

Future of European Consumer Finance – A joint Eurofinas Roland Berger Survey

Highlights of 1st Edition

Warsaw 19 November 2015



Objectives of today's meeting

» Present the results of Roland Berger Eurofinas Survey on the future of CF in Europe

» Discuss implications for transformation journey of leading players in Europe and Poland

Top executives of firms member of local federations associated with Eurofinas were polled via an online multiple choice questionnaire

Overview of targeted participants & applied methodology

TARGETED PARTICIPANTS

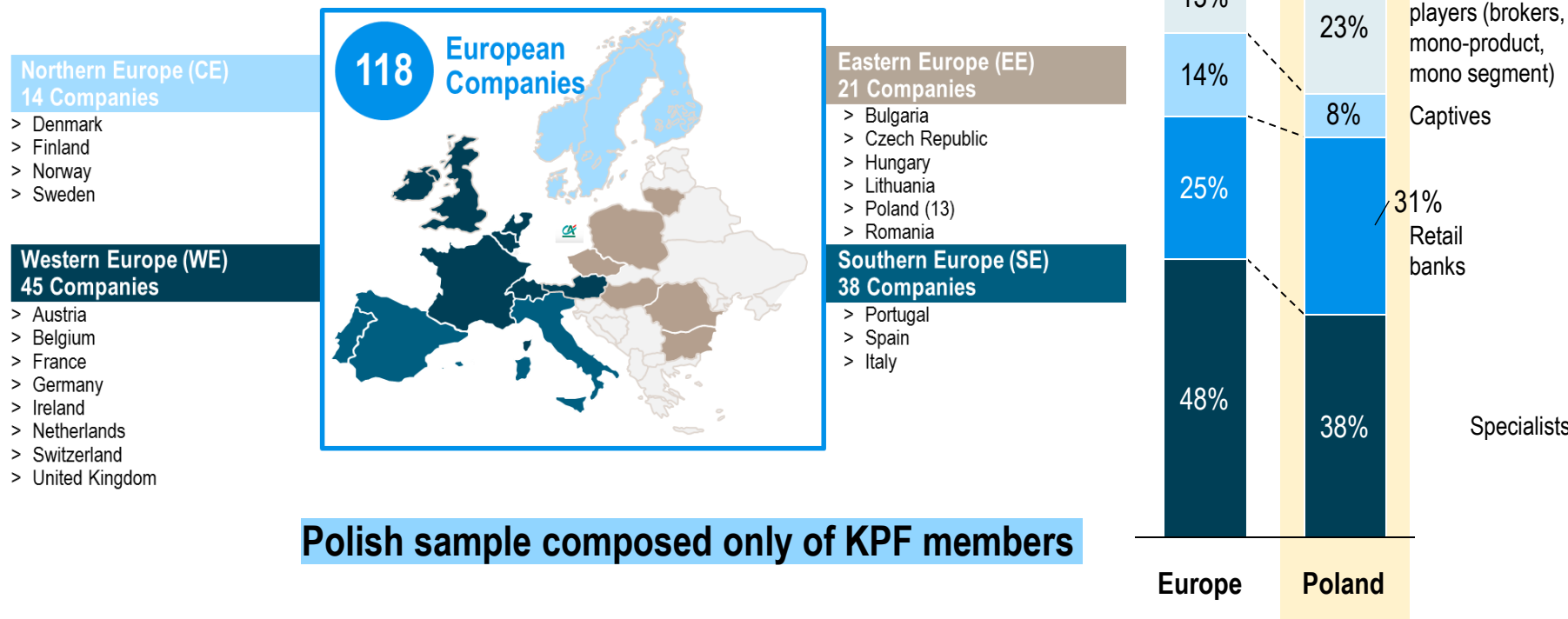
- > Country CEOs/ Deputy CEOs CxOs of Consumer Finance Specialists/ Captives/ divisions / credit brokers & intermediaries
- > Local Heads of Consumer Finance Division/ Business Unit of retail banks/ financial services institutions, auto captives, retailers captives, credit brokers & intermediaries
- > Out of scope: specialized institutions whose main business focus is mortgage lending or leasing to business/ corporate customers

METHODOLOGY

- > Survey in the form of multiple choice questionnaire and some open ended questions
- > Questions focused on opinions not on precise benchmarks therefore requiring no data gathering by participants
- > Online web survey (with possibility to fill in pdf-paper version if preferred by participant)
- > Time to complete: ~30-45 minutes
- > **Survey opened from April to July 2015**
- > **Country samples not intended to be statistically representative of any specific national market**

Over 30% of European Consumer Finance represented in the survey covering all business models across 21 countries

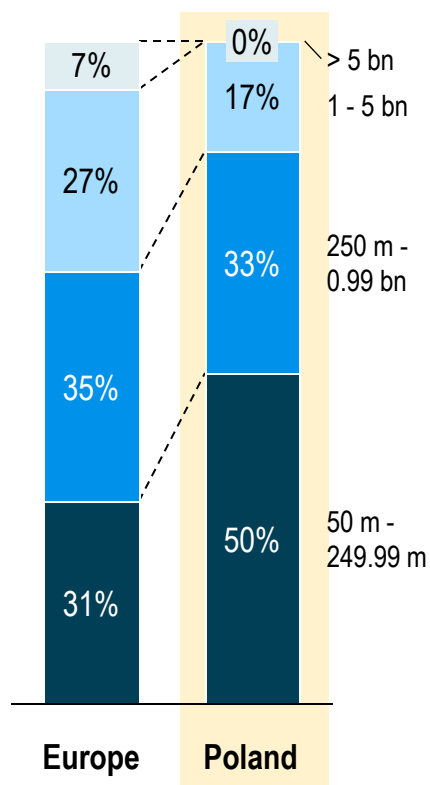
Participants by geography and business model



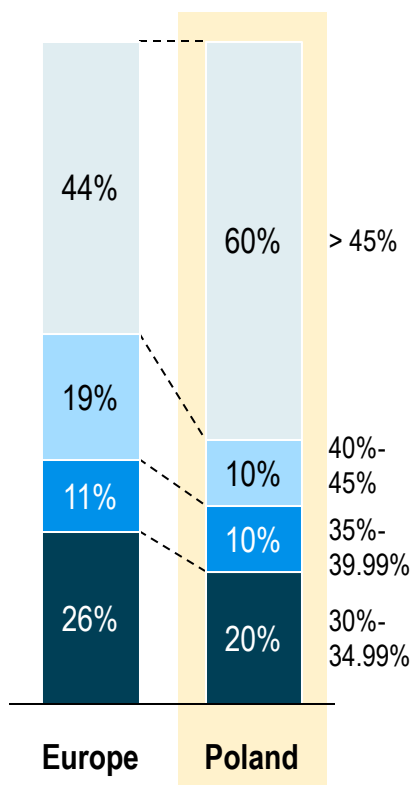
Participants represent all size of players; Polish participants have on average higher Cost Income ratios and higher risk

Business model and size of participating companies [2014]

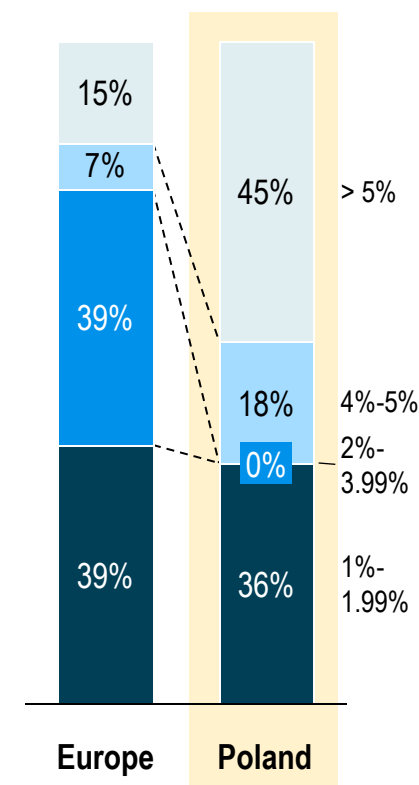
New business volume [EUR]



Cost income ratio

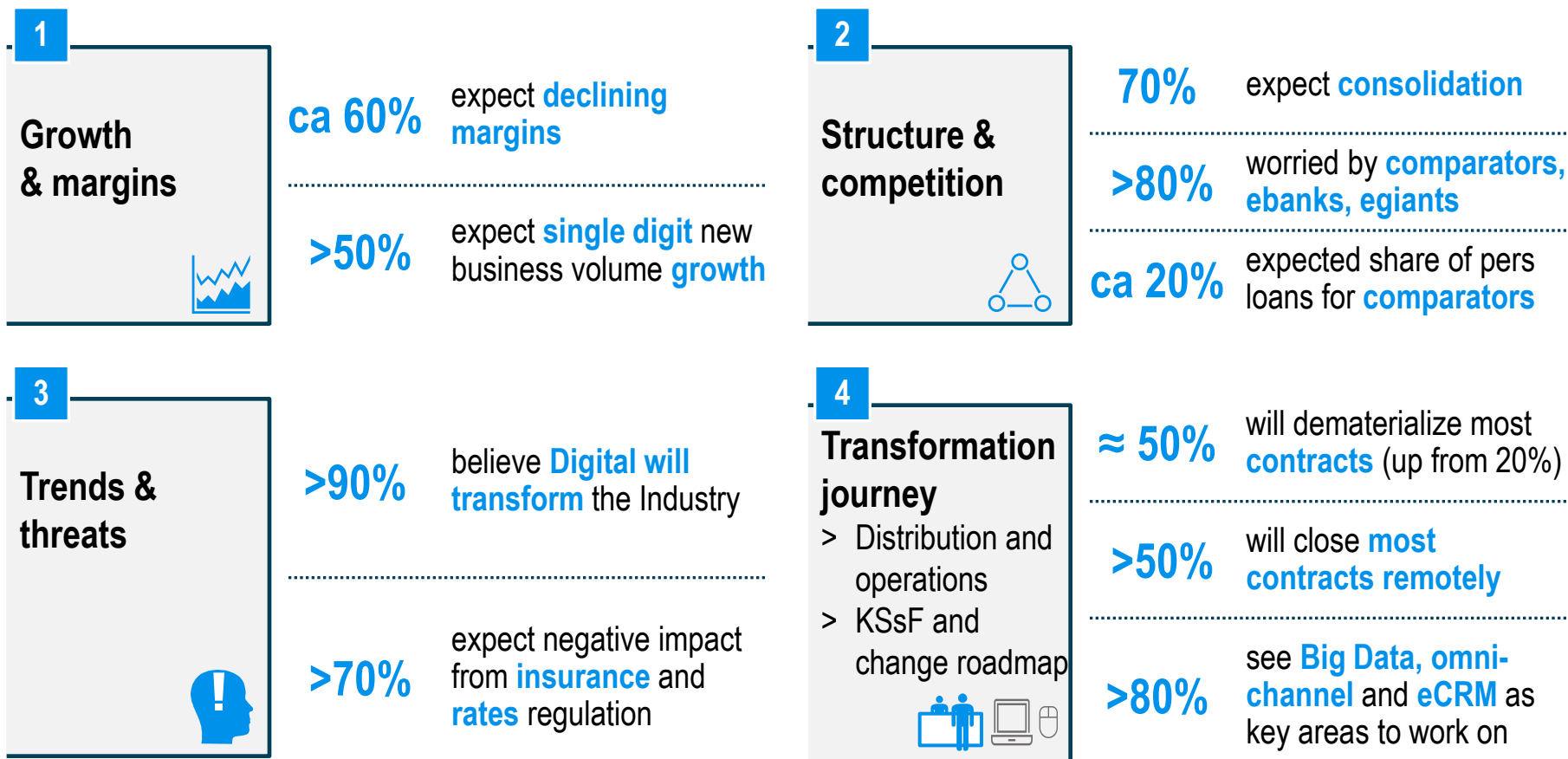


Cost of risk ratio



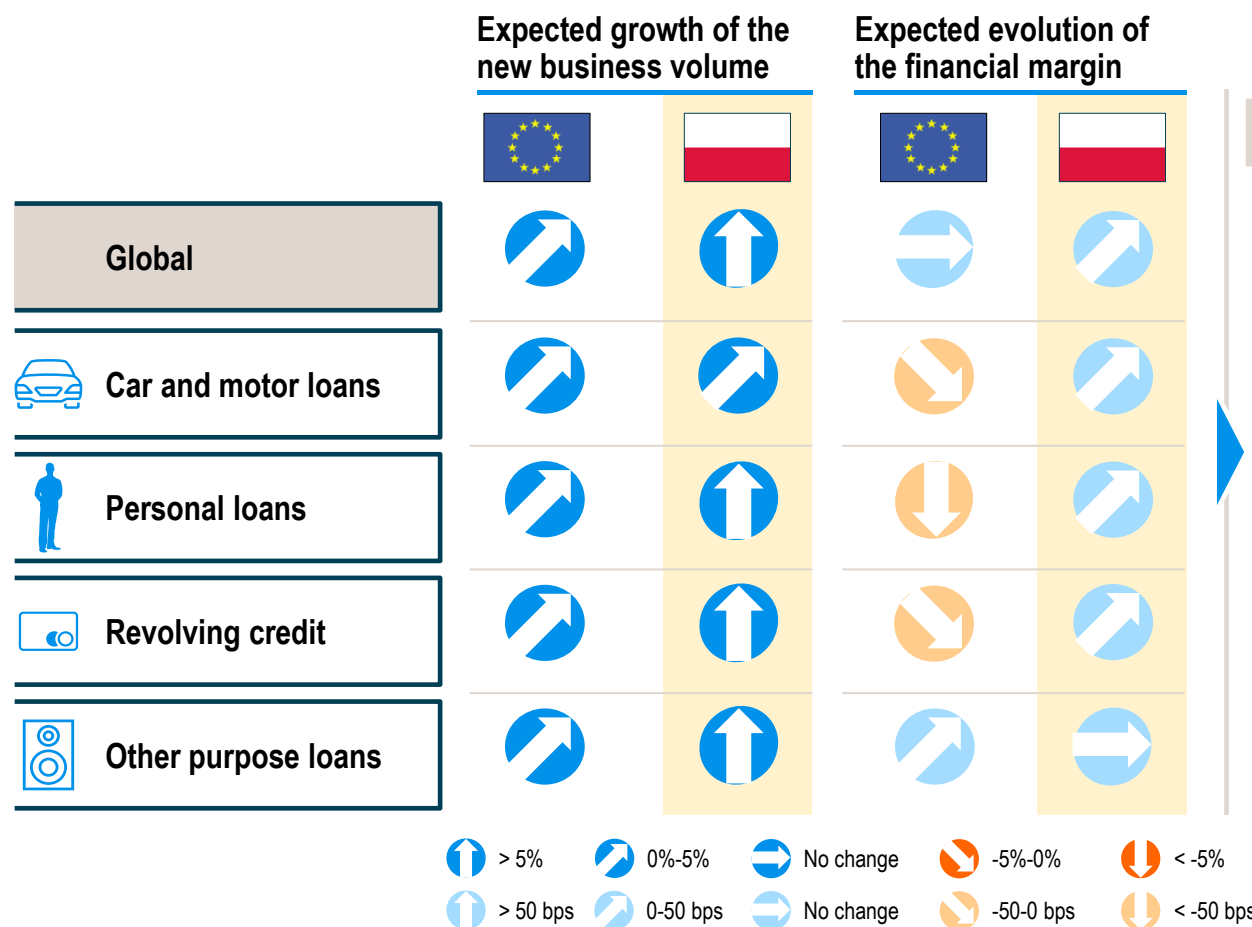
Consumer Finance executives shared their 2014-2018 perspectives on 4 topics

Survey's key dimensions and selected highlights



Polish players are significantly more optimistic than peers in other geographies on growth and margins (1/2)

Market growth and profitability [modes; 2015 to 2018]



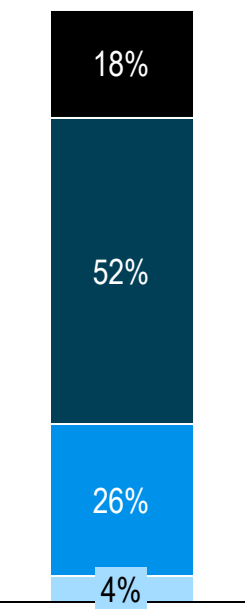
Key points

- > The market is expected to **grow** in the next years
- > The **financial margins are expected to remain stable** on a global perspective for Europe
- > **In Europe, other purpose loans should have a slight increase** in margins in the near future while other categories are expected to decrease

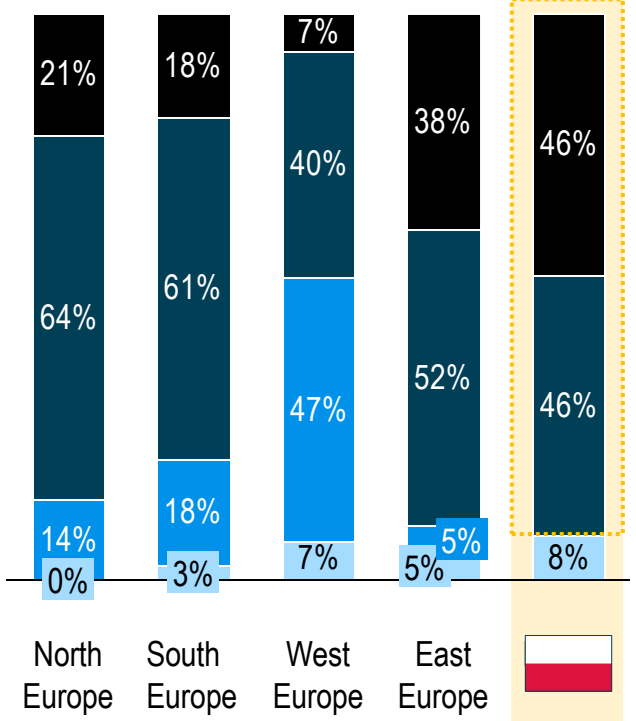
Most Polish respondents think that **consolidation is likely – more so than in the rest of Europe**

Percentage of respondents per country that indicated that consolidation is Likely or Very likely in 2015-2018

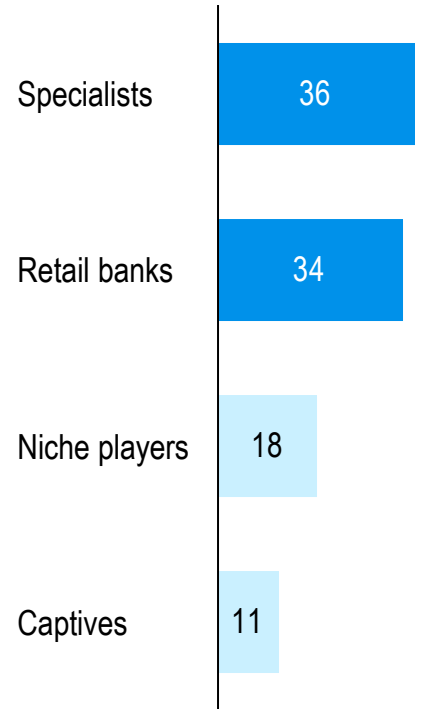
All participants
[%]



Consolidation per region [%]



Generator of consolidation [%]



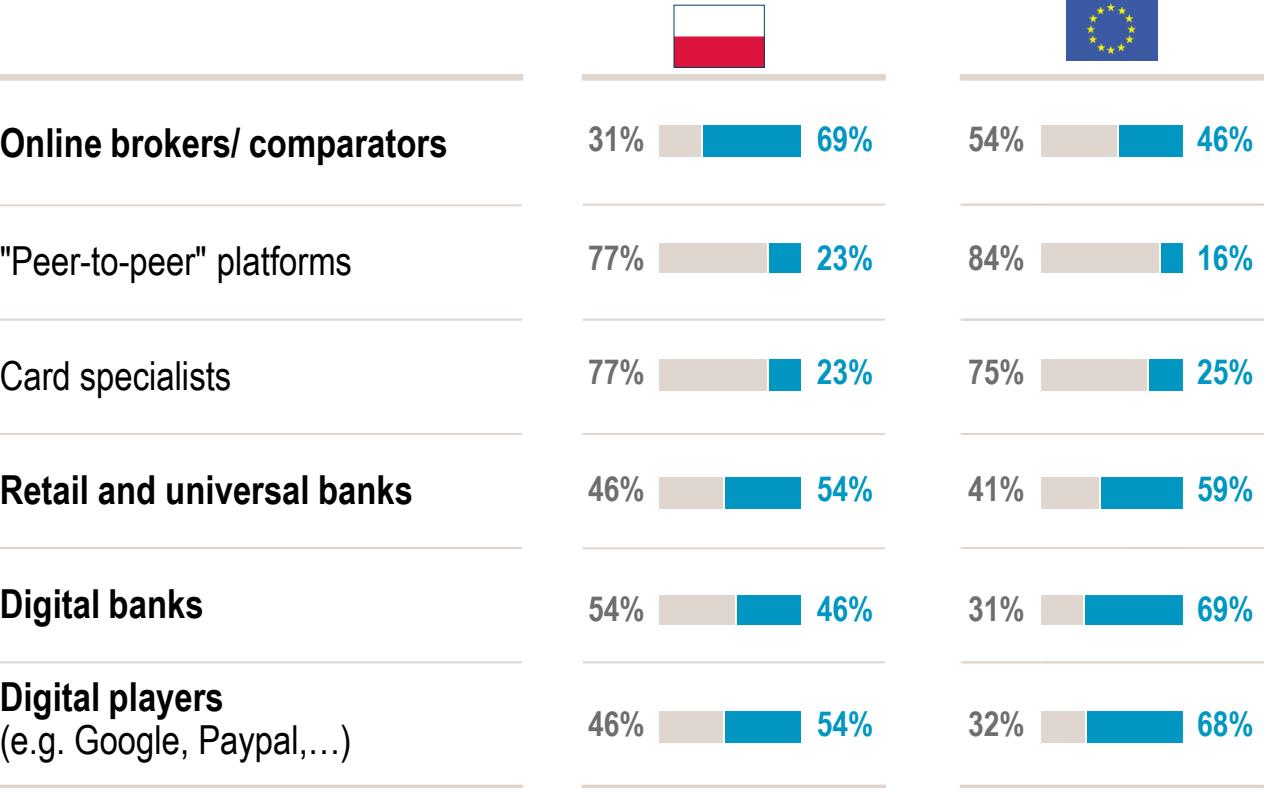
Key Points

- > Likelihood of national market consolidation varies strongly among countries
- > **Denmark, Poland and Italy** are 3 markets where **consolidation is most likely to happen**
- > Consolidation can be driven by both Foreign and Locally owned players (55% vs. 45%)

Very likely (black), Likely (dark blue), Unlikely (blue), Very unlikely (light blue)

Participants expect new digitally-enabled players driving competition in the market, as well as retail banks

Level of threat expected from competition [% of respondents]



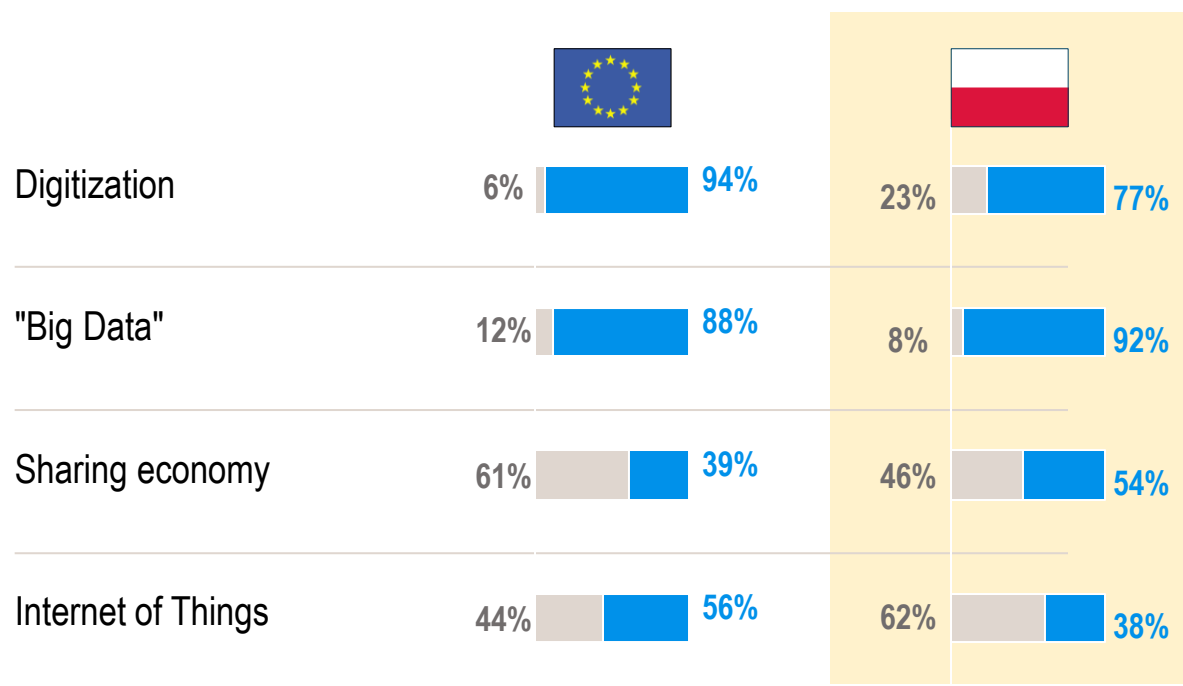
Poland vs EU

- > **Polish players** more or less in line with **Rest of Europe**
- > Relatively **higher preoccupation** for role of **online brokers and comparators** expected to account for 15% of personal loans new business by 2018
- > **Lack of fear for P2P disintermediation** – to account for less than 5% of new personal loans volumes by 2018

■ Not important/ Somewhat important ■ Important/ Very Important

Digitalization and "Big Data" are regarded as the most important technological trends in the near future

Assessment of the impact of technological trends [% responses; in 3 years]














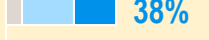



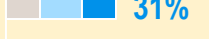
Key points

- > Digitization and Big Data seen as ineluctable
- > Role of sharing economy and of IoT considered as less critical to Consumer Finance business

■ Not important / Somewhat important ■ Important / Very important




Insurance cross selling regulation and rate caps considered serious threats to business profitability – more so in Poland than in RoE

Assessment of the impact of regulatory changes [% responses; in 3 years]

		
Interest rate restrictions/ rate caps	65%  4%	85%  0%
Privacy and credit bureau restrictions	58%  11%	64%  18%
Insurance cross selling regulation	68%  11%	77%  8%
Price and commission transparency	37%  25%	31%  38%
Capital and liquidity requirements	48%  22%	15%  38%
ECB and other central banks' regulations	54%  14%	23%  15%
Fiscal incentives to consumer spending	11%  64%	31%  31%

Key points

- > Most of the regulatory changes analyzed were considered to have a negative impact – insurance cross selling regulation and interest rate restrictions were considered to be the changes with the most negative impact
- > Only minority of Polish participant expect a fiscal stimulus benefitting CF

 Negative/ very negative impact
  No impact
  Positive/ very positive impact

Transformation of CF business will center around three major axes

Highlights

A Massive digitalization ≈ 50% will have most of their contracts fully digitalized by 201/8 (up from 20%)

B B2C: Customer journeys going digital 50% of players will close majority of contracts face to face in 2018 (down from 66% today)
>80% will strive to improve omnichannel experience and Big Data leverage

C B2B2C: anchored at POS but changing only 21% of captives (down from 43%) and 41% of specialists (down from 59%) will continue to sell motor loans "just offline"

Implications

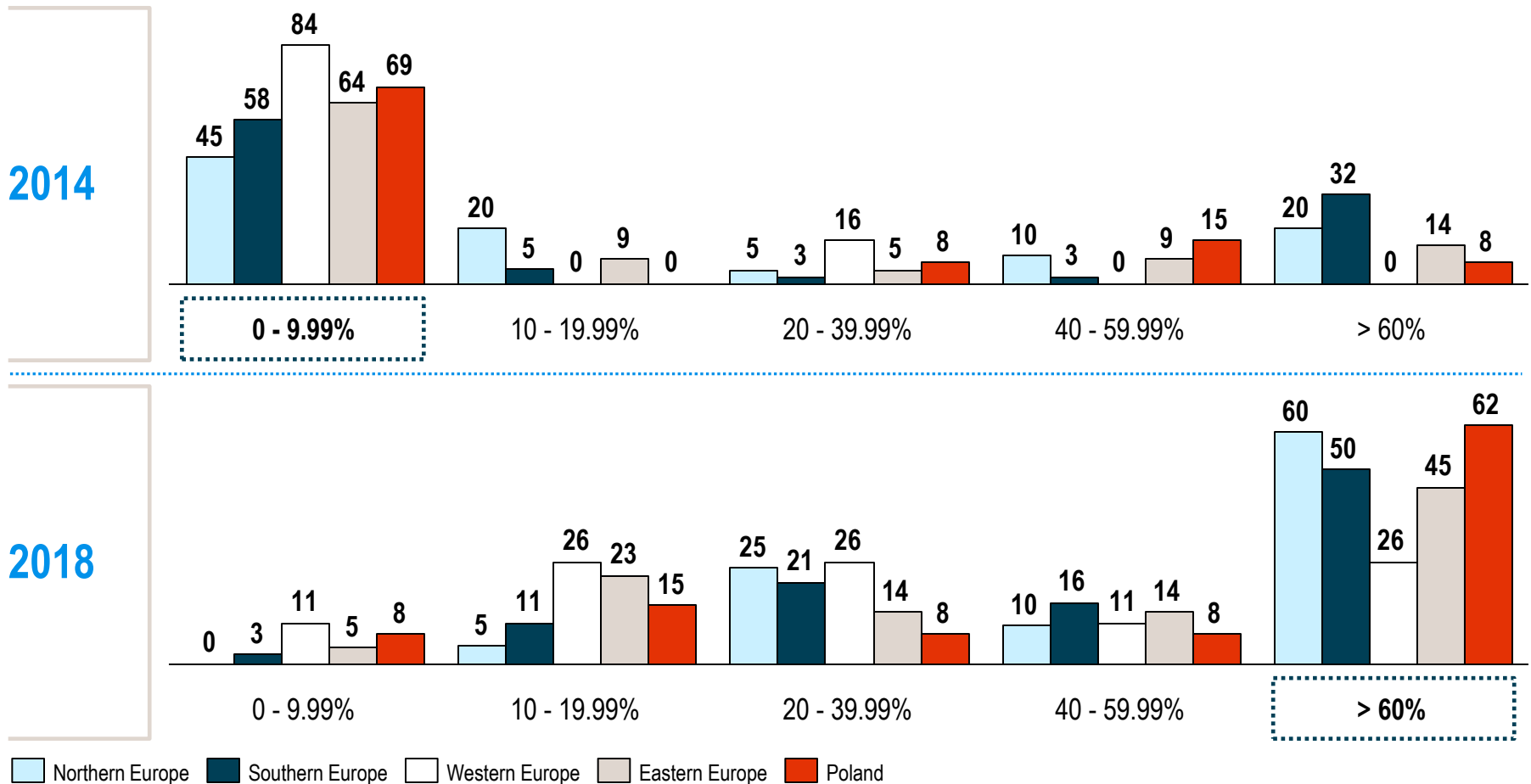
> Operations **digitalization** will be a **hygiene factor** rather than a differentiator
 > **Complex workforce rightsizing** and network restructuring to be managed

> Besides technical improvements, specialists need to develop **reason for being vs. banks** and online players who have broader client relationships

> **Need of new partnership models between CF players and dealers/OEMs** – integrating the respective customer journeys

Polish players expect a **significant push towards digitalization** – stronger than in other geographies

Digitization - % of Fully Digitalized Contracts per Region



In B2C different **customer journey models** will continue to co-exist; in Poland shift towards web more dramatic than in the Rest of EU

Evolution in customer journey models B2C – 2014-2018 – specialists and retail banks

		2018			Total
2014	Proximity centric	Integrated mix	Remote focus		
Proximity centric Majority of contracts are finalized in a physical outlet either originated remotely or not	34% 40%	22% 20%	2% 20%	58% 80%	
Integrated mix Majority of contracts finalized remotely but at least 30% finalized in a physical outlet		17% 20%	5% -	22% 20%	
Remote focus Majority of contracts finalized remotely with less than 30% finalized in physical outlet		2% -	19% -	13%	
Total	34% 40%	41% 40%	25% 20%		

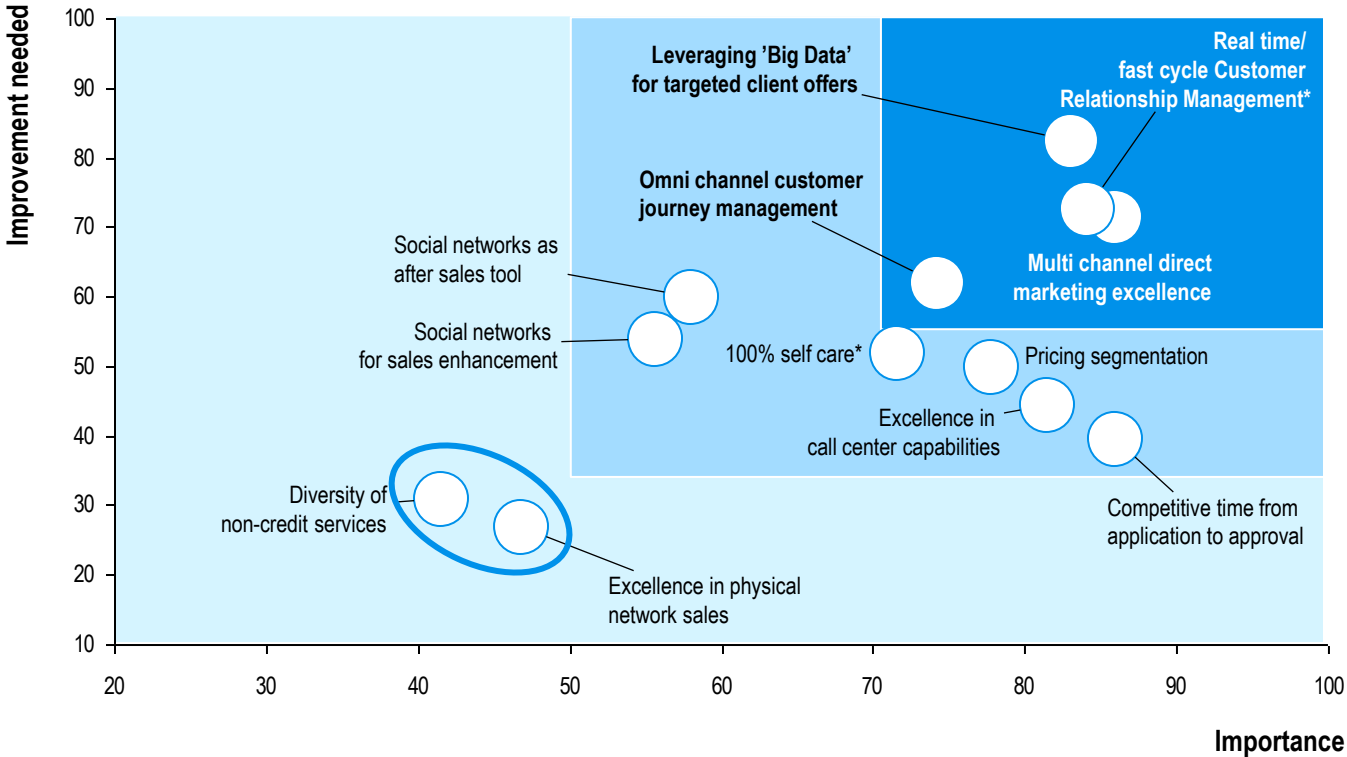
Key challenges

- > Proximity centric**
 - addressing decreasing utilization of sales reps
 - maintaining market share in spite of digitization – especially prime and young customers
- > Integrated mix**
 - rightsizing / making proximity footprint flexible
 - reskilling proximity salesforce to make them multi channel
 - right channeling
- Remote focus**
 - building relationships
 - avoiding disintermediation

Source: European Consumer Finance Survey; Roland Berger

In B2C transformation efforts concentrated on digital – only few players see traditional factors as critical

Improvement – Importance plot for B2C business capabilities [2015-2018]



Discussion

- > Participants underestimate
 - need to review product strategy
 - need to "reframe" sales force

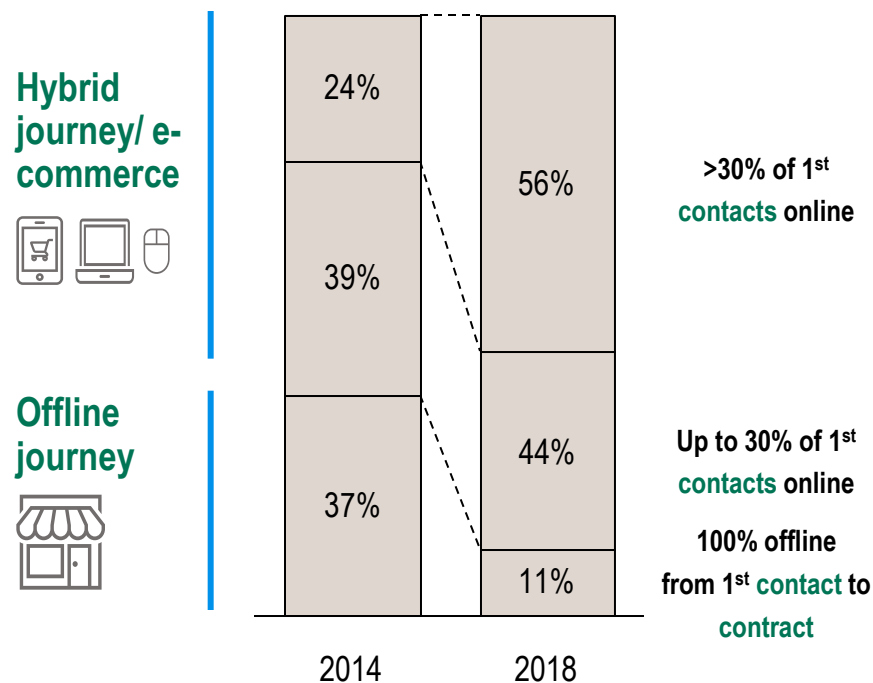
- > Big Data is too complex to tackle for most players
 - risk of copycat approaches
 - need to think big but start small

1) Percentage of respondents that indicated that a certain business capability will be (Very) Important in 2015-2018
 2) Percentage of respondents that indicated that a certain business capability will need (Very) Significant Improvement in 2015-2018
 Source: European Consumer Finance Survey; Roland Berger

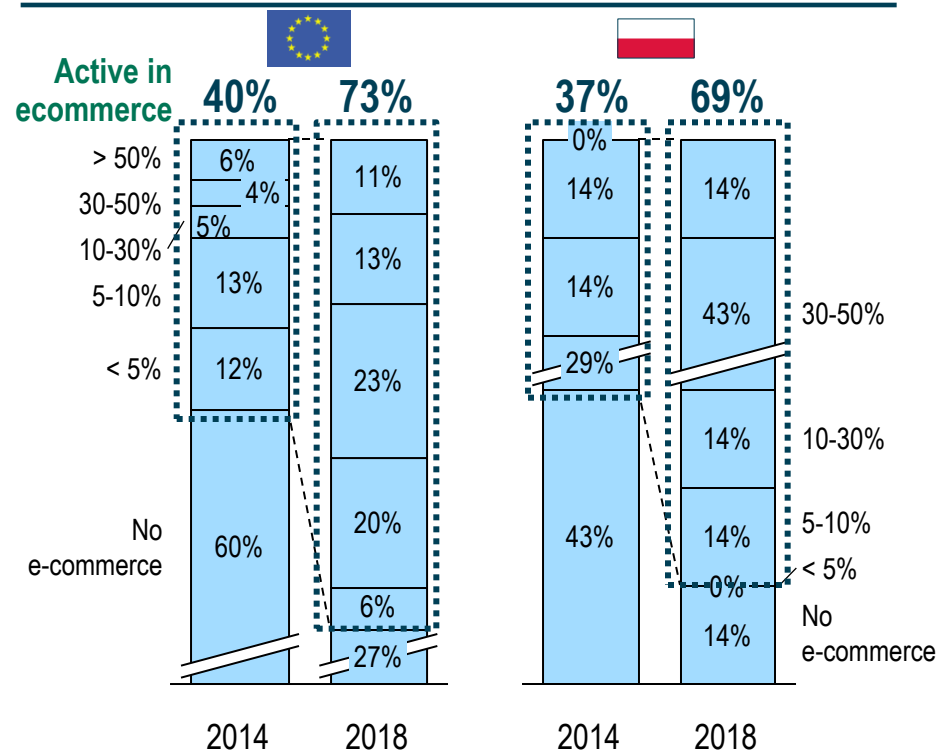
Retail finance changing dramatically: ecommerce growing exponentially and most business being at least hybrid

Other Purpose Loans: role of proximity vs. role of remote interaction and ecommerce [% participants]

Role of proximity vs. role of remote interaction

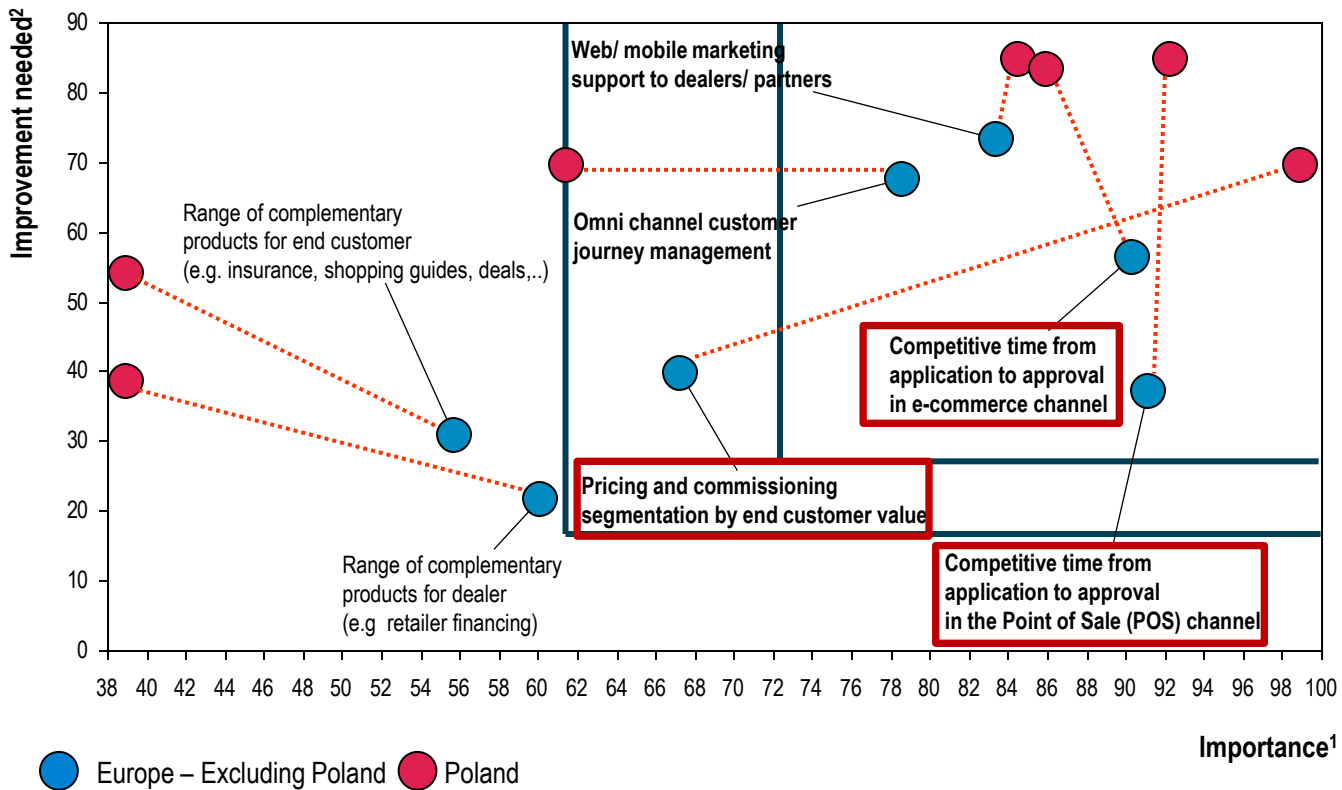


Share of e-commerce on other purpose loans



B2B2C players see as a **priority to improve on quality of service and pricing**

Improvement – Importance plot for B2B2C business capabilities [2015-2018]



Four clear priorities in Poland

- time to yes at the POS
- time to yes in eCommerce
- smart pricing and commissioning
- marketing support to dealers

1) Percentage of respondents indicating a certain business capability will be (Very) Important in 2015-2018
 2) Percentage of respondents indicating a certain business capability will need (Very) Significant Improvement in 2015-2018
 Source: European Consumer Finance Survey; Roland Berger

Anticipating the trends evidenced by the survey, a number of **players are trying to reposition themselves along 5 axes**

Summary of findings

- > **Modest growth and shrinking margins in EU – Poland relatively better** especially on volumes
- > **Disintermediation** risk for "traditional" specialists from new players and traditional banks
- > Strong drive towards **digitalization of operations**
- > Strong **shift towards remote channels in both B2B2C and B2B–** but proximity remaining important

Repositioning axes



Value proposition review



"End customer" journey transformation



Partner experience enhancement



Data leverage



Digitalization of operations

Thank you



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