

A pair of hands is shown from the bottom, cupping a small, vibrant green plant with several leaves and a mound of dark soil. The background is a solid, bright green color. The overall image conveys a sense of growth, care, and nurturing.

# **CHANGING THE GAME IN RETAIL BANKING**

**Piercarlo Gera, Global Managing Director  
Financial Services Strategy Consulting**

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## Agenda

## MASTER STAMP

1. How Banks will look like in 2015
2. Strategic options
3. How to create value from M&A
4. Key initiatives to be considered, besides M&A

# Banks have 5 strategic options; the M&A agenda is relevant



## Strategic options

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<b>Diversify and Expand</b>	<ul style="list-style-type: none"><li>• Diversify risk exposure</li><li>• Target higher growth markets</li><li>• Exploit global operating model and capabilities</li><li>• Strategic cost reduction</li></ul>	<ul style="list-style-type: none"><li>• Bank of America / Merrill Lynch</li><li>• Barclays / Lehman</li></ul>
<b>Domestic Consolidators</b>	<ul style="list-style-type: none"><li>• Rapidly consolidate for increased scale</li><li>• Focus on retaining and winning market share from weaker rivals</li><li>• Divest non-core businesses</li><li>• Strategic cost reduction</li></ul>	<ul style="list-style-type: none"><li>• LTSB / HBOS</li><li>• Commerz / Dresdner</li><li>• Wells Fargo / Wachovia</li><li>• Banque Populaire / Caisse d'Epargne</li></ul>
<b>Geographic Expansion</b>	<ul style="list-style-type: none"><li>• Exploit synergies and scale opportunities</li><li>• Develop / exploit efficient business models</li><li>• Enter new markets where good potential</li></ul>	<ul style="list-style-type: none"><li>• Santander / A&amp;L / B&amp;B / Sovereign</li><li>• BNP/ Fortis</li></ul>
<b>Opportunistic Acquisition</b>	<ul style="list-style-type: none"><li>• Selective / opportunistic acquisitions to acquire reach or extend offerings</li></ul>	<ul style="list-style-type: none"><li>• HSBC/ BER</li></ul>
<b>Defend</b>	<ul style="list-style-type: none"><li>• Strategic cost reduction</li></ul>	

# M&A will be radically different: acquirers will need to extract higher synergies than before through transformational sources of value



## M&A waves

**Domestic Consolidation**

**Capability-based Expansion**

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**Super-consolidation**

Timeframe	1997 – 2007		Fall 2008 and beyond
<b>Market environment</b>	<ul style="list-style-type: none"> <li>• Overcapitalization</li> <li>• Need for sustainable local market share and geographic footprint</li> <li>• Cross-sell opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Overcapitalization</li> <li>• Undervalued assets</li> <li>• Economies of scale</li> <li>• Desire for regional / global footprint</li> </ul>	<ul style="list-style-type: none"> <li>• Economic slowdown</li> <li>• Market discontinuity</li> <li>• Regulatory intervention / “shot gun weddings”</li> <li>• Uncertain outlook – risk of toxic assets, low confidence</li> <li>• De-leveraging / undercapitalization</li> </ul>
<b>Sources of Value</b>	<ul style="list-style-type: none"> <li>• Market growth</li> <li>• Enlarged customer base</li> <li>• Better market penetration and pricing</li> <li>• Local de-duplication</li> </ul>	<ul style="list-style-type: none"> <li>• Market growth</li> <li>• Product factories</li> <li>• Best practice transfer</li> <li>• Regional de-duplication</li> </ul>	<ul style="list-style-type: none"> <li>• Asset divestiture and restructuring</li> <li>• Operating model transformation</li> <li>• Distribution network transformation</li> <li>• Strategic cost reduction</li> <li>• Best practice transfer</li> </ul>
<b>Examples</b>	<ul style="list-style-type: none"> <li>• UBS / SBC (1997/8)</li> <li>• Citi / Travelers (1998)</li> <li>• BofA / Nationsbank (1998)</li> <li>• RBS / Natwest (2000)</li> <li>• Intesa / Sanpaolo (2006)</li> <li>• Unicredit / Capitalia (2007)</li> </ul>	<ul style="list-style-type: none"> <li>• JPMorgan / Chase (2000)</li> <li>• Barclays / Absa (2004)</li> <li>• Santander / Abbey (2004)</li> <li>• Danske Bank / NIB, NB (2005)</li> <li>• RBS&amp;Fortis / ABN AMRO (2007)</li> </ul>	<ul style="list-style-type: none"> <li>• BofA / Merrill Lynch</li> <li>• JP Morgan Chase / Washington Mutual</li> <li>• Commerzbank / Dresdner Bank</li> <li>• Wells Fargo / Wachovia</li> <li>• Lloyds TSB / HBOS</li> <li>• BNP Paribas / Fortis</li> </ul>
<b>Synergies announced</b>	<p><b>Cost: 70-80%</b> <b>Revenue: 20-30%</b></p>		<p><b>Cost: 100%</b> <b>Revenue: 0% or negative</b></p>

Besides M&A, we see as very hot 5 agenda items

