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The Italian Asset Management market from an Asset Servicer's perspective

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Abstract

The asset management industry constitutes a vital part of the economy thanks to its financing role. The sector has profoundly changed since its establishment and, nowadays, changes in organization, investors' behaviour and regulatory framework are deeply reshaping the industry. In this context, also the Italian market, which has traditionally been characterised by some distinguishing features, is being influenced by a series of modifications at both European and national level.

The purpose of this paper is to analyse the changes and trends occurring in the Italian asset management industry in order to understand how these affect the business of an international asset servicer and identify new market opportunities. It answers four research questions, highlighting how changes affecting the Italian market are essentially regulatory driven.

The Italian asset management market is divided into two parts, the *Asset Managers* segment, including collective management and discretionary mandates, and the *Pension Schemes* segment. In the present research work, these two composing parts are analysed from an Asset Servicer's perspective, presenting data over the financial instruments they contain. The research work adopts a *Case Study method* employing mainly secondary quantitative data.

Despite the number of independent AMCs has grown, In Italy, the distribution of Asset Management products as well as trading remain based on banking networks. Among collective management products, mutual funds are the ones that grew more in recent year, mostly foreign-law funds. This, along with the fact that the asset servicers' market is dominate by few specialized players operating on a global scale, puts the spotlight on asset servicers' cross-border level of integration. In Italy, discretionary mandates are struggling to recover and have grown at a slower pace compared to mutual funds. Nevertheless, due to "*MiFID II*" upcoming rules, financial intermediaries will be encouraged to place these products on the market. Finally, the paper highlights how the Italian pension system is underdeveloped if compared to other European countries. Furthermore, few players own the majority of the complementary pension schemes market.

Abstract

L'industria del Risparmio Gestito costituisce una componente vitale dell'economia reale grazie ai finanziamenti che le garantisce. Rispetto alla sua originaria organizzazione, il settore del Risparmio Gestito ha subito numerose modifiche e, oggi, mutamenti di tipo organizzativo, nel comportamento degli investitori e normativi ne stanno profondamente modificando la struttura. In questo contesto, perfino il mercato italiano, tradizionalmente permeato da alcune caratteristiche distintive, sta venendo influenzato e si sta adeguando a cambiamenti a livello sia Europeo.

L'obiettivo del presente lavoro di tesi è quello di identificare i cambi ed i trend che stanno colpendo l'industria del Risparmio Gestito per poi analizzarli e comprendere come possono influenzare l'operatività di un *Asset Servicer*. Così facendo si intende evidenziare le nuove opportunità che il mercato ha da offrire. L'elaborato risponde a quattro quesiti, mostrando come i cambi ed i trend del settore abbiano essenzialmente base normativa.

Due sono i segmenti che costituiscono il mercato del Risparmio Gestito italiano, il primo composto da società di gestione del risparmio (SGR o *Asset Manager*) che include i prodotti della gestione collettiva e quelli della gestione individuale ed il secondo formato dal settore pensionistico ed i prodotti che esso include. L'obiettivo è quello di analizzare i segmenti del Risparmio Gestito dal punto di vista di un *Asset Servicer* internazionale operante nel mercato Italiano, presentandone i dati aggregati. Il documento si sviluppa seguendo il metodo del *Caso Studio*, utilizzando principalmente dati secondari di tipo quantitativo.

Nonostante il numero di Società di Gestione del Risparmio sia cresciuto in Italia, la distribuzione dei prodotti del Risparmio Gestito resta in mano a gruppi bancari. All'interno della gestione collettiva, i prodotti che hanno subito il maggior sviluppo in termini di assets sono i fondi comuni, specialmente quelli a diritto estero. Questo, assieme al fatto che pochi players dominano il mercato degli *Asset Servicer*, sta facendo sì che particolare attenzione sia posta dai clienti sul livello di integrazione cross-border. Al contrario, la gestione individuale sta crescendo più lentamente se paragonata a quella collettiva anche se, l'introduzione della "*MiFID II*" spingerà gli intermediari a vendere questi prodotti sul mercato. Per ultimo, lo studio evidenzia come il sistema pensionistico italiano sia arretrato rispetto a quello di altri paesi europei sviluppati.

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1.1 Organization

Chapter 1 – Introduction

The first chapter provides the reader with preliminary information on the purpose of this research work, reasons behind it as well as some constraints that characterise the analysis.

Chapter 2 – Literature Review

The second chapter aims at reviewing the financial literature referring to the asset management industry. It opens with concepts' definitions and then describes the Italian market from an historical and organisational point of view.

Chapter 3 – Methodological Approach

The third chapter is dedicated to the methodological approach employed. Firstly, research methods' generalities are shown to then focus on the *Case Study* method, explaining why it has been adopted. Finally, additional information over data sources and elaboration are provided.

Chapter 4 – Results

The fourth chapter, that represents the centre of the analysis, illustrates updated data over the two segments into which the Italian asset management market has been divided, the *Asset Managers* and the *Pension Schemes* segment.

Chapter 5 – Analysis and Implications

Chapter 5 analyses the results presented in chapter 4 classifying them into investments' behaviour, regulatory and structural changes and then draws implications from an asset servicer's perspective.

Chapter 6 – Final remarks

The last chapter concludes the research work criticising it in a constructive way and providing clues for further studies.

1.2 Research work

1.2.1 Purpose of the study

The purpose of this research work is to analyse the *Italian Asset Management industry*, understand its structure and organisation and identify its current and foreseeable trends. The ultimate goal is to provide insights and implications over the Italian market from an asset servicer perspective[1].

1.2.2 Motivations and research questions

Previous studies have always treated asset management's segments individually, one by one. In the present study, I am going to treat the asset management composing parts but looking at whole sector at the same time.

The present thesis wants to help PwC's client understand how the market is evolving and the client current strategic positioning in the country. The reasons behind such study are to be found in both the desire to deepen the knowledge of the asset management industry in one of its main European market, the Italian one, and the client's need to plan a group strategy for the coming years.

Such challenging goals will be achieved answering the following questions:

1. How is the *Italian Asset Management market* structured and organised?
2. How is the *Italian Asset Management market* evolving?
3. Which are the market main current and foreseeable trends?
4. How do they affect an *Asset Servicer*'s business and operations?

[1] The research work falls within a project commissioned to *PwC Italy* from an international asset servicer, based and operating in Italy. Because of it, some names, as the name of the client, are hereinafter omitted for privacy reasons.

1.2.3 Limitations of the work

A first possible limitation is the focus on the Italian sector. Even though Europe is pushing towards a unified European market and Italy has already transposed new communitarian regulations, some characteristics of the Italian market still remain specific of the country (mainly due to ad-hoc Italian laws). Thus, not all the implications drawn in this work can be extended to other European countries. The study should be considered as a first step analysis towards a better understanding of the European asset management market's features.

A second possible liability is represented by use of mainly secondary data. Interviewing directly AMCs and Asset Servicers to gain their insights on the subject would have been a valid alternative approach. Nevertheless, interviews have not been adopted due to competition impairments and privacy reasons.

Lastly, the insurance segment has not been included in the analysis perimeter as part of the study. The official *Assogestioni*'s classification of the asset management products and segments has been followed. Nevertheless, it could have been possible to include insurance products to broaden the analysis and make it more exhaustive.

2 Literature review

2.1 Concepts definition

Asset Management: two are the asset management fundamental elements agreed upon by the finance literature: the creation of portfolios by specialised players (asset managers) and the possibility to delegate the managing of these portfolios. Within the financial sector, "*asset management*" has been adopted to describe stocks or portfolios management trying to find the optimal mix of capital growth and interest yield (Woodhouse, 2007). Others consider it as the professional management of securities and other types of financial assets (Delbecque & Healy, 2015). Practitioners believe asset management indicates all forms of delegating the managing of someone's capital to external intermediaries to be invested (D'addario, 2015). When defining asset management, its economic function and the factors that contributed to its evolution cannot be ignored. To this purpose, Boscia (2002) describes it as that financial technique through which financial savings are kept under the custody of institutional investors offering asset management products. A more comprehensive definition states that asset management indicates the activity of creating portfolios selecting various securities, in order to achieve an efficient diversification strategy (Di Giorgio, 2003).

Asset Management Companies (AMCs): also called "*asset managers*" (AM) are intermediaries developing investment fund products and tailored solutions to meet particular investment goals and constraints. They provide capital to help "*Small and Medium-Sized companies*" (SMEs), corporates, banks, governments and other institutions meet their short and long-term funding needs. Retail and institutional investors can entrust the managing of their capital to such companies relying on their specialised expertise. Thus, asset managers' business refers to the professional management and trading of securities and other types of assets to achieve a specific investment goal (Delbecque & Healy, 2015).

Asset Servicer / Depositary Bank / Custodian[2]: a financial institution providing services such as settlement, custody and transfer agency (TA) to investment funds, institutional investors, pension funds and banks.

Collective Management: in the financial literature, collective management definition has its foundations on the so-called "*management in upstream*" concept: interests pursued by the company coincide with the ones of the fund's investors. Therefore, collective management represents the standardised practice of managing someone else's capital as a whole, not taking into consideration individual specific needs. It is almost exclusive of AMCs and in Italy the *Article 33, comma 1* of the "*Testo Unico*" regulates it.

Discretionary Mandates: mandates given by a client to an AM to manage his / her portfolio (separately from other clients' assets) and execute orders in compliance with a predefined set of guidelines. AM must follow guidelines agreed upon and its activity is tailored on single investor's needs. Investors have the possibility to intervene personalizing the relationship with the manager, giving bounding instructions and authorizing modifications to the contract (Delbecque & Healy, 2015).

Pension funds: the original definition describes them as "*forms of security providing complementary pension system to the public mandatory one"*. They are meant to integrate the mandatory pension scheme (I Pillar) granting investors a higher level of social security coverage.

Undertakings for the Collective Investment in Transferable Securities (UCITS): investment funds regulated at European level. They can be negotiated within all Member Countries, without worrying about the country they are domiciled in. They are freely marketable in the European Union thanks to the Directive 2009/65/EC.

Italian / foreign-law funds: *Italian-law funds* are domiciled and sold in Italy while *foreign-law funds* are domiciled abroad and sold in Italy. They can be either *roundtrip funds*, when Italian financial intermediaries promote them or *foreign funds* when foreign intermediaries promote them.

[2] In the present study, I will adopt these terms indistinctly.

2.2 Asset Management function and main players

In this section, I will describe the asset management industry's function and structure as well as the role of one of its main players, the asset manager.

Asset management meets the needs of private investors, offering them benefits, as well as the funding needs of banks and financial institutions (Akerolf, 1970) (Lewis, 2011). According to the Italian President *Sergio Mattarella*'s message sent on the 91st "*Asset Management International Day*", asset management represents "*a precious resource for Italian families and funding of firms as well as for the State itself when it decides to get into debt*". It is therefore of the highest importance to understand the sector and its characteristics in order to benefit from it.

When thinking of asset management, it is not possible to identify the specific moment of its establishment. It has always supported humankind through history, thus it should be considered as an evolving process rather than an industry created one point in time. It started from "*savings in nature*", typical of the barter age, to go to "*treasury*" during the modern age until "*profitable savings*" when the credit age flourished. Saving food and money has been a common human practice since the medieval age (Assogestioni, 2013). Reasons behind such practices range from the desire of investing to increase forthcoming income, to the desire of increasing next generations' inheritance, to the fear of the future and its uncertainty (Assogestioni, 2013).

Asset management refers to, "*Collective Management*" which includes the promotion, creation and organization of *investment funds* (including mutual and alternative funds) where clients' investments flow into as a unique capital (Onado, 1997) and, "*Individual Management / Discretionary Mandates*" exercised by banks and other financial intermediaries, where clients' capital is autonomously managed by said intermediaries (Onado, 2004). To a certain extent, asset management also refers to "*Pension Schemes*" and, because of its articulated nature, it is common to find overlaps amongst its different composing segments.

The transformation of asset management industry into its current structure, constitutes one of the most important changes ever happened to developed countries' financial systems. The industry changed the role of financial markets and financial intermediaries in the resources allocation process, transformed the competition in the financial industry and increased the types of financial instruments available to investors (Assogestioni, 2013). Asset management's contribution to the economy and to capital markets is not under discussion also thanks to its two crucial roles (Delbecque & Healy, 2015):

1. *Linking savers and investors*: channelling funds from savers to investors and investment opportunities;

2. *Corporate Governance*: when separation between ownership and management of a firm exists, principal-agent problems are likely to emerge. In fact, managers' interests differ from the ones of the company owners' (Bhagat & Bolton, 2008). Small shareholders have no incentive to monitor corporate management, on the contrary AM contribute reducing these conflicts when the size of their investments justifies engaging actively the companies in which they invest.

Asset management main financial intermediaries fall into one of the following three categories and they carry out all the activities related to these roles: *banks* and other deposit-taking institutions, *insurance companies* (and *pension funds*), and *asset management companies*. They provide the economy with specialised services. Typically, banks take deposits from individuals and institutions to issue loans. Insurance companies and pension funds take charge of and invest households and employees' savings. AMCs offer their intermediary function to households, corporations, governments and to the other financial intermediaries mentioned, in particular to pension funds and insurance companies. As a result, AMCs represent the crucial buy-side intermediary (Delbecque & Healy, 2015).

Apart from being the main player in the industry, AMCs are also its principal source of employment. In Europe, there are more than 3,300 AMCs employing 90 thousand people directly. More than 410 thousand people are indirectly employed in correlated services, bringing AMCs' total employment to more than 500 thousand people. Asset managers' clients are classified as either *retail* or *institutional*, with the latter representing the largest part within the European market. Typically, asset managers receive mandates from institutional clients and high-net-worth individuals, whereas investment funds product serve both retail and institutional clients

(Delbecque & Healy, 2015). AMCs operate with a high level of information, which makes them able to select the best investment opportunities for their clients, reducing losses due to adverse selection problems (Akerolf, 1970) (Lewis, 2011). In Italy, they are called "*Società di Gestione del Risparmio*" (*SGR*) and are normally promoted by banks, insurance and financial companies. Their task is delicate and because of its intrinsic risky nature, before operating on the market, AMCs need an authorisation from the "*Bank of Italy*" (Assogestioni, 2013). Moreover, they must stipulate an official contract, needed to sell their products and gather funds and should report to investors how each portfolio is performing (Landi, et al., 2003). Financial performances constitute asset manager products success main indicator and, as the complexity of the instruments offered has grown, traditional reporting has become obsolete and new reporting tools are being developed to provide clients with all information they need, real time (Onado, 2004).

AMCs exhibit some distinguishing features, which separate them from the other players of the industry (Delbecque & Healy, 2015):

- **Agency business model**: in playing their role, asset managers protect their clients' interests placing them ahead of their own. Their value proposition is to enable clients reaching their investment objectives since the assets' property remains to the client as well as the portfolio's performances, whether they are good or bad;
- **Limited balance sheet risk**: asset managers do not act as lenders or providers of credit. They do not act as counterparties in derivatives, financing or securities transactions and they tend not to operate with borrowed money, or high levels of leverage. As a result, there is no asset-liability mismatch on their balance sheets;
- **Protection of client's assets**: asset managers are subject to a very exhaustive and constantly updated regulation, requiring e.g. to maintain comprehensive risk management and compliance policies and procedures. All assets have to be entrusted to a custodian with both oversight and safekeeping responsibilities. Moreover, clients' capital is kept separated from the firm's own capital. All these mandatory provisions are meant to protect investors in case of asset manager's failure. Should an asset manager go bankrupt, the assets would simply be transferred to a competitor, with no losses for its clients;

- **Fee-based compensations**: AMCs' revenues come mainly from agreed-upon fees proportional to the client's "*Assets under Management*" (AuM). Fee-based compensation implies that lower assets result in lower revenues for the asset manager. Consequently, AMCs push towards costs reduction instruments to keep the income level positive.

2.2.1 European Asset Management framework

This section gives a brief introduction over the European sector, providing the reader with the main trends and characteristics that, to some extent, can be extended to Italy, too.

The asset management sector is characterised by a strong cyclicality that replicates and magnifies trends of real economy and financial markets causing inefficient management of portfolios by retail clients during periods of crisis. In fact, the retail clientele tend to buy when the economy is expanding (high prices) and to sell when the economy is shrinking, with losses, all because of their poor financial education. This mimic behaviour explains why, during last years, when Europe started recovering after the sovereign debt crisis of 2011, the asset management market improved too and its AuM started growing again (KPMG Advisory S.p.A., 2012), as it will be confirmed by the present research work.

During last two decades of the previous century, the European market become the second biggest in the world, right after the United States' one, in terms of dimensions and income (Onado, 2004). The institution of the Euro in 1999, a unified monetary policy by the "*European Central Bank*" (BCE), the rapid growth of The United States and the emerging countries' economy, are all factors that positively contributed to the improvement of the sector (Arcelli, 2000). Moreover, the indirect effects of BCE's actions against the difficulties Europe was facing during the sovereign debt crisis explain the recent *mutual funds* AuM recovery (Assogestioni, 2013), witnessed also in Italy and highlighted in the present work. As matter of fact, the development of the asset management sector is deeply interconnected with the legal framework's evolution (both European and national) and it is dependent on clients' investment possibilities (Assogestioni, 2013). These two are the crucial factors driving the asset management industry and explaining its trends, as the sector is essentially a regulatory driven one.

Concluding, the spread of the Internet and of the "*Information and Communication Technology*" (ICT) made financial market extremely volatile, leading to appreciation of shares and attention to risk diversification. Consequently, investments in institutional owned portfolios increased while investments in government and non-government bonds witnessed a fall (Arcelli, 2000). Globalization pushed investors towards professional intermediaries in matters of asset management (Pontolillo, 2003) encouraging them in supporting productive investments instead of the sterile shares of the State public debt (Pellegrini, 2010). As a result, asset management instruments improved their position on financial markets as they offered better investment opportunities, reliability and specific competencies (Boscia, 2002).

2.2.2 The Italian Asset Management market

The present section focuses on the Italian asset management market, illustrating its characteristics and deriving liabilities due to the historical investors' attitude and organization. It also provides the reader with insights to understand data and trends presented in the following chapters.

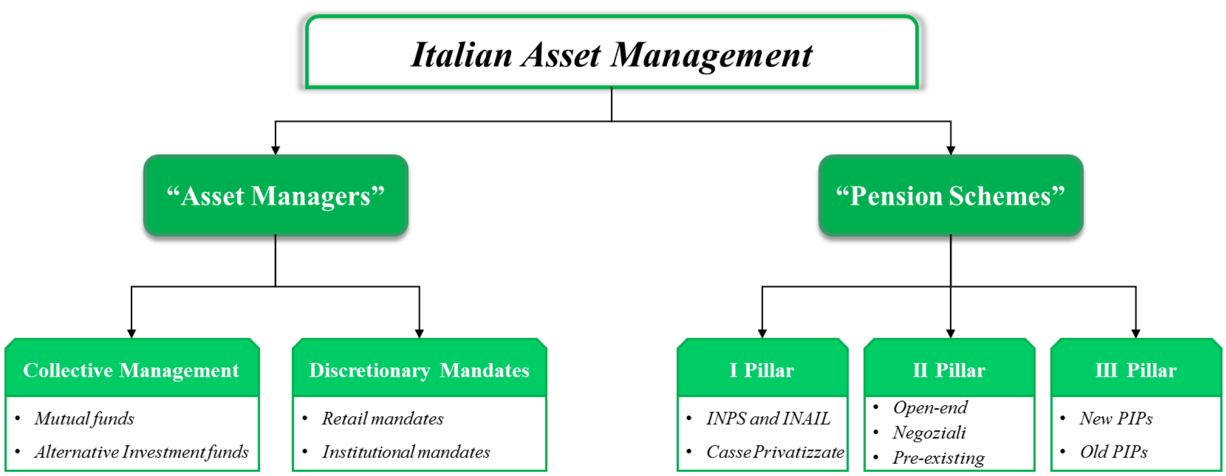


Figure1 – Organisation of the Italian Asset Management industry

To begin with, all the global and European trends highlighted in the previous section are, to some extent, similar to the ones that took place in Italy (KPMG Advisory S.p.A., 2012). Europe and

Italy have been traditionally more reliant on bank financing, with bank loans playing a significantly important role in corporates' funding compared to, for example, The United States. Because of this, European companies, particularly SMEs, are more vulnerable to bank lending reduction, as proved during the past financial crisis (Delbecque & Healy, 2015).

As for Italy, during the 80s and the 90s the asset management sector witnessed an unprecedented development supported by Italian families' wealth (Di Giorgio, 2003). The socio-economic progression of the country modified the traditional passive function attributed to savings into an active one, where earnings were invested in a profitable way (Assogestioni, 2013). From the end of World War II up until mid-90s, families' savings rate remained stable between 20% – 30% and fed the country economic growth (Rota, 2013). Unfortunately, starting 1995 a shift in the pattern occurred. The savings' rate started dropping constantly and reached values between 15% – 17% remaining stable until 2008 when the financial crisis caused a further drop (Assogestioni, 2014). During that period, Italian families changed their consumptions less than proportionally compared to how much their earnings' changed, reducing debts and increasing real estate properties in their portfolios.

Since its establishment, the Italian asset management market has always been characterised by two main distortions: "*vertical integration*" between producers and distributors and "*predominance of AMCs belonging to banking or insurance groups*". Consequently, asset management's products have been offered as an alternative to more opaque and risky instruments of the same distributor, giving birth to a substitution effect between Italian investment funds and more complex financial activities, such as bonds or insurance products (Messori, 2008). These two distortions brought Messori (2008) to identifying the deriving conflict of interests as probable cause of the industry's decline. Researchers, legislators and supervisory authorities believe that increasing AMCs' level of autonomy is desirable for the sake of the whole sector. Nevertheless, even though vertical integration results in adverse selection issues (banking groups' products tend to be placed on the market more than the ones of competitors), a different model with higher competition amongst independent AMCs could result in distributing channels preferring riskier products, not bearing in mind clients' risk aversion, generating a moral hazard phenomenon (Bolognesi, 2009). The vertical integration phenomenon gave birth to a market whose policies are decided by the ones owning the distribution channels. The strong correlation between the everyday bank (the one where the personal account is) and the bank managing the client's capital constitute a further proof of the mentioned behaviour. Such a locked-in structure fostered an even higher level of vertical integration, where distributing became more important than producing. To worsen the situation, distributing channels decided to push more and more products characterised by low transparency and less post selling assistance (KPMG Advisory S.p.A., 2012). The same channels also show distortions concerning commissions charged to investors that are too high (Linciano & Marrocco, 2002), and ancillary services' costs that tend to be elevated as well; resulting in distribution costs exceeding production ones (Stiglitz, 1987). On top of this, Italian retail clients have a dangerously poor level of financial education, crucial when there is need to catch the opportunities the market has to offer (Assogestioni, 2014).

The poor financial education, the bank-centralised system, the high level of vertical integration and the unfavourable fiscal treatment that characterise the Italian industry, negatively influence the market net inflows (KPMG Advisory S.p.A., 2012). Nevertheless, nowadays, the sector is witnessing positive net inflows thanks to the general economy's recovery. In fact, according to the financial literature, asset management's AuM growth is highly correlated to the real economy and to the national GDP. In Italy for example, the correlation index between AuM net inflows and GDP is equal to 0.489 (KPMG Advisory S.p.A., 2012), which explains the positive results, in terms of AuM growth, illustrated also in this work. This taken into consideration, Italy remains behind its European peers. Financial market participation shows lower values compared to other European countries for almost all instruments, except bonds and government securities. Such investment choices made sense in the past but nowadays they can lead to low or even negative returns. Moreover, recent history proved that both the Italian and the European financial system are not able to provide real economy with the resources it needs to finance future development (Assogestioni, 2015) and despite the need for asset management products, they tend to be less and less present in Italian families' portfolios, mainly due to: (KPMG Advisory S.p.A., 2012)

- Distribution structure and channels mainly focused on banks;

- Retail client historical low attitude towards these products, due to poor financial education;
- Higher costs compared to other financial alternatives;

In spite of all its negative features, both structural and clientele related, the Italian market has a lot of potential. In order to use it efficiently, asset managers will need to be able to face future challenges and take advantage of the possibilities that will arise, pushing investors' capital towards asset management instruments and long-term investments supporting the national economy (Assogestioni, 2014).

2.2.2.1 The Asset Managers segment

This section describes the first segment into which the present study divides the asset management industry: the "*Asset Managers*" segment.

The *Asset Manager* segment includes what has been defined as "*Collective management*" and "*Discretionary mandates*". The former involves a higher level of complexity due to the heterogeneous products it includes compared to the latter. Today, because of the asset management market's organisation, even the most differentiating attribute between the two sub-segments, that is the "*specialization*" of the managing activity, is not a differentiating trait anymore. It is not uncommon to find *discretionary mandates*' activity not as tailored, as investors would expect it to be (Annunziata, 2010). Nevertheless, the different tasks the depositary bank carries for *collective management* remains a crucial differentiating feature. In the context of *collective management*, the custodian has to exercise some extra activities, such as a controlling role on the intermediate, making sure of the legitimacy of the operations carried out and verifying the accuracy of values calculated for each fund. Furthermore, cash and financial instruments linked to the portfolio's capital must be stored in the depositary bank account (D'addario, 2015). The depo bank has also extra responsibilities for all prejudices the asset manager or its investors may suffer from, should the bank not fulfil its duties properly. Moreover, the contract stipulated by investors is a standard one and it cannot be tailored on specific needs while, in case of *discretionary mandates*, it is flexible and agreed upon between the parties (D'addario, 2015). Lastly, *collective management* grants the possibility of buying shares of funds investing in funds of other categories, the so-called "*fund of funds*". Investing in these funds gives investors the possibility to diversify their investments to set the overall portfolio's risk to the minimum level possible (Assogestioni, 2014).

Collective Management: mutual funds

Collective management can be further divided into two instruments' categories: "*mutual funds*" and "*alternative investment funds*". This section describes in more details *mutual funds* since in Italy they are by far the most important instrument of the two, in terms of both AuM and history.

Even though *mutual funds*' spread is quite recent, their origin is to be found in The Netherlands of the XVIII century, when first share exchanges were taking place. In July 1774, the negotiate called "*Eendragt Maakt Magt*" ("*Unity is strength*", the Dutch Republic motto) was established, officially recognised as the first mutual fund in history (Assogestioni, 2013). This first fund stimulated the growth of new financial instruments, the mutual funds' *second generation*, meant to explore the possibilities the new financial sector was carrying. Between 1780 and 1790, more than 30 *mutual funds* were established with the only goal of speculating on The US debt. *Mutual funds* appeared little by little, when in the XVIII century merchants and intermediaries started expanding investment opportunities offered to the public. During the second-generation development, "*securitization*" and "*stocks replacement*" were introduced to overcome foreign investments' obstacles as the need to be registered in the foreign to operate in it or costs associated with interests or dividends' collection (Assogestioni, 2013). During the last two decades of the XX century, *mutual funds* passed through four different developing phases. The first one characterised by the national industry development (1995 – 1999); the second one by the progressive substitution of Italian products with foreign ones (2000 – 2007); the third by the negative effects of the financial crisis that took place from the second half of 2007 and by the sovereign debt crisis of 2011; the fourth and last phase characterised by the industry recovery of the last years, which brought the industry to regain AuM (Assogestioni, 2015).

Mutual funds products are specifically suitable for small investors and families investing to increase their capital during a reasonable long period. They grant high diversification levels and the support of professionals who have to follow clients' instructions and be coherent with the fund’s guidelines. Buying shares of a mutual fund an investor will buy a share of all securities contained in it, achieving great diversification. Despite their benefits, *mutual funds* carry drawbacks, too. Firstly, their managing fees subtracted from the actual capital invested by the client. A second disadvantage is the necessity to obey the intermediary investment logic without any saying in it. Nevertheless, clients having the need to access instruments otherwise impossible to reach, should always consider mutual funds as their best option (D'addario, 2015).

Discretionary Mandates

Mandates are usually associated with a minimum level of AuM, making them not so attractive for retail clients. In the context of *discretionary mandates*, asset managers deliver customized solutions to clients with a high level of investable assets (as institutional investors) which makes the segment essentially dependent from business-to-business relationships. The investment strategy adopted is agreed upon with the client and once the mandate has been given, the managing company behave accordingly (Delbecque & Healy, 2015). Investors give the bank the responsibility to manage their own capital. The bank can autonomously decide what securities to sell and what to buy which, unlike in the case of *collective management*, could result in inefficiencies from the client’s perspective.

In the European market, *discretionary mandates* are mainly dominated by two markets: the British and the France one, managing together approximately 60% of total European AuM (Delbecque & Healy, 2015). The vast predominance of *discretionary mandates* in The United Kingdom reflects the crucial role played by occupational pension schemes in the asset management industry of the country. On the other hand, reason behind the Italian *discretionary mandates*’ AuM elevated level has to be found in the fact that most of the financial service groups operate as AMCs, managing the group’s assets generally as mandates (Delbecque & Healy, 2015). The high *discretionary mandates* market share in the Italian market is also confirmed by data in the results chapter (see *Table2*).

2.2.2.2 The Pension Schemes segment

This section introduces the second segment of the Italian asset management industry, the *Pension Schemes* segment. I will first describe its structure and the logic according to which it is organized and, then focus on complementary pension schemes (*pension funds* and PIPs).

Italy, as all countries in Europe, is moving towards a mixed pension system where alongside the public pension schemes, a supplementary / complementary one is foreseen for both collective and individual management. In this context, all European countries share some common features:

- An "*accumulation financial system*" investing workers' contributions to then return them once the investors retire;
- Employees voluntary subscriptions and contributions;
- Possibility to entrust the managing activity to institutional investors;
- Segregation between the company and investors' capital;
- Extension of collective social security instruments to relatives and, generally, people not having fixed income;
- Growing importance of individual social security instruments;
- Tax benefits, especially for low income workers;

Almost all advanced economies have developed a mixed social security model based on "*pillars*". Italy, which is not an exception, is built on three pillars, each of which with its own peculiarities:

- **I Pillar - Public welfare**: mainly composed by "*Istituto Nazionale della Previdenza Sociale*" (INPS), "*Istituto Nazionale Assicurazione Infortuni sul Lavoro*" (INAIL) and "*Casse privatizzate*" focused on ensuring basic welfare services for private sector workers. INPS and INAIL are the main Italian social security entities where most of employees and self-employed workers must be enrolled. Their activities involve employees' mandatory insurance subscription, pensions' distribution and pension contributions' collection. *Casse* *privatizzate* are public administrations that can in some cases, as for some self-employed workers, substitute INPS subscription;

- **II Pillar – Pension funds**: split into three subcategories based on subscription restrictions and referring regulatory framework: "*open-end*", "*pre-existing*" and "*negoziali*". For their definition, see the next section focusing on *pension funds* schemes;
- **III Pillar – "Piani Individuali Pensionistici" (PIP)**: internationally they are called "*Individual Pension Plans*". In Italy, they are divided in "new *PIP*" and "old *PIP*" according to their compliance to the Legislative Decree 252/2005[3]. For their definition, see the following section dedicated to *PIP*s.

I Pillar constitutes the standard and mandatory social security plan. II Pillar and III Pillar represent instead complementary pension schemes. In 2015, according to "*Commissione di Vigilanza sui Fondi Pensione*" (Covip) most updated data, adhesions to the complementary pillars increased overall by 13.4%, going from 6.5 million in 2014 to 7.3 million. The boost came mainly from *negoziali funds* whose subscribers grew by 530 thousand units (Assogestioni, 2016). Amongst the three pillars, the most interesting ones to be studied, for the purpose of this research work has, are the II and III Pillar. In fact, they represent the targetable market for an international asset servicer operating in Italy.

[3] Legislative Decree 252/2005 introduced new requirements and dispositions for complementary pension schemes, concerning, in particular, TFR devolution for employees, benefit regime and fiscal treatment both for contributions and benefits. New PIP are compliant to this decree, while old PIP are not.

Complementary Pension Schemes: pension funds

Italian pension funds were first introduced in 1993 with the Legislative Decree n. 124, 21 April. A first division into two broad categories includes "*closed-end*" funds (including *pre-existing* and *negoziali*) and "*open-end*" funds. *Open-end* funds address all freelancers and can be established by asset managers or other authorized financial intermediaries who have to take care of the capital entrusted to them by investors. They are defined as *open-end* since their subscription is open to all workers (employees and freelancers) and can be performed both individually and collectively. *Closed-end* funds are meant for specific categories of professionals and only representatives of that category can subscribe to the fund. They are divided into *negoziali* and *pre-existing* funds. *Negoziali funds* gather adhesions of workers from a specific category who decide to delegate the management of their capital to an asset manager, insurance company, bank or brokerage company. Depending on their scope, it is possible to distinguish *negoziali* funds in:

- *Business* / *group funds*: created for one or a group of companies;
- *Category funds*: created for a category of workers;
- *Local funds*: created for local grouping;

Lastly, p*re-existing funds* owe their name to the fact that they were established before the supplementary social security reform of 1993. In Italy today they still represent 40% of complementary pension schemes (see *Table4* for details) and subscription to these funds takes place only in collective form. All pension funds are managed following the "*individual accumulation*" principle, foreseeing that the capital each investor will receive once retired will depend on all deposits made through his / her working life, either directly by them or indirectly by their employers (repubblica.it, s.d.).

Complementary Pension Schemes: PIPs

PIPs are individual products realized with the subscription of a life insurance contract and they do not foresee, in any circumstances, collective adherence. Usually, subjects interested in PIPs are self-employed or freelancers but regular employees have the possibility to subscribe, too. III Pillar's schemes will be soon deeply modified by a massive European reform recently approved, the *Pan-European Personal Pensions* (PEPPs). PEPPs have been proposed by the "*European Insurance and Occupational Pensions Authority*" (Eiopa) to the European Committee to create a new, communitarian and unified market for III Pillar pension schemes. They are part of the "*Action Plan on building a Capital Markets Union*" having the duty of covering the social security gap still affecting some European countries, amongst which Italy appears, too. A unified European PIPs' market will not only grant the possibility to offer these products to all Member States, but also to simplify workers' mobility through Europe. PEPPs will operate as a container, equal for all European citizens, organized as a simple instrument able to satisfy all investors' needs, particularly of those not owning any II Pillar coverage (Assogestioni, 2016). PEPPs will constitute the foundation of the European economic growth and they fall within the bigger picture of establishing a unified European capital market (Assogestioni, 2016).

3 Methodological Approach and Research Method

In this chapter, I will first provide an overview over the different research methods that can be employed in a research work: *research approach*, *research purpose* and *data collection techniques*. I will also illustrate the method chosen to carry this analysis out and finally provide additional insights over the methodological approach followed when collecting and elaborating data.

3.1 Research Methods generalities

This section illustrates the research methods' characteristics dividing them into *research approach*, *research purpose* and *data collection techniques*.

Research Approach

The research literature identifies two types of research approaches that can be used either individually or in combination (Saunders, et al., 2009):

- **Deductive approach**: developing a theory over a specific subject and then test it. It is the most used approach in natural sciences (Collins & Hussey, 2003). A clear theoretical position is developed prior to data collection;

- **Inductive approach**: theory is developed after data collection. A defined purpose, research questions and objectives still exist but the analysis does not start with predetermined theories or conceptual frameworks. Its purpose is to get a feel of what is going on in order to better understand the nature of the problem. It does not involve a rigid method that does not allow alternative explanations as the deductive approach does.

Research Purpose

Most of the academic literature, classifies research purposes into three broad categories: *exploratory*, *descriptive* or *explanatory* (Saunders, et al., 2009):

- **Exploratory**: refers to finding out "*what is happening, to seek new insights, to ask questions and to assess phenomena in a new light*" (Robson, 2002). It is especially suited when the researcher wants to clarify his understanding of the problem. It can be performed following three ways:
    - Conducting literature searches;
    - Interviewing subjects' experts;
    - Conducting focus group interviews.
- **Explanatory**: often used to establish causal relationships among variables. The emphasis of the research is on studying a situation or a problem in order to explain the relationships amongst these variables;
- **Descriptive**: the goal is to portray an accurate profile of people, events or situations (Robson, 2002). It might constitute part of an exploratory or explanatory research and, in that case, it should be considered a mean to an end rather than an end in itself.

Data collection techniques

Two are the data collection techniques officially recognised by the academic literature:

- **Quantitative**: usually associated with questionnaires, data analysis of charts, graphs and statistics that generate numbers and figures as output and focused on quantitative measurements;
- **Qualitative**: mainly associated with interviews and categorisation of data that give back data other than numbers. Qualitative methods produce information only on the particular case analysed and any more general conclusion is only hypothetical.

Apart from the data collection techniques just described, a researcher can choose to use either "*primary data*" or / and "*secondary data*". The present analysis has been conducted using mainly secondary data. Individuals, institution (both private and public) or agencies collect secondary data for other purposes than the ones they were firstly collected for. Secondary data grant access to larger samples collected over a longer period compared to primary data (data collected first hand), thus capturing more information. Consequently, having access to more information, secondary data usually achieve better results when dealing with complex subjects, also considering that they are quicker to obtain. It is common to find them associated with each of the research purposes (exploratory, descriptive and explanatory) and within company-action researches or case study projects, as the one this study analyses.

Despite the many advantages secondary data carry, they also have some drawbacks. In fact, they have been collected for a specific purpose that usually differs from the researcher's one and could consequently be inappropriate to be used for other research questions (Saunders, et al., 2009). What is more, secondary data access may be difficult or costly and the higher quality may not be guaranteed when their sources are not official (e.g. non-government data). Finally, the researcher must pay particular attention to the initial purpose for which those specific data had been collected, as it may influence the form in which they are presented.

3.2 Choice of Method

This section identifies the research method employed in the present research work, explaining the motivations behind such a choice.

The present research study is *descriptive* in nature and a *case study* has been employed, focusing mainly on *secondary quantitative data*. When presenting results in chapter 4, it has to be kept in mind that complete market data were not always available. In some cases, financial intermediaries do not have disclosure duties, as II Pillar pension schemes' concerning the depositary bank analysis. Moreover, since the asset management sector is a living industry, it was not possible to define a fixed perimeter of analysis as well as it is not possible to always predict what the outcome of the analysis, in terms of current trends, will be.

3.2.1 Case Study

3.2.1.1 Definition

Despite the fact that the case study research method is widely adopted in the research world, it does not have a unique and universally accepted definition. The one I will refer to in this chapter and throughout the whole research work is the one of *Robert Yin*, one of the most prominent name in the case study method field. According to his definition, a case study is "*an empirical inquiry about a contemporary phenomenon (e.g., a "case"), set within its real-world context especially when the boundaries between phenomenon and context are not clearly evident*" (Yin, 2009). The goal is to acquire a deep understanding about real-world behaviours and, it is likely to use data coming from various sources of evidence.

3.2.1.2 Characteristics

When to use the Case Study method

According to Yin (2009), three are the situations where the use of the case study research method is more appropriate:

1. The kind of research questions the researcher is trying to answer are "*how*" or "*why*" questions. Typically, they are either *descriptive* (*what is happening / has happened?*) or *explanatory* questions (*how / why did something happen?*);
2. When the researcher has little or no control over behavioural events (he / she cannot influence them);
3. The phenomenon studied is a contemporary one, placed in a real-life context.

Summarising, the case study research method is preferred when the purpose of the study is to answer "*how*" and "*why*" questions that concern a contemporary event and in cases where the researcher cannot influence the relevant behaviours.

Case Study data sources

The case study method can, and usually does, use more than one source of data, unlike other research methods as for example surveys. Even though qualitative data are preferred, the researcher can also include quantitative data (Yin, 2009). The same author identifies six common sources of evidence classified as follows:

1. Direct observations (e.g. formal or casual);
2. Interviews (e.g. open-ended, focused, structured);
3. Archival records (e.g. electronic records, libraries, public agencies' records, service records, organizational charts, budgets);
4. Documents (e.g. newspaper articles, letters and e-mails, reports);
5. Participant observations;
6. Physical artefacts (e.g. computer downloads);

In general, the case study method uses various sources of data, which constitutes a great advantage in terms of increased validity.

3.2.1.3 Why the Case Study method

The case study research method has been chosen to carry this study out since, after analysing the different methods, it seemed to be the most suited one. First, as already mentioned in the *research questions' section* at the beginning of this manuscript, this master thesis aims at answering "*how*" questions. Secondly, it is not possible to influence the events affecting the Italian asset management industry, also considering that these events are taking place at European level, too. Lastly, even though the study analyses data and information from the past, it is mainly focused on current trends and contemporary events.

Moreover, the study falls within a wider project commissioned to *PwC Italy - Advisory* S.p.A. from an international asset servicer operating in the country. The project has the goal of understanding how the Italian asset management market is structured, why it is developing in a specific direction and how an asset servicer can take advantage of this information. In light of all the mentioned considerations, the case study method represented the best possible method.

3.2.1.4 Validity and Reliability

Reliability and *validity* of data are two crucial aspects to be considered when performing a research works. *Reliability* refers to the extent to which data collection will always give back consistent findings (Esterby - Smith, et al., 2008), it refers to the "*repeatability*" or "*consistency*" of the research measures. During KTH's course called "*Theory of Science and Research Methods*" *validity* has been defined as "*the extent to which a concept, conclusion or measurement is well-founded and corresponds accurately to the real world*" (lecture *How to write a thesis proposal*, 2015 November 25).

According to the related literature, different types of *validity* can be identified:

- *Measurement validity*: referring to the extent to which the researcher measures what he / she is supposed to measure;
- *Internal validity*: related to causality amongst variables and statistical significance;

- *External validity*: referring to the possibility (or not) to generalise the results obtained.

In the present analysis, *validity* of data is guaranteed to be high thanks to the use of multiple sources of data (linked to the case study research method).

On the other hand, *reliability* is ensured by the sources from which data have been collected. In fact, most of the data have been extracted and elaborated from national official databases and sources. Companies and tools used (see next section for further details) represent official sources of information concerning the Italian asset management industry.

3.3 Additional Methodological details

3.3.1 Main sources

This section gives a description of the main data sources used (for secondary data) that are "*Assogestioni*", "*Commissione Vigilanza sui Fondi Pensione*" (Covip) and PwC's internal studies.

- **Assogestioni**: the Italian association of asset managers. Established in 1984, today it represents most of AMCs, both Italian and foreign, banks and insurance companies operating in the country. It gathers more than 290 associates offering their services to institutional clients (insurance companies, pension funds, etc.) and private investors. Assogestioni aims at fostering the optimal conditions for the asset management sector, granting at the same time investors' protection. Within the international framework, it is part of and collaborate with the "*European Funds and Asset Management Association*" (EFAMA) to develop a communitarian legal framework for the asset management industry.

  Periodically, Assogestioni elaborates and publishes industry's data, focusing mainly on *mutual funds*. It represents the main source of statistical information in Italy (Assogestioni, 2013);

- **Commissione Vigilanza sui Fondi Pensione (Covip)**: the Italian administrative authority having regulatory duties for supplementary pension schemes. It was established by the Legislative Decree 124/1993, 21 April. It ensures the transparency and fairness of the management and administration of pension funds.

  Covip provides data over the Italian *pension schemes* sector, particularly on II and III Pillar's instruments (*pension funds* and PIPs);

A specific tool called "*Cubo*" has been also utilised for what concerns Assogestioni's data (http://www.ifh.assogestioni.it/Cubo/Viewer?confId=55). The *Cubo* constitutes the official "*Italian Fund Hub*" (IFH), provider of aggregated data, information and documentation on all *mutual funds* distributed in Italy.

3.3.2 Data elaboration

This last methodological section concludes the chapter briefly providing information on how data have been gathered and elaborated and how tables / figures created.

Firstly, time has been spent deciding which data had to be collected and which one was the most suited way of presenting them, in light of the purpose of the study and of the research questions. Considering that there are various classifications and corresponding data aggregating possibilities, data have been extracted and then grouped, mainly from official national sources, filtering them depending on the situation and on the specific category I was analysing in that moment.

I have created first-hand all figures and tables presented in the results chapter. The figures and trends to be shown (e.g. AuM, market share, growth rate, CAGR), have been decide purposely in order to present figures and tables that could best help the reader understand the Italian asset management market, illustrating the most useful data. A top-down approach has been employed thus going from a macro and aggregated view of the segments towards a detailed one over the respective instruments they include (e.g. mutual funds, pension funds, etc.). Concerning the pension funds' depositary bank market analysis (section 4.3.2.1), an accurate analysis has been carried out in order to assess the custodian each pension fund had chosen to be its own. Along with the project team, I looked at each Italian pension fund in order to find out if they had elected a custodian and, in case they had, which one was it. Once a list of the funds with their respective depo bank (if existing) was created, their AuM was summed up in order to assess which market share is owned by each depositary bank. The analysis took into consideration 75% of the pension funds' market. It was not possible to assess all II Pillar's schemes since, according to the Italian regulation, not all funds have to state publicly their chosen custodian.

4 Results

This chapter presents the results of the analysis carried out for this master thesis work. It starts with an overview of the market general features and figures. Following, detailed data over to the two identified segments of the sector, "*Asset Managers*" and "*Pension Schemes*", are provided. The analysis develops following a consistent structure in order to ease its readability. An *asset servicer*'s point of view is adopted, being it the one commissioning the project.

4.1 Overview

In this section, I will provide the reader with the overall Italian market figures. Data presented hereinafter are elaborations of *Assogestioni* (for the *Asset Managers* segment) and COVIP (for the *Pension Schemes* segment) data.

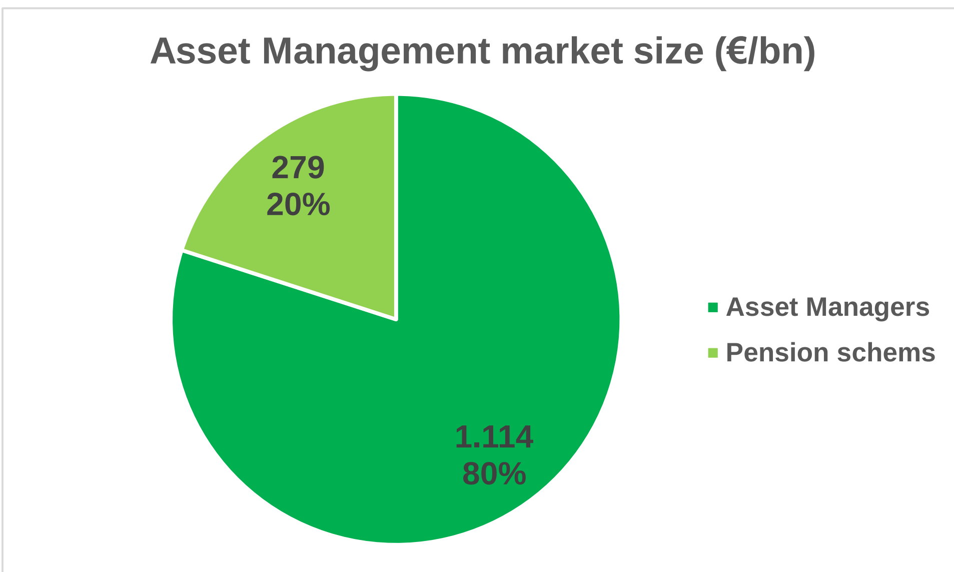


Figure2 – Italian Market AuM breakdown by segment as of December 2015 (€/bn)

Since 2011, the Italian asset management market has been growing significantly, recovering the significant losses occurred during the financial markets crisis. As of December 2015, the overall size of the Italian market is around 1.400 €/bn while, AuM in whole Europe amount to approximately 19 €/tr, both *collective management* and *discretionary mandates*. According to EFAMA data, concerning investment funds only, Europe accounted for 34% of the global market as of the end of 2015, while The US for around 48%. As for Italy, the country represent about 8% of the European market at the end of the same year.

In Italy, the asset management industry is mainly composed of *Mutual funds*, *Alternative Investment Funds* (AIFs) and *Discretionary Mandates* for both private and institutional investors. AIFs are mainly composed of "*Real Estate*", "*Private Equity*" and "*Hedge*" funds, which however represent a minor part of the market with relatively low AuM volumes.

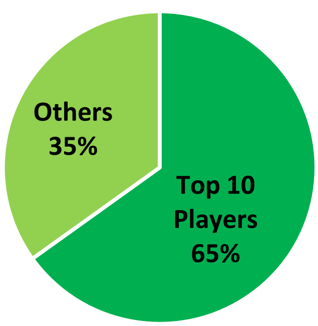
The Italian industry is very fragmented in terms of players. In fact, as of January 2016, there were 655 banks, 145 AMCs and 77 brokers operating in the country. Nonetheless, the top 15 players own the market. There are only three "*big-sized*" (AuM > 100 €/bn) players, 15 "*mid-sized*" (AuM between 20 €/bn and 100 €/bn) and all the others are small players often specialized in managing AIFs.

4.2 The Asset Management market

This section divides the Italian asset management industry into its two broad categories, "*Asset Managers*" and "*Pension Schemes*" analysing them from an asset servicer's perspective. For both categories the same structure and logic is adopted to keep the analysis consistent and ease its readability.

4.2.1 Asset Managers

The *Asset Managers* section refers to all funds, mandates and assets under the management of AMCs. This section provides data and insights over the category's size and then on the changes that affected the segment from an investors' behaviour, regulatory and structural point of view.



Asset Managers	Group	AuM (€ mln)	Market share
Eurizon Capital / Fideuram	INTESA SANPAOLO	224.516	20,10%
Generali Investments Europe	GENERALI	136.295	12,20%
Pioneer Investments	UniCredit	91.904	8,20%
BR Investment Management	BLACKROCK	58.436	5,20%
Anima	ANIMA	57.538	5,20%
Mediolanum Asset Management	mediolanum	39.897	3,60%
UBI Pramerica	Gruppo UBI Banca	37.560	3,40%
Azimut	AZIMUT	35.166	3,20%
BNP Paribas Investment Partners	BNP PARIBAS	24.772	2,20%
Arca SGR	ARCA	24.137	2,20%

Table1 – Top 10 Asset Managers per AuM as of December 2015 (Elaboration on Assogestioni data)

As of January 2016, 145 asset managers are registered and active on the Italian market. However, the market AuM is mostly concentrated in few players (part of Italian leading financial groups) dominating the local landscape: "*Generali Investments Europe*" (GIE) part of the *Generali group*, "*Eurizon Capital*" part of the *Intesa SanPaolo group* and "*Pioneer Investments*" owned by the *UniCredit banking group*. As already mentioned in chapter 2, banks and insurance companies' ownership of leading AMCs and high AuM concentration, are historical features of the Italian market. The top 10 asset managers own 65% of whole market, of which only two are Italian-law independent asset managers (*Anima* and *Arca SGR*), as showed in *Table1* above.

4.2.1.1 Size and Growth

The present section focuses on the segment's overall figures and then describes its main product classes into details: *Mutual funds*, *Alternative Investment funds* (AIFs) and *Discretionary Mandates*.

Asset Managers products		AuM (€/mln)	Market share	Growth 2011-2015 CAGR
Mutual funds	Italian law mutual funds	230.437	20,7%	+12,5%
	Foreign law mutual funds	614.479	55,1%	+22,8%
Alternative Investment funds	Hedge funds	5.321	0,5%	-13,1%
	Real estate funds	47.072	4,2%	+2,9%
	Other alternatives (PE / Other Alternative IF)	1.723	0,2%	+25,4%
Discretionary Mandates	Retail mandates	127.863	11,5%	+5,5%
	Institutional mandates	87.398	7,8%	+3,5%
Total		**1.114.293**	**100%**	**+13,54%**

Table2 – Evolution of Asset Managers products AuM (€/ mln), 2011-2015 (Elaboration on Assogestioni data)

The total *Asset Managers* category's AuM amount to 1.114 €/bn, allocated for the vast majority (899 €/bn) to investment funds (*mutual funds* and AIFs) and for the rest to *discretionary mandates* (215 €/bn). From the "*Compound Annual Growth Rate*" (CAGR), a strong upward trend emerges between 2011 and 2015 for all instruments except *hedge funds* that witnessed a drop of 13,1% and *real estate funds* that showed a slow growth in that period. Overall at the end of 2015, both net inflows and AuM experienced a significant growth compared to 2014; assets under management raised up to 1.114 €/bn (+17% on 2014) and net flows up to 101,66 €/bn (+19% on 2014).

Mutual funds market

According to Assogestioni, *mutual funds* are for the most part traditional products of the Italian market. The majority of their AuM (including both Italian and foreign-law funds) is allocated to *open-end funds* (94,5%) while the remaining 5,5% is allocated to *closed-end funds*. UCITS funds' net assets invested are significantly higher in Italy (79% against 64%) compared to Europe, highlighting how AIFs are struggling in the country. Since 2009, in Italy, foreign-law funds' market share has grown significantly and as of today, their AuM exceeds the one of domestic open-end funds. Reasons behind these differences are different fiscal treatments, different operating costs and looser regulations on performance fees, which led foreign-law funds to take over 50% of the market share in only 6 years.

Alternative funds market

As *Table2* highlights, Italian AIFs constitute a low market share with respect to the entire Italian asset management sector. *Hedge funds* witnessed a clear downward trend (-13%) up until the end of 2015. Closed-end *real estate funds* are substantially stable with a slower AuM growth (+2,9%) with respect to open-end funds. They also show a significant variability in net flows, which are positive for the five-year period (2011 – 2015), but lower than the previous year. In 2014, the "*Private Equity*" (PE) segment started showing signs of recovery after the financial crisis, investing 39% more compared to 2013. According to "*Associazione Italiana del Private Equity, Venture Capital e Private Debt*" (AIFI), their net flows are positive, with a strong institutional component coming from sovereign wealth vehicles such as "*Fondi Italiani per le Infrastrutture*"

(F2i), "*Fondo Italiano d'Investimento*" (FII) and "*Fondo Strategico Italiano*" (FSI). Finally, another type of closed-end funds, classified as "*alternative fixed income funds*" is increasing its AuM. In 2015, more than 600 €/mln of new *alternative fixed income funds* were reported to *Assogestioni*. These funds invest mainly in "*minibonds*" and loans, attractive to institutional investors and insurance companies in particular.

Discretionary mandates market

Asset managers belonging to banking groups drive the retail side of the market. Most of the business is concentrated in the *Intesa SanPaolo group* (more than 45% of the market) and the rest split across other banking groups while only marginally to independent asset managers. During previous years, retail mandates investing in funds were negatively impacted by the introduction of *MiFID I* rules and have lost, between 2006 and 2008, 50% of their AuM. As for the institutional side, it is largely dominated by insurance group players but more fragmented than the retail side of the market.

4.2.2 Pension Schemes

In this section, I will analyse the Italian pension system describing its characteristics, presenting its figures and providing details over its sub-categories (I Pillar, II Pillar and III Pillar) and their products.

Not all data are updated as of December 2015 as for the *Asset Manager* section, as some of them refer to the end of 2014. As matter of fact, in some cases those are the most updated official data available. Pension schemes' dynamics differ from the ones of asset managers. Data gathering is carried out at a slower pace since providers do not have pressing disclosure duties as AMCs do. Nevertheless, information provided are to be considered as relevant as those of 2015 considering that the pension schemes' market works at a slower pace than *Asset Managers*' segment, with changes happening more gradually.

Due to the Italian population's ageing, pension schemes and private welfare institutions play and will keep on playing a crucial role from a social point of view, as they support the labour force in maintaining a certain standard of living. The Italian pension system is aligned with the European framework provided in Chapter 2. As matter of fact, the Italian pension schemes are structured in various pillars, addressing both the mandatory and complementary part, each of which addresses a specific market segment:

- **I Pillar – Public welfare**: composed by *INPS*, INAIL and "*Casse privatizzate*" as external players focused on private sector workers, aimed at ensuring some basic welfare services;
- **II Pillar – Pension funds**: including "*open-end*", "*pre-existing*" and "*negoziali*" funds;
- **III Pillar – (PIP)**: divided into "*new PIP*" and "*old PIP*" depending on their compliance (in the first case) or not (in the second case), to the Legislative Decree 252/2005;

4.2.2.1 Size and Growth

The following paragraphs give information over the pension system market. Firstly, aggregated data on every pillar are provided to then discuss them in details, placing particular attention on complementary pension schemes (II and III Pillar) since these are the most interesting ones to analyse as they constitute a potential new market for asset servicers. Finally, the main *pension funds* operating in Italy and the asset servicers' targetable market are illustrated.

At the end of December 2015, the overall Italian pension schemes AuM amounted approximately to 285 €/bn. The 50% is allocated to I Pillar schemes while the remaining part is almost all invested in II Pillar *pension funds* (42%), leaving III Pillar PIP with only 8% of the market (see *Figure3*).

Figure3 – Italian pension schemes breakdown by products (€/mln) (Elaboration on COVIP data)

	Pension schemes	AuM (€/mln)	Market share	Growth - 2011-2015 CAGR
I Pillar	INPS and INAIL	83.000	29%	+2,57%
	Casse Privatizzate	65.000	23%	+6,25%
II Pillar	Negoziali	42.000	15%	+13,16%
	Open-end	15.000	5%	+17,02%
	Pre-existing	54.000	19%	+6,48%
III Pillar	PIP (new and old)	26.000	9%	+17,32%
Total		***285.000***	**100%**	**+7,11%**

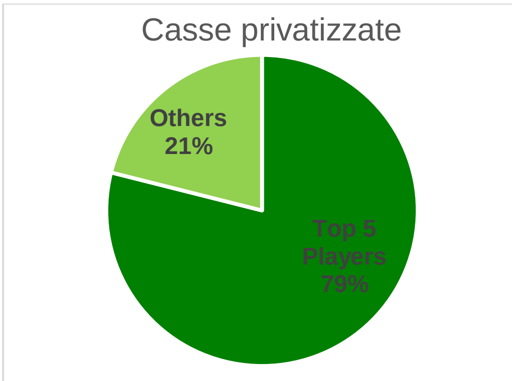
Table3 – Evolution of Italian pension schemes (€/mln), 2011-2015 (Elaboration on COVIP data)

Data presented in *Table3* above show how pension schemes' growth has been proceeding at a slow pace since 2011 (7,11% on average), especially if considered all reforms that invested the sector.

I Pillar schemes: *Casse Privatizzate*

This section goes into details on the mandatory pension schemes (I Pillar) providing data referring to *Casse Privatizzate* and its top players. Even though *INPS* and *INAIL* gather together more than 50% of I Pillar's assets, they are here not further analysed since both of them are State-owned and are thus substantially stable and not subject to market changes. Furthermore, they do not represent a possible market (new clients) for asset servicers and are considered out of scope for this analysis.

Casse Privatizzate's AuM has been growing during last years and at the end of 2014 (most updated official data available on *Itinerari Previdenziali*'s website) amounted to 65,49 €/bn, while they were 60,79 €/bn at the end of 2013. A high concentration characterises *Casse Privatizzate*'s assets; in fact, the top five players (ENPAM, *Cassa Forense*, *Inarcassa*, ENASARCO and CNPADC) represent together approximately 79% of the category's total AuM. *Table4* below presents the overall market share segregation showing how the top five players lead the category. The table also illustrates the market top players' respective depositary bank, which constitute a targetable market for asset servicers. What catches the eye looking at the table, is that more than 50% of the market has as depositary bank BP2S (53% of total AuM) and 30% of it has SGSS. Consequently, *Casse Privatizzate* concentration is even higher from an external asset servicer's perspective, resulting in fierce competition and low chances for new servicers to enter the Italian market.



Top Players	Market share	Depo Bank
ENPAM	30%	BP2S
Cassa Forense	15%	BP2S
Inarcassa	15%	SGSS
CNPADC	11%	SGSS
ENASARCO	8%	BP2S

Table4 - Casse Privatizzate top 5 players (Elaboration on *Itinerari Previdenziali* data)

II & III Pillar schemes

This section describes in details the Italian complementary pension schemes. It first gives the reader an overview of II and III Pillar products to then analyse their specific characteristics. The section concludes with the five top *pension funds* and market possibilities for asset servicers.

Italian complementary pension schemes (I and II Pillar) can be divided into five types of products:

- ***Pre-existing* funds**: pension funds established before the Legislative Decree 124/93 that defined the regulatory framework for complementary pension schemes. They may be established directly by a company for its own employees and subscription is allowed only on a collective basis;
- ***Negoziali* funds**: pension funds established and reserved to workers of specific industries;
- ***Open-end* funds**: funds without any enrolment restriction; investors can enter / exit as they please;
- ***New PIP***: individual pension plans compliant with Legislative Decree 252/2005;
- ***Old PIP***: individual pension plans not compliant with Legislative Decree 252/2005.

A high AuM concentration in closed-end funds can be identified within the Italian complementary pension schemes. Most of the assets are concentrated in "*pre-existing*" and "*negoziali*" funds, with the remaining share split across open-end pension funds and PIPs. Except for *old PIP* and *pre-existing* pension funds, for which data as of December 2015 are not available (conventionally kept equal to the ones of 2014), a positive variation trend was registered at the end of December 2015 compared to the same month of the previous year (see *Table5* below). According to COVIP data, overall pension schemes' assets grew by 5.7% in 2015, with *open-end funds* and *new PIP* being the one witnessing the highest percentage change, equal to 10,4% and 18,7% respectively.

Fund type	December 2015 (€/mln)	December 2014 (€/mln)	var. % Dec 2015/ Dec 2014
Negoziali	42.546	39.644	7,3
Open-end	15.439	13.980	10,4
Pre-existing	54.030	54.033	
New PIP	19.432	16.369	18,7
Total	**131.447**	**124.091**	**5,9**
Old PIP	6.850	6.850	
Grand Total[4]	**138.367**	**130.941**	**5,7**

Table5 – Italian complementary pension schemes (Elaboration on COVIP data)

At the end of 2014, the total number of complementary pension schemes corresponded to 496 units (see *Table6* for the detailed numbers) split as follows (old PIP are not considered since their number cannot grow through the years):

- 38 *negoziali* pension funds;
- 56 *open-end* pension funds;
- 323 *pre-existing* pension funds (204 independent and 119 non-independent);
- 78 *new PIP*.

[4] Including FONDINPS

	2000	2006	2007	2008	2009	2010	2011	2012	2013	2014
Negoziali	42	42	42	41	39	38	38	39	39	38
Open-end	99	84	81	81	76	69	67	59	58	56
Pre-existing	578	448	433	411	391	375	363	361	330	323
independent	*399*	*307*	*294*	*273*	*255*	*245*	*237*	*233*	*212*	*204*
non-independent	*179*	*141*	*139*	*138*	*136*	*130*	*126*	*128*	*118*	*119*
New PIP			*72*	*75*	*75*	*76*	*76*	*76*	*81*	*78*
Total	**719**	**574**	**629**	**609**	**582**	**559**	**545**	**536**	**509**	**496**

Table6 – Number of Italian complementary pension schemes, 2000-2014 (Elaboration on COVIP data)

Table6 above shows historical data from 2000 to 2014, representing the number of complementary pension schemes in Italy. A unidirectional decreasing trend can be immediately identified. In fact, the total number of pension schemes has been dropping since 2007 because of a complementary welfare system reform that pushed the market towards higher concentration levels.

By contrast, the number of pension schemes' unit holders grew by 13,4% overall (see *Table7*), going from 6.453 million in 2014 to 7.315 million at the end of 2015. The most significant increase concerned *negoziali funds* and *new PIP*, 27,3% and 10,1% respectively.

		Unit holders final amount		
Fund type	**Number of funds**	**December 2015**	**December 2014**	**var. % Dec 2015/ Dec 2014**
Negoziali	38	2.475.433	1.944.276	27,3
Open-end	56	1.150.366	1.057.024	8,8
Pre-existing	323	650.000	650.133	
New PIP	78	2.595.920	2.358.039	10,1
Total[2]	**496**	**6.871.719**	**6.009.472**	**14,3**
Old PIP		467.000	467.255	
Grand Total		**7.315.398**	**6.453.299**	**13,4**

Table7 – Italian complementary pension schemes. Number of funds and unit holders (Elaboration on COVIP data)

At the end of 2015, net inflows amounted to 860.000 units (13,4% variation). The highest increase was registered by *negoziali funds*, with 530.000 new subscribers. Such an elevated increase was due to the automatic subscription mechanism that started at the beginning of the year for employees of the construction industry. In particular, subscriptions to the *Prevedi* fund grew from 39.000 units of 2014 to 570.000 units at the end of 2015. *Open-end funds*' unit holders grew by 93.000 units while the number of unit holders of *new PIP* increased by 238.000 with respect to 2014. At the end of 2015 the participation rate (over the total possible population) was 27,2% for men, representing 61,1% of the total unit holders, whereas women registered a lower rate of 23,5%.

Dimensional category of unit holders	"Negoziali"		Open-end		New PIP		Pre-existing		Total	
	N°	Unit holders	N°	Unit holders	N°	Unit holders	N°	Unit holders	N°	Unit holders
> 100.000	4	864.124	2	283.581	5	1.661.125			11	2.808.830
50.000 – 100.000	6	439.573	1	67.534	3	215.185	1	77.745	11	800.037
20.000 – 50.000	13	519.646	13	445.134	10	243.141	9	243.790	46	1.451.711
10.000 – 20.000	4	54.677	13	181.649	8	111.823	6	77.239	31	425.388
1.000 – 10.000	10	65.938	20	74.388	33	118.898	66	215.667	129	474.891
100 – 1.000	1	318	7	4.739	17	7.735	82	33.684	107	46.476
<100					2	131	159	2.008	161	2.139
Total	**38**	**1.944.276**	**56**	**1.057.024**	**78**	**2.358.039**	**323**	**650.133**	**496**	**6.009.472**

Table8 – Unit holders' distribution based on dimensional category (Elaboration on COVIP data)

Table8 above provides a partition of Italian pension schemes, depending on the dimension of their unit holders. Data illustrates how, in 2014, the 11 schemes with more than 100.000 unit holders totalled 2,8 million members, equal to the 47% of the market.

Looking at unit holders' origins, a strong presence in the Northern area of the country is identified, as highlighted by *Figure4* below:

- In the Northern part of Italy, the average participation rate is above 30%, with higher levels in those regions presenting additional local initiatives aimed at supporting and integrating the social security system (e.g. *Valle d'Aosta* and *Trentino Alto Adige*);
- In the Central part of the country the rate is lower and close to 25%;
- In Southern regions, only 18% of labour force invests in complementary pension schemes.

Participation rate (%)	
	15-21
	22-26
	27-29
	>30

Figure4 – Italian complementary pension schemes subscription rate based on districts (Elaboration on ISTAT data)

The first noteworthy element of data reported in the figure above is that, at the end of 2015, only 7.3 millions of unit holders invested in a supplementary pension scheme. An extremely low value compared to the ones registered in other European countries, such as The UK that showed, only in 2013, membership of workplace pension schemes equal to 40% for men and 31% for women.

The 5 main Italian pension funds

As previously stated the Italian market of pension funds is a highly concentrated one, with most of the assets centralized in *negoziali* and *pre-existing* funds. Consequently, it is not surprising that the top 5 Italian pension funds are included in these two categories, as illustrated by *Table9* (most updated data refers to December 2014).

N°	Pension funds	AuM 2014 in €	Type of pension fund	Depositary Bank
1	Cometa	9.176.773.736	Negoziale	BP2S
2	Previndai	8.539.275.661	Pre-existing	BP2S
3	Fonchim	4.757.787.052	Negoziale	ICBPI
4	UniCredit	2.839.135.311	Pre-existing	SGSS
5	Fonte	2.755.271.882	Negoziale	SGSS

Table9 – Top 5 Italian pension funds, based on AuM (Elaboration on Itinerari Previdenziali data)

- "*Cometa*" is the Italian complementary national pension fund for workers in the metalworking, plant installation industry and related sectors. With 408.787 unit holders, the fund registered an increase of 12,5% in AuM, from 8,15 billion in 2013 to 9,18 billion in 2014. *Cometa*'s depositary bank is BNP Paribas Securities Services (BP2S) whose contract will expire on April 20th 2020;
- "*Previndai*" is the complementary pension fund of industry executives whose employment is regulated by the national labour contract signed by *Confindustria* and *Federmanager*, or a different contract, signed by at least one of these parties. Its unit holders amounted to 77.745 units and its AuM increased from 7,91 billion euro in 2013 to 8,54 billion in 2014;
- "*Fonchim*" is the complementary pension fund for employees in the chemical, pharmaceutical industries and similar sectors. Its AuM raised from 4,20 billion euro to 4,76 as of December 2014, registering a growth of 13,13% (552 million);

- "*UniCredit*" is the complementary pension fund for employees of the *UniCredit group*, showing a number of unit holders equal to 40.751 and an AuM increase of 2,70% from 2,76 billion euro to 2.84 billion in 2014;
- "*Fonte*" is the complementary pension fund for employees of companies in the tertiary sector, such as commerce, tourism and services, with 195.362 of unit holders. Within the *negoziali funds* included in the top five Italian pension funds, "*Fonte*" is the one that registered the highest increase in AuM in 2014, 16,51%.

Pension fund market for asset servicers

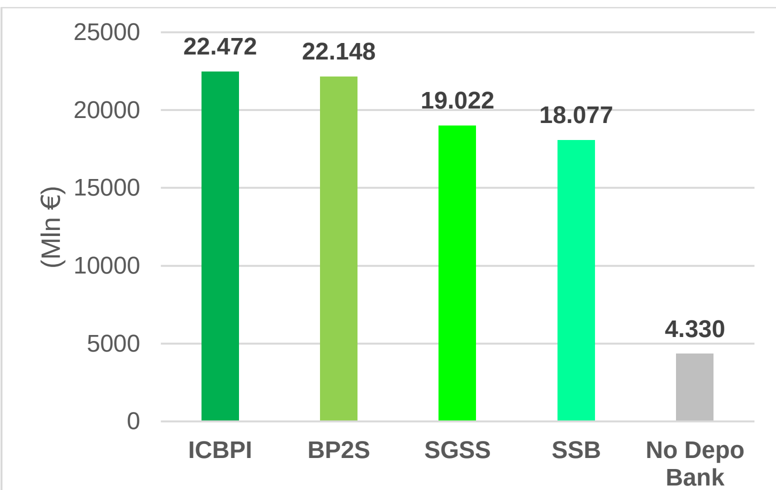
The following paragraphs describe the Italian market for asset servicers concerning pension funds (data at December 2015). Firstly, a panoramic view over the depositary bank market is given (if possible to identify) and then, to deepen the analysis, *Tables11* to *13* provide details over the top players of each II Pillar's instrument class (*negoziali*, *open-end* and *pre-existing*) with their respective market share and depo bank.

Asset servicers are financial intermediaries whose activities involve offering other financial institutions, services they do not want / cannot perform and decide to outsource. The most important and remunerative of such activities is being a depositary bank (depo bank) or custodian. The depo bank has the duty of holding securities and cash for safekeeping purposes and is the activity servicers are most interested in.

II and III Pillar's AuM are allocated in a conservative way in Italy, mainly invested in debt securities (Italian government bonds), with only a low percentage allocated in stocks. In fact, Italian pension schemes provide an irrelevant contribution to companies' financial needs, if compared to European peers, showing a home country bias from a market size and structural point of view (Joel & Della Croce, 2015).

Results presented in *Table11* below have been obtained adopting a meticulous approach. It consisted in looking at each and every Italian pension fund public documentation (from both direct website and official database, e.g. COVIP) in order to understand which one is their chosen depositary bank. Results presented take into consideration a total AuM of 86 billion euro, corresponding approximately to 75% of the pension funds' market (II Pillar). It was not possible to assess the whole II Pillar market since, according to the Italian regulation, not all funds have disclosure duties that force them to publicly state their chosen custodian thus in some cases no information were available.

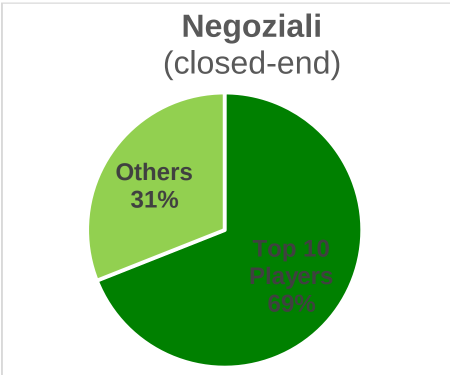
From *Table10* the expectation of a concentrated market is confirmed. Only four players (BP2S, ICBPI, SGSS and SSB) dominate the Italian pension funds' market of depositary banks. It is notable that a quite relevant amount of assets (also considering that not all the market is represented) is explicitly not assigned to any custodian (4.330 €/mln over 86.049 million). According to the Italian law, it is not mandatory to have nor disclose the fund own depo bank.



Depo Banks	AuM(mln €)
ICBPI	22.472
BP2S	22.148
SGSS	19.022
SSB	18.077
No Depo Bank	4.330
Grand Total	**86.049**

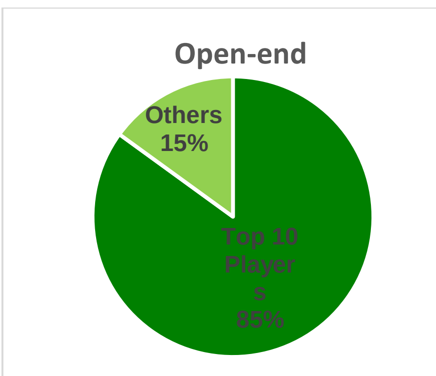
Table10 – Main depositary banks per AuM (II Pillar)

Going more into details, the three tables below (*Table 11* to *13*) illustrate that all top *negoziali*, *open-end* and *pre-existing* funds have, as custodian, one of the four leading intermediaries previously identified (BP2S, SGSSI, SSB and CBPI). For all three classes, few relevant players own more than 60% of the market. Precisely, the top 10 players of *negoziali* and *open-end* funds hold 69% and 85% of their respective market while the first eight players of *pre-existing funds* hold 61% of the market. In general, the four players acting as depo bank divide the vast majority of the market equally among them (see Tables here below).



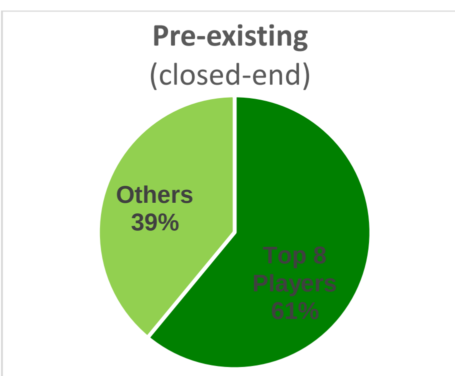
Top Players	Market share	Depo Bank
Cometa	23%	BP2S
Fonchim	12%	ICBPI
Fonte	7%	SGSS
Laborfunds	5%	SSB
Fondenergia	4%	SGSS
Fopen	4%	ICBPI
Fondoposte	4%	SGSS
Telemaco	4%	ICBPI
Priamo	3%	SGSS
Alifond	3%	ICBPI

Table11 – Top players negoziali funds (Elaboration on COVIP data)



Top Players	Market share	Depo Bank
Intesa Sanpaolo	22%	SSB
Arca	19%	ICBPI
Allianz	7%	SGSS
Generali	7%	BP2S
Unipol	7%	BP2S
Axa	6%	SSB
Amundi	5%	SGSS
UniCredit	5%	SGSS
Anima	4%	ICBPI
ITAs Assicurazioni	3%	SSB

Table12 – Top players open-end funds (Elaboration on COVIP data)



Top Players	Market share	Depo Bank
UniCredit	13%	SGSS
Mario Negri	10%	BP2S
SanPaolo	10%	BP2S
BCC/RCA	8%	ICBPI
B. Roma	5%	SGSS
Intesa Sanpaolo	5%	SSB
Dip. MPS	5%	SSB
Previndai	5%	BP2S

Table13 – Top players pre-existing funds (Elaboration on COVIP data)

5 Analysis and Implications

The present chapter is dedicated to the analysis of data presented in previous chapter as well as other industry's qualitative information gathered. It firstly illustrates the industry's main trends, international exposure and the characteristics of its main players (AMCs and Asset Servicers). Subsequently, remarks concerning the *Asset Managers* and *Pension Schemes* results are illustrated. Lastly, insights and implications are provided, presenting them from an asset servicer perspective.

Market trends

Nowadays, the asset services market is exposed to significant evolutions. Buy-side and sell-side firms are adapting their operating models to face a wide array of commercial and regulatory challenges. Broker and investment banks are seeking new ways to regain adequate levels of profitability. Asset managers, wealth managers and the retail distribution chain are facing significant changes and need to be resilient enough to remain competitive in the long term.

The need for buy- and sell-side firms to manage an expanding range of service providers and vendors is growing. The securities' value chain has become considerably more complicated while also getting more and more broken apart; it has become more difficult for investment firms to agree upon all services with a single broker and a single global custodian and, as matter of fact, this is almost never the case in Italy. While some custodians have exited certain activities, or chosen not to offer new services even though required by clients, new vendors have been entering the market. Component outsourcing firms, along with specialist firms in areas such as agency lending, proxy voting and tax reclaims, have merged as potential competitors to traditional securities servicers.

International orientation

The Italian asset management market is mainly focused on domestic clients. Only few players have a relatively broad international presence (*UniCredit* for banks, *Generali Group* for insurers, *Pioneer Investments* for asset managers) that is mainly driven by the need to support cross border businesses of domestic customers or to offer foreign domiciled investment products to Italian investors. The weight of Italian brokers and asset managers in the global market is limited, especially if compared, for example, to the Italian presence in the manufacturing business and in global trades. Even though the ownership of AMCs, banks and insurance companies is largely dominated by Italian shareholders, the market is more and more exposed to European / international controls. None of the Italian securities servicers appears to be a main player in the post-trade services and / or in the global market. Instead, given their limited size and their lacking of global reach and significant operating volumes in post trading and custody services, even the Italian securities services market is dominated by foreign groups, with only one Italian bank operating in the business, ICBPI. Consequently, competition is at European and global level and it is becoming increasingly important in light of the growing integration amongst the European countries' markets, in terms of both infrastructure and regulatory framework. Nevertheless, deep knowledge and expertise of the Italian industry still represents a key success factor to operate in the country as many of the potential clients essentially have a domestic focus and coverage, not to mention the increasing relevance of pension schemes that are obviously more internally oriented.

5.1 Asset Management Companies and Asset Servicers

In this section, I will focus on AMCs and Asset Servicers operating in Italy, describing their characteristics and presence with respect to the country.

For a long time in Italy, AMCs represented the investment management arm of banking groups. Only in recent years, due to regulatory interventions, some independent AM emerged and now cover an interesting share of the market. What is more, foreign players are entering the market mainly distributing investment funds established and managed abroad. Despite the number of independent AMCs has grown, distribution of financial products still remains based on banking networks and, along with custody and settlement, most of the trading is performed by banks, too. During last years, banking groups decided to refocus on distributing asset management products resulting in a significant market size growth in terms of AuM, being them the ones driving the Italian market as stated in the literature review chapter.

At national and communitarian level, a new wave of European and global regulations along with technological evolutions is reshaping the financial services' framework. Asset managers and asset servicers need to refocus their investments' plan in order to maintain their profitability, offer new services, meet regulatory requirements and satisfy clients' needs, in a market more and more integrated at European level. In Italy, the asset servicers' market was mainly built and shaped during the last decade. Few specialized operators, many of which are part of big groups offering assets' services on a global scale, dominate it: "*BNP Paribas Securities Services*" (BP2S), "*State Street Bank*" (SSB) and "*Société Générale Securities Services*" (SGSS), where the last two entered the Italian market acquiring the securities services' businesses of *Intesa San Paolo* and *UniCredit* respectively. "*Istituto Centrale delle Banche Popolari*" (ICBPI) remains the only Italian competitor in the market. After a first wave of consolidation driven by asset managers and banking groups' need to raise additional capital and reduce fixed costs (that opened the door to global servicers willing to buy depositary bank and custody businesses), the long lasting financial crisis led to a stable phase where all main servicers that had entered the market are facing strong pressure on fees and are looking for additional revenue sources.

5.2 Asset Managers analysis

The present section is dedicated to the analysis of data presented in the *Asset Managers* segment of the previous chapter. The section is divided in three parts, dedicated to changes affecting respectively *investment behaviours*, *regulations* and *structure* of the industry. Asset servicer implications are also drawn for each part.

In general, the low interest rate environment and the pressure on margins will continue leading Italian banks to focus on managed assets and in-house portfolio managers. Analysing the market dynamics affecting asset management products and data of *Table2*, the following patterns can be foreseen:

- **Mutual funds** AuM's growth is mainly focused on *mutual funds* that in fact show the highest growing rates (see *Table2*), reflecting BCE's actions against the 2011 sovereign debt crisis mentioned in chapter 2. In particular:
    - *Italian-law mutual funds* will continue growing, but at a slower pace with respect to previous years, and could lose market share in favour of foreign-law funds that are rising quickly;
    - *Foreign law mutual funds'* growth will not stop in coming years, increasing their already dominant position in the market with respect to Italian-law *mutual funds* thanks to the growing presence of international players;
- **Alternative funds'** AuM are not significant in the Italian market as illustrated by *Table2*. Except for the launch of new "*Alternative Fixed Income*" funds that however will not change significantly the relative weight of these products in the market, AIFs' position in terms of AuM has not changed and is not expected to change;
- **Discretionary mandates** are struggling to recover after the financial crisis and have grown at a slower pace with respect to *mutual funds*. However, in coming years, due to "*MiFID II*" rules on inducements, players will be pushed to increase their offering of managed accounts as "*MiFID II compliant*" products. In addition, assets coming from the pension

segments could drive potential growth of these products. This considered, discretionary mandates already hold, in Italy, a relevant portion of the market (19.3%) confirming the characteristic already highlighted by the financial literature (Delbecque & Healy, 2015).

5.2.1 Changing Investment Behaviour and Requirements

The present section constitutes a summary of the changes and trends highlighted by investors' choices. It then draws the deriving implications from an international servicer's perspective.

The financial sector is experiencing record-low interest rates that are chasing investors away from deposits. Investors are encouraged to exit bank deposits searching for better returns with asset managers. At the same time, banks and insurance companies are pushing their clients towards funds and away from traditional deposits. The recent financial crisis proved that investments in sovereign securities, such as government bonds, are not risk free as thought and, as a consequence, investors started losing trust and looking at AMCs as a valid alternative with higher interest rate, too. According to *Adrian Cighi*, analyst at RBC bank, improvements registered in funds' sales proved that Italians began relying again upon asset management, generating a structural shift towards investments products that could run for several years.

Investment behaviour and requirements' implications

As investors' preferences are shifting towards collective management schemes and away from traditional asset classes (e.g. *govies*), asset servicers may expect an increase in investment funds' AuM, with higher revenues coming from depositary bank, fund administration and TA services. Moreover, the tendency of Italian asset managers of establishing foreign-law funds (their AuM is almost 3 times higher than Italian-law funds, as shown in *Table2*) will put the spotlight on asset servicers' cross-border level of integration, as clients will expect a consistent level of service in all countries in which they wish to operate. Italian asset managers, being subject to stringent *Bank of Italy* and *Consob* regulations, will expect operating procedures of foreign-law funds to be as aligned as possible to those in place for Italian-law funds and will request the setup of the relevant information flows opening to new support opportunities for securities servicers. Nonetheless, given the development of a uniform European market, foreign players may have a competitive advantage as creating and distributing foreign funds may be more efficient than *roundtrip funds* managed by Italian asset managers. Furthermore, in order to be compliant with the changing and pressing European regulatory framework, asset servicers will face increasing requests from asset managers asking for more complex monitoring and reporting services.

In spite of the capital markets' difficulties, assets growth will continue in both traditional and alternative asset classes. In particular, there will be an increase in alternative investments and passive products (such as *exchange-traded funds*), which investors seeking for lower costs are asking more and more. Consequently, opportunities to improve standardization levels of some processes will increase but, at the same time, processes will become more complex.

5.2.2 Regulatory Changes

In the present section, I will introduce the main regulatory changes that invested and are investing the sector, presenting also the consequences they are carrying.

The most relevant upcoming regulations have been analysed in order to draw the following implications. It is important to pinpoint again here that in general, almost all changes that affect the asset management industry at any level (global, European and national), are usually caused by the introduction of new regulations, being the industry regulatory driven.

The European Directive 2014/65/UE, called "*Markets in Financial Instruments Directive II*" (MiFID II) will deeply transform the entire European market, generating new scenarios from both a trading and transparency point of view. On February 11th 2016, MiFID II entry into force has been postponed from January 2017 to January 2018 in light of the deep transformations it carries. The main impacts the directive will have on the asset management world are listed below:

- Additional pressure to reduce products' costs and increase performances, as the enhanced disclosure obligations will make instruments' comparisons easier for the clients;
- Potential increase in distribution of funds via "*open architecture platforms*" / "*robo-advisory*" for those investment firms providing independent advisory services;

- Threats to the current distribution model, as it will be more difficult to remunerate distributors through inducements (there will be rebates on management fees);
- Review of offered products following the set-up of a product governance and the need to reduce the number of complex funds in favour of more simple ones;
- Shift of high net worth individuals and affluent clients towards discretionary mandates as alternative to the fee-based investment advisory models.

Besides MiFID II, another directive 2014/91/UE (called "*UCITS V*") will reshape the asset management sector. It introduces a uniform regime for custodians of UCITS funds across Europe, aligning the main requirements in terms of controls and liabilities to those already introduced by the "*Alternative Investment Fund Managers Directive*" (AIFMD) for alternative funds. Some of the key areas of impact refer to the need to ensure the independence of the depositary bank, assets segregation obligation, liability of the custodian and delegation of some bank's tasks. Bank of Italy's goal in transposing these regulations is to align requirements for AMCs and depositary banks regardless of the type of fund involved (i.e. UCITS of AIFs).

Regulatory changes' implications

Costs associated with asset servicers will be clearly disclosed to clients and might put asset managers under pressure. Products' offer reshape may lead to a growth in portfolio management services and to a reduction in the number and complexity of the distributed funds, thus limiting opportunities for additional business. Asset servicers need to be in the position of providing additional services supporting asset managers in the fulfilment of new reporting duties, especially concerning distribution fees and inducements.

Due to the upcoming UCITS V directive (2014/91/UE), *Bank of Italy* wants to remove (also for UCITS as already done for AIFs) the possibility to directly assign the calculation of the *Net Asset Value* (NAV) to depositary banks, the so-called "*affidamento*", just foreseeing the possibility to outsource the calculation to custodians given respect of a minimum segregation conditions. Should the *affidamento* model be removed, all relevant contracts for NAV calculation would need to be renegotiated. In addition, according to new regulations, outsourced NAV calculation costs will not be charged directly to the fund. In such a scenario, current business opportunities for fund accounting and NAV calculation might be significantly reduced and relevant revenues be at risk. New regulations, as seen above, are demanding greater market transparency through reporting requirements and standardization rules on regulated trading venues. Risk mitigation could be faced through bilateral collateral exchange and central clearing services.

Summarising, all the mentioned changes affecting the capital markets landscape can be placed into one of these three leading forces:

- *Transparency and risk mitigation*;
- *Alternative asset growth*;
- *Pressure on capital markets profits*.

5.2.3 Structural Changes

The present structural changes section, treated jointly with the regulatory changes one in the *pension schemes* part, illustrates the main structural modifications and the resulting implications for asset servicers that operates in Italy.

Foreign asset managers took advantage of the situation following the dotcom crash, which caused losses to local fund houses that never fully recovered, in order to become more prominent in the Italian market they were interested in due to its high saving rates. Today, these foreign participants are planning to increase their activity in the country (Flood, 2015). According to Assogestioni's data as of the end of 2015, the process is almost complete and, for example, one of the largest global asset managers worldwide, *BlackRock*, has gained a significant market share, now being reported as the fourth player in terms of AuM (see *Table1*). International asset managers investing on the Italian market are searching for seamless provisions of TA and fund distribution services. However, even though demand for TA services is rising, competition in the market is already extremely high also because new correspondent banking agreements are not easy to acquire in the Italian market. Moreover, the European funds' market is facing an increasing number of integration changes such as the standardization of fund flows, the growth of open architecture platforms, on-line distribution systems and the quotation of funds. In the medium-long term, the need for a local transfer agent will be largely reduced or by-passed through alternative cross-border distribution models, thus reducing the size of relevant market for asset servicers.

Structural changes' implications

International asset managers investing in the Italian market will search for a seamless provision of TA and fund distribution services. Concerning TA services, the qualitative aspects clients value the most is the ability of the providers (asset servicers) to customize their services, based on clients' specific needs and the ability to be integrated with distributors.

Many small and midsize market players are facing more complex processes and are seeking to externalize more components of the value chain to reduce their operational costs and risks. Therefore, Middle (clearing and settlement) and Back Office (reporting) functions are becoming, from a revenue point of view, the most interesting ones to be outsourced to service providers.

Despite the fact that the asset management industry operates with a low-tech infrastructure, technology developments are changing the business and communication within it: advising is becoming virtual, computers are replacing people and new technology-based business model are being developed, putting pressure on old firms to adapt. Asset servicers need to be prepared to support the other players keeping the pace and not falling behind.

Finally, AMCs are implementing new and more complex operating models, asking for an increasing level of integration between distribution and operations. Asset servicers have to support their clients in this task, being ready to setup the required information flows and interfaces with other actors of the value chain.

5.3 Pension Schemes analysis

This section follows the same logic adopted for the *Asset Manager* one. Changing investment behaviour and then regulatory and structural changes will be described in order to extrapolate how these changes can affect the business of an international asset servicer operating in the country.

In general, I Pillar schemes are still playing an important role in Italy (they represent 50% of the market, as shown in *Figure3*), with complementary products (II and III Pillar) catching up and increasing their relative weight in the market. In fact, the higher growth rates concern *pension funds* and PIPs (see *Table4*). However, the future of Italian complementary pension scheme is uncertain, as the different ruling national governments applied contrasting regulatory reforms without taking into consideration a high level planning. In this context, the Italian government is called to encourage the development of the II and III Pillar and align Italian trends to the European ones, as the British, in which complementary pension systems already play a key role.

5.3.1 Changing Investment Behaviour and Requirements

The present section, describes the main investors' behavioural changes affecting Italian pension schemes. In this case, no asset servicers' direct implications have emerged and thus none is presented.

The Italian pension system is investing always more in riskier assets because of the low interest rate environment and because of a conservative assets' allocation tradition, if compared to their European peers. As mentioned, in Italy the complementary pension system is not as developed as it is in countries like The UK. Investments in riskier assets are being noted, for example, in some recent transactions:

- **Minibond funds' investments***:* recent modifications to the regulatory framework have made funds' investments in *minibonds* and loans attractive to institutional investors, including pension funds. Such investments are, on average, risky investment because of the unpredictability of the companies funded (recently listed ones). In 2014, for example, "*Cassa Forense*" invested 45 €/bn in two minibond funds;

- **Venture capital and private equity***:* "*Priamo*", Italy's second-pillar pension fund for the public transport sector employees, tendered an Italian private debt mandate for a 15 €/mln fund of funds. It constitutes the first example of an Italian pension fund tendering a private debt mandate (Anon., 2016).

5.3.2 Regulatory and Structural Changes

The present section closes chapter 5 describing jointly regulatory and structural changes affecting the Italian pension system and depicting the consequences they have on the market.

Italy, as shown in *Figure4*, shows low pension schemes subscription rates also because of the pension automatic enrolment programme failure. The causes behind such a collapse are mainly:

- An inefficient information campaign set up by the national government;
- Italian workers' low disposable income, mainly linked to the use of the "*Trattamento di Fine Rapporto*" (TFR) as principal source of employees' contributions to II Pillar schemes.

In particular, TFR proved to be more attractive than *pension funds* due to its guaranteed return and the possibility to be drawn upon by employees as they leave. To worsen the complementary schemes' situation, two negative regulatory changes were recently introduced:

- *Matteo Renzi*'s government recent decision to raise taxes on pension funds' investment income, passing from 11.5% to 20% at the end of 2015. Nevertheless, supplementary schemes' tax treatment still remains more favourable than alternatives, including TFR;
- New rules allowing workers to cash in on their TFR every month instead of waiting until retirement, thus pushing towards this form of contribution.

The recently approved regulation called "*Regolamento in materia di investimento delle risorse finanziarie, gestione e prevenzione dei conflitti di interessi degli Enti previdenziali privatizzati e privati*" introduced new investment limits and the obligation to have a depositary bank also for *casse privatizzate*. Moreover, the Legislative Decree 98/2011 called "*Disposizioni urgenti per la stabilizzazione finanziaria*" requires *casse privatizzate* to reduce their direct investments in real estate properties within 20% of their assets value in 5 years' time, in order to increase financial statement sustainability. While as of today, investments in *real estate funds* have to be under 30% of the total assets owned by the intermediary (Finizio, 2015).

What is more, Italy is currently suffering from a rapid population's ageing and a high youth unemployment rate (42 %) spending about 15 % of its GDP financing public pensions. Given these structural limits, securing worthy pensions for future generations and, at the same time, ensuring financial sustainability of the pension system will be a remarkable challenge. The last reforms applied to sector, in particular the switch to a national defined contribution system, should guarantee sustainability but will on the other hand prejudice adequacy. In fact, due to the new framework, all the periods during which employees will not contribute, due to unemployment or late start of professional careers, will generate lower future pension benefits. Consequently, workers should take into great consideration supplementary schemes in order to integrate their public pensions. However, considering that subscription to II Pillar's schemes is not mandatory, it is necessary to make them attractive for employees in the long term. Nevertheless, most of the recent regulatory interventions by the Italian government (new tax regime, possibility of a monthly cash in of the TFR, DDL *Concorrenza*) represent a constraint, and not easing action, to the development of the supplementary pension system.

Regulatory and structural changes' implications

As Europe is pushing towards a unified market to grant all investors across Europe access to the same complementary pension schemes possibilities, asset servicers will need to be prepared to support this emerging need. The creation of a PEPPs market will give Italian investors the possibility to subscribe to instruments that offer better returns and that are aligned with the ones of other more advanced countries. Servicers need to provide services with the same standards in all Member Countries.

6 Final remarks

6.1 Self-criticism

In this section, I will illustrate some self-consideration about the research work. The goal is to criticise in a constructive way the choices made to carry the analysis out, illustrating how it could have been conducted differently.

A first critic refers to the methods chosen to perform the study. As it has been described in chapter 3, there are various choices to be made when conducting a research work (always bearing in mind the research questions to be answered). For instance, in a case study research like the one presented in this paper, other forms of qualitative data gathering could have been used, such as direct interviews to practitioners that would have provided industry's internal insights. A second critical aspect was the unavailability of complete data concerning *pension funds* (II Pillar). Data have been collected in the best possible way to the author's knowledge but, data on the whole pension funds' market could further improve the reliability of the study. Finally, it would have made sense to also include the "*insurance segment*" in order to broaden the scope of the analysis and make it more comprehensive.

6.2 Suggestions for further studies

I will now suggest possible follow-ups on the present master thesis work. Due to lack of research, future students and researchers should focus on:

- **Italian trends within the international market and context**: deeply analyse the Italian asset management industry from an international perspective to understand if the trends that are occurring are aligned with the ones happening in the international and European context;
- **Regulatory changes and innovations**: future studies should be more legally-oriented considering that the Italian and European market are being unified and that they both suffer

from strong regulatory influences who drive their development as it can be concluded from this research work;

- **Utilise different research methods**: as briefly suggested in the self-criticism section, there are alternative way that could have been adopted to conduct the study. Future researches could focus on using interviews and / or questionnaires to practitioners and in general primary data.

6.3 Conclusions

The purpose of this master thesis was to analyse the *Italian asset management* industry's structure and organisation, understand how it is evolving and grasp its main current and future trends to draw then implications from an international asset servicer perspective, understanding how these consequences might influence its business and operations. To achieve such challenging goals, the industry most updated data have been gathered and elaborated throughout the research work in order to answer the four research questions asked in Chapter 1 and here resumed:

1. "*How is the Italian Asset Management market structured and organised?*" has been answered both in Chapter 2 presenting a thorough literature review and also in the results chapter illustrating tables and data picturing the market organisation and figures;
2. "*How is the Italian Asset Management market evolving?*" was addressed presenting and commenting the analysis' results of Chapter 4;
3. "*Which are the market main current and foreseeable trends?*" has been addressed in the analysis section (Chapter 5), where different type of changes affecting the Italian asset management industry have been identified and described;
4. The last research question, "*How do they affect an Asset Servicer's business and operations?*" has also been answered in Chapter 5, where the results and trends previously illustrated have been analysed in a critical way and the deriving implications extrapolated.

The present research work has highlighted how the asset management industry, both European and Italian, is essentially regulatory driven. New, upcoming regulations and directives are the ones affecting the sector, shaping its structure and influencing its investors' preferences and should be the one to be kept in mind when looking at the asset management industry.

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