AIBE
Associazione Italiana Banche Estere

FOREIGN BANKS AND FINANCIAL INTERMEDIARIES IN ITALY

THE SUPPORT TO ITALIAN ECONOMY IN 2017

June 2018
In collaboration with

CONSILIA
business management

Highlights

79	Number of foreign banks operating in Italy (end-2017)
36%	Domestic public debt owned by non-residents (end-2017)
79%	Syndicated loans (market share held by foreign bookrunners, 2017)
100%	Securitization (ABS and MBS, market share held by foreign bookrunners, 2017)
52%	Italian project finance market (market share held by foreign intermediaries, 2017)
49%	Share of incoming cross-border over total turnover of Italian M&A market (2017)
83%	Debt capital markets (market share held by foreign bookrunners, 2017)

93%	Equity capital markets (market share held by foreign bookrunners, 2017)
86%	Share of foreign institutional investors over total number of institutional investors in Italian Stock Exchange, Star Segment (2017)
21%	Share of foreign players in MTA trading (2017)
694	Assets under management by foreign banks and intermediaries (€ billion, end-2017)
25%	Share of foreign banks and intermediaries in Italian leasing market (value of contracts, 2017)
19%	Share of foreign banks and intermediaries in Italian factoring market (annual turnover, 2017)
45%	Share of foreign banks and intermediaries in Italian consumer credit market (cumulative flows, 2017)

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Introduction

The Association of Foreign Banks in Italy (Associazione Italiana Banche Estere, AIBE) releases its Eighth Annual Report on the operating modes and the activities of foreign banks in Italy.

The Report updates the activity volumes and market shares held by foreign banks and intermediaries operating in Italy in several business lines as at the end of 2017. The most recent data confirms that Italy is becoming more attractive for foreign investors, as certified by a number of international rankings and by our own AIBE Index as well. Nevertheless, the attractiveness of our country is lower than that of France, Germany and the United Kingdom. Structural reforms are becoming more and more crucial in order to face the main burdens that limit foreign investments, i.e. taxes and bureaucracy.

The structure of the Report is as follows.

Chapter 1 focuses on the main data related to Italy's macro-economic situation and its attractiveness for foreign investments. Chapter 2 is devoted to the relevance of foreign investors in Italian Government debt and Italy's foreign debt.

Chapters 3 to 7 analyze the main business lines in which foreign banks and intermediaries operate.

For the first time this year we introduced a focus on FinTech, selecting a sample of the AIBE members that are particularly active in this business, in order to evaluate strategies and approaches for digitalization. It is expected that innovation and the digitalization of banking business will deliver a number of very important benefits for Italian users of financial services, by enabling them to access a wide range of financial products and services the respond to their specific needs more rapidly and efficiently.

The Reports ends with an initial insight into the presence and the market shares of foreign intermediaries in a sample of European countries operating in the Debt and Equity capital markets.

Also this year, I'm thankful to leading members of the Bank of Italy, Milan offices, who prepared a brief note regarding the role of foreign banks in Italy, contributing to support Italian firms and retail customers in their financial funding and investments needs.

Guido Rosa
AIBE President

Chapter I

The internationalization of Italian economic and productive system

The last Istat Monthly Report on the Italian economy, released in April 2018, shows that the international environment and leading indicators of business cycle provide mixed signals. In particular, the Economic Sentiment Indicator (ESI) was unchanged, while the businesses confidence climate improved in manufacturing and in financial services. However, some negative judgments about the future situation still remain.

Within the Euroarea level, the ECB monetary policy is carrying on supporting the recovery, contributing towards keeping the reference rates unchanged.

In the first quarter of 2018, the Italian economy kept growing at a stable pace: the domestic demand supported this recovery, Manufacturing and Construction are recovering.

The outlook leading indicator remains high, but it is decelerating. The prospects of economic growth seem lower than expected.

If we focus at an international level, we can analyze the Foreign Direct Investments (FDI)'s recent trend.

In 2016, the FDI inflow towards Italy was about $ 29 billion, with an increase of about $ 9.5 billion compared to the previous year. Even if the level remained below the pre-crisis annual average ($ 36.6 billion in the period 2005-2007), our country reported a significant increase from 2013 to 2016. A similar growth can be observed in the ratio between FDI inflow and the gross fixed capital formation: at the end of 2016, the ratio was about 9.2%, higher than the pre-crisis period although well below the European Union (17.5%).

In terms of FDI stock, the amount of FDI inward was about $ 346 billion at the end of 2016 (+2.8% YoY). Although the recent trend of this indicator is not so clear and linear, at the end of 2016 this FDI inward stock represented 18.7% of national GDP.

UNCTAD's survey of investment promotion agencies (IPAs) regarding investment prospects shows, however, that even if China is cited as the most promising source of FDI, followed closed by the USA, Germany and the UK, among the developed countries, Japan, Italy and Spain have regained ground in the ranking. According to UNCTAD's survey, actually, Italy is the 6th developed country selected as most promising economy for 2017-2019.

In 2016 the level of FDI inflow towards Italy was 5.1% of the total flow towards the EU-28 and Italy was ranked 4th, just behind the UK, the Netherlands and Belgium. In terms of stock, the weight of Italy within the EU-28 is similar (4.5%), while the ranking is worse (8th) and the distance from other European leading countries is very significant. The stock accumulated by Ireland, the Netherlands, Germany and France is more than double, while UK's stock is almost 3.5 times than of the Italian one.

At the end of 2016, the Italian stock represented 1.3% of the worldwide total.

However, for a better appreciation of these figures, we need to analyze the FDI compared to national GDP.

Italy has a ratio of FDI inflow/GDP for 2016 equal to 1.5%, while the EU-28's ratio is more than double (3.6%). Italy stands as 17th country in this particular ranking. In the pre-crisis period the percentage was slightly higher (1.8%). On the contrary, if we focus on the ratio FDI inward stock over GDP, the positioning of Italy is much more negative. Even if we exclude some outliers (Malta, Cyprus, Luxembourg and Ireland), the Italian ratio at the end of 2016 is very far from other similar countries. As mentioned before, the value was about 18.7% and the growth in most recent years has not been sufficient to close the relevant gap with our competitors (e.g., UK 46.1%, Spain 45.4%, and France 28.4%) and with European Union as well (47.1%). In last decade, Italy's ratio rose by about 3.6% compared to the pre-crisis level, while other countries' performances were better, excluding Germany. If we consider the whole of the EU-28, on aggregate this ratio moved from 35.5% (average value between 2005 and 2007) to 47.1% (end-2016), with an increase of almost 12 percentage points.

At the present, the ability of Italy to attract foreign investments and to make them effective and relevant over national GDP is still quite problematic.

Also, the data coming from international rankings on competitiveness is extremely interesting. Sometimes, these rankings are considered to be misleading because of the indicators selected as proxies of countries' competitiveness. Among the various indicators developed to evaluate countries' attractiveness, the Global Attractiveness Index, created by The European House-Ambrosetti, deserves a mention. This survey is based on the construction and application of an approach and methodologies that are more objective and reliable in evaluating the countries' attractiveness.

With reference to Italy, in nearly all the most accredited rankings, Italy always occupies a low position, often behind a number of developing countries. Actually, this position is often quite far from the real situation in Italy. For example, Italy is among the top five countries in the world with a manufacturing surplus of over $ 100 billion and the second country in the European Union. Moreover, Italy is the leading country in terms of competitiveness in three out of fifteen business sectors (apparel, footwear and textiles) and runner-up in five others (including manufacturing and machinery) according to the UNCTAD's Trade Performance Index.

In the Global Attractiveness Index 2017, Italy is ranked 16th out of 144 countries, on the basis of 4 main parameters concerning opening, innovation, efficiency and endowment. According to this report, the most critical attribute concerns the "Efficiency" dimension, understood as "an efficient and effective functioning of the capital, labor and services markets as well as the institutional system". In particular, Italy holds a weak positioning in terms of the unemployment rate (in which Italy is ranked 111th) and total factor productivity (58th), especially considered in relative terms with its direct competitors.

A fairly positive evaluation is reported in the 2018 A.T. Kearney Foreign Direct Investment Confidence Index (a survey covering 25 countries all around the world), where Italy jumped from 13th to 10th position, the largest positive gain in this year's Index. Italy reached its highest position since 2004.

The report confirms that the IMF's economic outlook on Italy is mixed. Even though the growth rate is not expected to be very high (0.8%), our country has some strengths not only in the levels of domestic and external demand, but also in the "Industria 4.0" initiative, a national plan for innovation in manufacturing, with the aim of supporting competitiveness, digitalization, productivity and foreign investments attractiveness.

Until few weeks ago, Italy was in the midst of a severe political uncertainty after March's national elections. Investors, and especially foreign investors, are very sensitive to this uncertainty, as expressed until the end of May before the formation of the new Government.

According to the very well-known World Economic Forum's "The Global Competitiveness Report 2017-18", Italy improves one place (from 44th to 43th place over 137 countries) in the rankings slightly increasing its score, notably through improved goods market efficiency. Its long-standing competitiveness advantages include – among others – health and primary education (25th), large market size (12th) and infrastructure (27th). On the other side, however, despite recent reforms, labor markets (116th) and financial markets (126th) remain weak points (Fig. 3).

Moreover, according to respondents to the World Economic Forum's Executive Opinion Survey, in Italy the most problematic factors for doing business are government bureaucracy, high level of tax rates, labor and tax regulations, and policy instability as well.

At the end of 2015, there were 14,007 foreign affiliates residents in Italy (Tab.1). With regards to the previous year, the number of multinational enterprises (MNEs) operating in Italy rose by 3.2%, especially in Services.

These enterprises employed 1.3 million persons, generated a turnover of € 530 billion and a value added of about € 104 billion (Fig. 4). The relevance of these enterprises (as a percentage of total business resident in Italy) can be appreciated if we notice that they account for about 7.7% of persons employed, 18.4% of turnover and 15.6% of value added. The share of R&D expenditures remained very high and equal to about 25.1%.

From end-2014 to end-2015 the number of employees increased by more than 30,000 units (+2.5% YoY): while the number of employees in Industry remained almost stable (–765 units, –0.2%), with appreciable growth reported in Services (+30,967 units, +4% YoY).

In the last decade, while the number of MNEs remained stable, the change in the number of employees was relevant (+9.0%), with an important shift from Industry (–47.917 units, –9.6% to Services (+129,891 units, +19.2%).

Foreign affiliates confirm to have a better performance when compared with the domestically controlled firms in terms of profitability and productivity (Fig. 5). Investments and value added per capita were almost double, while R&D expenditures by MNEs was more than 4 times higher than for domestically-owned companies.

A similar gap can be observed with reference to profitability (value added per capita). Even if the unit labor cost is higher for MNEs – compared to local firms – ISTAT's data suggests that their profitability is better than domestically-owned companies. Actually, for 2015, the ratio between unit value added and unit labor cost was about 167% for foreign MNEs, and only 116% for Italian firms.

While the USA is the most represented country (2,347 MNEs and 278,942 employees, and 21% of total revenues), the European Union is the leading area in terms of origin of foreign investments. 7 of the EU-28 countries are included in the "top ten" ranking by country of origin. They account for more than 7,000 MNEs (17% of the total) and about 278,000 employees (22% of the total). In terms of sales, the weight of these 7 European countries is 48% of the total.

The average size of MNES is much higher than that of domestically-owned companies (90 employees versus 3.5); the differences are significant in both Industry and Services.

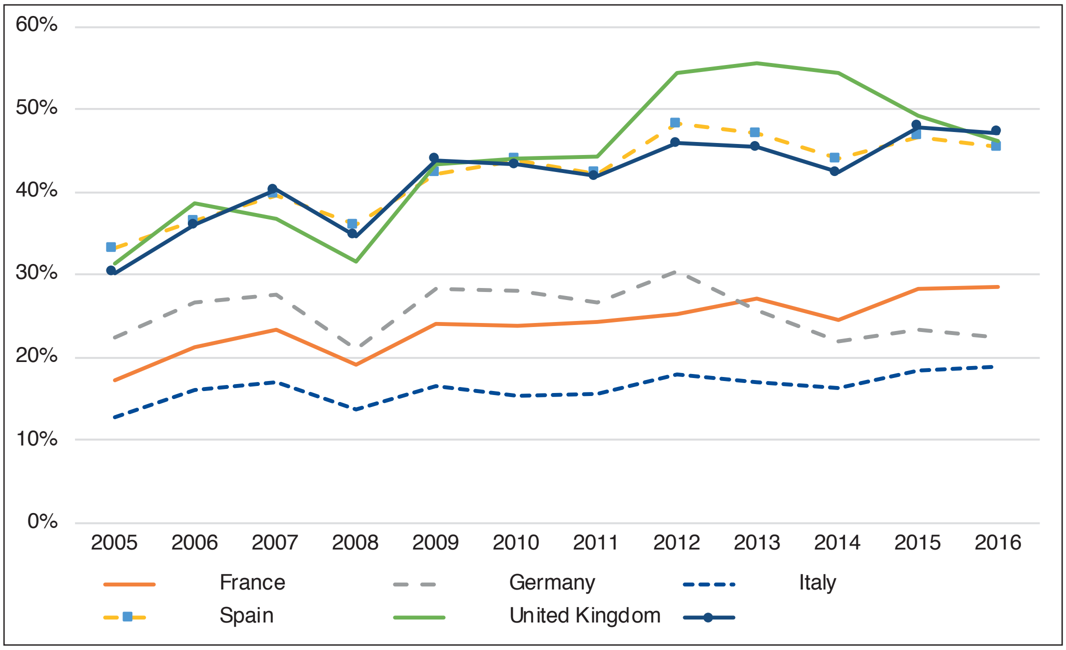


Fig. 1 *Inward FDI stock (% of GDP, year-end data) –*
Source: Own elaboration of OECD data

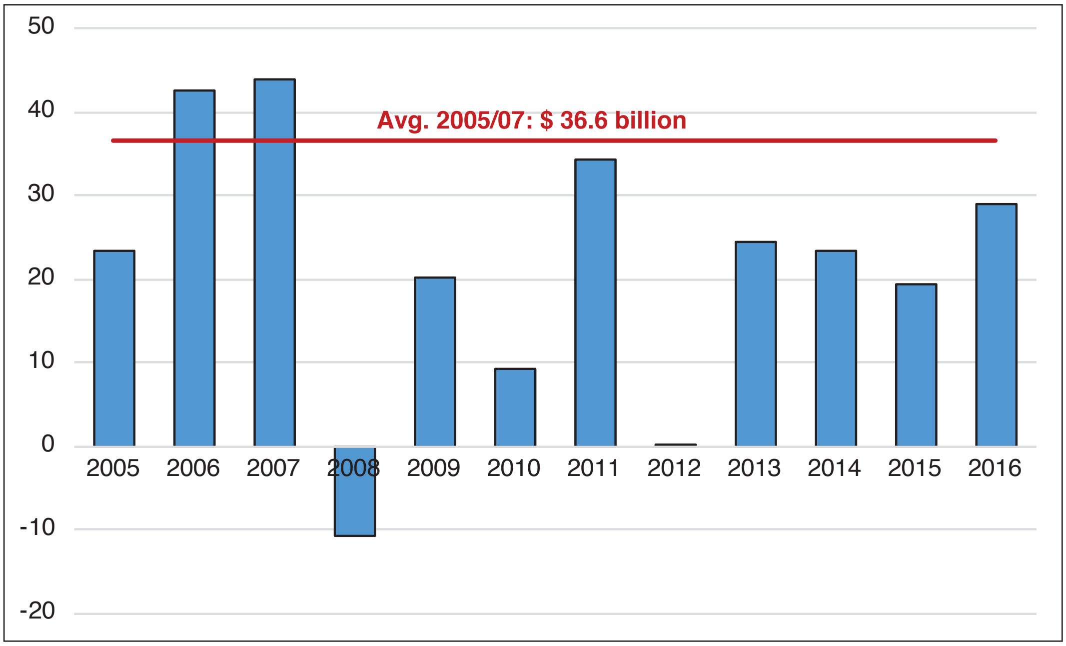


Fig. 2 *Italy's annual FDI inflow ($ billion) –*
Source: Own elaboration of OECD data

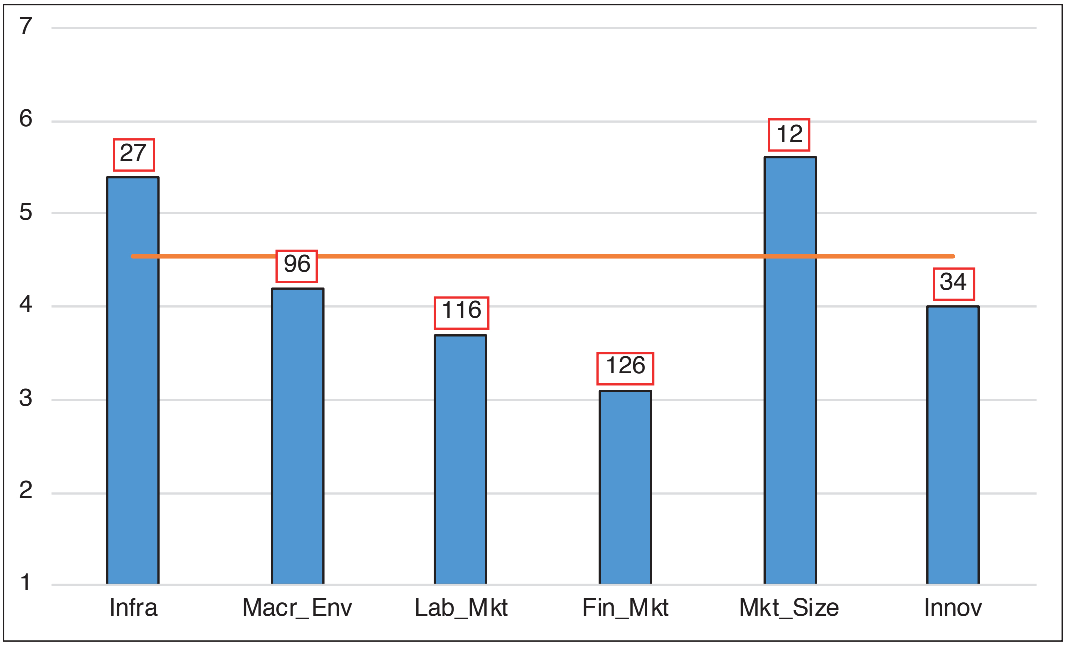
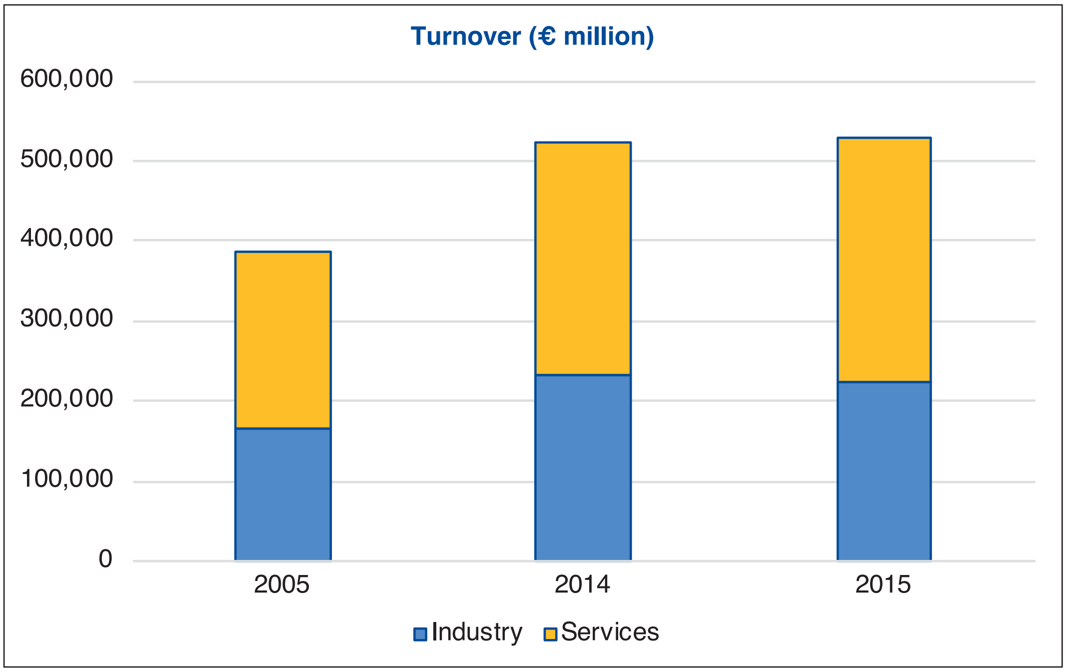


Fig. 3 *Italy's Global Competitiveness Index (main individual scores, 1=min to 7=max) – Source: Own elaboration of the World Economic Forum, The Global Competitiveness Report 2017-18*

Note *Infra = Infrastructure; Macr_Env = Macroeconomic Environment; Lab_Mkt = Labor Market Efficiency; Fin_Mkt = Financial market development; Mkt_Size = Market size; Innov = Innovation. In labels with red border: per each item, the Italy's position in the world ranking (out of 137 countries).*

	2005		2014		2015	
	Number	**%**	**Number**	**%**	**Number**	**%**
Number of foreign-controlled firms	**14,012**	**100**	**13,569**	**100**	**14,007**	**100**
Industry	4,108	29.3	3,972	29.3	4,032	28.8
Services	9,904	70.7	9,597	70.7	9,975	71.2
of which: financial and insurance activities	*562*	*4.0*	*547*	*4.0*	*562*	*4.0*
Number of employees	**1,175,235**	**100**	**1,227,007**	**100**	**1,257,209**	**100**
Industry	497,940	42.4	450,788	36.7	450,023	35.8
Services	677,295	57.6	776,219	63.3	807,186	64.2
of which: financial and insurance activities	*34,538*	*2.9*	*66,785*	*5.4*	*64,145*	*5.1*

Tab. 1 *Main data relating to foreign-controlled enterprises operating in Italy (year-end data) – Source: Own elaboration of ISTAT data*



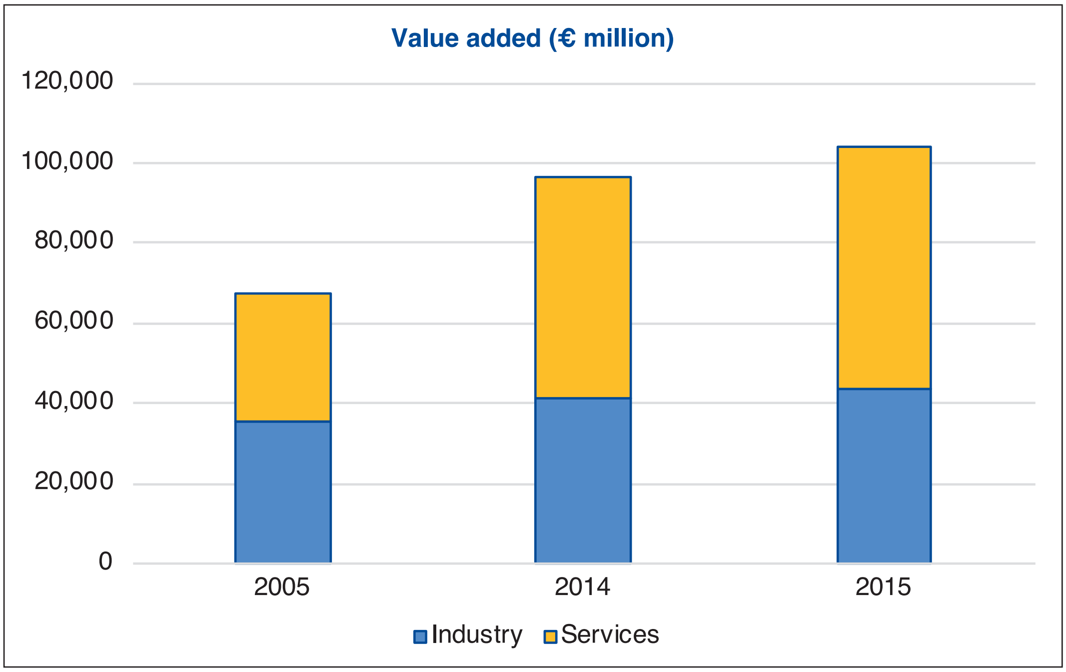


Fig. 4 *Turnover and Value added of MNEs in Italy –*
Source: Own elaboration of Istat data

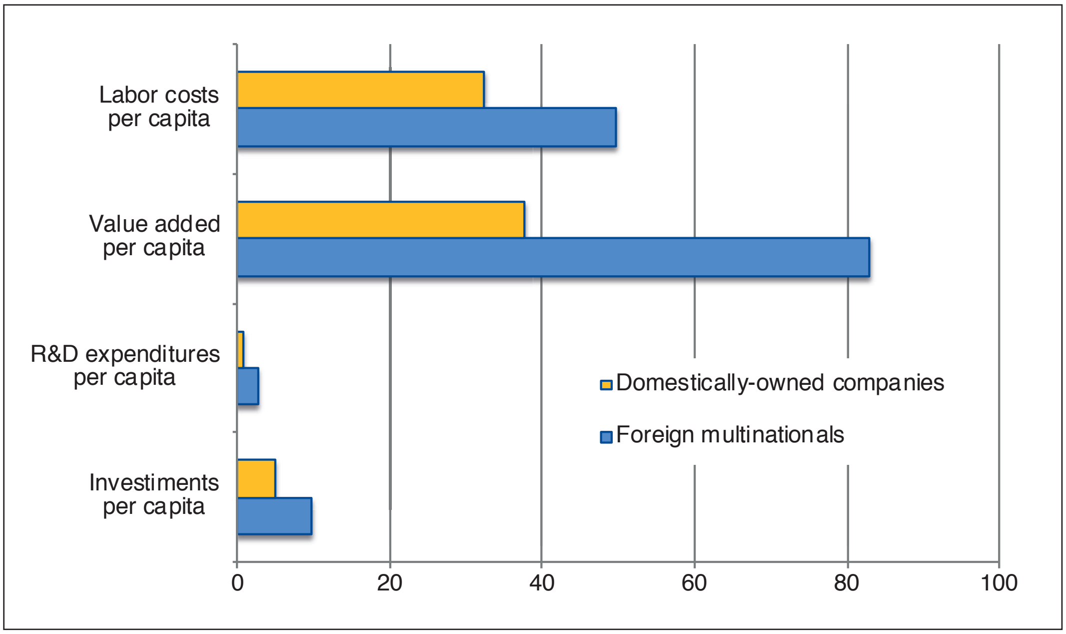


Fig. 5 *Domestically-owned firms and foreign multinational firms in Italy: comparison of performance data (amounts in € thousands, 2015) –*
Source: Own elaboration of ISTAT data

Chapter 2

Italian public debt and sovereign risk

At the end of 2017, the Italian gross public debt was equal to 2,263 billion, with a growth of 2% compared to end-2016.

The portion of debt represented by Italian Government securities is 85% of the total and about one third is held by non-resident investors.

At the end of 2017 the stock of Italian Government securities held by foreign investors was about € 681 billion, quite stable compared to end-2016 stock (+0.6% YoY).

In the first part of 2017 the trend of the stock has been decreasing, down to a minimum of about € 662 billion at the end of March.

At the end of 2017, the entire exposure of Italian Public Administration towards foreign players (total debt held by non-residents) was about € 731 billion. So, public securities represents 93% of the total. The share was close to 2016's data.

Fig. 6 highlights the recent trends in the main variables related to public debt and composition and shares held by non-residents. As represented in Fig. 6, even though there is no a clear trend, the market share of foreign investors is still important. At the end of 2017, the share of debt held by non-residents was unchanged from the end-2012 level. On the other side, the share of securities held by non-residents (%, RHS) showed a slight downward trend in the last two years (from 38.1% to 35.6%).

If we expand our point of view to the liabilities side within Italy's financial account, the Bank of Italy points out that non-residents resumed their investments in Italian financial securities (€ 28.7 billion). Purchases of Government bonds were about € 3.6 billion (in 2016: – € 24.6 billion). The trend was not homogeneous during the year. The first quarter of 2017 was characterized by net divestments, while the subsequent months highlighted a renewed interest from foreign investors. Net purchases were also probably related to the reduction of uncertainty within Euroarea after the French elections, the consolidation of growth, and the strengthening of the Italian banking system.

The average maturity of Italian public debt held abroad is about 6 years and in 2017 the gradual decline observed since the global financial crisis stopped.

The burden of public debt, the political uncertainty and the need to boost our potential growth have recently been remarked upon by several international analysts. On these topics the newborn Government is called upon to implement some measures.

The markets' reactions in the last days of May send a very relevant signal: the spread's widening was immediate and created a contagion effect. This contagion may be a reflection of risk arbitrage: investors who feel confident about Italy in the medium term and count on the spread narrowing are looking for a more attractive return/risk combination of Italian securities, also by lowering positions in other markets.

However, at the moment, the political uncertainty and the waiting for the new Government's agenda are under the market's spotlight.

Banks for International Settlements (BIS) collect statistics on international banking. Data about Italian external debt show that, as at the end of 2017, Italian external debt grew by 14% on an annual basis (+ $ 79 billion), the highest peak in last 3y-period. In particular, BIS's statistics show a very relevant increase in external official (public) debt (+14.6%) and private non-financial debt (+17.7%). As represented in Fig. 7, the majority share of the entire external debt is due to European banks ($ 554 billion, +12.3% YoY), while claims from non-European banks showed the highest growth rate during last year (+24.3%, from $ 70 to 87 billion).

The ranking of the main holders of external public debt is largely unchanged compared to the previous year. France, Spain and Germany are leading countries (Tab. 2): the "top 3" countries hold about $ 147 billion of Italian external public debt (+16% YoY), equal to 69% of the total. Among non European investors, Japan and USA are the most represented countries, with a respective market share of 10% and 9.5%. The stock held by US banks achieved a new peak over last 4y-period, higher than the maximum recorded at the end of 2014.

Actually, in the period 2013/2017 some changes in countries' ranking are evident. For example, Spain increased its share of Italian external public debt by about 4 times, from $ 11.6 to 44.9 billion, while France and Germany reduced their respective outstanding stock of about $ 24.9 and $ 10.9 billion.

With regards to external private debt, here too the European banks have the largest market share. As represented in Tab. 3, they hold about 72% of total banking sector external debt and about 84% of total non-bank private sector debt. With regards to banking sector, in last 3 years European banks decreased their exposure of about $ 26.6 billion, while their exposure towards the non-bank private sector remained almost stable, even though there was some movements during the same period.

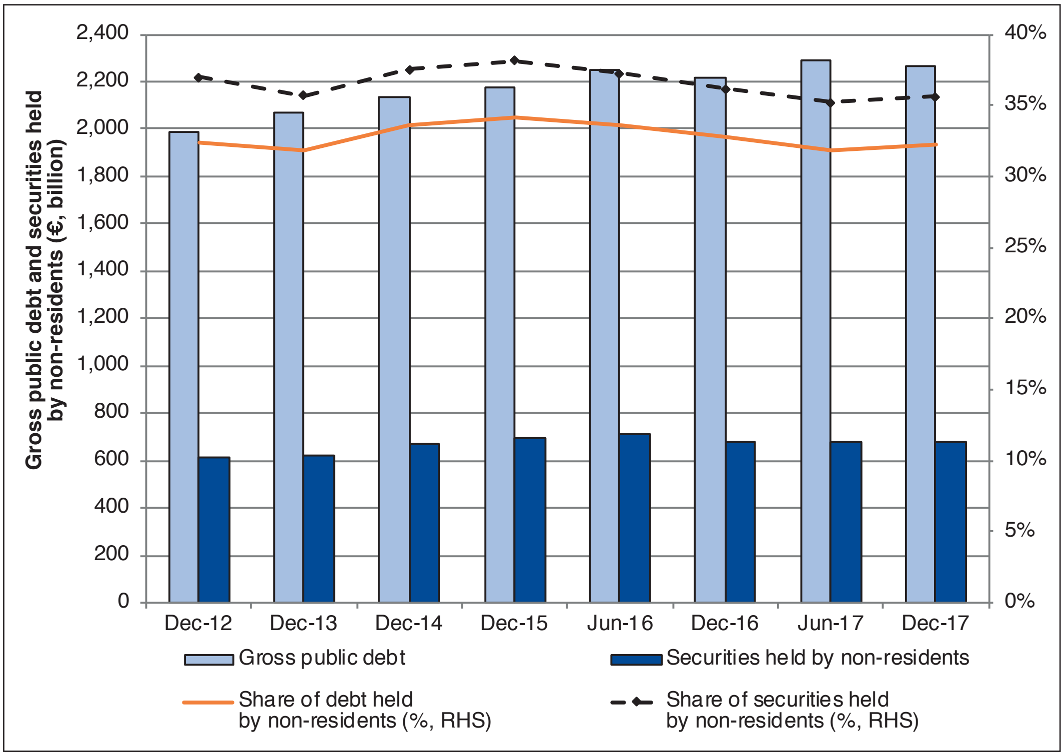
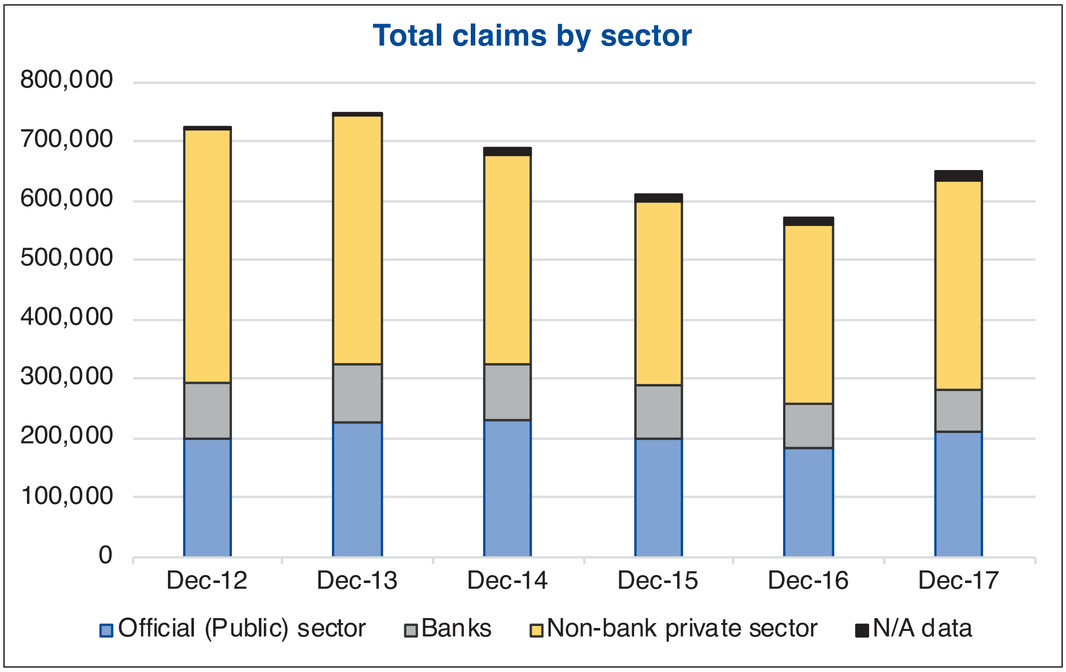


Fig. 6 *Recent trend of Italian public debt and shares held by non-residents (amounts in € billion, % on the right-hand scale, RHS) –*
Source: Own elaboration of Bank of Italy, Statistical Database (BDS)



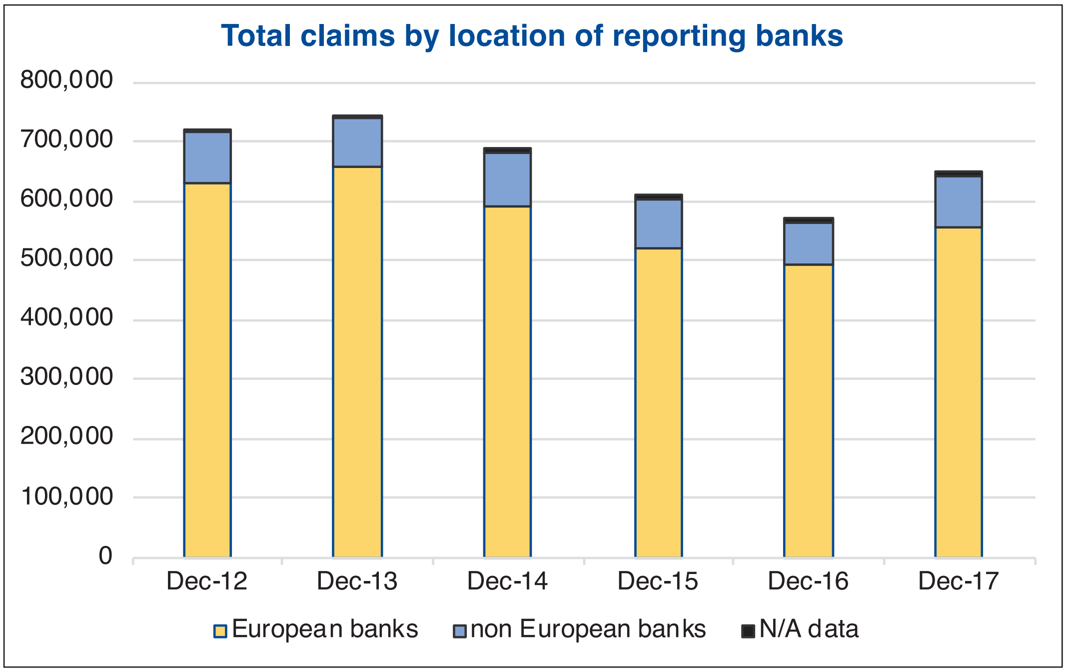


Fig. 7 *Public and private debt to foreign countries ($ million, year-end data) – Source: Own elaboration of BIS, Consolidated Banking Statistics*

Countries	Dec-13		Dec-14		Dec-15		Dec-16		Dec-17	
	Value	%	Value	%	Value	%	Value	%	Value	%
France	87,905	39.0	69,128	30.0	57,665	28.7	56,259	30.3	63,008	29.6
Spain	11,644	5.2	30,056	13.0	31,340	15.6	36,358	19.6	44,949	21.1
Germany	49,801	22.1	47,321	20.5	36,555	18.2	34,063	18.4	38,866	18.3
Japan	23,767	10.6	22,997	10.0	22,089	11.0	21,013	11.3	21,262	10.0
United States	15,602	6.9	19,243	8.3	16,239	8.1	12,498	6.7	20,258	9.5
Belgium	6,698	3.0	8,185	3.5	7,094	3.5	7,326	3.9	5,762	2.7
Switzerland	10,315	4.6	10,737	4.7	7,244	3.6	5,851	3.2	5,426	2.6
Austria	2,754	1.2	1,942	0.8	2,354	1.2	1,891	1.0	1,284	0.6
Ireland	381	0.2	1,682	0.7	1,616	0.8	1,262	0.7	1,194	0.6
Greece	136	0.1	123	0.1	109	0.1	131	0.1	766	0.4
Other countries	16,215	7.2	19,328	8.4	18,360	9.1	8,849	4.8	9,798	4.6
Total	**225,218**	**100**	**230,742**	**100**	**200,667**	**100**	**185,501**	**100**	**212,572**	**100**

Tab. 2 Total amount of external public debt by holder ($ million, outstanding debt, year-end data) – Source: Own elaboration of BIS, Consolidated Banking Statistics

External private debt	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
European banks	85,980	76,037	68,067	55,705	49,480
Non-European banks	12,158	16,201	15,559	14,084	16,195
N/A data	2,826	2,964	3,982	3,680	2,829
Total banking sector	**100,964**	**95,201**	**87,608**	**73,469**	**68,504**
European banks	363,125	296,444	265,307	257,283	299,025
Non-European banks	28,583	31,347	25,632	22,185	28,962
N/A data	27,331	22,276	20,232	21,902	26,774
Total non-bank private sector	**418,425**	**350,068**	**311,170**	**301,370**	**354,761**

Tab. 3 Composition of external private debt (banking sector and non-bank private sector debt, $ million, year-end data) –
Source: Own elaboration of BIS, Consolidated Banking Statistics

Chapter 3

Some structural data on foreign banks in Italy

According to the Bank of Italy's Annual Report, at the end of 2017 there were 79 branches of foreign banks operating in Italy.

Compared to the previous year, the balance is equal to –4. On the one hand this annual change is the result of a net inflow of 5 banks, of which 4 coming from Europe (Belgium, United Kingdom, Netherlands, Sweden) and 1 from China and, on the other hand, a net outflow of 9 EU banks (from United Kingdom, Slovenia, Spain, Germany, Latvia, Netherlands and France).

As shown in Tab. 4, after the peak reached at the end of 2012 (325 branches), the number of branches decreased significantly, with two huge negative changes in 2013 and 2016. During last year the number of branches dropped from 171 to 165.

It is also important to highlight that in 2017 the overall number of banks operating in Italy decreased significantly (from 604 to 538 in last year, –11%), following a trend that began at least a decade ago. In 2017 the number of branches declined by about 1,600 (–6%). As a consequence of these changes, as at December 2017 non-resident banks represented almost 14.7% of the total. Nevertheless, they represented only 0.6% of the total in terms of number of branches. So, it was confirmed that foreign intermediaries have chosen channels and solutions other than physical branches with which to enter into the Italian banking and financial market (e.g., financial "shops", web platforms).

According to Bank of Italy's Statistical Database (BDS), as at the end of 2017, 63 out of 79 branches of foreign banks are located in Lombardy, all of them located in the Metropolitan City of Milan. This area confirmed to be the main Italian financial hub, with about 10 thousand operators in the sector and about 200 banks with their headquarters in the city.

Year	Banks and branch networks in Italy					
	Banks operating in Italy		Foreign banks			
	Number of banks	Number of branches	Number of banks	Number of branches	% on number of banks	% on number of branches
2007	806	33,225	79	155	9.8	0.5
2008	799	34,139	82	225	10.3	0.7
2009	788	34,036	82	303	10.4	0.9
2010	760	33,663	75	296	9.9	0.9
2011	740	33,607	78	318	10.5	0.9
2012	706	32,881	78	325	11.0	1.0
2013	684	31,761	80	260	11.7	0.8
2014	664	30,740	80	252	12.0	0.8
2015	643	30,258	81	254	12.6	0.8
2016	604	29,027	83	171	13.7	0.6
2017	538	27,374	79	165	14.7	0.6

Tab. 4 The branch networks of domestic and foreign banks in Italy (2007/17, end-year data) – Source: Own elaboration of Bank of Italy, Statistical Database (BDS)

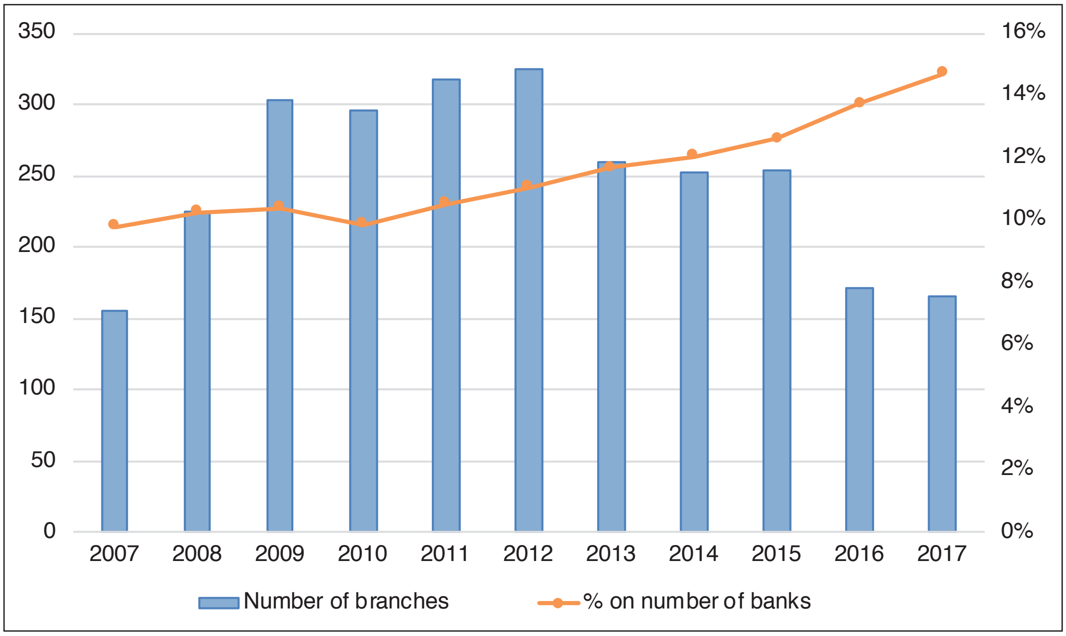


Fig. 8 Recent trend in the number of foreign bank branches in Italy (2007/17, end-year data) – Source: Own elaboration of Bank of Italy, Statistical Database (BDS)

Chapter 4

Corporate and Investment Banking

The Corporate and Investment Banking (CIB) sector is the most represented activity in which AIBE member banks operate. Actually, this sector is a portfolio of different businesses and services to corporations, mostly related to the composition of firms' capital structure, funding decisions and advisory services in Mergers and Acquisitions deals.

This chapter aims to highlight the market shares held by foreign banks in these businesses while operating with Italian issuers, especially when they use international financial markets to increase and to diversify funding.

4.1 Structured finance

4.1.1 Syndicated loans

In 2017, the Italian syndicated loans market grew by about € 30.5 billion (+78% YoY). For the second time in the last decade the market size returned to pre-crisis levels. Foreign bookrunners hold a market share of about 79%, as solely bookrunners (9%) or in international pools of lenders with Italian banks (70%).

As represented in Fig. 9, last year showed a very relevant growth of this market share. In particular, issuances that involved only foreign bookrunners almost doubled, from € 3.5 to 6.3 billion, while the amount of issuances assisted by international pools of lenders increased from € 18.8 to 48.5 billion. Over the last decade (2008/17) the average market share held by international pools of lenders was about 63%. If we exclude 2008 and 2009, which show outliers data at the very start of the financial crisis, the foreign bookrunners' market share was about 10 points higher (72%).

In 2017 the Dealogic database recorded 317 tranches of syndicated loans (+24 YoY). Because of very relevant increase in market size in the last year, we can observe that the average tranche's size grew to € 220 million.

As expected, on average, issuances assisted by international pools of lenders are bigger than other deals. Actually, their average size is about € 614 million, while deals assisted only by foreign bookrunners have an average tranche size equal to € 209 million. 118 out of 317 tranches have been assisted only by local intermediaries, with an average size of € 70 million.

Foreign bookrunners mainly supported Italian firms operating in the Transportation, Auto/Truck and Utility & Energy sectors (Fig. 10). These three leading sectors concentrate € 39.1 of the 54.8 billion issued by Italian firms assisted by the involvement of at least one foreign player. In all of these sectors the market share held by international banks is very significant (Utility and Energy 87% of the total sector, Transportation 91% and Auto/Truck 99%).

However, also in remaining sectors, their market shares are significant.

In terms of original maturity, a general overview of the whole market highlights that average maturity by each tranche is about 6 years and 3 months, within a range from 1-4 months through 18 years. Even though operations are very different by size and by maturity, foreign bookrunners are mostly involved in medium-term operations (original maturity between 3 to 5 years), reflecting 44% of the whole operativity of international pools.

As reported in Fig. 11, the market share of foreign bookrunners is very significant, with a particular focus on short term operations and deals with 5-10y-maturity.

The majority of issuances are rated as "Investment Grade" (59% of total deal value). Deals characterized by the presence of solely foreign bookrunners are mostly "Leveraged Grade" (€ 3.5 out of 6.3 billion, 56%). At the opposite end, international pool of lenders (foreign and national bookrunners) are mostly focused on high-rated deals (€ 27.3 out of 48.5 billion, 44%). 73% of "Investment Grade" deals was assisted by at least one foreign bookrunner; this percentage increases to 86% if we consider riskier deals ("Leveraged Grade"). The lower the creditworthiness, the higher the need to share the risk, thus the involvement of a higher number of bookrunners.

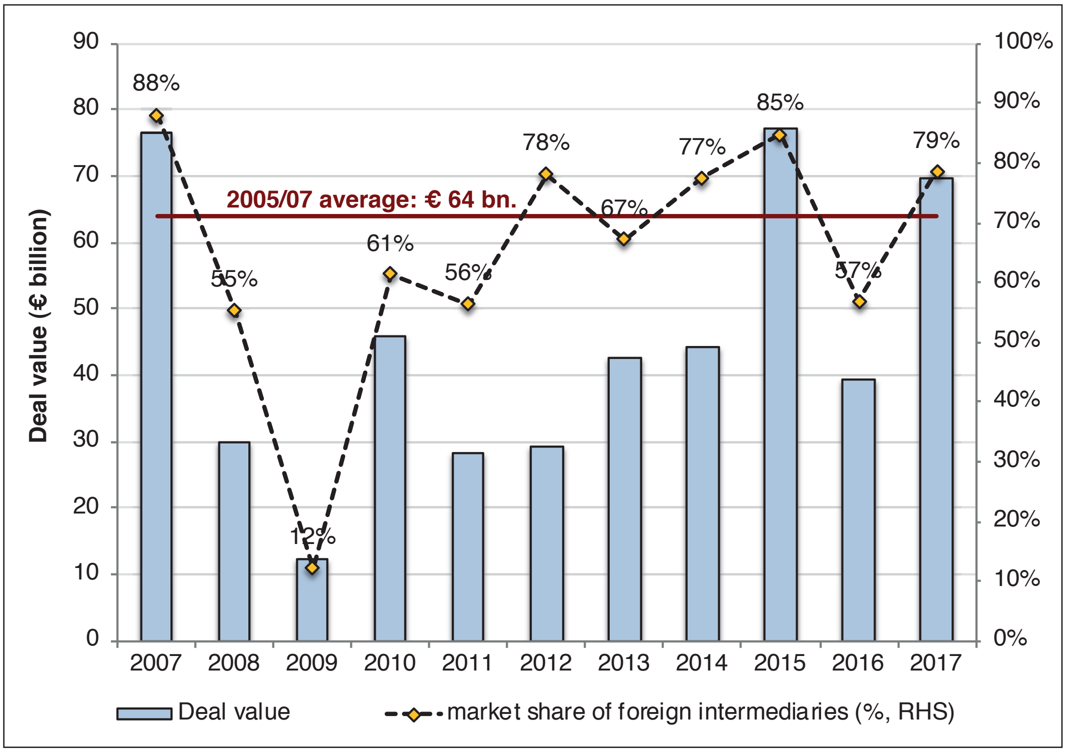


Fig. 9 *Annual deal value of syndicated loans and share of foreign intermediaries (2007/17, € billion and %) – Source: Own elaboration of Dealogic database*

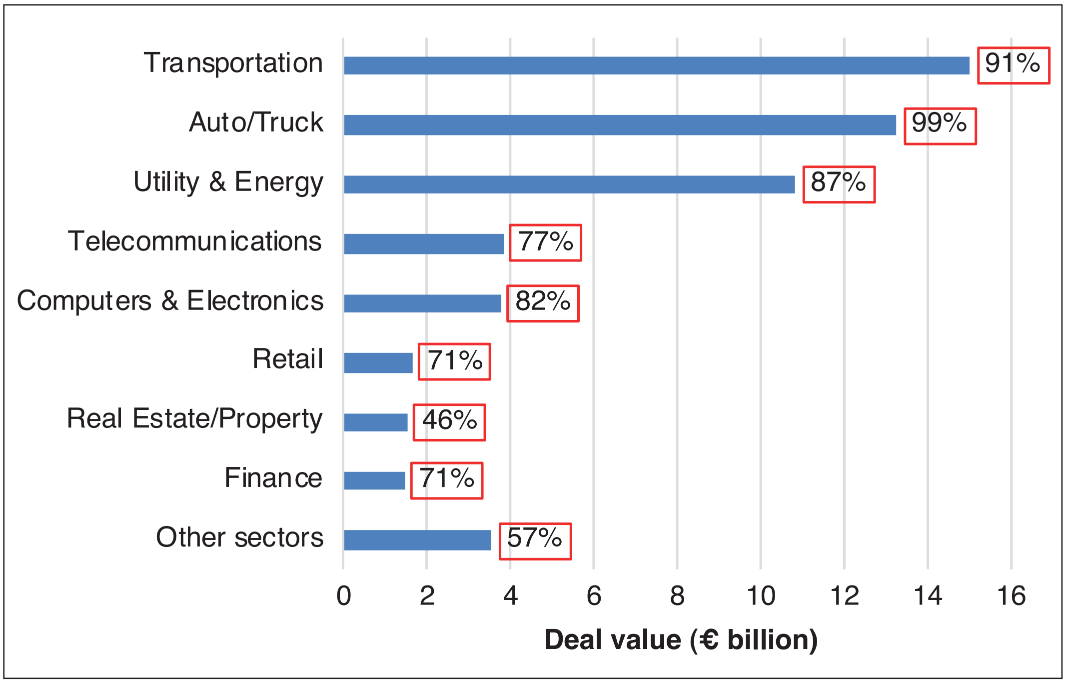


Fig. 10 *Deal value of syndicated loans and market share of foreign bookrunners by industrial sectors (2017, first 8 sectors, € billion and %)" – Source: Own elaboration of Dealogic database*

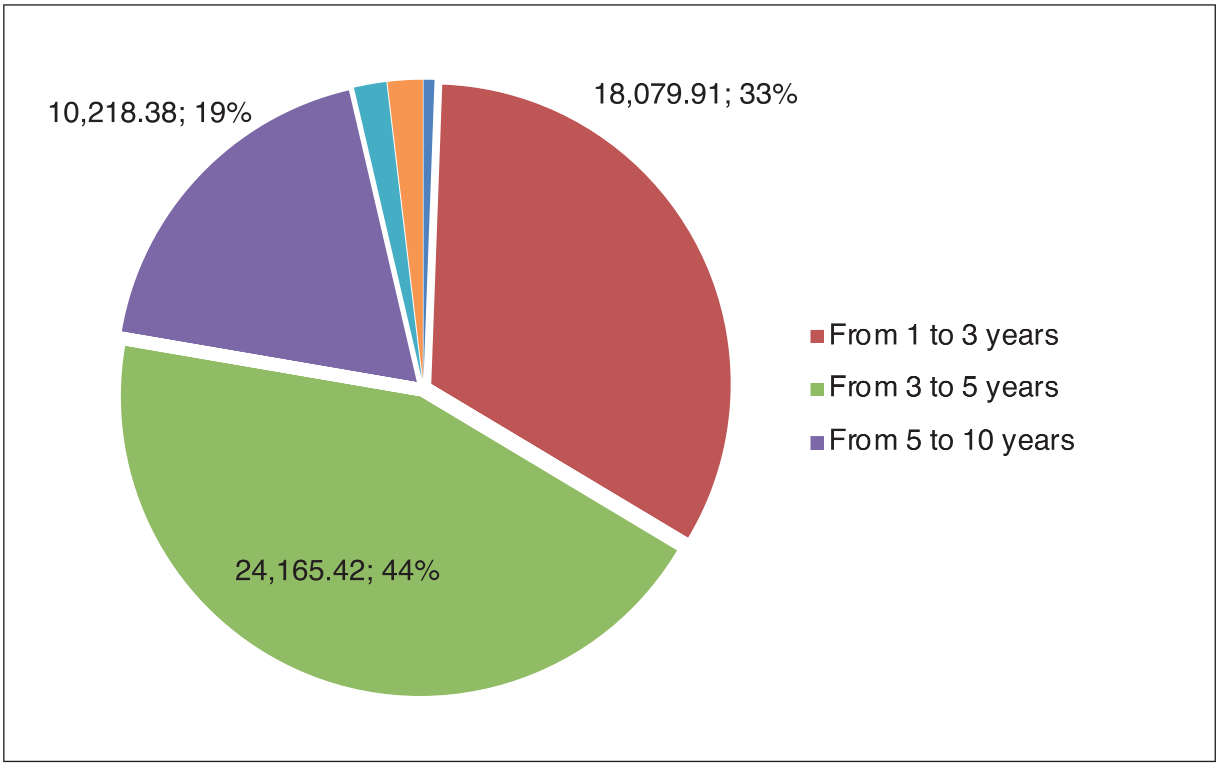


Fig. 11 Deal value of syndicated loans and market share of foreign bookrunners by original loan maturity (2017, € million and %) –
Source: Own elaboration of Dealogic database

4.1.2 Securitization

This section deals with the Italian securitization market, namely Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS).

In recent years this market showed a very high volatility in terms of size. Following the positive trend from 2013 to 2016 when the market size was comparable to that in 2007, 2017 showed a very sharp decrease in size.

According to Dealogic, at the end of 2017, the cumulative stock of ABS and MBS amounted to about € 3.4 billion (€ 21.8 billion in 2016). The highest portion relates to ABS deals (about € 3 billion) and results from 4 deals, divided into 17 tranches.

The average size of deals is about € 765 million, while the average face value of tranches is close to € 178 million.

The original maturity is close to 20 years. In particular, we have only one tranche with medium-term maturity (4 years), while the remaining are within the range 12-24 years.

If we analyze the positioning of foreign players, we may highlight that they have been involved in 16 out of 17 issuances, together with some Italian banks, while the latter has been assisted by a single foreign intermediary. Thus, as reported in Fig. 12, the market share held by foreign intermediaries is equal to 100%.

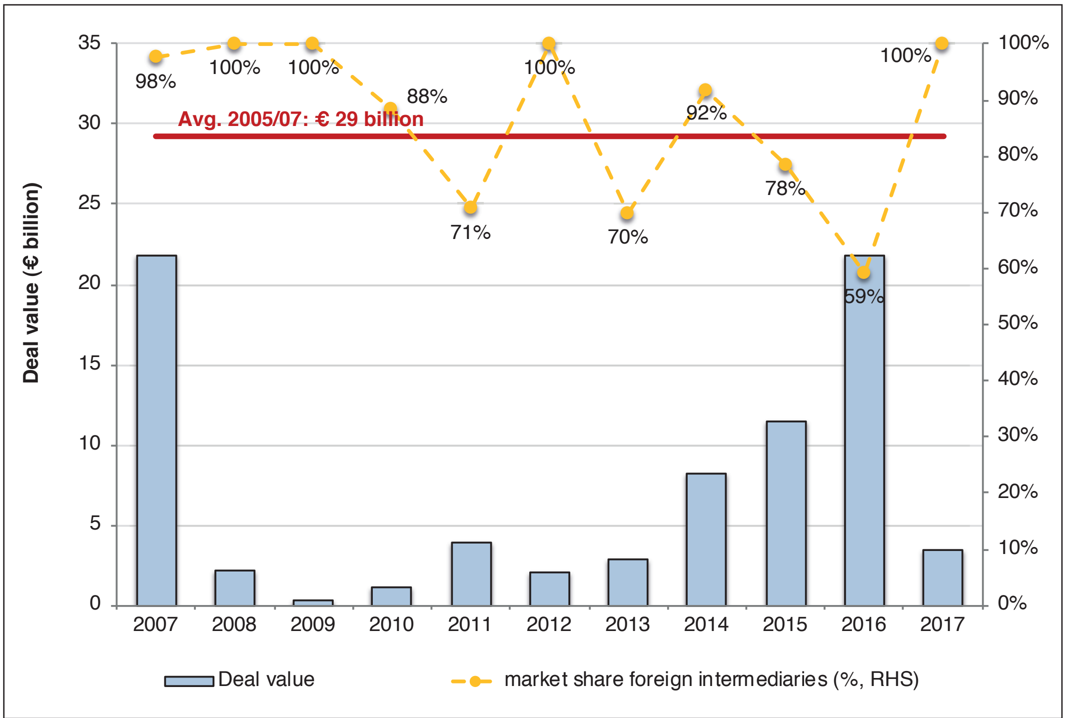


Fig. 12 Annual deal value of ABS and MBS deals and share of foreign intermediaries (€ billion and %, 2007/17) –
Source: Own elaboration of Dealogic database

4.1.3 Project Finance

This section is focused on the Italian project finance markets.

The process of data collection is not very easy, due to the fact that sometimes “normal” lending is classified as “project finance”. As a consequence, the market size’s representation may not accurately reflect reality. To be consistent with previous reports, we used the public source of Thomson Reuters PFI data and league tables.

According to these elaborations, in 2017 31 deals (34 in 2016) were completed on the Italian market (with Italian companies), divided into 84 tranches (95 in 2016). The deal value amounted to € 3.1 billion, with a decrease of about € 1.3 billion on annual basis (Fig. 13). As shown in the graph, in last decade the trend of market size was quite volatile. Moreover, in 2017 the size was about half of that during the pre-crisis period.

The Italian project finance market probably continues to suffer from structural limitations, related not only to the macroeconomic scenario, but also to domestic regulation, which still limits the effective and durable growth of the market. As a consequence, we may also observe that the average tranche size decreased from € 46.3 to 36.9 million, while the average deal value went down from € 129 to € 100 million.

The low number of operations also limits effective diversification amongst different industrial sectors.

Also in 2017, the contribution of foreign players was important: the market share held by foreign banks was equal to 44% in volumes and 52% in values, with a drop of about 8 percentage points compared to previous statistics relating to 2016. In the last three years their market share was, on average, close to the half of the total deal value.

Last year’s statistics also confirmed that the average tranche size of operations assisted by foreign banks is much higher than operations involving domestic players. Even though the former decreased from € 65.2 to € 43.6 million, the gap remained significant (€ 11.8 million).

In the league tables by tranche size, foreign banks continue to play a leading role: in the “top ten” ranking we may highlights 6 foreign players (7 in 2016). They hold a market share equal to 49% of the total market value, and about 54% of the total deal value relative to the “top ten” intermediaries. Moreover, these “top 6” foreign players concentrate about the 93% of the tranche value assisted by non-resident banks.

Sectoral diversification appears to be quite limited. As shown in Fig. 14, loans have been mostly granted to companies operating in the Energy and TLC sectors. These two leading sectors represent about 81% of the total activity of foreign banks (€ 1.3 out of € 1.8 billion). On the contrary, in the Oil & Gas and Infrastructure sectors the market share of domestic banks is higher than that of non-resident intermediaries.

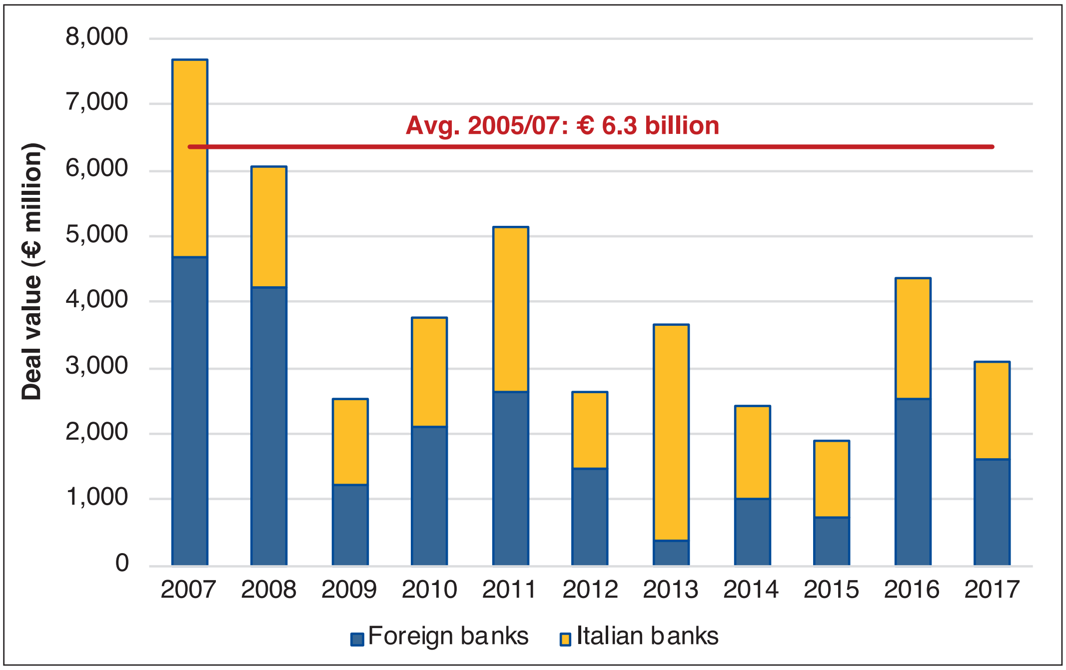


Fig. 13 *Project finance in Italy: market share held by Italian and foreign intermediaries (by deal value, € million, 2007/17) –*
Source: Own elaboration of Thomson Reuters-PFI data

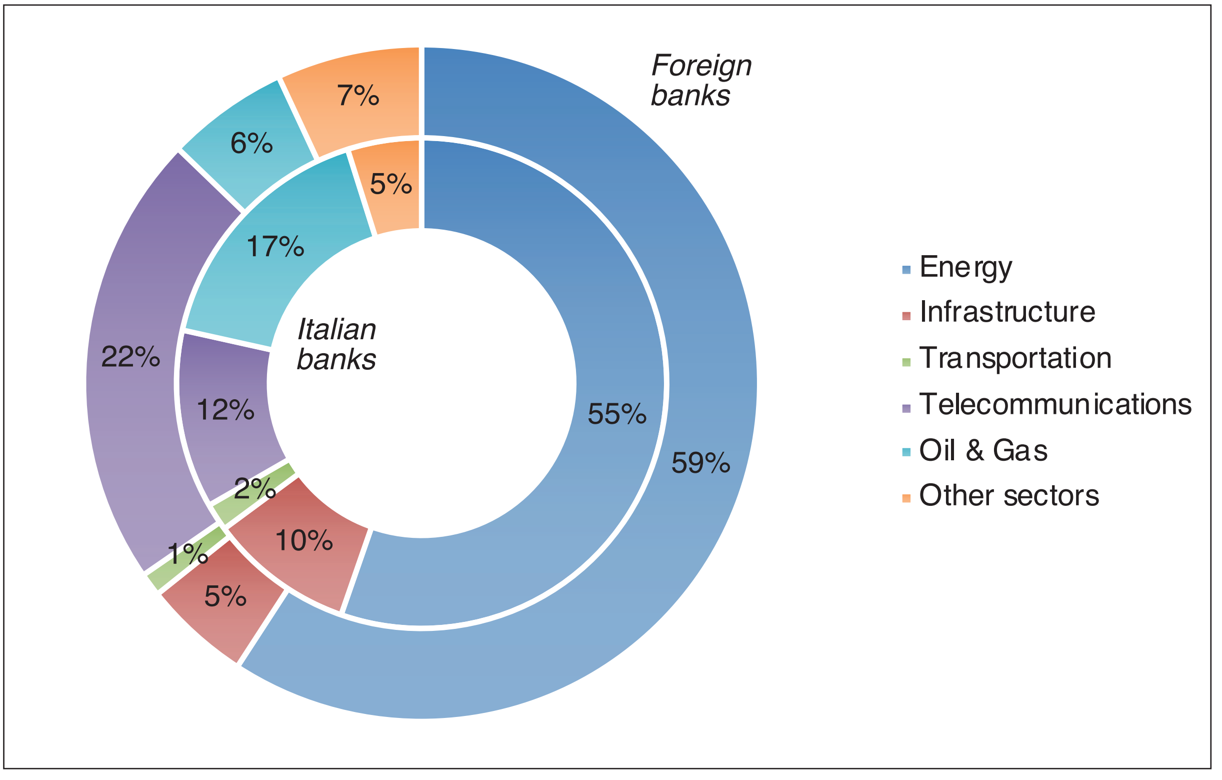


Fig. 14 *Project finance in Italy: loans breakdown by borrower's sector and by financial intermediaries' geographical origin (2017 tranches issuances, %) –*
Source: Own elaboration of Thomson Reuters-PFI data

4.2 Private equity and venture capital

AIFI – Italian Private Equity and Venture Capital Association periodically collects and releases market data relative to the Italian alternative funding market.

Data relating to last year shows that 311 deals were reported, distributed over 250 companies, for a total value of about € 4.9 billion, down by € 3.3 billion compared to the € 8.2 billion reported in 2016. However, it is important to note that the significant growth related to 2016 was mainly due to some "mega deals" performed by some international players.

In 2017, despite the lack of similar transactions, the investment activity reached the third highest amount of the last decade, just slightly behind values reached in 2008 (€ 5.5 billion) and 2016.

International players accounted for about 63% of the market, in terms of amount invested in 2017 (€ 3.1 billion), with a large gap compared to national players (€ 1.1 billion, 23% of the total). It should be also noted that international operators with no office in Italy have invested just more than € 2 billion, distributed over 46 deals.

In terms of number of investments, while the number remained stable from the previous year, private Italian operators have made the largest number of investments (126, equal to 40% of the market), followed by international players (64, equal to 21%).

Divestments continued to increase both in terms of amount and number of exits and were characterized by a new exit channel, the sale to a SPAC (special purpose acquisition vehicle).

In 2017, fund raising, i.e. the total resources collected by domestic operators, amounted to € 6,263 million (Tab. 5), with a huge annual increase compared to the € 1,714 million reported for to 2016. This value is strongly influenced by the activity of some institutional funds, which carried out significant size closing during the year.

Excluding the activity of some institutional funds, the amount of funds raised by independent operators moved from € 1,298 million (end-2016) to € 920 million (end-2017), an annual decrease of 29%. On the other hand, if we also consider pan-European funds based in Italy, the total raised funds would amount to € 7,338 million.

Independent fund raising increased from € 1.3 to € 6.2 billion, representing 99% of the total funding. This value represents the highest ever figure recorded in the Italian market.

The analysis of independent funds by source type highlights the fact that individual investors and family offices represented the top source of capital (27%), followed by private funds (17%) and institutional and public funds, including sovereign wealth funds (14%).

The weight of independent raising from abroad decreased from 36.7% to 27.6% (Tab. 6); however, in 2017, the statistics by geographical distribution relate to 79% of the funding of private parties, the only one for which data is available (€ 728 million).

Over the 2005/17 period, new funds raised by funds of funds have been the leading component (€ 4.4 billion, 22.1% of the total). The weight of funds raised by banking sources is very similar (€ 4.1 billion, 20.3%). However, it is worth noting that the weight of foreign banks has been negligible in the post-crisis period (6% of total). In the same time horizon (from 2009 to 2017), with regard to foreign operators, funds of funds and pension funds played a leading role (46% of new funds raised from abroad over the mentioned period, Tab. 7).

Sources of funds	2012		2013		2014	
	Value	%	Value	%	Value	%
Independent funding	947	48.9	623	13.1	1,348	64.9
Funds raised by parent company	407	21.0	3,423	72.2	129	6.2
Capital gain	1	0.1	1	0.0	-	-
Total raised funds (a)	**1,355**	**70.0**	**4,047**	**85.4**	**1,477**	**71.1**
Pan-European funds based in Italy (b)	582	30.0	693	14.6	600	28.9
Total (a+b)	**1,937**	**100**	**4,740**	**100**	**2,077**	**100**

Sources of funds	2015		2016		2017	
	Value	%	Value	%	Value	%
Independent funding	2,487	72.0	1,313	37.6	6,230	84.9
Funds raised by parent company	346	10.0	401	11.5	33	0.4
Capital gain	-	-	-	-	-	-
Total raised funds (a)	**2,833**	**82.0**	**1,714**	**49.1**	**6,263**	**85.4**
Pan-European funds based in Italy (b)	621	18.0	1,774	50.9	1,075	14.6
Total (a+b)	**3,454**	**100**	**3,488**	**100**	**7,338**	**100**

Tab. 5 Italian market of private equity and venture capital: fund raising trend (2012/17, € million and %) – Source: Own elaboration of AIFI data

Independent raising	2012		2013		2014	
	Value	%	Value	%	Value	%
From abroad	104	11.0	162	26.0	917	68.0
From Italy	843	89.0	461	74.0	431	32.0
Total	**947**	**100**	**623**	**100**	**1,348**	**100**

Independent raising	2015		2016		2017 (*)	
	Value	%	Value	%	Value	%
From abroad	1,194	48.0	482	36.7	201	27.6
From Italy	1,293	52.0	831	63.3	527	72.4
Total	**2,487**	**100**	**1,313**	**100**	**728**	**100**

Tab. 6 Italian market of private equity and venture capital: the geographical origin of raised funds (independent funds, 2012/17, € million and %) – Source: Own elaboration of AIFI data

Note: (*) Data is based on 79% of the private sector market collection, that for which the data is available (and amounting to € 728 million).

Sources of new funds raised on the market	2005/08			2009/17		
	Italy	Abroad	Total	Italy	Abroad	Total
Banks	1,115	317	1,432	2,474	164	2,637
Funds of funds	60	1,510	1,570	1,361	1,506	2,867
Pension funds	224	259	483	1,604	411	2,015
Insurance companies	268	173	441	888	199	1,086
Private equity companies	N/A	N/A	N/A	194	83	277
Asset Manager	N/A	N/A	N/A	159	923	1,083
Other sources			2,508	2,903	854	3,647
Total			**6,434**			**13,612**

Tab. 7 Italian market of private equity and venture capital: the composition and the geographical origin of new funds raised on the market (2005/17, € million) – Source: Own elaboration of AIFI data

4.3 Mergers and Acquisitions

A number of reports are available with which to appreciate the market size of M&A, at a worldwide level and in some selected countries as well.

According to KPMG data, in Italy 733 deals were closed in 2017, for about $ 41 billion. While the number of operations (733) remained quite stable compared to 2016, the decrease in market volume was significant (–28%).

Even if some announced deals are still not closed, globalization processes are relevant for the Italian economy and the attractiveness of Italian firms for foreign investors remains significant.

Financial Services is the leading sector: 70 deals for about € 14.6 billion, with a decrease of € 6.6 billion compared to the previous year.

Inbound cross-border (the target is an Italian firm, while the bidder is a foreign investor) operations (244) have recorded a deal value of about € 20 billion (+ € 1 billion YoY). The Infrastructure, Energy & Utilities and Industrial Markets are relevant as well, while Consumer Markets is the leading sector in terms of number of deals.

Among the "top ten" deals, 7 out 10 were "inbound cross-border deals": these deals amounted to about € 11.9 billion; moreover, they represented 70% of total deal value relative to "top ten" deals and 29% of the total market value.

A first insight to 2018 shows that the pipeline is very rich in operations to be closed within a few months. Initial estimates indicate that these M&A deals should amount to € 40-50 billion. In the first quarter of 2018, the amount of flows for M&A deals coming from abroad was about € 1.8 billion, relative to 45 closed deals.

However, it is worth noting that the most recent increase in the spread – due to the political uncertainty – showed some potential drawbacks for the Italian M&A market. As reported by some analysts, spread and country risk and M&A development show an important correlation. A further increase in the spread could threaten the closing of some announced deals, in other words, stop a portion of expected incoming flows from abroad, as in 2011 and 2012. This potential negative effect could be very significant for deals concerning Financial Services, Construction and Infrastructures sectors.

Bureau Van Dijk's estimates of the Italian M&A market differ slightly from the KPMG report. In particular, the total deal value for 2017 was estimated at about € 43 billion (–36% YoY), while the number of deals almost decreased by almost a half, from 1,194 to 578.

According to this report, the reduction in market size was mostly related to the lack of multi-billion deals: actually, in 2017 there were only 5 deals worth more than € 1 billion.

Moreover, Bureau Van Dijk's estimates are useful in terms of evaluating the main foreign partners. French companies were the main acquirors of Italian firms in terms of value (about € 6.7 billion), while the USA is the leading country in terms of number of deals (72). Foreign bidders from Norway, Germany, the UK, China and Luxembourg are very active, both in volume and by value.

Moreover, to be consistent with previous reports, we analyzed Dealogic database on M&As involving Italian companies in order to appreciate the role of foreign advisors, both for target and bidder companies.

For 2017 the Dealogic database collected M&A deals involving Italian companies amounting to about € 33.2 billion. As represented in Tab. 8, foreign advisors have been involved in 75% of total deals. This percentage also takes into account the composition of pools of Italian and foreign advisors. If we exclude the role of Italian intermediaries, we may estimate that foreign advisors have been involved in 12% of deals (in terms of market value).

Finance and Transportation are the leading sectors in terms of presence of foreign target advisors (€ 11.5 billion, 58% of the total deal value referred to foreign target advisors Fig. 15). The Food & Beverage, Real Estate/Property and Forestry & Paper sectors are important as well. On the contrary, if we look at the overall market, Finance, Utility & Energy and Transportation are the leading sectors, with a market share of about 53% of the total.

According to the Dealogic data, in terms of deal type, there is no particular specialization in foreign target advisors. In fact, foreign intermediaries have been mostly involved in deals as outright purchases and acquisition of assets (€ 15.3 billion, equal to about 77% of total deal value referred to foreign target advisors). However, these deal types are the leading ones even if we look to the market as a whole (€ 21.9 billion, equal to 66% of total market size). On the contrary, if we focus on foreign acquiror advisors, two leading deal types are outright purchases and majority interest (€ 15 out of 18.8 billion, 80%).

A special focus on "top ten" deals – based on Dealogic data – highlights that their total value (€ 13.6 billion) is about 41% of the total market. Foreign financial advisors have been involved in deals for about € 8 out of the 13.6 billion (58%) as target advisors. We note a similar percentage if we check for the role of foreign financial advisors in supporting bidders.

Geographical origin of target advisor parent	Geographical origin of acquiror advisor parent								Total	
	abroad		Italy and abroad		Italy		N/A data			
	Value	%	Value	%	Value	%	Value	%	Value	%
abroad	4.1	12.3	4.5	13.5	0.2	0.5	3.8	11.5	12.5	37.7
Italy and abroad	1.3	3.8	3.9	11.6	1.4	4.3	0.8	2.4	7.3	22.1
Italy	1.1	3.2		-	0.1	0.4	0.5	1.4	1.7	5.1
N/A data	3.8	11.4	0.2	0.7	0.4	1.3	7.2	21.7	11.7	35.1
Total	**10.2**	**30.7**	**8.6**	**25.8**	**2.2**	**6.5**	**12.3**	**37.0**	**33.2**	**100**

Tab. 8 Value of M&A deals by geographical origin of advisors (2017, € billion and %) – Source: Own elaboration of Dealogic database

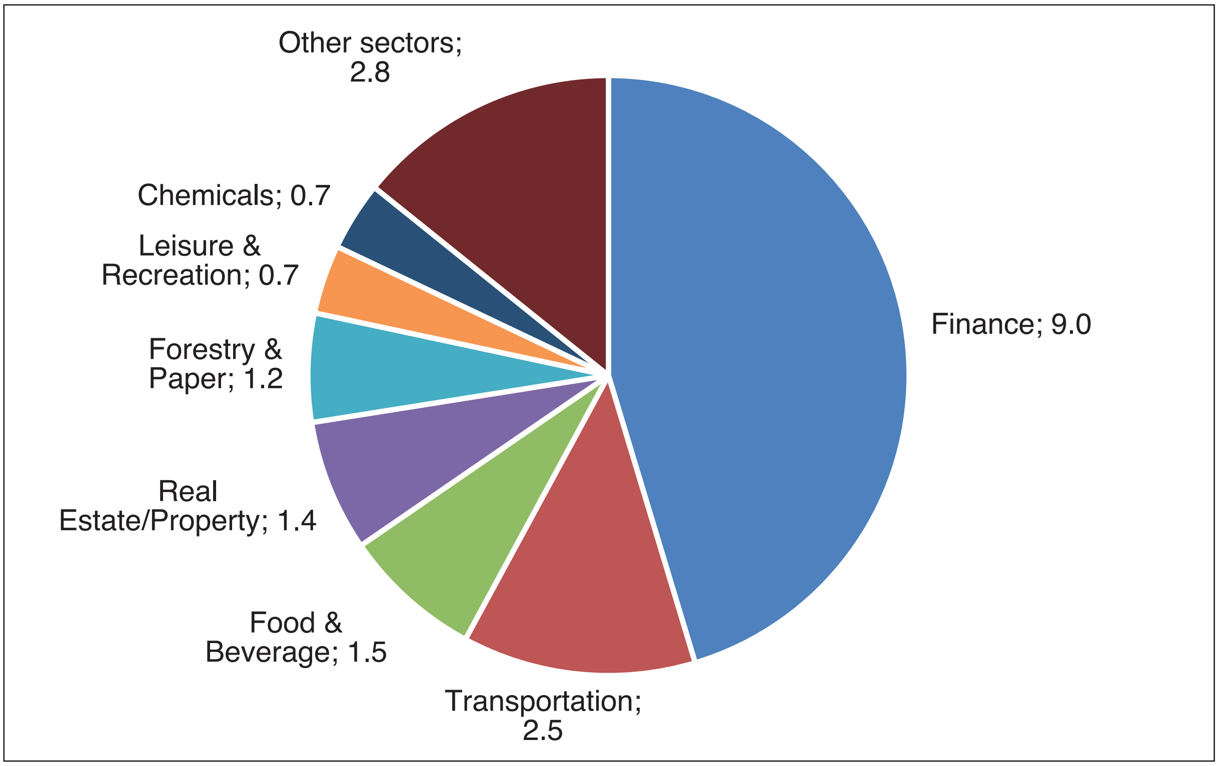


Fig. 15 *Distribution of M&A deals with foreign target advisors by industrial sector (2017, € billion) – Source: Own elaboration of Dealogic data*

Role and geographical origin of advisors	**Target advisor**		**Acquiror advisor**	
	Value	**%**	**Value**	**%**
Foreign financial advisor	8,010.4	58.6	7,382.4	54.0
Italian financial advisor	2,348.1	17.2	4,419.5	32.3
N/A data	3,303.5	24.2	1,860.0	13.6
Total	**13,661.9**	**100**	**13,661.9**	**100**

Tab. 9 *The distribution of “top ten” M&A deals based on advisors’ role and geographical origin (2017, € million and %) – Source: Own elaboration of Dealogic database*

Chapter 5

Advisory and operations on capital markets

This chapter covers the analysis of the positioning of foreign intermediaries in providing financial services to support Italian firms that access international financial markets. In particular, the topics covered refer to their advisory role as bookrunners in debt and equity securities issuances and retail trading.

5.1 Debt capital market

According to Dealogic data, in 2017 the market size of debt issuances by Italian firms was about € 117.1 billion, being the sum of 200 tranches. Compared to the end-2016 data, it is possible to observe an annual growth rate of about 19%, which inverted the negative trend started in 2014.

Also in 2017 the market size remained quite below the pre-crisis level (€ 130 billion). Moreover, it was confirmed a relatively high rate of volatility, probably due to macroeconomic scenarios, business risk evaluations, firms' confidence and financing needs within their capital structure.

In 2017 the market share held by foreign bookrunners remained very significant. It almost reached a peak in the last 5y-period. Foreign bookrunners assisted about 83% of issuances values (Fig. 16): solely foreign bookrunners held a market share of about 12%, while they participated jointly with Italian banks to about 71% of deals value. Compared to 2016, while the total market share grew up of about 4%, it is possible to observe a decrease in participation of solely foreign bookrunners (from 15% to 12%), offset by an increase in the joint participation of foreign and local bookrunners (from 63% to 71%).

If we consider the "top ten" tranches issued in 2017, 9 out of 10 deals have seen the presence of at least one advisor from abroad, for a total market value equal to € 26.4 billion, representing 75% of the "top ten" tranches values and 23% of total market value.

It is worth noting that only 24 tranches (12% of the total) have a face value higher than € 1 billion; actually, the average tranche value is about € 585 million. The average size of operations is higher when local and foreign intermediaries are involved (113 tranches, average value equal to € 735 million): in these cases, normally, the number of bookrunners is higher.

If we look through issuers' industrial sector (Fig. 17), Finance, Utility & Energy, Government, and TLC are the leading sectors: issuers coming from these 4 sectors have raised € 97 billion in 2017 (83% of the total market value). If we analyze the role of non-resident bookrunners, the sectors' distribution is similar. Actually, foreign intermediaries have mainly assisted Italian companies operating in the financial sector (€ 37.2 billion), in the Utility & Energy sector (€ 16.1) and the TLC sector (€ 9.6 billion), and Sovereign and local Authorities as well (€ 28.3 billion). These 4 main sectors concentrate about

80% of issuances assisted by foreign bookrunners.

It is also interesting to observe that in a number of sectors (among others TLC, Construction/Building and – even if they are smaller – Retail, Insurance, and Healthcare) all issuances have been assisted by international pools of bookrunners, in which the number and the involvement of foreign players were much more significant that of the Italian players.

In 2017 it was confirmed that the role of foreign bookrunners was more significant in medium-large sized issuances. As represented in Tab. 10, € 60.9 billion of issuances from € 500 million to € 5 billion were assisted by foreign players (91% of total value issued for these two classes). Moreover, all issuances with tranche value between € 1 and 5 billion have been assisted by international pools of bookrunners; so, the foreign market share is equal to 100%.

In the last class ("more than € 5 billion"), where three tranches are included, the foreign bookrunners' market share is slightly lower (59.3%), due to the effect of the largest issuance (sovereign bond, € 8.6 billion) assisted by two national bookrunners.

Our last analysis relates to deal type. According to Tab. 11, foreign bookrunners hold a very relevant market share in each deal type. In particular, they assisted corporate bonds' and public issuances for about € 85.3 billion, equal to 87% of total market value of issuances assisted by non-resident players.

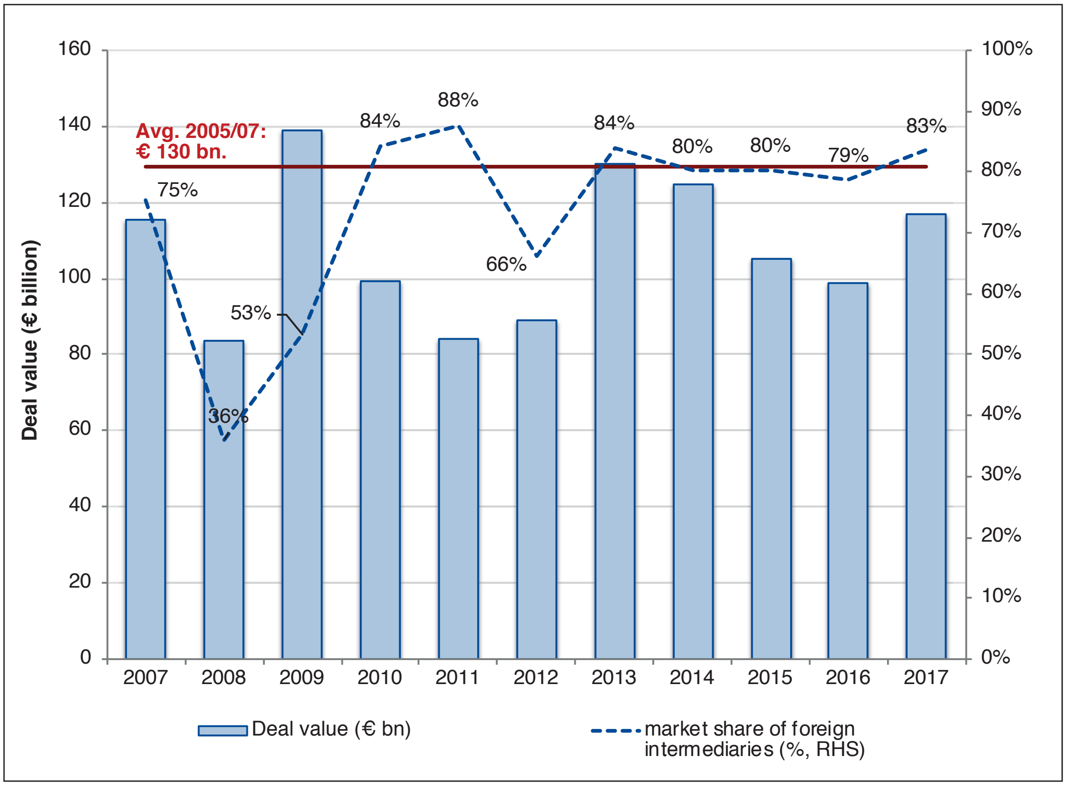


Fig. 16 DCM issuances by Italian borrowers: total annual deal value (2007/17, € billion) and market share of foreign bookrunners (%, RHS) – Source: Own elaboration of Dealogic data

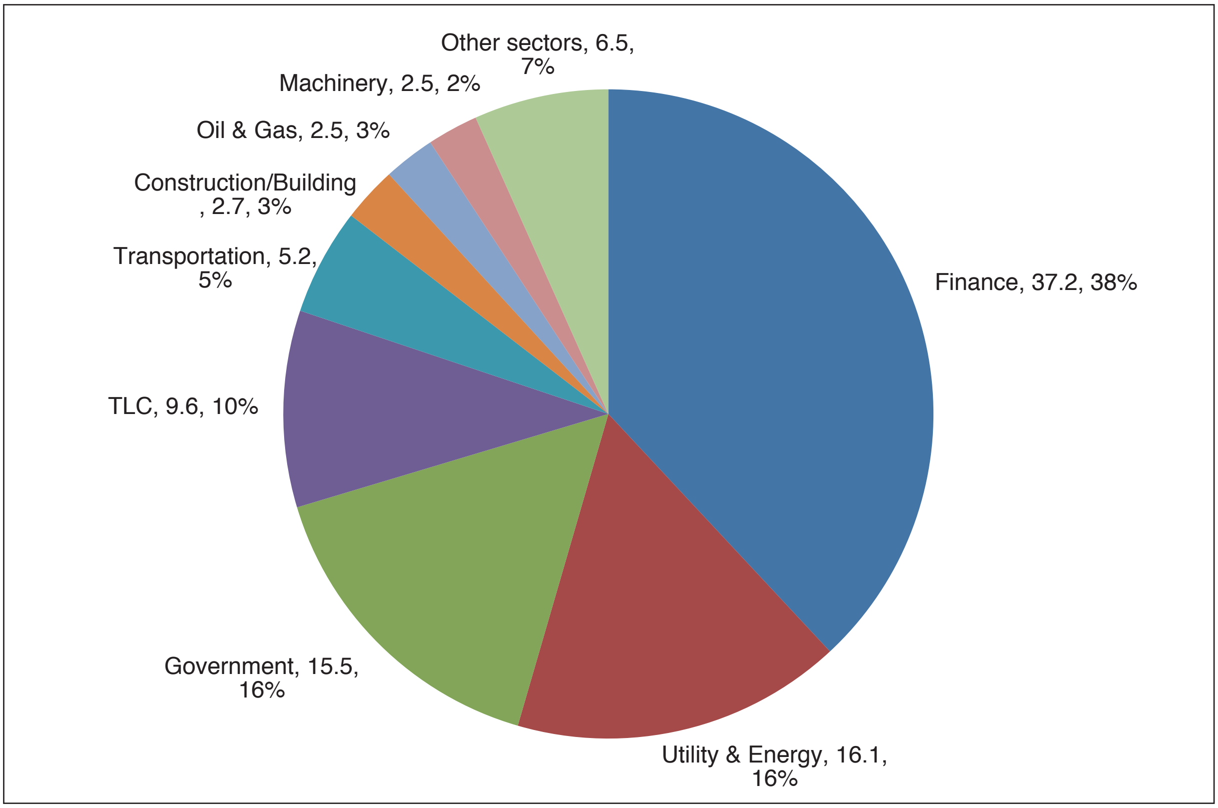


Fig. 17 DCM issuances by Italian borrowers' industrial sectors assisted by foreign bookrunners (2017, € billion and %) – Source: Own elaboration of Dealogic data

Class of Tranche value	Foreign bookrunners	
	Deal value	Market share (%)
Up to € 10 million	0.1	0.4%
€ 10-100 million	1,814.2	73.4%
€ 100-500 million	22,541.3	84.3%
€ 500 million-1 billion	29,929.8	83.7%
€ 1-5 billion	30,959.5	100.0%
More than € 5 billion	12,500.0	59.3%
Total	**97,745.0**	**83.5%**

Tab. 10 *DCM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by size (2017, € million) – Source: Own elaboration of Dealogic database*

Note *market share (%) is by class of tranche value.*

Deal type	Foreign bookrunners	
	Deal value	Market share (%)
Corporate Bond-Investment-Grade	50,410.2	97.0%
Corporate Bond-High Yield	19,350.7	99.7%
Sovereign, Local Authority	15,500.0	54.8%
Covered Bond	4,825.0	89.8%
Asset-Backed Security	3,023.8	100.0%
Othe deal types	4,635.3	51.4%
Total	**97,745.0**	**83.5%**

Tab. 11 *DCM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by deal type (2017, € million) – Source: Own elaboration of Dealogic database*

Note *market share (%) is by class of deal type.*

5.2 Equity capital market

This section summarizes the role of foreign bookrunners in supporting Italian companies in equity issuances (e.g., IPOs, rights offers, accelerated bookbuild and convertible bond issuances).

According to Dealogic data, in 2017 the market size of Italian equity capital market was about € 23 billion, reaching the highest peak of last decade (Fig. 18). As represented in the graph, the recent trend of market size shows high volatility: deals closing is strictly related to market sentiment and the macroeconomic scenario, so – probably – the very relevant growth in 2017 can be explained by the closing of some deals announced in 2016 and subsequently postponed.

The Dealogic database recorded 76 deals. Foreign bookrunners participated in 44 out of 76 operations (58% of the total). These deals amounted to about € 21.4 billion, representing 93% of the total. They assisted – as solely bookrunners – in 28 operations (€ 3.2 billion), and 16 operations (€ 18.2 billion) within international pools together with Italian banks.

The average deal size of deals assisted by international pools is about € 1.1 billion, more than three times the average deal size referred to the whole market. International pools are largest also in terms of average number of bookrunners (4.5, with a median number equal to 3 and a range from 2 to 20). On the contrary, deals assisted only by domestic banks involved one or two bookrunners at the most.

In 2017 the concentration index of the market was quite significant: "top ten" deals recorded a total value of about € 18.8 billion, thus representing 81% of the whole market. All of the biggest deals have seen the participation of at least one foreign bookrunner.

Fig. 19 highlights issuers' leading sectors and foreign bookrunners' participation. Finance is the most significant: foreign intermediaries assisted in about € 15.4 billion of issuances, representing 72% of the total market value relating to non-domestic operators. The Auto/Truck sector is runner-up, followed by Retail, Metal & Steel, and Machinery. In some sectors (i.e., Auto/Truck, Metal & Steel, Oil & Gas, Leisure & Recreation, and Real Estate/Property) foreign bookrunners' sector market share is equal to 100%.

Secondary equity offerings and IPOs are the leading "deal type", with a total value of € 22 billion. The participation of foreign bookrunners is very high (€ 21.4 billion) and, however, market share of non-resident players is very significant for each deal type (Tab. 12).

The presence of foreign institutional investors is very significant in the STAR segment and in AIM Italia market of the Italian Stock Exchange.

At the end of March 2018, 65% of investors and investment funds attending the STAR Conference came from abroad, especially from France, Switzerland, the United Kingdom and the Nordic countries. Within the STAR segment, which has a total capitalization of about € 44.3 billion (February 2018), 86% of the capital held by institutional investors is represented by foreign investors, mainly coming from European countries (38%), North America (28%) and the United Kingdom (20%).

On the AIM Italia market, according to the AIM IR Top periodic survey (May 2018), there are 91 institutional investors, of which 68 (75%) coming from abroad. The United Kingdom, Switzerland, Spain, the United States and France are the most represented countries.

In the last year the flow of investments coming from abroad was about € 297 million, 49% of total flow of investments. In the leading table of "top ten" investors on AIM Italia, 4 out of 10 of the most active players are foreign investors.

According to Consob's Annual Report, foreign investors are increasing participation in shareholders' meetings of Italian listed companies. In particular, the presence of foreign institutional investors has reached its highest value since 2012 (the year in which this figure started to be collected) rising to 18.3% of the capital. This percentage represented over the 94% of the total presence of institutional investors, due to the fact that the presence of domestic investors was limited to 1.2%.

"Made in Italy" and Italian "excellence" continue to be very attractive for foreign investors, creating a very unique opportunity for Italian firms to access capital markets, to diversify their financial structure and to make growth processes more sustainable in the long term.

The domestic market has to become more favorable and Government has to take necessary measures to further increase the attractiveness of Italy and Italian companies, to reduce the gap with competitors.

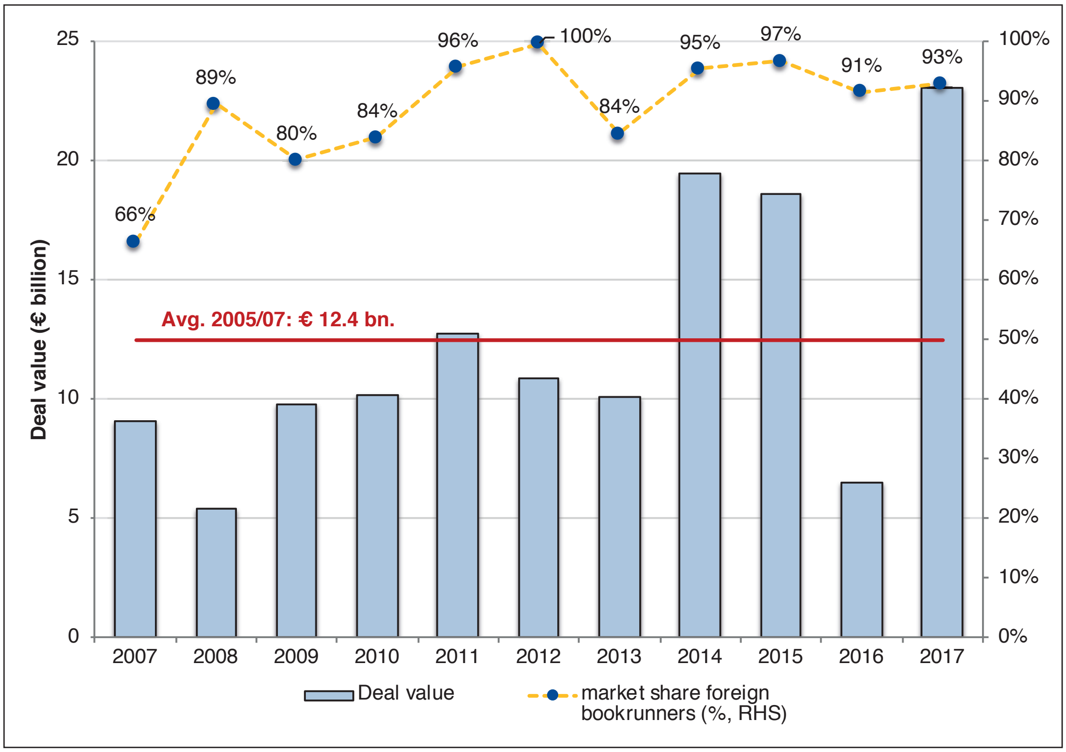


Fig. 18 Equity Capital Markets: distribution of deal value (Italian issuers, 2007/17, € billion) and market share of foreign bookrunners (%, RHS) – Source: Own elaboration of Dealogic data

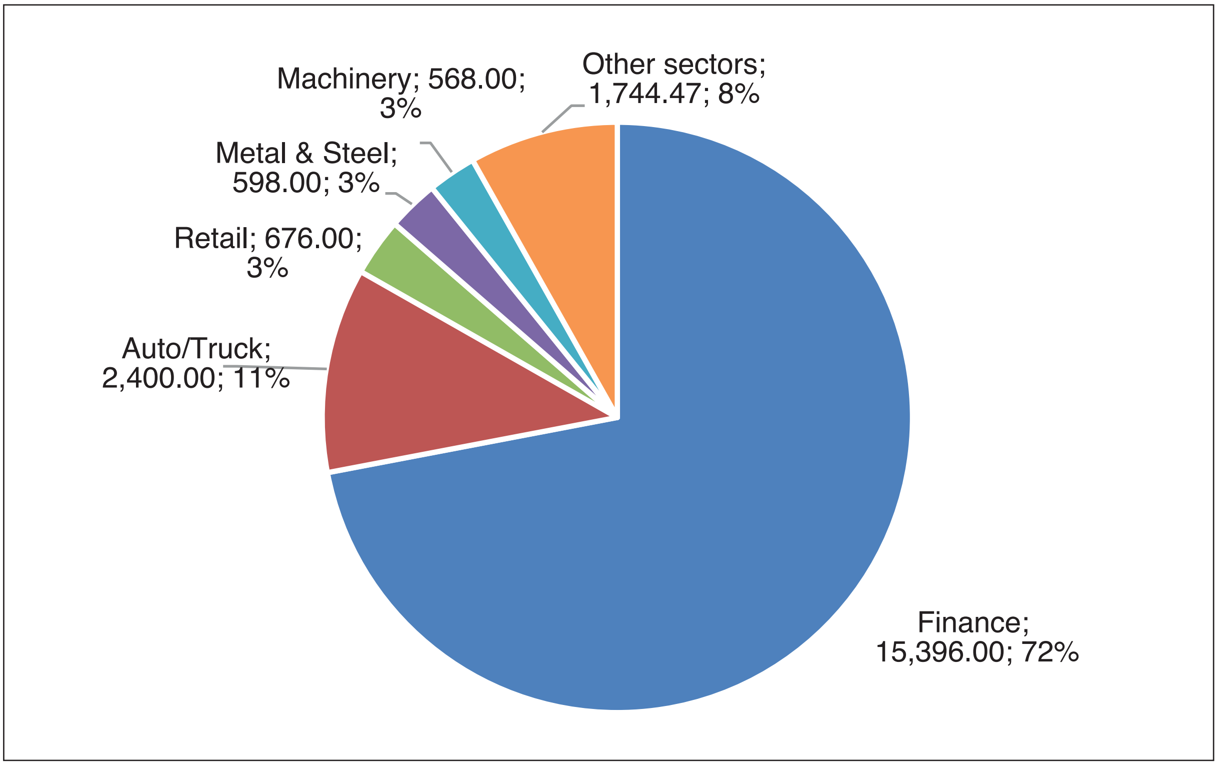


Fig. 19 *ECM issuances by Italian issuers' industrial sectors assisted by foreign bookrunners (2017, € billion and %) – Source: Own elaboration of Dealogic data*

Deal type	Foreign bookrunners	
	Deal value	Market share (%)
Secondary equity offerings and Follow-On	16,151.64	97.1%
IPO	4,190.83	78.0%
Convertible bonds	1,040.00	99.8%
Total	**21,382.47**	**92.8%**

Tab. 12 *ECM issuances by Italian borrowers assisted by foreign bookrunners: distribution of deal value by deal type (2017, € billion) – Source: Own elaboration of Dealogic database*

Note *market share (%) is by deal type.*

5.3 Trading on Cash Markets (MTA)

According to ASSOSIM, the Italian Association of financial intermediaries representing the majority of players operating on the Italian financial market, the market share held by foreign intermediaries is quite significant, at least in certain segments.

In 2017, the market share relating to foreign ASSOSIM's members in the Cash Market was equal to 21% in volume, stable compared to previous year.

Given that ASSOSIM's members represent about 51% of the volumes negotiated, we may estimate that foreign intermediaries hold a market share of about 41% of the total relative to ASSOSIM's members.

Foreign intermediaries confirmed to be among the most active players: 7 out of 22 players are based abroad; 5 out of top 10 players are foreign intermediaries, as well as the 2 most active ones overall. The latter two have a total market share of 12%, or about 25% of value referred to ASSOSIM's members. If we focus on total activity referred to foreign players, they represent 56% of the total.

In other market segments of the Italian Stock Exchange (e.g., DomesticMOT, EuroMOT, ETFplus and ExtraMOT), the number of active foreign players is lower, as well as their market shares. The role of foreign investment banks is more relevant in SeDeX and ETF plus segments. 3 foreign intermediaries are active on SeDeX and one of them is included in the "top ten". In 2017, they contributed to 7.4% of the market value, with a decrease of about 6 percentage points compared to previous year. In 2017 the ETFplus segment has seen the participation of 7 active foreign intermediaries, five of them are included in "top ten" league table. These seven players hold a market share equal to 11% of the total market value, i.e. about the 32% of the total market value referred to ASSOSIM's members.

On the other hand, the positioning of foreign participants was less relevant in trading on bond securities (DomesticMOT and EuroMOT markets). In particular, in 2017, within the DomesticMOT market, the share of foreign intermediaries (2 out of 26) was about 4.4% of total volumes, while in the EuroMOT market the share of foreign players was less than 1%.

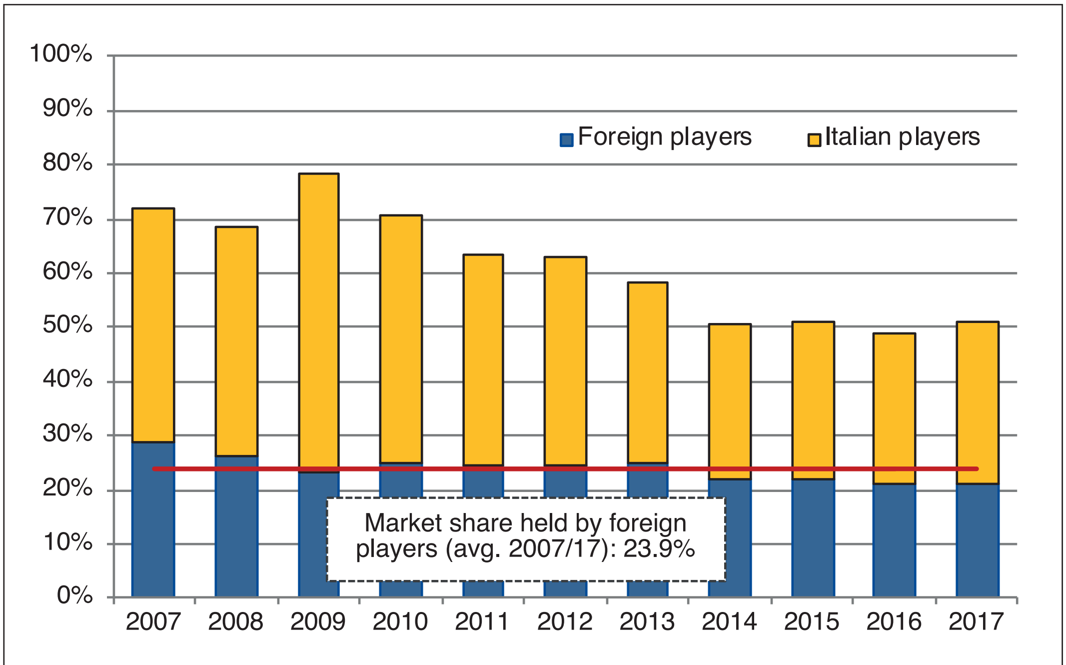


Fig. 20 Recent trend in market share held by ASSOSIM's members (2007/17, % of volumes traded on MTA segment) – Source: Own elaboration of ASSOSIM statistics

Chapter 6

Asset Management

In this chapter the role of foreign players within the Italian Asset Management industry will be analyzed. In particular, we will refer both to collective and portfolio management and pension funds.

Information and data released by Assogestioni and available on the Italian Fund Hub (IFH) website are representative of whole Italian Asset Management industry.

At the end of 2017, the Italian asset management market reached a new record: the amount of Assets Under Management (AUM) increased from € 1,943 billion to € 2,089 billion, with a growth rate of 7.5% YoY.

During recent years, the trend has been growing consistently. In particular, at year-end 2014 the AUM rose to € 1,588 billion (+69% compared to end-2011 data) and AUM at year-end 2016 rose to € 1,943 billion (+22.3% compared to end-2014 data).

At the end of 2017, the AUM stock relative to foreign groups is about € 694.3 billion, with an increase of € 228 billion (+48.7%) over last year's figure (Tab. 13). Furthermore, in the last seven years, the market share held by foreign players has almost constantly increased (from 22.8% end-2011 to 33.2% end-2017).

In the following part of this chapter, we are going to analyze some detailed data, over the period 2010/17: first of all, we will refer to the collective management scheme and, secondly, to the portfolio management scheme.

With regard to collective management, AUM have increased by about € 561 billion from 2010 to 2017.

This growth is due to the increase in open-end funds, that moved from € 460 billion at the end of 2010 to € 1,011 billion at the end of 2017 (Fig. 21).

Closed-end funds, on the other hand, remained substantially stable, going from € 41 billion in 2010 to € 51 billion in 2017.

Over the same period, AUM held by foreign companies have significantly increased, rising from about € 122 billion to € 476 billion in 2017. The market shares held by foreign companies increased from 24.3% at the end-2010 to 44.9% at the end-2017.

With reference to portfolio management, it is possible to point out that AUM have increased by about € 521 billion from 2010 to 2017; the market share held by foreign players has increased significantly (21.2%, against the average of 15.4% from 2010 to 2016).

In the last five years, the growth of insurance products has been significant, as has that of pension plan asset management, while retail asset management in funds and retail securities asset management has remained substantially stable. As represented in Fig. 22, in the last year, other investment products have decreased by about 20%.

Based on the 2017 data, foreign intermediaries accounted for about 21.6% of all assets managed by the "top ten" players. This percentage goes up to 27.7% if we consider the "top 15" intermediaries and reaches 30.9% if we consider the "top 20" (Fig. 23). Compared to 2016, the weight of the activities managed by foreign intermediaries almost doubled with reference to "top ten", "top 15" and "top 20" ranking.

Among the "top ten" and "top 20" players, there are – respectively – 3 and 11 foreign intermediaries. They manage 763 and 2,042 funds respectively.

Within the pension funds industry, the market share of foreign intermediaries increased significantly, from 41.5% in 2016 to 62.4% in 2017 (Fig. 24). The strong increase in market share of foreign intermediaries observed in the past year is due to two factors: the growth of foreign open pension funds (+ € 1.5 billion) and, above all, that of foreign contractual pension funds (+ € 15 billion), and – on the other hand – the decline of Italian open pension funds (– € 2 billion) and Italian contractual pension funds (– € 5 billion).

	Dec-2011		Dec-2012		Dec-2013		Dec-2014	
	AUM	%	AUM	%	AUM	%	AUM	%
Foreign groups	123,183	26.7	145,235	27.7	175,975	29.4	220,127	30.1
Italian groups	338,292	73.3	379,670	72.3	423,135	70.6	511,031	69.9
Collective management	**461,475**	**100**	**524,905**	**100**	**599,110**	**100**	**731,158**	**100**
Foreign groups	90,519	19.0	89,401	13.4	102,788	14.1	119,572	13.9
Italian groups	385,594	81.0	580,209	86.6	628,155	85.9	737,719	86.1
Portfolio management	**476,113**	**100**	**669,610**	**100**	**730,943**	**100**	**857,291**	**100**
Foreign groups	213,702	22.8	234,636	19.6	278,763	21.0	339,699	21.4
Italian groups	723,886	77.2	959,879	80.4	1,051,290	79.0	1,248,750	78.6
Total	**937,588**	**100**	**1,194,515**	**100**	**1,330,053**	**100**	**1,588,449**	**100**

	Dec-2015		Dec-2016		Dec-2017		Δ 2017	
	AUM	%	AUM	%	AUM	%	AUM	Δ%
Foreign groups	310,510	34.5	326,849	34.4	476,480	44.9	149,631	45.8
Italian groups	588,297	65.5	622,696	65.6	585,843	55.1	-36,853	-5.9
Collective management	**898,807**	**100**	**949,545**	**100**	**1,062,323**	**100**	**112,778**	**11.9**
Foreign groups	137,208	14.7	139,957	14.1	217,827	21.2	77,870	55.6
Italian groups	798,091	85.3	853,474	85.9	809,000	78.8	-44,474	-5.2
Portfolio management	**935,299**	**100**	**993,431**	**100**	**1,026,827**	**100**	**33,396**	**3.4**
Foreign groups	447,718	24.4	466,806	24.0	694,307	33.2	227,501	48.7
Italian groups	1,386,388	75.6	1,476,170	76.0	1,394,843	66.8	-81,327	-5.5
Total	**1,834,106**	**100**	**1,942,976**	**100**	**2,089,150**	**100**	**146,174**	**7.5**

Tab. 13 Collective and portfolio asset management: AUM trend and market shares held by Italian and foreign asset management companies (2011/17, € million and %) – Source: Own elaboration of Assogestioni-IFH database

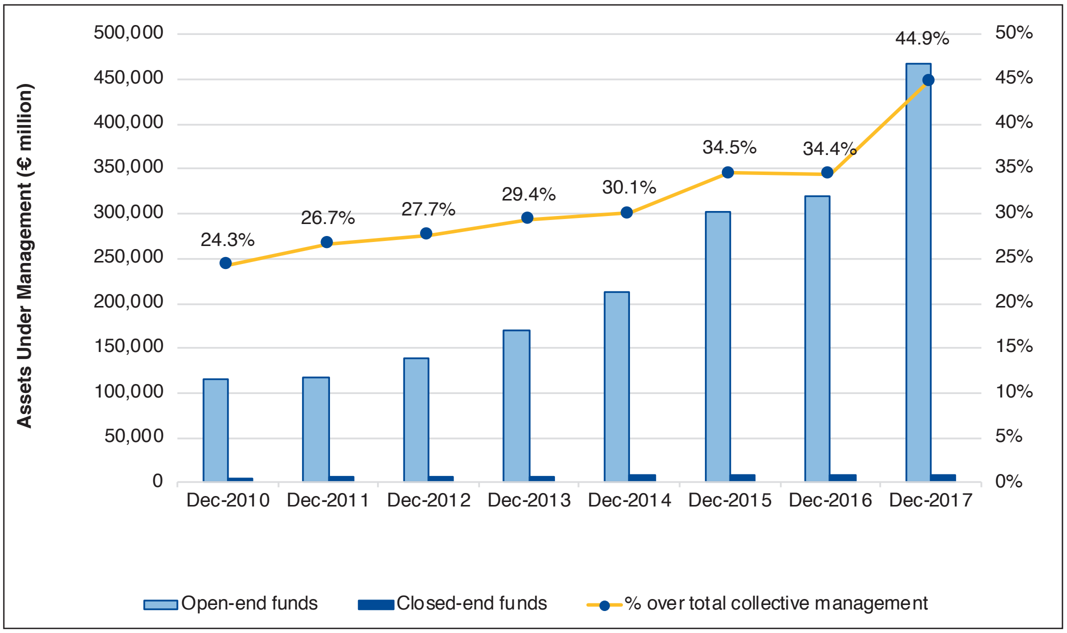


Fig. 21 *Collective management: AUM stock and market shares held by foreign asset management companies (2010/17, € million and %) – Source: Own elaboration of Assogestioni-IFH database*

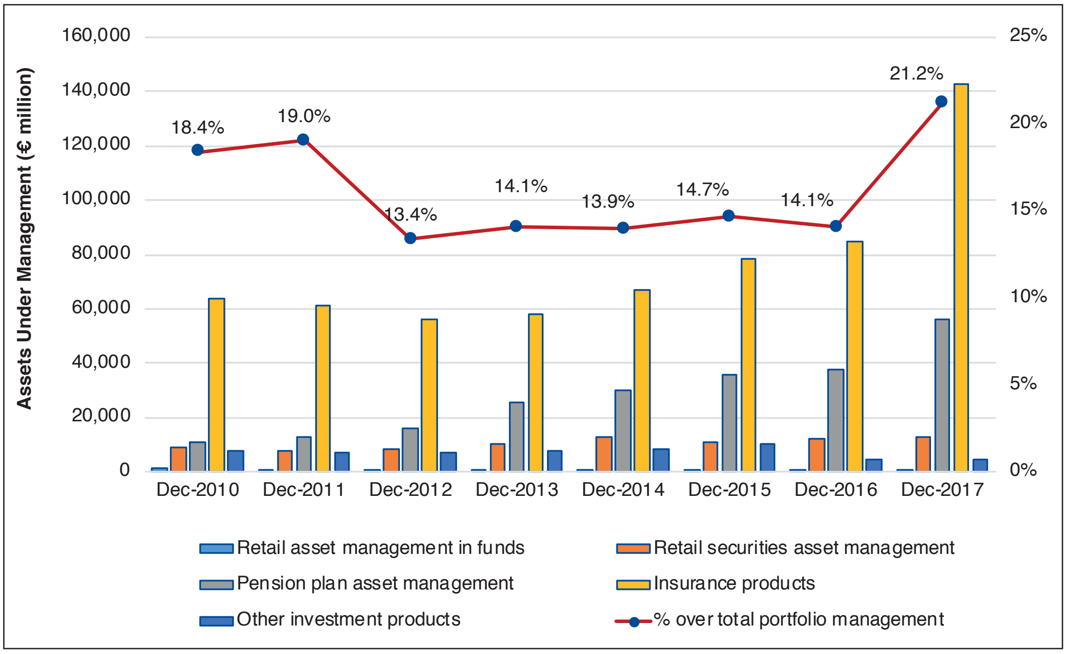


Fig. 22 *Portfolio management: AUM stock and market shares held by foreign asset management companies (2010/17, € million and %) – Source: Own elaboration of Assogestioni-IFH database*

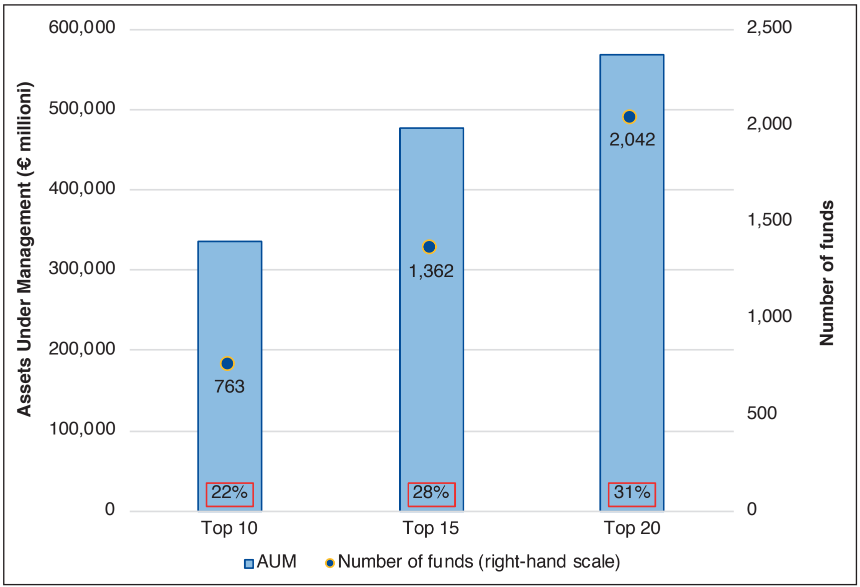


Fig. 23 *AUM stock and market shares held by foreign asset management companies in the "top ten", "top 15" and "top 20" rankings (2017, € million and %) – Source: Own elaboration of Assogestioni-IFH database*

Note *red bordered labels indicate the market share held by foreign intermediaries in terms of AUM, respectively over the total of "top ten", "top 15" and "top 20" groups.*

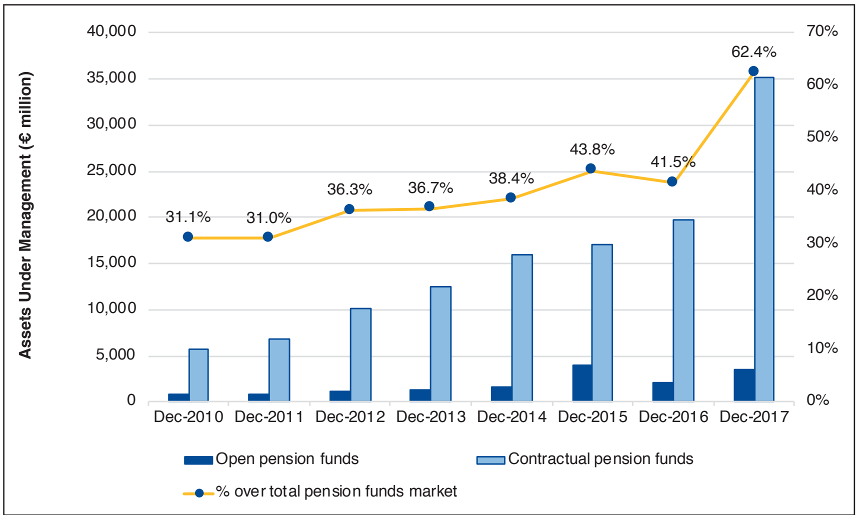


Fig. 24 *Pension funds market: AUM stock and market shares held by foreign asset management companies (2010/17, € million and %) – Source: Own elaboration of Assogestioni-IFH database*

Chapter 7

Specialized credit

According to the Assilea data (Italian Association of leasing companies), in 2017 the Italian leasing market recorded a sharp growth from € 20.7 billion to € 26.6 billion, equal to an annual growth rate of 28.5% (Tab. 14). This growth was largely due to "other companies" that – according to Assilea classification – include both Italian and foreign intermediaries.

On the basis of league tables released by Assilea, the market share held by foreign players has decreased from 35.3% in 2016, to 24.7% in 2017. Three foreign leasing companies are included in the "top ten most active" ones: they accounted for leasing contracts for a total value of about € 4.9 billion (38.7% of "top ten" amount and around 18.5% of the total market value).

Outstanding has decreased from € 89.4 billion to € 83.9 billion, equal to a negative growth rate of 6.1%. This decrease is due to a reduction in the value of contracts signed by foreign and Italian intermediaries.

According to Assifact (Italian Association for factoring statistics), the Italian factoring market witnessed quite significant growth last year, despite the number of Assifact's members remaining in line with that of previous years. In 2017 turnover was about € 221.6 billion, an increase of 9.5% on annual basis, of which € 41.3 billion referred to foreign players.

The market share held by foreign intermediaries remained stable at around 19%. However, due to a generalized growth of the market, the annual turnover related to foreign players increased from € 38.7 to € 41.3 billion (+6.7%, Fig. 25).

League tables by turnover and by factor show that Italian factoring market is quite concentrated. The market share held by "top three" factoring companies is equal to 59.5%. The top foreign player is ranked in the 3rd place (13.2% of the total market turnover and 70% of the overall share referred to sub-sample composed of non-resident factoring companies).

In 2017, outstanding credit increased from € 61.0 billion to € 62.4 billion (+2.3% YoY). With regards to this variable, the change in foreign intermediaries' market share is opposite: the stock of outstanding credit decreased by about 7.5%, while their market share went down from 19.3% to 17.5% (Fig. 26). At the end of 2017, the "top three" players held about 57% of the whole amount of outstanding credit. The top foreign player is ranked in 3rd position (13.7% of the total market outstanding and 78.9% of the overall share referred to foreign factoring companies).

The last section of this chapter highlights the main data regarding the Italian consumer credit market. In the last two years (2016 and 2017), the size of this segment of specialized credit has increased. According to the periodic Survey conducted by Assofin-Crif-Prometeia "Osservatorio sul credito al dettaglio" (last update in June 2018), in 2017 the increase in financial flows amounted to about € 4.3 billion on annual basis, reaching – in last year – a value of € 64.9 billion in 2017.

The market share held by foreign players remained stable compared to the previous year (about 45%, Fig. 27). However, despite the reduction in market share, the value of consumer credit granted by foreign players rose to about € 29.3 billion (+ € 1.8 billion YoY).

Over the period 2013/17, the number of foreign intermediaries included in Assofin-Crif-Prometeia's survey remained virtually unchanged (18), although some annual changes were recorded: a net inflow of one foreign player in 2013 and in 2016, while in 2015 a net outflow of one non-resident bank was registered.

At the end of 2017 the number of foreign Assofin's members was equal to the number of domestic players. 8 out of 18 intermediaries are foreign banks.

	2010		2011		2012		2013	
	Value	%	Value	%	Value	%	Value	%
Italian intermediaries	20.3	74.8	17.1	69.3	10.2	61.0	10.0	60.6
Foreign intermediaries	6.9	25.2	7.6	30.7	6.5	39.0	6.5	39.4
of which: foreign banks	*5.6*	*20.7*	*6.1*	*24.7*	*5.2*	*31.2*	*5.1*	*30.8*
Total	**27.2**	**100**	**24.6**	**100**	**16.7**	**100**	**16.5**	**100**

	2014		2015		2016		2017	
	Value	%	Value	%	Value	%	Value	%
Italian intermediaries	8.5	54.9	8.3	48.7	9.8	47.3	10.7	40.2
Foreign intermediaries	7.0	45.1	7.9	46.4	7.3	35.3	6.6	24.7
of which: foreign banks	*5.5*	*35.7*	*6.2*	*36.0*	*6.7*	*32.3*	*6.1*	*22.8*
N/A data			0.8	4.9	3.6	17.4	9.3	35.1
Total	**15.5**	**100**	**17.1**	**100**	**20.7**	**100**	**26.6**	**100**

Tab. 14 Italian leasing market: distribution of the value of leasing contracts by geographical origin of intermediaries (2010/17, € billion and %) – Source: Own elaboration of Assilea data

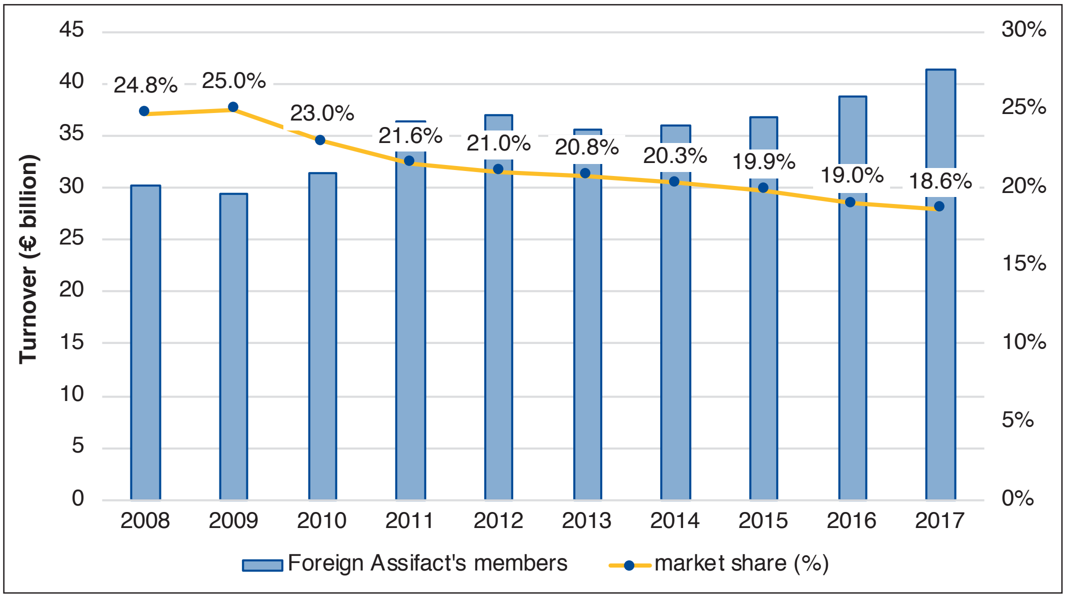


Fig. 25 *Italian factoring market: distribution of the turnover and market share of foreign players (2008/17, € billion and %) – Source: Own elaboration of Assifact data*

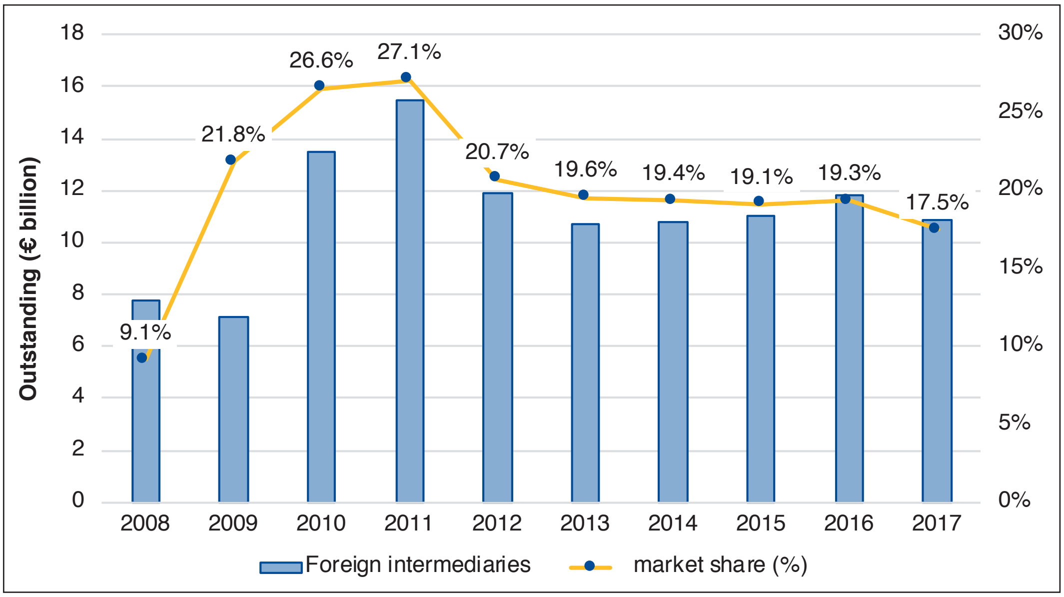


Fig. 26 *Italian factoring market: distribution of outstanding credit and market share of foreign players (2008/17, € billion and %) – Source: Own elaboration of Assifact data*

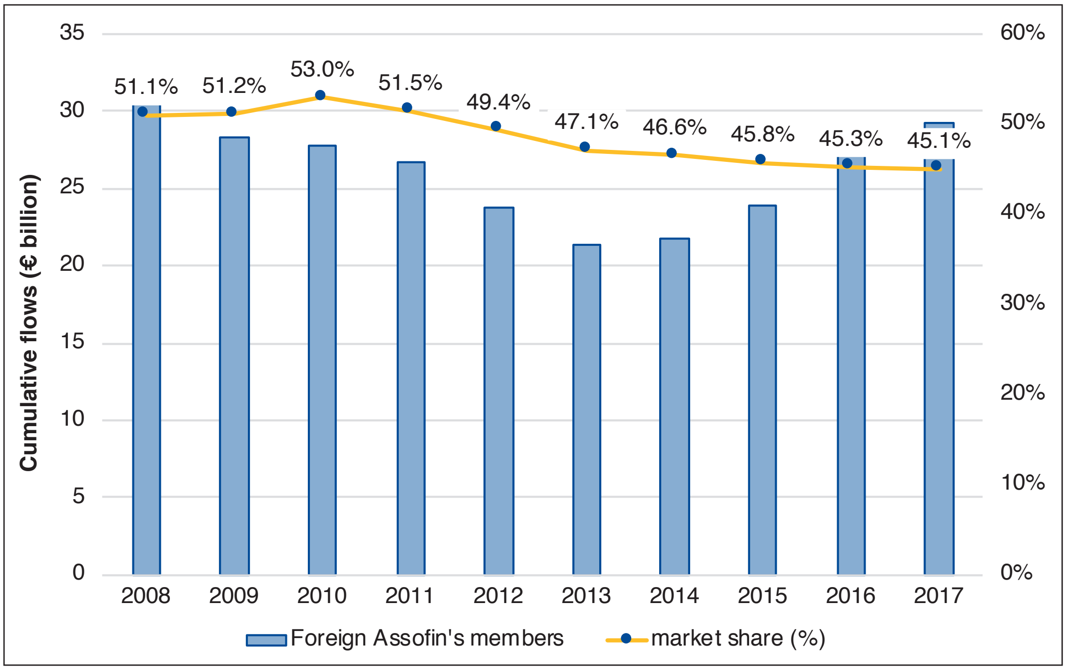


Fig. 27 Italian consumer credit market: distribution of cumulative flows and market share of foreign players (2008/17, € billion and %) –
Source: Own elaboration of data available in Assofin-Crif-Prometeia's survey

Chapter 8

Structural data of EU branches in Italy[1]

As of 31st March 2018, the number of EU foreign banks (FB) in Italy was 74. The number has been quite stable in the last 5 years (they were 76 as at 31st March 2014) although the figure is lower than the value recorded in the same period of 2017 (there were 81 banks). The reduction of foreign banks in the last year went together with a slight contraction of loans to customers (–3%), of the number of employed resources (-4%) and of the number of branches (–5%)[2].

Most of the FBs are concentrated in the North of Italy (73%), in particular in the North West part of the country (59% of the total banks), with a relevant weight of the area of Milan (56 out of 74)[3]. In the Center of the country, there is around the 22% of banks, while in the South and Islands only 6%.

When looking at size, FBs show low volumes of assets[4] and a small number of employees, lower than 50 units for more than 60% of the FBs. Also, the number of branches is quite modest (the average is equal to 3.1).

In terms of operating area of business, banks are mainly active in non-traditional sectors. In detail, the most important is corporate and investment banking; others relevant businesses include leasing, both towards retail customers and vendor finance, wealth management and retail, as well as the role of custodian[5].

Loans to customers are around 40% of total assets. Loans show a good quality, with NPLs amounting to 5% of total loans. This is a consequence of the high standing of large corporate customers that constitute the typical customers of foreign banks.

When looking at the economic sector of counterparts, data as at 31st December 2017 show a prevalence of retail customers (around one-third of the entire amount) and corporate (around one-fourth); the remaining is split between factoring and leasing operators, financial market operators and mutual funds (Fig. 28).

The mentioned reduction in credits in 2017 seems to be attributable especially to the reduction of exposure towards financial market operators (–45%). Results of the other economic sector appear stable, with the exception of private holdings (–16%). Loans represent almost 25% of credits granted.

Turning to securities, the overall amount diminished (–23%), especially because of the

[1] This chapter is written by Valentina Riviera and Emanuela Atripaldi, Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan Offices. The views expressed are those of the Authors and do not necessarily reflect those of Bank of Italy.

[2] The size of the branch network has decreased by 43% as at March 31st, 2018 compared to the March 31st, 2014 because of the closure of branches of a single intermediary.

[3] 59 if we include also the province of Milan.

[4] On this regard, it can be observed that usually the operating activity of EU foreign branches in Italy is not fully computed as in the Italian country and, hence, also Supervisory Reports might not cover the entire value of total assets.

[5] Only one branch operates as money transfer.

reduction of Government bonds held. A process of partial recomposition of portfolio occurred: the stock and bond proportion increased, although Government bonds remain still predominant (Fig. 29).

Finally, with reference to the headquarter country of the bank (Fig. 30) we observe a prevalence of French banks (26% of the total number of banks). UK-based (20%) and German (18%) banks follow. Other EU countries are much less represented.

Total assets also slightly reduced in 2017. Also in terms of total assets, France is the most represented country with around 43% of total assets held by all EU banks. Germany holds the 30% and the United Kingdom 13%.

Fig. 31 shows a detail of foreign banks pertaining to non-European banking groups. These are mainly US-based (13), Asian (8) and Swiss (7).

In many cases, the presence of an EU subsidiary is additional or substitute the "Freedom to Provide Services" as the direct presence of the holding company or of another European entity of the conglomerate. Fig. 32 shows the geographical distribution of banks operating in Italy as under the Freedom to Provide Services (FPS), which are 680 intermediaries in total.

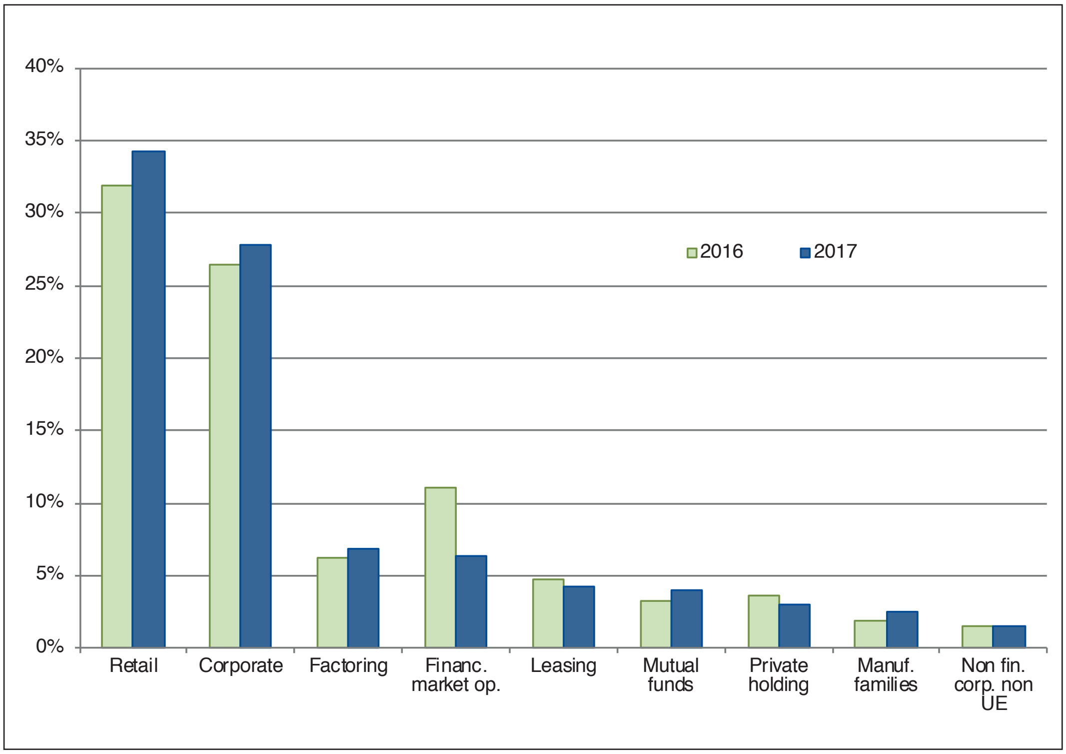


Fig. 28 Loans distribution by economic sector – Source: authors elaboration on Supervisory Reports

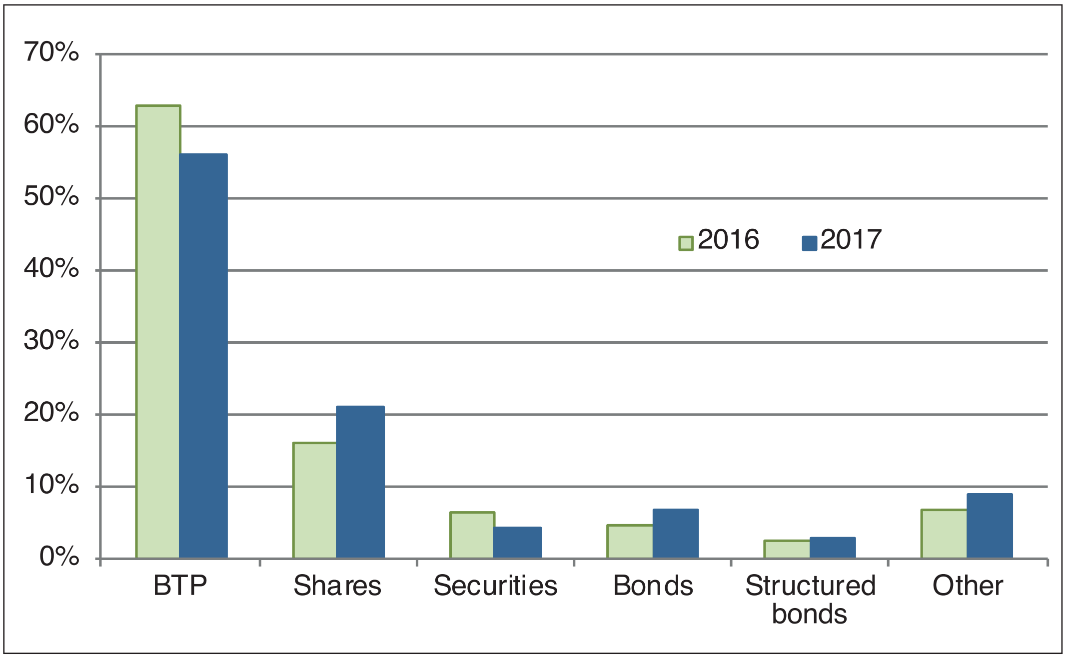


Fig. 29 *Securities in portfolio – Source: authors elaboration on Supervisory Reports*

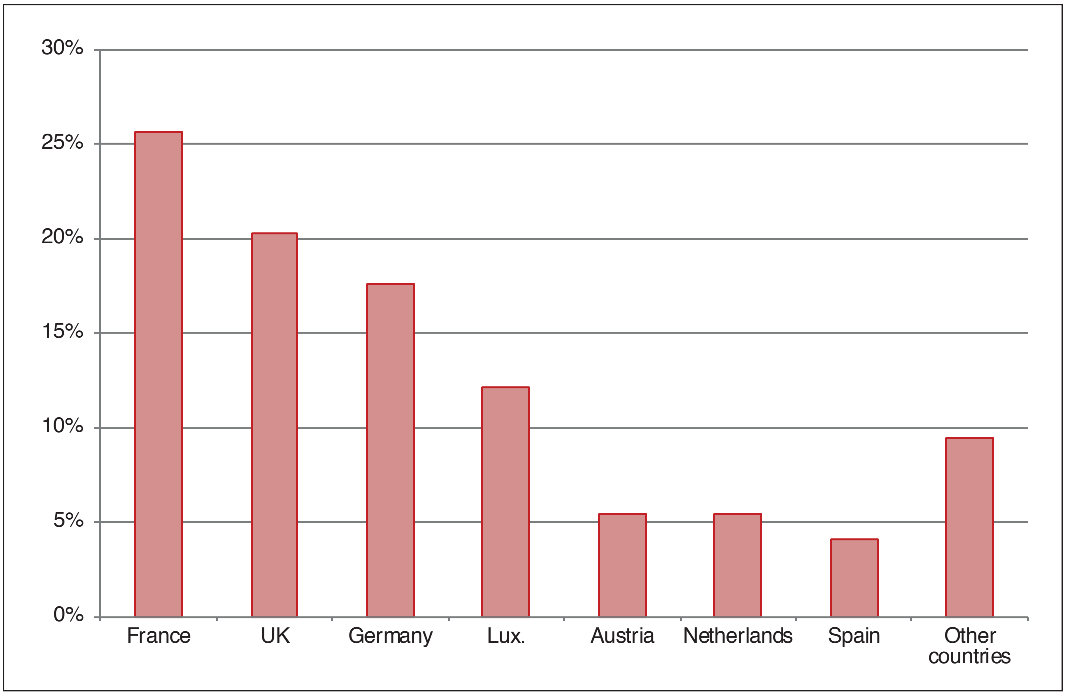


Fig. 30 *Foreign banks by headquarter/home country -*
at Source: authors elaboration on Supervisory Reports

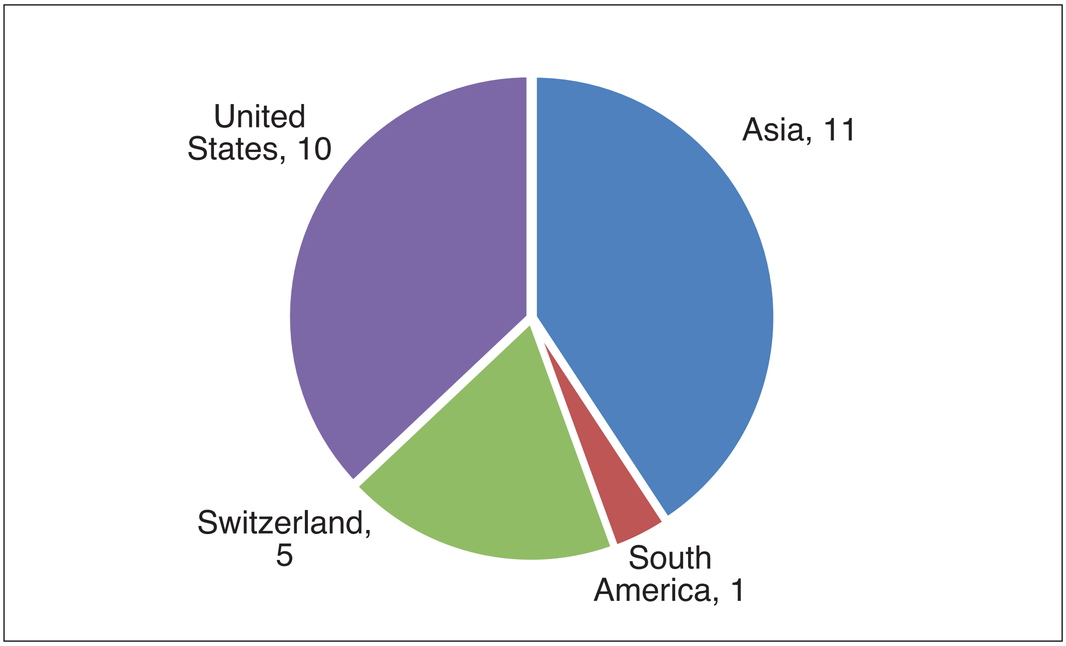


Fig. 31 Number of banks part of non-EU banking groups – Source: authors elaboration on Supervisory Reports

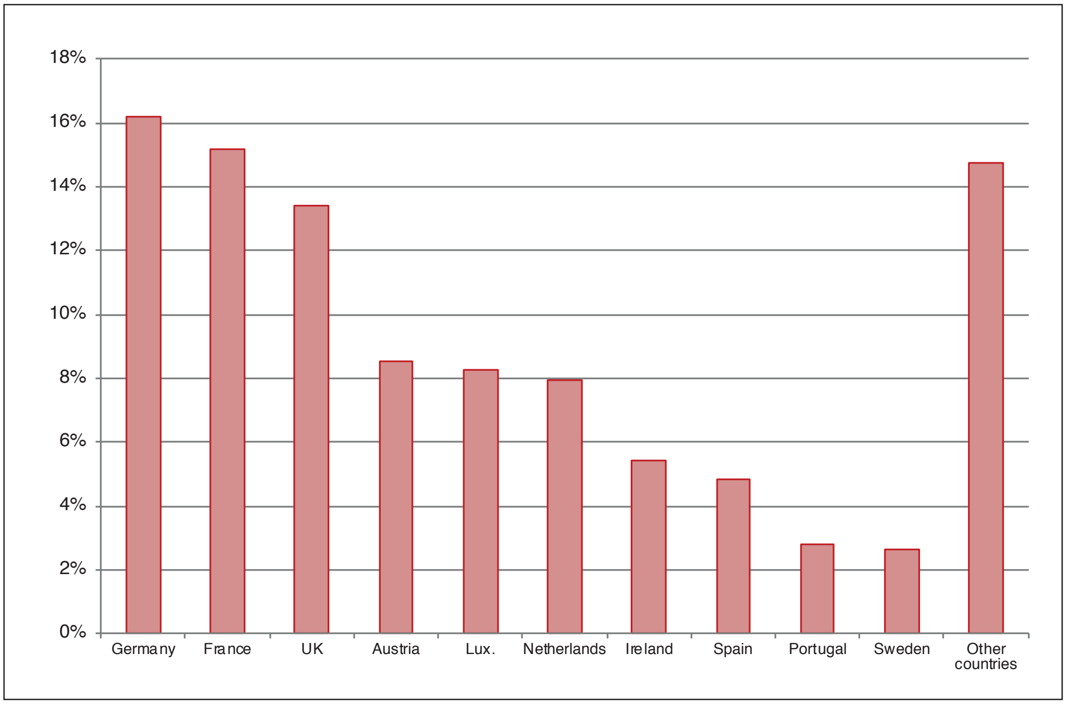


Fig. 32 Geographical distribution of banks with FPS – Source: authors elaboration on Supervisory Reports

Chapter 9

The digitalization of foreign banks

9.1 The scenario

The FinTech disruption has emerged in recent years as a driving force in the change in the banking business and financial markets. The phenomenon has been determined mainly by the fast and intense development of digital technologies that is also affecting the financial sector. At least three sets of new players entered the market:

1. **FinTech companies** that provide financial services and products mainly through the internet and often employing advanced technological solutions;
2. **Tech firms**, developing IT solutions that can be applied or that are specifically designed for the financial services, institutions and markets;
3. **BigTech** (or **TechFin**) companies initially operating in the e-commerce field that have exploited the information set gathered by starting to offer financial services or products (among these, the GAFAA – Google, Apple, Facebook, Amazon and Alibaba).

In the new competitive scenario, international banks have begun to monitor and actively take part to this phenomenon and have recently increased their level of commitment in the FinTech business. Direct investments in FinTech and Tech companies, partnerships with start-up companies, promotion of incubators or accelerators, as well as the in-house development of innovative technological solutions are all possible ways of actively taking part in the FinTech phenomenon to innovate the business and cope with increased competition.

This chapter focuses on the different strategic approaches followed by the main international banks in the process of digitalization and technology innovation to analyze the degree and type of commitment of foreign banks in the FinTech and Tech businesses. We also verify whether the foreign banks considered have invested in Italian FinTech and Tech companies or in foreign companies operating in Italy, in order to evaluate the support provided by these banks in the digitalization of Italian financial systems. The innovation introduced in the country with the support of foreign banks will bring benefits to Italian customers and will favor a more efficient and innovative banking system.

9.2 The sample

We select a sample of the foreign banks associated to AIBE that are particularly active in the FinTech business. These mainly coincide with the largest international banks, to which we add a short list of other large banks classified according to total assets as at December 2017 (data CB Insights and Capital IQ). In addition to these banks (that we name "**incumbent banks**"), we include in the sample a list of virtual banks that have been founded recently with an exclusive digitalized business model (so-called "**digital banks**").

In the **sample** there are, therefore, **34 incumbent banks and 5 digital banks** (Tab. 15).

Most of the banks (23 incumbent and 5 digital banks) are headquartered in European countries (mainly the UK, France and Germany). Among the other banks, 5 are located in Asia and 5 in the United States, while one bank is based in South America (Fig. 33).

AIBE members are 24 (Tab. 15), mainly headquartered in European countries (15).

Fig. 34 shows the distribution of the sample according to size, defined on the basis of the quartiles of total assets as at December 2017. Among the AIBE members, all sizes are represented, while among the non-members there are no "extra-large" (XL) banks. Among the 8 large banks (L), 5 of them are AIBE members. Among the 8 medium (M) banks, 4 are AIBE members. Small banks in the sample are the majority (14); they include the 5 digital banks and 6 associated to AIBE, as well as 3 incumbent banks.

The importance of the sample in terms of size is indicated by the fact that the category "small banks" includes banks with total assets of less than €528 billion (footnote in Tab. 15).

Data and information on digitalization projects and investments are retrieved from various sources, including financial reports, integrated reports, presentations to investors, news alerts available on the Eikon database (Thomson Reuters), as well as detailed investment information obtained from the Capital IQ (S&P) database and reports by CB Insights.

9.3 Strategies for digitalization

Banks are responding to the challenge of digitalization by adopting various strategies and approaches.

With reference to our sample, the different **business strategies** can be divided into **four major categories** (Tab. 16):

1. Internal development
2. Equity investments
3. Partnerships and other forms of cooperation with FinTech and Tech companies
4. Initiatives to develop the FinTech eco-system (e.g. accelerators, incubators, labs, think tanks, contests).

The major incumbent banks have been tackling the FinTech competition for a few years now, while others (especially smaller ones) have only recently begun to develop digitalization strategies. Most of the banks are following at least two different strategies, with varying degrees of commitment, while a few are adopting a holistic strategic approach.

Moreover, we are witnessing the creation of "digital banks". These are following a first category of development strategy that we call "internal development".

It is evident that the same strategy can be adopted with different perspectives and aims by different banks. For instance, an equity stake in a FinTech or Tech company can be interpreted as a strategic commitment in a company that provides a crucial service (such as an innovative payment application, a trading platform, or a technological standard, such as the DLT[1]). In other cases, it can be an initial step towards a stronger commitment. The latter can occur when a bank first invests in a company and later acquires it to provide the service under its own brand or within its financial group. An example in this sense can be provided by a bank that makes an investment in a FinTech lending company (e.g. invoice trading) and later acquires it to extend the service to its customers, achieving two different objectives:

- to increase customer satisfaction and attract new customers;
- probably more strategically, to protect and preserve its market share in the business.

[1] Distributed Ledger Technology enables recording of transfer of assets or information peer-to-peer, without any need of a central unity (www.worldbank.org/en/topic/financialsector/brief/blockchain-dlt).

The adoption of one or the other strategy can also impact on the business model of the banks. For instance, banks might enter into partnerships with FinTech and Tech companies to provide customers with a diversified set of products and services built by third parties. In this sense, the banks might choose to act purely as a broker.

Tab. 16 shows that internal development is implemented by 25 banks in the sample, including the 5 challenger banks. 14 of these banks are European and 13 are AIBE members.

27 incumbents completed acquisitions of equity stakes; among these there are 20 European banks and 18 AIBE members.

Investments have also been made through venture capital or private equity by 8 banks; all of them are European and 7 of them are associated to the AIBE.

Consortium is a common form of investment in the sample, made by 18 banks (14 European and 16 AIBE members).

Partnerships with FinTech and Tech companies are set up by 11 incumbent of the sample, of which 7 are European and 9 are AIBE members. White labelling is definitely less common (3 banks).

Finally, a number of banks take action for the environment. 4 of the incumbents sponsor an accelerator or incubator (all AIBE members, 3 European). A larger number support more general initiatives (think tanks, labs and contests). 10 incumbents engaged in this strategy, half of them are European. All of them are AIBE members.

Fig. 35 shows that largest banks (XL, L and M) have initiatives in all categories of business strategies (from 1) to 4)). According to the data collected, small incumbent banks in the sample are not involved in white label, incubator or accelerator options. Despite banks of all sizes appearing to be active in the same strategies, the nature and effort devoted by the banks differ according to size. **Larger banks** generally act as **"first movers"** and adopt a general and pervasive digitalization strategy. **Smaller banks**, instead, often **focus on selected services and** start by implementing **simpler technological changes**.

In the following paragraphs we describe the current strategies of the main international banks in each of the four types.

9.3.1 Internal development

As said, internal development is adopted by 25 banks, including the 5 digital banks.

The latter are included here because they are, by definition, developing the digital business internally. These banks have the advantage in terms of development since all their business activities began in a digital and technologically advanced setting.

On the contrary, incumbent banks have to face a complex conversion of their operating processes and distribution channels to digital business.

Digital banks in the sample offer traditional products (deposit accounts and payment services) and also products that are typical of the FinTech business (such as crypto currencies). 3 of them also offer insurances. Only N26 currently offers direct loans (Tab. 17).

The 5 digital banks are all located in Europe: 3 are UK-based and 2 are German. They were incorporated starting from 2013.

Two of them received equity investments also by major incumbent financial institutions: N26 has Allianz among its investors, while solarisBank has ABN Amro, BBVA, and Unicredit amongst its shareholders.

This type of strategy is not a novelty. Also in the past large banking groups invested in digital or online banking to capture the opportunities of the market and satisfy specific customers' requests. For instance, ING launched ING Direct back in 1997. Today, the group continues to invest in the digital business through partnerships and to offer up to date products and services.

Large banks can use different strategies to digitalize the business. Investing in a digital bank represents a fast way to enter the FinTech market. Digital banks are lean structures that allow incumbents to immediately position themselves in the digitalized market.

On the contrary, internal innovation for incumbent banks requires large ICT investments. Additionally, a radical change in the business model and the conversion to advanced technologies take longer to implement.

The path to development implies that banks engage in different strategies during the years. For instance, some banks may start with a "white labelling approach" and then develop own services. This type of strategy allows the bank an early entry into the market: while the bank offers third-party products, it can acquire the know-how and later begin to offer its own product.

For example, at the start, banks were mainly offering robo-advice developed by partners and then distributed through white labelling. More recently, while some banks continue to do so, others have either launched their own (such as JP Morgan Chase and Morgan Stanley), or are planning to do so (including Goldman Sachs and ICBC)[2].

Other forms of in-house development currently on-going mainly refer to renovation of branches and the implementation of e-services, apps and inclusion of innovative technological infrastructures to back-office and front-office operations. These also represent the first type of innovation that can be implemented more easily and quickly even by smaller banks.

With explicit reference to the incumbent banks, the wide majority of banks in the sample declare an interest in the digitalization of business. Nevertheless, only few of them actually pursue disruptive internal innovation.

Examples of in-house development include:

- **ABC Bank**: the Arab Financial Services subsidiary implemented and launched the "Easypay" payment app for retail and corporate customers.
- **Banco do Brasil**: launch of the FinTech "Ciclic" to offer private retirement plans online.
- **BNP Paribas**: launch of an online bank called "Hello bank!" in various European countries, including Italy (and the planned launch in other Easter European countries); launch of the "itsme" app for authentication and approval of internet transactions; use of chatbots; release of "lyfpay" combining payments, loyalty programs and discounts; release of "WeChat Pay" linked to the WeChat app for payments; development of digital solutions for corporate customers.
- **Crédit Agricole**: launch of "eko" e-banking; offer of a digital tool for property and casualty insurance dedicated to farmers; adoption of fingerprint-based identification system in the Italian controlled entities (Cariparma, Friuladria, Carispezia); founding of "Cash in Time", a FinTech invoice trading company that provides financing in less than 24 hours; use of big data and blockchain for the prepayment of invoices for customers of the Corporate and Investment Bank.
- **HSBC**: introduced facial recognition to access its app for corporate clients; launch of a payment app in Hong Kong (PayMe) and voice biometrics in the UK.
- **Mitsubishi UFJ Financial Group (MUFG)**: developed "MUFG Coin" for payment via QR Code and smartphones; rethinking of branches with digital solutions (with physical settings differentiated according to the target customers); implementation of Artificial Intelligence (AI) techniques for several processes (under study); installation of the humanoid NAO at Narita airport branch that will deliver customized financial solutions in 19 different languages.
- **Natixis**: promotion of online subscription for consumer finance and leasing products.

[2] CB Insights, "Fintech trends to watch in 2018", 2018.

Additional details on selected projects are cited in the next paragraph "Focus on strong innovators".

From the above examples and more generally when looking at incumbents' in-house strategy, it is evident that most of the innovations introduced are process innovations rather than product innovations. Some outstanding examples of new services also exist (e.g. the humanoid Nao).

9.3.2 Equity Investments

A second line of development for incumbent banks includes investments in FinTech and Tech firms, made directly or through controlled entities (Tab. 16). Investments can also be minority investments or venture capital investments. This strategy is implemented by the vast majority of the incumbent banks in the sample (27) with various degrees of commitment. Additionally, various banks in the sample co-invested in the same target. Co-investments among the sample banks appear more common and more entangled in the Tech business, rather than in the FinTech areas of activity.

Deal details are not always available, but evidence highlights some particular behavior among banks, both for the FinTech and Tech targets. Few banks choose an "umbrella" intensive strategy, investing in many targets operating in different sectors. On the opposite end of the scale, other banks choose to specialize in few sectors and select only few companies.

The evidence here discussed is the result of the investment strategies implemented so far. It might also be that those banks that appear to have invested only in few companies are only recently getting to the FinTech business and might expand their investment portfolio in the future.

Fig. 36 shows the number of banks investing in the area of business through an equity stake, differentiating between size of the bank.

Most of the targets operating in the FinTech are specialized in payment services. This is also because it represents the initial area of development of the FinTech business.

20 banks of different sizes have invested in 36 target companies operating in payments. Incumbents include 14 AIBE members and 6 non-members. Additionally, 14 of them are European.

20 FinTech dedicated to trading services have 16 incumbent banks among the shareholders (11 are European and 13 are members of AIBE). Among them, we find only one small bank. The others are equally distributed from medium to extra-Large size.

FinTech in wealth management have attracted 13 investors among the banks in the sample. In the 20 targets, we find only 1 large and 3 small banks. There are 8 European banks and AIBE members are 10.

Tech activities also received much attention by the incumbent banks in the sample (Fig. 36).

Blockchain investments by banks in the sample are numerous, concentrated in 12 targets. Of the total of 24 banks, 4 are small, 6 are medium, 7 are large and 7 are extra-large. Most of them are European (18) and AIBE members (17).

RegTech is another area attracting growing interest. The 15 banks in the sample investing in this technology have targeted 7 companies in total. Only 2 of the banks are small. Most are European (6) and AIBE members (9).

Looking at the **strategies of investment in FinTech and Tech** companies, four main strategies hence emerge (Figg. 37 and 38):

- **Diversified pioneers,**
- **Diversified investors,**
- **Focused investors,**
- **Focused selectors.**

Fig. 37 shows that 4 banks invested in a **high number of FinTech** companies in **various areas** of business, acting as "first movers". We call these investors the "**diversified pioneers**" because they are highly committed and highly diversified. Among the diversified pioneers we find 3 US banks (Citigroup, Goldman Sachs and JP Morgan) that started investing several years ago in the digitalization of business. Santander is also included in this category. It invested in 13 FinTech companies operating in 5 different areas of activity.

"**Diversified investors**" are 6. These incumbents took a stake in a number of companies ranging from 4 to 7 operating in 3 or more areas of activity. The **level of diversification appears high, but the number of companies targeted is modest** compared to the portfolio of pioneers. Among them we find 1 US bank (Morgan Stanley) and 5 European banks (ABN Amro, BNP Paribas, Crédit Mutuel, Credit Suisse, UBS).

"**Focused investors**" also include 6 banks (Barclays, BBVA, Deutsche Bank, ING, Lloyds Banking Group, Société Générale). All of them are large banks in the sample, with the exception of (BBVA). They are all European. These investors **focused on two areas of business and invested in selected FinTech firms**. Among them, there are banks highly involved in internal development and this may have affected their investment strategy.

Finally, "**Focused selectors**" choose **one single area of business and took equity stakes in only one company**. This set of investors (9) includes many of the small banks (Bank of New York Mellon, Commerzbank, DZ Bank, Natixis), as well as some larger banks (Bank of China, Crédit Agricole, HSBC, Nordea, RBS). 1 bank among them is Asian, 1 is US-based, while the others are European. Some of these banks might have only recently started to approach the FinTech business. Other banks, instead, might have preferred other types of commitment, including partnerships and cooperation with FinTech companies rather than directly investing through equity.

Fig. 38 summarizes the degree of diversification and number of targets for **investments in the Tech** business.

Citigroup and Goldman Sachs confirm their feature of **Diversified pioneers**, with a high number of investments in different technological areas.

7 banks are **Diversified investors**. These include JP Morgan and Santander that are pioneers for the FinTech area. Additionally, another 4 European banks (BNP Paribas, Credit Suisse, HSBC, UBS) and 1 Asian (Bank of China) invested according to this strategy. Targets of these incumbents operate in three different areas of Tech business. The number of targets is between 3 and 6.

Focused investors in Tech are 6: 1 US (Morgan Stanley) and 5 European (ABN Amro, Barclays, Commerzbank, Deutsche Bank, Société Générale). They invested in fewer targets (from 1 to 4) specialized in two areas of business.

Finally, the 10 **Focused selectors** for Tech business identified 1 or 2 targets operating in a single field. The banks in this set are 1 US (Bank of New York Mellon) and 9 European (BBVA, Crédit Agricole, Crédit Mutuél, Groupe BPCE, ING, Natixis, Nordea, RBS, Standard Chartered). These banks might have identified the most promising technological standards in the development area they value the most. Then they could have decided to concentrate their efforts on this rather than taking multiple stakes in different companies.

Tab. 18 compares families of investment strategies on FinTech and Tech. Most of the banks have the same investment strategy in the two areas.

The two Diversified pioneers in Tech are also Diversified pioneers in FinTech (Citigroup and Goldman Sachs)

Most of those that are Diversified investors for the FinTech business are also Diversified investors for the Tech business (BNP Paribas, Credit Suisse and UBS).

3 banks are Focused investors in both areas (Barclays, Deutsche Bank and Société Générale) and 5 are Focused selector both in Tech and FinTech (Bank of New York Mellon, Crédit Agricole, Natixis, Nordea, RBS).

Exceptions are:

- 2 Diversified pioneers in FinTech are Diversified investors in Tech (JP Morgan and Santander)
- 3 Diversified investors in FinTech are Focused investors (ABN Amro and Morgan Stanley) or Focused selector (Crédit Mutuel) for Tech.

  These banks Diversified more in the area of FinTech, while they appear more selective for

equity stakes in the Tech areas of business.
- 2 Focused investors in FinTech companies that become Focused selectors for Tech (BBVA and ING).
- 3 Focused selectors in FinTech business: 2 are Diversified investor (Bank of China and HSBC) and 1 Focused investor for Tech (Commerzbank). These banks may have preferred to focus on enabling technologies when considering equity commitment, while they have a more Diversified portfolio for FinTech targets.

A smaller number of banks appear to be active only in the investments in FinTech and not in Tech (DZ Bank and Lloyds) or vice versa (BPCE and Standard Chartered).

9.3.2.1 FinTech

Examples in FinTech investments are numerous. Some involve the same company targeted by different incumbents.

A recent example for the trading platforms is given by the Singapore FinTech "CCRManagement Pte" backed by the Central Bank that received funding from a number of banks and financial institutions, including Bank of China, the Mitsubishi Group (MUFG), and BBVA. The FinTech represents the first digital platform for the distribution of international trade financing.

Investments made by the incumbents also include stakes in digital banks. Examples of this are ABN Amro and BBVA that have a stake in solarisBank.

Other examples include:
- **Bank of New York Mellon**: has a stake in Gruppo Mutui Online, an Italian online broker for insurance products.
- **Crédit Mutuel**: invested in the platform for personal finance Younited Credit, that also operates in Italy as foreign bank branch.
- **Santander and UBS**: invested in SIGFIG a provider for automated advice in the wealth management area.

9.3.2.2 Tech

Tech targets include companies developing blockchain solutions, data providers and aggregators and platforms to tackle financial crime (e.g. Quantexa). Most of the companies received investments by several banks in the sample.

Targets developing blockchain solutions attracted most of the investors (Fig. 36). A large number of banks are part of the R3 consortium that develops a platform and commercial application for DLT. At the moment, there are 54 banks participating in the consortium.
- *Visible alpha* received investments from 7 banks in the sample. The Tech company provides asset managers a solution for data analysis and valuation making use of advanced data technology.
- *Dataminr's* investors include Credit Suisse and Goldman Sachs. The firm analyses social-media information to provide data analytics.

Three of the 7 RegTech target companies received equity investment by 12 incumbents in the sample. These are:
- *Acadiasoft*: manages information flows on margins for derivatives trading and collateral management.
- *Digital reasoning*: provides solutions for the management of conduct risk and elaborates on customers' behavior to identify early signs of dissatisfaction.
- *Kyriba*: is a cloud platform for treasury and finance.

9.3.3 Partnerships and other forms of cooperation with FinTech and Tech companies

Alliances, partnerships and cooperation between incumbent banks and FinTech or Tech companies are also common. Partnerships are generally set up to develop specific products (such as apps and services for customers) but can also have the general objective to digitally renovate the business.

Companies partnering with incumbent banks can also be companies operating in the social networking or the e-commerce field. These companies partner with banks to provide financial services. For instance, a payment service associated to a chat and messaging provider.

Some recent experiences include:

- **ABN Amro**: release of "GRIP app", co-developed with a FinTech, that provides expenses and income breakdown and includes financial planning features.
- **Bank of China**: cooperation with Tencent, one of the main providers of internet value added services in China. The partnership is aimed at promoting and developing cloud computing, big data, blockchain, mobile payments, Artificial Intelligence and other.
- **BNP Paribas**: partnership with "Gambit", provider of digital investment and wealth management solutions.
- **Carrefour Banque et Assurance**: association of "Apple Pay" and "FitBit Pay" with the card branded by the bank (also for Italian customers).
- **China Construction Bank**: partnership with "Mi Band" and "Huawei watch" as payment tools; developing automated responses to customers' questions through WeChat, SMS and internet channels.
- **HSBC**: partnership with "Tradeshift", allowing the customers to manage the supply chain and working capital requirements entirely digitally; partnership with the FinTech "Bud", to enable customers to link their current accounts in one app (exploiting the opportunities introduced by the PSD2).

Additional initiatives are described later in the chapter.

9.3.4 Initiatives to develop the FinTech eco-system

Banks can also implement strategies to favor the environment for innovation, i.e. the FinTech eco-system. These initiatives include supporting accelerators and incubators and promoting more general initiatives, such as think tanks, labs and contests.

The level of commitment in these initiatives and the importance of the resources dedicated to initiatives are very different among the banks in the sample. Additionally, banks in the sample that operate worldwide often monitor the FinTech landscape through incubators, accelerators and labs located in different regions.

A list of recent initiatives sponsored by the incumbent banks in the sample, include:

- **ABC Bank**: hosted the FinTech Forum in the MENA (Middle East and North Africa) region.
- **Banco do Brasil**: set up an internal innovation incentive program for employees (Pensa BB).
- **Bank of China**: founded a lab with Tencent.
- **Mitsubishi UFJ Financial Group (MUFG)**: established an innovation centre in 2014.
- **Citigroup**: has an innovation lab in London and promotes internal innovation programs dedicated to employees.
- **Deutsche Bank**: opened innovation labs in New York, Silicon Valley, London and Berlin.
- **Rabobank**: "Moonshot" program for innovative idea developed by employees; support of numerous incubators and Holland FinTech (a network for FinTech companies, banks and investors).

Further selected initiatives are described in the next paragraph.

9.4 Focus on strong innovators

In the sample, a number of banks stand out as strong innovators, having a comprehensive, overwhelming and diversified digitalization strategy. They innovate:

- directly, through investments and partnerships;
- in various areas of financial services and enabling technology;
- they also promote the FinTech ecosystem.

This paragraph presents a **focus on 5 of the strong innovators** in the sample, namely:

- **ABN Amro**: despite being a relatively small bank, it has engaged in many innovative projects and invested in a number of FinTech and Tech targets. Among the most interesting projects, it launched New10, which enables SMEs to get a response for loans requests up to 1 million Euros within 15 minutes (Tab. 19).

- **BNP Paribas**: one of the main European banks, it has a large number and very diversified list of in-house digitalization projects in various areas of business. Additionally, it also invested widely in FinTech and Tech targets (Tab. 20).
- **Citigroup**: one of the banks we classified as “pioneers”. Its digitalization strategy is longstanding, comprehensive and diversified. It is introducing high-tech innovation including biometric identification and digitally transforming its offer to customers worldwide (Tab. 21).
- **HSBC**: one of the main European banks, is introducing digitalization internationally in banking services and also adopting advanced technologies for identification (Tab. 22).
- **Santander**: among the pioneers for investments in FinTech targets, it is also very active in in-house development within the group (Tab. 23).

All of the 5 strong innovators develop **in-house projects**. These are often aimed at improving the relationship with customers, attracting new customers (also the unbanked population) and tackling competition from FinTech companies and other digitalized banks.

The digital channel is being empowered and many of the incumbent banks have launched new digital banking services both in their home country and abroad.

In the area of banking services, ABN Amro invested in a digital bank (solarisBank), BNP Paribas empowered online banking in Europe and Santander launched the first fully digital Spanish bank (Openbank).

Additionally, in some countries the strong innovators also supplement their traditional product offer with alternative financial tools.

For instance, Citigroup launched an instant lending service via mobile in Asia, and Santander released “Superdigital” in Brazil to receive and make payments without the need for a bank account.

Equity investments are done by all of them, but Citigroup appears the most committed to other FinTech and Tech companies, having the highest number of investments. Santander is also very active on the investment strategy (see also Figs. 37 and 38).

The 5 strong innovators have also set up a number of **partnerships with FinTech and Tech**. Both ABN Amro and BNP Paribas are partnering with a FinTech company in the area of wealth management, respectively “prospery” and “Gambit”.

Other partnerships are built with credit card providers, retailers for credit card branding and associated apps, payment providers (such as Paypal), but also social networking companies (such as WeChat).

Additionally, the banks engaged in cooperation with FinTech companies providing supplementary services (e.g. aggregators of financial information) or Tech companies developing enabling technologies. We already cited the R3 consortium for DLT development.

Initiatives for the FinTech eco-system in the form of incubators, labs and contests are also implemented by 3 of the 5 banks (ABN Amro, BNP Paribas and Citigroup). BNP Paribas also has a partnership with the world largest accelerator (Plug and Play).

Citigroup and HSBC have also been rewarded for their digitalization efforts and results in technological advancement.

9.5 Remarks on future perspectives

International banks are rapidly increasing their commitment to digitalization of business to respond to new needs of customers and competition by FinTech companies.

The strategies of digitalization implemented by banks are varied. In the sample, some more experienced incumbent banks add a high number of equity investments in FinTech and Tech companies to their internal development strategy. Others, instead, show a less diversified and comprehensive strategy. These might have approached the FinTech phenomenon more recently and started their digitalization strategy mainly with partnerships and exploratory investments.

Projects are especially dedicated to innovating processes and improving the relationship with the customers. Nevertheless, there are also some recent innovations dedicated to new products and services with a high technological content.

Some of the innovations developed by the foreign banks have already been introduced directly in Italy by the controlled entities or through the branches. Others might get to the Italian market within the next few years.

The support of foreign banks in the innovation process of the Italian banking system can also occur through the support of new digital players that operate in Italy. The latter include digital banks, crowdfunding platforms, invoice trading providers, etc.

The innovation and digitalization of the banking business by the international banks and other financial institutions will bring important benefits to Italian clients. Retail, corporate and private customers will be able to subscribe more rapidly and more efficiently to a wide range of financial products and services responding to their specific needs.

Bank name	Acronym	Country	Size (*)	AIBE Member
Incumbent banks				
1 ABC bank	ABC	Bahrain	S	yes
2 ABN Amro	ABN	Netherlands	S	
3 Banco Bilbao Vizcaya Argentaria (BBVA)	BBVA	Spain	M	yes
4 Banco do Brasil	BB	Brazil	S	yes
5 Bank of China	BC	China	XL	yes
6 Bank of New York Mellon	BNY	USA	S	yes
7 Barclays	BAR	UK	L	yes
8 BNP Paribas	BNP	France	XL	yes
9 Carrefour Banque	CAR	France	S	
10 China Construction Bank	CCB	China	XL	yes
11 Citigroup	CITI	USA	XL	yes
12 Commerzbank	CZ	Germany	S	yes
13 Crédit Agricole	CA	France	XL	yes
14 Credit Mutuel	CM	France	S	
15 Credit Suisse	CS	Switzerland	M	yes
16 Deutsche Bank	DB	Germany	L	yes
17 DZ Bank	DZ	Germany	S	yes
18 Goldman Sachs	GS	USA	M	
19 Groupe BPCE	BPCE	France	L	
20 HSBC	HSBC	UK	XL	yes
21 ICBC	ICBC	China	XL	yes
22 ING	ING	Netherlands	L	yes
23 JP Morgan Chase	JPM	USA	XL	yes
24 Llodys Banking Group	LLO	UK	L	
25 Mitsubishi UFJ Financial Group (MUFG)	MUFG	Japan	XL	yes
26 Morgan Stanley	MOSL	USA	M	
27 Natixis	NAT	France	S	yes
28 Nordea Bank	NOR	Sweden	M	
29 Rabobank	RAB	Netherlands	M	yes
30 Royal Bank of Scotland	RBS	UK	L	
31 Santander	SAN	Spain	L	yes
32 Société Générale	SOGE	France	L	yes
33 Standard Chartered	STCH	UK	M	
34 UBS	UBS	Switzerland	M	yes
Digital banks				
35 Monzo		UK	S	
36 N26		Germany	S	
37 Revolut		UK	S	
38 solarisBank		Germany	S	
39 Starling Bank		UK	S	

Tab. 15 Banks in the sample

(*) Size is defined as follows:
- Small (S): total assets below 528 billion Euros;
- Medium (M): total assets between 528 billion and 806 billion Euros;
- Large (L): total assets between 806 billion and 1,530 billion Euros;
- Very large (XL): total assets above 1,530 billion Euros.

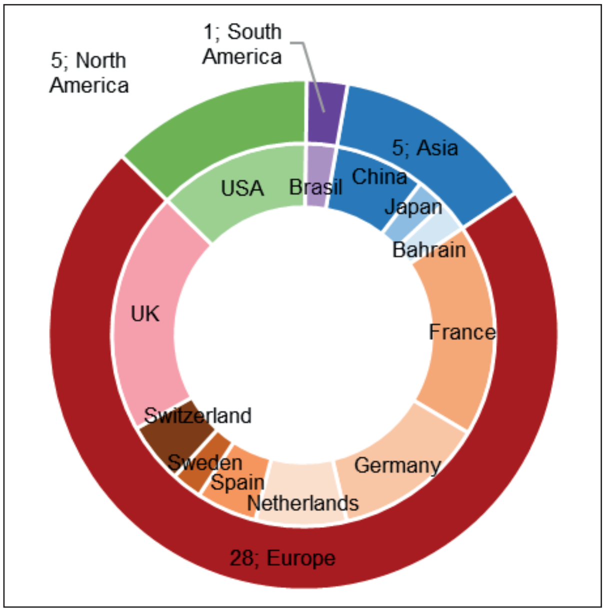


Fig. 33 Sample composition by country

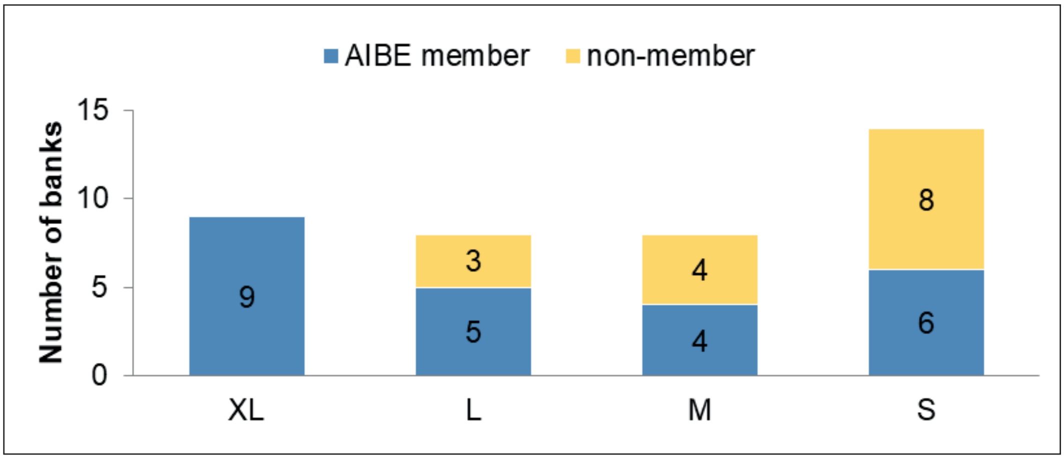


Fig. 34 Sample composition by size and AIBE membership

Development strategy	Total number of Banks	of which European Banks	of which AIBE members
Internal growth			
In-house development	25	14	13
Investments			
Acquisition or minority equity investment	27	20	18
Equity investments through private equity or venture capital	8	8	7
Consortium	18	14	16
Partnerships and other forms of cooperation with FinTech			
Alliance/Partnership	11	7	9
White Label	3	3	3
Initiatives for the FinTech ecosystem			
Accelerator/Incubator	4	3	4
Promoting initiatives (e.g. think tank, labs, contests)	10	5	10

Tab. 16 *Number of incumbent banks involved in the FinTech and Tech business by development strategy*

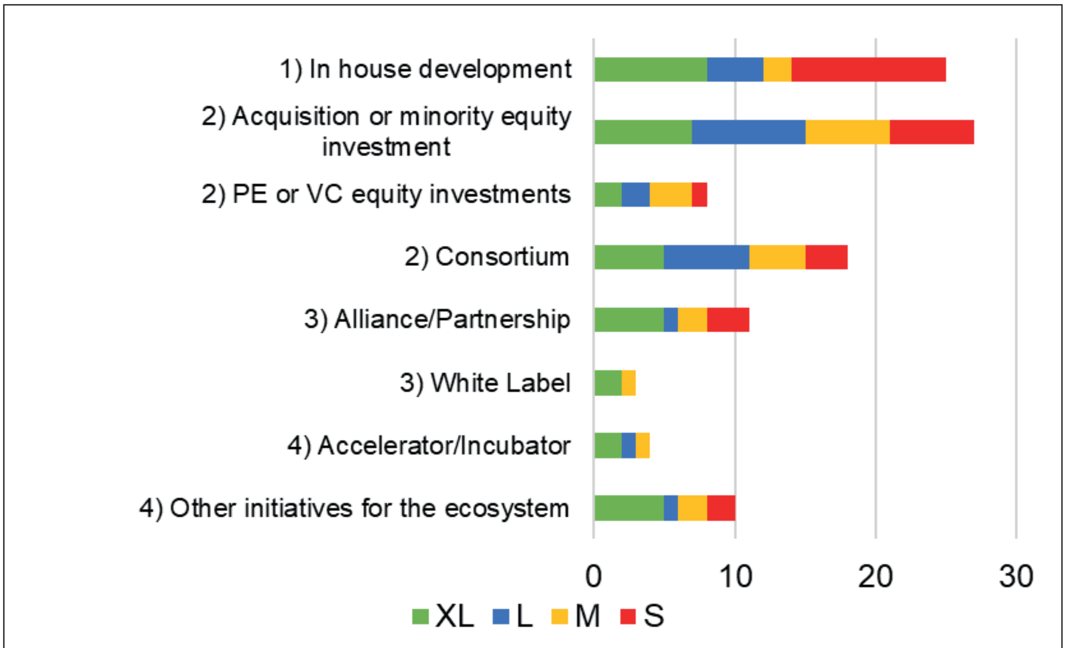


Fig. 35 *Digitalization strategies implemented by incumbent banks*

Name	Country	Services offered	Year of incorporation
N26	Germany	Account deposits, loans, insurance, B2B accounts	2013
solarisBank	Germany	Account deposits, payment services	2016
Monzo	UK	Account deposits	2015
Revolut	UK	Insurance, crypto currency account, B2B accounts	2013
Starling bank	UK	Account deposits, insurance, B2B account	Na

Tab 17 Main features of digital banks

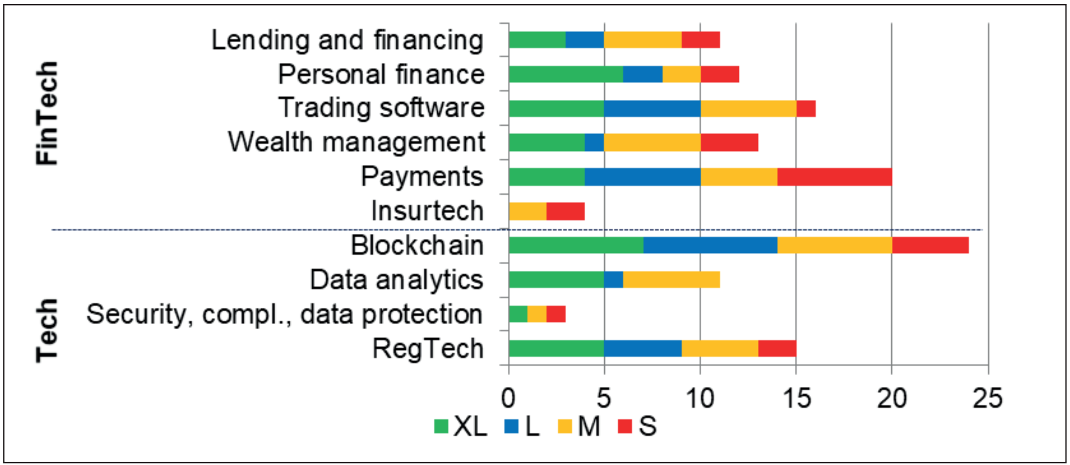


Fig. 36 Number of incumbent banks investing

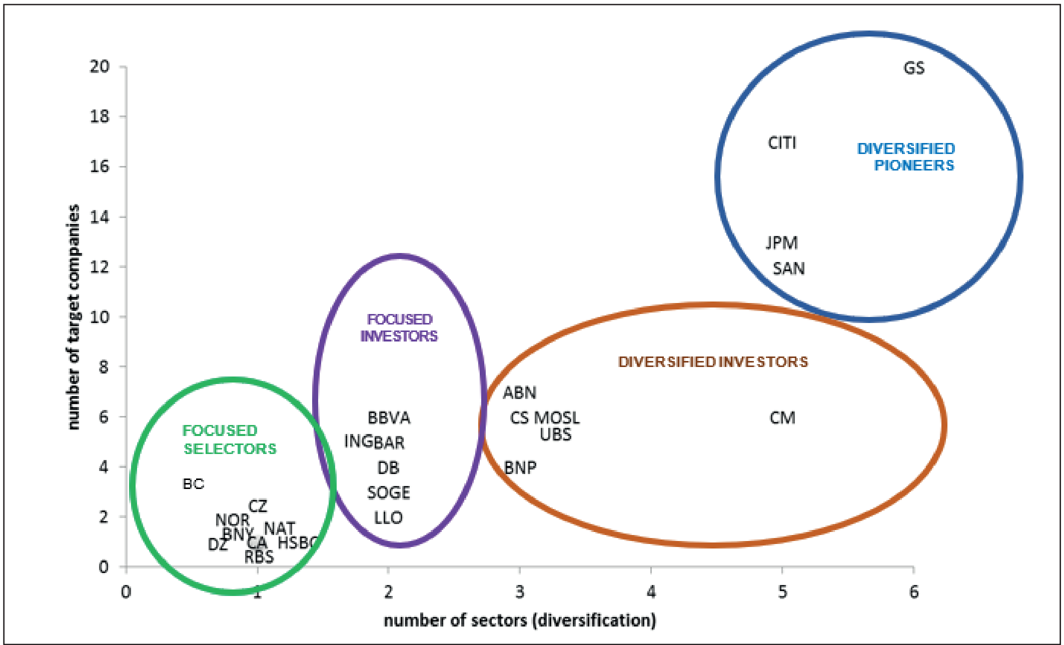


Fig. 37 Strategies of investments in FinTech companies

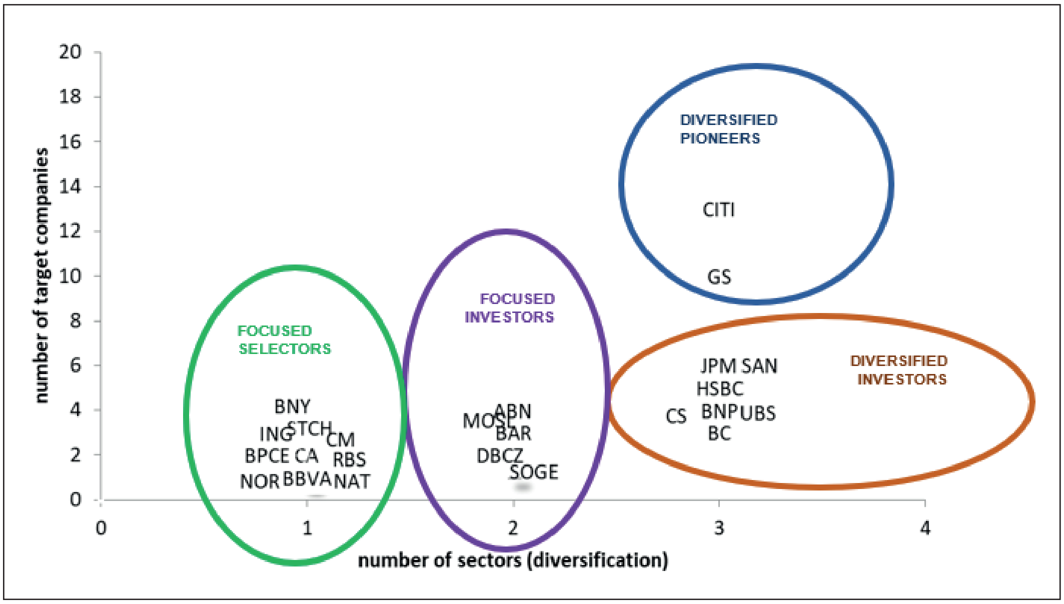


Fig. 38 Strategies of investments in the Tech companies

		STRATEGY IN TECH					
		DIVERSIFIED PIONEER	**DIVERSIFIED INVESTOR**	**FOCUSED INVESTOR**	**FOCUSED SELECTOR**	n.a.	**Total**
STRATEGY IN FINTECH	**DIVERSIFIED PIONEER**	**2 CITI, GS**	2 JPM, SAN				**4**
	DIVERSIFIED INVESTOR		**3 BNP, CS, UBS**	2 ABN, MOSL	1 CM		**6**
	FOCUSED INVESTOR			**3 BAR, DB, SOGE**	2 BBVA, ING	1 LLO	**6**
	FOCUSED SELECTOR		2 BC, HSBC	1 CZ	**5 BNY, CA, NAT, NOR, RBS**	1 DZ	**9**
	n.a.				2 BPCE, STCH		**2**
	Total	**2**	**7**	**6**	**10**	**2**	

Tab. 18 Incumbent Banks Investment strategies in FinTech vs. Tech

Bank	**ABN Amro**
Country	Netherlands
Total Assets (end 2017, million Euros)	393.171,00
Size	S
AIBE Member	No

FinTech		
Lending and financing	**Personal finance** (including banking services)	**Trading software**
Invested in: **cloud lending solutions.** Launched **New10** (lending solution for SME requesting up to 1mln Euros, with response in 15 minutes)	Invested in: **solarisBank** ("digital bank"), **tink** (consumer finance app with options to aggregate information on credit cards, current accounts, etc.). Fully controls **Moneyou** digital platform (with the objective of turning it into a fully digital retail bank). Launch of the **Grip app**, co-developed with other FinTech (expenses monitoring and financial planning).	n.a.
Wealth management	**Payments**	**Insurtech**
Partnership with **Prospery** (for private clients, it matches digital asset management and personal, expert coaching).	Invested in: **Tikki app, Franx, Equens.**	n.a.

Tech	
Blockchain	Invested in: **digital assets, TU Delft.** Takes part to the **R3** consortium.
Data analytics	n.a.
Security, compliance and data protection	n.a.
RegTech	Invested in: **behaviosec**.

Other initiatives	
General innovation	Launch of the **API Developer Portal** to cooperate with other FinTech.
Front, back and middle office	n.a.
Staff management, awards and other innovations	n.a.

Tab. 19 Main projects on innovation delivered by ABN Amro or within the group

Bank	**BNP Paribas**
Country	France
Total Assets (end 2017, million Euros)	1.960.252,00
Size	XL
AIBE Member	Yes

FinTech

Lending and financing	**Personal finance** (including banking services)	**Trading software**
Partnership with **Ulule** (crowdfunding platform).	Launched **Hello bank!** in several European countries and plans to do the same in some Eastern European countries. Release of **compte nickel** (online banking).	Invested in: **symphony, curveglobal.**
Wealth management	**Payments**	**Insurtech**
Launch of **MyWealth** co-developed with other FinTech for a new digital experience for its private customers (includes biometric login). Partnership with **Gambit**, provider of digital investments wealth management solutions.	Invested in: **paycar.** Partnership with **paytweak.** Release of **lyfpay** (combines payments, loyalty programs and discounts). Launched **WeChat Pay** in France (initially for payments for Chinese customers in France, plans to roll out to Europe).	BNP Paribas Cardif takes insurance subscriptions online.

Tech

Blockchain	Takes part to the **R3** consortium.
Data analytics	Invested in **visiblealpha** (through Exane BNP Paribas).
Security, compliance and data protection	Launch of **itsme** app for authentication and approval of internet transactions. Use of biometric log-in for **myWealth** app.
RegTech	Invested in: **digital reasoning, acadiasoft**.

Other initiatives

General innovation	Partnership with **Plug & Play**, the largest accelerator in the world. Has five **start-up houses** to support innovation. **Sponsor** of start-up and FinTech linked events.
Front, back and middle office	Partnership with Blackrock to implement the **Alladin IT** outsourcing solution. Use of **chatbots** for general queries for French Retail banking and BNL.
Staff management, awards and other innovations	Digital s**taff training** and more widespread digital culture.

Tab. 20 Main projects on innovation delivered by BNP Paribas or within the group

Bank	**Citigroup**
Country	USA
Total Assets (end 2017, million Euros)	1.560.171,80
Size	XL
AIBE Member	Yes

FinTech

Lending and financing	**Personal finance** (including banking services)	**Trading software**
Invested in: **c2fo, bluevine, fastpay.** Allows instant **lending** via mobile in Asia.	Invested in: **claritymoney, linkable.** Online banking platform **CitiDirect BE®.** ranked # 1 for the twelfth consecutive year in the 2017 Greenwich Associates Digital Banking Benchmarking study.	Invested in: **symphony, plaid, curveglobal, tradeit, mdaq, investlab, Traiana.** Release of **Citi Velocity** (award winning capital market platform).
Wealth management	**Payments**	**Insurtech**
Invested in: **betterment.**	Invested in: **highradius, vivotech, square, aquilon.** Launch of **Citipay** in the USA (a tokenized, omnichannel digital wallet with Mastercard and Paypal partnerships) and other mobile wallets in Asia. Introduced P2P payments services in Hong Kong and Singapore in conjunction with government authorities.	n.a.

Tech

Blockchain	Invested in: **Axoni, SETL, digital asset, chain, cobalt.** Launch of **Citi Connect** for Blockchain in collaboration with Nasdaq. Takes part to the **R3** consortium.
Data analytics	Invested in: **kensho, persado, visible alpha, ayasdi, selerity.**
Security, compliance and data protection	Founding member of a **consortium** for the **cybersecurity** of financial technology companies. In Asia simplified **authentication** through a mobile token, fingerprint and facial recognition.
RegTech	Invested in: **acadiasoft, jumio**.

Other initiatives

General innovation	Set up of the **D10X** lab to promote innovation by its employees. Organized the **Citi Tech for Integrity** (T4I) Challenge for innovation. Sponsor of the second annual Hong Kong **FinTech Week**.
Front, back and middle office	Use of **chatbot** on Facebook Messenger in Singapore and **live video banking** in India.
Staff management, awards and other innovations	Launch of **Proxymity** (digital voting system). Received various **awards** for digitalization, including World's Best Digital Bank(Euromoney), Best Digital Bank in six Asia markets (Global Finance).

Tab. 21 Main projects on innovation delivered by Citigroup or within the group

Bank	**HSBC**	
Country	UK	
Total Assets (end 2017, million Euros)	2.100.130,90	
Size	XL	
AIBE Member	Yes	
	FinTech	
Lending and financing	**Personal finance** (including banking services)	**Trading software**
n.a.	Launch of **ConnectedMoney**.	Invested in: **tradeshift** (world's first digital platform for supply chains and working capital requirement management).
Wealth management	**Payments**	**Insurtech**
n.a.	Launch of **PayMe** payment app in Hong Kong.	n.a.
	Tech	
Blockchain	Takes part to the **R3** consortium.	
Data analytics	Invested in: **visible alpha, quantexa.**	
Security, compliance and data protection	Implement facial recognition for corporate customers and voice **biometrics** in the UK.	
RegTech	Invested in: **acadiasoft, kyriba.**	
	Other initiatives	
General innovation	n.a.	
Front, back and middle office	Partnership with **Bud** (integrated offering of financial services products and tools from across the market, including third-party products).	
Staff management, awards and other innovations	**Named** the world's Best Trade Finance Bank and Most. Innovative Bank by Global Trade Review magazine.	

Tab. 22 Main projects on innovation delivered by HSBC or within the group

Bank	**Santander**
Country	Spain
Total Assets (end 2017, million Euros)	1.444.305,00
Size	L
AIBE Member	Yes

FinTech		
Lending and financing	**Personal finance** (including banking services)	**Trading software**
Invested in: **autofi, kabbage, epesos.**	Invested in: **curve.** Launch **Openbank** (first fully Spanish digital bank). Launch of the fully digital **1I2I3 Smart Account**, aimed at the 18-31 age group. Launch of Santander **Cash Nexus** (treasury management). Launch in Mexico of **Superwallet** (credit card management).	Invested in: **personetics, tradeshift.**
Wealth management	**Payments**	**Insurtech**
Invested in: **SIGFIG, roostify.** Working on **Santander Investment Hub** (online platform for independent portfolio management).	Invested in: **payever, payjoy, paykey, iZettle, mycheck.** Launch of **Superdigital** by Santander Brazil (receive and make payments without a bank account).	n.a.

Tech	
Blockchain	Invested in: **digital assets, elliptic, ripple.** Takes part to the **R3** consortium.
Data analytics	Invested in: **visible alpha.** Implementation of **machine learning** techniques in various areas of business.
Security, compliance and data protection	n.a.
RegTech	Invested in: **socure.**

Other initiatives	
General innovation	n.a.
Front, back and middle office	n.a.
Staff management, awards and other innovations	Launch of WhatsApp as a new channel for serving **shareholders** and improvement of a specific app for them.

Tab. 23 Main projects on innovation delivered by Santander or within the group

Chapter 10

Foreign banks in Europe: a first insight on a sample survey

This chapter contains a brief summary on the main role of foreign banks and investors in a sample of European countries.

Our aim is to improve knowledge about possible differences in terms of presence mode and market shares held by non-resident players in some business lines.

The countries included in our survey are France, Germany, Spain and the United Kingdom.

We focused on two main topics. The first one is about the role of non-residents investors on public debt (par. 10.1). The second one relates to market shares held by foreign intermediaries in supporting firms' financing needs, both in syndicated loans market and as bookrunners in issuances on debt and equity capital markets (paragraph 10.2).

10.1 The role of non-resident investors on public debt

First of all, we collected some data related to non-resident holding of general Government debt. Data is released by International Monetary Fund in its periodic report "Fiscal Monitor".

The four selected countries show differences in the markets share of public debt held by foreign investors. Actually, it is important to note that levels of debt are quite different, even though remained almost stable over last 5 years. Among the four selected countries, France and Germany show the highest percentages of portion of public debt held by non-residents. At the end of 2017, according to IMF's data, the 60.8% of French public debt was held abroad, while the portion of German debt was 55.5%. At the end of 2012, percentages were 63.5% and 61.3% and changes over last 5 years were between 2 to 5 percentage points.

The Spain case in quite interesting. At the end of 2012 the public debt held by non-residents was 29.1% (at the end of 2010 it was 49.6%), discounting the effect of sovereign risk that, in those years, deeply hit some peripherical countries in Euro Area. Over next 5 years, the portion of Spanish debt held by non-residents increased with a very relevant growth rate. At the end of last year the data reached the value of 50.3%. Economic growth and structural reforms have favoured the attractiveness of Spain in the eyes of foreign investors, so – as a consequence – the decrease of tensions on sovereign risk has been an important "driver" to increase purchases of Spanish Government securities.

The data referred to the United Kingdom highlights a stable trend, that – over the last 5 years – was on average equal to 31%.

10.2 The role of foreign banks in debt and equity markets

In order to estimate the market share of foreign bookrunners in the four selected countries, we analyzed – as already explained in the previous Chapter 4 – tranches of syndicated loans issued in 2017.

Market sizes are quite different. As reported in Tab. 24, among the four selected countries the UK market is the biggest one (€ 204.5 billion at the end of 2017, almost three times than the size of the Italian market). If we sum the market share of foreign bookrunners and that of international pools of lenders (where non-residents intermediaries are, on average, the most active players), in each country of our sample we have a total market share higher than 50%. Only Spain represents a little exception: domestic banks (big worldwide banks and regional savings banks as well) have a market share of about 22% and, moreover, data on bookrunners is not available for about 22% of issuances.

A similar analysis was replied for Debt Capital Markets of the four selected countries. As known, the Dealogic database highlights all tranches assisted by local and/or foreign bookrunners, for a number of deal type (e.g., securitization deals, corporate bonds and sovereign issuances).

Among the four selected countries, Germany has the largest DCM market. At the end of 2017 the total deal value is about € 355.7 billion, equal to three times of the size of the Italian one. In each country, the role of foreign bookrunners is very important. In the majority of issuances the largest international banks are involved. Even though it is the smallest market, among the four selected countries, Spain has the highest market share related to the participation of foreign bookrunners to DCM issuances (Tab. 25).

The average tranche size is quite volatile among the different markets (from € 243 million in the United Kingdom to € 475 million in the Spanish market). In a broad term, it was confirmed that largest operations have been assisted by international pools of bookrunners.

We completed our survey with a focus on Equity Capital Markets. As reported in Tab. 26, Germany and the United Kingdom have – among the four selected countries – the largest size of equity markets (respectively, € 35 and € 39.1 billion). The United Kingdom, moreover, is characterized by a very important number of deals (about 4 times the number of operations in Germany): so, it means that the average deal value is quite small (€ 66 million) compared to other markets.

In all of these equity capital markets the presence of non-resident bookrunners is very important: the average market share of local players is about 13%. It means that, on average, the total market share of foreign bookrunners (solely bookrunners and international pools of advisors) is about 87%. The highest figure is reported in the Spanish market, where non-domestic intermediaries have a market share of about 99%.

Country	Deal value	Number of tranches	Non-residents market share (%)	
			Foreign bookrunners	International pools of lenders
France	110.6	528	11.4%	56.1%
Germany	136.9	460	16.4%	70.8%
Spain	62.0	438	16.0%	40.1%
United Kingdom	204.5	510	15.6%	65.7%
Italy	*69.7*	*317*	*9.0%*	*69.6%*

Tab. 24 Annual deal value of syndicated loans and share of foreign intermediaries (2017, € billion and %) – Source: Own elaboration of Dealogic database

Country	Deal value	Number of tranches	Non-residents market share (%)	
			Foreign bookrunners	International pools of bookrunners
France	240.5	698	13.3%	70.2%
Germany	355.7	1,112	40.5%	48.8%
Spain	163.3	344	11.9%	84.6%
United Kingdom	299.2	1,230	24.3%	56.9%
Italy	*117.1*	*200*	*12.6%*	*70.9%*

Tab. 25 Annual deal value of DCM issuances and share of foreign intermediaries (2017, € billion and %) – Source: Own elaboration of Dealogic database

Country	Deal value	Number of deals	Non-residents market share (%)	
			Foreign bookrunners	International pools of bookrunners
France	25.7	138	14.9%	69.6%
Germany	35.0	127	33.3%	58.0%
Spain	16.3	30	40.5%	58.5%
United Kingdom	39.1	591	56.1%	19.0%
Italy	*23.0*	*76*	*13.7%*	*79.1%*

Tab. 26 Annual deal value of ECM issuances and share of foreign intermediaries (2017, € billion and %) – Source: Own elaboration of Dealogic database

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