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Banche Assicurazioni Finanza

Italian Banking Insurance and Finance Federation

Spotlight

1. Financing Global Value Chains in post-Covid Recovery

On July 9th, FeBAF organized a webinar on “Financing Global Value Chains in post-Covid recovery.” Several experts joined the debate, led by Daria Taglioni (Lead Economist of The World Bank), Frederik Geertman (Deputy Director General and Chief Commercial Officer of UBI Banca), Emilio Rossi (Senior Advisor, Oxford Economics), Alessandro Terzulli (Chief Economist SACE). The main topics on the table were the need for recovery after the pandemic and the integration and strengheting of Global Value Chains for a globalized economic growth. In this phase, finance plays a key role for a sustainable recovery, said Paolo Garonna (Secretary General, FeBAF), channeling resources and managing the allocation of savings. Regarding the issue of global production chains, Daria Taglioni underlined the prompt and effective response of the latter. She pointed out that a greater integration of global production chains is fundamental for per capita GDP growth, although the current uncertainty affects future forecasts. A step back on issues such as globalization and integration could be a huge problem, said Alessandro Terzulli, emphasizing the fact that the markets integration has reduced inequalities among countries. In addition, Terzulli clarified the analysis of the current crisis, differentiating it from the financial one of 2008-2009. Frederik Geertman underlined that banks have entered the pandemic in a very different shape compared to the financial crisis of 2008-2009: they are much more capitalized and have access to more liquidity. This time the banking sector is part of the solution to the Covid Crisis. However, the post-Covid recovery also depends on the fiscal policies that national governments will adopt, said Emilio Rossi, highlighting the adequate timing and effectiveness of monetary policies carried out by the ECB.

2. Banks advance their IT

The annual report on information technology (IT) in Italian banking recently released by CIPA (the interbank convention for automation) and ABI (the banking association) highlights how IT has acquired an all-encompassing role in the industry, and how Italian banks are participants in the drive to innovate. This year's report examines the evolution of bank data centres and the use of cloud computing, as well as the modernisation of core banking, the typical banking operations that Ebe Bultrini, CIPA's chairman, and Giovanni Sabatini, ABI's director-general, describe as “deeply rooted in legacy”. Among the key findings regarding data centres is the ongoing migration from mainframe systems to mid-frames for reasons of cost and increased flexibility. These hardware changes are being accompanied by innovation in how data centres are configured, the traditional data centre giving way to a software-defined data centre and cloud-native infrastructure. At the same time, for reasons of scalability, speed of implementation of innovative solutions, flexibility and independence from obsolescence, banks are increasingly turning to cloud services from external providers. There are also cost advantages, notes the report. Almost all the 19 banking groups (representing over 90 per cent of the banking system's total assets) involved in the CIPA/ABI research are well advanced in modernising their core banking applications “to create an environment characterised by high flexibility and fully integrated with services and channels of the latest generation.”

3. Pensions regulator looks to the future

An inter-generational pact that provides work and life opportunities for young people as well as guaranteeing serenity to the elderly needs to be renewed, said Mario Padula, president of COVIP (the pensions regulator), at the recent presentation of' its annual report. He was concerned about lack of inclusivity and about marginalisation in the labour market that the pandemic was aggravating. “Social sustainability should be married to financial sustainability,” Mr Padula urged. Initiatives are needed to finance Italian industry and infrastructure, and pension funds can play a part that is not in conflict with the need to safeguard the interests of members, he noted. At the end of 2019 COVIP regulated 33 occupational pension schemes, 41 open pension funds, 70 individual pension plans (IPP) and 235 old funds that together covered 8.3 million people, a little less than one-third of the total Italian workforce. Some 3.3 million have IPPs and 1.5 million have subscribed to open funds, while 3.3 million are members of occupational schemes and 0.6 million beneficiaries of old funds. These pension funds and schemes administered €185.1 billion at the end of 2019, of which €63.6 billion were in old funds, €56.1 billion in occupational schemes and €42.5 billion in IPP. (Twenty pension funds for professional groups, such as doctors and lawyers, with assets of €87 billion at year-end 2018, are jointly overseen with the ministry of economics and finance.) Although the number of members of pension schemes increased by 4 per cent last year, COVIP warns that the pandemic and its economic fallout bring risks of falling numbers, reduced savings into pensions provision and the withdrawal of savings to tackle immediate needs.

4. Consumer credit between Covid-19 and recovery

That Italian consumers had other matters than major purchases on their minds this spring is reflected in figures released on 6 July by Assofin (the association of consumer credit and mortgage lenders). Loans for car purchases were 39 per cent lower in the first four months of the year than in the same period of 2019, while personal loans were 32 per cent down. Credit for purchases of furnishings, white goods and electronic items slipped 28.5 per cent, with furnishings suffering significantly more than the other sectors, where online business helped compensate. The figures come from study by Assofin, CRIF (a credit information firm) and Prometeia (a consultancy). Yet consumer credit was 5.9 higher last year than in 2018 despite a slowdown in the autumn, and 2020 opened steadily until the pandemic brought lockdown in March. As for mortgages on property purchases, 2019 closed with a decline of 9.2 per cent, and they were 9.7 per cent lower in the first four months months of 2020. However, Assofin notes that continuing low interest rates have brought a boom in mortgage switching/substitution, which was 46.3 per cent higher last year than in 2018 and was up 135.5 per cent in the first quarter against first quarter 2019. “Greater competition between banks and increased digitalisation has permitted operations even while branches have been shut.” The study revealed that networks of agents and brokers have gained at the expense of bank branches in distributing credit products, and that online credit is growing. The study includes a section on prospects for the remainder of this year and for 2021-2022. The near future is clouded by uncertainty but Assofin expects a gradual recovery in consumer credit in the second half-year and progressive recovery subsequently. The growth in online business, encouraged by lockdown, will accelerate changes in service models, notes Assofin, bringing rationalisation and rethinking of bricks-and-mortar networks, and more partnerships with technology partners.

5. Private bankers embrace ESG

Environmental, social and governance issues are at the heart of a course that AIPB (the private banking association) announced on 2 July. Despite market instability and liquidation of net $385 billion of traditional investments globally in the first quarter, sustainable funds benefited from a net inflow of $46 billion, noted AIPB, with Europe responsible for three-quarters of this. “Sustainable and responsible investments (SRI) are also growing strongly in Italy, with increasing interest from private clients,” said Antonella Massari, AIPB's secretary-general. In the association's annual research into what 650 private clients think about a range of issues, almost a half viewed SRI positively. And three-quarters of clients with businesses believe that attention to sustainability creates value for all connected with their firms. “Sustainability, social responsibility and inclusivity are becoming both important for clients in choosing consultants and as a competitive factor in private banking,” said Ms Massari. The 30-hour online course leading to ESG certification has been designed in accord with Consob (the market watchdog) following introduction of MiFID II rules concerning intermediaries.

In Brief

Assosim and the EU's consultation on a new digital finance strategy. In its recent reply to the consultation, Assosim (the association of financial markets intermediaries) noted the value of soft-law instruments of guidelines to clarify the use of new technologies. Among Assosim's observations was a warning about the risks of new technologies attracting un-regulated players

AIFI. The executive committee of AIFI (the private equity, venture capital and private debt association) considers that, subject to safeguards, public resources are justified to help the economic recovery and that state guarantees might be useful for encouraging investments by private capital funds. Innocenzo Cipolletta, AIFI's chairman, wants the government to exert moral suasion on institutional investors (and offer state guarantees) to allocate resources through private capital funds to help kick-start the economy.

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