WORKING PAPER

Anticipating and managing the impact of change

Restructuring trends in retail banking: Case study on Banco BPM (Italy)

Going digital: Restructuring trends in retail banking

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Introduction

Digital technology has given the opportunity to banks to change the way they work. Banks provide essential services and fulfil some critical sensitive activities such as the credit market function and the payment function. Less than 10 years ago, banks, and employees working for them, were manually issuing loans and selecting borrowers. At that time, banking employees were also actively monitoring their costumers to have proper clients who would repay their loans, while nowadays artificial intelligence with big data can improve this process by reducing all the asymmetric information between the bank and its customers. Now, internet platforms can directly match lenders and borrowers and automatize these processes (Petralia, K. *at al.* 2020). These technological innovations have significantly changed the way bank employees perform their job and therefore have led to changes both in quantitative and qualitative terms on the workforce of the credit sector.

This case study focuses on those and other changes that are affecting the Italian retail banking market. The first chapter gives an introduction on the general trends of the sector, in particular the ongoing consolidation and closure of branches, and explains how the new profile of the banking employee has changed and how its job fits into the new way bank perform their business. The second chapter covers the specific restructuring of the third biggest Italian bank, Banco BPM, which announced the dismissal of 1,500 employees on 2 December 2020. The bank decision has been influenced by the highly significant digitalisation process ongoing within the bank. However, also some other reasons have been driving this decision, such as the necessity of cutting costs, the need of a generational renewal and some organisational adjustments following a previous merge of 2017. The section will try to describe the ongoing transformation, its drivers, as well as the result of the restructuring.

The study is mainly based on the data collected by the Central Bank of Italy, the Italian Banking Association and Eurostat. In addition, three people have been interviewed for this case study: Guerino Ardizzi, an expert in digitalisation of payment services, which is the banking area more disrupted by digitalisation; Paola Minzon, an employee representative of UILCA, one of the trade unions who signed the restructuring agreement with Banco BPM managers; and Massimo Beccalli, a Banco BPM ex-branch manager. Furthermore, the second part includes other relevant company documents such as the annual reports and the industrial plan from the Banco BPM.

National level: context and sectoral trends

The Italian market has historically been fragmented into a large number of small players and in the last 15 years it has been significantly contracting due to reduced profits. The Italian banking industry consists of universal and co-operative banks. Except for co-operative banks, which are subject to a specific regulation, Italian legislation does not currently provide for different types of banks such as retail, investment and private banks[1], as in other jurisdictions. At the end of 2020, the market consisted of 474 banks, 65% of which of a small size. The reduced profits led to a contraction of the sector and an increase in the average size of the bank, very evident when looking at how much the number of banks has diminished. Small size banks have seen the largest cuts in number: 151 in the last 5 years. The reduction among the larger ones looks less significant, only 13 medium and 5 large, since some of the small banks have merged and become medium or large.

From the global financial crisis up to recently Italy's banking industry has seen a significant reduction in profitability. According to the Italian Banking Association (ABI), in 2020, the return on equity (ROE), was 1.9% compared to 5.0% the previous year (ABI, 2021). The decrease in profitability took place both in large and small banks but hit stronger large banks, which had a ROE only of 1.4%, compared to smaller ones which managed to reach 3.1%. However, the effects of the reduction of profitability are only partially due to the COVID-19 pandemic, since the result of 2019 was already lower than the previous years (ABI, 2021).

Table 1 - Number of banks per size

	2015	2016	2017	2018	2019	2020
Large	23	25	23	20	19	18
Medium	157	154	143	154	147	144
Small	463	425	372	331	322	312
Total	643	604	538	505	488	474

Note: Size depends on the funds brokered. Large: over 26 millions euros, Medium: between 26 and 1,3 millions, small: less than 1,3 millions.

Source: Bank of Italy statistical data

The low profitability has not only diminished the number of banks in the market through merger and acquisition but has also moved them to try to reduce costs and reorganise the distribution network by cutting the number of branches and employees. In 2020, the number of branches fell by 3.2% (to 23,481) and the number of employees fell by 2.3% (to 275,224), compared to the previous year. However, the declining trend has been ongoing for a long time, with the average number of bank branches per 100,000 inhabitants which decreased by about 34% compared with 2008. Surprisingly, even considering this very steep decrease, Italy is still the third country in EU with more branches- 39 branches per 100,000 inhabitants, after France and Spain (respectively 47 and 48 per 100,000)

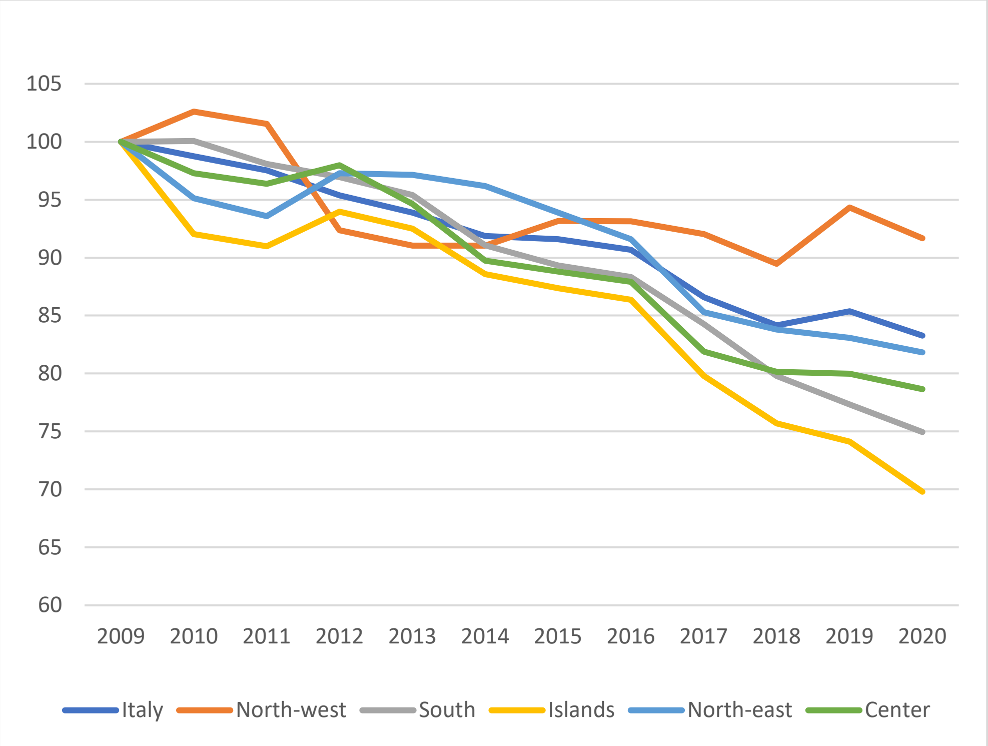
[1] There is currently no public owned bank in Italy.

(EBF, 2021). According to Ardizzi, this might mean that in the future there will be even further reductions to reach a number closer to the EU average, which is also continuously decreasing.

The rationalisation of the distribution network is heterogenous across bank size. According to the data from the ABI, the reduction involved mainly significant[2] groups, which, since 2008, have reduced both the number of branches and the number of branches' employees by about 40%. The drop in the number of branches has been more limited for nationally supervised banks, which usually are of a smaller size, where this reduction has been only 5.5%.

Branches and employees' reduction is spread across banks' geographical locations and some areas have been more affected than others. In particular, the less developed areas of the country have been significantly affected. The south, together with Sicily and Sardinia, which only have 42,000 employees -the lowest number of employees in the country- have seen the most significant reduction in relative terms, -27% compared to 2009. However, the number of closures has been also very significant in the north where most branches are located, only in north-east over 15,000 jobs have been lost since 2009.

Figure 1: Employment variation per area (Index 100 = 2009)



Source: Bank of Italy statistical data

Employment trends

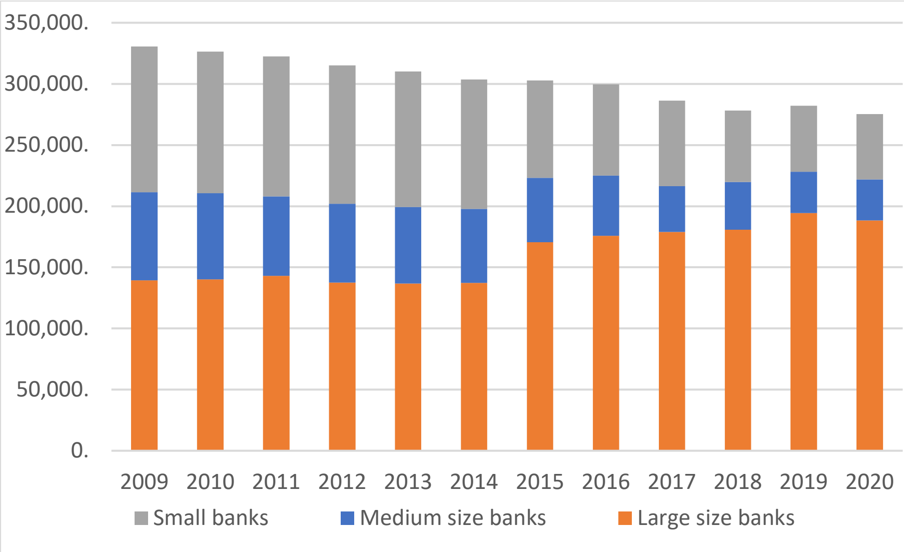
The restructuring plans and the consolidation of the Italian banking sector has led to a significant reduction in the number of employees. Reduction in the bank profitability and in the number of

2 Significant group, institutions or banks are classified based on certain size and criteria and due to their high importance are directly supervised directly by the ECB, while less significant banks are supervised by the Central Bank of Italy. More information is available at: https://www.bankingsupervision.europa.eu/press/publications/newsletter/2018/html/ssm.nl181114_3.en.html

employees has also changed employee working location as well as in the characteristics of the banking employees' profiles.

First, looking at the institutions where people are working, it should not surprise that with so many small banks in 2009, 39% of jobs where in small institutions of credit or cooperative banks. In 2020 only less than one out of five still works there. On the other end, the share of employees working in the large banks in 2009 was only 42% of all banking employees, while this share in 2020 is almost 70%. To date, most of employees in the banking sector work in a large institution (see figure 2).

Figure 2: Number of employees per bank size



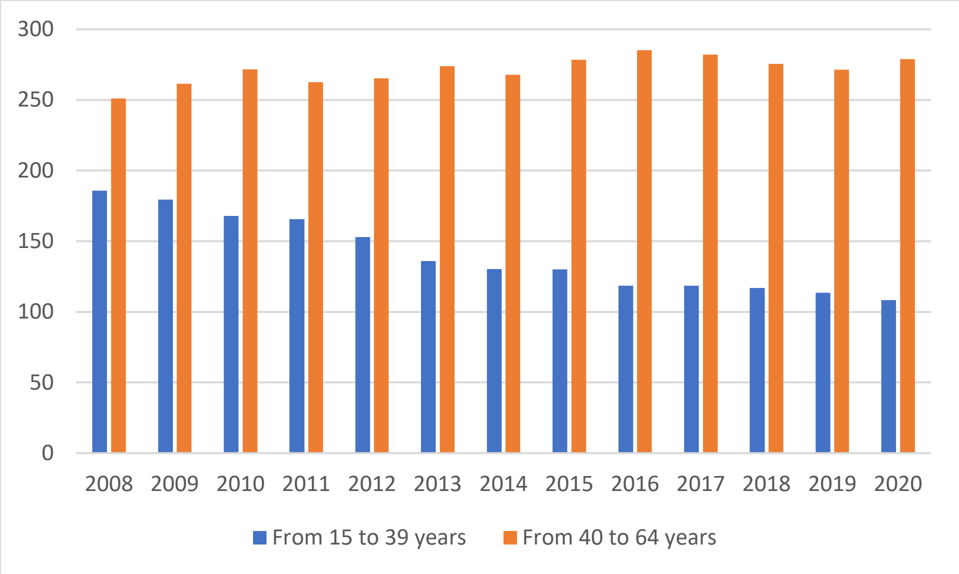
Note: Size depends on the funds brokered. Large: over 26 millions euros, Medium: between 26 and 1,3 millions, small: less than 1,3 millions.

Source: Bank of Italy statistical data

Changes in the workforce of banking institutions were particularly complex. The reduction of employees in the sector, with very well protected jobs and with a strongly unionised component- (the banking sector is one of the most unionised sector in Italy), has meant that it has been very difficult to proceed with the direct dismissal of the staff. Therefore, over time most of the employee reduction took place using solidarity tools and reducing the turn-over with the inclusion of young staff. From an operational point of view, it was possible to observe that there has been a significant reduction in hiring over time, or employees that left the company have not been replaced. It is extremely clear, when looking at figure 3, how the oldest half of the working population (40-65 years old) has remained roughly constant, and the younger half (15- 39 years old) has steadily decreased over time. Basically, the exit of elderly personnel has been only very partially compensated by the arrival of young people. Therefore, in Italy there has been a constant increase in the average employee age in the banks. This explains well also why most of the more recent restructuring and layoffs in Italy has taken place under the form of pre-pension schemes, such as in the Banco BPM described in the following chapter.

Another significant trend that has changed the employees' profiles in the banking sector has been the demand for more qualified professionals and consequently change in education level. In the last 10 years, it has become more and more difficult to work in a bank since the education level required has increased, as pointed out by the representative from the trade union interviewed and confirmed by the data from national statistics institute. In 2020, it was recorded the highest level ever reached, almost half of all bank employees had a university degree or a higher qualification, while in 2010 this was the case only for one out of three banking employees.

Figure 3: Employee age in banking sector



Source: Eurostat, Labour Force Survey [lfsa_egan22d]

It is interesting to note that despite this strong push to transform the banking sector there is also something that has not been very affected by the restructurings: the gender balance in banks. According to the data of the biggest trade union in Italy, FIRST CGIL, there is roughly speaking a gender balance in the banking sector in the overall number of employees (48% female, 52% males) and the share has not been changing much over time. However, there is a significant difference in the roles they tend to have within the bank: females in managerial positions represent only 15% of the workforce, while among middle managers this share rises to 36%. Female employees are also more likely to hold a part-time position, in fact one out of four is in part time, against only 2% of their male counterparts (FIRST CISL, 2021).

Drivers of change

The contraction of the banking sector has been clearly influenced by the reduced profitability, and this has determined the need to recover the gap through corrective actions. The causes that have determined this decline in profitability in reference to the Italian context will be analyzed one in depth in this paragraph.

As for most of the long-term changes, the causes driving them are clearly a combination of different drivers, and this is the case also in the financial sector. According to the ABI, the decrease in profitability is due to a reduction in interest income, higher tax charges and the regulatory burden. Instead, according to Ardizzi, the three main drivers of change are: the digitalisation, the regulation and the external shocks.

Starting with the regulation, mentioned by both sources, it should be noted that there are two layers of financial regulation: one at international level, mainly coming from the Basel Committee and the European Union institution and agencies (ECB, European Banking Authority and partially EIOPA and

ESMA), and at a national level, from the initiatives of the Ministry for Economy and Finance, the Central Bank of Italy, CONSOB[3] and CICR[4].

The international regulation has changed the sector in two ways, first in terms of higher capital requirements and prudential supervision, and then in terms of consumer protection and financial innovation. The increase in the capital requirement bank need to hold has obliged them to be more efficient and cut costs. Secondly, the consumer's protection has led to further compliance, increasing internal and cybersecurity costs. Further market liberalization has led to more financial innovation and posits the platform model at the core of future banking and payment infrastructures (Westermeier, 2020).

The most recent national regulation and policies have been less relevant, but still worth to mention. The most important programmes have been the one against tax evasion and then 'Italia cashless[5]', which is a programme composed of the 'cashback' and 'lotteria degli scontrini'. The policies aimed at limiting cash usage (tax evasion regulation) [6] and have been driving towards a higher usage of digital payments ('cashback' and 'lotteria degli scontrini'[7]). Ardizzi claimed that these policies have been game changers mainly for shops, which were forced to install the POS payment machines to attract consumers participating in the two programmes. For banks the shift has been mainly in terms of profits, since with the current pricing in Italy cash is a cost, instead digital payments are profitable. However, these regulations might have had only a secondary impact in terms of bank closures, because even before the implementation of this programmes, the banks had already started closing branches and ATMs.

The overreaching factor that is driving most of the changes in the sector is the digitalisation, which has reshaped the relationship between the bank and its customers as well bank's internal processes. All clients who had the opportunity have been moving to an online or mobile solution, both for private and business clients. According to the Centre for Economic Policy Research, payment services have been the most disrupted, followed by customer management and retail lending (Petralia, K. *et al.*, 2019). Within banks, digitalisation has led to the automatization of the processes and the work of their employees is no longer manual, however it is essential that the employees are familiar with the software and the process. The margin of error especially on the repetitive tasks is much reduced, but employees no longer know how to perform the single steps leading to the result of the process, according to the ex-branch manager interviewed. Work was mainly manual in the bank branches, and they have been closing over time, especially in the less developed areas. Hence, Bank of Italy together with other central banks and stakeholders of the sector have started studying the

[3] Consob is the supervisory authority for investor protection and supervision of the Italian securities market, and it regulates the provision of investment services to ensure transparency and correctness of conduct with investors and manages reporting obligations for listed companies; regulates the offer to the public of financial instruments; and validates guidelines prepared by associations that represent market players (such as banks and investment firms).

[4] Comitato Interministeriale per il Credito e il Risparmio: it regulates certain aspects of the collection of savings and transparency in customer relationships.

[5] Further information available at: https://www.cashlessitalia.it/

[6] Law n. 208/2015 lowered the limit of cash usage to €3,000 and then Decreto Fiscale n. 124/2019 which lowered it again to €2,000.

[7] Literally "shop receipt lottery" in Italian.

importance of retail banks also as a public service provider (see ERPB, 2021 and EBA, 2021) and started taking action to preserve essential services for the public, such as preserving the access to cash.

Finally, the external shocks are another important driver of change in the sector; the COVID-19 pandemic has led to significative speed up in the digitalisation process and in an internationalisation of the competition because the new digitalisation has removed the physical barriers (especially in payment services). The restrictions caused by the pandemic on mobility favoured a greater use of digital distribution channels, encouraging banks to invest in the development of projects connected to financial innovations applied to the provision of financial services. Examples include also simple changes such as booking online appointments to get to the branch, also for essential services, and more complex ones as the possibility of opening a bank account online.

The digitalisation of banking customers has shown a strong acceleration during the pandemic. In 2020, in Italy the share of customers who could access their current accounts through digital channels was 79%. There was still a significant share of non-digitalised consumers, for whom telephone support was required. All banks in Italy offer internet banking (from laptop) and an app for smartphone, more than half have a mobile website, less than half an app for tablet and 16% a wearable app (such as a smart watch). Compared to the end of 2019, the share of banks that allow customers to receive quotes and to submit remotely loan applications has risen from 36 to 39% for households and from 16 to 22% for businesses. At the same time there is a lower number of people that tend to go to the branches (in 2020 only 77% clients compared to 91% in 2008) and they also tend to go less often (-21% from 2008).

After the first wave of COVID-19, the evolving trends continue, especially on the digital side. According to the Italian Banking Association, in 2022 the main trends for the offer of services in commercial banks are:

- specialisation in long distance-selling;
- development of cloud infrastructure;
- costumer support through natural language programming and AI;
- increasing the broader task knowledge of employees.

This has led to the increasing importance of the job figure ‘remote specialist/ remote support’ which supports the consumer online or via phone. The support can also be via chatbox and in Italy more than half of the banks use the technology that can simulate conversations of costumer care. However, this technology is still very limited is their usage for the acquisition of new clients which remains a task for physical employees through various channels. Also, the costumer care through social media is growing: they are used for acquiring products and financial services and more and more banks are setting up specific teams for this new function (ABI, 2020).

Almost all the larger intermediaries and a third of the smaller ones have planned or undertaken projects for technological innovation applied to the provision of financial services (FinTech). The main areas of interest are improving customer services and exploiting information to refine business strategies (Branzoli and Supino, 2020). Bank increasingly have a higher number of partnerships with fintechs that are motivated by a faster solution development (64%), to acquire digital skills (36%) and to lower development costs (21%).

According to the latest survey of the Central Bank of Italy, fintech technology expenditure for 2021-2022 is €530 million and it is growing compared to the previous 2 years (€456 million). The number of banks involved have also increased (from 77 to 96) as well as the number of projects (from 267 to 329), suggesting an increasing importance of this kind of innovations in Italy. Twenty-eight banks have chosen to buy shares of fintech companies, for an overall value of €204 million. Four out of five projects are developed in partnership with a firm which takes care of a part or the overall project. Usually, banks are using this companies to accelerate the innovation process since competences are not available internally and most of the investments are for credit landing and digital payments, on a smaller scale also for business operations and governance.

One out of five has now an internal unit only for the management of fintech, in the other cases the management is part of a broader department and is a working group or just a manager (only 19% of the cases). Roughly 1,400 people in Italy are working with fintech, which represent only 0.3% of all bank employees. Usually, the relationship between the bank and the fintech is exclusive, only one fintech out four works with more than a bank (Banca d'Italia, 2021).

Case study: Banco BPM

This chapter focuses on the restructuring of Banco BPM in 2020, since this is among the most recent and biggest restructurings in Italy caused by digitalisation (Eurofound, 2021). The case is also very representative of the main Italian trends, such as the cost reduction by closing branches and by reducing the number of employees. However, the bank dynamics are also influenced by a series of previous restructurings (in particular, merges and acquisitions) and it is already planning a new one in the near future.

Banco BPM was born in 2017 with the merger between Banco Popolare and the Banca Popolare of Milan (see more on Eurofound 2016). In 2022, the resulting company, Banco BPM, counts 22,200 employees, 18,000 branches and 4 million of clients and is the third biggest bank group in Italy. However, the bank is not spread across all country, in terms of employees, number of branches and consumers market share: it is mainly in the north of Italy, Italy's wealthiest area.

From the 2017 merge, up to today the group has significantly changed. The bank has been reorganising its activities after the merge, such as relocating employees across branches and departments and re-organising according to the organisational scheme of Banco Popolare, that was the biggest among the two. However, the bank has not only been reorganised but has also been following the national trend of consolidation and cost reduction. Significant changes on this side have been that: it has cut by 17% its workforce, reduced the number of branches by 36% (from 2,246 to 1,429) and decreased by more than 50% the number of cash desks (from 4,982 to 2,423). In addition, to meet the needs of its clients, it has also increased the share of transactional operations managed on remote channels from 70% to 83%. A particular growth in the use of mobile by its customers has been recorded: the monthly number of transactions via mobile has almost quadrupled, compared to 2017.

Every year the bank publishes an industrial plan, which includes the last results achieved and the decisions for the future. On the industrial plan 2020-23 there is already mentioned a pre-pension scheme for 1,100 employees, however the announcement for the restructuring arrived only 9 months after the approval, which took place at the beginning of 2020. It is worth to mention that the industrial plan got approved on the 2 March 2020 and only a few days later, on the 7 March, the Italian government announced the COVID-19 lockdown, which clearly influenced the planning of the restructuring.

In the middle of the second COVID-19 wave, on the 29th of December 2020, Banco BPM announced and published the agreement on the restructuring with the trade unions. It consisted in the closure of 300 branches and 1,500 job losses- all pre-pension departures- and, together with the job losses, the bank also announced 750 new hirings by 2023. In a second agreement, reached on the 3rd of May 2021, the number of pre-pensioned employees rose to 1,607 and the hirings were increased to 804. The closure of branches took place in a relatively short time, between December 2020 and June 2021, while the pre-departures were divided in different tranches and had a longer timeframe, two full years – until the end of 2022.

The following Banco BPM strategic plan, for the period 2021-24, was published in November 2021 while the restructuring was taking place, and it gives a clear idea on the drivers of the restructuring. These include further cost cuts and a very strong emphasis on digitalisation, both from a commercial point of view as well as from its internal organisation side. In particular, it includes a further rationalization of the network of branches to about 1,300 units, which the company plans to substitute with the activity of 'digital branches', and about 150 new 'business centres'.

However, the bank has also planned other measures in addition to the digitalisation, in particular an Environmental Social and Governance (ESG) strategy. The bank considers sustainability in the broad sense, meaning both commercial initiatives such as the emission of green bonds and green emission targets (i.e., the sustainability of the electricity of the buildings) as well as sustainable gender targets. For this purpose, the bank has given the responsibility to one board member to supervise the dedicated committees; those are the 'internal control, risks & sustainability committee' and two ESG sub-committees, whose aim is to supervise sustainability and social responsibility factors, reporting and coordinate the ESG activities. Other resources are involved as well, in particular there is a small sustainability unit of 8 people[8] and some contact points working across the organisation called 'ESG ambassadors' (more than 50 people) responsible of spreading the 'sustainability culture'.

The sustainable social goal is a gender target: having above 30% for women in managerial positions by 2024. Adding this target has been strategic, because in 2021 the bank's workforce was composed by 45% women compared to 55% men, but only one manager was a female out of 10. Therefore, the bank decided to tackle the issue by introducing a diversity and inclusion department within HR, and by setting the 30% manager gender target, together with a gender empowerment programme.

Figure 4: Banco BPM Industrial Plan 2021-24

		31/12/2016	Merger Plan 2019 YE Target	Achieved as at YE 2019	Achieved as at 9M 2021
✓ CAPITAL POSITION	- CET 1 RATIO FL	11.4%	12.9%	13.0%[1]	13.3%
✓ DERISKING	- GROSS NPE	€30.0BN[2]	€23.2BN[3]	€10.1BN	€6.6BN
	- GROSS NPE RATIO	24.1%[2]	17.5%[3]	9.1%	5.9%
	- NET NPE RATIO	14.7%	11.1%	5.2%	3.2%
✓ RATIONALIZATION	- BRANCHES (#)	2,295	2,082	1,727	1,429
	- HEADCOUNT (#)	24,680	22,560	21,941	20,565
✓ COST EFFICIENCY	- TOTAL OPERATING COST	€2,971M[5]	€2,858M[5]	€2,604M	~ €2,500M
	- COST REDUCTION SINCE 2015		-€228M	-€482M	~ -€550M

€3,086M FY 2015 (pre-merger level)

Source: Banco BPM (2021b)

Drivers and motivations for the restructuring case

The initial announcement made on 2 December 2020 included the closure of 300 branches and 1,500 job reductions as well as the motivation for the restructuring. The company justified the need for this restructuring with '*change in professional qualification needed in the mutating working*

[8] The Sustainability Unit (8 resources) oversees ESG materiality definition and monitors sustainability indicators. It evaluates the sustainability impacts of the Group's initiatives and provides support to the corporate structures. It drafts the Consolidated Non-Financial Statement and promotes sharing of the ESG culture both within and outside the Group. For more info see Banco BPM (2021c). The resources and the activities for ESG have been increasing over time. In the Banco BPM presentation in April 2022 the resources in the sustainability unit are 10 and there are more initiatives, see Banco BPM (2022).

environment and the higher request in the usage of the digital platforms'. The phrasing looks quite vague but becomes very clear when reading it in combination with the industrial plans approved before and after the restructuring. What is mentioning, in fact, is the digitalisation of the processes and the new way of working from home. In the agreement, together with the job losses, the bank planned also 750 new hirings by 2023. Those are linked with the third (and last) motivation mentioned by the bank for the restructuring: the regeneration renewal. Nevertheless, other drivers identified by the interviewees will be described later in this paragraph.

Looking closer at the digitalisation, it is quite evident that COVID-19 has definitely led to further internal challenges that the bank had planned. However, even before the pandemic, the company was pursuing an important digitalisation strategy in 2020-23 with an increase of 40% of investment compared to the 2017-19 period (Banco BPM, 2020c). The plan aimed, from a commercial point of view, at having a new digital-based customer interaction, with strengthened use of remote banking channels and new tools and solutions (Advanced Customer Analytics, Big Data, Digital Identity, etc.), while on the organisational side, at increasing the share of teleworking to six times more than the previous year (2019).

The pandemic speeded up all the processes and all employees working in the central office have started working full-time from home. Nevertheless, employees in the branches did not have the possibility to telework and physically had to go to their offices.

The company's plan for the period after the restructuring, from 2021 to 2024, tries to achieve an even more ambitious digitalisation strategy. The plan includes an increase of 70% of the IT related investment and 50% of cyber security investment, as well as the plan to hire 100 new people with digital skills (Banco BPM, 2021).

The objectives of the digitalisation according to the bank are:

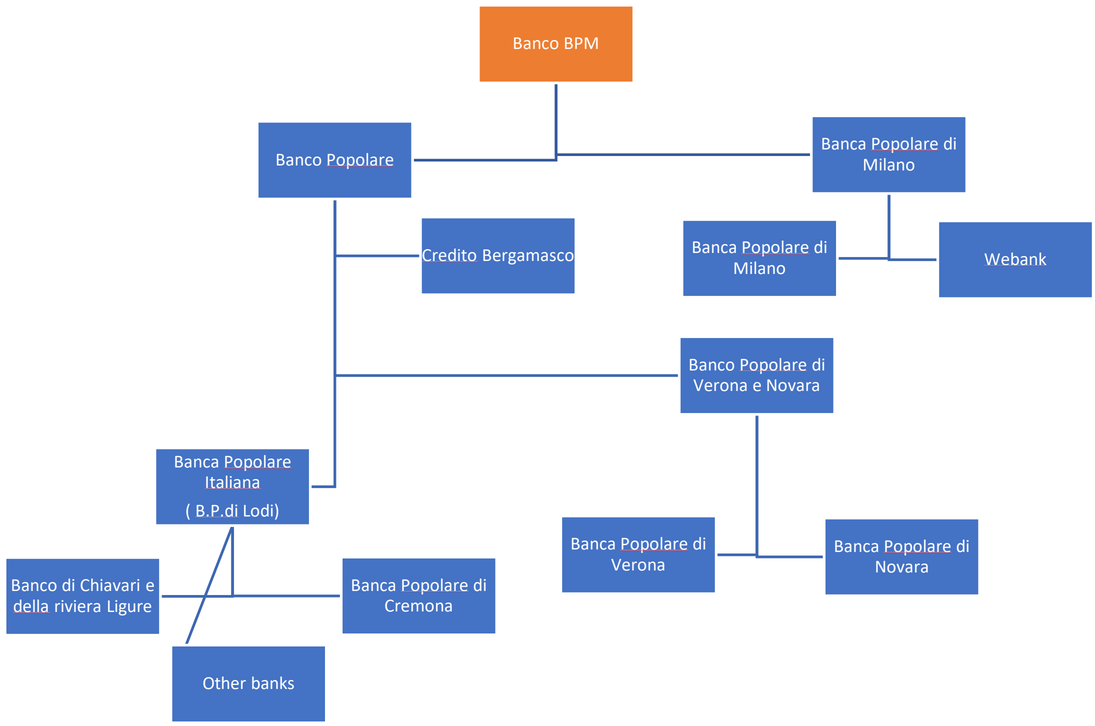
- Using data to empower decisions (evolve the data architecture and adopt advanced analytics, develop data-driven customer journeys).
- Adopt technologies with transformational potential for business (boost IT transformation with new technology, e.g., cloud native application, machine learning, microservices, API, open innovation to exploit new 'external' opportunities).
- Deliver customer experience (consolidate the 'Mobile first' approach, partnerships with fintech companies, innovation centres and universities for the use of Open Banking solutions).
- Continuous Improvement and reducing complexity (create a stable operating environment leveraging on IT asset lifecycle processes, DevSecOps lifecycle based on continuous development).
  (Banco BPM 2021b)

As already mentioned, digitalisation is only a part of the full picture according to the company, the third driver motivating the hiring of new employees is need of having a younger workforce. This is also very explicit from the company plans to have over 90% of the new hirings at a young age range, between 20 and 30 years old and with a balanced gender representation. However, as frequently mentioned in the company documents, this is also an opportunity for the company to get in house more digital skills.

The other driver of the restructuring, common among most of the restructurings in Italy, has been the increasing need to rise profits by cutting costs. The Representative from the trade union UILCA pointed out the strong economic interest in registering the reduction of employees as a reduction of costs in the balance sheet, as well as the opportunity for the company, when cutting jobs, to have very little costs associated with it. The small costs are due to the fact that the bank can use two instruments, first the solidarity fund and second the incentives for the new employees with permanent contracts called FOC ('fondo per l'occupazione'). The former covers the cost the bank would have spent for the payments until retirement of those who are retiring, while the latter gives the bank some funds for every new person employed with a permanent contract. According to the employee representative, also closing branches does not create additional costs for the bank because those employees are easily redeployed or relocated without additional training.

Another clear driver, not mentioned in the agreement itself but by Massimo Beccalli, an ex-Banco BPM branch manager, is the need of internal reorganisation. After the merger which created the bank in 2017, there have been many redundancies and duplications. One of the banks coming from the merge, Banco Popolare, had not recovered from the previous set of merges (see figure 5) and was still providing its services according to the previous existing bank brands. To get an idea, in Milan there were five managers doing the same job, one for each ex-bank. In the merger of 2017 the bank laid off 2,100 employees and, after closing the duplicated branches and the less profitable ones and substituting them with virtual services, the bank reorganised internally and prepared another set of pre-pension schemes (which ended with the restructuring of 2020, that is the focus of this case study).

Figure 5: Main Banco BPM merger and acquisitions history from 2003 to 2020



The restructuring process

The bank announced to the trade unions on 2 December 2020 the need for a restructuring and the closure of 300 transactional branches. Nine meetings[9] took place between the trade unions and the company representatives, before reaching the first agreement on the 29 December. The latter included 1,500 job losses- all under voluntary retirements- and 750 new hirings. The agreement with the trade unions also included the type of workers involved, which needed to be at least 40% managers and at least 40% professional employees. However, also employees remaining in the company have been affected, in particular 805 people have been relocated and trained for an upskilling or reskilling, and some of them radically changed jobs and tasks.

From the month of March 2021, on a monthly basis, trade unions and Banco BPM managers met to verify and monitor the impact on employees. The control was on professional and territorial mobility, in particular on employees where the relocation exceeded 30 km and on job positions assigned to directors and supervisors of closed branches.

The closure of branches took place in a relatively short time, between December 2020 and June 2021, while the pre-departures were divided in different tranches and had a longer timeframe. The choice of the branches closure has been driven by the opportunity cost. In particular, if the branch was mainly doing consulting, which is more profitable, it was more likely to remain compared to the transactional branches. Other considerations were made according to other costs, i.e., if the building was rented or owned by the bank, the historical branch was therefore more likely to be owned so to remain open. The bank was also considering the profitability its customers were creating in each of the branches. The employees' exits have been planned in 4 different periods: June 2021 (60%), December 2021 (25%), June 2022 (10%) and the remaining employees in December 2022.

The 805 employees involved in the branch closure were offered paid training during the working hours. The trainings were on:

- Resilience and motivation
- Digital skills (digital banking, digital selling, and data analysis)
- Compliance culture, money laundering and new banking regulation

People changing the task portfolio of their job had additional technical trainings, which included: portfolio asset allocation, financial analysis for evaluating firms, monitoring credit risk and preparation on new digital products for the clients.

Different training programs were funded by two different schemes. Training for employees affected by the branch closure plan was provided by the New Skills Fund established through ANPAL- the National Agency for Active Labor Policies-, and the training took place during the working hours (Banco BPM, 2020d).

The other trainings were paid by a national fund for bank and insurances- 'Fondo Paritetico Interprofessionale Nazionale per la formazione continua nei settori del credito e delle assicurazioni' (Interprofessional Joint Fund for Banks and Insurance) which aims at ensuring employees continuous learning. The latter was created under the agreement of all Italian trade unions in 2008. The fund is funded every year by the Italian banks (FBA 2022)

[9] Meetings took place: 2, 16, 17, 18, 2, 22, 23, 28 and 29 december 2020

Collective representation, information and consultation process

In Banco BPM there are five national trade unions representing its workers: OO.SS. Fabi, First-Cisl, Fisac-CGIL, Uilca e Unisin Falcri-Silcea-Sinfub. The five trade unions in the bank represent over 90% of the employees. The national agreements define the basic rights of the workers in the restructuring event; however, a negotiation was necessary to agree on the economic conditions and the recognition of the additional benefits (i.e., scholarships for the workers' children).

The trade unions have worked together to reach an agreement with the bank. Both interviewees, the trade union representative and the ex-employee, describe the unions as working together, even if they were different trade unions: they all made the negotiation as a united group. Compared to previous restructurings, unions have managed to improve workers' exit conditions. This is also confirmed by the ex-employee, who expressed satisfaction with the trade unions' work for the restructuring process. Moreover, according to the employee representative, most employees were happy with the conditions of the pre-retirement and only in very few cases the company had informal calls with employees to convince them. Restructuring has been so frequent that employees were waiting for the company announcement and welcomed it, because the economic conditions offered for pre-departures were considered even better the conditions for retirement; this also explains the high request for dismissal, even higher than the one the company had originally considered.

Employees in the sector as well as the leaving employees are generally well covered by a strong national legislation. The employee protection comes mainly from:

- Fondo per l'Occupazione (FOC), a fund to sustain occupation signed at the national level in 2015 and further modified in 2018 (ABI, 2018).
- The Solidarity Fund ('The Solidarity Fund for professional reconversion and retraining, to support the employment and income of credit personnel') is a fund which provides a range of benefits to workers in the banking sector:
    1. The ordinary benefits are used to finance trainings and to give an income support to workers who get their working hours reduced and have a temporary work suspension.
    2. The emergency benefits are supplementary funds to finance unemployment benefits.
    3. The extraordinary benefits are to pay extraordinary allowance in exit facilitation processes (INPS, 2022).

Support to affected workers

The agreement was reached on the 29 December 2021 between the bank representatives and the trade unions. The agreement involved 1,500 job cuts, which are all voluntary exits of people close to the retirement and which will also be partially rebalanced by the hiring of 750 new employees in the following 3 years.

The leaving employees were offered, based on a voluntary request:

- 'Fondo di Solidarietá' (Solidarity fund), available to a maximum of 1,200 employees leaving. The employees retiring in advance receive 85% of their last month of salary, in addition the remaining pension payments, medical insurance and other additional benefits (i.e., the remaining days of leave and funding for university studies of employee's children).

- 'Quota 100' (a national regulation which reduces the years before going to pension) for a maximum of 300 employees. An additional economic incentive is given based on the remaining time before reaching retirement (age or minimum years of job required), according to the following table.

Table 3 – Quota 100 economic incentive

Month remaining to retirement	Economic incentive to voluntary exit
7-12 months	2 months of salary
13-18 months	4 months of salary
More than 18 months	6 months of salary

Source: BANCO BPM (2020a)

Restructuring outcomes

The request for the 'Solidarity fund' exceeded the 1,200 originally planned (2,277 requests) and the ones for 'Quota 100' were within the target (266 compared to 300 planned). Therefore, more employees than the 1,500 originally planned have agreed to leave. In the end, 1,607 employees were granted the 'Solidarity fund' and 'Quota 100'. Most of the requests for early requirement came more from the branches than from the central office, with no significant difference among job roles or tasks. The ex-employee justified his choice of early retirement with the good economic conditions of the agreement and the limited career possibilities due to his advanced age, and this is likely to be the motivation for many other leaving employees.

Since the employees leaving were more than planned in the original agreement, a new negotiation took place, five months after the initial agreement, and the company decided to hire, in addition to the original 750, 54 new people. The exact number comes from the idea to keep the balance of 2:1, for two old people leaving a new person had to be hired, as it was in the original agreement. Union representative Minzon pointed out that the ratio of the change has been different from the past, where the balance was 3:1. She also explained that currently the newcomers do not have the opportunity to perform all tasks and perfectly substitute the employees leaving. Nowadays regulatory requirements require higher educational requirements and set specific limits in terms of responsibility the newcomer can take, such as the possibility to sign certain documents. This makes the integration of the new employees much longer.

Trade unions expressed satisfaction for the final outcome of the restructuring:

"Given the initial conditions, we are satisfied with the results achieved, even though we would have preferred to have all the applications received accepted, but we realise that this would have led to substantial provisions in the budget."

FISAC-CGIL (2021)

To conclude, the company has been succeeding in reducing its costs, both physical and in terms of human capital, and the employees received good conditions to retire.

Conclusions

The Italian banking sector has been shrinking over the last years, due to lower profits and high costs. The digitalisation has given the opportunity to cut costs, by removing employees and the physical structures, and to increase bank profits, by segmenting consumers and targeting the most profitable ones. Digital payments have been the most widespread and tangible change of the digitalisation, but internal processes have also been modified. Fintechs have been facilitating these processes and have been partners rather than competitors for the Italian banks.

The banking workforce has also been changing, with a significant increase in the average age. This was due to the fact that the number of older employees has remined roughly constant, while the younger employees have been reducing. Early retirement in some banks has led to this age increase because, in addition to people leaving, for regeneration renewal reasons, there is in parallel a number of new hiring but the new hiring do not compensate for the leavers.

The restructuring of Banco BPM discussed in this study also reflects the national processes just described: digitalisation and generational renewal. However, the restructuring has also been driven by the cost reduction and some other organisational adjustments still needed from the merge in 2017. Since the Italian sector is highly regulated and has in place a set of measures and funds, the agreement between parties led to very fair conditions both for the employees and for the bank. If the current condition remains, the bank is likely to continue to diminish its size and to continue restructuring for a few years.

The way the process has been handled can be an example for other companies, as there was a strong dialogue between the trade unions and the company which had a win-win outcome. However, questions about the future of the bank and of the sector more generally might radically change these early-retirement schemes from how we currently know them.

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List of interviewees

Name and Surname(s)	Position
Massimo Beccalli	Ex-branch manager Banco BPM
Guerino Ardizzi	Expert in digitalisation of payment services
Paola Minzon	Employee representative from trade union

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