CEMS MIM Work Project

9th June 2014

Evolution of bank branches in the next fifteen years

Building an omnichannel distribution strategy

for Italian retail banks

Extension to the CEMS MIM Business Project

UniCredit – *Innovating the business model in commercial banking*

An Innovative Retail Bank for Small and Medium Enterprises in 2030

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Business Project Context

Challenge

"Powerful forces are reshaping the banking industry. Customer expectations, technological capabilities and regulatory requirements are creating an imperative to change. Banks need to get ahead of these challenges and retool to win in the next era." (Retail Banking, 2014).

The UniCredit's Business Project launches a discussion on the future of commercial banks, more specifically, on the future of their retail segment. The challenge is to imagine how retail banking will look fifteen years from now and develop ideas to innovate its offering and distribution approach to a specific customer segment.

The project is focused on the Italian retail banking system and presents an analysis on the current profitability performance, challenges for the next years and main trends for the future evolution of the business model.

To conclude, the project presents innovative products and distribution channels for the retail banks of 2030. Such recommendations are focused on Small and Medium Enterprises (SMEs), aimed at exploiting their economic and social potential.

Analysis

In order to provide meaningful recommendations for the future of retail banks it is crucial to first understand how the evolution of this industry has been, which are the current problems and identify threats and growth opportunities.

The Italian banking system has suffered tremendously with the financial crisis (Appendix 1). The aggregated Return on Equity (ROE) of Italian banks decreased from 3% in 2010 to -6% in 2011, being that decline in profitability more aggressive in Italy than in Europe. Moreover, looking at the top five banks of each EU country, it is clear that Italy is underperforming its peers and such is happening not only due to deteriorating macroeconomic conditions – extreme high debt/GDP ratio, no GDP growth and a growing deficit – but also due to specific characteristics of Italian retail banks – revenues more driven from the asset side (loans dependent on the economic cycle), heavy physical distribution of branches and lagging multichannel capabilities.

When breaking down ROE (Appendix 2) it is clear that, on top of the aforementioned factors, Italy is lagging behind due to a decrease in net interest income, lower ability to identify non-interest income revenue sources, an increasing level of non-performing loans, high levels of staff expenses and overall low levels of efficiency.

The focus of this project is, therefore, to increase revenue sources (especially non-interest income, promoting risk diversification) and achieve higher levels of efficiency.

On a customer approach, SMEs are a particularly unprofitable segment due to their risk profile and complex needs (Appendix 3). However, this segment is highly relevant in social terms, has a considerable impact on the Italian banking system and has an unexploited potential on which banks can leverage for future growth (Appendix 4).

To better understand how to unleash the potential of SMEs in 2030, the main global trends for the future were analysed and organized in five categories (Appendix 5) – Big Data, Digitalization & Social Media, Customization and Internationalization.

Combining the main global trends for the future, the needs of both banks and SMEs (Appendix 6) and the expected sources of competition (Appendix 7), the future product offering and distribution channels were defined.

Summary of Conclusions

The retail bank of the future will be a truly transparent company focused on service and ready to anticipate customers' needs through the usage of big data; it will not only be a financer but also an active partner for its clients, pushing them towards ambitious objectives that will make them more profitable and sustainable. The bank will focus on three main pillars (Appendix 8) – a more efficient and rationalized core business, innovative services levered on core capabilities and a new omnichannel distribution.

On the core business side (Appendix 9), procedural innovation and a service-logic will mainly lead to higher efficiency, optimization of services and better risk management.

The new product offering for SMEs can be clustered in Consultancy, Information Sharing & Access to Capital, Promotion of Cluster Aggregation & Financial Education, and Augmented Reality as an Innovative Promotional Tool (Appendix 10).

Finally, to better address the SMEs' needs, an omnichannel distribution (Appendix 11) is developed allowing customers to have an increased amount of channels to use while being in control of interlinking those channels in the way they wish to. This distribution strategy will enable SMEs to have a tailored banking experience (Appendix 12).

As part of the omnichannel distribution, branches are expected to be strong IT-based, providing touch-screens where customers will be able to browse for new products, contact staff members and obtain an interactive presentation of their financial data.

To conclude, the 2030 retail bank will widen the SMEs' portfolio of services by leveraging on big data analysis, and technology will become increasingly important to increase revenue sources, promote efficiency and reinforce the relationship with clients.

The Future of Branches

Original Approach

To develop an omnichannel distribution strategy for SMEs in Italian retail banks it was necessary to present the future positioning of branches. The conclusions presented in the previous section were derived by combining the most relevant reports on the subject and taking into consideration the key trends for the next decades.

However, the future of branches was not the main focus of the Business Project so it did not have the attention or discussion that such a sensitive issue should have. Infrastructure efficiency will be crucial in the upcoming years to reach sustainable growth, thus analysing and further discussing the next steps of branches becomes utterly important.

Limitation of Original Approach

The Business Project approach was not incorrect but the future of branches is an issue that deserves a deeper analysis considering technological progress, demographic evolution, consumer behaviour and specific bank objectives. Moreover, intermediate steps should be suggested in order to guide retail banks, helping them to reach the optimal branch structure that maximizes the potential of omnichannel distribution. Finally, the analysis of the future of branches should not be limited to SMEs; instead, it should consider the entire retail public – Families and SMEs.

Overall, the Business Project lacks a deeper understanding of the importance of branches to the retail banking business, an analysis of the main determinates of branch evolution and a plan for the next years.

New Approach

The following sections will develop on the future of Italian retail bank branches for both Families and SMEs, suggest the next steps and propose a 2030 branch in line with the Business Project but more developed and structured.

Relevance of branches – In the current low revenue, low profitability environment, retail banks are re-evaluating the relevance, purpose and cost efficiency of branches.

The declining levels of branch traffic allied with higher costs of branch transactions (Appendix 13) are forcing retail banks to transform their branch models. Negative Returns on Investment (ROI) are not an option for the future.

Nonetheless, retail banks do not imagine a future without branches (Appendixes 14 and 15) and, in fact, having a physical presence is extremely important in the omnichannel distribution approach. Branches are a key interaction point that allows face-to-face contact between customers and their bank, being essential for complex product sales and relationship building. Besides, branches are essential to establish community and market presence, and to build brand recognition and trust (Rebooting the branch, 2012).

"Industry is at an inflexion point" (Retail Banking, 2014). Motivated by the need to boost profitability and fast developing technologies, retail banks should act now and shape the upcoming years. Branches have a bright future but action is necessary; implementing and integrating new technologies is mandatory to win the next decades.

Determinants of branch evolution – Network rationalization and differentiation of branch types are crucial to optimize service levels and keep costs under control (The Future of Bank Branches, 2013).

Such rationalization and differentiation can only be achieved taking into consideration key determinants of branch evolution. As so, to design the optimal branch network, retail banks should consider their own specific objectives, the potential of technological progress, the demographic trends and the consequent shifts in customers' needs.

In regard to the objectives, given the abstract nature of the Business Project, this Work Project will not focus on any specific bank and instead consider a large regional/global bank operating mainly in Italy that suffered with the crisis and is now re-thinking its business model to remain competitive in the next years. In particular, it is adopting a technologically advanced distribution approach aimed at attracting and retaining customers, creating new revenue sources and achieving higher cost efficiency.

In respect to the technological progress, retail banks should mainly consider the increasing importance of smart devices, the potential of video-conferences and the adoption of biometrics. Smart devices are shaping the future; in banking, they are becoming as relevant as cards as the primary payment instrument, giving customers the access to account providers or locally stored value and allowing them to make contact payments and transfers. Video-conferences are transforming interactions and, for banks, such means that human touch can still be present in digital channels. As for biometrics (e.g. fingerprints, voice recognition), an integration in banking has the potential to revolutionize transaction authorisations, thus decreasing the dependency on physical instruments.

Finally, regarding the demographic trends, aging population will be an important constraint in the digital evolution of distribution channels. Nonetheless, the high internet and smartphone penetration among the younger generations is a key trend on which banks should leverage to design the branches of the future.

The Italian case – Italy is the third European country with highest branch density (Appendix 16). Such high level of physical presence becomes a burden especially in times of crisis due to the high fixed costs associated. Consequently, Italian retail banks are closing and merging branches. However, analysts estimate that a satisfactory profitability can only be achieved if the branch network is cut by at least 30% and if the remaining branches are able to rationalise costs and personnel (Jucca, 2013).

To achieve a high performance, cutting costs is not enough. Retail banks should balance the short-term strategic cost reductions with long-term sustainable measures (A Strategic Approach, 2008). For that, branches need to become less costly but also more productive which means that new branch models will need to be adopted.

In order to support the digital evolution of branches towards a more efficient and sustainable model, Italian banks should leverage on the high penetration of new technologies such as smartphones and tablets (Appendix 17). However, despite the high dissemination of new technologies, Italy is lagging in terms of e-Intensity (Appendix 18), mainly due to a low level of *Expenditure*. The fixed and mobile infrastructures are in place and consumers are embracing the new technologies but the proportion of money spent on online retail is still low. Education and incentives to adopt digital channels as a purchase method are necessary to reach the potential of new technologies.

Finally, in demographic terms, retail banks should consider that the Italian population is ageing and that, in 2030, the country will have the second oldest population in the world with a medium age of 49.2 years (Italy in 2030, 2013). Such imposes a challenge to the technological evolution of distribution channels but should not undermine the adoption of new branch models. Instead, retail banks should find hybrid solutions that consider both the needs of older customers and the needs of tech-savvy younger generations.

CheBanca! – Launched in 2008, CheBanca! dared to go beyond the traditional banking model. The retail division of the Italian Gruppo Mediobanca was able to integrate the comfort and convenience of an online bank with the physicality of "bank shops".

CheBanca! (What a Bank!) is an important success case of the digital evolution of retail banks. In the first year, it "recorded commercial results far beyond expectations: €5.3bn in deposits, and 170,000 current accounts opened" (CheBanca! Press Release, n.d.).

The market has been rewarding CheBanca! for its efficiency, distinctive approach and modern distribution strategy. In this bank, customers are the ones who choose which channel to use and they are guaranteed to always find the same products on offer.

CheBanca! is organized around customers, anticipating their demands and being available when are where customers need.

The bank's innovative distribution model not only captivates customers but also has positive financial impacts. CheBanca! has been able to grow while keeping costs down because of its high emphasis on internet. "About 90% of CheBanca!'s banking transactions are done via the Web" (Emsden & Cohen, 2011).

In spite of the high internet focus, CheBanca! has physical branches considered to be key to the bank's strategy and success. Those have an innovative "design concept that lifts the retail banking branch from an impersonal financial sphere to a level that stimulates interaction among customers" (CheBanca! natural tech, 2014).

CheBanca!'s branches are bright, open and designed to encourage clients to use the Internet on their daily transactions (Appendix 19). Moreover, instead of separating clients and employees by a traditional counter, branches are organized in a way that both customers and bank employees look to the same computer screen. Such approach brings higher transparency and educates customers, motivating them to use the Web portal for their daily banking transactions and promoting higher cost efficiency.

Omnichannel distribution strategy – Addressing the changing economic environment and remaining relevant to digital consumers will move banks to a digitally-optimized distribution strategy where the role of physical branches is challenged to blend with digital channels, offering a seamless interaction between customers and their banks.

In line with the proposed on the Business Project, retail banks will move to an omnichannel distribution strategy providing a consistent experience across channels with access to financial products and services where and when the customers need (Appendix 20). Such financial services will become naturally embedded into the lives of individuals and business customers.

In this omnichannel model proposed for 2030, the role of branches is bound to be much different from today. As smart devices eliminate most of the face-to-face financial transactions, paper checks, paper currency and plastic cards, branches will mainly have marketing and client acquisition functions. In addition, community support, assistance in the sale of complex products and advisory services will be provided in branches but through virtual channels. The focus will be on experience and customer acquisition/retention rather than on transactions.

Envisioning a world where almost 100% of banking transactions are conducted online might seem far-fetched but technology is evolving so fast that such is possible fifteen years from now. Nonetheless, it is important to notice that future branches will not be detached from human touch; such will be present but mainly through virtual platforms. "Customers are open to having advice delivered to them virtually in the branch as long as quality and personalization do not suffer" (Winning Strategies, 2012).

Reaching the branchs of 2030 - CheBanca! is a very good example of where Italian retail banks should start. The channel distribution should be geared towards maximum efficiency and branches should become a communication tool, a relationship place, to help with the transition to digital banking while building recognition and trust.

However, this is not enough. Disruptive actions should be put into place. The traditional branch model needs to be challenged and customers need to clearly understand that a new banking era is beginning – retail banks are ready for the technological challenges and willing to shape the future of banking relations.

Based on a thorough analysis of best practices and innovative approaches, a plan is created to lead the future of Italian retail bank branches (Appendix 21).

Within the next years, following the analysts' estimates aforementioned, branches will be cut by at least 30% (decreasing branch density from 64 to approximately 45 branches per 100,000 habitants, closer to the EU average of 32.2). Simultaneously, existing branches will be converted, moving away from the traditional model.

The first evolutionary phase has already started, as CheBanca! demonstrates. Until 2020, retail banks need to convert their branch network into two different physical displays – Flagship and Hybrid Branches – with Flagship Branches located in strategic areas and representing about 20% of the total number of branches.

On the one hand, the Flagship Branch is a store-like branch that combines self-service with full service areas, showcasing how new technologies can be applied to banking, improving the customer experience. This branch should be technologically advanced and present the new era of digital banking and, in order to be capable of fast adapting to new technologies and needs, the Flagship Branch should have a modular structure.

To begin with, the modular structure suggested includes five integrated areas (Appendix 22). An entrance with a coffee/lounge space to invite customers in and break the status-quo of traditional branches; high-function self-service kiosks; showcases of "box-products" with digital codes that can be scanned to display more information on touch-screens available on the lounge area; a full service teller for the customers less prone to use new technologies; and a flat screen area to host weekly video conferences and display daily the most popular bank products.

On the other hand, the Hybrid Branch (Appendix 23) should include more self-service kiosks (open 24 hours) and employees to help with the adaptation. Besides, the "box-product" approach should also be introduced to boost the retail experience. Finally, Hybrid Branches, in this first phase, should continue to have the traditional tellers to smooth the digital transition and support the older generations.

In the second phase (2020-2030), retail banks should consolidate the onmichannel distribution strategy. As so, Flagship Branches will increase their relevance on the branch network and mainly have marketing functions. The structure should remain fairly equal but technology will be more advanced – holographic conferences with advisors and biometric payments will be commonplace. As for the employees, those should be less focused on transactions and more on selling products and presenting the new technological evolutions.

Finally, Hybrid Branches will be converted to Community Centres (Appendix 24) offering customized services through holographic tellers; only one employee will be physically present to solve any existing problem. With a decreasing number of customers using branches, these Centers will mostly be visited by older people and local businesses. Community Centers are the branches highlighted on the Business Project as they will be the physical contact between banks and SMEs, stimulating long and profitable relations.

Conclusion – The digital transformation poses challenges but also opportunities for the banking industry. Delaying the transformation is not an option; banks should lead and present competitive value propositions for the future.

The transformation is already happening, the Italian CheBanca! is an example of what should be done right now to boost the transformation. However, disruptive measures should be taken; to reach the omnichannel distribution models it is crucial to challenge the traditional model of branches.

As part of such challenge, branches need to change fast and adopt Flagship and Hybrid Branch concepts where transactions are no longer the focus. Instead, attention is given to the customer experience and to digital education – the numerous possibilities of technology should be shown and employees should support the digital adoption.

In 2030, banking transactions will mostly be done online and human touch will be present digitally. As a consequence, Flagship Branches will mainly have marketing and branding functions and Community Centres will be introduced to give customized local support to families and SMEs, thus promoting profitable and lasting interactions.

Reflection on Learning

Previous Knowledge

During the Masters in Finance and the Masters in International Management I acquired skills and theoretical knowledge important for the execution of the Business Project.

To design the new product offering and distribution strategy, soft skills developed in both Masters, such as researching, brainstorming and selecting relevant information, were crucial. As for the theoretical background necessary to analyse the future of retail banks, it was mainly acquired during the Masters in Finance. However, given the innovative nature of the Project, the contents were mostly used in an indirect way. The theoretical contents were important to understand, launch the analysis and evaluate the feasibility and impact of the ideas proposed, not necessarily to develop them.

On the one hand, Entrepreneurial Finance & Venture Capital was important to understand the needs of SMEs (similar to the needs of entrepreneurs) and consequently design the products and distribution channels. In particular, the managerial support and financing needs were addressed in the recommended new products.

On the other hand, Banking gave the tools to understand a bank's financial statements and identify the sources of revenues, costs and risks. Besides, in Banking I learned that ratios such as ROE and cost-to-income are important indicators of a bank's profitability and efficiency; information that was key to understand the problem of Italian retail banks. The notion of capital requirements and the evolution of the Basel Accords were also acquired in Banking and considered to reach meaningful recommendation, i.e., products with low capital requirements so as not to negatively impact ROE. Finally, Banking highlighted the importance of customer centricity and customization to achieve loyalty and customer retention, notions that enriched the Business Project.

New Knowledge

During the Business Project I did not learn any new analytical tool or financial method. Instead, I had the chance to deepen my knowledge on the retail banking industry and on the future challenges it will face. The analysis was focused on Italy but some of the topics developed (trends and competitors, for instance) are general so those will certainly be important for my professional career.

Finally, the Project's focus on the future has the advantage of providing knowledge that makes me one step ahead. I am not only able to understand the problems faced by banks but also discuss their future. I am now able to identify the new players entering the retail banking market, anticipate future banking trends and suggest innovative products and channels to leverage on core capabilities while boosting profitability.

Personal Experience

The group dynamics were very positive and all members contributed to the final product. In particular, I believe that my involvement was highly important to organize and structure the presentation. I have some experience in strategic consulting and this Business Project was consulting so I felt comfortable to lead the development of the presentation's story line, organize the documents, produce action titles and select the relevant data to support our analysis and suggestions. Such highly contributed to the production of a professional and consultancy-like presentation.

Moreover, I prefer to always work in a structured and efficient way so, in all meetings, I would prepare an agenda and summarize the conclusions reached. This work methodology was very effective and helped the group to be more productive.

However, there are weaknesses that I should recognize. My most important handicap is shyness. During the group meetings I made an effort to overcome it but on the reunions with the Tutors I often let my group colleagues take the lead. Such inhibition would sometimes be seen as lack of involvement which was completely not true. As so, in the future, I need to work on my self-confidence and make an effort to overcome shyness.

Benefit of Hindsight

Initially, the aim of the Business Project was selecting a customer segment and suggest innovative products and distribution channels. However, close to the final presentation, the Corporate Tutor asked to add a general analysis of retail banks in 2030 regarding vision, competitive landscape, core business and distribution strategy from the bank's perspective. Such request caused tremendous stress within the group as we felt that the initial challenge had been completed and that a new project was being asked.

However, looking back, we should have anticipated that those topics would be necessary. The product offering and distribution channels were to be focused on one specific segment but, to do so in a correct way, it was of course necessary to have the full picture of retail banks in 2030. Therefore, in hindsight, I believe the group lacked a deeper discussion about the challenge. Nonetheless, we were able to overcome that problem by leveraging on the tremendous work capacity of all group members.

Finally, what added most value to the end product were long brainstorm sessions. The group discussed the problems, then we individually searched for reports and, finally, we had insightful discussions to agree on the best approaches/solutions to include.

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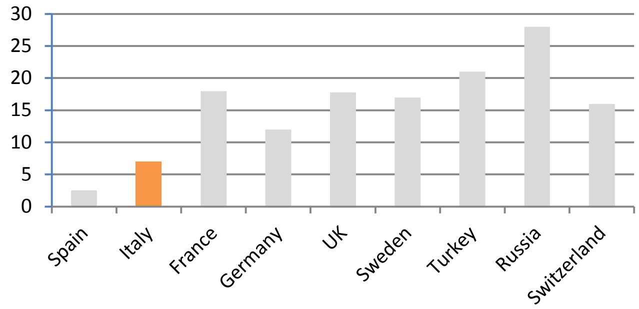
Appendixes

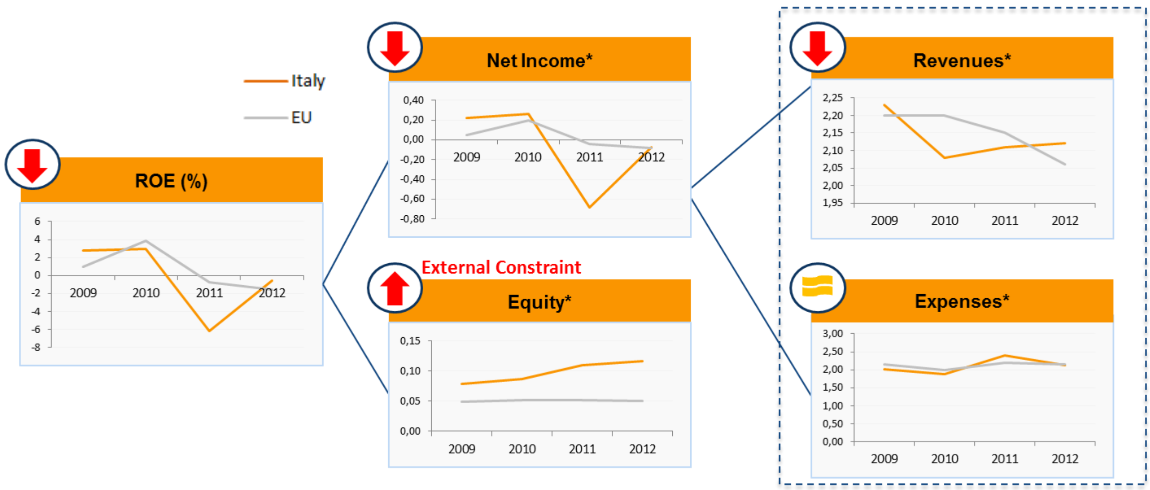
Appendix 1 – Evolution of ROE in Italy and Europe (CEMS Business Project)

Aggregated ROE (%, post-tax)

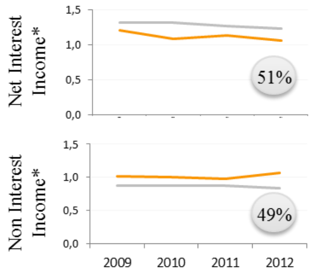
ROE in 2012 of 5 top tier Banks (%, pot-tax)



Appendix 2 – Breakdown of ROE (CEMS Business Project)

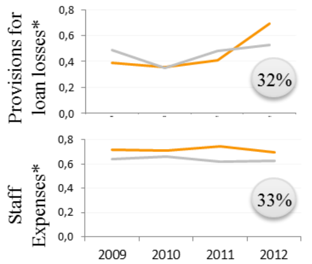


Revenues



- In 2012, **net interest income declined** by 4,3% (€2.3 billion), mainly due to a lower volume of lending. Such decline was reduced by an increase of non interest income
- Similarly to EU, Italian banks are experiencing **lower interest margins** and those are expected to continue to decrease in the future
- In such a low interest environment, **non-interest income becomes increasingly important** to improve total revenues and promote risk diversification

Expenses



The recession brought a pronounced worsening in the quality of banks' assets

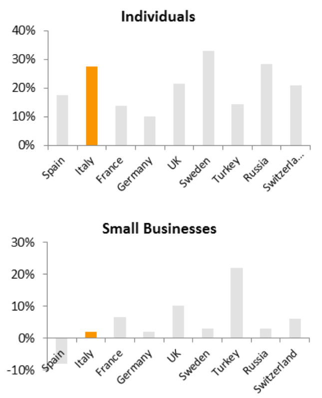
- From 2008 to 2012, **non performing loans** as a percentage of total loans **increased** from 9% to 13,4% revealing a **riskier economic environment** and leading to a decrease in revenues and to an increase in **provisions**
- Despite the current efforts to decrease **staff expenses**, Italian banks continue to underperform EU banks
- In 2012, **cost-to-income** of Italian banks was **63%** while for EU banks it was 58%

* As percentage of total assets

Appendix 3 – Profitability of SMEs (CEMS Business Project)

Return on Equity by Customer segment

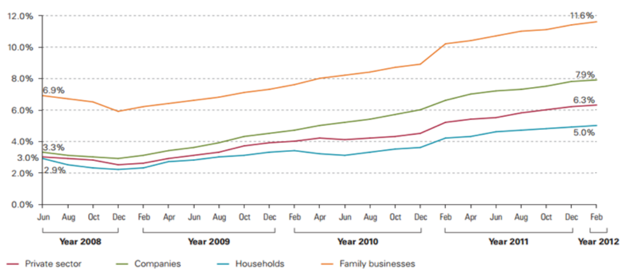
Post-tax %, 2012



The profitability of Individuals is above EU average but SMEs are underperforming... Why?

SMEs are riskier…

Gross Non-Performing loans / Total loans by sector



… and complex

- SMEs are more vulnerable to economic cycles, have insufficient own funds, are dependent on few clients, lack credit history and are often limited in management capabilities
- **More difficult to serve and generate profits from**, are present in several industries so time is necessary to understand their business models and SMEs value **tailored banking services**
- Therefore, SMEs are **costly customers** – have an unattractive ratio between amount of financing and the high credit risk plus cost to serve

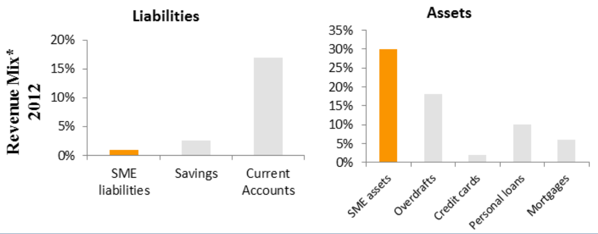
Appendix 4 – Relevance of SMEs (CEMS Business Project)

1 – Social and Economic relevance in the Italian Economy

	Number of Enterprises		**Employment**		**Value added**	
	Number	Share	Number	Share	Billion €	Share
SMEs	3.813.805	99,9%	12.213.303	80,3%	418	68,3%
Large companies	3.253	0,1%	2.998.619	19,7%	194	31,7%

SMEs are important **job creators** and represent a **key element for the economic development of Italy** – according to Istat, in the past year, 473.000 new jobs (63,6% of total) were created by SMEs

2 – Relevance in the Italian Banking System



SMEs account for ~30% of total revenues in Italian retail banks

3 – Unexplored Potential

- SME banking is in transition; it has been considered too difficult to serve but now has become a strategic target
- **There is a gap between SMEs particular needs and the services banks are now providing and in that gap lies a tremendous potential to generate profits**

* Excluding ALM revenues, Retail Investments and Bancassurance

Appendix 5 – Future global trends and their impact on retail banking (CEMS Business Project)

	BIG DATA	DIGITALIZATION & SOCIAL MEDIAS	CUSTOMIZATION	INTERNATIONALIZATION
GLOBAL TRENDS	• Exponential growth of data driver of better analysis • Data as a future key base of competition • Impact on multiple variables (risk assessment, pdkt optimization)	• Internet and mobile media increasingly connected to the physical world • "Social listening" growing importance to tailor marketing strategies • Power of social marketing and advertising	• Source of differentiation and competitive advantage • Customization as a source to elevate customer loyalty and engagement	• Globalization of services and products • Growing need of companies to extend their market base
IMPACT ON RETAIL BANKING	• Use of Big data analytics to evaluate customer preferences and target them better • Opportunity to develop new products leveraging on Big Data(e.g. Market and consumer analysis) • Social media as a potential source of new data for banks	• Growing tendency of user to interact with their primary financial institution through different sources • Cost reduction potential (less branches, more online) • New payment systems (e.g. Mobile Wallets, NFC) • Cross-sell opportunities on the digital banking channel	• Need of tailored products for customers segments (SMEs, Families, Students, HNWI) • Stronger competition of differentiated and customized products • Focus on customer retention and engagement	• Huge opportunity for both companies and banks to support growth and increase loan volumes • Need to focus on developing monitoring and control to limit agency issues • Liquidity support to overcome sunk costs • Banks role to overcome information barriers in new markets

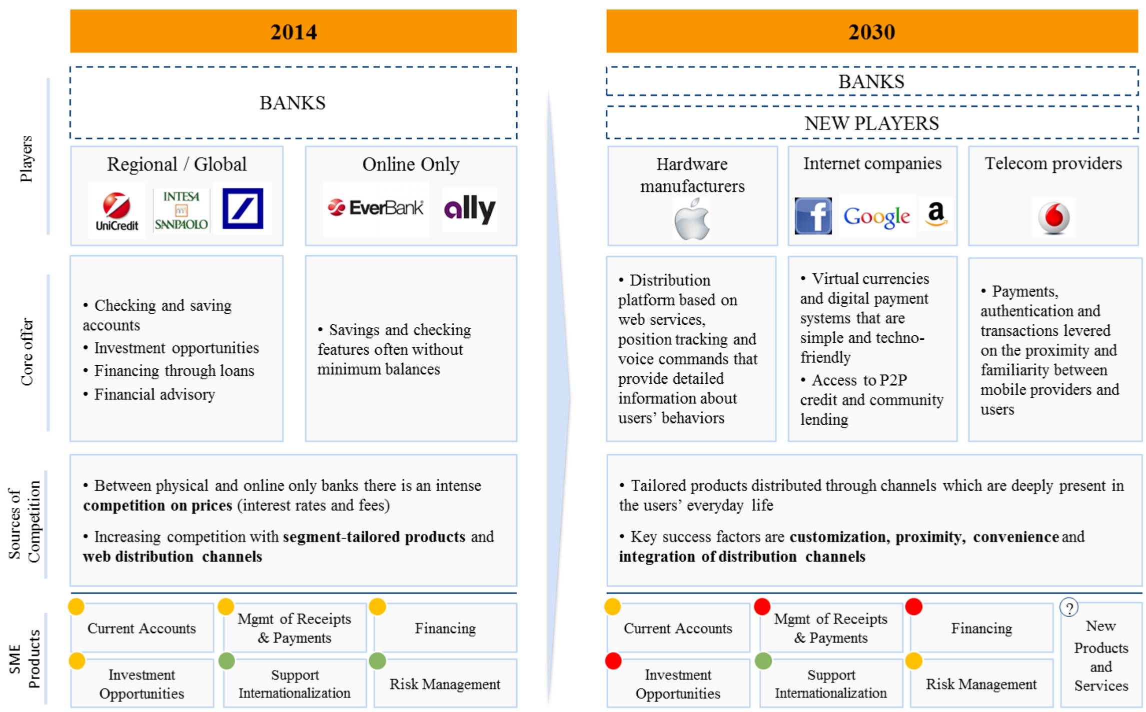
Appendix 6 – Needs of retail banks and SMEs (CEMS Business Project)

BANK OBJECTIVES	
EFFICIENCY IN CORE BANKING	Rationalization of workforce and number of products Less focus on processes and more on how to optimize the service delivery
NEW REVENUE SOURCES	Identify fee-driven revenues in order to limit the impact of existing regulations and reduce costs
RISK REDUCTION	Decrease the number of non performing loans as well as increase the overall number of loans

SME NEEDS	
BETTER FINANCIAL MANAGEMENT	Support in cash flow monitoring and financial need forecasting
ACCESS TO CREDIT	"More acceptable interest rates" and easier access to credit
"MORE THAN MONEY" SUPPORT	Managerial as well as marketing support
INTERNATIONALIZATION	Support in reaching new markets and new customer segments
INFORMATION SHARING	Get valuable information and insights related to the business

Appendix 7 – Future sources of competition (CEMS Business Project)

Level of Competition
Low
Medium
High



Appendix 8 – Evolution of the three pillars of retail banks (CEMS Business Project)

	2014	2030
CORE BUSINESS	• Credit cards • Accounts • Investments • Loans	• Operational Efficiency • Application Portfolio Rationalization • Enhanced Customer Experience • Service-Oriented Infrastructure • Improved Risk Management • Social Impact Relevance
INNOVATIVE BUSINESS	• Strategic and financial consulting • Support to internationalization • Leverage on online banking	• Consulting on marketing • Information sharing and networking • Cluster promotion and support • Augmented reality
DISTRIBUTION	• From reliance on branch network to its partial closure • Face to face interaction and established personal relationships with customers • Mass banking • Centralized back offices • Introduction of "do-it-yourself" banking	• Digitalization of paperwork and tutorial sessions in branches • Interactive platform • Omni-channel distribution approach • Change in employees' profile

Appendix 9 – The core business in 2030 (CEMS Business Project)

Business Operations Efficiency	• Back office process optimization and outsourcing of non core products • Shared services optimization • Enhanced customer experience, pricing and product bundling
Application Services	• Core system modernization • Application portfolio rationalization • Co-sourcing/Outsourcing of application development and maintenance • Service Oriented architecture (re-use, integration efficiency, time-to-market)
Infrastructure Services	• Infrastructure component consolidation • Aligned and optimized service-oriented architecture
Risk Management	• Respect of the Basel III regulations and stronger risk culture • More prudent credit provision; specialized structure for riskier transactions
Social Impact	• Renewed role of reputation and brand image for banks after the 2009 crisis • Banks as less strict credit providers for small business and families

Appendix 10 – New product offering for SMEs in 2030 (CEMS Business Project)

1. Consultancy on Marketing

Possibility to capitalise on the huge amount of information that banks hold and further develop the consulting activity

ANALYTICAL MARKET RESEARCH

Offering clients a well structured market research that can identify specific segments in specific geographic areas and guarantee information about:

- Demographics and wealth statistics applicable to specific target segments
- Purchasing habits and preferences of customers
- Spending power and financial situation of defined group of customers

The fundamental steps:

1. STANDARDIZATION OF DATA

Capture and collect data about purchasing habits of customers in a standardized way: PARTNERSHIP WITH CREDIT CARD COMPANIES to set up a new tracking system that identifies sector and type of the POS

2. DATA GATHERING & ANALYSIS

Gathering of data from the different local branches in a centralized data-storage. In order to overcome privacy issues data must be analysed in aggregated terms

3. NEW PRODUCT OFFERING

Semi-standardized market research analysis to support SMEs growth

VALUE ADDED TO SMEs

SMEs can get access to low cost market research that can be use to promote internationalization or to expand their product portfolio

IMPACT ON BANKS

The bank offers a new service leveraging on embedded analytical skills. For the service the bank receives **service fees** that do not affect regulatory capital

2. Information Sharing & Access to Capital

The bank as a promoter of information sharing and supporter of SMEs' development through two key platforms

CORPORATE SOCIAL NETWORK

A platform totally dedicated to corporate (open not only to Bank customers) for them to:

- Share information and issues and get support from both industry players and bank experts
- Seek/Propose partnerships
- Receive feedbacks and insight from industry experts (for startups)

"BOOST ME UP"

A platform that aims to match **investors/business angels and VCs** with **industry players.**

- Presentation of a new idea or an expansion plan
- Every idea will be supported by a financial plan and a company presentation
- Financial valuation and base pricing of companies/projects through the support of the bank

VALUE ADDED TO SMEs

The CSN aims to fulfill the SMEs need for **information sharing and support from peers**

"Boost me up" offers companies a new form of access to equity capital and for startups an educational support in financial terms from the bank

IMPACT ON BANKS

The corporate social network can be used to **promote financial products** and **increase customer loyalty**

"Boost me up" guarantees the bank **intermediary fees** from the investment in the partner companies without impacting RC

3. Promotion of Cluster Aggregation & Financial Education

Stronger specialization on regional clusters focused on specific sectors in order to develop:

SECURITIZED CLUSTER LOANS

Customized products to securitize loans on an aggregated basis to be distributed to local customers.

- Better knowledge / information on local companies
- More efficiency in rating formulation thanks to big data
- Product roadshow and targeted marketing campaign to promote securitized loans

MASS MARKET CONSULTING

Creation of standardized best practices to offer mass-market consulting (aggregated purchasing, internationalization, financing).

- Less expensive than consulting, but yet focused
- For companies, possibility to catch up with higher global operational standards, yet maintaining their specific value adding sources

REGIONAL TRAINING AND FINANCIALS

Training for companies in order to unleash their full potential. “Financial Education”.

- Training on selected topics
- Education on how to leverage regulation and better managing risk, cash flows and inventories

VALUE ADDED TO SMEs

Better access to credit at a lower interest rate

Best practices and information sharing

Learning and managerial capabilities

Leverage on financials through experts

IMPACT ON BANKS

Better flow of information from companies

Lower use of regulatory capital

Margin on loans

Loyalty and brand image

Fees from services

Client’s financial consciousness

4. Augmented Reality as an Innovative Promotional Tool

Creation of a technological mapping platform integrated with the information of individual and business customers

MARKETING TOOL FOR SMEs

On the B2B side it will be a marketing tool for our customers to promote their businesses.

- Instant information on selected products can be vehicle to the customers through the platform
- SMEs will reach the bank’s customer base at a low cost.
- High Conversion Rate (info provided when attention is focused, purchase immediately available through card)

PRODUCT COMPARISON & FINANCIAL SUPPORT TOOL FOR CUSTOMERS

On the B2C side, personal information will be used to offer customized and comparable financing plans to individuals.

- As customers’ credit rating and other information are easily available, alternative and customized financial plans will be instantly offered to the customer.
- Alternative products from sponsoring companies may be offered if the item selected by the client is not promoted from a bank’s client.

VALUE ADDED TO SMEs

Potential impact on a huge customer base

Low cost and high impact marketing

Information and knowledge sharing

Possibility to provide plenty of information and different plans to customers

IMPACT ON BANKS

Fees from advertising

Credit card commissions

Margin on Consumer Credits

Appendix 11 – Omnichannel distribution strategy and its impact on the bank's internal organization and customer relationship (CEMS Business Project)

Omnichannel banking differs from the current "multichannel" approach in terms of quantity and quality of channels. Customers have an increased amount of channels to use and are in control of interlinking those channels in the way they wish to. The "new" employees support them through their diverse backgrounds, a deep understanding of IT and finance as well as complex interpersonal skills.

Customer Side

High automatization

- Video connection to extended-hours tellers for transactions or problem solving
- Unstaffed credit centres connected via video to remote offices for credit application

Touchscreen walls in branches

- Browsing and getting tutorials on products
- Staff members available for quick services
- Highly interactive and visual presentation of financial data of customers

Video conferencing

- Expert specialists for advice
- Consultation on current and future issues

Mobile Applications

- Remote deposits capture
- Alerts related to accounts

Bank Side

IT-dependency

- Complex IT knowledge
- High interaction with IT-bound services, like video conferences, on a daily basis
- Cross-usage of all different kind of channels

Diverse Backgrounds of staff

- Drawn from different fields of study
- Deep understanding of finance and IT
- Specialisation on the interpersonal, communication skills or the analytical, financial skills
- Offering full wellness-package to customers

Appendix 12 – SMEs tailored distribution strategy (CEMS Business Project)

OMNICHANNEL DISTRIBUTION

SMEs will be able to:

- Exploit seamless integration of voice, branch and internet channels
- Choose the channel most convenient for them
- Hop from channel to channel depending on the task at hand, with the expectation that all relevant information will be available through all channels
- Technical support via bank's internal IT department

The fundamental steps:

1 DIGITALIZATION OF PAPERWORK

Advisory services for all the paper documentation of SMEs

Technical support via bank's internal IT department

2 TUTORIAL SESSIONS IN BRANCHES

"Live" explanation on how to use the new omnichannel system

Answers to their doubts and questions

Assurance that there will still be personal relationship with their current advisor

3 INTERACTIVE PLATFORM

Interactive video conference without meetings at branch

Simultaneous work on SME's data and exchange of virtual documents

Easy scheduling of meetings at the most convenient time for the client

VALUE ADDED TO SMEs

Smooth transition from physical to digital approach

Enhanced trust in the new digital system

Increased flexibility

Improved time management capabilities

Easy access to relevant information

Feeling to be at the center of the process: they can decide how and when connect to the bank

IMPACT ON BANKS

Fees from advisory and technical services

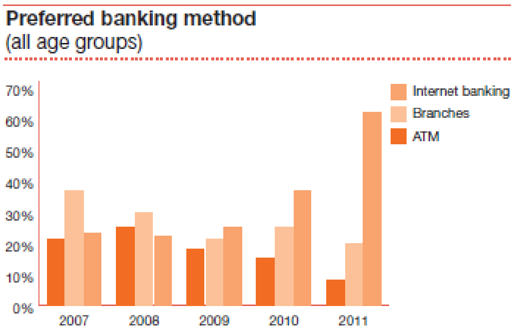
Keep a strong relationship with clients

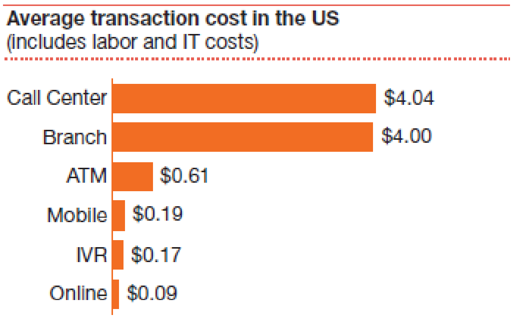
Decreased costs of physical branches

Decreased costs of staff

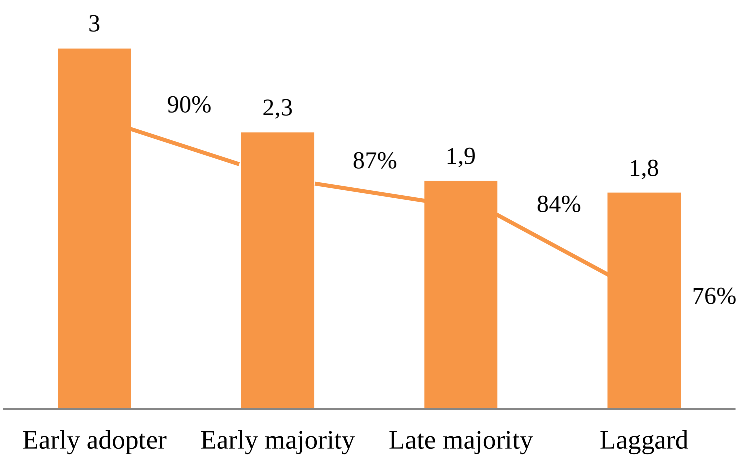
Increased loyalty

Appendix 13 – Traffic of each channel and respective average cost per transaction in 2012 (Rebooting the branch, 2012)



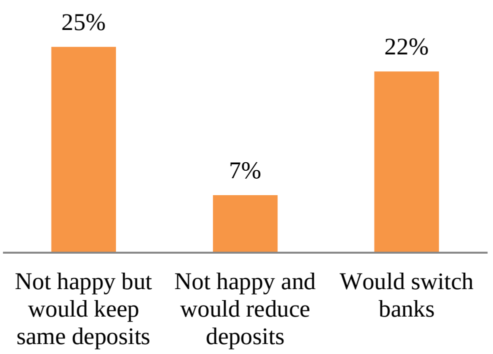


Appendix 14 – Branches and virtual channels usage by tech segmentation, June 2012 (Winning Strategies, 2012)

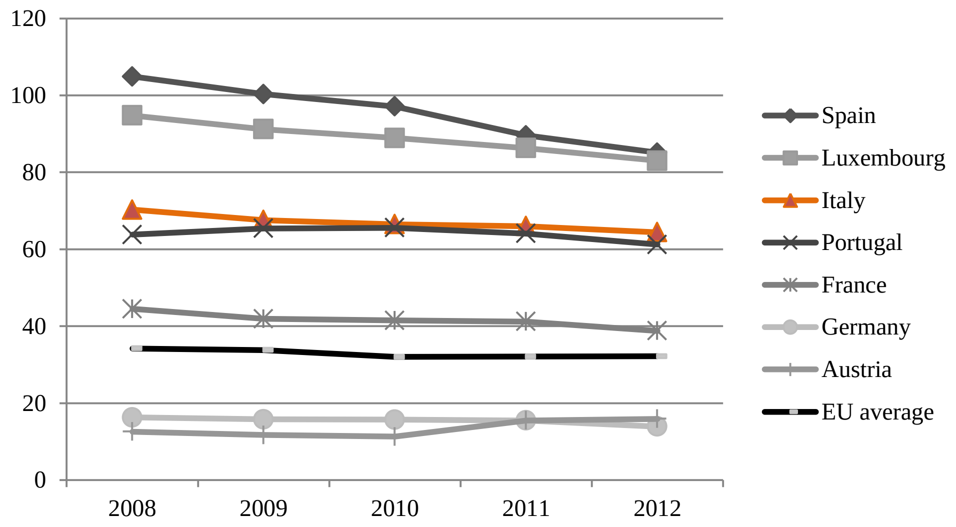


The most avid adopters of virtual channels are the most frequent branch visitors.

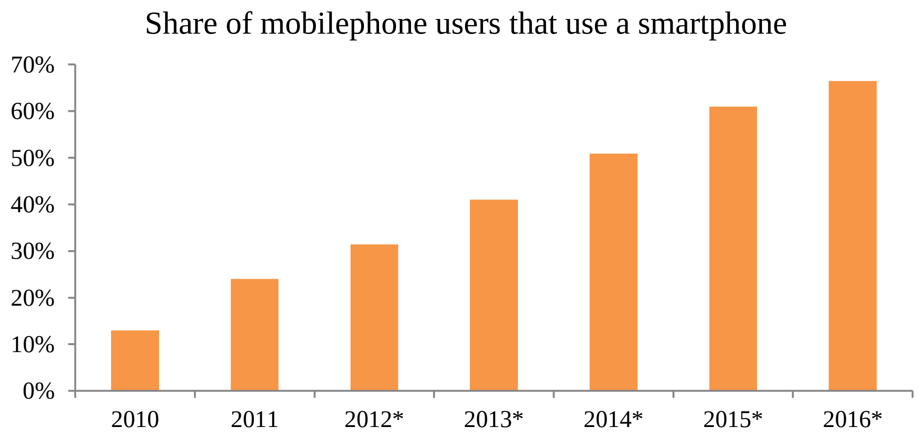
Appendix 15 – Customer reactions to a replacement of branches by all-virtual branches, June 2012 (Winning Strategies, 2012)

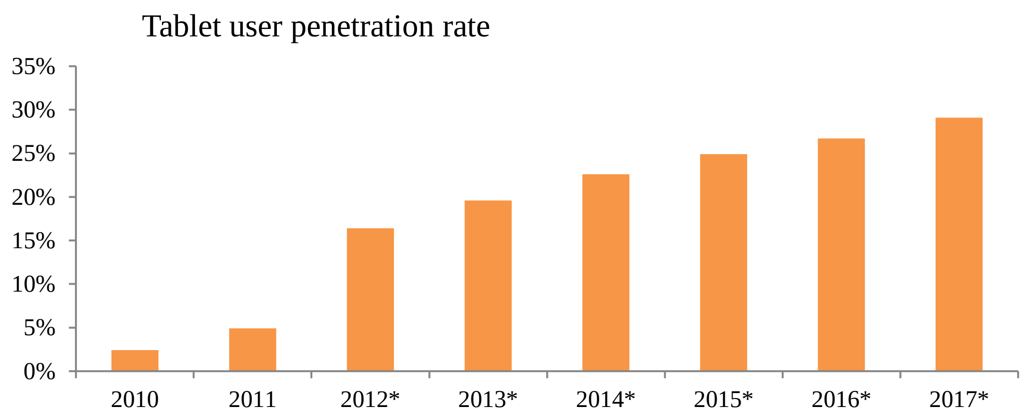


Appendix 16 – Commercial bank branches per 100,000 habitants (Commercial bank branches, n.d.). Sample with the top three countries (Spain, Luxembourg and Italy), four countries with lower branch density and the EU average.

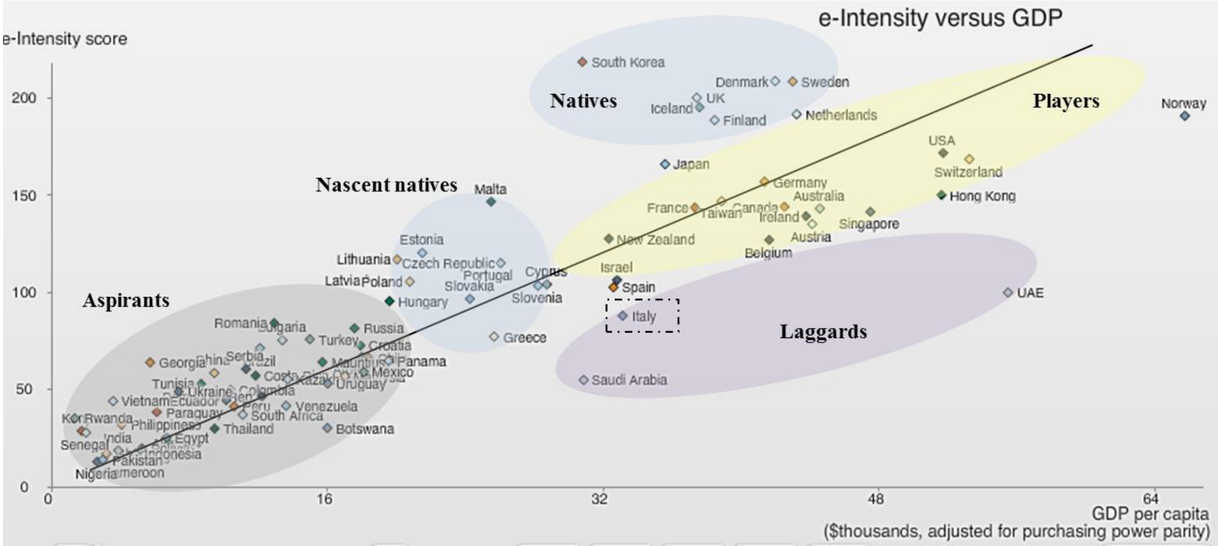


Appendix 17 – Adoption levels of new technologies in Italy (Share of mobile phone users, 2014) (Tablet user penetration, 2014)





Appendix 18 – BCG's 2013 e-Intensity Index

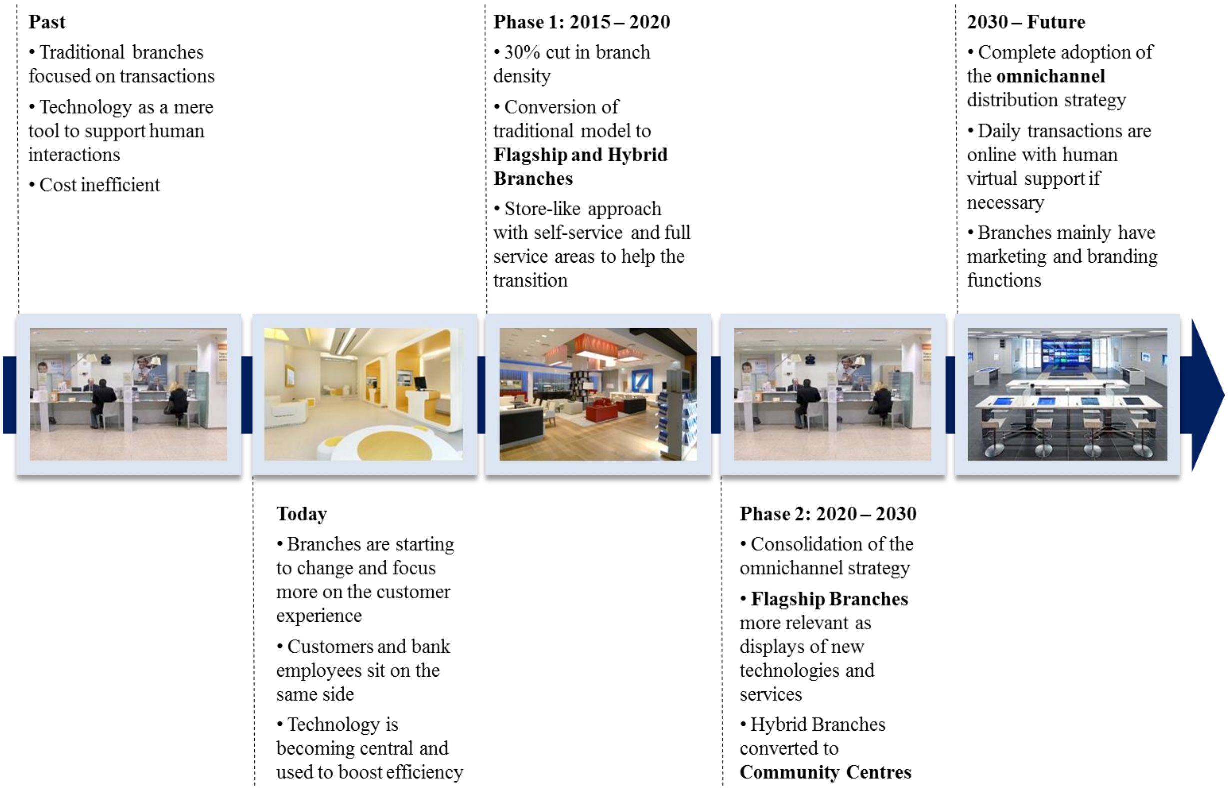


"The 2013 BCG e-Intensity Index measures the relative maturity of Internet economies for the fifth straight year on the basis of three factors: enablement, engagement, and expenditure. Enablement accounts for 50 percent of the total weighting and measures various aspects of fixed and mobile infrastructure deployment; Engagement, 25 percent, measures how actively businesses, governments, and consumers are embracing the Internet; and Expenditure, 25 percent, measures the proportion of money spent on online retail and advertising." (The 2013 BCG e-Intensity Index, 2013)

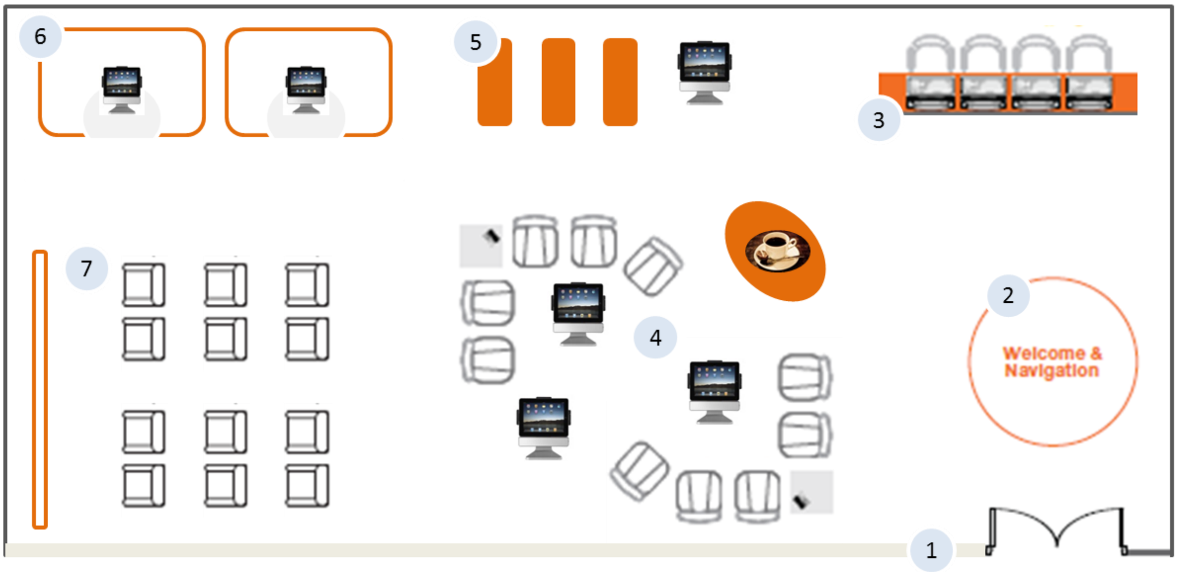
Appendix 19 – CheBanca!'s innovative branches

Appendix 20 – Customer centricity in the omnichannel distribution strategy (Rebooting the branch, 2012)

Appendix 21 – Proposed evolution of retail bank branches



Appendix 22 – Flagship Branch



Flagship Branch with free wifi, no conventional tellers and employees to assist who needs hands-on-services

1 **Glass window** to show the new design of the branch and capture attention, driving customers in

2 **Employee greeting** customers **and directing** them to the area that best suits their needs

3 **Kiosks** for online banking and biometric payment system with employees giving initial support

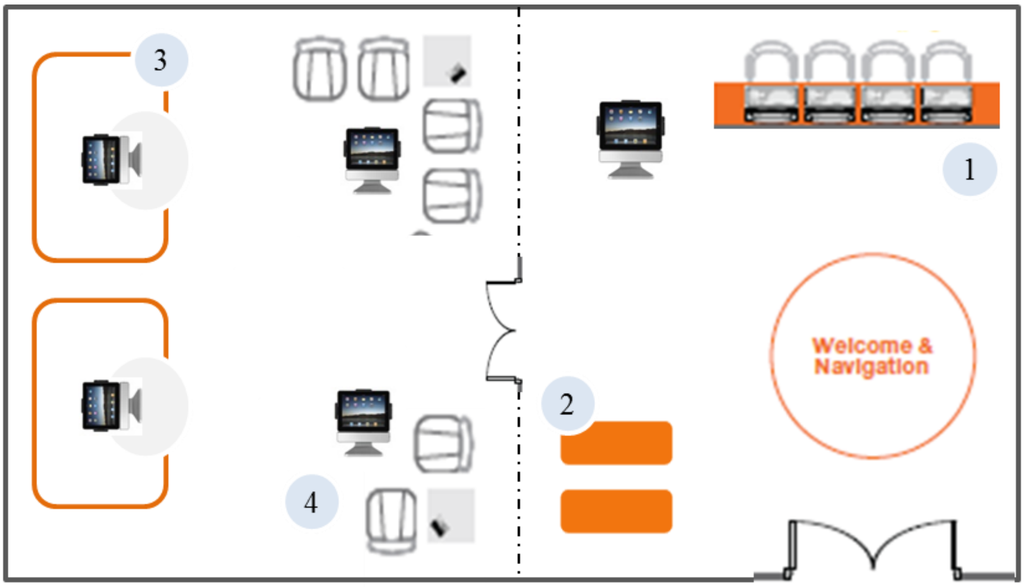
4 **Lounge** area with touch screens for customers to browse, scan information and buy products

5 "**Box-products**" and **downloadable apps** with digital codes that can be scanned to display more info

6 **Full service tellers** to support on more complex products or to help less tech-prone customers

7 **Video conferences** on saving advices for e.g., with a financial advisor available to answer questions

Appendix 23 – Hybrid Branch



The **Hybrid Branch** combines virtual banking with the support of employees to smoothly and gradually introduce customers to new distribution channels

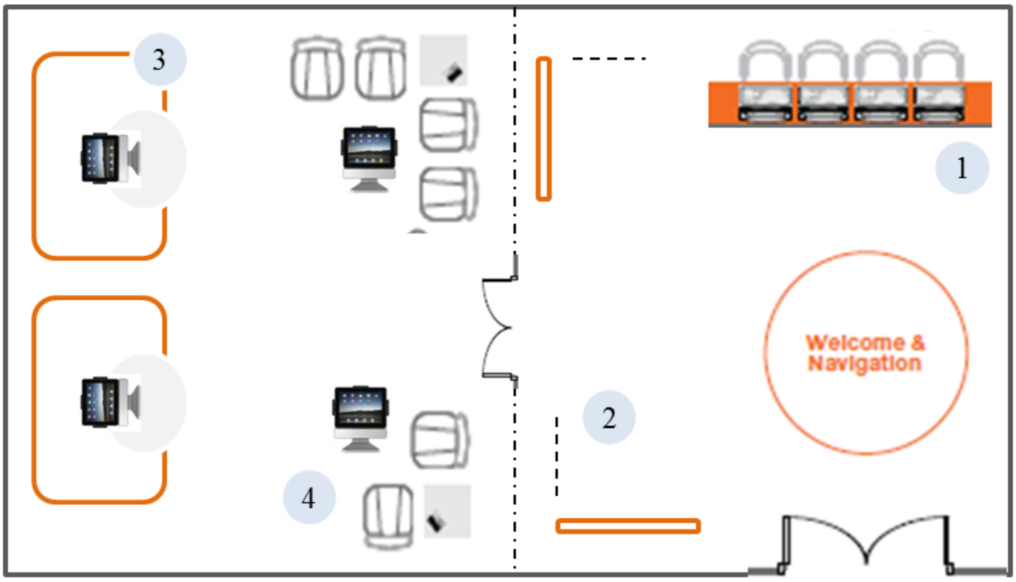
1 **Self-service kiosks** open 24 hours. During the day, one or two employees should help clients adapting to this new and fast way to do bank transactions

2 "**Box-products**" and **downloadable apps** similar to the ones on Flagship Branches, aimed at booting the retail experience

3 **Human teller** to assist in transactions; he should indicate that the self-service kiosks are more efficient. Employee and client are on the same side, facing the screen.

4 **Lounge areas** where customers can browse and buy new products or services using the available touch screens

Appendix 24 – Community Centre



Community Centres are strong IT-based and provide mostly virtual support to customers. One employee present to guarantee the functionality of the branch and solve any issue arising

1 **Self-service kiosks** open 24 hours to conduct on-the-go transactions

2 **Touch screen** and **artificially intelligent hologram** to explain the product offering and display interactive presentations of financial data

3 **Holographic expert** to help in transactions, promote banking products and give financial advice

4 **Lounge areas** where customers can browse and buy new products or services