KBW Digital Disruption Event

Technology drives banking: Towards a client-centric and efficient digital advisory bank

Jörg Oliveri del Castillo-Schulz, Frankfurt, 24 May 2022

Commerzbank AG, Jörg Oliveri del Castillo-Schulz COO

Curriculum Vitae

Dr. Jörg Oliveri del Castillo-Schulz

Chief Operating Officer

Professional Experiences (recent)

2010 – 2013	**Deutsche Bank AG, London** Global Chief Operating Officer, Global Technology & Operations
2014 – 2015	**Roland Berger Strategy Consultants, Frankfurt/Main** Senior Partner, Financial Services Competence Center and Global Head of Business Transformation
2016 – 2020	**IKB Deutsche Industriebank AG, Düsseldorf** Member of the Board of Managing Directors; Chief Operating Officer and Chief HR Officer
Since 10/2021	**Member of the Board of Managing Directors / COO** Commerzbank AG, Frankfurt/Main

**Academic Background**

1989 – 1990	**Master of Business Administration (MBA)** Edinburgh University Management School (EUMS), UK
1990 – 1993	**Ph.D. in Business Studies** University of Edinburgh, UK

COO contributes to goals of Strategy 2024 by targeting four key levers

Strategy 2024

Capital Markets Day
11 February 2021

Excerpt of relevant KPIs:

YE 2021:
70% private digital banking users
Target 2024: 73%
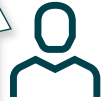
YE 2021:
20 % IT capacity in nearshore loc.
Target 2024: 26%

YE 2021: 580 net-FTE reduction in operations & head office (vs. YE 2020)
Target 2024: 3.100

Customer Centricity
Delivery of digital functionalities aligned with customer needs

Efficient Organization
COO organization enables us to become more customer-centric and cost-efficient

Modern Technology
In order to reduce run cost & legacy as well as to improve software development, we are investing in our technology base

Innovation
Utilizing new technologies and Fintech-partnerships to improve existing business models & enable new ones

Technology drives banking: COO is key enabler for Commerzbank's transformation to THE digital advisory bank

Improvement in mobile key to strategic transformation – reducing cost-to-serve and driving revenue

2021: Key figures and feedback mobile app

- **Commerzbank App** is essential in serving our customers in **a cost-efficient manner**
- Importance as **customer channel** (along with Online Banking) has increased due to **reduction of branches**
- Continuously **upgraded with customer-centric features** – highly positive feedback:
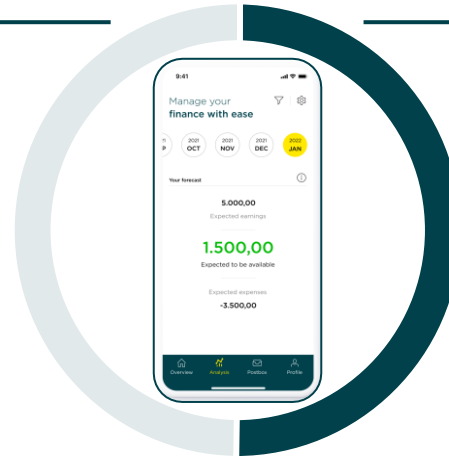
+9% active users

77% of all logins via app

+28% SEPA transfers via app

4.7/5

4.7/5

DEUTSCHLAND TEST
EINE MARKE VON
MONEY
SICHERSTES
ONLINE- & MOBILE BANKING
1. PLATZ

Outlook 2022

Cost-to-serve

Service: rollout of additional in-app self-service features incentivises customers to use digital channels and allows to shrink operational cost

Revenue

Distribution: expansion to full distribution channel continues, digital products generate revenues with lower input cost

Customer loyalty

Experience: advanced **digital features** further improve customer loyalty and share of wallet

Q1/22 launches include:

Money mate (online)

Installment loans via app

Account opening via app

Outstanding customer experience in our mobile app enhances customer loyalty – 70% of all retail banking customers already use digital channels

Remote advisory centers: Providing high-quality services for private customers through cost-efficient distribution

Roadmap remote advisory centers

Q4 2021

End 2022

Until end 2024

Remote advisory pilot

- **3 established centers**
- Start **fast lane** for premium clients

Remote advisory centers

- **12 locations** across Germany
- **Transition of further customers and staff** between 09/22 and 11/22

Finalisation of vision

- **Full service** offering of a direct bank with **personal advice via phone and video for all private customers**

~850k customers onboarded

~88% availability

Net Promoter Score in line with branches

COO drives transition via process streamlining and provisioning of IT infrastructure for remote advisory centers

Germany's first true direct bank for corporates leads to significant decrease in cost-to-serve

- **7,000 clients** with **low personal advisory demand**
- **Digital** coverage with **lean product offering**
- **Efficient** coverage**: Higher load ratios** and **centralized salesforce**
- **Empowered** through sales analytics
- **Synergies** with Small Business Customer segment

Already 3.000 customers in transition

2021

FX Live Trader gone mobile

Self-service platform established

Centralized support tested with 1,000 clients

2022

Standardized account models implemented

2/3 of dedicated product offering digitized

Start of centralized support for 7,000 clients

COO drives transition via process streamlining and provisioning of IT infrastructure for direct bank for corporates

Delivery Organisation enables us to simultaneously become more customer-centric and cost-efficient

Organisational change

Pre Digitalisation

Traditional **application-domain-based** model with some agile adoption

Pilot programs

Small digital "labs"; rest of technology organisation stays conventional

Digital Factory

Separately working **digital product teams** and **conventional technology teams**

Integrated digital delivery model

Digital product teams fully integrated in the organisation

Delivery Organisation

Ongoing development of the Delivery Organisation

Before Commerzbank 4.0

2016

Campus 1.0

Digital Campus

2017

Since 2019

Advantages

- **Increasing efficiency** of **IT run and change**
- **Transforming** the **business model**
- **Modernising IT platform** and services
- **Providing superior customer experience**

Our nearshore IT locations as significant cost saving levers and modern employers in their region

Development of nearshore IT capabilities (FTE)

Legend:
- Sofia
- Lodz
- Prague

+ ~1.250

~1.600

~1.200

~350

April 2019   Q1 2022   2024
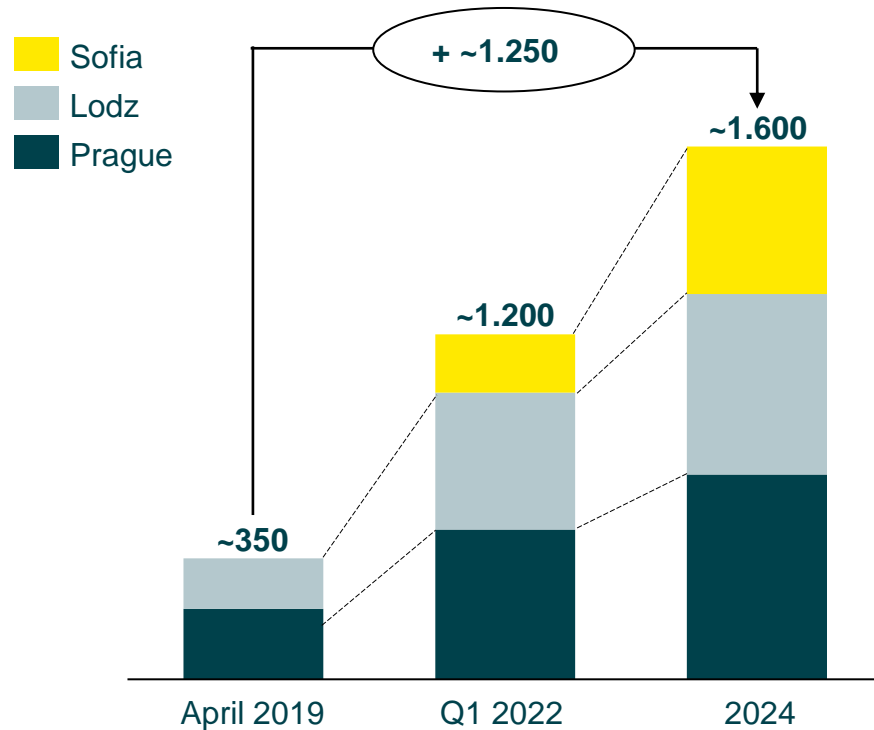
Benefits of nearshore strategy

+ **Avoid** too high and thus inefficient **share of contractors**

+ **Lower personnel & run costs** compared to Germany

+ Access to resource markets with **current technology skills**

+ Long-term **development of internal know-how** for the development and operation of applications

Our nearshore locations are progressing well through continuous adaption of initiated measures

Digital Markets is major use case for simplification and modernization of IT architecture

Simplification

- Primary Target is to **simplify our IT application landscape** for the Capital Markets and Treasury Business

- As a matter of focus, interim target is to consolidate eight position keeping systems to a **"2+1 stack"** model (Murex & Summit + Apex)

- As a further goal, **modernization** of our **IT architecture** based on Commerzbank's digital strategy (e.g. leverage cloud based services) and **reduction of fragmented system landscape**

Use Case Digital Markets Target Picture

- Moving towards a modular and cost-efficient platform for a key business, demanding **automated pricing capabilities** across asset classes

- **Reduction of IT applications** by **40%** until 2024

- **Direct cost decrease of EUR ~50 mio. p. a. by 2024** across all involved functions as a result of simplified and digitalised processes

Our Successes in Digital Markets

- Since 2020, **56 IT-applications** were deleted

- Further **FTE-Savings** will come on top

- **10** further applications currently in the **process of deletion**

- We offer our clients **new direct solutions** such as Automated Pricing and FX Live Trader Web

Simplification is an excellent instrument to reduce run cost by targeting legacy and license cost

In order to increase our speed in developing new software, we are investing in our technology base

Faster software development (illustrative)

CI/CD[1] stands for **continuous integration and continuous delivery / deployment**.
CI is a modern software development practice in which incremental code changes are made frequently and reliably. CD means that changes to software can be deployed quickly

Accelerate software development by up to 80%

Customer demand
E.g. Opening of a new account type

CODE
PLAN
BUILD
RELEASE
DEPLOY
OPERATE
TEST
MONITOR
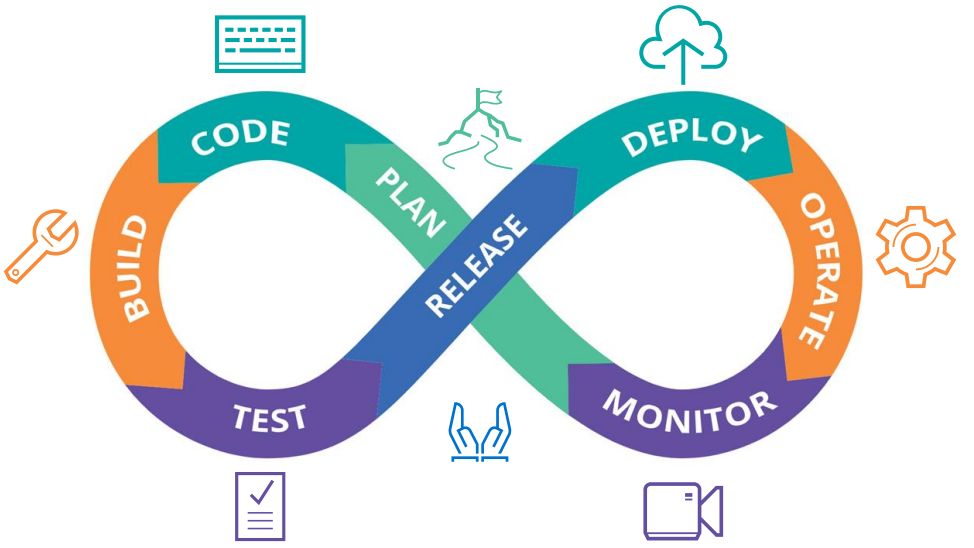
Customer satisfaction
Opening of new account type is available

Benefits

CI/CD Development process …

… **meets compliance standards automatically (compliance as code)**

… **responds to customer needs in a timely manner**

… **is significantly more time- and cost-efficient**

Interplay of tech enablers such as CI/CD, Cloud, API[2] and RPA[3] is essential for a future-oriented technology base[4]

Robotic Process Automation with high efficiency impact on our processes

Bridge technology Smart Automation

Best alternative to IT-projects for **efficiency, quality, speed and relieving employee workload**

>130 processes **implemented**
at Commerzbank AG and Delivery Centers

After successful PoV 2016

2017

Start of Center of Competence Smart Automation

In April 2022 first time

>110.000

transactions processed daily, tendency increasing

~650 FTE-equivalent savings already **realized**

Benchmark*
„Among Most Advanced Companies – Top 7%"

* Worldwide RPA Benchmark of Information Service Group 04/2020 (N=348)

KYC-Process (Corporate Clients)

Dispatch & Preparation   **Filling & Investigation**   **Evaluation & Transmission**

CoBee

Processing time   **4 hours** → **45-60 minutes**

Cloud increases flexibility, contributes to overall bank efficiency, and is key enabler for digitization
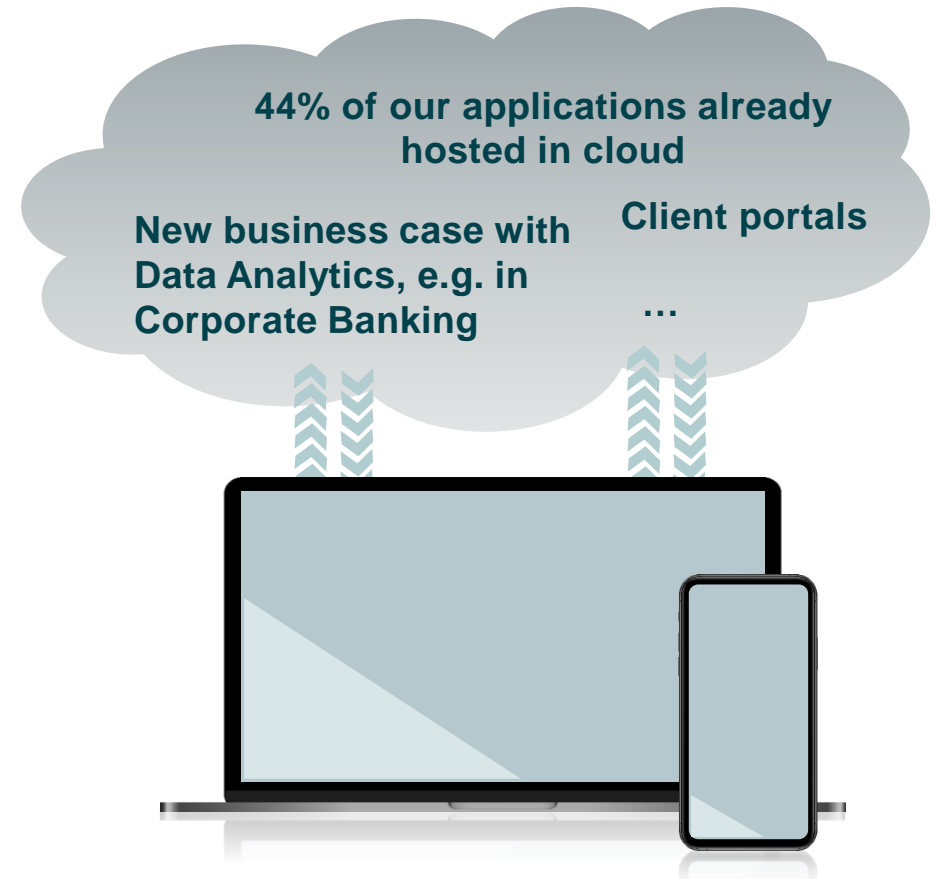
Cloud is the future way to do IT

> Cloud computing **means storing and accessing data and programs** over the internet instead of your computer's hard drive

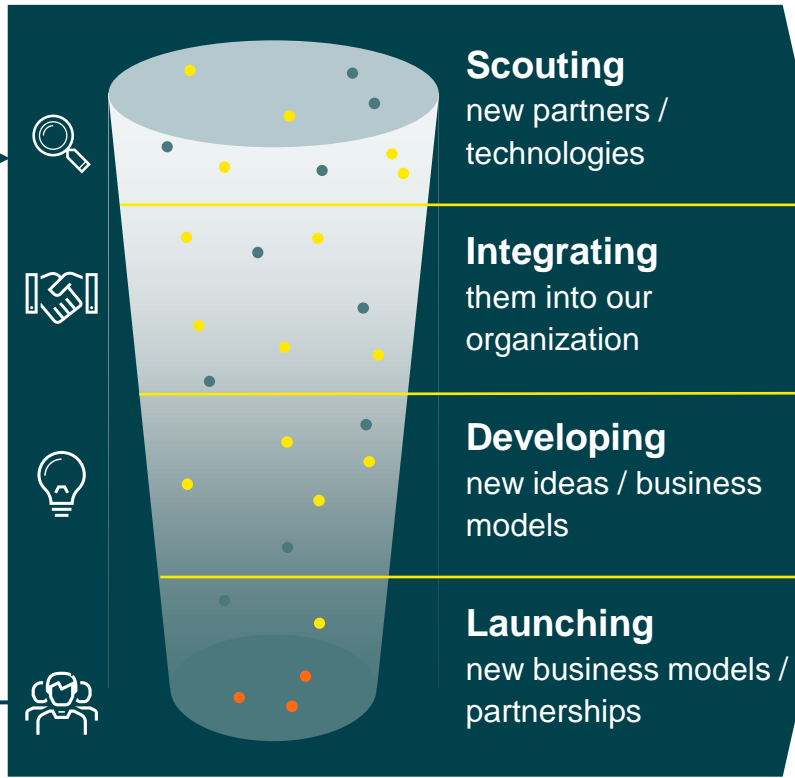|	
1. Business software will be cloud-based	SAP Office 365 ...
2. Access to new IT resources	Qualified IT-resources Latest developer tools
3. Security standards and flexibility	Highest security standards High scalability and cost elasticity
4. Innovation for digital business models	AI-based solutions Blockchain / DLT-solutions Ecosystem-integration

We have already achieved following cloud-based use cases

44% of our applications already hosted in cloud

New business case with Data Analytics, e.g. in Corporate Banking

Client portals

…

Enhancing innovation funnel with external partners enables delivery of cutting-edge products and services

Innovation funnel

Customer feedback

Scouting new partners / technologies

Integrating them into our organization

Developing new ideas / business models

Launching new business models / partnerships

Innovations: ● Internal ● External ● Launched

Description

- Constant **monitoring** of **fintech market**
- **Partnering** with **suitable fintechs** via neosfer & CommerzVentures or other partnership models

- **Fostering know-how exchange** between partners and our organization

- Jointly **developing** new **ideas** and **business models**
- **Providing** teams with **CBK resources** to push them to the next level

- **Launching** new **business model** within Commerzbank product **portfolio**

Use Case „hi!stocks"

> **Social trading** combines social networking with the trading of securities and is intended to inspire more people for trading
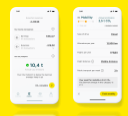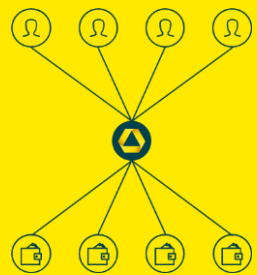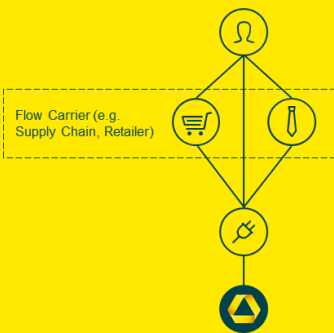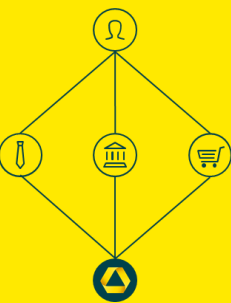
- **Q1/21** Research for social trading fintechs and comparison of providers

  StockRepublic identified as suitable partner

- **Q2/21** comdirect initiates white label social trading partnership with StockRepublic

  Neosfer invested into StockRepublic

- **Q3-4/21** comdirect initiates pilot for hi!stocks

  Internal testing with CBK volunteers; Continuous development

- **Q2/22** Go live hi!stocks

  Quickly gaining traction, substantial user growth

Combining external and internal innovation is key to making our customers happy by providing them with new products, features and services

In addition, we act as an active player in Open Banking business models…

Open Banking business models – active and ongoing approaches/initiatives of Commerzbank

Platform Banking	Embedded Finance	Banking as a Service	Digital Ecosystem
Commerzbank Banking App offers integrated CO_2 calculator	Corporate clients simplify their processes by integrating the Corporate payments API	Securities API connection allows Wealthpilot to directly integrate securities data into client offers	Marco Polo offers clients a complete digital trade finance experience

Flow Carrier (e.g. Supply Chain, Retailer)

Operator

Degree of opening the business model

API as prerequisite for Open Banking – Open architecture or flexible infrastructure for business model implementation required

CBK   Customer   Product   Data   Bank   FinTech   Financial 3rd party   Non-financial 3rd party   Embedder
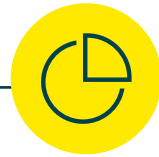
...and also develop Distributed Ledger Technology use cases in 4 areas

Commerzbank's current DLT initiatives (selection)

DIGITAL ASSETS

Evaluate opportunities for products and services for our clients in the field of digital assets – one of the first German banks to apply for **crypto-custody license**

DIGITAL IDENTITY

**Lissi:** DLT based self-sovereign ID Mgmt. platform & network in Germany (ID union), internal use cases

DIGITAL MONEY

Themis: ERP-integrated platform for automized order-to-invoice management incl. cash settlement on DLT with BASF and Evonik

TRADE FINANCE

Marco Polo: Trade network providing transparency in trade processes and access to risk mitigation and financing offers (in production since 2021)
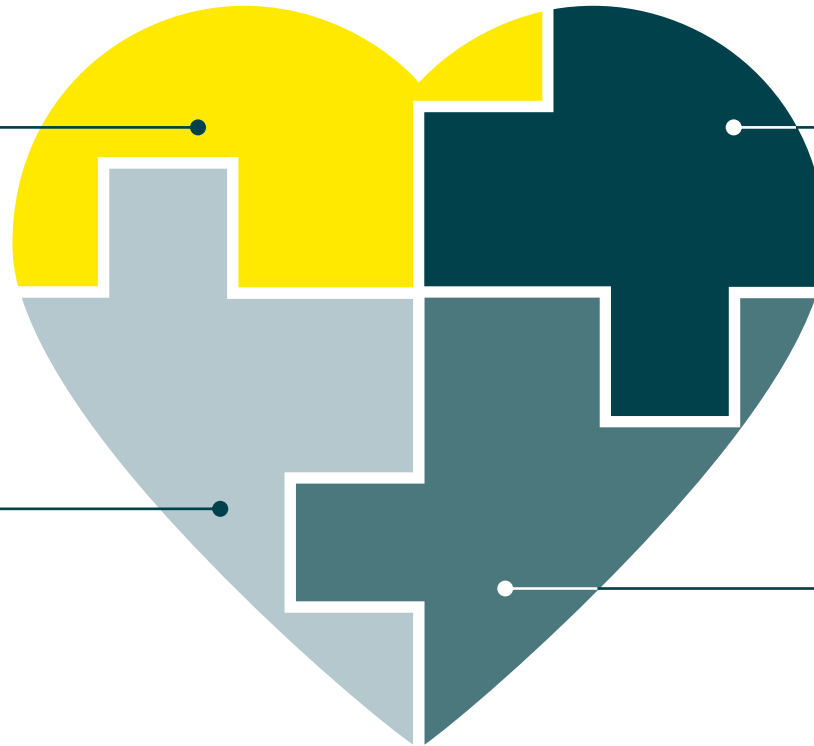
Summary

We as Commerzbank…

Customer Centricity

… want to become the **digital advisory bank for Germany** and make **banking easier**, **faster, more intuitive for** our customer

Efficient Organization

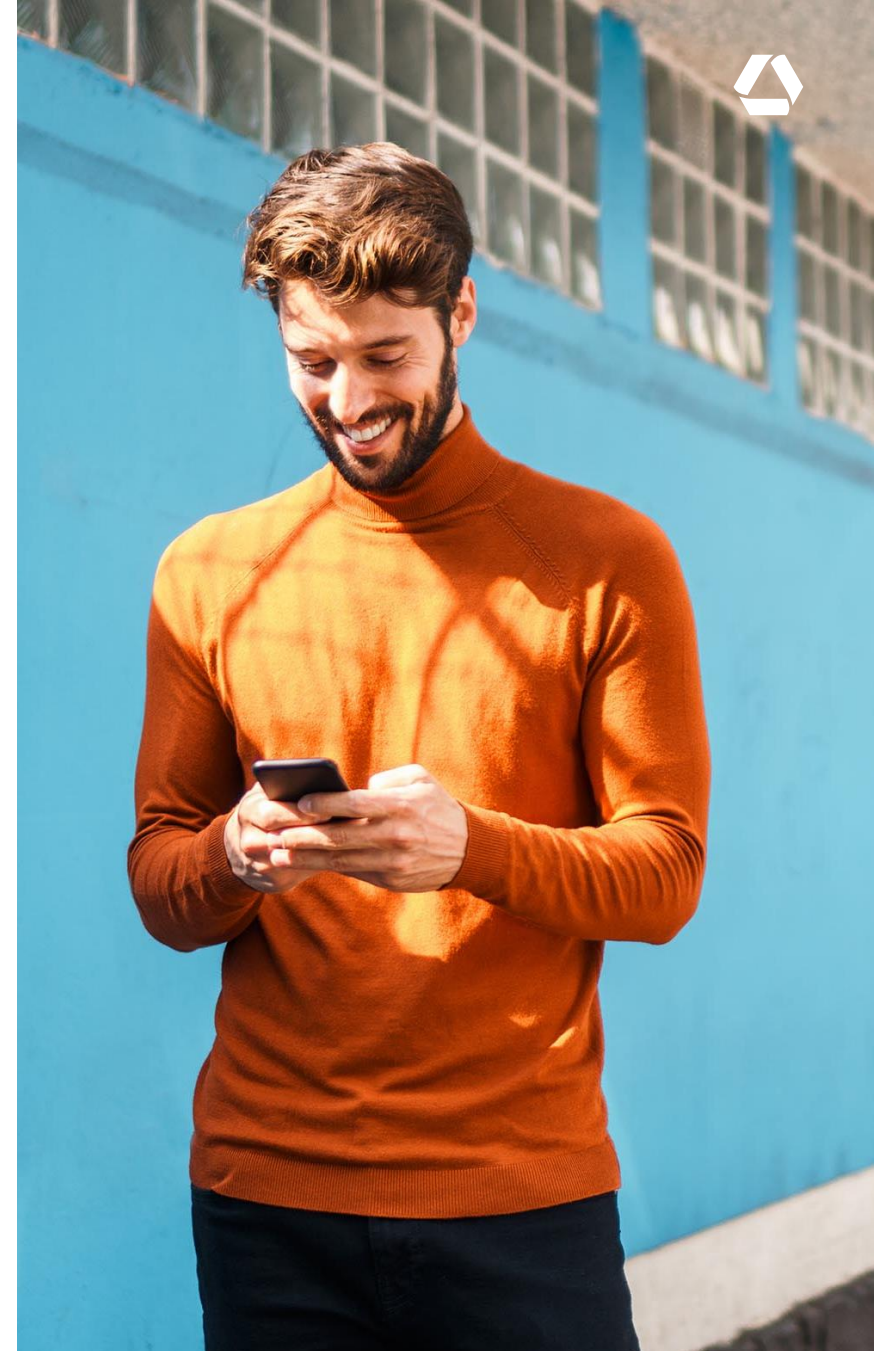… make **technology** the **driver of** our business

Modern Technology

… make the **bank more efficient** and **more cost-effective**

Innovation

… **innovate sustainably**