



**ROYAL BANK  
OF CANADA**

**Jim Rager  
Vice-Chairman  
Personal and  
Commercial Banking**

**Schroder Salomon  
Smith Barney  
International Banking  
Conference**

**New York  
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# Personal & Commercial Banking

## Profile of P&CB in Canada

- **Customers - 10 million individual and business**
- **Over 30,000 employees (FTE)**
- **Products - mortgages, loans, cards, deposits**
- **Assets of C\$132B / deposits of C\$95B**
- **Contributed 53% of RBC net income in Q3/2000**
- **Market position against Canadian FIs:**
  - **loans/mortgages #1**
  - **small-medium enterprises #1**
  - **cards #2\***
- **Delivery network - manages physical and electronic distribution for RBCG**
- **Client Centric approach; leader in CRM/Sales effectiveness**

\*#1 as measured by debit acquiring, Visa acquiring, smart card issuance and cards in force

1

Thank you Peter.

Good morning/ Good afternoon.

Before discussing initiatives in retail banking, I'd like to give you a brief profile of the Canadian Personal and Commercial Banking operations. This excludes our insurance division.

We serve a large customer base with a wide retail product mix and contribute over half of Royal Bank's earnings.



# Personal & Commercial Banking

## Distribution Channels Mix

### Telephone banking

- 1.75 million customers, 2500 agents at four call centres handle 6.5 million calls per month

### Other points of sale

- e.g. 2600 car dealerships

### Inbound / outbound telemarketing

### Direct mail

### Physical network

- 1,202 Branches and Business Banking Centres

### Internet banking

- 1,200,000 on-line clients  
- available for personal banking, trade finance, discount brokerage and business banking customers  
- SFNB rated #1 (Gomez)  
- RBFG rated #1 (Lafferty)

### Mondex "smart card"

- pilot completed in Guelph, new testing under way in Sherbrooke, Quebec

### ABMs

- 4,500 ABMs; adding new features integrated statements and bank book updating, US cash/travellers cheques and multi-language

### Mobile sales

- 1160 mobile and specialized sales representatives

### Debit cards

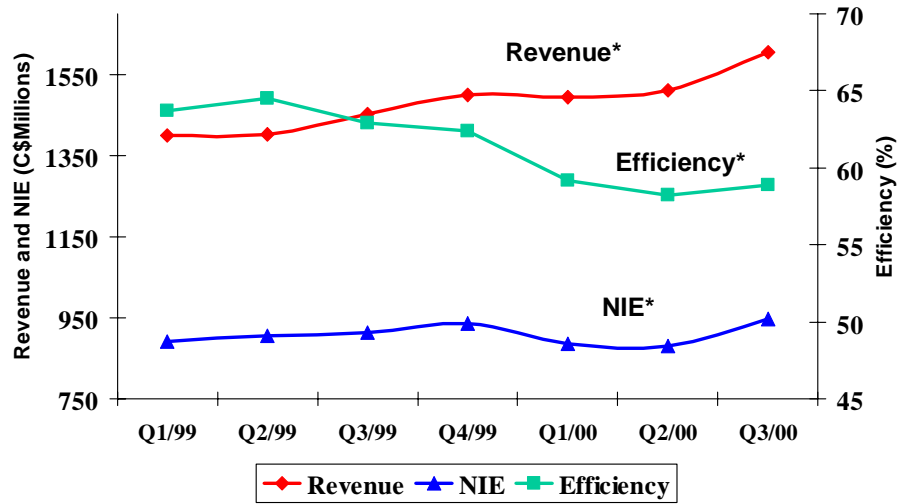
- cardholder transactions increasing rapidly

We have an extensive distribution network. Peter Currie has spoken to you about our mobile salesforce and growing internet banking customer base.



# Personal & Commercial Banking

## Performance Tracking\*



\*excluding insurance and one-time items

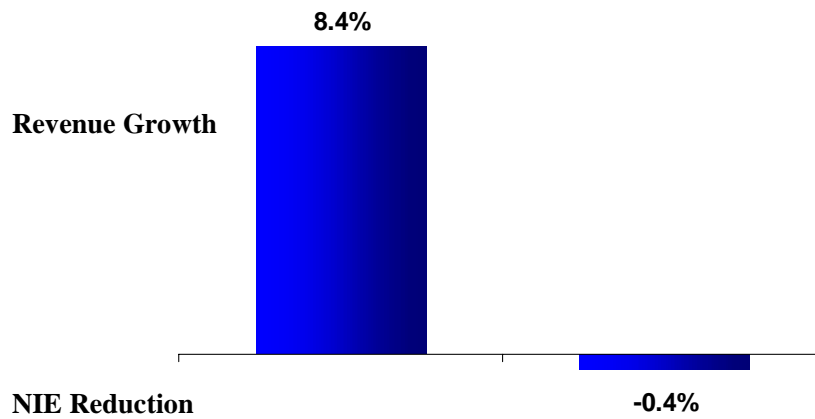
Our performance continues to strengthen with the efficiency ratio down significantly in the last year-and-a-half as we have grown revenues substantially while cutting costs.



## Personal & Commercial Banking

### P&CB Revenue Growth and NIE Reduction\*

(YTD Q3/2000)



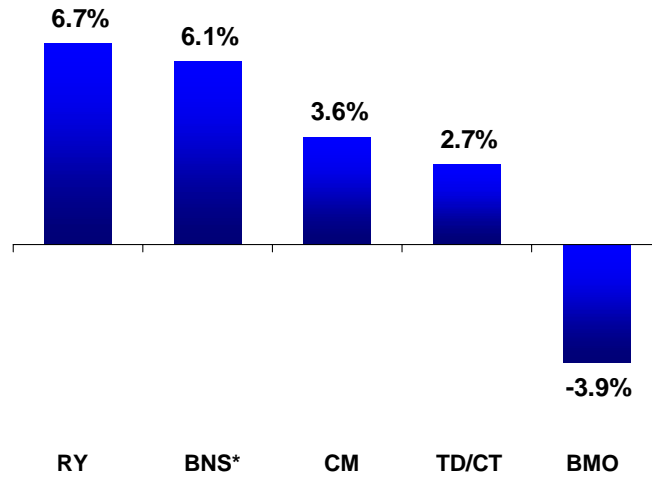
\*excluding insurance and one-time items.

In the first nine months of 2000, revenue grew over 8% while expenses declined.



## Personal & Commercial Banking

Highest growth in retail revenue (Q2/00 vs Q3/00)



\*includes wealth management

5

Our sequential revenue growth in the most recent quarter was the highest among the Canadian Banks.

I'll devote the rest of my discussion to our revenue growth strategy.



# Personal & Commercial Banking

## P&CB Strategy

**To grow profitable relationships with each one of our business and personal clients by:**

- **Creating a tailored client experience**
- **Building a more personal and friendly brand and corporate image**
- **Reducing costs**
- **Effectively managing risk and capital**

6

Our strategy is really quite straightforward. We want to grow profitable relationships with each one of our business and personal clients by:

- creating a tailored client experience. What we mean by this, and how we do it, will be the focus of my remarks today,
- building a more personal and friendly brand and corporate image,
- reducing the costs of delivery where appropriate, so that where the tailored client experience is price driven, we can always compete,
- effectively managing risk and capital.



# Personal & Commercial Banking

## Relationship Strategy

**Our ability to tailor the client experience is the result of:**

**What we know about our customers:**

- Foundation research and profitability
- Insights on lifetime value, vulnerability, risk and propensity to buy

**What we do with this information:**

- Organize to deliver
- Develop personalized strategy for every client

**How we implement:**

- Optimize sales effectiveness

7

When we talk about creating a tailored client experience, we mean putting together the correct mix of channel, product, price and treatment that is right for the customer, and profitable for us.

Our ability to do this results from:

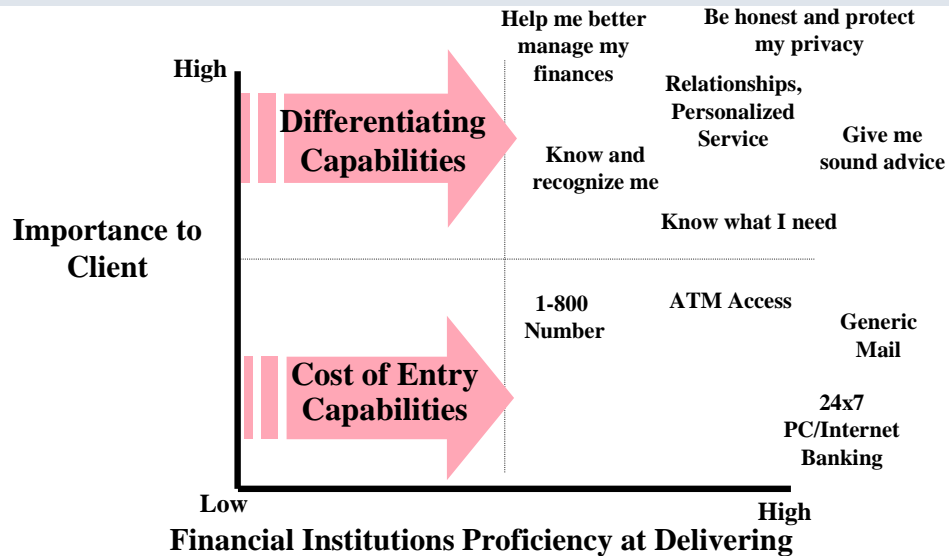
- our data management and segmentation capabilities,
- our ability to use this information to gain deeper insights into lifetime value, risk of attrition, client risk and propensity to buy,
- our ability to develop personalized customer strategies using this information, and
- most importantly, executing these strategies in a consistent way across all our channels.





# Personal & Commercial Banking

## What We Know About Customers



8

Let's start with some of our most basic customer research, which is what lead us to conclude that a strategy based on delivering this tailored experience is a winner.

Here we see that our ability to deliver anywhere, anyhow, anytime to our clients does not rate very high in their eyes as differentiating factors. They expect these capabilities, and we better be good at them, but customers really value sound advice, our ability to understand and anticipate their needs, and the feeling that we value them as individuals as things that will set us apart from our competitors.



# Personal & Commercial Banking

## What We Know About Customers

### **We also know:**

- **They access services through numerous points/channels**
- **Relationship management through a single person is not always economically viable**
- **“Relationship means different things to different people**

9

We also know there are challenges because:

- customers access services through numerous points & channels,
- relationship management through a single person is not always economically viable, and
- “relationship” means different things to different people.

Therefore, our ability to deliver on the differentiating relationship factors with a traditional face-to-face approach is virtually impossible.



#### How do we go about developing a profitable relationship with every client?

- **Use our customer information and decisioning technology to:**
  - **segment**
  - **understand profitability**
  - **predict preferences and behaviours**

So we have to go deeper into our data, to use our customer information and decisioning technology to segment clients, predict their behaviour, understand their current and potential profitability, and thus develop a personalized strategy for every client that puts together the right mix of product, price, channel and treatment that is satisfactory to our customers and profitable for us.

We have lots of information on our customers. We also have transactional, demographic, and attitudinal data, that we are able to use to segment our client base in a pretty sophisticated, refined way. Even today, many banks lack this important capability.

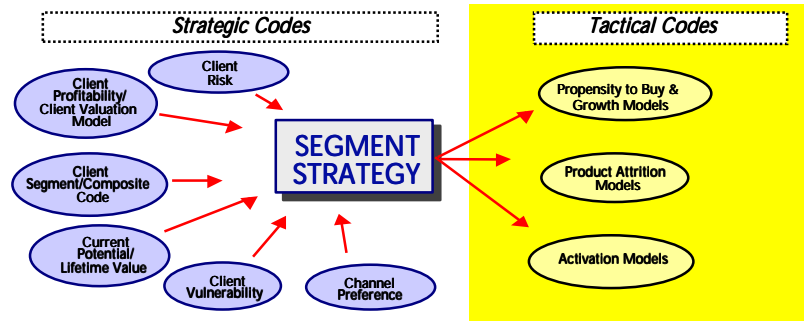
I'd like to spend a few minutes discussing the strategic and tactical codes we use.



# Personal & Commercial Banking

## Customer Relationship Management (CRM)

How we develop a profitable relationship with every client



11

Here are some of the codes we have developed to understand our customers, and their needs and preferences. Strategic codes identify what we know about our customers, and help us to determine what strategies we need to put in place to meet our business objectives.

The **Potential and Lifetime value codes** provide information on the value of a customer if we were to obtain all their wallet, over a longer time frame. It helps us understand that not all profitable clients have additional potential, and more importantly, that some currently unprofitable customers represent significant potential. It helps us align scarce sales and marketing efforts against highest opportunity.

The **Customer Segment code** actually clusters our customers into similar life stage groups which help us develop value propositions for customers based on life events.

The **Channel Preference code** predicts likelihood of using different channels based on current behaviour. We know, for instance that 1/3 of our clients are branch/teller centric. Another 1/3 have migrated to the ATM for routine transactions, and a further 1/3 are actively moving to telephone and Internet banking.

The **Customer Vulnerability code** identifies customers who are at risk of leaving the Bank.

The **Customer Risk code** identifies customers with higher risk of loss.

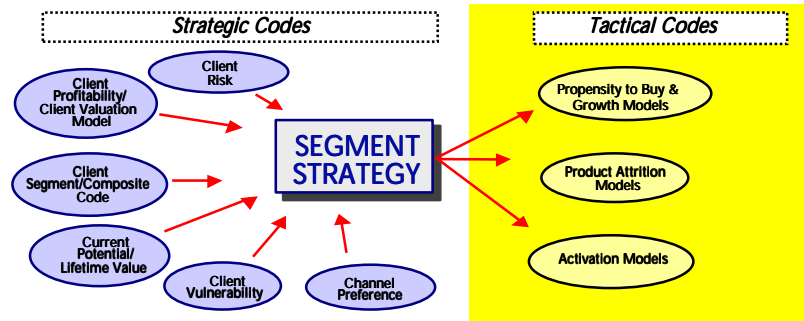
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# Personal & Commercial Banking

## Customer Relationship Management (CRM)

How we develop a profitable relationship with every client



12

We'll describe how we use these codes to develop personalized strategies for our customers in a moment.

Important to note that we do not provide strategic codes to staff -- the strategic codes are too prone to different staff interpreting them in different ways. Rather, we provide our staff, whether they are in the call center, in a branch, or mobile sales forces, with very detailed tactical information.

The tactical codes enable staff to focus their scarce sales times on highest potential activities. Sales leads based on these codes would identify, for instance, the likely next product for a specific customer, or details on a mortgage customer who is at risk of switching a mortgage to a competitor (we can tell this 6 to 12 months in advance so we can intervene), or information on a customer who is not using a service (e.g. an RC or Internet banking) we have sold them. In this way, we are able to more efficiently direct our cross-selling activities.

Each one of our 10 million customers is scored monthly on each one of these codes, with more frequent updates if significant changes occur during the month (e.g. a large balance change). To give you a sense of the richness of our database, we have information on over 9 million active personal and business clients, and 2 million inactive clients with over 30 million records and accounts. Each client has over 2600 attributes associated with them on our data base.



# Personal & Commercial Banking

Organized to Deliver

## Leveraging segmentation and customer information in the development of strategies

<b>Getting Started</b>	<b>Builders</b>	<b>Wealth</b>	<b>Commercial</b>
<ul style="list-style-type: none"><li>• Youth</li><li>• Nexus</li><li>• Small Business</li><li>• Small Agriculture</li></ul>	<ul style="list-style-type: none"><li>• Borrowers &amp; Builders</li><li>• Business</li><li>• Agriculture</li></ul>	<ul style="list-style-type: none"><li>• Wealth Accumulators</li><li>• Wealth Preservers</li></ul>	<ul style="list-style-type: none"><li>• KBI</li><li>• Public Sector</li><li>• Real Estate</li><li>• Commercial</li></ul>

13

We have organized around four broad segment groupings with thirteen sub-groupings. These will evolve over time.

The segment structure reflects client life stages and complexity of financial needs. The groupings also reflect commonalities in service and product requirements. The interesting part to note is the current profitability between these groups is quite different, as you would expect.

The Getting Started grouping comprises four sub-segments with low current value, but many with potential. Our strategy is to identify and grow this potential; while minimizing costs.

Our Builders are mid-life / mid-stage clients. For the most part they are still growing and have high credit and financial advisory needs. Our strategy is to retain, grow and consolidate relationships.

Our Wealth grouping consists of more mature segments, in the savings phase with significant potential for full RFBG offerings. The value proposition for the Wealth segments is trusted service and referral to specialized resources.

We continue to focus on high potential Commercial clients.



# Personal & Commercial Banking

## Optimizing Sales Effectiveness

- **Improved quality of sales leads means increased sales results**
- **Geographic units focused on sales and service, business units focused on client strategy**
- **Consistent focus on customer needs**
- **Automated sales tracking and performance management**

14

You have seen how we grow the profitability of each relationship. The key to delivering a consistent client experience is automating our strategies and delivering them consistently across each point of contact.

By doing this, what our salespeople see is an organization designed around the client where they get much better information to help them sell.

This optimizes sales effectiveness through:

- improved quality of sales leads which increases sales,
- geographic units focused on sales and service, and business units focused on client strategy,
- consistent focus on customer needs, and
- automated sales tracking and performance management.



# Personal & Commercial Banking

## Increasing Share of Wallet

...resulting in more “A” clients and average profitability per “A” client

### Personal Financial Services Clients

	Annual Increase in the Number of “A” Clients*	Annual Increase in Average Profitability of “A” Clients*
1996 to 1997	122,000	\$43
1997 to 1998	76,000	\$10
1998 to 1999	131,000	\$16

\*“A” are high-value clients

An indication of the success of our program is the increasing share of wallet of our Personal Financial Services customers. We have focussed a large part of our efforts on “A” clients (the most profitable), increasing not only average profitability per client, but also the absolute number of clients.





# Personal & Commercial Banking

## Successful Cross Selling Culture

- Have been operating an integrated platform of financial services since the late 1980's
- Cross-selling success is gaining momentum and is embedded in the organization
- Retail revenue growth the strongest in the industry

### Total Referrals Between RFBG Businesses

Year	Business Referred (C\$ Billions)	New Sales (C\$ Billions)	New Sales/ Business Referred
1997*	3.0	2.7	.9 X
1998	2.4	4.0	1.6 X
1999	1.2	3.9	3.3 X

\* Three months - from August 1/97 to October 31/97

16

Since the latter part of 1997, we've had an active referral program in place -- referring business to other groups in the organization -- mutual funds, full-service and discount brokerage, asset management and so on.

As you can see, we've had considerable success with our referral program and much of the "low hanging fruit" has been harvested. What's amazing is that for every dollar of business referred in 1999, we generated \$3.30 from outside the Group, i.e, from our competitors, up from 90 cents in 1997. We generated approximately C\$4 billion of new business in each of the last 2 years.



## Personal & Commercial Banking

### Increased Value in a Key Banking Package

- **What we knew in 1998:**
  - Customers who have packages remain a customer longer
  - Customers who have packages hold more products
- **Offering a package of “everyday banking” (Enhanced Royal Certified Service) to selected Borrowers & Builders would increase profitability through additional products being held and reduced attrition, while improving perception of “value for money”**
- **Promising results included:**
  - Highest lift among customers paying less than the package price
  - Reduced fees of some customers more than offset by increased fees of others
  - A 700 basis point increase in banking package penetration
  - RBC moved from #7 to #4 in “value for money” ranking (1999)
  - Incremental increases in RCS revenues by \$11 mm for 1999 over 1998 and a further \$5 mm for Q1/00 over Q1/99.

17

Here’s a real life example that demonstrates the power of this process, both in targeting customers, achieving sales and expanding relationships.

Royal Certified Service (RCS) is a very popular full-service banking package that we wanted to promote. We knew that customers who have packages remain a customer an average of 3 years longer and hold one-half more products, on average, than customers who do not

Using advanced modeling, we were able to construct a picture of customers most likely to purchase this comprehensive flat fee service.

Offering a package to selected Borrowers & Builders would increase profitability through additional products being held and reduced attrition, while improving those customers’ perception of “value for money.”

Promising results from this initiative included:

- a 700 basis point increase in banking package penetration,
- RBC moving from #7 to #4 in the “value for money” ranking in 1999, and
- RCS revenues increasing by \$11 mm for 1999 over 1998 and a further \$5 mm for Q1/00 over Q1/99.



## Personal & Commercial Banking

### More Positive Results

- **60% reduction in the time required to get our Direct Marketing out the door**
- **15% increase in the number of 'A' clients from 1996 to 1999**
- **Direct marketing efficiency continues to improve with 1999 actual 65% versus target of 83%**
- **1999 marketing revenue exceeded projections by 27%**
- **Customer satisfaction measures all up; RBC now top-ranked among the "Big 6"**

18

Some other positive successes of our relationship marketing program include:

- a 60% reduction in the time required to get our Direct Marketing out the door, as our customer information allow for a focussed marketing effort,
- a 15% increase in the number of "A" clients from 1996 to 1999,
- direct marketing efficiency continues to improve with a 1999 actual of 65% versus our target of 83%,
- 1999 marketing revenue exceeded projections by 27%, and
- all of our customer satisfaction measures are up; with RBC now top-ranked among the "Big 6" Canadian banks

As you can see, we have had considerable success over the past couple of years with our relationship marketing program.

Thank you for your time and now Peter and I are ready to take your questions.



## Forward looking statements

This presentation may contain certain forward looking statements with respect to the Canadian economy, Royal Bank's financial condition, results of operations, and strategies and objectives for the coming year(s). By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward looking statements will not be achieved. Royal Bank cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements. These factors include, but are not limited to, changes in Canadian and/or global economic conditions including fluctuations in currencies, interest rates and inflation, regulatory developments, technological changes, the effects of competition in the geographic and business areas where the bank operates. Royal Bank cautions that the foregoing list of important factors is not exhaustive; when relying on forward looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and events.