

Preface

Structured finance is a business area that encompasses a wide range of transactions. In this work, the authors opted to include securitization, project finance and PPP transactions, leasing (as a deal representative of asset-based finance,) and acquisition finance activities conducted by utilizing a deal design based on a strong debt component (essentially LBOs in all their contractual variations). Given the importance of the management of nonperforming loans (NPL) in the European Banking system, a chapter of the book is dedicated to the analysis of the securitization of this asset class. This perimeter of analysis does not lend itself to meticulous theoretical or empirical debate. The evidence which emerges from observation of the managerial practices of international and domestic intermediaries that compete in this business (which are described in this work) substantially confirm this choice.

Though defining the boundaries of structured finance is not particularly problematic, a comprehensive study on business practices of European financial intermediaries in this business area does not exist. In actual fact, neither in national nor international literature can systematic studies be found which deal with both positioning of actors on the European market as well as the choice of organizational structures at the basis of services offered. This was the primary motivation for drafting the present study in its second edition after the first one published in 2005.

The second reason that prompted the authors to prepare the second edition of this book lies in the dramatic transformation of the strategy that various European banks implemented in the past 10 years, reacting to pressure followed to the 2008 financial crisis, the 2011–2012 Eurozone Sovereign debt crisis and the subsequent changes imposed by the supervisory authorities. These stimuli translated into the need for a more serious commitment to supporting financial policies of client companies by offering a complete range of services.

The shift from a logic of corporate lending to one of “full service”, typical of corporate and investment banking, calls for change in two respects:

1. the range of financial services proposed;
2. the choice of organizational structure adopted to supply these services.

As for the first point, structured finance transactions share many basic principles with medium to long-term lending. In fact, in the past European banks have been participants in project finance, acquisition finance, and securitization. The novelty lies in the current need for national and pan-European intermediaries to serve as direct interlocutors with customers in such transactions. In practice, this materializes in the need to integrate the offer of funding (which already exists) with consulting on modeling and assembling the transaction in question. Winning credibility in higher value added advisory and arranging activities has become the central objective for banks that wish to implement credible corporate and investment banking strategies.

As regards the choice of organizational structure, it is only natural to expect that adopting a higher profile in financial consultancy to support credit deals requires banks to rethink the way they interface with customers. Designing managerial practices to handle customer relations and, in this context, creating organizational roles for contact and transactions become critical elements in guaranteeing the effectiveness of the business proposal.

Within this framework of changes in transactional and commercial choices, structured finance can be seen as an attractive business area for European banks, most certainly in view of potential market size. In this regard, at least three examples can be given.

The first involves project finance. In a context of European infrastructure needs estimated to be about 2 trillion euro in the period 2015–2020 and with scarcity of public resources available to fill in the infrastructure gap, private money and Public—Private Partnerships (PPPs) become a viable solution to convey money of investors to this infrastructure asset class. Not only do banks play a direct role but they can and must become a catalyst of institutional investors' pool of resources via partnerships and innovative structured finance solutions.

The second example refers to securitization. The market shows as of yet untapped potential in the segment of corporate originators and even more so in the application of the technique for an active management of NPLs. The dialectic role that even medium-sized banks can play in this segment should not be underestimated.

The final example refers to LBOs in their many contractual variations. Such transactions underscore structural problems involved in family succession and governance transfer in most European countries. The development of the private equity industry, which has recently begun to reabsorb the recessive trends of the post crisis period, is apt to proliferate the possibilities of credit intervention in replacement phases in the future.

The evidence presented above provides a more accurate framework for the objectives of this research project. In fact, for each structured transaction, this work aims to do the following:

1. Analyze the key criticalities which emerge in the relationship between bank and customer. Critical success factors are then identified which enable banks to compete as credible service providers in this business area.
2. Examine the advantages which can be gained by originators/sponsors from each type of structured finance.
3. Quantify the current dimensions of the market and identify areas for development which as yet have not been completely exhausted by the competitive game.

In addition, a transversal objective in the study of transactions and business areas is to illustrate the macrostructural profiles that characterize business units tasked with advisory services and funding of structured transactions. This is particularly useful in research with an empirical bent so as to verify the existence of best practice benchmarks.

Lastly, from a methodological viewpoint this study has been conducted on two levels. First, considering the scarcity of literature dealing with the field of analysis in its entirety in any methodical way, every contributor reviews the best available literature on each single structured finance transaction. Second, to analyze its present and potential dimensions, an in-depth, empirical investigation is carried out to arrive at an accurate quantification of the current size of the European market. Wherever possible, qualitative and quantitative indications are also provided on the potential for development of this market.

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