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## **REPORT REVEALS WINNING MODEL FOR THE SMALL BUSINESS BANKING MARKET**

*Small Business Banking and the Crisis, a report from Capgemini, UniCredit and Efma indicates need to successfully manage both business development and risk for optimum performance*

**Milan and Paris – April 7, 2010 – The global financial and economic crisis, characterized by the increasing cost of risk, a shrinking demand in the markets, and rising pressure on banks to support the economy, has highlighted the significant challenge faced by the small business banking market to accelerate business development while managing risk. To overcome this key challenge, successful retail banks must strengthen the role of the relationship manager and improve their credit risk management system, according to “Small Business Banking and the Crisis,” a report from Capgemini, UniCredit and the European financial marketing association (Efma).**

### **Balancing two imperatives: accelerating development while controlling risk in the small business market**

The report, which draws on an extensive market survey and interviews with 58 large retail banks in 21 countries, confirms that the small business market is attractive and strategic for retail banks today; Small businesses represent 99% of all companies (in Europe, Japan and the United States) and 51% of employment (in the private and non-financial economy). Considering the importance of small businesses to national economies, most governments have a strong interest in supporting this fast-growing market, and as such, banks have added pressure to make development a top priority.

Despite its development potential, the small business market remains risky and complex, and requires strong risk management from retail banks due to factors such as low capitalization, no credit ratings and high bankruptcy rates in comparison to larger enterprises.

*“As the report validates, the small business market accounts for almost a third of retail banks’ net banking income, yet represents nearly half of their total retail risk-weighted assets. The small business market is, therefore, necessary but challenging,”* comments Patrick Desmarès, Secretary General, Efma.

In addition, according to interviewees, increased cost of risk is considered the number one threat caused by the crisis (86%) followed by a drop in demand (68%). These outweighed other challenges such as pressure on prices (45%) and better-armed competitors (34%). The drop in demand and higher costs of risk seen in the post-crisis landscape will force banks to adapt in order to succeed.

### **Achieving the “winning bank” model**

Successfully acting on these challenges is critical for retail banks. Key to the report’s findings is the emergence of the “winning bank” model, which prescribes methods for retail banks to outperform competitors on both managing risk and development of the small business market.

*“To overcome these increased threats, successful retail banks will develop two critical areas: the role of the relationship manager and the credit risk management system,”* says Bertrand Lavayssière, Managing Director, Global Financial Services, Capgemini. *“Shifting the role of the relationship manager towards closer client relationships and increased empowerment on credit risk management, paired with the implementation of a complete and effective credit risk management system are the keys to success.”*

To help outperform their competitors on both development and risk management, banks must ensure strong client relationships through a deep understanding of each client’s line of business, needs and expectations. Banks must also empower relationship managers to manage credit risk – by granting them more authority and responsibility in the decision process as well as in credit underwriting, credit portfolio management and loan rescheduling. In addition, banks’ credit risk management system will need to meet the highly specific and complex risk management needs of the small business market, including accurate governance, efficient organizational credit risk management processes, and complete and seamless supporting information systems.

Establishing the winning bank model enables retail banks to achieve high levels of client satisfaction from small business clients and to better leverage cross-selling strategies, which are at the core of any retail bank’s development efforts in the small business market. The winning bank model will also enhance a bank’s ability to develop and leverage risk-management best practices, including sophisticated credit scoring tools, enhanced proactive management of performing portfolio and “soft collection.”

*“The capability of each bank to effectively serve small businesses is crucial not only for its profitability, but also for its reputation and legitimacy. To be successful with small businesses, banks must stabilize relationship managers, continuously invest in their competence, bring innovations to the credit process, establish a smooth multi-channel interface and gain the trust needed to address the personal and savings dimension of the entrepreneur,”* says Roberto Nicastro, Group Deputy CEO & Head of Retail Strategic Business Area, UniCredit.

To implement the winning bank model and unlock the potential of the small business market, banks must define a transformation strategy that is based on a bank’s starting point related to the relationship manager’s role, credit risk management, organization, culture and HR.

*The Small Business Banking Report* is available today and can be downloaded at [www.capgemini.com/wrbr10](http://www.capgemini.com/wrbr10) and [www.wrbr10.com](http://www.wrbr10.com).

#### **About The Small Business Banking Report**

*“Small Business Banking and the Crisis: Managing Development and Risk”* is the seventh edition of the World Retail Banking Report. Jointly produced by Capgemini, UniCredit and Efma, the report focuses on investigating the challenge the small business banking market faces to accelerate business development while mastering risk, which was brought to the forefront by the economic and financial crisis.

Based on 58 in-depth interviews with senior executives from leading banks in 21 countries, the report offers an overview of the challenging but critical small business market, proposes a winning model to overcome today's risk management and development challenges, highlights the major benefits of this model, and suggests practical next steps to reach and implement it successfully.

To find out about local presentations in your area or sign-up for your free copy (available April 7), visit [www.wrbr10.com](http://www.wrbr10.com) and [www.capgemini.com/wrbr10](http://www.capgemini.com/wrbr10)

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### **About UniCredit**

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In the CEE region, UniCredit operates the largest international banking network with approximately 4,000 branches and outlets. The Group operates in the following countries: Austria Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Germany, Hungary, Italy, Latvia, Lithuania, Kazakhstan, Kyrgyzstan, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine. For more information: [www.unicreditgroup.eu](http://www.unicreditgroup.eu)

### **About Efma**

Efma promotes innovation in retail finance in Europe by fostering debate and discussion among the main players involved in change. Formed in 1971, Efma comprises 2,960 different brands in financial services worldwide today, including 80% of the largest European banking groups.

Through regular events, publications, and its comprehensive website, the association provides retail financial service professionals with answers to their questions about the main issues at stake in their business: multidistribution strategies, customer approach, CRM, product and service marketing and improving profitability.

Efma is above all a dynamic association, providing a great opportunity for discussion and exchanges without any commercial constraints. It provides its members with a wide range of exclusive services as well as discount rates on nongratuitous activities. The loyalty of its members as well as their permanent financial support are the best proof of its efficiency. For more information: [www.efma.com](http://www.efma.com)