

FABIANO COLOMBINI **FINANCIAL CRISIS. CAUSES,
EFFECTS AND PERSPECTIVES**

Irrational criteria in granting loans increase the credit risk of the loans portfolio and, at the same time, irrational criteria in the credit risk transfer by securitisation and/of credit derivatives multiply the credit risk of financial instruments portfolio leading to the subprime mortgage financial crisis, which started in the United States in 2006 and is still continuing through our days, introducing recapitalisation problems and failures.

Commercial banks, investment banks, insurance companies, hedge funds and other intermediaries contribute to the financial crisis through increasing loans and financial instruments of poor quality and through the placing and trading in financial markets.

Overcoming the financial crisis is particularly important for commercial banks which will again apply rational criteria in the assets management, eliminate restrictions in granting loans and therefore have a positive impact on the economy. This is linked to the estimation of toxic assets and at the same time to the private and public intervention to remove toxic assets out of the balance sheets of financial intermediaries.

n. 1-2/2009

VINCENZO FORMISANO **ANALYSIS OF ORGANIZATIONAL ATMOSPHERE:
THE CASE OF A CREDIT INSTITUTION**

The structural changes that have taken place in the financial system have broadened the range of possible evolutionary trajectories of the organizations that operate in it, leading, at the same time, to an upgrading of the relation between intermediaries, especially banks and companies. In particular there are new and varied behaviors of intermediaries: some focus on a significant presence on numerous markets, according to a differentiated business approach regards the context of reference, others focus their business on specific types of products or clients, according to a fundamental concentrated approach.

The importance given to the Know-How as the "driver" of a company's success is confirmed by the fact that among the most recent and reliable studies, the leading position has been achieved by the perspective which emphasizes the strategic role that intangible resources, in particular, human resources, have in creating the value prospect. It is from this awareness that the need for a structural review of professional systems, methods of work organization, management procedure and staff development arises. The "centrality" of human resources in business processes has emerged not only because of purely ethical considerations, but because it has become the main feature of the most important process of strategic planning: competitiveness and achievement of advantage sustainable in time, which all derive from having unique resources, difficult for competitors to imitate. Nowadays the only resource able to satisfy these characteristics is human resources. The aim of this research is to study the meaning, characteristics and tools of analysis of organizational atmosphere in credit institutions and verify the effects on human resources. The research concludes by presenting the case of a credit institution.

n. 1-2/2009

D. CURCIO
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**ASSET CORRELATION AMONG COMMERCIAL
BANK'S RETAIL LOANS: SOME EVIDENCES
FROM US MARKET**

Asset correlation plays a crucial role within the new Basel 2 capital accord, being a critical driver of the amount of capital that banks have to set aside to face unexpected losses. Modeling asset correlation for a bank loan portfolio is still under active discussion from both an academic and a practitioner perspective. Prior literature is mostly focused on large corporate exposures, thus neglecting retail loans that are a huge part of commercial banks' credit portfolios. We provide an empirical study of the Basel 2 asset correlation assumptions for the internal ratings-based approach (IRB), by statistically analyzing loss data for a portfolio of retail loans at top 100 US commercial banks. Asset correlations set by the Basel Committee are generally conservative under "normal" economic conditions, whereas, during periods of financial market stress, empirical asset correlations rise above the regulatory value. Finally, we find evidence supporting Basel 2 assumption of an inverse relation between asset correlation and probability of default.

n. 3/2009

G. ZITO

**BANKS' PROCYCLICALITY BEHAVIOUR: THE MAIN
POLICY IMPLICATIONS OF "DYNAMIC LOAN LOSS
PROVISIONING SYSTEM"**

The backward-looking set of rules currently used by banks for their loan loss provisioning exacerbates the pro-cyclicality of both the credit issued by financial intermediaries and the capital they have to set aside to meet Basel 2 requirements. We argue that regulators should introduce a forward-looking approach in measuring credit risk at financial intermediaries. The paper examines the main policy implications of the so called "system of dynamic (or statistic) provisions" adopted by the Spanish banking system since 2000. Based on the performances of Spanish banks during the current financial market crisis, we highlight the potential benefits of such a system in terms of a more effective estimation of credit risk through the different phases of the credit cycle.

n. 3/2009

N. LINCIANO

**DEPOSIT INSURANCE, OTHER FINANCIAL SAFETY
NETS AND THE CRISIS: GENERAL ISSUES AND THE
ITALIAN CASE**

The purpose of the present paper is to contribute to the debate on the design of the deposit insurance schemes in the light of the policy lessons that may be drawn from the current crisis. It firstly reviews the theoretical debate and the cross-country experience, taking into account also the interaction with other safety nets. Secondly, it focuses on the issues raised by the changes in the design of the existing deposit insurance arrangements and reviews the main problems highlighted by the crisis episodes relating, respectively, the Northern Rock bank and the Icelandic banks; moreover, the main policy actions involving other safety nets are briefly recalled. The paper discusses also how the main issues and challenges could be addressed; finally it briefly analyses the Italian system and concludes.

n. 4/2009

S. FATICA
R. FIORI
F. PIERSANTE

**COMPETITION IN THE ITALIAN BANKING SYSTEM:
SOME EMPIRICAL EVIDENCE**

This paper analyzes the competitive structure of the Italian banking system. Techniques from the New Empirical Industrial Organization are applied to an extensive firm-level balance sheet dataset on a consolidated basis, covering all Italian banks for the period 1993-2004. The Panzar-Rosse H statistic is computed to assess banks' competitive conduct, after controlling for individual effects. In addition, a structural model of profit maximization is estimated on a yearly basis to retrieve the Lerner index; then, the determinants of the evolution of price-cost margins during the sample period are identified through a panel regression. Three main results emerge from our empirical exercise. First, the H statistic rules out collusive behaviour and provides evidence of monopolistic competition. Second, mark-ups over marginal cost – expressed by the Lerner index – decrease until 1997 and rise thereafter, along with the shift of the banking business towards the provision of non traditional services; banks with a nationwide market keep a more competitive conduct, while local banks enjoy higher margins. Third, market concentration, economic cycle, risk and operating efficiency have a significant impact on the evolution of the Lerner.

n. 4/2009

C. FASANO
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**REAL ESTATE: ALTERNATIVE OR
TRADITIONAL INVESTMENT?**

In the last quinquennium portfolio managers, in order to cope with low returns from traditional asset classes, had often privileged alternative investments. The recent crisis that has engulfed the markets, during the biennium 2007-2008, appeared to show that alternative investments keep holding a peculiarity which in past years constituted their main distinctive feature: i.e. their returns being uncorrelated with trends in traditional asset classes.

In a previous work of ours[†], we examined comparative advantages coming from utilization of commodity items in portfolio selection; in this paper we will turn our attention to the real estate sector. In particular we will scrutinise for possible correlation among: a) stock market, b) real estate, c) precious goods, d) real estate stocks, e) real estate funds. Our analysis was carried out using a variety of data sets, collecting both real and financial economic variables bond to the real estate sector, and aimed, on the one hand, to weigh benefits in selecting alternative investments, in absolute and relative terms, during bull and bear markets, and on the other hand, to assess on an empirical ground the aptitude of the financial instruments to stabilise returns of managed portfolios; therefore we sought to understand how much – apart from investors' preferences or scholars' taxonomies – the 'alternative' character ascribed to this investment class is empirically founded, given its effective potential to diversify risks in otherwise traditional portfolios and diminishing their volatility.

n. 5-6/2009

ANDREA F. PRESBITERO **THE 2008-2009 FINANCIAL CRISIS AND THE HIPCs:
ANOTHER DEBT CRISIS?**

Dealing with one exogenous adverse external shock at a time is generally a difficult challenge for heavily indebted poor countries, because of limited fiscal space, few policy options and scarce debt management capacity. The current financial crisis, because of its unprecedented severity and global scale, forces poor countries to deal with multiple exogenous shocks simultaneously: mitigating the effects of a reduction in trade, capital inflows and foreign assistance is going to be a very hard task and to require a massive intervention by donors and by the International Financial Institutions, in order to avoid to jeopardize the progresses done so far by debt relief initiatives. The paper tries to spell out the way in which the global economic-financial crisis has affected and still weighs on Low-Income Countries, focusing on overall debt sustainability.

n. 5-6/2009