THE GLOBE AND MAIL

Reimagining RBC: How Canada's biggest bank plans to face the threat of digital disruption

JAMES BRADSHAW BANKING REPORTER

TIM KILADZE

PUBLISHED JULY 26 2019

Top executives at Royal Bank of Canada were feeling pretty confident in 2016 that a new retail strategy they were crafting would be groundbreaking.

Their plan, dubbed Vision 2025, would reshape the way they approached retail banking. A decade out, RBC imagined acquiring customers in bold new ways, including starting businesses that had very little to do with banking but would attract entrepreneurs and new immigrants. The bank also planned to rely more on digital apps to handle simple transactions – and to glean insights about client behaviour.

Then they landed in China.

On a reconnaissance trip, the executives were confronted with a cluster of digital behemoths such as WeChat already touching every corner of a consumer's life. The popular messaging app lets users make payments and money transfers, book flights, hail a ride-sharing car or order food delivery, all from a mobile phone. From each of these services, WeChat learns more about its consumers' lives in an era when customer data – once a domain in which big banks held a significant advantage – are increasingly valuable.

"As we met with Alibaba and the large digital firms there, [we realized] they're already three years down this path," recalls Neil McLaughlin, RBC's head of personal and commercial banking. The harsh truth about RBC's strategy to embed itself more deeply in all aspects of a customer's digital life was laid bare: "This isn't us innovating, this is us coming to the same conclusion that another market already got to."

Even more terrifying, he adds, was the pace of change. Chinese digital giants seemed to be moving five times faster than RBC.

For Canada's largest bank, this raised the prospect of an existential threat. Retail banking is a profit machine for RBC, delivering nearly half of last year's profit.

In Canada, it can seem as though the banks are too big to disrupt – they appear to have neutralized the initial threats from financial-technology companies, or fintechs, and weathered the first forays into financial services by Silicon Valley giants. Apple Pay, for instance, has been slow to catch on.

But RBC is still focused on addressing the threat, because it isn't going away. As the bank celebrated its 150th anniversary in June, chief executive Dave McKay and Mr. McLaughlin spoke to The Globe and Mail about the challenges ahead, as well as their vision for what the bank, and the industry, might look like in 2035.



RBC's CEO Dave McKay (left) and head of personal and commercial banking Neil McLaughlin at RBC's offices on Queens Quay in Toronto on June 21, 2019.

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"We're reimagining the role we play in a client's life," Mr. McKay said. "Because that role has been kind of fixed for 150 years, it was pretty straightforward. But now … barriers are breaking down between industries."

RBC executives are consumed with imagining how clients' habits might change as new technologies and tech companies transform how – and where – they spend their money. Why borrow from a bank to buy a car if, 10 years from now, Lyft offers a subscription service that meets most driving needs?

Then there is the “open banking” movement. The Canadian government is currently weighing new rules that make it easier for clients to move all their account info and data to startup financial institutions.

“Executives are rightly nervous,” said Paul Battista, the head of Ernst & Young’s Canadian financial-services consulting practice. “There is a lot of fundamental change going on right now … and it will be profound when it hits.”

Rising threats

One of the first things RBC tackled when revamping its retail-banking strategy was customer acquisition. For much of its history, banks pursued clients using traditional sales tactics, such as mailing millions of credit-card offers directly to Canadian homes or relying on branches to serve as large nets. Once clients walked in, staff could offer a variety of financial products.

In a digital world, signals of what’s going on in customers’ lives and where they’ll spend their money are increasingly showing elsewhere – on social media, through search engines and from online purchases. Although banks still gather a fair amount of information through transaction data, it is often not as detailed as data collected by tech companies. A credit-card statement might show a purchase from Amazon.com, but not what was purchased. In that instance, Amazon can gather far more intimate portraits of a customer’s intentions.

So the bank launched RBC Ventures in 2018, a startup accelerator of sorts whose businesses are designed to reach clients long before they consider a banking product. For instance, instead of advertising small-business loans, the bank built a new digital business in-house called Ownr that walks the user through all the steps necessary to set up a company – hoping that, eventually, the customer will borrow from RBC. Another app, called Arrive, provides step-by-step guides to help new immigrants get set up in Canada, giving the bank a way to reach prospective customers as soon as they touch down in the country.

That was just Step 1. RBC’s leaders are now working on a new strategy, dubbed Vision 2035, and no question is off limits.

“What does the consumer balance sheet look like [in 15 years]?" Mr. McKay wonders. Could the traditional approach that led RBC to accumulate $1.38-trillion in assets become less relevant – or even a liability?

"I don’t know. I don’t have an answer for you,” Mr. McKay said.

RBC’s leaders are also trying to anticipate the next wave of disruption. For one, as technology breaks down barriers between industries, Mr. McKay expects more customers may ask home voice assistants built by Apple, Amazon or Google, “What’s the best mortgage rate?” The machine might spit out a single search result and access to that customer could be sold by the voice-assistant maker to the highest bidder.

“How terrifying is that?” Mr. McKay said.

Meanwhile, Canada’s federal government is currently weighing the merits of so-called open banking. The movement, already established in Britain, is essentially a set of rules that will allow consumers to share and move their banking data from one provider to another, often with a swipe of a finger.

If it unfolds as expected, it could increase customer switching rates between financial institutions, loosening the grip incumbent banks hold on their customers – and that’s the last thing RBC, the largest of the Canadian banks, would want.

How RBC is responding

Risk-averse banks may seem ripe for disruption, but RBC contends banking is not simply about transactions and that its track record is hugely valuable.

“An awful lot of retail customer decision-making is emotional, not logical," Mr. McLaughlin said. Customers will subconsciously think, “I have an affinity for this brand, and I trust them.”

To better understand the way clients think, RBC began hiring ethnographers a couple of years ago. Ethnographers are trained to observe people in everyday situations and RBC sends them to visit customers’ homes and employees’ workplaces to explore the different relationships people have with money. At a basic level, Mr. McLaughlin explained, ethnographers “help what is a very logical industry think through, ‘Here’s how we need to speak and interact with customers.'"



RBC’s leaders are also trying to anticipate the next wave of disruption to banking.

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The exercise has reinforced how vital brand loyalty is to RBC. So the bank is trying to expand the appeal of the banking bundle, adding on discounts, rebates, loyalty points and special offers to create as many reasons as possible to dissuade customers from taking any part of their business elsewhere.

RBC recently partnered with Petro-Canada to share some customer data, persuading clients to link their cards from the two companies by offering discounts at the gas pump. The bank also launched Ampli, a proprietary loyalty program in tandem with WestJet Airlines Ltd. and major Canadian retailers, that will offer perks and travel rewards designed to tie customers ever more closely to the bank, and aggregate their data.

The goal is to make customers question whether the grass really is greener at rival institutions, especially at fintech startups. "Are they going to offer cents off at the [gas] pump? Do they give me a discount on my mortgage?” Mr. McKay said.

At the same time, RBC is trying to expand the scope of what a customer does through their bank. Traditionally, a bank served a prospective homeowner with products, such as mortgages and lines of credit. RBC’s mission is to solve as many “pain points” associated with housing as possible, and “not just financing,” Mr. McKay said.

For instance, if RBC can refer a borrower taking out a mortgage to a real estate listings site, a moving company and a contractor to do renovations in the span of a few clicks, RBC will seem more indispensable to that client. “That’s where opportunity lies for banks and non-banks,” said Geoff Rush, a partner at KPMG Canada.

However, it requires rethinking the way these relationships are structured. “The interesting challenge is, in that end-to-end experience, who owns the customer?” Mr. Rush added.

Amid all this change, RBC’s leaders also plan to make full use of the bank’s size. Banks are already spending billions of dollars annually on new technology systems – RBC spends well in excess of $3-billion each year. But because it has annual revenues in excess of $42-billion, which leads all Canadian banks, it can spread those costs more widely across its business.

Last year, CIBC World Markets analyst Robert Sedran summed up RBC’s approach in two words: “Weaponizing scale.” In a note to clients, he wrote: “Not only does this bank have an advantage on the sector, that gap is growing.”

The major question is what all of RBC’s investments will add up to. Two startups tied to RBC Ventures – the financial-advice app Finfit and wellness app Carrot Rewards – have already shut down, proving how hard it can be to build a digital following and to run digital businesses. And some of that cash spent on digital experiments could have been returned to shareholders or poured back into improving existing businesses.

But RBC’s executives say they can’t risk giving digital challengers even the smallest chance to pluck away products and services that make banks valuable to their clients.

“We never want to give a customer a reason to go shop across the street," Mr. McLaughlin said.

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