

Profit earner or cost driver? A combined view of retail banking and payments

Bertrand Lavayssière
Frankfurt, May 25th



Payments are crucial for Retail Banking

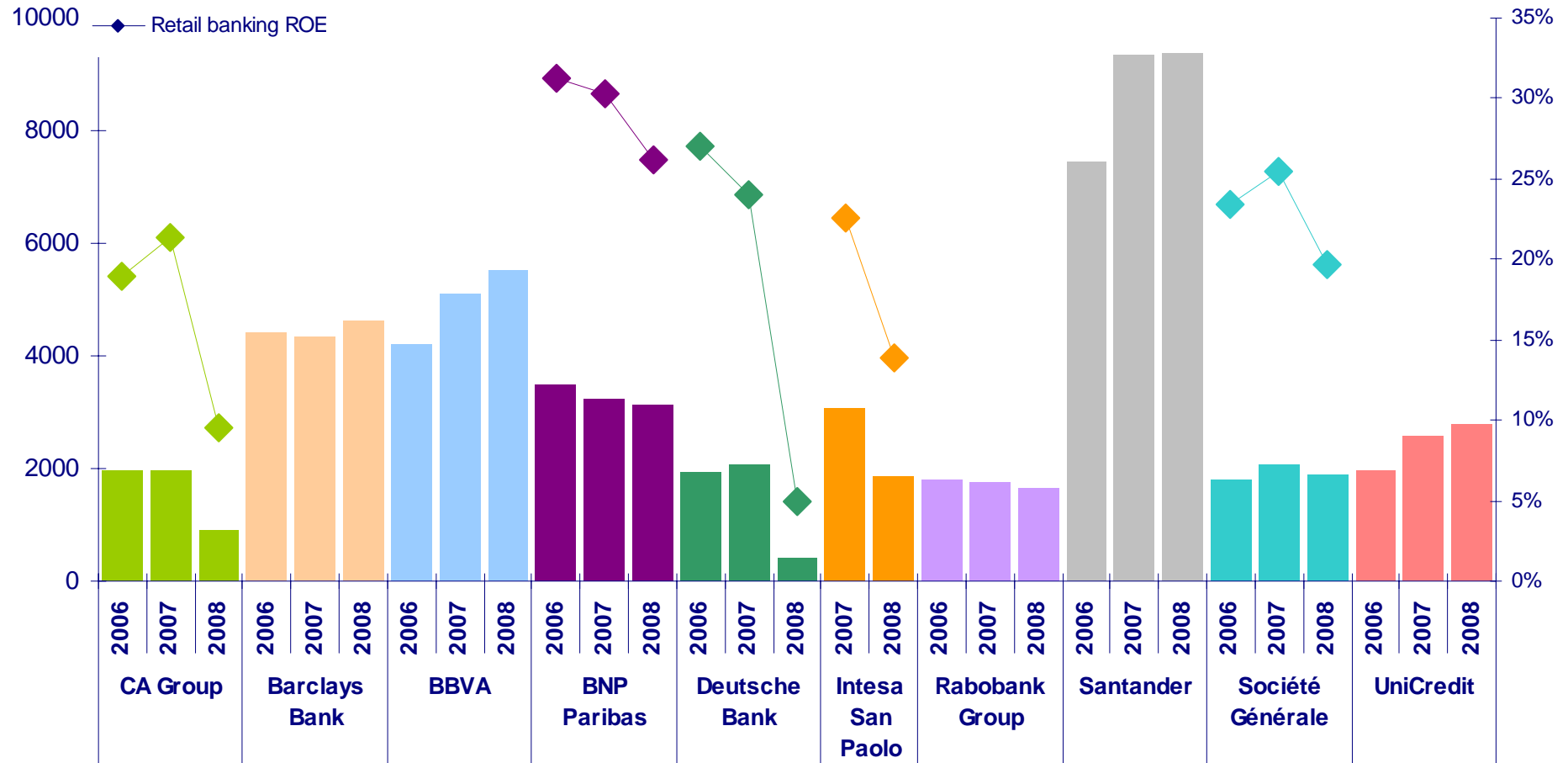
- Retail banking revenues are rather stable and payments are even more stable
- Today, the European landscape is very diverse
- Payment contributions to retail Banking is crucial
- Pressures for change are strong
- Anticipating changes creates opportunities

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Retail banking revenues and profitability did not suffer massively from the crisis

Retail Net Income & Domestic retail banking ROE in 2006,2007 & 2008

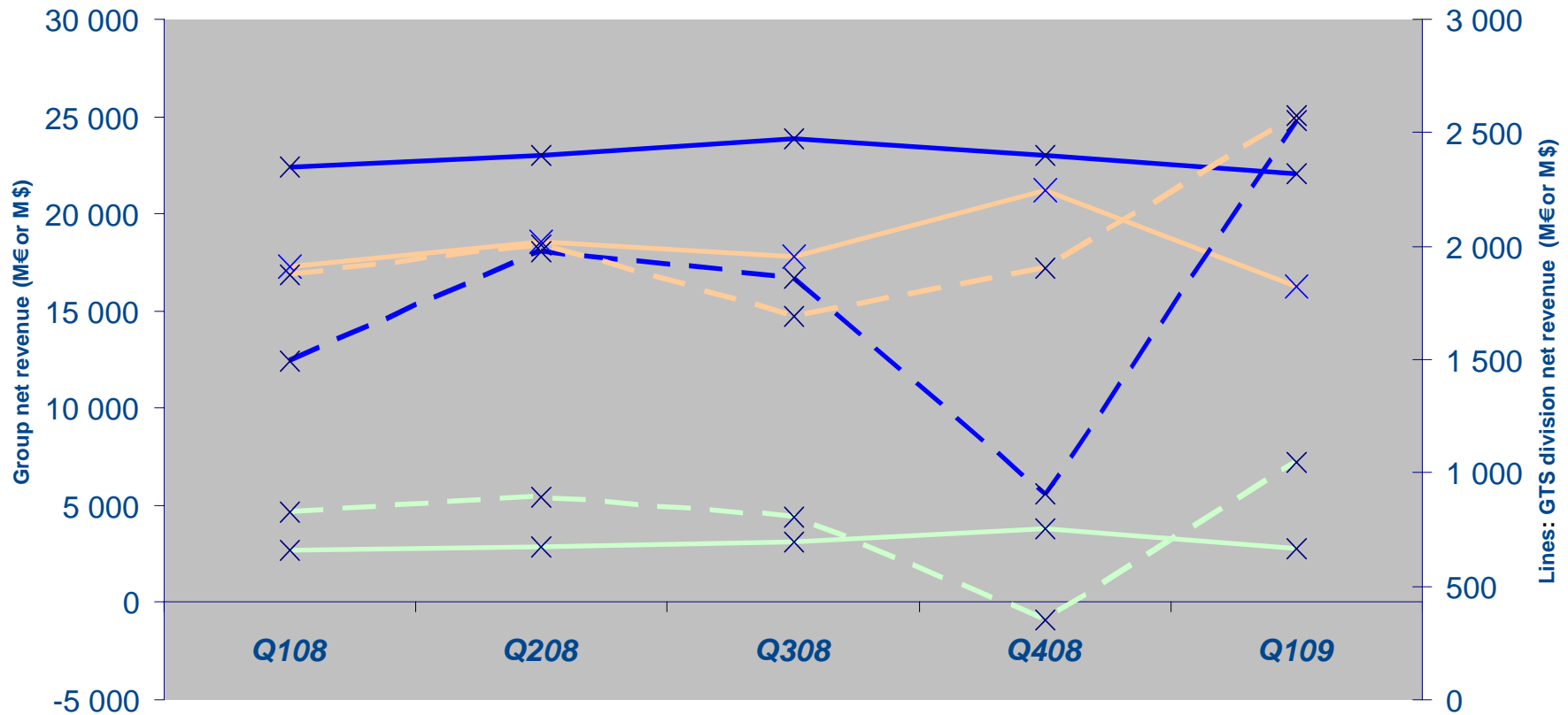


Note : Domestic retail banking ROE not available for all selected banks

Source : Capgemini analysis, 2009

GTB businesses were less impacted by current market conditions than other divisions

Illustration: quarterly GTB revenue (solid lines) and Group revenue (dashed lines)

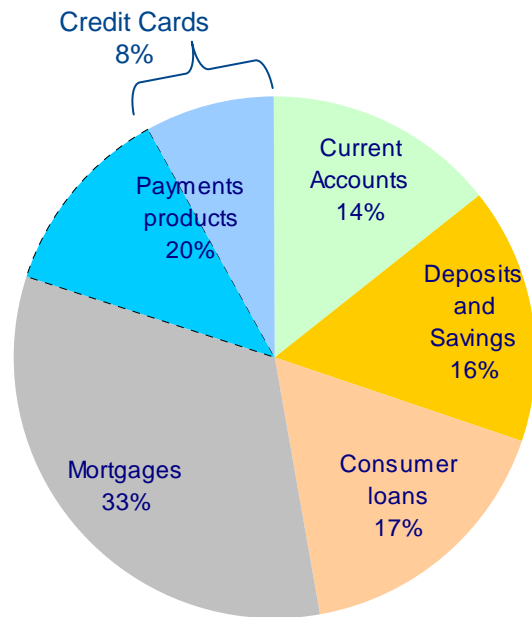


- Citigroup
- Deutsche Bank
- JPMorgan Chase

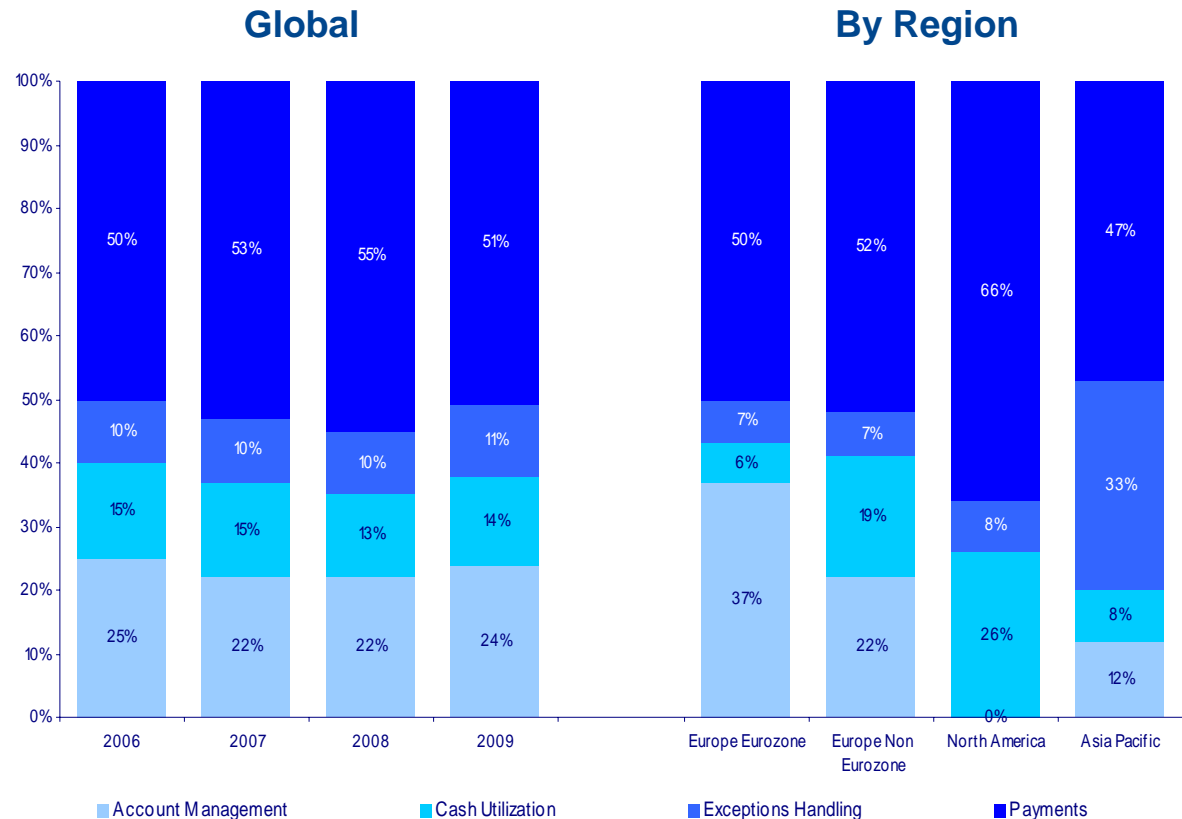
Source :Capgemini analysis, 2009

Payments represent about 20% of global retail revenues and more than 50% of core banking fees charged to clients in Europe

Average gross income share by consumer product line in Europe – 15, weighted average, 2004



Fee Sources for Core Banking Services by year and by region (%)



Sources : Report on the retail banking sector inquiry , Jan 2007, European Commission; Capgemini analysis, 2009

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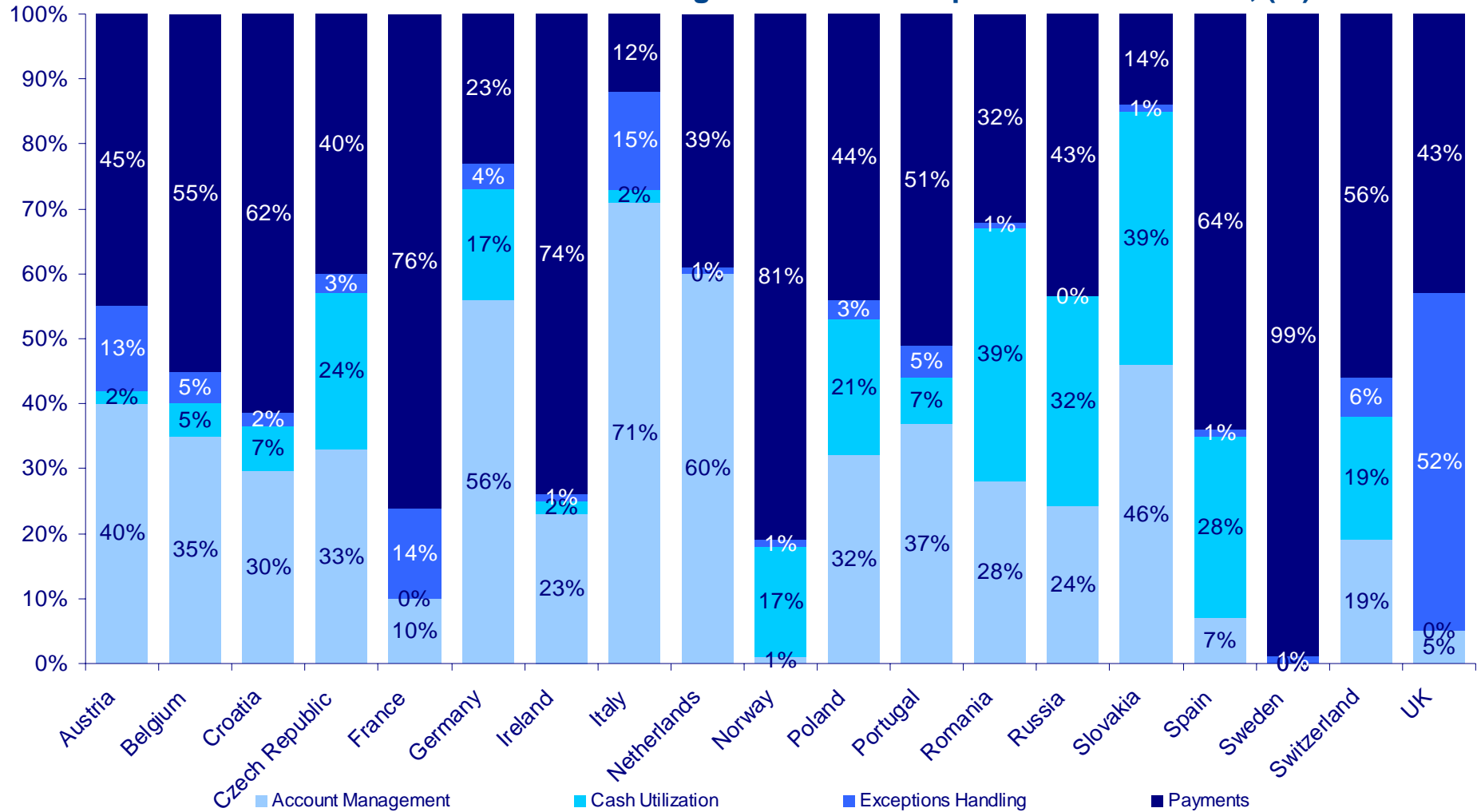
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Major differences among countries in Europe impact the split of fee income

Global Fee Sources for Core Banking Services in Europe Euro-zone in 2009, (%)



Source: Capgemini analysis 2009



Global Financial Services

There are four basic retail banking pricing models in Europe

ACCOUNT-BASED

TRANSACTION-BASED.



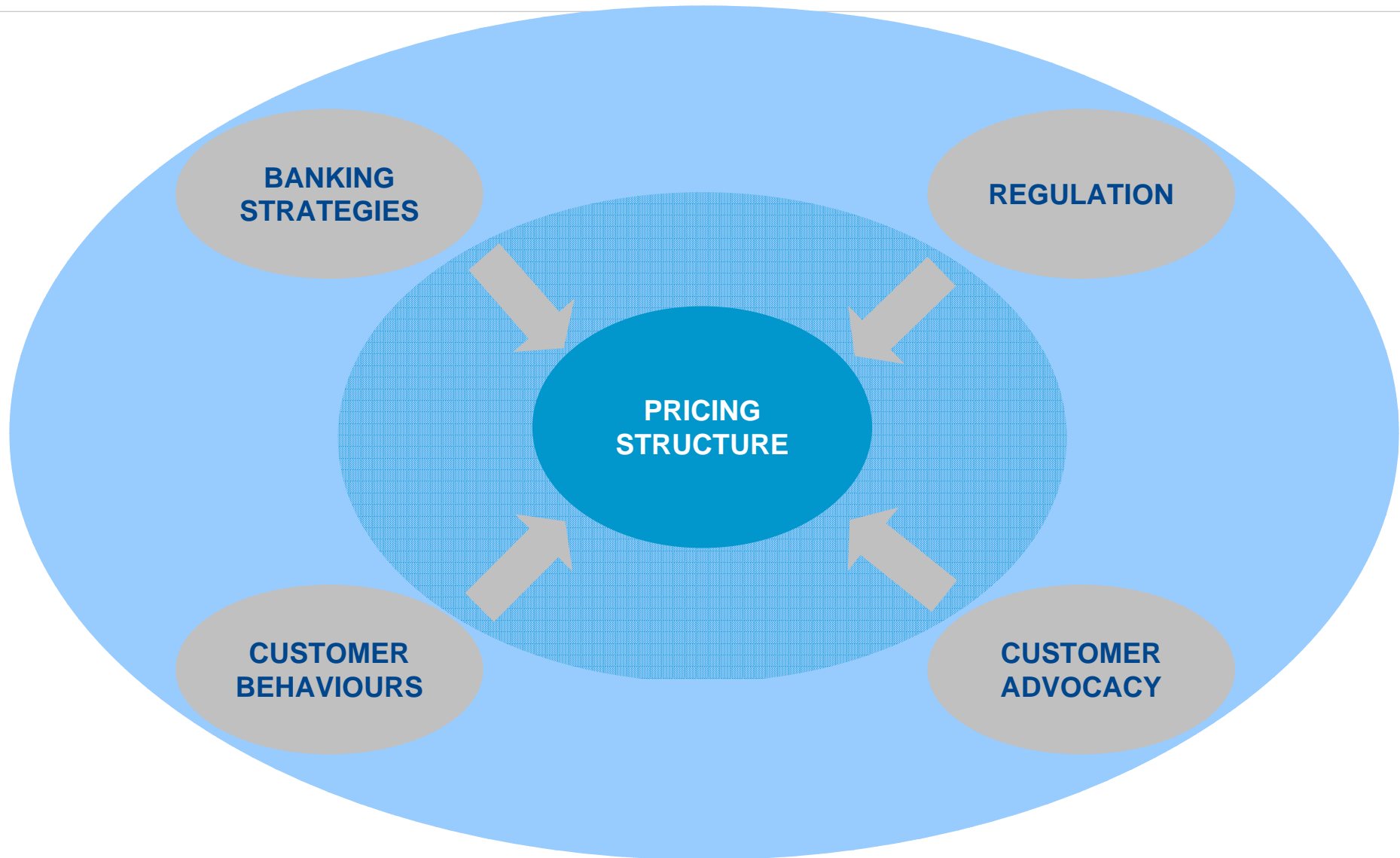
PACKAGE-BASED

INDIRECT REVENUE-BASED



Source : Capgemini analysis, 2009

The diversity in pricing is linked to the historical equilibrium between stakeholders

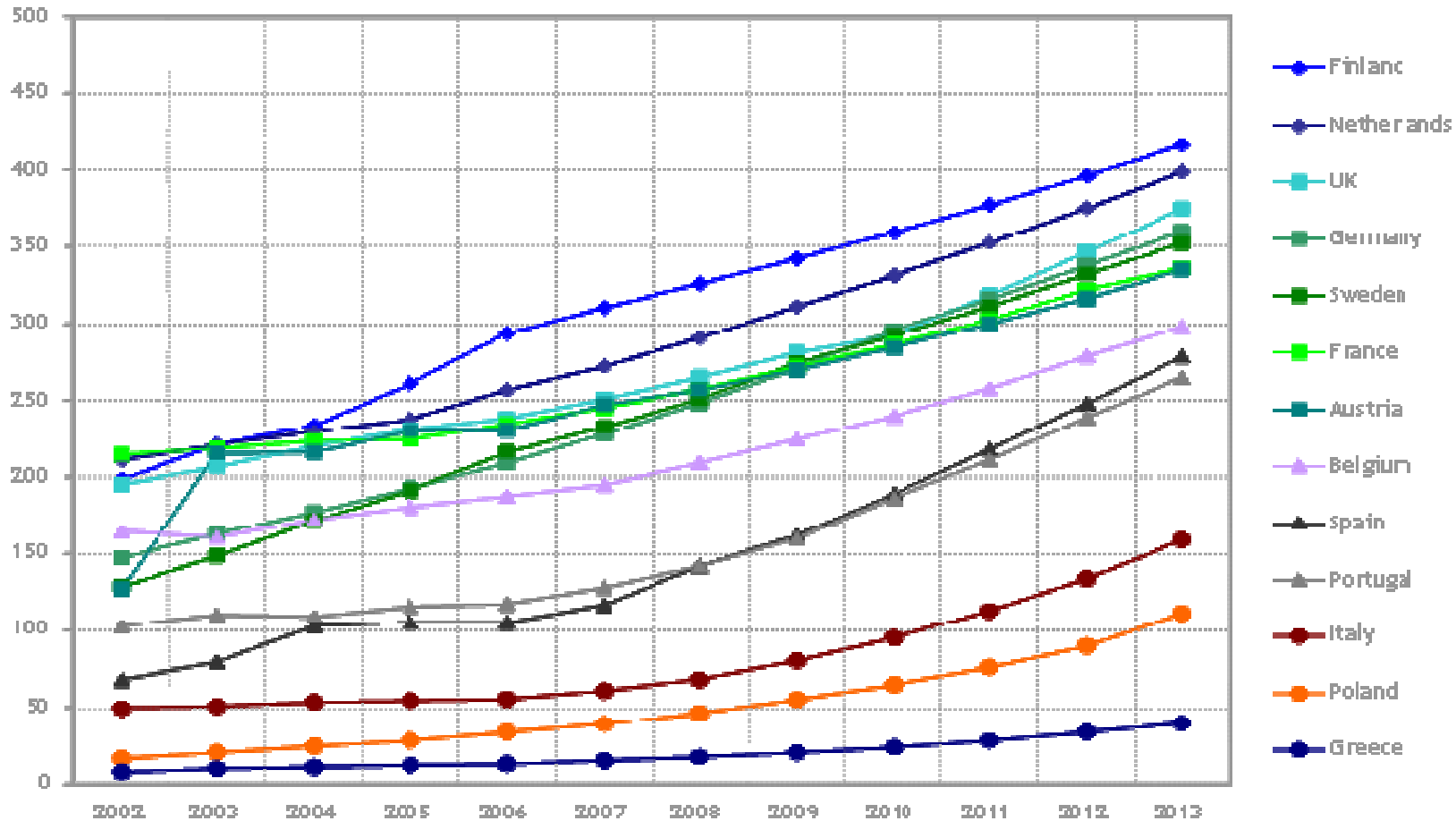


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The fundamentals for growth of non cash-transactions are strong

Illustration: evolution of non-cash transactions per inhabitant per country in Europe, 2002-2013



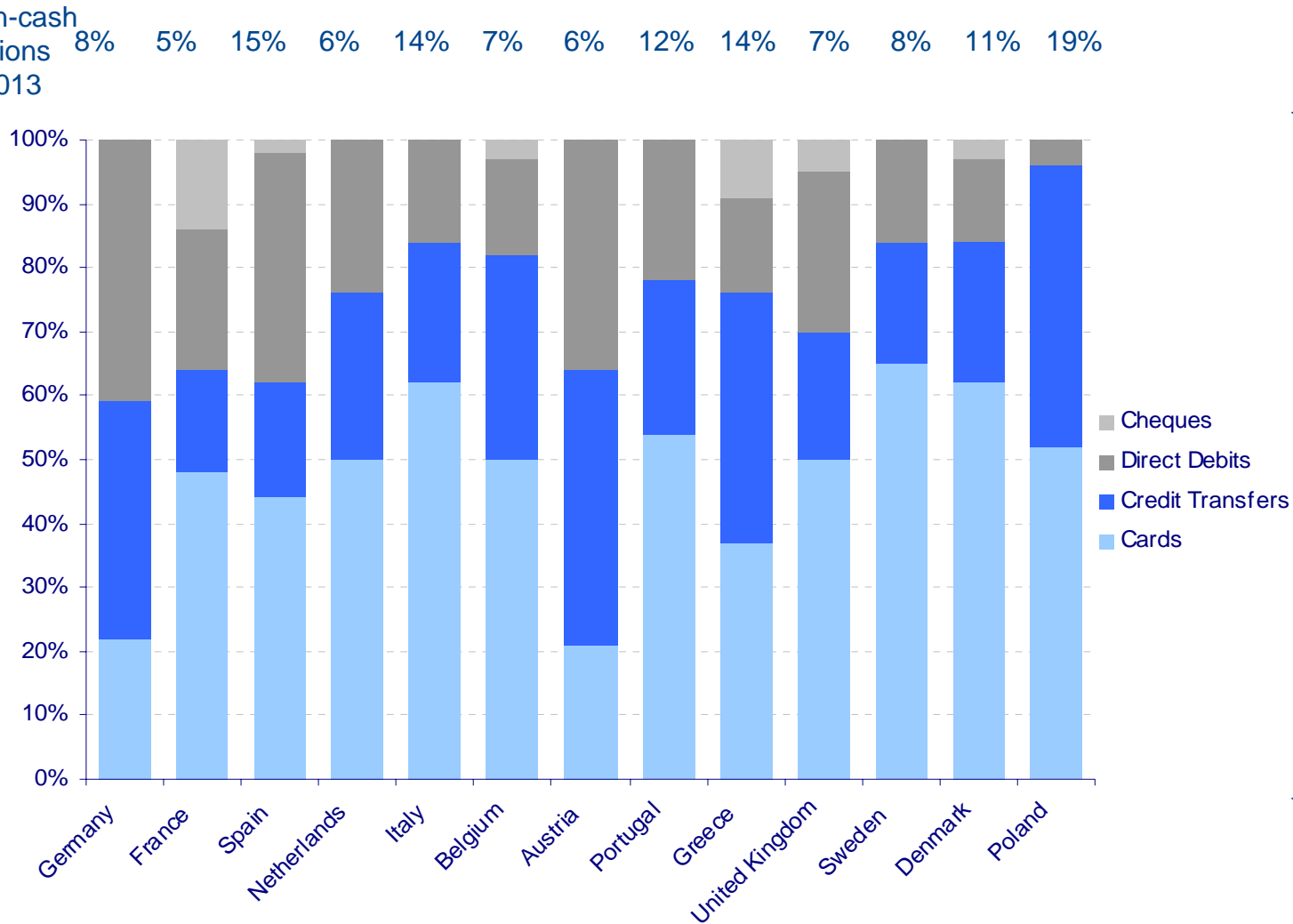
Note : Figures are based on 13 countries covered in the World Payments Report 2009, Capgemini

Sources : ECB Blue Book – 2006 figures, released Nov. 2007 ; Capgemini analysis, 2009

Payment cards are the # 1 bank's way to deepen its relationship with its clients

Estimated share of payments instruments per country in number of non-cash transactions, 2013

CAGR non-cash transactions 2006-2013

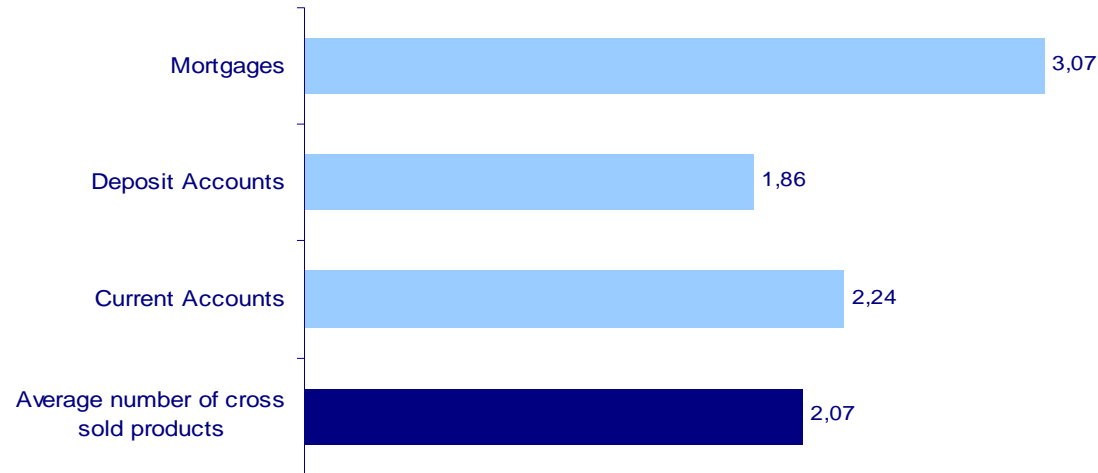


164 contacts per client each year in Europe

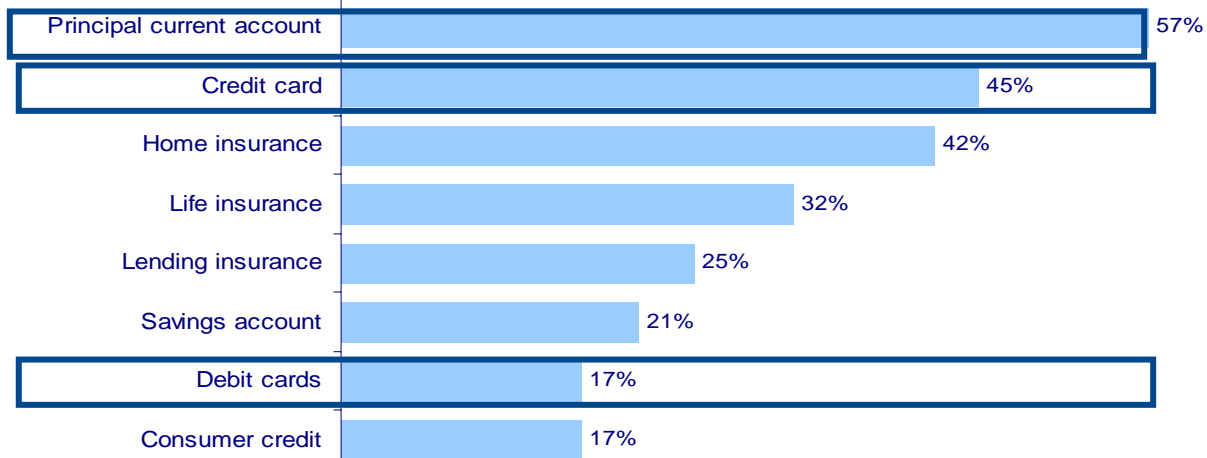
Source : Capgemini analysis, 2009

Payments are more of cross-sold products than cross-selling facilitators

Main Hook products in Europe - 15, 2005



Main Cross-sold products in the mortgage area, % of respondents of interviews with 54 surveyed retail banks, 2009



Sources : Report on the retail banking sector inquiry, SEC(2007)106, European Commission ; Capgemini analysis, 2009

Clients' acquisition through payments is paying off

<i>Country</i>	<i>Offer</i>	<i>Impact</i>
France	▪ Banque Accord: low price cards in 2000, and in 2003, add of the cash back option	▪ +1million clients in 2006
Germany	▪ Dresdner Bank: low cost Banking Package	▪ 40% of the clients that left the bank came back in 2001
Spain	▪ La Caixa : On co-branding cards , cards personalization, loyalty program (Puntos Estrella)	▪ 8.3 million cards ▪ +800,000 clients in 2006
	▪ BBVA : Prepaid cards – Restaurant prepaid cards launched in 2005	▪ 250,000 affiliated restaurants and 25,000 affiliated clients
	▪ ING Direct: remuneration of deposits and free basic banking services (e.g. credit card)	▪ +60,000 clients in 2006 ▪ 12 million of assets under management
UK	▪ MBNA : Co-branded cards – affinity, community cards with cash back option.	▪ First credit card provider in the UK (created 13 ys. ago)

Source : Capgemini analysis, 2009

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Pressure to maintain investment levels is still high for banks

Regulatory pressure :

- SEPA
- PSD
- G20 new rules to come
- ...

Technology investments :

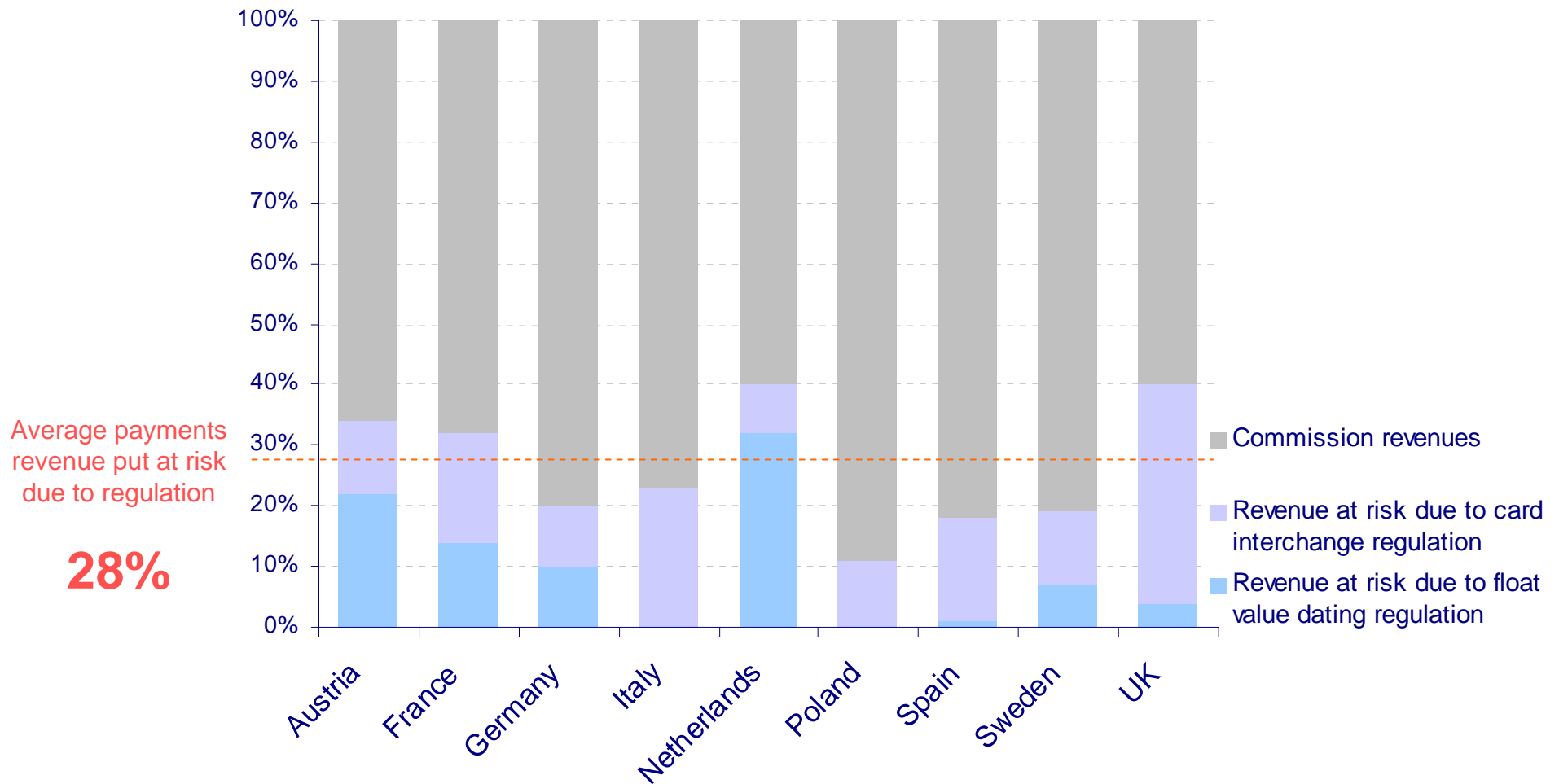
- Replacing obsolete IT systems
- Reducing operational costs
- Offering new products and services
- ...



**Client expectations
in terms of services and product innovation**

The regulatory landscape and competition force the transformation of the business model

Potential impacts on payment revenues with regulatory intervention

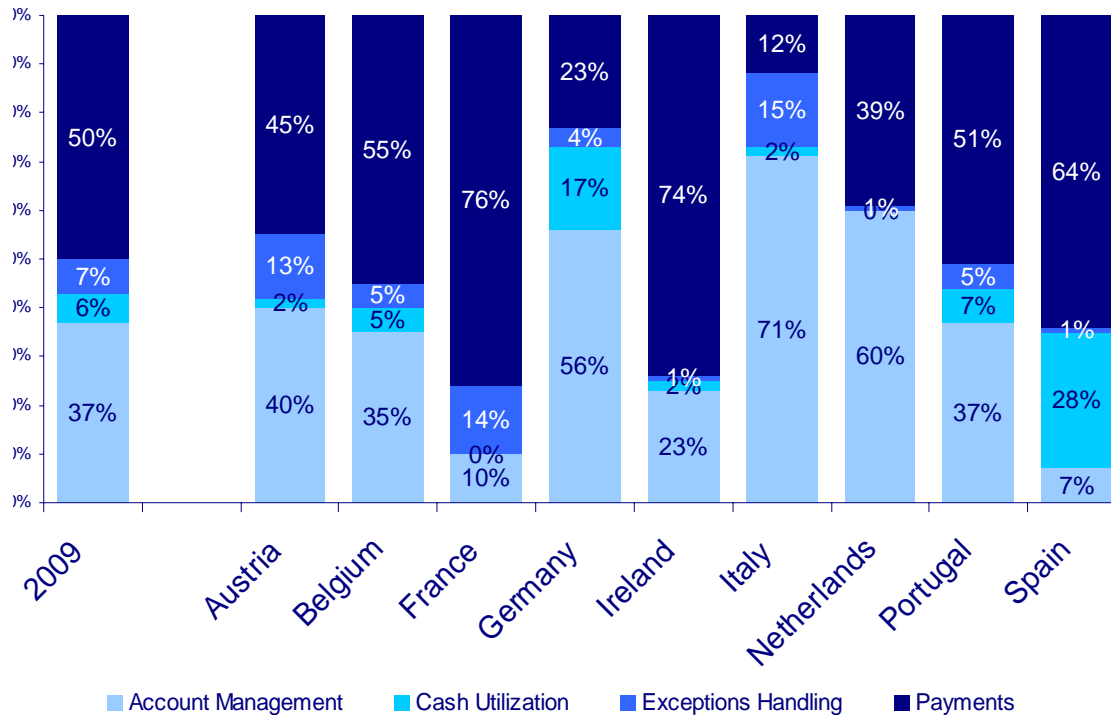


Source: Capgemini analysis, 2009.

Banks are adapting to the environment and to the technologies being implemented

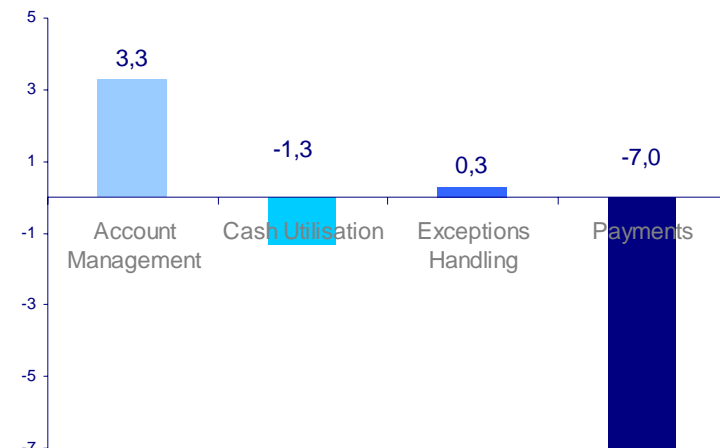
Sources of Fees for Core Banking Services in Europe Eurozone (%)

Components of average annual price of core banking services, 2009 (%)



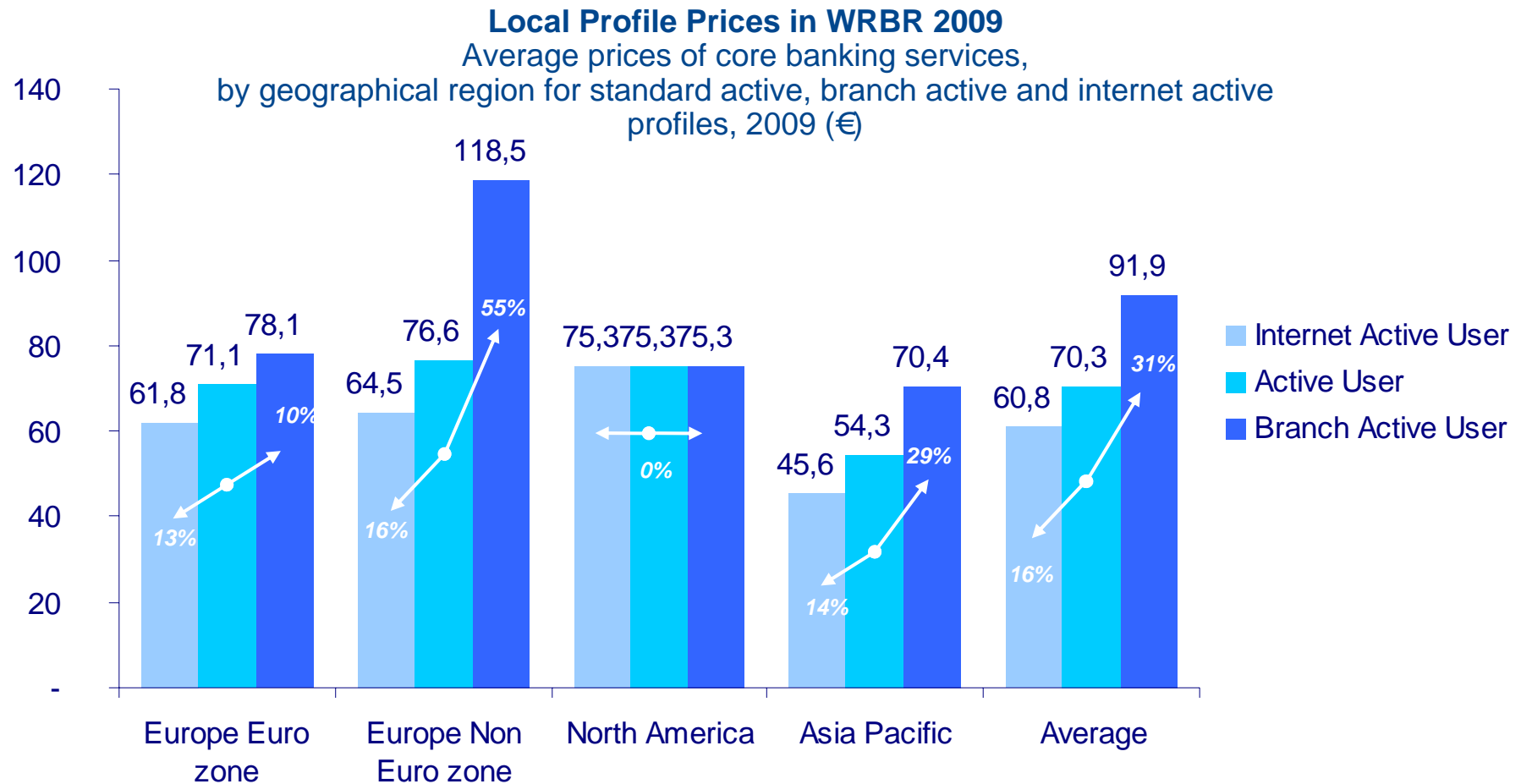
Product and Service Price Variations vs. Last Year for Local Active Users (€)

Global Average Price Variation, by Product and Service Category, for the Local Active User 2008-2009 (€)



Source: Capgemini analysis, 2009.

The development of a differentiated pricing per distribution channel is now significant

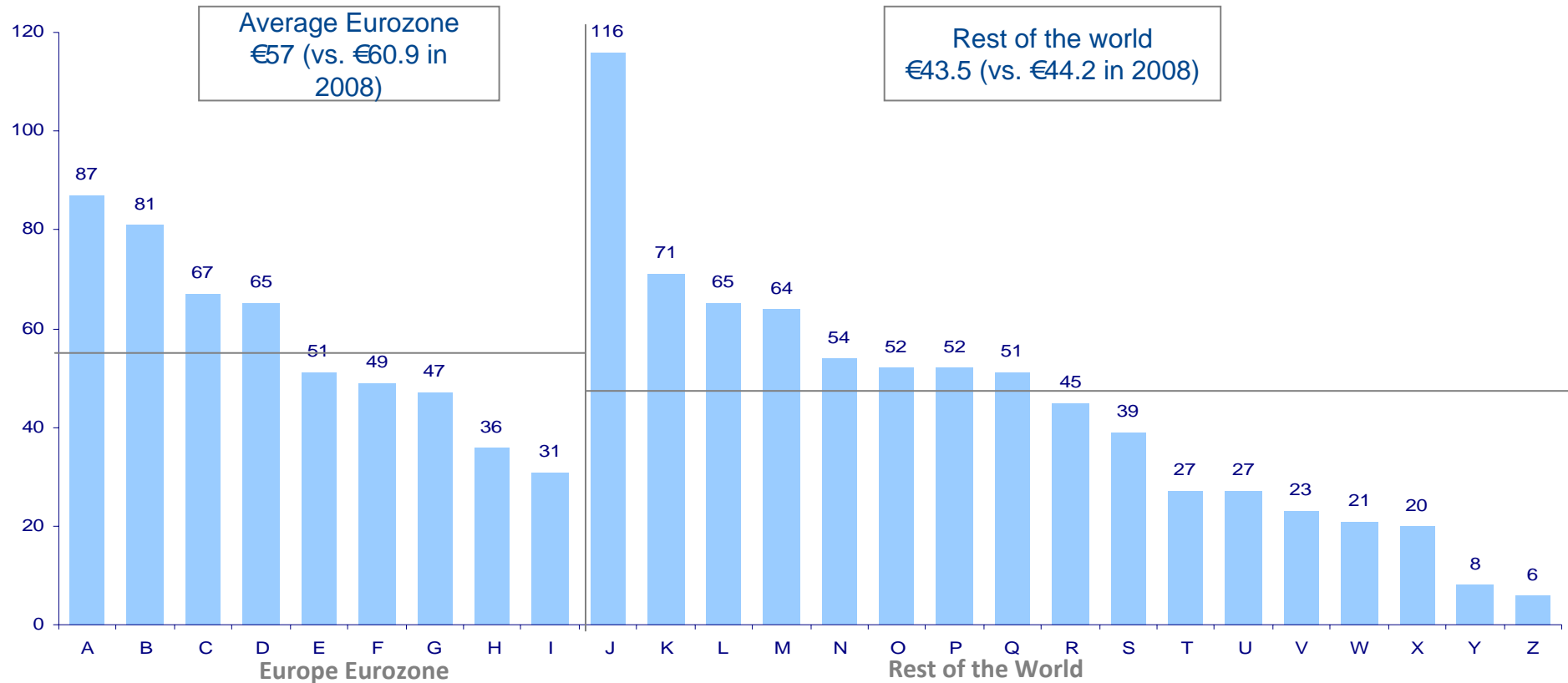


Internet active users pay on average 9.5€ less than active users and 31€ less than branch active users

Source: Capgemini analysis, 2009.

SEPA effect on prices is confirmed: the price of electronic payments decreased by about 4€ in Europe Eurozone

Electronic payments' price in WRBR 2009*
Average price of electronic payments for local active profile, 2009, (€)



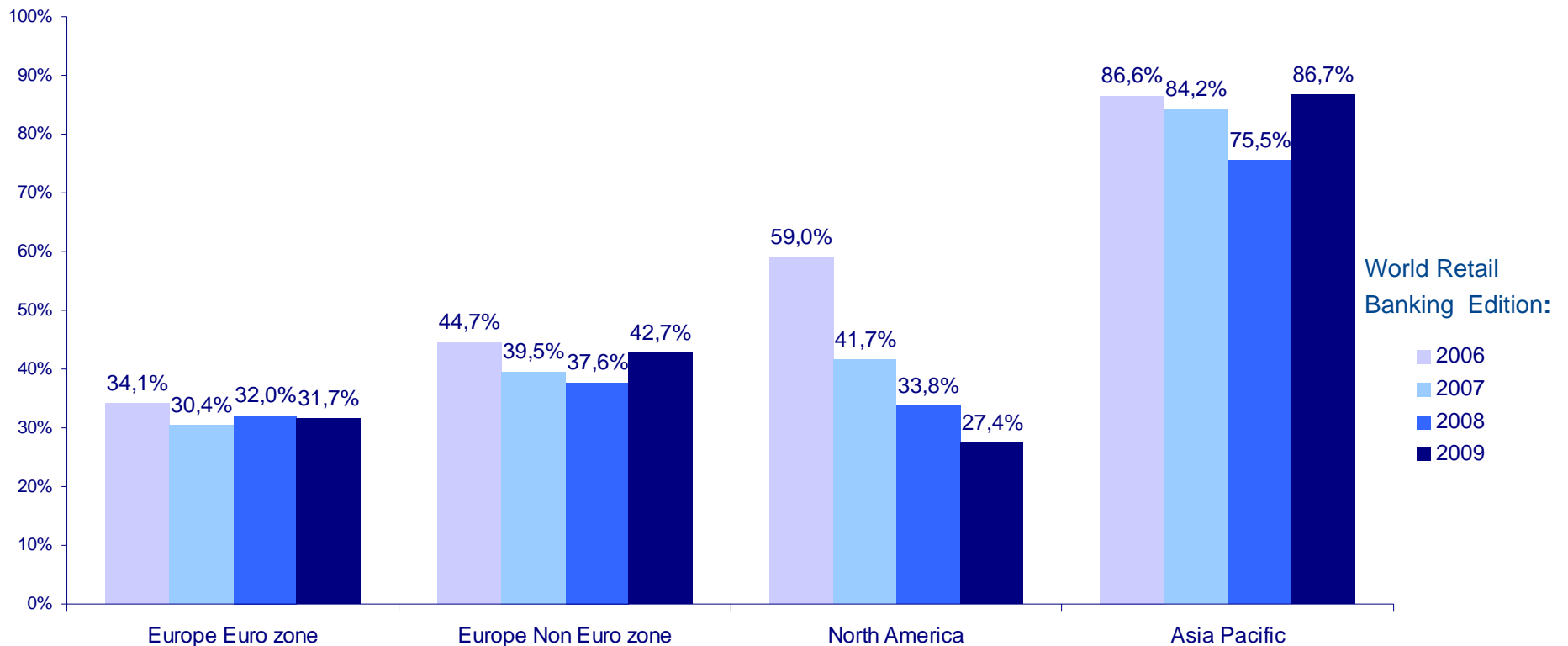
In Europe Eurozone, the CAGR for 2006 to 2009 for the SEPA products was (-3.6%).

* internal and external wire transfers, direct debits, credit and debit card, and current account.

Source: Capgemini analysis, 2009.

Convergence is slowly on the way in the Eurozone

Regional Price Discrepancies for the local active profile, WRBR 2006- WRBR 2009 (%)
 Standard deviation between countries' prices within each regional area, 2006, 2007, 2008 and 2009 (%)



Source: Capgemini analysis, 2009.

Banks are attacked throughout the Payments value chain - specifically on the Offerings Development and Issuing & Acquiring activities

Payment value chain :



Clearing & Settlement systems



International Cards schemes



Payments Service Providers



New entrants (telecommunications, distribution)



Main activity
 Secondary activity
 Targeted positioning

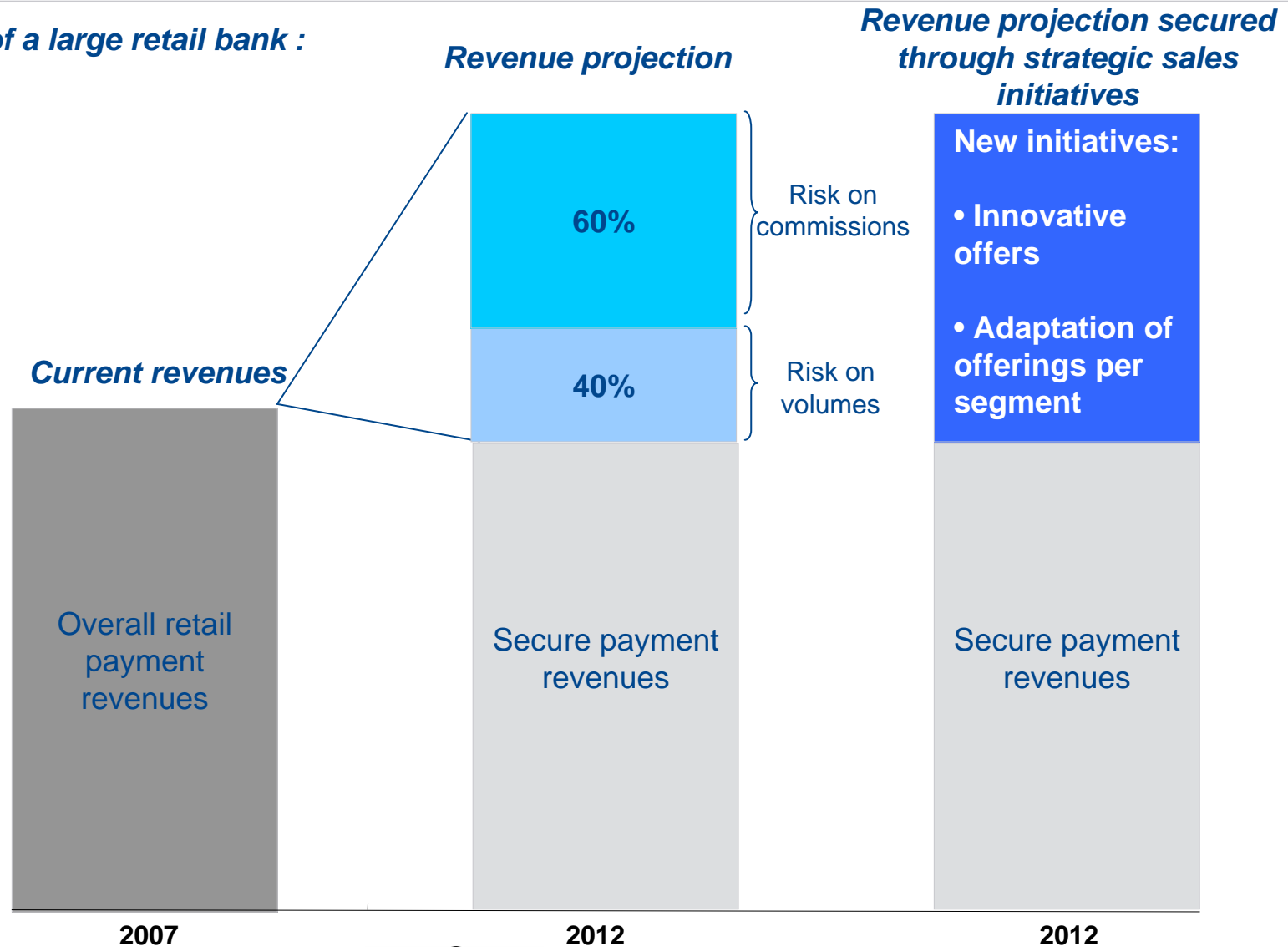
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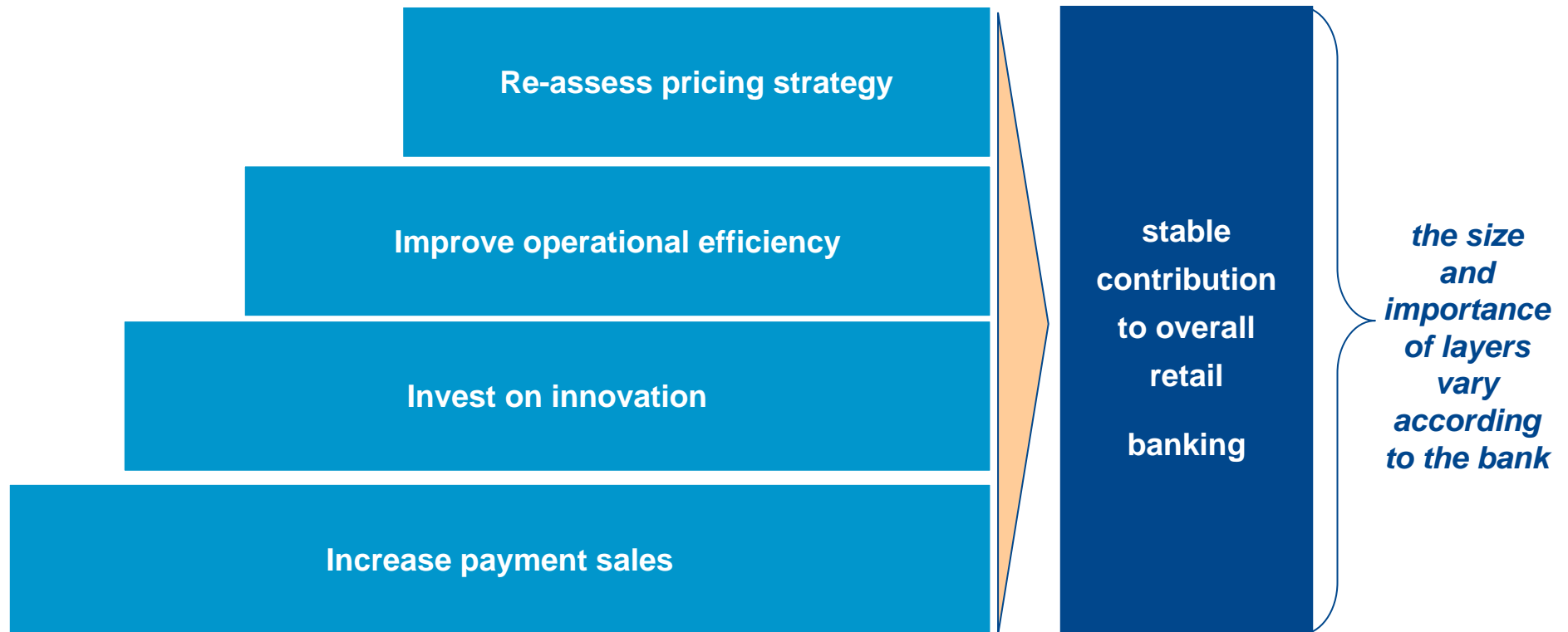
Risk on payments revenues can be counterbalanced by specific initiatives

Example of a large retail bank :



To remain a contributor to retail banks business a combination of actions are to be implemented for payments

Possible initiatives for banks:



Payments are crucial for Retail Banking

- Retail banking revenues are rather stable and payments are even more stable
Contribution to Retail banks is around 20%
- Today, the European landscape is very diverse
Customer acceptance of change is critical
- Payment contributions to retail Banking is crucial
A major component of customer relationship, improvement of profitability and innovation
- Pressures for change are strong
Revenues are declining on payments
- Anticipating changes creates opportunities
Proactive actions can compensate for revenues at risks

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