

MANAGING CHANGE

Towards a Tuscan renaissance

The world's oldest bank is rapidly moving to modernise its operations and structure in a consolidating industry, says **Adrian Michaels**

Siena is the sort of place you would expect to find the world's oldest bank. The beautifully preserved medieval Tuscan city seems to have changed little for hundreds of years. In a small square near the centre stands the palatial home of Monte dei Paschi di Siena, a bank founded in 1472.

With a strong presence in an affluent part of the country, MPS remains the last large Italian bank to tackle its poor performance when compared with European peers. A programme of operational improvements was instigated earlier this year by the bank's new management, but now a sense of urgency has been added.

MPS may have been a central fixture of Tuscan life since the Renaissance, but industry consolidation has put its identity under threat and management can take little comfort from its corporate longevity.

The Italian banking sector has been undergoing a revolution since the departure amid scandal last year of Antonio Fazio, the long-standing governor of the Bank of Italy who had a veto on mergers. Banca Intesa and SanPaolo IMI, Italy's second and third largest banks, are merging. Two large mutual banks are being formed from four smaller groups in northern Italy. French and Dutch banks have acquired smaller Italian ones.

The two largest prizes left in one of western Europe's

fastest-growing retail banking markets are Capitalia, in Rome, and MPS. Both have market capitalisations, depending on investor speculation, of €9bn-€19bn (\$11.5bn-\$24.3bn) and both have been reviewing their options.

Antonio Vigni, who became chief executive in June having been at MPS since 1972, is alive to the consolidation possibilities. But for now he is staying focused on the internal improvements.

"Our first priority is to be stronger. [If we are] to face this new wave of consolidation in Italy... there is a lot of work to be done," says the soft-spoken and slightly hesitant Mr Vigni, speaking in a dimly lit and atmospheric room of the castle.

He knows that larger rivals such as UniCredit and Banca Intesa forged their transformational mergers after years of change and went into deal discussions in strong positions. Capitalia, whose managers are pushing internally for an appraisal of merger options, is barely recognisable from its financially unimpressive past.

Some improvements at MPS have been spurred by new international regulations and others are an overdue correction of structural inefficiency, such as having too many regional headquarters. By the end of the year, the number of such centres will have been cut to nine from 22.

There are also some problems which seem unique to MPS and its age. How many

financial institutions, for example, could operate without a chief financial officer? MPS did not have one until this year. Financial planning, control and risk management responsibilities were all dispersed. The person in charge of finance, says one person close to the bank, prepared the accounts but had little power.

In addition, out of almost 2,000 MPS branches, a third have fewer than four employees. Some have just one - a branch being a common feature of Tuscan villages.

"The industrial plan is focused on putting 1,000 more people in the front office and strengthening the level of training," says Mr Vigni. Some 110 top managers have gone as part of almost 2,000 staff cuts this year.

The idea is to grow a strictly retail national bank while maintaining the local feel that has connected MPS to shepherds and merchants for more than 500 years. Besides, he says, size isn't everything. "Dimension is not an obsession and we don't feel under siege."

Nonetheless, the bank is measuring itself against rivals in the wider world of banking. Mr Vigni says the plan is to close "the gap with the best retail bank competitors [in and outside Italy]... in internet banking [for example] our benchmark is the Scandinavian banks".

MPS has already recorded some successes. Return on equity has been boosted to 14 per cent from 8 per cent

in 2003. Costs as a percentage of income have dropped from near 70 per cent to 60 per cent over the same period. Both are still worse than peers, but MPS is catching up.

One of the biggest drivers of change has been the Basel rules on capital adequacy, which has caused a reappraisal in recent years not just of lending risk but of the ways MPS used its capital in general. Driven by Basel, the bank has seen a large cut in its cost of credit.

Important Italian companies and banks have, for years, been linked by a complicated web of cross-shareholdings, a system designed to ensure that power remained in the same hands even though capital was limited.

As a result, MPS agreed to take about €2bn-worth of equity stakes in companies when it could have been better deploying its resources. "Everything that is defined as a strategic [equity] participation must be clear," says Mr Vigni.

Of MPS's stake in Unipol, an insurer with similar historic ties to parties on the political left, Mr Vigni says: "Probably our groups thought there was a reciprocal advantage in terms of cross-sharing and commercial possibilities. We are now verifying if this is true."

Mr Vigni says the bank's equity stakes are likely to be sold, with the exception of the €600m tied up in insurer Generali, which it regards as a strategic necessity. MPS's

small foreign ventures in Belgium and France are being reconsidered with an eye on the exit.

Other business lines are being outsourced or shared to increase efficiency. The company is currently sifting through 29 insurers interested in a joint venture on insurance sales.

And Mr Vigni is wooing foreign investors too, going on roadshows to Tokyo and London. "The oldest bank in the world needs to be well-known," he says.

If a merger is to happen, MPS will be in a position largely to dictate its timing. That is because about half of the bank's shares are owned by a local charitable foundation, Fondazione Monte dei Paschi di Siena.

The consent of the foundation to any merger of the bank is required because of the size of its shareholding. And the foundation will not be easy to win over, as its priorities go beyond a simple return on investment.

The foundation also holds an important place in Tuscan civil, political and religious life - using the substantial dividends it accrues from its shareholding, as well as its own investments, to fund hundreds of projects each year, almost all in Tuscany. Last year, it made €168m in disbursements on 800 projects in places such as hospitals, schools and churches.

Officials at the foundation talk of its role in safeguarding independence and stability. They say they are watching merger developments with interest.

Dark history of a medieval head office

MPS's home is a palace called the Rocca Salimbeni, whose construction started 800 years ago. Aside from being a bank, MPS has at times held powers way beyond finance.

Between 1620 and 1629 the bank also had some jurisdiction over civil and criminal penalties in the city, including the power to condemn people to death.

It passed such a sentence against one of its own managers who had

absconded with funds and was forced to seek refuge in a convent to escape being killed.

The palace houses beautiful medieval and Renaissance paintings, sculpture and furniture including memorable depictions of the Piazza del Campo, Siena's striking main square.

One room contains some of the West's earliest financial artefacts including bank ledgers going back

hundreds of years and what is thought to be one of the earliest printed cheques, a bill of exchange from 1650.

There is also a letter to tax collectors in Rome written by Giuseppe Garibaldi, Italian national hero and one of the most important figures in the country's unification in the 19th century.

"To the Tax Collector of Rome," he writes, "It is impossible for me to pay my taxes."



Holding court: Antonio Vigni, Monte dei Paschi di Siena chief executive, is untangling its complex web of cross-shareholdings Gaza-Ruggieri

