

## > CFI.co Meets the Group CEO of KBC: Johan Thijs

**K**BC Group barrelled ahead in the wake of the financial crisis and hasn't looked back since. What explains your remarkable success as a bank and a creator of shareholder value?

There are a multitude of reasons. One of the main drivers is the focus is on the fulfilment of financial needs of our customers. That mindset is really at the centre of our business and operational model. Paramount in that approach is our bank-insurance model which creates a one stop shopping opportunity for our customers. More from a technical side, our income diversification is now really up to speed.

KBC is one of the few institutions in Europe to have been working very hard for many years on the implementation of an income diversification strategy, both through insurance (non-life and life insurance business) and asset-management (which is boosting our fee and commission business). This pays off in terms of profitability and in terms of return on equity.

Another important driver is our focus on cost and on how we run our business in the most efficient manner. That obviously helps our profitability to rise as well.

Apart from these technical drivers, we have since 2012 a group-wide corporate culture called PEARL. PEARL is an acronym. It stands for Performance, Empowerment, Accountability, Responsiveness and Local embeddedness, and it has been an important factor in achieving strong results and a driver for innovation in our group. All of KBC's approximately 43,000 employees "breathe" PEARL. They are "Team Blue", not just individual employees. This common force and joint attitude is an important steering factor for our company as we are convinced that our people really can make the difference in becoming the reference in our industry.

Under this PEARL umbrella, we introduced a uniform way of steering the whole group – every country, every entity, every type of business line – along the same lines. Not only financial parameters are commonly shared, but also the way of working and mindset. The metrics we use to follow up this PEARL approach may be different for each country, but the parameters are the same. These metrics are followed up, country by country, entity by entity. Every local CEO is accountable for his results. That has been in place for the last five years. And I can assure you it drives the whole group towards the same mindset; towards the same drive for performance and customer centricity.

**"I am also convinced that customers will judge us more and more on our degree of sustainability. This is why sustainability is embedded in our business strategy."**

Our success is also driven by our group strategy, consisting of two parts. The first is "more of the same", referring to what has made KBC so successful over the last five years: a bank-insurance company, focused on sustainable growth, putting the customer at the centre of its attention and, in doing so, picking up its role in society. That strategy remains the same.

The second part, "but differently", refers to what is becoming different: the way how we are going to achieve this success. We are facing a change in customer behaviour which we observe as a pattern in all types of industry. Customer behaviour today is heavily influenced by digital change, by the fact that everything is always and immediately accessible and available through the digital channels. Our customers are used to convenience, to ease of use, to 24/7 availability in all consumer industries. And they expect the financial sector to do exactly the same. They want a convenient, easy-to-use, 24/7 bank-insurance availability. This is something which is easily said, but not necessarily easily implemented because it requires a fundamental change in the mindset of all of our staff members. As a matter of fact, this not only about the fancy front-office applications like smartphone or tablet banking, or internet solutions. It also means a fundamental change for our back-office systems and applications.

**KBC reduced its core operating markets by half, from twelve to six. Are you ready to increase this number?**

As a matter of fact, we substantially reduced our geographic scope as part of the strategic reorientation agreed with the European Commission after the financial crisis of 2008. At the same time, some thirty subsidiaries, entities, and business lines were sold or wound down, which wasn't evident under the then prevailing market circumstances. We decided to focus on bank-insurance in five core countries (Belgium, Czech Republic, Slovakia, Bulgaria, and Hungary) and to maintain our banking activity in Ireland. This deliberate focus hasn't changed since and still forms the heart of our strategy.

In 2017, Ireland was relabelled into "core country". There are plenty of elements which were driving that decision. One of the main drivers is the digital revolution all over Europe, which is clearly taking place in Ireland. Ireland is one of the most advanced countries in terms of smartphone usage, internet penetration, etc. It also has a very young population, and perhaps that's one of the reasons that they are potentially among the most advanced in terms of digital saviness. Another element was the fact that the economy in Ireland is recovering fast from the crisis years and the forecast for the next coming years remains extremely positive. If you combine these elements, Ireland becomes very attractive to build a new type of digital frontrunner bank.

In Bulgaria, we acquired UBB and merged it with CIBANK, our Bulgarian banking entity since 2007. Together with DZI, our local insurance franchise, KBC today is the largest bank-insurance group in the country. Now we can really deploy fully our bank-insurance model.

**How do you envision future growth - organic or via acquisitions?**

Both are possible and pursued. Organic growth in all our core countries comes first. Strengthening our market share in a sustainable manner is paramount to us because it helps us to become a relevant player in each and every market in which we currently are present.

Growth through acquisitions is another option. If an asset becomes available in one of our core markets we will always look into it. However, we impose ourselves strict financial and strategic criteria. Any acquisition clearly needs to fit our strategy and has to be perfectly aligned with our financial targets. If it doesn't add value in the mid- and the long-term in terms of return on equity, the answer will be no. To make it more specific: in Bulgaria, we recently acquired UBB and its UBB-MetLife joint venture, while in Ireland we look for organic growth. These are the two examples of how we strengthen our position with respect for our core strategy. This strict approach also means we exclude growth in other countries than our six core markets, or in other financial business models like investment banking.

**How do you leverage advances in fintech - and possible disruptors in the financial services industry?**

The main disruptor to our business in the coming years will not be technology. Digitisation is only an instrument. The main driver for disruption today and tomorrow will be the changing customer behaviour. This fundamental change



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affects our future business model and the way we deal with customers. Banking customers expect a 24/7 availability and instant response to their financial needs. Just as they are used to the same kind of convenience in e-commerce.

Our underlying processes will have to be able to provide that convenience, requiring substantial investments in redesigning not only our core systems but especially the mindset of all our employees.

At the same time, we are going to compete with completely new competitors. Today, someone may be inventing in his garage something which tomorrow will be a disruptive technology that completely changes our world. This uncertainty makes the future very challenging for the banking sector. To cope with this, KBC heavily invests in innovation, both internally as through collaboration with promising fintechs. Rather than fighting innovation, you'd better embrace it and integrate it in your business model. That is your best guarantee to stay relevant.

**Reviewing the present state of financial services industry, what are the trends to watch out for?**

We are underestimating the immense impact artificial intelligence will have on our society. Any type of cognitive and repetitive work can essentially be handled by machines. This means that many jobs in the industry will be partially or fully impacted. It will also create new opportunities, new tasks, and new jobs. Therefore, we constantly have to retrain and reallocate our employees to the new normal. And let's be aware, we will need today people to build and maintain those ground-breaking new systems.

What also worries me is the hype around cryptocurrencies. Although I marvel at the underlying blockchain technology, prudence is called for. The whole Bitcoin craze reminds me a little of a pyramid scheme. You get a small group of people at the controls, creating artificial scarcity not backed by any reference framework. Next thing you know, everyone wants a piece of the action, and you've got prices going through the roof. And in the opposite direction, eventually.

I am also convinced that customers will judge us more and more on our degree of sustainability. This is why sustainability is embedded in our business strategy. It ensures that our sustainability principles are incorporated into all our activities and grounded in every part of the organisation. The fact that sustainability parameters are part of our remuneration policy up to the executive level, clearly illustrates this. But sustainability also means that, as a bank-insurer, we can enhance the positive impact our day-to-day operations have on society. To us, corporate sustainability primarily means being able to respond autonomously to the expectations of all our stakeholders, not only today but also going forward. That is a much broader interpretation than the traditional approach, which is usually based on the environment, philanthropy, and corporate governance. We seek at all times to achieve the right balance between business objectives and sustainability targets. This approach is fully in line with our position as an all-round bank-insurer which aims to play a prominent economic role for its private individual, SME, and mid-cap client base. ❀