

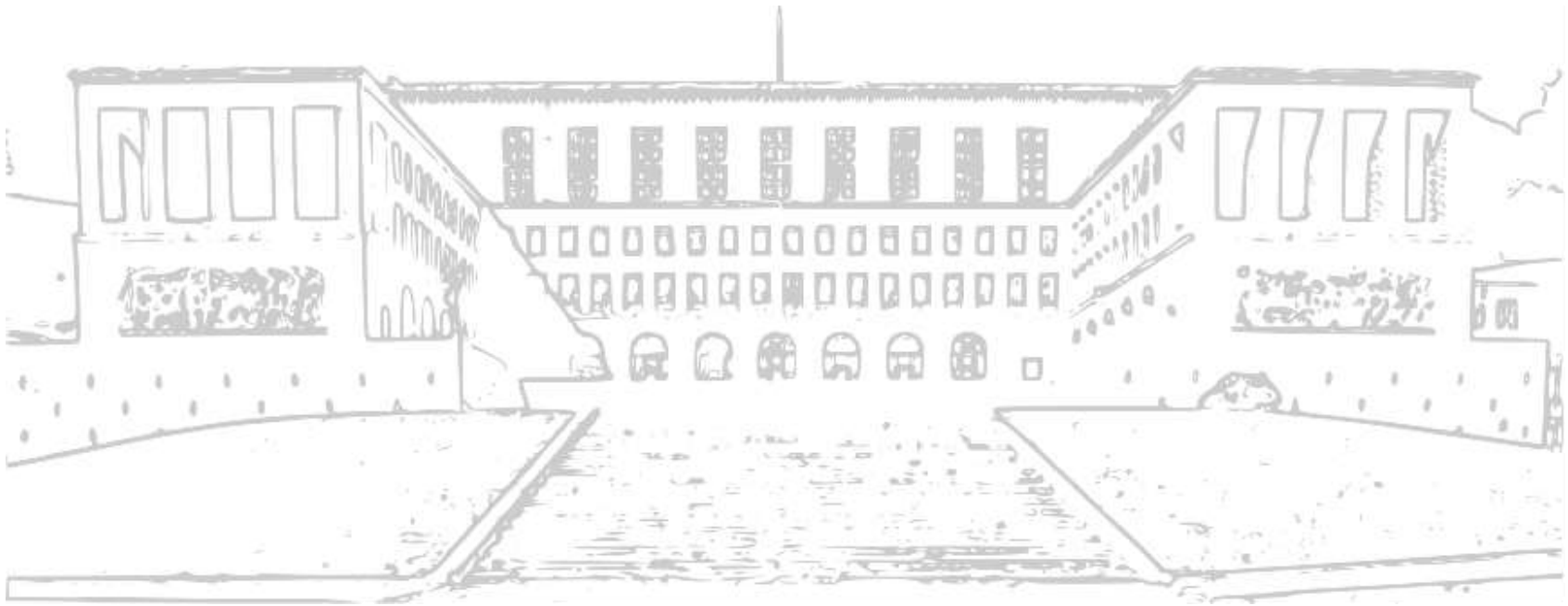
# FINANCIAL MARKETS AND INSTITUTIONS

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## OTHER INTERMEDIARIES

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**DEAMS**  
University  
of Trieste

# AGENDA



- Other intermediaries with specialized business models
- FinTech
- Mutuality in finance

# FINANCE COMPANIES

- **Specialised** in customers (f.i. consumers) or products (f.i. leasing)
- Funds from **money markets** (no deposits), **equity** and **bonds**
- Assets with **higher credit risk**, **fewer regulatory constraints**
- Funds raised mainly in money markets (but also stocks and bonds), targeting high volumes of small-sized short/medium term loans:
  - **Lower liquidity risks (no deposits)**: still no secondary market
  - **Lower interest rate risk (shorter duration)**: still A/L gap
  - **Higher credit risks**: more concentration (geographical, customers, ...), more limited selection/monitoring tools → higher interest income
  - **Lower level of regulation/supervision**: still subject to disclosures and protection of retail borrowers/savers
- Frequently, **captives**



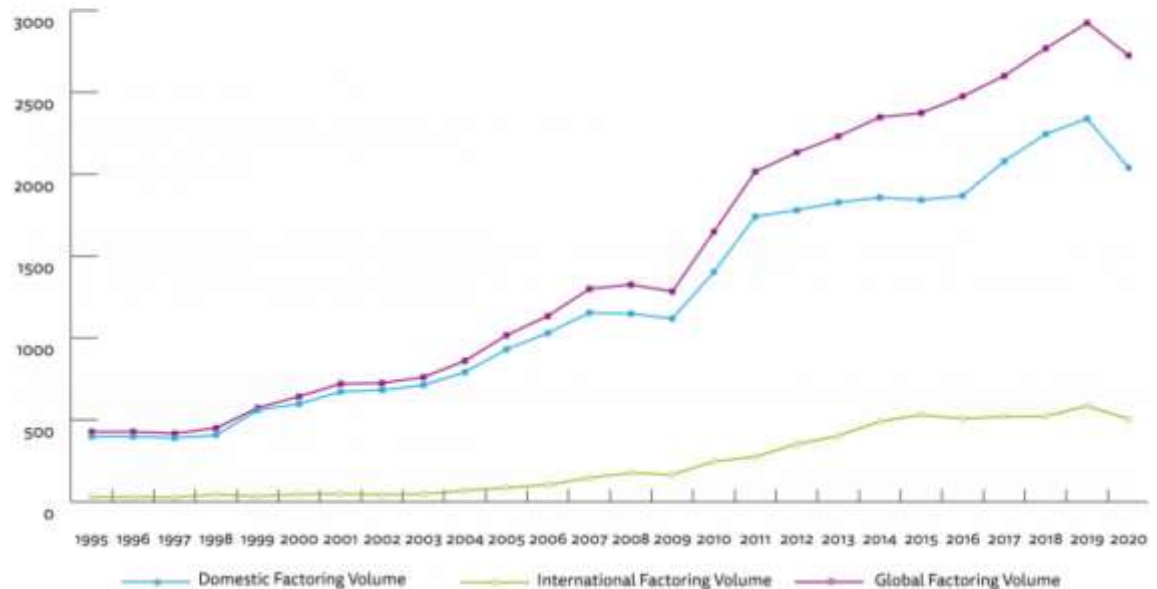
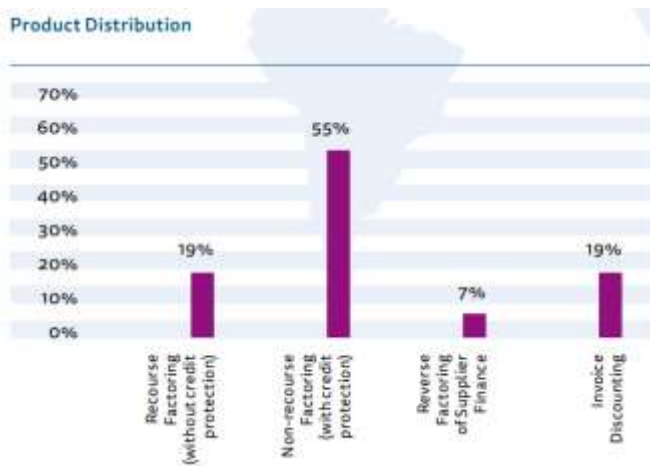
Audi  
Financial Services

# FINANCE COMPANIES

## 1) factoring: FCI data

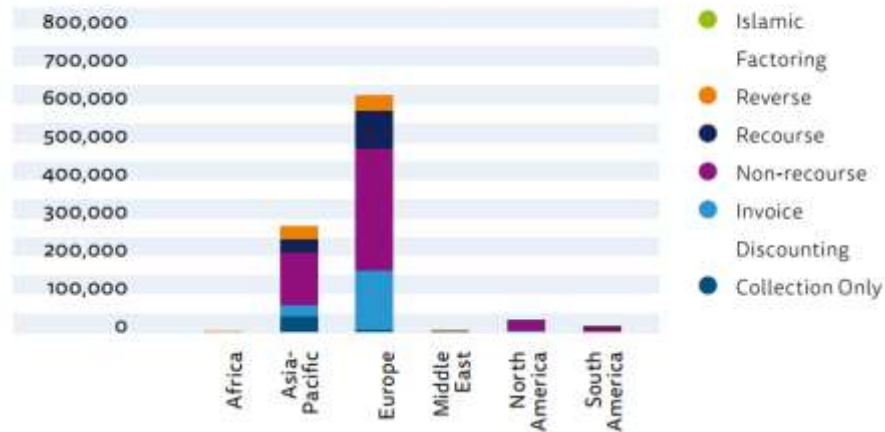
- commercial credit: not only financial needs – administration and guarantees
- sums discounted (credit) or simply cashed in, with or without recourse
- *reverse factoring* originated from debtor (f.i. key companies in complex value chains)

## Evolution of Global Factoring Volume (in Euro billions)



# FINANCE COMPANIES

FCI Members Domestic Volume 2020



Share of 2020 FCI International Factoring Volume



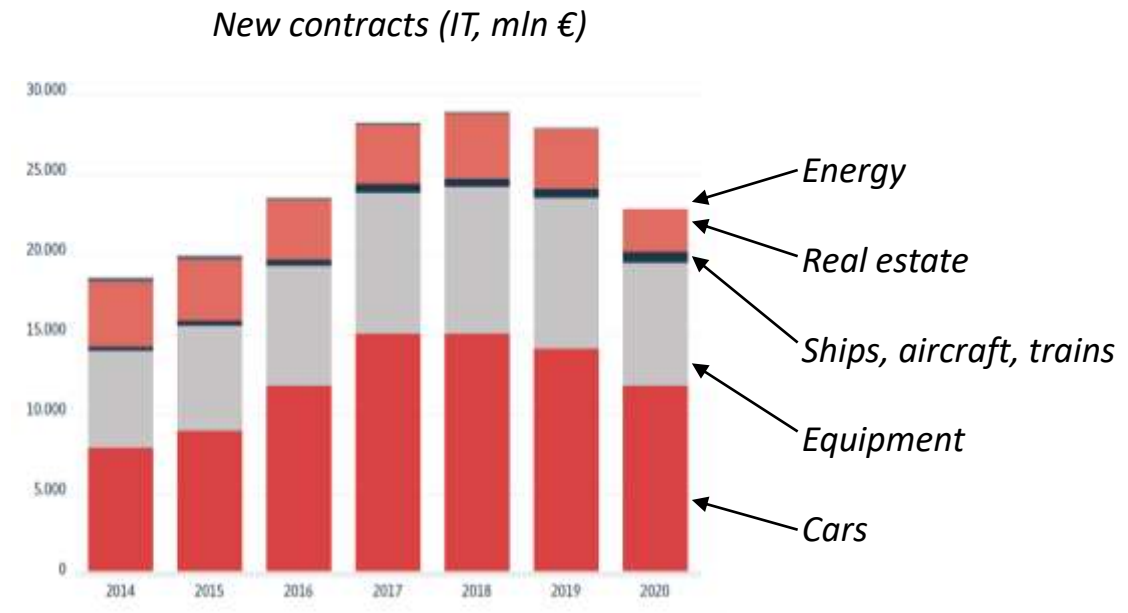
Share of 2020 FCI Factoring Volume



# FINANCE COMPANIES

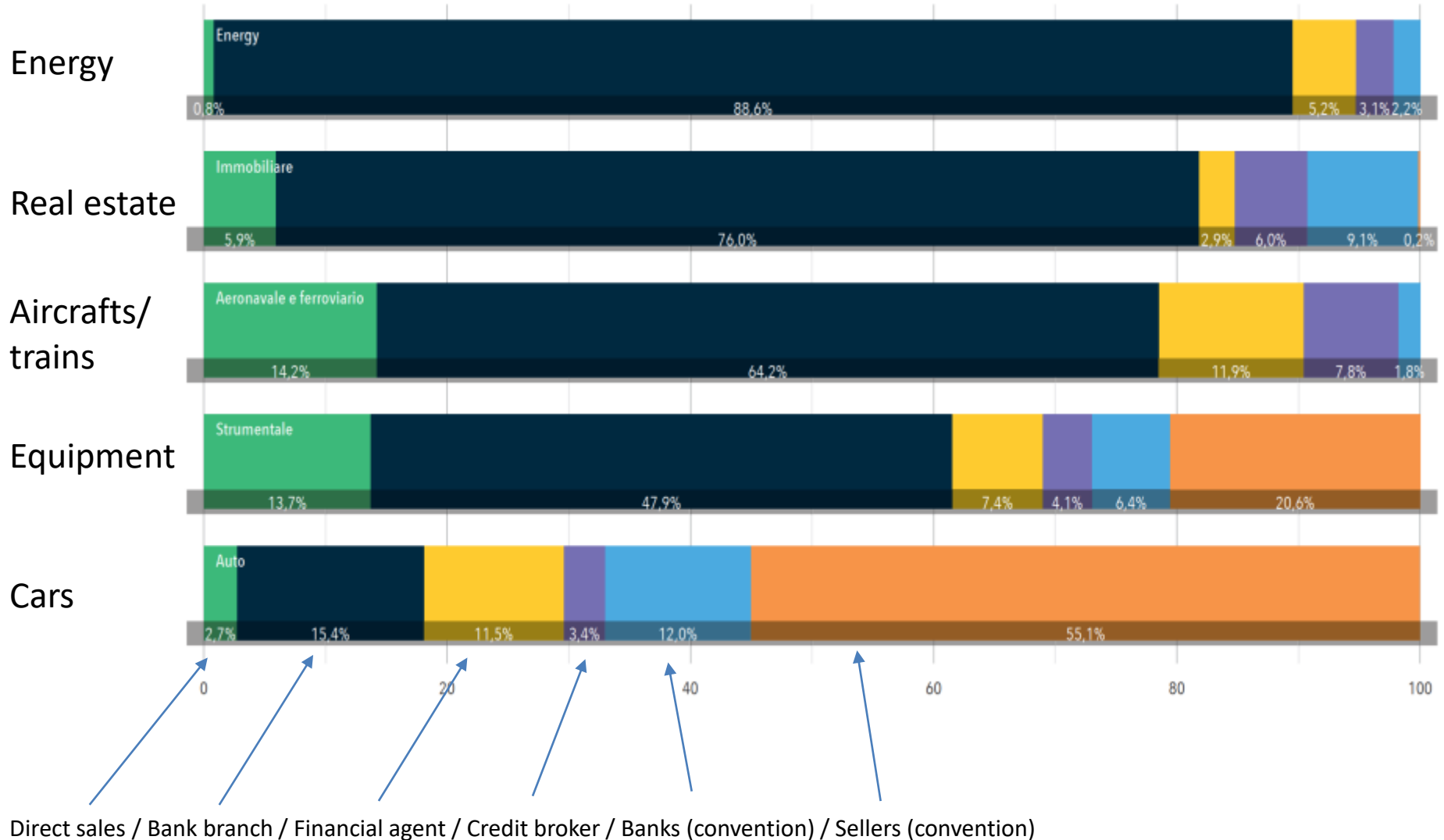
## 2) leasing: Assilea data for Italy

- on real estate, equipment, ships, aircrafts, cars, ...: using an asset without ownership
- chance to redeem or not the asset at the maturity date
- operational (from constructor/maker) or financial (from financial intermediaries)
- substantially, borrowing (payment of principal and interest), formally renting
- again, offering additional accounting, administration and tax advantages
- *(sale and) lease-back*



# FINANCE COMPANIES

Assilea data for Italy (distribution channels)

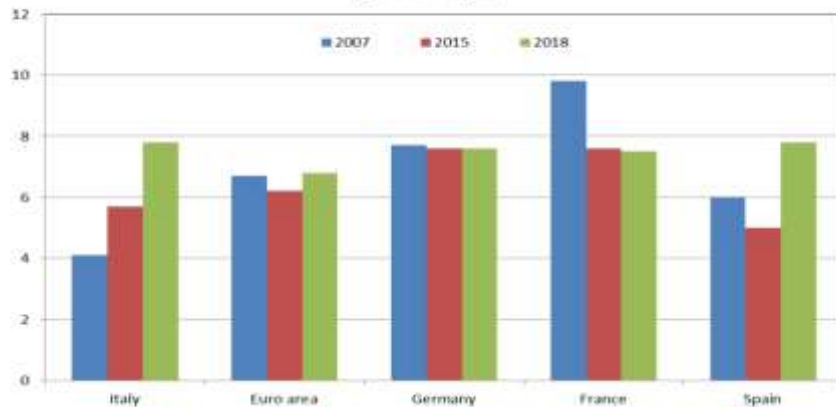


# FINANCE COMPANIES

## 3) Consumer credit: Bank of Italy data

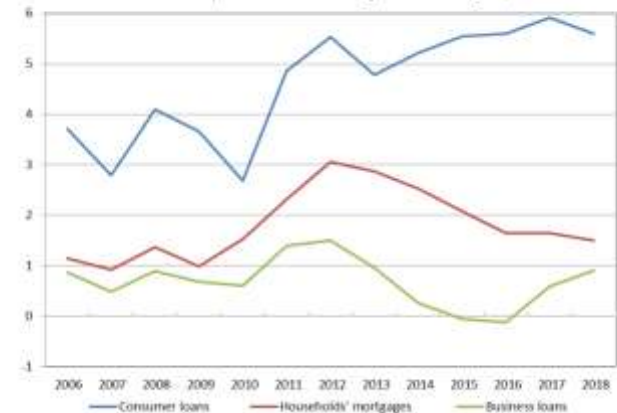
- purpose: current personal consumption (usually with limits, f.i. 200-75.000€, other than real estate and debt refinancing)
- protection of retail borrowers strong in most countries (transparency, contracts, ...)
- many technical forms with huge cross-country variation (from direct debit to salary to revolving credit cards, ...)
- may require personal or insurance guarantees

**Figure 4 – Ratio of consumer credit to non-financial private sector total loans (percentages)**



Source: ECB Statistical Data Warehouse.

**Figure 6 – Risk-adjusted returns on different assets for Italian banks (annual data; percentages)**



# FINTECH

## Top reasons customers adopt banking services from non-traditional players



**70%** attracted by low-cost offerings



**68%** seek ease of use



**54%** want faster service



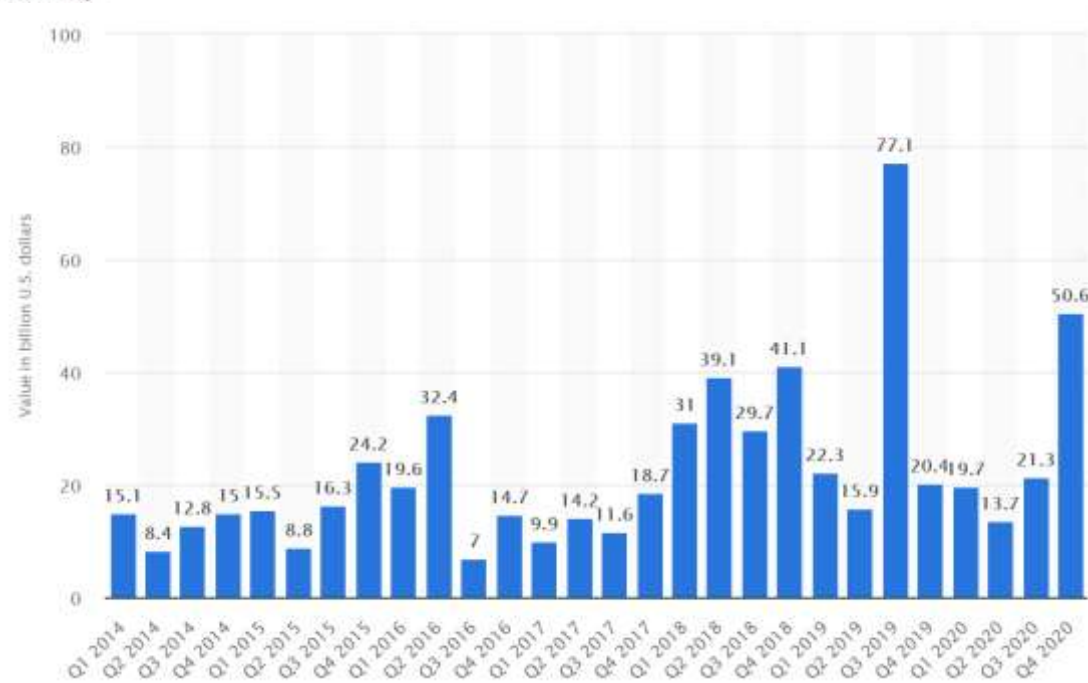
**39%** pursue better features



**39%** want personalized products

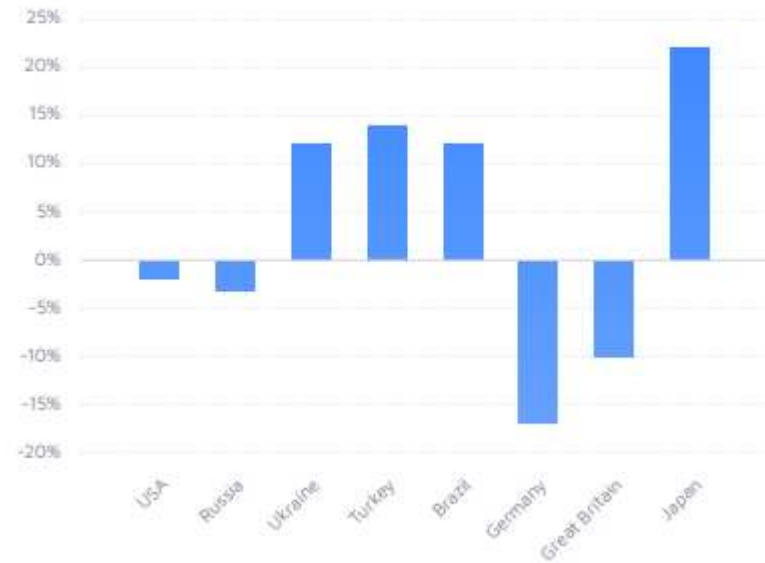
## Value of investment in Fintech globally from 1st quarter 2014 to 4th quarter 2020

(in billion U.S. dollars)

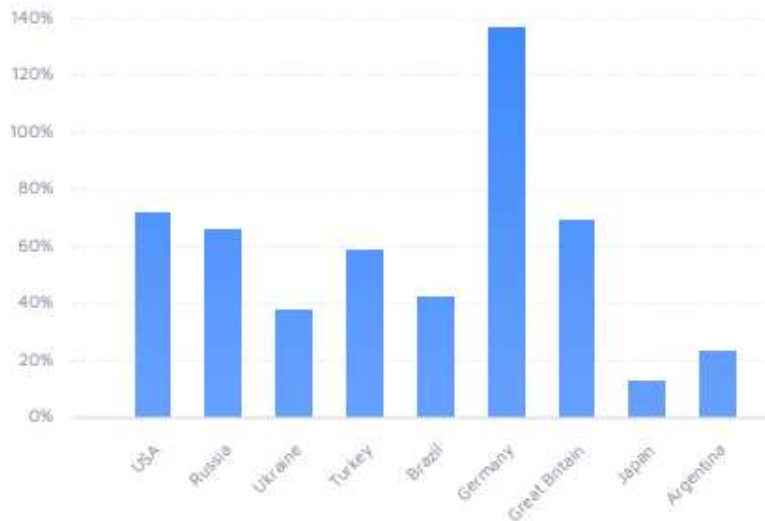


# FINTECH

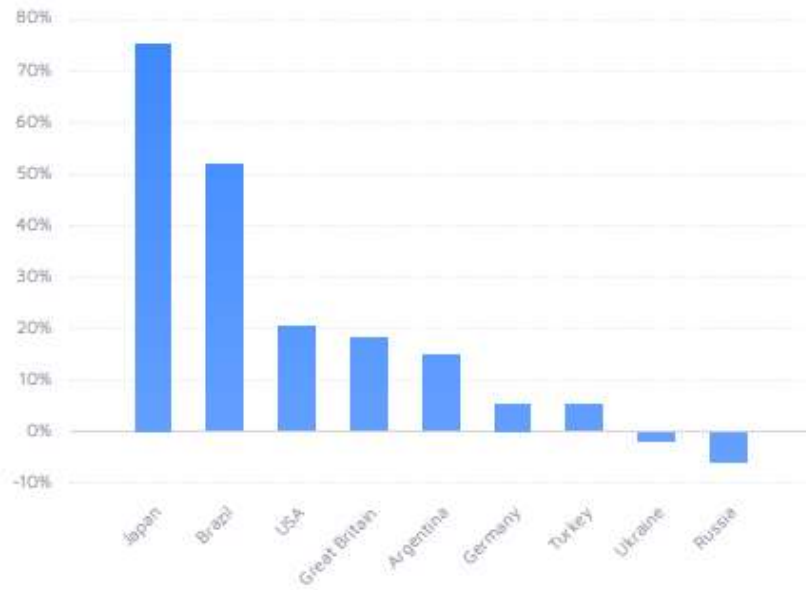
Banking app install growth H1 2019 to H1 2020



Investment app install growth H1 2019 to H1 2020



Payment app install growth H1 2019 to H1 2020



# MUTUALITY AND FINANCE

- Issue: limited supply for funding a **large number of small operations**
- Different models:
  - Originally: urban (Schulze-Delitzsch, Luzzatti) and rural (Raiffeisen, Wollemborg) **credit unions**
  - Today: **cooperative banks**, but also **Islamic finance** and **microfinance**
- **Undistributable profits, maximum share ownership** and **headcount voting**: agency issues, lower efficiency, smaller scale
- Some conflicts of interest with politics and “relaxed” regulation (f.i. 1980’s S&L US)
- Today very close to non-mutuals (products, supervision, ...), yet tax advantages
- Not only banking: MGCI offer **guarantees** to access bank loans

