



Wind of change blows through Italy's popolari banks

By Lisa Jucca

MILAN, March 2 (Reuters) - The birth of three new major Italian popolari banks is likely to spur changes to ownership rules that could attract new investors, but a one-person one-vote system that shields them from hostile bids may survive.

Shareholders meeting on Saturday are set to back the creation of UBI Banca from BPU <BPUN.MI> and Banca Lombarda <BL.MI>. A shareholder vote on the merger of Banco Popolare di Verona e Novara <BPVN.MI> and Banca Popolare Italiana <BPI.MI> is scheduled for March 10.

Banca Popolare di Milano <PMI.MI> and Banca Popolare dell'Emilia Romagna <EMIL.MI> are also looking to merge.

The newly merged popolari, or mutual, banks will each have a market worth of 10 billion euros (\$13.2 billion) or more and thousands of branches scattered across the country.

Lawmakers are pondering whether governance rules, originally conceived to bind the mutual banks to a particular region, may be outdated now that some popolari banks are taking on a national dimension through a string of mergers.

"Corporate governance should ensure that the company is run by the management in alignment with the interest of their owners," Christopher Kummer, director at the Institute of Mergers, Acquisitions and Alliances in Vienna, told Reuters.

"If the owners are not represented in accordance with what they own, this may lead to a misrepresentation of interests."

Roberto Pinza, Italy's Deputy Economy Minister, said earlier this month it was time to consider a reform of the popolari banks and six draft bills are already before parliament.

"There seems to be a contradiction between the original nature of the co-operative banks and their large size and stock-market listing," a parliamentary official who is following the proposed reform said. "Something will need to be done."

LOOSENING OWNERSHIP RULES

The official said the popolari banks remain fiercely opposed to changes to their voting rules after an inquiry by the European Commission concluded that the system does not break EU law.

But the banks, under pressure from Bank of Italy head Mario Draghi to bring their governance rules up to date, may be ready to raise the ownership ceiling for institutional investors to around 2 percent or more from 0.5 percent at present.

"It is desirable that Parliament act to increase the room available for outside investors to participate in their capital and decision-making," Draghi said in a speech last month.

Analysts say institutional investors are eager to get larger stakes at Italy's popolari banks, which account for 20 percent of Italy's deposits and lendings and are profitable.

Shares in the segment rose in 2006 by 28.6 percent, above the year's average for Italian banks, according to data from the national association of popolari banks.

The price-earnings ratio of the top four popolari banks is seen at 11.4 in 2008 against 11 for the four largest other banks, according to data from brokerage Fox-Pitt Kelton, indicating investor hopes they will continue to outperform the sector.

The corporate governance structure at Italy's popolari banks is by no means unique in Europe's banking landscape.

In Germany, investors in so-called Genossenschaftsbanken have limited voting rights and caps on share ownership.

The Deutsche Apotheker- und Aerztebank, Germany's largest Genossenschaftsbank, restricts investors to a fixed holding of 1,500 euros with only one vote to cast. Only members of the healthcare profession can become one of the bank's members, said Kummer.

Restrictions are also seen at Raiffeisenbanken banks in Austria and Germany, while in France savings banks own more than 50 percent of Credit Agricole's <CAGR.PA> share capital and voting rights, making it hard for the bank to fall victim to a hostile takeover.

"Co-operative lending is present in different forms in the whole of Europe. We cannot say that Italy is an exception," said Andrea Resti, an economy professor at Bocconi University.

Resti, who says market forces rather than decrees should be driving any change, said corporate governance at Italy's popolari could be improved by allowing proxy voting for key decisions, such as mergers.

The banks could also benefit from a system that allows shareholders to vote for single board members rather than for a whole list of representatives, as is the case now