FINANCIAL SERVICES

Banking on Innovation?

The challenge for retail banks

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"We are always saying to ourselves... we have to innovate. We've got to come up with that breakthrough."

Bill Gates, Chairman, Microsoft Corporation

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“Innovation is the central issue in economic prosperity.”

Michael Porter, Bishop William Lawrence University Professor, Harvard Business School

Foreword

Retail banking is under increasing pressure. Competition is tough, margins are being squeezed, new entrants and new business models are threatening established providers, and regulatory requirements continue to grow. The banks which grow and prosper will be those that can profitably develop new products, services and channels to market. Innovation will increasingly be the key to success.

It is commonly said that retail banks are poor at innovation. This is not entirely fair. A lot of innovation does occur in the sector. But much of it is not classified as such, and is hidden from view; and much of it focuses on new processes and ways of doing business, rather than on the classical development of new technology and products. KPMG LLP (UK) and Innovaro Ltd[1] undertook a joint review to assess the state of innovation in retail banking and its potential to enable the sector to rise to the challenges of the future. This report represents a synthesis of conclusions from day-to-day external client experiences and KPMG and Innovaro insights in this area.

What is very clear is that retail banks are, in the main, well behind the game in the way they manage the innovation process. Other industry sectors have a great deal to teach them about how to implement a structured innovation management and delivery process.

> We believe that the most successful retail banks of the future will be those which take these lessons to heart and act on them.

[1] *Innovaro Ltd is a leading innovation consulting and research firm*

The real challenge facing retail banking

Most, if not all, senior executives in retail banking would probably claim that they understood the challenges facing the industry. In a sense, they would be right. The challenges of structural change, increasing regulation, tough competition and more demanding customer expectations are routinely expounded (see Appendix 1). But in a more profound sense, these executives would be wrong. They do not — and cannot — understand the most significant challenges facing their business, because the genuinely threatening developments are those which are unexpected and unpredictable.

The lesson from a wide range of industries and markets is that the truly threatening challenges — those which have the potential to destroy existing businesses — are those which result from disruptive innovations, whether these focus on new technology, new business processes or completely new business models. These challenges fall outside the boundaries of familiar, incremental change, and are often impossible to foresee until it is too late. The victims are those who never saw it coming.

Three recent examples are:

- The traditional recorded music industry has been turned upside down by the consequences of digital downloading. Sales of CDs are declining precipitously. In July 2007, the American artist Prince actually gave away a million copies of his latest recording in association with a British Sunday newspaper. In September 2007, the British band Radiohead announced that they were making their latest album available for download on the basis that fans could decide how much to pay for it — or alternatively download it free of charge. The conventional business model, where live performance served to promote album sales, has been reversed, with musicians having to revert increasingly to touring to generate revenue.
- Within little more than five years, digital photography has largely destroyed the mass market for traditional film; it is likely that use of film will shortly become limited to a tiny minority of professionals, specialists and diehards. In 2004, Kodak effectively withdrew from the film camera market. Nikon has ceased production of all but one or two models of film camera. Konica Minolta has withdrawn from the film market completely. AgfaPhoto went into liquidation in 2005. High street photo-processors are struggling to offset the collapse in film sales by providing digital processing and printing services.
- The passenger airline industry has been transformed by the rise of 'low-cost' carriers such as Southwest Airlines in the US and Ryanair in Europe: Southwest is now the largest airline in the country in terms of passenger numbers carried, while Ryanair is the third largest European carrier on the same basis. Alongside conventional strict cost control and 'no-frills' service, Ryanair has pioneered an innovative business model of virtually giving tickets away and making money from in-flight sales and extra charges, and from subsidies from airports the company agrees to fly into. Its rival low-cost carrier, easyJet, has exploited sophisticated yield management technology, complex variable pricing models and direct-sales channels to become a major competitor to traditional airlines in little over five years. The airline's holding company, easyGroup, has extended similar business models into markets such as car rental, cinemas and hotels.

To date, retail banking has avoided such disruptive shocks. But online banking has already transformed customer channels. Non-traditional banking providers such as large retailers or utility companies are taking a growing share of the market. New payment technologies threaten conventional cash transactions.

A more radical entrant to the UK market, Zopa, offers a new business model based on peer-to-peer 'social lending', where an online marketplace allows lenders and borrowers to be matched, by-passing banks completely. As yet, the sums involved are small. But already the model is being copied internationally, for example by Prosper in the US, Smava in Germany and Boober in the Netherlands. Whether social lending has the potential to pose a serious challenge to the conventional retail banking sector is unclear. But as What Investment commented: 'No banks in the middle, no huge overheads, no unethical investments — Zopa could permanently change the way people save and invest their money.'[2]

To be sure, the substantial and increasing regulatory burden on the retail banking sector constitutes a significant barrier to entry. Companies unwilling to submit to the necessary scrutiny, or unable to implement cost-effective compliance systems, will be deterred from entering the market, especially in an environment of soft margins and cost pressures. Both large multinational banks and specialist niche providers are likely to continue to dominate the market.

But who dares bet against a truly disruptive new technology or business model? Customer inertia is perhaps the only significant constraint on retail banks losing their grip on their markets, so the potential for dramatic change is ever-present. Disintermediation between lenders and borrowers, dynamically-variable loan pricing, real-time clearance… who can predict what might be over the horizon? Some idea of the wide potential for such disruption can be gained from reviewing the range of current issues and trends in the industry (see Appendix 2).

Sustainable competitive advantage depends on a number of factors. But one of the clearest conclusions to be drawn from studying the most successful companies is that those which sustain the highest share price are those which are the most consistently innovative[3]. In a virtuous circle, innovation underpins success and success generates innovation. In retail banking, as in other sectors, meeting the real challenges of the future will depend on constant and intensive innovation in products, services and processes.

Most banks are currently striving to achieve operational excellence and improved efficiency. Hence sustained competitive positioning will be attained by those which secure long term customer loyalty by delivering attractive and compelling products and services tailored to the customers needs.

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[2] *What Investment, Product of the month, August 2006*
[3] *Innovation Leaders, http://www.innovationleaders.org*

"No banks in the middle, no huge overheads, no unethical investments – Zopa could permanently change the way people save and invest their money."

What Investment, Product of the month, August 2006

Innovation in retail banking

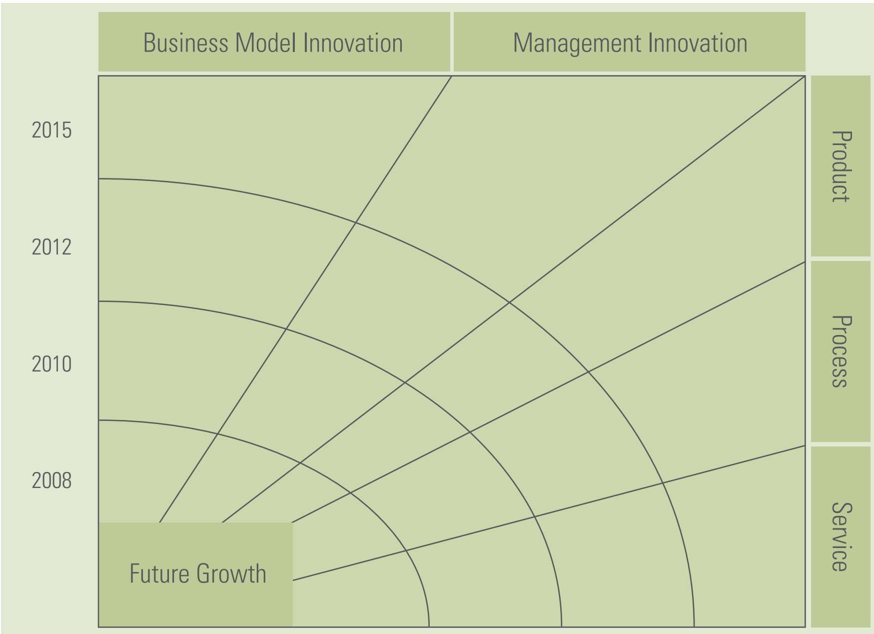
It is commonly said, both within and outside the sector, that retail banks are especially poor at innovation. A typical comment is from The Banker: “Banks are abysmal at innovation.”[4] Similarly, Kathleen Khirallah, Director at Tower Group says: “Retail banking has traditionally been a place where the road to innovation is blocked by numerous barriers.”[5] Banks rarely feature in league tables of the most innovative companies.

In many ways this is to be expected. Banks’ traditional, and appropriate, prudence can easily be expressed as conservatism. Stringent regulation militates against risk-taking and imposes caution in the process of developing and implementing new ideas. Softer pressure from regulators, such as the Financial Services Authority’s Treating Customers Fairly principle, discourages the launch of radical new products and drives convergence to a norm.

But it’s not as simple as that. To begin with, some banking sectors, at least, are characterised by constant, creative product innovation: witness the proliferation of derivatives and structured finance products in investment banking in recent years. And in retail banking itself, consumer channels have been revolutionised in recent years by the internet, both in terms of on-line banking with traditional banks and through the launch of internet-only banks such as Smile (a division of the Co-operative Bank) and Egg (formerly a division of Prudential and now part of Citigroup) in the UK.

Systems and process innovations have been equally important over recent years in transforming banks’ back office functions, in streamlining customer interactions and in facilitating outsourcing, off-shoring and similar cost management strategies.

Balancing the innovation mix



On the other side of the argument, Eric von Hippel, Head of the Innovation and Entrepreneurship Group at MIT Sloan School of Management ‘disparages what investment bankers applaud as innovation: “automating systems they’ve got, processing loans more efficiently, designing new financial instruments and new trading programmes” are not innovation, he says. Naturally the bankers disagree.’[6]

To some extent, it’s simply a matter of definition. Innovation is a particularly slippery concept. What to one observer may look radical and new may to another seem simply an incremental development of existing products or processes. There are

[4] *The Banker, 5 February 2007*
[5] *“Opening the Flood Gates of Retail Bank Product Innovation: Technology Drivers to Realize the Future,” Tower Group, June 2005*
[6] *The Banker, ibid*

structural difficulties too. The traditional paradigm of innovation is that it is product- or technology-focused, and emerges from a dedicated group doing what is termed research and development. But research and development (R&D), as formally defined, often excludes the kind of software and process development on which banking innovation frequently depends: 'The Frascati Manual only acknowledges software development that represents a "scientific and technological advance" as R&D and hence as innovation.' So much innovation in retail banking is 'hidden innovation'.[7] The use of existing software for a new application or purpose, for example, is not considered to be an investment in innovation — despite the central role that this software might play in providing an innovative new service such as internet banking.

An innovative organisation requires knowledgeable, empowered teams to drive idea progression, supported by appropriate metrics

[7] *Hidden Innovation: How innovation happens in six 'low innovation' sectors, NESTA (the National Endowment for Science, Technology and the Arts), June 2007*

The trick, then, is to identify and assess innovation in retail banking on its own terms, unencumbered by semantic or definitional distortion. One fundamental characteristic emerges: retail banking innovation is as much about process as about product, although where the product is as intangible as most financial services, the distinction between product and process can be quite blurred.

Nevertheless, it is fair to say that retail banking innovation mainly focuses on how products and services are delivered to the customer, how the customer interaction is managed and how back-office operations are carried out, rather than on the development of radically new retail financial products. Most new products are incremental developments of a small range of fundamental offerings: loans, mortgages, savings etc.

As far as the consumer is concerned, the most visible process innovations of recent years have been those exploiting internet technology to allow a rapid increase in on-line banking transactions. In the UK, recent figures from APACS, the UK payments association,[8] show that:

- almost half (48 per cent) of internet users now bank online
- online banking users have almost doubled since 2002
- younger age groups make up the greatest proportion of new users

The figures show that 16.9 million adults — over a third of the adult population — now bank online, with two-thirds of online current account holders now going online at least once a week. The great majority — 90 per cent — of internet banking users also shop online, most using their online bank account to make payments or transfers. For the first time, the number of adults using internet banking exceeds those using telephone banking.

Other process innovations have had a more mixed reception. The development of new, automated, integrated back-office systems has allowed banks to outsource and offshore routine administration and customer service functions. At the same time, centralisation of transaction processing — and of such core operations as credit risk assessment and sanctioning — has reduced the role of the local branch and led to a raft of branch closures. There are now clear signs that the consumer resents the consequent adverse impact on service, with leading retail banks now stressing local accessibility and re-focusing on the branch network.

Payment systems: innovation in practice

Most examples of retail banking innovation occupy the blurred region between process and product. An area where process and product developments have combined to produce genuine innovation in retail banking is that of payment methods. From cheques to credit cards, debit cards, chip-and-pin and now contactless payment systems, how consumers transact purchases is being revolutionised. Cash is increasingly marginalised. particularly as many retailers are now beginning to refuse to accept cheques.

It is already ten years since Hong Kong introduced the Octopus card, a contactless stored value smart card. Originally designed for payment on the city's public transport system, it can now be used at a wide range of stores, restaurants and other retail outlets. Since the launch of London Underground's similar Oyster card in 2003, over 10 million have been issued, and 5 million are in regular use.[9] Contactless payment technology is now being extended to regular payment cards for small retail transactions of £10 or less, with Visa's 'payWave' system in Europe; customers will simply hold their contactless card up to a secure reader to make their payment. In the UK, Barclays Bank's OnePulse card, launched in autumn 2007, combines a credit card, cashless payment and Oyster travel card in one product. Payment by mobile phone using similar near-field communication technology is already entering the market, and is likely to take off rapidly in the near future.

Other payment system innovations with significant potential include:

- The VeriChip Corporation has developed the first human-implantable RFID microchip to be licensed by the US Food and Drug Administration. In May 2007, the Financial Times reported that a group of clubbers in Barcelona had opted to have VeriChip implants. 'When they want to buy a drink, they simply wave their techno-enabled arms across the counter.'[10]
- The Vodafone-Citigroup joint venture offering a global money transfer service using SMS text messaging won the Banker magazine's New Payment Systems Innovation award in July 2007.

But beyond such examples, where is sustained innovation in retail banking coming from? How do bankers themselves rate their innovation performance? How great is the challenge they face?

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8 *APACS, Press release, 28 December 2006*
9 *The Guardian, 13 March 2006*
10 *Financial Times, 18 May 2007*


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The inside view: could do better

In order to research the views of retail bankers on innovation in their companies, and to assess how their innovation performance measured up against the best-performing companies, KPMG and Innovaro mounted a joint review. This involved structured face-to-face interviews with senior executives — CEOs, and CXOs in Strategy, Marketing and Innovation roles — of UK, American, Dutch and Irish banks.

All were global companies, with a global perspective being obtained on a broad range of topics:

- assessment of current capability
- the role of innovation
- levels of investment and evaluation of results
- innovation portfolio
- innovation structure and process
- barriers to innovation

In summary, respondents recognised the importance of innovation to their future business development, while acknowledging their comparatively poor innovation performance at the moment.

Self-assessment

All interviewees rated their strategic focus on innovation from medium to high, with most of the banks stating that it was firmly on senior executives' agendas. There has been an increased focus recently on innovation and the part it can play. For some, clear themes were being used to drive innovation such as simplicity and accessibility. But some questioned whether the message had yet been heard by all employees, and whether they knew how to contribute.

By contrast, retail banking executives did not rate the innovation performance of their own business, or the sector as a whole, very highly. Outside financial services, companies such as Apple were seen as exemplars of product innovation; Toyota was seen as a leading process innovator; and Ryanair was picked out for its business model innovation. In FMCG and retailing, Unilever and Tesco were mentioned as having a good grasp of customer needs.

Overall, the banks surveyed rated themselves only between average and good on the innovation scale. Some felt they were at the leading edge in individual areas, with pockets of innovation; others that they were only average or worse. Specific examples of innovation identified elsewhere in the financial services sector included new payment methods such as contactless payment (discussed above) and internet/telephone banks such as First Direct and Egg. A significant feature was that US companies (Bank of America, Washington Mutual, Wells Fargo, Wachovia etc) were in general seen as more innovative than British ones.

The banks are starting to use a number of ways to 'import' better innovation thinking into their businesses – they are using external consultants; benchmarking performance against other sectors; formally exchanging learnings with exemplar organisations; and actively recruiting talent from outside of the sector.

Attitudes to the role of innovation

Attitudes to the role of innovation varied between companies. Some saw it clearly, and simply, as implementing new ideas to generate growth and profits. Others, explicitly focused on putting the customer at the heart of the business, were principally concerned about customer relationships, and saw innovation as producing new or better ways to satisfy customer needs in detailed aspects of product, process and service, rather than searching for a radically new 'silver bullet'.

All interviewees considered that they were using customer insight to make better business decisions. Most had a Customer Insight team in place or used insight systematically to develop new product and service offers, through techniques such as focus groups, data mining, customer tests, lead user panels.

Some interviewees took a broader view, regarding innovation as developing combinations of new systems, processes and communications, and business model innovations, as well as tools to help staff find solutions to customer problems.

Innovation expenditure and evaluation

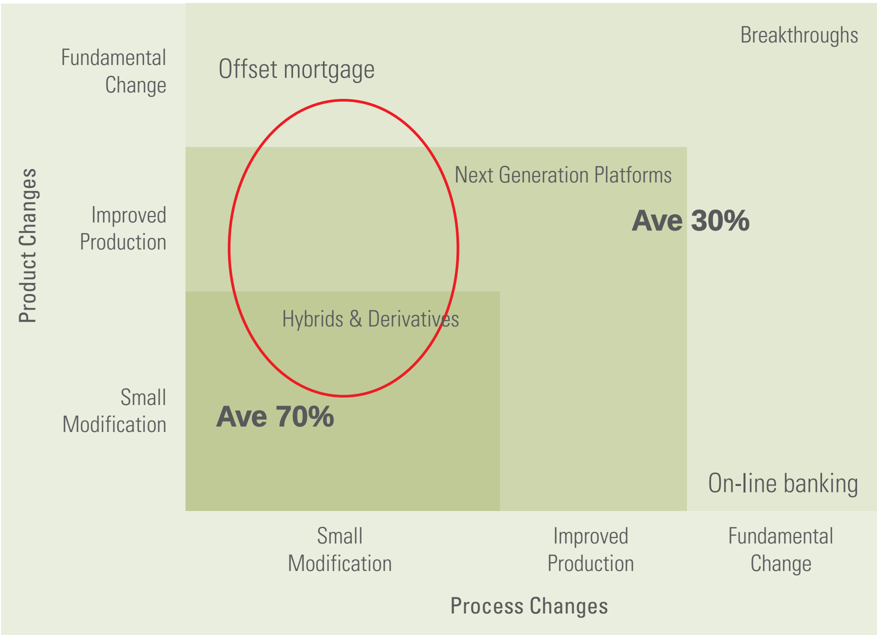
There was an overwhelming view that spend on innovation was increasing, although few accounted for innovation spend separately (see the discussion about definition earlier). Spend on insight and product development were generally categorised as marketing, and spend on process improvements generally came under the heading of IT. Those that did account separately did this in the form of a venture fund with a specific investment capacity.

Expenditure on innovation was not usually linked to any form of growth target, although in some cases there was a clear expectation of a return on investment for the new business ventures.

Very few were using formal innovation metrics to measure value/return. Some were incorporating innovation metrics in a balanced scorecard (e.g. percentage of business from products launched within last three years). Others were using operational metrics to gauge the success of some innovation initiatives (e.g. what percentage of customers feel valued at the counter, what percentage would make a repeat purchase, what percentage would recommend us to a friend). However compared to best-in-class innovators, the use of metrics was limited.

Innovation portfolio

Interviewees were asked where their main current innovation focus lay, whether on product/service (ie visible to the consumer) or on process (ie largely invisible), and whether incremental or fundamental change was the target. Although it was difficult to derive specific figures, there was a general view (see diagram) that the focus had shifted away from cost-driven process improvement to improving the customer experience; albeit that the majority of effort was focused on incremental improvement.



Organisation and process

Three main models for managing innovation were apparent:

- small, central innovation team with a clear brief to work with business units
- innovation clearly part of the 'day job'
- innovation activities vested in the marketing/insight/new product development teams

Innovation processes used by the different companies varied from being 'quite loose' to 'a formal stage gate process'. Idea generation tended not to be formalised, and was heavily 'product owner' based, Unsurprisingly, the result is a focus on short-term incremental innovation.

All respondents were struggling with the question of how to (whether to) 'roll out' innovation and make it part of the corporate culture or DNA.

Barriers to innovation

All interviewees identified barriers to effective innovation in their companies.

Three in particular were often mentioned:

- regulatory and compliance constraints
- cultural constraints: silo mentality, cautiousness and bureaucracy
- short-termism.

Nevertheless, there was a clear view that innovation would be a major contributor to business performance in future, especially in the areas of new products and new business models. Given the generally lukewarm assessments of current performance, there is an obvious corollary that retail banks need to raise their game — and recognise this.

Rising to the challenge

Recognising the need to improve

We have seen that some innovation is taking place in the retail banking sector, whether or not it is explicitly recognised as such. But we have also seen that senior banking executives judge themselves as lagging behind industry leaders in other sectors, and that the lack of systematic innovation processes is particularly marked in retail banking compared with other sectors. Set against this, it is clear that more effective, rapid and productive innovation strategies will be key to banks' survival and prosperity as the industry evolves over the next decade.

There is evidently a strong desire among companies in the sector to improve their innovation performance. Several banks point to legal and compliance constraints. However, these have not been a barrier to innovation in other heavily regulated sectors, such as pharmaceuticals, airlines and the food industry. They should not represent insurmountable obstacles to implementing a more effective innovation strategy.

The senior executives interviewed recognise their companies' shortcomings, especially in the light of increasing challenges facing them in the future. But they are less clear on how to overcome them. This is where an appreciation of best practice in other sectors, supplemented by the lessons of successful implementation of innovation strategies elsewhere, can be most valuable.

Key innovation capabilities

From previous Innovaro research it is evident that, across multiple sectors, there are five common capabilities that *innovation leaders* clearly possess and exploit:

Strategic Focus – The most successful and innovative companies in other sectors have a clear focus on the role of innovation within their markets and the contribution that innovation makes to the business. They clearly recognise the need to define innovation strategy in such a way that it becomes an integral part of business strategy, and is understandable and implementable by all in the business.

Insight – Innovation leaders demonstrate an excellent understanding of their marketplace and customers, and an ability to configure products and services around emerging needs. They have access to a full range of insight techniques, including not just quantitative and data-orientated methodology but also qualitative approaches such as ethnography, personas, semiotics etc.

Collaboration – The most effective innovators have a clear understanding of their core capabilities, and of their partners, and work together to deliver innovative products and services. They adopt formal open innovation approaches and exploit technology scouting.

Process – They use simple, yet effective, pipeline/portfolio approaches to conceiving, qualifying, developing and then quickly launching new products and services.

Organisation – In the most successful companies, roles, responsibilities and culture all support innovation, while appropriate metrics are used to measure and reward successful innovation.

It is clear from the conclusions outlined earlier, that retails banks have quite a way to go to match the best examples in other industries.

Issues for the innovation leader

Do we have a clear focus on the role innovation can play in retail banking and the contribution that innovation can make to our company?

How well do we understand our marketplace and customers, and how well are we able to configure products and services around emerging needs?

Do we have a clear understanding of our core capabilities and those of our partners, and how well do we work together to deliver innovative products and services?

Is our process for developing and launching new products and services simple and effective?

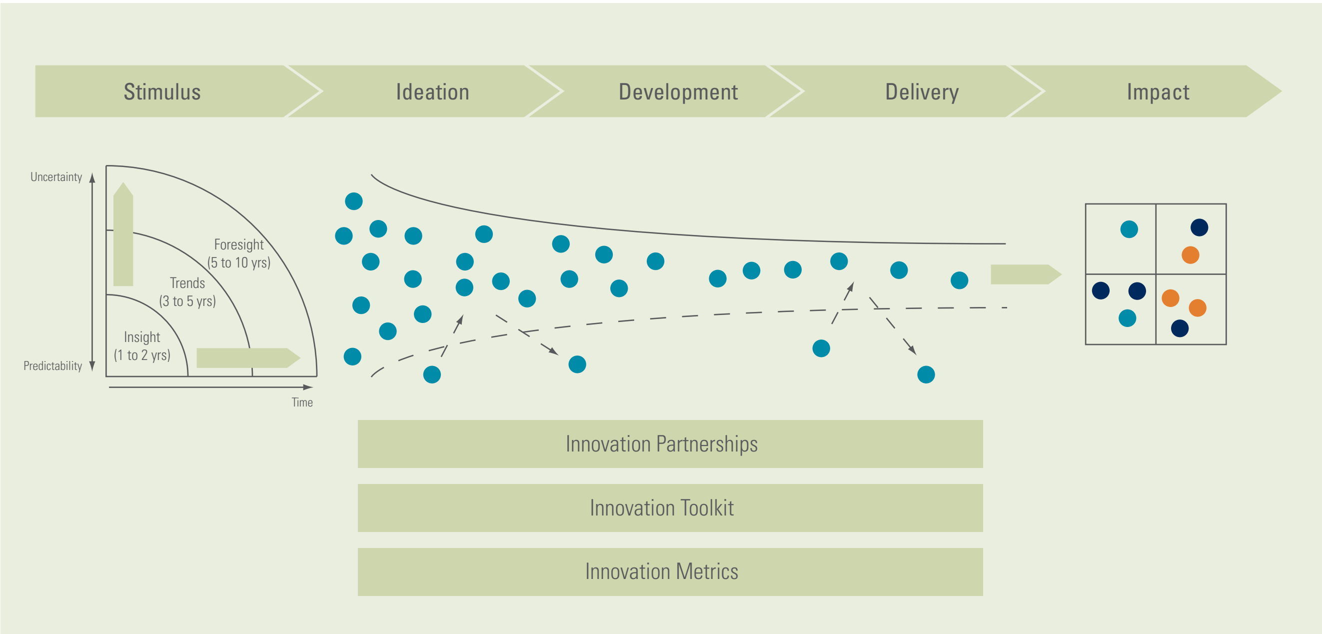
Do roles, responsibilities and culture in the company all support innovation; do we have effective metrics to measure and reward successful innovation?

Learning how to innovate better

In many other sectors, there is a growing trend towards a more open style of learning, with the concept of ‘innovation discovery’ becoming commonplace — where those companies starting their innovation journey target specific leaders from which to learn and use various mechanisms to stimulate innovation within their own organisation. Some of the banks in our survey are also doing this, particularly focusing on the general retail and hotel sectors, which clearly suggests a focus on service innovation. And as we have seen, some banks are deliberately looking to external recruitment, consultants and the use of their own non-executive directors to stimulate more effective innovation processes.

The most enlightened retail banks recognise that other industry sectors have a great deal to teach them about how to implement a structured innovation management and delivery process. We believe that the most successful retail banks of the future will be those which take these lessons to heart and act on them. For the rest, there will be a risk of succumbing to the profound and unexpected challenges we have seen hit other industries.

Effective innovation processes systematically identify, develop and progress ideas from both inside and outside the orgnisation



Appendices

Appendix 1: There are familiar challenges in retail banking…

The retail banking sector is under increasing pressure, from regulators, competition, cost pressures and shrinking margins.

Structural change: rationalisation and consolidation

Retail banks' organisational model is undergoing continual change. The last two decades have seen continuous evolution to segmented distribution by customer type and through multiple channels, central design of products and determination of credit, and efficient operations serving a range of frontline businesses. Globalisation and internationalisation continue to reduce the number of separate banks. Middle-ranking banks, in particular, lacking economies of scale, are likely to be squeezed by the large multinationals on one side and by small niche providers on the other.

Increasing regulation

Regulation is a major factor in driving both priorities and market trends. The FSA, Ombudsman, Office of Fair Trading, US Regulators and Banking Code Standards Board impose a range of onerous requirements, from Treating Customers Fairly to effective business controls and prudent balance sheet management. The regulators are themselves scrutinised by consumer bodies, the Government and by an often hostile media. The responsibilities of regulators sometimes overlap, and it is at times unclear which has jurisdiction. In the major banking centres of the world, regulators are pursuing parallel agendas aimed at improving transparency in financial reporting, preventing money laundering and improving consumer protection.

Technology

The growth in banks' dependence on IT systems is constant and relentless. Compliance and core processing have to take priority, since without these the bank cannot survive. The challenge will increasingly be to maintain and develop alongside these core systems applications which can add real commercial benefit: systems which provide better information, faster to allow smarter business decisions to be taken; systems which facilitate interaction with the customer and the creation of products for which there is unmet demand.

Change in customer behaviour and expectations

Customers, as in many other consumer sectors, are becoming increasingly discriminating. The internet gives them access to vast amounts of comparative information, helpfully consolidated for them by price comparison websites. Customer attitudes are fragmenting, with individual preferences generating scores of niche interest markets. The ease of price comparison and simple transfer processes between suppliers, reinforced by intense competition, means both that brand loyalty is declining rapidly and that inertia is becoming a much less significant factor in customer retention.

Competition and the rise of non-traditional banks

Competition is increasing as the internet provides ready price comparison, driving margins down; the development of efficient third party suppliers enables relatively small players to operate efficiently through pooling operations or outsourcing distribution. Securitisation has enabled businesses to compete with lower capital requirements. The relatively small number of large banks means that decisions on pricing have to be made with a very close assessment of the timing and nature of competitor response.

…but what about the unfamiliar challenges?

Appendix 2: Issues and trends in the retail banking industry

Issues

Accountability

- Corporate social responsibility and environment
- Good corporate governance
- Financial transparency

State of the industry

- Very profitable BUT
- Major regulatory challenges to current model for pricing and cross selling
- Competition Commission PPI Review
- OFT bank charge review
- Lower margins and increased competition
- Widespread liquidity crisis
- Rising interest rates and personal debt levels
- Real questions on whether free in-credit banking will end and the major implications for competition in banking with Payments increasing in importance as a source of revenue

Increasing regulatory environment

- Greater legislation and cost transparency requirements
- Treating Customers Fairly and Principles Based Regulation
- Increasing risk management regulation — specifically Basel II
- EU Directives on Consumer Credit, Payments and MIFID

Increasingly consumer driven industry

- Internet allows price comparison and execution
- Increasing demand for lower prices and higher quality
- Growing long term saving vehicle demand and tax break investments

Public image/reputation

- Customer demands lower prices for better service
- Reduced loyalty
- Negative public image resulting from adverse media

Trends

Cost Control

- Outsourcing and off shoring of processing
- Lean manufacturing and STP

Enhanced customer focus and differentiation

- Constant imperative to improve customer service and retain client base
- Development of internet and ease of transfer has resulted in reduced client loyalty
- Particular emphasis on service through retail branch networks and 24-hour customer support
- Resurgence in focus on face-to-face and personal touch customer care

Retail Banking channel growth

- Continued diversification of channels available to customers – PDA, Online, Phone and Branch
- Security issues, anti-money laundering and instances of fraud
- On demand banking available when and where the customer wants
- New channels lower the barriers to entry for niche providers

Consumer finance

- Low margins due to competition
- Compensating revenues from cross-sale under regulatory challenge
- ‘Sub-prime’ borrowers and resulting higher degree of credit risk

Growth of retail strategic alliances

- Banks choose whether they focus on all aspects of Distribution, Product manufacture or IT and Ops
- Some choose to distribute through IFAs, others to outsource aspects of IT and Operations

Growth areas

- Wealth management is a fast growing market as is Premier for the next tier of customers
- Savings and Bancassurance markets are showing strong growth
- Islamic Finance is a fast growing sub-segment serving affluent Muslim populations

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