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Financial advice and the future of the asset management industry in Italy

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Tutela del Risparmiatore e modelli di Governance nell'Asset Management

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OUTLINE

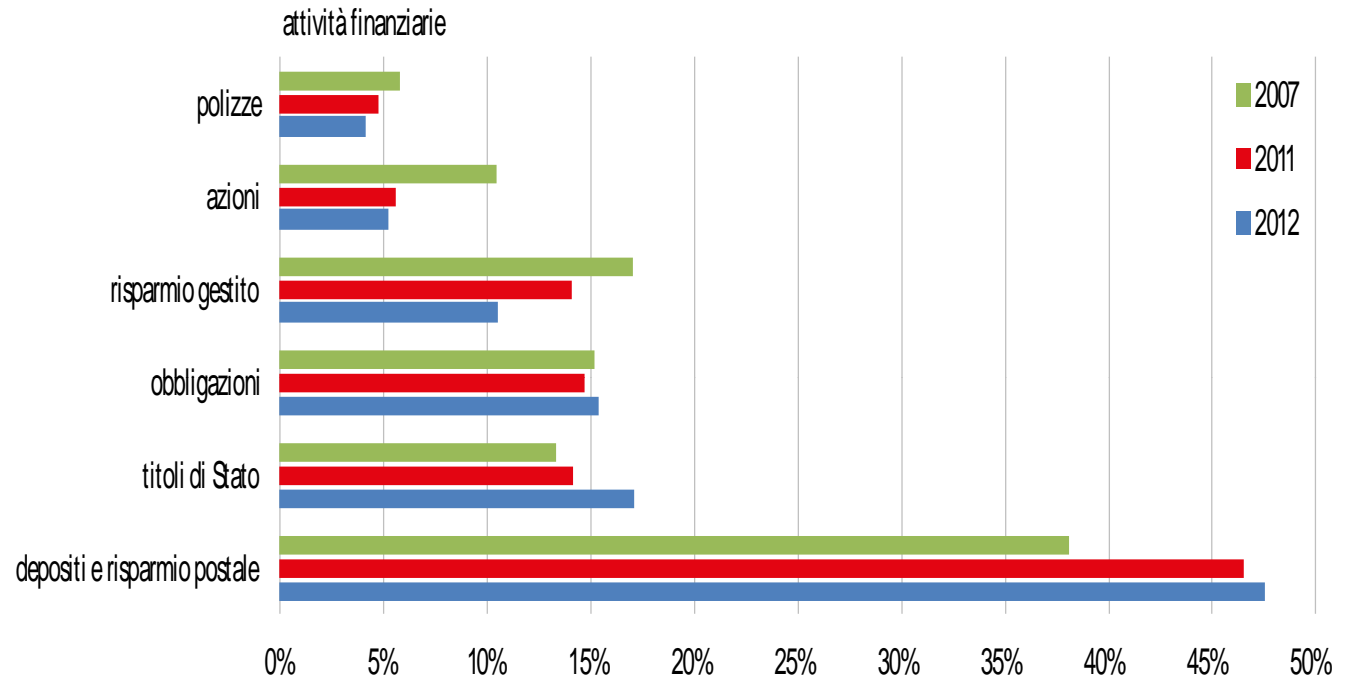
- I. Trends in the Italian AM industry**
- II. Main industry weaknesses**
- III. AM and financial advice**
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Trends in the Italian AM industry

Since 2007 Italian households have significantly lowered their holdings of AM products

Portfolio composition of Italian households



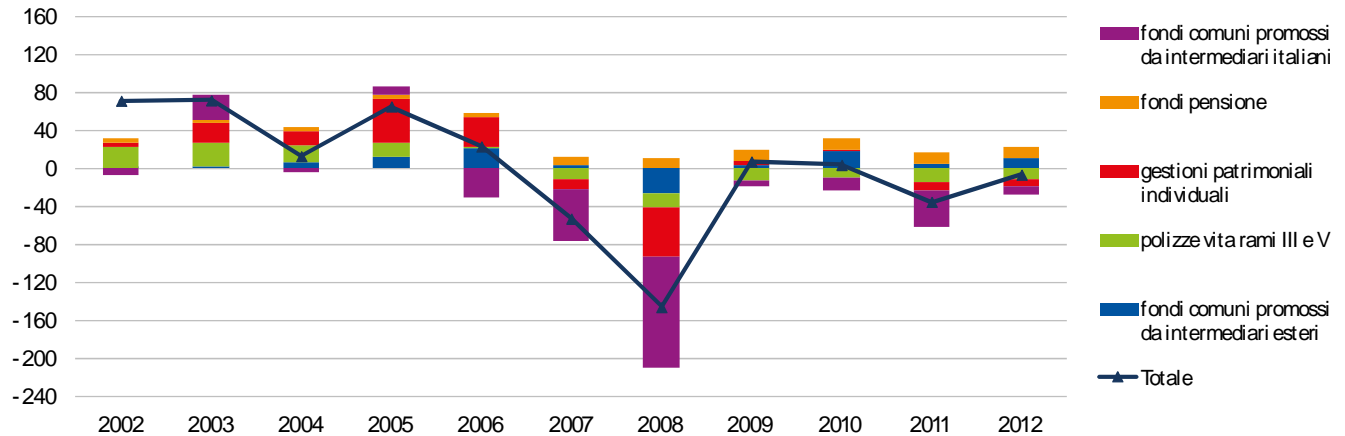
Source: Consob Annual Report 2012



Trends in the Italian AM industry

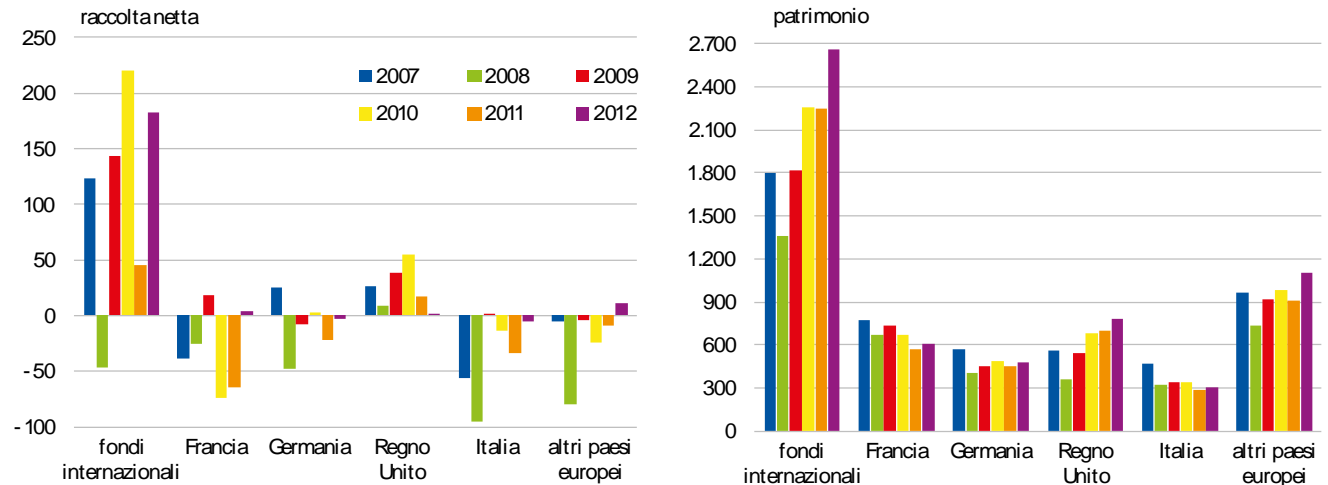
Net outflows have been significant since 2007, hitting mutual funds and insurance products worst

Net inflows by product type



Italy is now well behind UK, FR and GE in terms of AuM by mutual funds

Net inflows and AuM of mutual funds across EU



Source: Consob Annual Report 2012



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Industry weaknesses

- Why bank ownership of AMC can be a problem?
- When distributors own producers (vertically integrated system) conflicts of interests may obviously arise. Rational clients may perceive this, and be less willing to pay for financial advice, or simply less willing to buy AM products in the first place
- In a captive market there are less incentive to cost reduction, innovation and to invest in product quality . Dissatisfaction for product quality may further reduce the demand for financial advice

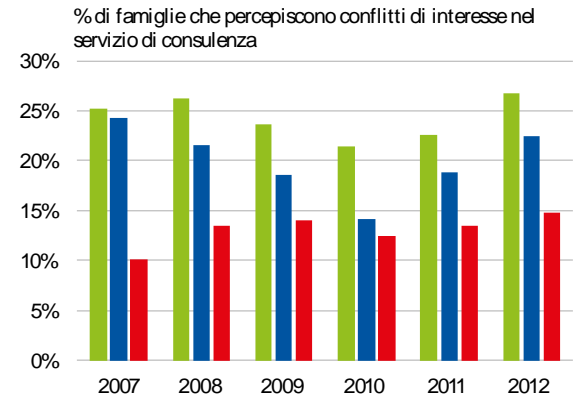
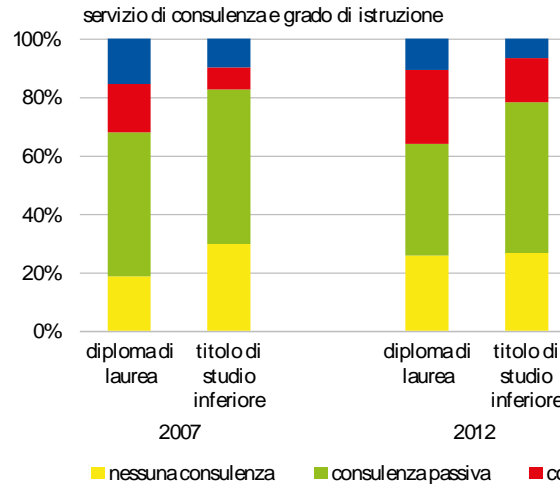
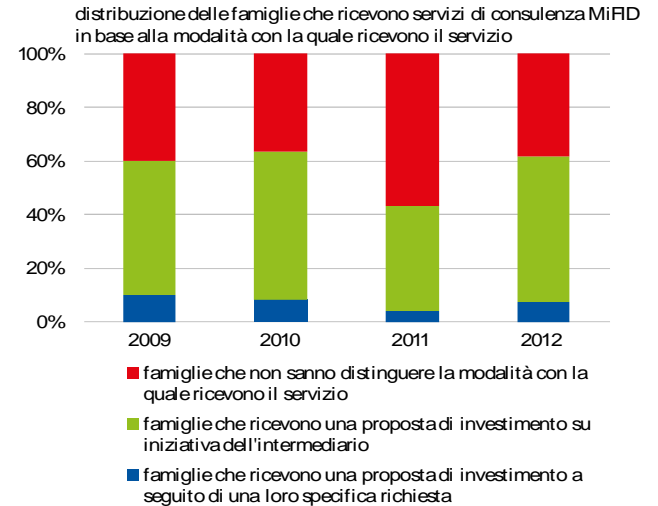
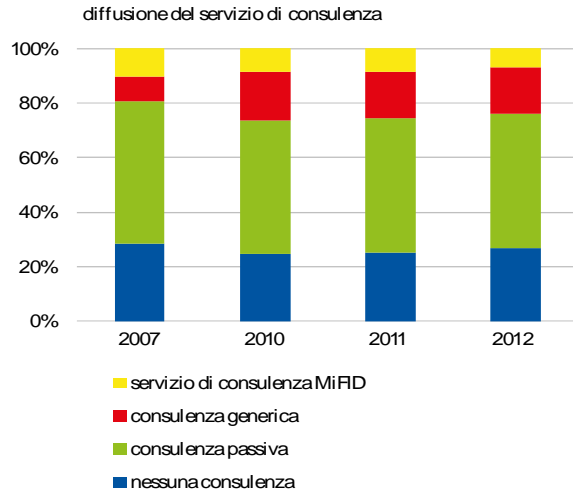


Financial advice in Italy

- Incredibly tiny share of Italian households get/demand personalized financial advice, even among more educated people

- High share of households perceives conflict of interests in MiFID financial advice services

Financial advice to Italian households



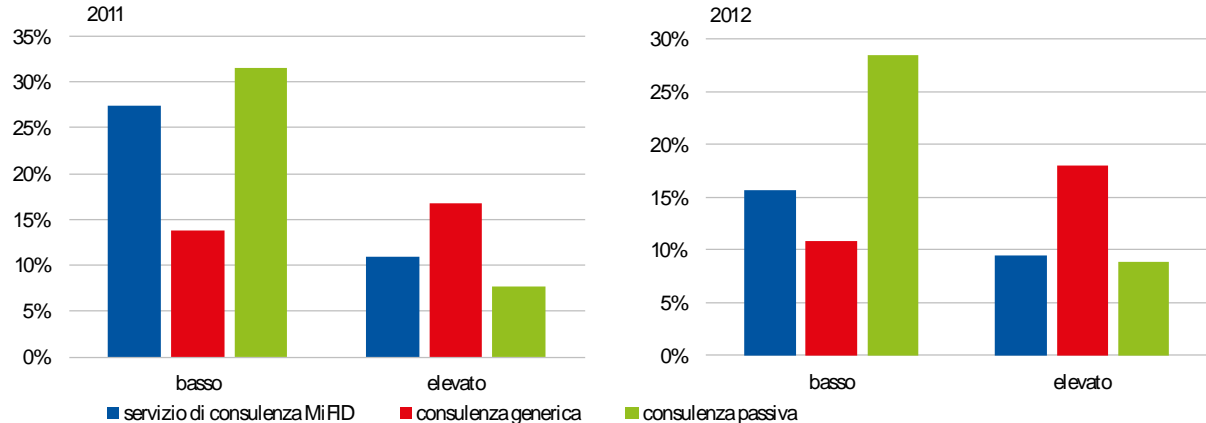
Source: Consob Annual Report 2012



Financial advice in Italy

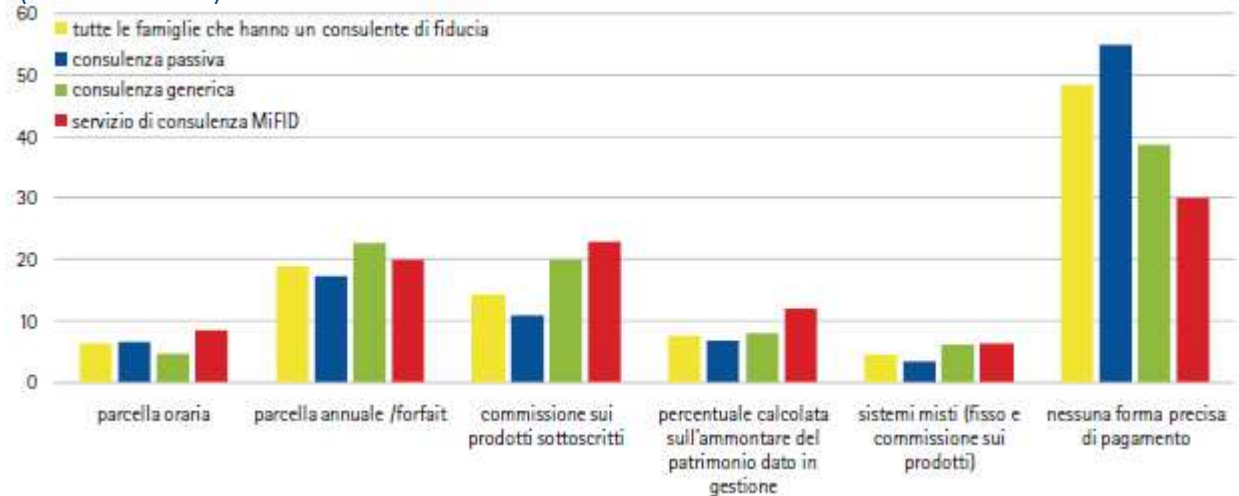
- Less than 10% of households who do get/demand financial advice are fully satisfied of the service
- High share of households are not willing to pay for financial advice (more than 50% of households who declare to have a financial adviser are not willing to pay for financial advice)

Degree of of satisfaction with financial advice by Italian households



Willingness to pay for financial advice by Italian households

(dati a fine 2010)



Source: Consob Annual Report 2012



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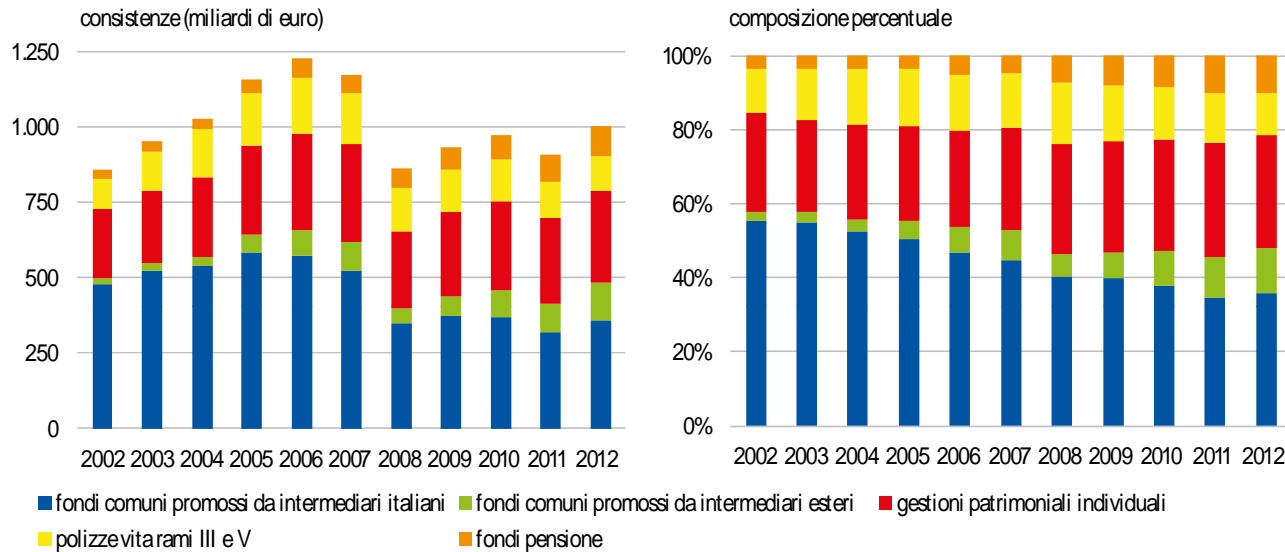
Market failures

- If consumers are not willing to pay for financial advice, how distribution can possibly be remunerated? Rebates of management fees to distributors is the industry standard in a vertically integrated system. From a groupwide perspective, this is not necessarily a problem, though it might be that distributors are getting a disproportionately higher share of the value added of AM services.
- Lack of competition in distribution and inability to use the financial advice quality as a competition tool may hinder the emergence of new/independent AM players. They either have to pay too much to access distribution networks or the distrust in the quality of financial advice may make investors unable to identify good AM
- Hence main market failures come from excess market power in the distribution due to vertically integrated industry models and from informational asymmetries due to distrust in financial advice



Foreign competition

AM products distributed in Italy



Fonte: Relazione Annuale Consob per l'anno 2012

- Market failures may imply that the market remains underdeveloped or that there are less AM services than what would be socially optimal
- AuM of mutual funds and insurance products is shrinking and foreign competition is slowly wresting a significant slice of the incumbents business.



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The role of regulation

- Regulation should foster the development of an efficient market for financial advice and the MiFID review is going into this direction.
- Independent financial advice is the key to solve market failures, but the point is how to convey convincingly to investors that the service is really independent. This is the debate over MiFID revision (no rebates and sufficiently wide product menu). Even if investors get convinced, the question is whether the business model of independent advice is viable given the strong resistance to pay for financial advice?