



## Best in Italy

### Banca Intesa



Stefano Calderano, Banca Intesa

> Milan-based Banca Intesa sold €6.6 billion of structured bonds in 2004 and generated €217 million in revenue from the sale of such products in the past year alone. It also sold €4.1 billion of structured bonds in the first three-quarters of this year. While such volumes are staggering and no doubt part of its success, it is Banca Intesa's introduction of innovative products and its move towards self-regulation by increasing its level of transparency that has put elevated it to this year's number-one spot.

Following the mis-selling scandals that hit Italy in previous years, the bank has been rigorous in its approach to transparency. It is also worth noting that this has been part of an internal initiative rather than one that was prompted by the regulator.

Banca Intesa improved levels of transparency by listing its first two structured bonds on the Italian Stock Exchange in February 2004 while offering daily market marking. "We now list all our products on the Italian Stock Exchange to make prices on the secondary market more transparent," says Milan-based Stefano Calderano, retail marketing director at Banca Intesa. In fact, it is the only Italian bank that can guarantee a liquid secondary market for its products.

Banca Intesa also received a certification for compliance from the Italian Banking Association (ABI) as part of the "Patti Chiari" project in early 2004. This was designed to improve the relationship between banks and their customers by promoting the values of clarity, comprehensibility and transparency. As part of its own initiative, Banca Intesa reformatted its marketing material and introduced a glossary of financial terms for all its structured product offerings. It also increased training of its sales force across its 2,000 branch networks. On this front, it was way ahead of its competition.

While Banca Intesa has been astute enough to enforce compliance boundaries without so much as a nudge from the regulator, it has had to contend with more stringent requirements on the product development side. As a result of Italy's mis-selling scandal, the Italian regulator (ConsoB) and Banca d'Italia have regulated product design by enforcing an unwritten rule that structured bonds must offer a minimum coupon of 1% per annum. The pressure to include both the costs of capital protection and the additional 1% minimum coupon has unwittingly forced the market to create ever more complex products.

Banca Intesa however, has managed to make the figures work while staying loyal to simplicity. "By offering a zero-coupon bond structure with our commission fees embedded in the price of the capital protection, we have made the structures cost-efficient while hiding nothing," says Milan-based Anna Viviani, head of retail capital markets at Banca Intesa.

The bank's indicative commission rates, which are typically around 3.5% depending on the product's maturity, is openly disclosed to the customer, Viviani says. This (commission disclosure) is something that is not required by law but is nonetheless disclosed by the bank in the interest of transparency, she adds.

In terms of innovation, last September the bank launched Europlus, the country's first hybrid structured product. The five-year capital-protected product, which sold a total of €43 million, is linked to three international equity indexes (Nikkei, DJ Eurostoxx 50 and S&P 500) and the interest rate market (Euribor). The interest rate component is linked to an annual coupon which pays out the 12-month Euribor rate plus 1%, which is exercised when all the indexes quote over 90% of the strike price. The first coupon, which was exercised in September 2005, paid out 3.4%.

#### Why Banca Intesa won

In the absence of any formal regulations covering better investor education and improved risk warnings following Italy's mis-selling scandal, Banca Intesa was one of the first structured product providers to increase its levels of transparency and disclosure through a process of self-regulation. And in an environment that has been bogged down by complex products in an effort to chase better pricing terms, Banca Intesa has been able to accomplish its aims by remaining simple yet innovative.