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Where are Italian savings? An overview of the effects of the bail-in rules on the behaviour of Italian savers

*Andrea Sabatini**

Italians' trust towards the banking system has been sharply decreasing since the euro crisis. This mistrusts not only affected the way Italians (do not) invest their money, but it seems to have led Italians to rely to alternative instruments to "protect" their savings, such as safety boxes. To understand the root causes of this mistrust, this brief looks at the effects that the new European bank resolution regime on the Italian system had on the behaviours of Italian creditors.

Introduction

In the past few years we can observe a sharp decrease in the trust of Italian savers towards banking institutions, with a drop in the amount invested and an increase in the use of deposit accounts or even safety boxes. In 2015, only 16% of Italians considered banks as trustful institutions to manage their investments and savings.[1]

As a showcase of this trend, in June 2019 the then Italian Interior Minister Matteo Salvini proposed a relaunch[2] of the possibility to introduce a tax on savings deposited in safety boxes[3] – before immediately retracting it.[4] According to Massimo Bitonci, former League undersecretary at the Finance Ministry, "there are more than 150 billion euros held by Italians in safety boxes".[5]

What are the root-causes behind this lack of trust of Italians in the banking system?

To answer to this question, this TEPSA brief will outline the main aspects of the European

[1] F. Mercadante, "Quanti problem ancora per le banche. È giusto che gli italiani le temano ?", *Il Sole 24 Ore*, 28 February 2019,
[2] The idea was first pondered by the government led by Matteo Renzi with the so-called "Voluntary Disclosure 2" measure in 2016.
[3] A. La Mattina & F. Schianchi, "Salvini propone di tassare le cassette di sicurezza", *La Stampa*, 12 June 2019
[4] B. Fiammeri, "Salvini annuncia tassa sulle cassette di sicurezza, poi devia sulla pace fiscale", *Il Sole 24 Ore*, 12 June 2019
[5] M. Mobili & G. Parente, "Contanti, cosa succede ai 150 miliardi nelle cassette di sicurezza", *Il Sole 24 Ore*, 16 July 2019,

* Andrea Sabatini is an Academic Assistant at the College of Europe, Bruges campus. All the opinions expressed in this briefing are the sole view of the author, and do not represent the position of the College of Europe nor of the Trans European Policy Studies Association (TEPSA).

banking governance to discern the effects it had on the behaviour of Italian creditors and savers.

Bail-in rules and savings

The financial crisis showed that the European Union needed more discipline to deal effectively with failing credit institutions, given their repercussions on the sovereign debts of Member States. Therefore, the European banking rules were revised so as to prevent insolvency or, when insolvency occurs, to minimise the negative repercussions it could have on the financial markets of the different Member States.[6] To this aim, the European Union adopted a new bank resolution regime whose cornerstones were the *Bank Recovery and Resolution Directive* (BRRD) and the *European Stability Mechanism By-Laws*. The former established the discipline governing the resolution of failing institutions (to be transposed in national law by Member States), while the latter complements the rules established with the *European Stability Mechanism* (ESM) treaty.[7] The main novelty introduced by these new rules is the so-called *bail-in* principle, meaning that a bank's creditors/savers should bear the costs of the failing institutions before any form of public contribution (*bail-out*) is made.[8]

When applying bail-in rules, the directive highlights different categories of creditors and savers: saving deposits are the most guaranteed category, with those up to EUR 100 000 being excluded from the procedure.

However, the legislation presents two potentially conflicting objectives, as noted by the Governor of the Bank of Italy, Ignazio Visco: "*maintaining financial stability and preventing banks to behave opportunistically in the expectation of public intervention*".[9] This apparent contradiction is rooted in the implications that a bail-in has on the trust of creditors and savers towards banks, which could undermine financial stability, and the necessity to avoid that taxpayers would bear the cost of bank bail-outs.

Creditors and savers' trust in banks stems, in particular, from the capacity of banks to reimburse the sums invested or deposited. A weak trust means fewer investments or deposits, with an impact on banks' ability to perform their economic function of transferring capitals to foster investments, therefore impacting the overall growth capacity of a country.

Bail-in and savers' trust: the Italian case

The results of this conflict can be observed in the effects that the new rules had on Italian creditors and savers' behaviour.

It is estimated that, out of the EUR 4 287 billion of financial wealth of Italian families, at least

[6] European Union, Directive 2014/59/EU of the European Parliament and of the Council, May 2014, p. 1; so-called *EU Bank Recovery and Resolution Directive (BRRD)*

[7] The *European Stability Mechanism Treaty*, signed in Brussels in 2012, established the European Stability Mechanism, an organization providing assistance to Member States in financial difficulty.

[8] E. Avgoulenas & C. Goodhart, "An Anatomy of Bank Bail-ins: why the Eurozone needs a fiscal backdrop for the banking sector", *European Economy*, 2016, vol. 2, p. 2

[9] I. Visco, *The stability of the Italian Banking system*, speech at the 22nd ASSIOM FOREX Congress, Turin, 30 January 2016

EUR 1 371 billion are kept in saving accounts.[10] This money is neither invested nor spent, and no or very low interests are earned,[11] meaning that in a time span of 5 years their value will decrease due to inflation rate and possible additional costs (e.g. EUR 10 000 euro saved today on a saving account will be more or less EUR 9 000 after 5 years).[12]

If we analyse the trend of these last few years, we can see that from 2006 to 2018 the amount of money deposited in saving accounts increased from 23% to 32% of the total amount of private wealth.[13] In July 2019 there was a EUR 55 billion increase in saved amounts (+3.7% compared to 2018), while invested sums decreased by 6.4%.[14]

This shift between low-medium-high risk investments to 0-risk investments (saving accounts) shows that indeed savers and investors' trust in banking institutions has sharply decreased through the years, in particular after the introduction of the new bail-in rules.

Conclusions

Our analysis confirmed the evidence that the new European rules led to a loss of trust towards the banking system, with a consequent increase in the amount of money kept on saving accounts by Italian citizens – and a related reduction of the invested sums. The raise in the number of saving accounts would also suggest that Italian families divide their saving in multiple accounts of less than EUR 100 000 amongst different banking institutions, so to avoid the application of the *bail-in* regime.

And what about security boxes? Are Italians increasingly recurring to that instrument to "protect" their savings? While it is possible to track down this shift from invested sums to sums saved on bank accounts, the same data is not accessible in relation to security boxes (manly for privacy reasons), so the only data we could use is the amount stated by the undersecretary at the Finance Ministry or by some previous governments officials.[15] If those amounts were to be true, one could still argue that, given the disinformation around banking rules amongst Italians, the trust towards banks has been undermined to an extent that savers do not trust their savings being guaranteed if left in saving accounts, thus recurring to the security box instrument (although this hypothesis would not met the evidences of the ABI reports).

[10] This emerged from statistics made public by the Bank of Italy and appeared in different Italian newspapers: M. Gabanelli & G. Marvelli, "Risparmio: la paura degli Italiani vale 1.371 miliardi", *Corriere della Sera*, 17 February 2019, available at: https://www.corriere.it/dataroom-milena-gabanelli/risparmio-investimento-conticorrenti-depositi-banche-paura-italiani-1371-miliardi/d642ebe0-313a-11e9-a4dd-63e8165b4075-va.shtml?refresh_ce-cp (last accessed on: 18/07/2019).

[11] Low interest rates are caused by an unbalance between "global excess of savings over profitable investments: if there is an excess of saving, then savers are competing with each other to find somebody willing to borrow their funds. That will drive interest rates lower. At the same time, if the economic return on investment has fallen, for instance due to lower productivity growth, then entrepreneurs will only be willing to borrow at commensurately lower rates. Source: M. Draghi, *Addressing the causes of low interest rates*", May 2016

[12] *Ibid*.

[13] *Ibid*.

[14] Source: *Rapporto mensile ABI* – July 2019

[15] A. Berlini, "Cassette di sicurezza tra patrimoniale e condono: il Governo guarda ai "soldi sotto il materasso"", *Today.it*, 12 June 2019

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Trans European Policy Studies Association
Rue d'Egmont 11, B-1000
Brussels, Belgium

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Dijver 11, 8000
Bruges, Belgium

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