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Organic growth in domestic markets key to bank profitability

World Retail Banking Report 2008 simulation shows banks could lose up to 36% of their net income by 2017

Paris, March 12, 2008 – The financial services industry has entered a new era, of tough competition in slow-growing markets that banks need to understand and respond effectively to fuel the growth they have experienced over the last five years. With a global net income of €1,280 billion in 2006 which is expected to reach €1,900 billion by 2017, the success of a bank's domestic retail business is essential for sustainability and expansion. Yet according to the fifth annual World Retail Banking Report* released today by Capgemini, ING and the European Financial Management and Marketing Association (Efma), banks will have to renew their distribution strategies to grow domestic retail banking revenues and avoid stunted profit.

Tougher regulation on mergers and acquisitions, demanding shareholders, flexible technologies and new industry players are increasing market competition and are likely to force prices down. These structural alterations are also challenging traditional retail banking strategies and compelling them to change. Yet over the last five years, many of the world's leading banks have grown their domestic retail banking revenues faster than costs, significantly improving the cost/income ratio.

"The report identifies the four core practices that have enabled banks to achieve profitable organic growth in their domestic markets most effectively," comments Bertrand Lavayssière, managing director, Global Financial Services, Capgemini. *"Significantly, the majority of leading banks have focused on one (or several) of these four approaches to obtain competitive advantage: combining fast time to market, innovation, and local client intimacy; ensuring full multi-channel integration and optimisation; increasing sales productivity through dynamic branch management; and leveraging a multi-brand portfolio to create attractive value propositions for each market segment."* Thus, Crédit Mutuel-CIC has succeeded in France by offering innovative products ahead of the competition combined with excellent client relationship management; ING in the Netherlands has successfully used an integrated multi-channel strategy with a strong Internet emphasis; La Caïxa in Spain has successfully answered the productivity challenge by transforming its branches into a dense network of small points of sales; and HBOS brand portfolio strategy is a prime example of how to develop and diversify a customer base without alienating current clients.

Executives of fifty-two banks in fifteen countries confirmed that they intend to use these four pillars to support future growth. However, even those banks that have already built strong client relationships need to renew their distribution strategies in order to develop business organically in today's saturated and slowly growing domestic markets. According to simulations of tougher competition in eight major European countries, banks could lose up to 36% of their projected net income by 2017. In that context, the study reveals three distribution strategies that can help banks to grow beyond the traditional retail banking business model and profit in an increasingly competitive market.

"Today banks need to diversify if they are to sustain growth," comments Patrick Desmarès, secretary general, European Financial Management & Marketing Association. *"The 'Better Sell Strategy', that proposes targeted more focused value proposition; the 'Larger Offer Strategy', that expands offering to non-financial products and services alternative, and 'Indirect Business' models, that consist in selling through other distributors, have proven to be the most lucrative."*

Examples of companies that have adopted the 'Better Sell' category are USAA (United Services Automobile Association), which focuses directly on the US military community and Boursorama Banque in France which targets self-directed customers with a profitable, low-priced offering on the internet. Deutsche Bank is a good example of the 'Larger Offer' strategy by offering a variety of day-to-day products and services from premium food to babysitting services in its Q110 branches. And finally, Virgin Money is a thriving example of a new entrant that has adopted the 'Indirect Business' model to disintermediate the market by leveraging an established brand to sell financial products, which banks can also capitalise upon by offering such players financial products they can sell on. These are just a few examples of the various business models highlighted in the report that have the potential to bring added value to traditional retail banks in their search for growth on high-income markets.

Felix Potvliege, head of strategy & business, Development of Retail Banking, ING Group concludes, *"The best performers will combine several business models to shape the next maturity phase of retail banking. All traditional enablers of operational performance will then have to be tuned and re-combined to fit this new context."*

*** The World Retail Banking Report 2008**

Jointly produced by Capgemini, Efma and ING, the 5th annual World Retail Banking Report focuses on growth in domestic retail banking markets. Assessing the past levers used by the world leading banks, it explores the alternative distribution strategies that will enable them to pursue their growth organically in today's saturated and slowly growing domestic markets. The report is based on internal analysis and in-depth interviews with 52 banking executives in 15 countries.

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In addition, the report provides in-depth pricing analyses of retail banks in Europe, North-America, and Asia Pacific, based on data collected in 194 banks in 26 countries.

For a copy of the 2008 World Retail Banking Report, visit www.capgemini.com/wrbr08

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