

# RETAIL BANKER

## INTERNATIONAL

# RBI #750

### RETAIL BANKER

INTERNATIONAL

A bi-weekly bulletin on consumer financial services worldwide

Published in London and New York  
Issue No. 1 18 May 1981

Editor: Michael Lafferty

## Banks counter-attack after US mergers

Citibank and Bank of California, as well as Visa, the consumer payments organisation, are leading moves by the US banking industry to counter the growing power of money market funds. Their target is Regulation Q, which sets interest rate ceilings on consumer savings instruments.

The new wave of developments comes a month after the Citibank merger with First City National Bank. Rhoan Street in New York turned into a newsstand for the over-the-counter market. Banks are alarmed at the prospect of competing against the largely unregulated non-bank financial conglomerates that are emerging.

Money market funds, run by brokerage firms and paying market rates of interest, now account for \$118 billion in assets, and are growing fast.

Reg. Q is to be phased out over the next five years. However, big banks in particular would like a quick end to all interest rate ceilings to enable them to compete on an equal footing with the money

than they do the money funds, and consequently favour the gradual phasing out of interest rate restrictions. The thrifts, meanwhile, tend to align themselves with the smaller banks.

In response to industry pressure, the U.S. Justice Dept. in early May urged the depository institutions deregulation committee, which is supervising interest rate

deregulation, to require a check on the \$2,000 and interest rate 5 1/4 per cent. Citibank is experimenting with money market funds. The deposit interest rate is 5 1/4 per cent. The minimum required deposit is \$3,000 because Citibank will lend customers as much as \$7,000 to buy the \$10,000 CDs.

In California, Bank of California, the nation's 52nd largest, has unilaterally taken the initiative against the money market funds. On May 6 BankCal announced a new account called Money Market Plus, which would pay a money market interest rate on a minimum balance to open the account, which can be accessed by cheques

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### newpoint

profile: Helmut

However, the plan to end the plan of the Federal Reserve. Probably the intervention of the Visa, which has announced plans to run its own management account, linked to a new premium card, on behalf of its bank members. Visa timed its move to capitalise on a hoped-for backlash against American Express.

Reaction to the Visa proposal vary. Big banks, which would prefer to offer a fund of their own, have given the idea a rather cool reception while some smaller banks have yet to grasp the competitive implications of the merger movement. Wall

# AFTER 37 YEARS AND 750 ISSUES, HOW HAS THE RETAIL BANKING LANDSCAPE CHANGED?

## AWARDS

The RBI Global Annual Awards recognise the best in retail banking worldwide

## FEATURES

RBI speaks to Itau Unibanco, BBVA, Metro Bank, BBVA, RBC and...

## AND MORE

...HSBC, Emirates NBD, Citi, Tinkoff, Ally Bank and Wells Fargo as well

# THIS MONTH

**COVER STORY**

**RETAIL BANKER**  
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## JUNE 2018

## RBI#750

## 06 / ISSUE 1

The world of banking has changed dramatically. As *RBI* celebrates issue 750, *Briony Richter* looks back to issue number one, published in May 1981, to see how the landscape of banking has transformed

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In *RBI's* 37-year history, few bankers have been as quotable, colourful or successful as Vernon W Hill II. Rightly described as having revolutionised retail banking in the US, he tells *Douglas Blakey* the reasons for his success

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Some 14,000 UK bank and building society branches have closed since the first issue of *RBI* was published on 18 May 1981. As it celebrates issue 750, *Douglas Blakey* looks at the changing face of the UK branch network

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Ally Bank has been adding products to offer its customers a 'one-stop shop'. The result has been major growth in deposits and client numbers, deposits and consumer strategy executive Anand Talwar tells *Robin Arnfield*

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Itaú Unibanco, Brazil and Latin America's largest bank, has made significant investments in digital technology. It has also formed a Latin American strategic council to drive its expansion. *Robin Arnfield* reports

## 36 / BRANCHES

Michael Allen is the founder of strategic design company allen international. He discusses with *Douglas Blakey* some of the most significant branch projects in which he has been involved, and looks ahead to the future of the branch



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## RBI GLOBAL AWARDS

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Now in their 33rd year, the *RBI Global Annual Awards* celebrate the best in global retail banking. The quality and sheer quantity of the submissions received again do the awards proud, writes *Douglas Blakey*



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Wells Fargo has announced major innovations to improve its digital banking users' customer experience. It is also reimagining the future of personal finance to optimise the customer experience. *Robin Arnfield* reports

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PSD2 and the implementation of Open Banking in the UK create a wealth of opportunities. However, it has been one of the biggest compliance tests the industry has ever faced, writes Fiserv's *Andrew Steadman*

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Financial services rarely stands still, and some areas have seen a complete transformation of the roles and skills required. One area that has seen a cataclysmic shift in expectation is AML compliance, writes *Phil Rolfe*

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Start building relationships with consumers while they are still young, or risk missing out on opportunities to help shape their financial perspectives and build brand preference for the long haul, argues *David Martin*

# 750 AND COUNTING: THERE HAS NEVER BEEN A BETTER TIME TO BE COVERING RETAIL BANKING



Douglas Blakey, Editor

**A**s a rule it is always better to look forward than back, but for one issue we have been looking back as *RBI* celebrates its 750<sup>th</sup> issue.

Looking back to issue number 1 in May 1981 and subsequent early issues of *RBI* has been huge fun.

Issue number 1 was published in May 1981. In the interim, there have, of course, been huge changes in channels – for example, our branches table in 1981 showed 22,000 bank and building society branches in the UK. Today it is about 7,800 (see page 7). NatWest, to pick just one example, is down from 3,370 then to 655 today.

We also reported on banks trialling ATMs; in 1981 Barclays had a mere 240 ATMs across 3,014 branches.

But the biggest change, arguably, is not in channels but relates to the unbanked – and it is actually a great banking success story. In 1981 we reported on the great unbanked British. The UK banks' own research organisation at the time said that a staggering 45% of Brits did not hold a current account. Today, some 46 million Brits hold a current account – about 90% of all adults.

We reported on the need for cash displacement in 1981, and that subject remains topical today. Today's millennials will be amazed to learn that, in 1981, a majority of UK workers were still paid weekly and in cash – 14 million workers.

Much, however, has not changed since 1981. Issue 1 talked of the future of current accounts – should interest be paid on current account balances?

There was discussion about fears over margin pressure and forecasts of a coming era of lower interest rates: for the record, the net interest margin enjoyed by Barclays in the period 1978-1980 was in the region of 6-8%, against about 2-3% today. And there was talk of the dominance of the Big 4 and the need for greater competition.



## *The need for challengers*

We are still talking about the need for challengers and greater competition.

The big story in issue 1, May 1981, was the outbreak of a bidding war for RBS, with rival bidders HSBC and Standard Chartered.

That was to become quite a saga, and if the Thatcher government – yes, the free market government of Margaret Thatcher – had not ultimately blocked both bids, banking history would have been very different.

We might never have heard the name Fred Goodwin. It

also seems to suggest that a Standard Chartered/RBS combined bank would not have bid for a toxic bank in the Netherlands.

Two other things have not changed since 1981: Vernon Hill (see page 34) was stirring up the market and bucking the market with his focus on the branch – sorry, store – and his focus on building fans through service and convenience.

And closer to home, the biggest thing that has not changed is that the UK is a great market for retail banking. In issue number 1, we headlined a feature: *The UK – a great market for retail banking*.

That was true then, and arguably is even more accurate today. Witness the explosion in the number of start-up and challenger banks.

I have only been involved with *RBI* since about issue 520, so almost one-third of the title's history. It has been huge fun, and seems an appropriate time to say a heartfelt thanks to all subscribers, contributors, bankers, PRs and press officers for their help.

And just to put May 1981 into some kind of non-banking historical perspective, in other news that month, Bob Marley died, the musical *Cats* was performed for the first time, and number 1 in the charts was Bucks Fizz's *Making Your Mind Up*. ■

# RBI#750 RETROSPECTIVE: LOOKING BACK TO 1981 AND RBI #1

The world of banking has changed dramatically. As *RBI* celebrates issue 750, *Briony Richter* looks back to issue number one, published in May 1981, to see how the landscape of banking has transformed in the last 37 years

**F**rom the rapid rise of electronic payments and digital technologies, to AI automation and branchless banks, the way we bank today would be unrecognisable to the industry in 1981.

So, let us step back to what *RBI* reported in May 1981 to see the extent to which banking and the UK market have progressed.

## CURRENT ACCOUNTS

The most astonishing difference is the number of Brits without current accounts in 1981 compared to today.

The first issue of *RBI* explored the unbanked in the UK. In 1981, it reported that, although the UK was considered the banking capital of the world, a staggering 45% of adults did not have a current account.

The article, *The UK – a market opportunity*, quoted Frank Stankard, senior executive of international banking at Chase Manhattan Bank, as saying: “In some ways, England has some aspects of an underdeveloped country.”

*RBI* in 1981 reported that although 45% of UK adults did not hold a current account, only 15% were without any form of account. The article highlights: “The message seems to be that a large number of British adults manage quite well without going near a bank.”

At least in terms of financial inclusion, the UK has improved. Around 46 million people in the UK now hold current accounts. According to the Financial Inclusion Commission, the UK ranks ninth in the world in terms of banking inclusion; furthermore, it reports that only about half of the unbanked population would like a bank account.

However, existing from day to day using just cash was a lot easier in 1981; today, the

UK has some 1.5 million unbanked citizens. Without so much as a current account, the unbanked population is excluded not just from access to mainstream credit and banking services, but from making basic transactions in the growing number of stores that no longer accept cash.

## TAKEOVER BATTLE

Between the late 1970s and early 1980s, the UK was engulfed in battles to take over the Royal Bank of Scotland (RBS). In 1981, *RBI* reported on these controversial bids; the two main contenders were Standard Chartered Bank and HSBC.

Initially the offer from Standard Chartered Bank was approved by the Bank of England. However, HSBC swooped in with a rival offer.

At the time, HSBC had no presence in the UK, and although Standard Chartered had headquarters in London, the bank had no retail presence in the UK.

The bids came under political scrutiny as the UK government was opposed to a takeover by HSBC, and eventually both bids were referred to the UK Monopolies Commission to be investigated.

Racing forward to 2018, one wonders what would have become of RBS had it been acquired by Standard Chartered or HSBC. Currently, the bank is having its own troubles. Leaders of RBS have been accused of lying to MPs amid claims that staff at banks poised for closure have continued to be given targets on convincing customers to go digital.

CEO Ross McEwan appeared before the Scottish Affairs Committee on 8 May to argue the case for closing a further 62 branches.

## CASH TO CASHLESS

In 1981, *RBI* reported that transactions by card witnessed a tenfold increase between 1971 and 1979. However, Brits were not taking to the new payment form too easily, with card payments representing less than one household in 15. In the 1980s, cash was clearly still king.

The dominant credit card provider in the UK at the time was Barclays, powered by Visa. The bank was the first to launch a credit card in 1966 and, according to *RBI*, in April 1981, 5.5 million people in the UK used a Barclaycard.

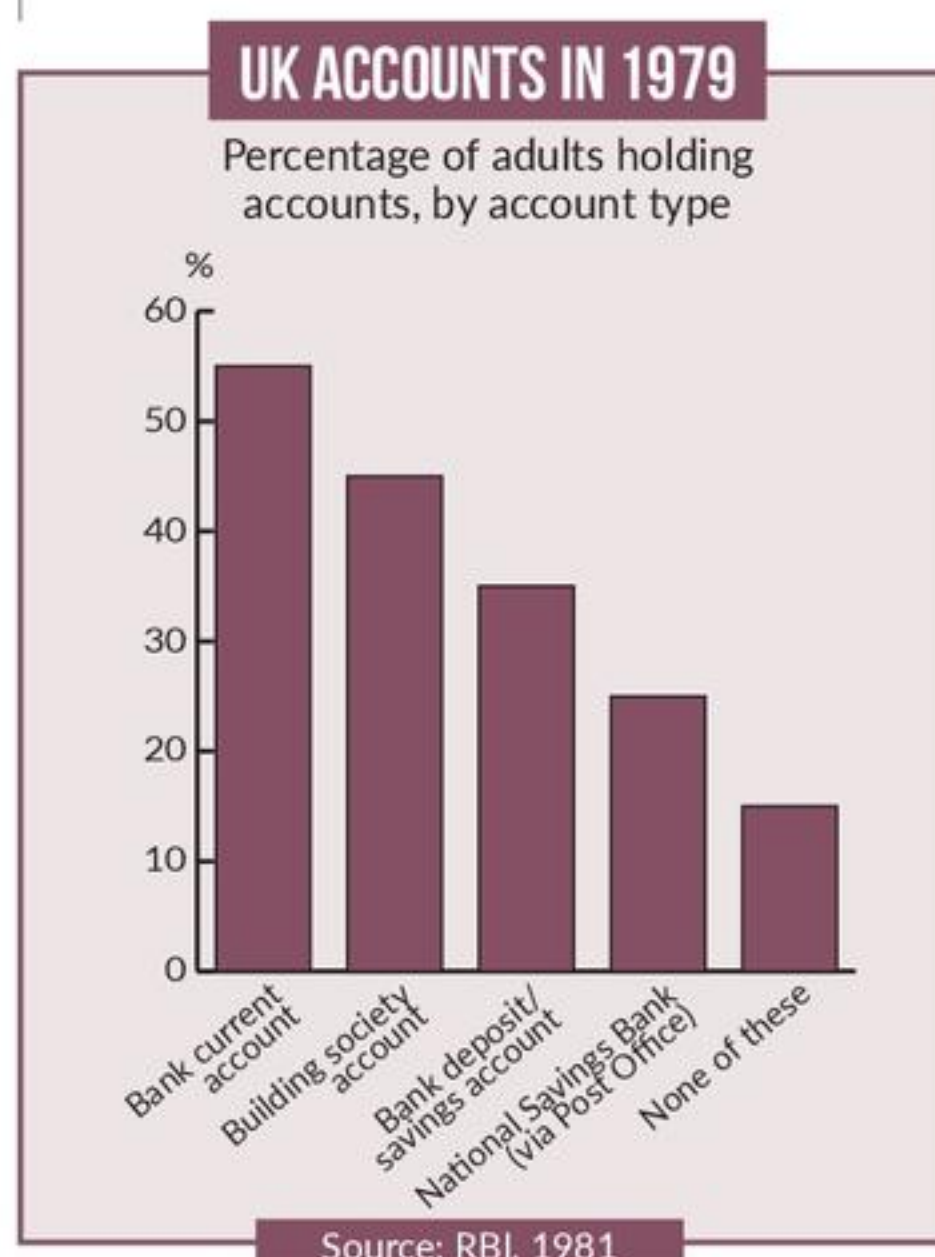
Fast-forward to today and cash has definitely lost its crown – in fact it is not even in the running as the competition now firmly stands between digital payment methods.

According to a report by CACI, mobile banking is set to soar past usage of online banking by 2019. The data analyst predicts that 35 million people – 72% of the UK adult population – will conduct their banking tasks through a mobile phone app by 2023.

Visiting a branch in 1981 was extremely common and frequent, as many employers still paid staff in cash or by cheque. CACI has predicted that by 2023, the average person will only visit a branch twice a year.

Just two years after *RBI*'s first issue, online banking hit the screens of the UK population. That changed the whole landscape as traditional face-to-face banking started to lose out to digital solutions.

The transformation in how we bank has been astounding – and the revolution is only going to continue. ■



# RBC: BUILDING ON ITS SUCCESS

In May alone Royal Bank of Canada has been recognised with the *JD Power* award for Highest in Customer Satisfaction among Canada's major banks, and scooped *RBI's* award for Best Retail Bank North America. Neil McLaughlin group head, personal and commercial banking at RBC, discusses the bank's winning strategy with *Douglas Blakey*

**W**hen RBC president and CEO Dave McKay tapped Neil McLaughlin to take the helm of RBC's leading personal and commercial banking franchise, the long-time employee was honoured to be chosen.

While he was proud of the work he was doing to support the country's entrepreneurs as head of the bank's crucial business financial services division, McLaughlin was ready to take on the new challenge.

Now as head of RBC's largest business line, McLaughlin is in a position to help many Canadians realise their goals – everyone from the young family moving into their first home, to the newcomer looking to establish roots, to the business owner planning an international expansion.

Since becoming group head, personal and commercial banking last May, RBC's Canadian retail division posted record year-end results, delivering revenue of \$15.9bn and contributing fully 50% of RBC's overall record net income of \$11.5bn in 2017.

RBC's impressive financial results included achieving all of its medium-term objectives, delivering a return on equity of 17% and returning a record \$8.2bn of capital in dividends and share buybacks to shareholders.

Overall, RBC outperformed its global peer group, delivering compound annual total shareholder returns of 12% over three years,

and 16% over five years, making it Canada's most profitable public company in 2017.

## FROM THE CLIENT IN

While there is no doubt that the retail division is operating from a position of strength – RBC holds the number one or two market positions across all key product categories in Canada – McLaughlin took the reins at a time of incredible change.

Under McKay's leadership, RBC is undergoing a transformation across all of its

five business lines to ensure the company's relevance in an increasingly digital age.

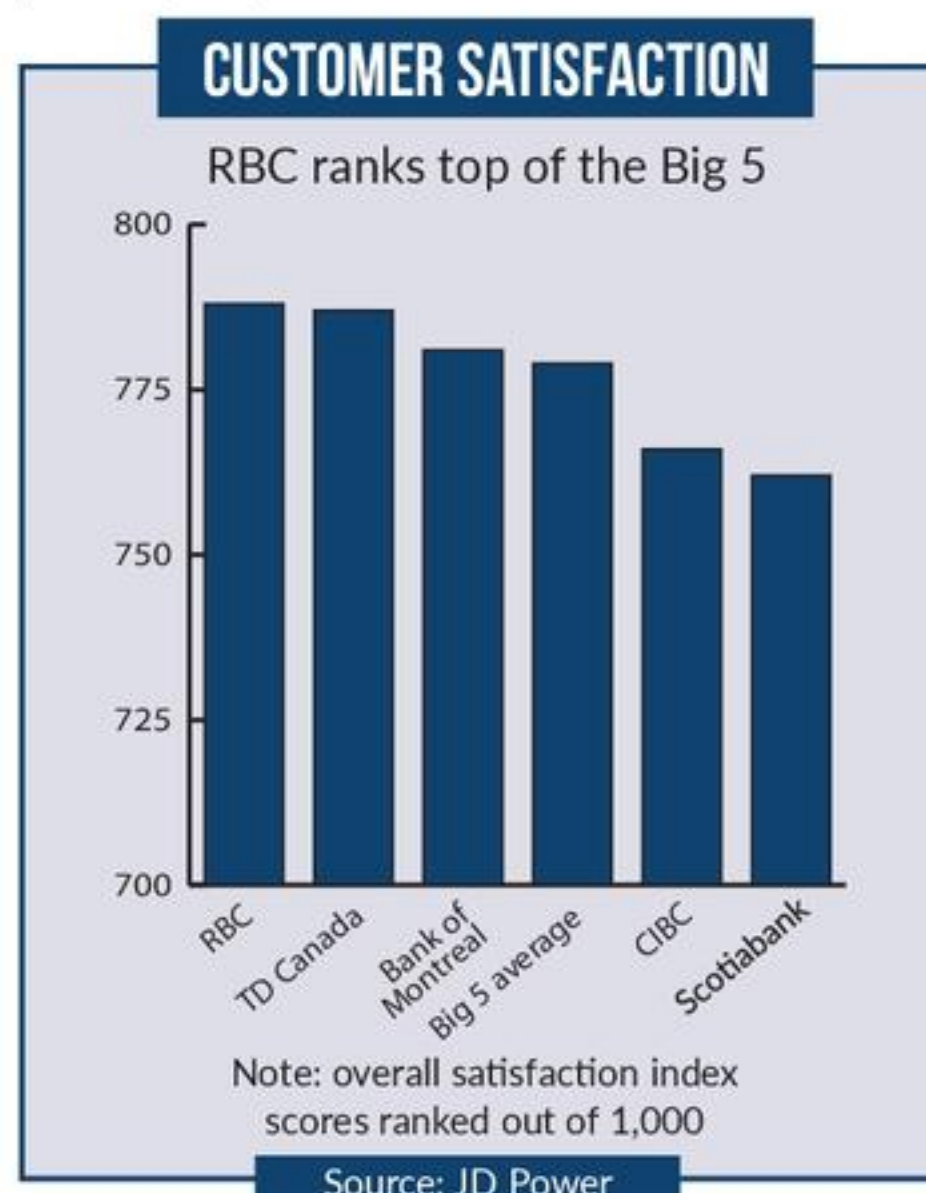
McKay's plan includes investing in innovation both internally and within Canada's wider innovation ecosystem, simplifying processes and systems, and transforming the bank's corporate culture so that it is more agile and adaptive, and focused on building from the client in, instead of the historic mainstay of the bank out. The retail arm is playing a critical role in this transformation.

"We're building a digitally enabled relationship bank where the client is at the centre of every decision we make," McLaughlin tells *RBI*.

"It's a multi-faceted approach where we're integrating our mobile, digital and branch channels, investing in emerging technology and developing a more agile culture so that we can deliver better products and services to our clients when, where and how they prefer."

## POWERING INNOVATION

That focus on client convenience and effectiveness has energised McLaughlin's team who are accelerating the bank's digital transformation, simplifying processes, and developing and delivering first-of-its-kind products and services to the Canadian market, many in just the last few months.



In the Autumn of 2017, the bank introduced NOMI, a new feature for the RBC mobile app, which happens to be Canada's most utilised money management platform. NOMI uses artificial intelligence to provide clients with personalised financial insights to help them with their day-to-day needs.

Using NOMI's predictive technology, clients are twice as likely to save as those employing traditional self-serve products. It was just one of the 22 new mobile app capabilities RBC released to retail customers last year – more than all of its Canadian competitors combined.

RBC's investment in mobile technology is paying off. In the first quarter of this year, mobile became the retail bank's number one digital channel, with 3.4 million active users, up 19% from a year ago. Some 85% of financial transactions are now performed in self-serve channels.

With the rising popularity of digital channels RBC is placing greater focus on data security. "Data is becoming crucial to customising consumer experiences and how we protect, manage and utilise that data is equally important," McLaughlin says.

"We're committed to maintaining the highest possible privacy and security standards, and being transparent and explicit around customer consent."

But RBC's focus on innovation is not just about technology, the bank continues to look for new ways to add value and reinvent mainstay products and services. In October 2017, McLaughlin's team partnered with another iconic Canadian brand, oil and gas company Petro-Canada, to offer clients instant savings on fuel purchases and loyalty rewards from both companies.

What makes the offer unique is clients can realise the benefits using any of their existing RBC credit or debit cards, whereas in the past the benefits would have been exclusive to a specific – likely co-branded – card.

"The power of this partnership and the program we've launched is that it's incredibly simple to take advantage of," says Deborah Gullaher, vice-president, sales and marketing at Petro-Canada.

"Most fuel savings offers are either limited to a co-branded credit card, or involve minimum spends and annual rebates.

Gullaher continues: "We've taken away all of the complicated calculations, limitations and extra cards to make it possible for Canadians to enjoy instant fuel savings while they earn more points on any linked RBC debit or credit card."



Neil McLaughlin, RBC

## BRANCH EVOLUTION

With technology and innovative offers, you might be thinking: what about the branch?

RBC has the largest branch network in Canada, but there too McLaughlin says the company is innovating to tailor to its customers.

"Our branches continue to be a vital part of our presence in Canada; they are a key touchstone in the community," he explains. "But today, we're moving away from a one-size fits all structure and exploring new formats to meet and anticipate the changing needs of our clients."

New Canadians represent a growing client segment for RBC, and in April the bank

launched a new branch format that moves beyond banking and provides information, expertise and services to help newcomers on their settlement journey.

The bank is also opening its On Campus format at universities across Canada to help young people navigate financial services for the first time, and it is piloting on-the-go formats that offer quick and convenient services in well-travelled commuter locations.

The industry has taken notice of the bank's explicit focus on the client, with RBC taking home several coveted national awards, notably earning the *JD Power* award for highest in customer satisfaction among its main Canadian competitors for three years running and winning top spots for mobile app capabilities and separately for advice.

While awards are heartening, McLaughlin points out they only underscore that RBC is firing on all cylinders and the core changes essential to McKay's vision are already paying off.

## RIGHT LEADER, RIGHT TIME

Helping to lead the bank's transformation is something McLaughlin's 20 year career at RBC has well prepared him for.

Learning the business from the ground up, he has worked in credit cards and personal lending, marketing, channel strategy and, importantly, lead risk operations for the Canadian retail banking division, where he managed credit adjudication, fraud, collections, operational risk and commercial adjudication.

With his background as a foundation, McLaughlin has a view that is both thoughtful and customer-centric. While technology may create the runway, he knows it will be people that will lead RBC into the future.

"At our core we are a people business," says McLaughlin. "While technology will provide the tools and insights, it will be our people that build stronger relationships with our clients, and help them realise their goals. And no one has better people."

Overall, McLaughlin is approaching the future optimistically and with a real sense of purpose.

"Dave [McKay] has given us an incredible framework and the permission to make the changes we need to get to the next level," he says.

"We have the right vision, the right strategy and most importantly the right people. It's an incredibly exciting time to be a part of RBC, and I'm proud to lead our retail team." ■

## JD POWER: 'RBC LEADS FOR DIGITAL TRANSFORMATION'

Of the Big 5 Canadian Banks, RBC leads the digital charge with 49% of its customers in the digital-centric segment; TD Canada Trust is at the other end of the spectrum, with only 36% digital-centric customers.

Among mid-size Banks, Tangerine (93%) and Simplii (84%) boast the largest proportions of digital-centric customers, with ATB Financial (32%) having the smallest.

# THE BEST OF THE BEST: THE RBI 2018 GLOBAL AWARD WINNERS REVEALED

Over 100 financial institutions participated and a record number of submissions were received across the 29 Awards categories at the 2018 RBI Global Retail Banking Awards. Bank of America scooped the award for Global Retail Bank of the Year; it was also a good night for Emirates NBD with three awards, and for Royal Bank of Canada with two. *Douglas Blakey* reports with the full roll call of honour



## AFRICAN RETAIL BANK OF THE YEAR

SHORTLISTED	Capitec, First National, Standard Bank, Standard Chartered
JUDGES' NOTES	<p>The winning bank enjoyed a strong 2017 with headline earnings up by 14%. Its return on equity rose by two percentage points to 17%, while its cost-income ratio was successfully reduced by 60 basis points (bps).</p> <p>Digital banking channel highlights included a rise in mobile banking volumes up by 32% in 2017 to reach 2.2 million users.</p>
WINNER	Standard Bank

## NORTH AMERICAN RETAIL BANK OF THE YEAR

SHORTLISTED	Bank of America, Citigroup, Chase, Royal Bank of Canada
JUDGES' NOTES	<p>The winning bank in 2017 had another record year – the most profitable public company in its domestic market and North America's best-performing large bank based on a variety of financial metrics.</p> <p>Its group ROE was 17%, while its retail banking ROE was 28.3%. Provisions for credit losses were just 21bps, and retail banking earnings grew by 11% in 2017. More than 84% of retail transactions were made through self-serve channels.</p>
WINNER	Royal Bank of Canada

## EUROPEAN RETAIL BANK OF THE YEAR

## SHORTLISTED

ING, IntesaSanPaolo, Nordea, Santander

## JUDGES' NOTES

The winning bank's acquisition of Banco Popular was one of the most significant M&A deals. Digital successes include a 24% rise in digital customers across the group to 27.3 million.

Its cost-income ratio in the mid-40s remains one of the most competitive in its peer group, and its Openbank digital bank subsidiary is up to over 1 million customers.

## WINNER

Santander

## MIDDLE EAST RETAIL BANK OF THE YEAR

## SHORTLISTED

Arab Bank, Emirates NBD, Hapoalim, Qatar National Bank

## JUDGES' NOTES

Despite a challenging local environment, the winning bank had a record 2017 with net profit rising by 15%. In digital banking it is simply world class, and it completed a five-year digital transformation programme in 2017.

It now offers paperless loans and account openings, and voice recognition. It is a leader in the use of AI and blockchain, and launched digital sub-brand Liv., targeted at millennials.

## WINNER

Emirates NBD

## LATIN AMERICAN RETAIL BANK OF THE YEAR

## SHORTLISTED

Banco do Brasil, BBVA, Santander, Scotiabank

## JUDGES' NOTES

With a strong focus on Mexico, Peru, Chile and Colombia, the winning bank delivered record earnings in 2017 – up 15% year-on-year, and strong market share gains in Chile.

Its Digital Factory Network is now fully operational in Mexico, Peru, Chile and Colombia, as well as Canada, and represents a successful key pillar of the bank's digital strategy.

## WINNER

Scotiabank



## ASIA-PACIFIC RETAIL BANK OF THE YEAR

## SHORTLISTED

DBS, Maybank, State Bank of India, Standard Chartered

## JUDGES' NOTES

The winner reported record full-year earnings for fiscal 2017, with impressive market share gains and a growing worldwide reputation for best-in-class customer service and digital banking – including the launch of the world's largest banking API platform. Other digital highlights included phenomenal customer acquisition at its digibank subsidiary in India and Indonesia.

## WINNER

DBS



# TINKOFF: TRANSFORMING RUSSIA'S FINANCIAL SERVICES MARKET

Oliver Hughes joined Tinkoff as CEO in 2007, and under his leadership the branchless innovator has grown into the world's largest independent digital bank by customer base. Hughes discusses Tinkoff's future growth plans with *Douglas Blakey*

**R**ussia's Tinkoff Bank is little more than 10 years old, but has made quite a splash in its short history.

In 2017, Tinkoff cemented its position as the number two credit card player in Russia with a market share of 11.6%, acquiring 1.8 million new credit card customers. The self-styled online financial supermarket in the cloud is now making waves in the current, SME and investment account segments.

At first glance, Tinkoff's current profit forecasts may appear ambitious – it says it is on track to hit net income of at least RUB24bn (\$390m) in FY2018, up from RUB19bn in 2017 – but, if anything, the forecasts appear somewhat modest given Tinkoff's track record.

Tinkoff Bank CEO Oliver Hughes, tells *RBI*: “We are opening over 400,000 accounts per month across all products. In consumer

current accounts, we are opening 120,000 new accounts per month.”

Tinkoff is successfully disrupting the existing market, while its current account net promoter score of +57 is sector-leading.

Tinkoff's move into the SME sector in 2016 has kicked off so well that that business line reached break even in June 2017. As at year-end 2017, Tinkoff served about 250,000 SME customers, a fivefold increase in one year. For fiscal 2017, SME business contributed RUB3.2bn in fees and commission income, and over RUB800m in net segment income.

Diversifying Tinkoff into new sources of non-credit revenue is giving it an increasing share of customers' wallets, and it is proving that it can build and scale in new segments profitably. Tinkoff Black and Tinkoff Mortgage both broke even in 2017, while its into the investment sector is also proving a hit.

Notes Hughes: “Tinkoff Investment, a retail securities trading platform-broker also exceeded expectations with over 70,000 brokerage accounts opened by year-end 2017. We are already a big player in retail securities in Russia.”

In May, Tinkoff rolled out its own platform, offering brokerage accounts directly to customers. As a result, the overall contribution to total gross revenue from all non-credit-related business lines, including Tinkoff Insurance, doubled in 2017.

Hughes continues: “We remain on track to report net income growth per year in the 20-40% range to the end of fiscal 2019.”

Segmentation strategy is very much the mid-market, but Tinkoff is increasingly moving into the mass affluent and lower end of the high net worth segments, as evidenced by its launch of Tinkoff Black, which offers concierge services.

## ATMS, BUT NO TO BRANCHES

Highlights for 2017 included Tinkoff launching its own ATM network, initially with 200 units, but Hughes already has plans for an additional 400, and says the network will hit 1,000 before long.

Hughes's position on the branch, however, remains resolute. He insists: “We do not need branches and will not have any branches of any format. Some [digital] banks have experimented with fancy branches or cafe formats or used the branch to promote their brand. We do not need any branches for brand presence.”

Tinkoff's use of biometrics puts many a established Western bank to shame. Hughes explains: “We have been using biometrics for many years now. Customers to our call centre are identified by voice – so no need for codewords, passwords or questions about your mother's maiden name.

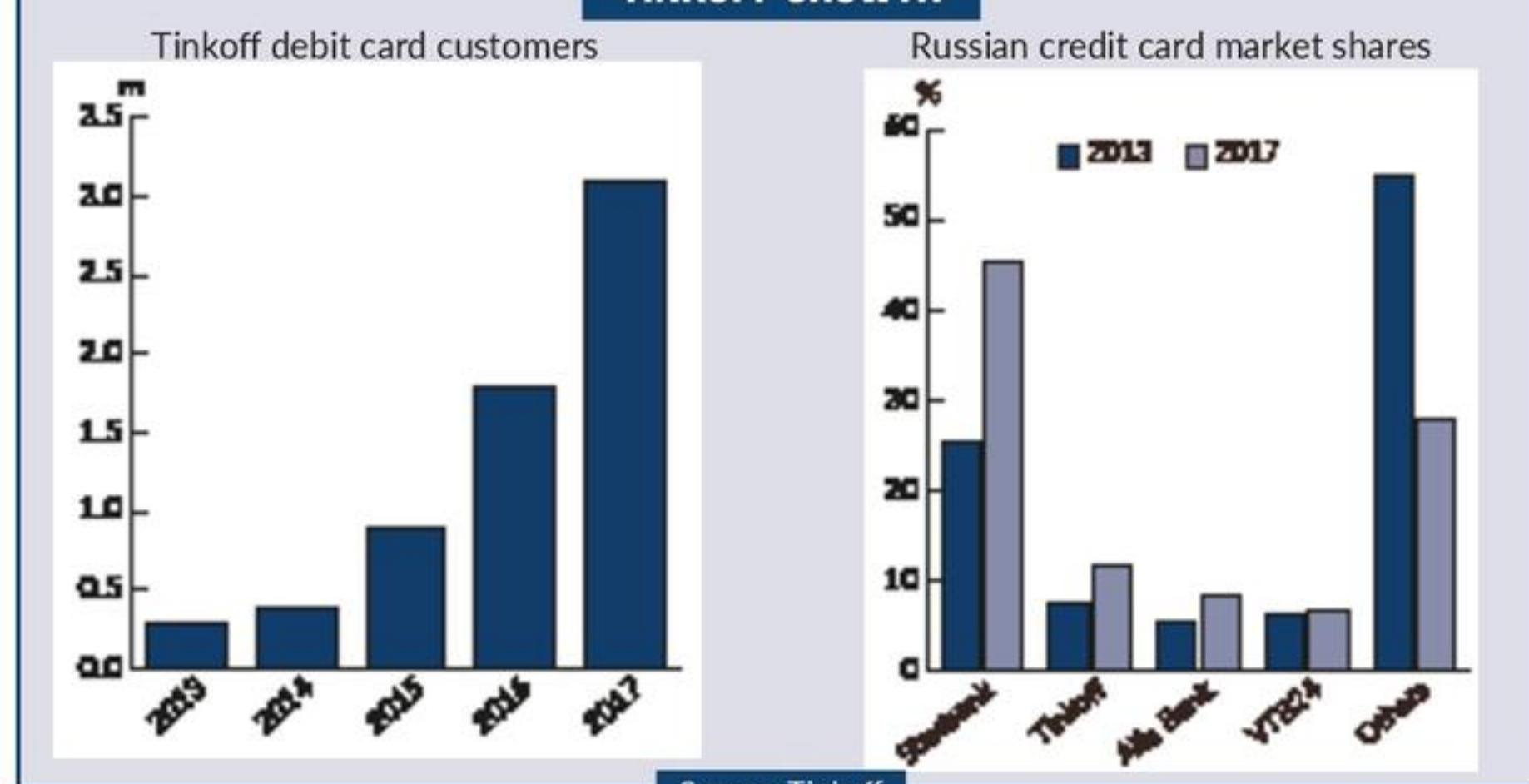
“Already we have five million voice prints. It not only enhances the customer experience; it increases call centre efficiency and security.”

Tinkoff customers are also photographed as accounts are opened, and the image shared with credit agency Equifax. The Tinkoff image library is approaching five million users.

Hughes concludes: “We are moving biometric security to the next level – with a two-factor biometric database for the state.

“Other banks have started to contribute customer images, so that in time there will be voice and face prints for all consumers. It really will be a great fraud-prevention instrument.” ■

### TINKOFF GROWTH



Source: Tinkoff

# ITAÚ UNIBANCO: RAMPING UP ITS DIGITAL AMBITION



Itaú Unibanco, Brazil and Latin America's largest bank, has made significant investments in digital technology. The bank has also formed a Latin American strategic council to drive its expansion across the region. *Robin Arnfield* reports

**F**or Itaú, digitisation means transforming the entire bank's operational processes and fostering a digital mindset among staff.

In the past two years, Itaú has increased the number of staff with digital expertise in fields such as design, user experience, analytics, digital media and cybersecurity thirteen-fold. It has developed over 1,500 APIs which allow the creation of reusable apps.

Itaú has created a collaborative working model in its IT Department based on Lean

and Agile development principles. In its management report for the fourth quarter of 2017, Itaú said this had led to a 14% productivity gain last year in technology development, and a 22% reduction in time to market for new projects.

## CUSTOMER-CENTRICITY

Customer-centricity is a key focus in its development efforts. Itaú is deploying cloud computing, machine learning and big data to

seek operational efficiency, such as applying AI in its credit models, and to understand clients' behaviour in all points of contact with the bank.

Itaú is a member of an international consortium of banks which have taken an equity stake in financial blockchain developer R3, and are testing the blockchain with R3.

Over 80% of Itaú's Brazilian retail banking transactions now take place digitally, up from 25% in 2008. However, Candido Bracher, Itaú's CEO, told an analyst call for the

fourth quarter of 2017 that not all digital transactions performed by the bank's clients are actually digital end-to-end. He said Itaú's efforts are now geared towards digitising more and more of its back-office operations.

Over six million Itaú account-holders were using its mobile app every month in 2017, according to Livia Martines Chanes, Itaú's director of digital channels, user experience and CRM analytics.

## DIGITAL INITIATIVES

In 2017, Itaú announced a number of key digital initiatives to improve client satisfaction. However, unlike its rival Bradesco with Next, it did not launch a standalone digital bank in response to challenger banks such as Banco Original.

Itaú's 2017 initiatives included the launch of Itaú Light, which it developed jointly with its clients and now has over 500,000 users. The app offers intuitive browsing, uses less smartphone data and memory, and is easier to navigate than Itaú's traditional app.

The Itaú Abreconta (account-opening) app was launched in 2017, offering an entirely digital current account-opening experience. Itaú says that over 190,000 current accounts have been opened with the Abreconta app.

In April 2018, Itaú became the first Brazilian bank to launch Apple Pay for its cardholders. Apple Pay will be exclusively available in Brazil for 90 days to Itaú's approximately 1.2 million Brazilian cardholders with an iPhone 6 or more recent iPhone model.

In March 2017, Itaú launched the Personalité Investimento 360 platform for its Personalité customer segment, who have monthly incomes of above BRL10,000 (\$2,996) or assets of over BRL100,000. The platform provides a range of investment products offered by Itaú and other FIs through Itaú Corretora, its retail brokerage arm, plus a specialist advisory service.

In 2017, Itaú opened 25 digital branches, taking the total number of digital branches to 160 at the end of 2017. The digital branches are virtual branches offering communications via SMS, email, telephone and internet messages, and extended hours of customer service for Itaú Personalité and Uniclass customers.

The Uniclass segment comprises customers with monthly incomes of BRL4,000-10,000. In the fourth quarter of 2017, Itaú had 1.5 million Uniclass customers and 527,000 Personalité customers.



Candido Bracher, Itaú Unibanco

Itaú has two million digital branch customers; its digital branches are 20-30 percentage points more efficient than its bricks-and-mortar branches.

## BRANCH NETWORK

Between December 2016 and December 2017, Itaú reduced its Brazilian bricks-and-mortar branches from 3,653 to 3,520, and its Brazilian client service branches (banking kiosks) from 755 to 703.

Itaú still sees branches as very important for opening new accounts, but is looking intensively at how to transform its branches

embrace digital evolution, and Cubo is a key component of this process," Lineu Andrade, who manages Cubo within Itaú, said in a statement. "Cubo stimulates our employees to think outside the box and develop new solutions to meet our clients' needs, infusing a culture of innovation in everything we do."

Cubo's co-founder is Redpoint ventures, an early-stage venture capital firm. Other partners in Cubo include Accenture, Cisco, Mastercard, Microsoft, Coca-Cola, Saint-Gobain and Rede, the Brazilian cards acquirer owned by Itaú.

"Itaú is going to take direct investments in the fintechs housed at Cubo," Jerry Silva, global banking research director at IDC Financial Insights, says.

## CONSUMER CREDIT

Despite Brazil's challenging economic environment, Itaú, the country's largest credit card issuer, is looking to expand its Brazilian consumer lending business.

Itaú Brazil has around 29.2 million credit card accounts and 26.2 million debit card accounts. Its Brazilian credit card transaction volume rose by 10.8% year on year to BRL80.3bn in the fourth quarter of 2017, while its Brazilian credit card lending was up 6.8% to BRL63bn in the same quarter. Overall Brazilian lending to individuals was up 1% to BRL185.3bn in the fourth quarter of 2017.

"Itaú expects to increase its loan portfolio in 2018 as [Brazil's] economic growth accelerates," Moody's wrote in a March 2018 report. "We expect Itaú to focus more on higher-margin secured consumer lending, as well as loans to small and medium-

**" AT ITAÚ WE'RE CONSTANTLY LOOKING TO EMBRACE DIGITAL EVOLUTION, AND CUBO IS A KEY COMPONENT OF THIS PROCESS**

for new usages, and this is more of a focus than efforts to close branches.

Since 2015, Itaú has been a founding partner in Cubo Coworking Itaú, a Silicon Valley-style hub for technological entrepreneurs in São Paulo. Several digital start-ups based at Cubo are Itaú contractors and suppliers, but Cubo's digitalisation remit goes beyond financial services.

"At Itaú we're constantly looking to

sized companies backed by self-liquidating receivables, as corporate borrowers struggle to improve their finances and liquidity levels."

In October 2017, Itaú completed its \$220m acquisition of Citigroup's Brazilian retail banking and insurance business, following approval by Brazil's Central Bank.

The acquisition strengthened Itaú's share of the high net worth banking market in Brazil, adding BRL8.6bn in assets to its operations,

including a BRL6.2bn credit portfolio, BRL4.8bn in deposits, 71 branches and around 300,000 customers.

In March 2018, Brazilian competition regulator CADE approved Itaú's acquisition of a non-controlling stake in wealth management firm XP Investimentos, without demanding additional asset sales by Itaú. The deal, which is subject to Brazilian Central Bank approval, involves Itaú buying 74.9% of XP and a 49.9% holding in its voting capital by 2022 for BRL5.7bn.

There is speculation that Itaú could take a controlling share in XP's voting capital by 2024, which would require separate regulatory approval. The XP deal will help Itaú respond to the advent of new Brazilian retail financial services firms. Brazilian banks typically allow clients to invest only in products managed by themselves, while XP is an open investment platform providing access to several independent managers.

Itaú CEO Bracher said last year in an analyst call: "We believe that a distribution of financial products through open platforms



In 2016, Itaú completed its 2014 acquisition of Chile's CorpBanca which has an operation in Colombia.

Itaú CorpBanca Chile is currently 36.06% owned by Itaú, 30.65% by CorpGroup, and

because the queues are so long. People even make arrangements to meet each other at a branch, especially older customers. Also, Brazil's national payments system enables customers to make payments at any bank's branches, even if they are not customers of that bank."

Silva continues: "In the 1970s, Latin America leaped ahead of the rest of the world in terms of electronic banking and payments technology to cope with very high daily inflation. At the time, Latin American banks had the best electronic payments systems in the world."

"Now it has come full circle, as Latin American banks are dealing with legacy core IT systems and legacy branch networks. So Itaú is trying to do that leap forward again, and bring digitalisation and mobile banking back to the forefront," Silva explains.

"Digitisation solves problems for Itaú. It is expensive to run branches, and banks have to justify the cost, especially with the problematic Brazilian economy. It makes sense not necessarily to close branches but to decide how best to use branches that are kept open."

Commenting on Brazil's challenger banks such as NuBank and Banco Original, Silva says: "These fintechs are a challenge, but they are also not a challenge. Their value proposition consists of one or two products such as a digital wallet or a credit offering in digital form.

"They may steal some business from large Brazilian banks, but will not take customers away on a wholesale basis. It takes fixed investments to maintain a broad portfolio of products and a broad physical channel infrastructure." ■

## “ BRAZILIANS SEE BRANCHES AS A PLACE TO SOCIALISE, BECAUSE THE QUEUES ARE SO LONG. PEOPLE EVEN MAKE ARRANGEMENTS TO MEET

will be more relevant for the industry and more important for our clients. So, for us, this transaction is an important step towards this aim of better serving our clients.”

### REGIONAL EXPANSION

Ricardo Villela Marino, executive VP and a member of Itaú's board, has been named chair of the new LatAm Strategic Council.

Itaú says the council was created to lead its internationalisation process, one of the bank's most important strategic fronts for the next few years. It will investigate opportunities for expansion as well as integration of existing businesses.

Itaú has expanded its retail presence in Latin America, particularly in the Southern Cone, due to its aggressive acquisition strategy. It has retail operations in Argentina, Chile, Colombia, Panama, Paraguay and Uruguay, as well as a private banking business in Miami.

Itaú says internationalisation involves “reaching, in the countries where we are present, the same management quality and results that we have in Brazil”.

33.29% by minority shareholders. Since 2012, Itaú Corpbanca has acquired two banks in Colombia: Banco Santander Colombia and Helm Bank.

Itaú competes with Spain's Santander, which operates retail banks in Brazil, Mexico, Chile and Argentina, and with BBVA, which has subsidiaries in Argentina, Chile, Colombia, Peru, Paraguay, Uruguay and Venezuela.

Bradesco has a credit card and retail banking subsidiary in Mexico, following its acquisition of Mexico's IBI from C&A.

### ANALYST COMMENTS

Jerry Silva, global banking research director at IDC Financial Insights, notes: “Having a digital focus plus a focus on branches is a balancing act for many banks in Brazil and Latin American countries such as Argentina, Colombia and Uruguay.

“Digitisation must be balanced with customers' cultural attitudes and preferences. In Brazil, banks are sensitive to cultural attitudes about branches being a focal point. Brazilians see branches as a place to socialise,

# RETAIL BANKER

## INTERNATIONAL

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If you have any questions or wish to take a closer look at the full range of *Retail Banker International* content, please email:  
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We look forward to hearing from you!