

**Bulletin of Italian Finance -
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Dear readers, enjoy the first 2020 issue of spotlight!

1. FeBAF: in 2020 focus on investment, sustainability and rebuilding trust in Europe

Investments, sustainability, innovation, real economy, bilateral dialogues and international fora aimed at sharing views among civil society, regulators and policy makers. These are the main subjects and initiatives scheduled on the FeBAF's action plan for 2020. The Governing Council unanimously approved the action plan during its latest meeting in January, 15th afternoon. The guideline to follow is twofold: the first one, as far as political economy is concerned, will deal with working groups on SMEs, institutional investors and sustainable finance, with innovation under the spotlight. The second one, for what concerns the European and international dimensions, will build on bilateral dialogues with European representatives of the financial sector - with ParisEuroplace, TheCityUk and DK Germany already under way - and the organization of Trieste (June), Naples (July) and Rome (December)

international “investment fora”. The ultimate goal inspiring the Action plan is to rebuild trust and strengthen cooperation in bilateral and multilateral relations, in Europe and beyond.

2. IT increasingly at the heart of banking

That information technology is increasingly at the heart of banking is highlighted by two recent reports from ABI Lab, a research and innovation consortium of banks, institutions and technology firms that operates under the umbrella of the Italian banking association (ABI). The first report (Information Governance: pronti a spiccare il volo) concerns the strategic management of information. The capacity to extract value from data depends on the possibility to interpret with increasing clarity changes that are underway and to make appropriate adjustments to systems, says ABI Lab. Among the key roles of information governance are the design and use of statistical models, the effective use of algorithms, and the exploitation of big data. Reassuring bank customers, ABI notes, “Banks have long adopted solid ethical principles and a responsible approach to data management.” The second report (Rilevazione sull'IT nel sistema bancario italiano) concerns a joint study undertaken by ABI Lab and CIPA, an ABI-Bank of Italy joint body for promoting automation and the use of IT in banking. The report gives the results of a study of the economics and organisation of IT in Italian banking. The report gives breakdowns of where and how banks spent €4.4 billion on technology in 2018. Bought-in services (outsourced IT, other services, contract personnel and consultants) accounted for a little over half of total costs, while in-house staff absorbed just 12.7 per cent, software 22.4 per cent and hardware 9.9 per cent. The study found that where IT is strategic it is mostly kept in-house, for example, 90 per cent of IT architecture definition, 80 per cent of disaster recovery and 65 per cent of security being handled internally.

3. Individual saving plans: the government relaunches incentives to SME financing

Small and medium sized Italian firms received a boost from a measure enacted at the end of last year, and so also did Italy's fund managers. The measure removes limitations that were introduced the year before to individual savings plans, and which stipulated that at least 3.5 per cent of plans' investment should be placed in AIM-listed firms and another 3.5 per cent in venture capital holdings. Investments in small cap firms, different from those of the Italian stock market's FTSE MIB and FTSE MID indexes or equivalent indexes of other regulated markets, must now be limited to 5 per cent of 70 per cent of a plan's overall value, and thus equivalent to 3.5 per cent of total assets. Assogestioni, the fund managers' association, notes that investors greeted individual savings plans with enthusiasm when these were launched in 2017 and that they are now worth €18.5 billion, spread over 69 funds. Such savings plans have played a big part in stimulating Italian financial markets, particularly the stock market, says Assogestioni. At the end of June last year, investment of individual savings plans represented 10 per cent of the market float of the AIM segment dedicated to SMEs of high-growth potential and 8 per cent of AIM's small cap segment, amounting to about €760 million overall. Pointing to around 70 IPOs since 2017, Assogestioni says the arrival of individual savings plans has helped AIM in the raising of €2.5 billion in equity. Fabio Galli, Assogestioni's director-general, hopes that ways will be found early this year to provide incentives for investments in closed funds so that “non-listed assets like small firms and infrastructure can grow strongly”. However, the Italian challenge is unchanged: how to increase and channel savings into the real economy, in order to give further support to non-listed SMEs that still depend mainly on banking loans. The Italian Banking Insurance and Finance Federation - FeBAF has been working on this topic and will continue in 2020.

4. NPLs: no news good news

Despite the current economic slowdown, Italian banks expect the flow of new NPLs to remain under control and almost unchanged this year and next, albeit the decline in the flow registered since the peak of the 2012-2013 crisis will probably halt. The news that banks are weathering the difficulties of stagnation comes in a report from ABI and Cerved, a credit information and rating organisation. From 3.1 per cent overall in 2019, the flow of new NPLs is expected to increase to 3.3 per cent this year and to remain at this level in 2021. In contrast, the figure was 7.5 per cent at the end of 2012. The report sees a continuation of sectoral differences in the flows. Consistently a problem sector, with flows of new NPLs exceeding 10 per cent at the peak of the crisis, construction continues to stand out above agriculture, services and industry. From 4.3 per cent last year, the report expects an increase to 4.5 per cent this year and 4.4 per cent in 2021. And it comes as no surprise that the flow of new NPLs in the Mezzogiorno is higher (4.4 per cent last year) than in the centre (3.6 per cent) and the north (2.3 per cent in the north-east and 2.5 per cent in the north-west). “The stabilisation of flows of new non-performing loans to pre-crisis levels will help a further reduction of the NPL ratio, which should soon meet supervisory targets. This rewards the efforts made by the banking sector over recent years and confirms its overall solidity,” says Giovanni Sabatini, ABI's director-general.

5. Motor insurance: good news big news

Last year's third quarter brought more good news for Italian motorists. The downward trend in premiums for third party motor insurance continued, the €410 average being €10 less (2.2 per cent) than in the same quarter of 2018. In the far south, motorists in the Sicilian province of Caltanissetta enjoyed a fall of 6.5 per cent, an improvement more marked than in any other province. Even so, motorists in southern Italy paid substantially higher annual premiums than those in the north, €238 being the difference between premiums in Naples and Aosta in the north-west (a year earlier the gap was €248). The figures show that 50 per cent of motorists pay less than €366 for their third party premiums and 10 per cent less than €227. Discounts are usually applied to quotes and motorists whose cars are fitted with black boxes. The insurance regulator, IVASS, says that penetration by black boxes has reached 22.6 per cent, a year-on-year increase of 1.9 per cent.



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