

**LEADING PERSONAL CUSTOMER EXPERIENCE – VIM MARU & JAKOB PFAUDLER**

**WEDNESDAY 21 FEBRUARY 2018**

**Vim Maru, Group Director, Retail**

Welcome. I am Vim Maru, I am the Group Director for Retail and I am joined by Jakob Pfaudler, our Group Director for Community Banking. Over the next 20 minutes we will tell you how we will continue to deliver a leading personal customer experience over the next 3 year phase of our strategic plan. At the end of the session, there will be time for your questions.

As you've heard from Antonio and Juan, customers have been and remain at the heart of our strategy. Customer behaviours and expectations have been changing rapidly over the past few years and we will show you the significant progress we have made in response.

We recognise that that pace of change will continue to move rapidly and therefore through GSR3, our key priorities are to build on our number one UK digital bank by adding Open Banking functionality. To redefine our multi-channel model and spend 30 per cent more time on complex needs and remain number one for branch share. And finally to use enhanced capabilities to deliver on customers' expectations for more personalised propositions where we see opportunities to grow where we are under-represented and unlock a £30 to £40 billion customer balances opportunity.

On the left here, we have an outstanding customer franchise serving 27 million customers through iconic brands in banking and insurance. Most recently we had MBNA join the portfolio, a strong digital led brand that gives us flexibility for the future.

Our powerful brands enable us to achieve broad appeal and serve a diverse set of customers and their deferring needs and expectations. Our capabilities to manage multiple brands is seen in the results. Market leading awareness. Lloyds and Halifax in the top two. That is possible through nurturing icons like the Black Horse of Lloyds or the Widow of Scottish Widows, to brand association levels that are 40–50 per cent higher than the market average. And advertising effectiveness which is 2x the market average.

On the right hand side you see the deep customer engagement that we have and that truly differentiates us as the only bank with the greatest digital and physical reach. 209 million digital visits a month, that equates to 16 visits a month across our 13 million digital customers.

At the same time, we have 18m visits to branches every month, giving us unrivalled opportunities to serve our customers and support our customers with help and guidance. But the key advantage is that the whole is greater than the sum of the parts. 72 per cent of our customers use more than one channel showing the strength and reach of our multi-channel model.

And then, top right, our customers use their debit cards 320 million times in a month, representing 1 in 4 of such purchases in the UK demonstrating the engagement, data and insight that we have.

We have a track record of delivering for customers. On this page, on the left hand side we have simplified our products and services and made them more transparent to make it easier for our customers and colleagues. For example, our savings range has been reduced by 80 per cent. And most recently we led the UK market with a radical restructuring and simplification of our overdraft proposition moving from 30 variants to 1.

At the same time, we have enhanced the customer journeys. So in the middle you see some examples. Our mobile current account journey is rated number 1. That is possible through reducing customer effort, inputs and the time taken by 40 per cent and extending it to other channels like the branches.

In mortgages, an example, our mortgage agreement in principle, the digital capability for our mortgage agreement in principle, has enabled over 100,000 customers to get their agreement in less than 15 minutes.

And all of these actions are delivering results, on the right, NPS has increased by over 40 per cent and complaints are down 70 per cent.

So let me hand over to Jakob to talk to you about one of our key GSR3 priorities, our multi-channel model. Jakob.

## **Jakob Pfaudler, Group Director, Community Banking**

Thank you and good morning everyone. I am Jakob Pfaudler and I run our Community Banking division. And I want to share with you our distribution strategy.

I would like to land three very simple points today actually. The first one is that we have an ambitious and bold strategy for all our channels, including the branch channel. Secondly, that being able to weave together what is the largest digital bank in the country with the largest branch based bank in the country, gives us a unique and enduring competitive advantage. And thirdly, that by reconfiguring and redesigning our physical distribution we will be able to drive out meaningful further efficiency gains.

Now let me start with a few basic customer trends. Won't come as a big surprise, that we see rapid and if anything, accelerating move of our customers towards the digital channel. Our digitally active customer base has grown by 28 per cent over the past 3 years and their engagement with digital has actually doubled over the same time period. And at the same time we see a quite steady 13–14 per cent reduction in branch transactions per annum and that continues.

And the same trend is visible in the way customers buy products from us. Antonio has already mentioned that this morning. Digital, 70 per cent now is now, by a wide margin, our largest sales channel for the basic banking products, bank accounts, savings accounts, cards and loans.

But you know at the same time the more complex product areas, like a mortgage, they are still deeply rooted in the face to face environment by customer choice. And that's why we think the multi-channel model is such a unique strength to us. It gives us an ability to capture 25 per cent of market share in the digital channel for those products and at the same time for example 21 per cent market share of branch mortgages.

And on top of that it really generates value for us. Vim has already mentioned, 72% of our customers use more than one channel, and it's those customers that generate most value for us. A customer using more than one channel is 40% more valuable. A customer that uses all our channels is 70% more valuable. We are simply able to have a deeper engagement and serve more of their needs.

And there is something intrinsic about this. This is driven by customer needs and customer psychology. 75 per cent of our customers tell us they prefer a face-to-face interaction for their first banking relationship. 60 per cent really want a face-to-face advice for a mortgage. And you know, this is not just a generational thing, this is not just the older generation preferring the older channels. If you looked at the millennials as a customer group, they show the exact same behaviour, the need for guidance, the need for assurance is just the same across the generations.

And that's the reason why we think the multi-channel model is such a competitive advantage for us and will continue to be so. But clearly we cannot be blind to the customer trends we are seeing and the change in behaviour. So the trick here will be to adjust the purpose and the focus of each of our channels and tailor it more to the underlying customer need. Put very simplistically, we want to create an unrivalled digital customer experience for all the basic banking needs, and we want to re-orientate our face-to-face channels towards the more complicated, more complex customer needs. Mortgages, insurance, help for business customers, financial planning and retirement, but also more complex servicing needs.

So therefore digital will indeed be the bedrock of our distribution going forward. And in a minute Vim will share what we do with digital and how we get it ready for the Open Banking environment. What we feel what distinguishes us from a pure online player is that we are actually able to bring all that digital firepower, all that investment that you have heard about, we are able to bring this into the face-to-face environment. To put it into the hands of our colleagues and equip them to have a deeper conversation with the customer. So we've now rolled out iPads to all our branches. And if you are a customer you can basically have the same customer experience, on the same interface, whether you sit at home on your sofa with an iPad in your hand, or you sit on a sofa in one of our branches with an iPad in your hand and a colleague helping you through the journey.

But you know our vision for branches is more ambitious than a just a superb transactional experience. We really think that in a world that is ever more digital, more choice, more propositions, in a world where security and trust are becoming more important considerations for customers. In such a world, the value of a human customer interaction will actually become more important, not less important, more important for the complex needs.

So we do want to equip our branches to serve those complex needs. But at the same time it is obvious that we need to square the circle of firstly having that deeper engagement in our branches, secondly, optimising our cost to serve, and thirdly, maintaining that unrivalled reach that we have on the high street.

And the trick here will be to become more flexible about our branch formats, to become more flexible in the way we tailor formats to the needs of the micro-markets that we see in the country. So over the next few years, we will convert a meaningful number of our branches into smaller more cost effective micro branches, still full service branches, but without a counter in them, with more technology and more customer self service. And at the same time we will orientate our larger community and anchor branches, to focus on more complex customer needs. And where we can't economically viably have a full physical presence, we will extend our mobile branch fleet. Customer feedback has been phenomenal on them. They are essentially full branches on wheels now and we will roll them out more over the next few years.

And in all of this, just to point out, remote advice, so an ability to have a video conference with an adviser, remote advice is a real game changer for us, because it does allow us to give access to expertise and advice even where we don't have a physical adviser present. And we have last year rolled out a 'home to hub' offer where customers can dial in, can video conference from their home and we will roll this out into most of our branches over the next few years. So even where we don't have an adviser, we have direct access to expertise.

So if I take all of this together we will be able to do three things. We will be able to focus our human capital on the most valuable and most complex customer needs. We will be able to capture further efficiencies and we will be able to maintain our reach on the high street.

We expect to have about 60 per cent of our human customer interaction, our face to face customer interaction, focused on the more complex customer needs. That's an increase of 30 per cent over the next three years. We also expect to be able to capture a further 15 per cent unit cost reduction in our physical distribution channel and at the same time we are committed to maintaining the largest branch network in the country, we are committed to maintaining a 21 per cent branch market share over the next three years. And potentially by rolling out more of our mobile branches, actually increase the number of locations we serve over the next three years.

Now let me hand back to Vim who will talk a little bit more about Open Banking.

#### **Vim Maru, Group Director, Retail**

Thank you very much Jakob. So as we look to the future of retail banking an important development is Open Banking. As a Group, we welcome Open Banking. We were the only large retail bank to successfully meet the CMA's Open Banking launch date on 13<sup>th</sup> January. And whilst January represented the launch of Open Banking, it is important to remember it's the first of a series of regulatory changes to come over the next couple of years.

And on this chart, I am going to draw out 3 key developments for you. The first is the introduction and developments of APIs that enable secure data sharing. The second is the technical standard that comes into force at the backend of 2019, that will give customers an extra layer of security but it will also begin the phasing out of screen scraping where customers share their passwords with third parties.

And finally in May of this year, GDPR, so General Data Protection Regulations comes into force. And that will give customers more control over their data but with safeguards in place to ensure that all companies, including banks, use this data responsibly.

The implications of all of that are on the right hand side. We see customers having more control over their data and the ability to share that. That leads to new innovations in products and services. But all of that is accompanied with a real and heightened focus on security and trust.

We see Open Banking as an exciting opportunity for us to serve our customers with greater innovation in our products and services. Our competitive strengths position us well for Open Banking. And you see that on the left. We are the number one UK digital bank. Our app is rated number 1 for functionality. Customers trust us for security versus third parties. And for those customers who want to aggregate their financial services, bring all of their finances together, they prefer to do that with their main bank. It is convenient.

One the right you see some of the areas that we are developing for our customers. So "everything in one place" which brings all of your finances together. Innovative tools which gives customers more control over their finances and personalised insights. New propositions where we are exploring third party networks and non financial services propositions.

And finally, and last but not least, security is a shared priority for us and customers and therefore our proposition, when we launch it, will be an API only model.

So alongside our Open Banking ambition, we will respond to customers' growing expectations for personalised propositions. We have a diverse customer base and on the left hand side there are some illustrative examples that give you a sense of the diversity of our banking franchise. And customer needs vary, depending on whether they are home owners or renting, whether you are digitally active or not, your age or your attitude to cash.

Alongside that we are seeing customers' expectations are being framed by their experiences outside of banking, such as with Amazon or Netflix. I'm sure you experience that all the time. We feel we are well positioned for these trends because of the investments we are making in our data and digital capabilities that you will have heard about from Zak and Jen. That allows us to move from a one size fits all model to a tailored service that allows us to enhance the customer experience for all customers, to drive data driven personalised propositions, whereby we unlock an opportunity that we have identified, where 10m customers our market share is only 17 per cent. And if we were able to move to our natural market share that opportunity is £30-40 billion of customer balances.

So in summary, we have an outstanding customer franchise serving 27m customers, through our unique multi-brand strategy through iconic brands in banking and insurance. Alongside deep customer engagement across channels and payments. And our GSR3 priorities are, firstly to build on our number 1 UK digital bank by adding Open Banking functionality. Secondly, to redefine our multi-channel model spending 30 per cent more time on complex needs and remaining number 1 for branch share. And thirdly, to use enhanced capabilities to meet customers' expectations for personalised propositions, unlocking an opportunity of £30-£40 billion of customer balances.

I hope we have given you a strong sense of why we believe we will continue to deliver a leading customer experience. Thank you and we will take your questions.