

# *Characteristics of the Demand for Italian Shares*

**T**he distribution of the demand for shares among the main institutional sectors of the economy constitutes an important tool for evaluating the role and prospects of the stock market in the economic scenario of a Country. Assessment of the breakdown by sector - foreign investors, holding companies, banks, institutional investors, households and Government - for the Italian stock exchange capitalisation for the second half of the 90's in fact makes it possible to highlight the changes that characterised during this period decisions relating to savings and allocation of financial resources. Borsa Italiana has studied the composition of shareholders on the Stock Exchange and has put together an overall picture that provides interesting causes for reflection.

## **COMPOSITION OF THE DEMAND FOR ITALIAN SHARES**

The capitalisation of Italian listed shares is 85% ascribable to internal demand (banks, households, banking institutions, holding companies, institutional investors and Government) and 15% to foreign demand (chart 19). The Italian stock market's level of international opening shows a growth in the average for the 1995-2000 period (the level of over 15% achieved at the end of the 90's compares to 11% in 1995). However, this trend reached a standstill during the greatest period of expansion of the Italian stock market (1999-2000) when, despite the rise in foreign demand, the dynamics for the internal demand for shares were relatively better. The weight of foreign operators is heavier if we consider the total equity turnover composition: the percentage of non domestic buying and selling operations, during the 1998-2000 period, amounted to approximately 40%.

As regards internal demand, the most significant phenomenon which gave rise to a radical redistribution of stock ownership in Italy was the privatisation process of leading Italian companies, both already listed and being listed simultaneously, occurring from 1993 onwards.

The public sector, which in 1996 held more than 30% of total Stock Exchange capitalisation, at the end of the 90's was down to less than 10%. A significant year for this change was 1997, with the Eni III and Telecom Italia privatisation operations, while the sudden rise in 1999 was explained by the privatisation and simultaneous new listing of Enel. Considering that the State currently still holds significant quotas of major companies on the official list (such as Eni and Enel), there is certainly still ample room for a further reduction in the weight of the public sector on Borsa Italiana capitalisation. At the same time, however, a contrary

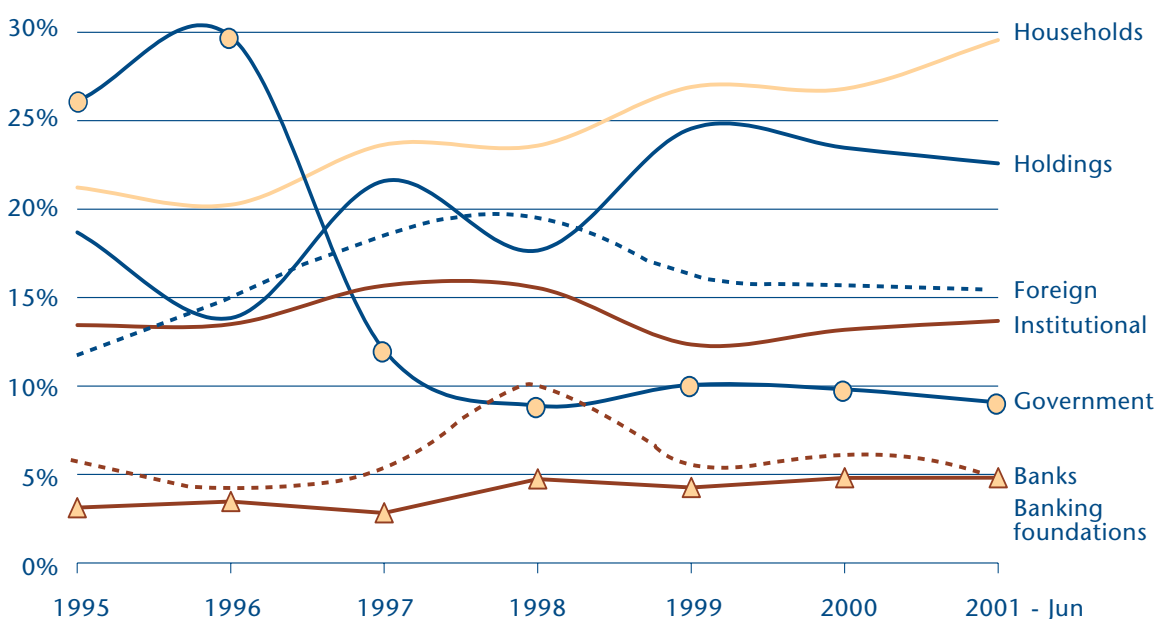
phenomenon is being recorded, with the increase in ownership of listed companies on the part of local public bodies, above all due to the listing of companies in the utilities sector.

The effects of the privatisations have led to an expansion of access to the stock market on the part of Italian households. At the end of 2000, retail investors directly or indirectly held over 40% of the entire Stock Exchange capitalisation. This level appears to have been maintained also during 2001, despite the non favourable trend of the stock markets leading to a heavy reallocation of portfolios in favour of monetary and bond investments.

*40% of Stock Exchange capitalisation is held, either directly or through intermediaries, by retail investors*

The relative weight of institutional investors on overall capitalisation remained basically constant during the 1995-2001 period. Specifically referring to mutual funds set up under Italian law, the relative importance of the ownership of listed Italian shares as a percentage of the entire Stock Exchange capitalisation remained substantially stable at about 5-6%, reaching a peak of 8.1% in 1998 (chart 20). In the second half of the 90's, the mutual funds increased both the total assets under management and the amount allocated to investment in shares: at the end of 2000 almost 40% of total assets under management by mutual funds set up under Italian law was invested in shares, double that invested in 1996. The particularity regarding the behaviour of mutual funds consists, however, in the fact that the increase of the equity quota largely occurred through diversification on the international markets. The relative weight of the foreign shares in fact rose from 10% in 1997 to almost 30% in 2000, while investment in listed Italian shares remained constant at around 10%. On the other hand, 2001 closed with a general shift of fund assets towards instruments

**CHART 19 - BREAKDOWN OF CAPITALISATION OF ITALIAN SHARES**



Sources: Assogestioni, Bank of Italy, Borsa Italiana, Consob and UIC.

with a higher bond content. At the same time, the role played by other forms of managed investment, such as portfolios under management and especially pension funds, responsible for a marginal percentage of share demand, remained at an early stage. The direct access of retail investors to the Italian stock market enabled equity ownership on the part of investor households in 1999 to reach one quarter of the entire Stock Exchange capitalisation and to settle at marginally higher levels in 2000-2001.

To complete the picture for the distribution of Stock Exchange capitalisation between institutional sectors, the trend for banks and holding companies was largely due to specific operations aimed at reorganising ownership structures within the two macrosectors.

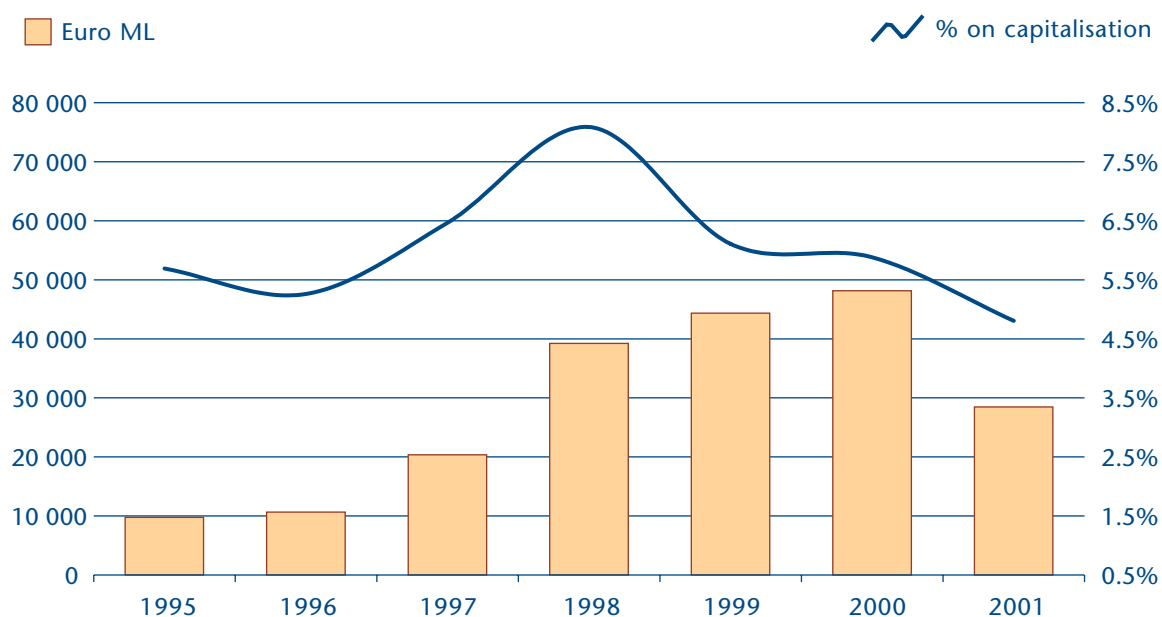
The growing importance of retail as a percentage of demand on the markets managed by Borsa Italiana is ascribable not only to the process of state company privatisation, but also to a combination of macroeconomic circumstances: entry to the European Economic and

*An increasing percentage  
of household financial assets  
is invested in  
Italian listed shares: up  
from 2% in 1995  
to 9% in 2000*

Monetary Union and the end of exchange rate risks; the simultaneous reduction in the returns of Government securities and the exceptional rallying of the stock markets increasing the relative advantage of equity investments. On the supply side, Borsa Italiana also introduced policies intended to enhance the Stock Exchange official list and define different trading environments suited to the specific characteristics of the various securities listed on the stock markets. The pattern of savings allocation on the part

of households has been rapidly changing. Households have converted a significant part of their financial wealth from Government securities (which accounted for less than 10% at the end of 2000 compared to 26% in 1995) in favour of mutual funds (17% at 2000 year-end

**CHART 20 - ITALIAN SHARES PORTFOLIO OF MUTUAL FUNDS**



Note: portfolio is referred to mutual funds set up under Italian law.  
Sources: Assogestioni and Borsa Italiana.

compared to 4% in 1995) and Italian listed shares (9% at the end of 2000 against 2% at the end of 1995). The surveys conducted with investors appear to suggest that medium term investment in listed shares has now become a constant feature of investor behaviour, thus assigning a temporary nature to the general repositioning of portfolios in favour of monetary and bond investments which characterised 2001.

## PROFILE OF THE RETAIL INVESTOR IN THE STOCK EXCHANGE

The importance of the demand for shares on the part of individual investors led Borsa Italiana to organise a sample survey, during 2001, of subscribers of listed Italian shares. This was in order to trace their socio-demographic profile and define the decisional process in their composition of equity portfolios and choice of channels for accessing the market. Special attention was also given to the channels used to carry out operations for buying and selling shares and to the sources of information consulted in order to make and follow up their financial investment decisions.

- The investor in Italian listed shares has a socio-demographic profile that sets him apart from the Italian population, just as it does from investors generally. In fact, the person in question, more than the average for the Italian population, is male (65.3%), although the male incidence as regards overall investors is higher (70.4%). The investors mostly live in the North West (44.1% compared to 26.8% of the population), are relatively young (57.0% are aged between 30 and 49 years) and have a high level of education (29.2% have a university degree and 53.4% a senior school diploma). From an economic standpoint, the most common profession is that of entrepreneur or free-lance professional (22.0% compared to 4.2% of the population) and they belong to a medium-high social class (39.9% of those interviewed).
- On the whole, the investor in question insists on a high level of autonomy in decisions relating to the management of the share portfolio (in keeping with the concept of direct access to the market): 46.3% of interviewees claim they decide autonomously and a further 23.3% decide first and then discuss it with their consultants. Although this outline applies to all investors in shares, the implied level of delegation and the type of advice required is differentiated. Consequently investors in shares may be further broken down into homogeneous groups. If we carry out a segmentation of retail demand (performed through analysis of clusters) three groups emerge which distribute the sample almost uniformly. The first cluster, defined as “enthusiasts” (28.5% of the sample), comprises those who prefer the chance to carry out transactions in full autonomy without any mediation and see this opportunity, present to a much greater extent in listed instruments, as an asset from which they derive value. They generally love to manage the securities portfolio, carefully monitoring investments, and keep regularly informed. This is the most developed section of investors in shares. A second group (35.8%) has been defined as “pragmatists” since these individuals perceive active management of their savings as a duty to which they apply themselves without acting personally, but rather through the critical research of a high quality brokerage service, carefully evaluating the costs and professionalism of those providing them with the service. Those belonging to the third group, the “statics” (35.7% of the sample), perceive savings decisions as a duty calling for a financial preparation they do not consider to possess. They therefore look for total delegation and typically have low-risk portfolio profiles.

- The different level of delegation inherent in investment decisions is expressed through differentiated choices, as regards both the channels used to carry out the investment and the information sources consulted.

- ✦ As regards the intermediaries chosen by investors in shares (table 11), the traditional bank predominates (69.0%), followed at a distance by financial advisors (25.5%) and by on-line means (10.4%). If we consider the breakdown of the clusters, the absolute list does not change, but in relative terms the enthusiasts tend to prefer direct access

*Traditional banks (69.0%) and financial advisors (25.5%) are the most commonly-used intermediaries for share trading*

to the market (18.9% use the on-line channel) and less the traditional banks (53.0%) and financial advisors (20.7%). A higher level of operational and informational dependence in portfolio management tends to privilege those intermediaries and means of carrying out investments, where personal relationships take on an important role, while this need is missing in the case of the more autonomous groups of investors. Among the ways of carrying out an investment in shares, going personally to the bank branch or offices of the sales network is mentioned by 75.4% of static investors but by only 52.8% of the enthusiasts; the position is reversed when compared with on-line channels, which is indicated by 16.9% of enthusiasts compared to 2.4% of the statics.

- ✦ Of the information sources (table 12), the most consulted means are: specialised newspapers (37.6%), general newspapers (23.9%) and financial magazines (13.8%). Even intermediaries are considered an important informational advisory tool: bank employees are mentioned by 28.2% and financial advisors by 20.7% of interviewees; 18.4% mentions family and friends; teletext is indicated by 18.1% and the on-line channel by 18.6% of the sample. Here again, as with the choice of the intermediary, the personal relationship is preferred by static investors while the enthusiasts rely on specialised newspapers and the Internet.

TABLE 11 - INTERMEDIARIES UTILISED TO ENTER THE MARKET

Intermediaries	Total Sample <sup>(1)</sup> %	Clusters <sup>(2)</sup>		
		Enthusiasts %	Pragmatics %	Statics %
Traditional Bank	69.0	53.0	55.7	70.5
Traditional Bank through financial advisors	22.7	18.9	24.9	14.8
On-line bank	9.1	17.1	3.6	4.2
Insurance companies	1.5	1.8	0.8	1.3
Mutual funds	1.1	1.4	0.8	0.8
Mutual funds through financial advisors	2.8	1.8	2.8	2.5
SIM (Investment companies)	2.9	2.8	2.8	2.1
On-line SIM	1.3	1.8	1.6	-
Individual stock-broker	2.8	0.9	5.9	-
Other	2.1	1.4	1.2	3.8

(1) Multiple answers allowed.

(2) The question allowed multiple answers; percentages were then calculated. Rounding effects may make the sum different from 100.

**TABLE 12 - INFORMATION SOURCES FOR EQUITY INVESTMENT**

Information sources	Total Sample <sup>(1)</sup> %	Clusters <sup>(2)</sup>		
		Enthusiasts %	Pragmatics %	Statics %
Family or friends	18.4	6.8	10.5	9.2
TV	6.8	4.1	3.0	2.7
Teletext	18.1	9.3	7.5	9.2
Radio	1.6	0.7	1.2	0.5
Business magazines	13.8	7.0	6.3	6.5
Newspapers	23.9	10.5	9.6	14.5
Specialised newspapers	37.6	20.5	17.1	16.4
Advertising	0.7	0.2	0.2	0.5
Professional accountant	2.0	0.7	1.2	1.0
Financial advisor	20.7	6.6	15.9	7.2
Books	0.3	0.2	0.2	-
Computer applicatives	1.3	1.4	0.2	0.2
Internet (specialised websites)	11.9	9.5	3.3	4.1
Internet (general website)	2.4	1.8	1.2	0.5
Internet (customisable websites)	2.1	1.8	0.7	0.5
Internet (financial companies websites)	4.4	2.7	1.6	1.9
Mail	0.7	0.2	-	0.7
Education	0.3	-	-	0.5
Information bankpoints	5.2	3.0	2.6	1.9
Bank employer	28.2	8.0	15.2	17.6
SMS/WAP	0.3	0.2	0.2	-
Pay TV	1.0	0.7	-	0.7
E-mail	0.7	0.9	-	-
Financial forum/chat lines	1.0	0.9	0.2	0.2
Bank brochure	1.6	0.2	0.2	1.9
Other - Don't know	3.7	2.0	1.6	1.7

(1) Multiple answers allowed.

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