

## Interview



# MAKING IT EASY TO BUY FINANCIAL PRODUCTS

Ten years on from the launch of Tesco Personal Finance, Anthony Thomson talks to Chief Executive Robin Bulloch about where TPF is now and where it is going.

**What do you see as the objectives for Tesco Personal Finance?**

At Tesco, everything we do starts with 'what does the customer want?'. Tesco Personal Finance is no exception to that. Our number one objective is to give customers what they want in terms of products, value for money and service.

**How would you define the business model and how does it differentiate between a traditional bank provider and a retailer?**

The first and most obvious difference is that we don't have a network of branches. The second thing is banks try and use the opportunity of the customer branch visit as a way of selling their products. Currently we rely on our brand, convenience, competitiveness and the quality of our

product to attract customers to choose us. Largely our engagement model is over the phone and through Tesco.com. We may change things going forward to have a more interactive engagement with customers in store, but the key difference is that customers come to us to buy, we don't go to them to sell.

**In the sense that you don't have branches.**

We are trialling some initiatives around in-store engagement with customers. This year we have had a very successful foray into giving customers access to our credit card, health insurance and our dental insurance products in store. Because customers have supported this we will do more of this next year. We have also opened the 'Tesco Finance Centre' on the south side of Glasgow at Silverburn. Customers have





asked us to provide dedicated space in-store where they have the opportunity to speak to an expert, face to face, about our products. We have received very positive feedback from customers in terms of both the quality of our staff, the fact that they can interact with us in store, our opening hours and, of course, we have the beauty of lots of parking in a very convenient location. It's very early days and we are viewing it as a learning laboratory.

**But nobody has been able to make supermarket bank branches work.**

That's true in the UK to date.

**And in America I would argue.**

Well RBS Citizens has quite a successful model of in-store branches so we're learning from them. It has been very well received by customers. Where it appears to have the best opportunity of success is in larger Tesco stores which are beyond just grocery. Tesco Extras consist of roughly 50% dedicated to grocery and 50% of the store to items like electrical, home goods, clothing etc. This destination environment is catering for those customers who want to go to one location to fulfil all their high street needs – potentially including banking.

**Your challenge must be to equate in terms of sales per square foot to how you can compete with what Tesco could get through groceries or other durable goods.**

Yes. That's one of the key metrics we are working to. It's too early for us to tell whether that is a better use of space than other items. Tesco does use space to provide more than just groceries and is happy to sell a whole range of goods like electrical and homeware items. In terms of return on capital, financial services continue to be attractive.

Customers like the convenience of just picking up a product and putting it in their shopping basket.

**It is slightly disingenuous to say it's a good return on capital employed because the vast majority of your sales come through the telephone or the Internet. It's this point about price and value per square foot. I think I'm right in saying that in broadening their range to computers and television and other items which have a consumer pull, Tesco pulls people into store. Financial services with all due respect is not a range of products generally credited with pulling people**

**into store which is why I wonder just how far Tesco would be prepared to go in terms of turning floor space over to financial services.**

Can financial services be a destination in its own right? The answer to that is unquestionably – yes, particularly if it's convenient for customers. Our Euro ATM's and travel money bureaus are a good example. We want to make travel money accessible for our customers. They can pick up their holiday money at a competitive exchange rate whilst they do their weekly shop. We are also seeing with our instant products such as instant travel insurance and instant car breakdown that customers like the convenience of just picking up a product and putting it in their shopping basket. So I would tend to disagree with you that there is no kind of pull from our propositions. Quite the opposite. We are seeing these types of propositions being very appealing to customers.

**I can see the value in online or telephony. Tesco last year made £2.5 billion. Estimates which you may or not wish to confirm suggest that TPF made about £135 million after tax which is obviously split between RBS and Tesco so the actual profit contribution is very small in the overall scale of the business. Does Tesco RBS take financial services seriously?**

As far as our relative profitability is concerned, we are not as big as Tesco or RBS but we are an important element in the success of both of these brands. Both of them have high expectations for the growth of our business and our growth rates hold up quite well, relative to both Tesco's and RBS's growth rates.

**There is a natural extension to this which would be to create a Tesco high street bank branch. That's not the right word because people don't go to high streets now. But a lot of the traditional banks have the problem of bank branches in the wrong locations. You have through the Tesco store the advantage that you are creating destinations for people. But through things like Tesco Metro you are also creating very high convenience destinations. Could you not just create bank branches?**

It is something we have looked at. One of the core elements of our success is leveraging the Tesco brand but also leveraging the foot fall. Whether it is raising awareness in store or through advertising or picking up leaflets, people become aware of the fact that Tesco provides financial services. I think the economics would be even more challenging if we were to provide a financial services outlet in the high street as distinct to using the opportunity that comes from within Tesco stores. It's unlikely that we will go into a branch banking proposition outside of Tesco's existing footprint.



**I was looking at the CEO's report and accounts and there was a very odd quote from Terry Leahy. He said, "Tesco hasn't been immune to the effects of a difficult retail financial services market. However, I am optimistic for the future." I wonder whether you might want to comment on that.**

The issues that were facing the business at the time were those which have been seen across all banks, a general tightening of belts - particularly around credit cards which is a significant contributor to our business. The measures we have taken to ensure that we have the right quality of credit card portfolio have proved beneficial and fruitful to both the current and future profitability of the business. Whilst I think the business has had a challenging time over the last two to three years, we are definitely seeing momentum with a strong pipeline of new product development.

**Is this challenge as a result of higher than expected delinquency?**

No - the delinquency was in line with expectations but then, of course, what happened was that some of the lending on the book was paid off as a result of people tightening their belts. That is flowing through to a reduction in bad debts. Our bad debts as a proportion of our lending give us no cause for concern.

**Do you see much extension in the range of products? It's relatively small at about twenty-five.**

We are the most successful supermarket bank in terms of customer numbers, profitability and range. In some areas we have quite significant market shares. This year we have launched a number of new products - health insurance, dental insurance, car history checker, motorbike insurance finder, mortgage finder, euro ATM's in-store and, of course, TescoCompare. We are offering customers more products all the time. In fact, that is one of the key planks to our growth which is to extend the proposition. I'm delighted with the number of new products we've brought in this year but we are not intending to stop there. In fact we have two new savings products coming out before the end of the year.

**Whom do you see as your competitors?**

I don't think I would target any particular brand or provider. Every week there are 15 million people walking into Tesco stores and these people will probably have bank accounts with the main banks and building societies. They will also consider credit cards or insurance from many different providers. So we are constantly competing on all levels with all providers of financial services products. My motivation is, how do I provide good value for money propositions - not just to Tesco loyalists but to the consumer at large.



**I suppose it is going to vary by product. Credit cards will be competing in the modern arena**

Our credit card is very successful. We have a number of credit cards but the most successful one is the Club Card credit card. The reason it is successful is that people like to earn Club Card points when they spend. Customers like it when their loyalty is rewarded with points but it's not easy to do this with all our products.

**Price wise where do you want to be positioned? I suggest that in a number of your products you are top quartile but bottom end of the top quartile.**

We definitely want to consistently deliver good value for money. Take our savings product as an example. We have a good headline rate but what we are not going to do is come up with some exaggerated headline rate that is uneconomic with a view to widening the margin on that product over time. When instant access savers are looking for a home for their money, it's not the highest rate that is of utmost importance with the largest number of people, but actually a combination of

factors such as trust, convenience, instant access and a good rate. For many years now we have passed on the full benefit of every rate rise and have introduced regular promotions to reward our customers for choosing to save with us. We make very clear what our headline rate is and there is no small print. Sometimes we will be at the top of tables, sometimes we will not be in the top position, but we will consistently deliver good value.

**And how do you see, going forward, these products being distributed? You talked about what you are doing within the branch. I guess the other two channels are telephony and the Internet.**

The distribution mix is moving towards Internet. About 55% of all products that we sell now are sold over the Internet and 45% are over the telephone. However, as I mentioned earlier, we have a number of pilots around face to face selling. I would see the telephony to Internet migration continuing. Equally, I see us providing more support to customers in store - helping them understand the products we have available and providing the means to allow them to buy in store if that is what they want to do.

**Is that going to lead to advised sales in the future?**

It's too early to tell. If our customers say that they would like us to advise them, then we would like to think that we would support that - provided it is economic for us to do so. As we do constantly, we will be asking our customers what they like about our proposition and how we can improve the way we serve them. If they say it would be great to get advice then we would like to try and deliver that.

**You talk a lot about customers, their needs and customer insight. How valuable have the customer insights that Tesco gains through Club Card been to you in financial services?**

We work very closely with Tesco and Dunn Humby. (dunnhumby is one of the most admired international specialists in customer management, analysis and insight and has been instrumental in the development and operation of Tesco's Clubcard). We want to use that insight in a positive way for customers. If we can establish from a customer's shopping activity that this provides some insight into their credit risk or insurance risk, we would like to find a way to provide a price advantage to those customers. It's something we are looking at in a lot of detail.

**The downside of that is that you then start using it in terms of anti-selection.**

We won't do that. It's clear in our commitment to our customers that we will only use that data for the benefit of customers where we can provide them with an advantage. While I accept your point in theory it would



be inconsistent with Tesco's commitment to customers if we were to use it in some kind of negative selection.

**This is the only product range where you are likely to say no to a customer.**

The important point is that in saying no, you are doing it for the good of the consumer. It is very important that financial services companies do say no based on the information we have. If we believe that on balance, this is an unacceptable risk to us, then we are also saying it is an unacceptable risk for the consumer. I'm conscious of Alistair Darling's recent statement about traditional banking. It is vital that financial services companies say no when it is appropriate to do so.

**So how does that sit with the brand?**

We always try to find ways to help customers. As an example, where we decline a customer for a loan over the phone, we give them the opportunity to be put through to another provider of loans including secured loans. We make it very clear that it is not Tesco providing that loan and that they are moving to an external provider. However, everybody understands, including Tesco, that it is the right thing to do for our customers to say no where the circumstances would indicate that is the best decision.

**Do people differentiate between Tesco and Tesco Personal Finance?**

No they don't. We are a financial services company that happens to be a joint venture between Tesco and the Royal Bank of Scotland, but as far as the majority of customers are concerned, they are buying from Tesco.

**Coming from RBS, what do you see as the major differences between that traditional bank and a retailer?**

RBS brings a lot to the game – a strong service ethos, operational rigour and efficiency, a high control environment to ensure that customers are being treated fairly and ensuring we haven't got issues around knowing your customer and anti money laundering - all the things you would want and expect from a bank. What Tesco has in abundance, is a deep commitment to understanding what the customers need today and what they may need in the future. Their histories and their cultures have grown up differently, but the beauty of TPF is that you get to learn from both.

#### **Are the current banking issues going to impact on Tesco Personal Finance?**

I hope it will impact in a positive way. I've learnt in the last twelve months that there is a high degree of trust from consumers towards the Tesco brand. There's also been a lot over the years about watching out for the small print., although much of that is not entirely justified. Is there an opportunity for Tesco Personal Finance to use the fact it is a trusted brand to have consumers consider us in preference to the core banks? I think in light of recent developments there is every opportunity. For example we have passed on every single base rate increase there has ever been in the life of our savings product. History is a good way of defining the future and that sort of behaviour from Tesco Personal Finance is entirely consistent with the way we operate. We would like to continue to demonstrate that ethos across a broad range of our products. TescoCompare, our new comparison site, is entirely consistent with these values. It goes beyond price. It takes the small print and makes it big print so customers know exactly what they are getting when they buy their car insurance.

#### **There has to be a trade off between being the customers' friend and profitability.**

I'm not sure there has to be a trade-off. The fact is that our customers are our harshest critics and we are no different from other providers in that we win customers and lose customers every day. If you consistently endeavour to do the right thing for customers then you will create an understanding amongst consumers that this is exactly what you do. There are no tricks. By being consistent, people will come to you and you will be profitable as a result. That's not to say that there are not times when you have to put your APR up on your credit card or loans, or amend your pricing on your insurance products because of your claims experience. But you do these things in a transparent way.

#### **Should supermarket banking be a much bigger success than it has been to date?**

There is something about comparing apples with apples. We shouldn't really be compared with Barclays, Natwest, Lloyds, and HSBC with the history they have

and value in their legacy book. We are still relatively new and have more than 5 million customer accounts. I don't think we are doing too badly.

#### **What is the strategy behind TescoCompare?**

It was pretty straightforward. The car insurance market has become increasingly competitive. The price comparison sites have come into this market and proven to be of value to consumers. We

**TescoCompare.com was recently rated the best car insurance comparison site offering the best overall service to consumers.**

research with customers regularly and it shows that customers are increasingly going to these sites and increasingly liking the value they provide. What consumers said to us is that they would trust Tesco if they did this and that they would want to ensure that whatever price you get on that site is the price you are ultimately going to get. And if you can tell us a bit more than the price then that would be great too. About a year ago, we embarked on building TescoCompare. It provides quotes on a number of different brands, starting with price but customers have the ability to compare all of the different policy features – over 25 of them. And we're looking to ensure that when someone buys car insurance from that site that they know exactly what they are getting.

#### **Your critics would say there are a relatively small number of motor insurers on the panel and a quarter of them are RBS brands.**

There is no price comparison site that has the whole market. We have started off with a broad range of car insurance providers including some of the biggest brands in the UK with the obvious exception of Direct Line. It so happens that some of the biggest brands in the UK are supported or owned by RBS and you will see us add some more brands to the proposition over time. TescoCompare.com was recently rated the best car insurance comparison site offering the best overall service to consumers. by Defaqto, an independent research company. A result I'm delighted with.

#### **How many aggregators can the UK market support?**

Who knows? Most probably the market will be defined in terms of a number of key players. In banking there are three or four key players, but there is room for others and I've no reason to think the aggregator market won't follow a similar route.





**Why would you need more than one aggregator?**

Why do you need competition full stop? The propositions are certainly different and it's about customer choice and making the sector more competitive which is always a good thing for customers. For example our own brand is only available on TescoCompare and if someone buys from us then that is great. But let me stress, if someone buys from another insurance provider on TescoCompare then that's great too, because we're trying to do this for customers.

**Those with the biggest brands will succeed and second to that, those with the deepest pockets.**

Big brands research well on aggregators. I'm not sure

about the deep pockets but clearly we want to insure that TescoCompare is front of mind with the consumer. We also want these sites to develop into something which does more than just give you the price. Different car insurance products provide different features and benefits. It is important, because customers have said it is important, to know exactly what you are buying.

The principle of Tesco providing customers with choice is entirely consistent with the brand. If you are buying cornflakes, there will be Tesco's own brand and other branded cornflakes. It is entirely up to the consumer which one they choose to purchase. The Tesco own brand has certain values attributed to it and other brands will have different values. There is no

# Ubiquitous access will be key. Being available on the phone, in the store or branch, on the Internet 24/7.

reason why that shouldn't extend to financial services. Car insurance is the first thing we've put on TescoCompare. Whilst I can't today give you any commitment as to how we are going to extend the proposition, you would expect us to be researching which products best lend themselves to the aggregator model, with a view to adding to this service.

## Looking forward over five years, what will Tesco Personal Finance look like?

Tesco Personal Finance will have more of a relationship with the people who are loyal to Tesco. I hope we will provide more of a banking proposition to those customers. We will also have a solution for people that are looking to buy more on price, or want more information on products before they buy. That will be the extension of TescoCompare. What is important with both of these propositions is that we make it easy for people to buy from us. We must also make it easy for customers to renew with us and keep them better informed of our products and services. I believe we will move forward on all of these fronts. What I can be sure of is that we will try hard for our customers and try and understand our customers better than anyone.

## Who will be the winners and losers in retail financial services?

I believe firmly that the winners will be those that take the principles of retailing and adopt them for financial services - those who have a deep understanding of the customer and their buying behaviour, and an insight into what they are likely to do in the future. They will unquestionably be the winners. Ubiquitous access will be key. Being available on the phone, in the store or branch, on the Internet 24/7. Society is demanding that it is easier to buy and renew products with the minimum of hassle. Companies who respond to that will be the winners. Tesco Personal Finance will continue to be one of them.

## Whom do you think will be the next big player to change the shape of the market?

As consumers what we see every day is the prolific growth in mobile phones and also the use of the Internet. We have to be constantly looking to see if these particular mediums become an opportunity for a whole new type of

provider. My eight year old wants a mobile phone. She's not going to get one for a few years yet but you can be sure that she, like many of her friends, will use her mobile to do a whole host of things over and above chatting which she's very good at already. She's also very savvy on the Internet. I would expect her, when she is older, to be looking at that as a way of gaining information and purchasing all kinds of financial products.

I'm not sure who it will be, but certainly somebody who can capture what consumers are looking to do in the future based on the trends we are seeing currently.

## What do you do when you're not working?

Out of work time is spent mainly with my family I have two daughters who, at the moment at least, like spending time with their dad although I get more like a taxi service every day. Me time is usually a game of golf or the odd trip to the gym. Next year is a big holiday year with no doubt two exhausted parents trailing round after an eight year old and a six year old at Disney World. Actually I can't wait! □

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