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Banche Assicurazioni Finanza

Italian Banking Insurance and Finance Federation

Spotlight

1. Default and Calendar Provisioning

On 28 December, both the Bank of Italy and ABI (the banking association) issued statements dealing with the new definition of loan default, which came into effect on 1 January. The central bank's statement was simply a reminder that, thanks to an EU decision seven years ago (article 178 EU 575/2013), default is now considered to have occurred if an obligor is past due more than 90 days on any material credit obligation. Subsequently, EU 2018/171 of October 2017 set the absolute materiality threshold at €100 for retail exposures (€500 for others) and the relative threshold at 1 per cent of total on-balance sheet exposures to that obligor of the lending institution. ABI's statement, made jointly with a broad range of Italian business associations, noted that they had written to European institutions requesting urgent intervention on the question. They underlined that the new rules were drawn up in completely different economic circumstances from those in which banks and businesses now work, and that the rules “risk permanently compromising Italian and European recovery prospects.” Under the new definition, the temporary difficulties in which many firms find themselves because of the Covid-19 pandemic may be “transformed into irreversible crises”. Classification of loans as being in default brings the imposition of calendar provisioning and hence the need for credit tightening which “appears particularly damaging at this time as it introduces a perverse incentive to block off credit at the first sign of difficulty”. ABI urges that the rules be changed so that “banks can offer maximum support to the real economy at a moment in which this is essential for holding the manufacturing fabric together”. Since September 2015, on all possible occasions, ABI has strongly criticised the new definition, warning about its potentially adverse impact and the risks connected with it, particularly those arising from excessive rigidity in the 90-day rule and materiality thresholds. Speaking on 6 January, Giovanni Sabatini, ABI's director-general, again drew attention to the association's efforts which included evidence to a parliamentary commission in mid-December.

2. Savings For Recovery

Italians are more worried about the country's economic situation than the Covid-19 pandemic or the impact of the health emergency on their incomes. Such are two of the findings of a recent survey commissioned by Assoreti (the association of investment advisers), whose results were published last month. The nearly year-long emergency has brought Italians together on the need to increase investment for the future. The survey also found that Italians almost unanimously agree in considering finance to be a solution, and a little less than two-thirds of the savers interviewed said financial advisers are able to help the country and its business fabric. The researchers found that 97 per cent of those interviewed consider that savings should be used both for enhancing the value of the savings themselves and for helping the country. At the top of respondents' priorities are improvements to the health service and safeguarding citizens' health (54 per cent of respondents), investment to boost employment and family incomes (45 per cent) and investment for the future in innovative industries and projects (40 per cent). Commenting on the survey, Paolo Molesini, Assoreti's chairman, said that the value of professional financial advice comes above all from the vision it provides in managing assets for the long-term. Badly managed resources are lost opportunities, he said, and can be very costly in the long term. For Mr Molesini, the principle job of financial advisers lies in “helping families to lengthen their financial time-horizons through asset management that is increasingly rational and based less on gut feelings.”

3. Environmental, Social and Governance

As Italy recovers from the pandemic, ESG seems likely to move up this year's agendas in Italian finance as well as in the country's broader business community. Among findings of a study by AIPB (the private banking association), in collaboration with the consultancy firm Strategy&, are that private bankers' priorities include ensuring that investment decisions embrace sustainability and practical recognition of the crucial importance of up-to-date professional skills and knowledge. In a note, AIPB highlights how a primary aim of its members is “the integration of ESG criteria in the selection of their products”. And among key actions is investment in human capital. Presenting the results of the study (The Future of Private Banking: leadership, talent and innovation) on 22 December, Antonella Massari, AIPB's President, underlined how Italian private banking “has shown flexibility in adapting to change”. Ignazio Visco, governor of the Bank of Italy, pointed the day before to how corporate governance and management functions are key ingredients of the production process. Addressing an online conference, he noted that much more attention has recently been devoted to their role in determining firms' performance. Investing in human capital is essential. “The productivity-enhancing effects of good entrepreneurs and managers hinge on there being a sufficient pool of skilled individuals in the population at large,” said Mr Visco. It's no surprise therefore to find others gearing up. In partnership with CFA Society Italy, through its management engineering department, Milan's Polytechnic university is offering an online course from February to May that aims to provide participants with the tools for ESG analysis of firms, securities and portfolios.

In Brief

ABI's guide to individual savings plans. Providing loans to business is the main job, but the banking association's members and the association itself are also helping Italy's economic recovery in other ways. On 2 January, ABI issued a note to publicise a colourful new guide for savers that provides information on traditional individual savings plans, launched in 2017, and on alternative plans introduced last year that extend permitted investment portfolios. ABI has produced to guide to help savers understand these medium-long term products, whose aim is investment in SMEs, ABI's guide was designed in collaboration with its members and with consumers' associations.

Quotation candidates. Italy's SMEs have been notoriously bank-dependent for finance and averse to opening their capital to outsiders. Published on 12 January, a research note from the Bank of Italy provides a clear description of the situation. There were just 104 listed non-financial Italian SMEs at year-end 2018, against 471 in Britain, 318 in France and 200 in Germany. Yet the researchers estimate that before Covid-19 began wreaking economic damage some 2,800 Italian SMEs had characteristics suitable for flotation. And even after the pandemic has passed, there should be around 2,200 suitable firms, or almost 2,100 in the researchers' worst case scenario, figures that would lead to increases of €71 billion and €68 billion respectively in market capitalisation.

Crowdfunding figures. Preliminary data from Osservatori Entrepreneurship Finance & Innovation point to €105 million raised from 166 crowdfunding campaigns by 44 authorised portals last year, an increase of just over 60 per cent on 2019 when 138 campaigns raised €65 million. Osservatori EFI's aggregate figures since 2014 show 709 offerings of which 498 were successful. By far the largest number of campaigns were by innovative start-ups of which there were 453. Total equity capital raised since legislation allowed crowdfunding amounts to €226 million.

ESMA consultation on market data. Assosim, the association of financial markets intermediaries, supports the regulator's guidelines on the MiFIDII/MiFIR obligations on market data. Submitting its observations before the 11 January deadline, the association said it welcomes the promotion of standardisation and "a better and uniform application of the MiFIDII obligations for market data providers". It noted that it has been critical of the reasonable commercial basis criterion which is "neither clear nor concretely implemented by trading venues". Assosim calls for enforcement and supervision to be strengthened to ensure that requirements are fully implemented.

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