WORLD TELEVISION

RBS - Technology Transformation

Investor & Analyst Webinar
Simon McNamara & Team

Music

Introduction

Richard O'Connor, Head of Investor Relations
Hello I'm Richard from Investor Relations, good afternoon and welcome to our Webinar on Technology Transformation. Just a few housekeeping points before we get started, the presentation will be around 45 minutes long and you can submit a question at any time through the text box at the bottom of the screen. We will go through questions at the end of the presentation.

This webcast is primarily for investors and analysts, if any members of the press are listening in please contact our media team with any questions you may have. If you have any streaming issues trying refreshing your page or switching to a narrower brand stream or dialling to the audio, finally just click on the slides if you'd like to see a larger version.

With that I'll hand over to Simon McNamara our Bank Executive responsible for Services and Technology, Simon.

. . . .

Simon McNamara, Chief Administrative Officer
Yes thank you Richard and good afternoon everyone and a lot of technical instruction there. I'm delighted to be here this afternoon, I mean it is somewhat ironic that I'm here to share our technology progress and plans this week of all weeks.

As you'll be aware we've faced an issue around our payments systems and clearly that's impacted our customers. I can tell you nobody is more disappointed in that than myself, and I'll add to that actually the team, who have been working extremely hard over the last couple of days to rectify that issue.

I can assure you that at no time were payments missing and the underlying fault has been rectified and that we're very close to being able to apply those payments back to the accounts that they should be applied to. So that sort of work that we're looking to complete shortly.

So the other thing I just wanted to point out and make a point here is that we've actually benefited through this incident, through the investment we've made in the tools and the techniques to allow us to manage incidents like this. It is a complex environment and we are on occasion going to have failures in that and it is important that we do have the ability to address those issues when they arise, well and professionally and competently and hence actually the time it takes also to recover sometimes to do that well.

So with that I'll move on perhaps to the body of our presentation. I'm joined today by two members of the Services Team, Michael Geslak who's our Head of Transformation and Patrick Eltridge who's joined us relatively recently from Telstra, he's our CIO and he's got many years of experience that he brings from finance and technology that we will be taking advantage of over the coming years. So thanks for joining me guys.

Now for a start I thought I'd just show the team that we've assembled over the last 18 months in the time I've been here which is now the Services team for the bank. It's a new team and it's assembled from those that were already in what was previously an organisation called Business Services, those that were elsewhere in the bank and a number of new joiners most recently Marion King who I'm pleased to see has joined us to take on the payments responsibility. She comes from many years of experience with the industry, a lot of which is in the payment space so a good addition to the team.

This is genuinely a world class team, it's a team that's been assembled with purpose and it's one that for this bank covers the entirety of technology, operations, payments, purchasing, property and the transformation programme. And the reason I emphasise that is for in many organisations and even here previously it was a little bit of the technology but not all, it was some of the operations and not all, here it's clear, it's unequivocal. And alongside the franchises we will and are delivering the transformation plan.

We'll spend as Richard said the next I guess 40 minutes now really homing in on three areas. In the 18 months that I've been here I think we've been somewhat consistent in our priorities and I think we've established a good track record for delivery and so what I will do is spend a little bit of time just talking about what it is that we've delivered through 2014, early 2015.

I'm then going to hand over the Michael and Michael's going to take us through the 2015/17 plan so our go forward plan. And then Patrick is going to talk to the specific technology elements of that 2015 to '17 plan. And then it's going to come back to me and what I'll do is address what I think's a very important topic which is actually disruption in industry and how we play into that.

So progress to date, our focus in services is clear, very clear, it's absolutely built on a foundation of resilience. To have available for our customers, safe and secure and sound foundations that deliver day in, day out to our customers is a need. I think on a daily basis we process something like 13 million transactions and that's a core capability that we need to support.

We also need to provide a simpler experience both for our employees but most importantly for our customers. So investing in capabilities that simplify and provide a better experience for our customers is key. Thirdly we'll deliver more value to our customers through the implementation of more efficient processes and systems that ultimately lower our costs and therefore provide better value. And that's not lowering costs by cutting corners, that's by investment and driving out efficiency. And last but not least we find new ways to deliver and improve services for our customers.

Now in February 2014 I had the opportunity to talk through to the plans we're about to embark upon so that was after a project cook where we'd actually determined that we were setting up a transformation programme and these were some of the early deliverables. You can see from the chart there are a lot of ticks here, there are a couple that are partially complete but on the whole what we said we'd do is what we have delivered. You, we should take some comfort from the fact that we are actually delivering what we said we do and we intend to continue to do that.

Now to resilience and again as I said earlier we need no reminder of the importance of resilience and this week's incident, you know where a technical fault really did make it difficult for us to ingest a file of payments from a third party, these are the issues that we are looking to avoid. We have invested a substantial amount and I'll show you some of the things that are actually a marked improvement in terms of the performance of our platforms over the last two years.

Our mobile platform for example that failed us 34 times in 2013 has failed us only once in the last year. And that to be honest I find unacceptable because the reason it failed was a piece of software that once every 279 days fails is actually the root cause of that failure. Clearly that's not going to happen again but actually it is an indication of the fact we'd improved things, then we uncovered a bug that actually was dormant unless you ran a service continuously for 279 days.

Another area of material investment was actually in our international payments network which actually failed 20 times for us in the 10 months prior to an investment we made and, I'll be careful what I say here, but it hasn't failed us since. So clearly and the incident this week demonstrates there is more to do, as I've said before I cannot guarantee, this is technology, it is complex and it will on occasion fail.

What I can guarantee is that we invest, we continue to invest, we do what we need to do to avoid these issues in the first place, but if and when they do occur that we can mask their impact from our customers and that we recover them as quickly and as efficiently and as effectively as we can and minimise the impact and that will continue to be a focus.

We will probably invest something in the order of £150m a year continuing to provide underlying infrastructure resilience and on top of that the programme as a whole that just has elements of simplification makes this ultimately an easier platform to support.

Other things that we committed to and promised, we said we'd reduce the number of projects or programmes within the organisation. Just over 12 months ago there were 550 and they were loosely aligned I think independent programmes, all of which had a business case but ultimately were a collection. What we have now is less than 180 programmes that are all part of one portfolio, there are 30 core deliverable programmes at the very centre of that and it's managed in a controlled, tightly managed and delivering for the organisation. We expect that number to fall to around about 150 by the end of this year and the investment levels we've maintained at about £1bn a year.

We said we'd also streamline our property portfolio and as you can see from these charts we've done just that. As you may be aware it's quite a problematic portfolio in terms of the legacy that we have here but we made material progress within the last 12 months.

The London business though has not moved as far as we'd like it to do. The one thing I would point out though is that we did exit in 2014 Bankside, which was one of our biggest properties in London and in 2015 we're doing the same again exiting Aldgate Union which is one of our bigger properties. So that's why we have a disproportionately high reduction in the metre squareage to the London office space. But we will continue to reduce our property footprint as we promised.

We also said we'd focus on suppliers and I think it's not that long ago we had over 100,000. We've come into this year with 21,000 and we set an initial target of around 19, it looks like we're going to end up somewhere nearer to 14. Now that's yielded real benefit. We have smaller, tighter relationships with a smaller number of suppliers; we extract a lot of benefit from that and particularly from a value perspective. So in the last 12 months we saw our travel expense reduced by I think 35% and we saw a reduction in our consulting spend of about 25%, this is by managing a tighter set of suppliers to better effect.

I add to that as well we've got a much better relationship now with some of our small, medium enterprise customers who are finding a place within our supply chain which benefits them and benefits us.

I might now turn to some work that we've been doing that we'd committed to and promised for our customers. The first thing I'd probably like to touch on is the group mortgage system, I've said before actually we have of those, it turns out subsequently that there are six and of those there is more than one instance. So for example GMS which is our target system had four different versions for the four different brands of a single system.

In the last six months we've upgraded all four of those to the same version, you can say what's the big deal, well this is the first time in ten years that we've actually invested in our mortgage platforms and we've taken the target platform and we've got it up to a consistent level, a current level. And we will be migrating as we said all the other mortgage platforms on to that. And we delivered that without any disruption whatsoever to our business, well executed delivery.

We also for the first time last year reduced the number of systems so after many years of adding complexity to the system we actually reduced the number of systems in production and we have an active plan to reduce that further. I might also talk about mobile banking, I mentioned earlier that it was a more resilient platform in the last 12 months, we've seen record usage of that platform, we've made good investment.

And that's reflected in the improved NPS results where not only is this the best regarded of the channels that we provide to our customers, so an NPS rating higher than any of our other channels, but it also is alongside others is the best in the industry in terms of its NPS score. So a service clearly that our customers like and one that our investment is showing real dividends.

The last investment that I just wanted to touch on here is TouchID; this is the fingerprint based biometric authentication that we have provided for our customers, we were the first to deliver that in the UK. And on the first day of operation I think close to 50% of those that could do actually chose to use that as their method of authentication. So that's something that really worked for our customers, was valued by the customers that we did ahead of the rest and actually they've shown through their use that they're really benefiting from it.

So with that what I might do now is hand over to Michael who's going to take us through the elements of our transformation plans, so with that Michael I'll hand over to you.

2015 to 2017 Transformation Plan

Michael Geslek, Head of Transformation
Thanks Simon. So our 2015 to 2017 Transformation Plan really starts with the ambition level and the specific targets that we've set for ourselves over the next several years. I'm sure most of you are familiar with those outcomes that we're trying to achieve but let me just spend a minute reviewing them.

Our overall ambition is to be number one for customer service, trust and advocacy by 2020. We then have specific targets for each one of our priorities so a capital ratio greater than 13% by 2016 and in the long term a cost income ratio less than 50%, being number one for NPS across each one of our businesses, having a market leading position in each one of our franchises and finally having an employee engagement index score that is equal to or better than any of our peers.

Taken together this gives us real clarity of direction, real clarity on what we're trying to achieve over the next several years and that allows us to put a plan in place to deliver on those outcomes.

What you see on the slide here is a summary of the big moving parts of our overall plan. Now Simon referenced earlier 150 plus individual programmes that we're running, this reflects the main portions of that overall portfolio of work.

A few things I would note about it, first of all it is very comprehensive in its nature, we're investing in everything from continuing building on our resilience right down to training our staff. It's also by its nature an integrated portfolio, so it doesn't just include the elements of transformation; it includes all changes that we're doing including some of the mandatory change such as our response to ICB and our investment in Williams & Glyn. So it is comprehensive, it is an integrated portfolio of change that we're running.

So it also has really three different things that we do across the portfolio, first we're investing in and remediating some of the places that we've underinvested in historically. Secondly we're making sure that we build a real solid foundation for the future, the platform to grow the business from. And third we're starting to roll out real innovation to our customers and to our colleagues.

The final point I'd make on this slide is if you can see a common thread through it all I hope you can see that it's simplification. We're investing in simplifying our products, our processes, we're simplifying the documentation that we use with our customers, we're simplifying our property portfolio, our changed portfolio. And finally and maybe most importantly we're addressing the legacy platform, the complex platform that we built up over the years and making that a simple platform going forward.

We're backing up that plan, that programme of work with real significant investment over the next few years so we're investing over a £1bn per year in our transformation. This doesn't include our investment in Williams & Glyn and ICB which both go to the restructuring line, it also doesn't include our capex expenditure into our branches, so it is a significant amount of spend over the next few years.

If you look at it it's also reasonably evenly weighted across the different priorities, it looks on the screen a little bit more weighted to strength and sustainability, the reason for that is we put all of our mandatory spend, all of our regulatory spend into that category so it does inflate it a bit. But across all of the investments that we're making a very balanced portfolio.

The other lens that we tend to look at the portfolio through is which investments are really driven by technology and those are shaded in green on your screen and those that are a bit more processed, overall improvement and cost reduction orientated. Now Patrick in a minute will speak to some of the specific technology related programmes but let me now take a minute or two and go over some of the highlights on the rest of the portfolio.

I'll start with a couple of the big cost reduction programmes that Simon referenced earlier. First there's our property portfolio, on the slide Simon showed earlier it shows the reduction both in terms of the number of properties and probably more importantly the square metre reductions, that will drive a £200m reduction in our expenditure over the next couple of years.

Similarly on the third party spend we're going to build on the good work we did in 2014 and on average over the next three years we will reduce spend by £200m per year.

If we then go to branch transformation it's another one of our cornerstones of our overall plan our overall programme. We'll be refurbishing over 90% of our branches by 2017 and we'll be investing in additional automation in those branches by rolling out or upgrading over 1,000 devices.

If I then move to staff training we've put together a plan or a programme of work that will really drive a culture across the organisation of excellence in customer sales and service. We've already launched the programme, it's underway, we are currently going through training on 7,500 of our senior leaders across the organisation, getting a common operating rhythm across the organisation and giving them the tools they need to be more effective leaders. We'll the expand the roll out of that programme going into 2016 and ultimately we will train 6,000 colleagues across the organisation on what it means to really provide excellent customer sales and service.

The last three on the list here, product management, lending and on boarding are three of our large end to end process improvement programmes. They have a couple of things in common, first of all they are all using something we call customer led design. What that means is that every change that we make in re-engineering those end to end processes we make sure will have an improvement in the customer experience.

Second thing they have in common is they're all using the business process management platform that we rolled out to further automate those processes so in addition to providing a great customer experience they'll be more effective, they'll be more efficient and drive lower cost.

A few highlights from each of them, on the product side we are targeting a big reduction in our product portfolio so it will be rationalising up to 50% in certain products and a rationalisation across the whole spectrum of products.

On on-boarding we're targeting two things; first of all it's about reducing the amount of time it actually takes to open up an account. So on the personal side down to a day, on our business banking down to five days, on our complex commercial it will be down to 15 days.

But not only are we reducing the amount of time we're also improving the quality of what we do so we're targeting what we call right first time.   So for instance in 2015 we're targeting getting right first time up to 80%.

Finally in the lending space very similar to on-boarding we're targeting a reduction there in first the amount of time it actually takes to communicate to a customer an approval on a lending decision. So on the commercial side unsecured simple loans we'll get that down to five days and on our more complex loans that are secured we'll get over 80% approved within 15 days.

But that's kind of only half the story when it comes to lending, that's the approval, the other part is then funding so we're also targeting what it takes to go quicker and make sure that the funding happens over those loans. So for instance this year alone we've already reduced the amount of time it takes to do a commercial evaluation by ten days which then reduces the amount of time it takes to get the funds in the hands of our customers.

So hopefully that gives you an idea of the overall breadth of the programme, it gives you an idea of a number of things that we're doing to really simplify this bank. Now what I'd like to do is to turn over to Patrick who's going to talk about the real core of that simplification around technology.

. . . .

Patrick Eltridge, Chief Information Officer
Thanks Michael, hello everyone. I'll now take you through an overview of the major themes in the technology components of the transformation programme. The key takeaway here is that this is a large fully integrated programme of work; it's been intelligently sequenced and prioritised to deliver the critical enabling capabilities early on. And we're building far more agile practices and tooling to support the strategy of steady investment with continual and incremental delivery and this avoids riskier, big bang changes.

Let me start with resilience. Over the last three years we've executed a comprehensive programme of work to improve the resilience of our critical infrastructure; this is the £750m investment that we've spoken of. This work has directly supported the major 2015 deliverables around datacentre rationalisation and the work on stabilising our mobile banking platform.

We're pursuing an architectural simplification ethos through application rationalisation and that will continue to support ever greater resilience and a year on year reduction in incident volumes as we build out through 2020.

In security we have three areas of major focus, the first is with cyber security and further work in that area that for both ourselves and our customers that will attack fraud.

The second area is continued activities to prevent financial crime such as automated KYC and further activities in the area of AML checks. And thirdly we have planned enhancements and simplifications to our customer authentication processes including a single login for commercial customers which will improve the current situation where there's up to 14 different logins.

The use of biometrics is also going to play a major role to enhance both security and our customer experience. Digital is a major focus for our delivery, it supports key growth areas and it gives us a clear leadership position in retail mobile as evidenced by the NPS results that we're seeing. And this is going to be further supported by imminent deliveries in both Apple Pay and Apple Watch features.

With our new myBank capability we have a single retail platform for both staff and customers that importantly allows staff to see what the customers can see. We have similar developments for our commercial banking digital platform enabling customers to log on once and gain access to all of their applications and functionality. And the living platform covers key lifetime processes such as buying a home and keeping my money safe, all of this is backed by advanced analytics and it's an important capability in the growth agenda.

In technology the key is simplification, decommissioning hundreds of IT systems with far fewer point to point interfaces, golden sources of data, heavily reduced numbers of logins and environments provisioned from the cloud in an on demand manner which are available in minutes rather than weeks. We also have heavy investments in business process management automation tooling to support our end to end process re-engineering work.

In payments the big deliverable in payments is the single utility providing innovative services across the payment space and through that enabling us to reduce our payments gateway by 80% and have a correspondingly significant reduction in nostro accounts. The new systems will be far more flexible to support the increasingly challenging mandatory compliance agenda in this area.

In re-platforming the corporate and institutional bank we're supporting the CIB strategy for fewer locations and a simple product set. With a simpler platform that's going to reduce and replace many existing processes and systems across the board.

We're further increasing data quality on the core customer product and staff entities in our key systems. This is going to enable us to see customer relationships with the bank and between customer entities for example such as owner, director, employee, solicitor, power of attorney.

We will deliver a single enterprise data warehouse which is an improvement over the 25 or more that we have today. And new data analytics and intelligent tools are going to support far better decision making and dramatically improve customer service experiences.

With mortgages we've now upgraded the GMS platform across all of our brands and that has been a significant piece of work that Simon highlighted earlier. We're further now off the back of that going to be able bring significant self service capabilities for mortgages via our myBank platform and deliver further process automation in the front and back offices to streamline origination and servicing.

The new lending solution being developed will improve decision making processes and support adoption of new regulatory requirements in a far less painful manner.

Our workforce enablement programme is doing a series of major upgrades to our very outdated systems in this area, better email, collaboration tools, advanced video conferencing, a whole new intranet. Flexibility for staff to use their BYO devices securely in our environment and remote working including better WiFi in our offices and corporate sites to both support staff in the field and work at home in a far more flexible way that protects work/life balance and workforce flexibility.

I want to leave you with a few points to summarise the overall technology platform programmes. This is as I've said a large and fully integrated programme of work; it's been sequenced and prioritised to deliver critical enabling capabilities early on. We are building agile capabilities, tooling and processes to support the strategy of steady investment and with continual and incremental delivery over time. And this avoids riskier big bang changes, which in my experience ensures we can react quickly to evolving market and customer needs.

The programme forms the backbone of the transformation agenda and delivers strongly to the simplification imperative. Thanks and I'll hand over to Simon again.

. . . .

Innovation

Simon McNamara, Chief Administrative Officer
So thanks Patrick and thanks Michael. I just want to turn now from the transformation plan to innovation if I can, and our innovation agenda.

Look there are many examples here of new businesses that are outperforming incumbents, also businesses built around innovation, models that outperform the rest of the market. As you see in the chart here that's clearly evident. Now we have a choice and we need to be close or ignore and we're choosing to be close.

I'll highlight here a number of areas, not exclusive but a number of areas in which we have a critical interest, areas of innovation. Mobile for example we've talked about but actually I think Patrick touched on as well the iWatch. I'm sitting here with an iWatch, in July we'll launch our first application on the iWatch. I wasn't too sure how this would work when I first got it but I must admit I have found quite a lot of use out of it already, and I'm pretty convinced that we're going to find a lot more value out of wearables going forwards.

Biometrics, talked about Touch ID, but there are many biometric methods now that are emerging, real technology and real capability. We all know how cumbersome the equivalent of the sort of 1980s Casio calculator token that we've given to everybody works for our customers. We have an opportunity to actually give them services in the same way Touch ID did that really work naturally and not forced, and therefore we're very keen to invest in that area.

I'd also like to mention Blockchain. I mean Blockchain is a secure mechanism for the peer to peer exchange of assets, of value. You know Bitcoin we've probably all heard of which is, you know, a first incarnation using the Blockchain technology. But having actually just been back to the West Coast of the States there are hundreds of millions of dollars being invested into Blockchain initiatives. I don't know what's going to succeed. What I'm certain of is that we are going to see Blockchain solutions, peer to peer solutions emerging in our industry and we want to be close to that development.

We do pretty much everything on this page. But there are two key themes that it highlights. The first is the disaggregation of our value chain, and secondly the disintermediation of the individual banking tasks. Companies are effectively eating into our space. Again we have a choice, we can ignore or we can engage. And we have an active activity to engage with the companies that you see effectively on this screen, and many others.

So what else are we doing? A couple of things I'd like to highlight. Firstly we now have and have had for best part of a year now a small team based on the West Coast of the States in Silicon Valley. Like it or not that is the centre of the development of technology for the planet and we have a choice of sitting here and speculating about what might be happening, or doing what we are doing which is actually going up and down the 101 through the front door and actually looking and seeing what's happening. Not only are we taking from there, we've contributing because that's the nature now of the way our industry is evolving.

Second area I'd like to highlight is Israel. Again like it or not some of the best security technology on the planet is coming from Israel and we've built a very effective bridge through to the small and emerging companies there, particularly around the security space, so that we can take advantage of that.

I think a third area to highlight is around the way we create a strategic partner network. Once upon a time the sole source of our IP was probably ourselves. And so within the confines of this organisation we sat around and we worked out what it was we were going to do and then we pretty much went and did it ourselves.

It's very clear, and actually having spent some time living and working on the West Coast of the States, an open collaborative innovation model is a very powerful one and we intend to co-develop, co-innovate and co-deliver capabilities in the future.

Now I thought I'd give you a sense of the process that we've set up to qualify new technology that we think our customers and our employees can take advantage of. And what I'm showing here is a process that goes from reviewing ideas through to qualification and ultimately to pilot, and then through pilot to actually adoption within our organisation.

In the last not even 12 months this is the pipeline we've created and there are a number of initiatives here I mentioned, what we were doing with Touch ID and so on earlier, but actually - and the watch, but there are many things here that we're actually using within our business today and with our customers today to really get a sense of whether that's going to work for them, and as it does actually explode that over the organisation as a whole to get real value out of a number of companies here that you may well have never heard of.

The other area I just want to touch on for a second is some of the methods of working. I talked about the open and collaborative style, but I just wanted to touch on a couple of things that we've been doing here. Firstly hackathons which you may or may not be familiar with, but a way of working and one that actually does do exactly what I said earlier. So rather than within our own closet determining what we will do, inviting companies, inviting individuals from universities, from other institutions and collectively typically over a period of a weekend, start with little more than an idea, and by the end of the weekend have formed that up as an executable and deliverable service for our customers.

The other two matters I show here are different methods to a similar end. And so we're looking at new ways of actually working and exploring that open innovation environment to actually create real capabilities for our customers.

With that what I might do now is just show you a short video that shows us on the Silicon Valley over recent times.

Video playing

. . . .

Simon McNamara, Chief Administrative Officer
So in summary just want to leave you with a couple of thoughts. Firstly we are building a strong track record for delivery. That's evident in what we've delivered to date. We also have a clear and ambitious plan for the way ahead. And lastly we are strongly aware of the need to innovate and we're there. So with that what I might do now is hand over to Richard, hopefully that was helpful, and field some of your questions if that's okay.

. . . .

Questions and Answers
Richard O'Connor, Head of Investor Relations
Thank you Simon. That wraps the more formal part of the presentation. Reminder, if you have a question please submit it online and we'll take as many as possible. Whilst you're typing your questions let me ask Simon to elaborate a bit more on the incident yesterday in a bit more detail. So why is this still happening and what can we learn from this incident?

. . . .

Simon McNamara, Chief Administrative Officer

So I'm going to be clear on why we had the issue. I mean we ended up with a technical fault that meant that we couldn't ingest a file that we were taking in from third party providers, so a payments file. And what we've done since is actually fixed that underlying issue and we've used a lot of the investment that we made to be able to diagnose and address and fix that issue in terms of the root cause.

And then in parallel we've been progressing the how do we actually remediate the impact of that issue which is the application of the payments to the accounts of our customers. And to be honest that's a process that takes some time. There's a level of rigour around that because we are in amongst our payments and accounts. And we're progressing that again using a lot of the tools and the techniques and taking advantage of some of the investment that we've made over the last couple of years. The overnight process that once used to run the entirety of the night now because of the investment is shorter and tighter. That allows us more space in which to operate to address some of these issues when they occur.

It also when we have an issue we have much clearer line of sight now to the moving parts of those overnight processes, so we can see very clearly where we are as we progress, what's happening, what's not happening. And I said earlier there's a number of people, a large number of people who are working round the clock using the skills, the tools that we have acquired to actually address this issue.

As I said earlier I'd love to be able to say we will never, ever have a technical failing again, and if you find somebody that tells you that I'll tell you you've found a liar okay. It is not feasible to run 100% faultless perpetual systems, particularly of the complexity that we need to be able to support our business. So what we will have on occasion is an issue. It's how we minimise those, it's how we respond to those and ultimately it's how we fix those when they do occur that is critical. And therefore that is where we are at the moment which is really responding to an issue that we know makes a difference, you know is a real issue for our customers and one that we care about deeply and one that we're doing everything we can do to fix.

. . . .

Richard O'Connor, Head of Investor Relations
Thank you Simon. A second question. You mentioned briefly Apple Pay. Could you tell us when you think it's going to launch and talk about the broader implications please?

. . . .

Simon McNamara, Chief Administrative Officer
So it's in the third quarter of this year and I think, you know I'm very pleased with the fact that we've been very active in that space and we've found ourselves in the first delivery, the first tier, the first wave. And in fact three of us, RBS, NatWest and Ulster Bank are the first three banks mentioned in terms of delivering that capability into our customers.

We believe it's a service our customers will value. It's one in which to be honest we have crystal clarity to its potential and growth, well perhaps potential but actually the actuals. But we decided that it was what we wanted to pursue, it was a case of engaging and then executing. And we'll work to deliver a service through that, as I say in the third quarter, that we think our customers will genuinely value and I'm very pleased about that.

. . . .

Richard O'Connor, Head of Investor Relations
Question from the webinar. Could you talk a little bit about the challenger banks, what impact you're seeing and do they have a lower cost, cleaner model if you like. How can you compete against these type of banks?

. . . .

Simon McNamara, Chief Administrative Officer
Well I think you know they certainly have a simpler footprint in that they're typically as they start up offering far narrower range of products than we do. You know I looked specifically at what we're standing up for Williams & Glyn which is a broad based business as a start-up, and that will have about 115 products on day one.

A look at what some of the challenger banks take in terms of time to establish a single product and it can be years just to get a current account up and running for example. Just - I mean that's a non-trivial task but it does - you know hence the seven years. So I think yes there may be a nimbler and simpler environment, but actually the breadth of what they can offer is often narrower. They tend to benefit from the speed at which they can deliver those services and hence our investment in actually simplifying and being able to deliver our services equally effectively and equally quickly.

I think we often don't really value the advantages that we have already accrued, the fact that we already have 16.4 million customers and information about them that we could do a better job of leveraging to be able to support them. And so there are some advantages into the scale and the breadth of our business at the same time there are some advantages of being small and coming into this industry.

I think the key for us is actually keeping very close to the sort of the emerging sort of traits of these companies and doing what we can do to, if we think they're important, they're important for our customers, to mimic them and to improve upon them.

It's clear - I mean we've talked about our payments infrastructure and I might just touch on that again. I've got, I say 80, we've got 80 core payments systems, in fact I've got 142 payments systems at the end of the day. That does gives us huge capacity in terms of the services we can provide. I mean there are trillions of pounds going through here on a daily basis, and as I said 13 million transactions. You're not going to set up that breadth of capability in a start-up anytime soon.

And having actually worked in a start-up and you know you think you're moving at pace but you've always got so much more ahead of you that you'd really like to do that others are already doing because they've been at it for some time. So you know this stuff, you'd like it to be instantaneous but it's still - some of it takes a long, long time to actually get set up.

And by the way in the same time they'll be building their own legacy right, so hopefully they've learned from the lessons of some of what we've done in terms of what they do, but I can assure you there'll be some lessons just because of the access to resources and skills that they have that they'll be learning for the first time for themselves.

. . . .

Richard O'Connor, Head of Investor Relations
Thank you Simon. Sorry, I'll give the names of the questioners from here. Question from Daniel Mayo at Ovum.com. Are you planning to transform your batch based core systems to a real time platform?

. . . .

Simon McNamara, Chief Administrative Officer
I might just start on that and I might hand over to Patrick because he has a few thoughts there as well. If the - so are we going to do a wholesale replacement of our core systems, a big bang approach? Well Patrick touched on it earlier, the answer is no. Are there aspects of our business that become increasingly real time in their nature? Yes. And does that necessitate changing and evolving components of our core banking system over time? The answer is yes.

And so we are going to become increasingly a real time entity and we'll have to evolve our technology to build and support that. We already have. There's a lot of action that you can undertake today in real time within a mobile environment that once upon a time you had to in not real time, walk through the door, hand over a counter and so on. I might ask Patrick actually for his - same thoughts.

. . . .

Patrick Eltridge, Chief Information Officer
The first pathway into this move to real time is the simplification of the overall environment. It's not just a core banking replacement project. The entire environment, the way in which we connect to our channel and customer systems, the way in which our systems are integrated together, are ways in which we have to march into this programme incrementally.

The work we're doing in the services component of the transformation agenda to move to the services oriented architecture and the introduction of a bus architecture which is a real time connectivity between our systems is a critical first step. We are already introducing much closer to real time capabilities in balances and transaction support and payment support.

As we simplify the overarching environment and move functionality out of our legacy core we change the nature of the problem in the core replacement. And in time we then get to a point where evolving the fundamental core batch environment that we have today to real time becomes infinitely more viable and safer to do than it is today. So it's a journey.

. . . .

Richard O'Connor, Head of Investor Relations

Couple of questions from Edward Firth which we'll get to, but one from Ivan Jevremovic from UBS. Talking about slide 20, others doing exciting things in technical innovation, do you consider M&A to add to your technical skills and knowledge particularly as you increase your capital base?

. . . .

Simon McNamara, Chief Administrative Officer
It's an option but it's not the primary focus. What we're about at the moment is really understanding and looking at who we can collaborate with. There's a lot of value to be had from working with organisations that are also developing their own model and their own plans. But there may be opportunity at different points in time to acquire into the fold particular pieces of capability that we think are better off, you know, within the family here as opposed to in a collaborative sense.

But I think there's a lot more to be had from collaboration than we've extracted historically by way of value and I think that's really very much our focus at the moment, so who to work with, knowing what's going on and finding the opportunity to do things with others.

. . . .

Richard O'Connor, Head of Investor Relations
Much more partnering rather than particularly M&A. So we'll go to - it's a question, we'll take one at a time. Going back to the IT issue this week, is it broadly the same issue as last time and is it connected to the change programme or a legacy problem?

. . . .

Simon McNamara, Chief Administrative Officer
No I mean actually it's very different to last time, both in terms of its initiation and also in terms of then its resolution. Last time we had - well actually you know we've had a few incidents along the way but if we're referring to 2012 we had the big incident over multiple days for example in Ireland. That affected I think all categories of payments across all brands for - as I say for multiple days, but actually it was a reflection of the overnight process, the change of that and then some of the complexity and ultimately being able to manage the incident that actually meant it was very difficult to get ourselves back to a position.

Effectively as I said earlier we had an eight hour window for a batch and an eight hour batch. Once you start to fall a day behind with that you're trying to squeeze that into the available window and therefore the phenomenal effort that went into actually addressing that issue but didn't have the benefit of some of the tools we have now.

It's not a reflection of change and it's not a reflection of legacy really. I mean the root cause was a technical failure which could have happened in something that was brand new as easy as it happened in something that was very old, and certainly wasn't a reflection of change per se. I mean it's a - and we are going to find things that fail on us in many different areas of the environment, new and old, as you say legacy and so old. But yeah, a very different issue.

And I think some aspects manifest in the same way, but not the same scale at all. And we've known from the very outset you know very clearly where we are. There was nothing missing. The challenge here is actually the safe and secure application of those payments having once missed that window, getting them into the accounts of our customers without actually disrupting things further. And we learned a lot of lessons through previous incidents where that is a very well, professionally managed exercise. We will get the money back into the accounts, you know represented into the accounts of our customers and that's where we're focused at the moment but - so that's the sort of long winded answer to a question that was quite simple, but I think it's a valid response.

. . . .

Richard O'Connor, Head of Investor Relations
Second one from Edward Firth at Macquarie. If you look at the massive new innovations in the market which ones excite you most and which ones do you fear the most? On Apple Pay how much have you paid for each transaction and what do you expect the overall P&L impact to be? So a few questions wrapped up in there.

. . . .

Simon McNamara, Chief Administrative Officer
No, fair enough. Well I mean I probably won't go to the Apple Pay piece transaction by transaction and the P&L impact. I think you know we're still forming up where that might go and a lot is going to be discovered along the way as well. But I think it's very important to be there. We think our customers will value it and we think it will actually be - and this is this sort of engage and see type model which is where we're operating. But we think it will be - it will work for us and it will clearly work for Apple and our customers.

In terms of the mass new innovations into the market, I mean of those categories I highlighted earlier we have very cumbersome ways to authenticate ourselves. It would be really nice if it was just my voice or my - staring into my eyes or whatever that was very trivial and simple and I'm not going to lose, ways of authenticating yourself. Currently we have people that have 14 different methods to log into some of our services, we need to simplify that. And therefore those things that make a big difference to the ease of use for our customers is very important.

I think data in terms of insights we have such a rich amount of information as it relates to the activities of our customers. You know we are significant player in the core banking, current account, main bank system that we see huge - enormous amounts of information and flows in terms of the activities of our customers. We need to turn that into an asset, the better services, the needs of our customers, so I think there's a real opportunity there.

So I think data and insight where we're investing heavily, biometrics as I mentioned and then who knows where this wearables thing will go. But actually I've got more utility out of this device than I ever thought I was going to get. I thought it would be - it could tell the time, I'd sort of worked that much out, but actually you know the fact that it's doing its best to try and keep me fit in a difficult circumstance, it's actually doing some stuff to allow me to get into my hotel rooms, to get into the planes and so on and so forth. I mean it's clearly - there's a lot more value in that.

But that list earlier, the items there, there's every one of them has merit and mileage in it and there are specific companies in each of those areas that we're very interested in, we're talking to and they're talking to us.

Richard O'Connor, Head of Investor Relations
Any particular fears over and above the ones you've expressed?

Simon McNamara, Chief Administrative Officer
Any fears?

Richard O'Connor, Head of Investor Relations
That part of Ed's question.

Simon McNamara, Chief Administrative Officer
No I think - well I think you should always have a degree of paranoia right, and you should always be looking to who might be coming after your lunch and what they're doing. It is interesting though when you go and talk to a lot of the companies that are eating into some of our value chain how they're equally looking for opportunities to partner because they're not quite sure where it might go for them. And there are things that we do that they need.

So we need to find with a lot of these guys the mutually beneficial relationship as opposed to as I say ignorance and ignoring which I think is fatal, or actually trying to necessarily take them out when they might actually be providing a service that's very complementary to the one that we do. So I think intelligent engagement is key there, and therefore yes there's a real threat and I think the real threat is ourselves if we don't actually really mobilise around it which I think we are.

Richard O'Connor, Head of Investor Relations
Thank you. Just a couple more questions on screen. One of them, excuse me if I don't pronounce the name properly, Julius Segole from Standard Bank. What is your current IT cost income ratio and what is your plan, if any, to reduce it over the next three years if we have it, sort of an IT cost income ratio?

Simon McNamara, Chief Administrative Officer
Well no you can, you can derive one right. I mean it does say a lot about the maturity of your company. It's interesting, I worked in organisations for years that were trying to

drive out technology costs and reduce it to a smaller proportion of their overall cost. I don't know whether we'd noticed but this is a digital industry that delivers its services increasingly through computers. You know a mobile device is a computer, it's not a person. Internet banking is. And therefore it is inevitable that we are going to see an increased percentage of technology expense as a function of the whole.

You know there are less people involved in our industry year on year. The property footprint of our organisations will continue to contract. And therefore I think there's a certain naivety in some organisations that treat IT purely as a cost where it's a key enabler. Clearly there are aspects of our technology expense that we want to see productivity gains in, you know. So if I paid the same today for 10 megabytes as I did 20 years ago I would be spending, you know, more than the national debt of the UK for the amount of disk space I use for just this one company.

So you're looking for productivity, you see productivity. Things become cheaper and we become more efficient. So I think we're very focused on the run side and what it takes to run this operation, and then we're very focused on releasing as much as we can into the change side and creative capability that differentiates and provides superior services for our customers and for our employees I think if that makes sense. I don't know whether anybody else has anything …

. . . .

Patrick Eltridge, Chief Information Officer
I would only observe that as you see certain categories of IT expense grow proportionally you are going to be able to see that correlate. It's a decreasing expense in more traditional areas and so there'll be substitution and therefore greater efficiency.

. . . .

Richard O'Connor, Head of Investor Relations
Also I would say this is one bank and we have one bank cost income ratio target which is below 50, and the services in IT is the key part to getting that done.

. . . .

Simon McNamara, Chief Administrative Officer
Exactly. A substantial part of it is going to be delivered through the investment in technology that's going to deliver the efficiency.

. . . .

Richard O'Connor, Head of Investor Relations
Second one from Ivan from UBS. Thanks for my previous question. How do you see the role of technology and credit approval processes how far can things be automated for creating risks, that manually underwriting would or should avoid? And we talked a bit about improving credit processes through the presentation but if you can expand on that please.

. . . .

Michael Geslak, Head of Transformation

So again as I mentioned as part of the N….. lending programme that we've kicked off, this is absolutely part of it. I think the answer to the question is I don't think I can answer how far we can go, what I can tell you is our approach and it's very similar to what Patrick mentioned on the technology approach. It will be an iterative approach and we will test and learn as you go. So we don't think of it as a big bang, we're going to all of a sudden automate all of that process and that decision making. We will test it; we will incrementally push it forward, learn and adjust.

. . . .

Patrick Eltridge, Chief Information Officer
But it's clear from prior experiences that moving towards real time or near real time credit decisioning is a dramatic boom to the customer experience. It improves conversion rates, it improves retention, it improves growth and can actually enhance the overall credit quality.

. . . .

Simon McNamara, Chief Administrative Officer
So I think we're going to see more evidence of prequalified as opposed to waiting for initiation from the requestor. And then secondly other techniques for determination of credit. I mean there are companies out there that purport to use sort of mobile or prepaid phone usage as a method for determining the credit worthiness of a customer right. Now we - I'm not suggesting that's the way to go, I am suggesting that we are going to be looking at other ways of determining ultimately and we are looking at some.

. . . .

Richard O'Connor, Head of Investor Relations
And the two big programmes for this bank are account opening and credit approvals, getting those times down as we say to as near real time as possible, making very good progress.

One where the email address hasn't registered but I'll ask it anyway. It's how are you getting on separating Williams & Glyn?

. . . .

Simon McNamara, Chief Administrative Officer
Well we are getting on with separating Williams & Glyn. I mean we've got a very clear timeline. We have to by September of next year created a standalone platform capability and have a licence in place to be able to go through the next phase of that process which is an IPO. So we're very focused on that.

We've got a very good team in place. We are making good progress so the technology platform which I'm very familiar with at the core of that, although a challenge is moving and we are standing up capabilities and we are testing them in the real world, this organisation will be at an advantage at its outset when we get this right in that it will have a breadth of over 100 products and it will have a platform that it owns for itself that it can actually then use to consolidate or to - well actually there are many options in terms of what they do with that platform but it's a pretty rich platform that they will have from day one.

So - and then I suppose just the - you know I touched on the team but we've got a very, very good team that's very focused on getting what is a very clear priority for us as an organisation up and out.

. . . .

Richard O'Connor, Head of Investor Relations
There's doesn't seem to be any further questions from the web at this stage from my perspective. If there are any follow up questions then do telephone us or email your relevant contacts at the bank. But thanks very much everybody for listening in and thank you to Simon and the team.

. . . .

Simon McNamara, Chief Administrative Officer
Thank you.

. . . .

END