MNI INTERVIEW-2: Italy Fin Firms Must Further De-risk: Rossi

Created on Wednesday, June 20, 2018 - 07:15 EDT

--But Italy NPL Fire-Sales Must Be Weighed: BOI Dep Gov Rossi
--Banks Need To Grasp Fintech Opportunity, Evolve Business Model

ROME (MNI) - Italy's financial sector must boost its risk reduction by further curbing the volume of non-performing loans on lenders' balance sheets while undergoing a pro-efficiency overhaul, Bank of Italy Deputy Governor Salvatore Rossi told MNI in an interview.

"The Italian banking sector has markedly strengthened in recent years. The NPL ratio, although still substantial, is falling sharply. Net of write-downs it was 7.5% at end 2017, from 10.9% at end 2015", said Rossi.

But more needs to be done to consolidate the financial system, without giving in to excessive haste in disposing of NPLs that risks turning out to be counterproductive.

"Further de-risking must be attained, bearing in mind that generalized fire-sales of NPLs have pro-cyclical effects," Rossi said.

A key obstacle to NPL reductions is the length of Italy's credit recovery procedures, which still average 7 years from start to finish. "The reforms to the judicial procedures implemented in 2015 and 2016 have gone in the right direction but are still not enough," Rossi argued.

Looking at the bigger picture, what Italy really needs to tackle future banking challenges is a complete modernization and restyling of its financial sector, which is still dominated by high costs and very low profitability levels, despite recent improvements.

--FINTECH BOOST

Financial technology adoption stands as the big leap forward. "To achieve efficiency gains and diversify income sources, banks need to adjust their business model, making investments in information technologies and human capital, which in turn may require some further consolidation to attain the optimal size," argued Rossi.

This is why Italian banks, still tied to traditional methods, must fully grasp the opportunity offered by the ongoing Fintech revolution. But to do so they must develop adequate instruments and strategies.

"New technologies are rapidly expanding into all segments of the financial industry, drastically changing the way financial services are produced and distributed," Rossi said.

"This digital revolution is posing a severe challenge to traditional banking to which banks can respond by heavily increasing their investments in technology and adapting their organization accordingly," he added.

According to Rossi, technology will be key to reducing costs, improving efficiency, diversifying sources of income and, eventually, restoring profitability.

"This way, banks may turn fintech from an important challenge to their business model into an extraordinary opportunity," he said.

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