrates the drive to remote channels.

The 3.4% rise in Asia Pacific was mainly the result of an increase in account management prices, especially those of online banking. China began to charge for online banking.

On a global scale, prices of payment means (-3.6%) and account management (+2.5%), which account for 75% of the total cost to consumers, remained relatively stable. However, cash utilization prices fell 10%, outweighing a 12% rise in exceptions handling. Product by product, prices of direct debit, call centres and online banking decreased the most (-12%, -20% and -23%), benefiting multi-channel approaches. The largest increases were for stop payment services (checks +22% and debit cards +16%).

Figure 5. Evolution of Local Active Profile Prices 2005-2006 By Product/Service Category
Average price evolution, 2005-2006 (%)



Source: Capgemini analysis, 2006

* Europe – eurozone: Ireland not included in 2005; joined report analyses in 2006.

** Europe – non eurozone: Poland not included due to a change in methodology of data collection between 2005 and 2006.

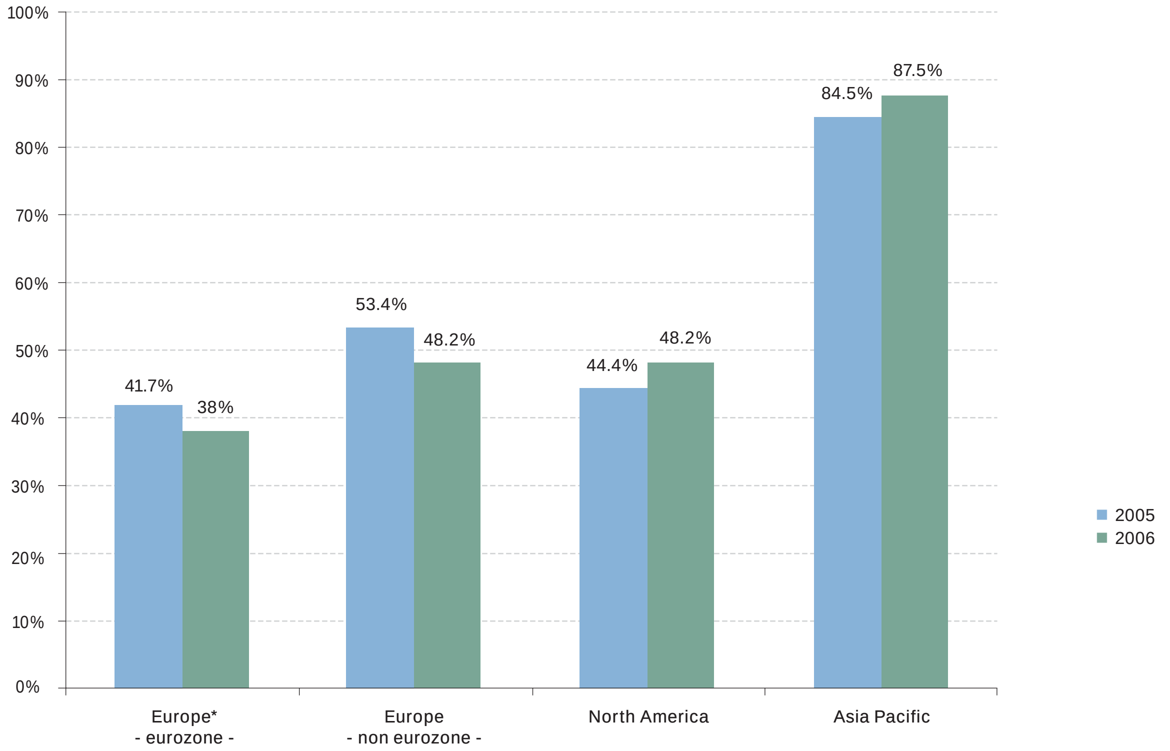
Price convergence in the eurozone?

Figure 6 underlines a phenomenon that was first pointed out in the 2005 World Retail Banking Report. Banks in Europe price in a much narrower range than banks in the other regions surveyed. The study team noted signs of a convergence for the second consecutive year, both within the eurozone, where the discrepancy decreased by 3.7 points, and the non eurozone, where it dropped 5.2 points.

On the other hand, prices in the Asia Pacific zone are very fragmented. This reflects, of course, the fact that Australian and Chinese banks have widely varying pricing levels. But we also noticed that Chinese banks are divided into two groups. The bigger banks are now focusing on high profile clients, and have decided to increase their fees. Smaller banks offer very competitive prices to attract new clients.

Unlike Europe, pricing discrepancies have increased in North America. Aggressive competition in the US has led to major price changes and increased the discrepancy with Canada. Furthermore, within the US, the price variation between banks is also very high. We have identified two contributing factors. The retail banking sector remains extremely competitive and fragmented: even the largest banks do not have a nationwide presence. The market is still structured around regional companies, whose prices reflect regional variations. The second factor is the sheer number of price solutions. Banks offer numerous types of current account, each with its own pricing scheme and conditions, to attract specific customer segments.

Figure 6. Price Discrepancy in 2005 and 2006 for the Local Active Pattern
Price discrepancy among all banks of each geographic area, 2005-2006 (€, % relative to zone index)



Source: Capgemini analysis, 2006

* Europe – eurozone: Ireland not included in 2005; joined report analyses in 2006.

Same category, different price

The study team noted with great interest that pricing of product/service categories varies among regions far more than total prices (see Figure 7). Country by country, banks adopt their own price strategy and structure but manage to converge more or less on the total.

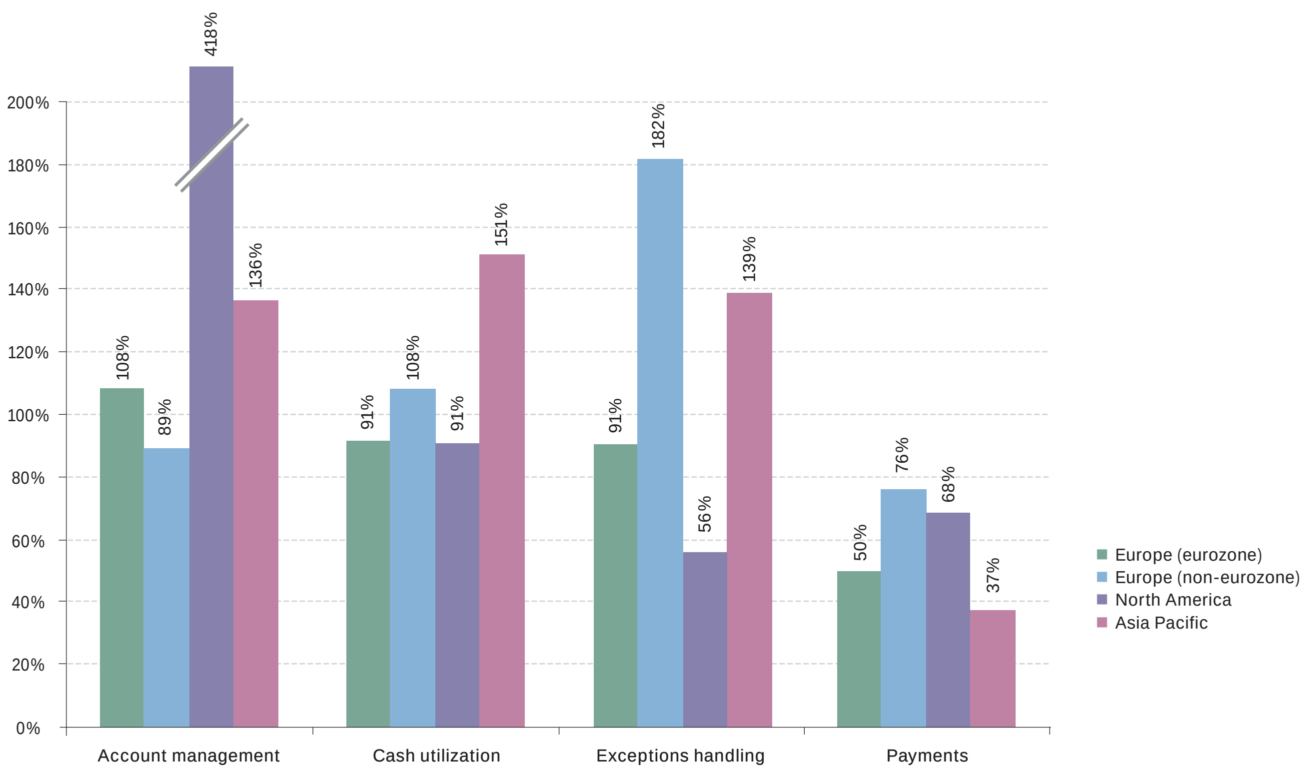
When looking at prices by product category, we can see that payments prices fall into the narrowest range, even though there are many usage and pricing models by country. For instance, among eurozone countries, credit card prices vary by a factor of 1 to 6, debit cards by 1 to 33, and standing orders by 1 to 11. But for means of payment as a whole, prices vary by only 1 to 3.5.

Exceptions handling and account management show the greatest divergence. Exceptions handling is usually the least transparent category of services to customers and is subject to the highest price increases. Banks can use this category to adjust their total revenues, while offering competitive prices on more popular products. For account management, there does not appear to be a single pricing model. While free current accounts still exist in some countries, more and more banks are packaging common products to invoice with the current account. Finally, particularly in North America, banks have developed sophisticated models based on multiple options. These choices lead to a wide range of price points, hence the very high discrepancy in North America.

SEPA: laying a new competitive battleground?

While analyzing payment means, the study team wanted to examine the possible effects of the Single Euro Payments Area (SEPA) initiative. The SEPA initiative aims to create a domestic payments market across the eurozone by 2010. It should encourage competition, price transparency and homogeneity, and is likely to spur the development of new retail euro payment services. The revenue structure of banks will certainly be affected by these changes.

Figure 7. Price Discrepancy Among Product/Service Categories for the Local Active Pattern
Price discrepancy among all banks in each region, 2006 (€, % relative to zone index)



Source: Capgemini analysis, 2006

The team calculated the price of the electronic payment means that SEPA will affect: debit cards, wire transfers and direct debits. To be consistent, we added fees for current accounts, which are required for electronic payments. In addition, as checks are bound to be discontinued in the near future, we reallocated their use to other payment means.

Consumers in the eurozone pay an average of €56, against €40 for the rest of the world (see Figure 8). In the eurozone, with checks reallocated to other products, electronic products would account for approximately 76% of the total pricing index. Furthermore, the three highest and the three lowest prices are separated by a ratio of 3.2 to 1. Considering the transparency and convergence efforts of the SEPA initiative, retail banks are likely to question their pricing strategies in the near future.

Consumers in less mature markets still pay more

On a global scale, retail banking services represent 0.4% of the GDP per capita just as they did last year (see Figure 9). In China, basic banking services represent as much as 1.09% of the GDP per capita. While China's big banks focus on high profile customers, basic services—even when priced to attract a mass market—remain a premium purchase for most inhabitants. Czech Republic, Poland and Slovakia still charge proportionally more for their banking services than their counterparts, though the gap is narrowing as their markets evolve. Again, the assumption that banking services follow the standard industrial development pattern, in which prices decline with maturity, seems relevant.

Note: In some countries, banks are paying interest on deposits. While this is not taken into account in our study, it might bring the prices down.

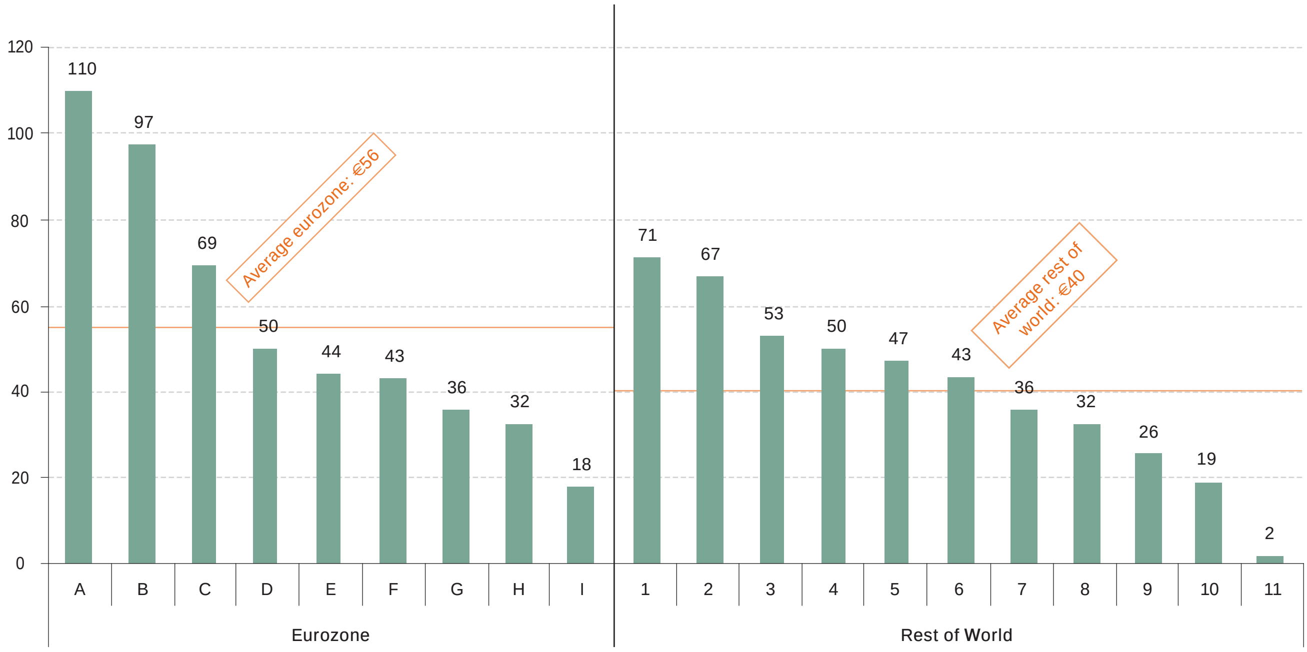
Global Profile

Relatively stable prices

Unlike the local index that reflects local usage patterns, the global index is based on a consistent usage pattern across all regions. As Figure 10 shows, the global average price for core banking services is €90 in 2006, much the same as last year on an equivalent basis. Interestingly, prices in almost half of the countries surveyed are located within ±15% of that mean.

Figure 8. Projection of the Price of Electronic Payment Means in 2006 for the Local Active Pattern

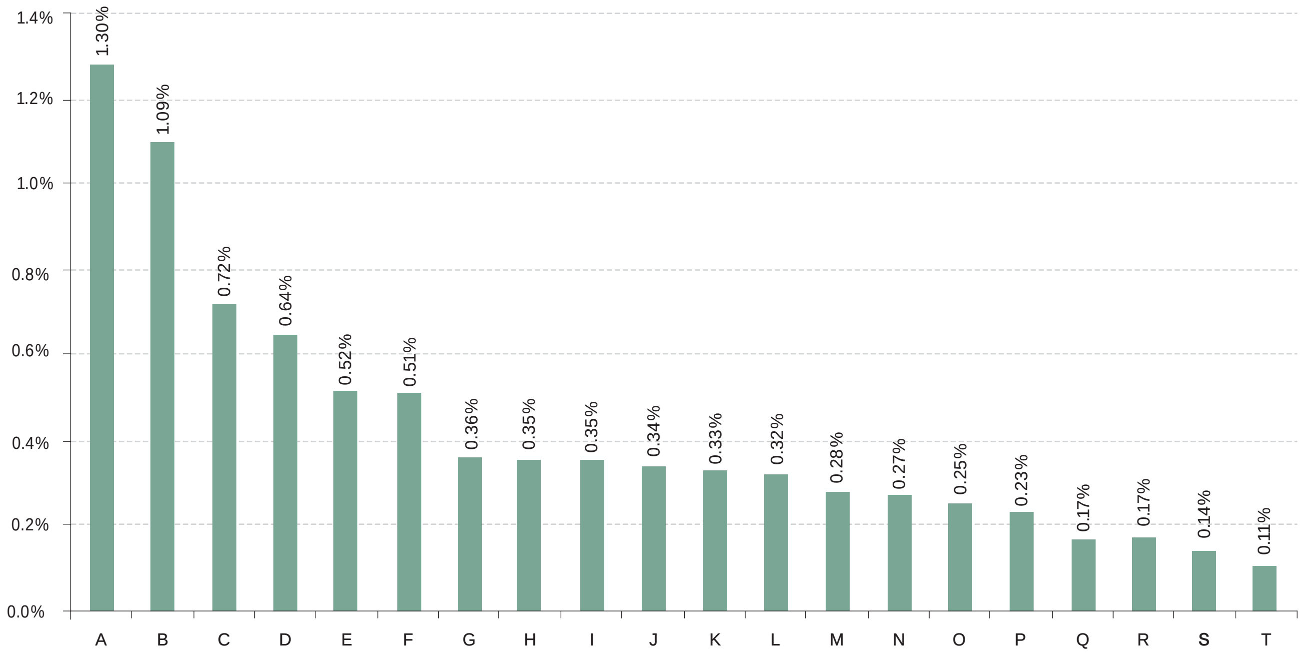
Aggregated cost of current account management, debit card, internal and external wire transfers, direct debit, with the reallocation of checks, 2006 (€)*



Source: Capgemini analysis, 2006

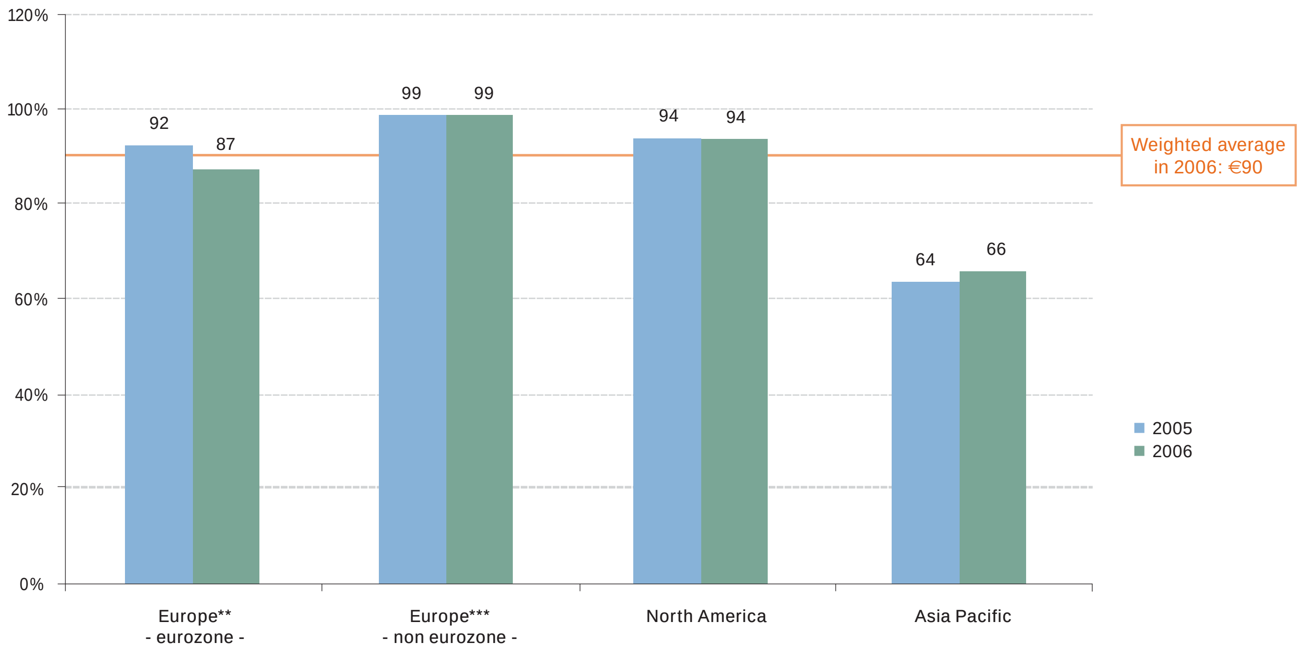
* Check usage has been reallocated into the different electronic payment means, to better reflect their possible disappearance in the near future.

Figure 9. Local Profile Prices Versus GDP Per Capita
Prices of core banking services versus GDP per inhabitant, 2006



Source: Capgemini analysis, 2006

Figure 10. Global Profile Prices in 2006
Annual weighted prices of core banking services by geographic area, 2006 (€)*



Source: Capgemini analysis, 2006

* The weighted average was calculated among all countries' indexes for active users.

** Europe – eurozone: Ireland not included in 2005; joined report analyses in 2006.

*** Europe – non eurozone: Poland not included due to a change in methodology of data collection between 2005 and 2006.

As we saw in some local profile discussions, contradictory trends led to an overall balance. Cash utilization prices decreased, account management and payments prices were relatively stable, and exceptions handling prices increased sharply.

The Asia Pacific region appears to offer the lowest costs for the products under review. However, the pricing of Chinese banks drove the index down.

In North America, US prices decreased by 2%, due to constant cuts in the price of account management (down 14%) and the price of payment means (down 12%). This decrease is significantly less than the drop observed in the local profile, because the global profile assumes greater use of costly external wire transfers. Generally speaking, account management fees are very low in both Canada and the US, provided that salaries are deposited directly into the accounts or balance requirements are met. The six Canadian banks surveyed continued their prior policy of offering no-fee traditional current accounts. In the US, a growing number of banks also offer free checking accounts to attract business.

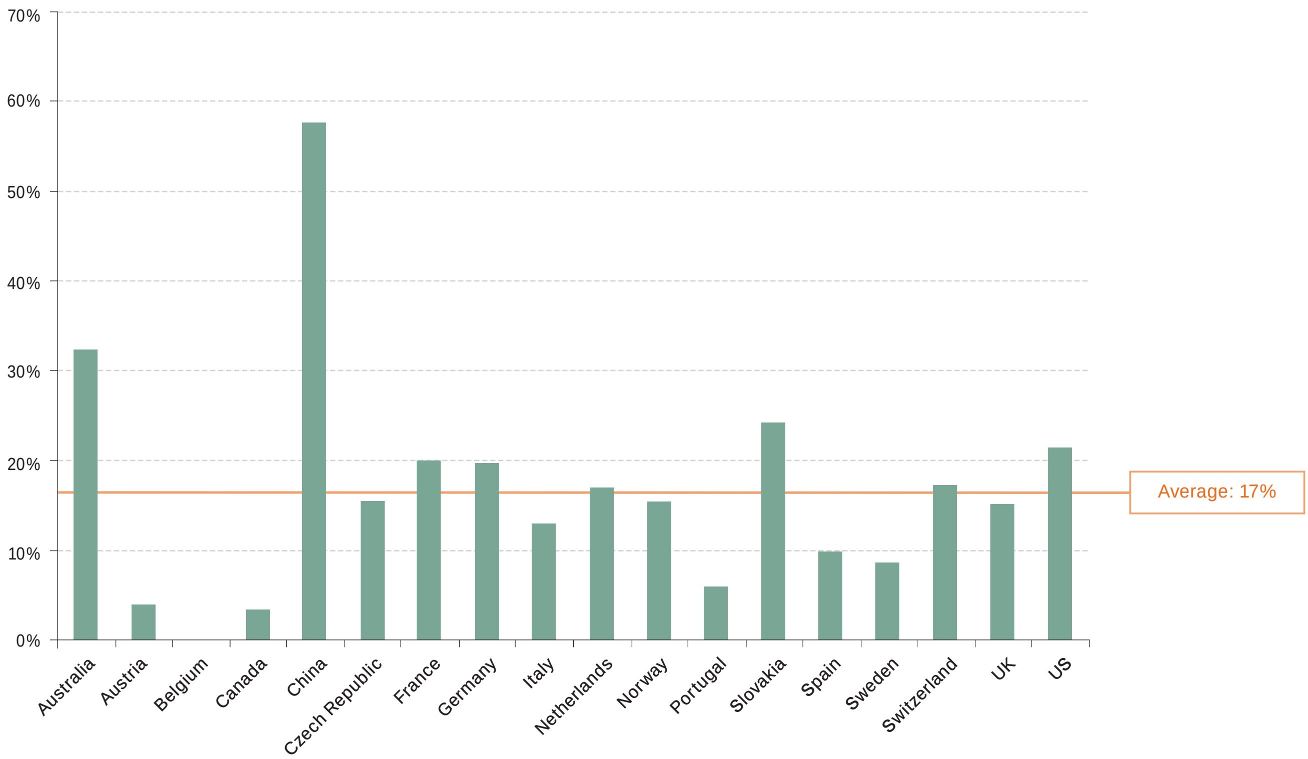
With an average price of €87, the eurozone figure dropped due primarily to changes in four countries. In France and Portugal, account management fees fell. In Germany, customers used their own bank network ATMs more frequently to avoid greatly increased charges for using other bank network ATMs. As a consequence, the average costs for ATM cash utilization decreased in Germany. Lastly, exceptions handling fees are now lower in the Netherlands.

Just as prices evolve differently from country to country, they evolve quite differently within countries as well.

No alignment in pricing evolutions within countries

Figure 11 shows whether banks within a country act consistently when changing prices. A high discrepancy shows that banks change their pricing in different ways, whereas a small discrepancy reflects common moves by banks. In China, Australia, US, and, to a lesser extent, France, the banks are indeed following very different strategies. On the other hand, in Belgium, Canada, Austria, Sweden and Spain, banks show similar price evolutions.

Figure 11. Discrepancy of Price Variations in the Global Active Profile
Discrepancy of price variations of banks for each country, relative to the country's index, 2005-2006 (%)



Source: Capgemini analysis, 2006

In China, this high standard deviation can be explained by the division of the banking market between banks aiming to attract high-potential clients and those that are lowering their prices to draw the mass market.

In France, two banks sharply lowered their prices to attract new clients and diversify their customer profiles. In the meantime, their competitors held prices steady.

In the US, the banking market is still very fragmented. The leading bank's market share is around 10%, while leaders in other countries studied average a 26% share of their markets.

In Austria, Belgium and Canada, the standard variation of price changes in 2005 is low. In Austria, price increases were similar across banks. In Belgium and Canada, prices remained stable in all banks.

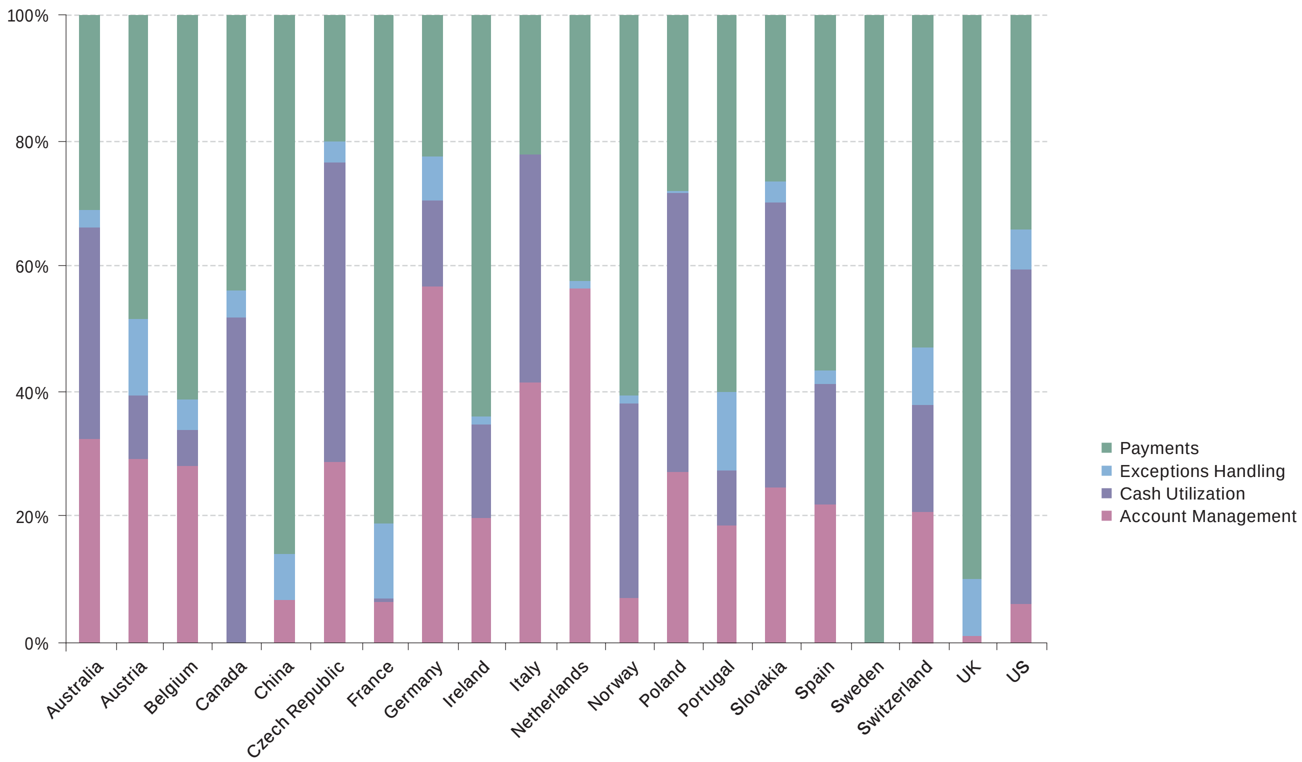
As we saw earlier, pricing takes a different evolutionary path for each category of products. Similarly, each country has a different pricing structure, as Figure 12 shows.

No standard underlying models

Price structures vary substantially across national boundaries: no simple pricing model emerges from an analysis of the chart below. The 2004 report showed that, even if there were four "pure" pricing approaches (account-based, transaction-based, package-based, and indirect revenue-based), most countries had adopted a hybrid model incorporating two or more of the four pure approaches. It is difficult to identify an international, homogeneous pricing structure whatever analytic approach is used.

On a global scale, the major difference compared with 2003 is the decrease of payments' importance as a source of fees for core banking. In 2004, this category of products averaged 66% of total fees in the ten countries sampled. In 2005, payments accounted for only 59% of total fees, and for 54% if we consider all countries. However, this decrease in payment fees must be counterbalanced by the increasing weight of packages in all countries. Indeed, most packages include a credit card and/or debit card, which decreases the amount of fees attributed to means of payment and increases that of account management.

Figure 12. Source of Fees for Core Banking in 2006
Components of average annual price of core banking services, 2006 (%)



Source: Capgemini analysis, 2006

Seven of the ten countries sampled this year and in 2003—Sweden, UK, Belgium, France, Germany, Norway and Spain—have kept essentially the same pricing model. In Sweden, UK and Belgium, the model remained exactly the same. Swedish and English banks continued to provide account management at no charge; instead, fees are generated by payments. In Belgium, payments continued to account for 61% of total fees. In Norway, the contribution of payments fell from 76% in 2004 to 61% in 2006 as cash utilization fees increased.

In France, Spain and Germany, the trend was to reinforce the pricing model. In France and Spain, the importance of payments kept increasing. In France, this gain (from 66% to 81% of total fees) occurred as account management fees decreased, due mainly to a drop in online banking prices. In Germany, annual account management fees still make up more than half the cost of banking products and services (57% this year compared with 53% in 2004).

Pricing models changed in the three remaining countries, Canada, Netherlands and US. In Canada, cash utilization represented 52% of total fees this year, while in 2004 payments predominated with 54%. In the Netherlands, payments' weight decreased (from 78% to 42%) and account management provided 57% of this year's total fees. Finally, in the US, cash utilization fees represented more than half the cost of core banking, up from 32% in 2004.

Conclusion

Products and services in the retail banking market have become so diverse and complex that it is increasingly difficult to compare prices among banks. Furthermore, countries have adopted very different pricing structures, even within the eurozone. Nonetheless, the study team observed signs of convergence in Europe for the second consecutive year. In light of the SEPA initiative, we will examine with great interest the evolution in the year to come, seeking to understand how banks are anticipating the changes ahead.

Another interesting trend is the substantial price decreases for remote channel use (online banking and call centres) that have been observed around the globe. Some 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. We hope to report next year on the success of differentiated prices in driving consumers' behaviour.

The Rise of Remote Channels: Building a New Client Relationship Model

Major Findings

- Banks share a common vision of the evolution of their remote channels.
  - Sales through remote channels are expected to increase dramatically in importance.
  - Services are losing the human touch.
  - Branches will focus on proactive advisory sales.
- Banks face steep obstacles to achieving this vision, which raise these important issues.
  - The profitability of proactive advisory approaches.
  - The efficiency of remote channels as launching pads to push sales.
  - The ability to meet customers' high expectations for the multi-channel experience.
  - The capability to strengthen customer relationships via electronic channels.
- A new client relationship model is emerging as banks rethink their distribution models.
  - Continue to develop competitive remote sales and service offerings.
  - Craft outbound campaigns with greater precision and attention to feedback while also leveraging inbound customer contacts.
  - Adapt branches to deliver key "account moments" and enhance relationships.

Retail banks face the increasingly tough challenge of boosting their revenues while controlling their costs. With a renewed focus on growth, these institutions must watch their flanks as new entrants exploit their own strengths. These adversaries have cut the prices of core products to entice customers and reduced operating costs by limiting or eliminating branch networks. And they are gaining new clients with the combination of attractive pricing and direct service.

Traditional retail banks are counterattacking, incorporating direct sales and service into their channel architectures. In many countries, banks are also streamlining their branch networks and redirecting customers to alternative channels and self service. However, banks have realized that their branch networks are a key differentiator. They have begun to re-invest, re-position, re-shape and re-tool their branches to increase their value and attract more profitable clients, "the untapped gold" within their customer bases. At the same time, they continue to invest in alternative channels to keep up with market developments and customer demand.

Although the idea of multi-channel management has been around for years, banks have still not mastered its two central dilemmas:

- How can they both develop remote channels and re-position branches to create more value

This study of multiple channels in retail banking reflects data collected from interviews with executives from 41 retail banks. For a presentation of detailed findings by area or country, we invite financial services professionals to email requests to retailbanking@wrbr06.com.

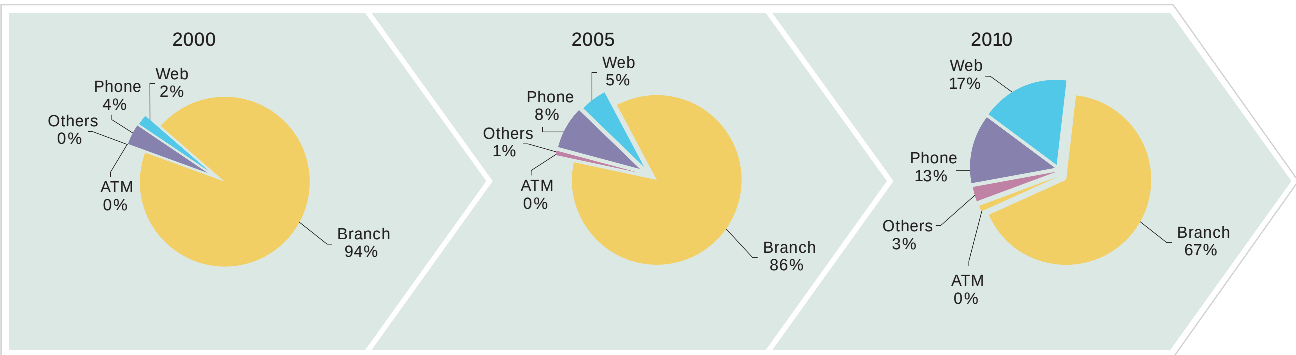
when customers—especially the most desirable ones—just don't come by?

- How can they increase customer satisfaction and differentiate themselves from the competition, while also improving the productivity of the multi-channel model?

To understand how bankers are dealing with the multi-channel challenge, Capgemini interviewed executives in 41 leading retail banks across the globe. The sample included 16 banks in the eurozone, 15 in the non eurozone, five in China and five in North America.

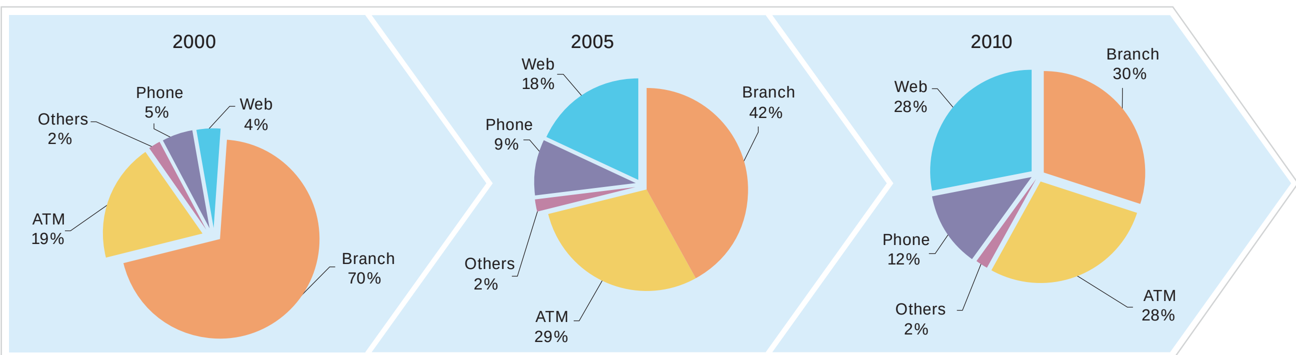
Fundamentally, the survey has underlined a consensus amongst bankers on the increasing role of remote channels in sales and services and the focus of branches on proactive advisory sales. These developments raise complex questions, which we believe should lead bankers to rethink the distribution model and create a new kind of customer relationship.

Figure 13. Distribution of Sales Among Channels
Sales: the closing stage of the process only (excluding pre-sale steps such as simulation and information-gathering).



Source: Capgemini interviews with 41 retail banks

Figure 14. Distribution of Services Among Channels
Services: day-to-day banking transactions such as cash withdrawals, cash and check deposits, wire transfers, printing bank statements, ordering check books, providing technical assistance, resolving incidents and complaints, and locating documents.



Source: Capgemini interviews with 41 retail banks

Shared vision of channel evolution

Between now and 2010, the banks surveyed are all moving toward remote channels for sales and service. Branches will take a new proactive advisory sales role.

Sales through remote channels increasingly important

Retail customers worldwide increasingly buy products and services through remote channels, and should continue to do so. The banks in the sample expect their remote channels (mostly Web sites and call centres), to deliver 33% of their sales in 2010, up from 6% in 2000 (see Figure 13).

Moreover, this trend holds true for all kind of products, from simple current accounts to more complex mortgages and insurance products.

Services losing the human touch

The desire to automate customer service, not to make sales, initially led banks to build ATMs and Web sites. With strong encouragement from banks, customers changed their behavior and adopted remote channels enthusiastically, as Figure 14 shows.

Although ATMs were the early leader, the Internet is clearly driving the next wave of automation. ATM use is expected to remain steady between 2005 and 2010.

Proactive advisors selling in branches

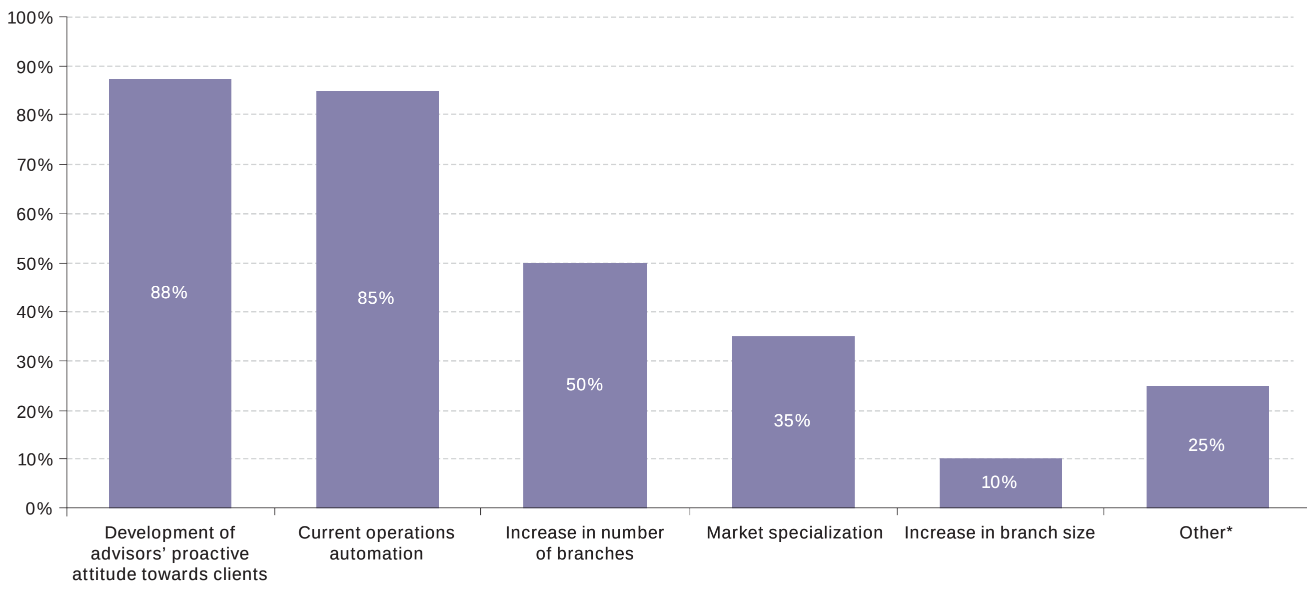
Traditional retail banks increasingly realize that they cannot solve their problems by simply emulating direct banks. Instead, they are taking a fresh look at their branch networks, which could serve as a key competitive differentiator. Especially in Western Europe and North America, banks have begun to re-position and re-invest in this channel.

As Figure 15 shows, most banks surveyed believe that branches should focus on sales and advisory activities. Accordingly, more than 80% of the respondents consider training advisors and automating operations a necessity. In North America and Western Europe, more than 90% emphasised advisors' training. In Eastern Europe, all banks interviewed consider automation a priority.

At the same time, half of the bankers are very likely to add more branches.

The survey results highlight the tremendous changes under way. Bankers plan massive investments in branches to train staff as advisors in order to improve the top line, to automate operations in order to reduce costs, or to enlarge their networks. At the same time, they aim to improve customer satisfaction by developing remote channels that customers can use for sales and service

Figure 15. Branch Trends Considered "Very Likely to Happen"



Source: Capgemini interviews with 41 retail banks

* Other: No self service; development of new types of branches.

at their convenience. These approaches represent bankers' current solution to driving the top line and reducing costs. Yet these approaches can lead to unexpected results if not designed and executed properly, as the next section explains.

Obstacles to achieving the vision

The leap from vision to reality is a significant one indeed. Initiatives launched by banks raise difficult questions, some of them already identified by some bankers.

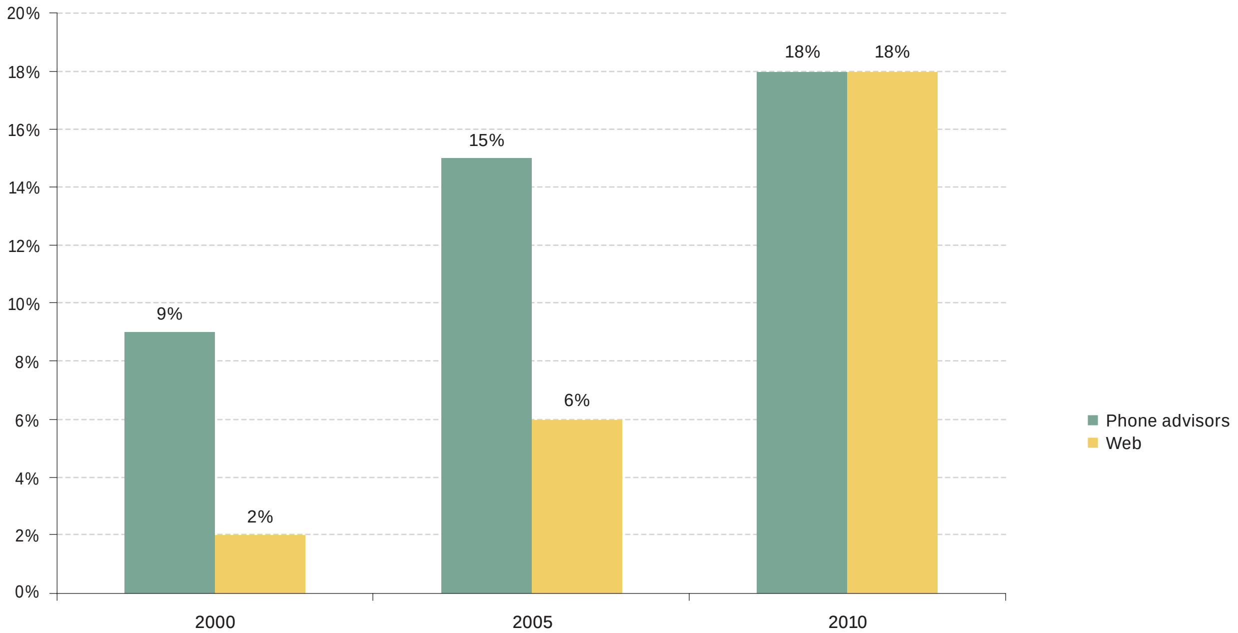
Will proactive advisory approaches be profitable? The success in automating client service leads to a well-known paradox: employees have more time available for customer interaction in the branches, but fewer customers with whom to interact.

Furthermore, the customers who do visit represent the wrong segment. Research shows that profitable clients move more rapidly to alternative channels than their less desirable brethren, who prefer the branches. A 2004 Forrester study found that branch users in the five largest Western European countries are older, lower-income customers who visit branches primarily for routine transactions. Even this segment visits branches less often than in the past.

Proactive sales development is in line with last year's analysis (see "Figure 11.The Untapped Gold Segment," page 14, 2005 World Retail Banking Report) but important issues remain unresolved.

- Can advisors be trained and deployed cost-effectively? How much does it cost to train an advisor in both relationship and product skills? These advisors compete with other channels. For instance, it is easier to use the Internet for mortgage simulations than to meet with an advisor. Banks will therefore need to invest in new tools and training for their advisors in order to ensure that they can deliver significantly more value than remote channels.
- Do consultative sales offer a sufficient value proposition to bring top-tier clients back to the branch? Consulting makes no sense for mass retail; the target is the upper tier of retail clients. But will these clients be interested in "consulting" at their retail branch?
- Can clients be solicited to visit without alienating them? Banks will need to contact their clients via outgoing calls, which most consider an annoyance. We will further discuss the impact of outgoing calls in the next section.

Figure 16. Distribution of Outgoing Customer Contacts



Source: Capgemini interviews with 41 retail banks

Will remote channels be effective launching pads to push sales?

The predicted growth in remote channel sales will be driven primarily through proactive campaigns initiated by a remote channel, such as mailings or outbound calls from the call centres (see Figure 16).

The results of these kinds of initiatives are often disappointing: even increasingly sophisticated outbound campaigns are rejected or ignored by consumers who receive a barrage of product offers every day.

Nonetheless, Figure 17 shows that 71% of surveyed banks plan to use phone advisors to increase product sales to existing customers, and 56% plan to increase their email campaigns. Furthermore, 30% of surveyed banks expect their commercial campaigns to involve multiple channels at different points.

Multi-channel marketing campaigns are frequently difficult to coordinate. For the most part, marketing campaigns are still initiated and managed by a single channel and/or business unit, even if other channels provide support. Common pitfalls include:

- Insufficient coordination between channels and sharing of customer information
- Difficulty anticipating and managing the operational impact of these campaigns in branches
- Inability to measure results and gain insights to improve operations

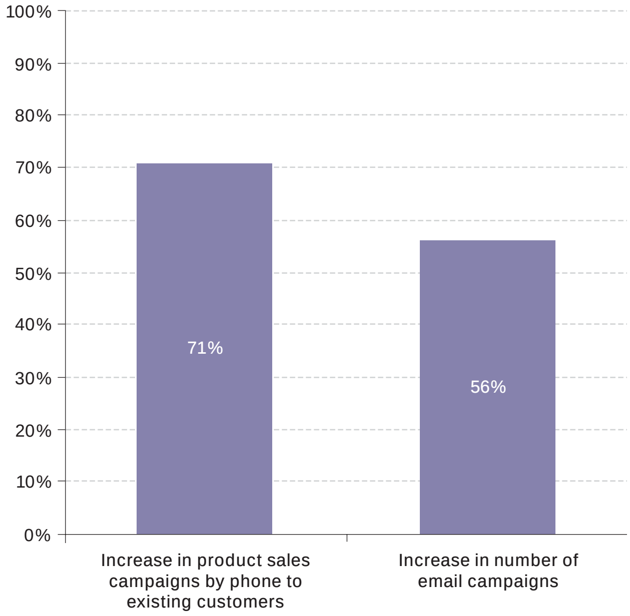
Along with strong coordination capabilities, multi-channel sales campaigns require careful crafting. Otherwise, marketers risk launching off-target campaigns that simply annoy clients.

Another risk is increasing competition between channels. How are revenues from a multi-channel sale allocated? Who can make commercial decisions such as discounting prices? Channel governance is crucial, as are clear and well-aligned performance drivers for each employee.

The Lack of Tools to Coordinate Multi-channel Campaigns

- 33% of surveyed banks have an effective multi-channel common customer file
- When designing their commercial campaigns, 30% of surveyed banks are comfortable with handling the involvement of multiple channels at different times
- 43% of surveyed banks have a permanent feedback process to test the efficiency of the connections between channels during these campaigns

Figure 17. Outbound Contact Trends Considered "Very Likely To Happen"



Source: Capgemini interviews with 41 retail banks

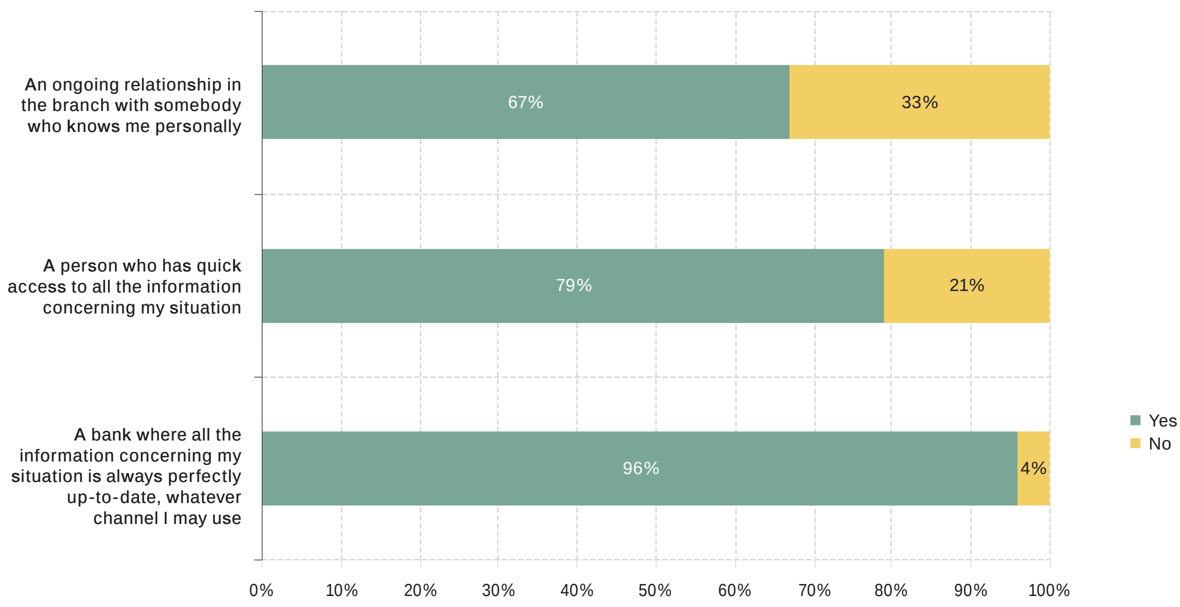
Will customers' high expectations for multi-channel experience be met?
At a time when customers evaluate banks based on their global experience, regardless of channel, banks may find it increasingly difficult to deliver excellence across multiple channels. Banks have promised their customers—even if implicitly—that they can use the channel they prefer. However, banks are in fact acting to constrain customer choice. Banks are driving customers to remote channels through higher pricing for desk-based services, automatically redirecting calls to the call centre, and promoting packages that include online banking, for example.

Banks appreciate this shift, but what about the customer perspective? Greater use of remote channels may not lead to greater customer satisfaction. Banks may not have all the pieces in place: customer satisfaction with multi-channel service depends on seemingly simple but difficult-to-achieve requirements, as Figure 18 shows.

Clients expect "ask once and done" results across multiple channels. For example, they expect a branch staffer to answer a question about a Web-based account. This kind of service requires integrated multi-channel customer files, and, as we can see from Figure 19, only 33% of surveyed banks have such files. In Western Europe, 50% of banks have integrated multi-channel files.

Our conclusion at this stage is that banks cannot easily meet customer expectations for multi-channel service without putting in place some fundamental but costly elements.

Figure 18. Customer Preferences: Is It More Important to Have…?



Source: "A New Wave of Internet Banking?," Capgemini Novamétrie Study, 2004

Will banks be able to strengthen customer relationships via electronic channels?
Customers used to evaluate their banks based on relationships with branch managers, advisors, even tellers. With the rise of remote channels, however, these relationships have diminished or disappeared. Instead, the criteria have become pragmatic: service convenience and effectiveness across channels, product performance and pricing.

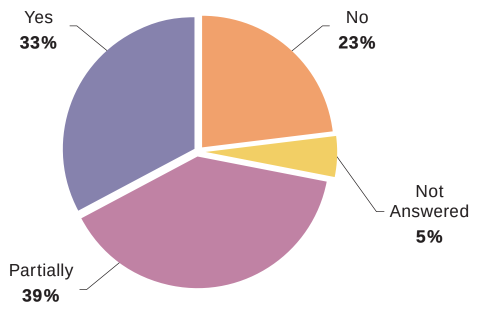
When they developed electronic channels, retail banks weakened their main defense against direct banks and niche-players. Banks cannot easily create or maintain close ties with their customers electronically. Even though electronic channels are very convenient for the customer, these new relationships are weaker than those based on human, personal interactions with banking staff, whether face-to-face or by phone.

In the end, a new distribution model must be invented because services and sales have been uncoupled
Confronted by strong competition and by the need to develop convenient services and reduce costs, bankers have physically disconnected services from sales. As these pressures continue, bankers are likely to rely even more heavily on remote channels and focus branches on proactive sales. Yet this reliance could become counterproductive.

- Proactive advisory approaches will touch only the most valuable clients, and will not be effective for all of them
- Massive marketing campaigns can be more of an annoyance than a driver of new business
- Customer satisfaction and relationships are threatened as banks lack the fundamental requirements to deliver top quality multi-channel service

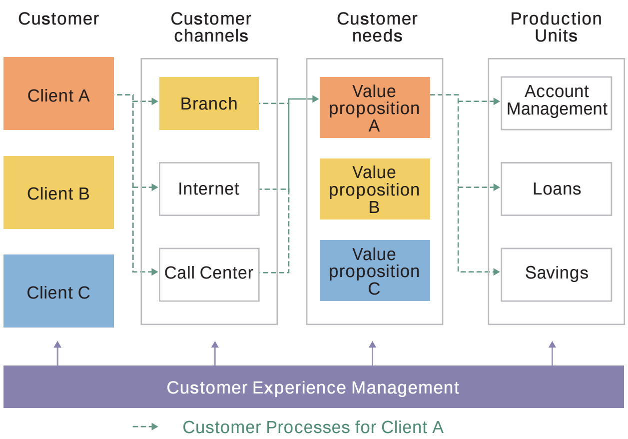
As clients won't come back to branches for services, bankers have to adapt their selling model to this new reality, thus creating a new client relationship model.

Figure 19. Do You Have a Multi-channel Customer File, Consolidated and Available for All Channels?



Source: Capgemini interviews with 41 retail banks

Figure 20. Main Components of a Service Oriented Architecture



Architecture of a Retail Banking Information System designed to manage customer experience through a Value Proposition engine linked to Customer Information and Processes Management Systems

How Not to Alienate Your Customers

As retail banks are trying to push sales volumes and reach out to the growing proportion of valuable customers hardly ever visiting a branch, they make increasing use of outbound marketing to complement their almost purely pull-oriented traditional sales strategies. Encouraged by the success of first movers, banks have joined retailers, airlines, publishing houses, insurance companies and other industries in sending massive direct mailings to households. Call centres actively push credit cards, consumer loans and other offerings.

However, as attention spans are already shrinking, mailings end up unread in the trash and customers become increasingly upset about those intrusions into their privacy, response rates are dropping and costs per customer contact and sale are rising. While decreasing marketing efficiency puts a natural limit to those strategies, the real danger lies in a sustained deterioration of trust and relationship quality due to a disturbing customer experience.

Consequently, retail banks need more sustainable means of marketing to clients and more intelligent ways to trigger sales processes.

Inbound Customer Marketing (ICM) is the practice of offering a product or a service only when the customer has initiated the contact and giving the customer the opportunity to react. As opposed to merely advertising products, ICM employs sophisticated techniques to determine the best offer for a certain client, taking into account the context of the actual inbound contact and the customer's propensity to buy.

Capgemini analysis, which we did in addition to this report's survey, suggests that ICM is becoming increasingly popular with leading international retail banks. For context-sensitive inbound marketing it is not unusual to achieve conversion rates of up to 30%, even when using only simple ICM techniques based on customer profiles and pre-defined business rules. More sophisticated offer optimization techniques like predictive modeling or real-time learning algorithms are able to push those conversion rates up to 50% or more–success rates unheard-of in the outbound marketing world, yielding a healthy return on investment.[1]

We observe that retail banks currently focus their efforts to implement ICM on three key channels: the call centre, the branch and the Web.

Similarly, a recent Forrester Research survey put the share of call centres already having some sort of ICM at 61% (49% for the Web channel), with another 25% (30% on the Web) planning to do so within 12 months.[2]

However, only 10% of the banks we interviewed have implemented ICM in the channel most frequently contacted by their customers: the ATM/Self Service Zone. This picture is likely to change: out of all banks we surveyed for this WRBR, 47% believe that it is "very likely," while 40% say it is at least "somewhat likely" that they will add personalized information and commercial promotion capabilities to their ATMs over the next years.

As banks are about to realize the true potential of their multi-channel architectures and learn how to use customer insight and sophisticated offer optimization techniques, we expect an even more dramatic shift towards multi-channel ICM in the near future.

[1] "Inbound Customer Marketing," Capgemini research 08/2005
[2] Forrester Research, "Inbound Goes Mainstream," 09/2005

A new client relationship model is emerging

Facing these issues, we believe that bankers must re-think and re-affirm their global distribution model around three key points.

Continue to develop competitive remote sales and service offerings

As banks cannot return to the single channel world, they must continue to develop new and convenient services in order to remain competitive and respond to customers' requirements. These new value propositions should, however, be differentiated for each customer segment. Banks should bundle products and services as well as sales and servicing processes to provide customers belonging to a particular segment a unique and consistent experience across multiple channels.

From a technical point of view, the challenge is to provide these segment-specific experiences through shared channels and production units. The required technical enablers are the following:

- A single customer file storing all relevant and up-to-date information on the customer context and segment
- A "value proposition engine" executing the sales and servicing rules defined by the bank for each customer segment and context
- A Service Oriented Architecture (SOA) enabling the engine to control processes through the orchestration of tailored services (see Figure 20)

Craft outbound operations with greater precision while leveraging inbound customer contacts

Large-scale outbound marketing campaigns have inherent disadvantages and tend to annoy customers. Campaigns with a precise scope and purpose, however, can be effective. The scope should be restricted to customers with pre-defined characteristics who will find the offer relevant. In addition, campaigns with limited scope are easier to implement across channels.

Equally important, banks should institute a feedback process to test options and improve the campaign, e.g., by refining the mailing lists, or evaluating the benefits of a mailing before making calls. The aim is continuous improvement built upon insights from each campaign, which can then inform larger operations.

At the same time, banks should improve their ability to react to certain customer situations. As explained in the sidebar, "How Not to Alienate Your Customers," some banks have been successful in using Inbound Customer Marketing (ICM).

Key success factors include:

- Focus on specific customers and situations that can be implemented and managed successfully
- Integrate transversal customer information throughout channels (based on a single multi-channel customer file). The bank can then, for example, propose credit offers online after the customer asks for information in the branch
- Train call centre staff on how to respond to inquiries
- Adapt processes as necessary. For example, direct certain callers to their advisor instead of the call centre

Adapt branches to deliver key "account moments" and enhance relationships

We have seen that customers visit branches less and less, a trend that is going to continue. Nevertheless, physical branches are an important asset where customers open current accounts, make complex financial investments, apply for mortgages, and make claims.

How can banks make the most of these person-to-person interactions? We see three key success factors:

- Bankers should not miss opportunities related to these moments
  - By training their staff members to handle these situations expertly
  - By adapting the monitoring system (for example, adding a new set of indicators and clear objectives for employees) to encourage desired behaviour from the staff
- Other channels should communicate customer information to help the branch anticipate or identify these moments. For example, branches should be alerted when a customer searches for mortgage rates on the bank Web site, or by phone with the call centre
- Banks should reconfigure branches in line with their new role, in most cases by reducing branch size

Beyond this set of account moments, banks could create more products or services to draw customers to the branch and increase its value. Instead of service packages that rely only on remote channels, packages could include special offers for valuable clients that require visiting the branch. For example, banks could offer high-value meetings with an advisor to discuss an issue of interest to the customer.

Conclusion

Before the advent of multi-channel distribution, the relationship between a client and his or her bank was based in the branch, which provided both sales and service. Today, however, the client is served by Internet, phone and ATM. In the near future, mobile banking will only amplify the trend to remote channels. Banks will more than ever need a single customer file and an SOA to deliver multi-channel service.

Banks will adapt their selling model to a new service model. Though it is more difficult to sell with only limited person-to-person interaction, banks can take steps to leverage their multi-channel structure:

- Continue developing competitive remote sales (especially internet sales) and service offerings
- Craft outbound campaigns with greater precision and attention to feedback and leverage more inbound customer contacts
- Adapt branches to deliver key "account moments" and enhance relationships

Banks that effectively execute initiatives like these will jump start their success in multi-channel banking. Such initiatives could also help banks comply with increasingly restrictive rules when advising customers and selling financial products.

Appendix: Pricing Index Methodolgy

To develop the third annual edition of the World Retail Banking Report, the study team refined the methodology used for the 2005 report and expanded its coverage. Each of the 20 country teams contributed to the Dashboards, the pricing analyses and the Spotlight interviews.

In order to build the Dashboards, each team scanned its entire domestic banking environment and mapped it in a detailed and consistent format (see Figure 21). This work also highlighted the banks to include in the pricing index. Figure 22 provides a complete list of the banks surveyed.

The pricing analyses provided both local and global views based on prices and frequency of use. Country teams collected and analysed prices and conditions for all banks listed in Figure 22. These data were used for both the local and global profile pricing indexes. Despite efforts to reflect accurate prices, the team had to make choices that could skew results. For instance, the amount of a typical withdrawal or transfer can be as important a variable as the frequency of use. Therefore, in cases where the amount was key, we established a common amount for all countries, adjusted to purchasing power in less-mature markets. For example, we calculated the cost of external wire transfers 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. When we refined hypotheses about product definitions to produce more accurate comparisons, we always recalculated last year's prices based on these refinements in order to remain consistent.

As last year's report was the first to furnish local profile indexes, we were able to study local price evolution over the past year for the 2006 report. This comparison reflects the true cost evolution of day-to-day banking services for an average consumer in each country. In addition, country teams reviewed and modified frequencies of use based on local consumption patterns. Of course, as with prices, we ensured the consistency of the comparisons by recalculating last year's local profile prices based on this year's frequencies of use.

We created usage patterns for three kinds of user—less active, active, and very active, with the active group accounting for 60% of customers. Each of the other groups accounts for 20%. Figure 23 shows how sample local profiles vary by usage pattern.

The 2006 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. Two minor exceptions: we excluded check usage in Norway, Sweden and Belgium because checks are seldom used there and we included package prices in Italy, Slovakia and Poland since they are widespread.

To compare price evolution from 2005 to 2006 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 eurozone countries surveyed using average 2005 exchange rates.

Finally, to increase accuracy, we calculated weighted averages based on a bank's market share of deposits. This approach reflects more precisely the average price of basic banking services in each country.

The Spotlight analysis drew upon interviews with executives at 41 banks worldwide. This database of top executive perspectives along with Capgemini consultants' interviews and success stories contributed to the analysis of multi-channel issues.

Figure 21. Sample Country Dashboard – Portugal

Sources: Banco de Portugal, OECD, APB, SIBS, INE, company reports

Figure 22. Survey Sample: 142 Retail Banks in 20 Countries*

Europe - eurozone

Austria	BA-CA; Erste Bank; BAWAG P.S.K.; Sparkassen sector; Raiffeisenbanken sector; Volksbanken sector	70% deposits	75% credits
Belgium	Dexia; Fortis Bank; ING Bank; KBC	69% deposits	69% credits
France	Banques Populaires; BNP Paribas; Bred; Caisse d'Épargne; CCF HSBC; CIC; Crédit Agricole; Crédit Lyonnais; Crédit Mutuel; Société Générale; La Banque Postale	89% deposits	70% credits
Germany	Commerzbank; Deutsche Bank; Dresdner Bank; HypoVereinsbank; Postbank; Sparkassen sector; VR-Banken sector	78% deposits	58% credits
Ireland | NEW	AIB; Bank of Ireland; TSB; Northern Bank; Ulster Bank	87% deposits	N/A credits
Netherlands	ABN AMRO; ING Bank; Postbank; Rabobank; SNS Bank; Fortis Bank	86% deposits	59% credits
Portugal	CGD; BCP; BES; Totta; BPI; MG	97% deposits	98% credits
Spain	BBVA; SCH; La Caixa; Cajamadrid; Banesto; Banco Popular; Caixa Cataluña; BancoSabadell; Bancaja; CAM; Bankinter; IberCaja; Unicaja	54% deposits	N/A credits
Italy	Unicredit; BancaIntesa; San Paolo imi; MPS; BNL; Capitalia	63% deposits	78% credits

Europe - non eurozone

Czech Rep.	CSOB; CS; KB; GE Money Bank; HVB	93% deposits	66% credits
Norway	DnB NOR; Nordea; Fokus; Sparebank 1 SR-bank; Sparebank 1 Midt-Norge; Sparebank 1 Nord-Norge	64% deposits	52% credits
Poland	PKO BP; PEKAO; BPH; CitiBank; BRE; ING; Kredyt Bank; BZ WBK; BG; Millenium; Reiffeisen	83% deposits	69% credits
Slovakia	HVB Bank Slovakia; Slovenska Sporitelna; Tatra Banka; UniBanka; Vseobecna Uverova Banka; Ceskoslovenska Obchodni Banka; Dexia	87% deposits	82% credits
Sweden	Svenska Handelsbanken; Swedbank; Nordea; SEB; Danske Bank; SkandiaBanken	81% deposits	N/A credits
UK	HSBC; RBOS; Barclays; HBOS; Lloyds TSB	88% deposits	86% credits
Switzerland	UBS; CS; Kantonalbanken sector; Regionalbanken sector; Raiffeisenbanken sector; Postfinance; Migrosbank	99% deposits	100% credits

Asia Pacific

Australia	CBA; WBC; NAB; St George; ANZ	73% deposits	79% credits
China	ABC; BC; BOC; CCB; ICB; CMB; Minsheg; Pudong; Shenzen	72% deposits	92% credits

North America

Canada	BMO; CIBC; Desjardins; RBC; Scotia; TD	89% deposits	85% credits
U.S.	ABN AMRO; Bank of America-Fleet Boston; Citigroup; J.P. Morgan Chase; Sun Trust; U.S. Bancorp; Wachovia; Wells Fargo; Washington Mutual; HSBC; National City	42% deposits	N/A credits

Source: Capgemini analysis, 2006.

* 130 banks and 19 countries last year.

Figure 23. Examples: Local Profile Variations by User Type
Number of service uses per year per usage pattern

	Australia			Germany		
	Less Active	Active	Very Active	Less Active	Active	Very Active
Account Management						
Call Centre	5	24	52	0	4	8
Cash Utilization						
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, 2006

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ING

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Capgemini

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