Bulletin of Italian Finance -
N. 10/2020 - 1st June

Banche Assicurazioni Finanza

Italian Banking Insurance and Finance Federation

1. Bank of Italy's Annual Report

“The Italian economy must find the strength to break off with the passiveness of the past and recover its ability to grow, having left it numb for far too long. Despite the deep wounds of the crisis and the remainings not yet fully absorbed from the previous ones, the opportunities for the future are not scarce; the country has the means to grasp them”. It is one of the points that Ignazio Visco, the governor of the Bank of Italy, touched presenting his annual report on 29 May to a widely spaced public at the bank's Rome head office. The report's contents will be covered fully in Spotlight's next issue.

2. Private bankers respond to consultation

AIPB, the association of Italy's private bankers, rather agrees with the statement: “The EU intervention has been successful in achieving or progressing towards more investor protection”, but disagrees with the statement: “More investor protection corresponds with the needs and problems in EU financial markets”. AIPB was replying to the EU's public consultation on the review of the MiFID II/MiFIR regulatory framework. In its detailed response in English, placed on its website on 21 May, the association highlights the various and significant differences between retail clients, for whom higher protection has been achieved, and private banking clients, “who have not witnessed the removal of several obstacles to meet their service expectations”. AIPB notes that MiFID II/ MiFIR still include a prevalence of “logic of the product” over “logic of the portfolio". It wants another separate client-category to be created for private banking clients, within the category of semi-professional clients. In answers to a series of questions AIPB explains at length the need for this new category, for which the qualification would be minimum investable portfolios held with intermediaries of €500,000. Describing in detail the professional skills required of private bankers, AIPB fully agrees that there is merit in setting up a certification requirement for staff providing investment advice, and that there is merit in an EU-wide framework for such certification based on an exam.

3. ANIA looks to the future

Dario Focarelli, director-general of ANIA (the insurers' association), used a webinar recently to share his ideas for what the pandemic means for the insurance industry. (English-language slides were placed on ANIA's website last month (May).) The emergency has brought several pressures on insurers, not least the notion that insurance is a public utility as much as a private market, and that contract clauses should be interpreted generously to allow policy-holders to recover the costs related to Covid-19. These pressures come at a time when the insurance market faces liquidity challenges from numerous directions including (a) the surrender of linked products with illiquid assets, (b) a very sharp decline in new business and (c) late or suspended payments from policyholders. Mr Focarelli underlined the need for comprehensive liquidity planning at company level with focus on exposure in derivative markets, the liquidity of assets in portfolios, the management of cash flows and the analysis of life insurance policy lapses, loans and surrender activity. As well as looking at immediate actions (protect your people first, adjust the operating model, protect your clients), Mr Focarelli also looked at short term, three-month priorities (check stress scenarios, accelerate digitalization of customer-base, reduce cost base). And he had ideas about reaching a "pandemic vaccinated business model". Beyond this, the future poses a set of challenges to insurers. Mr Focarelli listed some of them, including those of making health insurance more available and accessible, of developing products to cover epidemics and of offering better protection for older people. And ANIA's director-general wondered about how the insurance industry might support a comprehensive EU recovery plan integrating green transition and digital transformation while meeting financial obligations and fiduciary duty. Meanwhile, Italy's insurers have a deadline of 24 June to make submissions to IVASS, the industry's regulator, on the new regulations governing transparency in equity investment strategy.

4. Alternative individual savings plans

A new decree, appropriately named 'Rilancio'" (recovery), gives official approval to investment in non-listed Italian SMEs, and in SMEs' debt or credit instruments, by mutual funds (or individual portfolios and other forms of saving). Expressing satisfaction at this development, Fabio Galli, Assogestioni's director-general, said on 19 May that the government's acceptance of 'alternative individual savings plans' proposed by the association brings private savings closer to Italy's real economy, thereby strengthening a business fabric that leans heavily towards SME's. In common with savers in traditional individual savings plans, savers in alternative plans will enjoy tax breaks on financial gains, provided that they maintain their investments for five years. But 20 per cent concentration of investment in single firms or in the same group is allowed, rather than 10 per cent, which is the case for traditional plans. Savers may invest €150,000 annually up to a ceiling of €1.5 million. (The limits are €30,000 annually and a maximum of €150,000 for traditional plans.) The industry envisages new flows of savings being directed into closed private equity funds and private debt funds: the health emergency has made access to capital more difficult for SMEs. The decree should help ease the difficulties.

5. Avoiding a looming debt trap

"With Italy's public debt forecast to rise above 155% of GDP this year, the sustainability of that debt will be a recurring issue in coming years," Nicola Nobile opened a recent note from Oxford Economics. Yet, while the combination of the costs of emergency policies and plummeting economic activity are hitting public accounts, Oxford Economics explains how Italy can achieve debt sustainability. Three factors are in play. First, interest rates, which are low and not envisaged as derailing for debt dynamics. Second, primary budget surplus, where Italy has shown this to be achievable, with an average of 1.5% since 2011. Third, and crucially, nominal GDP growth, the note pointing out that growth rather than fiscal policies have been Italy's problem over the past 20 years. Even so, Oxford Economics has a baseline forecast of 2% real GDP growth over 2020-2025 which, with inflation at 1%, would bring nominal growth of 3%. Assuming an implied interest rate of 2.5%, the economic think-tank and forecaster calculates that Italy could reduce its debt/GDP ratio by 9% by 2025 with primary surpluses of 1% and by 14% with primary surpluses of 2%. A table in the note outlines possible government strategies for debt management in situations of (a) no market stress, (b) mild market stress and (c) severe market stress and potential loss of market access. “The ongoing political debate, both in Italy and in Europe, plays an important role in each possible option,” says Oxford Economics. Indeed, politics will be central, but there is reason to expect the debt trap will be avoided.

In Brief

More ideas for insurance. How will the insurance industry respond to urban and lifestyle changes that Covid-19 is bringing? ANIA has decided to involve young Italians in thinking about the new models for insurance that will be needed for the post-pandemic world. It is launching a scheme to encourage university students to put forward ideas for innovating the characteristics and functions of motor insurance products and for possible sustainable urban scenarios. The deadline for participation is 31 August. Applicants whose ideas pass an initial screening will be helped to develop them and the best, measured by level of innovation, feasibility and economic sustainability, will receive monetary prizes as well as possible training and employment opportunities.

Finding time for culture. “The Covid-19 emergency has underlined the importance of providing digital accessibility of cultural and artistic assets,” said ABI, the banking association, in a note on 27 May. Through ABI Lab, its research and innovation centre, it is participating with seven other research and academic institutes in three other European countries (France, Greece and Britain) in TARTAN, a European project proposal to support digitalization and accessibility of cultural assets. Italian banks are already active in the field with their virtual museum, one of the platforms on which research will be based. Already underway, digital transformation has been boosted by lockdowns.

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