Bulletin of Italian Finance - N. 16/2020 - 29 September

Banche Assicurazioni Finanza
Italian Banking Insurance and Finance Federation

1. Banking after the pandemic

Traumatic and hasty rule-changes should be avoided when the pandemic ends, urged Antonio Patuelli, president of ABI (the Italian banking association) at a meeting of the association's executive committee on 16 September. He was introducing Ignazio Visco, governor of the Bank of Italy, who had been invited to address the committee on implications of the Covid-19 pandemic for the economy and the banks. Confidence remains very low, said Mr Visco, and one current uncertainty is the capacity of borrowers, particularly businesses, to repay loans when these fall due and support measures cease. However, the central bank's governor expects a positive response from banks as new requests for credit (without public guarantees) increase. By not distributing profits from 2019, banks strengthened their CET 1 ratios by almost a percentage point in first-half 2020, to 14.8 per cent. But while impaired loans net of adjustments fell from 3.3 to 3.1 per cent, Mr Visco warned of the high probability of emerging losses and of the need for banks to quickly identify vulnerable loans. Reassuringly, a positive feature of the first eight months of the year has been the banks' success, despite the crisis, in maintaining plans for selling impaired loans. Mr Visco noted that the past decade has highlighted how “the capacity of Italian banks to deal with negative shocks has increased significantly.” Certainly, the future poses challenges, and among those Mr Visco listed were: new Basle Committee capital requirements; adoption of the IFRS 9 accounting principle; long-term low interest rates; obsolete physical networks; new competitors; cyber-risks; and increased compliance costs. However, technological innovation offers one way forward. And the crisis, which has brought a huge increase in remote working, has shown how costs can be reduced. The Bank of Italy's governor, believes that some of the cost savings obtained by remote working can be made permanent. In his wide-ranging address to ABI's executive committee, Mr Visco touched on two subjects currently making news: banking mergers and the creation of a large public-sector bank. The Bank of Italy does not discriminate regarding the size of banks, their legal forms and models of business, and “concentration is not an objective in itself”, said Mr Visco. What the regulator seeks are solid corporate plans and good governance. Mr Visco said that instead of establishing a large public-sector bank the Italian economy would benefit above all from “an efficient public administration, appropriate infrastructure and investment in innovation and know-how.”

2. Insurers stand firm

Despite the Covid-19 pandemic, the solvency index of Italian insurers held up during the first half of the year. Presenting a review of the industry on 15 September, Dario Focarelli, director-general of ANIA (the insurers' association), noted how the overall solvency ratio, although it slipped by 20 percentage points in the first half of the year, stood at 2.13 at the end of June, against 2.33 at the end of 2019 and 2.23 at year-end 2018. Mr Focarelli's figures show how the pandemic and lockdown hit insurance business: new life premiums down 45 per cent in March, down 40 per cent in April and down 30 per cent in May; and non-life premiums down 7 per cent in March, down 16 per cent in April and down 5 per cent in May. Even so, Italian insurers were able to register net gains on total investments of €62.4 billion at the end of June, against €56 billion in June last year. Mr Focarelli gave details of the asset classes in which insurers were invested at the end of June. Of a total of €927 billion, €174 billion were from linked policies and mostly (€144 billion) in collective investment schemes. Of the €753 billion (non-linked), €400 billion were invested in government bonds (well over three-quarters of them Italian), €151 billion in corporate bonds, €98 billion in collective investment schemes and €91 billion in equities.

3. Intermediaries' staff requirements

On 21 September, Gianluigi Gugliotta, secretary-general of Assosim (the association of financial markets intermediaries), wrote to Consob in response to the market regulator's plans to modify professional competence requirements. The five-point letter dealt with questions of staff evaluation and training, and with cross-border implications. Mr Gugliottta prefaced Assosim's observations by re-stating the association's view that certification should be obligatory only for staff who provide retail advice, and not for “information-giving” by them. Certification should not be required for staff who advise and give information to professional clients. Replying to Consob's consultation, AIPB (the private banking association), drew attention to how, given the type of client served, the private banker's work “needs transversal capabilities and wider technical competences than purely financial advice on financial instruments”. The professional knowledge of private bankers must encompass portfolio management, insurance issues (including pensions provision), business finance and fiscal aspects of wealth management. AIPB underlined how, given clients' frequent international interests, a single rule book is fundamental for private bankers.

4. Fund managers' proposals to boost recovery

Addressing a hearing of a parliamentary finance commission earlier this month, Fabio Galli, director-general of Assogestioni (the fund managers' association) pointed to three areas where action would help the economy. The first was private pensions which languish and need kick-starting. The forthcoming arrival of the EU's Pan-European Personal Pension Product (PEPP) could provide the moment for action, said Mr Galli, who noted how less than a quarter of Italians contributed to private pensions and how the financial assets of pension funds in Italy were far lower than the 100 per cent (and more) of GDP found elsewhere. Taxation is the key to unblocking the Italian situation where, contrary to recommendations of the European parliament and widespread practice, tax is levied during the period of contributions rather than when pensions are drawn. Mr Galli's second action-point was corporate governance and shareholder rights, essential “to maintain a high level of attractiveness of capital towards firms that list in Italy”. Mr Galli expressed concern that the introduction of different rights for different shareholder-categories (essentially to keep control in Italy) would be a strong disincentive to investors to take stakes in SMEs that list, and indeed in those that are already listed. Multiple investor classes put shares in those companies out-of-bounds for some investors, noted Mr Galli, pointing to how international indexes followed by passive managers exclude firms that give different rights to different shareholder-categories. Mr Galli's third point was the need for the Italian government to up its game in Brussels with regard to discussions on changes to MiFID and AIFMD and the Capital Markets Union. “Currently Italy doesn't have the same capacity to influence financial regulation enjoyed by France and Germany,” Mr Galli noted. Yet Italians continue to be great savers. There was no panic disinvestment in March and April, and investment flows held up. Moreover, there's an issue of the large amounts of liquid funds held in current accounts which are not invested, don't produce long-term yields but which “could instead help the Italian economy”.

In Brief

Private debt. In a note on 17 September, AIFI (the private equity, venture capital and private debt association) said that, at €195 million, funding flow in the first half was 10 per cent higher than in first-half 2019. Although the number of investments was one third higher at 138, at €423 million the amount invested was down 21 per cent on first-half 2019. According to Innocenzo Cipolletta, AIFI's chairman, the increase in the number of investments underlines the sector's importance in supporting business during the emergency. “The coming months could bring an even larger role for private debt funds,” he said.

Cyber security. Interviewed in the latest number of Insurance Review, Sergio Mattiuz, managing director of Ania Safe, drew attention to how increased use of the internet during the pandemic was accompanied by increased cyber risk. Mr Mattiuz noted that Ania Safe offers security intelligence and consultancy to firms on cyber security. Although the service is aimed at insurers, Ania Safe is considering offering it to firms in other sectors.

Save the date

FeBAF organises

Le partnership pubblico-private per la Space Finance

Per partecipare è necessario registrarsi scrivendo a info@febaf.it
5 ottobre ore 12.15 - piattaforma Microsoft Teams

Do you want to receive our weekly Newsletter in Italian?
Subscribe to 'Lettera f' sending an
e-mail to info@febaf.it