

Address by the President of the Italian Banking Association  
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In Italy, the banks are the main drivers of competitive innovation and robust recovery. Technological revolution improves bank operations for customers that, individually, can choose which services to use. It provides access to services, such as payment systems, at equal terms to new players that must apply the same authorisation, oversight and tax rules, without circumventing them;

it provides new efficiencies in the relationships with the Public Administration; it poses new challenges to both the markets, such as for high frequency trading, and to security protection in the fight against cybercrimes.

Italian banks are making huge investments in innovation and security; streamlining processes and therefore the life of each one of us, with priorities such as dematerialization, mobile payments, competitive integration between channels.

More quality, speed, more possibilities to choose are the tangible results of the innovations achieved and upgraded with foresight by banks in Italy, conscious that the people and the culture are and will be decisive as they are and will be dominant over the machines that must be guided by human intelligence and by the rules, also thanks to continuous professional retraining.

The algorithms need to be guided by people and not crush them.

Pope Francis recently criticised speculators and "the faceless and unscrupulous economy" and praised honest entrepreneurs citing Luigi Einaudi who wrote "thousands, millions of individuals work, produce and save..."

The great modernisation strategies are concurrent with the enormous efforts of Italian banks to take on the huge extraordinary costs imposed by the Authorities to save failing banks, to overcome the effects of a very long crisis, to reinforce their balance sheets with enormous provisions and capital increases, working continuously to better guarantee and reduce non-performing loans, remaining competitive in presence of extremely low interest rates, in line with the best in Europe, despite the Italian economy having to sustain the weight of spread and government debt.

The radical reorganisation of banks in Italy is committed to reducing operating costs even in the presence of reduced total income.

The total loans to businesses and households is growing with the lowest interest rates in Italy's history.

It would be useful if the European Authorities would not undermine the numerous bank moratoria to businesses and households that cushion the effect of the crisis in Italy.

The banks also support many funds like those for first home buyers, for newborns and for the young.

The banks in Italy are committed to increasing the level of ethics and economic democracy and they are competitive even in attracting foreign capital for development: high quality regulatory innovations are needed even in the way the Public Administration functions.

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## ITALY AND EUROPE

The banks operate in an Italy that cannot be isolated in anachronistic forms of neo-nationalism and protectionism, but one that is profoundly integrated and connected with the globalisation in which the West is a major player.

The West and Europe are going through a moral and identity crisis that is the result of the economic and social crises, and of the lack of large, common growth programmes in a society that is devoid of any certainty.

Among the causes of the crisis in the West is this selfish pragmatism joint to lack of principles which has eroded its authority and accentuated the moral decay and the scandals.

In a world where the risk of terrorism and war are increasing, it is not enough to say NO to violence: forward thinking is needed for economic, civil and social development that is not imposed by force, but that is suitable and favoured by all the various components of the globalised world.

Inaction is a losing game, it does not impede resignation, terrorism, fanaticism, reversals in the civilising process.

In the West, Europe is the most populous, culturally fundamental, and economically decisive part. Italy's role in this is crucial.

We are proud to be Europeans primarily because we have in common democracy, the rule of law, equality between men and women, the protection of minorities, a free and regulated market, human rights and rejection of the death penalty.

The sixty years of the Europe Union require careful consideration, even self-criticism, not on the original ideals, but on their execution, to make a decisive increase in quality, in order to define what the EU wants and what it should be.

The EU needs more ambitious civil, economic, and social objectives and an explicit, certain and clear European Constitution that also indicate the new dreams to pursue using reason.

The response to Brexit must not lead to the EU retreating into itself, but must force it to make progress in realising the original ideals.

Brexit will highlight the fiscal and monetary competition between the United Kingdom and the European Union.

Abstract or risky models that are bureaucratically homogeneous are not needed, but solid strategic initiatives that even simplify the too many authorities, especially the bank and financial ones.

The supremacy of the rules must not lead to the super bureaucratisation of banking activities. Europe has made the most audacious steps in the banking area, implementing a Single Supervisory Mechanism that is not yet Banking Union but that must be done as soon as possible along with consolidated acts for banking, finance, and tax, bankruptcy, and economic criminal law.

The regulatory simplifications and the true principles of proportionality and transparency are essential and urgent and are not to be confused with anarcho-capitalism that does not lead to a regulated and efficient market.

In 2016, 1,247 regulatory sources were enacted just for the banking, finance and insurance sectors that have an impact on the entire business world; around five for every business day.

The Single Supervisory Mechanism is not enough.

Banking Union needs to be completed, making it become the centre of global finance and capable of attracting capital always completely within the law.

We are critical, constructive and propulsive towards the EU as we move to a new period that sees all the Member States and their people more in control of their own destinies.

The tragic wars of the last century are ever more distant and are less important in pushing for a united and pacifist Europe that needs to find in itself, not paralysing processes, but strategic objectives to avoid the deceptive and extremely risky neo-nationalist short cuts.

We were the first to say that the alternative is between a new Europe and neo-nationalism.

We do not agree with the preconceived demonization of the Euro. Without the single currency, the lowest rates in nearly twenty years would not exist in Italy, the cost of interest for business and households would be much higher, the Italian Republic would be crushed by interest expense and taxes would be even higher.

Initially, changes in currency always penalise savings and those that collect pensions, salaries and fixed stipends.

Turning back the hands of time chasing the anachronistic nostalgia of a currency that was weak, unstable and under continuous exchange rate risk, is impossible. We would fall into the bad habits of South America instead of being among the best western democracies.

We must ask ourselves whether the ECB's role as monetary authority has to be expanded to encourage economic growth and not only control inflation.

Banking union must become the most advanced and successful model in the European Union, with new objectives of common interest.

The destinies of the citizens and nations of Europe are ever more interconnected.

The performance of the banks is different throughout Europe and is not even the same within each State. Many problems are widespread and fixable, since the tentative start-up rules, that must lead, with controls and updates, to a complete Banking Union, can be changed. In this regard, the opportunity provided by the European Commission's consultation on the role of the Authorities must be seized.

## THE BANKS

We sense a somewhat new and more constructive feeling in European banking: there is less dogma and more pragmatic guidelines with regard to non-performing loans; the idea of a bad bank, even a European one, is discussed openly; there is more reasonableness in recognising the complexity of rules that are the same for everyone in a framework of different Constitutions that prevail nationally waiting for an explicit, certain and clear European Constitution that guarantees more legal certainty, with an overall hierarchy of the source of law between the European Union and the member states, to guarantee unity and pluralism.

The Presidents of the European Parliament, Tajani, and of the Economic Commission, Gualtieri, are among the main architects of important institutional documents aimed at a well-balanced Union, starting with emblematic topics such as lower capital absorption for loans to small and medium sized businesses. Even the investments made by banks in new technologies should be encouraged with more moderate prudential requirements.

The quest for more balance between the prudential requirements and financing of the economy should be pursued, with more equitable computation of loans for residential estates to households, for consumer credit and for sectors such as shipping and fishing.

Italian industry knows that in the united Europe per capita income has increased and the remarkable disparities with the more advanced democratic economies have been partially reduced, but that is not enough.

The "Basel" decisions, starting with the prudential standards on government bonds, must encourage stability and not complicate the recovery, avoiding, as set out in the G20 mandate, generalised increases in the capital requirements of the banks.

The "Basel" rules must be identical on both shores of the Atlantic and must be applied in a coherent manner to prevent disparities and conflicts.

For the banks, the main challenge is to get back to profitability to encourage development and the normal prudent cycle of provisions and dividends: the efforts to reduce costs, improve risk management and optimise available capital are endless.

From the start of the crisis, the Governor of the Bank of Italy noticed that the banks in Italy had nearly doubled the coefficients related to highest quality of bank capital and they continue to grow.

European and international regulations on capital requirements need to be stabilized to provide certainty to the markets, the banks and all the businesses, to facilitate the recovery and to implement with wisdom and proportionality those that have already been adopted.

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Financial and banking crises are always devastating

For fifteen years we have been working, finally with success, to fully repay, with interest, the Italian savers that had invested in Argentinian public debt securities.

After the privatisation of the public banks, the banking crises were addressed for years under the guidance of the Bank of Italy, without inflicting any trauma on savers and the competing banks.

Differently, the rules of the rising Banking Union have resulted in trauma and excessive costs.

We must critically review the experiences of the nearly three years of Banking Union to structurally correct the European decision-making processes which are not always intelligible, the unacceptable and unconstitutional retroactivity, the extreme choices, the forcing such as the write-downs imposed on the four banks subject to the resolution, as if they had to immediately liquidate (at fire-sale) all their non-performing loans.

The new ECB "guidelines" on non-performing loans represent more forward-looking strategies that must be used even for troubled banks, while still bearing in mind the industrial and commercial markets in Italy.

The Bank of Italy authoritatively claimed that "the resolution to the non-performing loan problem requires time".

Even the excessively tight time frame for the sale of terminated banks has increased the cost of the banking crisis.

The stress tests must prevent and not create or exacerbate banking crises.

The verification of these experimental regulations at a European level must be used to correct them to prevent the resolutions from worsening the problems, unloading the costs on savers and competing banks, thus altering the competition, and destroying value and trust.

The legal criticism of these rules must be acknowledged since they are not the "10 Commandments", nor constitutional regulations.

With the Italian law no. 15 of 17 February 2017 to save the failing banks and protect savers, and the regulations resulting from a turning point has been made with respect to the resolutions for bank stability and trust in savings invested in the banking and business sector, with public intervention that was generally much more limited than those carried out in other European countries.

The recent government provisions, in coordination with European Authorities, have eliminated the systemic risks from the Italian banking market.

The non-performing loans represent the cost of the crisis and sometimes even bad management.

Non-performing loans are also the result of the slow-moving civil justice processes in Italy which suffers from very limited structural resources and regulations that are often outdated for loss making businesses.

The Governor of the Bank of Italy, Ignazio Visco, authoritatively reported that if the receivable collections times in Italy were in line with the European average, today the ratio of non-performing loans to overall loans would be about half.

Of the reforms to be completed priority should be given to speeding up the justice system, a bulwark for the debtor and the rights of decent citizens, which is a decisive indicator to attract capital for Italian industry.

Significant progress has been made in recent years and can be further developed when the Senate, before the end of the parliamentary term, will have approved the bill, which was approved by the Chamber, for the reform of the rules governing distressed companies and insolvency, and for the efficiency of the civil justice procedure.

The banks are working to limit new non-performing loans and to reduce the total net non-performing loans.

The Governor of the Bank of Italy precisely pointed out that the non-performing loans are net of provisions already applied and indicated that at the end of 2016, net non-performing loans were 81 billion Euro "with more than 90 billion Euro secured by collateral and nearly 40 by personal guarantees".

The net non-performing loans fell even further below 77 billion Euro, while the banks are currently working to reduce them even more, even in a very short time.

First, it is absolutely necessary that there be a strong revival in ethics by all economic operators so that the repayment of loans, the methods and times freely contracted and due, are not only a legal requirement, but are also a moral duty.

Despite the weight of the non-performing loans, the innovative activities and the strong competition between banks in Italy, actual average rates on loans are very advantageous for households and businesses. According to data from the ECB, in May 2017, the average interest rate in the Euro zone on business loans on amounts below one million Euro was 2.19%, while in Italy it was 2.13%.

For loans to businesses greater than one million Euro, the average rate in Italy was 1.14%, better than the 1.31% average in the Euro zone.

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To definitively turn the page on the crisis, full clarification of all aspects worthy of inquiry must be made.

ABI is not a corporation. It is a private Association that cannot have the power to control its members, nor confidential or inside supervisory information.

We express our outrage for the various elements that surfaced regarding the troubled banks and we are waiting for the outcomes of the trials.

More transparency on the banking crises is also a precondition to an increased climate of trust.

We have the utmost respect for the Judiciary and for the Committee of inquiry on the banking crises.

Ethics, moral intransigence, the commitment to accurately apply all the regulations are preconditions to banking activities that are all tracked.

We are awaiting the outcomes of the trials against every type of company representative and regarding possible complicity with customers. The parties responsible for the banking crises must be immediately investigated and prosecuted without creating a "witch hunt" atmosphere.

The quarterly reports from the Ministry of Economics and Finance, provided for in the law of 17 February 2017, will facilitate transparency when analysing the banking crises.

Increased financial education, facilitated by the law, will be invaluable, as was highlighted by the Commission of inquiry of Palazzo Madama, presided by Senator Marino, on the world of banking, finance, and savings protection, that also cited the claims made by the statesman and central banker Luigi Einaudi in 1921: "It would be extremely harmful if the stock market crash scared savers away from all industrial investments; but it would be very positive if you could persuade them that no investment is absolutely safe, and that they have a duty to themselves and to the country, which has an interest in the prudent use of private savings, to carefully study investment opportunities, with prudence and without greed."

"Corporate, financial and savings education", which we develop in collaboration with FEDUF, is one of ABI's main objectives, recently included in our Articles of Association.

Simpler and clearer information documents are also needed: next January, the "KID", summary documents with key information on financial products, which we have been requesting for a long time, will come into effect in all European Union.

For the full awareness and responsibility of all, the agreement signed on 8 February by ABI and the trade unions against undue commercial pressures is very important: it is primarily an ethical agreement that can also serve as a warning bell for symptoms that must be prevented.

The dialectical, mutually responsible, and constructive relations with Trade Unions have contributed to, and continue to contribute, in a decisive way, to tackle, always on a voluntary basis, the effects on the staff involved in the banking crises and in the technological revolution, even with the increased funding that we were able to obtain together.

The commitment is for an innovative confrontation for new understandings for overall civil, economic, and social growth, productivity and profitability of the banks that are all different and in competition between themselves, also regarding innovations.

It is important to think ahead and in the long run, on both the forthcoming National Labour Contract and the new professions, with a look towards links with the overall financial world and with insurance and hybrid postal services one .

The strategic objective is to define the new professions even for new activities aimed at favouring the increase of banking profits and the employment recovery.

Everything in the banking world is changing: the sad, inevitable closure of many branches, as well as the opening of financial offices variously called, show no resignation.

In 2016 alone the number of branches in Italy decreased by a record 1,231, and it is still now continuing to decrease at a fast pace. Six months ago, Italy had one bank branch for every 2.041 inhabitants, a number that is midway between the main EU countries.

The economies of scale are developed in the most different forms, including the outsourcing of services and production.

The Italian banking market is the most open of Europe for international investors. It is expected that at the start of 2018, the reforms and aggregations in Italy will lead to a very low number, both in absolute terms and compared to the European average, of approximately 115 banking groups and single independent banks, in addition to the branches of foreign banks.

However, we mustn't exaggerate: the necessary competition in the local markets, where 95% of the businesses have less than 10 employees, must not be restricted.

The aggregations may help in preventing other possible banking crises.

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## THE RULES

In these latest years, in the context of international markets, we have also been burdened in lots of regulatory actions aimed at addressing old and new Italian anomalies with respect to the best European banking and financial rules. Some of these active interventions goes a) from the deferred tax assets to the tax system, b) from an upgrade of the value of shares in the Bank of Italy to calculation of interests, c) from the IRAP tax on personnel costs to loans to the Public Administration, d) from the ACE (Aid for economic growth) to the Jobs Act, e) from a review of the bankruptcy law and civil justice system to reverse mortgages, to the public guarantee for the securitisation of non-performing loans, to the so-called "Marciano Pact", the new rules for the transfer of real estate as collateral, to abolition of intragroup VAT and to many other technical reforms that improved the way banks operate with businesses and citizens.

Other Italian anomalies need to be corrected such as limits on issuance of guaranteed bonds and thin border between the heinous crime of usury and price controls that exist for rates applied by banks, potentially penalising the riskiest customers.

We are committed to the emergencies of earthquakes and calamitous events even through the Prosolidar Foundation (in collaboration with ABI and the Trade Unions) and to contributing to social innovations such as the advance payment for early retirement.

Our compass is oriented towards non-corporative policies for the development of productive factors: it is a strategic approach in which there is full convergence between ABI and Confindustria to strengthen the recovery.

Another phase is approaching now, primarily driven by changes in the ECB's monetary policies: the costs of public debt will grow if its amount does not begin to decrease. Otherwise, the drawback is an increasing spread on Italian bonds, with costs for households, businesses, and public accounts.

New, more prudential regulations are looming such as MREL, TLAC and the international accounting standards such as IFRS 9 that must not become additional heavy increases in capital thresholds, nor additional regulatory burdens, or sources of competitive imbalances.

MREL and TLAC were conceived in other international political and economic phases, for this reason, they should be reconsidered and equally harmonized with the other significant measures already in force, and in any case with long notice and gradual introductions.

Banks are very engaged in applying the new anti-money laundering directive and in managing the significant impact of organizational and professional re-qualifications, following the full application of MIFID 2, the rules on maximum transparency in the sale of financial products and the new directive on payment systems.

The basis for all innovations is more transparency for the clear definition of rules, risks, and communication; more responsibility and greater consistency between the rules issued by the various authorities; more proportionality between imposed standards and the expected benefits, and for the different sizes of the legal entities that must apply these standards.

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ABI

On the eve of the centenary of its establishment, which took place in 1919, ABI, Association for the culture of rules, inspired by great and intense collegiality and continuous direct confrontation with the authorities of Italy and Europe, is mindful of the *Lectio Magistralis* of the President of the Constitutional Court, Paolo Grossi, on Article 47 of the Constitution.

ABI is also committed to renovations also in operational terms.

It is worthy of note the very recent transformation of the already competitive Consorzio Bancomat into a S.p.A..

It is our intention to expand and transform the existing offices in Milan and Brussels into Headquarters (also in coordination with the Federazione Banche, Assicurazioni e Finanza - FEBAF), focusing on more numerous important activities.

Brussels is also our capital.

ABI is the main player in the European Banking Federation with Giovanni Sabatini and Maurizio Sella; in FEBAF with Luigi Abete and also with the fundamental commitment of Vice Presidents Camillo Venesio, Guido Rosa, Corrado Sforza Fogliani and newly elected Ranieri de Marchis and Alessandro Falciai.

ABI has grown in its authoritativeness, primarily as an independent moral force, with sharp cultural, methodological, and programmatic horizons, with a clear idea of economic democracy

and the conviction that the right and forward-looking choices should always be taken promptly, even if unpopular.

Spurred by ethical rigour, we connect the banking issues, even the very technical ones, with institutional and social sensitivity.

The commitment is never enough.

We are aware of the complexity of banking life which imposes "an excess of caution and severity, and not leniency and audacity", as Riccardo Bacchelli wrote in his remembrance of Raffaele Mattioli.

The key elements are strategy and methods.

Moral assumption of the economy is not the satisfaction of our selfish interests, but primarily the fulfilment of our duties.

Work, persevering patience, legality and justice, peace, discipline and austerity are the key drivers of economic production.

The consolidation of the recovery is strongly linked to the strengthening of the banking sector and the development of a general atmosphere of greater trust.

The values of Western and European society are being debated throughout the world: banking activities and well-being grow in an environment featured by peace, freedom, democracy, justice, founding values of our way of working along with a moral intransigence, assuring a constant growth of the economic and social civilisation processes.