Market in focus: Italy

Market needs to emulate asset management model set by others

In tracing the development of the Italian funds industry, **Alessandro Rota** and **Roberta D'Apice** suggest that in the future, it should look to develop a local asset management industry.

The Italian investment fund regulation dates back to the early 1980s. However, it was not until the mid-1990s that a local fund industry took off to such an extent that it has gained a significant role within the Italian economy. During the last 15 years the open-end fund (Ucits) market has gone through three main development stages.

Over the last years of the 20th century, the market saw a general decline in interest rates that led to the birth of the euro. As a result, a huge amount of savings left the Italian government bond market in search of better investment opportunities. This trend lies at the heart of the strong development of a local asset management bank-controlled industry. The progressive opening of the Italian financial system and large privatisation plans of government-owned firms gave this process further strength. Between 1995 and 1999 investment funds, mostly Italian Ucits, collected €360 billion of new money and assets grew from €70 billion to €540 billion, roughly equivalent to 50 per cent of GDP. This was followed by a sharp decline in net flow figures after the new economy bubble burst in 2000. This led to a relatively flat trend for the market as a whole, and total net flows in the 2000-07 period settled at €21 billion. However, this low figure hides an important substitution process which started then and is still under-way. Italian based funds recorded negative flows in every single year with the only exception of 2003; on the other hand, Luxemburg and Ireland-domiciled Ucits promoted by Italian banking groups (round-trip funds) but also, and increasingly, by foreign asset management companies (foreign funds) posted record high flows that changed dramatically the local landscape. As a result, at the end of 2007, foreign Ucits as a whole represented around 50 per cent of the fund market. The recent financial crisis followed by a deep economic recession has resulted in a significant downsizing of the fund industry due to the combination of the fall of market values with record high outflows (€140bn in 2008; €-27bn in the four subsequent years). However, this difficult situation did not stop foreign-based Ucits from gaining market share. At the end of 2012 the €480 billion fund market was dominated by round-trip (43%) and foreign funds (26%). Indeed Italian products accounted for less than one third of the total.

Alessandro Rota

Roberta D'Apice

The crisis, with its well-known effects on banks' stability, sovereign debt sustainability and household saving capabilities, has deeply affected the development of the fund market in many ways. Today it casts a shadow of uncertainty on its future prospects. However, moving from the investment fund industry and widening the scope by looking at the asset management industry as a whole, the outlook appears more promising.

At the end of 2012 the asset management industry accounted for about €1,200 billion in assets. The share of institutional mandates (insurance companies, pension plans and other institutional investors) is by far the largest, at €577 billion, or 48 per cent. During the last few years, this has been on a stable growth path. Should this trend continue in the future, the industry could manage to exit from the current crisis by developing a structure closer to that of other countries that enjoy a full-size and well-established local asset management industry such as USA, the UK, Germany or France.

Alessandro Rota is head of research and Roberta D'Apice is head of legal at Assogestioni.

Italy's funds industry: a brief history

Key regulatory developments since the introduction of the Ucits Directive

➤ The Italian regulation of investment funds has evolved significantly since the introduction of the Ucits Directive in 1985. The original implementation of this fundamental European Directive dates back to January 1992 when two legislative decrees (n.83 and 84) redrafted the main articles of the first law on investment funds enacted ten years before (law n.77/1983). This strengthened investor protection; reinforced depository requirements; broadened eligible assets; and provided rules for the cross border marketing of funds.

In 1998 the Draghi law (legislative decree n.58) made other key improvements to the CIS regulation by introducing a newly specialised subject, Società di Gestione del Risparmio (SGR), which was given the permission to provide both collective and individual asset management services. In order to increase the level of specialisation, an SGR was allowed to delegate specific functions and rules were introduced to promote an active role in the governance of public companies.

With the implementation of Ucits III (August 2003, decree n.274) the asset management passport and a new 'simplified prospectus' were introduced into the Italian legislation. Further improvements included a revision of eligible assets, the possibility to "appoint" the depository for the net asset value (NAV) calculation and the provision by the Bank of Italy of a fast lane for the approval of standardised products.

The more recent regulatory development was the implementation of Ucits IV (April 2012, decree n.47). That was the occasion to introduce many new rules for non-Ucits products too, including master-feeder and KIID. The Commissione Nazionale per le Società e la Borsa (CONSOB) was recognised as the single-entry point for cross-border Ucits notifications and the nominee subscription method was allowed for investment firms. Other improvements that were introduced included an extension of the execution-only regime; an overhaul of disclosure requirements; a number of simplifications in the operations of an SGR; and finally a new one-shot fee (commissione di collocamento) that can be levied on funds with a pre-defined lifetime (e.g. formula or target-date products).