



COMMERZBANK

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Transcript

## Sabine Schmittroth PSBC



The bank at your side

## Transcript

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### **Sabine Schmittroth, Private and Small Business Customers (PSBC)**

Ladies and Gentlemen, I'm delighted to present our strategy for Private and Small Business Customers in Germany.

Before I lay out my plans for PSBC, let me just say how proud I am to be able to lead this division. Since starting in the banking industry 35 years ago, I've always focused on our private and small business customers and I feel I know them extremely well.

My starting point is clear: we've achieved a strong market position in Germany. But our cost-income ratio is too high. Growth ahead of the market is reflected in increasing numbers of customers and assets. At the end of 2020, we have two hundred and ninety billion in loans and securities volume in Germany. This is an increase of 19% over the last three years. We enjoy a strong market position with wealthy customers. Regarding Assets under Management, we are the clear number two in the German market. This is a direct positive outcome from our best-in-class personal advice. And also our expertise in direct banking is indisputable – especially given the recent integration of comdirect. Based on these strengths, we will tackle the cost challenges as well as the unused potential from our strong customer base.

And if there's any positive outcome from the pandemic, it is the significantly increased speed towards digitalisation. This is a clear catalyst for the radical change into the digital and modern business model of PSBC.

We've identified four strategic levers that we'll use to successfully transform our business.

- The first one marks the core of the overall strategy. By means of a significantly modified sales approach, we will save more than 20% of our costs. Obviously, this comes with material FTE reductions and branch closures.
- Second: with the integration of comdirect, we've created a unique blend of business for private customers. comdirect delivers all the tools for an efficient, scalable and effective direct banking proposition, while Commerzbank adds superior personal advisory.
- Third: we'll focus our personal advisory on premium clients. Wealthy clients and valuable small business customers are the main source of additional revenues in the coming years.
- And fourth: we know that such a massive transformation and cost reduction will come with some customer and revenue churn. But with a comprehensive set of mitigating measures, we'll limit the revenue churn to less than €300 million.

So, now, let me walk you through the levers in more detail to provide you with the concrete design of our strategy.

We will radically modify our sales model with a focus on profitability. Our model is key for higher profitability. It allows for a much lower cost-to-serve for the entire client base, while tapping additional revenue potential – mainly with premium clients. All customers will benefit from our “mobile first” principle. Relevant service requests and simple sales transactions will be executed via

smartphone. This way, we can increase the share of efficient self-service processes from 10% to around 90%.

Furthermore, we'll establish a centralised advisory center where we'll pool highly qualified experts on a 24/7 basis to provide best-in-class advisory. With all the experience in working-from-home, there's actually no reason why mortgage loans can't be done on the basis of a video-conference. Hence, we'll increase the share of customers taking remote-advice from 25% to around 90%.

The third pillar for increased efficiency in our future sales model are 450 advisory points. Customers receive easy and quick advice for non-complex products and can buy them instantly. Service is predominantly offered via self-service zones. These advisory points are lean in costs and personnel and actually replace the former branches. They take advantage of the changing client behaviours and client needs. Additionally, 220 out of the 450 advisory points include a premium branch exclusively for our premium clients.

And what do I mean by premium clients?

Premium clients are attractive small business customers and private customers with assets under management of one hundred thousand euros or more – of which we have more than 650,000. This is where we will have our top sales staff and advisors working on complex banking needs. With such bespoke advisory services and solutions, I believe we can create additional revenues.

Let's take a closer look at our branch network. The reduction by more than 50% of the branches until the end of 2022 demonstrates the radical nature of our new sales model. We've already permanently closed around 200 branches that were initially shut due to the pandemic. About 200 more will follow this year and by the end of 2022 we'll have reached 450 – down from our original number of one thousand branches pre-Corona.

We will significantly invest into the network. €45 million have been reserved for renovation of the remaining branches and also for the remedial work in the closed offices which is required before they can be handed back to the landlord. Regarding the 450 advisory points, it's important to understand that these also serve as a key mitigant for customer and revenue churn.

Beyond 2022, the number of 450 is not set in stone. Rather, we will have regular reviews on that number and take into account our churn experience. In that sense, I wouldn't rule out that we come up with even lower numbers beyond 2022. The significant reduction of our branch network and the associated impact on the number of FTEs are the main drivers for the overall cost reduction of around €700 million in PSBC Germany.

Savings in personnel costs of around €400 million are based on a net FTE reduction of 3.500. This shows the impact of the new sales model with more efficient cost-to-serve. A further €100 million of cost savings reflect other branch related costs such as rental costs. The remaining €300 million include amongst others IT-costs and marketing expenses. Please note, that the expected synergies from the comdirect integration are reflected in the overall €700 million cost savings. This includes the future avoidance of double-spend for marketing and IT.

This leads me to the second lever – and the digital power of comdirect. The first leg of our unique blend for the business model is digital. By leveraging comdirect to the maximum, we will provide excellent customer experiences with strong direct banking capabilities. And the time is right for a bold move towards digital banking in mass retail. The pandemic has significantly increased the acceptance of digital channels in banking. Today:

- 80% of all our client contacts in the branch-based bank are already online or mobile.
- More than 70% of all our payment transactions in the branch-based bank are digital.
- In the market, more than 55% of all security trades find their way online or mobile.

By leveraging key features of the comdirect model to all our 11 million customers, we can take advantage from this development.

Let me pick one of the key features of our future approach: Interaction of all channels. Our customers will have a seamless and unified customer experience across all channels. Through data and customer intelligence, sales initiatives will be routed to the right channel at the right time. Information about customers is available in all channels at all times. The transfer to other channels will be done without friction and without loss of information. The customers will experience the transfer between channels as secure, comfortable and intuitive.

Our channel management is controlled through Microsoft Dynamics and DCRM – our digital customer relationship management. This approach is unique in the industry.

The second leg of our unique blend is our focus on growth with premium clients and this brings me to our third lever. Statistics and market research tell us that asset growth for the vast majority of people in Germany is muted. However, on the other hand, what we're seeing is that wealthy households are accumulating more money. We see an annual 2% asset growth of premium clients. As I've said, these are wealthy customers and entrepreneurs with Assets under Management of at least €100,000.

We're actively targeting this client group with our individually tailored customer care and our superior personal advice. This will help us to increase our share of wallet and gain additional premium clients. This is the key task of our top sales staff who will be situated in our 220 branches for premium clients. Moreover, our premium clients will also benefit from the enhanced digital offering leading to an overall excellent client experience.

Based on analytics and big data, this allows for double digit growth in loans to small business clients as well as in securities. With targeted promotion of our unique client proposition, we will clearly support this asset growth. Ultimately, this asset growth will lead to additional revenues. Another key source of additional revenues is the pricing of our payment-related products and services, which should result in increasing recurring fee income.

An important point of the new pricing model is, for example, that we will no longer unconditionally offer accounts free of charge. The basis, however, will still be an attractive product that is linked to activity-based fees. On top of that, clients can choose additional features, such as packages for cash management or travel, which will create additional fees.

We've already started with our new pricing strategy by launching a new account model for Commerzbank customers in October 2020. This initiative has been very successful, and we've observed higher earnings with these new customers. The next step towards our new pricing strategy will be the launch of a new account model for comdirect customers within this first quarter.

Without doubt, such changes in pricing models as well as changes in the sales model will definitely create churn. With our fourth lever, we will actively address the churn risk. By doing this we aim to keep as many customers, assets and revenues as possible. Regarding our modified sales model, we've run comprehensive analysis to calculate churn. Main drivers for churn – but also its mitigation – are branch proximity, branch use, advisory needs and missing digital skills.

Let me point out, that the advisory points play a crucial role for churn mitigation. Our staff at the advisory points will aim to provide personal help and support for many customers unused to digital self-service. Having said that, it remains to be seen, whether we will still need 450 advisory points beyond 2022. Regarding the changes in the pricing model, our mitigation approach builds on the offering of attractive product alternatives to affected customers.

All-in-all, we expect a revenue churn of less than €300 million. This is also reflected in the revenue bridge from 2020 to 2024. Our starting point in revenues for PSBC in Germany is €3.8 billion. The churn and the ongoing drag from negative rates, weigh on revenues with almost €600 million. With our comprehensive and detailed revenue measures, especially with premium clients, I believe we can offset this burden.

On NCI, we clearly focus on securities and will benefit from comdirect's brokerage expertise. We expect the increasing client demand to continue. 2020 has seen a lot of first-time investors into securities. This changing behaviour of customers from deposits to securities is encouraging. It provides customers with better return opportunities – and is also good for our business. The other key driver for NCI is the payment-related business around account models, which will benefit from our pricing initiatives, as already mentioned.

On NII, we've focused our initiatives on three products:

- In mortgages, we continue our successful development especially with premium clients.
- Regarding individual loans, we focus on premium small business customers.
- And consumer loans will benefit from increased third party sale.

So, on a net basis, we expect only a slight growth in revenues until 2024.

But to be very transparent: the targeted level of revenues requires more RWA than today. They stem from additional loan volumes to offset the ongoing NII-drag from deposits. Although these numbers dilute the revenue profile, it's important to note that all additional loans in the plan earn their cost of capital and benefit from lower expenses.

And this leads me to the overview of targets we have set in PSBC Germany for 2024.

- As I've just said: we plan for only slightly increased revenues of €3.9 billion. This comes with an additional €7 billion RWAs from capital accretive business.
- Our cost base will be reduced by more than 20% from €3.2 billion down to €2.4 billion.
- This is reflected in the reduction of 3,500 FTEs down to 7,300 FTEs.
- With all the measures in place, our CIR will improve substantially from 85% to 62%.
- And, despite the additional RWAs in the division, the Return on CET1 capital will improve from 80% to 31%.

Ladies and gentlemen, this is a transformational programme for our business with private and small business customers in Germany. We're building a completely different bank. It'll be highly digital, very efficient and still customer-driven to the maximum extent possible. The management team in the division is totally committed to building this new bank and to starting on the execution of the plans.

And to be honest: this is very much needed, because we need to be focused and fast in taking decisions and implementing changes. But we're not starting from scratch.

- We've already taken decisions and reduced our branch network.
- We have fully integrated comdirect and can seamlessly build on all capabilities.
- And maybe most important: we are today - and will remain - a customer-driven bank with superior advisory services for its clients.

With that in mind, our transformation programme will show progress every single year. This year, we will expand our remote advisory center platform and permanently close another 200 branches. We will also establish our fast lane for the support of our premium clients.

In 2022 and 23 we will have reached our target with regards to branch network and remote advisory centers. We will have made major progress in our digital offerings and will have finalised the comdirect integration.

Finally, in 2024, we will have established the full target set up. Assets under Control should be above three hundred and ninety billion Euros and 73% of our clients will be active digital banking users.

Ladies and gentlemen, in PSBC Germany we are undergoing a radical change. I am committed to this transformation and have every intention of making it a success.

Thank you very much.

## Disclaimer

This transcript contains forward-looking statements. Forward-looking statements are statements that are not historical facts. In this release, these statements concern inter alia the expected future business of Commerzbank, efficiency gains and expected synergies, expected growth prospects and other opportunities for an increase in value of Commerzbank as well as expected future financial results, restructuring costs and other financial developments and information. These forward-looking statements are based on the management's current plans, expectations, estimates and projections. They are subject to a number of assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from any future results and developments expressed or implied by such forward-looking statements. Such factors include the conditions in the financial markets in Germany, in Europe, in the USA and other regions from which Commerzbank derives a substantial portion of its revenues and in which Commerzbank holds a substantial portion of its assets, the development of asset prices and market volatility, especially due to the ongoing European debt crisis, potential defaults of borrowers or trading counterparties, the implementation of its strategic initiatives to improve its business model, the reliability of its risk management policies, procedures and methods, risks arising as a result of regulatory change and other risks. Forward-looking statements therefore speak only as of the date they are made. Commerzbank has no obligation to update or release any revisions to the forward-looking statements contained in this release to reflect events or circumstances after the date of this release.

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