



# Charting a new path to sustainable, profitable growth for Nedbank Retail

## UBS Indaba on Mass Market Banking

**Ingrid Johnson**

Group Managing Executive:  
Retail and Business Banking

1 June 2011

MAKE THINGS HAPPEN 

**NEDBANK**

A Member of the  OLD MUTUAL Group



# Disclaimer

- Nedbank Group has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this document, including all information that may be defined as 'forward-looking statements' within the meaning of United States securities legislation.
- Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'.
- Forward-looking statements are not statements of fact, but statements by the management of Nedbank Group based on its current estimates, projections, expectations, beliefs and assumptions regarding the group's future performance.
- No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.
- The risks and uncertainties inherent in the forward-looking statements contained in this document include, but are not limited to: changes to IFRS and the interpretations, applications and practices subject thereto as they apply to past, present and future periods; domestic and international business and market conditions such as exchange rate and interest rate movements; changes in the domestic and international regulatory and legislative environments; changes to domestic and international operational, social, economic and political risks; and the effects of both current and future litigation.
- Nedbank Group does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party thereon, including, but not limited to, loss of earnings, profits, or consequential loss or damage.

# Executive Summary

**Nedbank Retail is building banking relationships with all in South Africa**, leveraging distinctive strengths, underpinned by world-class risk management. This is being delivered by **offering a choice of distinctive, client-centred banking experiences** that build **many deep enduring relationships** with Nedbank.

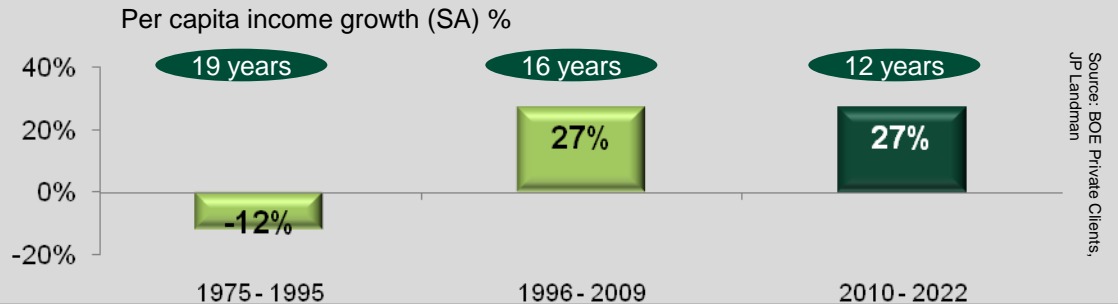
The **mass market** incorporating Youth and Entry Level Banking **is a growth opportunity** where Nedbank has steadily made progress and is well positioned to achieve more. Nedbank has:

- **2.9 million clients** in the mass market, with demographics pointing to increased opportunity in the future
- a **strong Personal Loans business** delivering R500 million in headline earnings<sup>1</sup> in 2010 (at 21% return on equity); Personal Loans business is relevant and accessible to the mass market
- **increasing relevance in the mass market segment**, with increased brand recognition, and an attractive client value proposition (CVP)
  - increasingly connecting in our **marketing in an aspirational and caring way**
  - relevant on **products** (e.g., m-pesa; Mzansi; Savvy; A Better Life; Nedbank Cup)
  - competitive on **price**
  - increasingly accessible and convenient **distribution** (e.g. m-pesa, Nedbank In-Retailer)

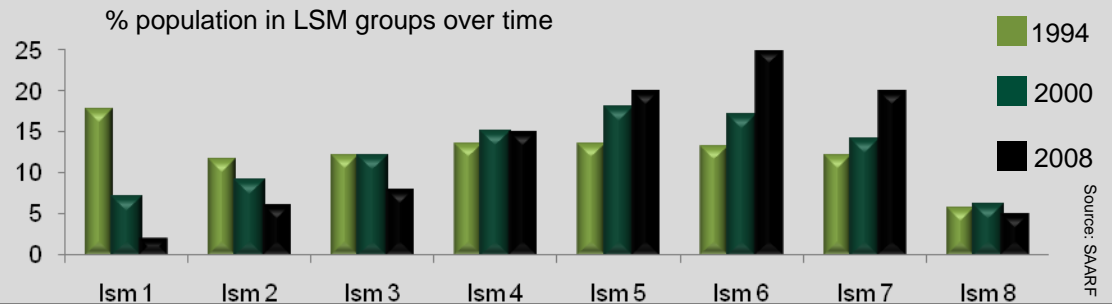
<sup>1</sup> Excludes the part of credit life insurance income in Nedbank Wealth and Transactional Banking revenues

# Favourable trends in the future with high growth in Middle-income, Entry Level Banking and Youth segments

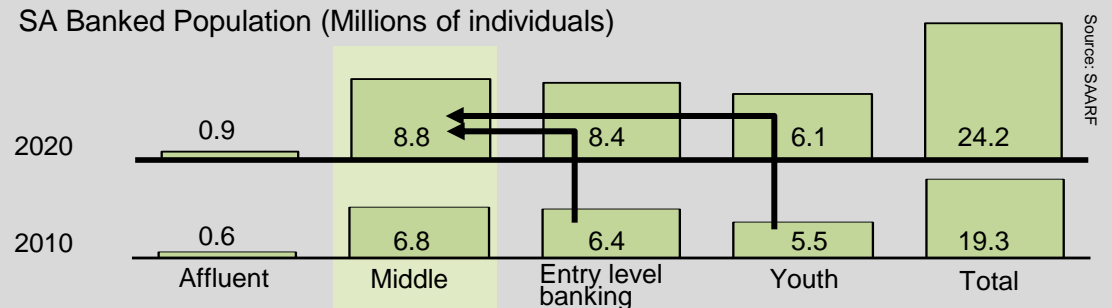
SA income per capita to increase further



Demographics shifting



Growing SA banked population driven by youth & entry level



SOURCE: Retail Strategy Investor Day – Jan 2011; BOE Private Clients; JP Landman; SAARF

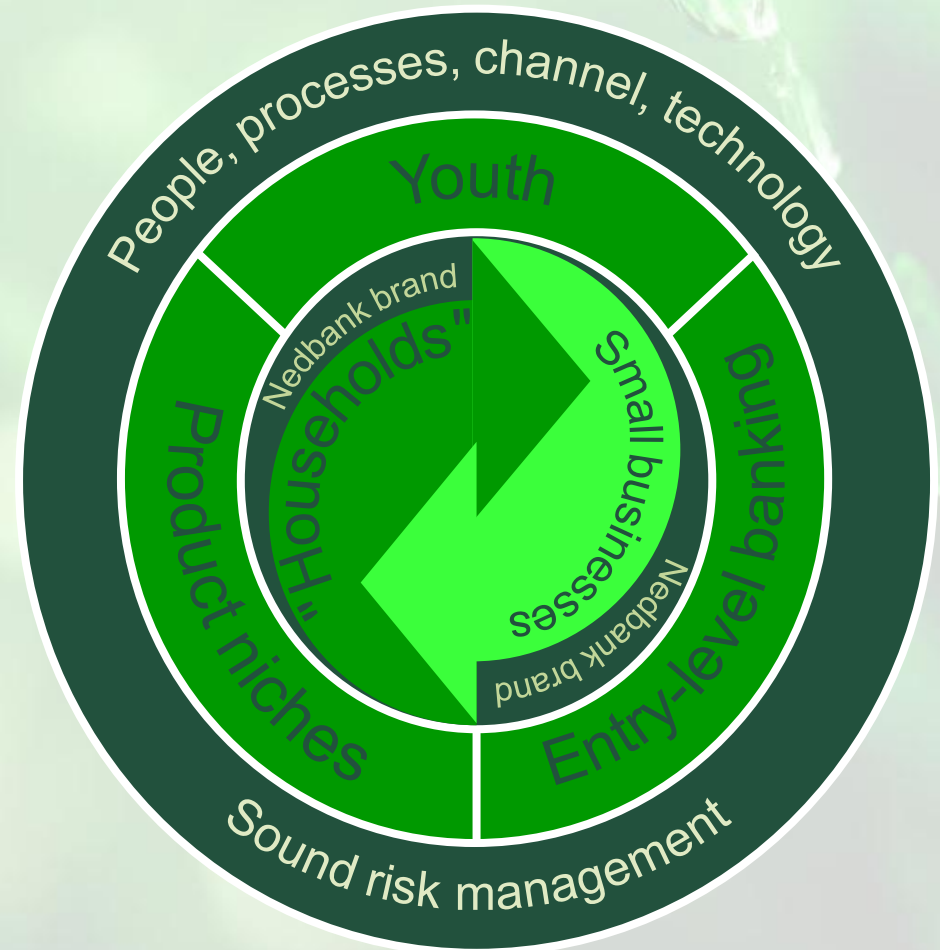
# Nedbank's Retail strategy is building banking relationships with all in South Africa, leveraging distinctive strengths, underpinned by world-class risk management

## STRATEGIC INTENT

Delivering a choice of distinctive **client-centred** banking experiences

that build many deep, enduring relationships with Nedbank

Delivering growth and sustainable shareholder returns through effective allocation of scarce resources



# Delivering "households" a choice of positive client centred banking experiences<sup>1</sup> will be at the heart of what Nedbank Retail will stand for, underpinned by world-class risk management

## Our mission/promise to clients:

**"By understanding your aspirations and financial goals, we Make Things Happen for you"**

- Our **overall distinctiveness** will come from our aspirational brand, and **how we deliver** on this client promise. In our approach, we will deliver

- **Positive client centred experiences**
- Integrative banking experiences for **households and natural groupings**, and only 'ask once'
- **Client needs by listening, understanding and showing that we care about their financial fitness**
- Great **value** banking
- **Fast efficient** processes

## Our response to the strategic opportunity

- Relationship / 'I know you' experience



- (Mass) tailored / 'I know about you' experience



- Youth



- Entry-level<sup>3</sup>



- Product niches



## Important cornerstones of strategy

- RM knows the customer household
- Entrepreneur and business** served as one
- Solutions oriented** (e.g., financial fitness, basic business support functionalities)

- Smooth **delivery, in line with expectations, and solutions tailored to segment specific needs**, based on distinctive customer (segment) insights

- Range of offerings dependent on nature of household**, incl. tech-savvy products/services
- Laying foundations for financial fitness**

- Relevant and affordable product bundle**, distributed close to client
- Help with improving my **financial literacy**

- Differentiated product** based on what I want, where and when I want it, with fast turnaround

## Elements of customer value proposition specific to strategic response

- A **form of RM** (lower to higher touch) supported by access to centralized or regionalised product specialists. **Discretionary client driven credit decision** (no autodecline). Special areas in branches (video links to specialists)

- No dedicated RM**. Choice of servicing from self-directed to outlet servicing at the right price
- Centralised CRM<sup>2</sup> and customer intelligence (including branch systems) directs the sales force

- Specific product and marketing, additional channel emphasising mobile, on-line and schools. **Strong connections to households**
- Centralized CRM to capture 'risers'

- Low cost to serve**, affordable simple products, at point and time of need
- Adapted channels**, leveraging alternative distribution
- Centralized CRM<sup>2</sup> to identify 'risers'

- Specific product and solution niches**, aligned to the client centric experience and client insights
- Centralized CRM<sup>2</sup> to cross-sell

<sup>1</sup> Based on CVP, affordability and complexity of needs. No forced model – left to the choice of customer

<sup>2</sup> Enabled by relevant systems and processes

<sup>3</sup> Defined as feeding the rising demographics

# A detailed voice of the customer analysis reveals clients' needs across segments

■ Emphasis of presentation

## Customer profiles/work and revenues (ZAR/year)

## A day in the life of...

## Voice of the customer/ I need a bank that...

## Based on this, we will always...



Affluent segment  
>550-1000k

- We are **busy advancing our careers**; we are doing well
- Our **standards of living are increasing**

- Offers me **wealth management-like products**, including a **personal relationship** to my trusted advisor
- **Tailors its offerings** to my needs

- Have empathy, listen and understand customers
- Build the relationship
- Create innovative offers that address client needs
- Just Keep it simple..!
- Meet and greet with a smile/deliver on promises
- Be accessible where our customer wants us
- Provide great value banking



Adult segment  
Salaried person  
100-550k

- I am **busy and don't have much spare time**
- **Family is important** to me
- I believe in **technology**

- Is **accessible** close by
- Give me **access to credit** if needed
- Will **partner with me through my lifestyle**

## ...and we won't...

- Be arrogant or dismissive
- Ask for the same information twice
- Have long, complicated Ts&Cs
- Be rude to our customers; drop the ball. Don't care attitude...
- Be Uncompetitive... Too cheap or too expensive...



Senior segment  
Retired individual  
100-550k

- I am making the most of my life but conserve for future
- My **standards of living must not go down**

- **Gives me advise/help** on my retirement plan
- **Make things easy** for me to understand



Mass (Emerging segment)  
Public teacher  
60-100k

- I have **my own transport**
- I am **concerned about the future of my family** and their **quality of life**
- Highly active on cell phone

- **Provides me education** around **investing** and **credit** (e.g., building history)
- **Help me** to use the **best** channels to minimise costs



Mass (Traditional segment)  
A general labourer in the Metal Industry  
30-60k

- I **start my day early and finish late because I need time to travel to work & back**
- I have a **family that lives in rural areas**, so it important to send money back home for them to live

- Allows me to **transact affordably & simply**
- Will provide me **access to banking services where I need it**



Youth segment  
Children at varsity, students, technikons  
n/a

- I am busy with **education and extra-curricular activities and my weekends**
- I am **trend conscious, tech savvy** (e.g., mobile)
- I value **simple affordable choices** trying to make **money go further**

- Allows me to transact **affordably & simply** – following trends
- Accessible **physically + electronically**
- Provides me with relevant **information and education**

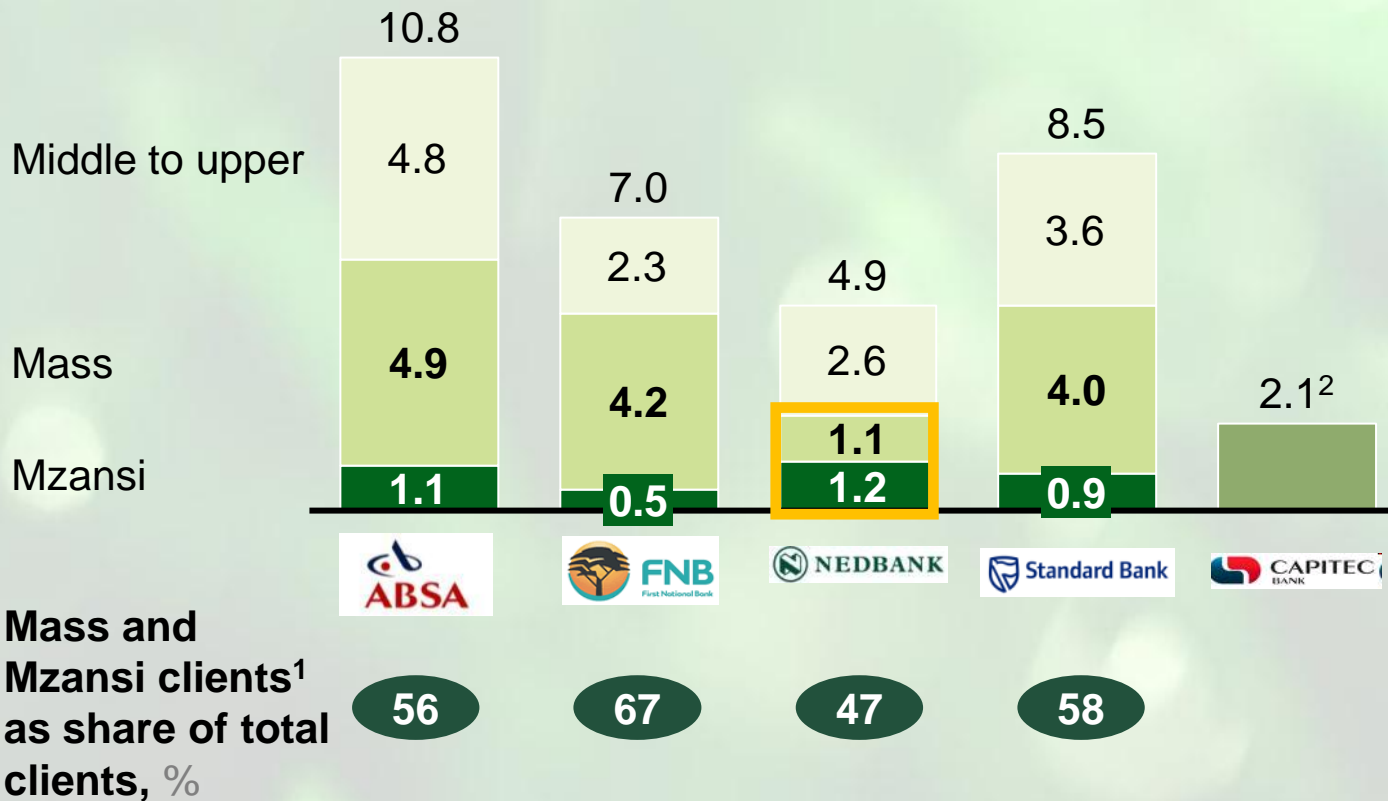
# Nedbank is rebuilding its Mass Market and Mzansi client base....

## Customers by segment – big 4 banks and Capitec

ROUGH ESTIMATES

### Client base by income segment (as of December 2009)

Million customers



1 Share of big 4 banks only

2 Capitec customer numbers as of March 2010

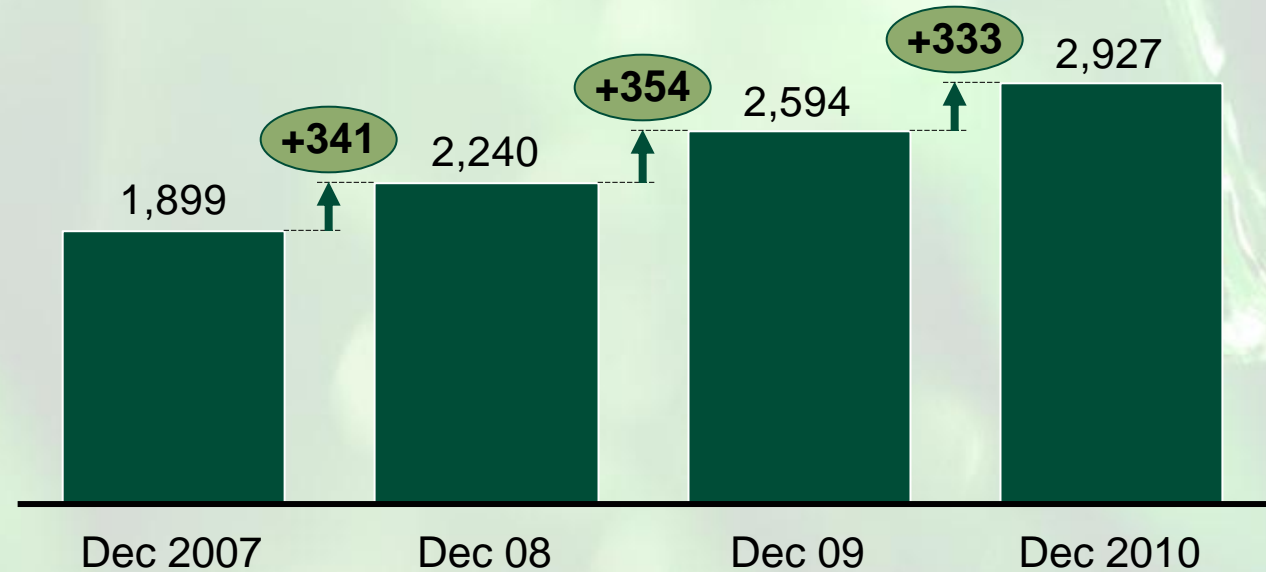
SOURCE: Retail Strategy Investor Day – Jan 2011; AMPS; Oliver Wyman; research; UBS analyst report; team



...as evidenced by steady growth in the mass market, from which Nedbank can continue to build...

## Total Mass Market clients

Thousands



**Net annual client growth, %**

18

16

13

**Net new clients per month, thousand**

28.4

29.5

27.8

### Notes

Mass Market segment is clients with income <R100k. Includes Youth and Mzansi accounts

All figures are for funded clients

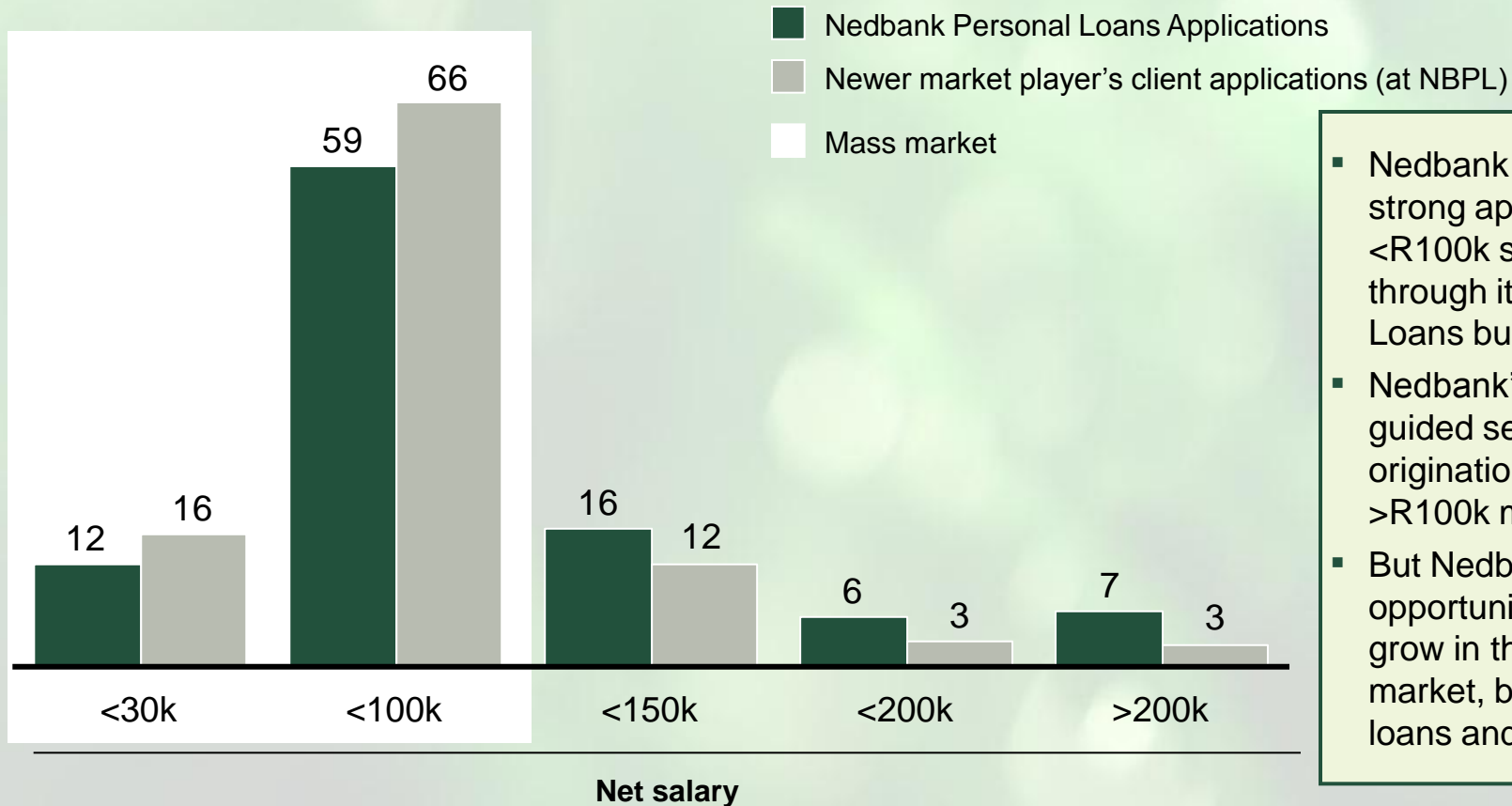
SOURCE: Team

MAKE THINGS HAPPEN

NEDBANK

# ...leveraging Nedbank's strong capability in the Personal Loans business which appeals to the target market, and presents an opportunity for growth

## Comparison of NBPL applications relative to Newer market player



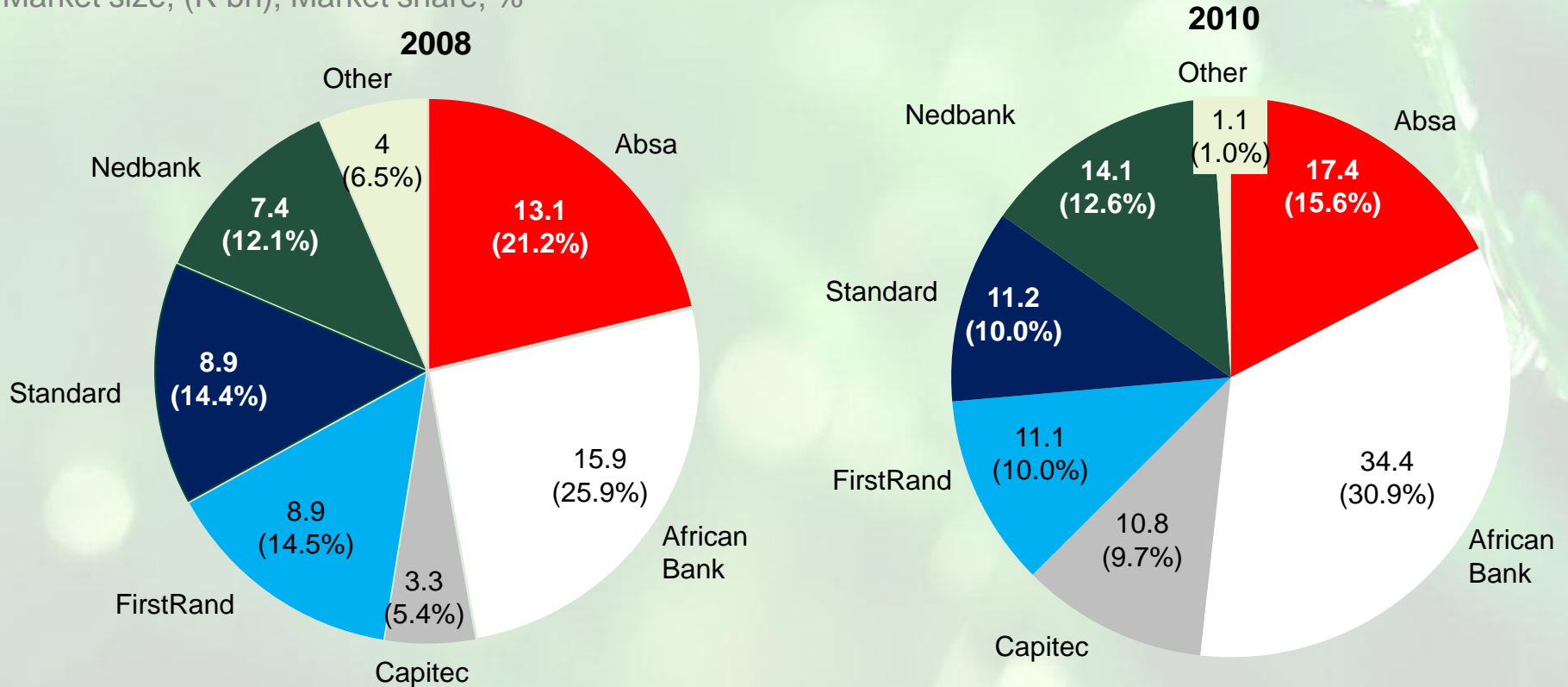
- Nedbank already has strong appeal in the <R100k salaried market through its Personal Loans business
- Nedbank's risk appetite guided selective origination towards the >R100k market
- But Nedbank has an opportunity to selectively grow in the <R100k market, both through loans and other products

Note: For 2010 - 39% of Personal Loans book in <R100k; 61 % in >R100k (based on loan balance)

# Nedbank Personal Loans has significant experience in the mass market (over 10 years) with a good competitive position

## Personal Loans market size and market share

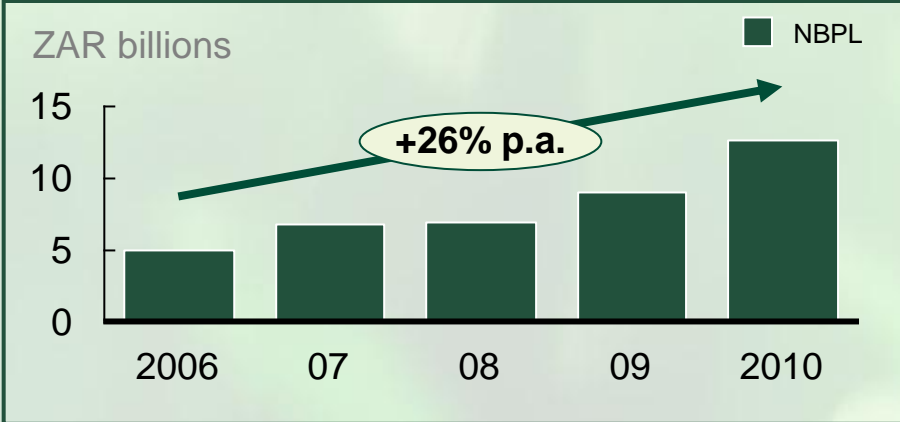
Market size, (R bn); Market share, %



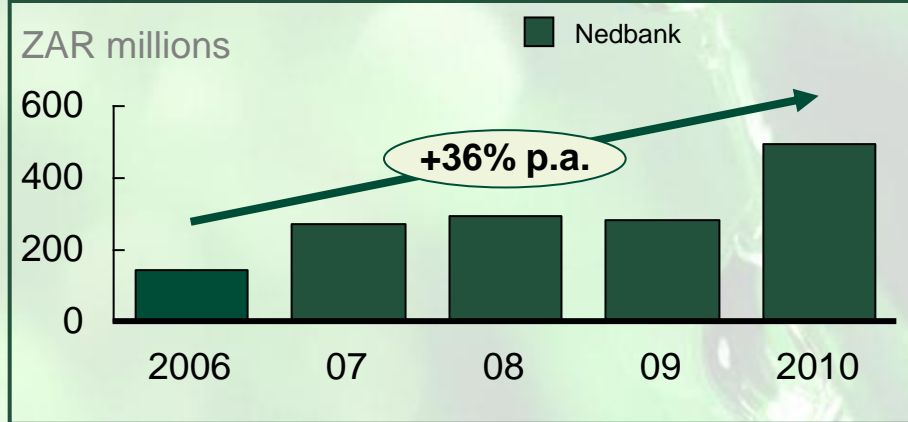
- The total size of the market was R61bn in December 2008 and R90bn in December 2010 (21% per annum growth).
- Nedbank Personal Loans grew faster than the market between 2008 and 2010 at 38% per annum, reaching a **loan book size of R14.1bn**, equivalent to **12.6% market share**
- Nedbank is **effectively balancing risk appetite vs. its rate of growth**

# Nedbank Personal Loans (NBPL) performed consistently through the cycle, balancing 36% profit growth per annum with good risk metrics

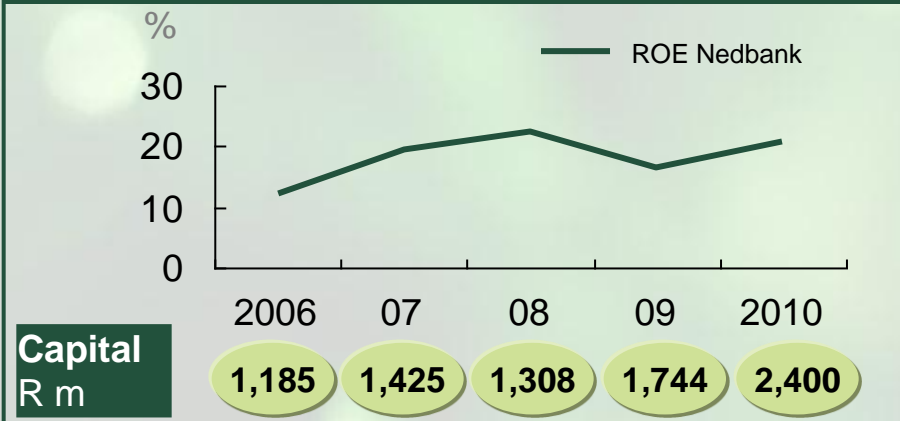
## Total NBPL book size<sup>1</sup>



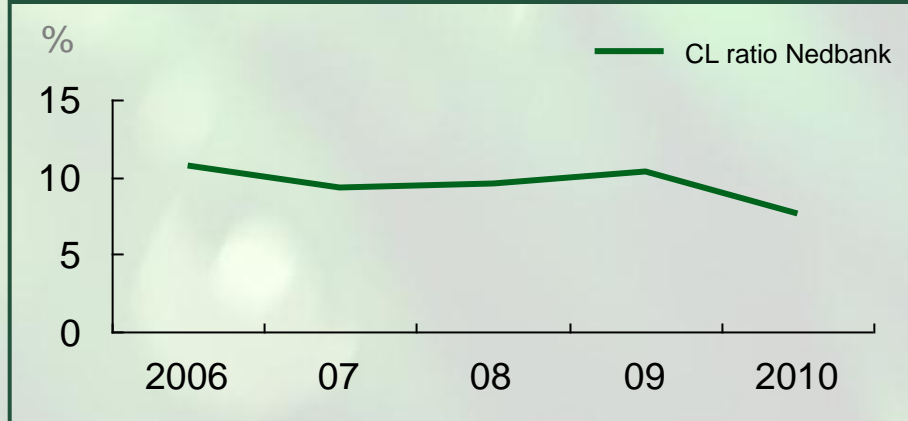
## Total NBPL profits after tax<sup>2</sup>



## NBPL ROE



## NBPL Credit loss ratio



Note: All figures are for Personal Loans business only

<sup>1</sup> As at Dec 2010 based on client incomes: R0-R100k = 39% of book; R100k-R400k = 56%; R400k+ = 5% (based on loan balance)

<sup>2</sup> Excludes the part of credit life insurance income in Nedbank Wealth and Transactional Banking revenues

SOURCE: Team

# Nedbank Personal Loans has developed strong scoring capabilities which use complex segmented models to accurately profile each customer and price for risk

## Nedbank Personal Loans is effective in selecting the right customer as a result of...

- Risk-based pricing models which enables **best in market prices** for quality client risk
- **Comprehensive affordability processes** underpinned by risk-based affordability measures used to control risk and indebtedness
- Sophisticated and flexible direct marketing capabilities **targeting the preferred customer**
- Wide product offering catering for diverse customer segments
- **Extensive footprint** through our branch, In-Retailer, and merchant fulfillment channels
- **Effective process** - same day payout for Nedbank customers approved before 11am

**ASSEGAI  
AWARD 2009:**

**Category:  
Organisation of the  
year sponsored by  
ABSA:**

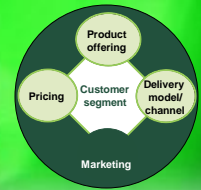
**Awarded to Nedbank  
Personal Loans**

# Nedbank is harnessing its strengths to deliver distinctive client-centred banking experiences to the Mass Market across marketing, products, price and distribution

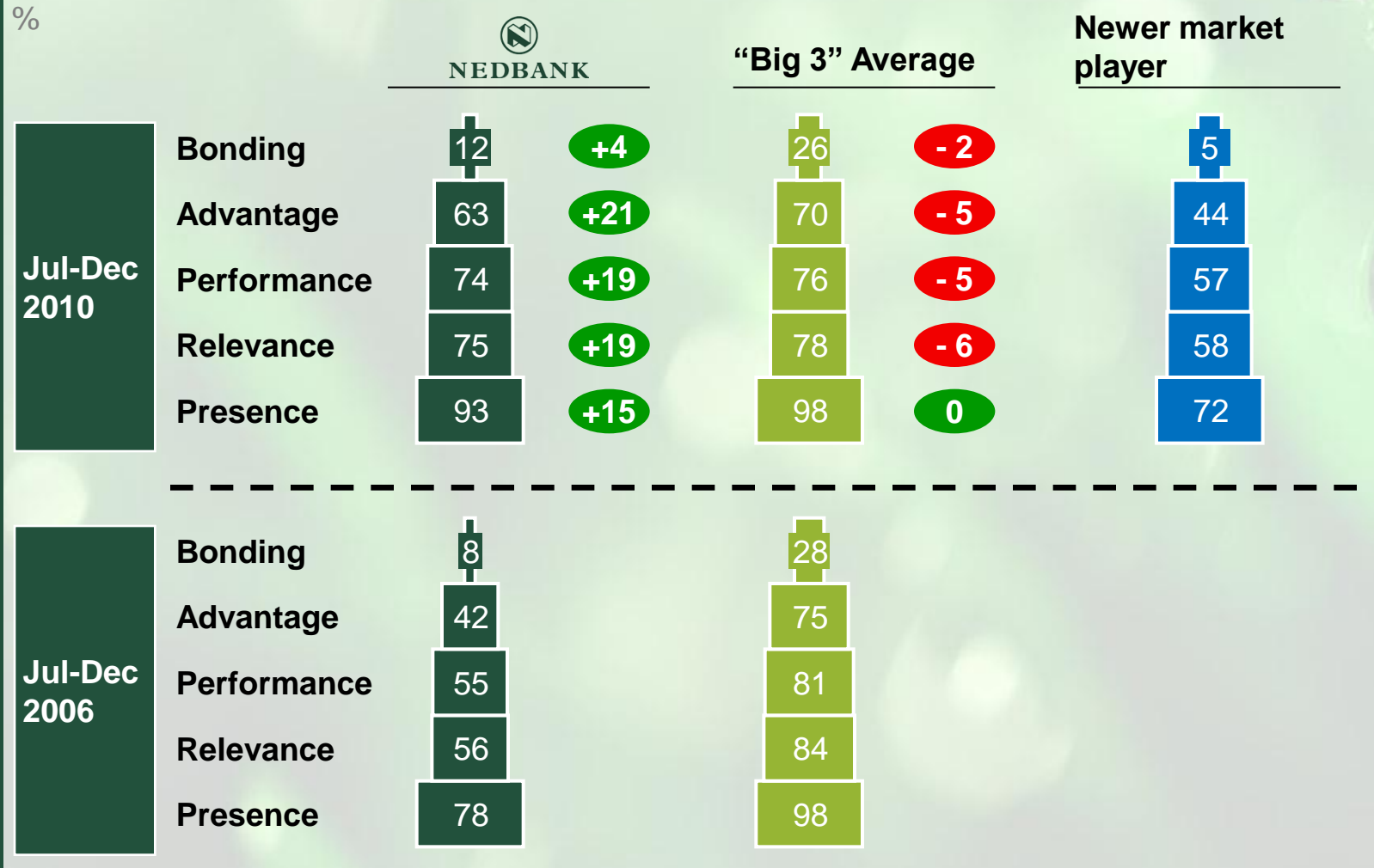
## Mass Market customer value proposition (CVP)



# Nedbank has substantially shifted its brand relevance and accessibility in the Mass Market, whilst retaining its aspirational qualities



## Mass Market



○ Change 2006-10

# Vodacom m-pesa by Nedbank: Building momentum



## m-pesa offer

### What is m-pesa?

- m-pesa **allows clients without bank accounts to receive, store and transfer money using their mobile phones, and eventually to pay bills and buy goods.**
- No bank account required to register for Vodacom m-pesa just a Vodacom cell phone
- Services offered at retail-type outlets: registrations for m-pesa accounts, deposits and withdrawals from a m-pesa account, encashment of a voucher sent to a non-registered user

### Launch of m-pesa – 31 August 2010

- Focus of launch on brand awareness and establishment of distribution footprint
- 435 Nedbank branches activated in 40 days
- 2,700 outlets active by end of 2010 – including Nedbank, PEP, Chatz, 4U stores and Vodashops
- 2,000 ATMs – first to market with cardless ATM withdrawals

### Progress made to date

- **Significant customer uptake**, e.g. m-pesa has **120,000** local registered users and registrations continue to grow each day; stronger uptake in more rural areas
- **High usage** with volumes almost doubling monthly in 2011
- **Distribution expanding**, e.g. successfully rolled out over 3,000 m-pesa outlets, expanding to additional 5,000 outlet activations during the next year; Nedbank outlet footprint increased to 451 branches
- **71 Nedbank mobile sales teams** enabled in Q1 2011 to register m-pesa customers in the field
- **Business clients electronically paying casual workers** with m-pesa





# Nedbank Savvy: a client-centered offer with multiple products



## Nedbank Savvy offer

### Savvy...putting our strategic intent into practice

- Nedbank Savvy sees Nedbank Retail **enter a new era in how we understand our client needs in a specific target market** and fully align the entire business to deliver on the desired customer experience in keeping with the differentiated marketing campaign promise.
- The campaign is aimed at making **an emotional connection** with target consumers, between 25 and 40 years old, that are forward thinking, a “mover-and-shaker”, smart with his/her money, want great value, and the convenience of banking anywhere, anytime
- **Brand accessibility enhanced** through comedian Eugene Khoza
- The focus of the campaign is insights led with **packaged products that have all the bells and whistles, with a differentiated client experience**

### What is Nedbank Savvy?

- The Savvy Electronic Account is an electronic current account that offers a full range of transactional account features including mobile banking. You can bank when you want, where you want, for a fixed fee a month. **Innovative, paperless, environmentally friendly account for those who prefer to bank electronically.**

### Progress made to date

- Since the September 2010 launch, **~130,000 current accounts** opened
- Of the Savvy sales, **50% are new Nedbank transactional clients**
- **Enhanced average revenue per client** on new and existing clients

MAKE THINGS HAPPEN **NEDBANK**

**Nedbank Savvy\***  
The whole enchilada.

Call 0860 NEDBANK (6 33 22 65)

# Nedbank Cup: Kick off a better life with the Nedbank Cup line-up



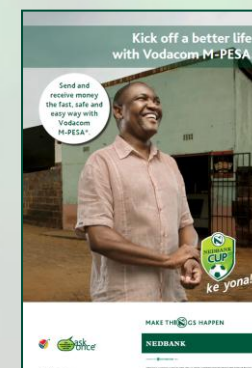
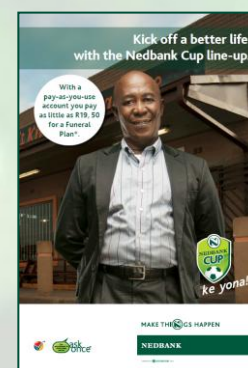
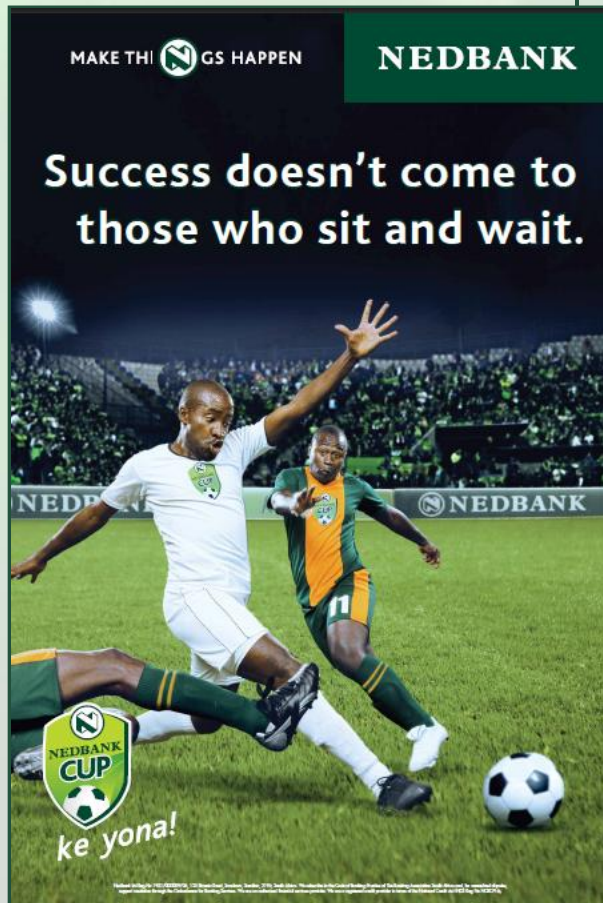
## The “ke yona” offer

Line up is targeted at Entry Level Banking clients needing cost effective, accessible banking comprising

- A **Transactor Plus** PAYT account from R9 per month
- A **Funeral Plan** for R19.50.
- **Personal Loan** from R2,000
- **Vodacom m-pesa** to send and receive money the fast, safe and easy way

### Progress to date

- In first seven weeks of the 2011 Nedbank Cup Campaign (March-April 2011):
  - **Transactor Plus total sales** of ~62,000 (of which 50% new to Nedbank), an increase of 78% YoY
  - **Personal Loans total sales** of ~55,000 (of which 17% new to Nedbank), up 7% YoY
  - **Funeral Plus total sales** of ~11,000 (up 102% relative to last year)
  - **m-pesa total sales** of over 1,000. Since the launch of the Nedbank Cup, there has been a marked increase in m-pesa registrations.



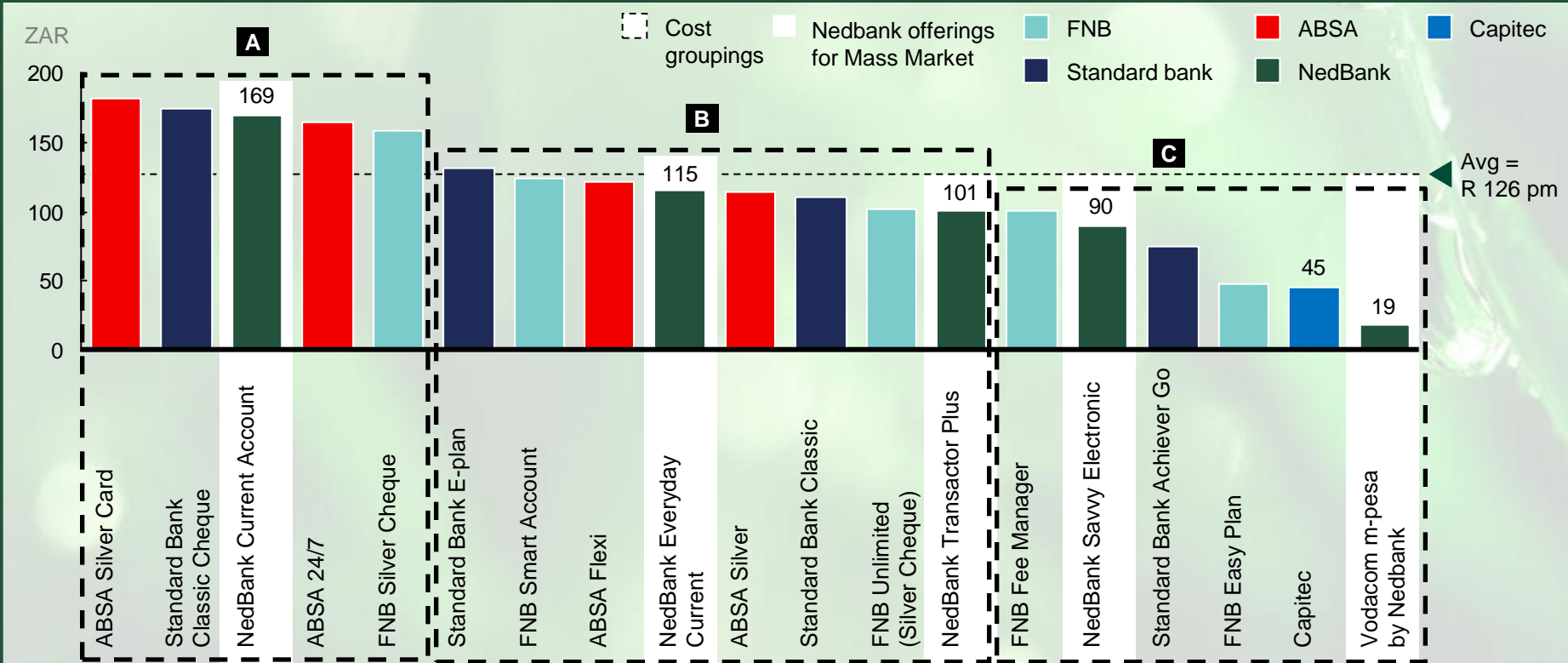
PAYT = Pay-As-You-Transact

SOURCE: Team

# For the low-usage profile, Nedbank Savvy and Vodacom m-pesa by Nedbank offers great value banking



Estimate of monthly bank charges for Customer Profile 1  
Low transaction spend and usage (ex-penalties)

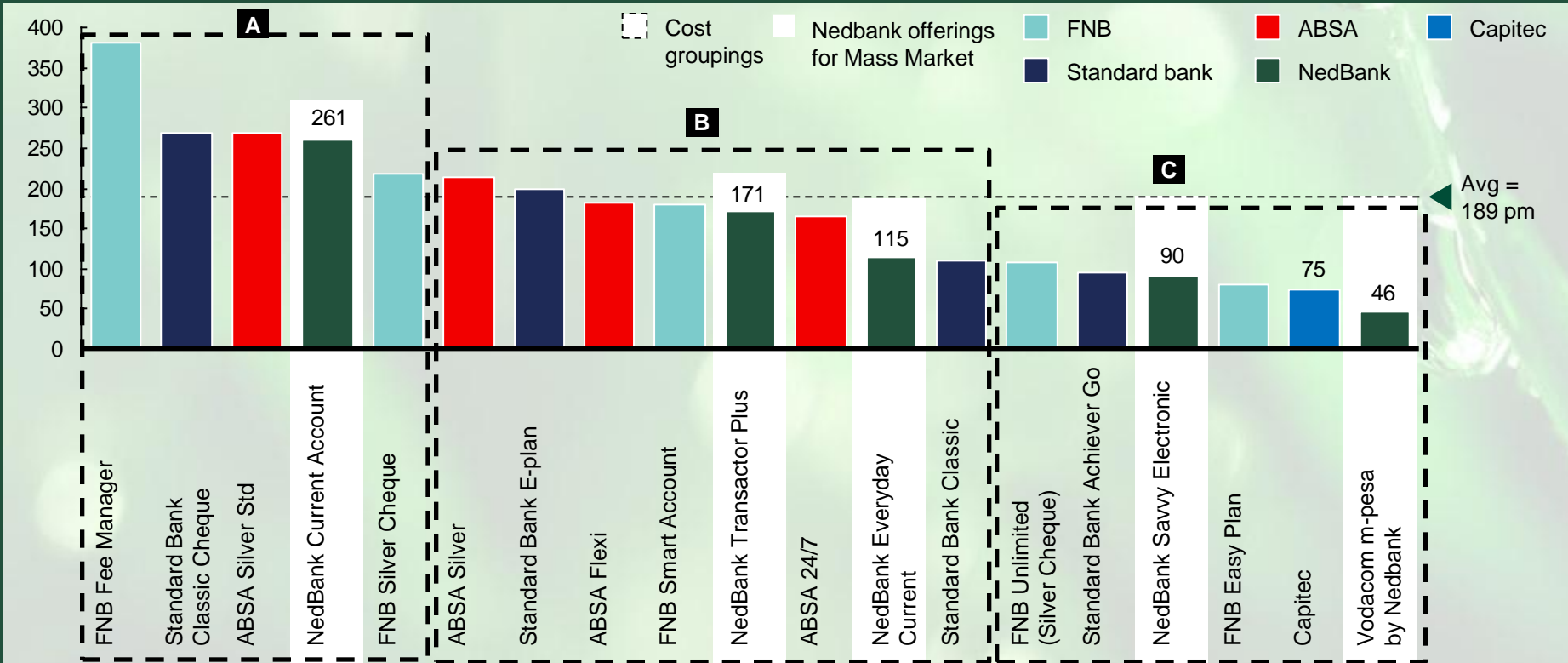


- Low-usage customers, typically need a simple bank account or Pay As You Transact Offer
- Vodacom m-pesa offers 80% of functionality of competing products, and is cheaper than alternatives

# Similarly, for the high-usage profile, Nedbank Savvy and Vodacom m-pesa by Nedbank is attractively priced relative to competitors



Estimate of monthly bank charges for Customer Profile 2  
Higher transaction spend and usage (ex-penalties)



- For high usage customers, bundled offers are more cost-effective
- At R90 per month, Nedbank Savvy is highly competitive versus competing offers

Note: m-pesa provides 80% functionality of competing banks' mass market offer

SOURCE: UBS analyst report – Jan 2011; Team

# Nedbank Retail's distribution has been growing and is more accessible and relevant



Branches<sup>1</sup>



Personal loans branches



Personal loans Kiosks (in Build-It; Cash-Build)



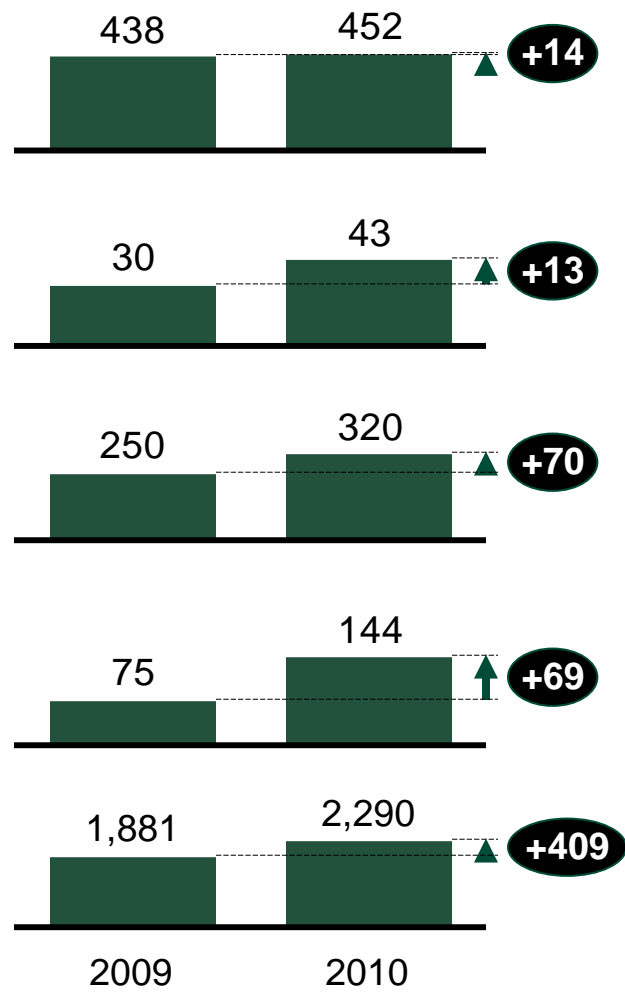
Nedbank In-Retailers (Pick 'n Pay, Boxer)



ATMs



## Number of outlets



Customers will find it increasingly convenient, easy and affordable to bank at their channel and time of choice

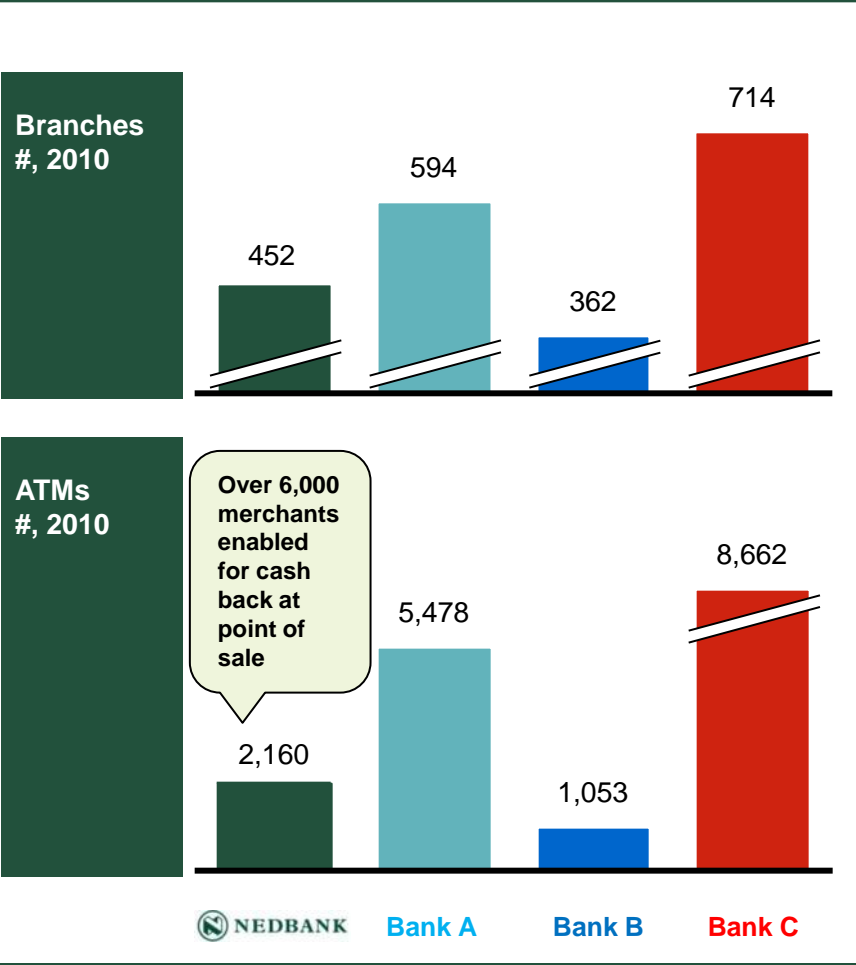
### Currently

- 35% of personal loans branches offer transactional banking today (not previously the case)
- 37% of personal loans branches have ATMs
- Extended hours in alternate outlets (Personal Loans Kiosks, Nedbank In-Retailers) for 6 years
- Piloting branch extended hours since Dec 2010

<sup>1</sup> Including classic and lite

# Nedbank Retail has pursued a differentiated strategy, complementing traditional branches with alternate lower cost outlets

Nedbank still has a significant gap to competition in terms of traditional distribution



While continuing to accelerate alternate lower cost distribution, making it more accessible to the Mass Market

