

CASE STUDY
V PAY SERIES

UniCredit Group

Tangible business value from V PAY



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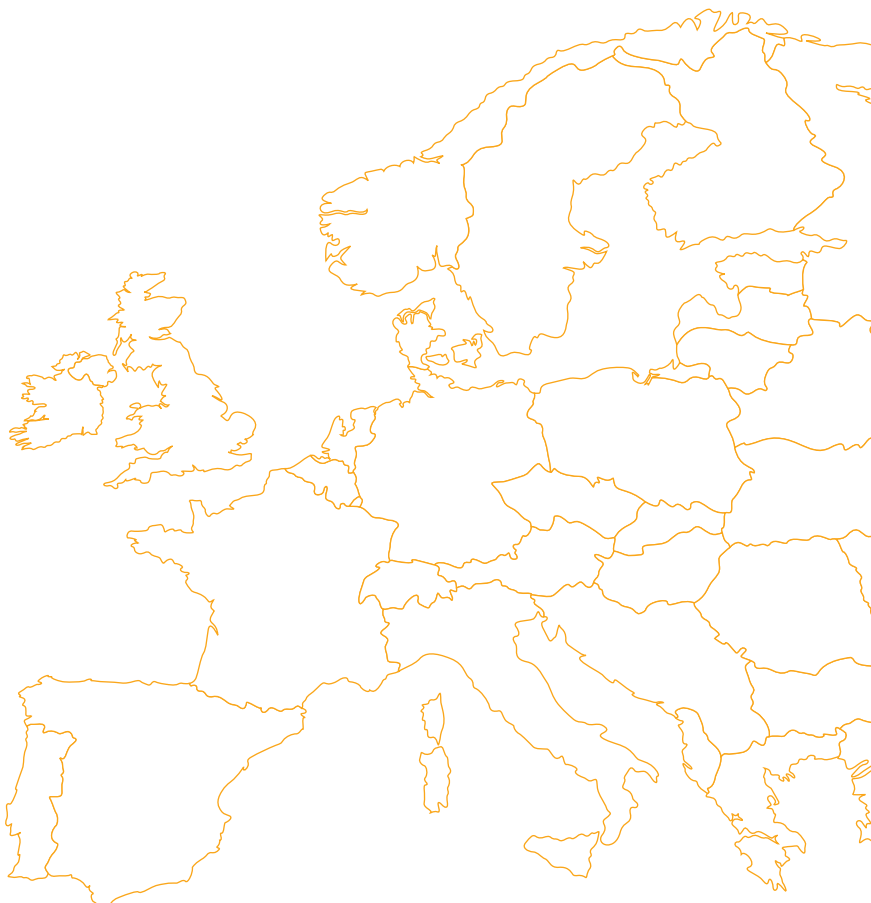




Operating across more than 20 European countries, UniCredit describes itself as “the first truly European bank”.

It was one of the first banks to issue V PAY. And, so far, it has launched V PAY in two countries, Italy and Bulgaria.

So why did UniCredit choose V PAY? And what benefits is V PAY bringing?



Key success criteria

Not one instance of fraud on V PAY cards

A positive reaction from customers and in-branch employees

The possibility in the future to completely eliminate magnetic stripe data from debit cards

Executive summary

Describing itself as “the first truly European bank”, UniCredit serves 40 million customers across 22 European countries. In Italy, it is the second largest bank, with a network of 4,500 branches and an estimated market share of 16 per cent.

UniCredit’s business model is based on specialisation, with clearly differentiated services provided through its respective business Divisions.

With an emphasis on “customer satisfaction”, the aim of the Retail Division is to offer a complete range of reliable, high quality products and services with the best price/quality ratio.

The Retail Division Italy sees its payment card operations as an important strategic tool.

Modern, secure payment card products can help to differentiate UniCredit’s current account propositions. By introducing better products UniCredit can also encourage its customers to adopt new behaviours which bring advantages to themselves and to the bank. For example, by minimising the number of in-branch transactions the customer saves time and the bank reduces the costs of cash handling. And lower costs for the bank translate into lower charges for customers.

At the same time, the level of fraud on traditional domestic debit cards has become an issue for Italian banks and consumers alike, with significant losses across the industry.

Against this background, V PAY was selected by UniCredit as one of its core debit card products in Italy:

- As a chip-only debit solution, and therefore highly secure, V PAY brings a whole range of tangible benefits to the customers as well as to the bank

- As a new product, with a distinct identity, V PAY is regarded as a good fit for UniCredit’s own re-branding programme (its launch has also coincided with the company’s restructuring involving the integration of the Capitalia Group into the UniCredit Group)
- As a low cost product, V PAY is highly efficient to operate, to process and to manage. UniCredit found it easy to implement and benefited from strong support from Visa Europe
- As a truly European product, with local and regional governance systems, UniCredit has a direct influence on the way V PAY is managed

With more than 650,000 cards issued by the end of 2008, and an average of 50,000 additional cards being issued every month, V PAY can be regarded as a definite success for UniCredit. It is popular among employees and customers alike. It is effectively reducing the costs of fraud. It is also contributing to the bank’s operational efficiency and the commercial effectiveness of the branch network.

**650,000 CARDS
ISSUED BY THE END OF 2008**



The Italian debit card market

In terms of the number of cards issued, and the locations in which they are accepted, the Italian debit card market is relatively mature. However, in terms of actual usage, the market lags slightly behind European norms.*

This situation is partly influenced by the structure of the Italian banking market – and also by the structure of the Italian retail community.

For example, the banking market continues to be quite fragmented. Although several larger banking groups are open to technological innovation and have invested heavily in automation, not all the players in the industry have the same attitude.

The structure of the retail community is even more fragmented. With very few retail chains, there is still a direct and personal relationship between customers and merchants. And customers sometimes have the perception that these merchants prefer to accept cash.

Consequently the use of cash is fairly entrenched. This is particularly the case in the less cosmopolitan areas of the country, where the interest to support the transition from cash to electronic payments is less evident.

By the end of 2007, a total of 28 million debit cards had been issued in Italy. These generated a total of 670 million ATM withdrawals valued at €110 billion, and 750 million point of sale (POS) transactions valued at €48 billion**.

All bank-issued debit cards are branded with either the BANCOMAT (ATM-only) or BANCOMAT and PagoBANCOMAT (ATM and point of sale) logos. The majority of PagoBANCOMAT cards (around 83 per cent) are co-branded with an international debit cards system. The remainder are still for domestic-use only but, by 2010, it is envisaged that they will be replaced, in line with the principles of the SEPA Cards Framework.

* Source: Retail Banking Research (RBR) – Payment Cards Western Europe 2008.

** Source: Consorzio BANCOMAT – 2008.



The role of debit cards for UniCredit

Debit cards have an important strategic function for UniCredit.

- **On the one hand, they support the differentiation of the various UniCredit account propositions.**

The Banks of the Retail Division Italy serve consumer segments such as the mass market, the affluent and the smaller business sector – each of which is offered a comprehensive range of high quality, reliable and appropriately priced services.

To this end, UniCredit offers a complete range of segmented debit card products – to complement its respective account products and meet the needs of particular customer segments.

- **On the other hand, debit cards can enable UniCredit to encourage new and more beneficial behaviours among its customers.**

One of the bank's main business objectives is to improve the commercial performance of its branch network. Its aim is to automate routine, everyday transactions (such as cash withdrawals and deposits). As well as reducing queues and improving the customer experience within branches, this leaves employees freer to provide advice and guidance to customers.

To this end UniCredit has, for example, deployed more than 2,800 intelligent ATMs which allow customers to deposit cash or cheques. It is also an active supporter of the Italian *War on Cash* campaign, a public information programme jointly managed by Consorzio BANCOMAT (the owner of the BANCOMAT/PagoBANCOMAT brands) and Visa Europe.

At the same time, debit card fraud has become a particular issue for Italian banks and their customers. In addition to the direct losses, the related operational costs need to be taken into consideration. Also, there is the risk of a climate of public mistrust towards electronic instruments, which compromises the efforts of the industry to support the migration to modern, cashless payment instruments.

Against this background, UniCredit:

- Has developed a range of debit products designed to appeal to (and to meet the specific needs of) distinct customer segments
- Sees its payment products as a way of adding value to its operations by maximising the commercial performance of its branch network and minimising the issues related to cash handling (such as the security risks)
- Is conscious of the impact of fraud on its actual business performance and also on the perception of its customers.



2,800
INTELLIGENT
ATMs

The benefits of V PAY for UniCredit

UniCredit recognised that V PAY could deliver a range of tangible business benefits:

1. All the benefits of security

Most fundamentally, V PAY is – and must be seen by the customer to be – highly secure.

In developing its business case for V PAY issuance, UniCredit identified several opportunities for significant cost reduction:

- **Reduction in actual fraud losses**
As a chip-only, PIN-only product, V PAY is largely immune to the type of cross border counterfeit attacks that had plagued the Italian banking community. This leads to a significant reduction in actual fraud losses.
- **Reduction in customer support and claims processing costs**
A reduction in fraud losses also leads to a reduction in the associated overheads, such as the cost of handling calls to the UniCredit call centres and branches, and the related claims processing and investigation costs.
- **Related cost and efficiency savings**
The introduction of V PAY enables the bank to avoid certain fraud management costs. For example, UniCredit traditionally operated its SMS Alert service, notifying cardholders, via text message, about any debit card transactions that have a higher risk of fraud. With V PAY, this service and its associated costs can be eliminated or sensibly reduced.

As well as reducing costs, UniCredit recognised that a secure product can also be an appealing proposition for customers (and for employees). Indeed, as also demonstrated by consumer research conducted by Visa Europe, fear of fraud is a particular barrier to card usage in Italy*.

2. A new product with a distinct identity

The decision to issue V PAY broadly coincided with UniCredit's corporate restructuring following the integration with the Capitalia Group (comprising Banca di Roma, Banco di Sicilia and Bipop Carire).

V PAY has therefore contributed to the related re-branding programme. It was the first new and unifying product carrying the UniCredit brand which was common to the entire group.

3. A highly efficient, low cost product

Another appeal of V PAY is its cost structure. At a time when debit card revenues are coming under strong pressure, V PAY's low scheme fees and minimal operating costs offer a definite advantage.

4. A truly European product with meaningful local governance

UniCredit was also encouraged by the fact that V PAY was created in Europe, for Europe, and managed by its European members.

Through the national and regional governance bodies, UniCredit can exert a direct influence over the evolution of V PAY.

Based on these advantages and benefits, UniCredit selected V PAY as one of the core products in its range of debit cards.

Co-badged with BANCOMAT and PagoBANCOMAT, it is now one of the debit cards for the mass market customers of the Banks of the Retail Division Italy. It is sold as a stand alone product and also as a component of every package account, with the price included in the account's monthly fee. The product is positioned as:

- Highly secure
- Suitable for everyone
- Ideal for everyday spending

* For example, focus group research carried out in Italy in 2007 on behalf of Visa Europe by TNS suggests that debit card fraud is a pervasive concern among Italian consumers.

Implementing V PAY

**"IF ANY PROBLEMS
CAME UP, THEY WERE
QUICKLY SOLVED"**

Although it was one of the very first banks in Europe to launch V PAY, UniCredit found the implementation process very straightforward.

Prior to the public launch, a small internal pilot was run over a two month period. This was mainly used to check and verify the way that the cards were personalised and to identify any potential interoperability issues. Through this process, a few minor technical issues were revealed and quickly solved.

In implementing V PAY, UniCredit worked with Visa Europe's customer support teams and also with SIA-SSB, the processor chosen as a partner.

"We benefited from excellent support and a constant dialogue with Visa Europe. If we needed more support, we just had to ask. If any problems came up, they were quickly solved".

Isabella Artioli, Head of Credit and Debit Cards
- UniCredit S.p.A.



To maximise the security of its programme, the bank chose a particularly secure V PAY configuration. The cards cannot be used for e-commerce spending. Also, keen to keep magnetic stripe data to an absolute minimum, UniCredit decided not to make use of Visa's PLUS ATM network*.

* One of the many choices which V PAY offers debit issuers is the option of extending ATM acceptance beyond Europe by co-badging with the Visa-owned PLUS ATM network. UniCredit decided not to make use of that option following an analysis of the usage patterns of its existing debit cards, which showed negligible rates of usage outside of Europe.

"Debit cards in Europe are linked to the current account and all transaction are immediately debited as the customer pays or withdraws cash.

Visa Europe is an excellent partner, in fact Visa Europe has an extended knowledge of the local market and invests heavily in its relationship with European stakeholders".

Isabella Artioli, Head of Credit and Debit Cards - UniCredit S.p.A.



Marketing V PAY

V PAY is now one of the core products in the UniCredit range of debit cards.

Getting the message across to customers

The V PAY programme of UniCredit's Retail Division Italy is positioned as the bank's mass market debit card, which is available for any account holder and is suitable for any type of account. Described to customers as "a winning combination", the three main pillars of the proposition are:

- Security
- Pan-European acceptance
- Simplicity

"A WINNING COMBINATION"

In developing and refining this proposition, UniCredit drew on the messaging developed by Visa Europe (which, in turn, was based on extensive consumer research). Also, to support the launch, UniCredit has developed a full range of customer communications materials including:

- Signage on the external windows of branches
- A card carrier explaining in detail the services offered and the distinctive features of V PAY cards
- Leaflets distributed to customers
- Dedicated website pages
- A brochure explaining the full range of debit products

Getting the message across to employees

Clearly, branch employees play a central role in the introduction of a mass market debit card programme.

To get the message out as widely as possible, UniCredit used a regular, universally read internal memo system, the "circolari normative".

This was supplemented by a dedicated series of pages on the bank's intranet site. Aimed specifically at branches, this provides additional V PAY information and it also enables employees to print out information sheets and the V PAY product fact sheet to pass directly to customers.

To help raise awareness of the V PAY brand and promote its usage, UniCredit also distributed V PAY-branded mousepads to young customers, within the framework of initiatives targeted at university students.

"The staff education has actually been pretty easy. Of course, we've had some questions. But, overall, our employees have been very receptive".

Isabella Artioli, Head of Credit and Debit Cards
- UniCredit S.p.A.

"From 2011, we would like to assess the opportunity to remove all of the magnetic stripe data from our cards to make them even more secure. We also want to make V PAY available across Europe and in particular to all the markets where UniCredit is present in Europe".

Isabella Artioli, Head of Credit and Debit Cards - UniCredit S.p.A.



Success factors and future plans

UniCredit regards the introduction of V PAY as a definite success.

Its V PAY programme was based on a very clear business case. It was easy to implement. Employees have been highly receptive. And the consumer proposition has been clear and compelling.

Just a few months into the programme, V PAY has begun to deliver across a whole range of success criteria.

- **Performing ahead of target**

By the end of December 2008, more than 650,000 cards had been issued – slightly ahead of UniCredit's Retail Division Italy initial targets.

Issuance is continuing at the average rate of 50,000 cards a month – and the Retail Division Italy hopes that this rate will accelerate in 2009 and beyond.

UniCredit's Bulgarian subsidiary, UniCredit Bulbank has also started to issue V PAY. Indeed this is the first bank to issue a pure V PAY card, with no account data whatsoever present in the magnetic stripe.

Ultimately, the aim is to issue several million cards and to introduce V PAY across UniCredit's other European retail operations.

- **Reduced fraud losses**

As a chip-only PIN-only product, the fraud exposure of V PAY is considerably lower than with the traditional range of debit cards.

Indeed, after almost a year of issuing V PAY cards, there has not been one instance of counterfeit fraud on any of its V PAY card accounts.

As well as reducing the net losses, this has eliminated a range of associated costs. For example, the bank does not consider it necessary to extend its SMS Alert service to V PAY transactions.

Even so, UniCredit's Retail Division Italy regards the present card configuration as a transitional step. As the European EMV migration process continues, the bank will consider the opportunity to issue cards with data only on the chip, eliminating any data from the magnetic stripe – perhaps starting from 2011.

- **High levels of customer satisfaction**

Anecdotal evidence from branch employees – backed up by the rate of V PAY issuance and usage – suggests that customers have responded very positively to the V PAY proposition.

- **A positive reaction from branch employees**

UniCredit branch employees have responded positively to V PAY and have been collaborative in offering the product and in explaining its benefits to customers. In particular, branch employees have liked the security credentials of V PAY, which helps them to offer the product – particularly to those customers who appear more sensitive to the threat of card fraud.

- **An active role in V PAY's governance**

UniCredit has been an active member of the V PAY Steering Committee (the pan-European governance body) and also V PAY Italia (the national governance body). It has therefore had a direct influence over the management and evolution of V PAY.

"The governance structure is a key channel for member banks to have a structured dialogue with Visa Europe, and make sure that our interests and strategies are continuously aligned".

Isabella Artioli, Head of Credit and Debit Cards – UniCredit S.p.A.



Lessons learnt

UniCredit regards the introduction of V PAY as a real success.

But, based on its experience, is there anything it would have done differently?

The banks of Retail Division Italy provide three pieces of advice to other V PAY issuers – and prospective issuers.

- **Be clear about the extent of acceptance**

In general, customers and employees have found the V PAY proposition to be very clear and very compelling. They like the security. They like the simplicity. And they like the fact that V PAY can be used for everyday purchases.

The only area of confusion has related to the extent of V PAY acceptance. Some consumers haven't appreciated that the card can be used across Europe as well as in their own country. Others have assumed that it can be used globally.

The advice from UniCredit is to make it very clear that the card is accepted right across Europe (but not beyond). To clarify the situation, UniCredit revised its literature and also refers customers to the Italian version of the V PAY website – which hosts an up to date listing of acceptance status in Europe (something that UniCredit sees as particularly important until the level of acceptance, which is good already, becomes more widespread across all locations).

- **Think about future card configurations**

UniCredit has configured its cards to reflect the current market circumstances – combining the widescale Italian acceptance of PagoBANCOMAT (with the chip and the magnetic stripe) and the secure pan-European acceptance of V PAY (with the chip only).

As fraud patterns evolve, and the EMV migration process continues, UniCredit intends as soon as possible to change this configuration accordingly – by eliminating all data encoded on the magnetic stripe.

“Fraud is still largely concentrated on magnetic stripe-only cards. But it is already moving to cards which are equipped with both a magnetic stripe and a chip. So a chip-only card has to be our vision”.

Isabella Artioli, Head of Credit and Debit Cards
– UniCredit S.p.A.





- **Think about how to supplement V PAY with other products**

Most banks will probably choose to introduce V PAY to cards which are configured in various ways. Indeed, for many banks, V PAY provides an opportunity to introduce a differentiated range – with several products complementing and supplementing each other.

The advice from UniCredit is to develop and promote other products for use in environments that cannot be serviced through the chip (such as e-commerce transactions and international travel). For example, specific prepaid products or credit cards could be used as companion products to V PAY.

Of course, other banks and other countries may have different business needs. One of the main benefits of V PAY is the extreme level of flexibility it offers to issuers – enabling them to configure their debit cards in the way that brings maximum benefit to their own particular business and customer base.

As a foundation, V PAY exists as a chip-only, SEPA-compliant debit product which can be used at POS and ATMs, and also benefits from local governance and a range of additional services. But this is just the start.

For those banks that wish to offer to their customers a richer product, it is possible to supplement base functions with other distinctive services and options.

Those already available include contactless payment (which is live right now in Italy, though locally), plus low value payment functionality, secure e-commerce, cashback at POS and the Visa Money Transfer service.

Banks can also issue V PAY as a prepaid card, they can choose from several co-badging arrangements, and they can benefit from a new range of stand-in functions. Future functionality is set to include mobile top-ups, m-payments and dedicated scripting services, including PIN change.

So, with V PAY, banks have the freedom to deliver on specific business priorities. They also benefit from advanced functionality which is not currently available from all debit card systems.



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Remember we are here to help. For assistance or advice on how V PAY can meet the needs of your business, please talk to your Relationship Manager or contact us at vpay@visa.com

