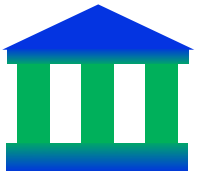
“WORLD-CLASS” RETAIL BANKING

“Retail Banking Assessment Methodology”

“REAM”



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PURPOSE OF THIS PAPER

This paper aims to help banks upgrade their retail banking business up to the "world-class" levels achieved by the best banks. It describes a methodology developed, tested and proven by Batt-Consulting in conjunction with the top retail bankers and other senior executives of banking operations in over 35 countries in Europe, the Middle East, North and South Asia, South East Asia and Africa.

We refer to this methodology as "REAM" - our **Re**tail Banking **A**ssessment **M**ethodology.

Board members, chief executives and other top bankers particularly appreciate REAM. It allows them to:

- *Assess their Bank's retail banking strategy, and those of individual units, against best practice standards*
- *Pinpoint the improvements that are needed to make the Bank's retail banking "world-class"*
- *Ensure that strategy is translated into practical, correctly-focused action plans and budgets*
- *Upgrade the Bank's strategic planning, action planning & budgeting processes in support of retail banking*
- *Increase the probability that strategy will lead to higher retail banking profitability at acceptable risk*

REAM is widely applicable and it works well in most types of bank:

- *Banks which already have a big, mass-market retail business and which want to improve progress*
- *Banks which have recently entered retail banking and which want to set clear development priorities*
- *Retail banks in both advanced industrialised and emerging markets*
- *Banks of all sizes and most types, including domestic, international and global banks active in retail banking*
- *Other providers of retail financial services including mortgage and consumer finance companies*

REAM is quick, objective and inexpensive to apply:

- *Quick - 2 to 3 weeks is normally sufficient*
- *Objective - the standards used to assess retail banking have been agreed with leading retail banks*
- *Inexpensive - only a few consultants are involved for a short time*

Major contributions to resolving key issues are made by REAM:

MAIN ISSUES	HOW REAM HELPS
WHICH RETAIL BANKING STRATEGY TO FOLLOW?	Defines "world-class" (and lesser) levels for retail banking marketing, selling, credit, organisation, processes, HR and IT Provides a clear framework for assessing the Bank's existing retail banking approaches against "world-class" standards Assesses the Bank's current strategy, structures, methods and capabilities in all key aspects of retail banking Sets priorities for reaching "world-class" levels of retail banking and key targets to be achieved, and suggests a timetable for strengthening retail banking
HOW TO REORGANISE FOR RETAIL BANKING?	Shows how the Bank can improve its overall organisation and branch network structure in support of retail banking Proposes how existing branches could be segmented and reorganised around key functions - selling, credit and operations - to ensure superior retail banking Suggests how modern selling and delivery channels for retail banking could be added and exploited in support of the main branch network: Point-of-Sale offices, mobile sales teams, tele-selling, website selling and direct mailing Proposes how the management of risks and relationships with key retail market segments should be strengthened Pinpoints opportunities to transfer best practice across the Bank, at home and abroad, and its subsidiary companies
HOW TO UPGRADE KEY MANAGEMENT PROCESSES FOR RETAIL BANKING?	Explains how credit scoring, and other credit management processes, should be used to ensure retail banking profitability, after bad debts, is kept high Shows how leading retail banks adapt their planning, budgeting and financial control systems so they are relevant to retail banking Defines retail banking training needs and generates material for training

REAM is particularly recommended to banks that are keen to grow their retail banking market share and profitability.

THE SPECIAL CHALLENGES OF RETAIL BANKING

"World-class" retail banks ensure that their strategies lead to significant and sustainable competitive advantage in many ways. They nearly always enjoy high profitability and rapid growth. By contrast, many banks make little money from retail banking and some even suffer from major losses.

Running retail banking profitably is often a great challenge. There are several reasons. On average, each individual retail customer only generates a small profit for the bank. Many customers are actually unprofitable. Special, highly cost-effective approaches are essential and some of these may be unfamiliar to banks that are new to retail banking.

Small Average Profits per Customer

Many of the challenges of running retail banking profitably arise from one simple fact: on average, each individual retail customer only generates a small profit for a bank. This annual profit is often as little as US$ 20 - 40 per customer, even smaller in some banks. This means small mistakes can make the whole business unprofitable, as many banks have discovered to their cost. All aspects of the business must be managed well:

- The cost of acquiring new customers must be kept low. Modern non-branch sales channels are essential
- Cross-selling of services needs to be high. Selling just one or two basic products is seldom sufficient
- Credit decisions must be accurate, fast and cheap to take. Credit scoring is the way to meet these requirements
- Service quality levels need to be satisfactory but costs must be kept low. Too much quality results in losses
- Transaction processing must take advantage of economies-of-scale. Centralised processing is advantageous

Corporate banking is very different. In this, the most critical challenge is to take the right credit decisions. Mistakes in just a few cases can wipe out a bank's annual profits, or worse.

The differences between retail and corporate banking have posed real difficulties for banks that have, historically, focused on corporate banking but which have entered the retail market. Many started by running their retail banking in the same way as they run corporate banking. This approach is usually unsuccessful and sometimes disastrous. Just two examples illustrate the challenge:

- If a credit committee is involved in taking small retail loan decisions, and if it takes too much time, the bank has lost money even before it disburses the loan proceeds!
- If a branch or relationship manager treats a small retail customer to lunch, they will have "eaten" the bank's profit from the relationship even before they have coffee!

Large Proportion of Loss-Making Customers

Part of the reason why the average retail customer only generates a small profit per year is that in most banks a large proportion of customers are actually unprofitable. It is quite common to find that 60% or more of retail customers are unprofitable. One category of unprofitable customers are those that only use one or two bank services, maintain a low average deposit balance and force the bank to incur high transaction costs. Typical of these customers are those who have their salaries paid monthly into their bank and then draw out small amounts during frequent visits to their branch and/or by writing numerous small cheques. Special strategies are needed to transform these, and other unprofitable, customers into profitability, for example:

- Up-selling, for example: insisting that inactive customers use more services or leave the bank, and moving unprofitable debit card customers to credit cards
- Changing Channels, for example:
  - Shifting customers who make cash withdrawals at the branch counter to ATM's
  - Moving customers who pay bills at the counter to standing orders or direct debits
  - Transferring overdraft customers to credit card borrowing
  - Encouraging young, loss-making customers from branch banking to Internet banking
- Enforcing fees, commissions and charges, for example: insisting that branch managers charge fees when customers make many small counter cash withdrawals instead of using ATM's inside or outside the branch

Need for Special Approaches

"World-Class" retail banks use, and welcome, a range of special approaches that help to boost income, increase cost effectiveness, and allow strict credit risk management. Some example are:

- Segmented branches: Customers in different market segments have different requirements in terms of service range, service quality, prices and the bank people they deal with. Successful differentiation is seldom possible in traditional, general purpose, non-segmented branches. Moreover, these traditional branches are expensive
- Point-of-sales (POS) offices: These smaller branches are much more focused on wining new customers and cross-selling more services to all customers. They are also much cheaper to set up and operate. Because of this, a bank can have more of them and its geographic coverage of the retail can be extended
- Mobile, or direct sales forces: traditional branches are often bad at selling. By contrast, mobile sales forces are much more sales-intensive and cheaper to establish … and they are paid well only if results are good
- Credit scoring: In some countries, credit scoring has been used for 40+ years. The vast majority of retail lending decisions are automated, fast and reliable. But in some countries, banks do not use scoring with the result that retail lending is slow, expensive and unreliable. It is doubtful that retail banking can be profitable without scoring

In some banks these new approaches represent a formidable challenge to the traditional ways of doing business. Lack of familiarity can slow down progress and damage performance. Opposition can be intense.

TYPICAL RETAIL BANKING ISSUES

Retail banking often forces banks to answer many questions about overall bank strategy, marketing strategy, selling & cross-selling, relationship management, risk management, organisation structure, HR management & IT systems:

ILLUSTRATIVE RETAIL BANKING ISSUES

Major Strategy Issues

1. **Strategic Dependence:** To what extent should the Bank increase, maintain or decrease dependence on retail banking, given market trends, profitability after bad debts, and regulatory capital allocations affecting the whole portfolio of Bank businesses?
2. **Capital Allocation:** How should the Bank redeploy its capital if it decides to increase its retail banking? For example, should it reduce its corporate banking business or boost treasury funding? How should securitization opportunities be exploited?
3. **Internet Banking:** Should retail internet banking be introduced or strengthened? Should the aim be to augment or replace branch-based retail banking? If progressive replacement is the aim, what should be the implementation timetable?

Marketing Strategy Issues

1. **Sub-Segment Focus:** Which sub-segments of the retail market should be targeted in view of their attractiveness (size, growth, profitability and risk) and the Bank's competitive strength in each of them?
2. **Product Priorities:** Which services should be developed and sold to each sub-segment, including deposit, mortgage, credit card, consumer finance, payment, investment, insurance and other services?
3. **Delivery Channels:** How should the Bank reorganise its branches for retail sales and service? Should they be segmented? Should retail point-of-sale (POS) offices be added? If so, how many and where? Which internet banking services should be provided? How should ATM strategy evolve?
4. **Service Quality:** What quality service levels should be applied to satisfy customers yet keep costs reasonable? How should service quality success be measured and rewarded?
5. **Pricing Policies:** What pricing policies should be applied to each product to ensure a good ROE (allowing for opportunity costs, operating costs, bad debts and competitive dominance) and to reflect service levels provided?

Selling & Cross-Selling Issues

1. **Sales Forces:** What types and sizes of sales forces are needed to ensure high intensity selling to retail customers? Where should mobile sales teams be located and how should they work in cooperation with branches and other sales channels?
2. **Sales Channels:** Which modern selling channels and methods should be exploited: for example, tele-selling from outbound call centres, selling via websites, direct mailing and mass e-mailing, selling via SMS messaging?
3. **Selling Time:** How should the time devoted to selling & cross-selling be increased up to "world-class" levels? Which additional selling channels, jobs and methods should be established?
4. **Sales Training & Incentives:** What training & development, targeting and performance measurement, and sales incentive schemes should be introduced to stimulate more intensive selling efforts?

Credit and Other Risk Management Issues

1. **Retail Credit Policy:** How should retail credit policy be improved? What subjects should be covered by policy and how should they be developed? How can credit policy be harmonised with marketing strategy so that they support each other?
2. **Credit Scoring:** How should credit scoring be developed, tested, introduced and used for loan applications appraisal, risk adjusted pricing, limit setting and selection of advertising schemes?
3. **Other Credit Processes:** How should retail loan processing, early warning systems, remedial management, recoveries, portfolio monitoring and management be strengthened?
4. **Other Risk Management:** How should market risk and operating risk policies for the retail segment be improved?

Organisation Structure Issues

1. **Overall Bank Organisation:** How should the bank's overall structure, including the branch network(s), be adjusted to support the profitable growth of retail banking? How should the roles of branches and other channels be adapted?
2. **Organisation of Retail Banking:** Should the Bank organise its retail banking around products, key sub-segments of the retail market, or should it adopt a functional structure (sales, risk and operations), or a combined approach?
3. **Specialised Cross-Selling:** What organisational arrangements and incentives are needed to ensure high cross-selling of the specialised services of other divisions and subsidiary companies, for example, insurance services and investment products?

Human Resources and Information Technology Issues

1. **Training:** What training is needed for retail bankers about regulations, products, selling, credit management and IT? How much should be invested in training? How should the training be procured?
2. **Appraisal & Reward Systems:** How should retail bankers be assessed and rewarded so that cross-selling, market shares and profitability are all improved?
3. **IT Investment:** How much money should be invested in retail banking IT systems? When should the investments be made? What financial and intangible benefits should be targeted?
4. **IT Applications:** Which of the many possible retail banking computer applications should be installed? Should these be built or bought, for example, retail bank budgeting & control, Internet banking, sales support, and credit management systems?

REAM provides valuable help in answering these and other important questions.

OVERVIEW OF THE REAM METHODOLOGY

REAM is a quick and comprehensive methodology for comparing a bank's retail banking approaches to those found in the world's best banks and for agreeing development priorities, action plans and targets.

A Quick Way to Set Development Priorities

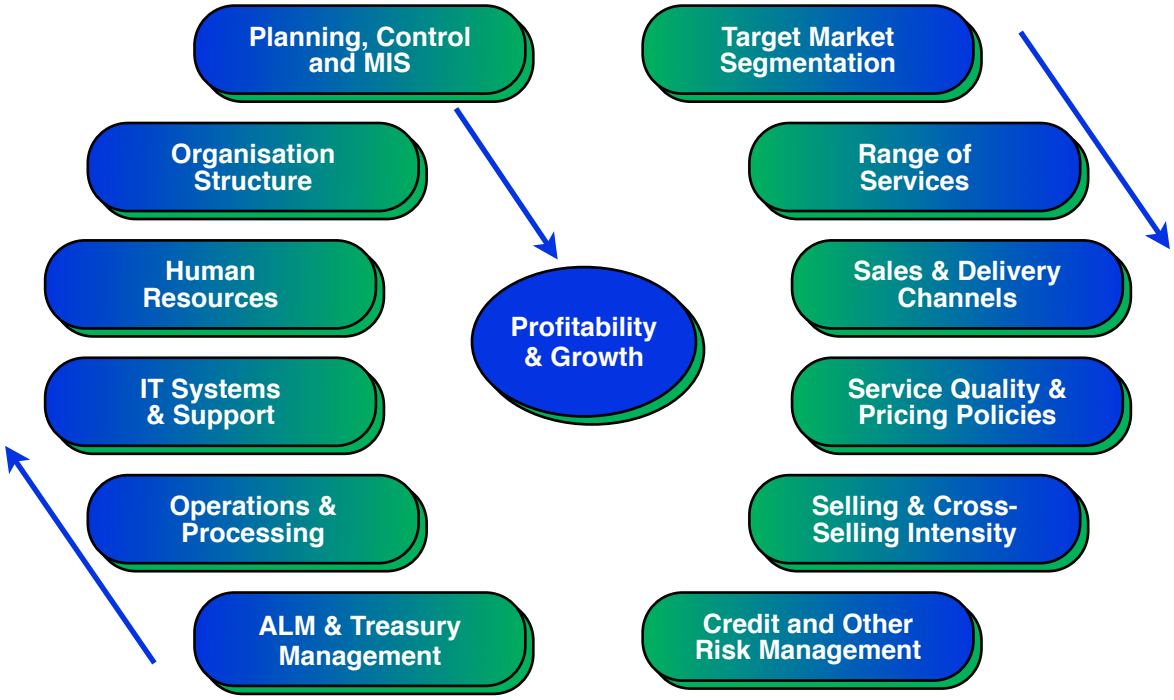
REAM usually only takes 2 or 3 weeks to apply to a bank:

1. Before REAM starts, the Bank collects key information that is specified by Batt-Consulting in the REAM Data Collection Pack. This information is used later in the REAM exercise
2. A REAM Team of senior Bank executives is formed to work with our consultants at the 3-day REAM Workshop which is the "heart" of the REAM exercise
3. Before the REAM Workshop, Batt-Consulting explains "world-class" standards of retail banking to the REAM Team at the REAM Seminar which normally last 1, 2 or 3 days
4. At the 3-day REAM Workshop, the REAM Team assess all the main elements of the Bank's retail banking, and over 200 sub-elements, against the standards applied in leading banks
5. During discussions at the REAM Workshop, the REAM Team gives each sub-element of retail banking a score that reflects its stage of development
6. After all sub-elements have been scored, scores for the main elements of retail banking, and the Bank's retail banking overall, are produced and the action needed to reach "world-class" standards agreed
7. After the REAM Workshop, Batt-Consulting drafts the REAM Report for agreement with the REAM Team and then recommendations are made to top management

The REAM Scores give a reliable measure of how developed a bank's retail banking is, as measured against the standards of "world-class" banks. Most importantly, REAM shows where the Bank's retail banking is weak and the action needed for it to be made "world-class".

A Comprehensive Assessment

REAM examines all important elements of retail banking:



These elements are broken down into important sub-elements – over 200 in total. Examples are:

1. **Target Market Segmentation** determines how accurately the retail banking market has been sub-segmented and dimensioned, for example, in terms of customers' income, wealth, age and occupation
2. **Range of Services** assesses the Bank's retail banking product range against the requirements of customers, competitors' product ranges and those offered by leading banks around the world
3. **Sales & Delivery Channels** explores progress in exploiting modern channels such as segmented branches, POS offices, mobile sales teams, tele-selling, internet banking, website selling and direct mailing
4. **Service Quality & Pricing Policies** evaluates the bank's approach to service quality management and how well service quality levels are reflected in pricing policies
5. **Selling & Cross-Selling Intensity** measures and assesses the amount of time spent selling across the Bank's retail banking business and the cross-selling levels being achieved
6. **Credit and Other Risk Management** ascertains how well credit scoring and other modern retail banking credit processes are being used, and their cost-effectiveness
7. **ALM & Treasury Management** examines the adequacy of retail loan funding and the management of the basis risk and market risks that are arising from the Bank's retail banking business
8. **Operations & Processing** assesses the degree of centralisation of retail banking operations, and the extent to which the Bank knows its operating costs and is achieving cost-economies-of-scale
9. **IT Systems & Support** challenges the level of investment in retail banking IT systems and the range of IT applications in operation and being procured
10. **Human Resources** challenges the level, quality, cost and motivation of the Bank's retail banking personnel and adequacy of training provided to them
11. **Organisation Structure** proposes how the whole Bank, the branch network and individual branches should be reorganised for superior retail banking, and how the organisation structure should evolve in the years ahead
12. **Planning, Control & MIS** assesses the Bank's retail banking planning, budgeting and control methods against those used by leading retail banks
13. **Profitability & Growth** examines how well retail banking market shares, profits and profitability are understood and how fast they are are growing

An Objective Assessment Against "World-Class" Standards

For each element and sub-element of strategy, REAM defines 4 phases of development that have been agreed with leading banks around the world:

PHASE OF DEVELOPMENT	DESCRIPTION OF PHASE	IMPLICATIONS FOR PERFORMANCE
Phase 4: "World-Class"	The excellent level reached by the world's best banks	Profitability, after bad debts, and growth are likely to be superior
Phase 3: "Established"	An acceptable and common level of development but not "world-class"	Profitability and growth may not be high but large losses are unlikely
Phase 2: "Developing"	An unacceptable level at which to operate except for short periods	The chance of poor growth and/or significant losses is high
Phase 1: "Embryonic"	An unacceptable, dangerous, even primitive level at which to operate	The probability of large losses, even failure, is very high

Using the REAM framework and definitions, a joint REAM Team of senior executives of the Bank and our consultants assesses the Bank's capabilities in each of the 200+ sub-elements of retail banking. Each sub-element and element is scored 1 to 4 to indicate its phase of development:

- Score 1 = "Embryonic"
- Score 2 = "Developing"
- Score 3 = "Established"
- Score 4 = "World-Class"

Typically, the Bank discovers that in some areas it is already "world-class" but in others it has scope to improve. Sometimes, urgent improvements are needed without which the Bank would remain in peril. REAM readily reveals these priorities.

- After the assessments have been made, the results are fed into the REAM Model that summarises the Bank's current capabilities vis-à-vis "world-class" standards
- Summaries are provided for the Bank's retail banking, overall, and all the elements and sub-elements therein. These are provided for the whole Bank and those individual units examined, i.e. individual divisions, regions, countries and subsidiary companies
- The results are presented pictorially as illustrated in the next section
- Based on the REAM assessments, the REAM Team defines development priorities, action plans and targets
- The REAM Team then presents its assessments and recommendations to top management
- After agreement with top management, implementation begins

Some banks then reapply REAM every 6 or 12 months to check implementation progress and initiate corrective action. This practice we encourage.

ILLUSTRATIVE CASE HISTORY

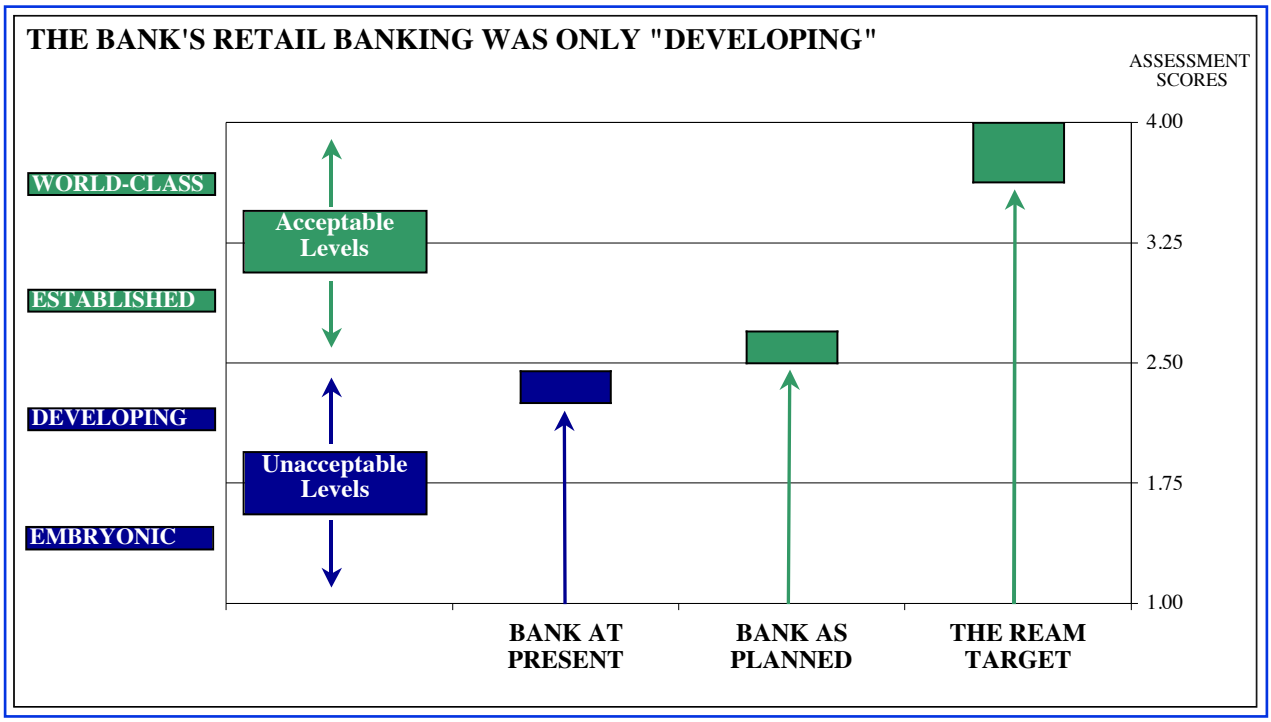
This case relates to a medium-sized, mainly domestic, bank with small operations in both industrialised and emerging markets abroad. The Bank was active in retail, SME, commercial and corporate banking. In the past, most profits came from the corporate sector but the profitability of this had been dropping for several years.

Strategically, the Bank had decided to switch the emphasis to retail banking. To ensure fast profitable growth in this segment, the CEO and his top colleagues were keen to make sure that world-class retail banking strategies, structures and processes were in operation within 12 months.

To assess the adequacy of the Bank's existing retail banking, and to identify improvement priorities, the Bank applied REAM with the assistance of our consultants. The whole exercise took 3 weeks and involved 15 of the Bank's most senior executives working together at a the 3-day REAM Workshop.

Overall Assessment of the Bank's Retail Banking

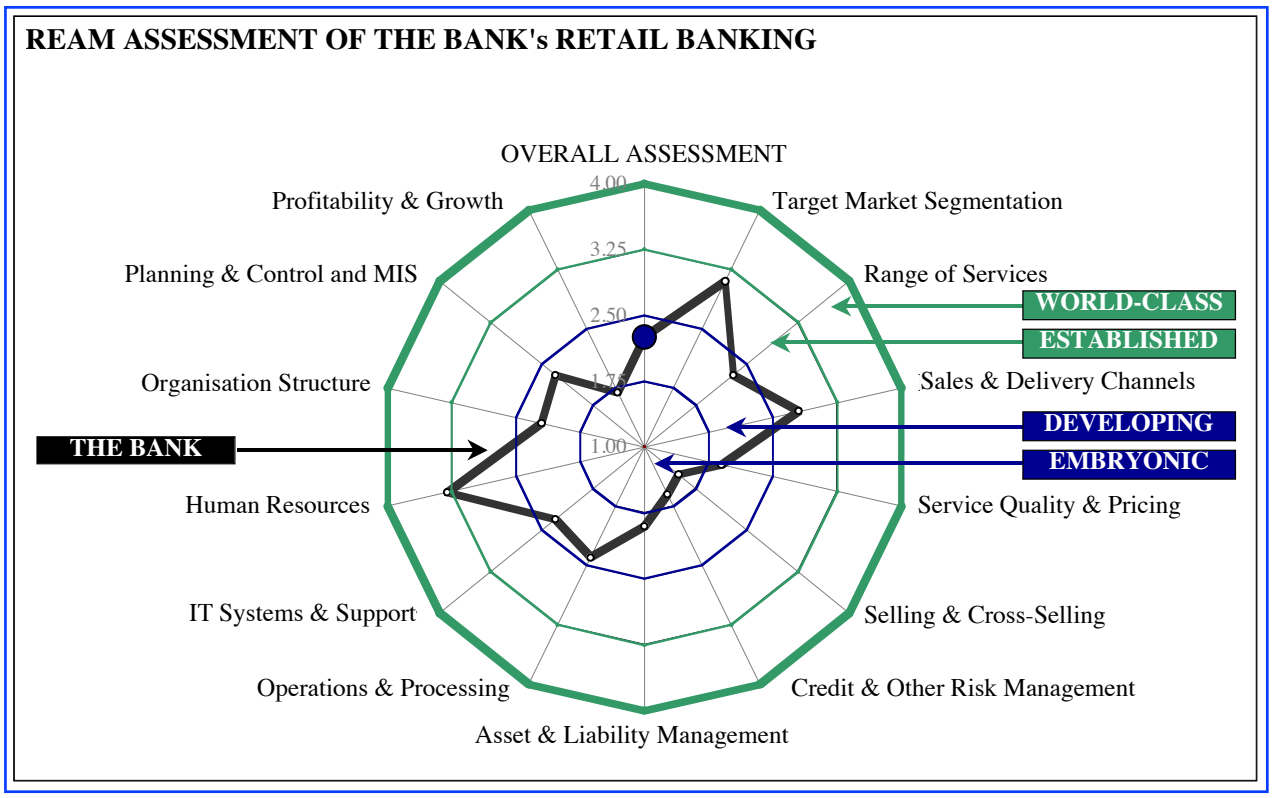
REAM showed that across the whole Bank retail banking was only Phase 2, "Developing":



Existing plans to improve were not very ambitious and unlikely to achieve the necessary "world-class" standards.

Assessment of the Main Elements of Retail Banking

REAM also showed which aspects of retail banking were strong and weak compared to the best practice strategies, structures and processes found in the world's leading retail banking operations:



The preceding exhibit shows that the Bank's strongest points were:

- **Human Resources** were Phase 4, "World-Class". Retail banking personnel were well trained, highly motivated and not too expensive
- **Target Market Segmentation** was Phase 3, "Established". The Bank understood the retail market and the performance of its sub-segments - the result of extensive research and analysis
- **Delivery Channels** were Phase 3, "Established". The branch network allowed reasonably good coverage of the retail market but segmented branches, more small point-of-sale offices and electronic channels were needed

By contrast, the Bank needed to make major improvements in other areas, for example:

- **Selling & Cross-Selling** was weak and only in Phase 1, "Embryonic". Selling time was low and mobile sales teams under-powered. Without improvements, the Bank was most unlikely to achieve its ambition for fast growth
- **Credit & Other Risk Management** was also only Phase 1, "Embryonic". The Bank needed to install the full range of modern retail credit management methods, especially better credit scoring systems. Without these, the risk of credit loss was severe, especially during fast credit growth
- **Service Quality and Pricing**: service quality management was Phase 2, "Developing". Pricing policies did not reflect service quality levels provided. Loan prices were not risk adjusted

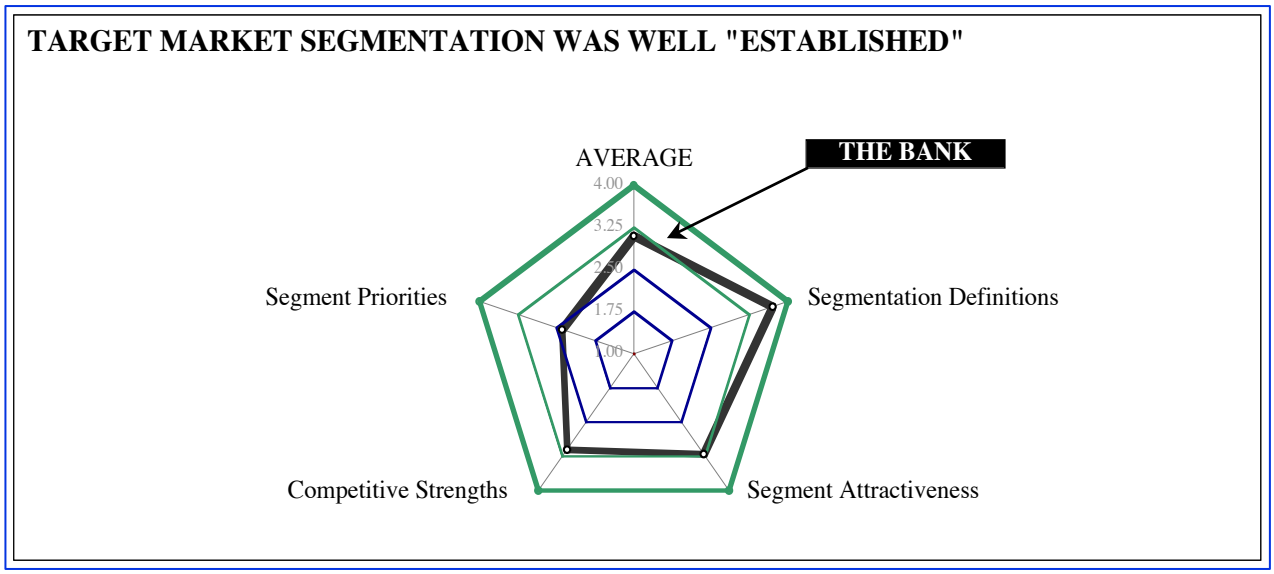
These weaknesses outweighed the Bank's strengths with the result that the growth and profitability of retail banking were low, erratic and diluting overall performance of the Bank. Without big changes, it was clear that the Bank would be unlikely to develop a large and profitable retail banking business.

Assessment of Target Market Segmentation

As noted, the Bank's target market segmentation was well "Established".

It had a clearly defined framework of sub-segments for expressing business development priorities in the retail market. The attractiveness of sub-segments, and the Bank's competitive strengths and weaknesses in each of them, were well understood.

However, segment development priorities were not always being followed in practice, mainly because personnel were keen to keep all business irrespective of its profitability. They were driven by "size" not ROE:

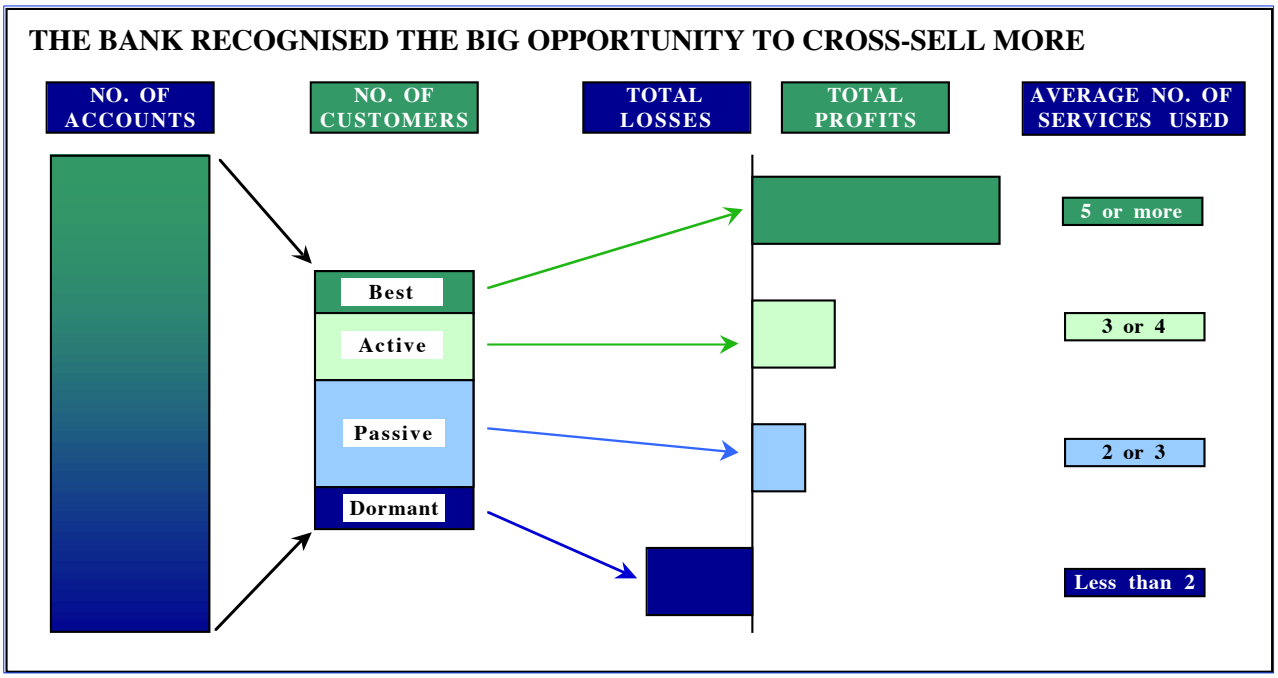


The Bank understood its retail customer base in detail. It was well aware that a small number of "good" customers generated the majority of retail banking profits, largely the result of high cross-selling to these customers.

To defend these key relationships, special plans were in place. These involved service quality improvements, selective price cuts and more disciplined customer calling programmes.

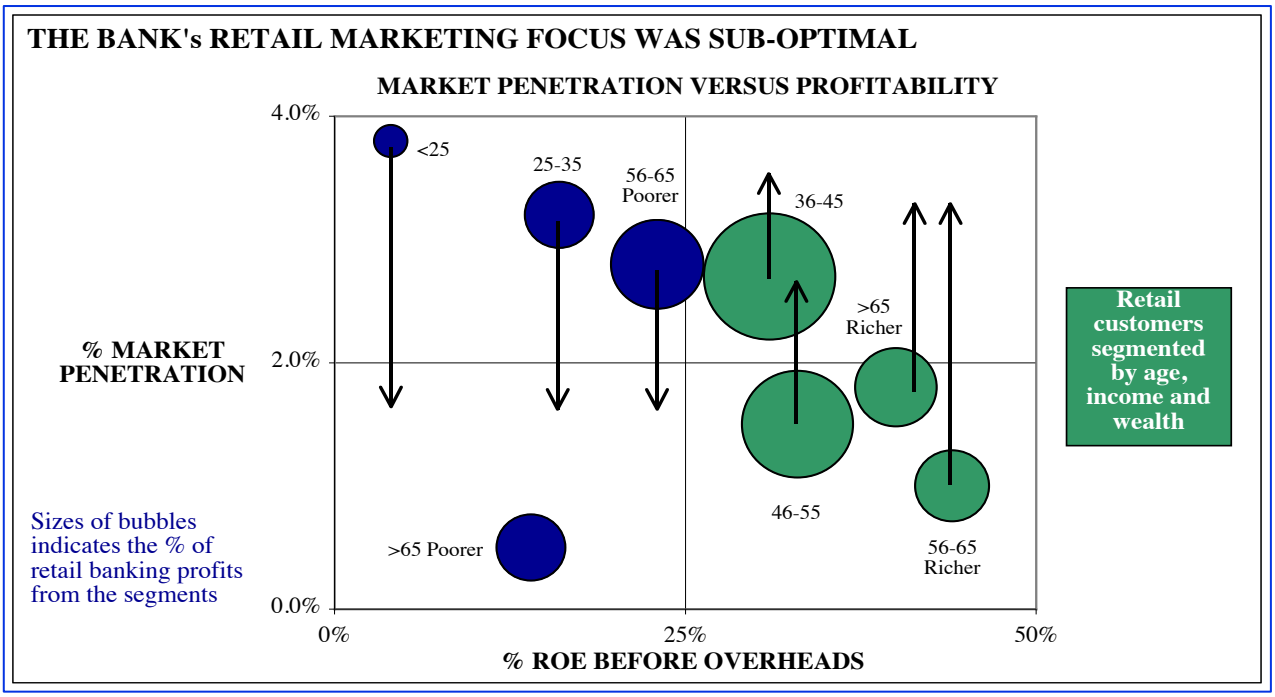
The Bank also recognised that it had a big opportunity to cross-sell more services to other customers and that success would drive up market shares, profits and profitability.

Management was also clear that it needed to discard some "dormant" customers and activate others. For the latter, more cost-effective delivery channels were key – more telephone and internet banking:



Assessment of Market Segment Focus

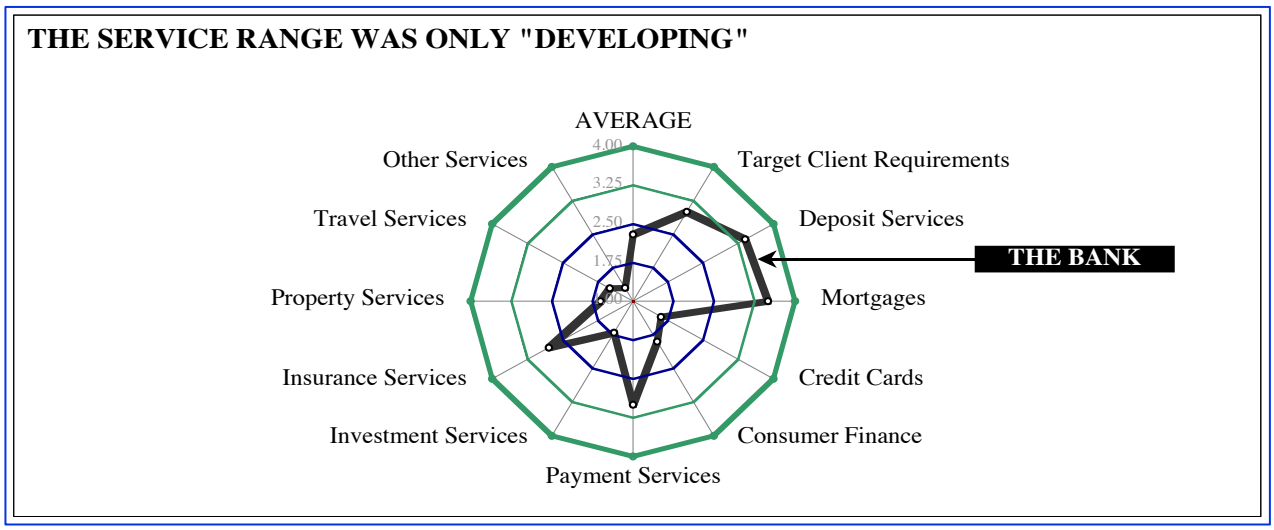
Following REAM, marketing strategy was refined and top management insisted on its implementation. Business was cut back in some sub-segments and expanded in others. In general, business with older and richer customers was increased faster than that with younger and poorer customers. To support this refocus, more emphasis was placed on special deposit, unsecured lending, investment and insurance services. A big push was made into issuing more credit cards and stimulating more credit card borrowing:



Assessment of Service Range

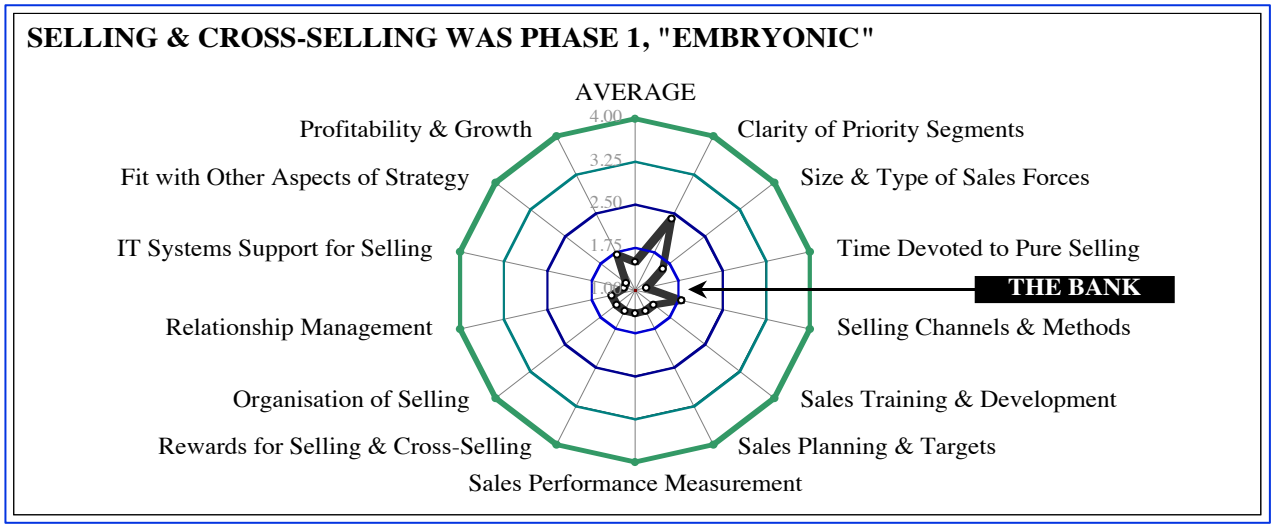
Overall, the Bank's retail service range was Phase 2, "Developing". Deposit and mortgage services were generally Phase 4, "World-Class", although there was scope to introduce "offset" mortgage services which are popular is some countries. Payments, including debit cards, and insurance services were Phase 3, "Established". However, there was a need to increase credit card outstandings and other consumer finance services. A wider range of investment products

was also needed. Extensive market research meant that the Bank understood fully the service requirements of target customers. From this, it was evident that there was scope to sell property-related, selected travel and other services:



Assessment of Selling & Cross-Selling

REAM showed that, despite having a clear understanding of the market and a reasonable range of services, a major impediment to progress was the Bank's poor selling & cross-selling in the retail market. Overall, this was still Phase 1, "Embryonic":



No aspect of selling was satisfactory. Sales forces were small and inert. Specifically:

- Only 5% of total time in the Bank was being devoted to true selling. This compared with the leaders who devote 25% or more. The Bank needed to increase its effective sales force by a factor of 5
- With a workforce of around 5,000 people, the Bank's effective sales force was the equivalent of 250 full-time people. Top management set a target of reaching 1,250 full-time equivalent people selling without recruiting more sales personnel
- The challenge was to create many more selling jobs and to fill them by moving personnel from excessive back office jobs after reengineering back office processes and retraining the personnel being moved

Immediately after REAM, action was taken to increase greatly the number of selling jobs and the time spent selling – to match the levels found in the best banks.

In addition, selling channels, methods, training and reward systems were shown by REAM to be underdeveloped. Mobile sales teams and sales training were expanded. Several product-related incentive schemes were introduced.

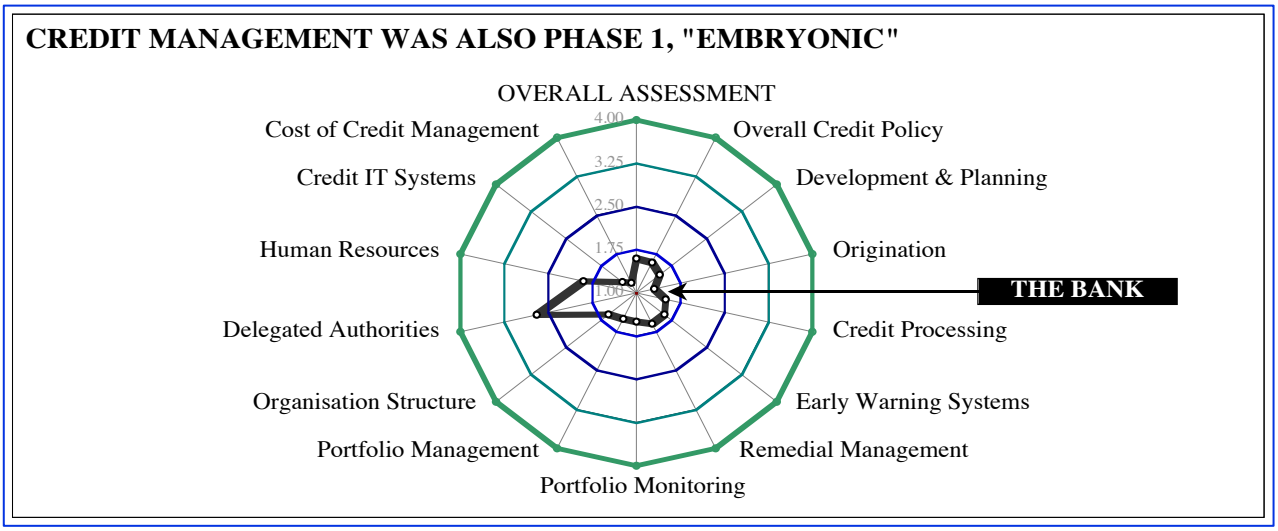
The organisation of retail banking diverted time away from selling and relationship management. Very little money was being invested in sales support systems. These deficiencies were also corrected.

Assessment of Retail Credit Risk Management

Retail credit risk management was as weak as selling and cross-selling. Overall, retail credit management was also in Phase 1, “Embryonic”. This meant that implementing the growth plans for retail credit would have been dangerous without major improvements to credit policy, processes and organisation structure. Retail credit management was strong in only one respect: most delegated authorities were clear, appropriate to the skills of people given authority, and seldom exceeded.

As the chart below shows, most other aspects of credit risk management were weak. Very seriously, the Bank had no comprehensive credit policy manual for the retail sector. Other weakness included:

- Few objective risk appraisal systems, particularly credit scoring, were in use
- Risk adjusted pricing was widely understood but not applied in practice
- Modern early warning systems, such as dynamic behavioural scoring, were lacking
- Remedial management & recoveries (collections) were underpowered with muddled objectives. They had not been separated. Staffing levels were inflexible. Power-dialling was not being used
- Credit portfolio monitoring systems were weak and very little senior management time was being spent on portfolio management
- The organisation of credit management was unsatisfactory, mainly because responsibilities for selling and credit management had not been clarified and separated. Staff had been starved of proper training and accreditation
- IT support for credit management was similarly low which had led to too much manual work, unacceptably high operating costs and poor credit management information



Main Action Taken after REAM

REAM revealed all the Bank’s strengths and weaknesses and allowed improvement priorities to be set objectively and quickly. Based on the results, action was taken to reach “world-class” levels of retail banking over a 12-month period. Most importantly, the Bank:

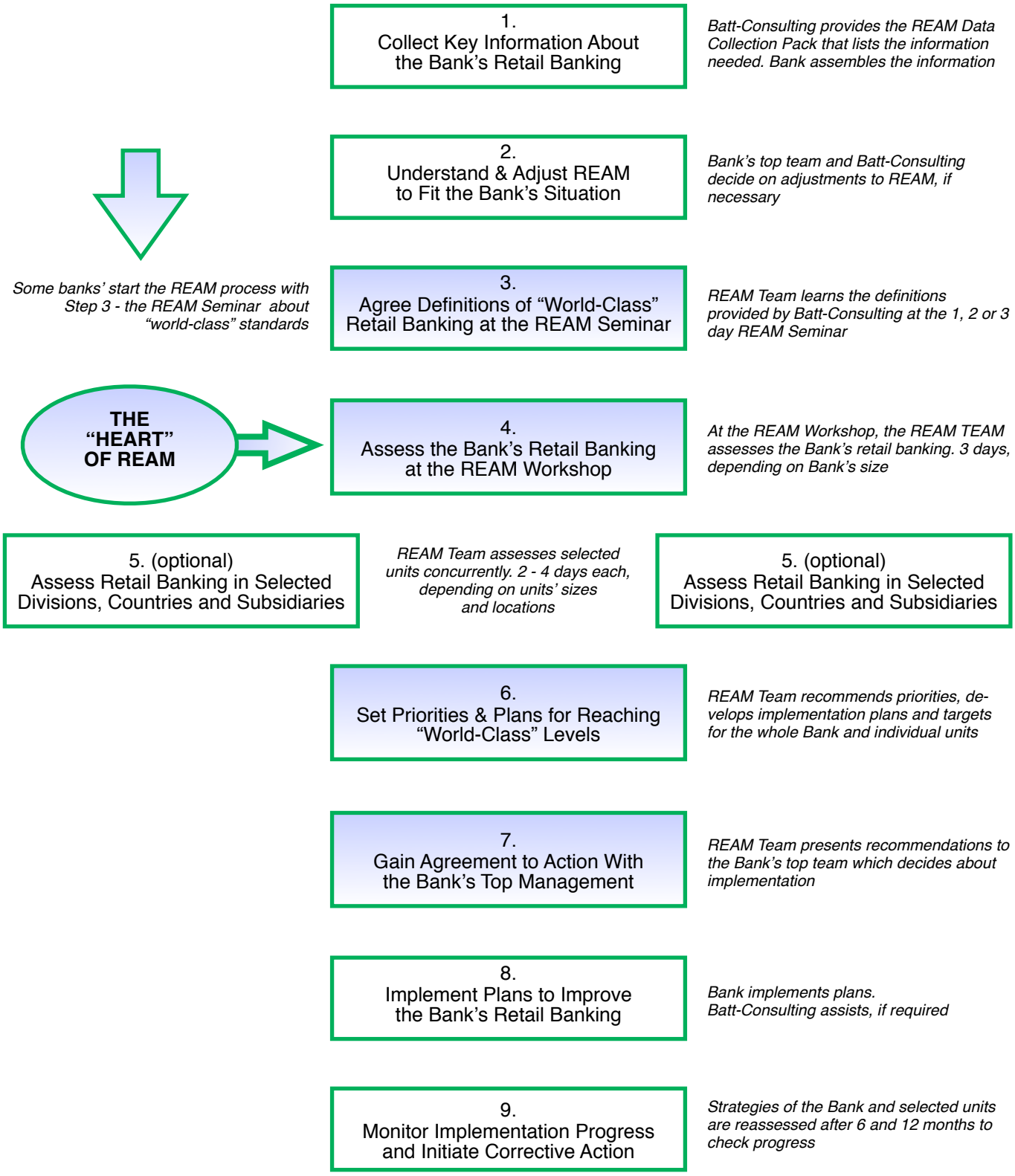
- Adjusted the marketing strategy for retail banking to focus more on richer and older customers
- Created hundreds of new selling jobs that were filled by moving personnel from back office jobs after processes and procedures had been reengineered
- Reorganised the Bank to boost the cross-selling of services, especially those of several subsidiaries that offered specialised products
- Invested heavily in upgrading credit policies, processes and related skills and IT systems
- Modernised sales planning & control methods, and reward systems

Today, the Bank is “world-class” in most aspects of retail banking. The business is growing rapidly and profitability (ROE) is high.

STEPS INVOLVED IN USING REAM

Use of REAM requires a short but intensive collaboration between the Bank and Batt-Consulting. Usually, 2 or 3 weeks are necessary. Nine steps are involved:

MAIN STEPS IN REAM



These steps are explained more fully in the following pages.

1. Collecting Key Information About the Bank's Retail Banking

Before REAM is applied, information about the Bank's existing retail banking is collected. This covers objectives, vision & mission statements; strategic and marketing plans; sales forces, sales plans and selling methods; ALM and treasury strategies; credit portfolios; organisational charts; HR, IT and other plans; budgets and management accounts.

Batt-Consulting specifies the information needed in the REAM Data Collection Pack. A manager is appointed by the Bank to be REAM Coordinator who collects the information required

Some banks can collect this information quickly and comprehensively. For others, it is more difficult. The time required starts to indicate the stage of development of retail banking at the Bank

2. Understanding and Adjusting REAM to Focus on Key Issues

REAM is applied by Bank executives and our consultants working together – the REAM Team. The methodology is first explained to the executives. Thereafter, it may need to be adjusted to match the Bank's situation. Most banks have unique aspects to their retail banking and these may need to be reflected in REAM. As examples:

Some retail banks may want more emphasis given to assessing their credit card, mortgage, car finance or internet businesses

International retail banks may want REAM to give more attention to the transfer of best practice across the countries in which they are active in retail banking

We usually find that only minor adjustments are needed because REAM has been developed over the years in conjunction with leading banks of different types in a range of countries.

3. Agreeing the Definition of "World-Class" Standards of Retail Banking

In this step Batt-Consulting describes, at the REAM Seminar, "world-class" and lesser standards of retail banking to the Bank executives who are to participate in the assessment process.

The REAM Seminar takes 1, 2 or 3 days and is held in the Bank or a hotel

Usually, other executives who wish to learn about these standards also attend the seminar

The REAM Seminar defines in detail all the main elements, and 200+ sub-elements, of retail banking:

Phase 1: "Embryonic" *(unacceptable in any unit of a bank, at any time)*

Phase 2: "Developing" *(possibly acceptable, for a short period, in some units but sub-standard for a whole bank)*

Phase 3: "Established" *(an acceptable standard at which to operate but not "world-class")*

Phase 4: "World-Class" *(the level of excellence achieved by the best banks)*

Gaining common agreement to these definitions is a crucial step in the application of REAM. It permits consistent standards to be used in assessing the Bank's current retail banking and creates consensus about how far and fast the Bank should progress towards "world-class" levels.

Some banks start the REAM process by holding the REAM Seminar before other work starts.

4. Assessing the Bank's Retail Banking

This is the "heart" of REAM and the first key assessment step that is conducted at the REAM Workshop by the REAM Team.

REAM starts at Head Office and reviews all 200+ sub-elements of retail banking and agrees which phase of development each one is in

These 200+ assessments are then combined into an overall assessment of each of the main elements

The assessments of the main elements of retail banking, are, in turn, combined to give an assessment of the Bank's retail banking, overall

Development priorities are identified and described for recommendation to top management

This step usually takes 3 days, depending on the size of the Bank.

5. Assessing Retail Banking in Selected Divisions and Countries

After assessment of retail banking at Head Office, some banks ask for the assessment process to be repeated in local units. This is optional. The units might include:

Domestic branch networks
Foreign branch networks
Subsidiary companies
Regional offices
Individual countries
Major branches

6. Setting Priorities for Reaching "World-Class" Levels

Combining local unit and Head Office assessments to give an overview for the whole Bank usually requires only a few days. The REAM Model makes this possible.

Most often, the biggest changes involve refining marketing strategy, intensifying selling, and advancing credit management

Quite often, new products, product packages, sales and delivery channels are required. Reorganisation and basic changes to A&L structure policy are sometimes needed

From experience, Batt-Consulting has found that the strategy and action plan usually call for significant changes to be made to some, or all, of the main elements of retail banking.

7. Gaining Agreement to Action

Because the development priorities identified by REAM raise complex and sensitive issues, top management wishes to understand, challenge and decide about the action being proposed.

REAM facilitates good decision-making because it is based on both detailed assessments of individual local units and Bank-wide perspectives

Top management can interrogate, and get informed answers from, the REAM Team about matters of both broad policy and detailed technical issues

8. Implementation

The Bank carries out implementation. Batt-Consulting may assist, if required.

9. Monitoring Implementation Progress

During implementation, REAM provides a tool for monitoring progress and identifying corrective action needed. Retail banking at Head Office and in local units can be reassessed after 6 and 12 months, and annually thereafter.

Some banks ask Batt-Consulting to train some of their senior managers so that they can carry out these reassessments and make recommendations

We may be involved in some of the reassessments to maintain an independent perspective and to brief the Bank about new developments in retail banking

TEAM NEEDED TO DO THE WORK

REAM works well and fast because it combines, in a joint team, the knowledge and judgement of the Bank's best executives with the experience and methods of Batt-Consulting:

1. REAM Team Members from the Bank

Some of the Bank's most experienced executives need to be involved.

Representation from the Bank's Retail, Premium, Private, Branch Network, Marketing & Sales Support, Credit, Treasury and Operations Divisions is essential

It is also highly desirable that key support divisions be present, especially, Strategy, Finance, Risk, IT, HR and Internal Audit

A joint team like this ensures that the overall needs of the Bank are kept in mind. It also prepares managers who will guide implementation.

Team members work full-time at the REAM Workshop for 3 days.

2. Senior Managers of Local Units Being Assessed

Their involvement only lasts a few days but they need to contribute to the local unit assessments, learn about "world-class" standards of retail banking, and build commitment to necessary changes.

3. REAM Steering Committee

Top management must take important decisions about retail banking. A REAM Steering Committee is needed. This committee meets the REAM Team two or three times during the REAM process.

4. REAM Team Members from Batt-Consulting

If the Bank's team members are well qualified, it is normally sufficient for 1, 2 or 3 of our consultants to be involved. Some may only be needed for very specialised parts of the work.

ABOUT BATT-CONSULTING

Batt-Consulting is a specialised, top level management consulting and training firm that works, world-wide, with banks and other organisations active in the financial world.

The firm is based in the United Kingdom with consultants in the UK and Czech Republic. Established in 1990, it provides top level consulting and training to banks with emphasis on profit improvement, business and support strategy, risk management and reorganisation work.

The firm's senior consultants have all held top positions in banks. The majority have worked for other prominent management consulting companies. Over their careers as both bankers and consultants they have served more than 150 banks in over 50 countries.

Our Services

Batt-Consulting's main mission is to help banks increase profitability at acceptable levels of risk. This means resolving complex issues, and providing top level education & training, that relate to:

Overall Bank Strategy
Domestic Strategy
Marketing, Product & Delivery Channels Strategy
Organisation Structure Design & Implementation
Management Process Reengineering
Information Technology & Internet Banking
Planning & Control Systems
Corporate Governance
International Strategy
Selling Intensity & Methods
Asset & Liability Management
Operations Strategy & Reengineering
Human Resources Management
Management Information Systems

Our Clients

The firm serves three types of client: Consulting, Best Practice and Education Clients.

Consulting Clients

Our consulting clients are the owners and leaders of banks and other financial institutions, small and large. Some are famous internationally. Others are leaders in their own local markets. Typically, they are banks that are facing major strategic, organisational or management process change:

Personal or Retail Banks, including Internet Banks
SME and Corporate Banks
Savings, Mortgage and Co-operative Banks
Private & Premium Banks
Financial Services Groups
Investment Banks
Merchant Banks
Asset Management and Stockbroking Firms
Central Banks & Regulators
Bancassurance and Insurance Companies

Best Practice Clients

These are banks that wish to have "world-class" standards of strategy, organisation and process. Working with leading banks, we have developed well-proven methodologies for assessing - objectively, quickly and inexpensively - how well banks compare to the best banks in the world. REAM is one example. These comparisons allow improvement priorities to be set objectively, quickly and inexpensively:

ASSESSMENT METHODOLOGIES	FOCUS OF ASSESSMENTS
Business Strategy Focus	**Business Strategy Focus**
STRAM: Strategy Assessment Methodology	Overall Bank and Divisional Strategies
REAM: Retail Banking Assessment Methodology	Strategy & Organisation for Retail Banking
PRAM: Private Banking Assessment Methodology	Strategy & Organisation for Private Banking
SMEAM: SME Assessment Methodology	Strategy & Organisation for SME Banking
CORBAM: Corporate Banking Assessment Method	Strategy & Organisation for Corporate Banking
GAM: Corporate Governance Assessment Method	Governance by the Main Board and Top Team
MAM: Marketing Assessment Methodology	Marketing Strategy, Organisation & Methods
PAM: Product Assessment Methodology	Product Management & Product Selling
SAM: Selling Assessment Methodology	Selling Intensity, Organisation & Methods
CRAM: Credit Risk Assessment Methodology	Credit Policies, Processes & Organisation
PALM: Progressive Asset & Liability Management	Strategies & Organisation for ALM & Treasury
RAM: Risk Assessment Methodology	Credit, Market & Operating Risk Management
Support Strategy Focus	**Support Strategy Focus**
ORGAM: Organisation Assessment Methodology	Overall & Divisional Organisation Structure
ROMP: Reengineering Ops. & Mgt. Processes	Reengineering to Free People for Selling
HURAM: Human Resources Assessment Method	HR Strategy Organisation & Processes
TVA: Technology Value Added Methodology	IT Strategy, Organisation & Processes

Education Clients

Batt-Consulting serves four types of education client:

***Individual Banks**. We help banks' top teams keep up-to-date with bank strategies and methods by designing and leading short, intensive, in-house workshops and seminars that last 2 to 5 days*

***Banking Academies & Institutes**. For these we design and lead public training meetings for senior bankers*

***Sponsors of Bank Education**, including banking schools and academies, central banks, bankers' associations and universities*

***Providers of IT to Banks**. These companies ask us to brief them about banking strategies to help ensure their own services are correctly focused*

Our educational and training support is mainly provided by designing and leading short, intensive workshops & seminars which are typically 2 to 5 days long. These cover the subjects described in this brochure. Separate brochures describe each of these programmes. We usually "tailor-make" programmes to meet the specific needs of individual clients.

Our workshops & seminars are chaired by one of our senior consultants or associates, supported by other consultants, as required. All are accomplished speakers, a fact that is shown by many invitations to speak all over the world.

Because they spend most of their time working as consultants on important and difficult issues, they have state-of-the-art knowledge about strategy and management approaches in banking. As a result, it is relatively easy for them to prepare new, stimulating and practical presentation materials.

Quite often, we invite distinguished bankers to be key-note speakers. Our wide network in the banking world means we can call on these leaders and specialists.

More information about our clients, services and firm is available on request or from:

www.batt-consulting.com

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