

Italian derivatives dealer rankings 2003

Risk Italia – the Italian language edition of *Risk* – asked 100 players in the Italian over-the-counter derivatives business to rank their dealers. JP Morgan Chase, SG and Lehman Brothers came top, but Banca Nazionale del Lavoro runs close behind, and UniCredit Banca Mobiliare, Banca Intesa and Banca Akros also make an appearance. By Naomi Humphries

OVERALL QUALITY OF RISK MANAGEMENT AND DERIVATIVES DEALING ADVICE

- 1 JP Morgan Chase
- 2 SG
- 3 Lehman Brothers

Top Italian adviser:
UniCredit Banca Mobiliare (ranked 8)

A personal derivatives dealing service is what counts most for Enrico Frizzi, Rome-based finance and risk manager at Bulgari. The luxury goods firm has big Swiss franc production costs to hedge against its euro and dollar revenues, and Frizzi is a regular buyer of foreign exchange options. He is naturally looking for keen pricing, but above all he is determined to get the best ideas and research: “We remain loyal to a dealing team that looks after us,” he says.

Bulgari tends to use international banks. Lehman Brothers, Goldman Sachs, JP Morgan Chase and Deutsche Bank are Frizzi’s principal dealers for interest rate and currency derivatives. “These banks make an effort to phone up when something in the market changes,” he says. “They are at our disposal more than the Italian banks.”

Risk Italia polled Bulgari and 99 other major players in the Italian over-the-counter derivatives trading community for their ranking of the best dealers for their Italian business. Half of those we polled were banks. The others were non-financial end-users and financial end-users such as insurance companies.

Like Frizzi, most of the respondents voted for the major international derivatives dealers as providing the best ideas, prices and execution. JP Morgan Chase,

SG – the corporate and investment banking arm of Société Générale – and Lehman Brothers were voted the top three dealers for the quality of their overall risk management advice and for derivatives dealing.

But that is far from the whole story. The rankings show that while Italian dealers may not yet have the same breadth and depth of resources in derivatives dealing, they have made giant strides over recent years; keeping pace with the growth of demand for derivatives in the interbank, asset management and corporate markets.

The largest Italian banks – Banca Nazionale del Lavoro (BNL), Banca Intesa and UniCredit Banca Mobiliare (UBM – the investment banking arm of the giant Credito Italiano group) scored some notable successes in our rankings, having made big investments in derivatives dealing in recent years. The success of Banca Akros in the rankings proves that there is also room for the ‘boutique’ approach to derivatives dealing.

With 10 top-three positions in the rankings across the interest rate and currency categories, BNL ranks

as the top home-grown Italian derivatives dealer. BNL has built a thriving derivatives dealing business on the foundations of its traditional corporate and local authority lending business, under the guidance of Guido Grossi, its head of treasury in Rome.

BNL’s interest rate and exchange rate derivatives activities have increased dramatically over the past three years. The bank has expanded its derivatives activities through its large core client base by offering advisory services and interest rate products for liability management, according to Giuseppe Notarnicola, head of financial product sales at BNL in Rome.

Before 1999 there was very little liquidity for Italian lire denominated derivatives instruments. Now liability management is becoming increasingly important for its clients, partly driven by the introduction of the euro and European integration. “A lot of our customers are developing a different culture and attitude towards derivatives, and are increasingly using them for managing interest rates,” says Grossi.

In response to growing demand, the bank has strengthened its sales and trading departments,



“The credit derivatives trading desk at Banca Intesa is as busy as ever”

Paolo Gribaudo, Banca Intesa

and also actively targeted customers, providing advice and education to clients. Notarnicola says there is growing demand from corporates for structured solutions. But a strong client relationship is crucial, adds Grossi. "It is essential that a customer fully understands the risk profile of a product, accepting it only when it makes sense with their overall position," he says.

Banca Intesa is ranked number one among Italian credit derivatives dealers. That success draws on the significant volumes of trades made by the Intesa credit derivatives desk managed by Paolo Gribaudo, head of credit derivatives at Banca Intesa in Milan. Gribaudo has been one of the pioneers of the credit derivatives market and synthetic securitisation in Italy since the mid-1990s.

The continuing success of Gribaudo and his team might have surprised those who read last September's new business plan for 2003–2005, issued by the bank's new chief executive officer, Corrado Passera. He said Banca Intesa would be "downsizing some non-core operations, such as credit derivatives trading". Passera was reacting to substantial credit write-offs by Banca Intesa, many of those linked to its collateralised debt obligation business.

This was not the signal of a full-scale retreat from credit derivatives dealing, says Gribaudo – only from part of it. The bank had pioneered the use of long-term credit derivatives contracts to increase its exposure to international credits. These banking book exposures have indeed been dramatically reduced: from €7 billion to €3 billion in 2002. Gribaudo expects a further reduction this year of up to 30%. "The credit derivatives trading desk at Banca Intesa is as busy as ever, providing both flow trading and structured transactions for third parties," says Gribaudo. The customers surveyed for these rankings agree that Gribaudo's desk offers a service that

comes close to the giant international liquidity producers: JP Morgan Chase, Goldman Sachs and Deutsche Bank.

Strength of branding

UniCredit Banca Mobiliare was voted the leading Italian bank in the Overall Quality of Risk Management and Derivatives Dealing advice category, as well as achieving some top-three rankings in the equity categories. With a significant number of votes from both the retail and the corporate community, the rankings show that UBM's strategy in derivatives is paying off.

UBM was created in 2000 by the Credito Italiano Group. Advised by McKinsey, the US consulting firm, UBM decided to create a unique model based on distinct brands through its Corporate Lab and Trading Lab units. Trading Lab devises equity derivatives products mostly for the retail market. Corporate Lab, the financial risk management unit, advises Italian corporate and public-sector customers on financial engineering. It structures exchange rate, interest rate and commodity derivatives products.

UBM's second-place ranking for warrants backs up Trading Lab's own assertion that it is the number-one dealer for Italian covered warrants, an equity option open to retail investors.

Banca Akros – again an example of a derivatives dealing brand name that exists almost independently of its owner, Banca Popolare di Milano – also did well in the equity derivatives categories, gaining a third-place ranking for Italian vanilla OTC equity options and Italian equity index options. Banca Akros began as

a small, independent, brokerage in February 1987. It was acquired by Banca Popolare di Milano Group (BPM) in 1998, but, under the stewardship of chief executive Marco Turrina, it has maintained its independent style and business strategy. Although Banca Akros is headquartered in Milan, its New York office has been vital to its development. Last year's net profits of €13.6 million were 120% higher than the 2001 result, and other Italian banks have been closely following its success.

Banca Akros doesn't appear in our fixed-income or currency derivatives dealing rankings, perhaps because it remains a far smaller investment banking business than BNL, MPS Finance (owned by Banca Monte dei Paschi di Siena) or MCC (Mediocredito Centrale – Capitalia's investment banking arm).

But the ability of a small operation to respond to clients can still be turned to its advantage. Steve Raffin, a financial risk manager at Milanese publishing group Mondadori, rates Banca Akros highly because, "they are very efficient, especially when there is a back-office problem – and the reason is because they are very small. I speak with the same three people at Banca Akros about our forex business, and when there is a problem I know exactly where to go to get an instant response."

Nonetheless, a large proportion of Raffin's derivatives business is done with international banks. "As an Italian company, it would be natural for us to use an Italian bank," he says. "But in recent years there has been more consistency with the international banks." And one reason why large Italian banks may be less user-

"A lot of our customers are developing a different culture and attitude towards derivatives ... increasingly using them for managing interest rates"

Guido Grossi, BNL

friendly is the difficult process of merging and restructuring their businesses that many have undergone. "With an Italian bank, I might be speaking with 10 back offices, eight middle offices and only one front office. It's not their fault, but it makes it difficult for a client," says Raffin.

And, like Bulgari's Frizzi, Mondadori's Raffin says the international dealers excel in client relationship management. "Most banks can structure almost anything a derivatives user requires.

Continued on page 58

INTEREST RATE DERIVATIVES

Interest rate swaps: euro overnight	Interest rate swaps: euro less than 2 years	Interest rate swaps: euro more than 2 years
1 Banca Nazionale del Lavoro 2 JP Morgan Chase 3 Deutsche Bank Top Italian dealer: Banca Nazionale del Lavoro (1)	1 JP Morgan Chase 2 Banca Nazionale del Lavoro 3 Credit Suisse First Boston Top Italian dealer: Banca Nazionale del Lavoro (2)	1 JP Morgan Chase 2 Deutsche Bank 3 Lehman Brothers Top Italian dealer: Banca Nazionale del Lavoro (7)
Interest rate swaps: US dollar overnight	Interest rate swaps: US dollar less than 2 years	Interest rate swaps: US dollar more than 2 years
1 JP Morgan Chase 2 Deutsche Bank 3 Goldman Sachs Top Italian dealer: Banca Nazionale del Lavoro (4)	1 JP Morgan Chase 2 Morgan Stanley 3 Lehman Brothers/Goldman Sachs Top Italian dealer: Banca Nazionale del Lavoro (6)	1 JP Morgan Chase 2 Goldman Sachs 3 Deutsche Bank Top Italian dealer: UniCredit Banca Mobiliare (4)
Euro forward rate agreements	US dollar forward rate agreements	Exotic interest rate options, for example: swaptions
1 Deutsche Bank 2 JP Morgan Chase 3 Banca Nazionale del Lavoro Top Italian dealer: Banca Nazionale del Lavoro (3)	1 JP Morgan Chase 2 Citigroup 3 Banca Nazionale del Lavoro Top Italian dealer: Banca Nazionale del Lavoro (3)	1 JP Morgan Chase 2 Credit Suisse First Boston 3 Deutsche Bank/Goldman Sachs Top Italian dealer: Banca Nazionale del Lavoro/Banca Intesa (=7)
Euro repurchase agreements	US dollar repurchase agreements	
1 Banca Nazionale del Lavoro 2 SG 3 Banca Intesa Top Italian dealer: Banca Nazionale del Lavoro (1)	1 Banca Nazionale del Lavoro 2 JP Morgan Chase 3 Citigroup Top Italian dealer: Banca Nazionale del Lavoro (1)	

CURRENCY DERIVATIVES

FX options, euro/US dollar	FX swaps, euro/US dollar
1 Goldman Sachs 2 UBS Warburg 3 Banca Nazionale del Lavoro Top Italian dealer: Banca Nazionale del Lavoro (3)	1 Goldman Sachs 2 Banca Nazionale del Lavoro 3 Deutsche Bank Top Italian dealer: Banca Nazionale del Lavoro (2)
Exotic currency products in euro, for example: FX options correlated to other asset classes	Exotic currency products in US dollar, for example: FX options correlated to other asset classes
1 JP Morgan Chase 2 Goldman Sachs 3 Banca Nazionale del Lavoro Top Italian dealer: Banca Nazionale del Lavoro (3)	1 Deutsche Bank 2 Banca Nazionale del Lavoro 3 JP Morgan Chase Top Italian dealer: Banca Nazionale del Lavoro (2)

EQUITY DERIVATIVES

Italian OTC equity options, vanilla	International OTC equity options, vanilla	Italian equity index options
1 SG 2 UniCredit Banca Mobiliare 3 Deutsche Bank/Banca Akros Top Italian dealer: UniCredit Banca Mobiliare (2)	1 SG 2 Deutsche Bank 3 CSFB Top Italian dealer: UniCredit Banca Mobiliare (8)	1 UniCredit Banca Mobiliare 2 SG 3 Banca Akros Top Italian dealer: UniCredit Banca Mobiliare (1)
International equity index options	Exotic OTC equity options, for example: barrier options	Warrants
1 SG 2 JP Morgan Chase 3 CSFB Top Italian dealer: UniCredit Banca Mobiliare (5)	1 SG 2 CSFB 3 BNP Paribas Top Italian dealer: UniCredit Banca Mobiliare (5)	1 SG 2 UniCredit Banca Mobiliare 3 Citigroup Top Italian dealer: UniCredit Banca Mobiliare (2)

CREDIT DERIVATIVES

Italian single-name default swaps	International single name default swaps	Collateralised debt obligation (CDO) dealing
1 JP Morgan Chase 2 Banca Intesa 3 SG Top Italian dealer: Banca Intesa (2)	1 JP Morgan Chase 2=Goldman Sachs 2=UBS Top Italian dealer: Banca Intesa (7)	1 JP Morgan Chase 2=Bear Stearns 2=Deutsche Bank Top Italian dealer: Banca Intesa (8)

The value lies in the advice and service they offer," he says. On this score, he gives JP Morgan Chase high marks.

JP Morgan Chase's high profile in Italian derivatives dealing originates from the two franchises of retail banking powerhouse Chase Manhattan and investment bank JP Morgan, following their merger in 2000. Matteo del Fante, head of financial institutions derivatives marketing for Europe, the Middle East and Africa at JP Morgan Chase in London, says the bank was smart in handling its potential people and business overlap in the region. "The immediate effect was to have an even greater presence than before," he says. The bank now has a strong industry focus, with specific coverage teams for financial institutions, corporates and the public sector, which work across product lines to deliver client solutions.

JP Morgan Chase also dominates our rankings for credit default swap (CDS) and collateralised debt obligation (CDO) trading. Italian banks' involvement with credit derivatives has grown dramatically over the past 12 months, and a handful have set up CDS trading and market-making operations.

The number of Italian credits available

Distribution of responses

Banks	50
Asset management/ investment/hedge funds	11
Insurance companies	5
Industrial companies/ corporates	31
Government agencies	3

How the rankings are produced

Risk Italia surveyed 100 counterparties in the Italian over-the-counter derivatives market. Fifty were Italian and international banks with dealing desks based in Italy, and also Italian banks with derivatives dealing desks based outside Italy. The other 50 were Italian financial and non-financial companies that we classify as end-users of over-the-counter derivatives, that is, buyers who hold contracts for risk management and investment purposes.

Respondents were asked to nominate their top three dealers, based on the overall quality of the dealers' risk management and derivatives dealing advice. They were also asked to nominate their top three dealers in OTC derivative products.

We asked respondents to base their votes on criteria such as competitive pricing, speed of execution, liquidity provision and product innovation. We weighted the results with three points for a first-choice vote, two points for a second-choice vote and one point for a third-place vote. Totalling these points produces the final rankings.

in the default swap market is unlikely to increase in the near future, because there are few active participants in the credit derivatives market across the Italian banking system. But an important driver in Italy's credit derivatives market is the burgeoning securitisation market and the growth of synthetic CDO deals. Italy is currently ranked the third largest market in Europe, after the UK and Germany, accounting for 15.1% of 2002 issuance, according to rating agency Standard & Poor's.

SG gains a second-place ranking in the overall risk management advice and derivatives category. While fixed income in Italy has become an important market for SG in the past three to four years, its real strength lies in equity products. The bank takes a first-place ranking in five of our categories, with a second-place ranking

come team of around 20 people from London to Milan to better serve its Italian clients. Its most popular products include inflation-linked bonds and swaps, which have attracted the interest of banks and insurance companies, says Andrea Potosios, head of fixed income for Italy. A growing number of corporates are also using the products to hedge the risks associated with revaluing their employee pension funds based on Italian inflation.

Goldman Sachs did well in the currency categories, with first-place rankings in forex swaps and options and second place for euro exotic options. The bank secures a good proportion of its votes from the corporate community. Andrea Anselmetti, head of the Italian corporate sales group at Goldman in London, says product innovation has grown rapidly in the

"Progress with online tools has enabled us to capture flows in the Italian market that would previously have been physically impossible for us to obtain" Andrea Anselmetti, Goldman Sachs

for the remaining Italian equity index option product categories.

David Armstrong, responsible for engineering and sales for Italian equity derivatives at SG in Paris, says much of the bank's equity derivatives business in Italy is concentrated in the warrants business, as it was the first bank to list warrants on the Borsa Italiana in July 1998. "Previously, SG was not a strong brand for clients and the financial community in Italy, and this helped us to gain recognition and visibility."

SG has also been building up its capacity in structured equity derivatives, where business is predominantly targeted towards both retail and institutional clients. SG's 'mountain range' series of guaranteed equity products for the retail market, including Altiplano and Kilimanjaro, have proved popular in Italy. "We have seen very strong interest on the retail side because these products allow investors to have a modified risk approach to equity markets, which works well with the current equity context we have had, and at the same time people are looking for higher security," Armstrong says.

Lehman Brothers gains only two top-three places in our rankings, but takes third place in the rankings for 'Overall Quality of Risk Management Advice and Derivatives Dealing'. Its success stems from its long background in private equity and investment banking in Italy. In March 2002, Lehman moved a fixed-in-

past few years. Following the introduction of the euro, the intra-European currency derivatives trade has disappeared, but Goldman has been taking up the slack in volumes with its online forex trading platform. "Progress with online tools has enabled us to capture flows in the Italian market that would previously have been physically impossible for us to obtain, and has consequently allowed us to focus even more on creating innovative solutions to match client needs," Anselmetti says.

Other international dealers in the rankings include Deutsche Bank, which gained 11 top-three places. Deutsche has been building its Italian business from the bottom up – it bought Banca d'America e d'Italia in the late 1980s, providing a franchise of around 300 branches across the country. "Italy is the most important European market for us outside of Germany," says Michele Faissola, Deutsche's London-based global head of OTC derivatives. "Our business has traditionally centred on the asset management side, but over the last two years we have been making a push into the corporate side," he says.

The financial sector – banks, insurance companies and other institutional investors – continues to drive most derivatives dealing in the Italian market. But Italian manufacturing companies and public-sector entities have become increasingly sophisticated users of derivatives since the introduction of the euro in 1999. □