Italy's fund industry may achieve a rebirth

NEWS ANALYSIS

Banks' sell-off of asset management arms comes amid pressure for structural reform, says **Ruth Sullivan**

Italian banks are beginning to hive off their fund management businesses as the country's central bank pushes for reform in the fund industry, where banks have long been the dominant force.

Monte dei Paschi di Siena, Italy's oldest bank, is selling off a majority stake in its asset management arm, looking for a private equity group and a financial partner. It hopes the bidding process will be finalised by the end of next month.

If successful, other banks could follow, opening up what industry observers say would be a long-needed and healthy division between the banking and asset management industries.

"Our move is raising interest in the market and there is a lot of room for consolidation in the industry," said Lars Schickentanz, chief investment officer at Monte Paschi Asset Management.

At Assogestioni, the country's asset managers' association, Marcello Messori, chairman, believes the sale is promising but not without problems. "I'm in favour of a separation between banks and asset management but the problem is that asset managers have limited distribution channels." Asset managers must gradually open up their own distribution channels, he added.

The move comes as the Bank of Italy, which is also keen to separate banking from asset management, has set up a task force with asset managers and regulators to discuss ways to tackle the problems facing the fund industry. "The crisis in the Italian asset management industry is not only due to the crisis in financial markets but also to structural problems," said Mr Messori.

Bank ownership of asset managers is a common model in continental Europe, as Phillipe Collas, chief executive of Société Générale Global Investment Management and Services, pointed out at a conference last month. In Italy, just four banks own more than half the asset management market, he said. In Germany, the figure is close to 60 per cent and in France 65 per cent.

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But in Italy, where nine out of 10 fund sales go through banks, there is an appetite for change. "The industry is in need of reform and banks need to be less dominant as there is often a conflict of interest," said Mauro Baratta, business development director at Lipper Feri. The Monte Paschi sale could lead to a change in the industry landscape with "some consolidation and more foreign players entering the scene", he said. "A lot of banks are realising it is better to focus on core activity and concentrate on the business they know," he added.

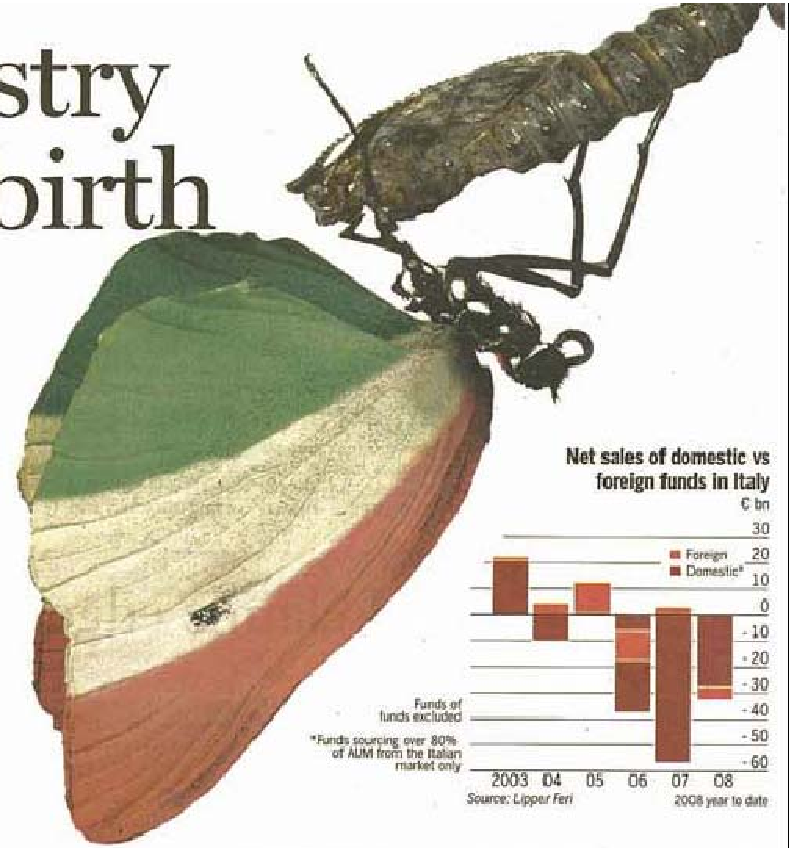
The sale will allow Monte Paschi to change the way it operates and broaden its offering to investors. "We will move to more alternative products," said Mr Schickentanz.

He said the bank would inject €5bn (£4bn, $7.7bn) of new capital into the asset management company to enable it run for five years. This would also help attract talented fund managers.

"It would be highly beneficial for us to have a mixed culture with international input at fund management level," he said.

One of the problems for fund managers is that banks are in need of liquidity as a result of the credit crisis. "Banks have attracted clients away from funds through strong deposit offerings and structured products," said Mr Schickentanz.

Mario Draghi, central bank governor, has called for banks to focus more on investors' needs and less on their profits from selling specific financial products, which would improve competition and transparency.



"There is too much cynicism from investors towards banks who may be selling opaque structured products for higher fees and more profit," said Mr Baratta.

Italy's asset management industry saw record outflows of €56bn last year, according to Lipper Feri, higher than in other European countries suffering similar problems. Outflows for the first three months of the year, of nearly €28bn, look even worse.

"If the rate of withdrawals in 2007 continues this year there will be no asset management industry left [in Italy]," said Mr Baratta.

Funds feel the heat, page 3

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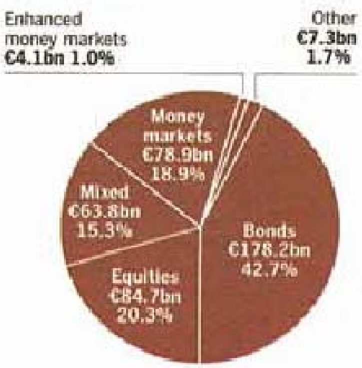
Investor preference (excluding liquidity products): **Top selling sector** for latest quarter: *Fund of funds Guaranteed* **€745.5m** **Bottom selling sector** for latest quarter: Short-Term Dynamic **-€11,416m**

Italy

Assets (at end Mar 2008)

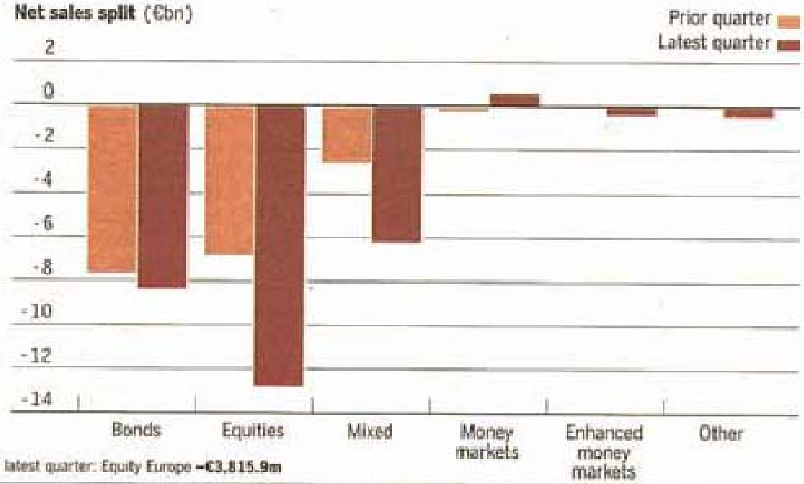
Total €417.0bn



Market leaders (top 10 Groups)

Rank	Group	Assets Mar 2008 €m	Est net sales Q1 €m
1	Mediolanum	11,416.9	302.3
2	Allianz	7,676.6	178.1
3	Don Bosco	5,055.3	39.0
4	Banca Popolare di Bergamo	–	27.6
5	Arner	30.4	13.0
6	Finnat Euram	330.3	11.2
7	Casa 4 Funds European AM	115.0	7.3
8	Nextam	272.6	6.0
9	Agora	81.8	4.2
10	Unifortune	92.3	3.4
	Total top 10	25,071.1	592.1
	Total Italy	338,102.7	-28,069.1
	Top 10 as % of all groups	7.4%	n.a.

Net sales split (€bn)



Investor preference (excluding liquidity products): **Top selling sector** for latest quarter: Bonds EUR Short-Term **€768.7m** **Bottom selling sector** for latest quarter: Equity Europe **-€3,815.9m**

Ranking tables exclude money market funds, which can be a distorting element. Funds of funds are also excluded to avoid double-counting. Rankings are based on Lipper Feri estimated net-sales flows for the latest quarter (Jan-Mar 2008) and are based in €m. However, UK rankings are based on data collected for the UK Fund Sales Report, which includes real data from groups representing 86% of UK assets. The data included in these tables relates to European mutual funds and may include both retail and institutional investment