

The Banker for the Country

di Stacy Meichtry

ROME - Corrado Passera, chief executive of Intesa Sanpaolo SpA, has managed to guide Italy's biggest bank through the financial crisis without turning to the Italian government or his shareholders for capital injections, a rare feat in Europe's battered banking sector.

In the current debate over how to overhaul the global banking system, however, Mr. Passera now frets that regulators will end up placing Intesa Sanpaolo in the same regulatory straight-jacket as banks that fueled the financial crisis. Intesa Sanpaolo shouldn't be required to maintain the same levels of capital as banks that trade derivatives and other risky financial products, the 55-year-old banker says during an interview in a baroque palazzo that serves as the bank's Rome office. "The way these two activities are regulated has to be totally different. They are totally different activities, very different animals," he says.

Over the past decade, while other banks ventured into derivatives trading or expanded into higher-risk emerging markets, Intesa Sanpaolo stuck to what Mr. Passera knows best: Retail banking in Italy, where households and companies have high rates of savings and low levels of debt.

But while Intesa Sanpaolo's Italian ties helped insulate the bank from the worst of the financial crisis, Italy's sluggish economic recovery now threatens to weigh down the lender. The country is limping back from its deepest recession since World War II with GDP forecasted to grow 1% this year after a 5.1% contraction in 2009. Intesa Sanpaolo has 70% of its assets in Italy and lines of credit to Italian households and companies of about €500 billion (\$598 billion), around a third of Italy's GDP.

Mr. Passera says the bank has no acquisition plans that would dramatically expand Intesa Sanpaolo's operations outside Italy. Instead, Mr. Passera says he wants to "shock" Italy's moribund economy back to life by convincing the government and private investors to team up and fund investment in Italy's depleted infrastructure. An investment of about €250 billion is needed over the next five years in order to get Italy's roads, airports and telecom networks humming, Mr. Passera says.

Mr. Passera's proposals for Italy carry more weight than those of most bankers, because he can influence how a large swath of Italy's private sector invests its capital. Since Mr. Passera's arrival in 2002 at Milan-based Banca Intesa, which he merged in 2007 with Turin's Sanpaolo IMI, the bank has acquired significant stakes in large industrial groups ranging from Italian airline Alitalia to the former state-owned monopoly Telecom Italia SpA.

Because of those shareholdings, Intesa Sanpaolo is now widely regarded in the halls of Italian finance as a *banca di sistema*, a "bank for the system." That informal title has traditionally been bestowed on Italian investment bank Mediobanca SpA, whose founding banker, the late Enrico Cuccia, stitched together a web of cross shareholdings in Italian companies that allowed him to pull the strings of Italy's economy for decades.

Mr. Passera doesn't fully embrace the label. "We define Intesa as a 'bank for the country,' because the 'system' is a very unclear concept," Mr. Passera says, adding: "When you are the largest bank you have to feel responsible not only to your shareholders but at least on a certain level to the whole of the country."

Mr. Passera's ability to pull strings, however, was made clear in 2008 when he brought together a consortium of Italian investors to rescue Italy's national carrier Alitalia. Mr. Passera helped engineer a complex deal with the Italian government that allowed the consortium to purchase Alitalia's assets after it went into bankruptcy protection and re-launch a new airline under

its original brand name. Since its re-launch, Alitalia has at times struggled to fill its planes and tackle flight delays, but the airline recently reported first-quarter revenues of €630 million, compared to €15 million in the same period in 2009.

Mr. Passera "has a pragmatic approach. He understands what's behind a balance sheet," says Marco Tronchetti Provera, chairman of Italian tire-maker Pirelli SpA, one of the companies that joined Mr. Passera's investor consortium to revive Alitalia. Mr. Provera cited the banker's experience in running companies outside the banking sector.

Mr. Passera's call for infrastructure projects might attract more private investment if the Italian government or the EU were willing to backstop the investment with guarantees, Mr. Tronchetti says. "You need to secure a return on investment."

The government of Italian Prime Minister Silvio Berlusconi might not be so keen to back the project. Like many governments its looking to reassure debt markets that it has its finances under control. Rome recently announced plans to cut Italy's budget by more than €24 billion over the next two years.

Mr. Passera dismisses the notion that austerity drives are obstacles to infrastructure spending. "Good management of public spending is totally consistent with a certain percentage of long-term investments," he says, adding that much of the funding can come from private investors if the government backs the investment with guarantees. "There has to be a mechanism of ... public guarantees," he says.

One example of how Italy's infrastructure has fallen behind its European neighbors is the country's broadband network. Much of Italy's Internet access is slow and spotty; many Italian cities rely on networks made of copper wire rather than high-speed fiber optic cable. Telecom Italia SpA, the former state-owned monopoly, has recently said it plans to invest €7 billion in infrastructure projects, including fiber optic networks. Many analysts, however, have questioned whether Telecom Italia can finance a new network while digging its way out from under a €33 billion mountain of debt.

Mr. Passera says Telecom Italia should simply band together with smaller rivals, rather than trying to finance a fiber-optic network on its own. "We should concentrate our efforts in a very modern, effective kind of network, because competition (at) that stage is not the best possible way to invest money," he says. At the end of 2008, Intesa Sanpaolo wrote down its 10% stake in Telco, Telecom Italia's controlling shareholder, by €165 million to €378 million.

Mr. Passera cut his teeth in the 1990s as Italian industrialist Carlo De Benedetti's go-to crisis manager. He ran Italy's biggest publisher, Arnoldo Mondadori Editore, when Mr. De Benedetti was locked in an epic battle for control over the company with media mogul and future prime minister Silvio Berlusconi. After the two moguls reached an agreement split up the publisher's assets, Mr. Passera took the reins of Mondadori's left-leaning publications and launched Gruppo Espresso-Repubblica, a publisher that has since grown into one of Mr. Berlusconi's toughest critics.

With one crisis solved, another quickly flared up. In 1992, Mr. De Benedetti moved Mr. Passera to his flagship, Olivetti Group, which was saddled with debt and struggling to compete in the personal-computer market against heavyweights in Japan and the U.S. "I loved (publishing) very much, but I could not spend much time on it. You had the break-up of Mondadori because of the fight with Berlusconi. And then just a year at Espresso because Olivetti became the emergency," he said.

At Olivetti, Mr. Passera deployed what would become one of the more reliable moves in his playbook: Using a dying business model to midwife a new one. Olivetti, which had been a dominant maker of typewriters for decades, was no match for computing giants such as IBM. So Mr. Passera shifted Olivetti's focus to cell phones, launching mobile operator Omnitel just as the market was taking-off. Cell phones quickly became a national obsession in Italy, making Omnitel one of Europe's largest cell phone operators at the time. Olivetti "was a company that was risking bankruptcy, and we avoided that and we gave the company a new immense area of development," Mr. Passera recalled. Mr. Passera took a similar approach years later when he was tapped to run

Poste Italiane, Italy's state-owned postal service. At the time Italy's post offices were notorious for lost mail and too much staff, but Mr. Passera quickly identified Poste Italiane's biggest asset: The millions of Italians who visited post office every month with to pay their bills on time, forking over fistfuls of cash. Mr. Passera introduced an array of banking services inside of the post offices and retrained their staff as bank tellers, a strategy that transformed Poste Italiane into one of Italy's biggest retail banks.

"The rule is almost always the case: Restructure what has to be restructured and push investments in new areas of growth," he says.