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I sistemi di pianificazione e controllo nel settore bancario: il caso della Banca dei Sibillini

Planning and control systems in the banking sector: the case of Banca dei Sibillini

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INTRODUZIONE

Nell'attuale scenario globale, caratterizzato da mutamenti rapidi e dirompenti, è fondamentale per le aziende poter disporre di strumenti adeguati per rispondere in modo efficace alle sfide da affrontare. Per questo motivo è necessario adottare sistemi di pianificazione, programmazione e controllo che siano ben integrati tra loro e che aiutino concretamente i manager e le aziende nella realizzazione dei loro progetti e nel raggiungimento dei loro obiettivi.

Questi sistemi sono formati da strumenti e da processi utili a definire gli obiettivi da raggiungere, a pianificare le azioni da intraprendere, a impiegare al meglio le risorse aziendali disponibili, a rilevare i risultati conseguiti ed infine a confrontarli con gli obiettivi programmati al fine di evidenziare eventuali scostamenti, così da poter procedere, se necessario, ad effettuare azioni correttive o migliorative.

Le considerazioni in merito all'utilità dei sistemi di pianificazione, programmazione e controllo sono vere anche con riferimento alle aziende che operano nel settore bancario, soprattutto alla luce dell'evoluzione che tale settore ha conosciuto nell'ultimo ventennio.

La liberalizzazione progressiva dei mercati, i nuovi vincoli normativi e regolamentari (per esempio gli Accordi di Basilea), il progresso nel campo delle

telecomunicazioni, l'espansione su scala mondiale del mercato dei capitali, la progressiva intensificazione della concorrenza sono solo alcuni dei fattori che, a livello nazionale ed internazionale, hanno contribuito a modificare profondamente l'agire delle aziende bancarie e che rendono imprescindibile l'adozione di sistemi di pianificazione, programmazione e controllo volti ad ispirare l'azione del management ai principi di efficienza ed efficacia, con il fine ultimo di guidare le aziende al raggiungimento degli obiettivi programmati.

In vista dell'utilità dei sistemi di pianificazione, programmazione e controllo e della necessità di tali sistemi nel settore bancario, l'obiettivo del presente lavoro è esplorare le modalità con cui tali sistemi vengono progettati, implementati ed utilizzati nelle aziende bancarie, con particolare riferimento alle peculiarità degli strumenti e dei processi adottati. Al fine di raggiungere questo obiettivo, ad una disamina teorica dei sistemi di pianificazione, programmazione e controllo, in generale e nell'ambito del settore bancario, verrà affiancato anche lo studio di un caso di una realtà operante nel settore bancario che utilizza regolarmente strumenti di pianificazione, programmazione e controllo, ossia quello di Banca dei Sibillini.

Il lavoro, pertanto, si articola in tre capitoli, i cui tratti salienti sono di seguito delineati.

Il primo capitolo offre una disamina teorica dei sistemi di pianificazione, programmazione e controllo. Il capitolo si apre affrontando l'attività di

pianificazione strategica, ossia quella con cui vengono definiti gli obiettivi globali di lungo termine. Il focus si sposta poi sulle attività di programmazione, ossia quella con cui gli obiettivi di lungo termine vengono tradotti in obiettivi di breve termine, e controllo, grazie alla quale si effettua il confronto tra i risultati ottenuti e gli obiettivi programmati. Particolare attenzione viene posta alla struttura organizzativa, alla struttura informativa e al processo che caratterizzano le attività di programmazione e controllo.

Il secondo capitolo affronta il tema dei sistemi di pianificazione, programmazione e controllo nell'ambito del settore bancario. Dapprima vengono esaminate le peculiarità del settore, come la natura e le tipologie delle attività bancarie, il ruolo del controllo e della gestione del rischio in tali attività e la stringente regolamentazione e supervisione a cui le aziende bancarie devono sottostare. Tutte peculiarità, queste, che incidono profondamente sulle modalità con cui i sistemi di pianificazione, programmazione e controllo vengono progettati, implementati utilizzati, aspetti, questi, che vengono affrontati nella seconda parte del capitolo.

Il terzo capitolo, infine, esplora le modalità con cui Banca dei Sibillini progetta, implementa ed utilizza il proprio sistema di pianificazione, programmazione e controllo. Particolare attenzione verrà posta agli strumenti e ai processi adottati, nonché al ruolo svolto dagli attori coinvolti. Il capitolo si chiude con delle riflessioni in merito alle connessioni tra le attività di pianificazione,

programmazione e controllo, da un lato, e le attività di gestione e controllo dei rischi, dall'altro.

Infine, nelle conclusioni dell'elaborato vengono messe in evidenza e analizzate criticamente le peculiarità riscontrate nel sistema di pianificazione, programmazione e controllo di Banca dei Sibillini, anche con riferimento alla disamina teorica offerta nei primi due capitoli del lavoro.

INTRODUCTION

In today's rapidly changing and disruptive global environment, it is crucial for companies to have the right tools to respond effectively to the challenges they face. For this reason it is necessary to adopt strategic planning, operational planning and control systems that are well integrated with each other and that concretely help managers and companies in the realization of their projects and in the achievement of their objectives.

These systems are made up of tools and processes that are useful for defining the objectives to be achieved, planning the actions to be taken, making the best use of available company resources, detecting the results achieved and finally comparing them with the planned objectives in order to highlight any deviations, so that corrective or improvement actions can be taken if necessary.

The considerations regarding the usefulness of strategic planning, operational planning and control systems are also true with reference to companies operating in the banking sector, especially in light of the evolution that this sector has experienced over the last twenty years.

The progressive liberalization of markets, new regulatory and regulatory constraints (e.g. the Basel Accords), progress in the field of telecommunications, the worldwide expansion of the capital market, the progressive intensification of

competition are just some of the factors that, at national and international level, have contributed to profoundly change the actions of banking companies and that make it essential to adopt strategic planning, operational planning and control systems aimed at inspiring management action to the principles of efficiency and effectiveness, with the ultimate aim of guiding companies to achieve the planned objectives.

In view of the usefulness of strategic planning, operational planning and control systems and the need for such systems in the banking sector, the objective of this work is to explore the ways in which such systems are designed, implemented and used in banking companies, with particular reference to the peculiarities of the tools and processes adopted. In order to achieve this objective, a theoretical examination of strategic planning, operational planning and control systems, in general and within the banking sector, will be accompanied by the study of a case study of a reality operating in the banking sector that regularly uses strategic planning, operational planning and control tools, namely that of Banca dei Sibillini.

The work, therefore, is divided into three chapters, the main features of which are outlined below.

The first chapter offers a theoretical examination of strategic planning, operational planning and control systems. The chapter opens by addressing the strategic planning activity, that is the activity by which the overall long-term objectives are

defined. The focus then shifts to operational planning activities, that is the activity by which long-term objectives are translated into short-term objectives, and control, by which the results obtained are compared with the planned objectives. Particular attention is paid to the organizational structure, the information structure and the process that characterize the operational planning and control activities.

The second chapter deals with strategic planning, operational planning and control systems within the banking sector. First, the peculiarities of the sector are examined, such as the nature and types of banking activities, the role of control and risk management in these activities and the stringent regulation and supervision to which banking companies are subject. These are all peculiarities that profoundly affect the way in which strategic planning, operational planning and control systems are designed, implemented and used, which are discussed in the second part of this chapter.

The third chapter, finally, explores how Banca dei Sibillini designs, implements and uses its strategic planning, operational planning and control systems. Particular attention will be paid to the tools and processes adopted, as well as the role played by the actors involved. The chapter ends with some reflections on the connections between strategic planning, operational planning and control systems, on the one hand, and risk management and control activities, on the other.

Finally, the conclusions of the paper highlight and critically analyse the peculiarities found in the strategic planning, operational planning and control system of Banca dei Sibillini, also with reference to the theoretical examination offered in the first two chapters of the work.

1 PLANNING AND CONTROL SYSTEMS: AN OVERVIEW

1.1 An introduction to planning and control systems

<<Competence, culture, intuition, risk appetite combine to create the managerial intelligence of the business combination: the management system>> (Marchi, 2012, p. 29). It constitutes the true foundation of corporate life and comes to life from the combination of factors and the composition of forces dictated by man, according to his principles and rules.

The management system, in order to be efficient and effective, must have behind it a planning and control system, that is a system composed of several consequential but intertwined phases and tools, starting from the formulation of the objectives and the predisposition of the resources to reach those objectives. From the conception we then move on to the realization of what has been formulated, through the activation of operational mechanisms and the carrying out of company operations at various levels. Finally, control takes place, that is the necessary verification of management, a phase in which the objectives are compared with the results and, if necessary, useful changes are suggested for the achievement or reformulation of new objectives.

In this sense, one can consider such a system as composed of the sub-systems of strategic planning, operational planning and control, inevitably linked together.

Strategic planning is the activity through which the company identifies the strategic objectives to be achieved in the medium-long term (3-5 years) and the actions to be taken to achieve them, and prepares the necessary resources to achieve them. It is intended to be explicit, rational, rigorous, systematic and involves the application of scientific methods to policy problems (Ashworth, Boyne, Entwistle, 2010).

Operational planning, on the other hand, tends to translate the objectives formulated in planning into concrete choices, taking into account the resources available. The objectives identified here are intermediate, to be achieved in the short term (12 months).

Finally, control is the process through which the company verifies that management is carried out in accordance with the programme of activities.

1.2 The strategic planning phase

1.2.1 Definition and features

Strategic planning is the process through which the company identifies the strategic objectives to be achieved in the medium-long term (3-5 years) and the actions to be taken to achieve them, and prepares the necessary resources to achieve them (Rohrbeck, 2011). The contents of the strategy are formulated, such

as the type of product to be produced, how it is to be produced, where it is to be produced.

The questions that managers should ask themselves when thinking about possible strategies are of the type:

- What is our business? What should be in?
- Who are our customers, and what do they want?
- Who are our competitors? What are their strengths and limitations?
- What is our competitive strength? How should we use our resources to gain a competitive edge?
- What major changes are occurring in our environments? How will these changes affect our businesses?"

In addition, the choices for the implementation of the strategy itself are also defined, useful to achieve a given objective, with the awareness that these choices are not reversible in the short term because many resources would be wasted to modify them. In general planning consists of formulation of a plan or programme while in detail, company planning represents the continuous process through which the managers of a company, on the basis of adequate forecasts, establish objectives and evaluate the changes to be introduced and the actions to be carried out, in order to achieve the objectives, establishing the optimal timescale. "The

concept focuses on integrating various business departments (accounting and finance, research and development, production, marketing, information systems, management) to achieve organizational goals" (www.corporatefinanceinstitute.com).

The organisation of strategic planning activities depends on certain factors such as:

- company size (large companies permanently assign this activity to groups of specialists, small companies delegate it to managers at various levels);
- degree of decentralisation (if it is greater, the greater the economic impact of planning);
- philosophies and managerial choices (the emphasis on financial issues leads to budget-oriented planning, the emphasis given to the human factor leads to personnel management-oriented planning);
- nature of the product (in a multi-product environment, planning is more important and is carried out at lower levels, in direct contact with the market and operational activities).

Basically <<all organizations engage in planning, even if only loosely and intuitively. By contrast strategic planning is intended to be explicit, rational, rigorous, and systematic, and it involves the application of scientific methods to

policy problems. At the core of planning theory is the belief that reason can be used to control the future behaviour and success of an organization. Planning is usually conceptualized as a “cycle” that comprises a number of linked stages>>(Ashworth, Boyne, Entwistle, 2010, pp. 61). The stages in question have different effect on performance, and only a good combination of all of them can allow strategic planning to have its fullest impact.

Strategic planning must take into account the close correlation between the company and the external environment in which it operates. It involves above all the high levels of the company organisation (entrepreneur, manager, Board of Directors), who carry out coordination tasks, since they have more information at their disposal than the other hierarchical levels and, above all, can work to achieve the common goals set by management.

The information needed to make strategic planning is both internal (personnel expertise, production capacity of machinery) and external (competitors, market share), both qualitative (consumer appreciation of the product) and quantitative (profit).

The strategic planning process can also be defined as the set of activities through which the company's mission (in economics, it means the declaration of intent of an organisation or company, or its ultimate goal, which distinguishes it from its competitors and enables it to achieve its predetermined results) is analysed and established, and the underlying objectives whose achievement is guaranteed by

the control process. The process is based on two fundamental points: the analysis of the past, in terms of behaviour, economic and financial results, and the forecast of future dynamics, both internal and external to the organisation. Once the strategies have been defined, they must be disseminated within the company organisation, so that they are shared and respected by everyone in the company.

In order to fully understand the effects of strategic planning, four elements must be carefully examined:

- goal clarity: organizations should have formal goals and expressing them clearly is the first stage in a sequence of activities that can lead to a better performance. Obviously goals can be subject to modification over time, but have to exist, because an organization that doesn't know what is trying to achieve is unlikely to achieve anything. Thus reducing, if not eliminating, goal ambiguity, is viewed as an essential early element of a strategic planning process;

- analysis of the organization: <<after goals have been clarified, the next stage is to analyse the organization and its environment in order to assess the technical and political feasibility of the objective that have been set. The assessment of the organization and the environment is likely to generate a lot of data that in turn will require interpretation and analysis by

technical specialists and organization strategists>>>>(Ashworth, Boyne, Entwistle, 2010, pp. 61);

- performance targets: the aim of this step is to set quantified target for the goals' achievement. This requires the selection of performance indicators that accurately reflect the goals;

- formality: <<the extent to which objectives and strategies are expressed in a written document. This is widely viewed as an essential feature of strategic planning>>. This happen by means of written procedures, steps of the process scheduled, progress controlled using timetables, etc… <<Thus the existence of the formal plan is a means of guiding organizational activities and steering strategy implementation>>(Ashworth, Boyne, Entwistle, 2010, pp. 62).

As far as strategies are concerned, they can be classified at different levels of the organisational structure, namely at company or group level (corporate strategies), at the level of product/market combinations (business units) and at functional level.

Important is the diversification or portfolio strategy: in this case the company's strategy is aimed at the analysis of strategic business areas or individual products of the company that demonstrate attractiveness. The attractiveness of the

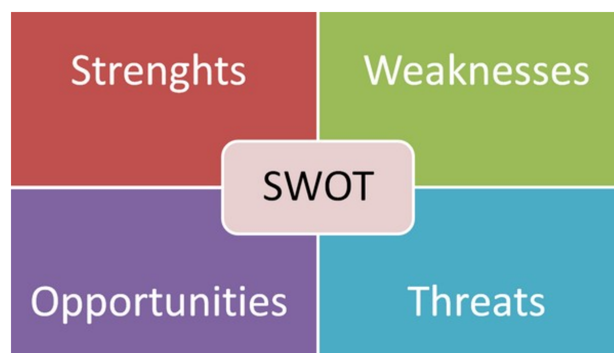
individual areas depends on a number of factors, such as market factors (life cycle of the sector, rate of development), competition, economic and financial factors (ROE, ROI, debt, economies of scale), technological factors.

Integration strategies, on the other hand, concern strategies linked to business processes and the convenience of carrying them out within the company or outsourcing them. This involves, for example, deciding on activities that are not linked to the company's core business, activities that require a high level of professional competence that the company does not have, activities of a non-strategic technical-productive nature, activities of a logistical or commercial nature.

Moreover, in order to formulate a winning strategy, it is necessary to evaluate one's own strengths and weaknesses and compare them with those of competitors, in order to define actions to be taken to achieve the best results. Therefore, the strategy is also directly linked to the competitive advantage, which is the basis of the superior performance recorded by the company, usually in terms of profitability, compared to the average of its direct competitors in the reference sector, over a medium-long term. “Companies ‘success depends on the strategic competitiveness, achieved when it develops and puts into practice successful strategies not easily reproducible in the generation of value” (Hitt, Ireland, Hoskisson, 2003).

The sources of competitive advantage are either internal (resources, capacity, structures, etc.) or external (market demand, price variation, etc.). SWOT Analysis (the acronym SWOT stands for ‘strengths’, ‘weakness’, ‘opportunities’ and ‘threats’) is very useful in this sense, because it identifies the internal and external factors that can affect the investigated process or structure.

Figure 1.1 - SWOT Analysis



Source: www.culturaemotiva.it

It’s a “powerful tool for sizing up an organization’s resource capabilities and deficiencies, its market opportunities, and the external threats to its future” (Thompson, Strickland, Gamble, 2007). The strengths and weaknesses of the examined process or structure are, by definition, primarily internal factors, the threats and opportunities are primarily external factors, which exist independently of the analysed issue. “The core utility of a SWOT analysis is to help to build on strengths, minimise weaknesses, seize opportunities and counteract threats. Thus, a SWOT analysis is often part of strategic planning by informing strategic

decisions, but it does not necessarily or automatically offer solutions" (Leiber, Stensaker, Harvey, 2018).

More specifically:

- strength is the characteristic that adds value to something. It means that something is more advantageous when compared to something else. In this sense, strength refers to a positive, favourable and creative characteristic. "A strength is a resource, skill, or other advantage relative to competitors and the needs of the markets an organization serves or expects to serve. It is a distinctive competence that gives the organization a comparative advantage in the market place. Strengths may exist with regard to financial resources, image, market leadership, buyer/supplier relations, and other factors" (Pearce and Robinson, 1991);
- weakness refers to not having the form and competency necessary for something. Weakness means that something is more disadvantageous when compared to something else. In this regard, weakness is a characteristic that is negative and unfavourable. "A weakness is a limitation or deficiency in resource, skills, and capabilities that seriously impedes an organization's effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image can be sources of weaknesses" (Pearce and Robinson, 1991).

For the organization, it is as important to know its weaknesses as its strengths. The reason is that no strategy can be built upon weaknesses, so the organizational weaknesses that have the potential to lead the organization to inefficiency and ineffectiveness should be known and improved. Solving the existing problems that would cause difficulties and limitations for long-term plans and strategies, and foreseeing potential problems are obligatory.

- Opportunity means a situation or condition suitable for an activity. Opportunity is an advantage and the driving force for an activity to take place. For this reason, it has a positive and favourable characteristic. For organizational managements, an opportunity is the convenient time or situation that the environment presents to the organization to achieve its goals. Opportunities are those that would yield positive results for the organization determined as a result of the analysis of its environment. Competition and the intense work presents organizations big opportunities. In fact "opportunities are conditions in the external environment that allow an organization to take advantage of organizational strengths, overcome organizational weaknesses or neutralize environmental threats" (Harrison and St. John, 2004);
- threat is a situation or condition that jeopardizes the actualization of an activity. It refers to a disadvantageous situation. For this reason, it has a negative characteristic that should be avoided. For organizational

> managements, a threat is the element that makes it difficult or impossible to reach the organizational goals. “Threats are the situations that come out as a result of the changes in the distant or the immediate environment that would prevent the organization from maintaining its existence or lose its superiority in competition, and that are not favourable for the organization” (Ülgen and Mirze, 2010).

All environmental factors that can impede organizational efficiency and effectiveness are threats.

This system enhancing opportunities as well as threats directs organizational managements to be careful of and act more strategically on the developments in and outside their environments. Greater attention is needed also because with globalisation opportunities and threats are largely beyond the control of a single organization.

To conclude the basic assumption of a SWOT Analysis is that an organization must align internal activities with external realities to be successful eventually taking corrective actions.

The competitive advantage may derive from cost advantages or differentiation: the former are linked to the development of the same activity as competitors but at lower costs than competitors, while the latter derive from the possibility of differentiation throughout the value chain compared to competitors. In this

context, the products or services that the company offers its customers are better or different from those of its competitors, and the consumer is willing to pay a higher price in order to have the product. There is no doubt that a strategy of differentiation is also accompanied by higher costs to be endured by the company.

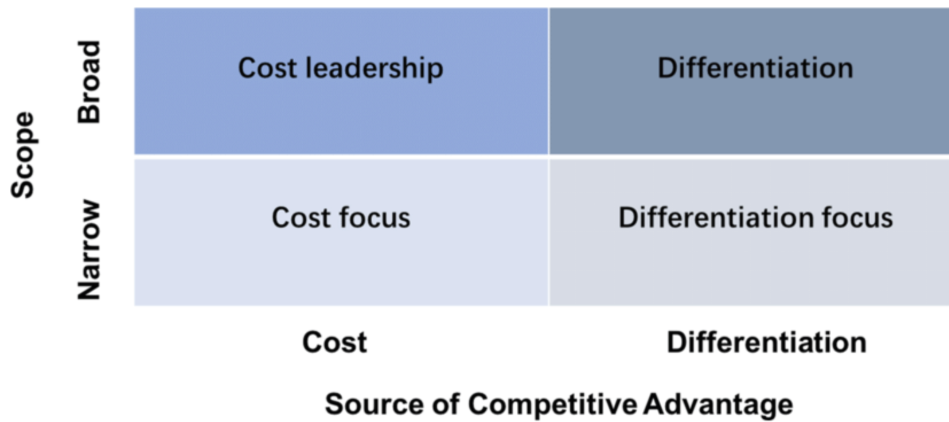
Porter's studies are particularly important in this regard. He believed that a firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. More specifically:

- Cost Leadership, in cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. if a firm can achieve and sustain overall cost

leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average;

- Differentiation, in a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price;
- Focus, the generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants, in cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments (Porter, 1985) (Porter, 1980).

Figure 1.2 – Porter's generic strategies



Source - www.researchgate.net

Other elements that provide competitive advantage are learning, capacity utilisation model, links with the value chain, interrelationships between business units, integration, time factor, discretionary policies, geographical location and institutional factors.

If the company succeeds in correctly implementing all (or in any case a good part) of the strategic components highlighted above, it will be able to achieve the set objectives, guarantee continuity over time and foreseeable growth of the business activity.

But how do you identify the core competencies that a company has? A useful tool consists of four specific criteria of sustainable competitive advantage, which are:

valuable capabilities, rare capabilities, costly-to-imitate capabilities and non-substitutable capabilities. A sustainable competitive advantage exists only when competitors cannot duplicate the benefits of a firm's strategy or when they lack the resources to attempt imitation. For some period of time, the firm may have a core competence by using capabilities that are valuable and rare but imitable. However, the length of time a firm can expect to create value by using its core competencies is a function of how quickly competitors can successfully imitate a good, service or process. For a strong competitive advantage all four criteria should be respected. (Hanson, Hitt, Duane Ireland, Hoskisson, 2017)

Analyzing them more deeply:

- Valuable capabilities allow the firm to exploit opportunities or neutralise threats in its external environment;
- Rare capabilities are capabilities that few, if any, competitors possess;
- Costly-to-imitate capabilities are capabilities that other firms cannot easily develop. This may result from organisational culture (for example McDonald's with its emphasis on cleanliness, consistency and service) or from social complexity (many of the firm's capabilities are the product of interpersonal relationships, trust, friendship among managers and between managers and employees, firm's reputation with suppliers and customers);
- Non-substitutable capabilities are capabilities that do not have strategic equivalent. The more intangible and hence invisible capabilities are, the

more difficult it is for firms to find substitutes and the greater the challenge there is for competitors trying to imitate a firm's value-creating strategy (examples are firm-specific knowledge and trust-based working relationships between managers and non-managerial personnel) (Hanson, Hitt, Duane Ireland, Hoskisson, 2017).

Among the main long-term objectives are profitability, development and a balanced financial structure.

Profitability is very important because it allows you to invest in the training of workers, managers and all those who have company roles. The improvement of business processes, products and services resulting from the training activity often translates into growth both in economic terms and in the degree of customer satisfaction. As a result, there is an increase in demand for products and services that bring financial stability. At this point the company can reinvest the financial resources earned to support continuous learning and therefore constant process improvement.

Development includes achieving economies of scale, maintaining dominant positions, increasing sales, increasing market share, penetrating international markets.

Particularly interesting are the economies of scale. A single-product company, that is a company producing a single good or service, achieves economies of scale (increasing scale yields) if, as the quantity increases, it produced, the costs increase less than proportionally, that is if the average costs are descending. The concept of increasing scale yields should not, however, be confused with a increase in productivity. In fact, it is only possible to speak of economies of scale if, the level of technology, the ratio of capital work, as well as management, remain unchanged.

The notion of economies of scale has been mainly referred to by the theory economic to single-product enterprises. In the case of multi-product companies, including include financial institutions, the concept of economies of scale and the wording analysis of its indicator, is complicated by two circumstances:

- the costs do not vary only with the variation of the production scale, but also with the variation of the composition of the basket of goods produced;
- there is no elementary definition of the production scale (as is the case for the single production, where it was defined in terms of quantity produced) (www.ivass.it).

Finally, a balanced financial structure is necessary, in fact the objectives described previously must be achieved while maintaining the conditions of business equilibrium, especially in the composition of the sources of financing (equity or

debt capital). The lack of this balance could lead to an increase in financial charges, which would clearly undermine the other company balances.

1.3 Operational planning and control: structure and process

1.3.1 The organizational structure

Top management delegates part of its decision-making power and responsibilities to managers of underlying organizational units because, on its own, it is unable to govern the entire company system in the best possible way. The consequence of this distribution is that managers, despite having a certain amount of decision-making discretion, remain conditioned by the achievement of the objectives set by top management. This is fundamental because it gives a unified vision of the business activity, allowing the alignment of the objectives of managers with those of the company.

In any case, responsibilities must be carefully allocated to each manager, but it is not always easy to monitor and judge whether this actually succeeds, also because not all units can be evaluated on the same basis.

To try to overcome this problem, the company is divided into so-called Responsibility Centres, which are monitored, have a precise nature, specific

characteristics and where responsibilities converge on certain variables. They can be classified into:

- Cost centres (e.g. production department): they are a tool to provide a solution to the problem of cost location for the determination of production costs. control is more focused on the use of resources, to which the costs are associated, rather than the output that the centre has to produce. The aim is to assign efficiency objectives in the use of resources and to direct the behaviour of the operators in that area towards efficiency itself. The relationship between the results obtained and the factors used in the production process can be set both in terms of physical quantities (e.g. the number of pieces produced compared to the number of hours of labour used) and in terms of costs incurred to obtain the output. Moreover, here it possible to measure the relationship between the resources employed (inputs) and the results obtained (outputs). In other words, within these centres it is possible to measure the efficiency. "The main limit of cost centres is that they orient operators' behaviour mainly towards the search for efficiency. However, sometimes, efficiency is not the only variable to be kept under control, think of the problems of quality, of adherence to the customer's requests, and therefore of overall satisfaction. Sometimes directing the orientation towards efficiency precludes the achievement of other, equally important objectives"(Ferraris Franceschi, 2010).

- Profit centres: they are mainly located in larger and more complex organisational units, and the responsibility entrusted to the manager is determined on the basis of both revenues and input costs. The assessment that is therefore made is based on the profits made in these centres;

- Investment centres: <<at higher levels within an organization, unit managers will be held accountable not only for cost control and profit outcomes, but also for the amount of investment capital that is deployed to achieve those outcomes. In other words, the manager is responsible for adopting strategies that generate solid returns on the capital they are entrusted to deploy>> (Walther, 2010). The most popular method to calculate the rate of return is the Return on Investment (ROI) model, given by this formula, Operating Income/Average Assets;

- Revenue centres (e.g. sales department): these are units dedicated to the sale of the company's products and services. Performance can be measured through sales volumes, controllable revenues, gross contribution margins and the economic return directly linked to the sales activity is measured. The costs incurred in these centres are almost always related to the activity carried out or are directly linked to revenues, with little possibility of influence from the manager. The aim of these centres is therefore set out in the revenue and in a level of costs not to be exceeded;

- Spending centres (e.g. administration, R&D, marketing, IT departments): it is difficult if not impossible to measure in economic and financial terms the results obtained and the relationship between them and the resources employed, at least in the short term. Thus, in contrast with cost centres, here it is not possible to measure the efficiency. “The objective assigned to this centre is generally to reach the outputs to which its activity is aimed without exceeding a ceiling of expenditure considered adequate for the performance of such activity. It is important that the amount of expenditure not to be exceeded, is not the parameter on the basis of which to assess the efficiency of the centre, because otherwise there could be a tendency to savings”. (Ferraris Franceschi, 2010) In order to obtain a better assessment, there would be a risk of decreasing the quality of service.

To each of these areas it must be possible to trace back a responsible person.

Figure 1.3 – Top 4 types of Responsibility Centres

Source: www.wallstreetmojo.com

1.3.2 The information structure

It must be designed to make the information flows supporting management available. Management needs complex, mixed and multidimensional information sets, fed by data from different sources, not only internal to the company, but also external. The information that comes to them must then be combined and integrated with each other.

In general, the company's information structure consists of two components. The first comprises the material component, such as hardware and software used for the collection, processing and transmission of information. The second component concerns the coordinated set of information and procedures used for transmission,

carried out at the appropriate times and in the appropriate ways to meet the knowledge needs of those who must use it for decision-making purposes.

The objectives to which the information system should aim primarily concern the documentation of administrative facts. That is, it must be able to draw up plans, prepare budgets, process information using analytical accounting and summarise it in reports. In addition to this, the system can also process information for external users and all stakeholders in general. It can therefore produce all the reports and other documents relating to the company's activities required by law.

In particular, the cost accounting focuses on the economic aspect only, has as its main purpose internal management operations and is mainly internal. It aims to determine results and analytical costs for the period, to measure efficiency, to provide decision support, planning and control. It uses criteria of recording by destination, unlike general accounting, which collects and classifies data by origin/nature.

The main purpose of the general accounts is to collect the economic-financial data of the company's operations for the purposes of periodic summaries of the financial statements, the determination of the income for the period and the related working capital, both internally (management) and externally.

Finally, the budget system provides budget data and is the most future-oriented part of the technical-accounting structure. The budget makes the quantitative objectives explicit.

Central, in this structure, is the role of costs within the system, since they are parameters for the business decisions that management must make.

The cost represents, in a technical sense, the consumption of inputs for a useful purpose. From an economic point of view, the cost of production or simply the cost of a good, the expense that a company sustains for the production of the good itself. The expense is constituted by the purchase of raw materials, the wages of the workers, the payment of interest to those who have lent capital to the company itself, the payment of taxes to the State, etc... As far as the business economy in companies producing a good or a service is concerned, the costs result from the sum of the values of the tangible and intangible productive factors that are considered to be used to obtain the product or service.

In the planning and control system, costs are used, for example, for the valuation of final inventories, to guide sales prices, to measure particular economic results and in the determination of efficiency calculations. In reality, costs are also used to control and guide decisions. Reference is made to the comparison between actual and budgeted results, which are normally determined on the basis of standard costs. Standard costs are estimated costs calculated on the basis of technical and economic data derived both from past experience and on an experimental basis and indicate the objectives that must be achieved in relation to pre-established hypotheses for the development of production processes.

Moreover, costs are also used by management for decision-making purposes, such as make or buy choices.

There are many types of cost classification, on which managers need to rely for different purposes:

- based on variability there is a distinction between fixed costs, variable costs, and mixed costs. Fixed costs remains constant, in total, regardless of changes in the level of the activity (examples are depreciation, insurance, rent, supervisory salaries, advertising), variable costs change in line with the level of activity (examples are direct materials, direct labour, shipping costs, sales commissions), mixed costs contain both variable and fixed elements (for example utility costs such as gas and electricity, belong to this category) and finally ;

- based on the imputability (capacity or not to assign costs to cost objects, which are anything for which cost data are desired, such as products, customers, channels, geographic areas, etc.) of the same costs to the product we have direct costs and indirect costs. Direct costs are costs that can be easily and conveniently traced to a unit of product or other cost object. While indirect costs are costs that cannot be easily and conveniently traced to a unit of product or other cost object: in other words, indirect costs are common costs incurred to support several cost

objects. Maybe it is not possible to measure in an objective way the quantity of factor used by each cost object or, it could be possible, but not cost-effective to perform this measurement (benefits < costs). For example in the case of electricity used to operate production departments (Garrison, Noreen, Brewer, 2015) .

- depending on the company function, these can be industrial costs (including all costs necessary to obtain products or to carry out processing), commercial costs (relating to the company's commercial area, which is the sector dedicated to product placement), administrative costs (all executive and organizational costs associated with the general management of an organization rather than with manufacturing, marketing, or selling).

1.3.3 The process

Management decisions regarding the objectives to be achieved must take into account an assessment of their feasibility, assessing the internal and external conditions that could limit the achievement of what is planned. The main constraints to be taken into account are: social, economic, political and legal conditions, number of competitors and their market shares, global demand,

necessary technology, availability of production factors, possibility of finding the necessary financial means.

Subsequently this information is reworked and the choices, not modifiable in the short term, regarding the production and distribution structure, the company image and so on are studied. Then the plans are transformed into operational programmes, setting short term objectives that allow to achieve the levels of profitability and development foreseen by the medium-long term plans. At the same time, the corrective actions and the persons responsible for achieving the objectives are established. Once the programmes have been formulated, the start is made with the performance of the actual business activity, assisted by constant monitoring to verify the conformity of the management results with the planned objectives and, if necessary, to take corrective action.

1.4 The operational planning phase

1.4.1 Definition and features

Operational planning is the process through which the company identifies, in line with the set strategic objectives, the intermediate objectives to be achieved in the short term (12 months) and plans the activities to achieve them. Operational planning does not mean mere forecasting of data concerning the future;

forecasting involves a passive relationship with the external environment, while operational planning implies proactivity with respect to what surrounds the programmer. Being proactive means wanting to affect the surrounding environment, refusing to passively suffer what happens outside the company. There is a precise manifestation of will about the objectives to be achieved and the activities to be carried out, also based on the consideration of what has happened in the past and what could happen in the future.

Operational planning indicates the activity (as part of the planning process) related to the operational translation of pre-established company policies for the achievement of certain medium/long-term objectives. In the operational planning process, the means to be used and the actions to be taken are decided, which is how the resources are to be used for specific business purposes. The operational planning activity has (as mentioned above), usually, an annual time horizon.

It must be integral, which means involving all the various parts of the company; continuous, because its usefulness must be evaluated with reference to a period of time longer than the short term; flexible, because it is capable of incorporating changes periodically suggested by the actual completion of the planned actions. The main function of operational planning, in fact, consists in carrying out the corresponding control activity, thanks to which it is possible to detect deviations from the set objectives and take appropriate corrective actions, identifying the causes that are preventing them from being achieved. In this sense, operational

planning is also considered essential in the context of organisational activity, as it makes it possible to define the responsibilities to be placed at the head of the individual operating units and the various levels of the organisation chart and then to assess the degree of usefulness of the human resources employed. The operational planning activity can be carried out using different tools, which vary according to the specific company area considered, among which the most established and widespread is that of budget control.

1.4.2 The budget

1.4.2.1 Introduction to budget

The budget, the operational planning tool par excellence, is a management programme expressed in monetary terms that reflects the entire management and covers a predefined time period (usually one year). Quantification is very important to understand the economic impact of the established programme. The budget takes the information (input) from the planning, but it does not simply represent a guideline for the costs and revenues of a company, but serves to give concrete implementation, in the short term, to the plan choices. "It is a tool that serves to plan, coordinate, allocate resources; but it serves above all to influence management behaviour and direct it towards achieving the company's strategic objectives" (Bogni, Solbiati, 2007). It makes it possible to check the results

obtained in order to evaluate any deviations and intervene promptly with corrective actions.

It is actually a policy statement that an organization is issuing regarding its values and goals.

The objectives of a budget, in addition to serving as a benchmark for assessing the adequacy of the expected results, also serve as a guideline for identifying a range of possible actions: increase/decrease in product sales prices, containment of direct variable and/or fixed costs, change in the combination of products in favour of those with higher profitability, introduction of new products into the range, expansion or narrowing of the geographical areas in which the company operates, opening up to foreign markets, change in planned objectives, promotional or advertising actions, and so on.

1.4.2.2 Characteristics

Considering the characteristics, the Budget:

- concerns the entire management and is divided into subsystems: responsibility centres, project and other profiles (e.g. the product). Starting from the budget it is possible to understand what kind of departments there are in a company, how they are divided, their size, their objectives, how human resources are employed, how much workers are paid, whether or

not there are training courses, the level of technological support, the importance given to customer care systems. All this is very important, because if you can correctly determine where a company invests its resources, you can understand a lot about what is important for its leadership;

- is articulated in economic-financial terms: this is essential to verify the economic, income and financial feasibility, to evaluate the results actually achieved and to carry out the subsequent analysis of variances. The comparison between the objectives pursued and the results achieved, with the consequent highlighting of relative deviations and the implementation of corrective actions, constitutes the essence of the feedback mechanism underlying the management control;
- is forward-looking: the companies try to anticipate possible future scenarios by paying attention to the environmental scenarios, the information needs, the most appropriate action plans to achieve the objectives and to define the best combination of resources/results. In essence, therefore, the construction of the budget will require a set of decisions aimed at achieving a general synthesis objective articulated in multiple partial objectives;

- is flexible, if the conditions that legitimized the constitution of certain choices change, the budget can be modified. Flexibility is considered a structural requirement, it represents the search for a balance between the need for change and the need for the budget to represent a line of action for managerial behaviour;
- varies depending on the company as it must incorporate the characteristics of the business;
- focuses the relationship between resources and results and verifies the achievement of objectives. The budget is used to determine intermediate objectives, the evaluation of which will be used to assess the feasibility of strategic choices. The budget formation process represents the phase of ex ante control of management control and ex post verification of strategic control, since the budget is a hinge between strategy and company policies, macro and micro objectives, objectives and results achieved;
- is for a time period normally coinciding with the administrative year. In order for the budget to fulfil its function of guiding the achievement of set objectives in an effective and timely manner, it must be further broken down into infra-annual periods. This articulation reflects the need to verify, at regular intervals, the degree of achievement of the objectives in order to redefine the objectives/programmes themselves, modify the

planned actions, eliminate the causes of deviation between the desired situation and the actual situation, through corrective actions.

1.4.2.3 Functions

The main functions of the budget instead are:

- guidance of action and orientation of managers to operate in line with long-term objectives. Allows the various managers to assign objectives and resources for the activity to be carried out, how to implement them, etc.. The allocation of objectives and the specification of available resources should only take place once the consistency of the budget with the strategic plan and the feasibility of the plan itself have been verified;

- empowerment and evaluation of managers;

- ex ante coordination of the actions of those responsible for the various areas of the company. Compatibility and consistency must be sought, aiming at overcoming possible contrasts both in the determination of objectives and in the allocation of resources;

- motivation for managers and area managers. The aim is to achieve a better overall performance aimed at achieving shared objectives at company level by eliminating, if possible, internal competition between the parties involved. The budget formulation process should therefore be

characterised by its participatory nature, that is the sharing of common objectives between all stakeholders. The participation of managers in the formulation of the budget should contribute not only to make explicit the objectives assigned to each manager, but also to encourage their active involvement through a collaborative process. The objectives assigned should be both difficult and achievable in order to provide stimulation and motivation;

- learning/training managers and employees. This function aims above all at the growth of the managerial culture functional to the achievement of company results. In fact, the budget obliges to think about the future, making the management appropriately designed and, above all, focuses attention on the economic-financial aspect of management, making people aware of the possible repercussions that any action taken may have.

1.4.2.4 Main types

In its final form, at company level, the budget takes the form of a budget estimate, in fact it translates the management plans for the subsequent administrative period into formalised financial statements in economic, financial and equity terms. In summary, it can be recalled how the company budget is constituted through the joint consideration of multiple types and prospectuses, the main ones are:

- economic budget (budget income statement). This budget has the accounting form of a projected income statement. It is essentially a document drawn up for internal purposes (not for information to third parties), of an operational nature, the writing of which is unlikely to follow that of the income statement intended for external publication at a later date. Its main function is to show the net income for the year to be sold, but it also takes into account many other intermediate results, which are fundamental for the a priori analysis of management efficiency, such as the contribution margin, the operating result, the result before taxes;

- financial budget (statement of budgeted cash flows). It contains internal values relating to financial flows and ascertains the extent to which the company will be able to finance its capital requirements with internally produced means (self-financing in the broad sense or sources generated by income management) or with other sources of financing (share capital, debts);

- balance sheet budget (budget balance sheet). The balance sheet budget takes the form of a budget balance sheet as at 31 December of the following financial year. It highlights the size and composition of existing investments and sources at the end of the future administrative period.

1.4.2.5 Budgetary agenda

In order to indicate the various stages of the budget process in time, this order could be followed:

1. explain and define exactly the budget objectives (the general management and the main managers define the budget objectives, what to achieve on the next year);

2. budget preparation (e.g. customer package maintenance, brand reinforcement advertising, etc.);

3. negotiation between superior and hierarchical (lower) subordinates to agree on programmes;

4. coordination and review of the individual budget components;

5. final approval;

6. distribution of the approved budget.

1.5 The control phase

1.5.1 Description of the activity

"The complexity of the company, both internally and externally, requires the company to equip itself with a set of knowledge, skills, methodologies and tools for the analysis and improvement of its performance, that is an adequate management control system" (Lizza, 2007).

Control represents the last phase of the management control system, and stems from the need to have tools and procedures that support the activity of managers, especially in the most complex structures. In fact, if it is true that deciding on the basis of exhaustive data does not guarantee the success of the company, it is equally true that without an integrated planning and control system it is almost impossible to achieve satisfactory economic results. This is due to the fact that although the skills and abilities of the manager remain the critical factors, appropriate support tools can significantly reduce the level of randomness.

The control should fulfil certain functions, including:

- helping to communicate to the organisation the strategic and operational objectives, strategic variables and critical drivers to be monitored;
- transmitting economic and financial information to decision-makers;

- helping the people working in the organisation to understand the determinants and causes of results, and the actions to be taken to achieve results;
- assign precise responsibilities to those who carry out both management and operational activities in order to offer a better product (good/service) to the customer;
- helping people to learn and treasure the past, with an eye, however, to innovation;
- provide stakeholders with the most appropriate and appropriate information for their role: a lender is interested in information on the creation of value over time, a customer is interested in receiving information on the reliability of the service and the quality of the product, a bank is interested in understanding what short and medium to long term financial needs the company will have and what is the ability to cover them through third parties and its own means. All this information must be structured and organised according to the recipients (Bogni, Solbiati, 2007).

This tool focuses on internal performance measurement and target parameter accountability, often linked to the allocation of monetary incentives. The usefulness of control lies in its interesting potential to stimulate individual and

organisational behaviour in line with the pursuit of company objectives. Moreover, control allows the dissemination of the culture of results and the economic-financial language within the economic unit. The operating mechanism in question should not be seen as an aseptic set of accounting techniques, but as a company practice, able to represent an important vehicle for the transfer of values in time and space.

The activity of the control operators is therefore a much more significant function than the simple production of aseptic reports and tables: if properly retrained and trained, these experts can become valuable internal consultants, irreplaceable link between the strategic approach and the more strictly operational and implementation phases. The affirmation of a culture of results, together with the tendency to adopt organisational structures articulated in divisions, specialised for specific markets and/or operating sectors and in holding companies or central structures with coordination and integration tasks, requires, therefore, that the management control function also adapt to this evolution.

The most stringent information requirements of management need to be supported more adequately. It also emerges the need for control operators to be able to carry out their work correctly, protected from the attempts of individual managers to see relevant results consistent with their wishes, rather than with the economic phenomena actually manifested. The controller must support the operational manager in a convincing and convincing way, but cannot become co-responsible

in terms of summary results or be hierarchically subordinate. The controller, therefore, usually considered dependent from a hierarchical point of view of the central control function, must have the necessary autonomy to report any matter directly to it or to the governing bodies.

The control activity consists of a verification which may take place ex ante, in itinere and ex post. Control activities are of different types:

- ex ante (before implementation). Before action is taken, it is verified that the planned short-term objectives are consistent with the long-term objectives. The ex-ante control activity shall be carried out before the activities leading to the achievement of certain objectives are carried out and shall consist precisely in verifying the suitability of the short-term operational programmes to contribute to the achievement of the long-term objectives;

- in itinere (during implementation). Detection of the results during the realization of the project, that is the verification of the results that are being achieved. The in itinere control activity consists in the comparison between the planned objectives and the final projection of the results achieved and at the end we proceed with the evaluation. The in itinere control is carried out by checking during the year whether the company is on the right track to achieve the short term objective. The in itinere control

is therefore carried out to check whether or not the company must change the course of action;

- ex post (after completion). Monitoring after the action has taken place. The planned objectives are compared with the objectives achieved and, finally, an evaluation is carried out, which may be negative or positive.

If the in itinere or ex post evaluation is positive, the objectives and lines of action previously established are confirmed, while if the evaluation is negative, the case is split into two parts. In the case of an in itinere control, the company implements corrective actions, while in the case of an ex post control, the company implements corrective actions in the following year. Moreover, always in the case of a negative evaluation, it may happen that the company is forced to redefine the lines of action or the objectives because the basic conditions have changed.

1.5.2 Variance analysis and reporting system

The last phase of management control, in its traditional meaning, is the analysis of deviations and the reporting system.

The analysis of the deviations is carried out by comparing the budgeted results with the actual results achieved during the financial year and recorded through analytical accounting. The calculation of the deviations serves to keep the trend of

the management situation of the company under control and is useful to identify the causes that have generated them and then take appropriate corrective action.

The activity is divided into several phases: starting from the comparison between planned and actual data, in order to identify the global deviation, then there is the decomposition of the global deviation into elementary deviations, then there is the identification of the causes and finally the adoption of corrective actions.

The differences found may be due to changes in production yields, changes in prices or changes in production volume.

The main objectives of the analysis of deviations are:

- to correct management malfunctions in a timely manner so that the corporate objectives highlighted in the budget can still be achieved;

- compare the new facts that have emerged in order to verify the reliability of the initial budget;

- make people accountable for the results achieved in the various centres of responsibility, and not only at a global company level;

The results of the analysis of the deviations are summarized in the reports, which show the comparison between budget and final figures.

Reporting consists in the transmission of summary information (the reports) by the management control body to the centres of responsibility and top management. It is therefore necessary to carefully design the reporting system so

that the right information is provided to the right people at the right time. The information contained may be of an economic-financial, operational, strategic nature, and may be communicated orally (immediate, but impractical) or in writing. In the second case it can be presented in discursive form (less immediate, but more faithful to the author's interpretation), tabular (detailed, but leaves the burden of interpreting the data to the reader) or graphic (more immediate, but less detailed and specific).

As the report is a communication tool, the contents must be clear, reliable, concise and selective.

Depending on the recipients, different levels of reports can be distinguished: operational reports (related to production, costs and investments), by business unit (related to critical factors), by head office (containing general summaries and analyses).

1.5.3 Performance indicators

In an environment characterised by a culture of results, each manager considers it essential to have timely and reliable information about his or her performance.

<<A performance indicator can be defined as an item of information collected at regular intervals to track the performance of a system. These indicators are not perfect measures, without errors or problems of definition and interpretation, but

they are important pointers to the functioning of the system and keeping track of them is one aspect of quality control>> (Taylor Fitz-Gibbon, 1990).

Performance indicators produce internal measurements, financial and non-financial. If reliable, they can be used to induce the desired behaviour of top management.

The performance indicators must have the following qualities: consistency with the objectives of the company as a whole; objectivity in their evaluation, precision in measuring the object of the survey (the result of the analysis is a number that expresses a good approximation of the phenomenon represented), timeliness of the calculation, easy comprehensibility.

Given the importance that management control assigns to performance indicators, the manager may be tempted to intervene in the data expressing the results achieved. In order to avoid serious problems, top management must pay close attention to data integrity, respecting the rules and procedures for obtaining, calculating, communicating and analysing data. Data, in fact, must always respect the underlying processes and economic values. This applies when companies are listed on the stock exchange. The financial market cannot be in any doubt in this sense, as the most important asset for any company is its credibility in the eyes of its shareholders, which is based primarily on the numbers coming from internal surveys.

2 PLANNING AND CONTROL SYSTEMS IN THE BANKING SECTOR: AN OVERVIEW

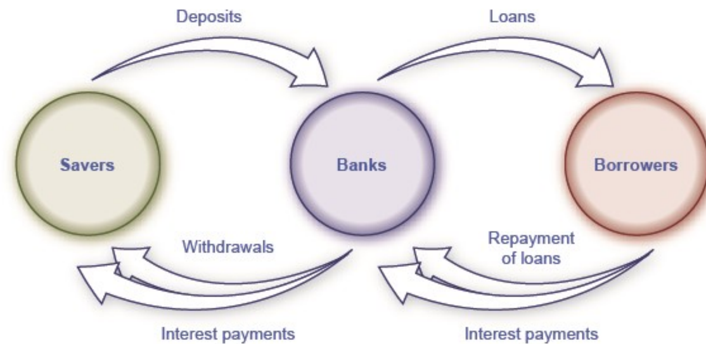
2.1 Nature and typologies of banking activities

The Bank is the Institute that carries out monetary and credit operations, and whose main function, in addition to the custody of valuables and payments, is to act as an intermediary in the circulation of money, collecting savings and lending them.

Within the financial system, this intermediary therefore carries out a very important task, collecting funds from those who have them in excess of their direct needs and lending them to those who need them for their own economic activity. It is essential for the economic development of a country that the processes of transferring the financial resources accumulated by economic agents in surplus to those in deficit work properly, since this is the only way to promote uniform economic growth and reduce inequalities.

Figure 1 shows how banks act as financial intermediaries because they stand between savers and borrowers. Savers place deposits with banks, and then receive interest payments and withdraw money. Borrowers receive loans from banks and repay the loans with interest. In turn, banks return money to savers in the form of withdrawals, which also include interest payments from banks to savers.

Figure 2.1 – The role of banks



Source: https://courses.lumenlearning.com

The Bank systematically carries out this intermediation activity, disbursing financial resources by way of credit, using mainly financial resources obtained from third parties as debt and, to a lesser extent, as equity capital. For this reason, the bank is characterised, compared to other companies, by the clear predominance of debt over equity and the exercise of financial intermediation activities. The debts taken on by banks are characterized by different technical forms and maturities that allow the intermediary to provide payment instruments in a much larger quantity than legal tender, thus allowing the efficient performance of transactions that support the development of the economy: this function is defined as monetary function.

Moreover, in the most modern banking systems, there is a wider and more articulated offer of financial services, neither of an intermediation nor of a

payment nature. For example, in the field of savings investment, financial advice, risk management and so on. These transactions do not result in the disbursement of financial resources by the banks, but nevertheless result in high volumes of operations.

Article 10 of the Consolidated Banking Law (Testo Unico Bancario), in force since 1 January 1994, states: “The collection of savings from the public and the exercise of credit constitute the banking activity. It has the character of an enterprise”. Article 16 of the same text adds: “Italian banks may carry on the activities associated with mutual recognition in a Community state...” and such activities are:

“1. collection of deposits or other funds with obligation to repay;

2. lending transactions (including in particular consumer credit, mortgage credit, factoring, assignments of credit without recourse and with recourse, commercial credit);

3. financial leasing;

4. payment exercises;

5. issue and management of means of payment (credit cards, letters of credit);

6. issue of guarantees and commitments to sign;

7. transactions for own account or on behalf of customers in:

- money market instruments (cheques, bills, certificates of deposit, etc.);
- exchanges;

- forward financial instruments and options;

- contracts on exchange rates and interest rates;

- securities;

8. participation in securities issues and provision of related services;

9. advice to undertakings on financial structure, industrial strategy and related matters, as well as advice and services in the field of mergers and acquisitions;

10. financial intermediation services of the 'money broking' type;

11. management or advice in asset management;

12. safekeeping and administration of securities;

13. commercial information services;

14. leasing of safe-deposit boxes;

15. other activities which, by virtue of the adaptation measures taken by the Community authorities, shall be added to the list annexed to the Second Credit Directive of the Council of the European Communities No 89/646/EEC of 15 December 1989”(article 1 Testo Unico Bancario).

As can be seen, the banking business goes far beyond active and passive credit trading; it is completed with consultancy and a series of transactions on securities and derivatives and, again, with participation in the capital of companies.

The changes in the context in which financial intermediaries were operating are mainly due to the transformation of the bank from an institution to an enterprise, the development of markets and the spread of new financial instruments and the

process of European integration involving credit systems. Reforms of banking laws and banking regulation have helped to liberalise banking activity and thus increased its variety and breadth, offering the bank important opportunities for diversification (Mottura, 2016). This has led to a significant development of attention to strategic and management issues, financial innovation, especially in instruments, risk analysis, the microeconomics of markets, institutional and organisational models of financial intermediation, and the effects of regulation on competitive levelling. The banks' task is to ensure that the gears that enable the system to function are consistent and coordinated with each other. Some of the main gears are: strategic planning, risk management, corporate organisation and internal control system, regulation and supervision, performance measurement.

2.2 Regulation and supervision

Banks have multiple and complex relationships with each other, so that if mistrust and liquidity crises were to afflict a bank, especially large ones, they would spread to other banks or other components of the system. Banking crises can therefore spread through contagion and endanger the stability of an entire credit system (confidence crises and bank runs), with potentially disastrous consequences for the community. Hence the need for the protection of savers' confidence to be safeguarded by a set of public safeguards (laws, regulations, institutions) designed

to prevent and reduce the possibility of individual banking crises occurring, and possibly to manage them by limiting their impact.

It all translates:

- in the definition of regulations governing the activity of banks by placing constraints and rules to protect their sound and prudent management (regulation);

- in the exercise by public authorities of a power of supervision and control over the banking system (supervision).

This system of rules and institutions is essentially the basis for depositors' confidence in the banking system. Moreover, banking is a business activity and presupposes the existence of a profit-making purpose in the person who carries it out, so it cannot be considered as a simple service rendered to the community, which bears the cost whatever it may be. It must therefore be carried out in conditions of stability and efficiency, characteristics that can never fail to be met also in view of the challenges that modern banking systems have to face, i.e. greater management complexity and increasing exposure to international comparison.

In order to monitor the banks' actions, the intervention of external public bodies is necessary, i.e. a regulator and supervisor who adequately assesses the degree of solvency and liquidity on behalf of depositors. Despite these measures, episodic

disruptions and systematic crises continue to occur, so further institutional and operational safeguards (safety net) are planned to manage crisis situations and bear the related costs. In Italy, safety net is made up of the Interbank Deposit Protection Fund, which provides deposits, and the European Central Bank, which acts as lender of last resort, providing liquidity to individual intermediaries or groups of operators who are unable to meet their financial needs by resorting to other sources of liquidity. There is the risk of opportunistic behaviour (moral hazard) because the direct intervention of the State can loosen the discipline of the banking management, which can be induced to raise its risk profile because "the State will take care of it later". It must also be said that beyond certain limits regulation can be effective or even harmful with respect to the objectives pursued, since it can reduce the entrepreneurial initiative of operators, lowering the level of competition within the system.

The essential aims that must be pursued by all those who make up the system are:

- stability, aimed at ensuring liquidity and solvency. Due to the close interconnection of economic activity, it is necessary to prevent a crisis from spreading worldwide;
- efficiency, which can be either allocative (ability of intermediaries to finance initiatives and projects with higher expected returns, net of the overall degree of risk associated with them) or technical-operational

(ability to offer their products or services at the lowest possible cost, or maximise the level of production at the same cost);

- transparency, i.e. the fairness and transparency that operators must maintain in order to reduce the information asymmetries that characterise financial activity.

As far as supervisory rules are concerned, they can be divided into various ways, the most traditional being structural supervision and prudential supervision, and regulating the entry and operation of intermediaries into the financial system. The structural one outlines the morphology of the financial system, the conditions of entry, the activities that intermediaries can carry out. The prudential one, on the other hand, concerns the main management criteria with which operators must comply, aimed at limiting and monitoring the risks assumed in the exercise of their activity. Preventive action is carried out by "early warnings", i.e. information flows aimed at bringing out in advance conditions of difficulty for intermediaries that allow the supervisory authority to intervene quickly before the situation deteriorates.

Another subdivision of the rules is that which classifies them according to the activity carried out by the supervisory authorities:

- regulatory supervision, which covers the entire complex production of implementing rules and regulations and includes controls of a structural, prudential and transparent behaviour;
- information surveillance, which covers all measures aimed at limiting information asymmetries;
- inspection supervision, which concerns checks carried out at the intermediary's premises with the aim of obtaining information that is difficult to extrapolate from periodic documentation.

Going into more detail, <<in the Italian case, the fundamentals of the regulations on financial intermediation are introduced by laws and decrees of Parliament and legislative decrees issued by the Government by delegation of Parliament, while secondary regulations are produced, in more detail, by bodies delegated by these laws (Bank of Italy, Consob, Antitrust Authority, IVASS, Covip) because of their technical expertise. Moreover, it should not be forgotten that the European Union, to which our country belongs, can in turn issue specific regulations on the subject. The Italian legal system is based on four main legislative texts, launched in the mid-1990s and amended several times by subsequent provisions, which are: the Consolidated Banking Act, the Consolidated Finance Act, the Private Insurance Code, and the regulations on supplementary pension schemes, which regulate pension funds>>(Banfi, Biasin, Oriani, Raggetti, 2014). In particular, the

Consolidated Banking Law regulates the intermediation activity carried out by banks and other non-banking credit intermediaries. Alongside the supervisory authorities that oversee the definition of secondary legislation, it should be remembered that there are two functions that liaise with the legislative bodies: the Interministerial Committee for Credit and Savings, and the Minister of Economy and Finance.

Also in this context, the recent contribution of the Bank of Italy, with the July 2013 update of Circular 263/2006 (New prudential supervisory provisions for banks) on the internal control system, information system and business continuity, introduces and consolidates integrated risk management within national banks. The supervisory and prudential regulations lay down guidelines on risk measurement methodologies, capital requirements, governance, organisational structure and information systems (Siclari, 2015). This also takes into account international and European guidelines such as the Basel Accords.

2.2.1 Basel Agreements

Often, when deep recessions occur in national and international systems, a great responsibility is placed on the banks, and in order to avoid a repetition of these major systemic crises, central bank governors meet periodically and lay down rules that all banks must respect. In this respect, the role played by the Basel

Committee, which is the main body setting international standards for the prudential regulation of the banking sector, is crucial. Its aim is to strengthen banking regulation, supervision and practice worldwide in order to enhance financial stability.

The first agreement resulting from the work of the Basel Committee dates back to 1988. Basel 1 contained an initial definition of minimum capital which banks were required to provide as collateral for funding, financing and investment transactions with customers. With the Basel 1 agreement, a very important principle for the safety of banks and customers had passed: banks had to set aside at least 8% of their lending risk assets for prudential purposes.

The subsequent agreement (Basel 2, in 2004) is much more complex. This provides for a better definition of risk assets, which are now weighted to take account of their lower (when valid collateral is present) or higher (when repayment of the credit is doubtful) riskiness. Then Basel 2 expanded the concept of risk assets, extending it to other assets, in addition to mere bank lending. In fact, it was decided that any activity carried out by the bank involves risks, for each of which a certain amount of capital must be set aside. Therefore, alongside the traditional credit risk, many others have been added. Finally, Basel 2 establishes a strict transparency of information, requiring banks to make public their capital requirements with regard to any risk they run. The new regulation on

the capital adequacy of banks and investment firms enters into force on 1 January 2007.

Due to the severe financial crisis in 2008-2009, the Committee launched Basel III, which contains new guidance on regulation, supervision and integrated risk management. With this new agreement, efforts are being made to further strengthen the capital structure of banks. This will be achieved both through a decisive rebalancing of banks' capital requirements towards high quality instruments (i.e. by strengthening Tier 1 capital plus reserves) and by providing for a buffer of 2.5%, in addition to the capital minima, to be used as needed (e.g. in the event of a general recession). In addition, other precautionary measures have been envisaged for banks: an additional and possible buffer, which may be imposed on banks to increase their capitalisation in favourable economic phases; the introduction of a maximum level of leverage (leverage ratio), so as to contain the overall indebtedness of banks; the limit in question is set at 3% and therefore the Tier 1 capital must be at least 3% of on-balance sheet and off-balance sheet assets,

According to the experts, the Basel III agreement could, with its excessive recapitalisation, significantly strangle credit for businesses and households. For this reason, a long gestation phase of Basel 3 is planned, with a strong gradual introduction of the new features, so as to allow the international banking systems to continue to ensure the necessary credit flows to the economy. In any case,

however, without the Basel Agreements on Supervision and without the arrival of CET1, TIER1 and SREP, the very survival of many Italian banks would have been endangered. And with it entire economies and societies.

2.2.2 Basel 2

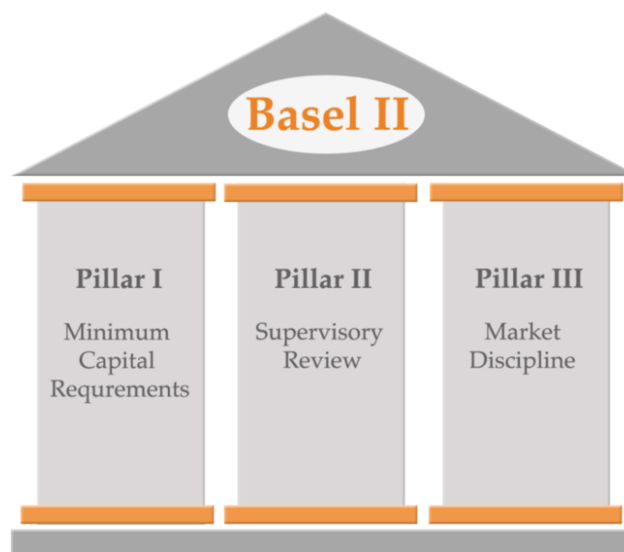
The way credit institutions are managed has changed profoundly compared to a few decades ago, it is now the bank itself that defines its risks and consequently prepares an organisation and a system of processes capable of reducing them to a minimum, while at the same time identifying assets of such a size as to ensure their coverage. The Bank of Italy will "limit itself" to assessing the correctness of the risk measurement carried out by the bank and the adequacy of the processes put in place to ensure a sufficient level of capital to cover them, even in the event of exceptional adverse events. The Bank will intervene if the overall analysis reveals anomaly profiles, in which case it may require the bank to adopt appropriate corrective measures of an organisational and/or capital nature.

-In fact, the Bank of Italy has radically revised the rules (the "supervisory provisions") regarding relations with credit companies, revolutionizing the approach to be taken in its control function over banks.

The Bank of Italy's Circular 263/06, in line with the provisions of the New Capital Accord (Basel 2), was divided into three Pillars relating to:

1. determination of minimum capital requirements to cover the risks typical of financial activities (credit, market and operational);
2. the prudential capital adequacy control process (ICAAP) with the Authority responsible for verifying the reliability and consistency of the results obtained (SREP);
3. introducing public disclosure requirements regarding capital adequacy, risk exposure and the general characteristics of the related management and control systems.

Figure 2.2 – Basel 2



Source. www.semanticscholar.org

2.2.2.1 First pillar risks

The task of this pillar concerns minimum capital requirements. In fact it "deals with ongoing maintenance of regulatory capital that is required to safeguard against the three major components of risk that a bank faces: Credit Risk, Market Risk and Operational Risk" (www.ibm.com/support/knowledgecenter).

- Credit risk: the risk that the unexpected deterioration in the creditworthiness of a counterparty to which an exposure exists generates a corresponding unexpected change in the market value of the credit position. Credit risk includes counterparty risk, i.e. the risk that the counterparty to a transaction defaults on its financial commitments. It is measured by rating agencies, which specialise in assessing creditworthiness and creditworthiness. As the rating increases, the probability of default decreases and thus the risk premium to be charged;

- Market risk: risk associated with fluctuations in market prices of assets and financial instruments. It can be divided according to the variables that determine losses: interest rate risk, exchange rate risk, liquidity risk;

- Operational Risk: includes all risks internal to the bank, those due to inadequate or insufficient internal control systems and also certain risks due to the action of persons or external events, and therefore in general to the performance of business activities (from fraud, human error,

interruptions in operations, bugs in information systems, breach of contract, robbery, terrorist acts to natural disasters: operational risk includes legal risk, while strategic and reputational risks are excluded). It is very complex to measure and price, and can damage the relationship of trust with customers.

Other risks:

- Concentration risk: risk arising from exposures to counterparties, groups of associated counterparties and counterparties in the same economic sector or that carry out the same activity or deal in the same commodity or belonging to the same geographical area
- Interest rate risk: risk arising from changes in interest rates, for activities other than trading;
- Liquidity risk: risk for the bank of not being able to meet its obligations when due. “Banks have to meet uncertain cash flow obligations, which depend on external events and on other agents’ behaviour” (BCBS-Basel Committee on Banking Supervision Liquidity risk. Management and supervisory challenges. Bank for International Settlements, Basel, February, 2008);

- Residual risk: risk of ineffectiveness of credit risk mitigation techniques used by the intermediary;
- Strategic Risk: current and prospective risk of economic and capital imbalances due to changes in the operating environment or poor responsiveness to such changes, incorrect business decisions or inadequate implementation of decisions;
- Reputation risk: current and prospective risk of economic and financial imbalances due to the perception of a negative image of the bank by customers, shareholders, investors, supervisory authorities and counterparties in general;
- Country risk: the risk of losses caused by events occurring in a different country, this refers to all exposures regardless of the nature of the counterparties;
- Risk of excessive leverage: risk due to a particularly high level of indebtedness in relation to equity (Bank of Italy document)(Allegrini, 2012).

2.2.2.2 Internal Capital Adequacy Assessment Process (ICAAP)

In particular, Pillar II of prudential discipline heavily affects the entire organisation of the bank and is divided into two distinct but integrated phases. The first is the Internal Capital Adequacy Assessment Process (ICAAP), which is the responsibility of the banks, which carry out an independent assessment of their current and prospective capital adequacy in relation to the risks assumed and the corporate strategies.

With the ICAAP communication, the banks explain to the Bank of Italy the fundamental characteristics of the process put in place, the exposure to risks and the determination of the capital considered adequate to meet them. The disclosure also contains a self-assessment by ICAAP that identifies areas for improvement, possible weaknesses in the process and the corrective actions that banks intend to take to eliminate the identified weaknesses. It is precisely from the analysis of the above mentioned communication that Bank of Italy starts to decide the adequacy of the prudential control carried out by the banks or its inadequacy and therefore the adoption of corrective measures against them. A clarification is immediately appropriate: the ICAAP and the prudential supervision required by the new rules of the supervisory body are not (and therefore do not materialise) in the annual communication which experts have already begun to call simply ICAAP, fuelling confusion. ICAAP is the process to be implemented, with commitment and effort, within the banking structures and not the information that describes it.

The ICAAP process, in particular, in addition to verifying the "tightness" of Pillar I capital requirements, is aimed at determining an overall level of capital that takes into account non-pillar I risks, adverse conditions that could affect the reference markets in which the Bank operates, the risk management system and internal controls at its disposal, the level of risk appetite and the Bank's strategic objectives and the risk mitigation techniques and instruments used.

With the 15th update of the aforesaid Circular, the regulations wanted to strengthen the discipline of risk management, based on a number of basic principles, consistent with international best practices and the recommendations of the main standard setters (Financial Stability Board, Basel Committee for Banking Supervision, EBA); among these: the greater involvement of top management; the need to ensure an integrated and transversal vision of risks; attention to the issues of efficiency and effectiveness of controls; the enhancement of the principle of proportionality, which allows the application of the rules to be graduated according to the size and operational complexity of the banks.

The main innovations introduced by the new regulations concern:

- the provision of general principles of organisation;
- the duties of corporate bodies;
- the definition of the Risk Appetite Framework (RAF);
- the strengthening of first, second and third level controls;

- outsourcing, information system discipline and business continuity.

In this context, the changes introduced by Regulation (EU) No. 575/13 and the Bank of Italy Circulars 285/13 and 286/13, so-called Basel3, regarding ICAAP, reporting on own funds, capital requirements, leverage and liquidity risk have led to a new regulatory framework with significant impacts on the prudential control process.

In this changed regulatory environment, these Regulations define the guiding principles of the internal process of determining capital adequacy. Its main objective is, therefore, to ensure the regular and effective performance of the overall capital assessment activities with regard to its adequacy, current and prospective, in relation to the risks assumed and the company's strategies.

The regulations in force with the intention of clearly circumscribing the concepts underlying the dialogue between the Supervisory Authority and intermediaries on capital adequacy, provide the following definitions to indicate the capital requirements calculated internally (for individual risks or at an overall level) and the capital resources used to cover individual risks or all business needs:

- internal capital: the capital at risk, i.e. the capital requirement for a given risk that the bank considers necessary to cover losses exceeding an expected level;

- Total internal capital: the internal capital that relates to all material risks assumed by the bank including any excess internal capital due to strategic considerations;
- Capital and total capital: the capital items that the bank believes can be used to cover internal capital and total internal capital respectively.

In this regard, on the basis of an accurate cost/benefit analysis, taking into account its own organisational and operational characteristics as well as the quantitative and organisational requirements required for the adoption of more advanced methodologies and in implementation of the principles of proportionality and gradualness that inform the new prudential regulations, the Bank applies standardised methodologies for the determination of the prudential requirement for Pillar 1 risks. In consideration of this aspect and having assets of less than Euro 3.5 billion, the Bank is one of the Pillar 3 entities, for which the regulations indicate specific simplified approaches. On this basis, the Bank intends to make use of the simplified methodologies indicated by the Supervisory Authority for the measurement and assessment of Pillar 2 risks and for the stress tests to be conducted; the principle of proportionality provided for by the regulations is also applied when preparing the annual ICAAP report to the Bank of Italy.

It should be remembered that the ICAAP information to be sent to the Bank of Italy is only the last act (i.e. the natural consequence) of a complex renewal

activity to be carried out immediately and without delay at all the bank's structures and processes. Therefore, we can say that the prudential control and ICAAP impact above all the organization and management of the bank.

2.2.2.3 SREP

The second phase, SREP (Supervisory Review and Evaluation Process), is the process by which supervisors identify any current or prospective problem profiles of the intermediary and assess whether and what prudential measures should be taken. To this end, the Bank of Italy, among other things, examines the risk profile and exposure to individual risks of the supervised entity, reviews and evaluates the corporate ICAAP and the related quantification of internal capital, assesses the corporate governance system, the quality and functionality of corporate bodies, the organizational structure and the system of internal controls (risk control, compliance, audit), verifies compliance with the set of prudential requirements (for example, the maintenance of the requirements for the use of advanced methods and models for the determination of capital requirements, disclosure transparency requirements). The SREP concludes with an overall assessment of the test, and if problems are found, the recommended actions to address critical issues are indicated, including the timeframe within which the bank must implement solutions to bring capital back under control.

The SREP is conducted every year in order to ensure that banks and banking groups are equipped with appropriate capital, organisational and liquidity management controls with respect to the risks assumed, even in stress scenarios, ensuring overall management balance.

<<The key variable in all prudential regulations is regulatory capital, which is the first safeguard against the multiple risks that characterise banking business and which have become more pronounced over the years as a result of the growing complexity of financial activity and the close interconnections that have been created between the various segments of intermediation. An adequate level of capitalisation allows the bank to carry out its entrepreneurial function with wide margins of autonomy and, at the same time, to maintain the necessary stability>> (Patrimonio di vigilanza e coefficienti patrimoniali, art.1, Gazzetta Ufficiale). Capital is the reference point established by the supervisory authority on which to direct the control instruments concerning banking operations. We are now witnessing an increase in the quality of regulatory capital, obtained through the recomposition of banks' capital in favour of ordinary shares and profit reserves, the adoption of stricter criteria, etc...

The overall minimum regulatory capital consists of the algebraic sum of:

- Tier 1 capital, capable of absorbing losses on a going concern basis;
- Tier 2 capital, able to absorb losses in the event of liquidation;

- deductions (regulatory adjustments).

2.2.2.4 The Common Equity Tier 1(CET1)

CET1 means Common Equity Tier 1 ratio and is the capital ratio (parameter) that is conventionally used by banks, investors and savers to assess and quantify a bank's capital strength. Common Equity Tier 1, or CET1, is a unit of magnitude expressed as a percentage obtained from the ratio of Tier 1 capital (represented mainly by paid-in ordinary capital and profit reserves) to risk-weighted assets on the balance sheet. Under current rules, systemic banks must have a CET1 of at least 8%: the higher the CET1, the stronger the institution, i.e. its shares and bonds. It is precisely this percentage that is used by the European Banking Authority (EBA) to carry out the well-known stress tests on banks. Each bank at the beginning of the year receives from the ECB a minimum "customized" level of Cet 1 to be respected, as well as any additional "cushions" to be set aside. If the Cet 1 falls below the set threshold, the institution has to strengthen its capital or risks a receivership. In case of severe imbalance, resolution may be triggered and consequently the bail in (an "internal rescue", it is a tool that allows a failing bank to obtain from individuals, i.e. shareholders, bondholders and depositors, the necessary funds to absorb losses and recapitalise the bank).

In summary, the CET1 ratio tells us with what resources the evaluated institution is able to guarantee the loans granted to customers and the risks represented by non-performing loans.

However, CET1 alone is not sufficient to measure the soundness of the bank. Some institutions may have normal CET1 ratios that do not reflect the amount of impaired loans held by the bank and this could put the normal management of the business at risk.

It is therefore advisable not to limit oneself exclusively to looking at the CET1 ratio in order to evaluate a credit institution, but to take a look at the financial statements from time to time. In particular, monitor:

- profitability;
- the value of the capital.

Profitability suggests the bank's ability to create value for both shareholders and savers.

Capital (the higher the better) is an indication not only of the bank's ability to provide loans and mortgages but also of its ability to act as a guarantee for depositors. For this reason there is another key parameter to consider, TIER1.

2.2.2.5 The TIER 1 Capital

Tier 1 Capital is a measure that identifies the main components of a bank's equity. It represents the amount of capital that makes it possible to absorb losses without affecting depositors' interests; it therefore determines a bank's ability to operate under solvency conditions. It is given by share capital, unavailable balance sheet reserves and profits not distributed to shareholders and accumulated over the life of the bank. It guarantees depositors against any losses, whether occasional or persistent during the financial years, as well as against any "bankruptcy" situations and consequent liquidation of the bank's capital.

Tier 1 Capital seeks to go beyond the strictly accounting concept of equity by moving closer to the present value, at a given moment, of all the cash flows that the bank will be able to generate over its lifetime. Cash flows and not operating profits, precisely because it is a measure created to monitor the solvency, not the profitability, of capital.

The calculation of Tier 1 Capital does not take into account certain balance sheet items that frequently alter the bank's book value, such as the amount of intangible assets.

An optimal Tier 1 capital ratio should be 8%, and under Basel III the Tier 1 ratio for all banks is set at least 6%. Banks that do not meet this level of the Tier 1 ratio are called upon to increase their capital in order to restore a balance between financial sources and lending that ensures the bank's continued stability over time.

Other elements to be taken into consideration in assessing the soundness of a bank are net interest income, commissions, loans, personnel and other administrative expenses, the cost of credit risk, impaired loans, average hedges, direct funding (combinations of customer deposits in the form of savings accounts, current accounts, certificates of deposit, bank drafts) and indirect funding (debt securities and other securities not issued by the custodian bank).

2.3 Risk control in the banking activities

2.3.1 The system of internal controls

Regulators and supervisors alone, however, fail to ensure prudent management of banks while at the same time ensuring stability and competitiveness within the financial system. For this reason, individual credit institutions are also called upon to organise an appropriate system of internal controls to achieve these results, allowing for a correct perception of risks and an appropriate allocation of capital. This will encourage an efficient combination of risk and return in the various activities.

The system of internal controls should safeguard the value of the business, make business processes effective and efficient, prevent the risk of the bank being involved in illegal activities, make IT procedures and business flows secure and

reliable, promote operations in compliance with laws, regulations and standards, and contain risks within the limits set out in the Risk Appetite Framework. As the Governor of the Bank of Italy stressed in a speech at the Ordinary Shareholders' Meeting of the Bank of Italy: the internal control systems of banks "... require the full involvement of corporate bodies in defining the control and risk management system; in identifying the 'tolerated risk...'" (see Associazione Bancaria Italiana - Ordinary Shareholders' Meeting - Speech by the Governor of the Bank of Italy Ignazio Visco; 10 July 2013).

This system is of strategic importance, not only for the company functions in charge, but involves the entire company organisation (from structures to personnel) in the development and application of methods to identify, measure and manage risks. It is therefore an integral part of the bank's daily activities. There are three main types of internal controls that can be identified: line controls (ensuring the correct performance of operations), risk and compliance controls (ensuring the correct implementation of the risk management process and compliance with regulations), internal audit activities (aimed at identifying violations of procedures and regulations, as well as the adequacy and reliability of the internal control system).

Within them, the banks set up permanent and independent corporate control functions:

- of compliance with the rules; compliance has the task of avoiding situations that could generate judicial or administrative sanctions, significant financial losses or damage to reputation as a result of violations of rules, laws, etc.;
- risk control; risk management aims to collaborate in the definition and implementation of the RAF and related risk governance policies, through an appropriate risk management process;
- internal audit; the internal audit function submits an annual audit plan, which indicates the planned control activities, taking into account the risks of the various company activities and structures

Risk management manages the risk control function which:

- is involved in the definition of the RAF, risk governance policies and the various stages that make up the risk management process, as well as in setting operational limits to the assumption of the various types of risk. Among other things, it is responsible for proposing the quantitative and qualitative parameters needed to define the RAF, which also refer to stress scenarios and, in the event of changes in the bank's internal and external operating environment, for adjusting these parameters;
- verifies the adequacy of the RAF;

- defines common operational risk assessment metrics consistent with the RAF, coordinating with the compliance function, the ICT function and the business continuity function
- gives prior opinions on the consistency with the RAF of major operations, possibly acquiring, depending on the nature of the operation, the opinion of other functions involved in the risk management process.

2.3.2 The Risk Appetite Framework (RAF)

The formalisation of the company RAF integrates the overall system of internal controls and contributes to compliance with the principles of sound and prudent management. In this context, the definition of the RAF makes it possible to define (*ex ante*) an effective corporate risk management strategy and is a prerequisite for an efficient risk management process. Therefore, the definition and implementation of the RAF cannot be detached from the company's strategic choices and related budgets/implementation plans, the particular business model used, as well as the overall risk level resulting from it in terms of exposure. The definition of the tolerance threshold and risk objectives also represents a management tool which, in addition to allowing for the concrete application of prudential provisions, also allows for:

- strengthen the ability to govern and manage business risks;
- integrate the strategic process;
- facilitate the development and dissemination of an integrated risk culture;
- develop a system for monitoring and reporting the risk profile taken quickly and effectively.

Because of these purposes, the correct definition of the desired positioning in terms of risk makes it possible to satisfy the different information needs of the various parties involved in the Bank's performance: public and regulatory authorities, shareholders, creditors and other parties involved in the corporate assessment.

Before entering into the specifics, it should be remembered that the effective articulation of the RAF must be calibrated according to the dimensional characteristics and operational complexity of each bank.

The Risk Appetite Framework is the reference framework that governs the process aimed at defining its own tolerance threshold (Risk Tolerance) and its own propensity to risk (Risk Appetite), possibly articulated in line with the principle of proportionality to determine the individual types of risk, operational limits and indicators; the Bank will always define them in compliance with the maximum risk that can be assumed (Risk Capacity), represented by the minimum

regulatory requirements and any specific requests of the Supervisory Body. It also contains a description of the roles and responsibilities of those who oversee the implementation and monitoring of the RAF itself.

The first step is the Risk appetite statement, which is the articulation in written form of the aggregate level and types of risk that a financial institution is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate. It should also address more difficult to quantify risks such as reputation and conduct risks as well as money laundering and unethical practices.

The relevant definitions and concepts in the RAF are[1]:

Risk appetite: The aggregate level and types of risk a financial institution is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

Risk capacity: The maximum level of risk the financial institution can assume given its current level of resources before breaching constraints determined by regulatory capital and liquidity needs, the operational environment (e.g. technical infrastructure, risk management capabilities, expertise) and obligations, also from

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[1] These definitions have been taken from Circular 263, Title V, Chapter 7 (limited to what concerns the RAF), of the Bank of Italy of 27 December 2006 and integrated with the definitions provided by the Financial Stability Board.
(www.usaee.org, "Principles for An Effective Risk Appetite Framework", 18 November 2013)

a conduct perspective, to depositors, policyholders, shareholders, fixed income investors, as well as other customers and stakeholders.

Risk tolerance: the maximum deviation from the permitted *risk appetite*; the tolerance threshold is set so as to ensure that the bank has sufficient margins to operate, even under stressful conditions, within the maximum risk that can be assumed. In the event that risk assumption is allowed beyond the set risk target, subject to compliance with the tolerance threshold, the management actions necessary to bring the risk assumed back within the set target are identified;

Risk limits: the articulation of risk objectives into operational limits, defined, in line with the principle of proportionality, by types of risk, units and or *business lines*, product lines, types of customers;

Risk profile: the risk actually assumed, measured at a given time.

Table 2.1 shows some indicators that could be included in the Banks' RAS. Obviously each bank could insert or remove the indicators mentioned here according to the company choices made . They are broken down by type of risk.

Table 2.1 – Overview of possible indicators to be included in the RAF

Size / Profile	RAS INDICATOR
PATRIMONIAL	• CET 1 RATIO • TIER 1 RATIO • TOTAL CAPITAL RATIO • LEVERAGE RATIO
LIQUIDITY	• LIQUIDITY COVERAGE RATIO • NET STABLE FUNDING RATIO • LOAN TO DEPOSIT RATIO
CREDIT	• COVERAGE RATIO SUFFERINGS • UTP COVERAGE RATIO • TEXAS RATIO NET
FINANCIAL	• RATE RISK • ROE
SUSTAINABILITY OF BUSINESS	• COST INCOME RATIO • ROE

Source – Own elaboration

2.4 Organization of the planning and control process in banks

Planning and controlling have to have a strong correlation because management, in order to act in time, needs well developed appropriations and actual data during planning. The functions of planning, in banking terms, are information and documentation function (have written records of the goals to be achieved set by the organization), coordination-integration function (coordinating the activities of the different bank areas in order to make the operation of the organization more efficient), incentive-motivating function (the organization sets living goals and rewards their compliance and sanctions failures). If these individuals or groups are also taking part in the planning process, then their commitment to the plan would greatly increase (Management control system in banks, Z. Zéman , R. Gacsi , J. Lukács , L. Hajós).

Before explaining in detail the planning and control process in banks we give an example of the reference variables that an Italian bank could analyse before undertaking the planning.

Table 2.2 - Reference variables

Macroeconomic variables	• Rates scenario • Italian GDP and its components (domestic demand, exports, investments, etc...) • Inflation in Italy

	• Unemployment rate
Banking system aggregates	• Employment, direct funding and financial wealth of the families • Rates of use and deposits • Income statement aggregates
Market variables	• Government bond rates and spreads • Financial market dynamics • Real estate market prices trend
Evolution of the regulatory environment and relevant exogenous events	• Legal and regulatory developments • Relevant exogenous events (e.g. ECB, Brexit, technological change)
Sectoral evolution analysis	• Evolution of indicators of sector resilience (e.g. turnover, deterioration, etc...) • Qualitative and quantitative indicators of prospective development

Source – UBI Bank

The primary objective of the strategic planning function is to assist the bank's top management in drawing up strategic guidelines and translating them into annual and multi-annual budgets, financial plans and work programmes. In addition, the role assumed by strategic planning has undergone further evolution for banks that have adopted the structure of a banking group, in which specific business sectors or support/service activities are entrusted to separate corporate structures, with implications regarding the complexity of the strategic elements to be taken into account and the degree of strategic and managerial centralisation/decentralisation between the Parent Bank and its subsidiaries. Having overcome an initial phase of organisation of the banking groups characterised by a reduced degree of decisional centralisation and greater managerial and operational autonomy of the individual components, the ever-increasing needs for unitary management at group level of assets and capital allocation, market/customer orientation, investments and resources have progressively oriented the groups themselves to adopt a strongly centralised model, thus giving the group's strategic planning even greater importance.

The practice of drawing up multi-year strategic plans has gradually become established, capable of summarising all the basic strategic elements for a banking company in a single document and of incorporating the application of the new governance and management methods and methods over a longer period of time than in the past, with adequate planning of the related implementation measures.

The phases of drawing up a strategic plan consist of a preliminary analysis of the external environment and the context in which the bank will operate, the identification of opportunities or threats that will change the future scenario, to be seized or faced, the definition of strengths and weaknesses that can be identified by the bank's positioning and comparison with competitors. Subsequently, in-depth analyses are carried out to translate the strategic objectives set in the horizon to be planned into quantifiable results (revenue and cost items); the product of this phase is represented by the Income Statement, the Cash Flow Statement, the Investment Plan and the overall balance sheet of the bank and the group. In recent years, in correspondence with the considerable development of the banking groups' activities, greater emphasis has been placed on planning the degree of capitalization necessary to support growth also in the medium to long term. The basis on which to make estimates and projections is represented not only by the economic situation and the potential of the context, but also by the analysis of the historical data series and the strategies that the bank has adopted previously, in order to identify areas for possible improvement or overcoming of the benchmarks. The minimum common content of the current strategic plans of the banks, with a different level of detail depending on the quality and size of the individual entities, can be summarised as follows: definition of the corporate mission and strategic objectives for the period considered; analysis of the market scenario and identification of the competitive positioning pursued; main

economic/financial objectives to be achieved; lines of action on corporate governance, group structures and internal structuring consistent with the mission and objectives set; timing of the actions and projects to be implemented to implement the plan.

The more complex the organization is, the higher the formalization of the planning system gets. The necessity of the formalization of planning is indisputable both in theory and practice but the appropriate degree of formalization is controversial. Formalization must not increase time investment and expenditure and limit flexibility significantly.

When developing the strategy, the bank has:

- to measure what services, at what price can be found currently on the market and accordingly determine its services. It has to measure its current activities and their growth scenario and consider the opportunity of developing new products and their introduction to the market;

- to identify the market actors, current and future competitors, potential allies. Actors must be interpreted broadly because there are other organizations beside commercial banks such as insurance companies, savings banks, specialized financial institutions and financial advisors;

- to identify the customer base. Every bank has a unique customer base. We can group customers in several ways by population, entrepreneur, budgetary institutions and each of them requires different strategies;
- to establish which types of competitive factors such as quality and quantity of the services, price competition, availability, promotions and public relations should play an important role for the bank;
- to assess if there is an adequate situation for technological environment. Basically the banks’ current situation is defined by communication systems and information technology, the more innovation are introduced, the more old products disappear (Zéman , Gacsi , Lukács , Hajós, 2013).

The strategic plans do not end with the outline of a long-term action plan. The following standpoints must be met:

- the values (given when outlined goals) must be relevant, accepted objectives must be measurable, verifiable, degree of the differences and completion should be definable exactly;
- plans must be feasible, motivating and must not be frustrating (Zéman , Gacsi , Lukács , Hajós, 2013).

Strategic planning in banks is used on the highest management level, broken into periods.

During strategic planning different analytical methods are applied such as the SWOT analysis or gap analysis.

To carry out SWOT analysis of a bank is perhaps easier to start with internal weaknesses and strengths. These can include the attributes of a bank's products, services, management team and organisational structure. For example, one of the strengths of a bank could be the recognition of its name associated with reliability and solidity (on a local and/or national scale). This can make the acquisition of new customers a less costly process. Conversely, easy name recognition can also be a weakness if the institution has been linked to a financial scandal or rumours of financial instability. Since most banks and financial institutions tend to offer similar products, strengths and weaknesses are often linked to technological, service or strategic advances.

Customer satisfaction and formulation of marketing strategies to attract more and more customers towards the banks are now becoming a key issue.

A distinction could be made based on the size of the banks: the larger ones could design ad hoc financial packages for high-value customers, provide a very wide diversification of instruments and operate at global level; the smaller ones could focus more on a widespread diffusion in a well-defined territory and on a more facilitated transfer of loans for the development of the reference territory.

Opportunities and threats are external factors beyond a bank's control. Some of these factors may include legal provisions that may increase operating costs. In a SWOT analysis of a bank, such regulations are classified as a threat. For a small local bank an example of a threat would be the market expansion of a national bank. A threat to all banks could be non-performing loans. The factors identified in a SWOT analysis generally vary depending on the size, nature and position of the institution. An important consideration in formulating a SWOT analysis of a bank is the presence of opportunities. These are external factors that a bank may be able to exploit to gain market share. For example, the high and widespread use of technology and mobile telephony has led to the development of online banking. In addition to this new functionality and the addition of offers and services, the bank must provide the customer with flexibility, convenience, solidity as customers judge the institution not only by the number of products offered, but above all by the quality of products and services.

For the success and survival of any industry, provision of high-quality customer service is necessary to meet the requirements of customers, and its consequent loyalty will attract new customers and increase market share and profitability (Kumari, Rani, 2011).

In today’s increasingly innovative and aggressive financial services environment, service quality has become the ultimate factor which differentiates banks and determines whether or not they can survive.

Banks are looking at the lifetime value of the customer base rather than focusing on the cost of transactions (Aurora, Malhotra, 1997). In order to gain a lifetime trust, there should be transparency in the functioning of the bank.

The evolution in banking models is due to the rapid and disruptive changes in the market, which is highly competitive, unstable and with far fewer constraints and restrictions than in the past. The most critical competitive factors concern strategies, prices, products, and the organization of resources, while the orientation is now particularly focused on the production of economic-financial results through profitability, the opening of branches and an increase in intermediated volumes and market share.

Developments in information technology (IT) may play an important role in managing complexity. IT expands human capacity to manage complexity (Becker, 1995) and can also contribute to dealing with complexity at a low cost. Indeed, IT makes it possible to manage complex data and complex rules in ways and at speeds that would have been impossible a few decades ago (for example, calculating the capital requirements of a large bank would take many workers many days without the help of computers). In this sense, any discussion of the increase in regulatory complexity in recent years must also take into consideration that the costs of some aspects of regulatory complexity have been significantly reduced. Further developments in areas such as big data, artificial intelligence and

machine learning are opening up scope to accommodate apparently complex data and tasks into user-friendly, low-cost management and regulatory systems (Gai, Kemp, Sánchez Serrano, Schnabel, 2019).

In the management control system the organisational structure is important: it defines the economic responsibility within the organisation by identifying the relevant centres of responsibility.

For effective management guidance, each division of the organisational structure must be given precise responsibilities for the activity to be carried out and effective coordination of all activities must be achieved within a framework that is consistent with the general objectives to be achieved. The Responsibility Centre can be defined as a minimum organisational unit characterised by human, technological, real estate and financial resources that carries out predefined activities, of which it is possible to recognise costs and revenues or only costs and identify a manager.

Responsibility Centres can be classified according to the activity carried out, under the control of a manager who is responsible for the activities of that Responsibility Centre: operational centres (branches, securities, foreign exchange, credit lines, portfolio, product managers, customer managers, promoters, etc...), production service centres (foreign goods service, portfolio service, etc...), general service centres (personnel service, inspectorate, vehicles, technical service, etc...),

structure centres (general management, accountancy, study office, etc...) (Khan, 2014).

Other classification takes place according to the object (economic objective) against which they are assessed and held accountable:

- profit centres, have as their objective the achievement of a given economic result;

- cost centres, perform functions that are directly instrumental to those of other centres of responsibility and operate within a double constraint, in terms of volume of activity and overall cost; the task of the managers is to maintain internal efficiency at the levels implicitly set by the company's plans and programmes.

This traditional meaning of centre of responsibility is now being replaced by that of business unit. This term refers to an organizational complex characterized by resources that use the same processes, pursue the same profitability objectives and assume homogeneous risks. This entity, which depending on the organizational context of reference may coincide with a function, a division (by product, market, customer segment, etc.), or a company, will have the autonomy necessary to achieve the planned objectives. Business units are generally classified into: structural (e.g. planning and control, personnel, information systems, organisation,

etc.) or operational (e.g. asset management, commercial banking, corporate finance, leasing).

The technical-accounting structure represents the set of management control accounting tools (general accounting, analytical accounting, budget and standards system, indicators and variations system) that belong globally to the management accounting system.

The identification of an organisational structure articulated by centres of responsibility requires an increasingly complex technical accounting structure: in other words, we move from general accounting, which concerns the bank as a whole, to accounting that seeks to isolate economic and financial data relating to particular segments of the bank and which for this reason is called analytical accounting.

Analytical accounting looks at the bank internally, evaluating the performance of individual centres, or individual products, making available to the relevant managers the elements necessary for management choices, evaluating their efficiency and giving the possibility of measuring deviations from the objectives set in the budget.

Analytical accounting provides for the quantification of the effects of internal transactions between centres of responsibility by means of their "pricing" which will take place at internal transfer rates (TIT) for financial products.

The interest margin is an important indicator used to assess the status of a bank, it indicates the profit associated with buying and selling money. It is the difference between the interest income received by a bank from loans granted and the interest expense, i.e. the cost of the money borrowed, e.g. the remuneration on current accounts.

Another important aspect of management control is the budget, which is a document relating to an organisation's expenditure forecasts over a given period of time to achieve a given result. The budget can refer to specific areas or individual activities and its preparation is essential to define the result objectives of the different areas of the bank in order to optimise its efficiency.

Through the articulation of the objectives of the credit company in the various budgets of the centres of responsibility, it is possible to direct the choices made in the bank towards the desired common goal. In other words, the fact that the objectives of each centre converge towards those of the bank will ensure that operators, even if they are very distant from each other from a functional and/or geographical point of view, will operate in a coordinated manner, avoiding making conflicting decisions. From the consolidation of the budgets of the individual centres of responsibility is obtained the budget of the credit company.

Budget planning involves constant control, analysis and evaluation of the casual aspects of differences in order to find out what kind of management activities

needs to be used to follow the plan or whether the change of market conditions (unforeseen) requires modification of the original plan.

The analysis of the deviations represents that set of surveys, aimed at identifying the variations that occurred during the observed reference period and which allow, through the comparison made between the results actually achieved and the planned values, to understand the level of achievement of the objectives. The deviations, in fact, by providing synthetic data, do not allow the analysis of the causes of the variations and, consequently, do not allow the identification of the corrective actions necessary for the objectives to be achieved. Therefore, determining the deviation does not mean identifying the cause that generated it. This operation concerns a further and separate phase of the control process, the purpose of which will be, precisely, to clarify the reasons and factors that determined the variation. Subsequently, action will have to be taken, implementing the actions and corrective measures, so that they can allow the results to be realigned with those established during the planning process.

Subsequently, risk control takes place (a risk management function that will be further investigated later) and finally the reporting activity, which consists in the transmission of reports by the management control body to the centres of responsibility and to top management (or to the superiors of the persons in charge of the centres of responsibility).

Undoubtedly, the ability to correctly interpret the external scenario and to plan and translate into action one's own corporate strategies, is able to strongly influence the possibilities for the development of the corporate identity and the creation of value for shareholders, customers and territory. For this reason, strategic planning and control systems will increasingly be a decisive success factor and an important indicator to verify the overall quality and stability over time of a banking company.

2.5 Performance measurement

Corporate performance measurement systems were introduced in Italian banks in the 70s and 80s and supported their development towards the most competitive scenarios that the market was beginning to present, that is a context oriented towards income targets. One of the main aspects concerning this issue is the way to identify the centres of responsibility and the content of the economic responsibilities assigned to them: revenue, cost, expense, profit and investment centres. Obviously the content and level of responsibilities must be in line with the nature of the activities carried out and consistent with the choices of the organisational structure.

The current organizational models followed by the major banking groups are characterized by division into coordinated units through the assignment of

objectives and verification of their achievement. A possible articulation is the following:

- Units that are dedicated to market relations, specialised according to market segments or territories (e.g. in the case of several banks that merge into a group while maintaining their brands);

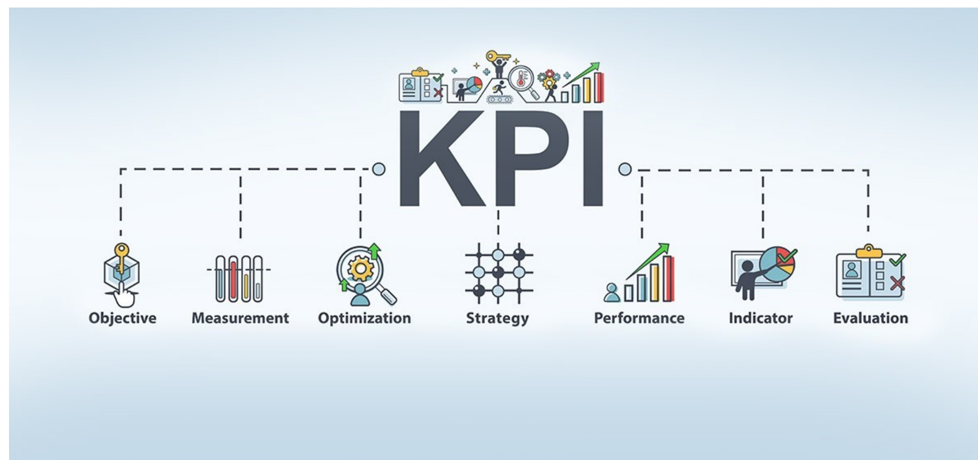
- Specialized units for product lines (factoring, leasing, investment banking, etc.);

- Specialised units for service activities or process phases (debt collection, property management, information systems, consultancy, etc.).

The structure described combines the advantages of organisational differentiation, which allows the focus on business with those of integration and centralisation, which allow the exploitation of group synergies. This structure places the objective of creating value for the shareholder at the centre of the bank's management. The performance of the various divisions is more easily assessed, allowing the group's top management to manoeuvre the business portfolio strategies and allocate resources based on the results produced and future prospects. It is imperative to have adequate performance evaluation and cost allocation systems (especially indirect costs) in place, also taking into account an increasingly complex market system.

There is also a widening of the performance measures used, to include non-monetary variables that are the basis for the production of sustainable results over time. These variables, described using the term KPI (Key Performance Indicators), include: intangible capital growth, quality of customer relationships and customer satisfaction level, staff capacity and motivation, link with the territory, relations with suppliers, degree of implementation of the strategy, ability to build the future.

Figure 2.3 – Key Performance Indicators



Source: http://visibilita.net

In general Key performance Indicators, in banking operations, can be defined as quantitative values used to determine how efficiently and effectively specific banking operational goals and objectives are achieved by the bank over a certain

period of time. They are the vital navigation instruments used by managers to understand whether their business is on the right track or not. Firstly the manager has to define the strategy, and then closely link its KPI to that.

Table 2.3 - Economic and financial outlook

Variables	**Measures**
Value created	EVA
Profitability	Gross branch profit; margin of contribution
Risk	Incidence of non-performing loans; weighted average rating of loans; degree of concentration of loans
Coverage of the bank's fixed costs	Contribution Margin
Liquidity	Cash flow; ratio of investments/deposits

(Pistoni A., Corporate Performance Management, Hoepli, Milan, 2009, pp.212)

Table 2.4 - Customer's perspective

Variables	**Measures**
Loyalty	Loyalty rate; average duration of relationships; repetitiveness rate of purchases
Coverage of needs	Average number of products per customer; average number of banks per customer; number of unsatisfied product requests
Use as promotional channel	Number of references
Satisfaction	Satisfaction index; number of customers lost; number of complaints
Capacity of growth	Number of new customers
Intensity of personal contact	Number of customer visits; number of customer visits to branches; ratio between use of branches and use of automated channels

(Pistoni A., Corporate Performance Management, Hoepli, Milan, 2009, pp.212)

Table 2.5 - Perspective of rooting in the territory

Variables	Measures
Support to the local economy	% of loans disbursed (number and amounts) to local firms
Employment support	% of residents employed by the bank
Citizenship	Degree of participation in the organizations present in the territory with social, sporting and charitable purposes. Amount of financial support to local social welfare initiatives (donations, sponsorships)

(Pistoni A., Corporate Performance Management, Hoepli, Milan, 2009, pp.212)

The development of indicators such as this one within the banking system can be explained by the fact that the bank has among its main peculiarities, that of being a relationship business. This leads credit companies to assume a leadership role in the construction of instruments that could then also find space in non-financial sectors.

In particular, the relationship with the client is long-lasting, as the services provided by the bank are necessary throughout the life of the individual, alternating or succeeding each other according to typical patterns of

manifestation: <<think of the life cycle model, in which a first phase of debt for the constitution of the household is followed by that of loan repayment and gradual accumulation of savings in the middle ages and finally that of disinvestment of wealth in old age>> (Pistoni, 2009). In addition, this relationship that develops between the bank and the customer is largely based on trust, which in turn is nurtured by the bank's reputation, the quality of past purchasing experiences, the customer's level of customer satisfaction and finally the personal relationships maintained with the bank's employees.

From a purely financial and income point of view, the relevant performance measurement metrics are established at the start of the planning process and some examples, which are not discussed here, are: dividend per share, credit cost, cost/income, CET1, total capital ratio, leverage, ROI, ROE, Net profit. Then there are revenue (all incoming cash flow; for banks, you might break down your total revenue by deposit interest, loan interest, service fees, and transaction fees), expenses (all costs incurred during bank operations; expenses are usually tracked separately in interest and noninterest), operating profit (money earned from core business operations, excluding deductions of interest and taxes). The last three bank KPIs listed above are the most important ones. Stakeholders (such as investors and board) will focus on these metrics more than any others.

3 PLANNING AND CONTROL PROCESSES AT BANCA DEI SIBILLINI

3.1 The Banca dei Sibillini in the Cooperative Credit scenario

The importance of Cooperative Credit Banks (BCCs) can be seen from a very topical issue, namely the problems linked to the concentration of the banking industry. In fact, since the years following the financial crisis of 2007-2008, "the banking industry has undergone the incessant production of Community legislation based on a number of principles aimed at reaffirming two primary requirements: no longer having to resort to the taxpayer to resolve banking crises in the future, and ensuring the best possible conditions for the stability of the European financial and banking system in the future. These are, of course, acceptable requirements, but their practical application is not always free of inconsistencies" (Bilancio 2018 Banca dei Sibillini). There is also strong pressure from regulators towards the concentration of the banking industry, which, however, in addition to compressing competition, risks not only benefiting households and businesses. Without considering another risk, which is that the Supervisors' ability to control large, highly diversified and internationalised equity groups may be even less. Paradoxically, therefore, the instrument adopted to favour stability risks creating conditions of non-sustainability of entire sectors of the banking industry with negative effects on the financing capacity of the real

economy and, above all, of small and medium enterprises, the heart of the Italian economy. “It should therefore be reiterated that banking biodiversity is at the service of stability, as independent analyses show, making the market more competitive and more certain access to credit for smaller companies, which make up more than 95% of European businesses. Pluralism within the banking and financial market is therefore a public and economic interest, not just a political one” (Bilancio 2018 Banca dei Sibillini).

Capillary spread in our country for over 135 years, the BCCs have undergone great changes in the last period. In fact, in 2016 the Credito Cooperativo was subject to a profound organizational reform, defined by Law 49/2016.

The reform is essentially based on the establishment of Cooperative Banking Groups (a completely new figure in the Italian and European banking scene) to which BCCs are obliged to adhere, while maintaining the distinctive features of local cooperative banks (defined territorial operation, capitular voting principle, obligation to allocate at least 70% of annual net profits to reserves, cooperative governance, etc.).

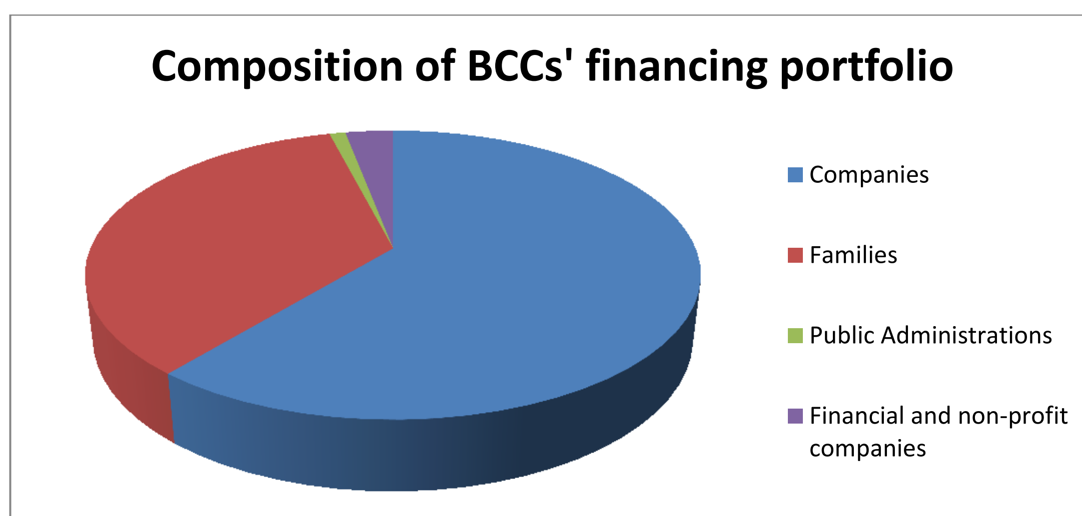
After a long and complex process, 2019 was the year of the operational start-up of two cooperative banking groups of national importance: the one headed by Iccrea Banca (based in Rome) and the one headed by Cassa Centrale Banca (based in Trento).

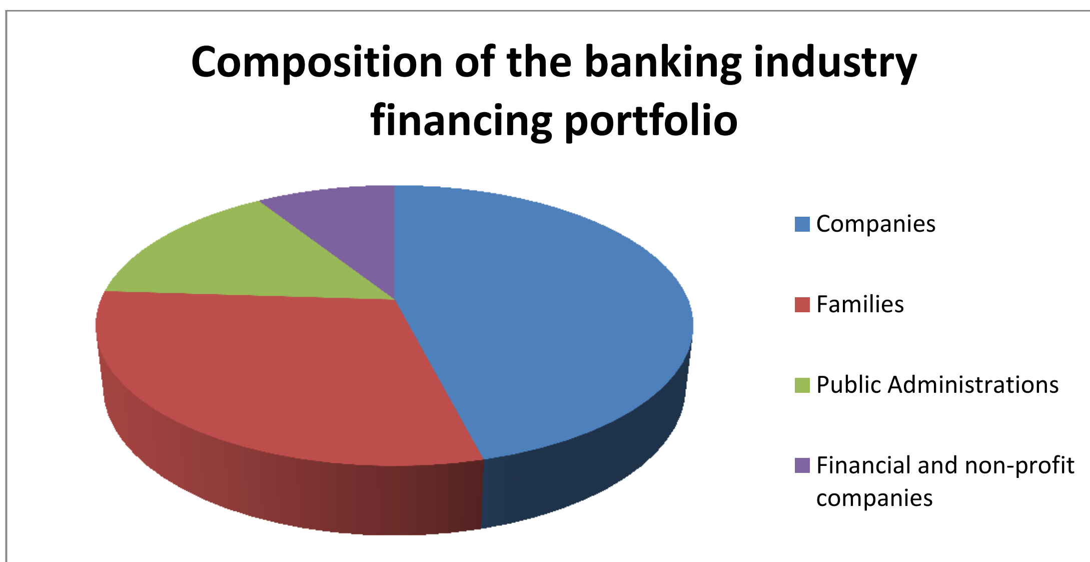
The role of the group leaders of the new Cooperative Banking Groups (whose capital is held for at least 60% by the BCCs themselves) is that of "management and coordination" of the member BCCs, as well as the definition of forms of "cross guarantee" in order to prevent and manage critical situations, in accordance with European banking regulations.

It should be pointed out that the territorial character and mutualistic aims of the individual BCCs have remained unchanged and indeed, in their respective geographical areas of competence, their position has been strengthened following their membership of the relevant Cooperative Banking Groups.

The mutualistic objective mentioned above can be translated into numbers in the following figure, which explains in more detail the sectors supported by the different types of banks.

Figure 3.1 – Who gets the BCC funding?





Sources: www.sibillini.bcc.it e Bilancio 2018 Banca dei Sibillini

As can be seen from the different composition of the financing portfolio of BCCs compared to that of the banking industry in general, the focus of Cooperative Credit falls mainly on businesses and families (61% and 35% respectively, against 46% and 30% of the banking industry). On the other hand, the banking industry provides greater support to Public Administrations and financial companies.

3.1.1 Possible inconsistencies and critical issues

There is a great inconsistency in European banking regulations: the axiom that banks which, like the BCCs and Rural Banks in Cooperative Banking Groups, belong to a "significant" group, i.e. subject, by aggregate size, to the European Central Bank's Supervision, become so themselves. With all the resulting

regulatory and organizational burdens, such as the tightening of capital requirements without any distinction on the organizational models and objective functions of community banks. An interpretation that does not take into account the fact that the creation of Banking Groups to which the individual BCCs and Rural Banks, owners of the respective Parent Banks, belong, in any case, maintains the distinctive characteristics of local, cooperative and mutual banks intact.

The consequence of all this is that undifferentiated rules apply both to the large banking giant with a monstrous size and often with cross-border activities (with the aim of maximizing the profit for the bearers of capital) and to the small cooperative bank that operates, perhaps, in a disadvantaged area of the country and aims to create an advantage for its members and the territory it represents. All this is not neutral: it has repercussions on the correct market balance, as well as on the economic accounts of smaller institutions which, scientific evidence in hand, have instead contributed quite a bit to deal with the violent impact of the crisis and avoid dramatic credit crunches on families and businesses. But above all, all this is reflected in their ability to continue to play an appreciated and recognised counter-cyclical role and to support the real economy.

To make it clearer, the term "significant" should be clarified, relating to the valuation of a banking institution in terms of size (at least 30 billion assets and

significant market shares within a single country) which, in the event of default, could have a direct and significant impact on the financial system.

Both these dimensional parameters and the long-term objectives obviously do not concern the individual BCCs, which now also have forms of cross-guarantee between the banks belonging to the Cooperative Banking Groups.

Perplexities and criticisms were also raised by the Governor of the Bank of Italy Ignazio Visco at the 26th Assiom Forex Congress: "The reform of cooperative credit was designed to achieve the efficiency gains and economies of scale necessary to address the challenges associated with the transformation of the banking market, while preserving the mutualistic spirit of BCC. With the establishment of the two new cooperative banking groups, today 54 groups operate in Italy. The two groups, which this year will be subject to a comprehensive assessment by the European Central Bank, must proceed promptly with the reduction of expenses and the rationalisation of the distribution network, tackling decisively the cases of individual BCCs in difficulty. The financial conditions of the cooperative groups, their business model, organisational structure and governance must be such as to ensure their long-term sustainability. The Single Supervisory Mechanism is aware that cooperative banks cannot be required to achieve the same profitability targets as other intermediaries; nevertheless, the latter must be sufficient to maintain adequate levels of capital, which are indispensable to continue to finance the economy

effectively"(www.bancaditalia.it, Intervento del Governatore della Banca d'Italia Ignazio Visco, Brescia, 8 febbraio 2020, pp.6) .

In conclusion, a rapid and far-reaching change in the existing regulatory framework is desirable, as the strictness of prudential requirements and some procedures designed for banks of very different sizes and complexity are creating extraordinary difficulties for BCCs. In this context, with decreasing profitability, more and more capital is required and BCCs are implicitly forced to reduce their economic commitments to households and small/medium enterprises or to consider massive mergers.

3.1.2 Gruppo Bancario Cooperativo Iccrea: overview and key facts

"Gruppo Bancario Cooperativo Iccrea is the third national banking group by branches and the fourth by assets"(www.ilsole24ore.com, La riqualificazione energetica conviene: al via il prestito chirografario del Gruppo bancario Cooperativo Iccrea). Its history began in 1963, when Iccrea Banca was founded with the aim of growing the activities of the CRA/BCC (Casse Rurali e Artigiane (Rural and Artisan Banks), now called Banche di Credito Cooperativo (BCC)), facilitating and coordinating their action through the performance of credit functions, banking intermediation and financial assistance.

The milestones in recent history are the following ones:

- on 16 September 2016, when Iccrea Holding, the Parent Company of the Gruppo Bancario Iccrea, and Iccrea Banca, the Istituto Centrale del Credito Cooperativo, formalized the reverse merger between the two companies. Iccrea Banca incorporates Iccrea Holding. The merger puts Iccrea Banca at the top of the Gruppo Bancario Iccrea and allows the Group to have a parent company with a banking licence, in line with the requirements of the European Central Bank;
- on 4 March 2019, when Gruppo Bancario Cooperativo Iccrea was founded. The Group was established by Law no. 49 of 2016 (and subsequent amendments), which reformed the Cooperative Credit System and provided for the obligation for Cooperative Credit Banks to join a Parent Bank formally authorised by the Supervisory Bodies.

Today Gruppo Bancario Cooperativo Iccrea is the largest cooperative banking group in Italy. It is headquartered in Rome and brings together 136 Cooperative Credit Banks and Rural Banks, scattered throughout 1.759 Italian municipalities, strongly characterized by a real attachment to the territory and small size. It has 750 thousand members, 2.600 branches and 4 million customers (Fonte: www.gruppoiccrea.it). It has the form of a joint-stock company, as required by law for the parent banks of cooperative banking groups.

Gruppo Bancario Cooperativo Iccrea is therefore unique on the Italian scene because it combines the ability of local banks to forge strong links with their respective territories and the experience of a large Group capable of identifying strategies and business solutions in line with market trends.

The Group's central objective is to offer BCC products, services and business strategies to support the real economy, households and small and medium-sized enterprises. All this exploits the strengths of Credito Cooperativo: the enhancement of the peculiarities of the individual territories, the protection of financial and asset solidity and the defence of sustainable and healthy growth over time.

As recalled by the company mission, it is the parent company that offers strategic and operational support to the individual BCCs through the creation of products and services in line with the reference market and customer needs.

3.1.3 Banca dei Sibillini and the effects of joining Gruppo Bancario Cooperativo Iccrea

Although it took on this name only in 2005, the "Banca dei Sibillini - Credito Cooperativo di Casavecchia S.C." has a long history behind it which began on 26 June 1921.

"The bank operates in the Marche region in a territorial area that extends over 33 municipalities in the province of Macerata through 7 branches located in Pieve Torina, Camerino, Caldarola, Castelraimondo, San Severino Marche, Tolentino and Macerata. It has 1.396 members and 27 employees"(www.sibillini.bcc.it).

The strength of the bank is the fact that it is characterized by a specific entrepreneurial formula consisting of three key factors: cooperation, mutuality, localism. In fact, the Banca dei Sibillini, like the other BCCs, is a bank that plays an essential role in supporting the real economy as a bank of the territory, and which is an expression, through its members, of the communities of reference. "The savings of customers, in fact, are employed in the territory and the dispersions in remote areas are kept to a minimum, just think that 95% of the loans are disbursed in the area where the BCC operates" (Bilancio 2018 Banca dei Sibillini).

Banca dei Sibillini - Credito Cooperativo di Casavecchia S.C. has joined the Gruppo Bancario Cooperativo Iccrea, which exercises the direction and coordination.

The Parent Company's management and coordination powers are aimed at ensuring strategic direction and control system units, as well as compliance with the prudential provisions applicable to the group and its components. Moreover, under the cohesion agreement, the Parent Company performs all the functions assigned to the parent company of a banking group by the supervisory regulations

on Risk Appetite Framework, internal controls and outsourcing of functions in banking groups. Furthermore, in order to ensure the unity of strategic control and the managerial balance of the individual subsidiary banks, the Parent Bank is required to define the strategies, policies and principles for assessing and measuring risk for the group and to ensure the consistency of the internal control system of the subsidiary banks with the strategies, policies and principles established at group level.

The cohesion contract governs:

- the interventions and measures available to the Parent Bank with the aim of preventing and correcting anomalous situations of the affiliated banks, including the powers to affect the capital and liquidity situation, risk reduction, the disposal of equity investments and real estate, dividend distribution policies, and the restriction of activities and geographical distribution;
- compliance with prudential requirements: exclusive responsibility of the Parent Bank for the definition and adoption of risk measurement methodologies;
- the role of the Parent Bank in the strategic decisions of affiliated banks: the Parent Bank has the power to approve in advance transactions such as mergers, demergers, transfers or acquisitions of assets and legal

relationships, the purchase of equity investments and real estate, and the opening of branches in Italy and abroad.

The cohesion contract also provides for the joint and several guarantee of the obligations assumed by the Parent Bank and the other member banks, in compliance with the prudential rules of the banking groups and individual member banks. The Parent Bank also carries out the financial support measures necessary to ensure the solvency and liquidity of the individual member banks (Intergroup Support Measures).

In order to ensure the overall consistency of the Group's internal control system, the Parent Company defines the structure and organisational reporting, tasks and responsibilities, information flows of the Corporate Control Functions and the related coordination methods. It develops procedures that guarantee, at a centralised level and on all Group components, an effective unitary process of identification, measurement, evaluation, management and control of the risks assumed by the Group.

Banca dei Sibillini, following its membership of the Iccrea Cooperative Banking Group, will complete the centralization at the Parent Bank of the governance and responsibility of the Corporate Control Functions. The responsibilities of the Parent Bank include the definition of strategies, processes and control methodologies, tools, mechanisms and standards for planning and reporting

activities, as well as the execution of controls. The responsibilities of the Banca dei Sibillini, on the other hand, fall to the observance of policies and compliance with methodological guidelines, planning and reporting standards.

3.2 Strategic planning at Banca dei Sibillini

3.2.1. Regulations and regulatory constraints

The Strategic Planning Process illustrated herein takes into account the regulations and provisions provided by the Bank of Italy and Consob. In addition, the activities of the Strategic Planning Process reflect the decisions taken with regard to risk appetite, which are formalized in the Risk Appetite Statement (RAS). Finally, the planning is carried out in accordance with the decisions made regarding the risk measurement methods defined within the risk management process and the capital adequacy assessment process (ICAAP).

In addition to these constraints, which apply to all intermediaries, the BCC must refer to the regulatory framework and the provisions of its articles of association.

As regards the regulatory aspects, which characterize the Cooperative Credit System, we rely on BCC's “Strategic Planning Process Scheme” document. The issues mentioned here are:

- principle of prevalence: 50% of the risk assets are intended for shareholders and/or risk-free activities;

- allocation of profits: a share of not less than 70% of the annual net profits must be allocated to the legal reserve and a share to mutual funds for the promotion and development of cooperation, to the extent and in the manner prescribed by law;
- territoriality: BCCs must direct their services/products to members/customers who carry out their business on an ongoing basis in the BCC's area of responsibility, to persons residing there or having their registered office there. In addition, 95% of BCC's risk activities must be concentrated in the area of territorial jurisdiction;
- the company structure: there must be at least 200 members. Each member has the right to one vote and cannot own more than 50 thousand euros.

On the other hand, as far as compliance with the statutory rules is concerned, it is essential to remember that the BCC is inspired by the principle of mutuality and without private speculation. The aim is to favour members and the local community in banking operations and services, with the aim of improving their economic condition and thus supporting the development of the territory.

3.2.2 An overview of the strategic planning process

The director of the San Severino Marche branch of Banca dei Sibillini and the Risk Manager of Banca dei Sibillini were interviewed to draft the following

chapters. In particular, a lasting exchange of information was held with the Risk Manager, both via email and telephone. The great willingness shown made it possible to quickly receive clarifications and explanations whenever the need arose. In this way, it was easy to proceed with the drafting and clearly address the issues to be discussed in depth. As a rule, the interviews lasted between 30 and 60 minutes, with email exchanges for quicker clarifications. Initially the questions were more general in order to understand the procedures, then more specific in order to go into detail on topics discussed in the documents.

Basically its role is to carry out controls and provide guidance on risks to the Banca dei Sibillini respecting the regulations imposed by law and the internal regulations of the Iccrea Cooperative Banking Group. He deals with a person appointed in the RAF and defined as a Manager Centre (risk manager), within the Bank, to whom he can also indicate in case of overruns how to fall within the established parameters. Being the Bank of the Sibillini small size, to shorten the time, it may happen that there are these exchanges of information directly with the director of the individual branch. Also because many risks are in the hands of the branch manager himself. The Risk Manager, moreover, reports to the Board of Directors of the Banca dei Sibillini information regarding the Bank, normally every quarter end.

The materials consulted were the Bank's Financial Statements (2018), the websites of the Banca dei Sibillini and Iccrea, as well as the schemes of the

Strategic Planning and Planning and Control processes. The Risk Appetite Framework and the Icaap regulation were also taken into account to integrate the research.

The strategic planning process aims to provide a tool for the identification and implementation of the corporate strategy. It consists of a logical and structured path that allows corporate bodies to identify the areas on which to make decisions, evaluate alternative scenarios and options, anticipate any problems, allocate resources correctly, and ensure the appropriate commitment of functions to the objectives identified.

This process consists of the following steps:

1. strategic analysis;
2. definition of strategic objectives and development strategies/implementation policies;
3. capital allocation;
4. review, approval and communication of the strategic plan;
5. monitoring the strategic plan.

The Strategic Planning and Management Control Function, supported by the competent organisational units from time to time, proposes to the General Management, which defines them, the analysis dimensions and prepares the techno-accounting tools and indicators functional to the correct execution of these

phases and to support the decision-making process, ensuring their continuous maintenance.

The Strategic Planning and Management Control Function:

- periodically assesses the adequacy of the model and the planning and control tools used;
- checks the completeness, updating and correctness of the data acquired;
- verifies that the related reports produced are adequate in terms of completeness, correctness, timeliness and comprehensibility.

Following these assessments, it shall inform the General Management of the possible need to define specific interventions to review the aspects in question.

The strategic planning process must allow the plan to be approved by the Board of Directors by and no later than the established month (between January and April) of the first year of the period to which the plan refers (strategic plan usually four years), except in exceptional cases duly justified by a specific postponement resolution.

The following paragraphs describe in detail the activities in which the process is articulated.

3.2.2.1 Strategic analysis

The Bank's strategic positioning is analysed in order to define its business strategy. This analysis essentially consists of identifying the Bank's own strengths and weaknesses and highlighting the opportunities and threats arising from the external environment.

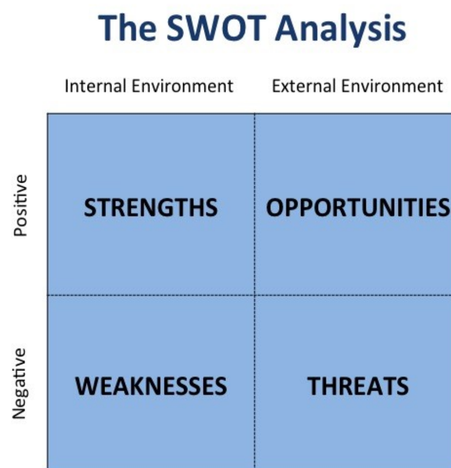
Specifically, the analysis of the internal context is aimed at assessing the Bank's situation, in connection with the performance and results achieved, the human and technological resources at its disposal, the achievement of managerial balance and the organizational structure. The Bank's economic and financial equilibrium and the level of achievement of its objectives are also taken into account. Performance indicators, risk exposure and capital absorption generated by operations are also analysed and attention should be paid to any assessments made by the Board of Statutory Auditors, Supervisory Bodies.

On the other hand, the analysis of the external context consists in deepening the aspects related to the regulatory, territorial (socio-cultural, political, demographic and economic) and commercial context (local market potential, market share held).

Here is a practical example of analysis for BCC's commercial positioning: it analyses the market share held in the municipalities where the branches are located by assessing the percentage of its branches in the total number of branches present, and the shares of loans and deposits.

Finally, all the elements under study are summarized in the SWOT analysis scheme, subject already discussed in section 1.2 (“The strategic planning phase”). Once the current position of the organisation has been assessed, a strategy can be defined.

Figure 3.2 – The SWOT Analysis



Source: own elaboration

3.2.2.2. Definition of strategic objectives and implementation policies

Once the SWOT analysis has been completed, the results are submitted to the Management for their opinion in order to facilitate the identification of strategic objectives and therefore the formulation of the strategic plan. At the same time, the Strategic Planning and Management Control Function with the help of the Risk Management Function sheds light on any critical areas, areas for

improvement and intervention on the main risk profiles and possible margins for expansion of operations. Subsequently, the Board of Directors, with the support of the General Management, on the basis also of the information emerging from the SWOT analysis and proposals relating to risk propensity and the desired risk/return profile, will proceed with the preliminary identification/updating of the strategic objectives and the related general development and implementation policies. The latter concerns:

- financial policies, covering economic and financial objectives consistent with the strategic guidelines set;
- commercial policies, concerning the criteria and methods (offer of products and choice of distribution channels) with which the Bank intends to address its customers to implement the strategic objectives defined;
- organisational policies, concerning the resources and operational tools needed to achieve the defined objectives;
- risk and capital development policies. They refer to the strategies adopted to manage risk and optimise the risk/return ratio and are reflected in the Risk Appetite Statement (RAS).

The prudential supervisory provisions for banks on the system of internal controls introduce the obligation to define a process (responsibilities, procedures, conditions) for approving investments in new products, the distribution of new

products or services, the start of new activities or entry into new markets. This process must ensure that the risks arising from new operations are fully assessed and that these risks are manageable; define the customer segments to which new products or services are to be distributed in relation to their complexity; estimate the impact of the new operations in terms of costs and revenues, human, organisational and IT resources; identify any changes to be made to the internal control system.

3.2.2.3. Development and evaluation of strategic initiatives

The Strategic Planning and Management Control Function formulates the hypotheses of strategic initiatives and in order to assess the feasibility of strategic initiatives in terms of resources, structures, timing, information systems, the same Function prepares a Business Case (consisting of at least one scenario) and proceeds to process the economic/financial/asset data relating to the planned operations, based on the analysis of the following aspects:

- the evolutionary scenario and the Bank's strategic guidelines;
- the proposal of risk propensity and the indications received by the Risk Management Function;

- the Bank's mission and the statutory and regulatory peculiarities that characterize the Cooperative Credit system;

- business in terms of competitors, competitive positioning of the Bank, demand analysis;

- human resources, in terms of personnel costs, professional development, training costs, organisational evolution.

The Business Case can also be developed by the Bank for specific strategic initiatives to be implemented in the plan. The relevance and incisiveness of these strategic initiatives are carefully assessed through the Master Plan, which may be further detailed in the Intervention Cards. The Master Plan is a document, in tabular form, with the objective of formally declining the strategic objectives defined during the planning process into operational interventions. This document is specific for each strategic objective and includes:

- the actions necessary to achieve the strategic objective set;

- the organisational units responsible for the interventions (owners) and the resources involved;

- the main input data for the Implementation Plans (Financial, Commercial and Investment Plan) deriving from each intervention;

- the timing of implementation of the interventions;
- the constraints, investments and benefits associated with each intervention;
- the performance indicators (so-called "key performance indicators" - KPIs) to be monitored periodically, in order to assess the achievement/distance from the expected value and therefore from the set objective.

Table 3.1 provides an example of the content of the Master Plan

Table 3.1 – The content of the Master Plan

Macro-Objective: I. ……………………………………….		
Target:	**Responsible:**	**Priority level:**
………………………… .	Area ……………………….	

Interventions	**Constraints**	**Responsible organisational unit**	**Resources and other investments**	**Duration**	**Period**
ID. 1 Indication of the interventions necessary to achieve the objective	Description of any constraints linked to the individual intervention	Indication of the organisational unit responsible for the implementation of the identified intervention	Indication of the number of resources needed to carry out the operation and, where appropriate, a description of the investments required	Indication of the time needed to carry out the intervention	Indication of the period within which the intervention is to be carried out

ID. 2					
ID. 3					

Indicator (KPI)	**Description**	**Planned value**	**Final value**	**Deviation**	**New Planned Value**
ID.1 Performance indicator to be monitored	Brief description of the indicator	Indication of the estimated value, depending on the strategies implemented	Final result (output realized)	Variation between expected value and actual value and brief description of the causes of any deviation	Indication of the new target value, depending on the new strategies to be implemented
ID.2...					

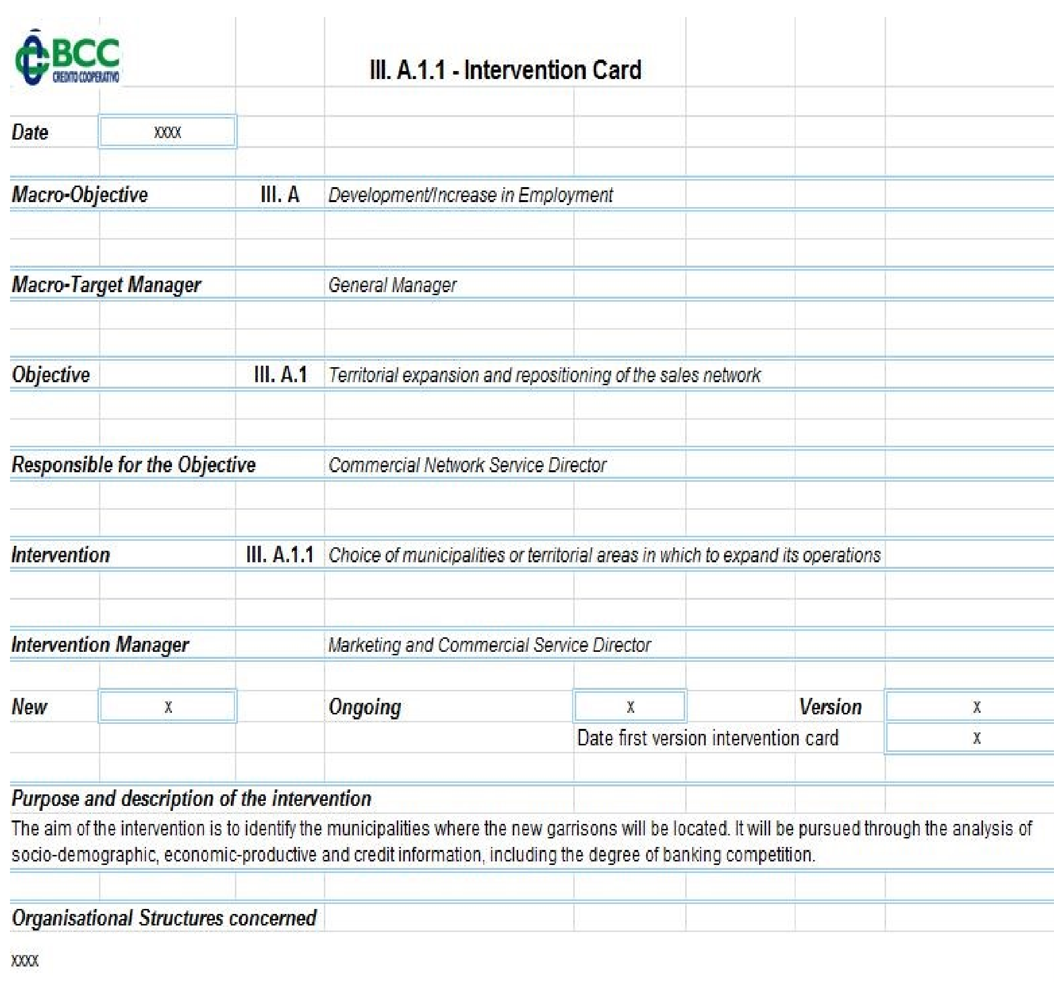
Source - BCC's "Strategic Planning Process Scheme" document

The Intervention Cards represent a tool to support the operational planning of the interventions to be carried out in order to achieve the strategic objectives set. They report, with a greater degree of detail than the Master Plan, the activities, if any,

attributed to the individual Result Areas, also providing an estimate of the costs and the profile of the resources estimated necessary.

Table 3.2 provides an example of the content of the Intervention Card

Table 3.2 – The content of the Intervention Card



BCC CREDITO COOPERATIVO		III. A.1.1 - Intervention Card			
Date	XXXX				
Macro-Objective	III. A	*Development/Increase in Employment*			
Macro-Target Manager		*General Manager*			
Objective	III. A.1	*Territorial expansion and repositioning of the sales network*			
Responsible for the Objective		*Commercial Network Service Director*			
Intervention	III. A.1.1	*Choice of municipalities or territorial areas in which to expand its operations*			
Intervention Manager		*Marketing and Commercial Service Director*			
New	X	*Ongoing*	X	*Version*	X
			Date first version intervention card		X

Purpose and description of the intervention

The aim of the intervention is to identify the municipalities where the new garrisons will be located. It will be pursued through the analysis of socio-demographic, economic-productive and credit information, including the degree of banking competition.

Organisational Structures concerned

XXXX

Resources involved in the intervention (Working Group III. A.1.1)
1) Dr. Y. Marketing and Communication Service. Knowledge of statistical marketing and the local market. Employment on full time intervention.
2) Dr. X. Commercial Network Service. Knowledge of the local market. Use on part time intervention.

Duration	1 month	***Period of implementation of the interventic***	January xxxx

Phases of the intervention and implementation time

	January xxxx			
	I week	II week	III week	IV week
Phase 1 Data collection				
Phase 2 Information analysis				
Phase 3 Selection of municipalities/are				
Phase 4 Presentation of results				

Other information

Dr. X, a member of the Commercial Network Service, during her intervention will first be assisted and then replaced by her colleague Dr. Y, who will carry out all the remaining activities for the complete implementation of the intervention.

Source - BCC's "Strategic Planning Process Scheme" document

The balance sheet and income statement are then developed for the period before they are finally drawn up.

Finally, before the interventions defined in the Business Case are shared, an assessment is made of the economic, financial and equity impacts of the company's choices when specific reference parameters change through stress tests.

The bank stress test is an analysis conducted in hypothetical adverse economic scenarios (such as a recession or financial crisis) to determine whether a bank has sufficient capital to withstand the impact of adverse economic developments. Specifically, in order to assess the possible consequences on the achievement of the objectives of this Plan if extreme but plausible events occur, the Bank carries out a stress test by means of sensitivity analysis, based on the following assumptions: deterioration in credit quality in the first year of the plan compared to what was planned, greater exposure to Interest Rate Risk following hypotheses of increased rate shock, actual (potential) losses on Proprietary Securities, failure of the planned Shareholders' Campaign, weakening of the Proprietary Funds (made up of the sum of positive and negative components, based on their capital quality; greater capital quality corresponds to greater risk management capacity) following the previous hypotheses.

3.2.2.4 Capital allocation

The Strategic Planning and Management Control Function evaluates, together with the Risk Management Function, information and data relating to the sizing of balance sheet and income statement variables. The Risk Management Function, in accordance with the Internal Capital Adequacy Assessment Process (ICAAP) and the Risk Appetite Framework (RAF), verifies consistency with the strategic

guidelines on risks. If there is a lack of consistency, the evolution of the balance sheet and profit and loss figures must be reviewed in order to make them more consistent with the risk strategies and the desired risk/return profile.

In this context, further capital measures are assessed, if necessary, such as, for example, the possibility of increasing the total prospective capital and/or affecting the related composition ratios. If it is possible to increase the total prospective capital, the sources of raising capital are selected, distinguishing between ordinary and extraordinary sources. Among the ordinary sources we have:

- expansion of the social base through the entry of new members and the subscription of new shares;
- capital increase through the subscription of new shares by the current company base;
- self-financing.

While extraordinary sources stand out:

- extraordinary campaigns aimed at increasing the social base;
- issuance of subordinated loans or other hybrid instruments;
- recourse to forms of preventive intervention and support by the Associative Bodies and the Institutional protection systems of Cooperative Credit (they may consist in loans, onerous or free of charge, provision of

guarantees, onerous or free of charge, in favour of the Bank or third parties, with or without right of recourse, etc.).

After identifying the sources for raising capital, the Board of Directors will assess the proposal for corrective measures and decide on the increase in the Bank's total capital.

In the event that it is not possible or deemed inappropriate to increase the total expected capital or to make any changes to the related composition ratios, the strategic objectives shall be redefined in order to reduce the total internal capital.

In assessing the adequacy of capitalisation levels and the related capital composition ratios, safety margins are analysed, i.e. the amount of capital ("Buffer") that the Bank decides not to allocate under any circumstances, in view of the risk aversion of the Board of Directors and/or the possibility of covering alternative or stress scenarios.

Finally, the Strategic Planning and Management Control Function defines a Capital Allocation proposal to the Board of Directors. The Capital Allocation allocates fictitious capital that guarantees coverage of the specific risks generated by the operations consistently with the desired risk-return profile. When allocating capital, expected cash flows must be taken into account in order to ensure sound, balanced and prudent management of liquidity.

3.2.2.5 Review approval and communication of the Strategic Plan

Following the allocation of capital approved by the Board of Directors, the Strategic Planning and Management Control Function re-processes the prospective balance sheet/economic/financial/risk data and carries out the activities preliminary to the measurement of forecast indicators, including those adjusted for risk. These processes are also carried out with reference to at least one additional stress hypothesis, with the aim of verifying the sustainability of the objectives and planned initiatives in consideration of differentiated assumptions and identifying the corrective actions to be taken in such hypothesis.

A comparison is made between forecast indicators and targets from which the following cases may occur:

- consistency of results based on forecast indicators with strategic objectives. On this occasion, the Board of Directors examines and approves the Strategic Plan, which formalizes the strategic objectives, the general development and implementation policies, the desired risk/return profile and the Capital Allocation;

- inconsistency of results based on forecast indicators with strategic objectives. In this circumstance, an analysis of the deviations should be carried out in order to find the causes of the divergences and the possible corrective actions to be taken.

Table 3.3 provides a representation of the elements of the previous plan and of the Balance sheet which are taken into account for the calculation of deviations.

Table 3.3 – Analysis of the deviations

Total Institute	**Dec.xx Previous plan**			**Dec.xx Balance sheet**			**Deviation**	
							Var. %	
amounts in Millions of Euro, pr.year	SML	Cost / Revenue	Rate	SML	Cost / Revenue	Rate	SML Annual	Rate - Cost / Revenue
Current accounts collected and Dr free			0,00%			0,00%	0,0%	0,00%
Dr tied, CD, PcT, Abroad			0,00%			0,00%	0,0%	0,00%
Own bonds			0,00%			0,00%	0,0%	0,00%
Collection from Customers	-	0,0	0,00%	-	0,0	0,00%	0,0%	0,00%
Treasury Collection			0,00%			0,00%	0,0%	0,00%
Total Direct Funding	**-**	**0,0**	**0,00%**	**-**	**0,0**	**0,00%**	**0,0%**	**0,00%**
Total Indirect Inflows (Balance)							0,0%	
CC att, Sbf, Discount, Foreign			0,00%			0,00%	0,0%	0,00%
Mortgages			0,00%			0,00%	0,0%	0,00%
Mortgage arrears and Default CC			0,00%			0,00%	0,0%	0,00%
Use of fruit for customers	-	0,0	0,00%	-	0,0	0,00%	0,0%	0,00%
Sufferings			0,00%			0,00%	0,0%	0,00%
Use to Customers	-	0,0	0,00%	-	0,0	0,00%	0,0%	0,00%
Cash in hand			0,00%			0,00%	0,0%	0,00%
Treasury			0,00%			0,00%	0,0%	0,00%
Use in Securities			0,00%			0,00%	0,0%	0,00%
Total use	**-**	**0,0**	**0,00%**	**-**	**0,0**	**0,00%**	**0,0%**	**0,00%**
Uprights	**-**	**0,0**	**0,00%**	**-**	**0,0**	**0,00%**	**0,0%**	**0,00%**

C/c: CsF			0,00%
Revenues/Costs on financial assets			0,00%
Net Commissions			0,00%
More voices Marg. Interm.			0,00%
Brokerage Margin	**0,0**	**0,0**	0,00%
Value adjustments/reversals	**0,0**	**0,0**	0,00%
Other Management Ventures/Others			0,00%
Personnel expenses			0,00%
High Operating Costs			0,00%
Operating Costs	**0,0**	**0,0**	0,00%
Useful/perd. Straord. (Items 210-240 and 280)			0,00%
Taxes (Item 260)			0,00%
Profit/loss for the year (Items 290)	**0,0**	**0,0**	0,00%

ICAAP

Internal risk capital I Pillar			0,00%
Total Internal Capital			0,00%
Total Capital (Own Funds)			0,00%
Capital surplus	0,0	0,0	0,00%
Core Tier 1 Ratio			0,00%
Tier 1 Ratio			0,00%
Total Capital Ratio			0,00%

Source: BCC's "Strategic Planning Process Scheme" document

The Strategic Planning Process is, therefore, an iterative process that continues until the forecast performance indicators are consistent with the strategic objectives and related implementation plans defined by top management.

Once the final plan is approved by the Board of Directors, it is communicated to the organisational units concerned.

3.2.2.6 Monitoring, corrective action and review of the strategic plan

The Strategic Planning and Management Control Function with predefined frequency in the plan document (the quarterly/semi-annual/annual monitoring timeframes can be differentiated according to the type of objectives considered) monitors the strategic objectives defined in the plan. Here the Risk Management function comes to the aid of the The Strategic Planning and Management Control Function, which quantifies exposures to individual types of risk.

It also carries out, with a predefined frequency in the plan document, the monitoring of the external environment by analysing, for example, the evolution of the economic context and the socio-cultural needs/cultural changes in the area of competence, political/regulatory changes, demographic changes, technological evolution. At least once every six months/year the results of this analysis are submitted to the Board of Directors, which proceeds with the analysis and definition of the corrective measures necessary to allow the plan objectives to be achieved.

In cases where these analyses reveal significant deviations that make it difficult for the plan to implement the main strategic guidelines by the end of the plan period, there may be a review of individual strategic objectives or the Strategic Plan in its entirety. The Board of Directors proceeds to identify and update the strategic objectives, the general development policies and the related implementation policies, in accordance with the process logic set out above.

3.3 Operational planning and control process at Banca dei Sibillini

3.3.1 An overview of the operational planning and control process

As with the Strategic Planning Process illustrated above, the Planning and Control Process must also take into account the regulations and provisions provided by the Bank of Italy and Consob, already described in section 3.2.1 ("Regulations and regulatory constraints").

The operational planning and control process is the logical continuation of the strategic planning activity. On an annual basis, the indications contained in the Strategic Plan are translated into the company's operational plan through the formalisation of a detailed programme of activities aimed at achieving the company's objectives. This activity is carried out by the Board of Directors (with the support of General Management and only after assessments of the Risk Management and Strategic Planning and Management Control functions). Therefore, the operational plan:

- translates the objectives defined in strategic planning into short-term objectives;
- identifies the organisational units responsible and verifies the compatibility between objectives and available resources;

- identifies the actions necessary to implement the objectives set.

The results monitoring activity makes it possible to verify the level of achievement of the objectives, to analyse and interpret any deviations from them, to support decisions regarding the corrective measures to be implemented and any review of the same objectives.

The Operational planning activity covers the time span of one year and takes place, as mentioned above, on an annual basis, unless reprogramming is necessary in the light of the results of the monitoring activities.

The Operational planning and control process is divided into the following macro phases:

1. implementation of strategic guidelines and analysis;
2. formulation of hypotheses for sectoral plans and negotiation of objectives;
3. consolidation of budget proposals and capital allocation;
4. negotiation of objectives;
5. budget approval and communication;
6. monitoring and analysis of deviations;
7. corrective actions.

The Strategic Planning and Management Control Function, supported by the competent organisational units from time to time, proposes to the General

Management, which defines them, the analysis dimensions and prepares the accounting tools and indicators functional to the correct execution of these phases and to support the decision-making process, ensuring their continuous maintenance.

In this context, identify:

- the methodologies for the allocation of costs to the Result Areas (Responsibility Centres/Business Units), which are components of the company organisation for which a composition in terms of staff, other resources used (costs), relationships/products managed (revenues) and performance achieved is unequivocally and clearly definable; a responsibility on the part of a specific human resource in the current organisation chart; the concrete capacity of this person in charge to influence some costs, some revenues and some performance of the company. The Result Areas for the purposes of the Planning and Control Process are as follows: Structure/General Management, Branch 1, Branch 2, Branch 3, etc. Finance/Treasury Area;
- the structure and the way in which the internal transfer pricing system for funds operates and is valued (The Internal Transfer Rates System is a method of remunerating intermediated funds which makes it possible to attribute the financial margin profitability to the various units within the company and to the various products placed).

The Strategic Planning and Management Control Function:

- periodically assesses the adequacy of the model and the planning and control tools used;
- checks the completeness, updating and correctness of the data acquired;
- verifies that the related reports produced are adequate in terms of completeness, correctness, timeliness and comprehensibility.

It also deals with the possible need to define interventions to revisit the aspects in question.

The following paragraphs describe in detail the activities in which the Operational planning and control process is structured.

3.3.2.1 Implementation of the strategic guidelines and analysis

The Operational planning and monitoring process starts with the transposition of the strategic objectives and guidelines. The preparation of the annual plan requires, as a preliminary step, an in-depth analysis of the Strategic Plan and verification, for each market/objective, of the validity of the development hypotheses defined in that plan.

In particular, in order to examine the feasibility of the planned initiatives and the related development methods over the annual time horizon and in the individual

reference markets (customer segments, products, etc.), an analysis of the "external" context is periodically carried out (for example the macroeconomic scenario and the microenvironment in which the Bank operates: competitive situation of the relevant territory, main competitors, potential of the reference market, etc.) with the support of the Commercial/Marketing Area**,** for the analysis of commercial performance and an analysis of the "internal" context, with the support of the Risk Management Function. In this context, the Bank's economic, financial and capital equilibrium, risk adjusted performance indicators, risk exposure and capital absorption generated by operations are also assessed.

In addition to the elaboration of the Strategic Plan, the possible update of the desired positioning in terms of risk/return of the Bank is evaluated; this is also in consideration of the preliminary proposal of risk propensity formulated by the Risk Management Function and the relative indications regarding any critical areas, areas of improvement and intervention on the main risk profiles and possible margins for expansion of operations, aimed at the elaboration or updating of the Risk Appetite Statement (RAS).

If unexpected trends in the development of the strategic guidelines are detected, the strategies will have to be revised.

At the end of these analyses, an initial hypothesis of the Bank's overall annual plan is formulated, ensuring that the macro-objectives identified are formulated:

- depending on the Bank's proposed risk appetite and the indications received from the Risk Management Function;
- consistently with the target levels defined in the Strategic Plan (performance objectives, risk-return profile, prospective capital absorption, financial requirements, operating efficiency, etc.);
- according to the initiatives indicated for the reference year in the master plan document;
- depending on the results of the internal and external analysis (environment and market);
- according to the results of management control processes at Bank level and by area of results and in terms of risk/return and the evaluation of the deviations between the objectives set and the results achieved in the previous year.

3.3.2.2. Formulation of hypotheses for sectoral plans and negotiation of objectives

On the basis of the previous analyses, the "budget sheets" are prepared, assuming as starting data those recorded in previous years, useful for the formulation of the operational plan proposals. These forms are used to request the Management to

indicate the expected changes (in volumes, rates, operating costs, commissions, etc.) and the actions planned to achieve the set objectives.

The Management Committee provides the Strategic Planning and Management Control Function with proposals relating to the programmes to be implemented for the development of the operational objectives for the budget year and, once analysed, assesses the economic, financial, equity and risk impacts and the consistency of the operational objectives with the strategic objectives.

The sectoral plans shall consist of the following:

- commercial and marketing budget;
- investment/disinvestment and expenditure budget;
- financial budget.

The Commercial and Marketing Budget defines the operational guidelines to achieve the commercial objectives through the use of the Bank's human resources, technology and processes. The document contains the following contents

- marketing plans (customer segment, product/service, business area and sales hypothesis);
- quantification of the overall sales targets with the share of volumes achievable in the reference period;

- pricing policies (regarding financial instruments) consistent with the guidelines and defined at the level of strategic marketing and commercial campaigns (promotions, advertising campaigns, etc.);
- countertop.

The definition and articulation of commercial objectives on the customer, product/service and business area segments is carried out by assessing the compatibility of the instruments available or to be activated, with regard to the characteristics and needs of the current and potential customers to whom they are intended to be offered and with the policies for managing individual risks. The objectives relating to financial products are also defined.

The preparation of the investment budget starts with the implementation of organizational development policies and corporate human and technological resources. Development interventions are planned on an annual basis, taking into account the objectives to be achieved, the resources to be employed, the start and end dates of the activities and the costs to be incurred. The Investment Budget develops the following contents:

- resources involved in the defined interventions, estimate of the expenses to be incurred for their implementation, the time needed for implementation;
- training, organizational, technological and logistic development plans.

With reference to the estimated operating costs for the year covered by the budget there are:

- staff costs, which are estimated on the basis of remuneration policies, contractual and legislative obligations, training programmes, leaving incentives, etc;
- other administrative expenditure, which relates to expenditure necessary for the ordinary running of the Bank;
- investment cost, relating to planned investments in the technological, IT and telecommunications infrastructure and the restructuring/adaptation of the Bank's real estate units.

Finally, the Financial Budget, composed of the budget of the owned finance and the funding plan. It is prepared by the Strategic Planning and Management Control Function and analyses estimates of the renewal of maturing items and any liquidity that may be generated/absorbed by disinvestment/investment programmes for financial portfolios.

3.3.2.3. Consolidation of budget proposals and capital allocation

The documents and objectives defined in the previous phases are integrated into the Bank's overall budget, which consists of the income statement, balance sheet

and cash flow statement, and the sector plans. The budget is broken down into the Bank's Result Areas through a mechanism for the "redistribution" of notional costs and revenues among the various centres of responsibility. The breakdown of objectives at Bank level by Result Areas when it comes to Branches is carried out taking into account certain aspects, including the historical and prospective trend of the variables to be planned, the seniority of the Agency/Subsidiary and its size, market shares, productivity indicators for the different areas, potential indicators, planned strategic directions, customer characteristics and so on, in order to translate the indications of the Bank's risk propensity into an optimal risk-return profile for the different result areas.

A forecast of the following economic components is collected during the consolidation of the documents: indirect taxes, provisions for risks and charges, adjustments and write-backs due to impairment. The latter item is an estimate that is prepared on the basis of an assessment of the current and prospective deterioration of the loan, an estimate of the doubtful outcome and the estimated recovery time of the impaired loans.

At this point, the impact in economic/financial/equity terms is assessed and the forecast gross profit, pre-tax profit, the amount of income tax for the year and net profit for the year are determined. Finally, the financial needs analysis is updated. Now the capital allocation can take place.

Before going into the details of the transactions, it should be borne in mind that the bank, with reference to the strategic plan, carries out an annual "repositioning" of the defined objectives. As the capital plan is a section of the strategic plan, the capital requirements are reviewed for adequacy and sustainability at the same annual frequency, both in terms of composition and sources of funding. In the consolidation of the overall budget at bank level, therefore, evidence will be given of the prospective trend outlined for the total internal capital, the overall capital and any ordinary and extraordinary sources of raising capital to be used in the planned year.

In this phase there is close cooperation between the Strategic Planning and Management Control Function and the Risk Management Function. Information and data relating to the sizing of balance sheet and income statement variables and risk exposure are examined. In addition, the risk-return profile is also broken down into the various areas of results, where applicable.

We highlight any ordinary and extraordinary sources of capital raising that the Bank intends to use in the year under consideration, including them in the budget document. Then the prospective balance sheet/economic/financial/risk data are processed, according to the risk/return and capital absorption indicators.

In agreement with the Risk Management Function, it verifies in prospective terms the congruence between the contents of the Strategic Plan, the overall capital, the estimate of the risks present on the planned dimensions and:

- indications of risk appetite and risk-return objectives defined by the Bank at an overall and/or area of results level, if any;
- the constraints imposed by the supervisory authority;
- the objectives of optimising the financial structure of the Bank management;
- the flow of resources needed for the planned investments.

If inconsistencies are found in the quantities involved in the above analysis, a new budget hypothesis is developed. However, if such inconsistencies are found in the prospective measurements at Bank level (rather than in the areas of results), the strategic objectives are redefined in order to affect the overall internal capital.

Subsequently, on the basis of the objectives identified and the assessment of the economic/financial/equity and risk impact, the Strategic Planning and Management Control Function proceeds to consolidate, in agreement with the Risk Management Function, the risk/return objectives in the budget.

Having verified the sustainability of the different objectives, the consistency between them and with the macro-objectives of the annual plan, the strategic guidelines and the contents of the business plan, it submits the results of this phase to the Management Committee for analysis and sharing.

3.3.2.4 Negotiation of objectives

This is where the objectives are communicated in advance to the managers of the Result Areas, who define how they intend to achieve them.

Managers of the Result Areas must receive a preliminary communication of the objectives from the Strategic Planning and Management Control Function. Once they have received the objectives, they proceed to evaluate action plans in order to define how they intend to achieve the assigned objectives and, if necessary, negotiate a different modulation of the objectives received.

On the basis of the results obtained in this phase, it is verified that the risk appetite levels and target risk/return profiles selected by the Bank, the sustainability of the different objectives, consistency between them and with the macro-objectives of the annual plan and the contents of the business plan are safeguarded.

The General Management analyses and validates the objectives or proposes possible revisions.

3.3.2.5. Budget approval and communication

The Strategic Planning and Management Control Function consolidates the budget document and forwards it to the Board of Directors, which examines and approves the budget for year T+1, normally within month X of year T. In any case, a budget process that, as a rule, does not require approval by the Board of

Directors by February of the year T+1 at the latest, is deemed inappropriate during the review phase.

The General Management, after having acquired the final plan approved by the Board of Directors, communicates the general plan and the sectoral plans to the relevant organisational units. Based on the approved budget, the programme of the project initiatives defined for the year being planned is prepared or updated.

3.3.2.6. Monitoring and analysis of deviations

The following is monitored with a predefined frequency in the budget document: results, performance indicators, performance of the result areas, the level of achievement of the operational objectives defined in the budget. Performance indicators adjusted for risks, risk exposure and capital absorption generated by operations are also analysed.

The monitoring timeframes can be differentiated according to the different information contents analysed; in any case, the budget document will predefine frequencies equal to or greater than those shown in the following table.

Table 3.4 – Monitoring timeframes

Information area:	Frequency at least:
Financial Masses, Rates and Margins	Monthly
Other costs/revenues from the income statement (Costing)	Semestral

Asset Adequacy	Quarterly
Other Risk and Adjusted Risk Objectives	Quarterly

Source: BCC’s “Operational Planning and Control Process Scheme” document

Subsequently, any deviations from the defined objectives are verified and analysed (both at an overall level and for each area of results) and the causes that generated them are identified. In particular, it is seen whether the deviations detected are due to changes in revenues, costs and/or operating efficiency related to changes in quantities, prices, product mix, exposure to risks, etc.. In the case of an increase in risk exposure compared to the budget figure, it verifies whether this depends on the lines of development or derives from an increase in risks that is not strictly related to an increase in business volumes (due, for example, to a deterioration in the quality of loans, the riskiness of the financial portfolio, etc.) and provides the information necessary to define any capital and/or liquidity optimization measures or reorientation of the defined guidelines.

With default frequency in the budget document monitors the external environment by analyzing (by way of example) the evolution of the economic context and socio-cultural needs/cultural changes in the area of competence; political/regulatory changes; demographic changes; technological evolution.

Always with a predefined frequency in the budget document, the results of the analysis and deviations and the related reports are communicated by the Strategic Planning and Management Control Function to the other areas concerned.

3.3.2.7. Corrective actions

In view of the deviations highlighted, the Strategic Planning and Management Control Function supports the areas or business units from time to time concerned in identifying possible corrective measures aimed at achieving the planned objectives, continuing if necessary to renegotiate the defined objectives. In the event of significant deviations, or as a result of events requiring an update of the risk appetite, the Board of Directors decides on corrective actions and the repositioning of the budget.

In the event that the repositioning activity reveals possible significant effects on the planned medium-term horizon, the strategic objectives, general development policies and related implementation policies are identified/updated and the proposals to be submitted to the Board of Directors are formulated. The process then continues from previous stages.

3.4 The influence of Risk Management on the strategic planning, operational planning and control process

3.4.1 The Role of Risk Management

A key role within the Iccrea Cooperative Banking Group is played by the Risk Management Function, which can be generally defined as a set of activities, methodologies and coordinated resources to guide and control an organization with reference to risks. Its purpose is to ensure a unitary management of Group risks and to achieve a progressive homogenization of the processes, tools and methodologies in use within the same, supervising and coordinating the development and maintenance activities of the management of specific risks, the evaluation and monitoring of the risks themselves.

The system is divided into central and territorial structures. The central structures have management, guidance and coordination tasks, and will provide the Bank's function manager, who is part of the territorial structure for which he or she is responsible, with policies, regulations, evaluation methodologies and tools, including IT tools; they also direct the annual planning.

The risk assumption strategies are summarized in the Risk Appetite Framework (RAF), i.e. the reference framework that defines (consistent with the maximum risk that can be assumed, the business model and the strategic plan) the risk

appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them.

The RAF is an essential element of governance and risk management, always based on the principle of sound and prudent business management. It has formed the basis of the Bank's strategic direction for the planning of objectives, consistent with the risk profile deemed sustainable, measured by specific indicators that form the basis for the definition of operational limits and related corporate policies. It is constantly monitored for the prompt detection of any exceeding of the identified tolerance thresholds and/or the assigned risk limits, in order to direct the necessary management actions to be taken to bring the level of risk back within the target or limits set.

In a difficult period such as the current one, also from an economic point of view, due to the Covid-19 emergency, it is vital for the Bank to ensure excellent management of these risks, through compliance with the required minimum levels of solvency, liquidity and profitability, as well as maintaining adequate levels of capitalisation. Stress tests, calibrated by the Bank on general unfavourable scenarios and not on specific events such as a pandemic, are an excellent tool to assess the adequacy of these minimum required levels and possibly take corrective action (e.g. review the strategic plan and lower tolerance limits).

Within the banking business, the main purpose of the Risk Control Function is to collaborate in the definition and implementation of the RAF and related risk

management policies, through an adequate risk management process. In particular, the main responsibilities assigned to the Function are:

- involvement in the definition of the RAF, risk governance policies and the various stages of the risk management process;
- the proposal of quantitative and qualitative parameters necessary for the definition of the RAF, which also refer to stress scenarios and possibly the adjustment of these parameters;
- verification of the adequacy and consistency of the RAF, the risk management process and the system of operational limits;
- support to corporate bodies in assessing strategic risk, monitoring significant variables;
- monitoring the actual risk assumed by the Bank and its consistency with the risk objectives, as well as verifying compliance with the operational limits assigned to the operating structures in relation to the assumption of the various types of risk;
- involvement in the assessment of the risks underlying the new products/services and inherent in entering new operating and market segments;
- verification of the correct monitoring of trends in individual credit exposures.

The definition of the RAF is based on an articulated and complex process, coordinated by the company risk management in close interaction with the managers of the various business units, the Administration, Planning and Management Control Area and the other company control functions. Risk management has a particular influence on strategic planning, operational planning and control processes.

3.4.2 Influence on strategic planning

With regard to the strategic planning part, the influence exerted by risk management is initially observed in the strategic positioning analysis and in the indications regarding any critical areas, areas of improvement and intervention. It also supports the Strategic Planning and Management Control Function in assessing the Bank's economic, financial and capital equilibrium. It prepares a preliminary proposal of the desired risk-return profile.

When allocating capital, it shall verify consistency between risk objectives and strategic risk guidelines, analyse safety margins and proceed to identify and select, if necessary, sources of capital that can be used to increase overall capital. These kinds of objectives could be divided into different profiles: capital, liquidity, performance, etc… and often the objective is to achieve certain fixed percentages or not to fall below thresholds set by the legal systems. For example,

as far as the asset profile is concerned, it is important that the Total Capital Ratio (an indicator that measures the solidity of a bank) maintains good levels. “It is calculated by dividing regulatory capital by risk-weighted loans to customers and the higher this value is, the more solid the bank is considered to be” (www.money.it). Another primary objective is to keep the default rate as low as possible. It is the percentage of all outstanding loans that a lender has written off as unpaid after a prolonged period of missed payments. “Rating agency default studies are widely-used sources for estimates of these important parameter values” (Hamilton, Cantor, 2006).

It then supports the Planning and Management Control Function in analysing the deviations between strategic objectives and forecast performance indicators (such as ROI, Net profit or more specific like the Average Annual Rate collected from customers) and sends the latter the results of the monitoring of risk objectives.

In conclusion, it can be said that the work of Risk Management is fundamental to good business planning, especially because the risk profiles calculated by it are the basis for the decisions of the Board of Directors. One situation that could occur is this: the Board of Directors intends to take on a higher risk than previously agreed by increasing the number of loans (e.g. mortgages) and therefore the credit risk. CET1 is lowered and the Board of Directors redefines RAS on the basis of the risks it is willing to assume. However, the actual

sustainability of this new plan must be verified by Risk Management, which will also monitor compliance with the plan over time.

3.4.3 Influence on operational planning and control

For the part relating to operational planning and control, on the other hand, Risk Management provides information on the preliminary proposal of the Bank's risk appetite in relation to the Strategic Plan. It supports the Strategic Planning and Management Control Function in verifying the development hypotheses contained in the Strategic Plan, in formulating a preliminary hypothesis for an overall annual plan, in an initial assessment of the impacts in terms of risk deriving from the activities being planned and in verifying the consistency of the objectives with the indications of risk propensity.

Subsequently, it estimates in prospective terms the exposure to risks and the capital absorption resulting from the development of the objectives and activities in the area of results. It also verifies the estimated exposure to risks and capital absorption, and that the risk objectives adopted are consistent with the strategic guidelines on risks and capital adequacy assessments. Then, together with the Strategic Planning and Management Control Function, it verifies the consistency between the prospective data, the overall capital, the Bank's objectives and the regulatory constraints.

In monitoring the results, it is mainly concerned with the analysis of any deviations from the defined objectives and the identification of the causes that generated them.

Finally, it sends the results of this last operation to the Strategic Planning and Management Control Function, and possibly supports it in the renegotiation of goals.

CONCLUSIONS

Numerous changes, mainly legislative and regulatory, have followed one another (over the last twenty years) and are taking place at international, European and national level; these changes lead to radical changes in the strategies of the banking industry, which is forced to reposition and reconsider its policies.

Markets are increasingly integrated and competitive and it is therefore essential to act in a synergistic and coordinated manner, focusing on cost containment, the search for new sources of revenue and the development of human capital.

In order to face the unknowns of our time, even in the banking sector it is essential to design adequate Strategic Planning, Operational Planning and Control systems integrated with each other and to implement within them mechanisms for measuring and controlling performance.

As already mentioned in the introduction, the aim of the thesis is to explore how Strategic Planning, Operational Planning and Control systems are designed, implemented and used within banks, with a particular focus on the peculiarities of tools and processes used.

A preliminary reflection is that the Cooperative Credit Banks (BCCs), which represent one of the most important and widespread credit realities throughout Italy, are often unable to have individually suitable tools and sufficient personnel

to stand up to banking giants. The reform of Cooperative Credit in 2016 goes precisely in this direction: a BCC, like for example the Banca dei Sibillini, joining the Iccrea group, can now count on a solid group behind it capable of providing advice, directing planning and control and finally indicating precise paths on risk management.

Concerning the strategic planning process, the Banca dei Sibillini strategic positioning is analysed in order to define its business strategy. This analysis essentially consists of identifying the Bank's own strengths and weaknesses and highlighting the opportunities and threats arising from the external environment. Finally, all the elements under study are summarized in the SWOT analysis scheme and, once the current position of the organisation has been assessed, a strategy can be defined. The strategic objectives are set out and development strategies/implementation policies are defined, then the bank proceeds to assess the feasibility of strategic initiatives in terms of resources, structures, timing. Master Plan and Intervention Cards have a key role in this part of the process. At this point the Risk Management Function helps the Strategic Planning and Management Control Function to evaluate information and data relating to the sizing of balance sheet and income statement variables, and verifies consistency with the strategic guidelines on risks. If there is a lack of consistency there is a revision in order to take appropriate corrective action. This iterative process continues until the forecast performance indicators are consistent with the

strategic objectives and related implementation plans defined by top management. Once the final plan is approved by the Board of Directors, it is communicated to the organisational units concerned. Then, with predefined frequency, the strategic objectives defined in the plan are monitored and, possibly, corrective measures are undertaken.

Concerning the Operational planning and control process, which is the logical continuation of the strategic planning activity, its goals are: the translation of the objectives defined in strategic planning into short-term objectives, the identification of the organisational units responsible, the verification of the compatibility between objectives and available resources and finally the identification of actions necessary to implement the objectives set. To sum up, the Operational planning and control process, translates on annual basis the indications contained in the Strategic Plan into the company's operational plan. The aim is to achieve the company's objectives. In order to succeed in doing this, the bank proceeds with some consequential steps, beginning with the preparation of the budget sheets and the capital allocation. Later negotiation of objectives takes place until the General Management communicates the general plan and the sectoral plans to the relevant organisational units. The last steps consist in monitoring the program and analysing deviations (and possibly taking corrective actions).

When it comes to analyze the peculiarities that arise from the case analysis, one of the most relevant elements that characterizes the strategic planning, operational planning and control process is the role played by the risk management function.

It is worth highlighting the risk management function, which plays a key role and is of strategic importance for credit institutions, as it helps to reduce conditions of instability by identifying, assessing and managing risks from an integrated perspective. It plays a critical and decisive role also in planning and control within the banking structure, since it affects all phases and other functions.

With regard to the strategic planning phase, the influence exerted by the risk management function is initially observed in the strategic positioning analysis and in the indications regarding any critical areas, areas of improvement and intervention. It also supports the strategic planning and management control function in assessing the bank's economic, financial and capital equilibrium and it prepares a preliminary proposal of the desired risk-return profile. When allocating capital, it shall verify consistency between risk objectives and strategic risk guidelines, analyse safety margins and proceed to identify and select, if necessary, sources of capital that can be used to increase overall capital. It then analyses the deviations between strategic objectives and forecast performance indicators and sends the results of the monitoring of risk objectives to the strategic planning and management control function.

Concerning the operational planning and control phases, the risk management function supports the strategic planning and management control function in verifying the development hypotheses contained in the strategic plan, in formulating a preliminary hypothesis for an overall annual plan, in an initial assessment of the impacts in terms of risk deriving from the activities being planned and in verifying the consistency of the objectives with the indications of risk propensity. It also estimates in prospective terms the exposure to risks and the capital absorption resulting from the development of the objectives and activities in the area of results. Then, together with the strategic planning and management control function, the risk management function verifies the consistency between the prospective data, the overall capital, the bank's objectives and the regulatory constraints.

In monitoring the results, the risk management function is mainly concerned with the analysis of any deviations from the defined objectives and the identification of the causes that generated them. Finally, it sends the results of this last operation to the strategic planning and management control function, and possibly supports it in the renegotiation of goals.

Never as in such a delicate moment as this from the economic point of view (as well as obviously from the health point of view), due to the Covid-19 emergency, it is evident that planning and risk management are two activities that are closely

interconnected and essential, both in the banking system and in a modern and dynamic society like ours.

To conclude, the strategic planning, operational planning and control functions aim to provide an efficient and rational tool for the identification and implementation of the corporate strategy. It consists of a logical and structured path that allows corporate bodies to identify the areas on which to make decisions, evaluate alternative options, anticipate any problems, manage risks, allocate resources correctly, and ensure the appropriate commitment of functions to the objectives identified. If all these activities are carried out diligently and in compliance with constraints and regulations (which are often the most critical) there is a better chance of achieving the strategic objectives and expected results. It is worth mentioning that the case analysis also revealed that the process adopted to carry out the strategic planning, operational planning and control is quite complex and rigid and requires a considerable amount of resources in terms of time and personnel.

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