

RBS Retail and Wealth Management

- **Retail banking:** RBS is the UK's second-largest bank by revenue, but lags in cost efficiency and digital offering. RBS also faces challenges in its branch strategy: it appears to have too many branches for too few clients.
- **Wealth management:** suffers from weak cost/income and being underweight in investment revenue. RBS could increase its investment revenue, and bring together the coverage of private banking and commercial banking clients

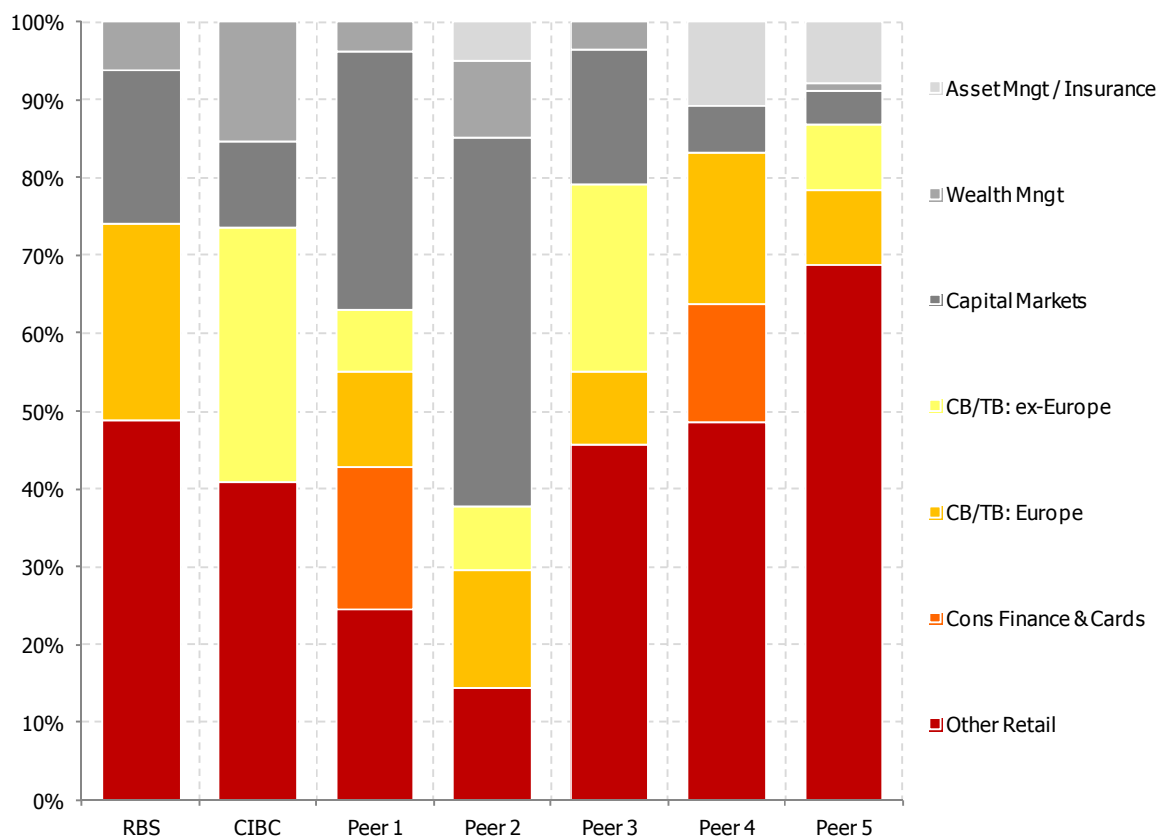
Overview

In this paper we look at some of the challenges facing RBS in retail banking and wealth management. RBS's group's revenue mix differs from domestic peers'. In fact, CIBC seems the nearest relevant competitor: while CIBC operates in an overseas domestic market, its business mix is similar to RBS', especially in view of RBS' plans to slim down its capital markets operation further.

However, comparing with CIBC sets RBS some challenges. CIBC's retail division had a cost/income of 53% in 6m15, which compares unfavourably with RBS' 60% - and that's before the impact of restructuring costs. Similarly, in wealth management, CIBC's 6m15 cost income is 72%, versus RBS' 87% (again, excluding restructuring costs).

RBS end-state: CIBC of the UK?

RBS vs peers revenue mix (6m15)

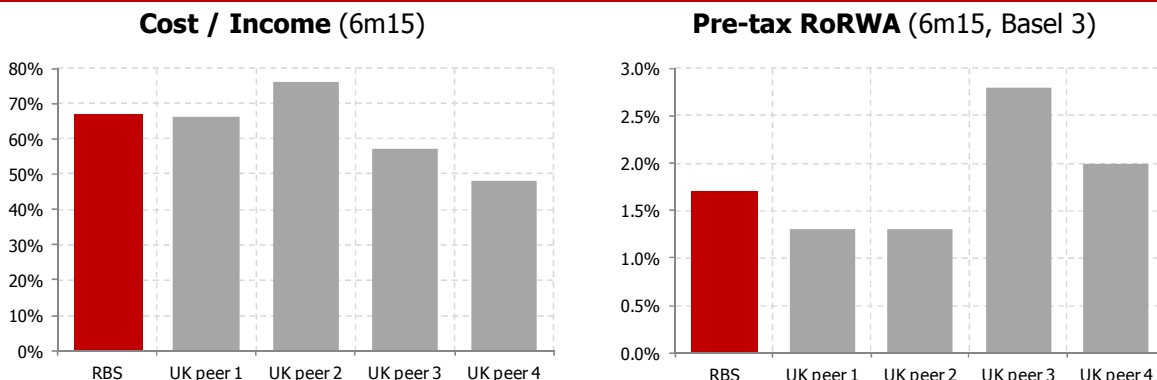


Source: Royal Bank of Scotland, CIBC, bank reports. Tricumen. Data normalised to Tricumen's standard product hierarchy.

Retail

In retail banking, RBS is the second largest UK bank by revenue - although it is surprising that the bank does not have a larger consumer finance business. The challenge that RBS faces is, in our view, in its branch strategy and digital offering: this is borne out in the bank's comparatively lower cost efficiency.

Retail banking

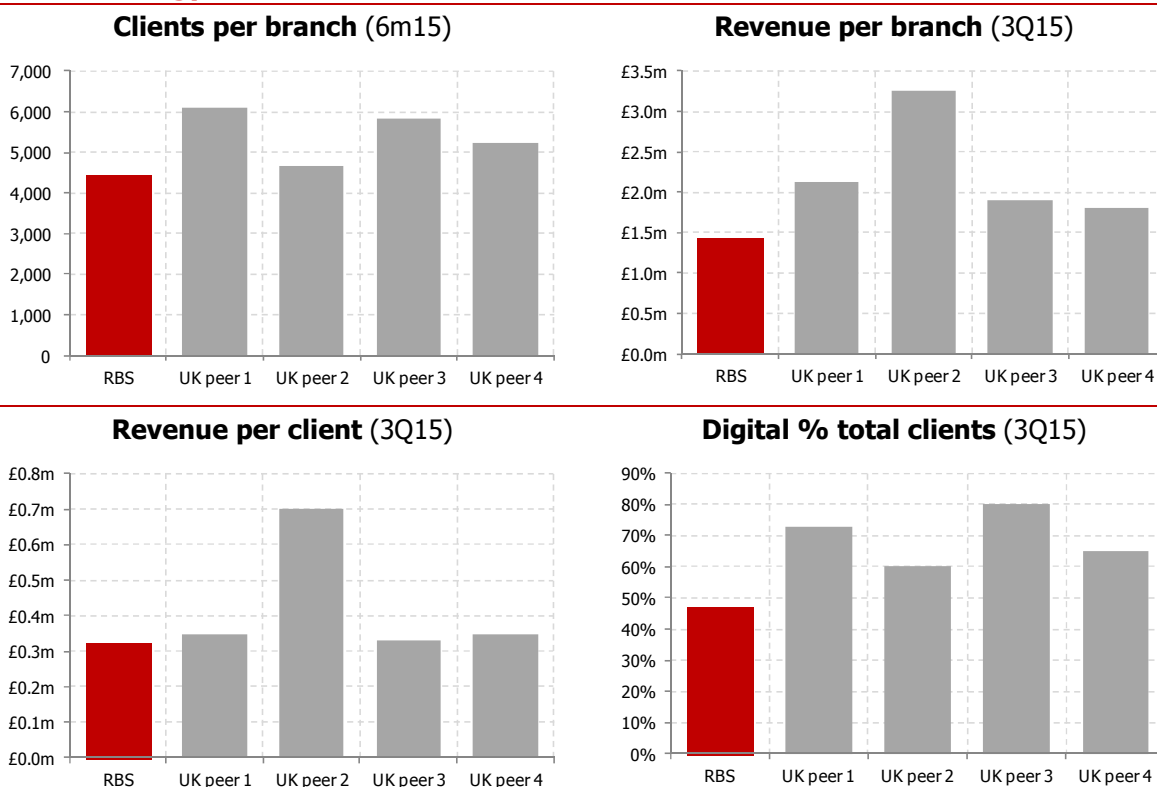


Source: Royal Bank of Scotland, bank reports, Tricumen. Data normalised to Tricumen's standard product hierarchy.

As shown in the charts below, while RBS makes similar revenue-per-client to its peers (with the exception of one smaller bank that has a very different strategy), its revenue per branch and number of client per branch are the lowest among our sample of UK high street leaders. In short, RBS appears to have too many branches, covering too few clients.

The bank also appears to be behind the curve in its digital strategy with a smaller percentage of clients using digital channels and lower user ratings for mobile phone apps.

Branch strategy

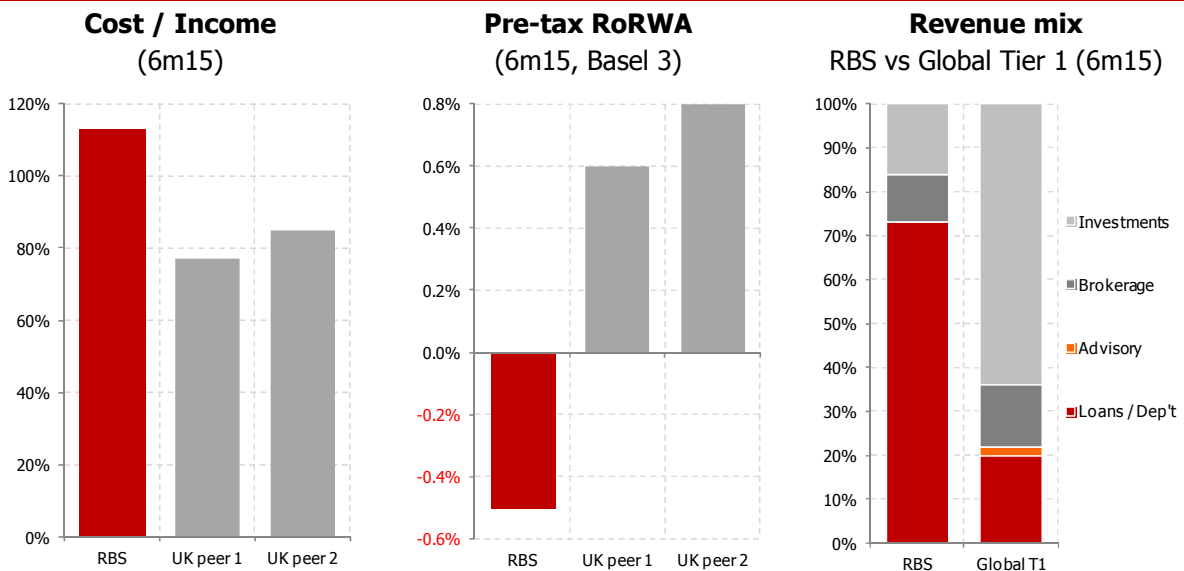


Source: Royal Bank of Scotland, bank reports, Tricumen. Note: peer banks include UK share of cards business, where significant. Data normalised to Tricumen's standard product hierarchy.

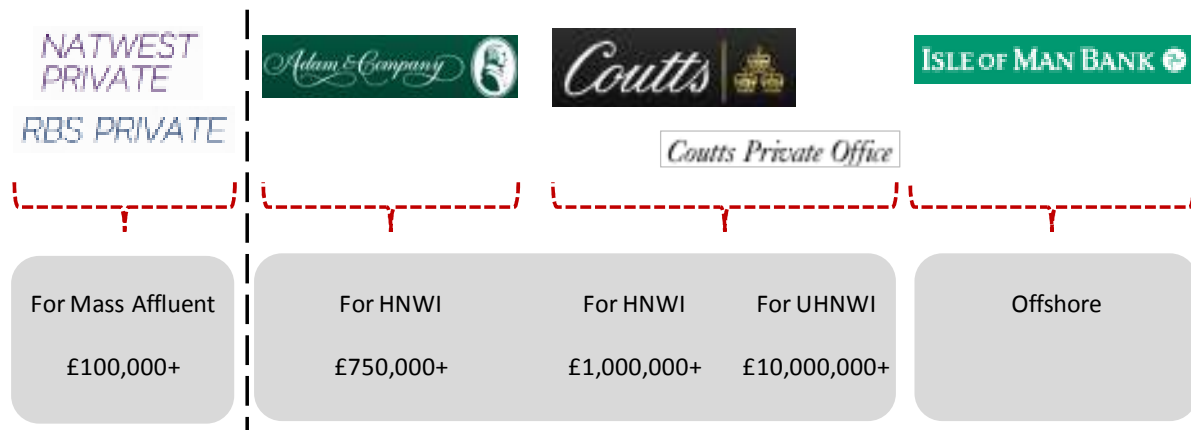
Wealth Management

With Coutts and Adam & Company, RBS has strong brand presence in the traditional private banking market - and yet, the bank's cost/income is still behind peers. In our view, a part of the solution is in the private bank's revenue mix. Top-tier global wealth managers typically generate 40%+ of revenue from investments, while RBS derives only 15% of its revenue from this product segment. The bank could also improve its cost efficiency benefit by bringing together the coverage of private banking and commercial banking clients.

Wealth management



Numerous brands



Source: Royal Bank of Scotland, bank reports, Tricumen. Data normalised to Tricumen's standard product hierarchy.

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