

# Banking on the future

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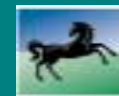
# *Outline*

*Section 1:* Banking in 1995

*Section 2:* Principal trends

*Section 3:* The customer

*Section 4:* 2 competing challenges



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*Section 1:*

# Banking in 1995

*Section 2:* Principal trends

*Section 3:* The customer

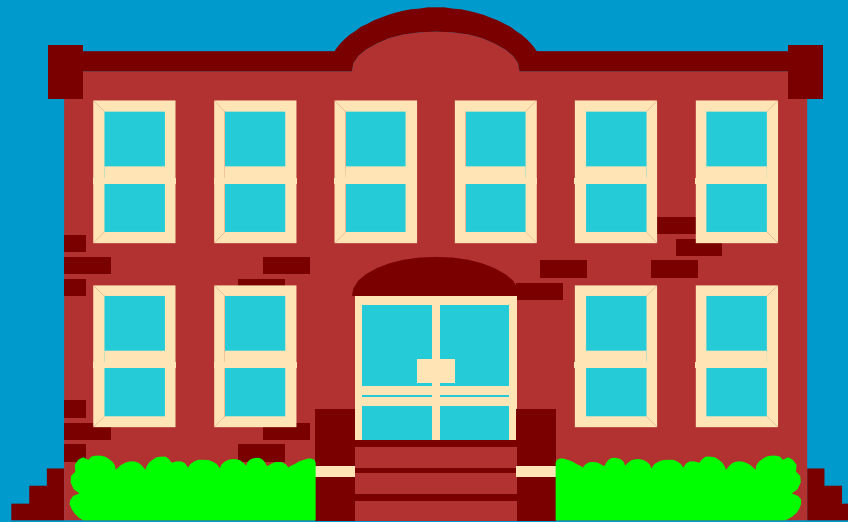
*Section 4:* 2 competing challenges



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# *The way we bank....*

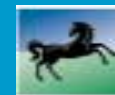
**ATM**  
20,000+



**Branch**  
16,000+



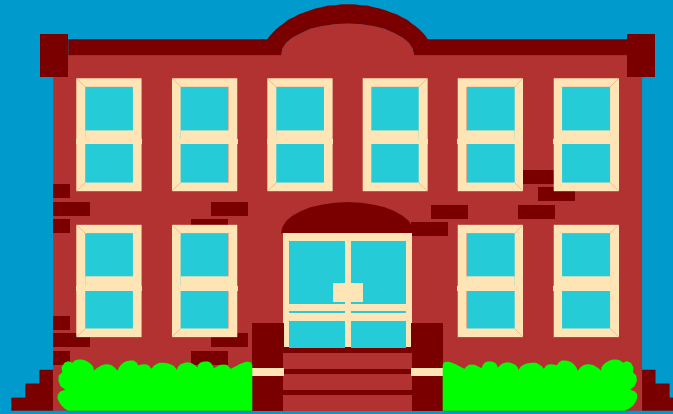
**Phone**



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# *The way we bank....*

**ATM**  
46,000+



**Branch 12,000+**

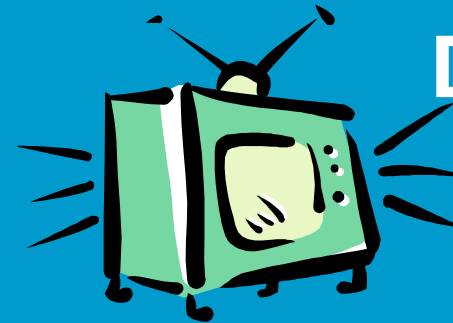


**Phone**

**Mobile  
phone**



**Online**  
6.5million  
customers

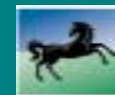


**Digital  
TV**

# *The payment facilities we use...*

<i>Payment method</i>	% of total transactions in UK	
	<b>1995</b>	<b>2003</b>
<b><i>Cheques</i></b>	8.96	5.52
<b><i>Plastic card purchases</i></b>	5.52	13.05
<b><i>Direct debits, standing orders, direct credits and CHAPS</i></b>	6.55	10.48
<b><i>Cash payments (estimate)</i></b>	71.67	63.46

Source: APACS

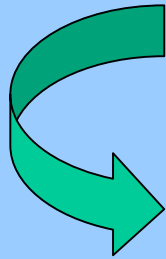


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# The products we arrange

current accounts

savings accounts



**LloydsTSB - > 70 products**

pet insurance

gas and electricity

holidays

**and even a second hand car!**

# Who we bank with...

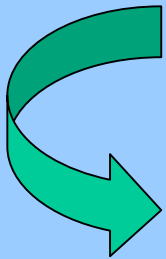


# Who we bank with...



# Who has a bank account

1995 Current accounts provided where a customer passed relevant credit checks.



## Universal Banking Service

“will bring those people without bank accounts into the financial mainstream...

There are 7 million people in the UK without a current account” - Trade and Industry Secretary, Steven Byers, 2001

# Who has a bank account

## Universal Banking Service - the cost to banking

British Banking Association (2001) estimated a **£10 per annum loss** on each basic bank account.

High Street banks contribute **£182 million** to the costs of running the UBS.

*Section 1:* Banking in 1995

*Section 2:*

# Principal trends

*Section 3:* The customer

*Section 4:* 2 competing challenges

# *Trend 1: Changing imperatives due to economic climate*

**Stable** economic climates, **low GDP**, **low inflation** and dampened economic cycles force industry to focus on cross sales for **income growth** and **cost management**.

Risks come through **property cycle** and through **fraud**, which there will be more sophisticated **technology** to combat.

# *Trend 2: Globalisation of markets and increasing competition*



Grupo  
Santander

## *Trend 3: Offshoring*

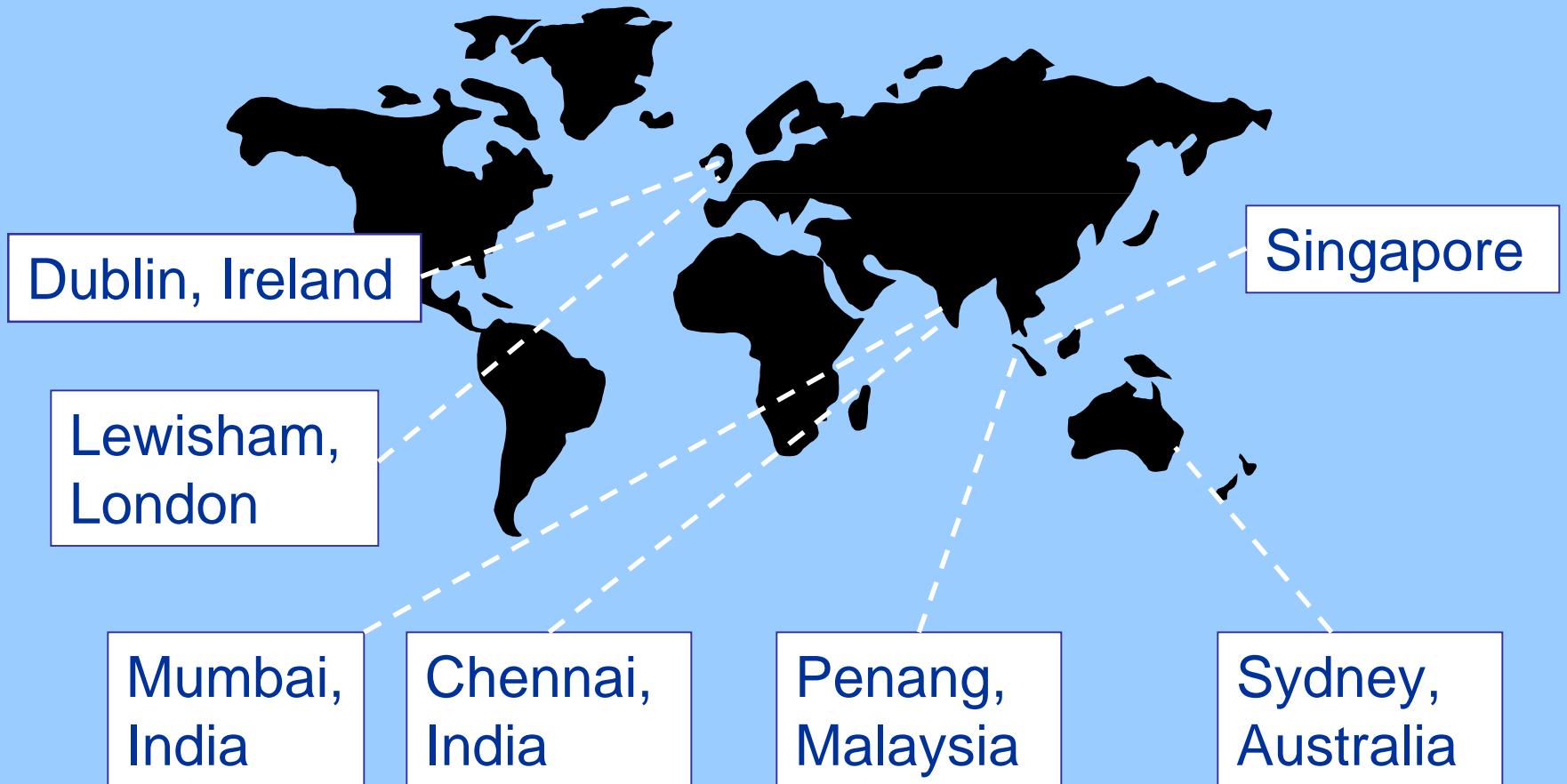
**“30% of European businesses now include offshoring as a key element in their strategic planning” Gartner**

**“By 2010, more than 20% of the industry’s global cost base will have shifted offshore”  
Deloitte 2003**

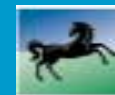
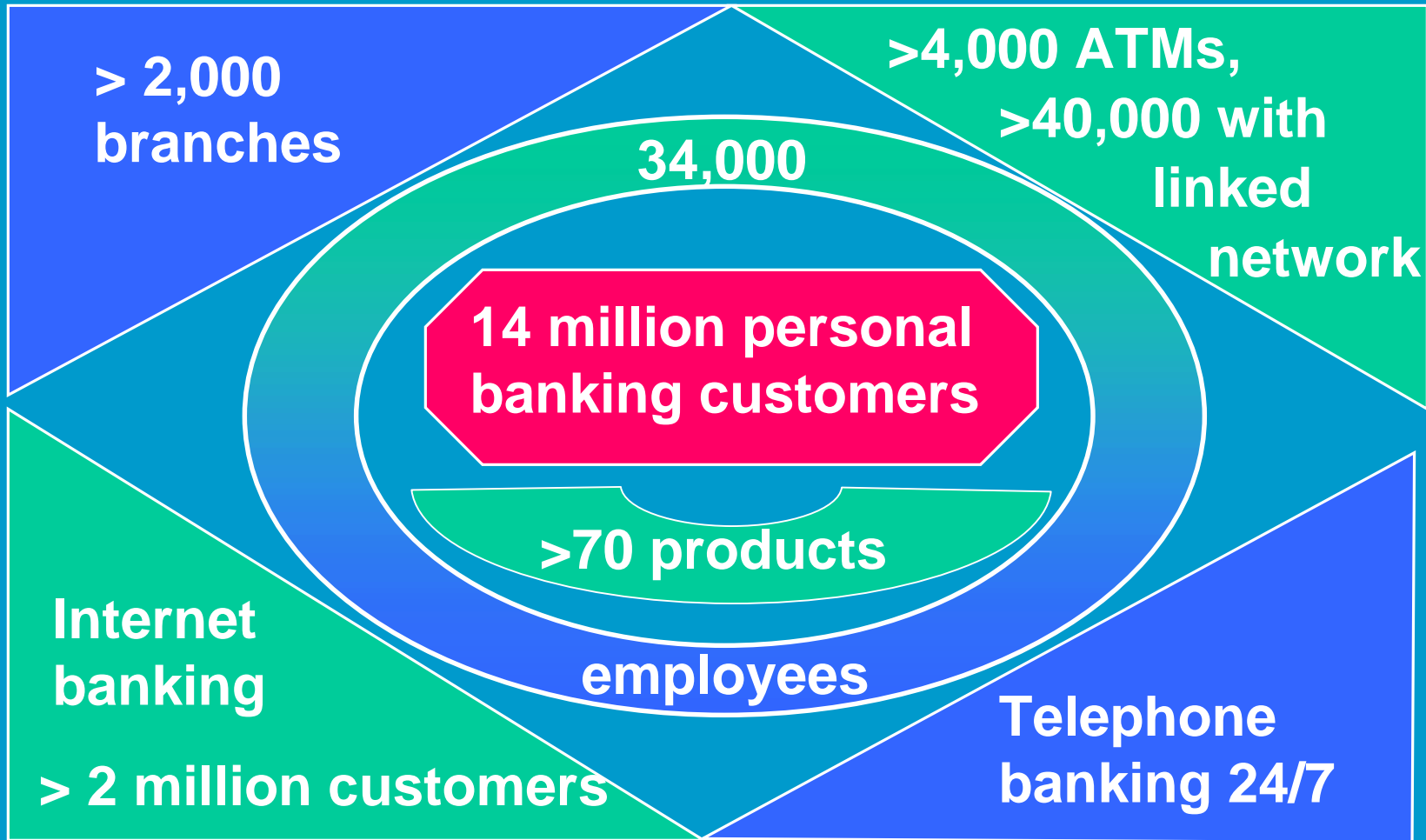
**“1 in 4 traditional IT jobs will have been shifted to low cost offshore centres by 2010”  
Gartner**

## *Trend 3: Offshoring*

**Citigroup** - approx 20,000 headcount offshore



## *Trend 4: Ever more complexity in Distribution*



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## *Trend 5: Innovation in operations, industrialisation and automation*

operations moves from mainly clerical to focus on **innovation** and **proactivity**

use of improved **industrial management techniques** and **process analysis** to improve back office **efficiency**

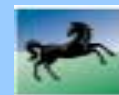
customers will perform most routine servicing activities **without human intervention.**

## *Trend 5: Innovation in operations, industrialisation and automation*

***Sigma - a comprehensive and flexible system for achieving, sustaining and maximising business success.***

Tracked across 8 different business areas.  
In December '04, in **Retail Banking** alone:

Processes measured	40
Volume of transactions	227,597,470
Error free transactions	99.92%



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## *Trend 6: Regulation*

Government support for **competition** and consumer tables

European **harmonisation** of regulation

International support for **transparency** and **homogeneity** in financial accounting standards

Increasing use of **principles** and **guidelines** rather than rules...tested by **litigation**

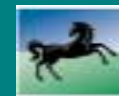
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# The customer

*Section 4:* 2 competing challenges



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# *Ageing population*

- ▶ In the UK people over 60 already outnumber children under 16
- ▶ Pensions were introduced when the average age of death was 46 - it is now 75
- ▶ Over last 20yrs, consumption by +50s in Europe has risen 3x as quickly as for the rest of the population

# *Ageing population*

*- what this means for banking*

Customers look for **technology** to offset their declining capability

There is the need for **equity release** products to fund retirement

Plus advice for people retiring in the future on **how to save**

Opportunities of an **older workforce**

# *Family life is changing*

Nuclear families form a decreasing percentage of households, with an **increasing volume of households** overall

25% of today's young people will **never marry**

20 - 25% of today's young people will **not have children**

*Family life is changing*  
*- what this means for banking*

Good for the **lending market** and **house prices** in medium to long term

Needs increased **flexibility** in the mortgage product range

Will need to update and create flexibility in the **relationships, linkages** and **etiquette** used.

# *Global workforce*

To keep the European workforce at the same level as today, we will need **164m immigrants** by 2050.

Immigrants represented **89% of European population growth** on the 1990s.

Migrants send home **>\$65b in cash** a year - more than the total for foreign aid.

# *Global workforce*

*- what this means for banking*

More **open banking** arrangements and international money movement

**Reciprocal arrangements** with national banks

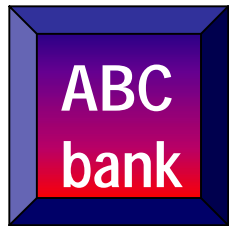
Provision of **flexible, cross-border** work benefits, savings and investments

Recognition of variety of **languages** and **cultures**

# *Health*

70% of men and 63% of women in the UK are **overweight** or **obese**. Cases of obesity have tripled since 1984.

# *Health - what this means for banking*



Active Value Account

Helping  
you  
count  
the £s...



...and  
the lbs

***The current account with travel insurance,  
breakdown recovery - and gym membership***

# *Cash rich, time poor individuals*

Service needs to be **quick** and **efficient**...

...but also **personal** as customers crave a more individual approach

A trend for **perfect service** in all areas of life and the expectation of fully joined up service

Customers prepared to make the **cost v service** trade-off and pay more for holistic solutions

# *Customer sophistication*

Customers move up the **technology curve** and their management becomes more sophisticated.

They expect and gain **value** from the **technology** which makes banking easier for them

More use of **self-service** channels

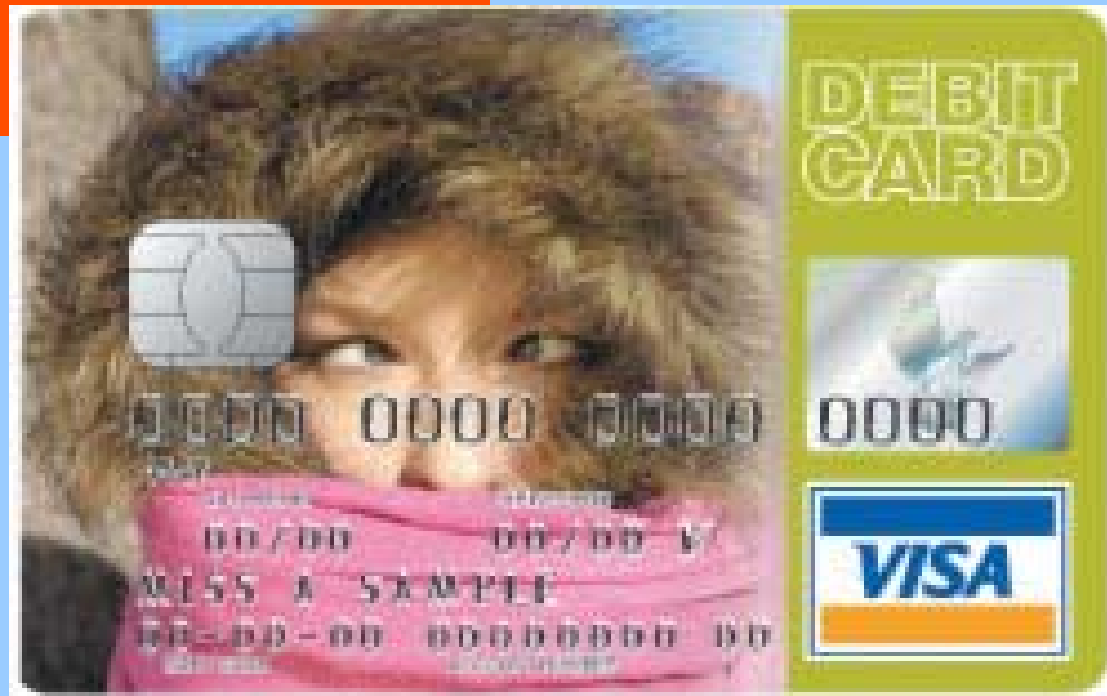
**Reduced inertia**; customers shop around and multi-bank more

# *What this means for banking*

*“In the past we created shareholder value by **extracting value** from our customers. In the future we will only create value for the shareholder by **creating value** for the customer.”*

# *What this means for banking using technology to personalise service*

abbey



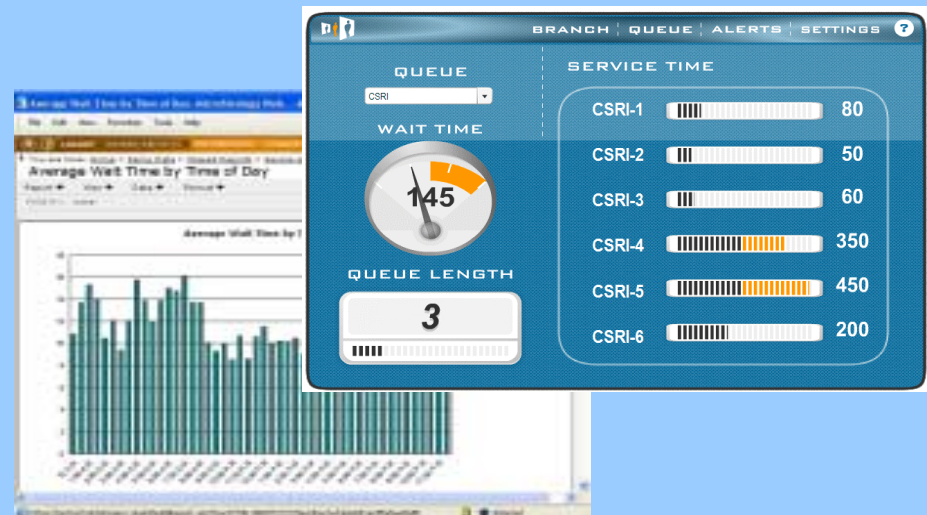
# *What this means for banking using technology to improve service*



Camera-based technology converts video into anonymous customer track data

Track data converted into actionable management information in real-time:

- **Waiting times**
- **Queue lengths**
- **Cashier availability**
- **Service times**



# *What this means for banking thinking like a retailer*



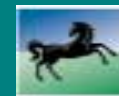
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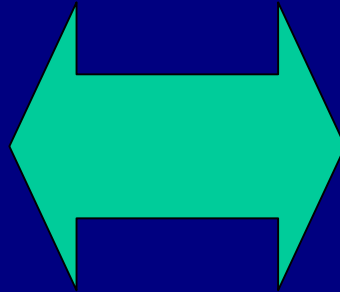
**2 competing challenges**



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# *Two competing challenges*

*The  
need to  
reduce  
costs*



*The  
need to  
increase  
skills*

# *Two competing challenges*

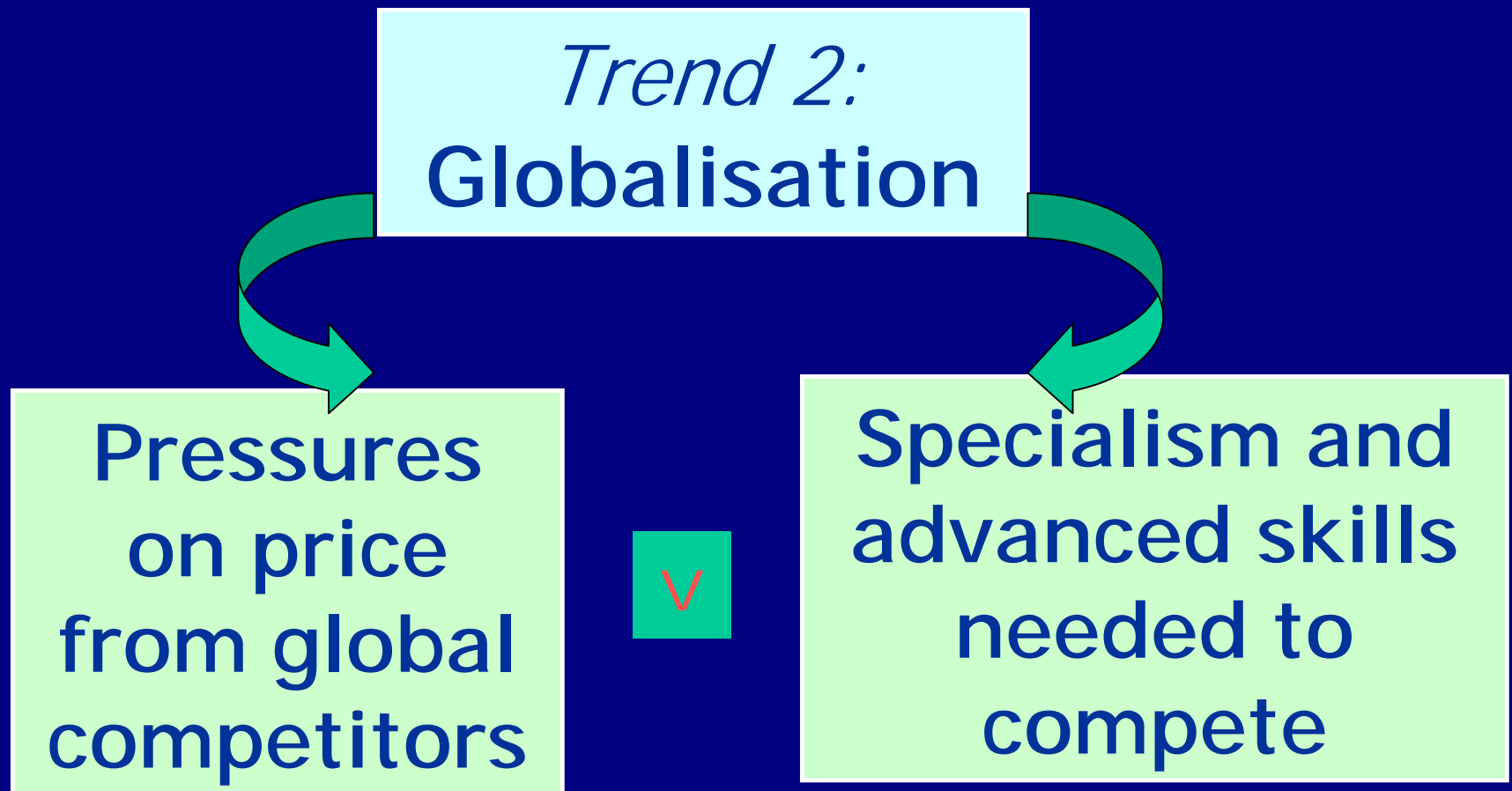
*Trend 1: Changing imperatives due to economic climate*

Cost focus  
due to low  
growth



Upskilling to  
deliver  
cross-sales

# *Two competing challenges*



# *Two competing challenges*

*Trend 3:*  
**Offshoring**

**Reduces  
costs of  
delivery for  
competitors**



**Remote  
supplier  
management  
needed**

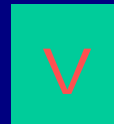
# *Two competing challenges*

*Trend 4: Ever more complexity in distribution*

```
graph TD; A["Trend 4: Ever more complexity in distribution"] --> B["Much of it automated, driving prices down"]; A --> C["Need to cope with complexity and innovate"]; B --- D["v"]; C --- D;
```

The diagram illustrates a flow from a central trend to two competing challenges. A light blue box at the top contains the text 'Trend 4: Ever more complexity in distribution'. Two green curved arrows point downwards from this box to two light green boxes. The left box contains 'Much of it automated, driving prices down' and the right box contains 'Need to cope with complexity and innovate'. A small green square with a red 'v' is positioned between the two bottom boxes, indicating a comparison or relationship between them.

Much of it automated, driving prices down

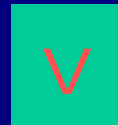


Need to cope with complexity and innovate

# *Two competing challenges*

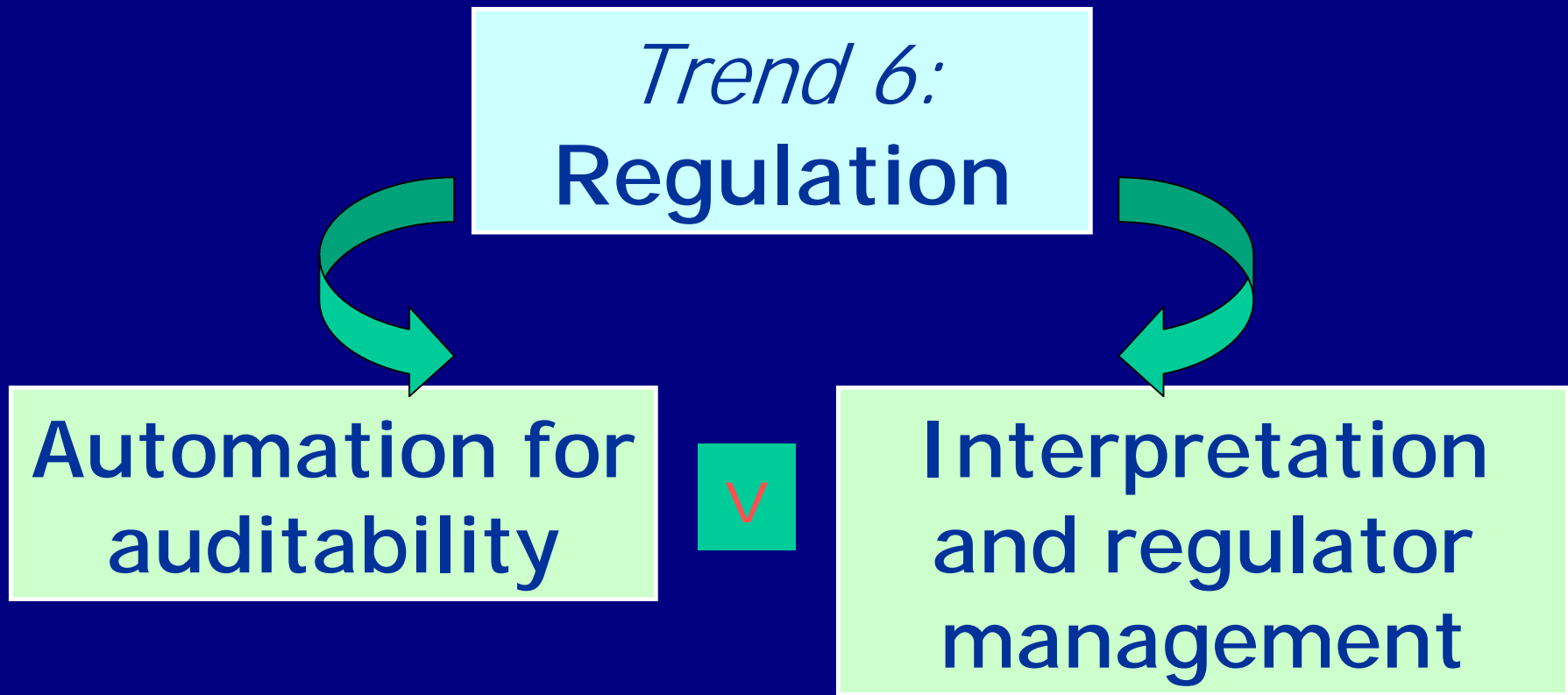
*Trend 5: Innovation in operations, industrialisation and automation*

More efficient processes reduce costs



Need continuous improvement skills

# *Two competing challenges*



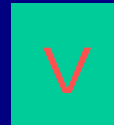
# *Two competing challenges*

*Trend 7:*  
**Customer expectations**

```
graph TD; A["Trend 7: Customer expectations"] --> B["Increasing self service, reduced manual volumes"]; A --> C["Skills to provide consistent, individual service"]; B --- D["v"]; C --- D;
```

The diagram illustrates the relationship between customer expectations and two competing challenges. At the top, a light blue box contains the text "Trend 7: Customer expectations". Two green curved arrows point from this box to two light green boxes below. The left box contains the text "Increasing self service, reduced manual volumes". The right box contains the text "Skills to provide consistent, individual service". A small green square with a red checkmark is positioned between the two bottom boxes, indicating a comparison or a choice between the two challenges.

**Increasing self service, reduced manual volumes**



**Skills to provide consistent, individual service**

# *Key challenge 1*

## *The need to reduce costs*

**Low growth pushes industry to reduce costs**

Globalisation, offshoring, lower barriers to entry and continuous improvement enable competitors to **cut the price of supply**

To compete, companies must respond so **continuous drive to reduce costs.**

## *Key challenge 2*

### *The need to increase skills*

Workforce needs to be **upskilled** to meet requirements for technical **specialism**, **innovation**, **change management**, etc.

Virtual disappearance of clerical aspect of sales roles, increasing need for **complex sales support**.

# *Summary*

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# Questions?

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Director, Distribution**

