Retail Banking and Private Banking Spotlight Live Event

29th June 2021

Audio Transcript

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions, or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our H1 Results announcement published on 31st July 2020

David Lindberg (DL)

00:01:19

Right, thank you and a big welcome to all of you. We're so thrilled to talk to you today, tell you about our business and some of the plans we have for the future.

So, the way today will work is first I'll provide an update on Retail business and then Peter will update on Private. We also have Simon and Jen who will follow up with technology and with transformation. I'm also joined by each business CFO, Stuart Nimmo and Andrew Kyle. I'll host a Q&A with all of us at the end of our prepared remarks.

Now we talk a lot about running our business with a one bank mindset and we really hope that that comes out as you hear from all six of us today.

Before we begin, let me remind you of Alison's four pillars: supporting customers, powering growth through innovation and partnerships, simplifying our business and sharpening our capital allocation. The Retail franchise is an important part of each of these.

00:02:15

Let's begin with some context. Retail and Private banking together account for 46% of NatWest Group's income, 38% of operating expenses and 28% of RWAs, obviously an important driver of the Group's returns.

Retail itself is a large division with 17 million customers. We offer a full range of our own banking products and services. We also now offer five simple, personal portfolio funds delivered by Coutts to our Retail customers. We call these funds NatWest Invest.

We're also a core part of living the group's purpose. Climate matters to our business and our Green mortgage is a part of that. But we're contributing most significantly to the financial capability pillar of our purpose.

In 2020 we conducted 2.9 million positive financial interactions, including financial health checks, money sense and fraud awareness training. We helped 600,000 customers start saving for the first time and we're committed to helping 2 million by 2023. And our in-app know my credit score tool has been used by over 3 million customers since launch in February last year.

00:03:29

We have the second largest current account base in the UK at 16%. NatWest group is the third largest mortgage lender in the UK, with a retail business share at 11% and we deliver above cost of capital returns across all lending products.

Now we've provided new information today which I know will be of interest. This is based on 2020 reported financials with two important adjustments. First, we have normalised the cost of risk, reflecting the heightened impairments in 2020. Secondly, we have layered in the anticipated impact of regulatory changes in mortgages and increased mortgage risk weights accordingly.

On this conservative basis, our main lending products deliver attractive, above cost of capital returns, despite the income pressure related to the pandemic and our overall returns are also above cost of capital.

Our overall Q1 financials were also strong, contributing 1.06 billion revenue, up 8% from the fourth quarter and an ROE of 23%.

00:04:34

Turning to what I'm seeing in the market. The retail market is emerging strong from Covid, the mortgage market is particularly strong, benefiting from government stimulus plus working from home patterns and high savings rates during lockdown. We expect the size of the new lending market in 2021 to be the largest we've ever seen, and we plan on growing our share in that market.

Natwest Group delivered 9% volume growth over the year to the end of quarter one, well ahead of the market at 4%.

The deposit market was very strong through Covid, a slowdown is expected but it does not turn negative at this point.

The Group's deposit growth was up 17% year on year, well ahead of market growth at 12%.

Consumer spending is also recovering. Debit spending is now above pre-pandemic levels whilst credit card spending is nearly back to pre-pandemic levels.

In the last little while, we've seen huge growth in retail, travel, motoring and fuel and we expect this to flow into consumer credit, but it will be slow and is unlikely to build until later in the year.

00:05:42

In this market we're growing share in all of our core products. If I look March to March, mortgages have grown from 10.4% to 11%. Using more recent public data, we can see our mortgage growth continues to be above market and our retention has improved from around 70% to nearly 80%.

Cards have grown share from 6% to 6.4% year on year, as we rebuild our proposition. Cards growth has been supported by re-entry into the zero percent BT market.

Loans have been flat year on year at 15%. At the account level we're seeing very strong growth in new lending and, importantly, credit card accounts. Deposits have grown from 10.5% to 11% year on year.

If you take a step back, our goal is to maintain our above market growth each year, but we also need to balance growth with risk discipline and strong margin management.

We are not seeking to lead on price. Our goal is to create sustainable value so we will be discerning, not necessarily grow above market in every quarter.

00:06:51

Now, the first major point I want to make to you is that we have significant room to continue to grow across our business, both at the customer level, and particularly in lending.

At the customer level, I believe growing primary bank relationships is the key to building long term value. On this front NatWest has not performed as well as we would have liked, and we have room to improve.

Our customer acquisition has been weak, particularly in youth. Our share of new current accounts is 12% despite a stock share of 16%. Only 3% of our accounts are youth versus 7% for the sector leader, and we know that customers acquired in youth are at least 1.5 times the value of those acquired as adults.

To capture this opportunity, we will improve our proposition by adding features that appeal to both youth and to parents, such as savings pots and parental controls and offer a transition to an adult account on the customer's 18th birthday. We have created a real focus on youth.

The point is that we are focused on growing primary bank share with a particular focus on youth, and also premier. Peter will talk to premier shortly.

Our products per customer, though, is also low, and this is an enormous opportunity for us. Over the medium term, this is probably our largest financial opportunity.

On average, a NatWest current account customer holds one additional product versus 1.3 for the market leader. Within this, credit cards is an opportunity I want to highlight to you. Not only is our share low at 6.4%, but we only have a 20% penetration of our own current account customers versus 27% for our top competitor.

We're fast closing the gap in our product range in credit cards and our launch of a new card earlier this month, offering a matching introductory rate interest free period on both purchases and balance transfers, means we can compete in another 24% of the new business market. So, credit cards is a major opportunity for us and we plan on growing our share.

00:09:04

And we still have room to grow in mortgages. We're only at 11% share and we've not done as well with existing customers as we could have.

We only have 6% penetration of our own customers versus the market leader at 9% and we also still have important unaddressed markets such as buy to let where we only receive 3% of balances today. Buy to let has margins about 30 basis points higher than margins on residential mortgages.

We are also weak in the first homebuyer market, and we will be playing more strongly in new homes, new builds, and government schemes.

We will also be extending our maximum loan term from 35 to 40 years, allowing more younger customers to get onto the housing ladder.

00:09:51

But I would also like to briefly address investments, an important one-bank opportunity for us. Savings customers have never been given a proper investing option within the retail bank.

We have started to offer personal portfolio funds, delivered by Coutts, good for our customers and Group. From a low base we're seeing rapid growth. We've had net new flow of 160 million in Q1 21 versus only 39 million the prior quarter one, and I expect this to grow.

In short, we're executing on a strategy to take advantage of these opportunities. We plan to grow primary bank customer numbers through youth acquisition and growing primacy from existing customers and will grow our low share of cards, keep growing mortgages and begin to turn investments into a more material line for us.

00:10:45

I want to spend some time talking about our customer plans. The larger banks have been losing share to fintechs and I feel it's time we fight back.

We've a real strength in digital, but we have to make it the best digital experience anywhere in the world and beat the experience of fintechs.

But our point of difference is that we will offer a great digital experience, combined with access to our thousands of frontline experts, something fintechs can't match.

00:11:13

So, we're building a customer proposition of great digital experience, driven by data, combined with access to our expert people, something we know remains incredibly important to our customers.

We are going to talk a little bit about our digital plans and even though I'm speaking to this, digital reports to both Simon and I. In line with our one-bank approach we're running this together. He will expand on my points later.

In many respects, we are today a digital business and a platform business. But nine out of ten sales are now digital and more than 60% of our customers only bank digitally.

In my view, we have one of the leading Apps with an NPS of plus 45.

Our AI engine, Cora, is taking millions of customer interactions now and about 50% require no human intervention. Simon will talk to this particularly in his update.

And we're making a vast array of service improvements at high speed. In the last few months alone, we've launched Cheque capture. In-app payment limits have been dramatically increased, up to £20,000 for Retail or £50,000 for our Premium customers.

We have also become one of the first banks in the UK to deliver personalised payments limits for our customers.

Biometrics are rolling out too. We're one of the first UK banks to capture customer face biometrics. We'll soon be authenticating a payment by blinking and we'll eliminate card readers because our customers hate them.

But we really think of the mobile app as the authentication window to the rest of the bank. Once the customer logs in, usually with their face, they're connected to all of our services, including our people, in person, via video, on the phone and even authenticated for the branch.

00:13:04

We've just launched something, we call it right here, right now, where our customers can reach a video banker 24 hours a day, 7 days a week. I believe this will make Natwest the most accessible bank in the country. I believe that we are on our way to becoming the UK's first full time, full-service bank.

We also have some of those highly trained, highly engaged professionals in the industry and our customers will soon be able to speak to them at any time of the day, or night, at the touch of a button.

And we're investing better to support customers through our branch network, which remains an important element of our customer proposition.

00:13:45

Now, to support our strategy we're changing the way we operate. We are digitising every customer journey, using data to improve our customer interactions and we're simplifying our product range.

We are orientating much of our business around agile journeys, improving experience, and reducing costs. Jen will expand on this later.

Account onboarding has been a focus. Today, 93% of all new branch accounts are opened using digital journeys and by 2023, 100% of these journeys will be digitised; one digital journey, all channels, including branch.

The time to apply for a current account and a savings account has been more than halved this year to 14 minutes.

Mortgage journeys are also a focus. The time to switch has moved from as much as 23 days last year to as little as 10 minutes today. This is an approved retention by almost 10 points to 78%. That retention alone is worth about 2 billion in volumes per year.

00:14:50

We're also in the process of reducing the number of on sale products significantly and as a platform business, we're beginning to use our data to engage with our customers more than ever before.

We're not there yet, but we're using data and AI to interact with our customers, not to sell, to serve and in many cases, to support better financial habits.

We now send 50 million proactive, personalised prompts to customers every week in mobile and online banking. In the year to date 4.3 million people have logged into spending in our app, a total of 22 million times.

We're trying to run our business with a customer obsession and we're beginning to see an improvement in our customer scores. NatWest's 12-month rolling NPS score is up 4 points since last March to plus 10, nowhere near where we need to be but improving.

Account opening was plus 21 in Q1, up 4 points in the year, and our May scores increased further to plus 28 and the mortgage journey as an NPS of plus 16, number 2 in the market.

00:15:59

Now as I said up front, sharpening capital allocation is a key focus of the group strategy and the retail business plays a key role in that.

We've grown our lending significantly since 2015 which has driven RWA growth. This growth has been concentrated in mortgages. As we know, mortgages are higher term and a good allocation of the Group's capital. Looking forward though, we do have a significant, regulatory headwind impacting the mortgage book.

As we flag to you, based on the book size at the end of last year, this is expected to increase RWAs by about 12 billion. But returns on mortgages are still expected to remain attractive and will remain a good use of the bank's capital.

00:16:45

Now on to the financials. I'll tell you what I'm able to. Mortgage trading is performing well, with a strong application pipeline and the focus on writing profitable, quality new business and on strong customer retention.

Unsecured demand continues to improve but it's still well below pre-pandemic levels and the outlook will depend on the speed at which the rebound in consumer spending flows into consumer credit. And, as you know, we intend to grow lending above market over time, unsecured and secured.

Deposits are continuing to grow, but more slowly. As I said, we don't see this turning negative at this point. Longer term trends will be driven by customer behaviour and, very importantly, Central Bank policy.

As you know, we don't give NIM guidance, but I'll update you on some of the key drivers that in the short-term impact Retail.

March application margins were 165 basis points versus a back book of 159 basis points. Price competition is increasing, margins will reduce further. I know that you'll factor that in.

Although we're seeing more unsecured demand, balance growth remains low given the high pandemic savings rates. Our best estimate is that unsecured balances will remain low for the remainder of the year and will slowly start to build for next year.

Cost of deposits will fall a little from the 8 basis points published at Q1, as we made pricing changes in February that will benefit Q2. As you know, our deposit margin is impacted by the lower hedge, although the majority of impact this year is expected in half one.

That's probably all I'm able to say, but hopefully that's helpful as you form your own view and what that means for margin.

On costs, we have a strong track record of cost reduction and that will continue as we focus on customer journeys, product simplification and increase switching to digital.

We've also slimmed down head office costs in Retail and reduced management infrastructure in distribution. We'll play our part in the Group's 4% per annum cost reduction target. Jen will update you on some cross-bank costs opportunities we have in addition to these.

Our outlook for impairments is to reduce from 2020 levels as economic uncertainty has reduced and the base case outlook has improved.

00:19:13

Let me end by summarising my key messages today. First, in the market I would describe as positive. We are growing share in key areas with a strong ROE and a positive outlook.

Second, we have unique opportunities to meet more of our customers' needs, particularly in mortgages, cards, and investments.

Our customer proposition will combine great digital experience with access to expert people. We think this will be compelling to customers.

The app will be the window to all channels of our bank and, finally, we are working as one bank to deliver a simple digital platform-like business, using data to continuously improve our customer experience and reduce cost.

We have a lot of work to do to unlock these opportunities and don't underestimate the size of the job. But we feel that our strategy is clear and that we're making progress.

Thank you and now let me pass you to the CEO of Private, Peter Flavel. I'll be back at the end to host Q&A. Peter over to you.

Peter Flavel (PF)

00:20:18

Well, thank you, David. I'm firstly going to cover our business model, why clients continue to choose Coutts, before outlining strategy, the transformation of our business and our priorities.

We aim to provide first class service in everything we do, delivering brilliant day to day banking, supported by Coutts 24 and a digital platform, flexible lending, and responsible investments, ensuring that a family's wealth has its intended consequences.

00:20:50

As you can see on this slide, we are a natural progression from our Retail and Premier propositions for the additional needs of our high net worth and ultra-high net worth client families.

We're a trusted family advisor for our clients most complex financial needs, as well as delivering first class service for their day to day requirements and simpler needs.

Every client has a dedicated client director who is responsible for bringing the best of all of our bank to meet each client's specific needs and to do so by bringing together the right team of our specialist advisors.

Client directors themselves are also a member of a specific client segment coverage team, examples being Entrepreneurs, Financial Sponsors, Media and Entertainment, Executives and Family Office, to name a few. Our client directors are then experienced with the sometimes unique requirements of each of our client segments.

00:21:53

To give you a feel for the wide range of services we provide it includes the Coutts Institute, which provides philanthropic and generational family advice. Our professional investor clients have access to our exclusive Coutts Investment Club. And for our clients requiring personal assistance in finding their ideal residential properties, we have our real estate advisory service.

Additionally, we provide a full range of services, including estate planning, wills, trusts, pensions, and taxation.

We also know our clients very much value being introduced to other like-minded Coutts clients. We have recently launched 440. It's a private networking app for our clients, which facilitates direct client-to-client networking, 440 being our head office in the Strands street address.

We offer access to digital and telephony servicing, together with our team-based face-to-face advice model. Coutts 24, our 24/7/365-day telephony and video service is a particular favourite and has maintained high satisfaction levels over many years, as have our digital channels.

All together we call this personal service, digitally enabled and it's been core to our successful growth strategy over the last five years.

00:23:15

Why, then, do clients choose Coutts?

Undoubtedly there's an element of aspirational achievement for some clients, given the attributes of our brand, its associations and heritage. Though for most it's because of the depth and breadth of all of these specialised services I've just outlined, and we provide them seamlessly from the one coverage team.

Additionally, as mentioned by David, Private Banking is the Investment Centre of Expertise for the group, servicing the investment needs of all clients across Retail, Premier and Private Banking, via an efficient, scalable investment platform.

I believe we're the only UK Private Bank capable of supporting each of these Group-wide customer segments from the one central team.

00:24:05

The UK Private Banking market remains attractive and it continues to be opportunity for significant growth for Private within the group.

Our strategy has four areas of focus, outlined in this slide.

We'll continue to support our customers by leveraging our key strengths, being our existing client base, together with our unparalleled Coutts brand, as well as continuing to leverage the opportunity to grow Group-wide referrals, together with our own strong organic client growth.

Unlike almost any other Private Bank, our technology integrates all of banking, lending, and investments into one platform, meaning better, seamless, lower cost client servicing.

On partnerships, we'll continue to leverage third-party relationships when it's our best execution route. Last year we announced our relationship with BlackRock where we leverage their global scale and manager due diligence.

Our client's investment returns result from our Coutts house macro views, our strategic and tactical asset allocation and our ESG policies, all of these we control.

The two other areas of focus, being simple to deal with and capital management, I'll cover in more detail later in this presentation.

00:25:25

I last spoke to you in 2016, not long after I joined the Group. I set out three key growth opportunities - to deepen share of wallet with our existing client base, capitalise on an expanding UK market and execute on our pipeline of referrals from the group.

I'm pleased to say that in my view, we have delivered on these growth opportunities, achieving strong volume and new client growth across all of lending, deposits, and managed assets.

We have continued to invest in the business and delivered cost savings. We have moved our adjusted Cost-to-Income ratio from 80% down to 61% and return on equity has increased from low single digits to 15% in 2019 and after provisions, to 10% last year.

And while in this presentation, I will spotlight on how we've grown investments, as that's what I promised you when we spoke briefly in March, higher net worth mortgages, where many of our clients have complex and bespoke lending needs, are also an integral part of our growth. Our mortgage book has grown from six and a half billion in 2015 to 11 billion at Q1 of this year.

How, then, have we achieved these significant results? in the last five years Private banking has undergone a significant transformation, spanning every area of our business. This slide outline some of the actions taken, including investing in our technology and digital capabilities to simplify and streamline customer journeys and advice, as well as exiting lower return-on-equity activities and clients and ancillary activities.

As an example of our simplification journey, it would have previously taken 25 days to implement tactical asset allocation ideas into the many thousands of discretionary portfolios we manage. Through technology and people investment this now takes 3 days.

You can see on the slide all the other main actions we've taken across the time periods and I'll be happy to go into more detail on any of those actions in Q&A.

00:27:34

The actions we've taken have resulted in a growing, resilient, double-digit return-on-equity business, geared towards great income diversity and sustainable returns plus an interesting contribution to overall Group returns.

We have a balanced business where since 2015 net lending has grown at 9% CAGR, primarily driven by growth in our mortgage book which has grown at 11% CAGR.

We believe we can grow our current 11 billion of mortgages above market because we have an experienced sales force and a specialism in complex lending whereby we're able to support clients with multi-currency lending and take security over a wide range of assets, and we know we do this well because we have a very low level of historic mortgage defaults.

Customer deposits have grown at 7%, likely as a result of Coutts being seen as a safe haven for depositors.

And our AuMA's have grown at a healthy 11% CAGR, where all of our Sterling strategies are ahead of our peer group.

And these growth rates are consistent with our Q1 growth rate of 2 to 3% across banking, lending, and investments, as you can see on the slide.

The lifeblood of a growing Private Bank is the growth in new clients. We welcomed more than 9000 new clients to private banking in the last five years, and we count new clients by the total family unit meaning parents, joint accounts, trusts, and children count as well.

I see further strong growth potential from within the NatWest Group. In 2020 19% of our new clients were via introductions from the wider Group, very much in line with our one bank Group strategy.

00:29:24

We'll continue to invest in technology and our data capabilities, both for our clients and advisors, making use of bank-wide capabilities and APIs wherever we can. Simon will elaborate on this shortly.

On the client side in 2012, we were the first Private Bank to launch a dedicated mobile app and we'll shortly launch a completely new whole of 'bank in the app' on a modern tech stack, with one tap, direct access to Coutts24, for a seamless Client experience.

It might surprise you to know that our clients are high users of digital channels, with 78% enrolled of whom 87% are active users. Additionally, our Digital Invest propositions has automated online advice as an option.

Our digitally enabled advisors now have remote access to the systems they need, meaning less admin, and the ability to work on the go. And through Covid, as David has also said, we're making much more use of video technology.

We adopt a 'One Bank' mindset to leverage capabilities across the Group, like our new AI chatbot, Ela, which uses the same Group technology as Cora.

We are also a testbed for certain bank-wide programmes, where for instance, we first implemented voice biometrics in Private Banking before eventual Bank-wide delivery. This is improving client experience, as well as reducing Private Banking call handling time by an average of 45 seconds, plus delivering significant savings of nearly £2m per annum on fraud.

Over the next two slides I will deep dive into our Investment Centre of Expertise, which has perhaps undergone the most significant transformation of all of our business lines.

00:31:12

And I want to tell you more about how we have achieved this transformation, taking out historic complexity, latency of execution and improving speed of execution and cost.

Our centralised Centre of Expertise is accountable for determining our consistent bank-wide Coutts house macro market view and asset allocation decisions.

We leverage a single tech stack which enables us to offer online investing across all client segments, including Retail and Premier, with balances viewable in the mobile app.

This, together with our relationship with BlackRock, enables us to both reduce the cost of investing to clients, capping, for instance, our online invest fees at 65 basis points, delivering better client returns plus enabling our customers to have access to best-in-class third party funds on a global basis.

We've embedded ESG and responsible investing into our processes, philosophy, and portfolio construction process. And, rather than launching a new, separate range of green funds we have ESG filters in all our funds, not a subset of them. And we're proud to be recognised for our approach on ESG.

We launched our online NatWest Invest platform in 2016 and in 2020 launched our AUM Lab to further support our digital AUM growth ambitions.

We now manage over £1billion of AUM through the Invest Platforms and digital sales have increased as a proportion of net new sales from 0 in 2015 to 20% last year to currently running at 34% and at a time when face-to-face advisory is also growing strongly.

The graphs show the pleasing progress we have made while noting that our core Sterling growth fund, which represents 11% of managed assets, continues with its 5 years of top quartile performance.

00:33:14

In addition to transforming the back end, our approach to marketing has improved significantly since 2016 and we continue to evolve as we adopt a rapid test-and-learn approach.

Our digital marketing is quite granular in nature and is targeted to discrete customer segments with similar needs and aspirations, in part determined by observing their transactional behaviour.

We have simplified customer journeys, incorporating behavioural science-led thinking with new digital expressions through visual cues like your money picture.

These new approaches and ways of working are driving pleasing results – with higher conversion and inflow rates, as outlined in the slide. Jen will touch on these points later.

00:33:59

A further area of focus is capital efficiency, which has been a key driver of our improved returns. Over the past 5 years you can see that our Risk Weighted Assets have only increased by about 25% whilst our lending has increased by more than 50%.

This is a testament to work done by the team to make sure we have the right pricing, good quality data, and are taking appropriate action to reduce our risk.

We continue to drive a more disciplined and efficient capital allocation, supported by ongoing improvements in Data Quality.

We are already a highly diversified and resilient business, which is why we were able to achieve a 10% return during a global pandemic.

00:34:43

Turning to our financials, we are planning to maintain growth momentum by realising the significant opportunities in AuMAs for the Group and, as I said earlier, by targeting growth in high net worth mortgages.

We intend to continue to invest in our franchise; particularly in digital, technology and client journeys. The resultant cost savings and efficiencies will be reinvested, so we expect to see a relatively flat expense line.

Our cost-to-income ratio is one of the best in the market and is now in line with the guidance I gave you in 2016. We took £100million impairment charge in 2020 which reflected the uncertainty bought about by Covid in our Commercial book. We don't expect to take that sort of one-off charge again given the current economic outlook.

Significant growth and ongoing cost control with reduced impairments mean that I would expect to see healthy returns continuing for our Private Banking Franchise.

00:35:43

To conclude I want to leave you with three key takeaways. We are a resilient, double-digit ROTE business. We have a good business mix across deposits, lending, and investments, and we continue to deliver strong volume growth in each of those three. And we have a clear strategy for growth, including our Investment Centre of Expertise, which is ready to scale and is already showing promising growth.

I'll now handover to Simon McNamara, our Chief Administrative Officer of Services, who will talk about how he and his team are working with us all on our technology and innovation agenda.

Simon McNamara (SM)

00:36:27

Thank you, Peter.

Let me talk about what services brings to the party. In a session with Amazon last month, they described us as a fintech with customers, which I really liked. So, let me try and bring that to life as we go through the slides.

00:36:43

You may have heard some of this context already, but I think it's important to reiterate. Our story is built on a strong foundation of safety, security, and simplification.

We continue to invest around 100 million, year on year, keeping our technology current and improving our stability and resiliency. Our modern technology stack provides our 17 million retail customers with a very stable and reliable service.

Our most severe incidents are in single figures and through improved detection and management, cyber-attacks are falling.

At the same time, we continue to simplify our estate and our number of applications has more than halved in the past five years. We've decommissioned a further 10 retail apps already this year and we rationalised our five retail mortgage platforms down to just one.

And we've focused on our branch network over the last couple of years, investing over 14 million pounds in our branches and their technology. Branch colleagues now have the same desktop and collaboration tools as the rest of the bank, improving their working experience and that of our customer.

When looked at together what we've done is we've taken a legacy technology estate and transformed it into an agile asset.

00:37:57

As David described, our right here, right now facility is loved by customers. The app is the window to the bank for retail customers. Let me give you some examples of how we've improved our customer experience and also what we're planning to do, how we've driven and improved customer journey and delivered cost reduction through the reuse of common capabilities. I believe we're doing some exciting work and clocking up a number of firsts along the way.

Cora, a digital assistant, is winning awards, and rightly so. With 8.4 million conversations in 2020 and 4.5 million so far this year, it’s supporting our customers and learning all the time. Almost half of its conversations now need no human intervention, up from 40% last year.

As a digital assistant it came of age during the pandemic, processing over 200,000 deferred loans and 147,000 payment holidays. Our customers can now re-activate an ISA with a five-minute Cora chat.

Looking ahead, as we integrate Cora with telephony, I believe we will transform our customer experience entirely.

And Ella, our digital assistant for our Private customers is using the same technology and is improving their experience with us too.

00:39:16

Talking of transformation, let me touch on video banking. At the start of last year, we held 1000 video banking calls a month. In Q4 last year we averaged 7000 a week. This year that volume has doubled again. We're now holding around 13,000 calls a week. 52% of branch-based financial health checks are done using video banking. We know it's working for our Private customers as well with 71% opting to use this channel.

It’s a channel that's completely stepped up during the pandemic and it’s here to stay. Customers connect with us 24 by 7 using video banking.

Over 4000 customers have instantly launched a video call through the mobile app since we launched it 8 weeks ago. Doing their banking when they want, where they want, having 24 by seven access to a digital experience and our expert people through the app.

00:40:12

I think the work we're doing is ground-breaking as we continue to innovate and digitise customer journeys, we reduce costs and drive returns.

We’re the first UK mainstream bank to use biometrics that we've captured rather than simply leveraging biometrics captured locally in a service in a device, like a fingerprint. We use the way customers talk, move, type, the pauses, the tonality. We call it customer controlled because the biometrics we capture are a live check, not a static picture. We keep the original reference points in our secure server so we can check it is our customer.

Over 54,000 customers have already signed up and are benefiting from simpler account change or payment journeys, including authenticating payments by blinking, as David said. And our Private bank app is using it too.

On know my credit score, customers used to have a static historical score on the app. Now it’s current. It shows what their score is and why it has changed.

We know that digitisation really drives customer satisfaction. Cheque deposits via the mobile app is another example. It’s something our customers wanted - they now have it and it's popular, with over 62,000 cheques paid in through the app in the first month of introduction.

00:41:29

Now, if our foundation is built on safety and simplification, our future is built on being modern and smarter.

Customers are more expectant, they want personalised insights, they want simple smart banking, where and when they choose. We need to do new things that are valued and trusted and it's a world and a future that is unlocking through API's. This is where our approach to Open Banking and our use of data has paid off.

API's help us reuse services and capabilities across our products. It's just simpler and quicker to develop and deploy them. We've already got some really nice examples of how we're using API's. We are the first bank, UK bank, for example, to offer personalised loan quotes on social media. There's more to come on that later in the summer.

00:42:18

If we look at innovation more broadly, we have a strong track record and ecosystem. We collaborate with great companies.

Let me give you some examples, starting with Housemate. It's designed to do two things: improve financial capability and it's thickening our customer credit files. It's a companion app that, through the use of APIs, works out what renters are owed and verifies payments. It's brought us new, young customers that we support when renting. And when they move on, buy a house, switch utilities or if they need a reference, they come to us.

Digital investing is the second example. As Peter says, we now manage over £1bn of assets, via NatWest Invest, Royal Bank Invest and Coutts Invest. With around 60,000 customers investing using our digital channels, they have easy access to a simplified selection of Personal Portfolio Funds, delivered by Coutts.

And again, through the use of API's, our customers benefit from a seamless customer journey. In particular, our retail customers can monitor their investment balances in our mobile app with no need to switch applications or log-in elsewhere and they can set up regular payments from a retail account to their investment account, helping us to grow AUM organically as more retail customers use this capability to invest.

And finally, Carbon Tracker. Just out of pilot, it's now being scaled across our retail customers. It shows customers their carbon impact and provides personalised suggestions on how to improve or reduce it. It supports our purpose and our focus on climate, and we will re-use it across our other businesses.

00:43:58

Finally, Data, and how we use it is a huge opportunity and underpins our retail app. As we digitise more of our customer journeys, and use our customer data more intelligently, we will continue to invest in keeping our customer data safe and secure, maintaining our customers' trust as we do today.

The convergence of compute power with cloud, data, and intelligence, is opening up a whole new world of possibility, enabling us to move from a world of spamming to targeted intelligence that is valued by customers.

We're deliver personal insights through the app based on our customer's context, relationships, and behaviour, something we call a segment of one.

Our mortgage messaging customer insights have driven a 10% increase in re-mortgage business, and we've proven we can scale these insights rapidly. 15,000 customers had them in March 2020, over 1 million had them at the end of last year, 6 million have them today. All 17 million customers will have them in time.

00:45:00

74% of our active mobile customers opted to use push notifications. We send 1.4 million a day, the majority of which are debit card alerts. 10% of customers who get push notifications also opted to get debit card alerts. That number will grow soon as we make it an opt out feature, rather than an opt in.

These alerts highlight when, where and what customers spend. It's helping them recognise fraudulent activity much earlier, with customers losing 16% less on average, to fraud as a result.

Our customer lifetime value proposition is another great example. Insight and predictive tools identify customers who may need a mortgage in the next year. We encourage as they save for their deposit and as a result, we believe they will come to us for that mortgage.

00:45:45

And finally, AUM that Peter talked about. We're delivering a 300% higher click rate on marketing campaigns. We don't push customers to products anymore. We base our recommendations on individualised needs. The stats speak for themselves with a 500% increase in investment referrals and a 200% increase in Wealth manager productivity. We're now fully scaling the model, launching new products, like the junior ISA, direct to those who could benefit from it.

We really are doing fantastic things in the data space. Most competitors, I believe, will find our model difficult to replicate.

00:46:21

So, look, that's services, let me recap. Our story is built on a foundation of safety and simplicity. Through continued focus and investment, we've turned a technology liability into an asset that our customers are benefiting from. We have real evidence that we're becoming modern and smarter.

We're coming together as one bank, focusing on re-use internally, and collaboration externally and it's all enabled by API's and driven through the app, giving our customers new, unique capabilities, and insights that they value and trust.

So, with that I'm going to hand over to Jen now.

Jen Tippin (JT)

00:47:00

Super, thank you very much indeed Simon. Hello, nice to see you all again. So, as you know, our strategic priorities are anchored in an ambitious, multiyear, One Bank transformation programme.

And having heard from my colleagues you'll know that we're focused on working together to unleash the potential in our Group. Through the next few slides, I'm hoping to demonstrate to you how this working as one bank is working and how this programme is already adding value to our franchise businesses.

This multiyear programme is now fully mobilised and as a reminder, it's supported by 3 billion pounds of investment over the next three years. Our dedicated transformation office is working in partnership with Retail and Private to bring consistency as One Bank, but also to support the franchises to deliver their strategy in line with the priorities of the wider group. And executing this program drives the delivery of our 9-10% returns target that we've guided you to by 2023.

00:48:04

So, as you see previously, a critical aspect of this transformation program is the mobilisation of workstreams, seven of them in total, that run end to end across the bank. These workstreams aim to deliver value beyond what each franchise can deliver alone through leveraging the best of the bank and thinking as one bank.

For the purposes of this session I'm going to focus on the four workstreams that are most relevant to Retail and Private - Customer Lifecycle, Digitisation and Distribution, Customer Journeys and Tech and Data. So, let me turn to Customer Lifecycle first of all.

00:48:43

Now, as you know, the Bank has committed to supporting our customers at every stage in our lives. But what does this actually mean and what value does this create.

We know that customer needs will be very different depending on where they are in their stage of their lives, or their stage of corporate development, their wealth or in case of their business, their size.

We have to build meaningful relationships with our customers that go beyond the products we offer if we want to fulfil our purpose and help them thrive and realise their potential and, of course, that starts with an understanding of the pivotal moments that matter to our customers.

Through the use of data analytics and prediction capabilities we can now anticipate customer needs; engage with them at the right moment in time, and through their desired means deepen our relationship with them.

Let me give you three current live examples of how this can work and help drive growth across the lifecycle. In mortgages, for example, we can predict the need for a mortgage up to 12 months early and respond by helping customers understand how to build a deposit and how much they can borrow.

Through the use of smart data engineering, we can identify customers' family relationships and use these insights to launch relevant messaging to parents, just as for example the Junior ISA we've recently launched as part of our Digital Investment offering across both Retail and Private banking.

And thirdly, by building a single customer profile, we can engage graduates who have potential with relevant and timely messaging to establish NatWest as their main bank to build a relationship that will hopefully last a lifetime.

00:50:32

Moving on now to Digitisation and Distribution, what I'm trying to bring to life here on this slide is the capabilities that we're building that enable us to deliver that growth across the lifecycle.

The power of this starts with a single customer data layer backed by a single decisioning engine for customer messaging. Tailored messaging enables us to pivot engagement, to be conversational and specific to an individual customer, client, or business.

Whilst the user experience can be flexed to support different customer segments, we're building common capabilities for reuse across the organisation and this enables us to continue to improve the quality of our content using AI by scaling up our message variants, for example, for around 400 to over 7000, to hold better digital conversations with our customers.

Customers are also benefiting from seamless digital journeys. In our Retail and Premier businesses, they can also access expert human support by video banking. This brings together the very best in technology with our colleagues, who can add value through their skill and expertise - this is what relationship banking in a digital world is all about.

Let me give you another proof point of how this is working. As Peter mentioned, the digital investment journey is one example of how we're thinking differently about our business - deploying common capabilities, enabling customers across the Bank to benefit from our leading propositions and creating efficiency benefits for the Group through using centres of expertise.

As Peter said, we're being smarter about how we leverage data to market our Digital Investment offering, now targeting discrete customer segments with similar needs and aspirations. And this approach has enabled us to double the Q1 year-on-year digital Assets Under Management in flow.

00:52:35

So, let me turn now to customer journeys. As I've said to you before, transforming customer journeys end to end through simplified digital processes will both have a significant impact on our multiyear cost reduction plans and drive a step change in customer experience. We are targeting significantly improved cycle times, reductions in complaints and simpler products leading to grow savings, as you know, of over £300 million by 2023.

So, let me give you an example here in Retail - the account onboarding journey where we are making improvements to customer experience, cost, and control. Through digitising this journey, simplifying the architecture and product offering, we are halving the to apply, with over 93% of journeys now opened digitally and straight through processing now at 45%, removing those back end costs.

This is really valued by our customers. In September last year, our NPS was +16. As at May this year we've hit +28 with customer complaints on track to decrease by 17% by the end of this year.

This transformation of our onboarding journey is powered by reusable one bank capabilities but consolidated into a single digital platform which harnesses connected digital capabilities via APIs and microservices, such as our digital anti-impersonation capability, this helps maximise flow, reduces risk and cost. We've already seen the benefits with straight through processing up over a third and ID fraud losses reduced by over 95% since 2019.

The development of further capabilities this year, such as Multi Factor Authentication and Virtual Cards will continue to build a competitive customer experience, reducing time to access the account online and use a debit card from eight days to one.

All these improvements together will help reduce our costs. For this journey we will see over 30 million pounds of cost benefits by the end of 2023.

Now you have heard Simon talk about technology and data being a key enabler in our One Bank transformation program, particularly for customer journeys. A good example of this is our Payments journey in Retail.

00:55:09

In March, NatWest became the first bank in the UK to deliver personalised payment limits for our customers, with over 100,000 customers interacting with this new feature in March alone. 12 million customers now have access to this new feature to help reduce their own exposure to fraud.

We're also rolling out Multi factor authentication and Biometric Payments capability on our mobile app. As well as removing the need for a card reader, biometric authentication has multiple reuses across the bank - I've already mentioned account opening as an example, paving the way to apply this capability across multiple journeys and interactions.

With the needs of customers changing, we're also developing innovative payment propositions including proximity payment using QR codes and sending payments via social media or messaging - giving our customers more choice.

All these improvements together will drive both increased customer satisfaction with NPS predicted to rise to 45 by the end of 2023 and costs due to reduce by 50 million pounds.

00:56:24

Now, talking about costs, you know we have committed to a net cost reduction of around 4% a year between now and 2023. We delivered four and a half percent year on year in Q1 so we have started well. Underpinning the delivery of this is the mobilisation of a new approach to cost efficiency with a dedicated Cost Management Team, bringing together strong skill sets and creating enhanced cost management capability across the Group, covering all our costs and resources.

Transparency around our performance has increased as we've now developed and implemented a real time process with ownership of hundreds of initiatives and benefits tracking. We're able to enhance benefits by also driving wider simplification and productivity opportunities, such as identifying the downstream benefits for example of the exit of the UK trust business and Adam investment management division, or simplifying the number of current accounts in Retail, by systematically following these costs through and moving them across the bank.

00:57:30

So, to conclude. Our strategic priorities are embedded in a multi-year One Bank Transformation programme, this plan is underway, and it has started well and I hope I've demonstrated to you some real examples of how this is working and adding value.

As we've heard from my colleagues, we remain focused on working as one bank to deliver a long term sustainable performance; by growing in opportunity areas with sustainable returns on equity, reducing our costs and reinvesting in our business, all underpinned by disciplined and efficient capital allocation.

David has shared our growth ahead of market in Retail in key areas with sustainable return on equity and a positive outlook, backed by a strong proposition combining seamless digital experience with our expert people.

And Peter has demonstrated a resilient, double-digit return on target equity business in Private with a clear strategy for future growth.

Simon has shown how Services is working across all Franchises as One Bank to provide continued operational resilience, re-use those established capabilities to support cost reduction and digitise and improve the customer experience.

Thank you and I hand back to David to facilitate Q&A.

David Lindberg (DL)

00:58:56

Great. Thank you, thank you Jen. We'll move straight to Q&A. A reminder that we've got our Finance Directors, Stuart Nimmo and Andrew kyle joining us for Q&A. Also we want to give as many people as possible a chance to ask your questions, so please limit your questions to two each and just a reminder we do give good targets on lending, cost, capital and Group returns but we don't provide further targets for the Franchises and with that Dave please could you introduce the first question.

Operator - Dave

Thank you, David. To remind people if you would like to ask a question, please press the raise hand button if you've joined via zoom. Alternatively, if you've dialled in please press star nine followed by star six when prompted.

David, our first question comes from Rohith Chandra-Rajan. Rohith, please unmute and go ahead with your question.

Rohith Chandra-Rajan - Bank of America

Okay, good afternoon all and thank you very much for the for the presentation and David I was wondering if I could just ask you to elaborate a little bit on how you think about the growth opportunity in Retail. And so, I guess a straightforward approach would be to say that the 16% market share that you have in current accounts is a reasonable level to aim for across Retail products. Or is it more about closing the penetration gap to the market leader that you highlighted. Or I guess an alternative is to look at the profitability where clearly mortgages, significantly more profitable than the other business lines at present and so does that make it a priority for capital allocation, thank you.

David Lindberg (DL)

01:00:25

Great. Thank you, thank you for the question and the way I think about it is we really do have, in a sense, a bit of an under-optimised business mix, and that does create real opportunities for us, and so, as we know, we have the current account, sure that's quite high, number two in the market.

We had a much lower mortgage share, we've been growing that consistently, we are now at about 11% and I'm not sure that 16% is a fair share or not, but certainly 11% feels too low. And that's backed up by the fact that we do have opportunities both with existing customers, but also, you know, to move into some markets here for were unaddressed so, so I think mortgage is a key part of our growth story.

At the same time cards, again cards is a little bit more of a competitive market than current accounts, so there are more players there. Again, I'm not sure our fair share is 16%, but we have really backed off that market, particularly moving out of the zero percent BT.

And so, moving back into that to me seems like a very logical opportunity. We know our own customers choose us, much less often than some of our competitors so again that feels like a pretty linear opportunity for us and those two products really do constitute a big part, you know, of the profit pool of our traditional retail bank. So, you know I just think we've got this great business mix opportunity there and then, and then I think the investment side is we just have Coutts, we have that great capability. Peter's built that and it's actually innovated quite significantly even over the past year and we're beginning to see that that's something that's really good for our customers and good for the Group. So I would sort of just say a good bank but, but we, we do have a business mix which does give us, you know, two of those big upsides and then opportunistically with something like Coutts we're now you know, trying to apply that to the benefit of our of our customers.

So Rohith thanks for the question. Let's, let's go to the next.

Operator - Dave

Thank you, our next question comes from Benjamin Toms. Benjamin, please unmute and go ahead with your question.

Benjamin Toms - Royal Bank of Canada

01:02:29

Thank you for taking my questions. Firstly, what proportion of excess retail deposits do you hope to be able to convert to low touch investment products over the next couple of years.

And secondly, and if I'm a Retail deposit holder, can you talk me through how easy it is for me to invest one pound of my deposits in an off-shelf investment fund. Is it just a simple as hitting a button on my banking app to transfer the money into the fund, so it takes a matter of seconds, thank you.

David Lindberg (DL)

Well, thank you for the question. As excited as I am to answer the question, I know Peter is even more excited so Peter, what about this one over to you.

Peter Flavel (PF)

So, thank you Benjamin. You will see from the slides, well actually from full year, that we disclosed that we see significant growth in AUMs for the group, and last year we grew those AUMs by 6% or delta 1.7 billion. Then you can see on the slide, the NatWest Invest, Royal Bank Invest and Coutts Invest on slide 24 which is up to 1.1 billion from a standing start in 2016.

And so, we're very pleased with the rate of growth, and you can see the digital sales as a percentage of sales have grown from zero to 20% to 34%. That's also at the same time as face to face advisory is also growing strongly so probably the percentage of digital sales is going to be around that amount as they both grow in tandem.

In terms of the simplicity, yes, it's very simple. It's not a few seconds though, because we have requirements to ensure that we understand the risk profile of our clients, but it's not a long process at the same time.

David Lindberg (DL)

Thanks. Thanks for the question, let's go to the next question.

Operator - Dave

Thank you, our next question comes from Robin Down. Robin, please unmute and go ahead with your question.

Robin F Down – HSBC

01:04:31

Hi yeah, I had a couple of questions around the mortgage market.

If we look at the first quarter, your gross lending share kind of dipped to kind of a two-year low and the redemption share kind of picked up a little bit as well. I'm just wondering what you know, what you're seeing in terms of that competitive dynamic, is that just kind of a short-term thing, whilst one or two of the peers come piling in and really kind of push mortgages. I'm trying to get a feel for your language around what we might be seeing over the second quarter in Q3 in terms of market share, whether you're kind of stepping back a little bit and emphasising other products.

And then second question, I wonder if you could bring out your crystal ball and perhaps give us a feel for where you think new business pricing might go over the next 12 to 18 months. I'm guessing from your commentary that the 165 basis points you don't think it's sustainable, but do you think we march all the way back down to 100,110 or do you think we can settle at a higher level than that, thank you.

David Lindberg (DL)

Great, well thanks very much for the questions Robin. Let me start just on the on the mortgage share and then I'll bring out the crystal ball.

We had a small dip in earlier in the year, that was really related to some backlogs, I think a number of us were having backlogs in our cues because we did change the way we underwrote through the crisis, and so you saw different competitors sort of pull back, increase pricing for a bit and come back in.

The way I characterise the market today, is it feels like, you know, incredibly high growth market, and I can come back and talk to that; probably the biggest new lending market we've ever seen. You know, I think there is evidence in the last couple weeks, maybe it's not going to stay at this level forever, but it's probably going to continue to be buoyant for some time.

Now, but my sense of it, and you know I can expand on our pricing philosophy a little bit, but you know the goal is not that we're going to grow every single quarter, the goal is that we create value and the goal is that, you know we don't we don't want to be the player that leads the market down on price, so we want to, we want to have a competitive price, we don't want to lead on price. Having said that, you know everything that we're doing and everything that I'm seeing suggests that, in a good market, you know we're going to continue to be, you know, doing well and I think you know over the fullness of the year, a bit over share and we'll see how that goes, bearing in mind we have yet to really move into some of those unaddressed markets that I've spoken to and that comes in with some technology changes that we have planned over the course of the next couple of months.

So you know, I feel positive about the market and I feel positive about where we're playing in the market, but I just want to reinforce it that you know we are now at a size where we are not growing share based on price, we're growing share based on all the other, you know, value added pieces and servicing the data, the salesforce optimisation and the growth in unaddressed markets and that's what we want to do now.

Now let me take a crystal ball out for you and probably useful to go back in time and why did margins grow the way they grew, why did we get to 180 basis points. In my view that had quite a lot to do, not necessarily with a dark desire for de-risking but rather, you know, as the underwriting processes of the industry were ramped up, it created big backlogs for almost all of the major competitors and they try to use price to, sort of in a sense, clear the backlog. So, that's my view of what really happened. As we sit here today, you know, I think most of the backlogs had been cleared and as a consequence we're seeing margins normalise and all I can say, as you know I'm obviously not going to tell you the spot margin at the moment, but all I can say is we were at 165 at the quarter, know that that is coming down and sort of the two big factors you've seen swap rates for the two and five year, they've gone up considerably and at the same time you've seen lots of market competition, anywhere from 20 to 35 basis point discount so you know that's going to have an impact and there's another side of the balance sheet that will be benefiting from what's happening in swaps. So, thanks Robin for the question, let's go to the next one, thank you.

Operator - Dave

Thank you, our next question comes from Edward Firth. Edward, please unmute and go ahead.

Edward Firth - Keefe, Bruyette & Woods

01:09:04

Afternoon everybody. I have two questions please and thanks very much for the presentation and I guess the first one was about back office systems. I guess the history of banks is often they're much better at getting the front end in order than they are in the back end so I wondered if you could just give us a little more information about where you are in terms of your back office systems - what percentage of you is now on the cloud, how do you do your single view of the customer, do you have a sort of seamless single view of the customer and what sort of investment are you expecting over the next, I don't know, three to five years to get that to, you know, perhaps what you would consider to be absolutely, sort of, leading edge so that was my first question. Do you want the next question now as well?

David Lindberg (DL)

Why don't we ask the next question now and then we'll try to get you an answer to both.

Edward Firth - Keefe, Bruyette & Woods

Okay, and the other question I had is when I look at the, I'm just looking at the CMA standardised customer satisfaction data and I guess NatWest in that comes 10th equal. I mean you’re quite well below Barclays, you're below Lloyds, Royal Bank is even lower and I’m just wondering, I guess part of actually growing market share is going to be have to involve moving up that league table to some extent. And I’m just trying to get a sense of what is going to be the big sort of trigger do you see to actually move up those ladders and actually improve customer satisfaction so that in the first instance it's as good as perhaps some of the incumbent peers and maybe exceed them.

David Lindberg (DL)

Well Edward thanks for both those. Why don't we start with Simon on some of the systems and then maybe bring in Jen to just talk about some of the cross-bank opportunities in those systems and I’ll come back and answer your second question. Simon.

Simon McNamara (SM)

Thanks David and thanks Edward for your questions. So, I think we don't quite see the distinction of sort of back office front office to be perfectly honest, but so we manage the estate now in a way, in a holistic way.

You asked a question of what percentage in the cloud, of our estate now it's about 40% so it's a combination of internal and external cloud. We will continue to invest in the cloud. We don't run, even some of those traditional systems which we've opened up through Open Banking, they’re on very current technologies so one of the things we have done is invest in new mainframes, for example, so the entire set of mainframes we run on today are actually brand new or very new, yeah they're current.

Our investment in our mortgage platform, which was one of five, is now a single mortgage platform - that's the current version available in the market of that software and runs on current technology so it's been the management of that estate over time that's given us a lot of the benefits that we're seeing, both in terms of resilience but also in terms of the cost reduction. We've taken what 25% out of the cost of the running of this estate over the last five years, so it's certainly, it's cheaper it's more agile, it's certainly very current and just lastly Open Banking really does mean that we can open up the totality of that estate for access of any application so a lot of the services we talked about today are available many times over, so we don't, as we once did, replicate the technology, we basically make it available and consume it, you know sort of many times, so what I said earlier is true we've turned what was a legacy into an asset, very much so.

Edward Firth - Keefe, Bruyette & Woods

Do you have a figure in your mind as to as to what percentage of your customers, for example, are signed up to Open banking?

Simon McNamara (SM)

Yeah so, we've got, what, currently, I'll just get you the absolute number. So, in terms of Open Banking currently, I'll find the number, bear with me a second. So, 230 businesses I know are signed up to Open Banking, I think it's about 1.5 million customers currently and that's growing. If you look at our mobile app also accessing the services of the other banks as well, so one of the services we provide is an aggregator and integrator so using Open Banking to access others and so that's the number.

Jen Tippin (JT)

Just the other point I would make, Edward, in response to your question around back office is that, exactly as Simon said, what we try to do is think about this truly end to end. So we don't necessarily distinguish between back office front office, we think end to end and the clear advantage of the journey model is that it forces you to do that, so you think about journeys account for roughly about a third of the total costs of the Bank and that includes clearly all of the allocated costs from, for example, Simon's business and others.

So, the beauty of that means that you think not only about how you can optimise the front, but also how you can optimise all stages of the process right the way through our business end to end through straight-through processing, for example, but also digitalisation and automation of those key customer experiences.

David Lindberg (DL)

Why don't I pick up the other question. I did want to just note, Open Banking, I think this is only just beginning and I just link it to spending and three years ago, had we have launched spending in our app I'm pretty sure it would have been resoundingly ignored by our customers and it suddenly shot up to one of the most used parts of our app. So I think once spending and those nudges and that wellness starts to take more momentum and we're seeing that then I think Open Banking adds value, whereas you know I think historically we've been searching for where is the value of Open Banking, to some degree, from a customer perspective. So, I actually am quite excited about the future.

The second question is really just about customer service and I think we have to acknowledge that we've been near the bottom of the league tables and customer service for a long time and that's not an acceptable place for business to be that wants to sustainably grow value so that's the fact of it. You know that CMA, that tends to be more of a branch-based survey and a small one. I look at NPS. We were last on NPS, we've clawed a lot of that back so not where we want to be, but, but I would sort of characterise NPS looking both at the 12 month, and I get the monthly numbers as well.

It feels like we're sort of in the pack with Barclays, Lloyds, and ourselves, and maybe even Santander and again that's not where we want to be either. So you know the answer I gave is, we have to be obsessed with every element of customer service and change the culture accordingly and that's the work that we're all trying to do as a leadership team. It includes the journey work and obsessing to make those perfect and Jen's spoken to that. It includes branding and getting stuff out there that's actually exciting the customer, so they want to come and join us and see some of the benefits. It's the data that engages customers and gives them information on spending and helps them with their overall financial well-being. It's pricing and then we put a weak point around branches and I just think we've got to accept that that's true. And we're embarking on an investment in our branch people and really trying to empower our branch people. Our branch people a couple of months ago were given empowerment as an example to do what's right for customers, no matter what the policy and right now they can spend up to 50 pounds per customer if they think that's the right thing to do.

So, a lot of elements but it all comes together with a culture that is customer obsessed and if we don't do that we're not going to get to the kind of value that we want so that's how I answer that Edward, thanks for the question.

Let's take the next question.

Operator - Dave

Thank you, our next question comes from a Guy Stebbings. Guy, please unmute and go ahead with your question.

Guy Stebbings - Exane BNP Paribas

01:17:04

Hi, good afternoon everyone, thanks for hosting the event this afternoon. A couple of questions probably both for David. Firstly, just trying to understand some of the comments on unsecured which sounded perhaps a little bit cautious in terms of growth, certainly on the cards you talk to only coming through next year. I mean if we look at Bank of England data out today, we are already back to broadly flat, appreciate the elevated household deposits might mean it dampens or delays the pace of growth, but certainly would expect the trajectory to be favourable so as we look forward, are your comments more a reflection of the expectations for the market or is it because you need sort of product enhancements perhaps to support your aspirations to grow ahead of the market in the future.

And then the second question, which is perhaps linked, but interested to hear your comments about prioritising growth and current accounts for younger customers. Be interested to hear sort of a bit more detail around that profitability of younger customers versus middle aged customers, for instance, and what analysis has been done around that, thanks.

David Lindberg (DL)

Great, Guy. Thanks, two very good questions, let me talk about unsecured first. And I was really referring to the market here and what we're seeing is we're seeing you know huge rebound, in fact more than a rebound in debit. We're also seeing rebound at pretty much right back to where we were in terms of spend. We're also seeing big picture level and […] we are seeing all that positivity.

But you know I just think when you look at the mechanics of how that's spend filters through into balances that earn, you know, we just think realistically that's going to take some time to come back; we'll probably see very small growth in the market, this year and then it will slowly start to build through 22 and beyond.

Just a reminder, at a market level at peak trough we probably lost 20% of the unsecured balances in the market. Those will come back and they might come back and then some and they will certainly will but I just wanted to flag, but I don't think that's going to be a really fast six months rebound, it will be a rebound that happens over the course of a couple years just given how much savings is out there.

Just as an aside on that, part and parcel of that business is spending comes with foreign exchange revenue and interchange and those two will bounce back too but that's going to be contingent on travel opening which, at this point, it hasn't so that's sort of how I'd answer that.

You know your second point was really on youth and you know, I'll answer that in a few ways, but I mean, first of all, youth is something you invest in for your future. I think that's obvious but it doesn't always pay back right away, but it's something that you do and in five years and 10 years these customers who join you become stronger relationships, they take mortgages and cards and that's the real point.

But having said all that, we also know that if we can attract an existing customers, some of their children, we know that that raises the value of the parent as well, and we know that a customer acquired at youth is, as I said in my remarks, one and a half times the value of a normal customer acquired out of youth so lots of good reasons to do it. I'd love a whole other session to talk about what our plans are, but the short answer is broken into two. First is there are some really basic things that we just weren't doing because we weren't focusing, we didn't have contactless cards for young people. You know, the average young person is getting a mobile phone today, I think, at seven - it's a different world and we hadn't been doing some of the basics so that's been addressed and we've seen some momentum.

But for the future, we're really thinking about, and we have, we've turned this into a business within a business and we put a person we really trust in charge and we're going to run youth as a business unto itself with the view of attracting existing customers' children and then over time all of market youth as well, and we think that that's a gift that creates value sustainably for a long time. So, we're very passionate about that and we'd love to share more with you another time. So, thanks Guy for the question, let's move to the next.

Operator - Dave

Thank you, our next question comes from John Cronin. John, please unmute to go ahead with your question.

John Cronin – Goodbody

01:21:19

Thanks for taking my questions and actually, most of mine have been answered already so just to return quickly to the crystal ball gazing point on mortgage spreads. Look, I understand that the current market conditions and transaction volumes are underpinned by structural as well as cyclical factors and the […] clock is pretty good from a from a short term perspective, at least, but just thinking beyond maybe the current financial year, and when volumes eventually taper. I guess it's a qualitative question, but how concerned are you in terms of spreads potentially plunging right back down to pre-pandemic levels, given the wider competitive backdrop and others flow share ambitions in that context.

And, I guess just related to that, you made the point David that you're seeing that 165 basic points front book rate coming down, I mean you know, how aggressive does that feel, is it a quite gradual in terms of the uptick in competition or is it becoming more pronounced in recent weeks. Any feel you could give us for how that's evolving in real time would be helpful, thank you.

David Lindberg (DL)

01:22:31

Again, thanks for the question and I think we probably are comfortable that the short term is going to be significantly supported by the high volumes of new mortgages being written, combined with what we know to have been a very high margin so that's I think pretty known.

As I look into the future, certainly don't know the answer but, but I think we have to prepare that the competition we're seeing is going to continue and you know, structurally the market's not considerably different to the market in 2019. So again, I have no idea if it's going to get to that point or not, but, but we do have to run our business and run our costs in such a way, where if that did happen, we could we could remain competitive and continue to put out above cost of capital returns.

I guess the way I broaden it is if I think about, let's say the two year view, you do have the mortgage headwind on margin, you still have, from everything we can see, good buoyancy though on volumes, but then you have some of the other things slowly coming back so you still have unsecured - again it went down 20%, I think you've got that coming back. Within that we're going to be growing our share, in our view, in unsecured and in mortgages, you've got FX coming back and then I'd also just remind everyone that part of the margin issue we're facing in mortgages is the change in the yield curve. […] deposits, both the hedged and the unhedged part of the book. So, those are some of the elements that I'd consider as I thought through the medium or even the longer term.

Thanks for the question, let's move on.

Operator - Dave

Thank you. Our next question comes from Omar Keenan. Omar, please unmute and go ahead with your question.

Omar Keenan – Credit Suisse

Hello, can you hear me ok?

David Lindberg (DL)

Hi Omar, how are you?

Omar Keenan - Credit Suisse

01:24:20

I'm fine, thank you. Thank you very much for the presentation. I just have a question on the rates of sensitivity in the Retail and Private banking business. I'm just curious to get your views as to what deposit beaters might look like if we get a rate hike from the Bank of England, I completely appreciate it might be a little far away so, probably a little more than 12 months. So, what's currently assumed in the rates and what do you think you might be in practice, do you think any of the first hike at all will be passed on.

And just on a second question, so we heard from the last spotlight that the capital management unit I think, if I didn't misunderstand, was going to be rolled out across the Bank, and I think one of the things that they were looking at was capital efficiency which you talked about in the presentation and perhaps other kind of, you know, pricing allocations. Do you expect any of those changes to impact your business, thank you.

David Lindberg (DL)

01:25:31

Thanks for both those questions.

Price sensitivity, obviously, will be supported if rates do rise, and we have in fact been working as one bank on capital management and creating a unit for that. Probably I'll bring in in our CFO, Stuart Nimmo, to give a bit of colour on both those points. Stuart.

Stuart Nimmo (SN)

Yeah thanks David. Hi Omar. I'm not going to break down our rate sensitivity into business pass through rates, I can't do that however to be helpful, you'll hopefully be familiar with some of our group disclosures. So, in our full year accounts on pages 230 and 232 we give we give some good detail around the structural hedge and also the interest rate sensitivity to 25 basis point movements and our managed margin.

So, just to start with the hedge at the end of the year, we had about 125 billion in product hedges. We've said before that we hedge out the majority of our current account balances and those were about 66 billion at the year and. So that gives you an idea for the proportion of the hedge income that we attract into the retail business.

At Q1 Katie gave some updated group guidance that, you know, the impact in income this year would be negative 250, mainly in the first half of the year so as a business we'll bear our share on that, given the proportions I've just guided you towards.

On the unhedged side, you know, at Q1 we had about 70 billion of current accounts and about 110 billion of savings. I've told you that we hedge out the majority of the current accounts so you can work out broadly the unhedged element which we have to net down for some variable balances like the SPR book, which is a smaller proportion of that book and that's a positive exposure to interest rate movements as and when they happen. Hopefully that's helpful. Back to you David.

David Lindberg (DL)

01:27:32

Thanks for the question Omar and Jen did you want to add anything to that.

Jen Tippin (JT)

I was just going to respond to Omar's question about the capital management unit. So, you'll have heard us talk about that at the Commercial and NatWest Markets Spotlight. It is one of the seven workstreams that are running across the Bank so absolutely, the work there on data quality, on pricing velocity and intensity, for example, of RWA utilisation, that applies to the Retail and Private businesses, as well as to Commercial and NatWest Markets, which I think was one of your questions. Thank you.

David Lindberg (DL)

Thanks Jen and thank you again Omar. Let's go to the next question.

Operator – Dave

Thank you, David. We have time for one last question, and it comes from Alastair Ryan. Alastair, please unmute and go ahead with your question.

Alastair Ryan - Bank of America

01:28:22

Thanks, and just to wrap up on previous questions really, why isn't 16% the right number for you to be thinking about over time and then in your product shares. And then just specifically in consumer loans, I get that the markets not growing much, but I mean your market share's very low. Why wouldn't this be a moment you could put your foot down and take some market share if it's going to be a period in which there's actually snap back in consumer demands, it might be looser than it was that it was 12 months ago, thank you.

David Lindberg (DL)

Great, thank you for that question. First 16% you know, in my view, there's really no constraint, I mean it's pretty loose. I'd like it to be much higher than 16% across every single one of our products. I think there is a sense some people have what your fair share might be, and that might approach your current account share.

You know, as I said earlier, the cards market is much more clouded and so they're just more players so you know you might find that a bit stretching to get the 16%, given how a higher percentage of the market is the model […] market in the model and the model […] market tends to be lower value lines and hence to be a little bit down on the risk curve. If we were to look at that share across major banks, so take out the model […], and I think we should be aiming for 20 to 25% share and that's really what we're basing our business on is trying to do something like that.

So, you know, I don't think 16% is, sort of, a material blocker for us, I just note that it's good to have a lot of customers who consider you to be their primary bank who aren't using you for mortgages and credit cards particularly, so that was really the point I was making.

In terms of consumer loan growth, and you know within that we're already about 15% on loans so cards is really where we're quite weak. And I agree with you Tom, we ought to be growing our share and I expect that we will be growing our share. But to some degree, we do have to accept that the market right now is going to take a bit of time to come back and I just wanted to be eyes wide open that that's going to have its impact.

But, you know, I think our ambition is high, we have to break it into two, you know, the first part of it is moving to customers who already bank with us, who have a card elsewhere, who don't have a card with us and we can work with them. I'd also note that back book optimisation and cards portfolio has tended to be the way cards portfolio have grown in the safest way possible and we haven't been doing much of that lately and we're beginning to do a lot more of that using our data and using some of the prompts that we have.

So those are opportunities and, one day, you know we may choose to go all of market and that's an opportunity for the future for us. But right now I think it's a pretty linear opportunity and we should go out and get it, using tried and tested, you know, ways of growing your credit card business and so that's how we'll approach it.

So again, thanks for the question, I appreciate your ambition for our business too, so thank you for that.

Now, I think that that is a wrap and I did want to end by saying a big thank you to everyone who's joined and obviously from myself and Peter and Jen and Simon, we really are grateful that you listened to our story.

Some of you may have more questions, and I know that that our team, Alexandra and Leah, are very happy to answer all those questions. But for now, thank you very much and bye for now. Hopefully next time we'll see you in person, take care.