

A stack of blue business cards is positioned diagonally in the upper right quadrant. The cards are slightly blurred, suggesting motion. Behind the cards is a large, dynamic brushstroke that transitions from a bright orange at the top to a white at the bottom, creating a sense of energy and movement.

CHALLENGES AND OPPORTUNITIES FOR FINANCIAL INSTITUTIONS

TOWARDS NEW DIGITAL BUSINESS MODELS

REPLY [EXM, STAR: REY] specialises in the design and implementation of solutions based on new communication channels and digital media. As a network of highly specialised companies, Reply defines and develops business models enabled by the new models of AI, big data, cloud computing, digital media and the internet of things. Reply delivers consulting, system integration and digital services to organisations across the telecom and media; industry and services; banking and insurance; and public sectors.

In response to key market trends for financial services, Reply supports market players in outlining and implementing new competitive strategies.

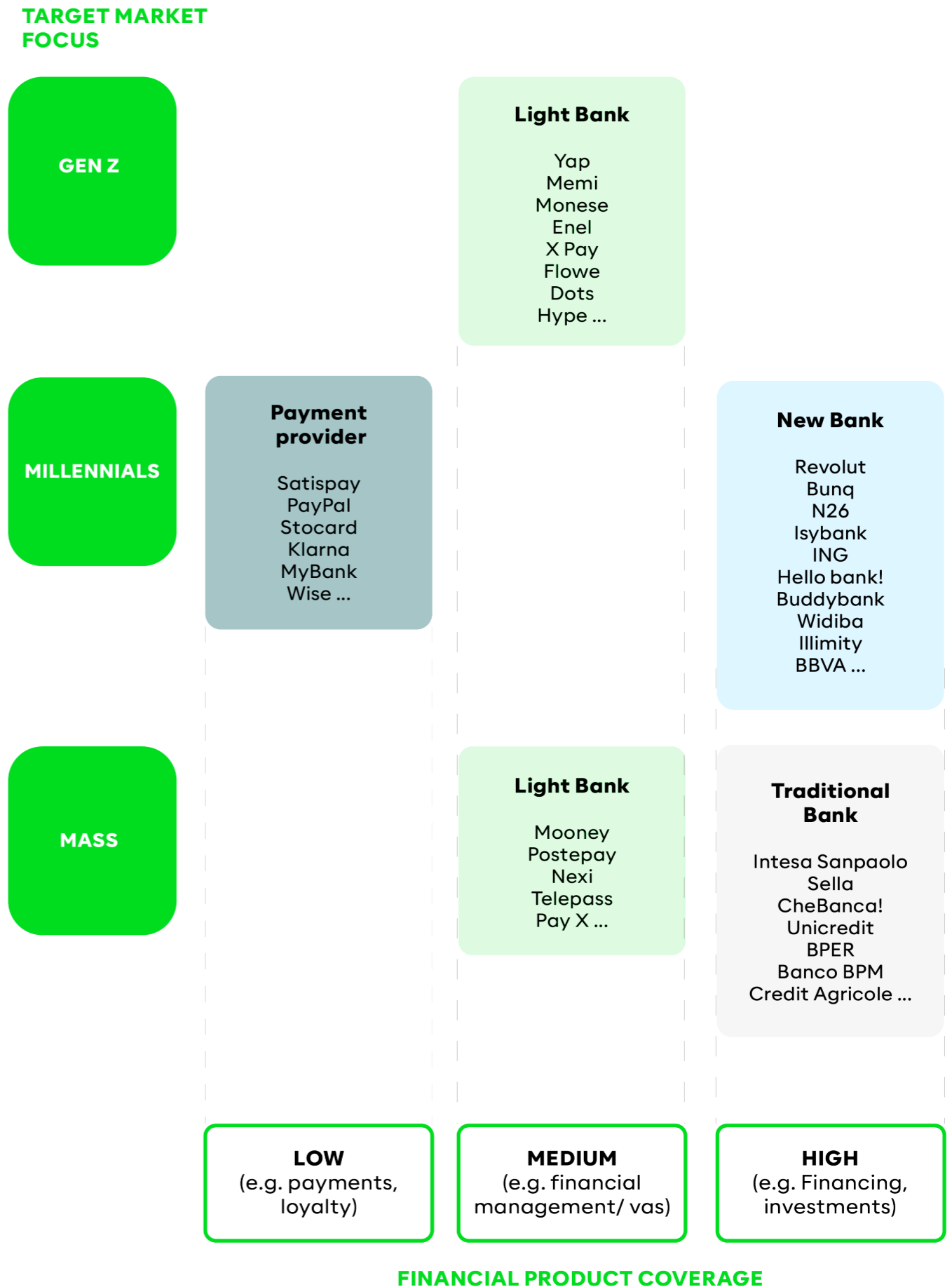
THE TECHNOLOGICAL EVOLUTION OF FINANCIAL SERVICES

For several years now, the Financial Services market has been undergoing a profound transformation to keep pace with advances in technology and to meet major efficiency challenges.

The emergence of digital channels (particularly mobile) and the growing use of electronic payment instruments have favoured the development of new ways of delivering and consuming banking services from a digital perspective. Moreover, from a competitive point of view, the banking sector is experiencing a twofold competitive pressure:

- On the one hand, the numerous **M&A transactions** led to the consolidation of the major domestic and European players, with Intesa Sanpaolo in first place by capitalisation, followed by UniCredit, Fineco Bank and Mediobanca;
- On the other hand, the entry of **new natively digital players** with streamlined cost structures and an intuitive and engaging customer experience has highlighted the need for traditional institutions to substantially review their offerings, both in terms of products/services and distribution channels through which they serve customers.

In addition to **traditional banks**, which are gradually equipping themselves with increasingly digital-oriented services, the competitive landscape of Financial Services sees the presence of the so-called **New Banks** (with a banking licence), with a distribution model totally based on digital channels and a distinctive CX, and the so-called **Light Banks** (with an IMEL/IP licence), that offer daily banking products and services emphasising the mobile channel. Completing the overview, we find the **Payment Providers**, specialised in payment services with the aim of building a distinctive service offering.



THE 5 PILLARS FOR BANKS' COMPETITIVE STRATEGIES ACCORDING TO REPLY

In response to the main market trends for financial services, Reply is supporting market players in outlining and implementing new competitive strategies in an integrated manner with a 5-pillar approach.



1. REDUCTION OF IMPAIRED LOANS

Although banks continue to hold a radical advantage in lending services, the high levels of impaired loans in the years 2008 - 2017 and the more recent demand for innovative solutions (e.g. instant lending), have highlighted the importance of improving the quality of credit held in order to be able to charge rates, and thus prices, that are increasingly competitive. The level of impaired loans, in fact, weighs on banks' profitability and limits their ability to grant new loans, as it reduces revenues and ties part of the profits to

the coverage of future NPL-related losses. As a result, incumbents are engaging in the development of increasingly refined models and methodologies - also leveraging Artificial Intelligence - to measure the creditworthiness of individual customers, accelerate lending and increase revenues. In this context, Reply has supported several banking institutions in the identification, definition and development of new credit scoring and instant lending solutions.

2. INCREASING MARGINS FROM FEES

The relevance of fee income in recent years has taken centre stage to offset the steady decline in net interest income (-20% between 2007 and 2018) and has seen retail establish itself as the leading segment in inflows thanks to the growing possibility of accessing markets from smartphones and being able to invest even small amounts (e.g. fractional securities). Depending on their current and desired target customers, the main players are therefore working on improving their investment and trading platforms both in terms of usability and in terms of offering financial products (e.g. roboadvisory, crypto trading, ESG investments) and analysis tools (e.g. conditional orders, performance charts). In order to better support its customers, Reply has developed several competence centres focused on the most relevant themes and technology trends, studying the main market trends.

3. INTEGRATION OF ESG FACTORS

The centrality of ESG issues on the global political agenda gives the world of finance a crucial role in fostering the transition to sustainable models. Major players are addressing the integration of these factors on two levels:

- Internally, by introducing ESG logic into their policies (e.g. gender equality, carbon

footprint reduction, diversity, transparency of governance systems);

- towards its customers, through the offer of sustainable products (e.g. ESG investments, green financing) and awareness/education on ESG issues through information content, calculation and compensation systems for CO2 emissions and reward mechanisms (e.g. cashback, rewards).

Through the Digital ESG Observatory, Reply has developed an in-depth knowledge of the competitive landscape and of the main ESG solutions present on the market today, both on the product/service side and in terms of channels and key success factors in the User Experience (and of the main engagement, education and awareness tools), and is therefore able to provide best-in-class assistance in the development of evolutionary roadmaps and in the definition/optimisation of banks' positioning in the ESG sphere.

4. A DIGITAL-ORIENTED OFFERING

The rise of highly specialised fintech and challenger banks has prompted more and more institutions to revise their offerings to meet the needs of a young, digitally-oriented audience. Looking at the market, three main Digital Transformation strategies emerge, alternately chosen according to different business objectives and available resources.

- **'In-house' development:** initiatives aiming at the organic development of new skills and technological assets. The launch of Buddybank by UniCredit, Widiba by Monte dei Paschi di Siena or Tinaba with Banca Profilo are clear examples of that.
- **Commercial partnerships:** agreements with market vendors for the creation of proprietary platforms, such as the one between Banca Mediolanum and Temenos, for the creation of Flowe, or between Buddybank and Moneyfarm (with support from BlackRock for asset allocation) for the launch of Steppy, the wealth management service dedicated to Buddybank account holders.
- **Industrial partnership:** agreements with third parties for the pursuit of a specific objective and the creation of technological, commercial and/or managerial synergies. A concrete example is the open banking joint venture between Fabrick (Banca Sella) and Illimity in the fintech Hype. Within this context, Reply supports the main market players, from traditional banks to the so-called Light Banks, in the digital transformation process, with the aim of consolidating the current customer base, streamlining sales and post-sales processes, integrating new products and functionalities, optimising cost-to-serve and attracting new customer segments.

5. EFFECTIVE MANAGEMENT OF IT RESOURCES

Implementing a digital transformation strategy requires specific IT skills and the ability to manage dedicated technical teams to redesign operational processes and IT architectures. Financial institutions have therefore adopted different strategies depending on the availability of resources and budgets as well as the desired time-to-market, resulting in three different approaches:

- **Organic growth:** some players, especially the large ones, have taken steps to develop in-house the IT skills needed to support their strategies. Intesa Sanpaolo, for example, has created an in-house Digital Factory and an Innovation Centre.
- **Collaborations/Joint ventures:** some players have focused on the creation of partnerships to give rise to new realities towards which to direct complementary resources and know-how. The partnership between the Nexi Group and Reply, for example, has led to the creation of Nexi Digital, a European hub of technological innovation aimed at intercepting and internalising cutting-edge skills.
- **Outsourcing:** other players prefer to rely on highly specialised third parties in order to quickly access the necessary IT resources.

**REPLY SEES ITSELF AS
A STRATEGIC PARTNER
FOR BANKS SEEKING TO
STREAMLINE THEIR BUSINESS
MODELS.**

**WE GUIDE OUR CUSTOMERS
ALONG THE DIGITAL
TRANSFORMATION,
FOSTERING COLLABORATION
BETWEEN THE VARIOUS
PLAYERS IN THE BANKING
ECOSYSTEM.**