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“Banking 2025 – Laying the Foundation for the Next Era in Financial Services”

Remarks as prepared for delivery

It is a real pleasure to be here at the Wharton Leadership Conference in Philadelphia.

As I’m sure most of you are aware, Philadelphia is a top market for Citizens. We have our name on the baseball stadium here, and it is nice to see the Phillies off to a good start this year.

We have a rich history here and the interests of our bank and the city have long been highly aligned. I know that Wharton, as a good fellow corporate citizen here in Philadelphia, shares our deep commitment to a strong and growing city and region.

This year’s conference theme, “Leading in a World of Seismic Shifts,” is incredibly timely, not just for banks, and not just for industry, but for society overall.

I meet often with the bank’s clients, and across all industries and geographies there seems to be a clear realization that we are at a critical inflection point where both business models and technology are changing in fundamental ways.

Whether it’s the way that companies such as Netflix have capitalized on the strength of data analytics and artificial intelligence to personalize their communications and marketing ...

Or the potential of the “Internet of Things” to generate as yet unimagined insights into our daily lives ... Or how advances in social and mobile payments are upending shopping habits ... truly the only constant we see today is an accelerating pace of change.

I recently met with Ginni Rometty, the Chairman and CEO of IBM, who frequently talks about this. She believes that we are currently in the midst of profound transformation for both business and society, similar in scale and scope to previous periods that were driven by technological advances. These tend to occur every 25 years or so.

There is a strong belief that this next wave of transformative change – which is being driven by the vast and still largely untapped power of data – may have the potential to dwarf the other prior periods of change.

As with any period of great change – or ‘seismic shift’ if you like – there is some fear and uncertainty. But there is also tremendous excitement and opportunity.

Given the growing centrality of data in both business and society, those that will have a competitive advantage will be the ones who can “out-learn” everyone else and put their insights to work on behalf of customers, employees and all of their stakeholders.

That brings us to banking.

As with other industries, changes in customer behavior and technology are rapidly and dramatically transforming the nature of competition in banking. Customer expectations of banks, informed by their

experiences with “Big Tech” digital players such as Google and Amazon, are significantly higher.

This shift is shaking up the historically staid world of banking.

Traditional players have become emboldened to enter each others’ markets; new digital platforms such as direct banks and roboadvising are being adopted; and new digital- and data-first ‘FinTech’ players are seeking both to partner with banks and to take market share for themselves.

Customers simply see no reason why they can’t enjoy the same functionality in managing their money as they enjoy ordering a product online or organizing a playlist on iTunes. Their belief – and rightfully so – is that they should be able to log in and “just have it work.” Period.

As users increasingly understand and appreciate the possibilities inherent in the digital revolution for making their lives easier, the lines between products, services and physical space are blurring for banks, as they have in other industries. How a bank delivers for its customers now matters just as much as what it delivers.

The imperative today is for a seamless customer experience across channels that taps the very best digital technologies and business models to offer customers exactly the products, solutions and advice they want – when, where and how they want them.

Superior customer experiences and relationships are key to success and must be at the center of how any successful bank operates.

So, the question is, in a period of such profound change, with so many traditional business models being disrupted, can banks maintain their relevance and prosper in the years to come?

I believe the answer is yes. Yes, that is, for banks that are able to understand the sweeping technological and societal changes currently underway and can harness the potential of digital to provide their customers a consistently excellent experience across channels.

Like anything worth doing, this will not come easily. It requires investment, detailed planning and coordination and effective change management across the entire organization.

To succeed in a rapidly transforming, data-first environment, banks must move decisively to restructure their foundations for the long-term. In my view, they must focus on three things, namely:

- One, embracing new customer interaction models;
- Next, delivering excellent capabilities through smart innovation; and,
- Lastly, investing in leaders and employees in new ways.

I will take you through these three areas in a moment, but let me mention that this transformation is not easy to do. Banks have to balance the need for longer-term investments with continuing to deliver well near-term in a highly competitive market.

There is some urgency here. Many banks are only in the early stages of developing the capabilities and culture that digital companies and their customers take for granted.

The window within which banks can become digitally proficient is a narrow one, and it's closing more quickly every day. Failure to take

action risks putting banks on a path of decline similar to that now being traveled by big box retailers and other slow movers.

So, let's start off with how banks need to embrace and excel at new customer interaction models.

As I've noted, customer behavior and technology have changed dramatically. The "how" is now on par, and perhaps even eclipsing, the "what" when it comes to the ways customers think about their banks.

In fact, McKinsey likes to say that leading companies now understand themselves to be in the customer experience business.

While the experience is paramount, what consumers and businesses ultimately want from their bank hasn't changed in a material way.

They want the confidence that they will have the financial means to live their lives and the tools to access their money when they need it. They want a bank that "gets me" and will be a trusted advisor on their life's journey.

The trick, therefore, is to marry the new methods for delivering a great experience with sound ways of delivering value to the customer.

There is a very high expectation threshold because, in other areas of their lives, customers are experiencing the world in new and different ways.

Think about the simple and intuitive experience offered by Apple...

...or the tailored advice and offers that Google is able to provide through the use of Big Data...

...or the ability to immediately sign and return documents regardless of location that DocuSign brings...

...or the seamless hopping across channels – from physical stores to mobile ordering -- that customers of U.K. retailer Tesco enjoy.

Most banks are aware of these changes, and are moving quickly to invest in digital capabilities and solutions that provide similar kinds of frictionless customer experiences that resonate with target customers.

In the consumer banking space there are several high profile examples:

- “Finn by Chase” is an all-mobile offering strongly focused on millennials;
- Goldman Sachs’ “Marcus” digitally offers no-fee personal loans and high-yield savings accounts;
- Bank of America’s “Erica” is an A.I.-powered virtual assistant that enables banking via voice command, text or through gestures from within the Bank of America mobile app;
- and there’s been a broad rollout of digital mortgage experiences such as “Rocket Mortgage” by Quicken.

And in commercial banking, there are many new platforms for trading, cash management and payments.

Citizens has made its own moves along these lines as well. We were the first large regional bank to offer a fully integrated digital banking and wealth advisory offering.

We see this service, called SpeciFi, as a great platform that makes investing more accessible to a larger set of customers.

We also recently launched a digital small business lending platform, in collaboration with Foundation, that enables small businesses to quickly and easily apply for loans and lines of credit online.

Most recently, we announced plans to launch Citizens_Access, a nationwide direct-to-consumer digital deposit platform that will offer attractive rates in an easy-to-use format. To get this off the ground we relied heavily on the investments we've made in data and analytics to better understand and react to customer needs.

We believe these types of initiatives get us to market quickly, and position us to further learn, innovate, and grow.

There are numerous other approaches being explored by financial services players that I could cite.

Fundamentally, for banks to meet these higher customer expectations, they need to aggressively become more digital, operate all channels seamlessly, and up their game in delivering value-add services.

This means helping customers do the easy things easily while seeking to be the trusted advisor in the moments that matter.

And a key foundation block for cementing that customer relationship and being the trusted advisor is to create an ecosystem around data that drives robust analytics, insights and security.

This requires high-performing teams to put data to work, using artificial intelligence in real-time to provide the most relevant, omnichannel offers...both in the moment...and in the right context.

While there are technical, organizational and cultural challenges involved in becoming a truly analytics-led organization, the benefits are significant.

In the area of platform marketing, for example, Citizens began to see significant increases in responses to our home equity offerings through smart targeting and the preassembling of customer information.

This has led to a dramatic increase in market share that has outpaced other Citizens channels by more than two-and-a-half times.

We have also had success using data to empower front-end employees across all channels to act as trusted and knowledgeable financial advisors.

When our branch employees sit down with customers to talk about their financial status, they increasingly have access to relevant, actionable, specific information that enables them to personalize the conversation and offer more informed advice and product offers.

Another way banks can put data to work is by leveraging a deep understanding of customer segments to transform the critical ‘moments of truth’ that matter most to customers.

For example, Citizens is doing this through an intense focus on ‘customer journeys’ – transforming the way we engage with customers at critical moments so that they are compelling, differentiated, personalized and highly user-friendly.

This process starts with putting the customer – not the organization – at the center. Rather than thinking about customer interaction as a series of touch points where we try to react to feedback in real-time,

we are creating holistic, end-to-end experiences engineered from the customer point of view.

Our initial focus has been on new customer onboarding, problem resolution, and fraud – three areas where banking customers tend to encounter the kind of friction they don't typically see in digital native industries.

For our Commercial clients, this approach means offering the best ideas and then building great solutions while simplifying our delivery model. Here too banks must start with the client perspective and engineer excellent experiences around everything from executing deals quickly and flawlessly to post-close servicing.

Banks know that consumers want frictionless and personalized experiences.

Combining the power of data from a proprietary data intelligence platform with a customer-centric mindset is the key to delivering that better customer experience.

And, like the digital natives, banks must be forward-leaning and anticipate what would constitute an even better experience. Amazon's work around the possibility of providing one-hour delivery is an example of that – no customer really expects this (yet) but they are trying to do it.

Banks must also anticipate where the disruptors may attack their business models – then strengthen their defenses and move to offense.

I think the broad takeaway here is that just as banks are leveraging data to create enhanced customer experiences, so should the organizations in attendance today think about how to better understand their

customers, anticipate their needs, and form lasting connections throughout the customer journey.

Successful organizations know how to put the customer at the center of everything they do.

Let's move on to the second key to long-term transformation -- delivering excellent capabilities through smart innovation. Falling too far behind the leaders can have serious consequences in the current environment.

It's no secret that innovative companies tend to perform better. According to RAND, innovative firms have six times the sales and three times the profit margins of average firms.

Many banks understand this and have been acting accordingly.

This includes hiring digital and innovation executives from outside banking, adopting agile development, opening application programming interfaces to outside developers and accelerating partnerships with 'FinTech' players that enable them to execute their strategies with greater speed and agility.

The vital first step is to enable a culture of innovation throughout the organization, addressing entrenched behaviors and processes that hinder innovative thinking.

Banks must also identify new pockets of growth and find ways to develop more strategic value out of their customer base.

Finally, banks must identify the right partnerships to improve their capabilities and the customer experience.

In this way too banks will need to operate like digitally native companies, using clearly governed operating models that drive innovation across the enterprise.

While individual business lines may continue to fund innovation, there should also be dedicated funding provided from the corporate center to enable work on disruptive innovation and breakout areas.

The goal should be to get to the “minimum viable product” phase within several weeks, rather than the historical months or years, greatly increasing the number of ideas that can be tested in the market. The banks that truly commit to an innovation model must do several things.

They must:

- ensure deep commitment and expertise amongst their senior leadership;
- they have to embed this way of thinking within training and development agendas; and
- they have to seek fresh thinking and culture carriers by adding new hires with an innovation mindset.

Additionally, banks will need to share clear definitions and objectives of innovation within the organization to ensure focus on the biggest pockets of opportunity, and they must pursue a balanced portfolio of ideas that includes a mix of customer-facing innovation and back office efficiencies.

Performance incentives should be tightly aligned with innovation goals, with the right mechanisms in place to track performance.

Governance around these efforts is critical. In addition to formalizing the innovation operating model, it is sensible to assign a central innovation lead and form an Innovation Council to lead and coordinate the company's overall efforts.

Another step to consider is the formation of an Innovation Lab -- a dedicated resource responsible for developing ideas to test with customers that enables the organization to more quickly execute on a higher volume of ideas in their pipeline.

Another part of getting a strong innovation culture in place is being open to the best solutions – whether they are developed internally, offered by external partners or obtained through vendors.

With the financial services marketplace changing so rapidly, only such a multi-pronged approach will enable banks to keep up with technological changes and customer demands.

At Citizens, we are starting to see success in employing each of these models.

For example, the bank leveraged its internal development and industry expertise to essentially create a market for the private refinancing of student loans.

These loans, which enable recent graduates and their parents to consolidate debt at a lower rate, can ease early career financial burdens or help a borrower advance to complete graduate level studies.

We also partnered with Apple, one of the world's most iconic technology brands, to provide a unique point-of-sale financing solution to power its iPhone upgrade program.

Both the concept and the customer experience are extraordinarily simple.

Instead of paying for a new phone upfront, customers can pay for that phone over time with no interest and are eligible to upgrade to a new phone annually when Apple releases their latest cutting-edge technology.

Through the smart use of analytics we are able to provide nearly instantaneous credit decisions. We believe this is the best retail financing experience available in the U.S.

We have since announced a similar partnership with smart alarm company Vivint and are talking with a number of other players who are interested in this innovative solution.

Finally, the SpeciFi digital wealth advisory platform I mentioned earlier is a great example of smart partnering with a Fintech player, in this case SigFig.

As we moved to build out our wealth management business, this partnership enabled us to very quickly offer a solution for customers seeking an all-digital experience with low initial investment and fees – a clear win vs. trying to create this specialized capability organically.

Now the potential for Fintech players to fundamentally disrupt banking continues to be a theme among industry observers. Depending on whom you ask, Fintechs will either be the salvation of banks or the death knell for our business models.

These players certainly have the potential to drive change -- think about capabilities such as customer service chatbots, or AI-enabled algorithms for fraud analytics, or blockchain for digital transactions.

However, I tend to see them as essential collaborators that will help power and accelerate a smart, data-enabled strategy.

Fintech companies are not banks – nor generally do they want to be. They don't have the customer relationships, scale, expertise or risk management muscle needed to operate as broad-based financial services institutions.

What they can do, however, is improve the capabilities of banks in key areas and help them meet the imperative for an improved...and digitized...customer experience.

Traditional banks have moved to engage with Fintechs in a number of ways, from direct and corporate venture investing to strategic partnerships to outright acquisitions. Each approach has pros and cons.

In my view, strategic partnerships such as the ones we have with SigFig, or with Bottomline Technologies for our commercial treasury offerings, make a great deal of sense.

They offer a quick and relatively low risk way to support business strategies by adding key capabilities and delivering greater value to our customers.

As banks look toward engaging with FinTechs, they should ask themselves hard questions about where the capability offered fits with their business strategy, how important the experience enabled by that capability is to their core customers, and whether the offering will actually help set them apart.

Here too, disciplined execution is key – choosing correctly out of the many options available today may be crucial to ensuring continued relevance in 2025 and beyond.

The lesson here for folks in the room is that in a period of exponential change, openness to smart thinking and great technologies – whether from inside an organization or from a third-party – represents an opportunity for growth and, delivering better for customers.

The right partnerships can help successful brands gain market share and customer mindshare.

Of course, neither new customer interaction models nor smart innovation can occur without leaders and employees that are prepared for and, indeed, embrace today's highly dynamic market environment.

That brings me to the third foundational element for banks to be successful in 2025 and beyond – investing in talent in new ways.

Attracting the right talent is currently among the greatest challenges facing banks as they seek to transform themselves to meet shifting customer demands, face off with insurgent competitors and partner smartly to help advance their strategies.

While financial institutions obviously still compete with each other for talent, the real and growing challenge is attracting to the industry the strong and capable leaders and employees who understand the changing landscape and can help banks meet the challenges of transformative change.

Step one is making sure you have the right leadership team and talent strategy to take you forward. That involves mapping future skill needs, identifying gaps and moving decisively to fill them.

As standard, predictable activities are automated, some of the skills that will be needed by the banking workforce of the future will focus on areas such as:

- digital and data analysis capability to drive better customer experience;
- effective collaborators in diverse teams who can work across silos;
- and outward-facing mindset and the ability to work with external ecosystems to drive innovation.

As with any period of transformational change, banks are finding that while training is vital, not everyone is able to adapt.

That means that we must recruit the next generation of talent to fill that gap – not easy since that talent is in strong demand.

To attract the types of employees needed to get ahead of today's challenges and opportunities, banks must build a responsive and innovative environment while connecting employees to their mission and values in meaningful ways.

The fact is that banks must contend with the same type of higher expectation threshold among current and potential employees that they are seeing with their customers.

Potential and current employees have also become used to interacting with digital players that can offer a seamless, cutting-edge experience.

So just as banks think about and work to perfect the end-to-end “customer journey,” they must also provide a superior end-to-end experience for their own employees.

To engage and better enable employees, banks must provide:

- ‘workplaces of the future’ that comprise agile, team-based structures;
- programs to develop and advance the digital skills of a multigenerational workforce; and
- support for both Diversity & Inclusion and the development of next-generation talent.

The simple fact is that if banks are unable to offer digital-savvy talent the experiences they have come to expect, they will lose them to the organizations that will.

Part of providing a great employee experience will include harnessing the power of analytics and A.I. to enable growth and advancement.

Just as data and digital innovations enable banks to tailor offerings and stay ahead of customer demands, they can also help banks manage their workforces with more insight and responsiveness than was previously possible.

One way Citizens is working to align the right people and capabilities to our business strategies is by partnering with IBM to deploy a virtual coach that leverages data and cognitive computing to align business needs, employee aspirations and career development.

The interface, which we call “Myca,” learns about employees’ skills and interests and makes recommendations for open roles, building

capabilities and growing in their career. The more that employees use Myca and share information, the more valuable it becomes.

Myca will interconnect our HR systems, provide a personalized and scalable experience, and fuel growth by better aligning people and capabilities to our business strategy.

Citizens is one of only five companies in the world pursuing this cutting-edge AI experience, which we will pilot next month and fully deploy in 2019.

Just as important as training and tools for attracting and retaining talent, banks must provide new and existing leaders and employees with an understanding of the meaning and higher purpose of what they and their companies do.

Research shows that organizations with a clearly defined purpose experience stronger growth and innovation, and that purpose-driven employees are more engaged and more apt to promote their organization to others.

This part of the expectation threshold is every bit as important as agile teams and modern workspaces.

Banks have not traditionally scored well in terms of employees finding their work purposeful.

I believe this creates a critical opportunity for banks that can make the right connections between their employees and their organization's mission, vision and values.

I like to think of the role banks play in helping customers navigate their financial journey as a privileged one. When banks put customers front

and center, families flourish, businesses become stronger, communities prosper and local economies thrive.

At Citizens we couch this in terms of helping customers, colleagues and communities reach their potential.

I believe that our efforts to help employees make the vital connection between what they do and why they do it has driven greater engagement and satisfaction.

As with so many things, success starts with leadership, so I would like to spend my last few minutes on the type of leadership needed for organizations to deliver well today and tomorrow.

First, leaders must have the ability to inspire. That means being able to bring out the best in people, to rally employees around the meaningful purpose that's so important to today's workforce, and to make an emotional connection with employees and customers.

They must also be both broad and deep, able to manage all aspects of a business including risk management, technology, the financials.

They need to be able to toggle between strategy and execution. In short, good businesspeople with vision and the ability to see around the corners.

Additionally, and very importantly, they must have a growth mindset. The successful leader of the future must be able to create an environment/culture that enables swift execution (what I think of as 'clock speed') and risk-taking balanced against the need for consistent delivery of results.

This can feel like a paradox, but it's another continuum that leaders must be able to navigate during a period of such sweeping change.

The fact is that the ongoing disruption in the banking industry and beyond has created a moment of reinvention for everyone that requires learning at a rapid pace and the ability to reinvent oneself as new disruptions come along.

It's vital to keep in mind that the long-term success or failure of any company comes down to talent. Having the right people, including a diverse team of people with different skills and experiences, enables an organization to develop new thinking, strategies and, ultimately, growth.

It's really all about people – finding talent, hiring talent and cultivating talent who will stay with an organization through the critical transformation period and beyond.

To sum up, none of us should underestimate the power of the technological and societal transformation currently underway.

Whether you call it a “seismic shift” or “exponential change” or something else, it is a change that will be as profound as any we have seen historically.

However, just as banks that made the right strategic decisions successfully weathered previous technological and cultural shifts, banks that understand the forces currently at work and adapt the right strategies should continue to be successful.

This means putting the power of data to work to deliver a consistently excellent experience, accelerating their strategies through smart innovation and attracting and retaining the talent needed to take them into the future.

Understanding the need for change is the essential first step. Then it's a matter of strong leadership in aligning the organization around an overall transformation program that includes both capabilities and culture.

Many of the choices that banks grappling with change must make – whether it's entering new markets, partnering or acquiring to gain a technological edge, or transforming culture and management processes – are difficult.

But those banks able to take the difficult but necessary steps to embrace technological and behavioral change will find ways to preserve their franchises and continually earn the trust of their customers.

Thank you for the opportunity to address you this afternoon and I look forward now to taking a few questions.

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