

Italy

SRI for institutional investors in Italy is €240 million, or 0.06% of the total of a global institutional market of €436 billion.

Unlike other countries, the SRI retail market is more developed than the institutional.

Insurance companies, Catholic churches and banking foundations make up the main SRI institutional investors.

There are few tailor made products for socially responsible institutional investors in Italy, mainly based on portfolio screening. Engagement is not practiced at all.

The overall SRI for institutional investors is still negligible, but the growth of interest and attention to the CSR debate, combined with imminent legislation reforms will lead to an expected increase in SRI practice; especially for pension funds and banking foundations.

I. SRI in Italy

Historical Background of SRI Market

Historically speaking, the Italian financial industry has a strong tradition of social responsibility. The Casse di Risparmio (savings banks), the Banche Popolari (credit societies), and the Banche di Credito Cooperativo (cooperative credit banks) have been offering financial support to local communities, small businesses and families, as well as disadvantaged sections of society for decades. They did not belong to any private corporation, but rather to local communities (through municipalities or regional governments, in the case of Casse di Risparmio, or groups of farmers and craftsmen in the case of Banche di Credito Cooperativo) and the profit was re-invested or distributed locally.

Today, the concept of social responsibility in the financial sector is approached from two different angles: one side representing the ethical banks and, the other side representing traditional financial institutions that are currently developing CSR and SRI strategies.

The SRI movement first grew and developed as people objected to campaigns regarding military expenses and financial support for racial regimes in South Africa. Based on this, during the 1980s, a number of Mutual Cooperative Banks were created in northern Italy. Their aim was to offer a new way to collect and use private money in order to support projects created by cooperatives and NGOs, which could not be backed by traditional financial loans. This experience led to the creation of Banca Etica, which offers micro-credit and finance for marginal economies.

The current SRI movement has been stimulated by the need to reinforce the relationship of confidence between banks and their stakeholders

The current SRI movement has been stimulated by the need to reinforce the relationship of confidence between banks and their stakeholders. The Italian financial industry was State-owned until the end of the 1980s. After the privatisation of this sector (which is still in process), banks faced a new challenge, which was becoming competitive in an open market and acting as profitable companies. Once the banks satisfied the expectation of shareholders, they started to pay attention to other stakeholders. While the former nature of semi-public bodies could imply a certain regard to public interests, as private companies, they have to justify a commitment to social responsibility.

Responsible asset management was the first area where social engagement could be practiced. In 1997, Sanpaolo IMI launched the “ethical line”, which includes four SRI retail products. Later, other major banks, as well as some smaller ones, started socially responsible funds. Today, about twenty investment products are available, with different degrees of credibility. Considering SRI funds in the narrowest sense, the assets under management for Italian retail funds is about €1 200 million.

The SRI Market Today

The Italian SRI market is mostly concentrated in the retail sector. This is due to two different factors:

- The small size of traditional institutional investors (particularly, pension funds).
- The lack of awareness and sensitivity for social issues.

The supply side:

- Asset managers: all the largest Italian financial banks are active in the sector of ethical finance, mainly with retail mutual funds. Regarding the overall retail and institutional assets under management, Sanpaolo Imi is the pioneer in SRI and still the most important with €960 million AUMs. They are followed by Nextra, Banca Intesa’s asset manager, with €60 million AUMs, and Pioneer, Unicredito Italiano’s asset manager with €13 million.
- The products: there are thirty-nine retail mutual funds available, out of which twenty-two are managed by Italian financial institutions. Total AUMs of pure Italian funds is some €1.2 billion, and three financial instruments for institutional investors corresponds to an overall

asset management of €56 million. All of them apply a consistent framework of positive and negative screening criteria. The number is higher if we consider the funds which donate part of their commission rates to charities.



See the “Available Products” section in this country report for more information about known assets.

- Accepted as SRI: the most used criteria in the qualification of financial instruments are negative and positive screening while examples of engagement in the form of shareholder activism are very rare.

The demand side:

- SRI retail investors: for retail customers, according to the most recent survey there is evidence that Italian consumers have an increased interest in CSR issues. In particular, great attention has been paid to environmental damages and exploitation of workers. Out of a significant sample, 60% of respondents were said to have used negative (33%) or positive (25%) screening when buying goods and services. In terms of negative screening, tobacco, biotechnology, oil, chemicals and financial services are perceived as being the most “irresponsible” sectors.
- SRI institutional investors: there is no reliable information concerning institutional investors’ attitude towards SRI. The only available survey, run by Mefop and the FFS (Forum per la Finanza Sostenibile / Forum for Sustainable Finance) on a sample of pension fund directors, show that according to 50% of those questioned, “SRI will notably grow” and for 14% SRI “will become mainstream for the whole industry”. This research suggests that there is a strong interest in SRI. In principle, the pension fund community do not see relevant legal obstacles to the introduction of SRI criteria into the investment policies, but there might be organisational constraints, mainly due to the unclear definition of SRI criteria.

Laws and Legislation

The legislative framework is currently unfavourable to SRI activities

The legislative framework is currently unfavourable to SRI activities. There are no specific rules that create incentives for SRI, or for any other socially responsible financial product. There is no comprehensive regulation on SRI in place, although several bill proposals have been

drafted both by Members of Parliament and by the Government. The FFS has proposed an amendment to the pension system reform bill in order to introduce a UK-style disclosure regulation.

Rating agencies: Avanzi SRI Research, a member of the SiRi Group, is the oldest environmental and social rating agency in Italy. E.Capital Partners is the largest national SRI index provider.

II. Financial Market Context

Institutional Investors

In Italy, there is not a unique and official definition for institutional investors. For example, the Bank of Italy considers insurance companies, pension funds, mutual funds, SICAVs and portfolio management services to be institutional investors. On the other hand, CONSOB (Commissione Nazionale per le Società e la Borsa / the Italian equivalent of the Securities and Exchange Commission) includes closed investment funds, venture capital companies, and commercial and investment banks as institutional investors. As a result, each survey defines its own group of institutional investors based on the subject under investigation.

In this particular report we include the following as institutional investors:

Banks

There are 814 banks under Italian law. Direct deposits represent €1 064 billion. The level of concentration is medium with the first five players sharing 45% of the market. As regards to their

portfolio management, there are different approaches. Some manage their own portfolio directly; others give it to investment companies, which are often owned by the same financial group.

The portfolio make up follows two main criteria: short duration and low risk. As a result, these assets are invested mainly in short-term government bonds; the choice of the issuing country is subjected to the regulatory solvency ratios imposed by the Bank of Italy. For these reasons, portfolio management as practised today is not compatible with SRI.

Insurance Companies

There are more than 200 insurance companies under Italian law, which are divided into life and non-life insurance sectors. Collected premiums reach €88 billion. The level of concentration is medium with the first five players sharing approximately 35% of the market. As regards to their portfolio management, about 60% of the companies directly manage their own financial portfolio. This approach turns out to be more popular among big companies, where the size of portfolios makes it economically efficient; however, there are also significant exceptions, represented by major insurance companies that are shifting the asset management to their group investment company.

The composition of their portfolio follows two main criteria: low credit risk and short duration for non-life insurance companies, and low credit risk and higher duration for life insurance companies. As a result their portfolio is invested mainly in government debt instruments with different durations. The choice of the issuing country subjected to the regulatory solvency ratios imposed by the competent authority, which is ISVAP (Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo / Institute for monitoring private insurance and collective interests).

Pension Funds

The “first pillar”, or public system of compulsory contribution, is represented by funds reserved for the public as well as private employees and special funds for self employed professionals (€13 billion). We do not consider these assets, which are managed in a pay-as-you-go system, because their asset allocation strategy is largely pre-determined by law and no element of social responsibility is used. The “second pillar” instruments adopt a pay-as-you-earn system, and can be divided into three categories: occupational pension funds, open pension funds and company pension schemes.

- The occupational pension funds were established with the 1993 reform. These are reserved to either private or state-owned company employees on a sectorial base.
- The open pension funds are accessible by self employed workers, or groups of workers whose sector has not established an occupational pension fund.
- The company pension schemes existed before the 1993 reform.

The “second pillar” instruments total €25 billion.

The “third pillar”, or individual pension schemes, is virtually negligible.

In sum, the funds we consider manage a total amount of €43 billion.

There is evidence of SRI practice for only one occupational pension fund (Previambiente, the pension scheme of environmental public services providers, with €9 million AUM) and for one open pension fund (Unipol Insieme €0.1 million).

Foundations

There are 2,919 general-purpose foundations in Italy. These can be defined as non-profit organisations with one single source of income that comes from the financial management of their own assets. Consistent information regarding the asset management strategies, if any, is not available. Even if these organisations’ missions should be clear about their task to pursue public benefit purposes, there is no evidence of SRI practices. However, given the small average size of these foundations’ portfolio, their management is likely to be very traditional and oriented towards low risk strategies.

The banking foundations represent the most interesting sub-class in the Italian financial market

The banking foundations represent the most interesting sub-class in the Italian financial market. There exist eighty-nine of these organisations, which were established by law in 1990 as a first step in the privatisation of the so far publicly owned banks¹. The level of concentration is medium with the first eighteen foundations holding 76% of the total assets. Today, most of them still have significant shares in primary banks even if they will have to diversify their portfolio and reduce their financial participation in the capital of the banks. Investment strategies have been very conservative so far, also because the legislative framework regarding governance and goals was not clear (several cases have been discussed by the Supreme Court).

Banking foundations can pursue their “socially responsible” purposes directly, such as through grant making activity, or indirectly, by using their influence as major investors. Although their statutory mandate is clearly oriented towards social responsibility also in the asset management, there is little evidence of SRI practices. Only one of them, namely Fondazione Cariplo, has invested in an institutional fund (GEO) managed on an SRI basis (AUM €380 million).

Churches

The universe of religious organisations is very complex and far from being transparent. In principle, there are four main actors: the Vatican City, the Holy See, the IOR (Istituto per le Opere Religiose / Institute for Religious Works) and the Holy Orders. Although all of them act mainly in Italy, they can hardly be considered Italian, provided that international law and agreement with the Italian State preserve the sovereignty of the church, whose bodies are not under Italian jurisdiction.

The Vatican is, in fact, an independent State, with almost 5,000 residents. It is formally separated from the Holy See, and it has an autonomous administration. In 2001 the Vatican produced a profit of €14 million.

The Holy See is at the heart of ecclesiastic life. It has its own balance sheet that showed a deficit of €15 million in 2001. The Holy See is organised into seven different administrations, the most important of which is APSA (Amministrazione del Patrimonio della Sede Apostolica / Administration of the Patrimony of the Apostolic See), managing most of the activities of the Roman Church. It takes on the costs of the staff, manages the purchasing and maintenance of the properties and, through its “Special Section”, manages all the financial assets of the Holy See, which we estimate to be more or less €6 billion. In terms of SRI, ethical screening of investment is done on the basis of negative criteria (excluding weapons, tobacco and pornography).

With regards to the IOR, the bank of the Vatican City State, after the scandal with the Banco Ambrosiano in the 1980s, it is now officially in charge of managing the money of the residents in the Vatican City State. Its balance sheet is secret and the Italian institutions do not control the movements of incoming and outgoing money because the IOR is not under Italian regulation. No information is available with regards to its investment criteria.

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The Holy Orders is a very fragmented and almost impenetrable world. We succeeded in collecting some information by only questioning the supply side, or the asset managers, but only in aggregated format.

Institutional Market Size

Overall, the assets available for portfolio management of institutional investors amounts to €436 billion. In terms of SRI, the overall share is €240 million, which corresponds to 0.06% of the total market.

¹ The Casse di Risparmio (savings banks) used to be local or regional non-profit financial institutions, established as public entities, whose boards of directors were appointed by local governments (city or provincial councils, according to statutes). Their original purpose was to provide credit to small businesses and local economies; the surplus was given back to the communities in the form of donations and support to common interest projects. With the 1990 reform, the two functions (financial activity and grant making) were separated: the banks were transformed into incorporated companies and the new established foundations got their shares.

Available Products

In principle, most Italian asset managers are capable of managing typical SRI financial products, as well as designing customised ones. The problem seems to be the lack of demand. Today there is only one tailor-made financial instrument: a unit trust devoted to ethical investing of the Multi-manager GEO Fund. Currently, only one banking foundation is investing in it (Cariplo Foundation, AUM €38 million as of September 1, 2003). It is also worth mentioning SRI ETF Beta1, managed by Nextra sgr (Banca Intesa), launched in January 2003. This fund is designed mainly for institutional investors - especially foundations and religious organisations - but it did not experience the desired success (AUM €19 million as of September 9, 2003). Another important financial instrument is Gestietica, which is portfolio management based on economic efficiency and ethical criteria, designed by Capitalia launched in January 2002 and explicitly created for charities and foundations. (AUM not known)

In addition, some institutional investors actually invest in retail SRI mutual funds. For instance, the only open SRI pension fund invests in retail funds that are managed by Sanpaolo Imi.

Several insurance companies launched unit or index policies linked to SRI indexes or ethically compiled portfolios.

Table 1: SRI linked products for insurance companies (in € million)

Company	Products	AUM
BdS – Romavita	Futuroverde	100
Carifirenze – Centrovita	Index Ethical World	10
Meie Aurora	Unietic	8.7
Duomo Maeci	Sceltissima Index Etica	5
Venetobanca – Claris	Forza Etica	< 1
Poste Vita	Ideale	Not known

Source: FFS analysis

III. Methodology

Scope of Research

This study does not take into consideration universities and NGOs, because in Italy they are not wealthy organisations. We also excluded the religious organisations that are not under Italian law (The Holy See, Vatican City State) and that do not disclose any information. In this respect, even if we have analysed them and provided some figures earlier, we do not count them for the amount of total asset/total SRI assets. This is the first attempt in Italy, except for pension funds, to investigate the world of SRI for institutional investors.



See the References section at the end of this country report for more details.

Approach

Thanks to the cooperation of Assogestioni, the Italian Association of Asset Managers, we were able to send a questionnaire to all of their members (both Italian members and foreigners operating in Italy) and gather figures regarding SRI mandates given by institutional investors, as earlier defined. We started from the assumption that most of these investors do not directly manage their portfolios, but usually prefer to use professionals for this purpose. The return rate was 27% of the sample, corresponding to 78% of the overall asset management market in Italy. In addition, we have carried out direct interviews with the most important asset managers in order to collect qualitative information on their approach to institutional customers, especially banks, insurers and charities.

Assumptions

The estimate of the institutional market size is based on annual reports issued by trade associations (i.e. ANIA (Associazione Nazionale Imprese di Assicurazione / Insurance Companies Association), ABI (Associazione Bancaria Italiana / Italian Bankers Association), ACRI (Associazione Casse di Risparmio Italiane / Association of Italian Banking Foundations) for banking foundations or other official documents issued by regulatory agencies (COVIP – Commissione di Vigilanza sui Fondi Pensione / Pension Funds Control Authority) providing aggregate figures taken from financial statements. Moreover, where needed, we carried out some direct interviews with representatives of these institutions.

Biases and Issues Encountered

The biases in these data are mostly related to figures about overall financial assets of institutional investors. In particular, figures about religious organisations can be illegitimate and incomplete because of the strong confidentiality around information about the Church's assets. With regards to general-purpose foundations (i.e. the non-banking foundations), because of the fragmentation and the little transparency of the sector, we did not find reliable and comprehensive figures regarding their overall financial assets. Moreover, one of the answers to the questionnaire provided only the aggregate amount of SRI for institutional investors without splitting it into the different classes. This is referred to as the "Other" group in the table in the "Findings & Interpretation" section.

IV. Findings & Interpretation

Table 2: SRI Practices in Italy (in € Billion)

	Negative screening	Positive screening	Negative & Positive screening	Engagement	Not known	Total assets
Occupational Pensions			0.02			43.21
Foundation			0.04			20.02
Churches	0.01				0.04	NA
Insurance Companies			0.12			256.00
Banks						117.00
Other		0.01				NA
TOTAL	0.01	0.01	0.18		0.04	436.23

Source: FFS analysis

Interpretation of Results

The big players on the institutional side: the market for SRI institutional investors is far from being mature. In principle, religious organisations, pension funds and banking foundations are the big players. However, in reality, only single organisations within these categories have played a role so far; thus we can hardly speak of a widespread interest in SRI.

Type of screening taking place most often: the most used criteria in the qualification of financial instruments are negative and positive screening while examples of engagement, apart from occasional dialogue, are very rare.

IV. Future Trends

The debate on CSR in the financial sector has grown in importance over the last few months, with the launch of various SRI products onto the market by mainstream financial institutions. More of these types of products are expected to appear. Surveys about customers' willingness to embrace these products show an encouraging trend.

Factors that might slow down this process seem to be:

- the definition of legislative framework for banking foundations,
- the reform of the pension system that allows the growth of second and third pillar instruments.

Acknowledgements

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