INTESA SANPAOLO

Centro di Ricerca e Documentazione Luigi Einaudi

PRESS RELEASE

INTESA SANPAOLO AND EINAUDI CENTRE IN TURIN TODAY TO PRESENT 2015 ITALIAN SAVINGS AND FINANCIAL CHOICES SURVEY

- **The uncertainty freezing household decision-making has decreased, although caution and prudence still prevail.**
- **Compared with 2012, the number of savers has risen (+5%) in 2015.**
- **Asset management has increased. The percentage of investors has risen from 9 to 12% in the past two years.**
- **End of crisis, employment security, and peace of mind in retirement: the three aspirations of the Italian *"middle class"*.**

Turin, 21 July 2015 – The *"Survey on Italian Savings and Financial Choices 2015"* was presented in Turin today. **This is a joint Einaudi and Intesa Sanpaolo**, project based on interviews carried out by **Doxa** in January and February 2015 with **1,076 households that are bank and/or post office current account holders**. The primary saving and investment decision-maker within the household was interviewed, namely the person that was most informed with and interested in the topics covered in the questionnaire (in 77% of the cases, the "head of household"). The sample is representative in terms of its spread of ages, professions, qualifications and geographical areas. The Survey, which makes it possible to draw comparisons with other years going back to 1983, **every year addresses a monographic theme: in 2015 the attention was focussed on the middle class**, with an additional sample of 332 interviews, which later was processed by merging it with the middle-class interviewees from the main sample (386). The results were analysed and discussed by **Salvatore Carrubba**, Chairman of Centro Einaudi, **Gregorio De Felice**, Chief Economist at Intesa Sanpaolo and the economist **Giuseppe Russo**, editor of the Survey. The conclusions were entrusted to **Gian Maria Gros Pietro,** Chairman of the Intesa Sanpaolo Management Board.

A summary of the research:

▪ **The turning point for 2015 is mostly ascribed to the decrease in the uncertainty freezing household decision-making.** Whereas **the recovery is emerging** in the performance of many real variables, in this year's edition of the Survey **caution and prudence still prevail**: the perception of the improvements still needs to be transmitted in full to the households and translate into spending decisions, as evidenced by savings and consumption trends.
The most positive contributor to the purchasing power of savers in 2014 is represented by the financial markets, which in 2014 generated **a 9% increase in the total return of the invested financial wealth (3% in the first four months of 2015)**. Also as a result of past sacrifices, Italian savers can rely on an financial

wealth that on average amounts to 3.4 times the available income (a multiplier exceeding the 3.2 times of France, and 2.9 times of Germany; as established based on Eurostat data).
As regards the **income**, Survey confirms that the tendency to declare it lower than the needs of the standard of living has almost come to a halt. However, in 2014 and 2015, the percentage of people reporting their income as being "hardly sufficient" continues to grow; in other words, in 2014 there has been a low increase in the portion of the sample that can make ends meet for the rest of the month.
In **2015** the number of people that **financially were fully independent** is almost unchanged as against the 2014 level (almost 86%), even though **a small portion of the sample continues to slip from being only partially independent to fully dependent**. Compared with 2014, the situation is worse for **women** and for **younger age groups** (less than 25 years).

- **Savings and pensions between expectations and prudence.** While there is still a high number of households that due to the crisis were forced to lower their standard of living (51%, down from the 56% peak in 2013), an almost identical percentage lowers it **as a strictly precautionary measure**, thus confirming that they are **taking back control of their finances**.

The sample reviewed remains a **sample of savers: 62%** of interviewees believe that savings are "**crucial" or "very useful"** (94%, if we are to include the people who rank it "somewhat useful"). Since 2000 there has been progressive **erosion** in the number of **households managing to save.** But, **in 2015, we must report a 5 percentage point progress for savers compared with 2012** (the worst year since the financial crisis): from 38.6 to 43.7%.
Those who save with **a specific goal** in mind chiefly aim at guarding against **unexpected** events (48%). The second place is occupied by **Children**, who were mentioned by 23% of savers, whereas the **Home** has ranked fourth, which was only reported by 9%: generally Children replaced the House as a reason for setting aside part of the income. Third came savings for their **Retirement age:** this has been mentioned by 19% of savers. One third of people saving for their retirement age, do so for medical assistance reasons: this means that **a low number of people save for a generic reason** associated with their old age income.
As for pension expectations, the balance between the opinions on the sufficiency and insufficiency of the expected income amounts to 18% of the sample: this value has not recovered after the crisis, while reaching 12% in 2013, essentially because only a **relatively low number of interviewees state they subscribed a form of second or third pillar retirement pension** (most of them claim they lack sufficient liquidity to invest in this additional security). For many Italians, the supplementary retirement pension remains a "hot" theme, because it has not yet been addressed in substantive terms, despite widespread awareness of the low income replacement rate for future pensions (58%, as based on the subjective estimate of the interviewed sample).

- **A *cash poor - house rich* country.** The proportion of households occupying a **privately owned house** has **risen** from about 76% in 2000 to about 79% in 2015. As a consequence of the crisis, a dramatic **decrease may be observed in those rating property the best or most secure** investment. On the other hand, **popularity is stable** for property ranked as «good investment provided you used it/live in there». On top of this, from 2012 onward, the conviction has emerged that a home is «the best way to leave an inheritance to your children». The first rating is

subscribed in **2015** by 51% of the interviewees, the second by 36% - these proportions remaining almost unchanged, notwithstanding a few exceptions, across ages and educational levels.
Savers seem to have become more aware of the risks peculiar also to real estate investments. Between 2013 and 2015, **those who wish to sell without repurchasing have halved** (from 1.9 to 0.9%), while a considerable number of households **wish to increase their «exposure to real estate»:** the latter rising from 5.7% in 2013, to 6.1 in 2014, **to 7.3 in 2015** (data including both the people who intend to purchase to turn a profit, 2.6%, and the people who intend to purchase for themselves or their family, 4.7%). A house is perhaps the only real temptation that still leads to run into debt while being willing to do so, and accounts for about **90% of borrowers in 2015**; this may also be driven by the consideration that **a house enables intergenerational wealth transfer to your children.**

- **Investments: initial effects of returning confidence.** Investors have historically paid attention, even if with varying intensity, to the different goals of an investment (liquidity, security, short-term yield and long-term yield). But, when the crisis broke out, the security **factor** began to prevail over other preferences: starting from 2013, over half the interviewees rated the certainty of not losing their capital as the first aspect they cared about.

However, in **2015** some **timid signs of a reversal** of this trend have emerged: the proportion of those giving top priority to security has dropped from over 55 to 52%. There is greater focus on **long-term yields,** whereas **liquidity**, that was ranked first by about one third of savers until 2011, is now **rated a priority only by 13 per cent**. 66% of savers state they are **not very inclined to risk** and 43.9% of the sample is positioned in the lowest end in absolute terms as to **risk appetite.** The more risk-inclined bracket accounts for less than 7% of savers; its values are more or less in line with historical values and signal a **return to normal standards** from the prevailing attitudes at the height of the crisis.
A hint of the easing is the extension of the investment horizon: the ideal horizon is beyond three years for 37% of the sample.
Another sign of normalisation is **the reduced interest in financial matters**: the number of those who declare that they are attracted by these topics, rising from 45.5% in the pre-crisis period to the 57.7% peak reached last year, has dropped to 54.3% in 2015. Half the sample states it does not even spend one minute of its time every week for this purpose and **only over 10%** of interviewees **devote more than one hour** to it.
The «daily life » and the family of origin still constitute, for half the sample, the main source of financial culture. **Only the remaining portion of interviewees make relevant inquiries because they** are interested (10.8%) or obtain specific information as a result of their occupation (12.5%) or educational pathway (5.9%). **Only 12% of those under 34 identify the school as the channel to acquire new knowledge**.
Nearly half the interviewees think that the opinion of friends, relatives, or colleague play a decisive role when making decisions. However, for about two thirds, the investment is only implemented after turning also to their bank contacts. After the gridlock during the years of the crisis, **the reference bank seems to be the channel that is capable of influencing savings choices to a much greater extent.** Internet is mentioned by about one quarter of the interviewees, but struggles to gain ground significantly; lastly use of economic contents through **traditional media** has declined.

■ **Bonds between desire for security and low yields.** The search for security is usually associated with bond investments, even at the expense of yield. The perception of bond security, **after plummeting at the time of the sovereign debt crisis** (2012), resumed an upward path from 2014. **This trend is confirmed in 2015**: 29% of the sample rates the bond investment to be fully secure, as opposed to somewhat less than 18% in 2012.
Data shows that a little less than 20% of the households has owned bonds over the last five years, but this proportion is **declining**: down from 29% in 2007. The number of people who rate bonds as the best form of investment has also **fallen** from about 27 to about 20%**. However, the "aficionados"** (mostly old savers that had familiarised with bonds at the time of double-digit yields), albeit decreasing, **raise such number in the portfolio** (over 36% allocate to bonds more than 30% of their assets; last year less than a quarter were above this threshold).

■ **Asset management has increased.** The people that are **younger** and more **interested in medium/long-term yields** are browsing around to diversify. After the *subprime* crisis and until 2013 there were fewer asset management investors, but **over the last two years** a trend reversal occurred, **with investors growing from 9 to almost 12%**. Most of them have invested in mutual funds or SICAVs (7.2%); this is followed by asset management (5.9%), whereas the positions in ETFs (2.3%) or in Unit Linked policies (2%) are at a lower level. **Among the reasons** for investing in asset management, the **lower risk is important for over half the sample**; the **«simplification»** requirement has been scaled down over the years (in 2012 it was the top reason); while the search for **yield** had lost ground in 2013 and 2014, it has **grown popular again during 2015**. Three out of four investors still regard **their bank** as the favourite channel to buy funds. The people stating they are **satisfied** with their asset management investments have now **risen** to 87.4% from 53.5% in 2005, whereas only 2% of non-investors stated their choice had not resulted from previous negative experiences.

■ **Few and well informed investors in shares.** As regards equity markets Italian investors - more than once adversely affected by the variability of the macro-economic scenario and of confidence, over the last years have taken to an increasingly prudent stance: while in 2012 12.5% of interviewees stated they had **purchased or sold shares over the last five years, in 2015** this percentage has dropped to **7.5%**, even though with a slight increase in the number of those who have traded on the equity markets in the last twelve months. This might suggest, perhaps, a certain renewed attractiveness for the Italian stock exchange, albeit limited to 2015. One of the reasons for the small equity participation, the percentage of those who deem they do not have sufficient resources has increased by about 8 points since 2011 to date, because of the impoverishment of the middle class: it is the second reason after the fear to lose their capital. **The consultant's advice** is the main driver of choice for about half the sample (data referred to the first answer provided by importance); some of the people who choose this form of investment - entailing greater risk and more challenging to approach, **are well aware of the importance to assess long-term performance.** In addition, there has been an increase in the proportion of assets that were invested overall in the sector, which is rather the normal pattern when prices are rising.
The portion of the assets invested in shares has been high among those with a university degree, whereas, surprisingly so, **there is no direct** link **with risk**

appetite: this validates the assumption the **access to shares is related to expertise, rather than to assets or risk appetite**. Overall, almost 72% of shareholders are **satisfied** with their investment, namely an increase from last year's 63% and 58% in 2012.

■ **The bank: trusted and online.** When discussing the relationship between savers and banks, the analysis first and foremost shows that **there is an «exclusive» relationship with one's bank**: 78.6% of interviewees declare that predominantly their households use the reference bank as their exclusive port of call, whereas only 5.5% use multiple banks.
The proportion of assets held in liquid form in the current account is still rather **high**: **a mark** left by the preference for liquidity peculiar **to the times of crisis**. It is also true that, **many savers still regard the current account as an instrument to use money**, as in the past, rather than a service account.
The satisfaction for the services received at the bank **is still rather high.** Even at a time of greater institutional confusion, the bank continued to be highly trusted, in comparative terms, by households: **nearly 87% of the interviewees are satisfied** with both the services provided and with the trusting relationship with their bank.
Only a little more than one quarter of the interviewees used ***home banking* services** in 2011: **today 38.5%** of current-account holders use it. Users of remote services typically belong to central age groups, live in Northern Italy, have a secondary-school diploma or a university degree and a medium-high income. The use of remote access is now widespread also in small towns with less than 10,000 inhabitants, where there are fewer and fewer branches available. On the other hand, those **who do not use the Internet for banking services** do so, as a priority, because **they prefer personal relationship** (40.4%); some of them because they are not sure whether this channel is safe (21%); a few of them because they find it too complicated (13.7%) or because they do not have a computer enabling connection (12.1%).
■ **An empirical survey on the Italian middle class.** In order to carry out the survey on the **Italian middle class**, in the overall sample, a proportion has been identified including the interviews to *middle class* members. **This class is defined as the group of people with incomes between 75 and 125% of the median income by the relevant age group**, (OECD definition): for instance, for the 45-54-year age group, the median income is €2,434 and the far ends of *middle class* show €1,826 and €3,043. These figures were then supplemented with an additional sample of 332 persons. An ad hoc questionnaire was therefore completed by overall **718 people**: the questions focus on the interviewee's personal and household condition, his/her position compared with his/her parents, the impact of the crisis on budget and economic choices, the values that are and must be defended in which the *middle class* identifies, the next important commitments of expenditure, the protection of the children's future. Limited to some questions **a comparison between 2015 and 2007** could be drawn.

■ **How to join the middle class: the failure of the social lift.** Italian middle-class households **amount to 38.5%** of the total in 2015, **down from 57.1 as recorded in the 2007 sample**; about 7 million Italians (3 million households) during the 2007-2014 crisis, have lost the fixing point that economically linked them to the middle class.
The **income** is one of the key elements underlying class membership: **in the interviewees' perception, it is the key aspect** for the inclusion in the middle class (42% rank it first). This is followed by **educational level** (21%), **assets** (19%), and

lastly **intellectual work** (18%).
The crisis has not only **halted the social rise** towards the middle class. Since 2009 the lift has **been falling**: for the first time in the history of post-war Italy, a middle class generation declare they **are a step back compared with their parents**. Even though on some specific aspects of their lives, interviewees think they have **an advantage** over their parents (access to education, travel, main house, car), a 45% proportion of the sample believe they are living in worst material conditions than their parents. **The balance between improvement and deterioration overall amounted to -21%**. Taking into consideration ages, the negative balances vary from -64% for eighteen-year-old people to -19% of fifty-year-old ones, with only sixty-year-olds being close to balance (-4%) (of which, however, only 15% still work).

- **Middle class: lesson learned from the crisis.** The **standard of living** of the middle class **has been hit by the crisis:** 25% of interviewees have cut on car purchases, 60% on holidays, hotels and restaurants, 35% on shows, 24% have given up private medical care. But the issue is probably more complex. **The crisis has hinted at a turnaround that has brought some changes in consumption patterns**: as a result, people have been compelled to review the priority of their values. While the cuts affecting clothing and accessories amount almost to 50%, the reduction of the expenditure incurred for sports and recreational activities lies instead between 5 and 11% and is the lowest in absolute terms: for the first time in almost fifty years, bicycles are sold more than cars. The *middle class* spends and will spend increasingly less, but **it will make up for it with the quality of and awareness of its expense**. **The process is fully underway**: it won't even relent with recovery, but it may also inspire the creation of occasions for initiatives and investments.

- **The expectations on the future of children have changed.** Middle class parents foresee **hard times** for their children, who, unlike their parents, can only benefit from easy access to education. These expectations will hopefully be mitigated by economic recovery, but in the meantime they induce **real savings behaviours in favour of children**: 26% of the sample (with children) are setting aside their money to finance **education**, including abroad; 13% are saving to buy a **home** for them; 7% are setting aside funds to **start up a business** to pass on to their children; 22% of the *middle class* anyway is saving for **inheritance** purposes.

- **Savings priorities have changed.** The usual question about the income was related to its sufficiency to support the standard of living (balance in terms of current income) and the expected sufficiency upon retirement (balance in terms of future income). **The balance in terms of current income**, albeit positive with a figure of 40, has decreased by 21 points as against 2007; the declining trend is repeated in the event of a **balance in terms of future retirement income**, from +36 to +6%. The erosion of income satisfaction probably began to cease at the end of 2014 and only the final data for 2015 can reveal whether the hoped-for trend reversal has taken place.
During the crisis there was also a drop in the percentage of *middle class* persons who managed to save (from 54 to 42%).
The peculiarity of such a long crisis **has strongly affected the reasons** behind middle-class savings attitude. In **2007** it mainly saved money to buy a house, secondly for unexpected events; the desire to supplement the retirement pension was felt in the middle age, probably late, but still it emerged. In **2015**, house purchase has almost disappeared, whereas the desire to renovate a privately owned house is

noted and, as stated above, the need to save for children has become all the more apparent.
According to survey results, the middle class may be estimated to produce **an annual savings flow of 25 billion**, which must be supplemented with the flows from coupon, dividend and *capital gain* reinvestment. **Short-term yield** and **capital growth** only come after **security and liquidity** for the middle class upon allocating the 25 billion funds, and together, only amounts to 28% of the *"wish list"* of investors (more or less as in 2007).
For investment purposes, the *middle class* continues to prefer **the advisory role of its bank** (68%); between 2007 and 2015 **it has reduced direct investments on the Stock market** (from 23 to 5% of the sample) and **toward asset management instruments** (from 17 to 9%), in favour of a combination of liquidity and bonds. 8%, however, bought **a house in 2014**. This may show a renewed interest for real estate. Note that here the estrangement is not so much attributed to the dissatisfaction for past purchases, as rather to the increased management costs as a result of higher taxation. It may be that, with less troubled times and house prices still maintaining the current moderate levels, a portion of middle class savings is, perhaps partially, invested in property.
Middle-class debt has fallen as against 2007: the proportion of those with an existing loan has dropped from 26 to 21%, whereas consumer credit has remained stable at 18%, as opposed to the increases affecting other countries, such as the United States.
The middle class **does not feel secure,** neither for investments nor for important expenses: as a consequence, over many years, the markets for durable goods as well as for property were not the target of the demand by a segment of the population, estimated between 23.5 and 25 million people.

- **The desire for a comeback.** What is the middle class saver waiting for to recover a leading role? Italian *middle class* has long been waiting to see a shift of perspective away from contraction: when questioned about its aspirations for the future, it declares that, **in the first place**, **it wishes the crisis were over. Secondly it mentions employment security, and as third item peace of mind in retirement**; lastly, 30% of young people below 35 years and, 18 and 11% of the members of the two older groups (35-44 and 45-54 years) respectively, would like to **purchase and/or move house**. The **potential demand**, pegged to the recovery and the reconstruction of an adequate climate of confidence, includes such expenses as house renovation, a new car, purchasing a new house, starting up a business, as well as any extraordinary expenses for children's education.

The «dream» may be cherished again, but this will not put an end to the dynamics that have eroded middle-class structural foundations. In order to achieve the same figures as a decade ago, the Italian economy should grow on a quantitative as well as qualitative basis (better quality of the new jobs created and a development distribution that gives greater consideration to the middle class).