

***ASSOFIN - CRIF - PROMETEIA* CALCOLO**

ABSTRACT

RETAIL CREDIT SURVEY

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INTRODUCTION

Starting from this issue, this Survey will broaden its analytical horizon to encompass the total market of lending to families, viewed as single entities-clients with unique, changing financial needs that must be satisfied through different means.

In line with this approach, the topics of analysis in this issue will include buying behaviour and the various forms of borrowing as regards both current consumption or the purchase of durable goods and real-estate transactions.

As in its previous issues, the Survey is articulated in five chapters, each of them dealing with different aspects of the family loan market. The last part of the Survey also features territorial overviews with a detailed summary of the main statistics that specifically characterise the retail credit market in each region and their trends over time. The aim is to provide the most complete picture possible of the specific features relevant to this market in individual regions as well as the relative positioning of the provinces within each of them.

The first chapter describes the macroeconomic scenario, also on a worldwide level, mainly focusing on the trend of the most relevant variables and the drivers of demand, indispensable for delineating a reference context in which to interpret the trends in consumption as well as in the family loan market.

The second chapter compares the dynamics of development that have characterised the market's main financial operators (banks and specialised financial institutions) with reference to:

- overall market performance;
- trend in individual forms of credit;
- breakdown of loans provided according to product sector¹.

The third chapter focuses on the topic of risk in the retail credit sector, in particular on the trends of the global market risk over the last 24 months by means of the risk indexes processed on the basis of information contained in the CRIF database.

The fourth chapter illustrates the forecast scenario both for the consumption of durable goods - broken down into the main product sectors - and for the retail credit market, the latter considered on a nationwide level and in terms of individual territories. A nationwide "index of coverage of durable goods consumption" has also been calculated for different product sectors. It provides an interesting indication as to the level of market saturation by "historical banks" and specialised intermediaries. The territorial forecasts, based on aggregate data for macro-areas, are specifically itemised in the regional statistics included at the end of the Observatory.

As above mentioned, the fifth chapter is dedicated to the analysis of the characteristics of both the short-term and medium/long-term indebtedness of Italian families towards financial institutions. The aim of the analysis is above all to determine whether there is a correlation between retail credit and loans from the standpoint of the socio-economic-demographic features of final users in order to assess the importance of different market segments within the overall realm of families-clients.

As always, the Observatory relies on:

¹ In this issue as well, in the attempt to make the comparison between the world of "historical" banks and the world of specialised financial institutions more meaningful, the various product categories for which loans are requested have been redefined in order to construct a common language permitting an analysis of homogeneous sectors. The same product sectors represent the base of reference for the forecast of consumer trends reported in Chapter 4.

- the CRIF Credit Bureau instalment credit *database*, as well as CRIF's expertise in processing data relative to credit risks and trends in this market;
- the information resources and forecasts of Prometeia, as regards macroeconomic and consumer market forecasts and data;
- the cooperation of ASSOFIN, Italian Association of Consumer and Real-Estate Credit, which is made up of and represents various financial operators in the retail credit and real-estate loan sectors.

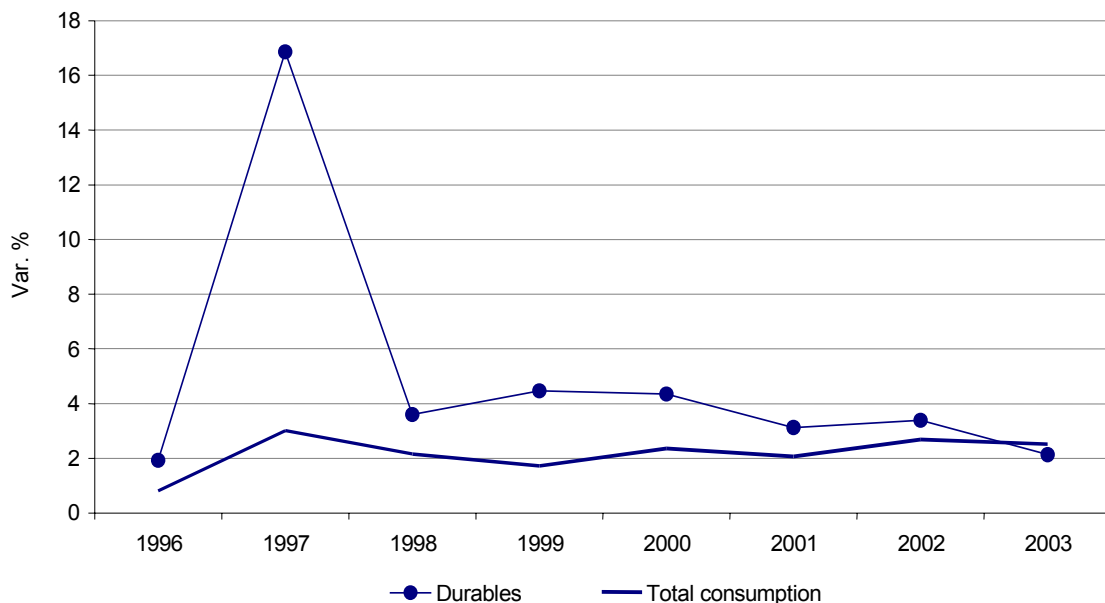
REPORT TOPICS

In the first six months of 2000 the retail credit market once again confirmed the optimistic forecasts published in the previous issue of the Survey. In June 2000, in fact, the overall growth rate of this market was higher than 20% and the trend reported up to now is expected to remain substantially unchanged in the current year. Consequently, at the end of 2000 the total credit allocated should exceed 70 trillion lire, reaching about 110 trillion lire in 2003.

As noticed in the previous issue, the uptrend in the retail credit market can be ascribed to the general economic recovery which, together with expectations of a less restrictive fiscal policy, has resulted in rising confidence among families.

The shock of soaring oil prices has not substantially influenced the future prospects for the Italian economy. The effects of such a soaring have had only a marginal impact on family consumption, especially in the sectors of durable goods and services. This circumstance is due only in part to incentive policies aimed at the motorcycle and building renovation sectors, while in the automotive market the end of incentives has been partly offset by pricing policies designed to support demand.

Fig. 1 CONSUMPTION OF ITALIAN FAMILIES: TRENDS AND FORECASTS



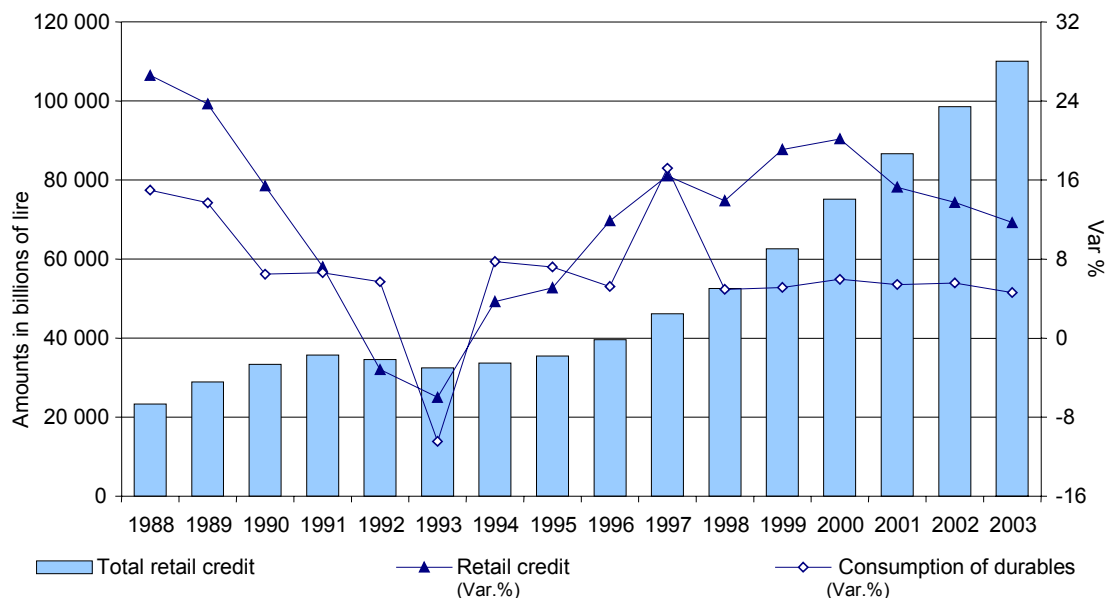
The growing tendency of families to borrow money to finance their purchases has been further increased by the reduction in the real unit cost of loans. Though slightly higher than at the end of 1999, such a cost remains at considerably lower levels than in the previous years.

As regards the trend in the credit allocated by different financial operators, there has been no substantial change in the relative positioning assumed by "historical" banks² and specialised financial institutions at the end of 1999. A wide disparity remains, though in the current year banks seem to have partially narrowed the gap historically separating them from specialised intermediaries as a consequence, among other things, of precise business development strategies designed within a group framework.

² This term refers to the aggregate of banks, deducting the values relative to specialised financial institutions that have subsequently transformed themselves into banks.

In the current year, while financial institutions will continue to grow at a rate of about 25% (down from 28% in 1999) and about 19% in 2001, the growth rate of 9.3% reported for “historical” banks in 1999 will rise to a peak of 13% in 2001 and then progressively decline to 6% in 2003.

Fig. 2 RETAIL CREDIT: TRENDS AND FORECASTS



As far as the individual forms of credit are concerned, personal loans, in the case of “historical” banks, and loans contracted for specific purchases, in the case of specialised financial institutions, continue to represent over 80% of the credit provided. Current trends have shown some increase in loans granted by banks to employees secured by their advance of one-fifth of salary; specialised financial institutions have likewise seen a fairly substantial increase here. Both categories of financial operators have witnessed a significant increase in the use of credit cards, coherently with the strong upward trend that has marked the sector of both traditional-type debit cards (which will also continue to grow at a rate equal to or greater than 20% in the forecast period) and revolving credit. In the latter sector, in particular, even operators that have not traditionally been present in the market in question have shown a relative vivacity in their offerings.

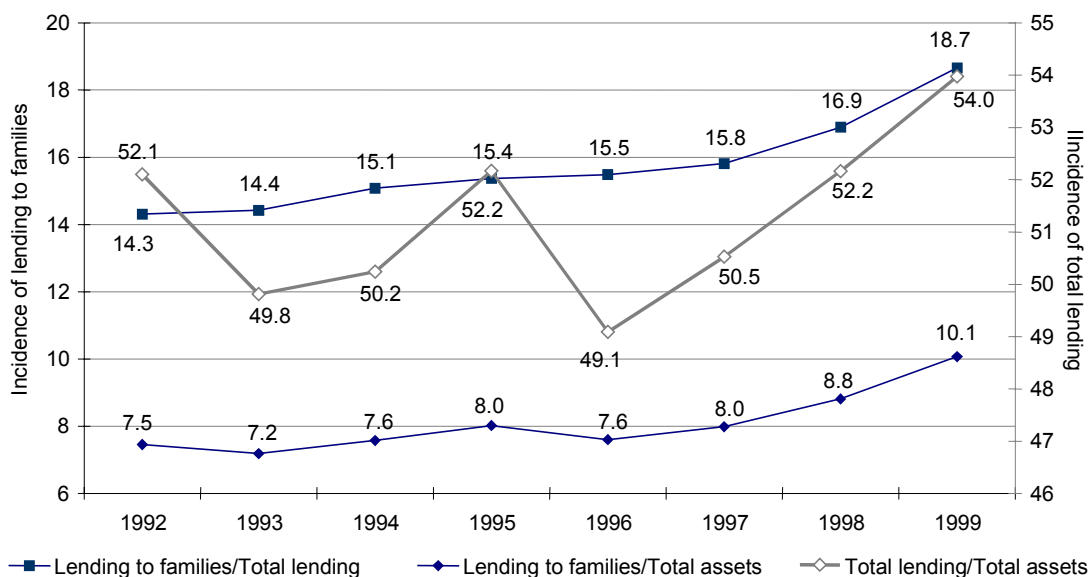
The delinquency rate, averaging at 3.2% between June 1998 and June 2000, and substantially equal for banks and specialised financial institutions, seems to have by now settled at a normal level. The breakdown of risk by segments points out again how the delinquency rate appears to be inversely correlated with both the amount borrowed and the contract duration. This correlation may be explained by the more strict selection standards applied by lending institutions to clients who are applying for larger sums and for longer-term contracts.

The analytical approach adopted in this issue of the Survey diverges from the product-based logic marking the analyses relevant to previous issues. The substantially unitary nature of the family-client and its financial needs has in fact imposed a broadening of the scope of investigation to include the whole sector of lending to Italian families.

The analysis conducted reveals first of all that the family-client has taken on a bigger and bigger role: the incidence and importance of families within the context of global lending have shown a constant, progressive increase even in periods marked by a general decline in borrowing. The weight of families in the demand for loans appears even greater if two further aspects are taken into account: the volumes of credit obtained with redemption periods of less than twelve months do not figure in the year-end totals and the statistics relative to several financial companies that operate mainly in the consumer credit sector are not included in the data used for the analysis.

An examination of the data regarding bank loans to families moreover confirms that in recent years the composition of the financial debts of families has changed. Though in terms of loan duration there is a substantial stability in the forms of indebtedness within the system - which results in a balanced distribution between short-term and medium- and long-term borrowed capital - families represent a sector that is constantly increasing its indebtedness beyond the short term. In reality, Italian families are relying more and more on retail credit and on longer-term credit (the latter in order to finance the purchase of durable goods through loans with a repayment period extending beyond the limits of retail credit, or to finance purchases of real-estate).

Fig. 3 TRENDS IN LENDING TO FAMILIES



Looking at the characteristics of longer-term lending, it may be noticed that loans have evolved from a mere form of credit offered in a standardised fashion into an image-defining product essential to the strategy of banks towards specific segments of families. Two factors have further contributed to this: an external factor tied to the entry of specialised foreign operators and an internal factor tied to the importance assumed by the taking out of a loan in the context of the family budget. The loyalty-building efficacy of a loan directly derives from its extended duration, which is conducive to a growing familiarity with clients and a progressive enhancement of client relations through services aimed to improve the financial situation of the family and satisfying its contingent needs during the repayment period. The repeated occasions of contact and interaction with the client and the bank's capacity to meet the client's needs enable the bank itself to engage in constant cross-selling initiatives that may serve to increase the overall returns from families-clients.

An examination of the microeconomic aspects of the demand for loans reveals that in the last two years they have in almost every case been requested for the purpose of buying, building or remodelling homes. The sample used for the analysis may be broken down into four classes, according to families' recourse to retail credit and/or loans and the short-term or medium- and long-term nature of the two forms of credit considered; the analysis reveals a sort of "vital cycle" of indebtedness tied to the different needs of families and strictly correlated with their income and housing situation.

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