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Financial Institutions

Societe Generale Remains Committed to Meeting Future Challenges

On 28 November 2017, Societe Generale presented its 2020 strategic and financial plan. While there was nothing particularly radical in the plan, we believe that it reflects management's clear understanding of the evolving competitive landscape and the need for the bank to adapt. Many elements of the strategy build upon the group's business strengths. We also note the recurring message of acting and growing responsibly. Societe Generale's Issuer Rating is A+, with a Stable Outlook.

Looking forward but also addressing current realities

In ten years, the CEO envisions a European banking landscape with fewer banks. Domestic consolidation and possibly a more unified market in the eurozone would result, like in the US, in a few large diversified players with material corporate and investment banking franchises. These players would capitalize on the shift to greater capital markets financing from bank financing.

Meanwhile, in the core retail banking space of credit provision and banking services, the CEO sees greater competition from new entrants and technologies, with an intense focus on price and ease of use. The area where banks will be better positioned to maintain a relationship with their retail clients is in savings – the protection and investment of wealth. The CEO also sees higher barriers to entry in the B2B and B2B2C segments, where relationships, expertise and an international network are valued. These two segments accounted for about 65% of the group's total 2016 revenues.

Against these views of the future banking landscape, the elements of the group's 2020 strategic plan make sense. In France, the bank will continue to reduce the number of branches by 15% and target the automation of 80% of front-to-back internal processes. Management made the point that the bank was already a technology intensive company and that IT investment to "change the bank" continues to grow. The group will also invest in its asset and wealth management franchises to serve the target retail customer base of mass affluent, professionals and corporates.

As well, further investments will be made to sustain and bolster capabilities in derivatives, prime brokerage, financing and advisory and global transaction banking. Reassuringly, the group intends to maintain a business profile where retail activities and financial services account for more than 60% of 2020 business RWAs and revenues, with market activities being kept below 20% of group RWAs.

Growing importance of corporate social responsibility

To foster greater group agility and cohesiveness, from 2018, 40% of senior management's variable remuneration will be based on common group targets, including customer satisfaction scores, employee engagement and corporate social responsibility (CSR) objectives. During 2Q 2017, the group consulted 1,200 stakeholders, including clients, investors, union representatives and suppliers to determine which CSR commitments to embed in the group's strategy. The six identified priorities include business development goals (e.g. contribute positively to energy transition and to sustainable development in Africa) and ways in how the business should be conducted.

Continuity in strategic and financial plan

We see Societe Generale taking needed actions to adapt its business, reduce costs which are still relatively high, strengthen compliance and continue the implementation of a firm-wide culture and conduct program. The group also targets a fully-loaded CET1 ratio above 12% and a leverage ratio between 4% and 4.5%, with expected annual organic capital generation of around 25bps. These actions should continue to support the group's solid credit profile.

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