05 August 2022

Financial Institutions

IBL Banca S.p.A. Issuer Rating Report

Scope's credit view (summary)

The BBB rating is driven by Istituto Bancario del Lavoro's (IBL) prime positioning in the Italian payroll and pension-deductible loans (PDLs) sector, a low-risk and high-margin business.

The bulk of loans is represented by PDLs and delegation of payment loans (DPs). New business volumes are adequately diversified by borrower and comprise public employees, private employees and pensioners. Unlike with plain vanilla personal loans, the credit risk associated with PDLs stems not from the borrower, but from the employer or the pension provider in the first instance and from the insurance company in the second instance, given the mandatory coverage. Therefore, asset quality indicators have shown very low sensitivity to economic downturns.

Recent regulatory developments which have significantly reduced the risk weights associated with PDLs are changing the competitive landscape and resulting in a slight erosion of IBL's market share in new business volumes. Moreover, as savings from lower capital consumption are being transferred to clients via lower pricing, some pressure on IBL's margins is visible. However, overall volumes have grown, also given the contribution from DP lending.

The 2024 business plan includes commercial initiatives to reverse this trend, such improving the bank's positioning in PDLs. IBL is also cautiously pursuing diversification outside its core business into non-performing exposure (NPE) investing, both directly on secured NPEs and through Credit Factor for unsecured NPEs.

Following the recent acquisition of Banca di Sconto IBL's asset quality metrics have slightly worsened although from sound levels: we do not expect further deterioration outside the NPEs acquired for investment purposes.

Under our 'long-term sustainability' assessment, which captures credit relevant ESG-D factors, we qualify IBL as 'developing'. While acknowledging IBL's renewed commitment to digitalisation, it also highlights key person risk relating to Mario Giordano, the bank's CEO since 1998 and reference shareholder (through the company Delta 6).

The bank's exposure to Italian government bonds, used as collateral for short-term repo financing on the interbank market and with the Italian central counterparty, is material. Given that the portfolio is mostly classified as held to collect, there is no immediate risk to earnings, but liquidity could come under stress in a scenario of increasing haircuts.

Aside from deposits and interbank funding, IBL also funds itself via targeted longer-term refinancing operations (TLTRO), posting securitisations and PDLs as collateral within the ABACO scheme. Solvency metrics are strong and show an adequate buffer to IBL's minimum capital requirements.

Outlook

The **Outlook is Stable**, reflecting our view that the risks and opportunities associated with the new strategic direction are balanced.

Positive rating-change drivers:

- Limited upside to the rating at this time but a significantly more diversified and increasingly stable funding profile would be considered positively

Ratings & Outlook

Issuer rating	BBB
Outlook	Stable
Short-term debt rating	S-2
Short-term debt rating Outlook	Stable

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Negative rating-change drivers:

- A less-than-balanced approach to diversification outside the core business that may result in a higher risk profile coupled with further market share decline and reduced pricing power
- Evidence that funding and liquidity are under stress given the extensive use of sovereign debt securities for repo funding purposes

Issuer profile and product specificities

IBL was founded in 1927. It became a bank in 2004 and a group in 2008.

IBL Banca S.p.A. is the parent company of the IBL banking group, which had EUR 7bn in assets as of YE 2021. Its fully owned subsidiaries are IBL Servicing S.p.A. (CQS recovery), IBL Real Estate Srl and IBL Assicura Srl (insurance). Banca Capasso Antonio S.p.A. and Banca di Sconto e Conti Correnti di Santa Maria Capua Vetere S.p.A. were acquired in 2021. IBL also holds a 70% stake in IBL Family, a joint venture with real estate agent network Tecnocasa. IBL Family originates PDLs in conjunction with home-buying processes.

IBL is a specialised lender offering personal loans, particularly Italian PDLs, to Italian individuals. Such loans include *cessioni del quinto dello stipendio* (CQS – salary-backed loans), *cessioni del quinto della pensione* (CQP – pension-backed loans), *delegazione di pagamento* (DP), and *anticipo del trattamento di fine servizio* (TFS).

Created to help public sector employees gain access to credit after the Italian unification in the 19th century, PDLs became more formally regulated in 1950 by Italy's Law 180/1950 alongside a wider reform of personal credit. However, it remained reserved to public sector employees until 2004, when the product was extended to private sector employees. This extension removed several limitations such as minimum job tenure and increased the flexibility around loan duration.

CQS and CQP loans have the following characteristics:

- Target population of public or private sector employees and pensioners
- Duration of 24-120 months
- No maximum amount, depending on the borrower's salary. The average ticket is around EUR 20,000;
- Monthly repayments of up to 20% of net salary or pension, including capital, interest and all fees
- Direct deductions from payroll
- Compulsory insurance for loss of employment and death
- Easy to obtain: no need for a specific purpose; credit decision made in the branch (or by an agent or online); also available to individuals with poor credit history

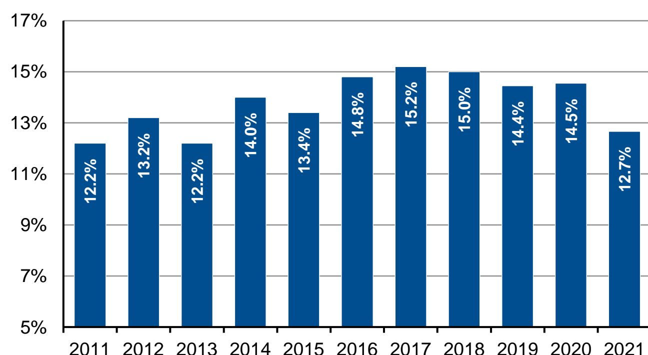
Market leader in a low-risk segment, strategically targeting market share consolidation and business diversification

The group is a market leader in Italy for PDLs. As of YE 2021, it had a 13.7% market share in CQS and CQP (14% in 2020). Despite the Covid-19 pandemic, the pension/salary-backed loans sector proved resilient in 2020, when new business contracted by just 1%. Over the same period decline in origination for IBL was around 3.9% while it grew by 3.3% in 2021. Despite this, the strong volume growth in the sector translated into IBL's market share in new business decreasing slightly to 13% from 14.5% in 2020.

Shift in competitive dynamics despite moderate entry barriers

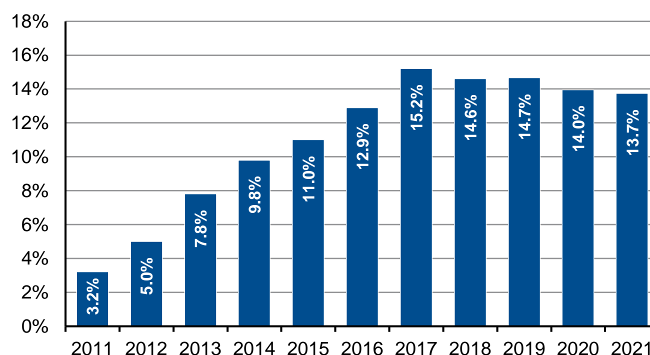
The market will likely continue to expand in absolute terms over the medium term. CQS pricing has historically been higher than plain vanilla consumer credit. But prices have come down as some of the savings from a change in regulatory treatment of CQS and CQP loans under Capital Requirements Regulation II have been transferred to consumers. This development is translating into increasing competition from new entrants in a market that has traditionally featured high barriers to entry given the specificity of the product, which entails a complex structure involving several players and a lengthy origination process. The increase in interest rates, while boosting profitability for established players, should also reinforce this trend.

Figure 1: IBL's market share, new business



Source: Company data, Assofin, Scope Ratings

Figure 2: IBL's market share, stock



Source: Company data, Assofin, Scope Ratings

IBL also offers *"delegazione di pagamento"* loans, a DP loan similar to a CQS loan (only for permanent employees). The difference is that this loan can reach 40% of the borrower's salary, and in some cases 50%. It also requires the employer to accept a framework agreement (making it unavailable to some employees and to all pensioners). Government agencies typically have a framework agreement in place with employers.

To complement its range of products, IBL also started offering TFS loans in anticipation of the severance pay that public sector employees are entitled to at the end of their career, which represented 3% of the loan book in 2021 (with 16% growth in outstanding YoY). IBL also offers savings and insurance products and payment cards.

IBL is cautiously approaching diversification outside its core business

The acquisitions in 2021 have added a lending portfolio of mortgages and other financing, jointly representing around 6% of total lending to customers. While IBL does not intend to grow these portfolios, it is actively pursuing diversification outside the CQS business and into NPE investment:

- Secured (by commercial and residential guarantees): with a cumulative investment of around EUR 330m in large-ticket single names in 2024, while also operating as advisors during the transactions.

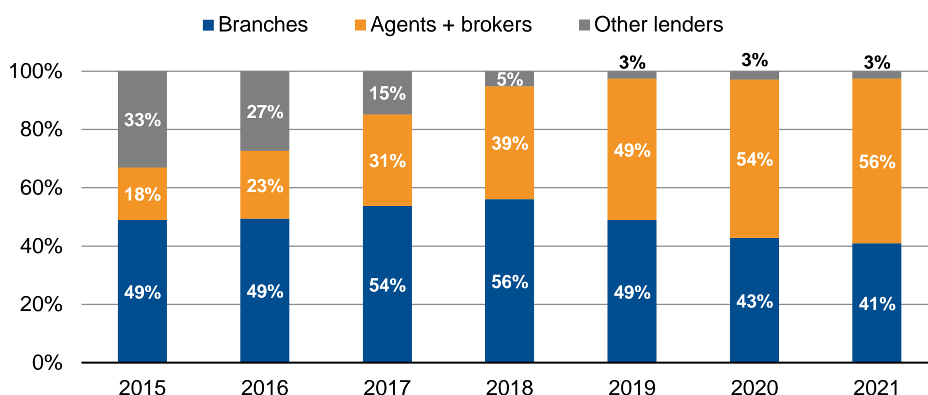
- Unsecured: Credit Factor, a joint venture (50/50) created by IBL and Europa Factor in 2018 to purchase and manage small-ticket unsecured non-performing loans originated by banks.

We consider that the investment of capital and resources in these new ventures is well managed and that the volumes involved should not materially alter the entity's risk profile. At the same time, IBL expects NPE-related activity to significantly contribute to earnings over the strategic horizon until 2024. The strategy also includes initiatives to strengthen positioning in PDLs, including those intended to improve renewal rates, shorten the time to market and further automate the origination process.

Good diversification in distribution channels

As at YE 2021, IBL's commercial model involved direct distribution through its own brand (61 branches) and indirect distribution via financial advisors and bank distribution agreements. Over the past six years, growth has been fuelled by third-party agents, which have usually accounted for 50% of annual origination, and branches. The relative decline in importance of branches since 2019 is driven by the addition of IBL Family, whose distribution network is accounted for as indirect. Distribution in partnership with other lenders has also shrunk, and in 2021 distribution agreements were terminated.

Figure 3: Relative weight of different distribution channels on total yearly financing (nominal)



Source: Company data, Scope Ratings

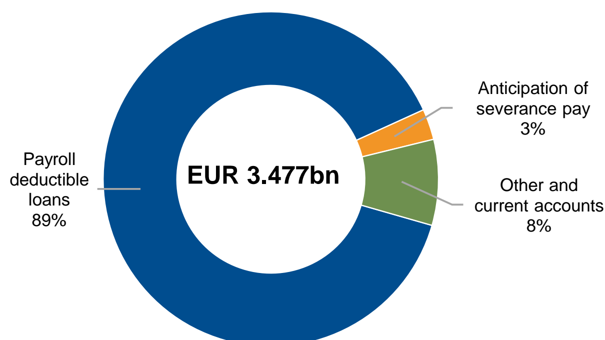
The bulk of IBL's book is lending to public sector and pensioners

IBL's portfolio is adequately diversified: in 2021 the origination mix comprised around 39% of lending to public employees, 25% to private employees and 36% to pensioners. The bulk of loans is represented by PDLs and DP loans (89% of total). Another 3% of loans are represented by TFS loans.

IBL has a very granular credit portfolio given the small average tickets, and it does not show large concentrations. However, concentration risk can be present in terms of the employer or the insurance counterparty: IBL has agreements with five companies, the largest Italian life and non-life insurance players and Net Insurance (of which IBL owns a 29% stake), with a single counterparty limit at 20% of exposures.

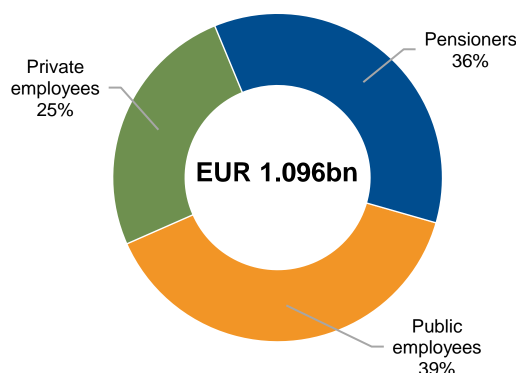
In 2021 three-quarters of new loans were granted to public employees and pensioners, whose risk of income loss is particularly limited. The share represented by private employees was material at 25% (flat YoY), and it has grown markedly in the past few years.

Figure 4: Loans to customers, YE 2021



Source: Company data, Scope Ratings

Figure 5: Origination mix, 2021



Source: Company data, Scope Ratings

PDLs have an extremely low credit risk, which essentially stems from the employer or insurance company. Asset quality is strong, with a non-performing loan ratio of 3.1% in 2021 (from 2.9% in 2020), which excludes EUR 34m of bad loans acquired for investment purposes, and a 17% coverage ratio (decreasing by 2 pp YoY).

Covid-19 lockdowns had a negligible impact on the bank's asset quality. However, the Banca di Sconto acquisition marginally worsened IBL's metrics, but we do not expect further deterioration outside the NPE investment activity.

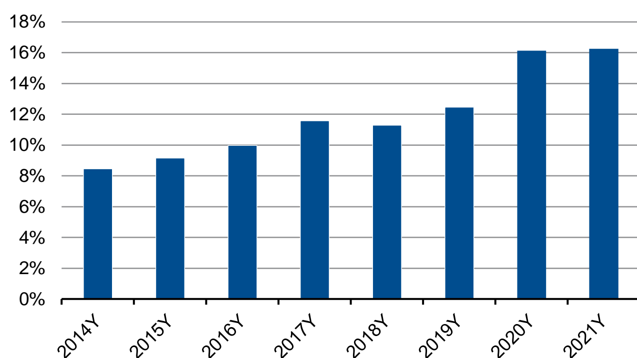
Strong profitability and capital metrics, further reinforced by change in regulatory stance regarding PDLs

IBL's profitability is high, which provides the bank with a strong first line of defence in downturns. 2021 pre-provision income improved by around 25% YoY to EUR 74m. On top of that, IBL recorded EUR 2.3m of impairments in 2021, a 30% decline YoY, leading to a return on equity of over 13% (from 10% one year earlier).

Increased buffer to minimum capital requirements

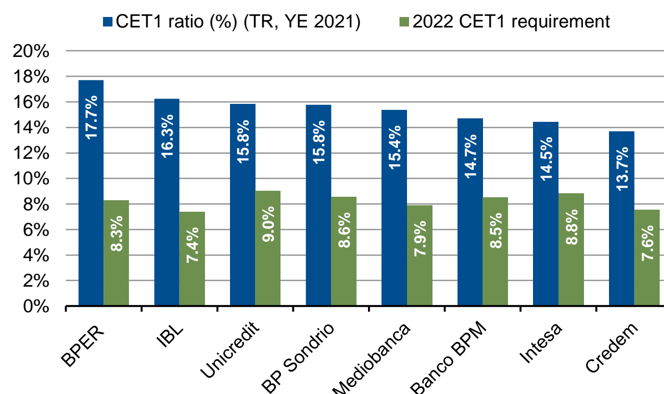
In June 2020, following the implementation of Capital Requirements Regulation II, the risk weighting of PDLs under standardised models dropped from 75% to 35%. This released significant capital for IBL and boosted the bank's capital ratios, resulting in a Common Equity Tier 1 (CET1) ratio of 16.1% on a transitional basis at the end of 2020 (versus 12.5% in 2019). At YE2021 the CET1, Tier 1 and total capital transitional ratios stood at 16.25%.

Figure 6: IBL's historical CET1 ratio



Source: SNL, Scope Ratings

Figure 7: IBL's capital position compared to that of selected Italian banks



Source: Company data, SNL, Scope Ratings

Additionally, given a lower Pillar 2 requirement (0.7%) than most Italian banks, overall capital requirements also tend to be lower than domestic peers. With a 2022 Supervisory Review and Evaluation Process requirement of 7.4% for CET1, IBL's buffer stood at 885 bp on the CET1 requirement at YE 2021, 725 bp on Tier 1 and 505 bp on total capital.

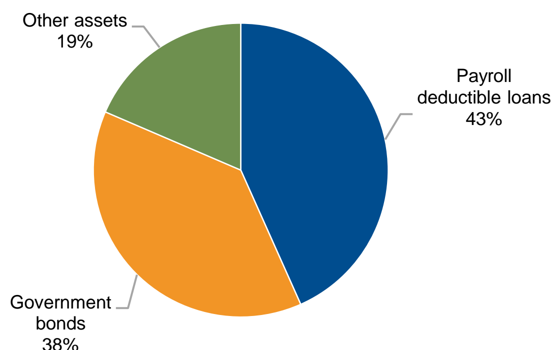
Material exposure to Italian sovereign risk

While almost all loans are either CQS, CQP or DP, Italian government bonds are a large component of IBL's balance sheet, which boosts profitability but represent a potential risk. Over the past five years, government bonds have been a significant source of carry trade income and trading gains for IBL, helping it to recapitalise and finance business growth. As of YE 2021, its Italian government bond portfolio stood at approximately EUR 2.7bn, slightly declining YoY but still representing almost seven times the group's CET1 capital, a very high proportion.

While we consider Italian government bonds to be safe assets (Scope rates Italian debt at BBB+/Stable), having such a large, concentrated exposure to one borrower poses a non-negligible risk. While entirely classified as held to maturity in 2020, IBL started building a fair-value portfolio in 2021, which as of YE 2021 made up around 8% of the total and is increasing in size in 2022. Despite the use of hedging, such a position has the potential of impacting earnings through valuation adjustments.

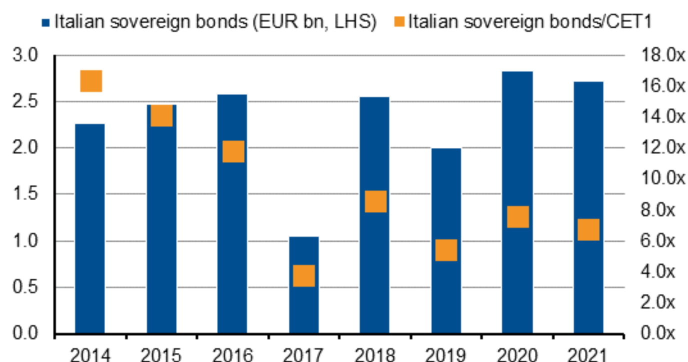
Moreover, the government bonds portfolio is self-funded via repos, which may result in a drain on liquidity in a scenario of rising haircuts despite IBL maintaining a buffer on unencumbered bonds as a liquidity reserve.

Figure 8: Total asset breakdown, YE 2021



Source: Company data, Scope Ratings

Figure 9: Total exposure to Italian debt in absolute terms and as % of transitional CET1, historical



Note: BTP Source: Company data, Scope Ratings

Focus on stable and increasingly diversified funding, as flexibility and surplus provided by TLTRO phase-out

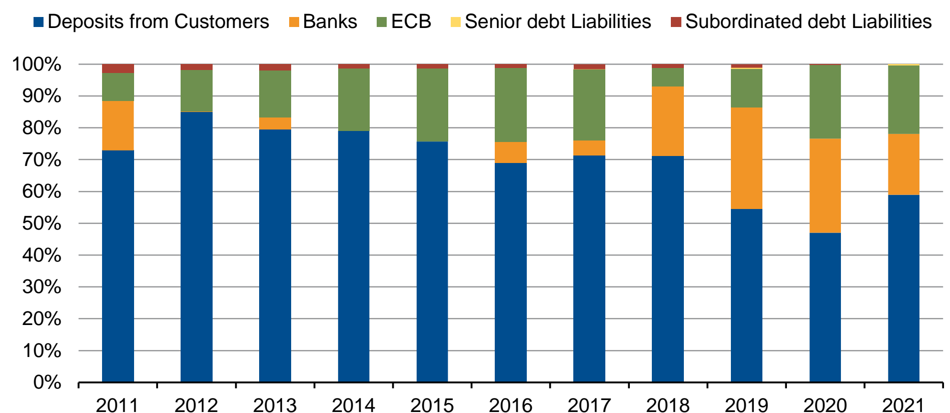
The core PDL business has historically been funded primarily via a mix of deposits, central bank funding and private repos (Figure 10). Recently, IBL has been shifting towards ECB funding and customer deposits, while its reliance on interbank funding and securitisations, while significant, has been decreasing.

Funding mix to shift given TLTRO and ABACO eligibility

Securitisations were historically retained and used as collateral for repo operations with the Bank of Italy. ABACO eligibility, which allows loan portfolios to be posted directly as collateral with the Bank of Italy, has reduced IBL's reliance on this source of funding.

The deposit base is granular and in the last three years, it has been growing at a 10% CAGR. Part of IBL's strategy is to increase the share of stable funding by targeting commercial initiatives on deposit offers while resuming the ABS programme to diversify funding and replace maturing TLTRO. ECB funding stood at 21% of total liabilities as of YE 2021 and has provided for a strong benefit in terms of both flexibility and earnings.

Figure 10: IBL's historical funding breakdown



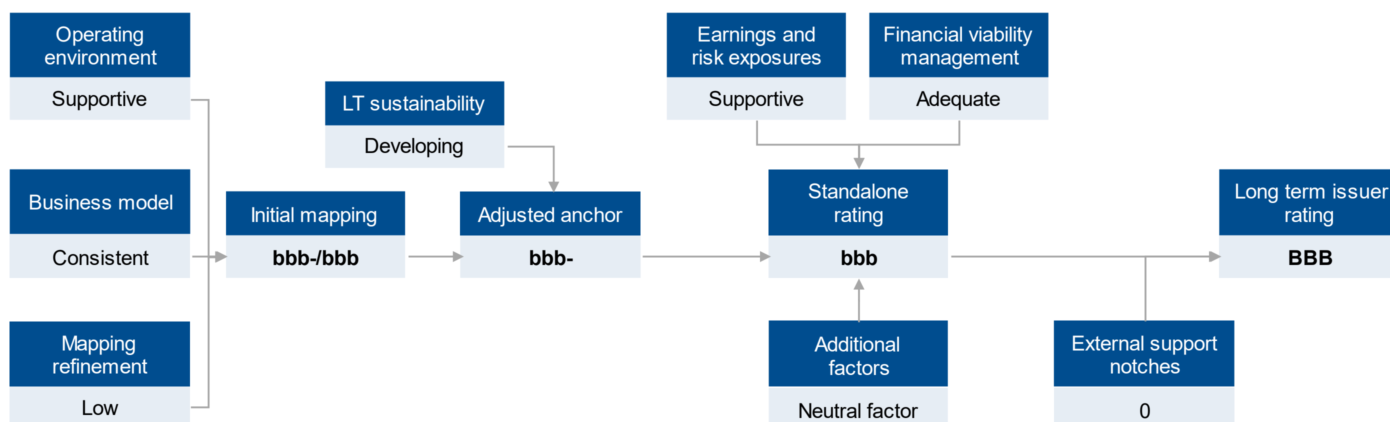
Source: Company data, SNL, Scope Ratings

Owned and closely controlled by management

Mario Giordano, the bank's CEO since 1998 (when IBL was called Istituto Finanziario del Lavoro), controls 50% of shares through holding company Delta 6. He has led the group through several transformation cycles, including the acquisition of a banking licence in 2004 and the move from an 'originate to distribute' model to a balance sheet model. His partners, the D'Amelio family, control the other 50% of shares through holding company Sant'Anna Srl and sit on the board of directors.

We believe Mr Giordano represents a key person risk for the bank. His departure would add significant uncertainty in terms of governance and strategy.

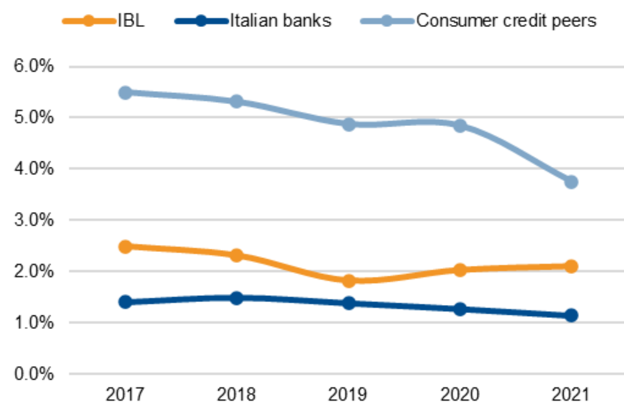
I. Appendix: Overview of the rating process



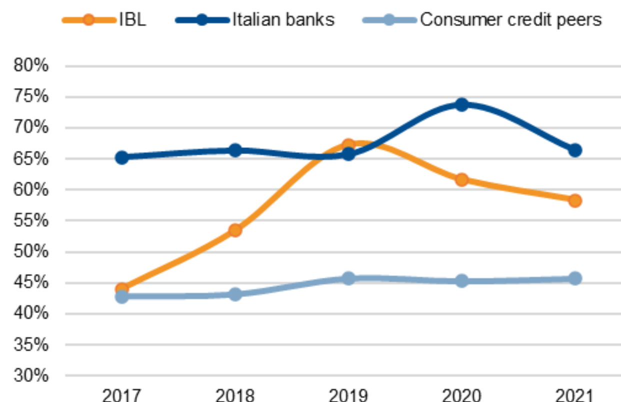
	Step	Assessment	Summary rationale
STEP 1	Operating environment	Very supportive **Supportive** (selected) Moderately supportive Constraining Very constraining	• Italy is a large, mature, diversified economy within the eurozone with a sound legal and regulatory framework. • Developed financial market; adequate structural metrics for the banking sector
	Business model	Very resilient Resilient **Consistent** (selected) Focused Narrow	• Leader in PDLs, a high-margin, low-risk personal loan product with a long history in Italy • Competition and pricing pressure have increased following the change in regulatory treatment of PDLs • Cautious focus on business diversification
	Mapping refinement	High **Low** (selected)	• Lower business diversification than peers
	Initial mapping	**bbb/bbb-**	
	Long-term sustainability	Best in class Advanced **Developing** (selected) Lagging	• Efforts to increase digitalisation of origination • Lean organisation leveraging back-office automation • CEO represents a key person risk for the bank
	Adjusted anchor	**bbb-**	
STEP 2	Earnings capacity and risk exposures	Very supportive **Supportive** (selected) Neutral Constraining Very constraining	• Return on average equity averaging 16% over the past five years, at the upper end of consumer finance peers and well above domestic banking peers • Granular, stable PDL portfolio • High exposure to Italian sovereign risk
	Financial viability management	Ample Comfortable **Adequate** (selected) Limited Stretched At risk	• Funded primarily by deposits and central bank funding, followed by interbank funding and securitisations • Italian bonds are mainly financed through short-term repos, which poses a risk to liquidity if haircuts rise. • Capital position is strong and provides a solid buffer to requirements, especially after the recent decline in risk-weights for PDLs.
	Additional factors	Significant support factor Material support factor **Neutral** (selected) Material downside factor Significant downside factor	• No additional factors considered
	Standalone	**bbb**	
STEP 3	External support	Not applicable	
Issuer rating		**BBB**	

II. Appendix: Peer comparison

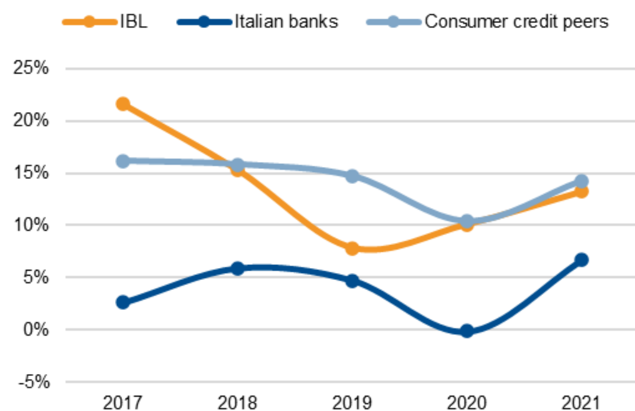
Net interest margin



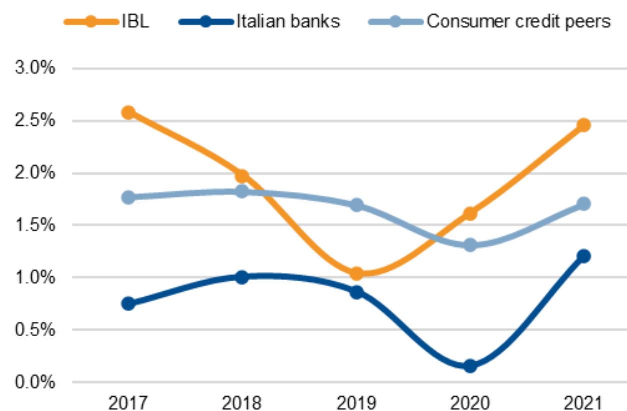
Cost-income ratio



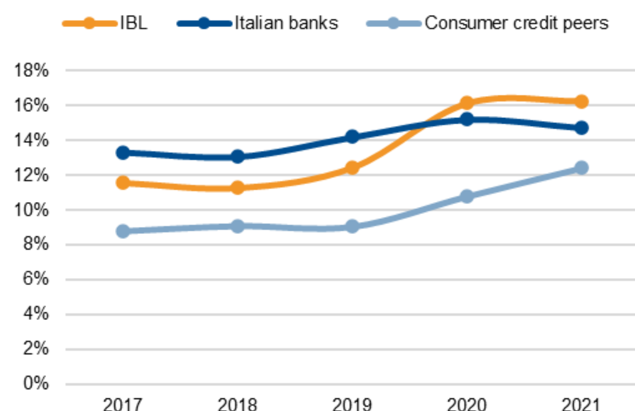
Return on average equity



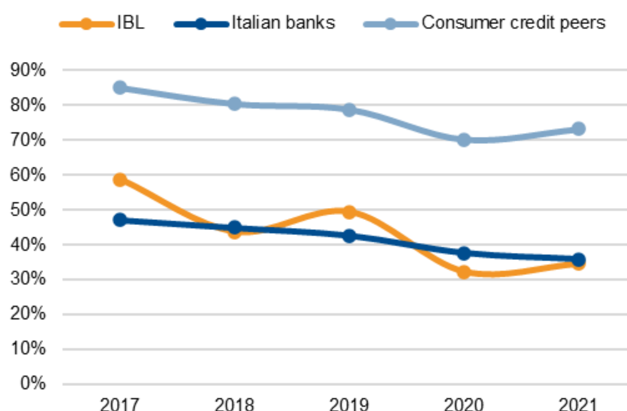
Return on risk-weighted assets



CET1 ratio (phased in)



Asset risk intensity (RWAs as % of total assets)



Source: SNL, Scope Ratings
Italian Banks: Unicredit, Intesa Sanpaolo, Banco BPM, MPS, BPER, Credem, BP Sondrio
Consumer credit peers: Agos Ducato, BCC CreditoConsumo, Sella Personal Credit, Creditis Servizi Finanziari, Fiditalia, Findomestic Banca, Santander Consumer Bank SpA, Cofidis SA
Note: among consumer credit peers, 2021Y data were available only for BCC CreditoConsumo, Santander Consumer Bank SpA and Sella Personal Credit, for 2020 data were available for BCC CreditoConsumo, Santander Consumer Bank SpA, Sella Personal Credit, Fiditalia, and Cofidis SA.

III. Appendix: Selected financial information – IBL Banca S.p.A.

	2017	2018	2019	2020	2021
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	285	424	459	488	405
Total securities	495	81	205	30	253
of which, derivatives	17	22	26	22	28
Net loans to customers	3,180	5,243	4,988	6,203	6,013
Other assets	248	276	383	400	451
Total assets	**4,207**	**6,023**	**6,036**	**7,121**	**7,122**
Liabilities					
Interbank liabilities	1,008	1,527	2,382	3,419	2,664
Senior debt	1	1	1	0	22
Derivatives	26	54	78	67	28
Deposits from customers	2,654	3,914	2,972	3,041	3,852
Subordinated debt	60	60	60	12	0
Other liabilities	144	123	142	138	116
Total liabilities	**3,892**	**5,678**	**5,635**	**6,678**	**6,682**
Ordinary equity	315	345	394	435	431
Equity hybrids	0	0	0	0	0
Minority interests	0	0	8	8	9
Total liabilities and equity	**4,207**	**6,023**	**6,036**	**7,121**	**7,122**
Core tier 1/ common equity tier 1 capital	*286*	*297*	*371*	*371*	*400*
Income statement summary (EUR m)					
Net interest income	115	112	104	125	141
Net fee & commission income	14	7	11	14	10
Net trading income	36	34	18	20	28
Other income	1	3	4	3	15
Operating income	**167**	**155**	**137**	**162**	**194**
Operating expenses	74	83	92	100	113
Pre-provision income	**94**	**72**	**45**	**62**	**81**
Credit and other financial impairments	4	-2	4	3	2
Other impairments	0	0	0	0	0
Non-recurring income	NA	NA	NA	NA	NA
Non-recurring expense	NA	NA	NA	NA	NA
Pre-tax profit	**89**	**74**	**41**	**60**	**79**
Income from discontinued operations	0	0	0	0	0
Income tax expense	29	24	11	17	21
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	0	1	0
Net profit attributable to parent	**60**	**50**	**29**	**42**	**58**

Source: SNL, Scope Ratings

IV. Appendix: Selected financial information – IBL Banca S.p.A.

	2017	2018	2019	2020	2021
Funding and liquidity					
Net loans/ deposits (%)	120%	134%	168%	204%	156%
Liquidity coverage ratio (%)	NA	NA	146%	NA	175%
Net stable funding ratio (%)	NA	NA	NA	NA	113%
Asset mix, quality and growth					
Net loans/ assets (%)	75.6%	87.0%	82.6%	87.1%	84.4%
Problem loans/ gross customer loans (%)	NA	1.6%	2.1%	1.8%	2.3%
Loan loss reserves/ problem loans (%)	NA	26.9%	24.7%	25.0%	24.4%
Net loan growth (%)	37.3%	64.9%	-4.9%	24.4%	-3.1%
Problem loans/ tangible equity & reserves (%)	NA	22.5%	24.8%	24.9%	30.8%
Asset growth (%)	-24.3%	43.2%	0.2%	18.0%	0.0%
Earnings and profitability					
Net interest margin (%)	2.5%	2.3%	1.8%	2.0%	2.1%
Net interest income/ average RWAs (%)	4.9%	4.4%	3.7%	4.7%	5.9%
Net interest income/ operating income (%)	69.1%	72.2%	75.6%	77.3%	72.5%
Net fees & commissions/ operating income (%)	8.5%	4.4%	7.8%	8.9%	5.2%
Cost/ income ratio (%)	44.0%	53.4%	67.3%	61.7%	58.4%
Operating expenses/ average RWAs (%)	3.2%	3.3%	3.3%	3.8%	4.8%
Pre-impairment operating profit/ average RWAs (%)	4.0%	2.8%	1.6%	2.4%	3.4%
Impairment on financial assets / pre-impairment income (%)	4.6%	-2.3%	8.8%	5.5%	2.9%
Loan loss provision/ average gross loans (%)	NA	NA	0.1%	0.1%	0.0%
Pre-tax profit/ average RWAs (%)	3.8%	2.9%	1.4%	2.3%	3.3%
Return on average assets (%)	1.2%	1.0%	0.5%	0.6%	0.8%
Return on average RWAs (%)	2.6%	2.0%	1.0%	1.6%	2.5%
Return on average equity (%)	21.6%	15.3%	7.8%	10.1%	13.2%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	12.3%	15.9%	16.0%
Common equity tier 1 ratio (%, transitional)	11.6%	11.3%	12.5%	16.1%	16.3%
Tier 1 capital ratio (%, transitional)	12.4%	12.1%	13.2%	17.0%	16.3%
Total capital ratio (%, transitional)	13.8%	13.0%	13.7%	17.5%	16.3%
Leverage ratio (%)	7.3%	5.1%	6.4%	5.4%	5.6%
Asset risk intensity (RWAs/ total assets, %)	58.7%	43.7%	49.4%	32.3%	34.6%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL, Scope Ratings

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