Morgan Stanley European Financials Conference
Fireside Chat with Ross McEwan
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FORWARD-LOOKING STATEMENTS

Introduction

Chris Manners, Morgan Stanley
Good morning everyone and welcome to the Royal Bank of Scotland Fireside Chat. So before we start with Ross McEwan, Chief Executive Officer of RBS, we do have a polling question which we'd like to ask you.

So our question is, what do you see as the most important driver of the RBS investment case in 2017 onwards? Number one, improving the revenue in the UK Retail and Commercial operations by taking market share? Number two, squeeze out of costs, particularly in non-core and CIB? Number three, resolution of legacy conduct charges, for example with the US RMBS? Number four, a roadmap to exiting the 70% UK government stake? And number five, capital accretive exit of non-core assets? And you'll have a pad that you can type in.

Music

Thanks, there we go, so it still looks like resolution of legacy conduct charges is top of the investor agenda.

So now I'll welcome to the stage Ross McEwan, Chief Executive Officer of Royal Bank of Scotland.

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Questions and Answers

Chris
So good morning Ross, welcome to the stage. It was very interesting to see the result from the polling question there, so maybe if I can open up the question and answer session.

You presented your results last month and you indicated that you actually expect RBS to be profitable from 2018 onwards as legacy issues are tidied up. Can you give us a little bit of a sense on where you are on resolving US mortgage litigation, the state aid remedy now that you're retaining Williams & Glyn and what other things do you think that you need to resolve before we can get started on ordinary dividend payments? Thanks.

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Ross McEwan, Chief Executive Officer
Well just off the polling Chris you could see that the big one is still RMBS and it certainly is the thing we're focused on. And as I've said, probably for the last couple of years, the timeframe around mortgage backed securities is in the hands of other parties not ourselves, but it's something we certainly would like to clean up.

And I'll just remind people, on RMBS there are three quite distinct sorts of groupings around it. There is of course the DoJ, there's FHFA, and then you've got State Attorneys. So when we talk about RMBS we talk about those. But the two biggest in there are obviously the DoJ and FHFA. And we're quite clear that if we get that resolved this year, which is obviously out intention and we get a resolution through the European Commission on Williams & Glyn, this bank has, in my mind resolved the biggest issues that have plagued it for years and years. Particularly the historic look back, because last year we resolved pretty much all other big items other than those two.

So all roads lead to those items, so I'm not surprised number three was the key issue. So that's something we are focused on, but be aware that timeframe is not mine, it is somebody else's that we're dealing with, but we would like to resolve them.

Chris
Thank you, maybe I could ask you to expand a little bit as well about the state aid remedy you have with Williams & Glyn now and how you expect that to play out? It looks like you'll be able to retain actually a lot more of the UK market than you might have otherwise done.

Ross McEwan, Chief Executive Officer
Well first of all let's go back to what was being achieved with putting the remedy in place seven years ago, which was to create more SME competition in the marketplace. There were four other remedies along with that that we have fulfilled and I think people forget that we've done four out of the five, we've still got one which is to create more SME competition. And the view seven years ago was let's create that through taking a series of branches and commercial customers and SME customers out and putting them into - selling them to somebody else to create more competition. And then we went to this view of putting it into an IPO that fell apart last year because the interest rate environment took the revenues out of it.

So that is still the underlying remedy that's trying to be satisfied. And the Treasury took another option to the European Commission in February, we were pleased that that had gone forward because actually it does do all of the things that were set out and will create more competition, it will put more players into the marketplace. It will do it in a way that is now being seen as better for customers through technology, as opposed to the traditional branch network.

It also frees us up, so we can get on and compete back in the marketplace as well, which I think is also very important and it fulfils the final remedy. And as we've chatted, all roads lead back to RMBS and Williams & Glyn. And most things in our business come back to those are the two key issues we need to resolve. So I think that's a really good step forward.

It has a process yet to go through and we don't believe we'll see the results of that until Q4 of this year because it does need to go through the European Commission, they need to do consultation and then there's a voting through the College Commissioners.

Chris
Thanks Ross, we also noted your new plans to target a further net cost saving of around £2bn reduction, or about almost a quarter of the 2016 cost base. I know you and your team have considerable experience of cost cutting in recent years and I know you and Ewen and the team have actually had good results so far. Could you explain to the audience a little bit of a flavour of where these incremental cost saves can be derived from and your conviction around achieving them?

Ross McEwan, Chief Executive Officer
I'll start with the last piece of that around the conviction, because I always somewhat get amused when people say to me - do you think you can take the costs out when for the last three years we've taken £3.1bn out of the business. But the cost savings for the next four years will be quite different. They do need to come out of, first off finishing off capital resolution, last year cap res was £760m of cost for us, this year it will be just sub £400m, so there's £350m to £360m of the £750m in the first run and we're very confident about that.

There will be some slight cost saves taken out of NatWest Markets as it starts a path to become a less expensive organisation - part of our organisation. And the rest of it needs to come out of the core bank. And when you consider the core bank itself is running our Commercial and our Personal businesses running mid-50s cost to income ratio those businesses using good technology to align with customers should be sitting at mid-40s.

So I have no fears that we can do that in a safe way that also adds to the way we deal with customers to make it a better operation for our customers as well and it will be taken out using end to end processes and much, much more technology in the business. So if you think about speed, you think about use of technology, you can do a lot of things that customers will like and therefore do more business with you as well.

So £2bn next four years, £750m this year, we are confident about the £750m and we are working now on the plans for the rest of it. But if you actually just do the maths back from where this core bank is it should be a lot cheaper than what it is today. And I've a high level of confidence that we'll get there.

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Chris
Thanks Ross, and I know you're very focused on this, I think you just touched on it a little bit in your answer there; could I ask you for some of your thoughts on what you see as the most interesting FinTech opportunities for RBS and you know potentially also around robo advice and if you think there is an opportunity for you there? Thanks.

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Ross McEwan, Chief Executive Officer
I think if you start from a customer perspective, what do customers really want to do when they interact with a bank? First off make it simple for me, don't complicate it please, make it really simple for me; actually allow me to do some of the stuff myself, because if you make it simple I can do it at a time that suits me.

Now if you have a look at what our customers are doing, and it doesn't matter whether it's at the very large end of the corporate space, or the person that's sitting on the bus on their way to work in the morning, they're actually quite comfortable doing banking themselves, mobile app right through to 90% of our foreign exchange is done electronically with corporate customers. 35% of our rates business is not done electronically, I'd say in two years that will be 90%. Customers now - 19 out of 20 transactions that happen with this bank are done from a technology perspective, i.e. mobile phone, if possible, some form of digital activity - 19 out of 20.

So customers are already deciding the way they want to operate. And what we're becoming more and more is a financial service organisation with good technology. And my view is that this will just rapidly increase. And I was interested in hearing what Mark was talking about prior and we're on a very similar path, but in banking, of how do you make it easy for customers to do business. Because if you do that they'll do it for themselves, which takes a whole connection point out, 35% of our personal sales last year were done using a mobile phone, or an iPad of sorts, 35%. That's up 136% from the year prior.

So we have been building what we call enablers to our business - everything sits on top of those, to actually make the pace that we can change our organisation a lot quicker. We are trying some technologies that we bought in. Two weeks ago we launched a little product called ESME, which sort of says what it is on the tin, ESME, which is electronic SME. And this was a trial into the peer to peer space, 12% of the SME market is now peer to peer. And to be quite honest customers really don't care whether it's peer to peer, what they quite like is the interaction of doing it themselves and it being really easy and it doesn't take much time.

So if you have a look at the little platform we put out, which was actually a platform out of Israel, the concept out of the United States, our funding and our scorecard engines inside that. We did our first loan on this platform that we were trialling two weeks ago, instead of this thing taking weeks, start, finish, funded - 15 minutes; SME £100,000 unsecured, finished - 15 minutes. Now that in banking in the UK today is an exercise that can take weeks. But if banking in the UK doesn't wake up to the fact that people are coming in with financial technology platforms that can do that we've got a problem.

Last week we launched, for our customers, on their own application - our mobile application, the ability for them to go in and just click onto an amount that we're prepared to lend. They click the number, they can choose a number below that, they can go in and say what they want it for, it will then drop into the types of products that would best suit them, they can choose it, they use the sliders to work out how much money, how long they want to pay it for. It's a ten minute exercise for them to do themselves that used to take weeks. That was launched last week inside our organisation. We fund the next day and that's all around making sure it's safe and secure for the customer. And by July of this year that will be a ten minute exercise finished for customer and finished for us.

So then when people say to me, are you worried about where the costs will come from? You've just seen what happened to what was a two week process with 20 people involved, to you've just done a 15 minute exercise where the customer did it for themselves. And these are platforms - we launched these, so these aren't RBS sitting around waiting for somebody to do it to us. And we were on one of the fund managers lists of 30 companies, the first one being the best at technology and 30 being the worst, we were sitting at number 27. People just don't realise what's going on in the core of this bank, that we're focused very heavily on customers.

And I think the piece around this is around there's lots of sexy IT stuff around, most of it won't make any consequence to how a customer feels or what they do. So stay away from the periphery, get to the core things that customers want to deal with you on and make it really simple. And that's where the bank is going. And we're doing that right across from small business, individual customers, right through to large completely re-platforming our Markets business, redoing all the interface for our Commercial customers through Bankline, just so that it's three clicks away from any activity. And when you think about Fin and Tech, we are a financial service organisation and we use technology, the difference being we've got lots of customers to use it with, which does help.

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Chris
That's very interesting what you say about the perception of RBS, obviously that you had the technology issues back in 2012, now five years later how do you see RBS's position against for example the other major high street banks?

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Ross McEwan, Chief Executive Officer
Well look it was a disaster for us back in 2012 you know when we brought our own organisation to a standstill for three days. And there is not an article in the newspaper on when everybody else has a problem with their technology, and we monitor these on a monthly basis now and it's not us usually - should I touch some wood - having the difficulties. But the defining period was back in 2012, where we said we needed to do a hell of a lot better and replaced the core banking system of the bank.

And we replaced it with not a new real time banking system, we replaced it with a traditional batch process, but we replaced it four times so that it never relied on one huge batch, it relied on four batches to roll at night with back up. And we've been criticised for replacing it with a batch process rather than a core real time.

But the difficulty we had and most banks will have in replacing that technology is that every other systems and remembering we had 4,000 of these things, systems and applications that plug into your core, is used to running on a batch. And to replace your core system with something that's real time means a fundamental change to the business. That's why most banks fail when they put them in;

they've got too much hanging off the side. So our view was replace the core and then go heavily after all of the systems and applications around it.

And to date we have reduced our stack of systems applications by 30% in three years and we will continue on with that aim of dropping our number of systems dramatically over the next three years as part of our strategy as well. It saves costs, simpler operation, faster in the movement and every time you want to change something it spins a lot quicker.

So core banking platform, core data platform, little apps that sit on top is the world you're going to and to be quite honest very shortly I think even the little apps that sit on top, once you get artificial intelligence you don't need the core apps, little apps on top. The artificial intelligence will go into your core systems, get the detail it needs and bring it back to a customer. That's where the world is going, so you just have to prepare for it.

Having had that death defining experience in 2012, I think it was the remaking of this organisation. Unfortunately we had to go through that but we've got a good team of technologists who actually are passionate about making this a simpler bank. And we're certainly getting there. We're not there by any stretch of the imagination, but that will be - that I think was a defining point for this bank.

Chris
It certainly sounds like you've made a lot of progress in the last five years; I think it's interesting to address those perceptions.

Moving on to the core business and your 12% return on tangible equity target you have for 2020, I think it's fair to say that you've been taking really meaningful share in the UK mortgage markets, double digit asset growth against a system growth of you know 2% or 3% over the last 12 months. Maybe you could tell us a little bit more about how you see the competitive environment across the UK banking spectrum, your ability to continue to outgrow the market in mortgages and potentially in the commercial space as well?

Ross McEwan, Chief Executive Officer
Well first off I think it's all around - any strategy is around focus and this bank, remembering even when I took it over was in 35 countries, my view was focus on where your core strategic strengths are and go into those markets with a winning strategy and really go after them. So when we made that decision to come out of 35 and come back to effectively the UK and the Republic of Ireland that was a clear strategic move that said, that's where we're going to employ our capital, that's where we will employ our resources, we will have countries that we will operate in Western Europe, because that's where we've got a very good group of commercial corporate customers, we'll hold on to for our Markets business, UK, US in Stanford, Singapore as a hub, Hong Kong as a rep office and Japan is run for our Markets business as one business. It's not businesses all over, it's just one business. Again, keep it really simple, run one platform wherever you possibly can, look after clients within that environment.

But having made the determination to come back here the advantage for us is that's where we're focusing. And when I took over the Retail bank four and a half years ago, Les Matheson who now runs it and I were both very keen on mortgages. And why do I like mortgages? In bad times mortgages perform quite well, all right, we got ourselves burnt on unsecured, so there's scar tissue in this organisation about unsecured.

In our worst year I think we lost £1.6bn on unsecured, I see John Cummins in the audience, he'll be able to tell me the exact pound, I think it was £1.6bn on unsecured, on mortgages we lost £119m in our worst year on revenues of well over £2bn. And that was supposed to be the worst financial crisis that this place has seen since the '30s. So there's scar tissue around it.

So what we did was said let's specialise in mortgages and build our distribution capacity, because we didn't have it, we're not inherently a mortgage organisation because we didn't ever buy a building society and building societies did all the mortgages, but we didn't have one. So when we started it was sub 8% market share on stock, we're now at 8.8%, probably our natural market share should be well in advance of 12, possibly 14%. But don't go after it on price; don't go after it on risk parameters, build distribution. And that's what we have been doing and we will continue to build that distribution.

Why did we get much greater than market share growth last year? It was that superior distribution; we won awards last year in the broker distribution around service delivery, not price, not risk, service delivery. And that's what we've specialised in and that's what we will continue to do, but you cannot rest on your laurels. So we like mortgages. It's not that we don't like unsecured, we're still doing unsecured. Last year we grew our unsecured personal loans 6%, we grew our SME space 6 to 7%, so you know pretty good growth in that, that's on or just over market.

Our Commercial space, which you raised as well Chris, we did very well. The first half of last year we did very well. We are a reflection of this market, I mean we are the biggest player in the SME and the Commercial space, but we are just a reflection of the market. And I keep pointing people, go and have a look at the British Bankers Association statistics last year and you saw the market grow very strongly in business banking last year in the first six months and it has come off ever since, ever since Brexit the borrowing of businesses from banks has come off.

If you have a look at what's happening on those stats with personal lending, mortgages 2% growth, personal loans 6 to 7% growth, so we are a reflection of that. The area though that we've specialised in is secured mortgages so we're getting greater growth, but our commercial business was a reflection, very strong in the first six months and quieter in the second six months.

We're also a reflection in the Commercial space, the big growth was in manufacturing, it wasn't for us in commercial real estate, because that was an issue for us, we were overweight in commercial real estate when the bank got into difficulties. We've been paring back our commercial real estate holdings since then. We've probably got 1% of our core book that we'd like to reduce over time, but it's getting back into shape.

So what you're seeing at the moment is commercial real estate growing, but that's now where we want to grow so we're being quite disciplined about being cautious about what we take there. So discipline, very strong box that our team on a risk appetite statement have to stay in, if they come outside of that they head into an amber territory, they are straight into our Executive risk forum, and then they will have to deal with the Board Risk Committee if they get anywhere near a red shape. So very strong discipline around that that we've had probably in the last three to four years and we'll stay with that.

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Chris
Thank you. I think you touched on it in the answer to the last question, of course it's an obligatory question, I do have to ask you about Brexit. How do you see your customers reacting to the uncertainty both on the Retail side, the Commercial side? And also, what do you think about what the longer term economic impacts could be and what changes there might be in the way that RBS does business in the wake of Teresa May likely triggering Article 50 next week?

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Ross McEwan, Chief Executive Officer
Well look as I said we are a reflection of just what happens in the market place as a big Commercial bank and as said you've seen that reflection the British Bankers Association statistics. Go and just grab the January ones, it sort of reflects what's happening in our business other than in mortgages and that was a reflection that you have seen the business lending slowing down a bit after a very good first six months.

Personal lending hasn't been affected at all really. But again, go and have a look at the statistics, how is it being funded? It's been funded out of borrowings, it's also being funded out of their deposits, deposits in the personal space have come off quite dramatically in the last six months. So it's just quite interesting having a look at the reflection of the industry on what's going on in the marketplace, because that's all the industry is. You can push outside that boundary, but after a period of time you come back into what do your customers really want.

On the where do we go now, look we are like all other banks probably planning for the worst, hoping for the best, but no point in hoping. We've got a plan in place that says - how do we look after our customers as their journey starts, you know our Commercial customers are exporters, they are big exporters into the European market, we're big exporters around the world. Our job is to be there with them.

We run our business out of - obviously out of the Republic of Ireland, you know the Republic of Ireland got hit with 15% - 40% of their outgoing product coming into the UK, so I think when people - I could describe it as when we thought about coming out of Europe we sort of looked right into Europe and we actually forgot our neighbour the Republic was sitting beside us. But 40% of what they produce comes here and all of a sudden they experienced a 15% depreciation in our currency that made it difficult.

So it's been an interesting experience, we're building for the worst, hoping for something slightly better and we'll just be there to serve our customers. It's not a massive move for us to establish something in Europe at this point in time as we're thinking and we have got optionality, particularly when we've still got three licences that we would have to repurpose. We've got our business in the Republic, we've got the old Dutch NV licence still and we've got one in Germany. So we feel we're reasonably covered, but it will depend upon the rules at the end of the day.

Economically, look we've got no idea, I mean everybody is guessing about what will happen, we all guessed about what would happen in 2016, we all guessed what would happen in 2017 and it's doing better than what everybody thought. We just run on consensus to be quite honest and we put our plans together. We don't try and second guess the market any more. The same on currency.

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Chris
Thank you. Maybe we could talk a little bit about asset quality, the last few years have actually been pretty benign for RBS, obviously you took a large top up charge in Q4 2013, but you know we had a period of write backs and very low charges. What are you watching for for signs of deterioration in the book, is it consumer related exposure given higher inflation, or other areas, I know you mentioned commercial real estate but that seems okay for the moment? And maybe you could offer some thoughts about - maybe I don't have to pin you to a basis point number, but where you think impairment charges could stabilise over the longer term?

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Ross McEwan, Chief Executive Officer
Again, I won't pick the market; I'll leave brighter people than me to do that, because we just reflect what's going on. Low unemployment, start there, 4.7% low - it is a low unemployment rate that's running and next to no interest rates, i.e. zero interest rate environment, 0.25% has I think changed

for a period of time your loan impairment experience. And you know last year we ran at somewhere around 15 to 17 basis points across the book.

Normal, we're thinking is somewhere between 30 and 40. But the difference between what happened last year and 30 to 40, I think is a very low interest rate environment. And does that account for it? To be quite honest I wouldn't know. But when we do our assessments around what will this bank look like in 2020 we don't pin it on a 15 to 17 basis point charge, we put it back to a 30 to 40 basis point charge, because that's sort of what we think the bank would probably be running at.

And the same as when we look at our Irish business, and for those who have chatted to me about the Irish business, it's had write backs on impairment for the last four years. And you could say fantastic, great business, 10% return on equity. Well actually just par it back to a 30 to 40 basis points and it's running at 3 to 4% return on equity and we shouldn't kid ourselves that it's a 10, because on normalised loan impairment it's a 3 to 4. And that's what we keep talking to the team over there about as well; despite we want them to be successful.

So I'd pin it back to a 30 to 40, build your numbers around that over the longer term and if we get better, well that's fantastic, but I'm of the view it's a bit like you know everyone says interest rates will go up, well we've been saying that for the last seven years and they haven't and everybody hopes that income will go up because interest rates go up, well now that didn't happen either.

So let's rebuild the bank on the basis of the realities that we have today, low interest rate environment, yes it may go up, but don't take any account of it, take the costs out of it, make sure you're utilising capital brilliantly and you'll have a very good bank. But I think 30 to 40 basis points is probably where people should be pinning for a normalised loan impairment.

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Chris
Thank you. And so as you look across your books would you say that it's benign across most categories at the moment, or are there certain areas that you're particularly watching, I know obviously oil and gas you know hasn't yet stabilised …

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Ross McEwan, Chief Executive Officer
Yeah, we're not as big a player in oil and gas, I'd like to think it was my strategic genius that we halved the oil and gas and minerals activity about two years ago, but it was just selling the assets in the US that did that for us, we'll take all the luck we can get at the moment, but that really hasn't - we've still got a large exposure but it's half the size it was.

Look I think in these environments caution around commercial real estate, we got burnt there so we are cautious around it. But there's no signs at the moment that are that worrying because of the environment we’re in.

The thing that we are watching is that inflation is coming back into the environment and that’s being imported. You can’t take a 15% drop in your currency and have lots of inputs coming in to feed the economy without there being some issues around importation of inflation and that’s starting to come through and that will come through in this year. I think that will outweigh any wage inflation so that then puts some pressure on people and their daily go to the supermarket, prices are up, I've got less money left in my pocket. That will quietly flow through but will it be hugely damaging? I don’t think so. I think it will stay reasonably under control.

We will not know when the next shock comes or where it comes from. Stay safe; keep good capital levels, good liquidity. I can remember saying to the Board Risk Committee when oil prices went from $110 to what was it $30? Who saw that? Who saw that? Nobody. Nobody was picking it. So I don’t think we'll see where the next shock comes from. For me the issue will be keep really good levels of capital, keep great liquidity and don't overexpose yourself into any one market or part of the market.

Chris
I think that makes a lot of sense. Maybe I could bring you back to your previous comments about the interest rate environment. I understand you're planning for a low interest rate environment, we've been glued to the floor for seven years plus. But I mean I guess for quite a lot of market participants they are expecting a pickup in inflation and over time, maybe in a couple of years, a move to a hiking cycle in the UK. We also maybe had arguably slightly more hawkish tilt from the Bank of England last week admittedly with one dissenting member.

Ross McEwan, Chief Executive Officer
I think it was one dissenting member.

Laughter

Chris
And she is leaving in June. But clearly that's something that investors, some investors, hope for. Given your low loan to deposit ratio, hedges you have in place, how should we think about the sensitivity of your book to a rising rate environment particularly in the UK because at least from our observation it should be quite a revenue positive for you?

Ross McEwan, Chief Executive Officer
Well given the size of our deposit book that attracts no interest, 1% movement in interest rates is about a £500m revenue gain for this bank. So it does have a positive impact. But you can imagine people have planned for that for so long, you've built your business model around that, and my view is don't expect it. Build for the bank that actually has consensus interest rate rise and then don't be disappointed if nothing comes through because we've been disappointed for years in this bank because there had been no interest rate rise. But we just build on consensus so if you want to know what's built into our models go out and look at consensus, it's there. Next to no increases, I think it's 0.25% and then a 0.5% the following year which doesn't give us £500m. It might give us some help with probably what we've lost off the hedges. And I think that's the way we view the bank. And we'll take it as the upside but we haven't built a lot of movement into our planning forecasts between now and 2020. So consensus is what we've got in there which is not a great movement over the next three years.

Chris
That's understandable. Be pretty welcome, an extra £500m of extra revenue, I'm sure. Can I ask you another question, one of the big topics for banks around the world that we talk to is the regulatory outlook. What do you see as the key regulatory uncertainties for RBS? Obviously the PRA is doing a mortgage risk rate review, we've got the finalisation of Basel, IFRS 9, but then conversely we're seeing a much more free market approach coming from the Trump administration. How do you see this debate evolving and which are the particular important pieces for RBS?

Ross McEwan, Chief Executive Officer
I think the environment is quietly changing but that's because I think the banks here have changed. and you can see why we ended up in this regulatory maelstrom because, and it didn't matter whether it was from a capital perspective of us sitting back at, what, 4% common equity tier 1, one of the biggest banks in the world with that sort of capital level, sort of we've got the joke. That needed to - when I came in and I said we wanted that 12% plus and now we're sitting at 13% and the whole industry is around 13%. So I think the regulators from a capital perspective had to get the industry back into some form of reality and I think that's there.

We have put in some movement around Basel IV into our forecasts going forward because we're sitting at a 7% risk weighting on mortgage book. We think that will probably double for us. I mean it probably will decline for smaller players; well some of them are sitting at 30. So I think you'll see a rebalancing there. We've built that into our numbers. We haven't really built anything in from an operational perspective under Basel IV because we're not too sure what you would build in there. There was a sort of ten year look back that seems to have been thrown away which is probably a good thing because we all had ten year look backs on issues.

Chris
You mean on the operational risk?

Ross McEwan, Chief Executive Officer
On the operational risk. And I think that's been pushed aside. You've got a whole raft of other changes coming through that we've said we'll give indicators on around our first half results. But I think you're seeing the industry working a lot closer with the regulators and working together to create a really good environment. And that doesn't matter whether it's from a conduct perspective with the FCA or from a prudential perspective with the PRA. And I think you saw that when Brexit result came through and the industry with the Bank of England worked together on what's the right thing to do, and together did the right things. So I think a much better connectivity here in the UK and that's our biggest market.

We'll wait and see what happens in the United States. Our business is much smaller over there so I'm much less exposed to both the upside and the downside. We get some currency positives at the moment because of what we've got offshore. But you know we also get some negatives over that having 14,000 of our colleagues in India. So look I think the regulatory framework it's settling down and it needed to but I think banks are actually being much more responsive than we were probably seven or eight years ago when we got into this difficulty.

Chris
Super. I think now maybe we'll take some questions from the room. Maybe if I could ask you to raise your hands and if you have a question just state your name and institution and we'll take questions.

Question from the audience
You spoke previously about technology and how the financial systems in RBS have actually kept up top pace more than people think. Could you talk about how you compare with the younger players, the challengers and the FinTech businesses? And the barriers to entry have reduced but how does your data set that you have in the background with customers, how does that sort of - does that keep you ahead of the game because you've got so much more data on the market than they have or in the next cycle how do you keep your share much higher? I can understand RBS keeping up to pace but how do you actually get your fair share and maybe even increase it in the next cycle? Thanks.

Ross McEwan, Chief Executive Officer
Yeah a really good question and one we ponder ourselves, not quite on a daily but a weekly basis of how do we stay relevant to customers is probably the important piece through the use of technology because our life is completely consumed by technology, doesn't matter whether you're travelling, booking into a hotel, all these sorts of things. So our view is just to remain very relevant for customers so we're their first touch point when it comes to financial services. And Open Banking which comes really into effect in 2018 I think will be the point where people realise whether organisations have stayed relevant or not. And we're building very strongly our presence, mainly through our portals for customers to come into and make it really easy.

We do look at a lot of FinTech operations. We do have two people permanently positioned in San Francisco. Their job is to scout the market on our behalf. And we've picked up I think some pretty good technology because of that. We have very strong relationships with a number of parties inside Israel, mainly for cyber fraud type activity for obvious reasons. We have some very good connections here in the UK, so do some scouting here as well. But it's about how do you take that technology and make it relevant for customers because there's lots of interesting, sexy stuff that customers don't care about and you see that all the time - really interesting but so what. And we've tried to stay very mainstream on the things that make a difference.

That's why the mobile phone for us has been the biggest driver of customer satisfaction. It is the only five star rated mobile app for banking in the marketplace. Customer preference is huge on the thing so keep that really relevant. And keep it simple but keep adding functionality but very simply because as soon as you make it complicated you're into banking again. And these FinTechs make it really easy to do one thing or two things. And I think the difficulty for them will be as they become more and more broad they start running into the same issues as we have was how do you get more narrow.

And they're going to have to keep up with the play because one of those players last weekend, weekend before last, was off market all weekend and told their customers to go get another card from somewhere else. You can't do that in financial services. As much as you'd like to say oh don't worry about it for a weekend, sorry I'm out shopping. And that's the - when you're playing in the big game this thing is all on and it's all on 24/7 every second of every day. And when you're down you disappoint customers.

So we've got a good spread of having a look and then we filter it through our innovation forum which actually then - which meets on a monthly basis about what things we will invest in, and our investment process on that is the six of us sit there and say we're investing money in it up to a level. Once it goes beyond a level it's got to go into our Investment Committee which Ewen Stevenson my CFO runs, but anything under that the team with my say so we can just get on and invest in it. And we've found some interesting things. I mean we put out Nift just recently which is for those with a legal bent, you know when you look and banking contracts how complicated they are. We've put in this little device that says here's what that really means for a customer.

We're getting things like our online applications down to minutes now because as soon as you lose the eyeball of a customer and it takes too long they're onto the next site. So this thing has to be done in seconds, grab, do, make sure it works through to activation in minutes for opening an account. So you've got to have the connectivity back into your know your customer, anti-money laundering activity. And that stuff has to be minutes so that's what we're building, that we have to build at industrial strength because we can't afford to be out for a second or a minute at all.

So we're doing some interesting things but we'll play the long game on it and I think lots of players will be pushed out of the marketplace. An interesting little one because you love valuing FinTechs and you give them massive great multiples, massive great multiples for no revenue whatsoever. I've always been astounded how people with your intelligence can actually put a multiple on something with no revenue. So if you want to put a multiple on something we've got a FinTech inside our Markets business and it's called FX Micropay which is one of the smartest FX players in the marketplace that you have never heard about. It has revenue; it has customers and on some of the biggest customers in the world every time you buy something the FX flows through FX Micropay. Now I get zero credit for having that inside and I'm not taking it out, it sits inside our business but that's a true FinTech. And the thing we put out there the other day ESME is a true FinTech. And we'll see whether that builds a customer base going against the peer to peers and see how that goes.

And the things that we've got sitting behind some of our technology is little FinTechs, the little apps and things. So we're prepared to hustle it in the marketplace but my view is stay relevant to customers. We bombard them with all sorts of rubbish, forget it, they want simplicity, and allow them the time to do it for themselves and they'll go out and do it. And they'll find it and they'll do it for themselves and they'll like you for it. But we can't ignore FinTechs, they're here, it's fantastic to compete with but I think you've got to stay relevant.

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Chris
Fantastic. Well I think that's just about all we have time for from this session so it just remains for me to say thank you very much to Ross McEwan, Chief Executive Officer of Royal Bank of Scotland.

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Ross McEwan, Chief Executive Officer
Thanks Chris.

Applause

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