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Spotlight

Taking account of insurance regulation

"Financial regulation, and prudential insurance regulation in particular, crucially affects insurers' investment behaviour," said Dario Focarelli, director-general of ANIA (the insurers' association). Mr Focarelli was presenting a paper to a conference on insurance research organised by IVASS (the insurance regulator) in Rome on 13 July. With regulatory reviews planned for 2018 and 2020, the effects of Solvency II on the insurance industry need to be carefully assessed, he added. Mr Focarelli called for additional academic input to enhance the general awareness of how effective the long-term business model of the insurance industry can be in reducing market risk. And research into the measurement of true risk exposure would contribute deciding solvency requirements. Earlier in his paper, ANIA's director-general had drawn attention to how insurance contributes significantly to economic growth by encouraging risk management, savings and pension provisions and promoting financial stability through long-term investment. He noted how insurers, particularly life insurers, are a major source of long-term investment and suggested that they may have a stabilising and counter-cyclical effect on financial markets by continuing to invest when others disinvest. "Even during economic downturns most policyholders continue to pay their premiums," he observed. However, the current prolonged period of low interest rates, posing a serious challenge to the life insurers' business model, is made more difficult by Solvency II and IFRS Phase II which are "dramatically altering" the framework in which the insurance industry operates. The two-day conference at which Mr Focarelli spoke was divided into four sessions: insurance regulation in general; risk and capital; motor third party liability insurance; and natural catastrophe insurance. When opening the conference, Riccardo Cesari, a board member of IVASS, noted that climate change is expanding hazards and vulnerabilities, and that households and businesses are increasingly exposed to this risk. According to Mr Cesari, "In most cases an appropriate mix of state intervention and private insurance provides the best incentives for optimal natural catastrophe coverage." Among the papers available in English on IVASS's website: *Tail Dependence Models for Risk Management and A Governance Study of Corporate Ownership in the Insurance Industry*.

IMF forecasts different shades of grey for the Italian economy

In the view of the International Monetary Fund (IMF), progress has been made for the safeguard of financial stability in Italy. However, and due to the fact that "fragilities in the financial sector remain significant", "additional measures" are needed in order to improve operational efficiency in the banking sector and in order to "considerably" reduce the still lingering amount of non-performing loans (npl). These are some of the opinions expressed by the IMF who published its annual report on Italy on 27 July. According to the IMF, gross levels of non-performing loans have decreased from 360 billion Euros at the end of 2015 to the current level of 349 billion Euros at the end of 2016. However, gross Npls still account for almost 21% of GDP and thus remain among the highest within the European Union. Within the same timeframe (end of 2015 to end of 2016), the percentage of Npls in relation to the total amount of loans has decreased from 18,1% to 17,3%, while the provisions for Npls have "improved over 50%" and the creation of new Npls has gone back to pre-crisis levels". Albeit the latest sale of 8 billion Euros and another 60 billion Euros in total in the forthcoming months, non-performing loans still remain at significant levels (legacy issues with the remaining stock of Npls that reached 203 billion Euros at the end of April 2017). The RoE indicator in the banking sector is still affected by the mix of weighing Npls and high operational costs, thereby bringing efficiency and profitability down. According to the IMF, asset quality reviews (AQR) of all the emerging consolidated banking groups

in Italy will be important, as well as guaranteeing a good level of governance in the banking sector and a "robust" management of risks. The economy in Italy should be growing by 1,3% this year, and around 1% between 2018-2020: the slowing down of future economic growth prospects – yet at a higher forecast level than the ones given by the IMF in April – is due to the absence of "favourable tale winds" coming from trade and monetary and fiscal policies. Downturn risks are correlated also to political uncertainties, possible standstill of reform processes, financial fragilities and a review of credit risk evaluation within the normalization of monetary policies. Moreover, the IMF adds to these risks also the rising uncertainty of US policies and the negotiation on Brexit. According to the institute lead by Christine Lagarde, "real pro capita wages are still below levels registered before entering the Euro and they have remained behind other Eurozone countries", while "the cost of the crisis has fallen disproportionately upon the younger generations and the working population". Thus, more needs to be done in order to allow for "further progress to happen in the shrinking of the competitiveness gap with other Eurozone countries, and in the increase of productivity and of salaries of the most vulnerable part of the population". In order for this to happen, "ambitious efforts and a large political backing will be needed". The suggestion given by the IMF? Take advantage of "the window of opportunity which, however, is getting continually smaller" given by the economic recovery and by the exceptionally accommodating monetary conditions in order to speed up structural, fiscal and financial reforms.

A career in fund management

Young Italians are interested in making careers in fund management. Such is the conclusion of the Human Capital 2017 initiative launched in Milan in April at its annual Salone del Risparmio finance fair by Assogestioni (the fund managers' association). The ICU 2017 programme involved 48 universities, and firms visited ten of these, meeting more than 1,000 students who had expressed interest. Among those visited were LUISS in Rome, the Cattolica del Sacro Cuore in Milan, the Federico II in Naples and the universities in Bari and Trento. Assogestioni received 980 CVs, interviewed 255 young people and 23 of its members offered internships to 41 applicants. Announcing the figures on 13 July, Assogestioni said that the success of this first edition was such that the initiative will be repeated during the 2018 Salone del Risparmio to be held between 10 and 12 April next year.

In brief

** ABI's July monthly report giving data for June shows interest rates continuing at historically low levels: 2.76 per cent for household customers against 2.79 per cent in May and 2.10 per cent on new mortgages. Banks continued to pay average interest of 0.40 per cent on current and deposit accounts. Lending was €97 billion higher at €1,805.5 billion, an annual increase of 1.5 per cent.

** The association of foreign banks in Italy has recently published a 145-page directory of members that gives details of their operations. It has also published, in English, a 56-page report on foreign banks' activities. Among the highlights: 57 per cent market share by foreign bookrunners of Italian syndicated loans, 60 per cent market share held by foreign intermediaries of Italian project finance market; 79 per cent market share of debt capital markets held by foreign bookrunners; and 91 per cent market share held by foreign bookrunners of equity capital markets.

** Appropriately with the arrival of the summer break, on 17 July the Bank of Italy published a 19-page study of tourism in 2016. Foreign visitors, heading mainly for historic cities of art and culture, spent €36.4 billion, an increase of 2.3 per cent on 2015, and helped the Bel Paese to a surplus of almost €14 billion, equivalent to 0.8 per cent of GDP.

** Published on 14 July, the Bank of Italy's third 2017 economic bulletin contains more light than shade. GDP growth in the second quarter was 0.4 per cent and is expected to reach 1.4 per cent this year, while inflation will remain modest. The central bank notes that thanks to a reduction in uncertainty and better macroeconomic data the conditions of Italian financial markets have improved.

** IVASS held a two-hour seminar on Solvency II for journalists on 19 July. In Italian, slides dense with information and explanation of the new system are available on IVASS's website.

LOOKING AHEAD

28&29 September, Rome.

Forum Bancassicurazione, wide-ranging banking and insurance conference offering networking opportunities.

The next issue will be published in September after the summer break. FeBAF wishes you happy holidays!

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