Bulletin of Italian Finance - N. 19/2020 - 11 November

1. A question about savings

“The Republic encourages and protects savings in all its forms.” In its Article 47, the Italian constitution has been on the side of savers since 1947 when Italy became a republic. Since its inception in 1924, World Savings Day has been organised by ACRI, the association of savings banks and banking foundations, and is an important annual appointment for leaders of Italy's banking industry. On 30 October, participants to this year's edition heard Ignazio Visco, the Bank of Italy's governor, express a concern that worried Keynes: the paradox of thrift. “Increased consumer pessimism since the start of the crisis has been reflected in a considerable increase in the propensity to save,” said Mr Visco. Thanks to reduced spending on goods and services, savings in the second quarter were almost 20 per cent of gross disposable income, nearly double last year's average. While this figure was explained by the spring lockdown, the central bank has found that fears of job losses, cuts in income and of catching Covid-19 have continued to weigh on decisions over households' money despite the easing of restrictions in the summer. Precautionary savings remain high and even households that don't expect a fall in income are saving more. Mr Visco sees a danger that the economy will enter a vicious cycle of decreasing consumption and declining investment. “There seems a concrete risk that the continuing high propensity to save will held back economic recovery in coming quarters,” he warned. However, private savings are a powerful flywheel for recovery, noted Francesco Profumo, ACRI's president. Yet the flywheel's momentum will be weak as long as the pandemic dims hopes and dampens expectations. Meanwhile, ACRI's members will continue to play useful roles in their local communities, supporting voluntary bodies, social cooperatives, cultural associations and scientific research.

2. No let-up for banks

The summer's relaxation of restrictions has come and gone, but Covid-19 hasn't let up and still plays havoc with the finances of Italian firms and families. And the country's banks continue with their efforts to support households and businesses that are in difficulty. Released on 28 October, the latest figures show that applications for loan repayment holidays have reached 2.7 million, for a total value of €301 billion, and that households have made 217,000 applications for home mortgage repayment holidays and 548,000 applications for personal-loan repayment holidays. In addition, the ministry of economic development and Mediocredito Centrale report that the guarantee fund has received 1.2 million requests, amounting to almost €97 billion, for guarantees for fresh finance for micro-firms and SMEs. (Almost one million requests are for less than €30,000.) The workload that banks have faced and continue to face is enormous. Little wonder that on 2 November in an interview with Il Sole-24 Ore, Italy's business daily, Antonio Patuelli, the president of ABI (the banking association), said that banks have performed miracles. And the miracles haven't finished. Mr Patuelli gave reassurance that, following the re-introduction of restrictions and a likely up-tick in applications for loan repayment holidays and fresh loans, banks are ready for an increase in workload. However, public guarantees backing the financial support provided by banks must be continued beyond the current year-end expiry, he said, "because the pandemic certainly hasn't ended".

3. ANIA's submission on the EU's Solvency II consultation

The pandemic has brought many changes during the past eight months, from reducing carbon emissions during lockdown and increasing the Italian propensity to save (see above) to demonstrating that working from home can be productive. It has also has exposed some weaknesses in European insurance regulation and highlighted the timeliness of the current review. Insurers in Italy firmly support Solvency II prudential rules (SII) which have shown their strengths and proved their value during the Covid-19 crisis. However, ANIA (the insurers' association) believes SII is "excessively conservative and has some measurement flaws and excessive operational burdens". In a 27-page submission last month, the association took the opportunity offered by the EU's current consultation on the review of SII to tell the rule-maker what insurers in the Bel Paese think needs changing. In particular, ANIA has serious concerns about technical flaws in the Volatility Adjustment (VA). This has not worked as intended, and has produced undershooting effects that have prevented it being a counter-cyclical measure and produced cliff-edge effects that introduce artificial volatility in balance sheets. However, ANIA's proposals range far beyond dealing with flaws in the VA. One issue concerns risk-based capital treatment of assets where criteria for long term equity (LTE) is one area that needs tackling. For example, the restriction of LTE portfolio to EEA shares is too severe and there should be an extension to OECD shares, says the association. ANIA considers that the insurance industry should not be discouraged from selling life insurance products offering guaranteed returns. "The insurance industry priority should be to foster and support long term insurance products able to provide security and profits to both policyholders and industry itself," it argues. Among the six results that ANIA would like to see from the SII review are the streamlining of reporting requirements and the enhancement of the practical application of proportionality. And among the five results that ANIA wants avoided are changes that would lead to increased capital requirements, to greater complexity and to more layers of regulation. ANIA notes that there is little need for additional tools in macro-prudential and cross-border supervision. And Italian insurers urge that the requirements for and legal structure of insurance guarantee schemes should be left to the discretion of individual states. The thrust of ANIA's response to the EU's consultation might be read as a request that changes arriving from the review should be limited to fixing things that need fixing.

FeBAF's Podcasts

Webinar

Post-Covid Euro-Mediterranean Dialogue:
The Outlook for the Cooperation between the
Tunisian and Italian Banking, Insurance and
Financial Communities

Webinar 22nd October **"Post-Covid Euro-Mediterranean Dialogue: The Outlook for the Cooperation between the Tunisian and Italian Banking, Insurance and Financial Communities"**

Publishing the video, on our YouTube channel, of the event with **Pierfrancesco Gaggi (ABI)**, **Ahmed El Karm**, Amen Bank, representative of Tunisian banking sector; **Habib Ben Hassine**, President of FTUSA (Tunisian Federation of Insurance Companies); **Roberto Signorini,** ANIA; **Massimo Meliconi**, Iccrea BancaImpresa; **Simone Ambrosin**, Iccrea BancaImpresa Tunis; **Fabiana De Luca**, Italian Embassy in Tunis; **Paolo Garonna**, Secretary General, FeBAF.

In Brief

AIFI keeps professionals on top of their game. Senior managers and consultants were among beneficiaries of a five-module online course run by AIFI, the private equity, venture capital and private debt association during, the last week of October. With teaching by leading figures of the industry, the course was a mix of case studies and the practical nuts and bolts of doing business, and covered subjects that included deal structuring, disinvestment, turnaround operations, contractual aspects of buy-outs and venture capital valuation methodologies.

Beyond the borders. FeBAF continues with its mission of engaging Italian finance with places not only beyond its borders but also outside the EU. On 29 October it hosted a webinar on the post-Covid role of development banks in the Euro-Mediterranean area. Italy is a major EU nation whose southern borders are with Tunisia and Libya. Senior officers of the EIB and EBRD participated in the webinar and gave details of assistance they're providing. Summing up, Paolo Garonna, FeBAF's secretary-general,emphasised the importance of developing financial relationships through increased investment, financial inclusion and sustainable development in Mediterranean countries.

Fund managers favour revolution. In its “R-Evolution” series of five, weekly online conferences, Assogestioni the fund managers' association, is encouraging its members and the public to think afresh about how savings are managed and how savings can be a motor for change. The second conference, on 29 October, had the title “Re-starting begins with liquidity: a fight between uncertainty and the wish for growth”. Cinzia Tagliabue, head of Assogestioni's diversity committee, emphasised how funds have a crucial role in ensuring that liquidity doesn't remain stuck in current accounts.

Save the date

FeBAF organizes

The Spanish post-Covid recovery
and the outlook for Spanish Italian financial services dialogue

Webinar f on MicrosoftTeams - Send and email to info@febaf.it to register
Friday 13 November 2020 - 16.00

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Business International organizes

MILAN Fintech Summit - The Future of Financial Technology

Under the patronage of FeBAF

Online Edition - 10th -11th December 2020

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