RBS Group, PLC (at DB Global Financial Services Conf)

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Corporate Speakers:

- David Lock Deutsche Bank U.K. & Irish Banks Analyst
- Alison Rose Royal Bank of Scotland Group CEO

PRESENTATION

David Lock: Good morning everyone. My name is David Lock; I work in the European Banks team under the U.K. banks.

Today, we're delighted to have Royal Bank of Scotland represented by Alison Rose, who is the CEO of RBS's Commercial & Private Banking business. Alison's going to give a brief presentation and then we will move into Q&A.

So without any further ado, Alison, the floor is yours.

Alison Rose: Great, thank you. Thank you, David, great to be here. And what I was going to do is give you a overview of our commercial and private banking business, 2017 priorities, and a bit of a sense of what we're doing and how we're growing the business, and a spotlight of some of the key areas we're developing. I'm going to talk for about 10 minutes and then we'll open it up to any questions that you have.

Just to help you navigate, CPB is a key pillar in the bank strategy, so those of you who follow RBS you'll recognize the triangle on the left, which is the core bank blueprint.

And we are very much a core part of that, since setting our key vision of being number one for customer service, trust and advocacy, CPB's undergone a very significant transformation program.

We've seen really huge improvements in our NPS, which is our core measure, which is our customers telling us whether they're satisfied with us. And then out plus 21 for commercial banking, which is a 6 point increase year on year and does start to put blue sky between us and our nearest competitors.

CPB is also a core earnings engine for the bank as a whole and you'll see in the pie charts at the bottom our contribution, 35% of the group's revenue, 43% of its RWAs and 33% of its operating profit. We're key in delivering the success of the whole bank's strategy. Within CPB, we look after the brands of NatWest, Royal Bank of Scotland and Coutts as well. We're key to the brand strategy.

This really just gives you a bit of insight to what's in the business. Within commercial, this is customers with 2 million turnover right the way up to the top of corporate in the U.K. and Western Europe and we're serving 49,000 customers with 31% market share. In the private bank which is our Coutts brand, we are serving 55,000 customers; we're the number one private bank in the U.K. And RBS International which is our offshore business in Jersey, Guernsey, Isle of Man and Gibraltar, we serve 280,000 customers from personal to business and commercial.

There's a broad product set and a broad coverage reach across U.K. and Western Europe, predominately U.K. And we're meeting all of those customer's needs, as you can see through lending deposits into rates, FX, DCM and structured finance businesses. This part of the bank is within the ringfence bank. We're designing our business to fit within ringfencing and also our bank of brands strategy, and I'll touch on that a little bit later.

So, as I mentioned, we've undergone a very significant transformation program within CPB that has been in place since I took over just over 3 years ago now. And what we do, we have a very clear strategy for 2020 that each year we set 5 key priorities and what I've done is put them up here to give you a sense of the type of things we're doing across the business.

Our five priorities for this year, real focus on continuing the digitization of the customer experience front to back and that's really improving most efficiently through cost out but also intelligent digitization to improve the customer experience. And I'll spotlight on that a bit later.

Investing in our people is a core part of our priority this year, with a leadership program but also better tools for our bankers through data and analytics to help them meet the needs of the customers and also, professional qualification for all of our bankers which is now mandatory within the business.

The third is generating sustainable growth. We really want to make sure that we're strengthening the growth that we deliver in this business through better use of our capital, more discipline around our pricing and focused growth.

The way that this business grew in the past was to wait for interest rates to rise and turn on the caps of commercial real estate and that's not how we grow this business today, so real sustainable growth with an eye on the return on our capital.

Delivering the ringfence bank is to make sure we leverage not only our brand portfolio that meet the regulatory requirements of ringfencing everything within CPB will be within the ringfence, but we need to operate across the ringfence to access products and also migrate from customers, so that’s the core priority to deliver this year.

And simplifying our business, there's a huge number of elements in here through investments but also making sure our products are designed to be simple and effective. This helps us improve our cost efficiency but also our speed to market, as well. And they're real stepping stones to that 2020 vision.

In terms of digitizing, I'm just going to dive into a few to give you a sense of what's happening front to back. Digital is the core of everything that we're doing, particularly for business customers. They largely seek to interact with us through our digital platforms, and we're really making sure that we invest in the core digitalization but also intelligent digitalization through innovation and productivity.

New Bankline is our best in class online tool. 80% of our customers choose to interact with those via our digital channels and we're progressing around 400,000 payments daily. Increasingly, we're investing in this platform to make sure that we roll this program out and increase the amount of functionalization we've put into this so that customers can increasingly handle one-stop shop for how they work with us.

The redesign for new Bankline is a simpler payment journey, customized dashboards which we co-created with our clients and we're currently running it around 90% satisfaction from our customers with a vision to be 90/90, 90% interaction, 90% of use through that platform. But innovation is also another area of our digitalization and this is the intelligent use within CPB I setup a dedicated innovation team and sand pit team, you're looking at new types of innovation.

And one of the areas just to call out is something called Esme which I launched and we announced in Q1. This is an unsecured, standalone lending solution for U.K. SME customers to borrow up to £150,000. This is through broker and direct channels. It’s developed in partnership with fintech and is available 24/7. Customers can self-serve entirely off this platform.

It's underpinned by customer centric, fast-paced, agile operating model and we will continue to roll innovations like this out across the rest of the year. Well, I'd say from front to back, at the back we're also transforming our existing delivery methods for our clients, so we're redesigning our whole lending process end to end.

I guess I would describe the 5 year journey that we have on this starting from a position which is a highly manual, very paper-driven process to now a much more online digital solution. It will simplify the processes end to end. It will increase our thresholds.

It will mean, instead of having 37 different hand offs and hand over to clients, it goes straight through processing which means it's efficient, it's effective that allows us to take costs out of the business.

It also means the client experiences better and faster and market leading across the markets. And we'll continue to roll that out through our business banking and commercial and corporate clients. The intention is to provide 80% of non-personal customers with a facility agreement within 24 hours during the course of this year.

The other area that we’ve invested in is on our on-boarding and account opening. We’ve established a digital self-serve account opening solution for SME business customers. This streamlined this and again the intention is to open 80% o our commercial accounts within five days. So, there’s a huge amount of investment going in both in terms of digitizing the basics, but also innovating for the future.

On sustainable growth, as the leading commercial and business bank in the U.K. we have a very unique rule to play I think in supporting the U.K. economy. But our focus is delivering that growth in a safe and sustainable way and we’re striking that balance between making sure we’re putting volume through but also risk and capital and pricing discipline within the business.

We’ve successfully grown this business since 2015. This was a business that hadn’t grown for five years. We’ve now had eight consecutive quarters of growth. We’re outstripping M4 lending performance in the U.K. with broad based growth across all of our sectors, so it’s a very targeted growth in specific sectors we’ve capitalized.

And in this year we set a 3% growth target for our growth across BBB and CPB as we face into lower interest rates environment. The real focus in this is making sure there’s good pricing discipline, we’re pricing for our risks, but also making sure that we recycle our capital appropriately to areas where we can drive the right type of return and the right type of growth.

In Q1 ’17, we’ve reduced our RWAs by GPB1 billion, with ROE now standing at 9.3%. So making sure we do that growth within a robust risk framework is very important. Another area of growth which is around the start-up side is to a program that we launched a few years ago called Entrepreneurial Spark. It’s a free accelerator hub program that we offer through NatWest.

And this is opening -- we now have 12 hubs open across the U.K. and this is supporting U.K. entrepreneurs, giving them access to the right sort of support and help to start up and with a few steps here around this type of growth, we’ve managed to grow and create in the U.K. economy. So that’s a bit of a whistle stop tour through U.K. CPB; hopefully it gives you a sense of what we’re doing and then I’d be very happy to take any questions.

QUESTIONS AND ANSWERS

David Lock: Thank you very much, Alison, and do take a seat. I guess to kick off questions before we go to the audience, I’m sure there will be some questions. The kind of big hot topic at the moment in the U.K. is Brexit.

Alison Rose: Yes.

David Lock: And what the potential implications of that could be. You are a bank that is -- really got a growth ambition within the U.K. and I just wonder if you could discuss how you thought Brexit was impacting your business.

And also how you're thinking about investment trends from the clients that you're seeing? Has it been affected by Brexit and have there been any change in the last almost 12 months?

Alison Rose: Yes I mean I think the issue with Brexit that we're seeing it's obviously -- there's a lot of uncertainty because we don't know what Brexit will actually mean at the moment until we get into the real negotiations on Article 50.

The trends that we're seeing in the business are quite interesting and there was a very similar approach that we saw in the run-up to Scottish referendum that large corporates tend to stop and pause and small and mid corporate businesses continue.

And we saw exactly the same theme in the run-up to the Brexit, both a slowdown in large corporate investments but then very quickly reopened. And on the small to medium size we're seeing volumes continuing very well. Now that's not a huge surprise because nothing has actually changed at the moment. We're seeing businesses being very pragmatic.

We're seeing continuing investments in particularly manufacturing, where people are investing in their production lines and efficiency. Their operating costs I think mindful of increased input costs. So, no real slowdown, maybe at the large infrastructure end, a bit of a pause.

But I think any uncertainty is going to affect business confidence. At the moment we're not seeing that and we're seeing a very pragmatic response from business and from our perspective in terms of lending and investments, continuing to grow in line with what we saw last year.

David Lock: Okay. I guess if we sort of take that further and we think about the other area where Brexit might impact which is on the impairment line--

Alison Rose: Yes.

David Lock: -- a lot of concern from analysts like me on the 24th of June last year was that we'd get a rapid deterioration in credit quality over the coming year. That obviously hasn't come out.

If anything, it's probably even better than where we were forecasting it before the referendum last year. Are you seeing anything in terms of any change to underlying credit conditions or a new change to your approach to how you approach those kind of credit decisions?

Alison Rose: No, if you look at our impairment levels they're staying relatively low. I think we're operating in a very low interest rate environment which is clearly beneficial. But we're not seeing any deterioration across our book as a whole and we obviously cover the spectrum from very small businesses right to the top of corporate trading businesses.

So there's no major deterioration in underlying credit quality that we're seeing at the moment, no systemic moves in impairment levels. So we're not seeing that yet and I think in a low interest rate environment that does provide a bit of a comfort from that perspective.

I think the key clearly with Brexit is for companies that are exporting and importing the dynamics there, weak sterling has helped some companies at the moment. But actually until we get into what it will really mean that's going to be the challenge. We've got to make sure from the bank's perspective we're preparing in the right way to support our customers.

And from that perspective, although we're predominately U.K.; we do have licenses in Europe. So we're preparing for the worst eventuality and making sure that we can support clients through that.

David Lock: Okay and if we turn to growth, I mean last year was a very, very strong year for your business.

Alison Rose: Yes.

David Lock: I think it was around 10% loan growth, which is not something that we normally talk about with European banks.

Alison Rose: Yes.

David Lock: Ten percent loan growth for your division. This year you said you'd target 3% across the personal and the commercial element, but I think you had talked about mortgages being more of a focus this year. So what's been the kind of change in where you're targeting from clearly last year, all the growth this year [sort of seems like] it's a little bit weaker?

Alison Rose: Yes, I mean we had very strong growth last year. I think across the bank we put maybe 20 billion of new lending into the U.K. and certainly on the commercial side we saw very strong growth. Mortgages will continue to be a key area of growth for us, but on the commercial and business side, slightly lower growth forecast mindful of the outlook.

But what we're doing is focusing much more this year on making sure our capital is efficiently placed. So the way we target our growth is very much sector specific to make sure we're penetrating the sectors where we see there are good opportunities for growth.

And then recycling capital out of other areas where there are lower returns or less good outlook into those higher returning areas. So our growth will continue to grow and with continuing to forecast growth in the corporate and commercial space, but actually what you'll see is being much more efficient with how we'll deploy our capital and where we'll point our capital for that growth.

David Lock: Okay. Are there any questions from the audience at the moment? Okay.

I'll continue with my questions then. I guess just sort of following on from your point around capital there, one of the targets that RBS has is to reduce the risk-weighted assets by around 20 billion gross.

Alison Rose: Yes.

David Lock: And certainly a chunk of that is going to be coming out of your business. I'm just wondering how you're approaching that kind of conversation with clients because clearly clients don't like to be told that they're not the most profitable clients and therefore you don't want the balances any longer.

But how are you sort of implementing that reduction in risk-weighted assets for your business?

Alison Rose: Yes, we're approaching it in a number of different ways. So, there are some very targeted conversations I think at the large corporate end making sure that we can deploy the capital to access the wallets that make good returns is clearing important.

And those are very specific one-to-one conversations where we don't think we'll be able to make a good enough return on deploying that capital then we'll seek to exit either directly talking to the customers or just downsizing our capital commitment in relationship and refinancing.

So, there's a very targeted program around doing that. And, we'll seek to recycle that capital in a different way. We're also looking at sectors where we'll just take some growth out of some sector exposure where the returns aren't as much. That's much more the volume trading end our business where that's really just a risk allocation point; we'll point the capital somewhere else.

We'll also continue to focus on data quality and clean-up. There was always an area of cleaning-up data which will help us mark our capital and our RWA's a more efficient way and then we'll also continue to look at portfolio trades appropriately to sell off parts of our book where we think it's the right thing to do.

There's a number of different measures from exiting to downsizing to redeployment in that capital. It's a pretty broad program. In the first quarter of this year, we've taken across CPB and NatWest market around 3.2 billion of RWA's out, so we're making good progress on that and we'll just make sure we cycle it into to growth areas where we need to.

David Lock: I guess one of the slides you brought up in your presentation was around digital and the big focus of digital for your business. More broadly, how do you see the landscape for commercial product distribution which, as SMEs has always been tentatively large based, how do you see that transforming over the coming few years?

And do you feel that you're ahead of your peers in terms of developing your digital products or do you think there are some areas where there's differentiation?

Alison Rose: Yes, I'll answer it in two ways. I think there a couple of trends. I think there are some very significant macro trends that are going on so we're seeing quite significant regulatory change. Where you've got open banking coming in, you've got PSD2, you've got new FinTechs coming in. There's a lot of regulatory change – Basel three-plus, we call it now.

So, there's a lot of trends that are going in that means it's really important to be efficient with your distribution and we're seeing increased disruption, which I think will accelerate.

So, I think there are a lot of things that are coming in which are going to pressurize the return on margins that you can get in this space as more competition comes in and the industry will increasingly unbundle, I think. So, those trends are there and coming; the question is how fast they're coming.

So, I think for us it's making sure that we are meeting the customer needs because the fundamental needs of SMEs don't change, which is they want to have access to advice and support for running their business in a very frictionless way, in a very cost efficient way and with that speed and agility.

And as I mentioned with the trends we're seeing and clients wanting to more do it themselves with the digital platform, I think those are all things that mean there's quite a lot of change in this space. Lot of new FinTech coming in, that unbundling people being able to access the value pools.

Then to answer your question is, are we doing enough? What do we think we're doing?

I think the investments in digital and our market share and the strength of our client relationships is very important because what we're doing is making sure we're addressing the needs of our clients really well from financing and across the whole solution that they need with our product portfolio and our simplified set and our investment and our distribution through lending and digital.

Which leads to, the investment that we're making in innovational and increasingly partnering with FinTech and different type of companies to help access different parts of the value pool again, to be increasing trends that you'll need to operate in this space.

So making sure you're understanding the revolving nature of the industry and the customer needs and investing both what I describe as the hygiene, which is the lending platform, the account opening and then the value which is things like ESME and the other 10 to 15 things we have running in our innovation ports, that we can become the client ecosystem which I think is a trend.

David Lock: Any questions from the audience? Okay, I will continue with mine as well.

In terms of competition I think there’s a lot of focus in the U.K. certainly in the media but also probably from analysts on mortgage pricing. So, everyone obsesses over mortgage pricing being cut and lowest ever mortgage pricing, but not very much is ever really discussed about commercial pricing.

I was wondering if you could share some thoughts on how you are seeing the asset pricing kind of side of things evolving on the commercial space. Clearly, deposit prices are very, very low. Not much further to go but just in terms of segments how we should think about the kind of asset pricing potential in those areas?

Alison Rose: Yes, I guess in the commercial space given that the breadth of business we cover from the small to the large end, it's a hugely competitive market place where we're competing on one hand with the global banks in our large corporate space and very much a price taker in terms of that end of the market with U.K. large banks and then FinTech and peer-to-peer lenders.

I think in the commercial space there’s no lack of competition; it is a pretty aggressive space with new entrants. But, I think what we're finding is that whilst that affects margin and we’ve seen pressure on our asset margin side being, able to deliver the full needs of the clients across the spectrum in a really efficient way gives you an ability to maintain good pricing discipline.

Our strategy is never to be the lowest price or the highest price; we price for risk and we make sure we're operating within a risk-out envelope that means the return on our assets is good, but I think that pricing competition will continue.

It's being very specific about where we want to put our bets from an effective perspective. I expect pricing pressure to continue. As you say deposits, we've re-priced all of our deposit book already and we expect that to sort of stabilize as we go forward making sure we're meeting the needs of the clients.

David Lock: I guess if you could just touch on some of the sectors that you’re particularly targeting?

Alison Rose: Yes. So manufacturing is a big and obvious sector that we have a very strong position in and is a very big growth sector for the U.K. economy. We bank something like 50,000 SME's and corporate manufacturing companies within the U.K., so right across the board.

Our penetration of that sector is pretty high. We have a product set that supports them very clearly both from exporting products to access to capital markets to their basic banking needs. And we also provide quite a lot of wrap-around care in terms of different joint ventures that we want to support in that sector.

That's a good growth sector and we're seeing good investments in that sector as manufactured investors reduce their input prices. Still growing there and we expect that to continue.

Other sectors where we're keeping an eye on -- leisure, retail, food manufacturing, healthcare. They're key sectors where we've been a little bit more careful about where we put our bets and then commercial real estate which was a big sector and remains a huge sector for us.

We have very tight risk appetite around the growth that we will put into that. So broadly our exposure to that sector, we're targeting it to be no more than 15% to 16% of our overall portfolio but in there our loan to value is around the 50% level. We're still growing but in very key sub segments there.

David Lock: If we could turn to costs. Now, RBS has been delivering on cost reductions for a number of years and I think I'm right in saying that if you hit the target of 6.4 billion, which has been laid out at the beginning of the year, then you will have pretty much halved the cost base

Alison Rose: Yes.

David Lock: --if not more, over five or six years, which is a pretty stunning achievement for any bank. I just wondered what initiatives you were taking within the commercial space in particular?

And also, how you're able to implement those while still trying to grow balances, while still trying to grow income because positive cost jaws has been something, obviously, banks have been trying to get--

Alison Rose: Yes.

David Lock: --since the crisis that a lot of banks have been struggling with.

Alison Rose: Yes, I think we're pleased with our trajectory on cost [we've] delivered on all the cost out targets that we've said to the market we would do. And we're targeting 750 million for the bank this year.

In commercial, it's a number of different areas where we're taking cost outs. We're very much protecting the front end delivery to our clients but there's a real focus on productivity and making sure that our bankers are the most productive and that we're getting real efficiency there.

So, we've taken around 14% of our front office head count out over the last few years. That's by making sure we're investing in lending platforms, better tools, better productivity enables us to serve the customers better.

We've seen a 62% increase in the amount of time our customers are contacted. So our bankers are spending more time with our clients, it sounds like a very obvious thing to say when you're a relationship banking led model but that 62% increase really shows the difference we're making.

We've simplified our product set. So from a real proliferation that had grown up over multiple years when the bank was growing exponentially. Lots of bespoking of products which really weren't meeting any different needs of the clients, so we've simplified our product set to be a very streamlined, very disciplined set of products.

We're targeting around 100 core products, 10 product families to meet the needs of our clients from 450-plus when I inherited the business. That means you can take a lot of cost out front to back and also deliver a much more simplified element to the bank.

And then, in terms of making sure our model is really disciplined in meeting the needs of our customers. So we've moved a number of our customers to a much more direct model, where their needs can be met online; they don't need a heavy, intensive layer of bankers and product specialists.

So really using data analytics and our information to serve customers in a lot of different ways. So, there's all of those and then investment in digital and technology which allows clients to self serve.

So, those are a number of the areas where we're taking specifically cost out of the commercial and the corporate bank which increases that. The key to be really mindful of is making sure you don't disrupt the customer experience or the return for clients.

And you can see with our NPS trajectory, we're up to plus 21 points, six points year on year. So our customer satisfaction is much higher, our customers advocate for us, so 41% of our customers are advocates. That's a significant step change.

So simpler, more efficient, more effective delivery, much greater productivity, much more efficient product engine is what's taking the cost out but keeping that delivery at the front.

David Lock: And one area which we haven't touched on is private banking and I think RBS hosted a seminar back end of last year where you talked about potential opportunities--

Alison Rose: Yes.

David Lock: --in the high net worth space. I just wondered if you could update us on how that's progressing and I think a part of that strategy was around increasing the referrals you were getting from retail banking customers. Are you seeing any changes in the trends there?

Alison Rose: Yes, we're seeing a good step up improvement. I mean, I think private banking has gone through a massive transformation. We obviously sold off our international business and really focused down on our core U.K. business and you've seen, in this year, a 4% Q on Q performance on our return on equity and private banking. So those results are coming through.

The referral rates from our core bank in our commercial and corporate business into our private business -- it's a very obvious thing to point out but when you have commercial and corporate clients you have real entrepreneurs generating wealth, actually introducing them to the private bank where you protect their wealth, which is the focus of Coutts is what we're doing.

So, we're now seeing conversion rates of referrals, tracking it around 26%. So they're significantly up. The referral engine is working much more. The cost base is much more efficient in private.

We have a strategy of right clients, right advisor. Again, making sure that the clients are being served by the right banker. So, good improvement, positive [draws], growth in AUMs and getting on the right path now, so I'm so pleased with the progress there.

David Lock: I think we have time for one more question if there's one from the floor?

Unidentified Participant: Just on the ESME offering. The credit risk approval side of the things, how does that work? And are they all existing bank customers or do you also take new to bank?

Alison Rose: Yes. They're not existing bank customers. Existing bank customers can use them but they're new clients. We're actually finding with the model that 85% of the volume that's getting through is non-bank customers.

It is supported by our credit decisioning and underwriting capabilities that we have a neural learning tool in there for credit decisions, so it really is making sure that we're checking that, we're shadowing it through our own underwriting.

But it's a fully digital online platform, backed by our underwriting criteria. So it's got to meet our risk parameters that we have a neural engine in there as well from the credit approval perspective.

David Lock: Let me just end with one question, which is probably a longer term one. You've been with RBS for 20 years and, obviously, the last 10 years has been a period of significant restructuring and a complete reshaping of the business.

Alison Rose: Yes.

David Lock: And yet the last quarter, I haven't heard the RBS management team that up beat for quite some time. I just wondered if you could reflect on how you're seeing in terms of the business momentum at present, how that compares with previous years and if really we're at a turning point potentially for RBS?

Alison Rose: Yes, I'm glad you can see the sentiment with the management team I think. Last year was a really tough year of restructuring for us but what you're starting to do is really get momentum and much more visibility of the core business. That core business is starting to perform very well and has greater visibility.

Q1 bottom-line profit is 259, the underlying core business is delivering GPB1 billion and a quarter now and has done. I think what you're seeing is as we resolve more and more of the legacy issues, give momentum in the underlying business which is starting to move in the right way.

So, I think it's a very different business. We started three years ago with a very ambitious transformation program. What you're starting to see is the momentum of those last few years starting to come through, so I think we do feel we're turning the corner.

We still have one or two things to resolve, which we're very keen to do as quickly as we can. But I think the underlying business is starting to show the type of momentum and performance that, hopefully, you can now see as well.

David Lock: I think we're exactly on time, so thank you very much, Alison and thank you, all, for attending.

Alison Rose: Thank you.