Paul Compton, Barclays Group Chief Operating Officer

Deutsche Bank Global Financial Services Conference

30 May 2017

(amended in places to improve readability)

Slide 1: Deutsche Bank Global Financial Services Conference

Good morning ladies and gentlemen. Thank you David, thank you very much for inviting me to speak here this morning.

Slide 2: Enabling the delivery of world class services to our customers and clients while driving efficiency gains

Today I would like to talk to you about our Group Service Company and why we believe it will drive meaningful benefits to Barclays in the next few years. You may have heard of other financial institutions driving cost savings. Our Group Service Company will go beyond cost savings, delivering five clear benefits for Barclays and our stakeholders.

First, increased business focus on customers and clients, as evidenced by our work on customer journeys to enhance satisfaction and drive higher engagement and growth.

Second, moving from a business unit centric approach to a Group-wide approach. In other words, driving critical functions and services horizontally rather than through legacy business unit silos, which will increase cost synergies to improve profitability and/or fund further investments.

Third, simplification and greater clarity of the Group's structure, which will result in seamless integration between the business entities and the Group Service Company in a ring-fence ready environment. The Group Service Company and business entities will partner to design and deliver end-to-end solutions for our customers and clients.

Fourth, greater global resilience, which will come from a holistic approach to cyber, security and controls.

Fifth and finally, a preeminent platform for innovation with an agenda that is driven by our customer and client interactions.

Slide 3: We are building the Group Service Company for sustainable strategic advantage

Whilst the original catalyst to establishing the Group Service Company came from our regulators as part of the broader ring-fencing requirements, we believe our Group Service Company will provide a sustainable strategic advantage. The mission of the Group Service Company is to be a true strategic partner to the businesses in every way and allow them to win with their customers and clients.

So where will the Service Company sit within our Group structure and what will it do? Jes had introduced a version of this slide with our Full Year results. The Group Service Company will be the primary service provider to our two main business entities – Barclays UK and Barclays International.

To deliver our vision we will move over 42,000 employees and over 1,000 vendor contracts across all functions and operations to the Group Service Company. It will also house our real estate portfolio excluding branches, and enable us to reduce the fragmentation of that real estate footprint. For example, today we have 25 sites with over 500 employees. We will be reducing that down to 10.

Strategically, the Group Service Company will be highly integrated into the end-to-end approach in transforming the way customers interact with us using data, digitisation and automation. This common platform will facilitate knowledge transfers between the trading entities and leverage business opportunities that arise out of linking the two entities across areas like payments and data. This will also drive real synergies.

Let me provide you with a very simple example. We will combine the on-boarding and client KYC processes within our Corporate and Investment Bank. These processes were previously done by two completely separate teams on completely independent platforms. This not only has the benefit of cost synergies but will also deliver a much improved client experience. Where previously clients had to be on-boarded twice into the organisation, they will now only go through this process once.

On the left you can see some of the areas we truly believe we are ground-breaking in financial services, such as our open innovation platform that we call "Rise". Rise spans a global network of connected sites in seven of the world’s top FinTech ecosystems. We have also established strategic partnerships with the VC community to identify and co-develop promising early stage FinTech start-ups together.

In terms of timing – the Group Service Company will be established by September of this year and fully operational by April of next year, when we complete the build-out of the ring-fenced bank. At that point we will be truly operationally continuous. We will conclude the structural reform programme well ahead of the January 2019 regulatory deadline.

Slide 4: Facilitating the development of simplified and standardised operating environments to create greater leverage

We have organised all our operations, technology and general services into what we call "transaction cycles". We have created 27 transaction cycles in total. A transaction cycle represents front to back processes and solutions which are standardised and streamlined, and which operate horizontally across the Group. You may have heard others talk about centres of excellence; the concept in this case is very similar.

You can see some examples of transaction cycles here – contact centres, collections, digital... I will expand on a few of these shortly, how they work, what problems they solve, and what progress we are making with them. On the right, you can see how over time this will drive meaningful benefits. For example, it will accelerate and deepen our focus on customers with higher specialisation, supporting greater business agility and reducing the time to market.

The transaction cycles also enable us to drive "scale plays" where businesses straddle both business entities – for instance, the Cards business or the Wealth business – and this also provides opportunities to drive transatlantic growth. Another great example of this is wholesale lending in the Corporate and Investment Bank. Previously, wholesale lending in the Corporate Bank was done completely separately to the Investment Bank. These two credit processes had duplicative lending platforms and separate operational teams. We will now have a wholesale lending transaction cycle driving a consolidated process on one platform with one team.

One key differentiator of our Group Service Company is that it will be run like a business. It will operate at arms-length and will have service level agreements negotiated with the business entities. The delivery of services will be relentlessly measured against Key Performance Indicators. The businesses will own and drive demand for services, thereby controlling associated costs.

The Group Service Company will clearly view the business entities as its clients. The businesses will have direct influence and control over the volumes of services purchased, and we will leverage our capabilities in areas like Cloud computing to help drive far greater variability in the business entities cost base. The price of services will be constantly benchmarked against external providers.

Slide 5: The Group Service Company will generate shareholder value by positioning Barclays at the forefront of industry change and innovation

I hope that you can see how these shared services I've just outlined will drive cost efficiencies across Barclays – helping us achieve our target cost to income ratio of less than 60% over time. The cost synergies achieved by the transaction cycles will create capacity to improve profitability and/or fund investment.

But as mentioned, the Group Service Company will do much more. This slide sets out some of those focus areas. We are, for example, very excited about the potential to utilise the enormous data sets that we have access to for the benefit of our clients and customers – remember Barclays processes nearly half of all credit and debit card transactions in the UK.

Our small business customers in the UK are already starting to see these benefits with the launch of our big data effort we call SmartBusiness Analytics. SmartBusiness allows our small business customers to access information tailored to their local target markets so that they can be more informed and make the appropriate strategic decisions.

Some of you here today may be aware of our "six taps" mobile consumer lending product that we launched in 2014. For those who aren't, our customers can get a pre-approved loan in six taps of their mobile app. Today over half of the entire production of consumer loans comes from our digital platforms.

We have built on top of this success by leveraging the same technology and now extending it to businesses, making us the first bank in the UK to lend to businesses in this way. A process that used to take up to 15 days can now be completed in six taps. The volumes produced via this channel are growing exponentially, and we're not stopping there either.

Following the integration of our UK cards business within Barclays UK, we are actively sharing best-in-class practices between the previously separate personal banking organisation and Barclaycard organisation to enhance customer journeys as well as offer 4.5 million pre-selected Personal Banking customers a Barclaycard.

The utilisation of the Cloud and APIs are both key areas of focus and drivers of efficiency within the Group Service Company. We are both implementing cloud infrastructure-driven services and also extending our platform reach using APIs. We see a number of relevant opportunities in the context of PSD2 to enhance our product offerings for existing customers as well as penetrate a wide potential customer base and develop additional fee-based revenues.

This leads us to cyber where we have increased our investment considerably to combat growing threats – and we have centralised our cyber, resilience and security capabilities in the Group Service Company. This enables us to cross-fertilise the security intelligence that we receive and will enable early identification of emerging threats and also facilitate expedited responses.

Now that I have explained the Group Service Company operating model and the numerous benefits it will provide, I'd like to further describe a few of the transaction cycles to bring them to life.

Slide 6: Case Study: SkyBranches / Contact Centres

Let's start with SkyBranches. SkyBranches are what we call Contact Centres inside Barclays. Currently, our Contact Centres must deal with over 80 million customer calls per year, with 60% of calls related to general servicing.

However, in the past our technology supporting this part of our business has been highly fragmented and we have operated inconsistent processes with each business unit having their own contact centres, leading to more than 30 different contact centre sites, utilising over 100 bespoke technology applications.

Through the Group Service Company we are creating a concept of the "universal banker" to provide a single customer experience or "one stop shop", with the aim of resolution at first point of contact. This means that when you make a call and speak to one of our universal bankers, you will be able to receive services in relation to your personal checking account, savings, loans, mortgages, credit cards or any other products that we offer.

We will implement this via an omni-channel framework. We are the first European bank to use video at scale. This highlights again how we are leveraging technology to give our customers the choice – we will interact with them in any way they wish.

This not only enhances customer satisfaction, but will also enable us to rationalise technology, sites, vendors and people. We have already made progress having consolidated four Contact Centres into two omni-channel centres of excellence in the UK.

Now let's move to the Fraud transaction cycle…

Slide 7: Case Study: Fraud

Historically Barclays has operated 10 different fraud teams in each of their respective product silos across 19 different sites. These ran as disparate local processes and there was dislocation amongst the various risk, security, fraud, cyber and technology teams. We had an over-reliance on vendor solutions and legacy technology. Again, we had over 100 bespoke technology applications supporting fraud.

The creation of the Group Service Company has allowed us to align our colleagues across the teams that I just mentioned so that collectively they can better combat the criminals. It also allows us to decommission legacy systems and upgrade to leading edge technologies. These advanced technologies not only identify fraud, but they also enhance customer experience.

For example, we are using machine learning techniques to continuously evaluate and update customer behaviours. If you use our ATMs in the UK, our capability will keep track of multiple variables including how much money you usually withdraw, where you usually withdraw funds from, at what times of the day, how many times a week do you withdraw from our ATMs. That way when an attempt is made to withdraw money which doesn't fit a customer's behavioural pattern, we know about it immediately so we can protect our customers. Through this proof of concept, we have seen a dramatic reduction in ATM fraud.

And finally, let's talk about the Innovation transaction cycle…

Slide 8: Case Study: Innovation

FinTech and global technology companies are creating new services and products faster and cheaper than traditional banks. Innovation needs to be managed as a portfolio taking a multi-year view of risk and return. The creation of a platform to innovate at scale, we believe, is a differentiated strategic advantage for Barclays.

As mentioned before, we have established one of the world's largest communities of FinTech ventures – that I referred to before, that we call Rise. We have Rise sites in London, New York, Tel Aviv, Mumbai, Manchester and Vilnius. We work with start-ups that are advancing solutions across the FinTech spectrum – from cyber to developing algorithms for trading platforms. This uniquely positions us well to be able to "scale-up" the opportunities that we identify.

At Barclays we are driving innovation not from the technology team but directly based on our customer experiences and interactions. Within Rise, we have had over 100 start-ups through our accelerator programme, and as a result of that we have scaled 14 of those opportunities into Barclays.

We currently have over 250 FinTech start-ups in our Rise ecosystem. We are ideally positioned to further increase the frequency of controlled experiments (proofs-of concept) and to explore further investment opportunity.

Slide 9: Paul Compton, Group COO Name Slide

I have covered a lot of ground here today, but before I leave you, I'd like to raise a few key points.

The creation of the Group Service Company will be a "first" for Barclays and will fundamentally pivot the operations of a 325 year old company from its legacy business unit centric approach and move to a more horizontal framework with consistent operating models across the group. This will unlock efficiencies right across the full P&L.

It will be a true partner to the businesses in every way and will provide best-in-class services and solutions that will allow us to win with customers and clients. It will be highly integrated into the end-to-end approach in transforming the way customers interact with us using data, digitisation and automation. And finally, it will be a differentiator and provide us with significant competitive advantage. Importantly, it will operate as a business and its clients will have full transparency on price and control over volumes demanded.

For all of these reasons, we expect Barclays Group Service Company to deliver sustained shareholder value.

Thank you.

Q&A Session hosted by David Lock, European Banks Research Analyst, Deutsche Bank

David Lock:

I guess to kick off the questioning – you have been at Barclays now for just over a year, previously you were Chief Administrative Officer at JPMorgan. I just wondered in the time that you have been at Barclays, clearly ServCo being a big focus, what has been the real thing that surprised you when you've come to Barclays from JPMorgan?

Paul Compton:

I think the thing that has probably surprised me the most is the extent of the business unit siloed framework and the depth of those silos which has caused significant redundancy inside the company, and complexity, and hasn't afforded Barclays the leverage that a company of its scale should be able to achieve.

In the last 12 months, we have spent a lot of time taking the COO organisation and creating a unified team that supports multiple business units, as opposed to pockets of technologists all working on their own respective agendas. By doing this we have the ability to build it once, prove it once, but then use it many times.

The transaction cycle construct has been a way to really take the organisation and get it rallied around single solutions for each of the transaction cycles, and by doing that, really enabling us with the ability to do what we call "kill the tail", which is about decommissioning legacy and duplicative technology, getting out of unnecessary sites, getting out of unnecessary numbers of vendor arrangements, and I think very importantly and strategically, getting out of the number of consultants that we used as a company.

So that's been a very big part of the first year's focus, on top of what I call our "mission critical" projects. When I talk about mission critical projects, I'm talking about the implementation of ring fencing, delivering on our Brexit response, supporting all of the sales that we've done through the Non-Core business and the ultimate sale of Africa where we've been very involved in the negotiation of separation agreements and putting in place transitional service agreements to help facilitate that as well.

But I think really importantly, working very closely with Ashok Vaswani and Tim Throsby to ensure we are consistent and committed to customer journeys as we refer to them and having a very clear understanding of the role of the front office and the Group Service Company in the build out of those end-to-end integrative solutions. So it's been a busy 12 months.

David Lock:

Just to focus on one of those, you talked about Ashok Vaswani's business which is Barclays UK. Now one of the big changes that happened has been that Barclaycard used to be run as its own little business separate from the retail business. They've now integrated – well they're bringing those two together certainly in the way that we all look at the accounts. But speaking as a customer, I know that I'm still treated as a separate person within Barclays UK and Barclaycard. So when do you think that process of integration is going to get completed and how far through that are we?

Paul Compton:

We see the integration of the UK card business into Barclays UK as very significant opportunity for us. Today I've talked to you about the various transaction cycles whether it be fraud, SkyBranches or contact centres, collections, as being clear areas where we are driving the same approach right across the two business entities. When we look at our 24 million customers inside Barclays UK, it's probably £20 billion of card balances that are done away from us in that customer base. So that's part of this issuing of 4.5 million cards to pre-selected customers to start to get after that opportunity.

I think to get your point about being a separate customer – one of the things we're very focused on is creating a single customer record that in the case of Barclays UK, all of Barclays UK then use. So therefore when you want to do something simple like change address, instead of getting bounced around the organisation one way for personal banking, another way for the card business, within one month you will be able to change your address on BMB – which is our hallmark banking portal Barclays Mobile Banking – you'll be able to change it once on BMB and it will be changed right across all the customer records that pertain to you. I think that's important.

And then I think by the end of the third quarter, you're going to be able to call one of our universal bankers, and with one call change your address right across all of your products; also walk into a branch, or go onto our online banking portal, the desktop capability as well. So it's very important.

We're also rationalising the digital offerings. Under the old historical construct, we had BMB which is the personal banking portal, and there was a separate UK card app as well. Likewise, they both had competing desktop capabilities. We are now integrating those efforts quite dramatically so you can now get the majority of Barclaycard capabilities through BMB.

How do we think about customer journeys? We have been working with Ashok Vaswani. We have defined 56 different customer journeys – 46 of those will be exactly the same across different product sets. So again, that's a great demonstration of how we are rallying around the customer as the epicentre of Barclays UK, creating real leverage, and through the Group Service Company adding real value to the customer journey. So it's a very exciting opportunity.

Every day we stumble across opportunities. Last week we discovered a vendor – part of the collections transaction cycle – that was charging the UK card business for work on certain customers and was charging Barclays UK for work on the same customers. So identifying those sorts of things and stamping that out ASAP – there's just opportunity after opportunity.

Audience member:

A few weeks ago the press was reporting here in the US that some of the major US banks were looking to potentially take some of their back office functions and merge them together. In setting up the group's services business, do you have a longer view to maybe sell the service to other banks?

Paul Compton:

We probably won't end up selling services to other banks. But what we will explore very vigorously is what I would call utility operations, which I think that was referring to, where there are certain operational procedures that really give you very little in terms of differentiation. A lot of it is around work that needs to be done from a regulatory perspective.

I think there is great opportunity for the industry to take costs out of their respective organisations by getting after these utility type opportunities, whether that be around things like KYC or vendor due diligence, where the bar keeps getting raised. Every bank running out and doing their own due diligence on the same vendor, I think, is highly unproductive, and oftentimes it is being done at various levels of the organisation. And you question the veracity of what's getting done.

If you can move to a model where we're all using a utility to do vendor due diligence, and in the case of cyber, instead of us all sending in our respective cyber teams, getting somebody to go in and do the job really properly, that will reduce the risk, reduce the cost, and facilitate a much better profit. So utilities I think are a very interesting opportunity and we are involved in talking through and exploring those, just as the US banks are. And in fact, many of them we're working directly with the US banks on.

Audience Member:

Paul, in setting up the Group Service Company, normally when you see a company set up a specific institute like that and go through a reorganisation like this, it'd be part of a larger cost saving programme and the company would put a target out there, which investors could keep track of. There doesn't seem to be any official target here in terms of cost savings in any of your official releases. So you have put out a target though – your cost to income ratio of 60%. I'm not sure if you can share with us any of the numbers, how important this restructuring is, the Group Service Company is, in getting to that 60% target.

Paul Compton:

Sure, happy to, especially given that it sounds like you may have grown up down the street from me, so happy to do that.

As I think about expenses, we have been on a journey right? If I go back to 2013, the operating expense of the Company was £19.5 billion. Through to 2016, they've ratcheted that down through the various stages of the restructuring down to £15 billion. As we get to the closure of Barclays Non-Core, we're going to pivot from providing the street with absolute expense targets to talking more about efficiency. And in talking more about efficiency, talking about this cost to income ratio of less than 60% over time because we think at that level of efficiency there is the opportunity to generate returns that are greater than our cost of equity.

It's not going to be a case of we need to grow into that cost to income ratio so unless we generate the revenues we won't get there. We're going to be able to get there. We're very comfortable about our ability to get there. The Group Service Company is a very important part of achieving that cost to income ratio, and I think it's a very important part of also generating sufficient savings for the appropriate level of reinvestment for the longer term.

So we're pivoting as an organisation from the absolute target. We've spoken historically about this efficiency basis and it's something we feel very good about being able to achieve.

Audience Member:

What is this entity's sensitivity to Brexit negotiations, for instance if the nature of negotiations deteriorates and let's assume the European regulator requires you to duplicate efforts which you may want to eliminate in an ideal scenario? And then what implications does it have on the Group's cost targets in the event of a hard Brexit where some duplication and operating costs is required?

Paul Compton:

I think quite frankly Brexit is a great opportunity to demonstrate the value of the Group Service Company. As we establish an entity in Europe – its technology, operations and general services requirements will be provided out of the Group Service Company. We don't anticipate significant incremental spend as a result of what we're trying to do around a Brexit response. There will clearly be a need to move some front office resources to be part of that response. And through a negotiation with the appropriate regulator, we will need to think through the risk management and finance and controls organisations that we will need to have on the ground.

But in terms of all the technology and operational support, we believe that we're going to be able to provide all of that through the Group Service Company. So I think that's a great example of how the Group Service Company provides Barclays overall with terrific leverage to avoid the creation of a whole lot of bespoke capabilities on the ground in that response.

Audience Member:

I guess with the wrap up of the Non-Core business and now the establishment of the Group Service Company, is there contemplated any changes in the way you're going to be reporting from a divisional standpoint or disclosure as it relates to the Group Service Company going forward?

Paul Compton:

No, the short answer is no. We will transition – now as you can imagine through the enormous number of disposals that we've done in the last three to four years through the Non-Core effort, many of those, especially the more recent sales, will have transitional service agreements attached to them but usually will have a 6 to 12 month wind-down over time. Those transitional service agreements will transfer into the Group Service Company and we will run down that effort over time. No additional cost to the group and no change in terms of how we think about disclosures around the Group Service Company.

David Lock:

I guess it's worth adding that Non-Core is no longer going to be...

Paul Compton:

That's right – as of June, Non-Core is gone.

David Lock:

Just to come back onto the points you're making around innovation – do you think that in financial services it's possible to really continually stay ahead of the game in terms of innovation, because it seems to change so fast every year. The last four conferences we've had, the numbers have – volumes, additional challenges – keeps going up for everyone?

Paul Compton:

I think that's an excellent question. And the way that I think about it is we do have this great innovation capability in terms of Rise. The way I think about creating sustainable advantage is not through technology per se. It's the way in which you take technology, and you take innovation, and you build it into customer journeys that I think really give you that sustainable differentiation between yourself and your competitor. It's not technology. I mean anybody can spend tens of millions of dollars on digital. It is how you spend the money in terms of creating great customer journeys that really creates the gap between yourself and the other competitors.

David Lock:

All right, I think we are out of time, so thank you very much Paul, for coming and thank you very much for listening.

Paul Compton:

Thank you.

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