

Household investments through Italian asset management products

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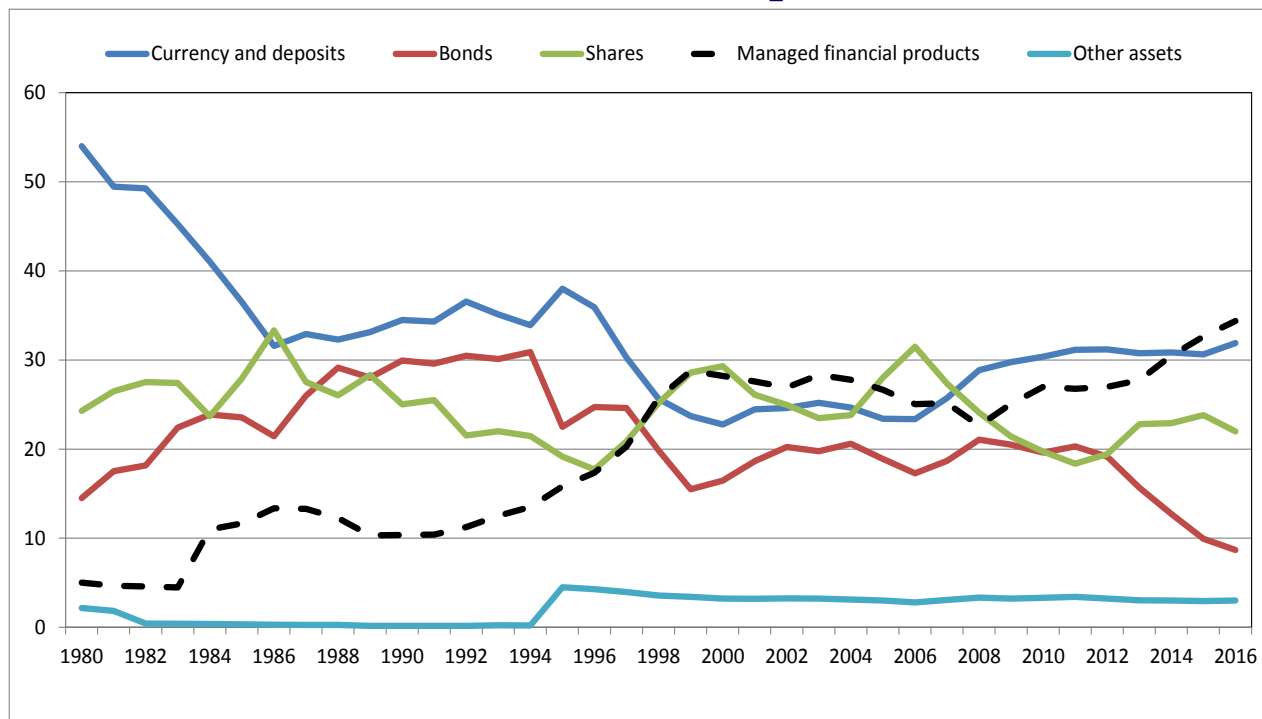
Outline

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Motivations

- ✓ Italian households are recomposing their financial balance sheet in favour of managed saving products (mutual funds, insurance policies and pension funds).
- ✓ At the end of 2016, they represented 34 per cent of total financial assets (currency and deposits 32 per cent).

Italian households: financial assets composition 1980-2016



Source: Financial Accounts

Motivations (2)

- ✓ Asset management products permit households to satisfy different needs (diversification, buy protection against risks, saving for retirement).
- ✓ Through managed financial products households invest indirectly in the financial markets, and they often bear the ultimate risk. Need for investigation (counterpart country, issuing sector, type of instrument).
- ✓ Enhancements in official statistics (supervisory statistics, Centralised Securities Database, Securities Holding Statistics) permit to carry out this exercise.

The look-through approach

- ✓ The method consists in removing the veil of intermediation to capture the final destination of investments (financial circuit made transparent).
- ✓ Perimeter of application: investment funds, pension funds and insurance products. Deposits excluded.
- ✓ Macro *vs* micro approach.
- ✓ Reiteration but to be decided case by case (relevance, quantity and quality of statistics).
- ✓ Method already used:
 - ✓ Researchers: Allen and Gale (2001), Boutilier et al. (2002, 2007), Della Corte et al. (2017)
 - ✓ Central banks: US FED and Banque de France
 - ✓ Supervisory rules and practices: EU Solvency II Directive; Italian authority on pension funds

The look-through approach (2)

- ✓ First time application to Italian households
- ✓ Method applied only to Italian saving products:
 - ✓ only open-end funds (closed-end mainly real estate)
 - ✓ for foreign investment funds information not sufficient to unveil underlying investments
 - ✓ further level of intermediation (funds in the portfolio of intermediaries) not analyzed: mainly foreign funds; avoid low quality estimation
- ✓ Only portfolio investments: no deposits and other assets, generally not relevant.
- ✓ Sources:
 - ✓ Supervisory statistics
 - ✓ Securities Holding Statistics
 - ✓ Centralised Securities Database
 - ✓ Reports/publications from national supervisory authorities on insurance corporations and pension funds
- ✓ Period of analysis: 2014-2016.

Uses

- ✓ The wealth of information obtained through the application of the look-through method has wide-ranging uses in policy-making and in economic and financial studies, for instance:
 - ✓ Identify vulnerabilities in the households' balance sheet as a source of contagion to and from the economic and financial system:

*“When Lehman Brothers collapsed in September 2008, policy-makers, including central banks, had very limited information about who was exposed to the securities at stake. In particular, most of the then available official statistics only provided aggregated information, thereby making it difficult to **identify exposures of market participants or sectors to a particular issuer or to capture the extent of contagion** that such an event could trigger. This and similar experiences, where a lack of detailed data hindered swift policy action, pointed to the need for highly granular information on securities holdings.” (ECB Economic Bulletin, n° 2/2015)*
 - ✓ Assess the actual degree of diversification realized through investments in asset management products;

Uses (2)

- ✓ Compare the composition of the households' financial wealth before and after the look-through and measure, for example, the overall exposure to non-resident issuers, taking into account the foreign component held by institutional investors that are typically less home-biased than non-financial sectors;
- ✓ Assess the coherence between the risk borne by households and the performance of the portfolios built by asset managers;
- ✓ Enable more accurate forecasts about the impact of policy decisions on the households' financial wealth (for example, monetary policy decisions);
- ✓ Provide evidence for the analysis of financial wealth as an indicator of present and future well-being of households (see Stiglitz/Sen/Fitoussi 2009 report) and contribute, along with the data of sample surveys, to the debate about the wealth allocation over the life cycle.

Main results

Investments underlying mutual funds (percentage composition)

	2014	2015	2016
Debt securities	69.7	63.6	61.8
Issued by residents	39.9	34.3	32.9
<i>General government</i>	33.7	28.3	27.2
<i>Banks</i>	3.7	3.5	3.2
<i>Other financial corporations</i>	0.5	0.6	0.6
<i>Non-financial corporations</i>	2.0	1.9	1.8
Issued by non-residents	29.8	29.3	28.9
<i>General government</i>	14.4	14.1	12.3
<i>Banks</i>	4.2	4.0	4.5
<i>Other financial corporations</i>	5.7	5.6	6.8
<i>Non-financial corporations</i>	5.5	5.6	5.3
Shares	12.2	13.0	12.1
Issued by residents	2.1	2.5	2.1
<i>Banks</i>	0.6	0.7	0.5
<i>Other financial corporations</i>	0.3	0.2	0.2
<i>Non-financial corporations</i>	1.3	1.6	1.5
Issued by non-residents	10.1	10.5	10.0
<i>Banks</i>	0.6	0.5	0.8
<i>Other financial corporations</i>	1.6	1.6	1.4
<i>Non-financial corporations</i>	8.0	8.4	7.9
Mutual fund shares	18.1	23.4	26.1
Issued by residents	1.9	3.2	3.9
Issued by non-residents	16.2	20.2	22.2
Total portfolio	100.0	100.0	100.0
Issued by residents	43.9	40.0	38.9
Issued by non-residents	56.1	60.0	61.1

- ✓ Underlying portfolio: from 159 to 185 billion euros (4.4% household total financial wealth – end 2016).
- ✓ Debt securities remain prevalent, mostly public bonds (Italian Treasury Bonds).
- ✓ Italian private bonds not relevant (6 per cent) while foreign bonds rose to 17 per cent (US, FR, UK, NL).
- ✓ Shares: stable, mainly issued by foreign non-financial corporations (US, FR, GER, UK).
- ✓ Mutual funds: increasing weight (mostly Luxembourg and Irish funds).

Main results (2)

Investments underlying pension funds (percentage composition)

	2014	2015	2016
Debt securities	68.6	69.4	67.3
Issued by residents	29.3	27.2	26.0
<i>General government</i>	27.4	25.5	24.3
<i>Banks</i>	1.1	0.9	0.9
<i>Other financial corporations</i>	0.2	0.3	0.2
<i>Non-financial corporations</i>	0.6	0.5	0.6
Issued by non-residents	39.4	42.2	41.3
<i>General government</i>	26.6	25.7	26.0
<i>Banks</i>	4.5	2.7	4.7
<i>Other financial corporations</i>	5.0	9.3	5.4
<i>Non-financial corporations</i>	3.3	4.5	5.2
Shares	19.4	19.0	20.4
Issued by residents	1.0	1.1	1.2
Issued by non-residents	18.4	17.9	19.2
<i>Banks</i>	1.5	1.4	1.5
<i>Other financial corporations</i>	2.2	2.3	2.6
<i>Non-financial corporations</i>	14.6	14.2	15.0
Mutual fund shares	11.9	11.6	12.3
Issued by residents	0.8	1.0	0.9
Issued by non-residents	11.2	10.7	11.4
Total portfolio	100.0	100.0	100.0
Issued by residents	31.0	29.2	28.2
Issued by non-residents	69.0	70.8	71.8

- ✓ Underlying portfolio: from 86 to 95 billion euros (2.3% household total financial wealth – end 2016).
- ✓ Stable composition.
- ✓ Public bonds 50 per cent of the portfolio.
- ✓ Italian private bonds not relevant (2 per cent); foreign bonds 16%.
- ✓ Shares: mainly issued by foreign non-financial corporations (US, GER, FR, UK).
- ✓ Mutual funds: more than 90% Luxembourg and Irish.

Main results (3)

Investments underlying total insurance products (percentage composition)

	2014	2015	2016
Debt securities	83.1	81.0	79.7
Issued by residents	63.5	59.4	57.4
<i>General government</i>	54.6	51.4	51.1
<i>Banks</i>	5.3	4.4	3.1
<i>Other financial corporations</i>	0.7	0.7	0.7
<i>Non-financial corporations</i>	2.8	2.9	2.7
Issued by non-residents	19.7	21.6	22.3
<i>General government</i>	4.8	4.8	5.0
<i>Banks</i>	4.7	5.2	5.1
<i>Other financial corporations</i>	6.2	6.4	6.4
<i>Non-financial corporations</i>	4.0	5.1	5.8
Shares	0.3	0.4	0.4
Issued by residents	0.0	0.0	0.0
Issued by non-residents	0.3	0.4	0.4
Mutual fund shares	16.5	18.6	19.9
Issued by residents	0.5	0.7	0.7
Issued by non-residents	16.0	17.9	19.2
Total portfolio	100.0	100.0	100.0
Issued by residents	64.0	60.1	58.1
Issued by non-residents	36.0	39.9	41.8

- ✓ Underlying portfolio: from 470 to 520 billion euros (12.4% household total financial wealth - end 2016).
- ✓ Public bonds: mainly Italian (BTPs) and issued by euro area countries (about half by Spanish government).
- ✓ Private bonds: ↓ Italian (from 9 to 6 per cent), ↑ foreign (from 15 to 17 per cent). French banks and firms 3 per cent.
- ✓ Mutual funds: Luxembourg and Irish.
- ✓ Composition reflects the prevalence of traditional insurance products.

Main results (4)

Investments underlying financial (indexed) insurance products (percentage composition)

	2014	2015	2016
Debt securities	24.5	18.4	17.4
Issued by residents	17.4	13.4	12.6
<i>General government</i>	15.3	12.9	12.1
<i>Banks</i>	1.9	0.4	0.3
<i>Other financial corporations</i>	0.0	0.0	0.0
<i>Non-financial corporations</i>	0.1	0.1	0.1
Issued by non-residents	7.1	5.0	4.9
<i>General government</i>	3.6	3.1	2.7
<i>Banks</i>	2.2	1.2	1.1
<i>Other financial corporations</i>	0.9	0.6	0.7
<i>Non-financial corporations</i>	0.4	0.2	0.3
Shares	2.5	2.5	2.4
Issued by residents	0.2	0.2	0.1
Issued by non-residents	2.3	2.4	2.2
Mutual fund shares	73.0	79.1	80.2
Issued by residents	2.3	2.9	2.7
Issued by non-residents	70.7	76.2	77.5
Total portfolio	100.0	100.0	100.0
Issued by residents	20.0	16.5	15.4
Issued by non-residents	80.0	83.5	84.6

- ✓ Underlying portfolio: from 106 to 129 billion euros (3% household total financial wealth - end 2016).
- ✓ Compared to the portfolio underlying “total insurance products”:
 - ✓ Less debt securities (public component still predominant);
 - ✓ More listed shares (mostly issued by foreign non-financial corporations);
 - ✓ Foreign investment fund shares largely prevalent.
- ✓ Underlying investments almost entirely placed with non-resident issuers.

Main results (5)

Investments underlying total managed products (percentage composition)

	2014	2015	2016
Debt securities	78.4	75.7	74.1
Issued by residents	54.1	50.0	48.0
<i>General government</i>	46.6	43.1	42.4
<i>Banks</i>	4.5	3.8	2.9
<i>Other financial corporations</i>	0.6	0.6	0.6
<i>Non-financial corporations</i>	2.4	2.4	2.2
Issued by non-residents	24.3	25.7	26.1
<i>General government</i>	9.6	9.3	9.2
<i>Banks</i>	4.6	4.7	4.9
<i>Other financial corporations</i>	5.9	6.6	6.4
<i>Non-financial corporations</i>	4.2	5.2	5.6
Shares	5.3	5.4	5.5
Issued by residents	0.6	0.7	0.7
<i>Banks</i>	0.2	0.2	0.2
<i>Other financial corporations</i>	0.1	0.1	0.1
<i>Non-financial corporations</i>	0.4	0.4	0.4
Issued by non-residents	4.7	4.7	4.8
<i>Banks</i>	0.3	0.3	0.4
<i>Other financial corporations</i>	0.6	0.7	0.7
<i>Non-financial corporations</i>	3.7	3.7	3.8
Mutual fund shares	16.3	18.9	20.4
Issued by residents	0.9	1.3	1.4
Issued by non-residents	15.5	17.6	19.0
Total portfolio	100.0	100.0	100.0
Issued by residents	55.6	52.0	50.1
Issued by non-residents	44.4	48.0	49.9

- ✓ Total underlying portfolio increased by 12%: from 712 to 800 billion euros (19% of household total financial wealth - end 2016).
- ✓ Debt securities prevailing. Italian long-term Treasury bonds still the most important category (40 per cent).
- ✓ Private bonds: ↓ Italian, ↑ foreign.
- ✓ Shares: stable and mainly issued by non-resident sectors.
- ✓ Italian households invest indirectly in debt and equity securities issued by French and US French corporations nearly twice as much they invest in those issued by Italian corporations.
- ✓ Mutual funds: + 4 p.p., mainly Luxembourg and Irish funds.
- ✓ At the end of 2016, portfolio composition balanced between Italian and foreign component.

Main results (6)

Households' financial balance sheet composition before and after the look-through approach (percentage composition and millions of euros)

	2014		2015		2016	
	<i>before</i>	<i>after</i>	<i>before</i>	<i>after</i>	<i>before</i>	<i>after</i>
Issued by residents						
Currency and deposits	29.9	29.9	29.9	29.9	31.2	31.2
Debt securities	10.3	19.8	7.8	17.2	6.6	15.7
Shares	21.4	21.5	22.1	22.3	20.3	20.4
Mutual fund shares	4.8	1.0	5.7	1.7	5.9	1.7
Insurance reserves and pension funds	20.8	7.1	21.7	7.1	22.9	8.2
Other financial assets ¹	3.0	3.0	2.9	2.9	3.0	3.0
Total	90.2	82.4	89.4	81.0	88.9	80.2
<i>Total in millions of euros</i>	<i>3,644,338</i>	<i>3,327,746</i>	<i>3,714,360</i>	<i>3,367,752</i>	<i>3,703,680</i>	<i>3,344,658</i>
Issued by non-residents						
Currency and deposits	0.9	0.9	0.8	0.8	0.8	0.8
Debt securities	2.4	6.7	2.2	7.0	2.1	7.1
Shares	1.5	2.4	1.7	2.6	1.7	2.6
Mutual fund shares	4.9	7.6	5.3	8.6	5.6	9.2
Other financial assets ¹	0.0	0.0	0.0	0.0	0.0	0.0
Total	9.8	17.6	10.6	19.0	11.1	19.8
<i>Total in millions of euros</i>	<i>393,980</i>	<i>710,572</i>	<i>440,910</i>	<i>787,518</i>	<i>464,405</i>	<i>823,427</i>
Total financial assets (millions of euros)	4,038,318		4,155,270		4,168,085	

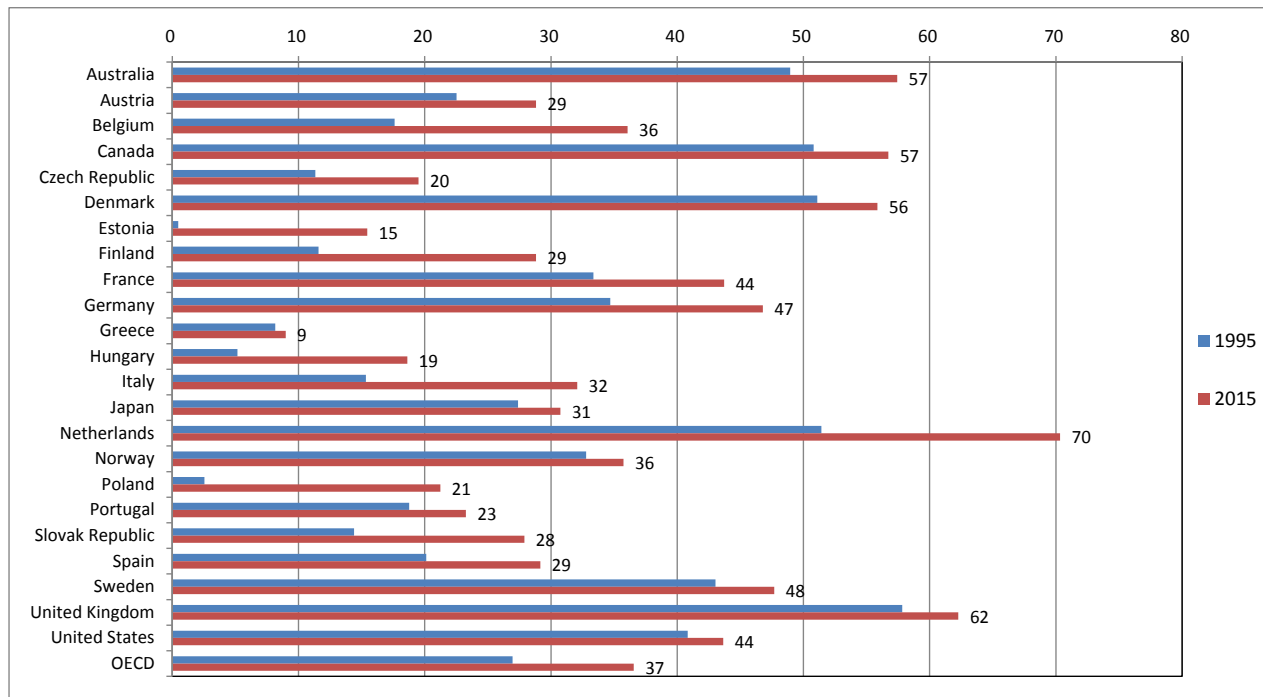
✓ Two main changes:

- ✓ Increase in the weight of Italian debt securities (mainly public) due to investment through insurance companies;
- ✓ Increase in the weight of foreign assets, mainly debt securities and mutual fund shares.

¹Derivatives, loans, trade credits and residual assets.

International comparison

Households' total financial assets in OECD countries: weight of indirect investments (1995-2015; percentages)



Source: Eurostat and OECD. Indirect investments: insurance reserves, mutual and pension fund shares.

- ✓ From 1995 to 2015 the weight of managed financial products on OECD households' total financial assets increased on average from 27 to 37 per cent. In Italy from 15 to 32 per cent.
- ✓ Only in a few countries financial assets indirectly held by households represent more than half of the total financial assets.

International comparison (2)

OECD households' financial assets: composition before and after the look-through approach (end-2014 percentages)

	Australia		Canada		France		Germany		Italy		Japan*		Netherlands		Spain		United Kingdom		United States	
	before	after	before	after	before	after	before	after	before	after	before	after	before	after	before	after	before	after	before	after
Total financial assets	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Currency and deposits	22	29	23	24	29	30	39	45	31	31	53	54	20	20	43	46	24	26	13	14
Debt securities	0	7	2	16	2	26	4	11	13	27	2	17	0	20	1	14	2	17	5	19
Share and other equity	18	48	19	42	20	25	10	13	23	24	10	12	8	17	26	27	7	16	34	50
Mutual fund shares	0	0	18	6	6	9	10	13	10	9	5	2	3	32	11	7	4	16	13	6
Insurance, pension and standardized guarantee schemes	57	13	35	4	37	4	37	12	21	7	26	0	66	0	17	2	60	16	34	6
Other assets	2	3	3	9	6	7	1	5	3	3	4	16	3	11	2	3	3	8	2	5

Source: Eurostat, OECD and Australian Bureau of Statistics. * Data for Japan refer to 2013.

- ✓ The reclassification of the financial instruments underlying managed financial products shows that:
 - ✓ In the majority of countries, debt securities are the prevailing final destination;
 - ✓ In Australia, Canada and the US, shares are the prevailing underlying instrument;
 - ✓ In the Netherlands, insurance companies and asset management companies invest households' saving mainly in mutual fund shares.

Conclusions

- ✓ The *look-through approach* complements the traditional analysis of the household financial assets composition.
- ✓ The method may represent a natural evolution of the **Balance Sheet Approach** (BSA) adopted by the IMF in 2002, which compiles all the main balance sheets in an economy using aggregate data by sector to serve as a useful starting point to diagnose risks and potential transmission channels of shocks, **setting the stage for deeper analysis**.
- ✓ In the future, the approach may be included in the G20 Data Gaps initiative that has further improved the IMF surveillance action.

Thank you.

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