



Has the Italian Banking Association (A.B.I.) Contributed to Financial Sector Development in Italy?

Review of Its Functions and Structures and
Their Recent Development

Report prepared for Convergence,
A program sponsored by the World Bank and
Supported with a grant from the Italian Ministry of Economy

Prof. Francesco Cesarini

December 2005

Francesco Cesarini is Professor of Banking at the Banking, Financial and Insurance Sciences Faculty of the Catholic University in Milan (Italy).

He has written extensively on institutional and organizational aspects of the Italian banking system and on securities markets issues. He has recently co-authored a book on investment funds and edited a research on the strategies of large banks in Europe.

His banking experience includes the following assignments: Chairman of Banca Agricola Milanese (1986-1994); Vice-President (1993-1995) and President (1996-1997) of the Italian Stock Exchange Council; President of Banca Popolare di Milano (1994-1997), of Banco Ambrosiano Veneto (1998-2000) and Unicredit (2001-2002). He has been Chairman of E-Mid (the European interbank deposit trading platform) since 1999.

His other professional experiences are in the field of research and consultancy for financial intermediaries.

Index

Preface	by Luigi Passamonti, “Convergence” Program, World Bank	7
Foreword	by Francesco Cesarini, Università Cattolica di Milano	11
 <i>Part I - A.B.I.'s Traditional Functions and Present-Day Organization</i> 		
1.	A Short Outline of A.B.I. Early Functions and Structures	14
2.	Governance and Funding	19
3.	Technical Commissions and Working Groups: Two-Way Communication with Member Banks	24
 <i>Part II - A.B.I.'s New Business-Like Approach to Bank Problems and to Public-interest Issues</i> 		
1.	The Adoption of Strategic Planning (2000)	33
2.	Activities, Organization and Regulatory Impact Analysis of Policy Options	40
3.	A Quantitative and Qualitative Analysis of A.B.I. Interventions in the Period 1997-2004	61
4.	Some Indications on A.B.I.'s Productivity	69
5.	Some Tentative Conclusions	74
Postface	by Mihai Bogza, former Vice Governor, National Bank of Romania and Senior Advisor (Market Participants) “Convergence” Program	77
Postface	by Shkelqim Cani, former Governor, Bank of Albania and Country Senior Advisor "Convergence" Program	79

Annexes

1. Plan of the Activities Assigned to the Finance Commission for 2006	83
2. List of Products and Activities (outputs) of the Research and Analysis Unit (June 2005)	84
3. Case Study n° 1: Use of Standard Electronic Banking Payment Systems by the Treasury and Local Authorities	105
4. Case Study n° 2: The Role of A.B.I. in the Creation and Management of Credit Bureau	111
5. Case study n° 3: Bankruptcy of Building Contractors: Protection of the Promise Buyer's Rights in the Purchase of Residential Houses	116
6. Case study n° 4: Master Agreements Between ABI and Local Courts in Order to Streamline Real Estate Juridical Sales Procedures and to Fund the Highest Bidder in Auctions	122

List of Tables

Part I

Section 1

Table 1 - A.B.I. Membership as of July 1990	18
Table 2 - A.B.I. Membership as of October 2005	18

Section 2

Table 3 - Main Features of A.B.I. Funding Through Contributions of Member Banks - 2005	22
Table 4 - Evolution of Members' Ordinary Contributions 1997-2004	24

Section 3

Table 5 - Technical Commissions and Working Groups of A.B.I. as of July 2005	25
Table 6 - List of Working Groups Operating Within the Finance Technical Commission (Oct. 2005)	28
Table 7 - A Description of Some Recent Policy Changes Discussed and Acted Upon by the A.B.I. Finance Technical Commission and Some of its Working Groups	30

Part II

Section 1

Table 8 - Description of A.B.I.'s Planning Guidelines Set Out in September 2000. Classification of Each Guideline According to the Number of Actions Planned and to Their Degree of Fulfillment Measured as of June 2002	36
--	----

Table 9 - Regulatory Policy Changes Carried Out 1997-2004	40
---	----

Section 2

Table 10 - A.B.I.'s Main Equity Holdings and Instrumental Entities	43
--	----

Table 11 - Requirements to be Met in the Evaluation for Planning and Control Purposes for a Regulatory Change to be Assigned to A.B.I.'s Initiative	47
---	----

Table 12 - Sample of Policy Changes Currently Underway (2005) - Composition of the Interdisciplinary A.B.I. Team Charged with Dealing with the Correspondent Policy Change Under the Guidance of a Top Officer	48
--	----

Table 13 - Participation of A.B.I. to Parliamentary Hearings in the Period 2004-2005	50
--	----

Table 14 - Main "Counterparts" of A.B.I. 1997-2004	59
--	----

Table 15 - A.B.I.'s 15 Main Counterparts for Policy Changes Classified According to the Frequency of Contacts and to the Position of A.B.I. Officers Usually Involved	61
---	----

Section 3

Table 16 - A.B.I. Interventions for Policy Changes Effected During the Period 1997-2004 Classified by Policy Drivers and According to their Expected Value	65
--	----

Table 17 - Outputs Provided by A.B.I., Other Than Policy Changes	68
--	----

Section 4

Table 18 - Breakdown of Staff Working at A.B.I. and its Entities 1997-2004	71
--	----

Table 19 - Distribution of A.B.I. Personnel According to Functions and Hierarchical Position (1997-2005)	73
--	----

List of Charts

Part II

Section 2

Chart 1 - Organizational Chart of A.B.I. (October 2005)	44
---	----

Chart 2 - Flow Chart of the Steps Required for the Accomplishment of a Regulatory Deal	45
--	----

Chart 3 - Average Length of the Main Steps to Carry Out Policy Changes by "Business Line"	52
---	----

List of Boxes

Part I

Section 2

Box 1 - Differences in Members' Annual Contributions According to Bank Size	21
---	----

Part II

Section 2

Box 2 – Improvement of Treasury and Local Authorities Payment Products	55
Box 3 – Regulatory Impact Assessment of the Introduction of the Privacy Code of Conduct for Credit Bureaus	58

Preface

In developing countries, bankers' associations are not World Bank policy interlocutors. This is not only because authorities are the World Bank's clients. It is also because bankers' associations tend to be seen as an instrument of conservatism, especially when banking systems are concentrated in the hands of powerful shareholders with close links to the political elite.

In sophisticated and competitive markets, however, authorities recognize bankers' associations as full partners. Why? Because they regard their contribution as necessary to shape regulatory changes that improve market performance. Sir Eddie George, the former Bank of England Governor, said: *"We recognized that where intervention was judged to be necessary – in the interest of market transparency or of prudential or behavioral conduct – it needed to be informed by those who properly understood the subtleties of the market, if we were to reduce the risk of unforeseen consequences or unnecessarily obstruct market innovation."*

In situations of rapid institutional change, such as in the European Union with the creation of a Single Financial Market, the role of bankers' associations is even more important. So much so that Jean-Claude Trichet, the ECB President, regularly underlines the responsibility of EU authorities to actually help the private sector to overcome coordination problems so that it can speak and act with a single voice: *"We at the ECB see the fostering of collective action on the part of the private sector to overcome possible coordination problems as a very important contribution by public authorities. The ECB plays this 'catalyst function'."*

As said earlier, the recognition of interdependence between market participants and authorities in market-building activities has yet to emerge in most developing countries. Yet, it is in under-banked countries with rapidly changing market structures where the lack of a coordinated industry voice has the greatest opportunity cost for society.

In these circumstances, a common voice could greatly contribute to designing those micro-reforms that will enable the financial system to meet clients' financial needs efficiently and effectively. Market participants have not only the knowledge but also the incentives to promote market development measures. Authorities of course, need to vet these suggestions against broader public policy goals in the context of a transparent and evidence-based policy formulation debate.

“Convergence” is an innovative financial development program sponsored by the World Bank to promote public-private policy dialogue in South-East Europe. As public-private policy dialogue requires a proper understanding of how private sector views could be credibly formulated, “Convergence” has examined the activities, governance and organizational structure of several EU bankers' associations. It has decided to focus its attention on the experience of the Italian Banking Association (ABI). The rapid changes in market structure of the last decade, the almost complete overhaul of the country's legal and regulatory framework and the need for banks to modernize their practices have offered important opportunities to ABI to play a catalytic role.

This study, undertaken by one of the most senior Italian banking and finance academics with extensive leadership experience at the helm of several private and public institutions, offers a unique insight into the transformation of ABI from a “bankers' luncheon club” into a sophisticated professional organization geared to deliver specific value-added services to its members. In order to safeguard and enhance its long-term credibility, ABI has had to place the views of its membership in the context of the country's stated public policy goals. To be a recognized stakeholder in a complex political process, ABI could indeed not pursue self-serving objectives as advocacy or public representation organizations typically do.

What are the findings of this study that may be relevant for the World Bank Group's financial sector development mandate?

First, to be an accepted and credible dialogue partner with authorities, a bankers' association needs to have adequate governance arrangements in place to act as the legitimate representative of all its members. The question of voice and representation of both large and small banks, together with the question of a fair apportionment of the budget, is key.

Second, sound technical competence and an industry-wide vision are needed. In ABI, policy decisions taken by the Executive Committee are the outcome of a long multi-disciplinary analytical process undertaken by its professional staff functioning as technical secretariat to industry working groups. This participatory process has led to the creation of many market infrastructure elements in Italy: credit bureaus, payment system, equity, bond and inter-bank deposits trading platforms.

Third, extensive data availability on banking micro-structures (product penetration, cost elements, customer satisfaction) are essential to underpin analyses and recommendations.

Combining these three ingredients, a bankers' association that would pro-actively engage with authorities to design market-building measures could become a formidable agent of change. Market incentives could be as powerful a reform driver as financial or political conditionalities have long been.

With this vision in mind, it is conceivable to envisage a possible World Bank Group involvement in promoting the professional upgrade of bankers' associations. This should happen in countries where bankers' associations could play a progressive role in promoting improvements in the regulatory framework and in delivering technical assistance to improve their members' management practices to industry-wide standards.

A capacity building path could start with the build-up of banking sector databases on micro-indicators that are not collected by the Central Bank. A second phase could consist of a comprehensive assessment of micro-regulations that hamper efficient delivery of financial services, including an estimate of their market-enhancing impact if corrected. A third phase could involve the preparation of solid position papers on the most important issues identified in order to launch a public discussion before eventual engagement with authorities.

As said above, a critical element of this development path is the establishment of a robust governance framework to ensure that the executive organs base their decisions on the technical recommendations provided by the association's experts in consultation with industry representatives. If authorities perceive that the industry view is based on subjective, unsubstantiated and unrepresentative views of a few powerful members, the dialogue will not flourish. And without a trustful public-private partnership, financial sector development will languish.

It is my personal hope that this study will provide inspiration to financial industry leaders and authorities in the countries of South-East Europe to work together, using a common analytical language and reinforcing each others' actions. Building economic prosperity and social fairness is a complex matter. Authoritative and public-minded bankers' associations could be a powerful engine for change. Many improvements, which are difficult to be dealt with at a national level, could actually be made easier by adopting approaches and guidelines applied in neighboring and other EU countries. Within its regional mandate, "Convergence" will be delighted to help authorities and market participants engage on this path, if this can be beneficial to society at large.

Luigi Passamonti

Founder, "Convergence" Program and Senior Advisor, World Bank
Washington DC, December 2005

Foreword

The research, which is aimed at highlighting the activities and the changing operational approach of the Italian Bankers Association in recent years, could not be conducted (and perhaps not even be conceived) without the attitude to full disclosure and the whole-hearted cooperation of the Association. A deep insight of A.B.I.'s way of developing its various roles has been allowed to the entire research team through preliminary, lengthy and highly interesting questioning of A.B.I. top representatives: the Chairman Mr. Maurizio Sella and the General Manager Mr. Giuseppe Zadra and some of their closest collaborators. Many departments of A.B.I. have provided the research team with detailed information and material, with the intelligent guidance of the Secretary General Mr. Federico Pascucci.

Special thanks are to be extended to Mr. Riccardo Brogi (A.B.I.), who provided the author with material and information, participated to all the meetings of the research group and read the different parts of the paper as soon as they were drafted, and to Mr. Gherardo Vivarelli (World Bank), who underwent the hard and time-consuming work of preparing the tables analyzed in Sections 3 and 4 of Part II and drafted the case studies and the list of "outputs" of the Research and Analysis Unit presented in the Annex. A small group of highly experienced foreign former central bankers forming the initial team of Convergence offered precious advice both in designing the research and in reading early versions of the manuscript or of its parts. To all of them my most sincere gratitude. It goes without saying, however, that the responsibility for the opinions expressed and for any mistake is exclusively of the Author.

The paper is divided in 2 parts and 8 Sections and is completed by 5 Annexes.

The first part provides essential information both on A.B.I. history and on its present-day organization and traditional functions. After a short outline of the origin and the early functions of A.B.I. and of its membership (Sec. 1), the crucial topic of the organization and funding is examined (Sec. 2) together with the democratic, efficient and cost - effective structures aimed at timely focusing, discussing and solving current and future problems of the banking industry: an organizational scheme which involves the responsible cooperation of a large number of top officers and experts of member banks (Sec. 3).

The second part describes and comments on the new business-like approach to bank problems and to public interest issues that A.B.I. has adopted some years ago and has consistently developed afterwards.

Consequently Sec. 1 examines in depth what may be termed the turning point of A.B.I., occurred in 1998/1999, which brought to the adoption of organizational, planning and control techniques which are more typical of economic activities conducted by companies than of the traditional functions of trade associations. The section mentions, in particular, although in an abridged form, the whole of the planning guidelines set out in September 2000 and the degree of accomplishment of 86 actual planning actions as it was measured two years later. As a follow up to such analysis, attention is devoted, in Sec. 2, to the production process prevalently adopted in A.B.I. and particularly to the methods it follows in assessing the regulatory impact of policy options.

Sec. 3 and 4 mainly deal with the relationships that A.B.I. has developed since 1997 with policy-makers and other counterparties and they offer at the same time an original detailed quantitative analysis not only of the main areas in which such cooperation took place, but also of the methods and of the team efforts it required. In addition they provide several examples, more analytically presented in the Annex, of how the activity of A.B.I., while obviously

safeguarding the interests of the banking industry, was construed in order to bring the efficiency of the financial system and of the entire economic environment to higher levels. They also develop some considerations on A.B.I.'s productivity which are based on the statistical material previously examined and on indications on staff composition in the years under review.

Sec. 5 concludes by trying to highlight the strong points which led A.B.I. to its present remarkably prominent position in the debate and in the workings on economic matters and financial reforms. A.B.I., however, did not completely avoid some shortcomings and the unfavorable effects on its reputation stemming from the failure of some important companies and the behavior of some of its members.

Francesco Cesarini
Professor in Banking
Università Cattolica di Milano

Part I - A.B.I.'s Traditional Functions and Present Day Organization

1. A Short Outline of A.B.I. Early Functions and Structures

The Italian Banking Association (A.B.I.) has a long and rather complex history which dates back to 1919 when the post-war problems showed clearly the need for a stricter cooperation of banks (especially the largest ones) with the government, with the bank of issue (Banca d'Italia) and among themselves.

But A.B.I. is by no means the most ancient Italian banking association. The association of cooperative banks (*banche popolari*) and the association of rural credit unions (*casse rurali*) were formed several years before - in 1876 and in 1887, respectively - while the federation of savings banks (*casse di risparmio*) was created in 1912. Their principal aim was to further increase the number of banks operating according to the social goals and to the juridical structure of their category, the members of which were already numerous and mostly small in size and local in scope, and to strengthen their organization through reciprocal links and common structures. Their internal organization was in keeping with their origin and consequently was largely democratic in the choice of the members of administrative bodies; their influence was rather important at the political level, on account of the large number of persons involved as members or customers of the cooperative banks and of the public nature of savings banks, but rather marginal in respect of the aggregate economic and financial system. Several years later, other banking associations (such as Assbank, the association of private banks, Assireme, the association of medium-term credit institutions, etc.) were formed, each one operating to foster the common interests of the banks belonging to the same category.

Since its inception A.B.I. pursued different and more ambitious objectives. In fact, the initiative for its creation was taken by the four largest banks of the time - all of them private in nature - as a follow up to their contacts with Banca d'Italia and the government before and during World War I in order to deal smoothly with problems arising from the war itself and from the post-war need for the reconversion of industries. The membership of A.B.I. was open also to middle-sized banks, private bankers and *banche popolari* and was compatible with being also a member of a category association since many problems were common and there emerged a need to strengthen functional and organizational links among all types of banks and to take uniform positions in their relationships with government authorities.

A distinctive feature of A.B.I.'s activity during its very first years was to establish an agreement fixing limits to interest rates and other economic conditions of deposit and lending operations. The initial agreement, aimed at reducing competitive pressures, was welcomed and possibly encouraged by both government and Banca d'Italia, gradually obtained a large support, was subsequently made binding on member banks and, at a later stage (1936), was even included in banking legislation and enforced, at least nominally, through control and sanctioning powers entrusted to Banca d'Italia and to A.B.I. itself. The "cartel", as it became known, persisted well over the Fifties after having been considered for several years as a sort of behavioral guideline for banks.

Mention should be made of the fact that A.B.I. confirmed its representative role of the whole banking system (or at least of its most important sectors) also by creating an internal division charged with collective bargaining of employment contracts on behalf of its members. A.B.I. also began promptly to collect statistical data, to publish a review on banking problems which gained the attention and the cooperation of some prominent economists and to lay down common technical, juridical and behavioral rules on several specific aspects of banking activity to be followed by its members.

Apart from the repercussions on its organization caused by political events, the evolution of A.B.I. in the Thirties was affected by changes in financial regulation. Its role of representative body of the banking system as a whole and its proximity to Banca d'Italia and to the government gave A.B.I. the opportunity of contributing, although possibly in a marginal way, to the preparation of the Banking Laws of 1926 and of 1936; more substantial and far - reaching has been A.B.I.'s role in all major pieces of banking legislation and regulation issued after the end of World War II when A.B.I. resumed its original organizational structure, reached a very high reputation in economic and political circles and was consequently formally or informally involved or consulted in most regulatory and legislative actions as well as in matters affecting the Italian economy at large (such as the reform of tax laws and company legislation).

In recent years the activity and the structure of A.B.I. closely reflected the evolutionary trends and the institutional changes of the financial system: e. g. the privatization and concentration process, the elimination of institutional segmentations in funding and lending, the growth in size and importance of financial markets, the harmonization of bank rules and practices with EU legislation and international standards. On the other hand, changes in Stock exchange regulations and structures, the practical elimination of former bank categories, with the exception of cooperative banks, as well as the very substantial and pervasive role that banking groups have obtained in every branch of financial intermediation, have increased the importance of A.B.I., as well as its responsibilities, in the functioning of the financial system.

A.B.I., in fact, has fostered and accompanied the transformation of Italian banks from mostly public and public-minded institutions to for-profit companies engaged in a vast set of financial services to the economy and operating in an increasingly competitive environment both on the domestic market and in the international arena: an evolution outlined in the Testo Unico Bancario of 1993 (Unified Text of Banking Laws of 1993) and in the Testo Unico della Finanza

of 1998 (Unified Text of Laws on Finance of 1998), to whose organizing principles and guiding lines A.B.I. has contributed mainly by submitting its opinions and the position of the banking industry on specific issues to various *ad hoc* consultative committees at the government, legislative and regulatory level.

At the same time A.B.I. performed a leading role in promoting economic and juridical research on, and in spreading the knowledge of, the main issues involved in the liberalization process that the Italian banking system and the Italian capital markets were undergoing as a result of the enactment of EC directives.

The organization and the objectives of A.B.I. were consequently deeply modified in order to respond to the changing structure of the financial system and to the specific demands of its members but also with a view to promoting a more efficient banking and economic system.

Its position was further strengthened by the delegation received by both banks and savings banks to negotiate and conclude collective agreements with trade unions and the subsequent absorption (1997) of Assicredito, a parallel banking association originally created with the exclusive task of collective bargaining and of assisting member banks in litigations on labor matters.

Also on account of the shrinking of the number of banks belonging to the traditional categories of *casse rurali*, *banche popolari* and special credit institutions, presently A.B.I. may be considered by far the leading banking association, which has close technical and institutional ties with other category and trade associations that continue to perform some residual functions with reference to their original constituencies.

Presently A.B.I. has about 1.000 members as against 1.100 in July 1990, i.e. at the beginning of the liberalization process. As can be seen by comparing Table 1 and Table 2, the composition of its membership has radically changed in the time interval considered. There remains but one public bank, a sizable number of banks and financial institutions are part of groups controlled by another bank or, more rarely, by an insurance company, while branches of foreign banks and domestic banks controlled by foreign entities have grown in number and importance. Finally the fact that 13 category and trade associations are members confirms the above mentioned opinion that A.B.I. is fully representative of the Italian financial industry and thus can speak with a single voice for all of its sectors.

Table 1 - A.B.I. Membership as of July 1990

Public law credit institutions	6
Banks of national interest	3
Commercial banks in corporate form	143
Cooperative banks (<i>popolari</i>)	109
Cooperative banks (<i>casse rurali</i>)	469
Savings banks	85
Central credit institutions	7
Medium and long - term credit institutions	92
Finance companies	147
Foreign banks (<i>soci corrispondenti</i>)	36
Ex right members	9
	1.106

Table 2 - A.B.I. Membership as of October 2005

A) Banks in corporate form		218
a) bank holding companies and independent banks	73	
b) banks belonging to banking groups	145	
B) Banks belonging to insurance groups		6
C) Central credit institutions		1
D) Banks belonging to foreign groups		13
E1) Cooperative banks (<i>popolari</i>)		37
E2) Cooperative banks (former <i>casse rurali</i>)		415
F) Public banks		1
Total domestic banks		691
Foreign banks		51
Financial intermediaries		235
a) holding companies or independent	33	
b) belonging to a financial group	202	
Category and trade associations		13
Total full members		990*

* 52 additional financial institutions do not enjoy full membership as they give A.B.I. only the mandate to negotiate collective agreements with trade union organizations.

2. Governance and Funding

Before outlining the macro-organization of A.B.I. and the role of its administrative bodies it is useful to remind that it is broadly based on cooperative principles which are however corrected in order to attribute its largest members a representation less than proportional to their size, as measured by their incidence in total A.B.I. funding, while at the same time correspondingly increasing the representative weight of minor members.

Without entering into unnecessary and intricate details on how each organ is formed, it is worth mentioning that in order to accomplish this equalization objective several important amendments have been made to the rule of proportionality; they can be illustrated with reference to the composition of the Executive Committee, a 30 member organ, by far the most important in A.B.I. administrative structure:

1. Two seats are assigned to cooperative credit banks (*banche di credito cooperativo*) which, although very numerous, (*see Table 2*) account for a small percentage of A.B.I.'s total funding;
2. One seat (or at most two) is given to each large banking group, starting from a threshold the size of which is measured on the basis of the percentage contribution to A.B.I.'s aggregate funding;
3. The remaining member banks are divided into four groups each of which is entitled to the same number of seats; there is an elaborate procedure for actually choosing the candidates and a tacit agreement which tends to insure a turnover within each group.

The above criteria are broadly followed in the composition of the Board of Directors, which is formed by 90 members, usually meets once a year and has the task of outlining the general policy of the association, of endorsing the annual accounts and the budget, of electing every two years the President and four Vice-Presidents (who must be chosen in representation of the four above mentioned size groups) and of designating the General Manager.

The Executive Committee, as already mentioned, is formed by 30 members (who must be either the President or the CEO of the bank or banking group involved), meets at least six times a year (but usually on a regular basis every month) and has very wide powers of ordinary and extraordinary administration. It is chaired by the President and assisted, in the quality of secretary, by the General Manager who governs the entire organizational structure and bears the responsibility, at least from the technical point of view, of all the activities of the association, including those prepared or proposed by the Technical Commissions. He avails himself of the cooperation of the Committee of ABI Area Managers, each of whom heads one or more divisions or departments.

The role of the general assembly does not differ from that of other trade associations. It may be worth mentioning, as it confirms the importance and the quasi-institutional role of A.B.I., that the annual meeting of member banks is usually attended by the Governor of Banca d'Italia and the Minister of the Economy who take the opportunity for delivering addresses in which they often announce general or specific policy measures or macro-economic evaluations.

The by-laws provide that each member casts at least one vote and allow additional votes to each member in proportion to its contribution to the total funding of the association. For deliberations concerning changes in the by-laws and the termination of the association a high attendance *quorum* and a two-thirds voting majority are required.

Strictly connected with its governance structure is the way in which A.B.I. is funded. The general principle is that each member bank must pay each year a minimum fixed contribution to cover ordinary (general) administrative costs and that in addition it must pay special variable fees which are established either in direct proportion to the size of the member bank or to its relative weight in the business lines to which some selected A.B.I. activities are directly or indirectly related. This means that if and when member banks do not avail themselves of

specific services – such is the case, for instance, of *banche di credito cooperativo* which delegate the negotiation of collective agreements with trade unions to their own association – they are not subject to the specific fees involved or are subject to pay only a token contribution; on the other hand, the contribution of the largest members is slightly less than proportional to their size or market share.

The criteria for defining the contribution of members to general costs and the fees due for the different classes of A.B.I. services are established by the Executive Committee according to the budget approved by the Board of Directors, which provides for separate accounting and separate economic coverage of the main activities.

The calculations which are necessary to define the size of each bank or banking group (on a consolidated basis) and its relative weight in each relevant business line are based on actual data (usually pertaining to the preceding financial year) drawn from annual accounts and from other statistical data regularly reported to supervisory authorities and to A.B.I. itself.

To get an idea of how different are the contributions according to the size of the bank involved reference can be made to Box 1, which shows, for instance, that the sums annually paid by mid-sized banks are about 23% of the contribution levied on very large banks.

Very large banks	100
Large banks	70
Mid-size banks	23
Small banks	6
Very small banks	3

To provide further insight of A.B.I. funding mechanisms we outlined, in Table 3, the different types of contribution (and the rationale for their computing) that A.B.I. members were required to pay for 2005.

Table 3
Main Features of A.B.I. Funding Through Contributions of Member Banks – 2005
Ordinary Contributions

A.		Fixed fees	3 size brackets are contemplated
B.		Variable fees	
	B1.	For general activity	3 size brackets based on total assets of each bank in respect of domestic customers less the net interbank position - 2003 year - end data
	B2.	For representation and counsel in trade union negotiations and labor disputes	5 size brackets based on the number of employees of each bank as of 2003 year - end (+ Euro 18 for every employee above 200); levied only on associates which have given A.B.I. the relevant mandate
	B3.	For activities concerning payment systems	3 size brackets based on the average per cent market share of each bank in 4 different types of payment services - quarterly flow data for 2003
	B4.	For activities related to securities markets	3 size brackets based on the compounded average per cent market share of each bank in 4 different groups of transactions or financial contracts related to securities markets - flow or stock figures drawn from 2003 annual accounts

Non Ordinary (special) Contributions

1-	For 5 types of so called "extraordinary" expenses	size brackets as indicated under B1 above
2-	For the activity performed by the Bank Ombudsman	1/3 of the total contribution is to be equally divided, as a fixed fee, among all the banks subscribing the Ombudsman agreement; 2/3 of the total contribution is to be levied , as a variable fee, according to the criteria indicated under B1 above

Source: Minutes of A.B.I. Board of Directors, December 15, 2004

As can be expected, ordinary contributions are mostly made up by variable fees which are levied according to parameters concerning the use of activities, mainly related to the payments

system and to securities markets. On the other hand, fixed fees are set at a low level and are requested each year also from banks – such as branches of foreign banks – which are not required to publish a separate annual report in Italy. Subject to contribution (as a variable fee calculated according to the criteria indicated under B2 in Table 3) are also the companies controlled by member banks which operate in fields directly connected and instrumental to banking activity.

It is useful to add that the total number of A.B.I. employees is currently about 380 (see Section 5 of Part II for further information) and that a certain number of them are exclusively engaged in the support of separate committees or bodies - such as the Ombudsman - performing activities strictly connected with the main functions of A.B.I. or are directly hired by a satellite company, such as A.B.I. Servizi, entrusted with the production and sale of specific services to members and to the general public and managed according to stand-alone economic criteria. About 120 employees are constantly working on external projects, that is to say on outputs which benefit the member banks themselves.

As will be seen in detail later, it is an important accounting rule of A.B.I., and one strictly respected, that each main activity should tend to be in principle self-supporting from the economic point of view and that every new initiative should be previously made the object of a close scrutiny as to its costs and its likely economic results for banks and for the economic system.

The overall economic budget for 2004 provides for ordinary contributions of about euro 30 millions.

It is interesting to note from Table 4, which shows the evolution of members' contribution in the last 8 years, that when A.B.I. began to adopt, as we shall see later, a managerial approach to its

enlarging functions, members' contributions actually declined significantly and that they picked up again when the results of the reorganization began to be felt and appreciated by the members themselves.

Table 4
Evolution of Members' Ordinary Contributions 1997-2004

1997	1998	1999	2000	2001	2002	2003	2004
102,86	97,19	87,25	81,35	81,44	93,73	98,61	100,00

100= contributions in 2004

Total costs for 2004 were composed as follows:

Personnel costs	66.1%
General and administrative expenses	18.7%
Property-related costs	8.3%
Other costs	6.9%
	100.0%

3. Technical Commissions and Working Groups: Two-Way Communication with Member Banks

A very important role in the operational structure of A.B.I. is played by the Technical Commissions and by the Working Groups composed by officers and experts of member banks.

As a matter of fact, these two types of cooperative bodies are the main instruments through which A.B.I. keeps itself continuously in touch with the needs and problems of its members and at the same time gradually builds a large and often unanimous consensus on technically feasible proposals and solutions to problems and issues arising in the different sectors of banking and financial activity.

The materials and documents prepared by the Technical Commissions, upon scrutiny and approval by the A.B.I Area Management Board, form the basis upon which the Executive Committee takes its decisions and outlines A.B.I.'s strategies.

The Technical Commissions - which are ten in number and are listed in Table 5 - are designated by the Executive Committee for a period of two years terminating with the date of expiration of the Executive Committee itself.

Table 5
Technical Commissions and Working Groups of A.B.I. as of July 2005

<i>Commissions</i>	<i>Number of Working Groups</i>
Taxation	18
Legal	27
Financial system legislation	7
Lending activities	9
Finance	23
Payment systems	20
Research and statistical analysis	21
Technology and Security	23
Trade union relationships	1
Labor legislation	3
	152 (1)

(1) Two additional working groups, one of which devoted to Corporate Social Responsibility, are not connected with any Technical Commission.

Two distinguishing features of the Technical Commissions are to be particularly noted as they underline their open character and especially the degree of effectiveness and the straightforward approach with which they carry on their job:

1. Each member bank is entitled to indicate to the Executive Committee its intention to have its own representative in each of the Technical Commissions;
2. Such indications cannot be refused provided that the person designated belongs to the top staff of the bank, that he/she possesses a high degree of knowledge and competence

on the array of issues with which the Commission must deal and is authorized to express the position of the member bank itself on each specific matter.

The Technical Commissions, which may comprise a maximum of 60 members each and are led by the A.B.I. officer heading the corresponding sector, usually meet twice a year. The first meeting is devoted to validating, for the sector with which each Commission specifically cooperates, the plan of the activities that A.B.I. wants to perform during the subsequent financial year. In the second meeting each Technical Commission is called to review and evaluate the results obtained during the preceding year in the sector to which it is committed.

The Technical Commissions are not actual decision-making bodies; they rather are organs which make sure that the member banks are duly and timely informed of, and may agree on, the activities carried on by A.B.I. staff in each sector. In other words, they form a sort of second-tier representative organs in which two-way communication flows can more easily take place between A.B.I. and its members. In particular, the Commissions allow A.B.I.:

- To inform all the member banks of the initiatives it is taking through the Working Groups;
- To take account of demands, requests for interventions and suggestions from all its members and even to gather some direct insight on whether they appreciate or dislike its way of conducting the activities.

In such a way, and thanks to the implicit delegation of functions and responsibilities and to the consequent consensus-building process, A.B.I. can make itself more fully accountable to its members.

Since the Technical Commissions, as we have seen, are rather numerous, each member bank must indicate a person to act as the coordinator of its representatives in the Commissions themselves with a view to making their work as smooth and efficient as possible.

Besides harmonizing the activity of the members of Technical Commissions belonging to the same bank, coordinators, as a group, are entrusted with the task of evaluating each year both the plans for action and the actual results obtained by A.B.I. in each major sector. This task appears to be an important aspect of the overall corporate governance of A.B.I. as it makes top officers of member banks directly involved in the planning and in the making of all major policy actions and consequently more directly interested in implementing them promptly and efficiently in their own organization.

The second group of cooperative bodies, aimed at constantly connecting A.B.I. with its members with reference to current activities, is represented by Working Groups, which emanate directly from each Commission. In fact each Commission can form several Working Groups, each with no more than 10 members, having a life-span to be determined on a case by case basis, with the task of examining particular issues in depth. An accurate investigation, at the proper technical level, of possible solutions becomes very important when the issues to be dealt with are so substantial and so specialized as to require detailed analysis, a large consensus and political approval from the Executive Committee. The Technical Commissions are also called to approve the composition of the Working Groups, which may also be formed upon direct initiative of A.B.I. offices, sometimes on an *ad hoc* basis.

In order to get a more detailed view of the articulation of the Technical Commissions and of their work, reference can be made, by way of exemplification, to Table 6, which lists the names and the object of the 22 Working Groups formed within the Finance Commission, which in recent years was deeply involved in the process leading to far-reaching financial innovations and to the creation of more efficient markets.

Table 6

List of Working Groups Operating within the Finance Technical Commission (October 2005)

- 1) Compliance Officers
- 2) Documentation
- 3) Financial promoters and selling activities outside bank premises
- 4) Equity origination and syndication
- 5) Trading
- 6) Post-trading
- 7) Pension funds
- 8) Depository bank
- 9) Asset management
- 10) Closed-end real estate funds
- 11) Project finance
- 12) Merchant banking
- 13) Depository bank for real estate funds
- 14) Protected/guaranteed asset management schemes
- 15) Research and statistics
- 16) Market risk
- 17) Swift securities
- 18) Debt origination and syndication
- 19) Corporate information
- 20) Placement of investment funds
- 21) Management companies for real estate funds
- 22) Private banking

It goes without saying that the Technical Commissions are deeply involved in the planning efforts of the association (see Sec. 1 of Part II) since they are given each year specific objectives to be met and the results achieved are subject to review and evolution by A.B.I.'s governing bodies.

By way of exemplification Annex 1 to the report summarizes the 38 detailed goals assigned for 2006 to the Finance Commission which, as we shall see, has been very active in the process of remodeling the financial legislation and the market structures which have taken place in recent years.

The length itself of such list is fully indicative of the vast and, at the same time, quite detailed tasks the Finance Commission is called to perform. Besides fulfilling some important representative roles, especially at the international level, the Finance Commission is strongly engaged in the process of setting the overall regulation and the best practice rules concerning particular segments of the financial industry (e.g. depository banks – nos. 5, 16, 24 and 34 of Annex 1) and in cooperating with Consob in defining the regulatory schemes of several aspects and instruments of securities markets (see, nos. 19, 20, 21 and 26 in the Annex).

It is also worth noting that a sizable part of the activities of the Commission is devoted to projects aimed at directly creating or at enlarging business opportunities for member banks: project finance for the development of the Italian market for electric power (no. 12) and global guarantees of the proper execution of works (no. 22); development of debt capital instruments for corporations (no. 27); private banking (nos. 28 and 29) and methods for promoting the listing of small business companies (no. 32).

In order to give further insight of the activities of Working Groups belonging to the Finance Technical Commission we have listed in Table 7 a sample of recent policy changes in the field of finance that were discussed and acted upon by such Technical Commission.

Conclusively, we may say that the Technical Commissions and the Working Groups lie at the crossroads of A.B.I. staff, on one side, and the member banks, on the other, from a technical point of view, as they foster their cooperation at the highest specialized professional level, and also from a political point of view, since they promote the sharing of opinions and decisions among top professionals of the banks themselves. It is to be noted, in fact, that the documents prepared, mainly within Working Groups along lines established by Technical Commissions, are often submitted to the Executive Committee if and when they have already received an approval in principle by member banks through their representatives in such bodies.

Table 7
A Description of Some Recent Policy Changes Discussed and Acted upon by the A.B.I. Finance Technical Commission and Some of its Working Groups

Policy change code	Policy Change name	Policy change description and accomplishment	Working groups which dealt with the issue
FI 1125	Rules on settlement, netting and guarantee systems of trades of financial instruments	A.B.I. developed contacts with Monte Titoli (Central Securities Depository System), Banca d'Italia, MTS and CCG (Clearing House) in order to establish the operational rules for the settlement of trades both in regulated and OTC markets	Post-trading
FI 1100	SWIFT: standardization of messages for securities trading	A.B.I.'s intervention was aimed at avoiding the disintermediation of the system	Post-trading - Swift securities
FI 1245	Project finance: development of the Italian market for electric power	A.B.I.'s intervention succeeded in obtaining a discipline of the electric market permitting sales to be effected through bilateral contracts with a view to making more economical the project financing of electric power plants	Project finance
FI 1095	Investment funds: general regulation	A.B.I. required a modification of the Unified Text of Finance Laws in order to allow depository banks to calculate directly the NAV of investment funds thus avoiding a duplication of activity with fund management companies	Asset management - Depository bank
FI 4010	Development of corporate debt market instruments	A.B.I. participated in the revision process of art. 129 of the Unified Text of Banking Laws with reference to the issue and distribution in Italy of foreign debt securities	Debt
FI 3050	Revision of securities market regulations	A.B.I. participated to the consultative process organized by Consob with reference to proposed market disclosure rules to be imposed on short sales and trades of unlisted corporate bords	Trading; Post-trading; Compliance officers
FI 3050	Revision of securities market regulations	A.B.I. participated to the consultative process organized by Consob with a view to adapting the "Markets Regulation" to the new art. 2370 of the Civil Code concerning the right to participate to shareholders meetings of listed companies	Trading; Post-trading; Compliance officers

Last but not least, the large involvement of top officers of member banks in both Technical Commissions and Working Groups, besides promoting a healthy cooperative atmosphere between members and the staff - which is completely in keeping with the associative and representative nature of A.B.I. - has a considerable side-effect, in the sense that it allows a reduction of the costs implied in the fulfillment of its goals: as a matter of fact, the best expert opinions on many issues, often very complicated and subject to institutional changes and market innovation, can be obtained exactly by top managers and specialists of the member banks who volunteer their cooperation to the association. At the same time the participation of officers of banks, both large and small, to the workings of A.B.I.'s Technical bodies is a powerful instrument both to familiarize the whole of the banking system to the more important issues in the agenda and to prepare such officers to get ready for higher responsibilities in their own banks.

Turning briefly again to Table 5, we may underline that the Technical Commissions closely reflect the activity that A.B.I. performs either as a provider of services to the direct advantage of its members or as a semi-institutional body operating prevalently in the general interest of the smooth and efficient functioning of the banking and financial system.

Important exemplifications of the first type of activity are the guidelines on how banks may proceed to the drawing and updating of contractual schemes for every financial operation and product and, on the basis of altogether different skills, the wide range of interventions in the field of technology and security. Mostly of more general interest are, on the other hand, the activities entrusted to the Commissions dealing with payment systems and with changes in the legislation concerning the financial structure.

All major interventions of A.B.I., both the ones having the nature of services and those conducted in an advocacy or public interest role, are backed by the data collection and

investigative activities performed under the aegis of the Research and Statistical Analysis Commission which are also crucial in the preparation of position papers on specific issues or when the President or the General Manager are invited to official hearings in Parliament.

We may conclude our brief analysis of the structures for the communication and the cooperation with members by recalling that the number of Working Groups pertaining to each Technical Commission is directly related not only to the importance but also to the specialized character of the topics to be examined: in fact, it is usually considered efficient to set up, sometimes on a temporary basis, a Working Group for each new or prospective problem in order to obtain the cooperation of the specialist staff of the banks which are more interested to its solution.

Part II - A.B.I.'s New Business-Like Approach to Bank Problems and to Public-Interest Issues

1. The Adoption of Strategic Planning (2000)

As it is customary for a trade association having a large number of members of different sizes and with different scopes of activity, A.B.I. has traditionally been performing two functions:

1. To respond to the requests of its members both on a case by case basis (e.g. by providing opinions and giving consultant services on specific problems) and in regular and formalized ways (circulars, interpretation of new pieces of legislation, collection and provision of statistical data, etc.);
2. To exercise a general representative and advocacy role towards all relevant economic and political subjects, such as trade associations and consumer organizations, on one side, and government, legislative and regulatory bodies, on the other.

A rather radical change in the ways and the forms of performing such roles has been initiated by the management of A.B.I. in the year 2000 after a vast consultative process conducted by the new President with the representatives of member banks and after completing the experimental phase of the new organizational structure put into effect in July 1998.

During such consultative process and its immediate aftermath, A.B.I. top management asked the banks to submit to it all the relevant problems they were faced with at the time and, more importantly, they convinced them to further join their forces in the Association in order to find proper and general solutions.

As a result, to these traditional functions A.B.I. has added a third function, namely to initiate policy actions aimed at developing new areas of business for its members, at reducing their costs and at increasing the efficiency with which they can serve the needs of their customers and at the same time pursue public policy goals in the interest of the economic system as a whole.

Following this strategic re-orientation, A.B.I. transformed itself from a rather bureaucratic association which prevalently reacted piecemeal to problems and issues proposed by its members, imposed by market evolution or debated in the legislative and political arena to a specialist and, in a sense, technocratic structure conducted according to managerial criteria and capable of actively and rationally choosing its own objectives and of planning their achievement in the short and in the long run. By adopting this approach and by exploiting the information and the knowledge deriving from its strict relationships with member banks through the Technical Commissions and the Working Groups, A.B.I. has put itself in a key position for giving a valuable contribution also to the modernization of the financial system in a close dialogue with legislative and regulatory authorities, both domestic and European.

Such a change took initially the form of a set of detailed planning guidelines (*linee programmatiche*) which are now routinely prepared every two years, submitted to the approval of the Executive Committee and of the entire Board of Directors and referred again for review, control and updating on a regular basis. Each item included in such a planning document is comprised in one or more of the main functions outlined in A.B.I. by-laws and must be adequately described in the specific goals and actions to be pursued as well as in its results or degree of fulfillment at each review date.

Such actions, in their turn, are selected according to a formalized evaluation process which tends to identify the expected value to be obtained and consequently involves both a prior feasibility and impact analysis by the Regulatory Impact Assessment - the results of which are summarized

through the assignment of a rating ranging from Aaa to A - and the approval of the Committee of Area Managers.

It goes without saying that this planning and control process acted as a powerful instrument of governance not only, as is obvious, in respect of the organization and conduct of A.B.I. activity in the various areas of interest, but also with reference to its relationship with member banks; the fact that it was eager to make regular reports to gauge or measure its performance against the issues and goals listed in its planning agenda greatly contributed to building A.B.I.'s reputation and accountability among members and to enhancing its trustability with respect to its counterparts in the regulatory and political world.

In order to underline the importance of the strategic change initiated by A.B.I., we have summarized in Table 8 the 20 page document which for the first time formally established the 23 planning guidelines and the 86 analytically defined policy actions which were to be pursued in the period 2000-2002.

In the same Table 8 mention is made of the degree of fulfillment that each of the policy actions proposed had reached, according to A.B.I.'s own evaluation, in May 2002.

Table 8
Description of A.B.I.'s Planning Guidelines Set Out in September 2000.
Classification of Each Guideline According to the Number of Actions Planned and to their
Degree of Fulfillment Measured as of June 2002

Guideline	N. of actions planned	Result of actions		
		Fully completed	Partially completed	other (work in progress; to be done)
A) Representation				
1 Strong representation of the banking	2	1	1	/
2 Forms of representation of the interests of the banking	4	2	1	1
3 Taking position on general issues of economic and financial nature	1	/	/	1
4 Improvement of the image of the system	8	/	6	2
5 Relationships with the media	5	1	1	3
6 Relationships with customers and consumers	2	1	1	/
7 Relationships with other economic subjects	1	/	1	/
B) Efficiency				
8 Relationships with other credit and financial associations	5	1	1	3
9 Relationships with labor unions	7	3	2	2
10 Improvement of the profitability of banks and financial institutions	4	1	2	1
11 Regional decentralisation of activities	1	/	1	/
12 Efficiency of system's entities	1	/	1	/
13 Interbank deposit guarantee fund	1	/	/	1
C) Market development				
14 Leveling the playing field	9	4	1	4
15 Governing the differences within the banking associations	2	1	1	/
16 Improvement of regulation	11	2	5	4
17 Euro and internationalisation	3	/	2	1
18 Globalization	1	/	/	1
19 Growth of financial markets	6	/	6	/
20 Development of new financial services/products	1	/	1	/
21 New technologies	1	/	1	/
22 Services provided to associate banks	9	4	2	3
23 A.B.I. Servizi	1	1	/	/
Total	86	22	37	27

Source: A.B.I., *Linee programmatiche dell'A.B.I. per il biennio settembre 2000-giugno 2002, mimeo, May 2002*

In such a sort of autodiagnosis of the strengths and weaknesses perceived, the number of actions planned indicates, in a sense, the priorities that A.B.I. top officers assigned to each guideline - whether inward - looking or outwards-oriented - while the degree of accomplishment obtained signals that, at the time (May 2002), A.B.I. was still only half-way of the road undertaken.

The changes in the organizational structure put into effect in 1998 and the parallel adoption of rational planning and control methods, while making A.B.I. more responsive to the needs of the members and to changes in the institutional and economic environment, have been instrumental also to a modification in its approach to the interpretation and to the performance of its functions.

At the roots of this more pro-active and, in a sense, more public-minded role were the reputational capital that A.B.I. had acquired in its activity, the experience and knowledge its staff already had of the practical terms of most economic and juridical issues and also the awareness that they could be usefully made available to the system with the perspective of benefits accruing to the society at large and not exclusively to the banking system as such.

In fact, in addition to its traditional mission of "representation" and of advocacy for the banking industry, which mainly expressed itself in responding to government and legislative actions and in contributing to create a regulatory environment as far as possible conducive to a smooth and efficient functioning of the financial system, A.B.I. greatly increased its attention to the more general problems concerning the juridical and institutional setting and to the projects that were made with a view to enhancing the competitiveness of the Italian system and to increasing the actual synergies among economic agents.

The enlarged scope of A.B.I.'s functions and activities is readily apparent when attention is paid to the time and effort that qualified members of staff and management have devoted to giving advice to government and legislative bodies, and to the *ad hoc* commissions they have formed, on many different issues that sometimes touched only in an indirect and marginal way the banking profession but were of utmost interest for the economic system as a whole: a prominent example was the contribution to the reform of company laws. Reference can be made here to the figures of Table 9 which shows the "regulatory" changes successfully completed in the 1997-2004 period and classifies them on the basis of the importance of their expected impact, as calculated by the Regulatory Impact Analysis Unit of A.B.I..

The activity of this Unit is particularly helpful in the choice of actions for policy changes that is made by the Executive Committee and by the top management of A.B.I. as it tends to quantify and compare the economic impact of each option in terms of additional output and expected economic value for the banking industry. In such a way it is apt both to signal the priority and the human resources to be assigned to each project and to measure and report, on a regular basis, the results achieved for management control purposes.

In a brief comment of Table 9 it is necessary to point out that many regulatory changes were related to the reform of corporate law of 2003-2004, to a series of both important and minor tax laws enacted each year, to several legislative efforts aimed at changing outdated parts of the 1942 bankruptcy laws, to various pieces of legislation concerning privacy, to the changeover to euro, etc.

Some of the interventions in these areas were supported by the results of a research, prepared since 1999 and widely publicized in March 2001, which estimated the negative aggregate economic impact, in the form of competitive disadvantages *vis à vis* other European banks, that Italian credit institutions had to bear on account of several system inefficiencies specific to the

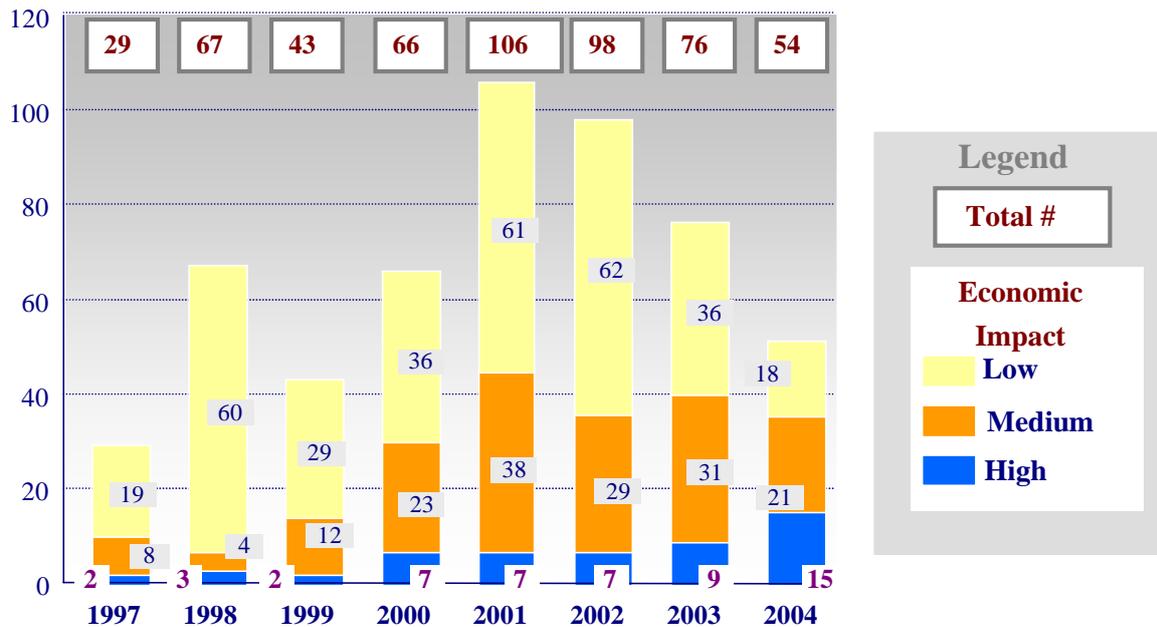
domestic tax, legal and labor environment: according to simulations based on balance sheet data for 1999 the return on equity of Italian banks would have risen from 10% to 15,6% if the causes of such backwardness were removed.

As can be expected, however, a large portion of A.B.I. interventions are of direct relevance to the banks themselves and usually take the form of a close cooperation with regulatory authorities in order to help them in the *ex ante* definition of rules so that financial and credit activities are not unnecessarily encumbered by them and, on an *ex post* basis, with a view to easing compliance from an administrative and functional point of view.

The cooperation with Banca d'Italia in recent years has been particularly strong on some momentous issues such as the building of a consensus on the position to be reached among all interested parties in the negotiation process that brought to the adoption of the new Basel accord on capital ratios. A.B.I.'s specialists were very active during the whole preparatory phase working strictly in touch with Banca d'Italia, as well as with the representatives of trade associations of both large and small business companies (and especially of those belonging to the segments most likely to be damaged by the rules that were originally devised).

The prolonged debate on Basel 2 proposals gave also rise to the opportunity for A.B.I. to stimulate a dialogue with Confindustria (the Association of Italian Industrial Companies), Confcommercio (the Association of Commercial Companies) and other trade associations with which in the past the relationships were often less than optimal on account of understandably conflicting positions on such touchy issues as the level of interest rates and of fees, credit rationing and the alike.

*Table 9
Regulatory Policy Changes Carried Out 1997-2004*



2. Activities, Organization and Regulatory Impact Analysis of Policy Options

Another way of looking at the overall A.B.I. activity is to classify its outputs according to the following criteria:

1. *Policy changes*: interventions on regulation, infrastructural conditions and legislative actions which are likely to bring advantages for the whole economic system and its efficiency, while having an impact or requiring adjustments for the banking system (such policy changes will be analyzed in Section 3);
2. *Consulting activities* to members and organization of conferences and conventions on their behalf;

3. *Research*: collection of statistical and financial data, preparation of position papers, backed by economic analysis, as well as of special studies on subject matters related to banking and financial services;
4. *Fee-based activities* upon request of members and specifically paid by them such as seminars, courses and conventions mainly organized by the controlled company A.B.I. Servizi;
5. *External activities* such as the publication of circulars, books and catalogues and the promotion of cultural initiatives and events;
6. *Institutional and advocacy activities*.

As already mentioned, the research activity is particularly important for the Association. For this reason and also to suggest the wide variety of outputs that can be demanded and supplied in this particular field we provide, in Annex I, a complete list of products and activities currently offered by the Research and Analysis Unit. The interested reader can find a detailed description of each "output", the frequency with which it is delivered, whether it is prepared by the Unit in cooperation with interbank Working Groups or other external entities and finally - but by no means less importantly - whether it is paid by member banks or is provided free of charge.

The extremely large number of interventions and their wide diversification with regard to subject matters and "stakeholders" require that such activities are strongly based on clearly defined and rational rules of organizational, management, oversight and reporting procedures which are closely similar to those adopted by business companies of comparable size operating in the service sector.

As an alternative to producing them with its internal organization, A.B.I. has in a sense outsourced some of the activities that can be sold to members and to third parties, and thus can be run on strictly economic criteria, into separate companies, which are either wholly owned by

A.B.I. itself or controlled by member banks and financial institutions. Such is the case, for instance, of A.B.I. Servizi, a wholly owned subsidiary company in which a series of activities with external relevance are organized in a strictly integrated way and are performed by taking advantage of intrinsic synergies and on the basis of criteria that tend to ensure their economic sustainability: activities related to the vast array of banking and financial publications (circulars, journals, directories, manuals, research papers, books, etc.), the organization of conferences, conventions and communication events, the provision of general and specialized courses for bank employees and professionals, the supply of aggregate statistical, financial and balance sheet data in formats apt to be used by member banks also for management purposes, regular reports on development in other European banking systems. The outsourcing of such functions exemplifies a well-established tendency of A.B.I. to run its activities, as much as possible, in a business-like manner and by responding swiftly to market demand.

Other affiliate organizations - often in the form of consortia (cooperatives) with the participation of numerous banks and banking groups - have been set up by A.B.I. in order to make uniform and to coordinate the operational procedures of banks in some specialized lines of business - e.g. payment systems, payment cards - and to manage and support the correspondent trademarks. Finally A.B.I. owns minority equity holdings in a few companies that it has historically promoted in order to strengthen the position of the banking system as a whole in the interbank market (e-MID) and in the market for technological infrastructures and software applications (SIA) (see Table 10 for the list of affiliates and instrumental entities).

As we already noticed, the in-house productive organization has strong built-in connections with the Technical Commissions which, in their turn, link A.B.I. directly to its members with a view of promptly acting on their current and emerging problems.

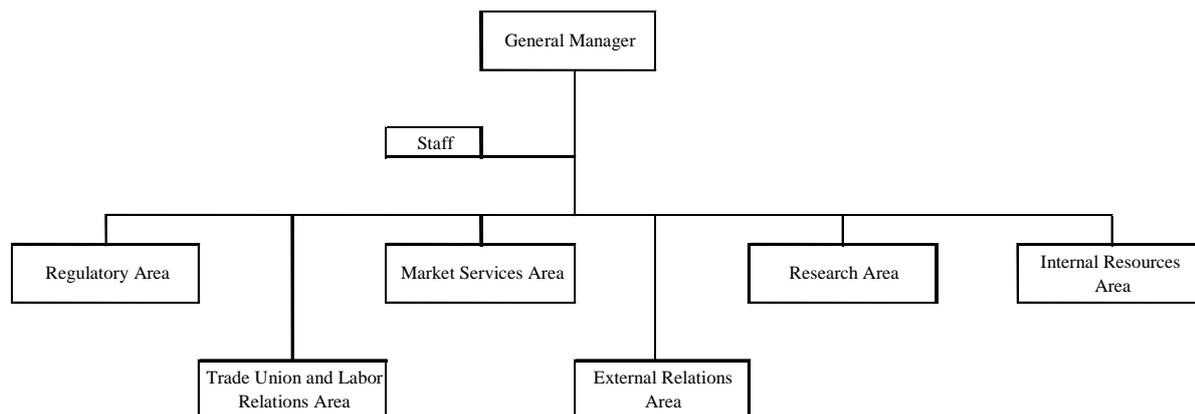
Table 10
A.B.I.'s Main Equity Holdings and Instrumental Entities

Name	Legal structure	% holding	Mission/Sector
Abiservizi	corporation	100	Production of a range of fee-based services to member banks or on their behalf
Bancaria Immobiliare	corporation	94,5	Holding of real estate properties
SIA	corporation	38,1	IT provider in the area of payment systems and market infrastructures
Centrale dei Bilanci	corporation	0,6	Centralized analysis of corporate financial accounts
Cartasì	corporation	2	Credit card business
Società Servizi Bancari	corporation	0,478	Specialized software house
Euros Consulting	corporation	0,06	Consulting
GTA	corporation	7,692	Promoting security in on-line transactions
E-MID	corporation	3,675	Management of the interbank deposit market
Cogeban	non profit association	/	Management and promotion of domestic debit card schemes
Progetto Microcircuito	non profit association	/	Promotion of migration and development of new products on chip cards
E-committee	non profit association	/	Support of online activities of banks characterized by the interbank principle
CBI	non profit association	/	Promoting technical and legal/regulatory solutions for the provision of links and communications schemes with corporate customers
ABI Lab	non profit consortium	/	Promoting technological evolution aimed at value creation for the banking sector
ABI Energia	non profit consortium	/	Optimization of energy consumption in the banking sector

Organization

As a matter of fact, since 1998 the functioning of A.B.I. is based on a matrix organizational chart (see Chart 1 for the one currently adopted), which connects the units charged with dealing with broad lines of business and those having specialist professional competence and knowledge.

Chart 1
Organizational Chart of A.B.I. (October 2005)



The organizational chart presently in force establishes, in addition to the offices of the President and the CEO and to several Staff offices, the following 5 Areas with external relevance:

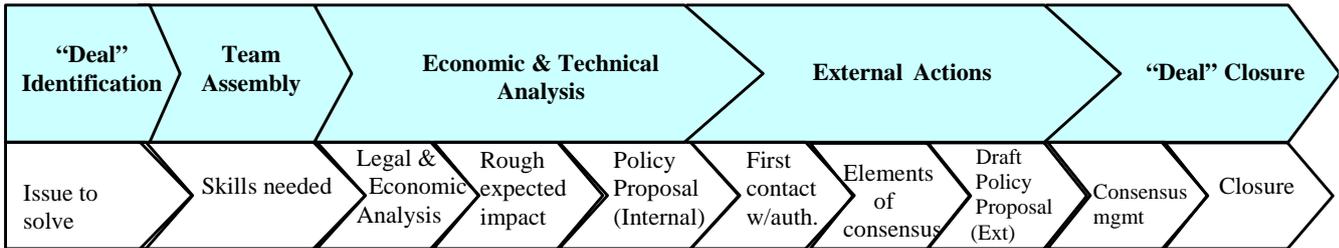
1. Regulatory and Legislative Area;
2. Market services Area;
3. Trade unions and Labor problems Area;
4. External Relationships Area;
5. Research and Technology Area.

Each Area coordinates the workings of a few offices and is, in its turn, supported by the Human Resources Area and by the Staff or offices among which the General Secretariat and the Planning and Economic Evaluation Department are particularly important.

The responsibility of the Areas is entrusted to Area Managers who coordinate their activities also through regular meetings and report to the General Manager. The activity of each Area in the different business lines for which it is competent is planned, monitored and reported according to standard procedures.

Without entering into a detailed analysis of them, we can exemplify in Chart 2 the flow-chart of the decision making process of a standard regulatory deal as well as the steps usually needed to accomplish its goals; as can be seen, it is a rather long and elaborate process that requires different types of skills and also the building of the consensus of member banks and of the institutional bodies involved.

*Chart 2
Flow Chart of the Steps Required for the Accomplishment of a Regulatory Deal*



Regulatory Impact Assessment

It is important to underline that a key instrument of the entire process is represented by the Regulatory Impact Assessment (R.I.A.) which is prepared by an office of the Planning and Economic Evaluation Department. The importance of the R.I.A. stems clearly from the function it performs:

1. It systematically and consistently examines selected potential impacts on the banking industry and the economic system potentially arising from the action policies that have to be chosen or undertaken;
2. It communicates the appropriate information to decision-makers in A.B.I. both as an instrument for assigning priorities and resources to each project and as a documented discussion basis to be used with all parties interested in the decision involved.

The rationale behind this assessment is obviously that each specific action proposed should meet an economic test and thus pay at least its direct costs and afford a measurable benefit to member banks and the economic system. The principles according to which every policy measure successfully carried out is allotted for planning and control purposes are briefly outlined in Table 11.

We shall underline here that the R.I.A. estimates actual benefits obtained by member banks and reported in their financial accounts under the form either of *una tantum* or recurring increased earnings or cost-savings which can be directly related to the action involved; for consulting and research activities the advantages for member banks and the banking system are sometimes established with reference to benchmarks based on substitution costs at market prices.

The amount of such benefits plays a key role in the definition of the rating - from Aaa to A in descending order - attributed to each action or policy choice: a measure, as we have already

seen, that helps to organize the entire current and prospective activity of A.B.I. on a rational basis and thus to keep at a minimum the volume of financial resources that member banks must contribute each year.

Table 11
Requirements to be Met in the Evaluation for Planning and Control Purposes for a Regulatory Change to be Assigned to A.B.I.'s Initiative

- 1- The effect must be clearly and directly credited to the Association
- 2- The action must determine a direct economic impact in the financial accounts of member banks as cost reductions, higher revenues, smaller tax exposure
- 3- The achievement of the action involved must be supported by formally valid normative acts or by an engagement of the subject involved
- 4- The achievement of the advantage deriving from the action must not be conditional i.e. subject to resolution or suspension clauses of any type
- 5- The economic effects produced by the action must be totally credited/debited to the year in which the action was completed

As a side-effect of the strategic and organizational changes already described, the way of working of A.B.I. has changed in a significant way and has become, so to say, more managerial and business-like without however damaging the well construed and fully functioning cooperation with the Technical Commissions and their Working Groups.

In order to describe as clearly as possible the approach of A.B.I. officers to their more extended tasks in the new strategic setting, the research team has prepared Table 12 which provides, for a sample of policy changes presently underway, a series of information on their specific contents and also the composition of A.B.I.'s internal teams which are charged with examining and possibly solving each particular issue.

Table 12

Sample of Policy changes currently underway (2005) - Composition of the interdisciplinary A.B.I. team charged with dealing with the correspondent policy change under the guidance of a top officer			Regulatory and Legislative problems				Trade Unions and Labor problems					Market Services					Research		External Relationships			General Manager Staff				
			TR	OF	LG	DN	SI	SA	LL	SM	DS	CI	FI	SP	TS	DM	DA	ST	RI	RC	VP	SE	OC	RS	RR	
POLICY CHANGE - CODE	POLICY CHANGE - NAME	DESCRIPTION	Taxation	Financial Legislation	Legal Affairs	Technical Secretariat	Labor union problems	Wage Dynamics	Labor Legislation	Milan Delegation	Technical Secretariat	Loan international problems	Finance	Payment Systems	Security and Technology	Technical Secretariat	Analysis and Research	Press office	Institutional Relations Office	Cultural Relations Office	Economic Assessment Functions	General Secretariat	Consumer Organization Relations	Corporate Social Responsibility	Relations with Regional Government	
CI1020	Consumer credit - development	To realize an analysis of the consumer credit market, of its structural and organizational features and of its products in order to promote interventions aimed at enlarging the size of the market and, if necessary, at modifying existing regulations																								
CI1115	Creation of an Italian Pfandbrief	Actions aimed at introducing in the Italian financial system a new funding instrument for banks modelled upon the German Pfandbrief; cooperation with the Italian authorities to draft a proposal of decree-law on such instrument																								
FI2075	Argentina financial crisis: consequences on investments in debt securities	Data collection and assessment of the exposure of Italian holders of Argentina bonds; advocacy functions; actions to protect the interests of Italian banks																								
LG1115	Juridical controls on money laundering operations	Improvement of the relationships between banks and juridical authorities in this area also through the creation of a joint committee including A.B.I. officers and members of the Supreme Council of Magistrates; actions aimed at reducing the administrative and organizational costs of Juridical controls																								
LG4010	Companies subjected to extraordinary administration	Actions aimed at safeguarding bank customers holding bonds issued or guaranteed by companies subjected to extraordinary administration																								
RS3030	Social responsibility accounting	Updating of Model A.B.I. 2001 for the preparation of annual social accounts in keeping with the main international standards; analysis of social and corporate responsibility accounts prepared by banks																								
SA1050	Monitoring of the labor market in the financial industry	Collection, storage and analysis of data on salaries, on the costs and the productivity of personnel in European banks as well as on restructuring policies and on personnel management. Preparation of the A.B.I. Report on salaries and labor costs																								
TR5030	IAS Project	Analysis of IAS principles and assessment of their impact on the activity of banks																								

As can be easily seen from Table 12, each policy change is dealt with by a team of A.B.I. personnel who is drawn from the Areas and the Units which are deemed to be more specifically competent with the issue. The table shows, for instance, that the Consumer Credit Market development problem needs the cooperation of 4 different Units belonging to 3 different Areas; at the other extreme, the issue of Social Responsibility Accounting must be tackled by drawing on the expertise of 9 Units belonging to 5 Areas. The number of persons involved does not necessarily coincide with the number of Units and each person may obviously be charged of following, in different teams, more than one policy changes. Such method appears to be efficient at least in the sense that, while exploiting the specializations needed, it gradually enlarges the scope of knowledge and the cooperation among the Units and Areas involved.

The turning point of A.B.I. in the years 1998-2000 and the consequent more rational organization of its internal structure and external activities greatly strengthened its position in the dialogue it must maintain constantly with policy-makers in its representative and advocacy role.

As for the Government, it needed the cooperation of banks for a variety of reasons and especially because it had to modernize the financial system and it rather preferred to deal with a strong A.B.I. than have direct relationships with individual banks.

As for Banca d'Italia, it traditionally considers the cooperation with banking associations as a necessity, being continuously engaged not only in the supervision but also in the modernization of the financial system and in the improvement of its efficiency to the benefit of all economic players. In the past Banca d'Italia drew on A.B.I. views on some pertinent banking regulations adopted and amended over time. The growing ability of A.B.I. to prepare well documented position papers which take into account all the facets of a technical problem and heavily draw

on the expertise accumulated in different segments of the banking industry has made the collaboration with Banca d'Italia more fruitful in terms of public policy goals.

Finally the legislative authorities often turn to A.B.I. in order to obtain the bankers' views not only on pieces of legislation directly encompassing their activity, but also on more general economic issues and on bills designed at reforming company legislation, bankruptcy laws, etc. This type of cooperation often takes the form of invitations to parliamentary hearings and of the submission of papers on specific issues and also of more informal relationships with key A.B.I.'s officials.

To make this point clearer and to emphasize the growing importance of formal contacts of A.B.I. with the Italian Parliament we have prepared the following Table 13 which, for the period 2004-2005, gives the entire list of Parliamentary hearings, the specific issue involved and the level of A.B.I.'s representation that each of them required.

Table 13 - Participation of A.B.I. to Parliamentary Hearings in the Period 2004-2005

Date	Issue	ABI's representative
January 19, 2004	EU Directive on investment services	President
February 1, 2004	Inquiry on the safeguard of saving and investments conducted by Joint Commission	President
February 1, 2004	Agriculture and credit	General Manager
August 3, 2004	Document on Economic and Financial Program 2005-2008 (Joint Commissions of Senate and Chamber of Deputies)	General Manager
September 29, 2004	Inquiry on bill 848-bis on Labor problems conducted by the Senate Committee on Labor and Social Insurance	/
October 12, 2004	Finance law for 2005 (Budget Commissions of Senate and Chamber of Deputies)	Deputy President
November 18, 2004	Inquiry on "Investment in Micro-finance: the role of banks" conducted by the Finance Commission of Chamber of Deputies	General Manager
January 18, 2005	Inquiry on financial derivative instruments conducted by the Finance Commission of Chamber of Deputies	General Manager
July 25, 2005	Document on Economic and Financial Program 2006-2009 (Joint Commissions of Senate and Chamber of Deputies)	/
October 13, 2005	Finance law for 2006	President
October 18, 2005	Decree on taxation	President
October 25, 2005	Government bill of reform of bankruptcy laws	Managing Director of Legal Department

As has been said, especially since 1998, A.B.I. has laid down and followed a strategy to strengthen the cooperation with public authorities and third parties representing other economic subjects (consumers, industrial companies, trade associations, non-profit organizations). Professional networking is very important for A.B.I.'s work and is highly encouraged through joint work in study groups, research, papers, committees, etc.

Apart from current or *una tantum* regulatory and supervisory matters, the cooperation with policy-makers and lawmakers can be classified under the following three major headings:

1. Financial innovation;
2. Efficiency of markets and of the overall financial structure;
3. Payment systems.

All the interventions in these areas share the common feature of potentially increasing the scope of activity and the expected profitability for banks. However, at the same time they undoubtedly have the nature of so-called public goods because they tend to increase the positive externalities and the range of financial instruments which are available to economic agents.

Four other common characteristics may be usefully underlined:

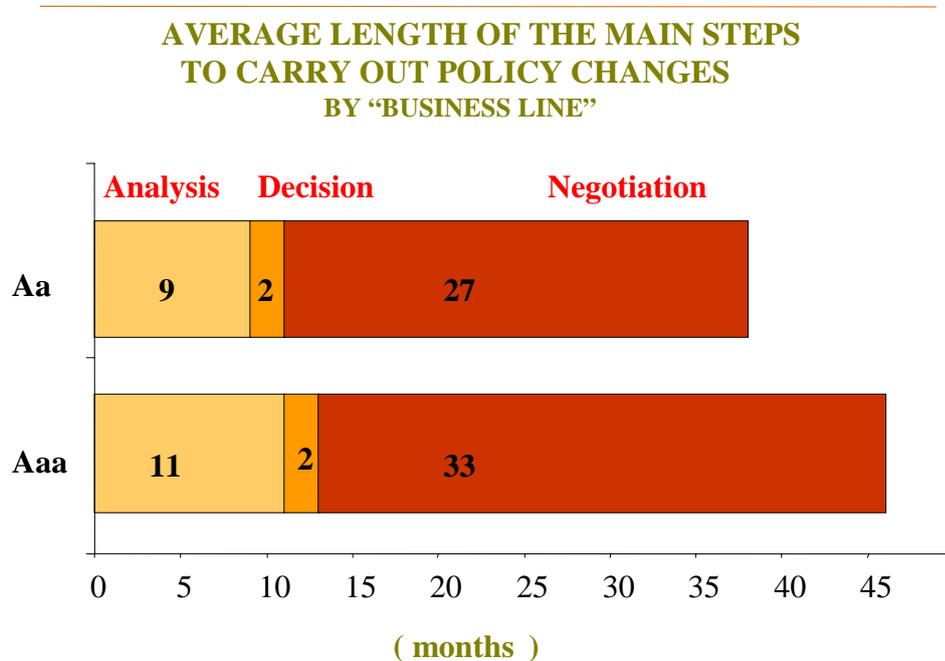
1. They are the product of a long-term vision and a pro-active attitude of their proponents;
2. They involve the exploitation of economies of scale and scope and consequently they require necessarily the cooperation of all the parties involved, which are going to obtain benefits from such actions but must also be conscious that they have to sustain their costs and risk of failure; in other words, such interventions take the form of a cooperative effort which must be stimulated and organized by a central organization, such as A.B.I., trusted by its members and enjoying a solid reputation with its counterparts;
3. They are to be normally shaped in strict cooperation with, and with the consensus of, several policy-makers (the legislative bodies, Banca d'Italia and one or more

Government departments); in addition, to be successful they usually require further interpretation and an actual promotion and sales effort from interested parties;

4. They require strong efforts, may eventually not be successful and, in any case, they take a long time to be completed.

To give immediate evidence to this latter point we have prepared Chart 3 which shows the *average* length of the main steps and of the entire process (considered from A.B.I.'s point of view) of all the policy changes affecting the business of banking which were positively closed in the period 2001-2005. It is easy to see that, while the analysis and decision phases lasted on average about 12 months, the negotiation phase took 27 additional months for the lower-valued (Aa) policy changes and 33 months for the higher-valued (Aaa) ones. The total length reached on average 38 months for the former and 46 months for the latter.

Chart 3



While some specific relevant actions will be reviewed in detail in the case studies presented in the Annex to the paper, it is useful to mention briefly here some of the more important ones that A.B.I. has performed in each of the above broadly defined fields, usually having Banca d'Italia as its first and most reliable reference point.

With regard to financial innovation, A.B.I. has performed a continuous and important role along the following sequence:

1. Assessing and promptly capturing the needs - expressed by its members or by some representatives of the economic system - for new instruments, sometimes successfully experimented by foreign competitors or adopted in international standards;
2. Evaluating such needs and, if the initial investigation by its offices gives a positive result, preparing a draft proposal to be brought to the attention of professional and academic circles;
3. Contacting Banca d'Italia in order to deal with all the information, regulatory and macro-economic aspects of the proposal itself;
4. Finalizing the proposal in agreement with independent experts, opinion leaders and interested members of the legislative bodies and with the appropriate government departments and following it through the usually long and intricate passages until it possibly obtains the final legislative approval;
5. Agreeing with Banca d'Italia the administrative details for its implementation and providing the necessary information to public opinion and to bank customers potentially interested in using and trading the new financial instrument.

We may recall, for instance, in this area of A.B.I.'s activity, the adoption of securitization techniques, which required important legislative and regulatory changes, and the actions aimed at the introduction of subordinated bonds to be included in the regulatory capital of financial institutions.

With reference to the second group of interventions, A.B.I. was very active in the building of modern market infrastructures and particularly in moving securities trading from traditional methods to automated platforms, open to a large number of authorized dealers on a continuous basis. The shaping of new market infrastructures was conducted on a step by step basis in cooperation and with the guidance of Consob, the main regulatory authority for securities markets, as well as with the Treasury Department and the legislative bodies.

It is to be highlighted, as a side effect of the strengthening of market infrastructures, which was *per se* highly beneficial to the entire economy, that the joint efforts of banks, A.B.I. and regulatory authorities succeeded in obtaining two other highly valuable results:

1. The creation of a large wholesale market for government long-term debt which is instrumental to the smooth functioning of an important source of Treasury funding operations;
2. The transformation of the Stock Exchange from a public entity having a substantially cooperative nature into a private company, owned by banks, which has managed to enlarge its turnover volumes and to deeply innovate its products and trading methods and thus its ability to face strong competitive pressures at the international level.

It is to be noted, however, that the joint efforts of A.B.I. and of regulatory authorities to amalgamate the different segments of the equity, bond and liquidity markets into a more compact organizational and financial scheme have not completely succeeded so far on account of the difficulties encountered in obtaining the consensus of all interested parties.

Finally with reference to the third area, A.B.I. has been and still is extremely important in rationalizing and modernizing, both at the wholesale and the retail level, the structure and functioning of the payment system, which forms the backbone of the entire economy and is crucial to the efficiency of the banking industry itself.

Historically, in fact, Banca d'Italia had a leading role in shaping the new infrastructures, in choosing the standards to be adopted and in timing each step to be taken. A.B.I.'s role was twofold. On the one hand, it had to create a consensus among banks so that they could easily and timely adapt their organization and their technology to the modifications to be undertaken, while at the same time minimizing their overall costs by exploiting the important economies of scale involved. On the other hand, either directly or through the promotion of specific structures, A.B.I. has set the stage for each individual bank to use the common standards and infrastructures in order to provide its customers with its own payment products in a competitive way through the use of its brand name and pricing criteria. In such a way the actions undertaken by A.B.I. have contributed at promoting the rapid expansion of new electronic money-transfer instruments and a drastic change in payment habits of bank customers, opening up opportunities for both cost reductions and revenue increases for the banks themselves, as exemplified in the following Box.

Box 2 - Improvement of Treasury and Local Authorities Payment Products

As an example of a significant achievement in the field of payment systems, we may mention the application of common standards for electronic banking payments to the Treasury and to local authorities for the realization of which A.B.I. acted as a powerful catalyst by calling for the cooperation and the consensus of several interested parties and *in primis* Banca d'Italia, Parliament and various Government departments (the particulars of the project, finalized in 2005, are described in Case study n° 1).

The idea was aired for the first time at the end of 2001 by a small bank which complained of its difficulties in supplying modern payment services to the public sector and particularly to local authorities. Documentary material on the problem was collected and analyzed by A.B.I. staff and submitted to the appropriate Working Groups which authorized the preparation of an *ad hoc* study. At a later stage (Summer 2002) the project was examined and referred to the Regulatory Impact Analysis Office for a preliminary economic evaluation, whereupon it was submitted to the Payment Systems Technical Commission and to the Executive Committee of A.B.I. which decided to pursue it as soon as possible (end 2002).

When the project was completed and received the necessary approval of A.B.I.'s top management and statutory bodies, it was presented by A.B.I.'s General Manager to the Chief Government Accountant, to the Deputy Minister for Internal Affairs (Spring 2003), to Banca d'Italia (July 2003) and to both the Minister of the Economy and the Minister for Internal Affairs (August 2003) in order to have it approved and eventually introduced in Parliament as an *addendum* to the Financial Law for 2004 to be presented by the Government to the Parliament.

Since such an attempt proved unsuccessful (December 2003), further efforts were developed by A.B.I. in the course of 2004 through renewed contacts with the above-mentioned Ministries and the presentation of the final project to other interested parties, such as the two Associations of Local Authorities and the Minister for Technology. The norm providing for such innovation in payments to and from public sector bodies was finally approved with the Financial Law for 2005 (December 2004) and its practical implementation was illustrated to banks and other interested parties through a circular of March 2005, while the Economic Evaluation Department produced a final Regulatory Impact Analysis on the basis of the rules finally adopted. The whole process for obtaining this relatively minor policy change, therefore, lasted at least 40 months, which are to be compared with the average length of more valuable policy achievements already shown in Chart 3.

The above account can be used to illustrate the production process, i.e. the sequence of A.B.I. activities and the way they are performed. When the need for a policy change is originated, it is examined within A.B.I.'s staff and its appropriate Working Groups and Technical Commissions. The preliminary analyses are conducted by A.B.I. officers in cooperation with banking experts; should any sensitive issues arise and in any case before reaching the final stage, they are thoroughly discussed also by the relevant Technical Commissions and the Executive Committee, which must approve the proposal for policy change. The key A.B.I. officials are then entrusted with the sometimes difficult task of obtaining the support of regulatory authorities and of pushing the measure involved through the different legislative steps.

Another example of close cooperation between A.B.I. and regulatory authorities is described in case study n° 2, which deals with the creation and functioning of Credit Bureaus, which allow

banks to acquire reliable financial information on each potential and actual borrower and to monitor analytically their global bank exposure throughout the life of the loan. This tool is all the more valuable to lenders since it is a still widespread habit of Italian borrowers - both companies and consumers - to cover their financial needs by tapping several sources of credit at a time.

With reference to the latest upgrading of the Centrale dei Rischi, A.B.I. has discussed the new Instructions proposed by Banca d'Italia at length and has contributed to the dissemination of the relevant information to banks in different ways (circulars, consulting, *ad hoc* meetings).

On the other hand, the Centrale dei Rischi Associativa, which collects data on loans of intermediate size, was originated by A.B.I. itself, which proposed its creation to Banca d'Italia and suggested also the guidelines to be followed for its implementation.

A.B.I.'s contribution with reference to other private Credit Bureaus has been aimed at obtaining from the Authority charged with the protection of confidential data the approval of a code of conduct recognizing the nature of public good of the financial information to be shared among lenders, while safeguarding the confidentiality of the data acquired by Credit Bureaus.

The *ad hoc* meetings with the Authorities were supported by a document prepared by the Regulatory Assessment Department – shown in detail in the following Box n. 3 – measuring the impact of a more stringent privacy protection of borrowers both from the point of view of credit rationing and of the increase in default rates.

Another way of looking at A.B.I.'s overall activity in the period 1997 – 2004 is to give evidence to the quality and composition of the subjects that were most interested at each policy action and that we have loosely termed “stakeholders”.

Box 3 – Regulatory Impact Assessment of the Introduction of the Privacy Code of Conduct for Credit Bureaus

The Regulatory Impact Assessment has been focused on the following profiles:

1. Credit rationing: a more severe and protective regulation on privacy matters brings about higher interest rates and a reduction in the approval rate of loan applications as a result of lower information transparency;
2. Increase in default rate: banking activity within a regulatory environment characterized by lower information transparency has the likely effect of granting loans to borrowers whose risk profile is higher than the price they pay for.

The R.I.A. has been based on the following data and methodological aspects:

DATA

a) Number of requests for credit information by financial intermediaries occurred in 2003	8.000.000
b) Average amount of loan granted in the event that credit application is accepted (euro)	20.000

CREDIT RATIONING PROFILE

c) Approval rate within “Model A” ⁽¹⁾	60%
d) Approval rate within “Model B” ⁽²⁾	59%
e) Credit rationing increase (c-d)	1%
f) Differential number of credit applications over a year (a*e)	80.000
g) Default rate in a “Full model” drawn by Barron-Statén	1.95%
h) Percentage of non-defaulting credit applications missed as a result of credit rationing (100-g)	98.05%
i) Amount of annual sound credit not granted because of rationing due to stricter privacy regulation (mln, euro) (b*f*h)	1.57

DEFAULT RATE PROFILE

j) Percentage of credit applications accepted	60%
k) Number of credit applications accepted over a year (a*j)	4.800.000
l) Default rate within “Model A” ⁽¹⁾	2.20%
m) Default rate within “Model B” ⁽²⁾	2.25%
n) Differential default rate (m-l)	0.05%
o) Estimated percentage of outstanding loans in the event of default	75%
p) Annual amount of marginal defaulted credit (mln, euro) (b*k*n*o)	36
q) Recovered value as percentage of defaulted credit (estimate)	24.58%
r) Annual loss on marginal defaulted credit (mln, euro) (p*(100-q))	27.15

⁽¹⁾ **Model A:** refers to the quality of information sharing achieved with the final version of the Code of Conduct;

⁽²⁾ **Model B:** refers to the quality of information sharing which would have been obtained as a result of the earlier regulatory proposals

See: *J.M. Barron - M. Statén, The value of Comprehensive Credit Reports. Lessons from the U.S. Experience.*

An accurate analysis of the same data set which later has been used to prepare Table 16 has allowed us to outline the institutional background within which A.B.I. has conducted its policy actions in strict cooperation with what we have termed "counterparts" (Table 14).

Table 14
Main "Counterparts" of A.B.I. 1997-2004

<i>Government Departments</i>		259
Internal Revenue	73	
Economy and Finance	66	
Labor	29	
Productive activities	24	
Fiscal Policies group	23	
Treasury	13	
Other	31	
<i>Supervisory authorities</i>		70
Banca d'Italia + UIC	50	
Consob	15	
ISVAP (Insurance supervisory authority)	1	
COVIP (Pension funds authority)	2	
Basel Committee	2	
<i>Legislative bodies</i>		64
Chamber of Deputies	20	
European Parliament	15	
Italian Senate	8	
European Commission	21	
<i>Trade associations</i>		39
Confindustria	15	
ANIA (Insurance companies)	10	
Assonime	8	
Confcommercio (Commercial companies)	4	
Confagricoltura (agricultural companies)	2	
<i>Banking and financial trade associations</i>		26
Foreign	12	
Domestic	14	
<i>Other "stakeholders"</i>		89
<i>TOTAL</i>		547

As can be observed, A.B.I. had the most frequent and intense dialogue - in slightly more than half of total actions - with Government departments, particularly with the Treasury and those involved with taxation topics: a finding which seems to confirm the policy objectives and the economic drivers subsequently summarized in Table 16.

Next in importance were the policy actions requiring contacts with regulatory authorities and first of all with Banca d'Italia (50) and Consob, the supervisory authority for securities markets (15). With reference to contacts with legislative bodies we can underline that, side by side with the Italian Parliament, the European Commission and the European Parliament are to be considered among the main interlocutors of A.B.I.; a close cooperation at the international level is also apparent from the numerous policy actions conducted in respect of foreign banking associations such as the European Banking Federation.

"Counterparts" of a relative large number of A.B.I. policy actions are also the trade associations and among them principally Confindustria and ANIA, which represent industrial corporations and insurance companies respectively. As we have already underlined, A.B.I. enjoys a recognized leadership among the other banking and financial associations (14) with which it has cooperated in several occasions in pursuing the policy goals of their specific financial trade (e.g. leasing, mortgage loans).

As was to be expected, during the period under consideration A.B.I. had the opportunity to adopt occasionally policy actions which were beneficial to a long series of other sundry counterparts, altogether accounting for about 15 per cent of all the interventions assessed in Table 14.

To describe more accurately the activities of A.B.I. with reference to its advocacy and representative roles, we have drawn from a different data set the 15 most important counterparts of A.B.I. and have classified them according to the number of contacts held (column 3) and especially according to the organizational position of A.B.I. officers who are usually involved in the contacts (columns 4-6). Table 15, while confirming the high concentration of counterparts - the Department of the Economy and Banca d'Italia accounted together for one-third of the sub-total - shows the rank of A.B.I. officers who held the contacts.

Table 15
A.B.I.'s 15 Main Counterparts for Policy Changes Classified According to the Frequency of Contacts and to the Position of A.B.I. Officers Usually Involved

Rank	Counterparty	Contacts	General Manager	Area Managers	Entities sharing common interest
1	Department of the Economy	45	21	24	
2	Bank of Italy	29	5	19	5
3	Department of Labor	17	8	9	
4	Department of Productive Activities	17	9	8	
5	Chamber of Deputies	16	6	10	
6	European Commission	16	5	11	
7	ANIA - Association of Insurance Companies	13	2	2	9
8	Confindustria - Federation of Italian Industry	10			10
9	Federation Bancaire Européenne	10	2		8
10	Labor unions	10	1	6	3
11	CONSOB - Securities Markets Authority	9	1	8	
12	Senate of the Republic	8	1	7	
13	Confcommercio - Federation of Trade companies	7		3	4
14	Central Tax Authority	6		6	
15	Government	6	3	3	
	Sub-Total	219	64	116	39

3. A Quantitative and Qualitative Analysis of A.B.I. Interventions in the Period 1997-2004

Our research team has had the opportunity of analyzing in depth and subsequently classifying the policy actions undertaken during the period 1997-2004, for each of which detailed

information was made available thanks to the courtesy of A.B.I. top management and staff. It has therefore been possible to tentatively develop a quantitative and qualitative analysis of the overall activity performed by A.B.I. during that period (Table 16).

The objective of such a complicated and time-consuming research effort is threefold. On the one hand we try to group such actions according to reasonably objective criteria in order to get a deeper and more detailed insight of the different types of activity actually performed and to distinguish in a better way services provided to members from actions related to the general advocacy and representative role. On the other hand, we want to describe the background of strategies, policy goals and fields of action against which the case studies illustrated in the Annex to this report can be analyzed and evaluated. Finally we provide a rough measure – year by year and for the whole period – of the economic importance of the actions undertaken, thanks to the rating methods that A.B.I. has adopted in its procedure of Regulatory Impact Analysis.

A bird's eye view of Table 16 leads to a preliminary consideration: with reference to very broad strategic goals, the interventions related to what we have loosely labeled as “market positioning” of member banks are slightly more numerous (276 vs. 207) than those classified as pertaining to “industry efficiency”. If we consider instead the expected economic value, the two groups are roughly equivalent although the actions with the highest rating (Aaa) of the second group outnumber those of the first (31 vs. 25).

Turning to the analysis of the left-hand part of the table, we can easily notice that the efficiency of the industry is pursued by A.B.I. mostly through cost reduction actions: either with measures aimed at increasing the efficiency of the structure of banks (119 actions) or by way of relieving them of excessive tax burdens (56 actions). With reference to this latter point we may recall that, notwithstanding the continuous efforts of A.B.I., banks are still the group of corporate subjects that are most heavily hit by direct and indirect taxation. Actions related to fostering the

professional education of bank employees account for slightly more than 10 percent of the total, while the interventions regarding the capital structure are few in number but quite important from an economic point of view as they comprise 2 Aaa ratings out of 7 interventions.

If we look to the right-hand side of Table 16 – the one encompassing the broad strategic goal defined as “Market positioning” – it is easy to underline that the highest number of actions (101 out of 178) are classified under the heading “customer relationships” and are therefore aimed at facilitating the activities of banks with regard to their traditional clientele, both retail and corporate. It should not be surprising to find out, however, that the majority of such actions (and also of the more important ones in terms of rating) are classified as pertaining to the relationships with the Public Administration: as a matter of fact, the banking system performs a long series of services linking its customers to branches of the Public Administration (for instance: tax collection; payment of wages to public servants) and these services often require repeated and time-consuming interventions from A.B.I., as it was already apparent in Box 2 presenting Case study n° 1 included in the Annex to the report. On the other hand, the efforts made in that direction tend to lay the ground for a continuous dialogue with Government bodies and consequently may enhance in some way the advocacy role entrusted to A.B.I..

Next in numerical importance – but also of high value according to A.B.I. ratings – are the actions which were undertaken in the period under consideration with reference to the shaping of the overall financial framework and particularly to topics related to regulation, transparency and efficiency (50 actions). Great attention has been paid also to the problems of non-performing and doubtful loans, the definition, reporting and tax treatment of which were the object of 46 actions (2 of which having the highest rating) during the 8 year period under consideration. Judging from the figures of Table 16, the diversification of products and lines of business has apparently received relatively less consideration; however, this broad policy goal

was possibly pursued and reached by A.B.I. in an indirect way, as a by-product of actions we have classified under different headings (e.g. bank-customer relationships).

The policy actions we have classified in Table 16 on the basis of accurate but somewhat subjective criteria, are exactly the same that were exhibited in Table 9, which puts the activity of A.B.I., so to say, in an historical perspective.

Looking back to such figures, we can come to the conclusion that the number of actions successfully completed in each year has been quite variable but that the overall positive economic impact obtained through them has steadily increased in the period under consideration. This conclusion is suggested by the growth of policy actions which are rated Aaa: 15 in 2004 against an average of 7 in the period 2000-2002.

Data collected and analyzed in Table 16 concern what we have termed "Interventions for policy changes" and are typical of the new approach with which A.B.I. has interpreted its traditional representative and advocacy role after the strategic and organizational changes initiated around the turn of the century.

Table 16
A.B.I. Interventions for Policy Changes Effected During the Period 1997-2004 Classified by Policy Drivers and According to Their Expected Value

ABI Interventions for Policy Changes effected during the period 1997-2004, classified according to their expected value (rating: A)																			
Industry Efficiency									Market										
Risk management			Management and staff	Burdens	Equity	Diversification of			Credit risk	Market Positioning			Industry						
Credit risk	Market risk					Product	Business line	Client		Doubtful Loans Management	Market infrastructure interventions	Market positioning	Advantages deriving from core business	Customer relationship		Regulatory			
Drivers	Monitoring and Management Instruments	Monitoring and Management Instruments	Employees professionalism	Taxation	Corporate Operating Structure	Capital requirements consistency	Product	Business line	Client	Doubtful Loans Management	Market infrastructure interventions	Market positioning	Advantages deriving from core business	Bank-Customer relations	Bank-Enterprise relations	Bank-Public Administration relations	Regulation Transparency and Efficiency	Accounting and Reporting	
	sum ind efficiency														sum market positioning		TOT:		
Number of interventions for each driver, ordered by rating	Aaa	0	2	12	15	2	31	0	2	3	4	5	1	1	5	4	0	25	56
	Aa	0	3	13	50	4	70	3	10	6	10	11	7	3	16	6	1	73	143
	A	1	19	31	54	1	106	6	34	9	4	11	9	10	49	40	6	178	284
Sum:	1	24	56	119	7	207	9	46	18	18	27	17	14	70	50	7	276		

The statistical analysis outlined above would be of little use in understanding A.B.I.'s activity in depth if we omitted to complete the picture with a few additional considerations which tend to underline the change of A.B.I.'s position from the mere protection of vested interests of the banking industry to an expertise - based attention for the achievement of higher efficiency for the economy as a whole.

We should first remind that each effort at policy change - even if of apparently minor importance - is always preceded and accompanied by the preparation of research papers on the issue involved. Such papers are not perceived as the final solution of the problem; in fact, they are considered as well founded documentary and analytical tools which pave the road for further discussions and negotiations and are used to tackle the issue among all concerned parties until the relevant authorities are able to reach a final decision consistent with their policy aims and accepted by all the parties involved. Should such papers prove unconvincing or should the solutions appear too lopsided in favor of banks, no action on them would be taken by the authorities.

This means that the quality and the perspective of the papers produced by A.B.I. must take fully into account the public good character of the result that is being sought: consequently they do not only make evaluations on costs and benefits of A.B.I.'s members, but also assess the impact on customers, communities, authorities and on the economy in general.

Case study n° 3, fully described in the Annex to this report, can be considered a clear example of how A.B.I. staff found a solution to situations of great difficulty and injustice faced by customers who lost the down - payments made in order to buy an apartment house when the builders or the prospective sellers, who financed their operations with bank mortgage loans, went bankrupt. The bankers' interest to safeguard the recovery of their loan exposures were given the same priority as the general interest of protecting the customers who were hit the most by the failure of the companies to which the building of their houses was entrusted. In such a successful regulatory change A.B.I.'s staff and the banks themselves offered policy-makers their expertise in mortgage

financing and in the intricacies of bankruptcy laws in order to promote a remedial action to situations which, if unresolved, might have damaged their reputation more than their profit and loss accounts.

Another distinguishing feature of many A.B.I. interventions is that they try to achieve an improvement or a better application of existing rules in order to simplify (and possibly enhance) their activity, while at the same time serving the needs of their customers in a more accurate and efficient way. Case study n° 4, described in the Annex to the report, can be looked at as a very particular exemplification of A.B.I.'s role of "honest broker" between regulatory/legislative bodies and parties who were interested in a clean, rapid and straightforward execution of auction sales of real estate belonging to insolvent mortgage borrowers. In such a case the vested interest of banks in recovering their loans were accomplished and harmonized with the public policy goals of reducing the length of juridical forced sales and of making them more efficient by enabling a larger number of people to participate to real estate auctions.

Table 17, on the other hand, tends to illustrate the development of the more traditional "outputs" (other than interventions for policy changes) that an association such as A.B.I. is called to routinely deliver to its members or to other interested parties: consultancy services; specific analyses; interventions aimed at sustaining bank profitability; actions directed at the support of A.B.I.'s image; institutional interventions. For each of these items and with reference to four periods - namely 2003, 2004, three quarters of 2005 and budget 2006 - Table 17 provides three types of information: number of outputs; their total amount (mln. euro); amount per output (euro).

An interpretation of the table underlines that pure consultancy outputs decrease steeply in number while increasing both their total amount and unit value, estimated with benchmarking methods; on the other hand, the outputs termed as "analyses" tend to grow in number and in value per unit, while other types of outputs do not show a definite trend. The final result deserves some attention: A.B.I. tends to provide banks with outputs having an higher value and whose total estimated revenue tends to double in 4 years' time.

Table 17
Outputs Provided by A.B.I., Other Than Policy Changes

Items	Final 2003			Final 2004			Q3-2005			Budget 2006		
	number	total amount (mln, euro)*	Amount per unit (euro)	number	total amount (mln, euro)*	Amount per unit (euro)	number	total amount (mln, euro)*	Amount per unit (euro)	number	total amount (mln, euro)*	Amount per unit (euro)
Consultancy	20.331	5,42	266,54	19.007	7,53	396,2	13.019	4,75	364,7	16.452	7,74	470,5
Research	907	1,61	1.777,29	859	1,97	2.287,50	1.126	1,79	1.588,80	1.548	2,46	1.589,10
Revenue	113	0,4	3.539,82	131	0,4	3.053,40	88	0,4	4.545,50	163	0,4	2.454,00
Image	53	0,27	5.169,81	75	0,39	5.160,00	82	0,42	5.170,70	87	0,45	5.160,90
Institutional	122	1,26	10.327,87	116	1,2	10.327,60	140	1,45	10.328,60	139	1,44	10.330,90
Total	21.526	8,97	416,47	20.188	11,48	568,7	14.455	8,81	609,3	18.389	12,49	679

*= estimated with benchmarking methods

4. Some Indications on A.B.I.'s Productivity

Before concluding the analysis of A.B.I.'s diversified outputs and after the glimpse we have provided of its production methods especially subsequently to the strategic transformation occurred in 2000, it may be useful to spend some words on A.B.I.'s productivity.

It is obviously no easy task for at least two reasons: the concept of productivity is far from being accurately defined at the theoretical level and there are no simple and clear-cut indicators for its measurement; this is all the more true when the concept is to be applied to an association, like A.B.I., whose mission is to increase the satisfaction of its members by enlarging their business and streamlining their working methods at the minimum cost.

Nonetheless, this paper has highlighted several aspects that seem to support the conclusion that A.B.I.'s productivity has significantly increased after the strategic turn of 2000.

We have already mentioned that modern management control methods were put in place in order to quantify, on an *ex ante* and an *ex-post* basis, the net benefits accruing to A.B.I. members and to the financial system from specific policy changes and other interventions.

With reference to policy changes interventions Table 9 and its detailed analysis provided in Table 16 - which both are based on data certified by the Regulatory Impact Analysis Office - leave no doubt on the fact that A.B.I. has done a good job in fostering policy changes having globally an high intrinsic value for banks and the economy.

If we turn the attention on A.B.I. outputs (other than policy changes), the increase in productivity appears to be confirmed by Table 17, which provides a breakdown of such outputs, for the 4 year period 2003-2006, according to the lines of activity involved and shows, for each of them, the

number of outputs and their unit and aggregate value, both of them showing a clearly defined growth trend.

Finally, the first Annex to the report gives a very long and detailed list of all the products presently supplied, either for a fee or free of charge, to A.B.I. members and other interested parties by the Research and Analysis Unit. One gathers the impression that A.B.I. is in the position to satisfy every possible request for information from its members and to collect, storage and analyze data and information encompassing almost any aspect of banking and financial activity, both domestic and international.

In Section 2 we described A.B.I.'s complex systems of funding and underlined that total member contributions remained roughly constant over the period at about 30 million euro per year. At the same time we emphasized that some of the services were sold for a fee and that their supply was decentralized into *ad hoc* organizations, such as A.B.I. Servizi, which were required at least to break even from a cost/revenue point of view. It follows that A.B.I. members obtain part of their services on a fee-based scheme which allows to pay them only if, when and in the amount they actually need them.

As a matter of fact, the creation of satellite and specialized companies is but one of the developments that testify A.B.I.'s managerial attitude to efficiently providing services to the financial community. Part of the persons working e.g. for A.B.I. Servizi, belong to A.B.I. itself and are seconded to the affiliate company; the latter, in its turn, hires directly the personnel it needs, taking advantage, wherever possible, of less exacting and costly labor union collective agreements and also experimenting with new forms of individual labor contracts, such as project contracts, term and part-time contracts and eventually forms of outsourcing of the production of some services.

Table 18 clearly shows that the growth of activity occurred in the period 1997-2004 did not require a parallel increase in the staff working at A.B.I. and at its entities. In fact, the overall number of personnel being on A.B.I.'s direct pay-list, which was 348 in 1997, stood at 346 in 2004 after a minor increase during the central part of the period. These data may be held to mean that the increased amount of A.B.I. activity - whether it was connected with the representative and advocacy roles or more directly focused to the improvement of the financial system and thus, indirectly, of the profitability of the banking activity - has been produced by roughly the same number of employees, who evidently found an incentive towards higher productivity in the better organization, planning and control of their work and in a more focused strategy.

*Table 18
Breakdown of Staff Working at A.B.I. and Its Entities 1997-2004*

	1997		1998		1999		2000		2001		2002		2003		2004	
A.B.I.	291		282		291		300		301		292		278		285	
<i>Entities other than A.B.I.:(*)</i>																
A.B.I. Servizi	25	10	20	11	36	15	36	30	33	30	29	52	29	62	29	64
Other entities	32	0	29	0	22	0	20	0	18	0	18	1	32	9	32	23
Total staff	348	10	331	11	349	15	356	30	352	30	339	53	339	71	346	87

(*) The first column indicates the number of persons seconded by A.B.I. while the second column shows the personnel directly hired by the company controlled by A.B.I.

Part of the efforts to obtain a higher and more qualified level of production was sustained by A.B.I. Servizi in which the personnel directly hired rose from 10 in 1997 to 64 in 2004. Also the staff engaged in other entities - where A.B.I. keeps some employees in order to administer them or to follow in a better way particular types of activities - has grown in the period, but now is composed in a higher proportion by persons directly hired by the entities themselves: a factor that may give A.B.I. more flexibility in handling such entities.

The changing role of A.B.I. - and, *prima facie*, the increased productivity of its personnel - may be mirrored also in the following statistics which provide the distribution of total staff according to their status or hierarchical level in the organization and also according to their formal degree of education. Both sets of statistics seem to indicate an improvement of the quality of the staff employed and possibly a step towards technocratic roles and away from bureaucratic ones; at the same time they are consistent with the enlarged and more qualified scope of A.B.I. activities and with its increased number of outputs.

As can be seen from the following Table 19, the number of persons having the role and the remuneration of managers (Dirigenti) has steeply declined from 36 at the end of 1997 to 26 in December 2005; at the same time the number of personnel having an intermediate level of responsibility (Quadri) has increased from 113 to 176 while the number of employees (Impiegati) has been correspondingly reduced from 169 to 116. Also the persons who are assigned less qualified roles or roles only indirectly connected with the production process (Commessi/Ausiliari) have diminished from 30 to 24. It is also to be noted that since 2001 for several positions A.B.I. has availed itself of a new type of contract (Collaboratori) which is more focused on specific projects and affords the employer an higher degree of flexibility.

Table 19
Distribution of A.B.I. Personnel According to Functions and Hierarchical Position (1997-2005)

		Staff as of end 1997	Staff as of end 1998	Staff as of end 1999	Staff as of end 2000	Staff as of end 2001	Staff as of end 2002	Staff as of end 2003	Staff as of end 2004	Staff as of end 2005
Roles	Managers	36	29	22	27	23	25	26	27	26
	Intermediate officers	113	108	120	126	144	143	155	168	176
	Employees	169	165	180	177	162	149	137	130	118
	Clerks, etc.	30	29	27	26	23	22	21	21	24
	Collaboratori	/	/	/	/	29	26	26	19	32
	Total	348	331	349	356	381	365	365	365	365

A confirmation of the good quality of the personnel employed and consequently of its productivity or at least its adaptability to changing tasks can be indirectly drawn from the following break-up of the 376 persons (199 women and 177 men) presently in force in A.B.I. according to their level of education:

Degree	177
High- school diploma	135
Secondary school license	62
Primary school	<u>2</u>
Total	376

5. *Some Tentative Conclusions*

In approaching the end of our research we should try to outline the main reasons for A.B.I.'s evident success in many fields of activity and, on the other hand, the factors which might explain the shortcomings banks still have to face.

Although it may seem obvious, the main reasons for success must be traced to the highly representative nature of A.B.I., of which, as we said, all the major components of the financial industry are members, and to the fact that it has managed to obtain the support of both top officials and of the most prominent experts of member banks, for both of whom the actual participation to the workings and to the organs of A.B.I. usually represents not only the acknowledgement of a welcome status symbol, but especially a definite commitment to a cooperative effort aimed at promoting the advancement of the financial sector. Obviously the cooperative effort was made easier by the fact that the Italian banking system was formed by a large number of banks and was characterized by a small degree of concentration: a situation which allowed more room for reaping cost advantages and economies of scope by joining forces for pursuing common projects: this was the case, for instance, of the modernization of the payment system and the creation of electronic markets. As a consequence of such a situation, A.B.I.'s actions may be considered more timely, focused and effective than in the case of a looser and less committed participation of its members.

Next in importance are the accumulation over time of factual statistical data on every aspect of the financial activity and the readiness with which A.B.I. engaged itself in research projects on new or emerging issues by drawing not only on its members' intellectual resources and experience but also on external counsel and by linking itself with parallel studies conducted by regulatory authorities and by independent research organizations.

The gradual building, in core A.B.I. structures, of what may be loosely termed as a sort of a central financial intelligence unit, has in a sense taken the place, at least in part, of the activity that in the past was the domain of the Research departments of the largest banks, which are now focused more directly on their own specific management and strategic problems. Such a development has greatly enhanced A.B.I.'s reputation and reliability as a source of information on financial problems and has allowed its staff to negotiate feasible solutions with other concerned parties from a stronger position.

A third reason for success of A.B.I.'s action in recent years can be directly related to the lamentable state of large portions of the Italian economic, legislative and financial structures and to the parallel efforts which were initiated at the political level in order to modernize them with a view to improving the competitive position of the country in the European Union context. The central position of banks in the economy, the cohesion of A.B.I. members and, at least since 1999, the reorganization of its structures and operating methods have given A.B.I. the opportunity of playing a timely and significant role in some areas of this difficult process.

On three counts, on the other hand, A.B.I. appears to have obtained a less than satisfactory performance in recent years.

The first one lies in the area of taxation where banks' income seems to be a preferred target of the tax authorities, while rumors of new or additional taxes on financial instruments are regularly voiced each time Financial Laws approach parliamentary discussion.

A second shortcoming has to do with the overall image and reputation of banks in public opinion. As a matter of fact, both of them were occasionally badly spoilt by the corporate bankruptcies and by the mismanagement of securities placements in which some banks were deemed to be involved. Of course the upkeeping of the behavior of its members is an important task of any trade association; in the case of A.B.I., however, there was not much it could do besides illustrating best practices, approving codes of conduct and encouraging members to mutually control their behavior.

Finally, banks fall short of being considered by customers and by public opinion as low-cost and strongly-competing providers of financial services. This allegation seems far from being proved true and does not certainly apply to vast areas of the banking business which are visibly subject to competitive pressures. Such widespread belief has been tackled by A.B.I. through a long-term program of communication directed at retail bank customers and aimed at providing them with basic information on standard financial products and especially with the possibility of analytically comparing the economic and technical conditions at which they can be obtained from different banks. This plan for customer education, which tends to transform transparency of products requirements from a legal obligation of banks into an opportunity for improving bank-customer relationships, will probably take much time and effort before it can reverse current opinions which appear deeply entrenched in the ways in which the general public and the more important media usually view the activity of banks.

Milano, Università Cattolica

December 23, 2005

Postface

At the first glance, the universe of ABI as described in Francesco Cesarini's study looks like an ideal world for a market participant from a South-Eastern European (SEE) country. Many of the differences appear impossible to bridge from an objective point of view. The very large number of stakeholders of ABI, making individual financial contributions smaller in relative terms; their homogenous background in terms of ownership, as most banks are domestically owned; and the traditional culture of the authorities taking a co-operative attitude when faced with requests from the bank association, all these are elements which are conspicuously lacking in SEE countries. If one adds to this the impressive technical capabilities of ABI due to the outstanding quality of their staff, it would look like a whole generation may not be enough to transform a bank association from SEE into an ABI-like institution.

So, is the example of ABI so perfect that it should discourage the less developed banking systems to try and follow its example? Perhaps not; in fact, the mere fact that such an experience proved to be possible in one country is a testimony that it can be replicated in others. And the objective differences may not necessarily be construed as disadvantages, but merely as particularities which may change the architecture, but not the genuine effectiveness of a Bank Association.

Take the smaller number of credit institutions; while this may mean a higher individual financial participation of banks as shareholders in the Bank Association, it may arguably represent an advantage as well in terms of making the decision-making process easier. Also, the cosmopolite ownership of the banks may generate support in favour of a strong Bank Association, as most mother banks are located in countries in which BAs have already a long, successful history which they would like to see replicated in the environment in which their subsidiaries operate. And while SEE countries are usually notorious for the lack of dialogue between authorities themselves on the one hand and authorities and market participants on the other hand, it is also true that the

intervention of a strong outsider, be it an IFI or the EU itself, is likely to bring everybody around the table if strong and focused enough.

After this, what remains to be achieved to build-up a ABI-caliber Bank Association is still not easy, but is more technical in nature: to put together a number of highly-qualified professionals and give them the instruments to perform high-class analyses in virtually all aspects of banking or banking-related activity. This, together with a corporate governance system that will allow stakeholders to measure performance against resources will guarantee the functioning of the BA in the way a corporate works, rather than keeping it a bureaucratic, unaccountable institution. And here it is that Francesco Cesarini's study is at its best: it describes so convincingly and in such details the ABI experience, that it constitutes a most valuable handbook for those BAs who would like to use it as a reference.

In the end, I believe that Professor Cesarini's study has achieved all its goals: it provides inspiration for those banks in SEE who want to improve the way their voices are heard by the authorities; it provides information, as it shows in detail how one of the best Bank Association is organized and works; and finally, it provides a challenge for those who do not want to settle for anything less than the best. I am sure that following the publication of this study, we will see more and more good quality Bank Associations in the SEE countries, which will ultimately benefit not only the local banks, but the general economic environment as well.

Mihai Bogza
Former Vice Governor
National Bank of Romania and
Senior Advisor (Market Participants)
“Convergence” Program

Postface

In my seven years of experience as a Central Bank Governor in Albania, while leading the efforts to carry out reforms and modernize the country's financial system, I came across several regulatory initiatives and practices, where collective industry efforts were considered a requisite, not only to bring benefits to specific financial sector reforms, but also to the economy in general. Sometimes, there exists a misleading perception that a common voice from the banking association will create value only to the members of association. However, I have to admit that, for a number of reasons such as efficiency, synergy, opportunity cost, etc., in most cases, it is the Central Bank's and the Government's interest to cooperate with a strong, common, representative and authoritative institution rather than with individual banks. The missing link in this "value chain" is exactly the capacity of the region's banking associations to spearhead regulatory initiatives and assume increasingly a catalyst role for consultations with regulatory authorities and with other stakeholders on policies affecting the financial sector. Despite significant efforts made to set up democratic and transparent banking associations in the SEE countries, the reality is not very rosy. Though credited with a wide range of functions, the most common activity of banking associations in the SEE countries nowadays is occasional lobbying to the authorities. Practical evidence has demonstrated that the associations do not provide many real services to their members as compared to their western homologues, nor do they possess the internal qualified and technical resources to undertake the tasks mandated to them or furthermore, articulate the concerns of the industry to the authorities efficiently.

Before initiating a relation with an industry association, the authorities would be normally asking the following questions to ascertain they are dealing with the right counterparty: What is the level of representation of these associations? How are they elected? What is their corporate governance and how do they secure funding? How do domestic, large and small banks get heard within these bodies? What analytical capacities do they have to support their stances or industry positions? Who decides what tasks the association takes on and on what criteria? The answers to these kinds of

questions could be found if one navigates through Prof. Cesarini's study on ABI, where the author skillfully covers the relationship between the association and its members, the association and authorities, as well as the association and the third parties. Furthermore, after reading this study, one can grasp a better understanding of the functioning and organizational structure of banking associations.

Prof. Cesarini's study sets out to explore the comprehensive role bankers' associations play in a developed country, in our case - Italy, starting from providing members with a variety of services and representing the industry interests to the authorities until undertaking coordinated regulatory tasks. The study accomplishes successfully this mission by examining the context of the challenges that privatization, liberalization, EU integration and adherence to international practice have posed to these associations over a prolonged time span. The vetted proposition here is that individual banks need to join their efforts to increase their cooperation through the association and take a proactive role in order to face the new challenges. In this respect, the study highlights the vital complementary role banking associations have played to the regulatory authorities' efforts in pinpointing areas of intervention and promoting a more progressive, dynamic and resilient banking system. In addition, it gives evidence to banking association actions in articulating with a common voice the position of their members to promote the industry interests. In most cases, the Central Banks and authorities themselves have stimulated the process of strengthening the bankers' associations.

Practical Implications of ABI Study for the Authorities of SEE Countries Could Be:

- SEE countries have been offered through this study a winning, “ready-to adopt”¹ model of banker's organization, with lessons retrieved from almost a century of successful ABI's experience.
- A Central Bank could see the direct relevance of the associations. It needs the association, as a trustworthy and technical partner not only for the supervision issues, but also for the

¹ After taking into consideration the individualities of each country.

transformation of country's financial system and the improvement of efficiency to the benefits accruing to all economic agents. A well-organized and strong banking industry could set priorities, initiate reforms, conduct economic analysis, coordinate with third parties (producers, consumers and trade associations) and authorities, draft, negotiate, prepare position papers and implement regulatory changes, as well as measure the regulatory economic impacts for the industry, economy and society at large.

- Government and legislative authorities would resort to a strong banking association to get their views not only for the legislation encompassing banking activities, but rather on more general economic issues. More specifically, highly qualified bank associations could be pivotal in leading economic and juridical research efforts. As the study demonstrates, the opportunity costs incurred from the absence of a jointly coordinated and legitimate industry voice to make well-designed policy formulations to authorities are substantial. In this context, SEE countries have still a long way to go. In addition, strong, professional associations can ease the burden of authorities by participating with direct projects as shown in Prof. Cesarini's study such as the creation of a large wholesale market for government long-term debt and transformation of Italian Stock Exchange.
- The SEE countries are under the pressure of catching up the time for harmonization of bank rules and practices with the EU legislation and implementation of international standards, including: Basel Accord, promotion of high standards of ethical code of market conduct to meet consumers' rising expectations; strengthening the consumer protection framework through disclosure standards, effective dispute resolution mechanisms and promotion of fair practices, etc. Besides authorities, the role of banking associations is paramount in this process.
- The creation of a regulatory environment that fosters innovation and competition, while promoting best practices to preserve financial stability prompts for continuous and efficient dialogue between private and public sector.

Finally, I think it is essential that authorities and international institutions play a role in ensuring that the potential of banking associations to promote and conduct collaborative initiatives is not overlooked. This calls for:

1. Creating a friendly policy environment that facilitates the development and activities of bank associations and encourages open and constructive dialogue between authorities and associations;
2. Improving the mutual coordination between authorities and associations;

increasing support (through providing statistical information and exchange of information with Central Banks, etc.) to assist banking associations in the delivery of their various functions, from bank services to regulatory tasks.

I strongly believe that Convergence is among the programs best positioned to bridge actually this gap.

Shkelqim Cani
Former Governor
Bank of Albania and
Country Senior Advisor
“Convergence” Program

Annex I

Plan of the Activities Assigned to the Finance Commission for 2006

1	Federation Bancaire Européenne: participation to the Working Group European Securities Infrastructures
2	Participation to the management committee of the official list of financial salesmen
3	Federation Bancaire Européenne: participation to the Financial Market Committee
4	Italian Committee of the Global Investment Performance Standard - GIPS
5	Depository bank: draft convention concerning pension funds
6	Investment funds and SICAV: general rules
7	Regulatory schemes of secondary markets
8	General regulation of clearing and settlement services
9	Regulation of systems providing settlement, netting and guarantees of transactions on financial instruments
10	General regulation of financial salesmen
11	General regulation of investor solicitation
12	Project finance: development of the Italian market for electric power
13	Transposition in the Italian legislation of the EC Directive on pension funds
14	Implementation of the Directive on the market for financial instruments
15	Directive on prospectuses
16	Best practice rules for the depository banks for pension funds
17	General regulation of asset management
18	Review of the role of sponsoring banks in Initial Public Offerings
19	Consob rules on securities firms: review and relevant contractual agreements
20	Consob rules on issuers: review
21	Consob rules on securities markets: review
22	Project finance: global guarantee for the execution of works
23	Market information
24	Corporate actions: relationships between issuers and depositories
25	Transparency: periodical and continuous information
26	Consob rules on securities firms: standardised information on risks
27	Development of debt capital market instruments for corporations
28	Project finance/acquisition finance: the impact of thin capitalization on structured financing operations
29	Private banking
30	Development of private equity and venture capital activities
31	Regulatory schemes for primary markets
32	Small business: methods for promoting their listing on the Expandi market
33	European Directive on Capital requirements (transposition in the Italian legislation): market risk
34	Data collection and monitoring of the systems of organized securities transactions (SSO)
35	Data collection and monitoring of the issue and the placing of bonds according to Sect. 129 of the Unified Text of Banking Laws
36	Evolution of the EU regulations concerning asset management
37	Proposals aimed at simplifying rules concerning the offering of open pension funds
38	Draft convention with a depository bank of investment funds aimed at comprising the calculation of the net asset value of fund shares

Annex 2

LIST OF PRODUCTS AND ACTIVITIES (OUTPUTS) PROVIDED BY THE RESEARCH AND ANALYSIS					
TITLE	TYPE	PROVIDED EVERY	DESCRIPTION	INTERBANKING WORKING GROUP	EXTERNAL ACTORS INVOLVED
<u>Economic Outlook & Financial Information</u>					
<i>National & International Outlook</i>					
AFO, Banks Financial Outlook	paid product	6 months	This product aims at supporting banks and financial institutions in their operating and strategic management. The AFO report is based on the forecasting of a group of banks used as representative sample. It reports on the evolution in the short/medium term of the most relevant financial data, national and international, with particular reference to the Italian area and the Euro zone.	YES	
Groups register	activity	3 months	Based on the official database of Banking Groups set by Banca d'Italia, this register includes the structure, movements and financial data of each group. The document represents a point of reference on the structure and evolution of banking groups. More specifically it gives: <ul style="list-style-type: none"> - the composition of each group divided for type of economic activity of the banks members of the group; the number of participants at the present date compared to previous years; the number of foreign banks included. - A table for each group specifying the members and the new entries and drops compared to the previous trimester. - A section dedicated to the main figures of the balance sheet, drawn from the semester summary of ABI. 		
Report on the Italian Banking System	activity	6 months	The activity centers in reports analyzing the most important banking activity evolution in the financial data of the balance sheet and profit & loss of each bank and bank group. The main focus being on profitability, productivity, liquidity and risk.		

ABI Monthly Outlook on financial and credit markets	paid product and activity	monthly	<p>It provides the members with updates on the dynamics of key variables of interest in the banking balance sheets, and with interpretations on its major changes. Specific attention is devoted to interest rates evolution in the financial and credit Italian market, compared to the foreign ones. The operating of financial and monetary intermediaries of the 12 EU members is taken as benchmark. Specific focus is also given to issues like loans market, private equity, venture capital, security industry, internationalization of bank groups, standardizing banking financial flows, and SME's-banks relations. (SME= Small and medium Enterprise)</p> <p>Data are collected from ABI, European Central Bank, Banca d'Italia, Istat, Isae, and other national and international think tanks and research centers.</p>		
Macroeconomic & public finance: Research and Analysis Unit	activity		<p>The notes provide information, data, analysis and deepening on the main issues of macroeconomic and public finance. They usually draw attention on areas of particular interest for the specific juncture. Data are collected from European Central Bank, Banca d'Italia, Istat, Isae, and other national and international think tanks and research centers (IMF, OCSE).</p>		
Banking and financial industry: Research and Analysis Unit	activity		<p>The notes provide information, data, analysis and deepening on the main issues of macroeconomic and public finance in Italy as well as the main industrialized countries. The areas of interest developed are related either to ad hoc issues or structural ones. Data are collected from European Central Bank, Banca d'Italia, Istat, Isae, and other national and international think tanks and research centers (IMF, OCSE).</p>		

Payment services market analysis	activity	3 months	<p>The supply of the payment systems by the Italian banking structure is analyzed focusing on specific areas gathered in 4 main families of services:</p> <ul style="list-style-type: none"> - Paper cashing and payments. - Electronic cashing and payments. - Checks. - Operations. <p>In addition, statistic data, drawn from Banca d'Italia from a sample of banks, are provided as absolute values and grouped in:</p> <ul style="list-style-type: none"> - withdraws, deposits - checks - credit transfers - cashing - information on banking and commercial relations - credit cards 		
Competition	activity		<p>Analysis and statistical information that aim at monitoring banking competition in order to support the members in defining strategic plans, business areas as well as in targeting clients.</p> <p>The increased competition due to a consolidating European market is hitting not only banks, but also insurance companies and institutional investors. This is being exacerbated by a surge in telephone marketing that breaks the borders of territorial impact.</p>		
<i>ABI Informational System</i>					
Bilbank	paid product	6 months	<p>Bilbank is a software, an analysis of banks balance sheets brought up with the support of CD ROM. The updates are delivered periodically. Through this product, information is collected and can be compared to supply for each bank: a management analysis, market positioning, historical comparison.</p>		

Banks balance sheets	paid product	annual	It is a database containing all the balance sheets and financial information for all the Italian banks and banking groups. A special software allows an easy sorting of information according to type of institution, type of document, auditing company, stock market of reference, period of time considered.		
ABIbank	paid product	6 months	<p>ABIbank gathers complete financial information that ABI collects from a selected and consistent pool of banks. The main Italian banks and banking groups have joined this initiative; they represent 90% of the total asset. Beside the standard balance sheet and profit & loss, other information refers to:</p> <ul style="list-style-type: none"> - Asset and liability distribution and concentration. - Asset and liability temporal distribution. - Asset and liability territorial distribution according to the location of the bank. - Asset and liability expressed in currency different from € - Table of operations out of balance. - Doubtful credit (bad loans). - Equity requirements. - Assets and liability toward enterprises of the group. - Shareholdings and fixed assets. - Average employees and front desks number. 		

Review of Banca d'Italia return flows	activity	Monthly, 3 months	The increased importance of the European Central Bank has brought about some change in the information requirements from banks to Banca d'Italia. On this regard, Banca d'Italia and ABI aim at rationalizing the structure of return flows that arrives to the European Central Bank, and want to create an integrating scheme of the different information sources. The analysis focuses on the matrix of accounts and financial data, consolidated information, and information on outstanding loans, losses etc. All these flows of information goes from the banks members to Banca d'Italia, with a copy to ABI; Banca d'Italia aggregates all these data and return it to all the banks. 2 products are created: BASTRA1 (monthly database comparing gross data) and BASTRA2 (3 months database comparing management indicators). The information needed at the level of the European Union is delivered to the European Central Bank.	YES	
Balance sheet calculation matrix	activity		The matrix relies on the detailed ABI database and uses data collected from more than 190 banks and consolidated bank groups and from the return flows drawn up by Banca d'Italia. This matrix elaborated by ABI is for the only use of ABI analysts in the area research and analysis.		
Business benchmarking	paid products	3 months	The project wants to give to all the banks members of the ABI matrix information on the different business areas to be used for benchmarking. The business areas to which a benchmarking can be applied are: interest rates, payment systems, credits, asset management, risk monitoring, treasury, over the border activity, human resources. In addition to that, new statistics on interest rates in the EU market are available, with comparatives data on relative prices trends. Sources are Banca d'Italia data, including the return flows BASTRA1, BASTRA2 and ABI matrix.		

Current reports on deposits, interest rates and investments (ABI decadali)	activity	10 days	Financial data and banking interest rates drawn by members to be used as part of statistical information provided by ABI to its participants. These data are desegregated into dimensional classes, and geographical areas.		
Interest rate statistics	paid product	monthly	Integrated statistics on interest rates applied to financial institutions in the Euro area (all the 12 countries). More specifically there is available: 10 days banking reports, monthly outlook on banks, average of single countries belonging to the Euro area. 125 banks supply ABI with their flows of information to receive later the statistical data.		
Market statistical data (Comitato ATECO ISTAT)	activity		ABI participation to the National Institute of Statistics in the classification of economic activities. ABI counterpart is named ATECO. This activity wants to: provide statistical data on the Italian productive and social system, ensure the comparability of statistical data internationally, provide an effective support to local and central administrations.		
Financial information statistical data (quality club ISTAT)	activity		ABI takes part in the quality club of financial services, coordinated by The National Institute of Statistics. The purpose is to provide a technical document of support to the National Statistical Program. The club is composed by: ISTAT, Treasury Ministry, pension fund monitoring commission, ISVAP, Post Office, and with the collaboration of the Banca d'Italia.		
Working table on banks-companies	activity	3 months	Partnership between ABI and Representatives of the different working categories associations (craftsmen, farmers etc.) designed to hold up credit relations between banks and companies and define a frame of shared information. The produced reports offer data on funding of all the market segments. More specifically, they give: the duration and geographical areas of funding, ratio of funding agreed and used, facilitated credit, doubtful credits, interest rates and guarantees required.		Sector associations

Annual econometric model on the Italian banking system	paid product	6 months	The quantitative model supports the banks in their operating and strategic management through provisional scenarios and simulations. This consents a forecasting of economic policies, and of the impact of an exogenous shock on the sector accounts. The econometric model uses a database with the annual historical series of the Italian banking financial data, Banca d'Italia official statistics, and ABI statistics.		
Companies setting	activity	6 months	This product points towards a periodical monitoring of the structure of the main Italian Banking Groups: size, stock exchange equity funding, main shareholders, foreign shareholders, trade unions pacts, company organs and front desk distribution. The product is formed by three parts: <ul style="list-style-type: none"> - Tables with data on size, equity, equity raising of banking groups. - Owning structure of banking groups. - Banking group composition, other relevant participation, organization, territorial distribution. 		

Benchmark financial data	paid products	3-6-12 months	<p>It is realized by the area research and analysis. It give the opportunity to the bank clients to receive their positioning after deciding the peer group of reference. The management profiles analyzed are: financial structure, equity structure, net income, interests, proceeds, commissions, distributive channels, costs, risks, liquidity, internationalization, productivity, employees and client desks. The peer group of reference is selected by the client bank/group, which takes as comparing items, size and territorial distribution of the client desks.</p> <p>The analysis show:</p> <ul style="list-style-type: none"> - The deviation of the bank/group compared to the mean of each sample of reference (including the peer group). - The historical series for the last three years of each indicator. - The positioning of the bank/group compared to the peer group, based on a ranking calculated with the analyzed variables and statistical parameters of each item individually and at an aggregate level. <p>Sources of the product are the audited balance sheets.</p>		
Banking service pricing survey in Europe	activity		The scope is to provide a reliable overview of the banking services pricing in the main European countries, compared to the different consuming models of the services in the same countries.	YES	Mercer Oliver Wyman
ABI banking data	paid product	daily	It is a software managed by ABI to question and analyze financial information of banks. The output is a database of banks financial data. It works as a sort of search engine able to provide documents, analysis, reporting of financial data, research and elaboration of territorial and company data referred to the Italian financial system. The information is drawn from 1,000 banks/banking groups, putting together 2,000 variables for each period/bank/group, starting from 1993. The product is addressed to banks, research centers, universities, consulting firms.		Nexse - Wlab

Extensible Business Reporting Language	activity	<p>Nowadays the communication needs to be standardized in order to be effective, cost saving and to shorten the gap of information distribution. XBRL wants to represent a leap forward in the evolution of the informative systems aiming at transparency and preciseness of information. This common language for the financial communication of companies, makes it possible to shrink the risk of errors and save on the costs. The new language wants to affect:</p> <ul style="list-style-type: none"> - Accounting principles - Communication means - Relationships between banks and private enterprises - Relationships between banks and regulatory institutions - Relationships between banks and auditing companies <p>On that regard, the International Accounting Standard Board is already proposing its output in XBRL standard in order to facilitate the realization of the project. .</p>	Banca d'Italia, Confindustria, ANIA, Assonime, Consob, Isvap, Borsa Italiana
--	----------	---	--

Risk and Profitability					
<i>Risks</i>					
Review of Basilea 1988-credit risk	activity		<p>ABI seeks support and promote the achievements of the Basel Agreement of 1988 in order to develop a framework that create stability in the banking system alleviating competitive disparities between banks at an international level. ABI role is to support and advise members in the interpretation and application of the directives, as well as protect and defend the members interest at the European level. Areas of interest are:</p> <ul style="list-style-type: none"> - counterpart risk in the trading book, - double default treatment (in case of default of guarantor and guarantee), - review of the maturity calculation in some short-term exposures applying the Internal Rating Based Method dictated by Basel. <p>Another area includes the Capital Adequacy Directive, where ABI has presented to the Euro-parliament a few amendments to the directive.</p>	YES	Banca d'Italia, Basilea Committee, EU, CEBS, FBE, EBIC, IBFED
Credit Risk Rating	activity		<p>As part of the Basel Directives, there are 4 evaluation methods part of the Internal Rating Based Method, advanced section:</p> <ul style="list-style-type: none"> - probability of default - loss given default - exposition ad default - maturity <p>The issue of estimating LGD (loss given default) has been dealt by the working groups of ABI in an effort to support the decision making process of credit in its different phases, including the pricing. In addition to that, ABI has set a system of data pooling. This, together with the Italian database for operating losses (DIPO), represents a good source of information and archive. LGD study has focused on internal estimates; a set of data has been created as benchmark. Sources are Banca d'Italia, European Commission, specific literature. Users are members, academia, consulting firms, Banca d'Italia, European Commission and European Banking Federation.</p>	YES	Banca d'Italia

Review of Basilea 1988: operating risk	activity		In view of the Capital Adequacy Directives, the operating risk has to be covered with proper insurance policies of specific duration and characteristics. To be distributed to all members, national and international monitoring authorities, European Banking Federation, Academia, consulting firms.	YES	Banca d'Italia, Basilea Committee, EU, CEBS, FBE, EBIC, IBFED
Italian database for operating losses (DIPO)	free product	6 months	DIPO represents an instrument that, in the respect of data privacy, provides a national database of operations that cause operating losses. It is used by members to build historical series and see the evolution of operating losses in the Italian banking System. Technical Committees DIPO are created for this purpose to discuss issue of particular interest.	YES	Banca d'Italia
Risk Management Plan	paid product		The training plan: <ul style="list-style-type: none"> - provide a unitary idea of Risk Management Activity - make members more aware and provide understanding of risk analysis following Basel innovations. - Provide to all members a vocational training. - Make participants active parts. - Provide information, monitoring and support. 		
Environmental Credit Risk	activity		Basel 2 doesn't mention openly the environment as an element of risk or as point to be considered when analyzing the security of a client. The initiative is left to the discretion of the banks. Nevertheless, environmental risk assessment is becoming more and more popular. ABI is creating a specific Unit with this purpose.	YES	

Government & Oversight					
Costing benchmark	paid product	yearly	<p>The increasing importance of operating costs in financial intermediaries strategies, has led to create a pool, that in 2004 amounted at 131 banks and 42 credit groups handing financial data. The questionnaire for collecting information is quite detailed: from activity to investments, to distribution channels and e-commerce services. In addition, issues related to the social responsibility of the company, are touched too. The environmental variables assessed are: energy, paper, water, waste connected to the banking activity.</p> <p>There are 2 reports.</p> <p>The General Report provide inquiries on:</p> <ul style="list-style-type: none"> - business structure - technology - administrative costs structure - saving strategies - human resource - distributing channels - investments - containment costs and policies <p>The Personalized Report: each participating bank receive the list of banks available for confrontation with a minimum of 12 and a maximum of 15 banks used as a benchmark. The comparison is made with average values and with single values for the peer group. If group information is available, consolidated analysis is provided too.</p>		

Area compliance in banks	activity		<p>The compliance function in banks is supported by the Basel Committee. It is a set of laws, regulations and standards. The Unit of compliance of each bank must have the following features:</p> <ul style="list-style-type: none"> - be independent and self-sustaining - its responsibilities need to be clear - its working must be subject to a periodical internal audit separated from the Unit of compliance itself. <p>ABI's team backs the Unit of compliance through an activity of legal inventory, and a monitoring of new regulations, at a national and international level.</p>	YES	Banca d'Italia
Working Group on the Terminology in Risk Management	activity		<p>ABI has set up a specific working group to work on a document of terminology on risk management. This would not be limited to the economic and financial area, and would use national and international documents.</p>		
Unitary product costs	paid product	una tantum	<p>Cost measure is paramount; main objectives are:</p> <ul style="list-style-type: none"> - management profitability (shareholders value creation, client profitability). - Product process efficiency - Cost product defining (for a correct equilibrium between costs and revenues) <p>ABI has set up a new activity; it wants to define a model of operating standard cost measuring of product. As a consequence, each bank will be able to make confrontations on the costs of all the phases of process/product. The production costs analyzed are connected to: HR, IT, outsourcing.</p>	YES	Manager service

<i>Resources</i>					
ABI salary survey: basic model	free product	yearly	<p>The purpose of the survey is to analyze a pool of more than 100 key positions in banks to see their remuneration policy. The survey wants to help the activity of human resources in order to adopt wage policies regarding specific positions. The data gathered help the members to see:</p> <ul style="list-style-type: none"> - the correspondence between the bank salary policy and the market of reference. - The internal wage equity between the different positions. <p>From this research other information can also be drawn regarding: human resources management, employees structure for each position including age, seniority in the company, seniority in the position, educational background of employees. The aggregates considered are gross annual salary, total annual salary, and the fringe benefits. Comparability of data between different banks is insured:</p> <ul style="list-style-type: none"> - by a standardization process of the different positions, - by assigning to each position a score according to importance that should measure the salary level. <p>The wage survey is based on a model of ABI. With this model the banks that are heads of the group can assess the salary policy inside each bank part of the group, each part of the business, looking at the market benchmark. To reach this level of evaluation the analysis is structured in 4 parts: <i>Basic Survey, Private Banking, Wealth Management, Investment Banking</i>; each of these is then divided in other activities.</p>	YES	Hay Group

ABI salary survey: wealth management model	free product	yearly	<p>The investigation entails:</p> <ul style="list-style-type: none"> - resources management, policies and standard procedures. - Hiring policies: organisms, turnover. - Retention and motivational policies; training and mobility - Key positions salary levels: fixed salary dynamics, motivation systems - Benefit policies <p>The documents needed to further the study are:</p> <ul style="list-style-type: none"> - files on the positions to be analyzed - a questionnaire on resources management policies, incentives and benefits - a spreadsheet for the salary data <p>The output is a General Report and a Personalized Report of benchmarking.</p>	YES	Hay Group
ABI salary survey: private banking model	free product	yearly	<p>The research plan includes:</p> <ul style="list-style-type: none"> - resources management, policies and standard procedures - Hiring policies: organisms, turnover - Retention and motivational policies; training and mobility - Key positions salary levels: fixed salary dynamics, motivation systems - Benefit policies <p>The documents needed to further the study are:</p> <ul style="list-style-type: none"> - files on the positions to be analyzed - a questionnaire on resources management policies, incentives and benefits - a spreadsheet for the salary data <p>The output is a General Report and a Personalized Report of benchmarking.</p>	YES	Hay Group

ABI salary survey: investment banking model	free product	yearly	<p>The research plan includes:</p> <ul style="list-style-type: none"> - resources management, policies and standard procedures - Hiring policies: organisms, turnover - Retention and motivational policies; training and mobility - Key positions salary levels: fixed salary dynamics, motivation systems - Benefit policies <p>The documents needed to further the study are:</p> <ul style="list-style-type: none"> - files on the positions to be analyzed - a questionnaire on resources management policies, incentives and benefits - a spreadsheet for the salary data <p>The output is a General Report and a Personalized Report of benchmarking.</p>	YES	Hay Group
PayNet ABI	free product	yearly	<p>It is a method to query the database of ABI salary survey base model. Salary markets of reference can be built in groups, professional families, contract category, score, bank size, geographic area.</p> <p>PayNet is a database, a sort of job searching and pricing engine that helps to:</p> <ul style="list-style-type: none"> - define market salary levels selecting a position or group of positions, belonging to different functional areas or not. - define market salary levels respecting a specific score range - define market salary levels following banks classes structure. This third sorting method can be particularly helpful: for high ranking positions, where an average tells too little (like for a position of Director who covers 4 or 5 grades); when there is a need for a salary scale of one or more functional areas in order to evaluate the salary progression for the class of reference. <p>PayNet is the world biggest database on salary referred to the credit and banking sector; it is available for all the members.</p>		Hay Group

Client Relations					
<i>Relation strategies</i>					
Customer satisfaction ABI observatory: retail	free product	yearly	<p>It is a system of analysis of competitive positioning and benchmarking. It gives information and data on clients behavior and expectations about banking services and the way they are delivered. It is based on a market survey made from a wide sample of banks. Satisfaction levels of clients are analyzed: employees, service providing, services costs and functions, information and communication, marketing, image, channels of distributions, etc.</p> <p>Data drawn give members an understanding of their competitive positioning compared to a benchmark. Lately the system has improved to provide information on the performance of each single client front desk.</p> <p>Data sources are sample surveys made by Eurisko through telephone calls to clients.</p>	YES	Eurisko

Customer satisfaction ABI Observatory: small enterprises	free product	yearly	<p>It corresponds an analysis of competitive positioning and benchmarking. It is set up in collaboration with Eurisko. It provides data and detailed information on behaviors, trends and expectations of clients toward general banking services and the ones distributed by the specific bank under consideration. The Observatory focuses on small enterprises (up to 19 employees). There are 2 levels of survey: the first one is qualitative (focused on expectations and needs of the clients); the second one is quantitative (based on market surveys referred on a pool of reference). In detail, a questionnaire is set up on purpose for each enterprise in order to test the satisfaction levels with reference to all the aspects of the relation with the bank: products, services, procedures, customer relation, quality of service, information and communication, image, distributive channels. The model draws and classifies the needs, expectations of clients compared to the banking and financial supply, segmentation of the market according to its life cycle, financial structure divided according to sector and dimension.</p> <p>Each bank can make use of a benchmark referred to its pool of clients in order to receive an analysis of competitive positioning compared to other banks of the same sector or area.</p>	YES	Eurisko
Customer retention and banking commercial performance: private clients	free product	6 months	<p>This activity is carried on in coordination with the inter-bank working group, within the Technical Commission Research and Analysis and SDA Bocconi. It is a periodical monitoring on the stability of the relation bank-client retail (rate of retention, rate of client loss, new clients retention, development, cross-selling, investor portfolio diversification), and on the market trend.</p> <p>The data are internally transmitted to ABI from each bank are useful information on client fidelity and as a benchmark competition.</p>	YES	SDA Bocconi

Customer retention and banking commercial performance: small business	free product	yearly	This activity is carried on in coordination with the inter-bank working group, within the Technical Commission Research and Analysis and SDA Bocconi. It uses a model of Small Business identification, and of client fidelity indicators. It is a periodical monitor on the stability of the relation bank-client small business. The following indicators have been identified: customer retention, new acquisitions customer retention, rate of acquisition, development rate, cross-selling, financial assets and global exposure. The analysis also gives trend changes for each market segment, and territorially. The data are internally transmitted to ABI from each bank are useful information on client fidelity and as a benchmark competition.	YES	SDA Bocconi
ABI complaints monitoring	activity	yearly	This is a periodical monitoring on the complaints that clients deliver to the banks offices. From this data a statistical report is drawn; this is divided for product and service that originated the compliance, reasons of the complaints, and resolution rate. It becomes available for all the members.	YES	Ombudsman-Banca d'Italia
ABI magazine on banking marketing and communication	paid product	2 months	The review covers ABI strategic and operative marketing, communication, planning and financial innovation.		Different authors
Customer Relationship Management	activity	yearly	It is a client oriented business strategy. It entails an analysis of the client and his needs. It develops the different management relations with the different clients areas.		University of Parma, SDA Bocconi, IULM
Client relation management support	activity		It focuses on customer retention and commercial performance of the banks. This is achieved in different ways: from workshops to conferences.	YES	
Survey on present and potential clients behavior in internet banking	free product		Observatory on the private client migration to the web and improve internet banking for those who already use it. This is achieved through periodical surveys, and sample of present and potential clients. It wants to study motivation and behavior of internet users, as well as profile, attitudes and customer satisfaction.	YES	Eurisko

ABI analysis on financial services purchasing trends: products and segments	free product	yearly	It monitors quantitative data on client segmentation and the impact of different products and services on the clients segments (according to sex, age, financial assets owned, seniority as a client for the specific bank, geographical area). It also provides the competitive positioning of the bank focusing on the different products. The data are internally transmitted to ABI from each bank are useful information on client fidelity and as a benchmark competition.	YES	Prof. Munari
Customer retention and banking commercial performance: small enterprises	activity	yearly	This activity is carried on in coordination with the inter-bank working group, within the Technical Commission Research and Analysis and SDA Bocconi. Small enterprises are considered the ones with sales between 1.5 and 5 millions of € It gives a periodical monitoring on the stability of the relation bank-client small enterprise. The following indicators are used: customer retention, new acquisitions customer retention, rate of acquisition, development rate, cross selling, financial assets, global exposure, change in the bank relation (upgrading or downgrading). Small enterprises have been divided according to: credit provided by the bank, financial exposure, type of economic activity carried on by the client, seniority in bank relation, remote banking service. Income and segment risks parameters are also used.	YES	SDA Bocconi
<i>Channel Strategies</i>					
MarkCity	paid product	yearly	It is an instrument aimed at optimizing the banks and financial institutions positioning in the market of the different Italian cities. This product tries to overcome the limit of the previous study divided according to municipal data. In that sense it tries to differentiate data from small cities and big ones. The data that Banca d'Italia provided are aggregated according to the zip code of the big Italian cities. 87 socio-demographic variables are used. Other defining elements are: composition of banking groups, front desk of all banks.		

Banking client desk: strategy, organization and technology	free product		The diffusion of the banks front desks keeps being paramount in banks relation with the client. Banks trends show a continuous focus and interest in strengthening the net of small agencies and front desks, in order to reach the clients in the best way. This product promote conferences, workshops and roundtables on the evolution of this trend. The result is usually a research report. The initiative is limited to a maximum of 15 banks and require an association fee.	YES	Universita' Cattolica
--	-----------------	--	--	-----	--------------------------

Annex 3

CASE STUDY N° 1

Use of Standard Electronic Banking Payment Systems by the Treasury and Local Authorities²

Introduction

The Italian Banking Association acted in order to spread the use of new electronic instruments of banking payments and cashing systems and have them applied by local authorities for payments effected by individual citizens and enterprises.

The initiative focused on the computerization of activities of banks acting as treasurers to Public Administrations and other institutional entities.

The “electronic regulation” approved established the rules and standards for the treasurer bank, acknowledging the legal relevance of electronic payment documents alongside the traditional ones.

Purpose of the Project

The objective of the project was to create the conditions for treasurer banks to provide the Public Administration and local entities with modern collection and payment systems. That was done along the line adopted in the past for private companies.

The goals pursued by the banks were:

1. Substitute collective systems executed directly by the treasurer with more modern and standardized ones, to reduce costs and increase profit margins;
2. Broaden the market share of bank payment services;

² Prepared by Gherardo Vivarelli.

3. Spread the use by local authorities of standardized electronic channels already used for private companies (like the Inter-bank Corporate Banking). That action would spur the transfer of data related to collection and payment services, but would also widen its use for exchange of information related to accounting and other purposes;
4. Support the creation of suitable instruments for citizens, in order to put the banks as a central point of reference for collection and payment functions.

Analysis of the Previous Background

The collecting methods previously used in the Public Administration were studied in terms of technological evolution, and were characterized by a limited offer and a weak market position.

In addition, different collecting techniques were adopted for payments originated by the private sector (corporate and retail) and the public sector. The public sector was further divided in:

- Central Administration: the Minister of Economy and Finance modernized the collecting methods, creating ad hoc payment systems for its credits through agreements with the banking system;
- Local Administrations: their collecting systems were still tied up to old structures and techniques, due to a strict regulation of local finance, and used either cash or payment through postal order.

The above mentioned situation imposed on treasurer banks high costs for collection services which were rarely covered by revenues.

A.B.I.'s Role

The previous regulation was structured in such a way that it could be applied only to payments in cash made to the treasurer bank; it was based on:

- the concomitance between the cashing of the money paid and its transfer in the deposit of the local authority;
- the production of a paper receipt.

The intervention of A.B.I. at a Government level obtained a change in the regulation permitting local authorities to use electronic payment services.

The new procedure had a double effect:

- it eliminated the need of concomitance between the cashing and the depositing of the sum in the account of the entity involved; as a consequence it endorsed the use of electronic flows regulated in circularity with deferred settlement;
- it waived the bank from the obligation to produce paper receipts related to the service provided.

As an example of business development approach, it is worthwhile outlining the steps that A.B.I. followed during the evaluation process that led to the adoption of the new electronic system:

1. *Define local authorities involved and types of cash receipts used:* the area of research was limited to municipalities, provinces, regions, local health care institutions, schools, professional schools; for each local authority the most significant credit items were considered;
2. *Data collecting:* using a survey sample of banks, information was collected on the number of payment operations and the amount cashed annually, as well as on the payment methods used;
3. *Formatting into a system:* using a survey sample of banks and the Italian National Institute of Statistics, the number of annual operations at a national level was estimated for each entry;
4. *Define the potential market:* assessments made with the help of sector experts showed the percentage of operations currently executed through:
 - a. circular standard electronic banking instruments;

- b. non standard banking instruments (mainly cashing receipts);
 - c. non banking channels (post offices, licensees etc).
5. *Assessment of the potential market*: assessments made with the help of sector experts showed, for each entry, the probable penetration level of the standard banking instruments into the market, and the percentage of operations that were expected to continue being executed through the other two channels;
 6. *Flows appraisal*: assessments made with the help of sector experts identified the number of operations that would move from non-standard to standard banking payment channels (operations that could be made more efficient) and from non-banking channels to banking instruments (operations that could be considered as a potential increase of the share of banks in the market for payments);
 7. *Identifying the appropriate instruments*: for each entry item, the most suitable instruments were identified, trying to estimate the probable distribution of operations among the instruments considered;
 8. *Possible margins*: finally, A.B.I. reached an estimate of the economic margin of each instrument for each operation, and the total margin that could be obtained from the flows of operations that could be considered for change and the operations that could be made more efficient.

This innovative initiative launched by A.B.I. was part of a general European trend towards the technological innovation of payment systems between the Public Administration and the citizens.

The “public Good” Facet: Evolution of the Collecting System

The “electronic settlement” sets a number of duties that the treasurer bank has to accomplish toward the citizen and other institutional entities (General Accounts Office, Bank of Italy, State Auditors’ Department, etc.). Such duties produce operations linked to many subjects, regulated by

binding rules, where the treasurer bank plays a central role. The final purpose of the initiative was to eliminate paper documents and link together the different internal banking procedures.

The following scheme explains the different operating phases involving the treasurer bank and the local authority:

1. The local authority asks the treasurer bank to cash or pay the amount requested;
2. The bank, on behalf of the local authority, executes the cashing or payment operation which involves private entities (citizens or companies) or public entities that are either debtor or creditor;
3. The transaction is recorded by the treasurer bank in the account of the local authority;
4. The transaction is recorded in the account of the municipal treasury involved;
5. The transaction is transmitted to the General Accounts Office;
6. The transaction is transmitted to the State Auditors' Department for checking.

Application of the New Proposal

The changes proposed by A.B.I. were approved by the Government with the Financial Act 2005, starting off the use of inter-bank electronic payment systems to and from entities belonging to the Public Administration.

The definition of electronic inter-bank payment and cashing systems refers to systems that

- Have a connotation of *spreading* and *notoriety*;
- Circulate between banks;
- Are standardized.

According to the new regulation, the amounts are collected and cashed as soon as they are available and collectible according to the electronic system adopted. The norm is not binding and doesn't bring any automatic effect: the application of the new service is left to the decision of the local

authority and the treasurer bank. They will apply the new rule according to their needs, provided that they comply with competition and transparency directives.

In other words, the new regulation is to be considered as evolving; the regulator wanted to leave discretionary of choice to the banks with respect to the specific service using the new regulation.

At present the types of electronic services or instruments eligible are five, but they may become more.

The choice of the type of service depends on the following variables:

1) *features of the cash receipts:*

- 1.1. timing of amount determination;
- 1.2. recurrence;
- 1.3. type of debtor (corporate, retail);
- 1.4. average amount.

2) *price and quality of the service for the local authorities:*

- 2.1. preference for a cashing rather than payment instrument;
- 2.2. willingness to innovate;
- 2.3. choice of the type of cashing/payment alternatives for the same type of cash receipt.

3) *economic convenience for banks:*

reduction of costs in terms of review of inter-bank and internal systems and procedures.

Annex 4

CASE STUDY N° 2

The Role of A.B.I. in the Creation and Management of Credit Bureaus³

Introduction

Until a few years ago the Italian banking system was characterized by a very large number of independent banks and by a small degree of concentration. Such features - which depend on historical reasons and especially on the existence of different bank categories and traditions and on the establishment of strict geographical limits to the operations of individual banks and branches - has given rise to a peculiar pattern of relationships between banks and their corporate customers whereby each business company, even of relatively small size, addresses its loan requests separately to several different banks, each of which usually satisfies only a portion of its global financing needs.

The phenomenon has become less impressive after the liberalization measures adopted by regulatory authorities in early Nineties and the ensuing trends towards the privatization and consolidation of the banking system but has by no means disappeared.

³ Prepared by Francesco Cesarini.

As is well known, in a situation of multibank relationships it is more difficult for each lending bank both to evaluate the creditworthiness of a customer on an *ex ante* basis and to monitor during the life of the loan the financial situation of the borrower, who might give the bank false, misleading or incomplete information on its financial situation and on the actual size of his bank debts.

It goes without saying that imperfect information on creditworthiness of customers hampers the screening and monitoring functions of banks and tends to increase the amount of non-performing loans and of loan losses and to favor opportunistic behaviors in borrowers and sometimes in banks themselves.

The First Official Credit Bureau (Centrale dei Rischi) Managed by Banca d'Italia (1964)

To deal with this type of problems, which have obvious implications on the sound management of banks, the Bank of Italy has put into operation, on a compulsory basis, a Credit Bureau which has proved to be an efficient instrument in order to cope with the informative problems descending from multiple bank lending relationships and to curb some of their negative effects.

The Centrale dei Rischi is directly managed by Banca d'Italia and provides that each participating bank must file with it detailed information, on a monthly basis, on all its current borrowers whenever their outstanding loans exceed a specified limit and on all its non-performing loans above a very modest amount (presently 250 euro). The actual thresholds have been revised several times and progressively reduced to the present level of 75.000 euro; still more important, the format with which the information has to be supplied to Centrale dei Rischi has been progressively refined in order to disclose the information separately for each category of risk and to include new or emerging forms of debt exposure (such as financial commitments related to derivatives) and more detailed and useful information (e.g. the average monthly debt exposure in current account - based loans); the last revision was issued in June 2004 and was preceded by consultation and discussion

with the banking industry and its representative association, as has been customary in previous assessments.

On the basis of the information received Centrale dei Rischi provides participating banks with different services which are instrumental to the efficiency of their screening and monitoring functions.

First of all, when it has to examine the loan request of a prospective corporate borrower, the bank can obtain from Centrale dei Rischi a "first information" sheet comprising the global risk position towards all financial intermediaries participating to the Centrale itself as it is recorded in the 36 latest monthly data (24 for an individual borrower) and also information on subjects having financial links or guarantees in respect of the prospective borrower. In addition, the inquiring bank will be informed whether there is evidence that a loan previously granted to the prospective borrower has given rise to total or partial loss in the preceding three - year period.

With reference to the monitoring process, when the loan has been granted the bank will routinely receive from Centrale dei Rischi monthly information on the outstanding exposure of the borrower and will thus be in a position to promptly detect major changes in the amount of bank exposures outstanding and in the number of lending banks.

The bank is also entitled to receive each month from Centrale dei Rischi statistical data providing both a general view of the quality of outstanding loans and several detailed analyses based on a number of relevant variables such as category of risk, branch of economic activity and geographical location of borrowers, size classes of loans, etc.

Finally - but it is by no means the least important information useful for risk management purposes - the Centrale dei Rischi transmits to the bank quarterly information on its borrowing clientele which are necessary for the measurement of the so-called decay rates of its cash loans.

A Second Official Credit Bureau: Centrale dei Bilanci Associativa

The objectives mentioned above and the good results obtained by Centrale dei Rischi have driven the Italian Banking Association to elaborate and approve in February 1999 a second Credit Bureau scheme which is aimed at providing analytical information on bank loan exposures of an amount comprised between the threshold established for Centrale dei Rischi (euro 75.000) and the upper limit (euro 31.000) of CRIF (the Credit Bureau created for consumer loans).

The plan outlined by A.B.I. was made compulsory on banks through a deliberation of CICR (Interministerial Committee for Credit and Savings) which was necessary, as it happened in 1964 for Centrale dei Rischi, to solve problems concerning privacy and confidentiality of customers data. The management of the Centrale dei Rischi Associativa has been entrusted to S.I.A., an I.T. provider controlled by banks and in which A.B.I. has a minority equity stake.

A Private Credit Bureau: CRIF

The function of this private Credit Bureau is in a sense complementary to the role of public credit bureaus and tends to provide member lenders - not only banks but also finance companies and specialized consumer financing organizations - with information to be used in screening and monitoring consumer and personal loans of an amount not exceeding 31.000 euro.

A.B.I. has concurred to the creation of CRIF by defining the type of information to be collected and distributed to participants - mainly facts signaling the deterioration of the quality of loans - and by helping to draw a deontological and best practices code, which has been required by the public authority charged with the protection of private data.

In its effort to realize credit bureaus and to strengthen their efficiency A.B.I. has been encouraged not only by the immediate interest of its members in minimizing losses in the consumer loan business but also by the public interest goal of preventing the overindebtment of consumers which may prove detrimental to the overall stability of the economic system, especially in the case of a general rise in interest rates.

Annex 5

CASE STUDY N° 3

Bankruptcy of Building Contractors: Protection of the Promisee Buyers' Rights in the Purchase of Residential Houses⁴

Introduction

In 2005 the Government has approved a legislative decree that protects the payments made in advance by the buyers of a house. The protection applies to houses, for which the permission of construction has been requested, but either are not yet built or the construction of which has not yet been finished so that they cannot be declared habitable. The legislative decree aims at mitigating the ill-omened consequences of bankruptcy property executions on promisee buyers of houses under construction.

Purpose of the Project

To better address the problem and the solution proposed, some definitions are necessary:

- The *buyer* is a natural person who becomes promise purchaser or purchaser of a house that is still to be built or is under construction. The buyer can also be the one who signs a contract, or a leasing contract, producing the purchase or the subsequent transfer of the property of a house;
- The *builder* is the building contractor or the building cooperative society that promises the sale or sells a property still to be built or finished. He can also be the one who has signed a purchase contract, including a leasing contract, that entails the assignment or the subsequent transfer of a property to the buyer;

⁴ Prepared by Gherardo Vivarelli.

- The *situation of crisis* is defined as a condition in which the builder is undergoing a property execution on the real estate that is being sold, or a procedure of bankruptcy, extraordinary administration, composition before bankruptcy, compulsory winding-up;
- The *real estate* to be built is considered the property for which the building permission has been solicited, but that is still to be erected or finished so that the building is not fit for residential purposes.

According to the newly-approved regulation:

- At the moment in which the preliminary purchase contract is prepared, the builder must provide the buyer with a bank guarantee of the same amount as the sum paid by the purchaser as a down payment. In lack of this suretyship, the purchaser is allowed to rescind the preliminary contract that becomes null. The bank guarantee, at the constructor's expenses, is aimed at covering the sum cashed by the constructor and paid by the buyer as a down payment to secure the purchase of the house.

The guarantee can be granted by a bank, an insurance company, or by financial intermediaries, and can be used once the preliminary contract has been rescinded. In a situation where the builder enters a crisis, this pledge guarantees the return of all the sums cashed by the constructor/seller and the pertinent legal interests matured;

- The builder is bound to sign a policy insurance to be handed to the property buyer at the time of the signing of the preliminary contract. This policy will last ten years starting from the date at which the construction work is completed, and will cover the purchaser against property material damages, including third party damages, caused by construction faults;
- The new legislation has also affected and changed the bankruptcy discipline on the revocation of payments and set new rules regarding the right of the buyer to have his financing divided into quotas, together with the apportionment of a specific part of the whole mortgage, as a pledge on each prospective buyer of the house.

As a consequence, the notary won't be able to proceed to the sale of the property without a prior fractioning of the mortgage on the property; consequently there are specific limits to the actions that the professional in charge of the bankruptcy can exercise with reference to the revocation of payments.

In other words, the credit acknowledged to the promisee purchaser when he makes a down payment, is protected from the effects of a mortgage that might have been already imposed on the property sold with the preliminary contract. Without legally impairing the mortgage guarantee on the property that is being sold, in case of bankruptcy of the constructor, the promisee purchaser can obtain a protection of his right.

Another aspect developed with A.B.I. intervention refers to the so called Solidarity Fund.

The Ministry of Economy and Finance has created a Solidarity Fund to the benefit of people purchasing houses to be built. The Fund aims at reimbursing the buyers that, in the past, have suffered a loss of the down payment made to the construction company that became bankrupt or insolvent before the delivery of the final product.

Requirements for promisee buyers in order to have access to the Fund are:

- Having suffered the above mentioned losses, on account of a crisis faced by the building contractor and his consequent insolvency;
- Not having acquired the ownership or other real right of enjoyment on the property involved.

The Fund has retroactive effectiveness: it aims at letting promisee buyers recover the money lost and the loss of property right during the period comprised between 1993 and the approval of the decree.

The Fund is divided into autonomous sections corresponding to inter-regional geographical areas, according to the amount and territorial origin of the indemnity claims presented. This entails a decentralization of the Fund.

The resources of each section are paid to people having rights on properties located in the competent territorial area. In case of fulfillment of all the requests made by promisees of an area, the residual amount will be used for other areas. The Fund is entitled to an action of recovery of the amount disbursed against the building contractor.

In order to raise the resources to be allocated in the Fund, the construction builders will have to pay a contribution. For the first year the contribution is 0.4% of the total amount of each bank guaranty; for the following years the contribution amounts to 0.5% of the total amount of each bank guaranty. Each subject can obtain the indemnification from the Fund only once, even if he has undergone several losses on different purchases, and provided that the preliminary contract has been clearly framed in every aspect, so not to leave space to misinterpretations. The contract must allow the promisee of the contractor to make known all the details and mainly the maximum terms of completion of the construction, and details on the suitability for residential purposes.

Analysis of the Previous Background

The scenario before approval of the new legislative decree was very different: the promisee purchaser didn't have any legal tutelage against building contractors mismanaging faults; He could propose a bank guarantee, but would not be certain of receiving the accord of the construction company. Not being legally backed, the purchaser was fully subject to the market risk faced by the builder.

A.B.I.'s Role

In order to plan and realize the new regulation, the Ministry of Justice has created a working group composed by ABI experts, as well as legal and operative experts from the main Italian banks.

- As far as the guarantee is concerned, A.B.I. has defined the subjects entitled to issue it: banks, insurance companies, and financial intermediaries provided that they are registered in the official ABI list. In addition, the promisee purchaser can make the payments to the constructor only by channeling them through the official banking system. Otherwise he will have to prove the payment and its exact date;
- As far as the bankruptcy regulation is concerned, the exemption from the risk of revocation of the payments will be comprised within ABI general initiative of bankruptcy legislative reform.

The “Public Good” Facet

The social impact of the brand-new regulation can manifest itself in two ways:

- For crisis events taking place after the approval of the decree: the guarantee prevents the loss of money paid in advance by the promisee buyers as a down payment;
- For the losses that took place before the approval of the decree: the Solidarity Fund wants to help promisee buyers to recover, at least partially, the money deposited as a down payment with a constructor who subsequently went bust. Indeed, the legislative decree will work retroactively, covering all the cases occurred since 1993.

Application of the New Proposal

The new regulation will however have an impact on costs of new houses or buildings in general.

There will be direct and indirect costs:

1. Direct costs will be for the policy insurance, the bank guarantee, and the contribution to the Fund. In any case, the intervention of more competitors (banking or insurance groups) will push costs down;
2. An indirect cost may be the diminishing supply by constructors on account of the increased costs which will inevitably be transferred on house prices.

Annex 6

CASE STUDY N° 4

Master Agreements Between ABI and Local Courts in Order to Streamline Real Estate Juridical Sales Procedures and to Fund the Highest Bidder in Auctions⁵

Introduction

Italy sadly boasts the longest average length of Real Estate Enforcement Procedures, with a period of time that is seven times the average length of the other fourteen European Countries.

According to the national Italian statistical data available for real estate enforceable procedures, the main issue was the inefficiency in the way coercive real estate sales end up. Namely, quite often, properties take several auctions to be sold and the prices are lower than their market value. The main obstacle to fair participation to auctions has often been the lack of effective mechanisms to gather as much demand as possible to compete in the adjudication of the property.

Purpose of the Project

The initiative was launched by A.B.I. in order to facilitate and speed up the procedure and has been adopted in several local Italian Courts. The outcome consists in standard procedures for the disbursement of mortgage loans in favour of the highest bidders in coercive real estate judiciary sales.

⁵ Prepared by Gherardo Vivarelli.

Contract enforcement involves, for its nature, transaction costs, especially enforcement costs, which are the costs of monitoring the performance of parties and punishing violations of the agreement. The real estate enforcement procedures that the initiative of A.B.I. addressed aim at reducing contract enforcement costs by making auctions accessible to a wider public so that properties can be auctioned at fair prices.

Analysis of the Previous Background

In Italy, the enforceable procedure's framework can be outlined as follows:

- The mortgage creditor can obtain the forced sale of the real estate;
- The proceeds of the sale are used by the court to reimburse the expenses incurred for the procedure, pay the creditors taking part in it, and give the money eventually left to the debtor;
- The sale of the property can be realized by auction in front of the court, or by submitting the bids directly to the court.

Before A.B.I.'s initiative, the main participants in real estate forced sales were insiders, and auctions took place with few bidders and often resulted in unfair bids. To put it in another way, individuals – mainly households interested in the purchase of properties sold in judiciary auctions – were not allowed to participate since they neither had enough savings nor had access to the liquidity necessary for the payment. As far as the financing is concerned, a bank providing the loan, when it didn't have other guarantees, required to register a mortgage on the property that was to be purchased; this registration, however, was feasible only after the property had come into the borrower's possession. As a result, the mortgage operation was unfit with the court operation since it didn't allow the property ownership to be transferred before its price had been paid.

A.B.I.'s Role

A.B.I. created an *ad hoc* working group to study the issue, drawing expertise from bankers, notaries, and legal experts.

The outcomes of the study are standard procedures to be adopted in every court.

According to them, the judge orders to advertise the sale at local and national level.

The use of internet to advertise the sale has been introduced, in order to have a more powerful and modern advertisement.

The advertisement itself must mention:

- The property details;
- The starting price and the references to identify the procedure;
- The instruction on the possibility to obtain mortgage loans for an amount up to 70-80% of the auction price at an agreed interest rate;
- The list of banks agreeing to the initiative;
- The invitation to contact the banks' branches entrusted.

During the time elapsing between the advertisement and the hearing, the party concerned, the bidder, will contact the bank that will provide the loan.

Considering the fact that the value indicated in the judiciary assessment of the value of the property can be obsolete and not conforming to market price variations, the bank entrusted is given the possibility to execute a more detailed and updated assessment, in order to provide the client with the maximum loan amount.

Once the details have been agreed upon, a preliminary contract for a mortgage loan can be signed. The validity of this contract will be conditional on the award and the transfer of the property to the auction winner. The award can be repealed if the price offered is considered by the court significantly lower than the fair one. If, following the course of the bid, the party who has been

promised the mortgage loan is not the winner of the auction, the preliminary loan contract will be automatically rescinded.

The stipulation of the final contract must take into consideration the risk that the highest bidder, after cashing the loan, alienates or puts a security on the property before subscribing the bank mortgage on the property. That could happen because the transfer of the property typically takes place after the payment of its price.

In view of insuring the protection of the bank granting the loan, the issue of the transfer ordinance for the property, the signing of the loan contract and the granting of the mortgage must all take place at the same time. These rules have been applied with slightly different modalities and strengths in the different local Italian courts.

With this mechanism, the highest bidder:

- Never comes into possession of the loan amount, which will transit from the bank to the liquidator directly;
- Will come into possession of the documents that legitimate its property rights only when the whole operation is concluded.

Another innovation introduced for property sales effected without auction has been to allow collateral enforcement through delegation to notaries. This helped to streamline and alleviate the work of the officials.

The Public Good” Facet: Evolution of the Collecting System

Since 2001, A.B.I. has promoted a procedural proposal to be applied by local courts, in order to streamline the coercive sale of properties. As a result, on a voluntary and competitive basis, any bank that complies with the standards set by the court can grant loans to the highest bidder participating in the sale of properties with or without auction.

This mechanism targets and facilitates the majority of participants in public bids, and especially those who are at the bottom of the pyramid of participation, that enjoy a widespread advertisement of the bids, but don't have enough money to take active part in it.

Furthermore, following this agreement, there was a general increase in auction awarding price as a result of a larger participation in the sale of property. The allocation of the property at a price that is the closest to the market price, guarantees the fairness of the transfer of the good; as a consequence, the risk of selling the property off is avoided. The debtor can get a proper value on the real estate auctioned: the highest bidder's profit – the positive difference between the market value and the highest bid, typical of inefficient auctions – is eroded.

The initiative has also spurred an efficient allocation of property value among the parties, a decrease in time needed by the court to sell collateral, and a consequent decrease in opportunistic behaviors. All this creates a form of protection that encourages interested parties to take part in the property transfer.

Consequently, forced sales procedures have become a better instrument to determine the economic value of the property and have determined positive effects on all the actors involved: the economic system, the collectivity, the debtor and the creditors:

- Creditors can collect the credit in a shorter time and suffer less erosion of the property wealth;
- The debtor is assured that the property will be fairly valued and not undersold due to the difficult situation he is undergoing. As a consequence he sits in the best position to fulfill his duties and can dispose of the wealth that remains after the creditors have been satisfied;
- The collectivity enjoys a greater opportunity to join the auction, thus favoring a wider and more efficient access to property;
- The economic system can realize a faster circulation of financial resources and have more resources at its disposal for its own thriving.

Application of the New Proposal

In the end, the agreements for the financing of the highest bidders in property auctions are part of a general policy of information improvement and systematization. The increased participation to auctions, the shortened procedures and the increase in the property valuation, together with a reduction of enforcement costs, are the main goals achieved.

Up to September 2005, the agreements set up by A.B.I. with the different local Italian Courts have totaled 75, and the Courts that have signed the agreement have been 165.