

The growing importance of digitalization in the financial sector and the role of financial centers

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- Established in 2008 by the Italian Banking Association (ABI) and the Italian Association of Insurance Companies (ANIA) as the «**common house of savings and finance in Italy**»
- Liaison Offices in **Rome** (headquarters) and **Brussels**
- Brings together the **major domestic financial associations**
- Currently, we have **12 member associations**, including Aifi, Assoreti, Adepp, Abi, Ania, Assofiduciaria, Assofin, Assogestioni, Assimmobiliare, Assoprevidenza, Aipb and Assosim.
- We promote business values, and we seek to spread the culture of competition, focusing on the enhancement of banking, insurance and finance in terms of public opinion, lobbying, advocacy and transparency
- We promote **bilateral dialogues on financial services** in Europe (with British, French and German financial associations) and worldwide (network of European and international financial centres)
- We organise **Investment Fora** that focus on how to enhance investments, growth for SMEs and analyse financial regulatory environment such as the «Rome Investment Forum» (RIF) and the «Trieste Investment Forum» (focus on South Eastern Europe)
- **new project (by 2019): «Euro-Med Investment Forum» (focus on Mediterranean/Arab countries)** with a strong focus on FDI, sustainable finance, «blue economy», etc...there are many untapped growth opportunities offered by an increased cooperation in financial services between the north and the south of the Mediterranean!

Italian Banking sector (data for 2017):

- There are 113 private banks active in Italy (incorporated in 60 banking groups), 347 independent banks and 78 branches of foreign banks
- 11 Italian banking groups fall under the definition of G-SIBs (globally systemically important banks) and fall under the SSM banking supervision (ECB)
- The Italian cooperative banks (280 in total) are currently undergoing a reform process, while the popular banks in Italy (15 in total) have already undergone a consolidation process
- Banks' assets represent around 70% of the Italian financial sector, in line with other EU countries, while they contribute to around 2,2% of GDP (end of 2017)

Italian Insurance sector (data for 2017):

- 213 insurance companies are active in Italy, of which 100 domestic and 113 branches of foreign companies (most of which are from other EU countries) and employs a workforce of over 46.000 workers.
- 57 companies are active exclusively in the life insurance business, 124 exclusively in the non-life and 25 are mixed

The role of the financial sector in infrastructure financing

- ✓ Infrastructure investment activities in the EU in 2016 were about 20% below investment rates prior to the global financial crisis. Investment rates in 2016 represented 1.8% of EU GDP, down from 2.2% in 2009/2010. Compared to 2009, current infrastructure investment in Europe declined most in the transport sector.
- ✓ The weak infrastructure investment in Europe has been largely attributed to a decline in investment activities by governments (primarily regional or local authorities).
- ✓ Fiscal constraints, regulatory or political instability and investment decisions driven by political choices have been identified as the main challenges to infrastructure investment.
- ✓ According to EIB estimates, the overall investment gap in transport, energy and resource management infrastructure has reached a yearly figure of EUR 270 billion.
- **Role of financial sector:** the lack of a strong pipeline of sustainable infrastructure projects is a recurring concern for investors. Therefore, technical assistance is key to further support the development of sustainable infrastructure projects in the EU and to scale up small and scattered projects.

The role of the financial sector in SME financing

- ✓ There are 23.8 million enterprises in the EU that employed 93 million people in 2016, and which accounted for 67% of total private-sector employment and generated 57% of value added in the EU-28 non-financial business sector. About 85% of newly created jobs in the EU are accounted for by SMEs.

- ✓ Market-based instruments (e.g. equity) are only considered relevant by 12% of SMEs although in many cases equity (risk-capital) is more suitable, as small companies often lack collateral or have irregular cash-flows (equity does not impose specific repayment schedule, and hence can be less of a burden during times of economic stress)

- **Role of financial sector:** providing more diversified sources of funding is necessary in order to:
 - a) increase the ability of SMEs to withstand economic downturns
 - b) make the financial system more resilient during economic shocks (i.e. key objective of the Capital Markets Union)

Challenges and Opportunities for the financial sector: the rising importance of digitalization and fintechs – part 1

- The challenges and opportunities in the digitalization of the banking sector are driven mostly by:
 - a) changes in customer behaviour
 - b) demographic changes in the population
 - c) growth of fintechs/start-ups
- Opportunities?...Yes, if the banking sector is able to facilitate testing and sandboxes, at the same time protecting customer data, adapt to and create a well-functioning regulatory framework and create a level-playing field for all sectors involved
- In Italy alone there are 174 fintechs who launched more than 176 initiatives (2017 data)
- These activities include: online funding platforms, insurtech innovations, payment services (mobile and internet), wealth and asset management, and online lending platforms (crowdfunding).
- However, the Italian fintech landscape is currently still undercapitalized and would benefit from a growing capital market in Europe (see also efforts by the EU for a stronger Capital Markets Union and the reinforced Juncker Plan, ie. «invest.eu»)
- In 2017 alone, the ICT spending for the banking sector in Italy reached EUR 4.5 billion, and is projected to grow further (ABI Lab survey indicates that for over 90% of Italian banks the ICT budget is projected to grow exponentially, particularly in R&D and cybersecurity)
- Example: in 2017 Italian banks have set aside EUR 1.8 billion in software assets

Challenges and Opportunities for the financial sector: the rising importance of digitalization and fintechs – part 2

- New technologies such as AI, cognitive computing, Clouds and Big Data are challenging banks' internal and external processes and the way they deal with their clients
- However...1) the growth of the ICT sector must also fall in line with the principles of solidity, security and agility and it must comply with the requests of customers (recent Mastercard survey showed how 46% of Italians like online payment services).
- However...2) technological evolution in the banking sector implies that more has to be done in terms of financial education (both for investors and clients)
- However...3) major challenges are posed by the uneven regulatory playing field: the majority of fintechs offering traditional banking services are NOT subject to any regulatory regime (such as PSD2, Mifid or other national registration schemes)...risk of comparative disadvantages!
- Finally, more cooperation is needed between:
 - a) national and European authorities (sandboxes, collaborative compliance models, etc.)
 - b) banks and fintechs («cross-fertilization»)

The importance of Financial Centres: from the Euro-Med area to the global level

- Financial centers are key to sustain economic growth. They provide the infrastructure for investment and savings that drives entrepreneurial endeavors and economic growth throughout industries and communities and they contribute more and more to sustainable development.
- After announcing their strategic alliance in Paris on 12 July 2018, eleven financial centers have launched on 1 October 2018 in Brussels the **World Alliance of International Financial Centers (WAIFC)**.
- WAIFC aims to share best practices and cross fertilization between International Financial Centers and to develop the dialog with the Public Authorities at the international level.
- WAIFC will be project driven and it will focus on the following areas: 1) exchange of data and information on financial centres, 2) promote green investments & infrastructure financing, 3) encourage new Fintech developments, and 4) the role of finance in the real economy (particularly SMEs)
- The founding members of the new international non-profit association registered in Brussels are (including many Arab countries):

Abu Dhabi Global Market; Astana International Financial Centre Authority; Belgian Finance Club; Busan International Financial City Promotion Center, BEPA; **Casablanca Finance City Authority**; Frankfurt Main Finance; Luxembourg for Finance; Moscow: Analytical Centre Forum; **Oman: The Capital Market Authority**; Paris EUROPLACE; Toronto Finance International.

- FeBAF (Rome), London, Singapore and Tokyo have currently an observer status.



Thank you for your attention

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