

## Best in Italy

### Royal Bank of Scotland

> Royal Bank of Scotland (RBS) established its listed products business in the second quarter of last year and it has gone on to attract a huge amount of interest in 2010, contributing to a threefold increase in the Italian structured notes market.

The listed retail bond market in Italy is big business and it was leveraging off that success that enabled RBS to set up an Italian listed products business. "We have identified an alternative distribution channel and went straight to retail investors to create liquidity. Now institutional investors are going to the market because they see independent liquidity. Our competitors are following us and this is expanding the market," says Luca Morello, managing director, head of Italy equity derivatives and structured retail at RBS in London.

As the listed market in Italy has grown, the bank attracted €1.5 billion on its listed products in the first quarter of this year and (apart from government-issued bonds) its bonds are often the most traded on Borsa Italiana, according to Morello.

Borsa Italiana figures from August 2009 show that the highest traded bond had 229 trades, but figures for the same month this year show that the most highly traded product came from RBS and notched up more than 2,400 trades.

Listing products has strengthened RBS's operations and has persuaded other issuers to follow suit. The size of the bank-issued listed bond market has more than doubled since 2009.

The bank's exchange offering includes plain vanilla products, products on rates and inflation, as well as some on equities.

One of its Royal Obbligazione (or Royal Bond) products is a 12-year inverse floating-rate note launched in May that pays 10% in the first two years, after which the coupon is linked to the Euribor six-month rate.

"The product is a way to give investors the chance to take a bearish position on the interest rate swap curve. It was issued in a timely manner as it benefited from the further decrease in rates between May and August this year," says Luca Zaccagnino, London-based manager for public distribution in Italy at RBS.

"It did extremely well – there was a lot of hunger for this type of product. On the date of listing it traded €83 million and it was the most traded bond of all time on the market. It is now the most traded



Luca Morello

structured note listed and traded on the Italian stock exchange."

The Royal Bonds have now become a recognised brand in the Italian market and RBS has taken them to other European countries such as the UK, Spain, France and Germany.

RBS has also focused on credit as the government debt crises in Portugal, Italy, Ireland, Greece and Spain highlighted the difference in credit quality between European countries.

Its 10-year Italy Credit Linked Note Inflation Bullet, issued in August, pays a fixed 3.3% minimum coupon and then tracks the Harmonised Index of Consumer Prices (HICP), the European inflation measure.

The product is also linked to Italy as a reference entity, and if a credit event occurs the product will

immediately terminate and investors will receive only the recovery value of the reference entity. By being exposed to the default risk of Italy, RBS was able to offer a better yield to investors.

As the liabilities of insurance companies are affected by inflation and this is a longer-term product it is attractive to them, says Morello. He adds that, for Italian investors, the fact that a product is linked to Italy is not considered a risk.

In a bid to improve investors' knowledge within the structured products market, this year RBS has increased its investment into client education and has launched RBS Focus, an event that takes place fortnightly in various Italian cities. The meetings act as a forum in which self-directed investors can discuss products and the market in general with RBS.

The bank's efforts in Italy have not gone unnoticed. "We have worked a lot with RBS over the past three or four years and they offer a good service," says Gabrielle Possenti, who works in the retail funding department for UBI Banca in Milan.

"They had a prospectus approved by Consob [the Italian financial regulator]. Not that many issuers have Italian prospectuses – RBS was one of the first."

Italian prospectuses have to include much more information than those of other European countries, and Possenti says some Italian issuers can be quite slow to have approved prospectuses available.

"I think RBS is the most elastic – they give us an extremely good service and we get what we ask from them, whereas other issuers are a bit more rigid," says Possenti. ●

