

Rankings Raised On CNF As A Special Servicer Of Consumer And Insurance Related Debt In Italy

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OVERVIEW

- We have raised to **STRONG** our overall ranking on CNF as a special servicer of non-life insurance contracts-related debt in Italy.
- At the same time, we have raised to **ABOVE AVERAGE** our overall ranking on CNF as a special servicer of consumer loans in Italy.
- Our outlook on the rankings is stable.
- CNF was established in 2007 as a debt collector of small unsecured credits.

LONDON (S&P Global Ratings) April 12, 2017--S&P Global Ratings Services raised to **STRONG** its overall ranking on Credit Network & Finance S.p.A. (CNF) as a special servicer of debt linked to non-life insurance contracts in Italy. At the same time, we have raised to **ABOVE AVERAGE** our overall ranking on CNF as a special servicer of consumer loans. Our outlook is stable.

CNF is a credit collection agency compliant with Article 115 of the Italian Home Office Security Law ("Testo Unico Leggi Pubblica Sicurezza") established in 2007. It controls AptaDigital, an IT service provider, and Geo Gestioni, a call center company that expands the servicer's call center capacity.

The company initially focused on the collection of debt relating to non-life insurance contracts. Having achieved a market leader position in this niche, CNF leveraged its know-how on small-tickets management and began offering a

call center based service to small banks to work out early arrears. In 2012, CNF acquired a portfolio of consumer nonperforming loans (NPLs) through CNF Finanziaria S.p.A., a special-purpose entity (SPE) compliant with the former article 106 of the Italian banking law. Upon enforcement of the updated Italian banking law, CNF Finanziaria's license became cost-inefficient. In 2015, the servicer signed a partnership agreement with Italo Société D'investissement à Capital Variable (Italo Sicav), a new Maltese SPE, which acquired CNF Finanziaria's portfolio. As of today, CNF manages unsecured defaulted loans exclusively for Italo Sicav's funds.

Since our previous review, CNF has sold its shares of Corvallis S.p.A. and Information Technology Outsourcing, which are business process outsourcing providers for large- and medium-sized companies, respectively. At the same time, the company has applied for a license to collect debt on behalf of public entities because it plans to increase its servicing business.

We rank CNF as special servicer of non-life insurance contracts and unsecured consumer loans. In 2016, the servicer worked on almost 553,459 insurance related cases corresponding to a total gross book value (GBV) of €0.2 billion, in line with the previous year. The servicer registered a rapid increase of its unsecured NPLs portfolio, which rose to 218,781 cases accounting for €2.7 billion at the end of 2016, from 70,245 cases equivalent to €0.6 billion at the end of the previous year. The staff grew in line with the portfolio under management, up to 151 employees at the end of 2016 from 116 the year before. At the same time, the company is supported by an external law firm working exclusively on its behalf. This is composed of a workforce of 24 employees who coordinate and monitor the legal activity based on highly standardized procedures.

Our rankings reflect our assessment of the company's operations based on the major ranking factors in our criteria (see "Related Criteria").

MAJOR RANKING FACTORS

- CNF manages about 70% of the non-life insurance contracts-related debt in Italy. Similarly, the servicer reported a relevant NPL portfolio growth and expects to grow further in this area. The company reported positive collection results on both asset classes since inception.
- In our view, CNF has a well-designed structure and a robust people management function in place. Three managing directors supervise the company's business lines: insurance and consumer debt, public entities, and advisory activity to support Italo Sicav's funds in selecting and purchasing NPL portfolios. The company has a detailed induction program and dedicated training facilities, and has a dedicated team of three to coordinate recruitment and training. Finally, it sponsors periodic corporate events and a newsletter to share relevant information with its staff.
- While CNF does not apply the three lines of defense model, it implements a good level of controls given the size of its operations and the nature

of its business. The company appointed Baker Tilly Revisa as internal auditor and risk register officer and outsourced the compliance activity to an external law firm.

- In our view, CNF's IT platform, created and continuously updated by AptaDigital, is one of its assets. The system supports a great level of automation of the workflow and communication with external counterparties. As a result, CNF produces detailed key performance indicators and offers comprehensive information to its clients, who can in turn access information on their portfolio in real time through an online database.
- Since our previous review, CNF has improved its ability to cluster the portfolio at boarding, and has tailored its collection strategy for each partition.

OUTLOOK

The outlook is stable for both rankings. CNF can maintain its market leadership position within the non-life insurance special servicing industry, and has set up reliable operations to consolidate its position as special servicer of early arrears and NPLs providing high quality service over a bigger portfolio, in our view.

MANAGEMENT AND ORGANIZATION

We have raised to STRONG our subranking on CNF for management and organization as a special servicer of insurance-related debt and consumer loans.

The management and organization is supported by a stable and committed executive team, and a sustainable business plan that leverages its expertise. It has a well-organized structure and a robust proprietary IT system.

LOAN ADMINISTRATION

We have affirmed our STRONG subranking on CNF for loan administration as a special servicer of insurance-related debt. We have also raised to ABOVE AVERAGE our subranking on CNF for loan administration as a special servicer of consumer credits debt.

The company has a proven track record of positive collection results on both asset classes. Additionally, it has a highly automated workflow embedded in its system, which is continuously updated to allow solid monitoring activity based on a wide set of key performance indicators.

FINANCIAL POSITION

We deem CNF's financial position to be SUFFICIENT.

RELATED CRITERIA

Rankings Raised On CNF As A Special Servicer Of Consumer And Insurance Related Debt In Italy

- Criteria - Structured Finance - Servicer Evaluations: Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Criteria - Structured Finance - Servicer Evaluations: Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

RELATED RESEARCH

- AVERAGE Ranking Assigned To CNF As A Special Servicer Of Consumer Loans In Italy; Outlook Positive, July 27, 2015
- Select Servicer List, published monthly

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