Case study No. 4

Italy: Key success factors for the modernization of postal financial services (mobile banking)

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I. Introduction

The offer of services based on mobile telephony is a topic of current interest in most Posts. More and more operators in industrialized countries, and also in emerging and developing countries, are looking at entering the mobile telephony market as mobile virtual network operators (MVNOs). The UPU has prepared a case study on Poste Italiane and how it went about transforming and modernizing its financial services. In particular, the study focuses on the development of postal financial services via mobile phones.

This study is based on information gathered during meetings with the various departments of the Post (Strategy, International Affairs, BancoPosta, Network, Information Systems), as well as its subsidiaries, namely, PosteMobile (mobile telephony) and PosteVita (insurance). Meetings were also organized with external parties and regulators, including Banca d'Italia for financial services and the Ministry of Economic Development as the supervisory ministry.

This document presents the key success factors of Poste Italiane as identified during the study.

II. Assessment of key success factors in the transformation of Poste Italiane

According to the conclusions of the UPU report on financial inclusion by Posts around the world, entitled Global Panorama on Postal Financial Inclusion, the modernization of Posts and their financial services is one of the key success factors for the development of financial inclusion. Posts that have successfully achieved this transformation are thus worthy of our attention.

Italy stands out as the country where this transformation was the most spectacular, primarily thanks to Corrado Passera and Massimo Sarmi, successively at the helm of the Post since 1998. Under their direction, the Italian Post underwent a radical transformation in the space of 15 years: today, Poste Italiane is one of the most profitable and innovative Posts in the world. This paper takes a look at the factors that got it there.

The various success factors behind the transformation of the Italian Post between 1998 and 2012 are described below.

1 Leadership

Under the leadership of Mr Passera, the Post was restructured and diversified into financial services. Four main points can be highlighted:

i Negotiation with the unions, with which Mr Passera signed an agreement laying out one hundred or so action areas to reduce costs and increase revenues, including performance appraisals for employees;

ii Strengthening of the level of training of all employees, in particular by providing training in the area of banking (postal financial services);

iii Analysis of the profitability of each service, through the implementation of cost-based accounting; and,

above all

iv Creation of a financial services division in 2000, BancoPosta, which uses all 14,000 network points.

Subsequently, Mr Sarmi’s leadership was crucial in steering Poste Italiane into the digital age. Two strategic areas in Mr Sarmi’s management warrant mentioning:

i Information system: Mr Sarmi, an engineer with a long career in the telecom business as the CEO of the mobile telephony subsidiary of Telecom Italia and later of Siemens Italia, first focused on the development of the information system. Today, the various subsidiaries of the group all use the same, very solid IT platform, on the basis of which new initiatives are developed.

ii Development of alternative channels (e.g. Internet, mobile): This was the second work area launched by Mr Sarmi, made possible through the success of the information system project. These alternative channels pave the way for diversification to electronic services and modernization of financial services to keep pace with, and even overtake, the competition. (Today no bank or mobile telephony operator offers the range of mobile financial products that Poste Italiane offers.)
2 Physical network

The network is the keystone of the Poste Italiane group. The business units are organized around the network, which constitutes the main comparative advantage of each subsidiary in the group. The physical network is composed of 13,978 contact points spread throughout the country, connected in real time and managed directly by the Post. In contrast with the marked trend among European postal operators, there are therefore no postal agencies or franchises. The network is extremely well integrated and constitutes a separate division with significant decision-making authority with respect to the different subsidiaries or business units (BancoPosta, insurance, mobile telephony, mail). The network is responsible for training, introducing new products and promoting certain products more than others, in line with the objectives set annually by the business units. Finally, the network is responsible for promoting the cross-selling of products of different subsidiaries or business units. For example, PosteMobile set up stands in post offices to offer its services while clients wait.

3 Diversification of the service offering and cross-fertilization strategy

The diversification of the service offering, beyond letter post, is without question another key to the success of the Italian model. In addition to the diversification into financial services undertaken in 2000, there is a strong push towards electronic services offered to the general public on behalf of the government. These services enable the Post to continue to play the role of intermediary between citizens and government (hence the importance of .post, since in 2013 all government services went electronic). The Post has also set up a separate subsidiary to provide its own cash transport service. It launched its life insurance company, PosteVita, and acquired an airline for the rapid transport of mail from northern to southern Italy, operating charter flights during the day. In 2012, the group bought a bank to promote credit to SMEs in the southern Italy. The diversification of the offering enables the Post to benefit from economies of scope, in addition to the economies of scale created by the network. For example, the existence of financial services enabled the mobile telephony subsidiary, PosteMobile, to right away offer value-added services not available from competitors.

The Italian model thus demonstrates that it is possible for a postal operator to diversify and modernize its financial services for the benefit of all, without necessarily obtaining a banking licence. This requires heavy investment in technology and staff training. For services that cannot be offered directly by the Post, e.g. credit, partnerships can be set up to fill in the missing pieces. However, the partnership selected for the credit product is not fully conducive to financial inclusion, given that the bank in question has limited experience in dealing with the low- and middle-income segment of the population – the main client category of the Italian Post.

III. Assessment of key success factors in the development of mobile banking through the Post

In view of the growing interest among certain UPU member countries in developing mobile financial services over the next few years and potentially in becoming MVNOs, the UPU has tried to pinpoint from the Italian model the key elements behind the modernization of financial services and the offer of postal financial services via mobile phone.

Key facts and figures:
- PosteMobile launched in 2007 as an MVNO using the Vodafone network;
- PosteMobile is 100% owned by the Post;
- In 20 months, PosteMobile reached its break-even point;
- 2.5 million users in July 2012 and growing steadily;
- 50% of PosteMobile clients use it for their financial services.

In the light of the discussions with the experts from Poste Italiane and PosteMobile, five key success factors for PosteMobile can be highlighted, as described below.
1 **Widest distribution network**

The network of 14,000 post offices greatly surpasses the networks of competitors, even that of the mobile telephony subsidiary of the incumbent telecommunications operator.

2 **Vast customer base**

The Poste Italiane group has an enormous base of more than 26 million customers for financial services alone, and one million people visit a post office in Italy every day. These clients constitute a loyal clientele that is easy to reach. Thanks to this vast customer base, PosteMobile pays less to attract each new user, compared with its competitors, which do not have the same physical network.

3 **Known brand**

The Italian Post, as is the case in most countries of the world, inspires confidence through its mandate as a local public service and its long-standing presence in cities and villages. The new mobile telephony company thus benefited from the Post’s solid reputation, engendering trust right from the start.

4 **Close cooperation with the financial services division**

The existence of postal financial services geared to the general public was crucial to the operator’s success. The Italian mobile telephony market was already saturated in 2007, so value-added services were necessary in order to break into the market. By linking the existing financial services (chequing accounts and prepaid cards) with the mobile services, PosteMobile met the challenge.

5 **Flexible business model: managing the technology and outsourcing the infrastructure**

PosteMobile started with two employees in 2007 and did not make capital expenditures in the first year of operations. All non-strategic processes were outsourced (SIM card production, hosting, servers, etc.). Investment was primarily in technology and software and not servers, for example. This explains how PosteMobile was able to be developed with limited capital, that is, 40 million EUR – far less than the estimated value of the company today (500 million EUR).

With PosteMobile, the Italian Post was the first Post to become an MVNO (followed by France). PosteMobile is also one of the most successful examples of mobile financial services offered fully by the Post. Posts in developing countries can thus look to the Italian model for inspiration, adapting it of course to their own context.

**IV. Conclusions**

The Italian model shows that Posts can reinvent themselves. In centring their development on the provision and modernization of financial services for the entire population, in particular low-income segments, they can become key players in financial inclusion. Today, the Poste Italiane group is no longer merely a competitor of banks; it has become an innovative force on the financial services market by focusing on migrants and low-income clients – a segment banks often ignore. BancoPosta is, moreover, proof that the postal bank is not the only model of the future, or even the best model. Rather, the modernization of account-based postal financial services (savings and chequing accounts), coupled with a bank partnership to offer credit, can be just as profitable. Lastly, the fact that over 50% of revenue comes from insurance in the Italian model shows that an entire area of financial services as yet unexplored by most Posts – insurance – can be an important source of revenue and facilitator of financial inclusion.