



## Executive Speeches

# The Future of Banking

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### *Check against Delivery*

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Thank you so much. Before I start, I'd like to take a moment to thank the Empire Club, and particularly Gordon McIver, for hosting us today.

I also want to thank our generous sponsors, VISA Canada and Telus, two great partners, without whom this talk wouldn't have been possible.

I have to confess -- I have been engaging in some very non-digital activities.

Since becoming CEO, I have been reading from our four volume HARDCOPY of CIBC history – YELLOWING PAGES AND ALL.

So if this presentation to the Empire Club was held in 1967 an early chronicler of our bank (Mr. C.F.E. Carpenter) would have made a prescient comment about the computer (AND I QUOTE)..... "It was now possible to imagine not only a branch without the traditional ledgers...but also the computerized operation of the entire bank with many of the branches or even--and here the mind boggles – the computerization of all financial transactions throughout a country, a continent, or the world".

The future of banking –

I don't pretend to be the oracle on the future of the financial services sector, but today I would like to offer my perspectives on the future of banking as I see it.

If you believed all of the doom and gloom being written about banking these days, you would think it's just about all over for us—that the Apples, Googles and others in the Valley (SILICON AND ALLEY) are about to put us out of business, and that our clients are set to desert us in droves for new financial services providers.

That is simply not the case.

While there's certainly a lot going on in the world of banking these days, I can't imagine a more exciting time to be in financial services, particularly for CIBC, as we work to build a strong, innovative and relationship-oriented bank.

The pace of change in our sector is unprecedented, driven primarily by the growth in a variety of technologies that are changing the way we bank and transact. This new environment clearly creates challenges for us, but more importantly, it provides us with an unprecedented opportunity to lead the sector and serve our clients through uncharted waters.

While there are many developments related to incremental improvement in our banking, there are three broad areas of change that we are watching closely:

The first relates to the area of payments, where new entrants surface everyday hoping to join Applepay, Paypal and others in competing for the traditional role that banks play in the payments space.

The second is Peer-to-Peer lending, where firms like the Lending Club in the US, as well as emerging Canadian players, are having a growing impact on REDEFINING what is primarily the unsecured consumer lending segment. A recent report by Bloomberg Markets suggested that the Peer-to-Peer loan-volume is poised to hit \$77 billion globally this year, a 15 fold increase from just three years ago; as consumers look to refinance credit card and more expensive forms of unsecured debt.

And the third is Blockchain technology, which is associated with creating a secure, P2P version of electronic transfers without the involvement of an intermediary third party (like a financial institution).

Using this technology, a DIGITAL ASSET -- anything from a currency (like BITCOIN), TO a securities settlement TO a mortgage deed – can be moved securely using a ledger supported by the use of "private keys" to pass information directly from one party to another using the "blockchain."

While still at an early stage of development, it is something to study and understand.

I am frequently asked how we intend to respond to the new players in our sector. Banks face two alternatives in responding to these new entrants. Some would prefer to take a defensive approach to dealing with them. At CIBC, we intend to be there with our clients as they adopt new technologies and look for SECURE, easier and more flexible ways to look after their day-to-day banking needs.

This is not new to CIBC. We have a history of embracing technology and innovation to meet the needs of our clients throughout our 150 years; and were pioneers in bringing these to market.

During the 1950's and 60's.....

We built our first drive-thru branch at one of our locations in Ontario

We also introduced the flying bank in Northern Canada, and the floating bank along the St Lawrence River; and

We were the first bank to provide ATMs for our clients (in 1969 – Cloverdale Mall); AND

We were THE first bank to adopt PC's for use by tellers in the branch (Olivetti terminals at Bloor & Fieldgate)

Our tradition of leadership has continued in recent years:

We were the first to launch telephone banking and online banking;

We were the first major bank in Canada to launch a mobile banking app in 2010;

The first to enable clients to trade on the go via a mobile brokerage app;

The first of the big five banks to offer eDeposit, allowing clients to deposit a cheque simply by taking a picture of it with their mobile device; and

More recently, the first of the Big 5 to launch the Apple Watch App.

This morning, CIBC announced that it is the first major bank in Canada to participate in SURETAP™, a new mobile open digital wallet that allows clients to store multiple payment cards in a single app and pay with their phone at the thousands of retailers in Canada where contactless payments are accepted.

Suretap is the result of a joint effort between Rogers, Bell, and TELUS and reinforces our commitment to banking that fits your life, and our strategy of building a bank that is easy, flexible and personalized.

While a lot has changed, our tradition of adopting technology to enhance the client experience has and will remain a constant.

SO AS WE LOOK AHEAD, the leadership team at CIBC believes that there are three key drivers of success for the future strength of our bank:

THE FIRST IS THAT Technology and innovation that meet client needs will win the day;

THE SECOND IS THAT Relationships matter now more than ever; and

AND THE THIRD IS THAT Strength trumps size, but size—and focus—are important.

TECHNOLOGY & INNOVATION THAT MEET CLIENT NEEDS WILL WIN THE DAY

The digital revolution and consumers' expectations

The digital revolution of the 21st century is transforming consumers' experience and knowledge, and raising their expectations.

In the NON-BANK world, a million Canadians subscribe to Netflix, many are regular users of Uber and Airbnb, all of whom have brought disruption to their particular sector.

We are seeing similar trends in the electronic and mobile commerce sectors.

According to Visa Canada, mobile commerce is growing at a rate of 40% a year and is expected to reach \$ 14.1B by 2017.

It's not likely a surprise to you that many of 90% of millennials who shop online do so on their mobile phones; and are teaching their boomer parents how to do the same.

It's funny how the different generations have so much to learn from each other. Our kids teach us about the latest killer apps and we teach them about things like MAILING A LETTER USING CANADA POST. AHH, the joys of parenting AND aging!!!!

### Changing client expectations

This digital momentum is not only here to stay but it will also only accelerate. So, what does this mean for banking?

First, because of their extensive and varied online experience, clients today expect more from their bank. They are tech-savvy, and they have seen technology simplify transactions that used to be complex and time-consuming in other parts of their lives.

Second, clients are prepared to embrace new technologies only if they seamlessly integrate into their lives, fulfill real needs and deliver additional value. In other words, banking that is easy, flexible and personalized—banking that fits your life.

Third, we have learned that the take-up of online innovation works best when it is supported by real people. We need to ensure that clients can access human assistance quickly and easily.

### CHANGING HOW WE WORK

Meeting these new client demands is changing how we work.

In a time of challenge and rapid change, organizations need to be structured for speed and agility. It means a culture that faces outward, to be in tune with TECHNOLOGICAL DEVELOPMENTS in other sectors and other countries.

At CIBC, we've also recognized that the cultures of our new competitors are geared to rapid change and innovation, so we are working hard to make sure that we can match them stride for stride.

This means a culture where the smartest people can work on the biggest challenges and the most innovative technologies without being encumbered with the knowledge of what is seemingly impossible.

Collaboration, innovation and partnerships

To be nimble and quick in today's world requires the recognition that you can't do everything alone.

It means embracing and deepening collaboration and strategic partnerships with outside innovators, working with new tech partners and networks, and providing seed money to incubator and accelerator programs.

Like all successful businesses, banks need to meet their clients where they are—in their communities, while they are travelling, when they are on their tablet, mobile, or out buying a coffee.

For example, it was an investment we made in a bright technology company called Dynamics that led to the CIBC Double-Double Visa card, co-branded with Tim Hortons. We think this card is cool and so do more than 100,000 Canadians who now carry them. It has two buttons that allow clients to earn or redeem Tim loyalty points with every Visa purchase and appeals to their need for IMMEDIATE GRATIFICATION.

Our partnership at MaRS, where we established an innovation lab, is where our small team of bright young co-op students and developers developed the CIBC Apple Watch banking App. Because technical specs were not yet available from Apple; they designed the proof of concept on the basis of what clients would want from a CIBC Banking App on the Apple watch.

The speed of development was unprecedented and caught the attention of the Apple team and resulted in another first for our bank. By acting like a bank AND like a tech start-up, we were able to achieve a BETTER OUTCOME for our clients.

All of these "firsts" are examples of the speed and agility necessary to meet our client's demands....AND THEY ARE PAYING OFF.

So what are our clients doing?

Across Retail Banking:

Since we launched eDeposits in November 2013, our clients have deposited more than 4.3 million cheques.

Our mobile banking log-ins have grown 36% in the last year and now exceed 30 million a month VS 4 million BRANCH visits; AND

80% of all transactions are now conducted outside of the branch, with that figure expected to INCREASE OVER TIME.

Within our Wholesale Bank:

OUR e-business platform that we call @CIBC; provides our corporate, commercial and institutional clients with a best in class FX web trading solutions for our clients, but also benefits our personal banking clients when they are "on the go" at our branches at Pearson Airport.

We have also developed a leading technology platform supporting our derivatives capability, that has helped to see us recognized as the Best Derivatives Bank in Canada by GlobalCapital, a leading capital markets publication.

WHICH BRINGS ME TO OUR SECOND INGREDIENT FOR FUTURE SUCCESS AND THAT IS THAT..... RELATIONSHIPS MATTER MORE THAN EVER

With all the talk about technology and innovation, you might conclude that relationships are becoming less important; in fact they matter more than ever.

I know those of you here today who bank with CIBC know the value of our team, those men and women who are there whether you need to ask a simple question about your account or investments, or to help develop a strategy to grow your business.

Whether clients contact us in person at a branch or through an on-line channel they want to know that:

We know who they are and have the right information at our fingertips;  
We can help them get their "routine banking" done quickly and easily; and  
That a live person is on hand to jump in to assist the client if required.

In my meetings with corporate leaders and business owners, I hear that they value the advice and contributions that their relationship managers and partners make in helping them grow their business. And that while technology is a great enabler of executing banking efficiently, it does not take the place of the personal interactions.

Omni-channel banking and the future of the branch network

With all of this talk of technology and innovation you might conclude that in the bank of the future the branch is obsolete.

Nothing could be further from the truth.

As our clients further leverage technology for their routine day-to-day banking, the role of the branch will EVOLVE. It will be a place less about routine transactions and increasingly about where our clients turn to for thoughtful and personalized financial advice.

Our continuing adaptation of digital technologies to better serve our clients also speaks to the changing client demographic.

We all talk about how the millennials are driving change in banking. Today's millennials will become the baby boomers of the future as the influence and wealth that is currently with their parents transitions to them over the next 10-20 years.

#### COMPLEXITY OF BUILDING THE BRIDGE TO THE FUTURE

As we move to modernize our bank, we face the complexity of serving multiple generations of client. Some who embrace change and technology and some who do not. The latter being clients like my mother.

She's not interested in getting her cash from an ATM, and much to my disappointment, hasn't downloaded our latest app.

She still goes to her local branch every week to get her passbook updated, to check her balance and get her bills stamped. She knows our team members by name, and they know her.

That's banking as she knows it, she doesn't want it to change, and she is not alone.

The retail branch network remains important to well-established clients as they make major financial decisions. We cannot abandon that network, as we invest in additional channels for clients' emerging digital preferences.

So bringing omni-channel banking to our branch bank system presents challenges to all stakeholders:

For our team members we need to strike the right balance between integrating innovation and new technologies into banking practices without eliminating their every important role in serving and building relationships with our clients.

For clients we need to build an experience across all of our channels that is easy, flexible and personalized and engages clients across all products, services and transactions, and in all locations.

For shareholders we need to continue to deliver earnings growth while at the same time investing in modernizing our bank. We need to transform legacy platforms, organizations and cultures, at the same time maintaining the old channels while we build the new ones.....AND DELIVER POSITIVE OPERATING LEVERAGE.

Getting this right will BE A WIN-WIN-WIN proposition --- IT WILL MAKE....CIBC an easier place to work and do business; and will deliver greater returns for our shareholders.

Omni-channel banking will also mean changes in our branch network's existing format and what happens there. The branches of the future will be smaller and smarter, like our new branch at Whistler where we have no wickets, are pretty much paperless but can meet our clients' needs for important financial advice.

AND THIS BRINGS ME TO OUR THIRD KEY INGREDIENT FOR SUCCESS, WHICH IS THAT STRENGTH TRUMPS SIZE, BUT SIZE IS IMPORTANT

In the new regulatory environment, the global banking model is being challenged. We face new global regulations and guidelines associated with Basel III, not to mention the evolving domestic regulatory landscape.

If you look to our country's Bank Act, which governs all deposit taking organizations like CIBC and its peers, the focus is on maintaining the safety, stability and security of our banking system. It has served us well both here and in the INTERNATIONAL ARENA.

In my view, the operational complexity, competitive pressures and varying regulatory frameworks facing global banks has created an environment where, the costs of being a truly global bank far exceed the benefits.

The recent financial performance of these global banks bears this out. The average return on equity of many major global banks is BELOW 10%, which is less than half of our roughly 20% ROE.

While size matters, strength trumps size, but what does strength look like in this new environment?

I believe the strongest and most-valuable banks in the future will have 4 key characteristics:

Strong regional and deeply-focused client strategies over global strategies, particularly in the personal and commercial space. The strongest banks of the future will be more regional than global and will increasingly partner with like-minded organizations to provide their clients with access to global markets and financial transactions.



An increasing focus on STABLE, high-quality deposits to fund quality assets vs a growing reliance on WHOLESale funding;

Create Competitive and Smarter cost structures. As a large complex organization we need to be vigilant about efficiency and productivity as we invest in modernizing our bank. I think about it as developing an environment where COST IQ is a valued organizational trait.

Strength from a cyber-security and data capital perspective. It's important to realize that in addition to protecting SHAREHOLDER capital we must also protect the wealth of DATA CAPITAL that our clients entrust us with every day.....AND HERE IT IS IMPORTANT TO STRESS THAT NO individual company can do this alone, the entire financial services industry, along with our THREE LAYERS OF GOVERNMENT, need to work together to create strength and competitive advantage in this area.

We expect that all clients—business and personal—will continue to rely on the safety, strength and security of well-capitalized banks like CIBC for their principal banking needs. These are characteristics that the new entrants may struggle to DISRUPT.

CIBC

I began these comments today with references to the real challenges faced by the banking sector from outside disruptors, technology and more sophisticated and demanding clients.

At CIBC, we welcome and embrace those challenges; in fact, we are responding with nothing less than a top to bottom reinvention of ourselves, and the traditional banking model.

Nearly 150 years ago, a group of bankers came together to provide banking services to a new country. The challenges were big, but the opportunity was bigger. There was no turning back.

In some ways, we're at that same point again when you consider how much technology is changing business for our bank. But again, the opportunity is tremendous. No turning back.

At CIBC, we're focused on deepening client relationships by being innovative in developing the channels our clients use every day. We are investing in areas that make it easier to do business with us.

Our strategy—to be a flexible, modern and convenient bank—reflects this way of thinking.

Our approach to growth involves expanding our franchise in businesses we know well, and following our clients as they choose to bank—whenever, wherever and however they want to do it. In other words – banking that fits your life.

And that's what makes this an exciting time to be at CIBC, as we work to build a strong, innovative and relationship-oriented bank.

Thank you.