MARKET INSIGHT

AUGUST 2026

REYL INTESA SANPAOLO

CAPITAL EFFICIENCY AS A COMPETITIVE ADVANTAGE

Fernando Zavatarelli
Head of Credit

For a long time, private banking lending has been mostly driven by growth, on both sides of the balance sheet. Today, it is increasingly driven by capital efficiency. As Basel III final reforms continue to be implemented across major jurisdictions, banks are reassessing the economics of Lombard lending, real estate financing, and bespoke credit solutions for wealthy clients. The institutions that adapt fastest may gain a significant competitive advantage.

THE TRADITIONAL ROLE OF LENDING IN PRIVATE BANKING

Traditionally, lending has played a dual role in private banking. It generates interest income while strengthening client relationships by providing liquidity without forcing the liquidation of investment portfolios. For many clients, credit is no longer just a financing tool; it is more and more an integral component of wealth management strategy and growth, combining portfolios of different assets with optimised leverage.

However, the regulatory environment is changing. Basel III reforms were designed to increase the resilience of the banking sector through higher capital standards, improved risk sensitivity, and stricter measurement of credit exposures. A key element is the so-called "output floor", which limits the capital benefit banks can obtain from internal risk models and increases the importance of standardised approaches in determining risk-weighted assets.

The consequence for private banking is clear: the profitability of lending is becoming increasingly dependent on how efficiently capital is allocated and priced.

THE IMPACT OF DIFFERENT COLLATERALS

Historically, Lombard lending has been viewed as an attractive business line due to high collateral quality, low default rates, and strong cross-selling opportunities. Yet under the evolving regulatory framework, not all collateral is treated equally. Concentrated equity positions, illiquid assets, structured products, and certain alternative investments may carry higher capital consumption than diversified investment-grade portfolios. As a result, two loans with identical client margins can deliver materially different returns on regulatory capital and be necessarily priced differently.

EMERGING TRENDS

First, banks are refining collateral frameworks, driven by regulatory novelties. Eligibility criteria, advance rates, and concentration limits are becoming more sophisticated, with a greater focus on the capital efficiency of pledged assets. Credit strategies and policies are increasingly aligned with treasury and capital management objectives.

"The profitability of lending is becoming increasingly dependent on how efficiently capital is allocated and priced."

Second, pricing models are evolving. Relationship-driven pricing remains important, but there is growing recognition that lending margins must adequately compensate for regulatory capital consumption. This may result in greater differentiation between transactions that appear similar from a client perspective but have very different risk-weighted asset impacts.

Third, technology is becoming a strategic differentiator. Advanced collateral management systems, real-time risk monitoring, and portfolio analytics allow banks to optimise balance sheet usage while maintaining a strong client experience.

At the same time, opportunities remain substantial. Higher interest-rate environments over recent years have reminded private banks of the earnings potential of lending franchises. While rate cuts have started in several markets, lending continues to represent an attractive source of revenue diversification compared with pure fee-based businesses. Moreover, wealthy clients continue to seek liquidity solutions to finance real estate acquisitions, private market investments, tax obligations, and entrepreneurial projects without disrupting long-term investment strategies.

FINDING THE RIGHT BALANCE

The strategic question is therefore not whether lending should remain a core private banking offering. The question is how to balance client satisfaction, revenue generation, and capital efficiency in a more demanding regulatory landscape.

The winners are likely to be institutions that integrate credit, wealth management, treasury, and capital planning into a single strategic framework. In that model, lending is no longer merely a product. It becomes a scarce-capital business where disciplined allocation creates shareholder value while deepening client relationships.

reyl.com