Rich pickings

Italy's resilient savers are driving consolidation in asset management

Intesa Sanpaolo is said to be in talks with BlackRock, the world's biggest asset manager

Print edition | Finance and economics ›

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THE rumour mill is grinding again. In early 2017 reports swirled of a possible merger between Generali, Italy's biggest insurer, and Intesa Sanpaolo, the country's second-biggest bank. That deal came to nothing. But Intesa is still looking for a partner. Now it is said to be in talks with BlackRock, the world's biggest asset manager, about a stake in Eurizon, the bank's asset-management unit. Deal or no deal, two things are clear. Italy's asset-management industry is consolidating. And though investors fret over a populist government and towering public debt, its pool of private savings will keep them keen.

Last year Amundi, a French asset manager, bought Pioneer, the fund-management arm of UniCredit, Italy's biggest bank. Over half of assets under management are owned by 10% of Italians, which makes the wealthier end of the business especially appealing. Mediobanca, an investment bank, last year opened a private bank and bought 69% of RAM Active Investments, a Swiss investment manager. And in May Indosuez, the wealth-management arm of Crédit Agricole, a French bank, acquired Leonardo, a private bank.

There is lots to fight for. Although Italy's savings rate has fallen by more than half since the 1990s, at 10% of personal income it still beats Britain's or Spain's. The financial crisis a decade ago saw assets under management contract by €290bn ($335bn) in a year; Italian GDP has not yet returned to its pre-crisis level. Yet those assets have since more than doubled to over €2trn.

Both supply and demand are shifting. With interest rates at rock-bottom, banks are scrambling for fees. Savers meanwhile understand that they must diversify from cash and bonds to make a return. Cash and deposits account for a third of households' portfolios. Bonds still accounted for 7.6% of invested assets in the third quarter of 2017, far more than the 1.2% in France and 2.6% in Germany. That is down from 19.6% in 2010.

The share of banks' bonds has shrunk from 10% to 2.5%. Buyers were scared off by haircuts in the past few years on some of the debt issued by several struggling regional banks, which had sold those bonds to their own clients as safe investments. (The government later repaid retail investors, declaring them victims of mis-selling.)

Santo Borsellino of Generali Investments, which manages a quarter of Italians' savings, suggests that some may have been burnt by do-it-yourself investing, creating greater demand for funds offered by asset managers. If recent crises have a silver lining, it may be that they made Italians more financially literate, according to Deloitte, a consulting firm.

Italy has not seen the same expansion of equity products as the rest of Europe, says Tommaso Corcos, Eurizon's boss. But some are on offer, such as *piani individuali di risparmio* (PIR), individual savings accounts that offer favourable tax treatment for investments in listed firms. Italian companies must account for 70% of the funds invested. PIR have raised over €11bn since they were introduced last year. Intermonte SIM, an investment bank, suggests that could surpass €55bn by 2021.

Alternative investments, such as venture capital, private equity and hedge funds, are growing in popularity, too, though from a low base. Crédit Agricole is due to open a startup incubator in Milan this autumn, partly to present new investment opportunities to clients. Ditto ethical investment. Deloitte notes that this accounted for less than 5% of the average Italian portfolio at the end of 2016. But retail ethical funds grew by 26% between 2014 and 2016, according to Eurosif, an association that promotes them. Mr Borsellino says he has seen attitudes shift in the past 18-24 months, particularly among institutional investors.

New European regulation may both make Italian investors more demanding and hasten dealmaking. The Markets in Financial Instruments Directive (MiFID 2), which came into effect in January, aims to make costs more transparent, especially for retail investors, which in Italy account for 85% of the market. Its real impact will be felt in 2019, says Cinzia Tagliabue of Amundi, when clients begin to see a breakdown of charges—which are among Europe's highest. Banks, which account for 70% of distribution, will seek to work with selected asset managers to negotiate lower fees. More consolidation is coming.

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