

MAXIMISING GROUP CAPABILITIES – ANTONIO LORENZO & DAVID OLDFIELD

WEDNESDAY 21 FEBRUARY 2018

Antonio Lorenzo, Chief Executive, Scottish Widows & Group Director, Insurance & Wealth

Good afternoon everyone, my name is Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance and Wealth. I am joined on stage this morning, on the floor to be more precise, by David Oldfield, Group Director of Commercial Banking, who will talk about our strategy for that business in a few minutes' time. I am going to speak to you about the exciting opportunity in Financial Planning & Retirement. It is exciting not only because it is a growing market but we are already well positioned to meet our customer needs and to increase our penetration in this market.

We have three main priorities in Financial Planning & Retirement:

- Firstly, to strengthen and expand our Corporate Pensions business in a fast growing market. We have already started with the announced acquisition of Zurich's UK corporate pensions business. This will broaden our participation into the large scheme sector for corporates.
- Secondly, we will create, as part of the Group's IT initiatives, a single customer view which will include for the first time ever, Insurance products, to allow us to better understand our customers and to meet all their banking and insurance needs in a single login. None of our competitors can do this.
- Thirdly, we will use the advantage provided by our distribution model to drive growth across both Intermediary and Relationship channels. No-one else in the market has the access that we have and if you remember from previous presentations, we will have access to all intermediaries in the market at the same time that we will have access to the number one branch and retail banking network in the country and the number one digital bank.

We believe these initiatives will allow us to add over one million new pension customers and over £50 billion of customer assets under administration in our growth books and will create a long-term proposition to meet our customers' needs.

But as a reminder of our business and success so far, we are one of only 3 composite scale insurers in the UK. You can find out who are the other two! During GSR2, we continued to grow the business across 3 strategic areas:

- Firstly, we entered new markets and channels launching Bulk Annuities and Life Insurance through Intermediaries.
- Secondly, we upgraded our platforms, digitising our Corporate Pensions front-end and re-platforming Home insurance.
- And thirdly, we simplified the business and improved our service, as an example we agreed to outsource the servicing of our longstanding products to Diligenta.

We did this, while delivering returns on equity as you have heard from George, ahead of the Group average returns. I firmly believe and my team is committed to deliver this level of returns in the foreseeable future.

Why is Financial Planning so important for us? Mainly for three reasons:

- It is a growth market driven by demographics, structural changes and regulation.
- A large proportion of the UK population remains under-prepared for retirement and there is a growing advice gap.
- And last but not least, we are under penetrated in this market.

Without going into detail on Insurance accounting because George and my finance director here are more prepared than me to deliver that. It is not a threat for you, we won't go through this detail. But it is fair to say that we have new and existing business, and our focus in GSR3, is to grow a double digit pace in new business income in Financial Planning & Retirement products. In essence, we are growing market share in a growing market. Over the medium and long term, this new business income growth, jointly with growth in life insurance and general insurance businesses will more than offset the reduction in our longstanding products.

So let me tell you what are our plans in the Corporate Pensions business. Corporate Pensions, as you can see, is a fast growth area with double digit growth in assets under management expected, and we are well positioned to capitalise on this. We have Zurich's UK Corporate Pensions business acquisition, but at the same time, with David's business in Commercial Banking, we are expecting to continue to expand our fantastic success we have had so far in Mid-Market clients to the large corporates once that we have acquired the capabilities from Zurich. We have presence through your business David, for over 85 per cent of the FTSE 100 companies and no other competitor of David can offer a Corporate Pension proposition. We will also continue to deliver enhancements to our customer journeys, as you have seen from Zak in the previous breakouts.

In summary, in this business we expect to add over one million new pensions customers and grow our market share of new business in the larger market that we are now playing in with the acquisition of Zurich from 10 per cent to 15 per cent and by 2020 and further to 20 per cent by 2025.

Turning now to the opportunity of reaching our customers through a Single Customer View. This is a group wide initiative. We have 13 million retail digital customers with 16 visits per month on average. This is unprecedented in the UK insurance market. In addition, having access to our customers banking data allows us to understand them in a way other peers can't. In doing so, we will be the only provider that can personalise our proposition and meet our customers' needs through banking and insurance products. All these products will be manufactured by ourselves, and we think this is the best way to generate further value for our shareholders.

A broader Single Customer View, including insurance products, will be launched later this year, following a pilot in the first quarter of this year and we will go beyond the requirements of Open Banking and the proposed Pensions Dashboard.

Finally, we will maximise our distribution network and drive growth across both our Intermediary and Relationship channels. Intermediaries are, and will remain, vital distribution partners to our business. Our strategy is to complement, rather than compete with them. I am very proud that these key partners voted for us to be Company of the Year in 2017, at the recent Financial Adviser Awards.

Over GSR3 we have several initiatives to enhance our proposition for Intermediaries, for example we will launch an open market option for annuities. We expect this to increase market share of new business in individual annuities from 10 per cent that we currently are to around 15 per cent by 2020.

In our Relationship channel, as well as launching the Single Customer View, we will provide our customers with a comprehensive choice of execution only, guidance and advice solutions. As you have already heard from Zak, we will integrate Home and Life Insurance propositions into the Retail Customer journeys, and expect to more than double the customer needs we meet through the channel.

Before handing over to David, I will leave you with the summary of our strategic priorities and outcomes over the next three years. I hope you agree with me that Financial Planning & Retirement is a great opportunity, long-term, for Lloyds Banking Group where we are well positioned and more importantly, we are committed to capture.

Over to you, David.

David Oldfield, Group Director, Commercial Banking

Thank you Antonio and good afternoon. Let me tell you what GSR3 then means for Commercial. So we have three main priorities.

- Firstly, we want grow our SME and our Mid Markets business and that is about supporting more of their lending needs and at the same time it is about digitising products.
- Secondly, we want to deepen our relationships with Global Corporates and Financial Institutions clients and that is through upgrading propositions and through insight. This one isn't about growing share in the same way as SME and Mid Markets is, it's about creating value through deeper relationships.
- And then thirdly, I'll talk to you about how we want to make our relationship managers more productive and that is through digitisation of simple needs to free up their time and then provision of data and analytics so they can add more value to our clients.

In doing those things we expect to deliver the £6bn of net lending growth across start ups, SMEs and Mid Markets over the next three years that you have heard Antonio talk about already today. We want more than 70 per cent of our products to be available digitally and we will continue to remain disciplined in terms of delivering market leading returns on Risk Weighted Assets.

So we are differentiated by our simple relationship-led UK-focused model. We have a very simple segmentation from the smallest business banking customers to the largest Global Corporates and FI clients. We have disciplined product participation. And we have those trusted relationship managers, but combined with digital and self-serve capability for those clients with simple needs. And this model has allowed us to deliver those returns on Risk Weighted Assets at 2.8 per cent against a market average of 1.2 and a leading market cost:income ratio.

And through this simple, UK focused model, we've built up a terrific franchise with real opportunities for growth. So we have a 20 per cent share in the small business market and we opened 30 per cent of new start-ups. We've grown our SME business as you heard, by over 30 per cent since 2011 improving our market share to 19 per cent. We have a 17 per cent of Mid Markets clients and that's where we see a real opportunity as we pivot for growth having done a good job in terms of improving returns. And as Antonio said, we have relationships with over 85 per cent of the FTSE 100. And then we have a well-established and capital-light FI business producing very strong returns.

And we have a strong track record too of delivery in GSR2. So we increased our net lending to SME and Mid Markets clients by £4 billion in that period. But that includes growing SME lending by 15 per cent, well above the 1 per cent growth in the market during that period. So we're now targeting that step up to £6 billion of net lending growth as we pivot for growth particularly in that Mid Market segment.

We launched as well a new Commercial Banking online platform, we now have more than 12,000 of our largest corporate clients active with the remaining corporates being migrated across by the end of this year. We have also improved client experience across a number of customer journeys, so including for instance 16,000 SME accounts opened last year using our new end-to-end on-boarding process. And at the same time we have been disciplined in terms of capital, that is both in terms of new deals but also back book portfolio management and we reduced our core Risk Weighted Assets by £17 billion.

All that said, we recognise that our clients' needs are changing. For simple needs they want multi-channel, they want digital, self-serve and systems that talk to theirs. For more complex needs they want that trusted Relationship Manager, they want customised propositions with real time sector insight relevant to them and their businesses. Both of these are supported by our plans.

So moving then to investing and growing in SME and Mid Markets, this is a key priority to us and ties absolutely back to our helping Britain Prosper ambition, as these businesses are the lifeblood of the UK economy. And we'll do this through digitising the experience, improving the product range and simplifying a further number of journeys.

So in terms of digitisation, this ties into the work across the Group you're hearing about today from Zak and other colleagues. We'll make simple loans available online for instance, that is for both for origination and for servicing and that will improve the time to sanction and time to cash. So as an example the time it will take for a very simple lending decision will reduce from days to a matter of hours.

We'll also digitise FX and Rates, significantly increasing the number of simple Markets products bought online by our SME customers. We'll improve the product range especially liquidity, trade and working capital products, whilst also making the most of the open banking capability that we are building across the Group.

And we'll transform more client journeys, more on-boarding processes through STP and automation, and that drives efficiency for us and an improved client outcome.

Moving on then to deepening relationships in Global Corporates and Financial Institutions, as I said this is not about share it's about breadth and depth. We'll focus on broader cash management and payment solutions, we'll focus on improving our Markets products and we will ensure a seamless client experience anchored around the Relationship Manager at the heart of our model.

We've already invested in a new cash management platform within GSR2 and we'll continue to modernise our capabilities. We've also built a new trade and asset finance system. Again we'll make the most of that through the next three years.

We'll expand our Markets product range so that includes bulk payments capability and we'll improve rates and Repo and we'll simplify our Market Operations with more straight-through-processing driving efficiency for us and an improved experience for our clients. And we'll continue to have that all important Relationship Manager right at the heart of our model, so this is a coverage led model supported by product expertise.

And then by way of outcomes we're looking to improve the number of cash mandates that we win. We want to exceed 90 per cent STP for international payments and we want to significantly increase the electronic volumes for FX and Rates, especially for some of our smaller clients.

Then moving onto the Relationship Manager. Our RMs will remain crucial to us. We know that clients value them for their more complex needs but we want to make them more productive. So clients want frictionless, multichannel, they want customised propositions, they want timely insight that is relevant to them and their businesses.

And we'll make sure that RMs continue to be regarded as trusted partners, proactively engaged with our clients and having those strategic conversations. And by digitising simple transactions we'll free them up to spend 50 per cent more of their time on supporting clients with those more complex needs.

And to enable this we'll create the right supporting infrastructure. So we will automate those simple processes to enable clients to self-serve freeing up the RM time. We'll join our data up across the Group and externally and we will leverage the work that is happening elsewhere across the Group, you are hearing about today, in terms of APIs and applied sciences and robotics to improve our analytics capability.

And then as Antonio just said, we have a terrific opportunity to work across the entire Group to bring joined up solutions for our clients and our customers. So for Commercial especially, with our Relationship Managers, they can act on behalf of the entire organisation to meet our clients' needs.

So we'll continue to work very closely with Vim and Jakob's teams across the Retail and the Community banking businesses, be that Black Horse for car finance, be that Lex Autolease for contract hire or Cardnet for example for Merchant Acquiring.

And then with António and the Insurance and Wealth teams, we've done some great work on corporate pensions particularly for those Mid Market clients, Zurich gives us more opportunities for the larger corporates, as he mentioned. But there is also more we can do on areas like bulk annuities and longer term lending. So as an example, last year we supported a number of longer term infrastructure type deals for our largest clients and these deals suit the profile of the Scottish Widows business very well and that is real competitive advantage for us as Lloyds Banking Group and something that we can make more of.

So let me close just by re-emphasising the three priorities for me in Commercial. It is about continuing that focus on growth and building the momentum in SME and Mid Markets. It is about deepening those all-important relationships in global corporates and FI and it's about making Relationship Managers more productive and more value adding to their clients by investing in systems, data and analytics.