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Italians turn to credit to finance consumption

by Ornella Castrignano

Ornella Castrignano of Italy-based systems provider CRIF Decision Solutions reports on how changing attitudes to credit in Italy have led to increased demand for consumer credit and mortgage products – and a reduction in the amount Italians contribute to their savings accounts.

Over the last five years, Italian families have been using credit more and more, with an average annual growth of +9.3 per cent. The increase in Italy is higher than that seen in other European countries, even if the overall borrowing level is still much lower than the European average.

For some time now, Italy has been experiencing changes in families' financial habits – in short, attitudes have changed with regard to the use of credit. This structural change can be related to a more general evolution of

levels seen in other European countries. Propensity to save was registered at 22.6 per cent in 1995 and came down to the lowest ever level in 2002, when the propensity to save was recorded at just 13 per cent.

The UK, Germany and Spain show steadily lower and decreasing levels of saving compared with Italy since 1999 (the only exception being France). Recently, this more pronounced Italian saving tendency, stronger than the European average, has diminished greatly thanks to a progressive harmonisation in financial behaviour, even if the differences

The study included in-depth research on different aspects of the Italian retail credit market, bringing together data from the CRIF Group credit bureau, provisional analysis models from research consultancy Prometeia and the expertise of Italian credit industry trade body Assofin.

The international comparison also underlines that in countries where families have more evolved financial behaviour, borrowing continues to be widely used to satisfy present needs.

In Italy, the tendency to finance consumption by using credit is set to increase faster than in other European countries and to reduce, if only partially, the gap that characterises Italian families' financial behaviour compared with the European average.

Credit card market

Credit cards have gained increasing importance. Data from recent research into credit cards conducted by decision support systems provider CRIF Decision Solutions and research specialist Eurisko show that in Italy the use of payment methods other than cash is below the European average: cash/cheques are still used for 80 per cent of payments, compared to a European average of 60 per cent.

However, the market's increasing propensity toward payment cards is confirmed by the continual increases reported in this sector, which grew by 8.8 per cent in 2002. In particular, the growing ratio of active cards to the total number of cards issued is evidence that consumers feel increasingly comfortable with this payment method.

In 2002, the usage rate for bank-issued cards – predominantly charge cards – was 53 per cent compared to 51.7 per cent in 2001. The usage rate for cards issued by institutions other than banks – mainly revolving cards – was over 40 per cent (versus 37 per cent in 2001).

Over the past three years, the market has also seen strong growth in the distribution network, which has undergone significant expansion and consolidation. In 2002, the number of POS terminals increased by 9.4 per cent and the number of cash machines

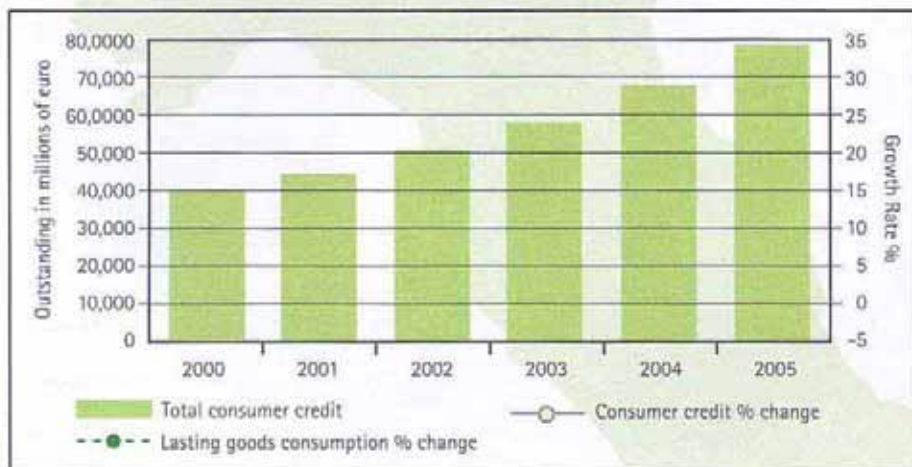


Figure 1: Italian consumer credit market

Source: Retail Credit survey by Assofin - CRIF - Prometeia

socio-cultural habits and values; the use of credit is now viewed as a way of allowing today's needs (and desires) to be satisfied by tomorrow's income, without breaking into savings that stabilise and supplement Italian families' financial well-being.

The forecasted trend in consumption and the changes in demand should translate into an increase in the use of consumer credit, both for banks and financial institutions. On the whole, growth in consumer credit during 2004 is expected to reach about 15 per cent.

Italians' financial behaviour

Saving habits show a downward trend in Italy; the same is currently seen in many European countries, but more so in Italy where levels of saving are dropping down to the average

remain considerable with regard to amount.

Levels of borrowing by Italian families give a general indication about the evolution of borrowing propensity and highlight the fact that the increase in borrowing among Italian families is actually a common phenomenon in all European economies. The main reasons for lower borrowing propensity among Italian families can be found in their saving habits, intergenerational capital transfers and, above all, the high interest rates that have characterised Italian middle-term borrowing in the past.

A recent study published by Assofin/CRIF/Prometeia highlights that this phenomenon doesn't just depend on a decreasing trend in available income. On the contrary, it confirms that Italian families use credit as a planning tool for financing their needs.

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by 9 per cent, as a consequence of the promotional drive launched by banks and specialised financial institutions and the growing receptiveness of the retail industry to payments by credit card. In this respect, Italy surpasses or is line with European averages.

According to data published by Banca d'Italia, the number of credit cards has risen to 21,757,000; according to an estimate from Assofin, which also takes into account non-banking institutions, the number of revolving cards had reached 5,865,000 by the end of 2002. Many banking institutions are entering the revolving card market, often through business units or ad hoc companies.

Furthermore, growth trends show that significant progress is being made by co-branded and prepaid cards, which are benefiting from new business opportunities and poten-

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tially wider distribution. There is ample room for growth and increased card distribution in the sector of product-linked services. At present, cardholders are not very aware of these services, but market players are starting to use them as a valid tool for building loyalty and customising their portfolio.

The market positioning of revolving cards is different. These cards are most popular with the Italian middle classes and entrepreneurs. However, they are also adopted by users belonging to lower socio-economic segments, who need concrete help in managing their families' finances.

In terms of the revolving card market – which is gaining increasing visibility in Italy – there is huge potential for growth, especially among customers with a medium/medium-high socio-economic profile.

Competition in this market is only just beginning to hot up. The Italian market offers fertile ground and sizeable potential returns, favoured by the current positioning of brands, which consumers perceive to be fun-

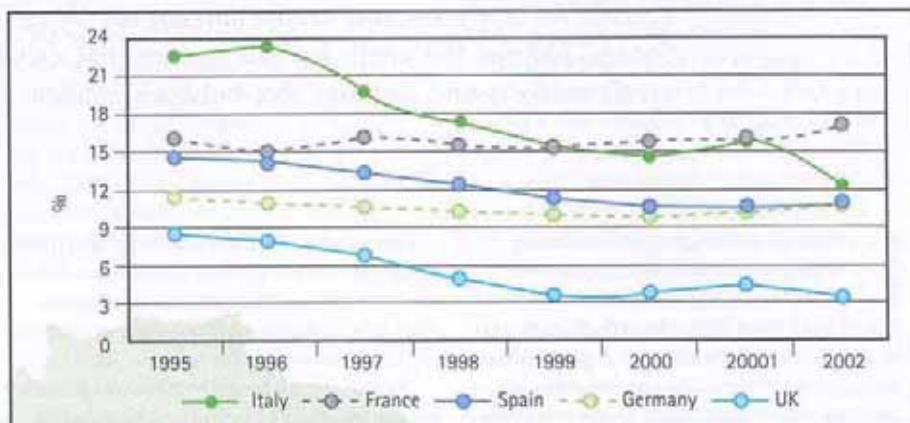


Figure 2: Borrowing propensity evolution (percentage) Source: Retail Credit survey by Assofin - CRIF - Prometeia

damentally similar. There are big opportunities for individual players to differentiate themselves, in terms of service and product value, by undertaking initiatives aimed at boosting visibility and brand awareness within the market.

The mortgage market

The Italian residential real estate market has shown considerable evolution over the past few years. A strong growth in demand is now being seen after years of substantial stagnation. At the same time, the property loans market has also grown, making a progressive change in Italian families' approach to credit. In June 2003, the total amount borrowed by Italian families was equal to €300bn (approximately US\$363bn), representing growth of about 11 per cent.

The constant growth in demand for mortgages is due in large measure to the following factors:

- market interest rates, which have been steadily decreasing since 1996 and are progressively making loans more convenient;
 - real estate market conditions, which have seen significant price increases over the last few years which, in turn, have stimulated the need for credit to finance real estate purchases;
 - owning property is viewed as far more desirable than renting;
 - the presence of considerable family savings, leading to an increase in property buying (partially due to the lack of incentives for other kinds of investments);
 - the availability of more advanced financing tools, with longer term maturities, higher loans-to-value and more flexible repayment planning.
- In particular, longer-term credit has

allowed more young people and low-income families to access credit, thanks to reduced uncertainty regarding the ability to regularly pay back the instalments. This trend has evolved despite the increase in property prices, which has upped the average mortgage amount. In 2003, about 31 per cent of the demand was for property loans over €100,000 (approximately US\$120,000), compared to 14 per cent just two years before.

Increased borrowing

Considering that the socio-cultural value Italian families place on owning their own home remains higher than in other geographically and socio-economically similar European countries (such as France, Spain, Germany and the UK), it is important to point out that borrowing propensity is increasing quickly although it is still very low in absolute terms.

Comparison with more recent international data shows that less than 10 per cent of Italian families have taken out property loans, compared with 42 per cent of Dutch and 32 per cent of UK families. This leads us to believe that these sharp growth levels in the property loans market will continue in the years to come.

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