

# FOUNDATIONS OF BANKING ORIGIN. GOVERNANCE AND NORMATIVE PROFILES IN THE ITALIAN CONTEXT

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**A***bstract: Nowadays Corporate Governance is one of the most interesting and controversial matters of research and study. Undoubtedly, the economic developments of the last decade have made the need for detailed analysis about the processes of Governance and its impact on corporate choices even more fascinating and relevant. This should be done through an interdisciplinary approach, because in fact, the term Governance cannot and must not be exclusively linked to economic and company aspects only.*

*Indeed, the present economic conditions demonstrate the large correlation between social, economic and political factors. Because of this interconnectedness, the importance of the Italian Credit Institutions is highlighted because of their active and decisive part in private and corporate choices.*

*Over the centuries, Italian Savings Banks in particular have been a clear example of such interdependence amongst the public and the private. They were first simple Charity Institutions and then they evolved to play an increasingly important role amongst the Credit Institutions.*

*Their quickness in spreading across the Italian territory and their need to take care of their own clients' several necessities, induced the Banking Foundations to adopt a precise and rigorous Governance structure which we intend to analyse in this work.*

*It is necessary, therefore, for a complete comprehension, to address the issues concerning the Credit and Savings Institutions' regularity, current nature and goals. Here, it is also relevant to mention perhaps the most controversial issue about the Banking Foundations, that is, their dual public and private goals and, consequently, the different interests which follow.*

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*In conclusion, through this work, we want to give a framework in order to comprehend the Italian Institution of Savings Banks, and particularly, their metamorphosis into Foundations of Banking origin, their role and their particular importance for enterprises development.*

*Key words: Corporate Governance, Foundations of Banking Origin, Savings Banks, Economic History, Italian Banking System*

*JEL Classification: G21; G30; L30; N20*

## **1. A BRIEF INTRODUCTION ABOUT THE FOUNDATIONS**

Before dealing with the Foundations of banking origin, we feel bound to do a brief propaedeutic clarification. The Foundations, mainly the Grant-Making, are organisations which have connotations easy to be recognized in countries such as Spain, USA and Italy. However, in most cases, these organisations are misread as well as their function.

It is for this reason that we want to clarify the uniqueness of such institution - which has particular historical origins – by the comparison with its commonly-known meaning in Europe and, in this way, making its *raison d'être* easier to be understood.

With the term Foundation it is possible to identify a wide range of types of organisations. The collective imagination usually links this term to socially-oriented institutions. Actually, they must be considered in this sense because all these institutions have a non-profit goal.

However, if we want to group them together by way of example only, we can distinguish three precise types of Foundations:

- *Mixed Foundations*
- *Operative Foundations*
- *Foundations which grant financing, known also as Grant-Making*

The latter are the Foundations which require mayor interest because the first type is a mixed category and, therefore, a whole of the two types which follow.

The Foundations known as “Operative” are represented by those organisations which engage public utilities undertakings. But they directly manage, through their own structure, an activity – both of international utility or social charity - in

the sector of culture, public health, education and research, development, religion.

Nowadays the Foundations of operative origin are those one which mostly have been spreading throughout the Italian territory. According to the Central Institute of Statistics' estimate, the 50% of the Foundations are of "Operative" origin, while the 20% are Grant-Making and the 30% are of "Mixed" origin. (ISTAT, 2009, "Le Fondazioni in Italia").

Thanks to this marked development, the Operative Foundations have established themselves within the social fabric, reaching an important role concerning the Welfare and the public services providing as well.

Although the Grant-Making Foundations are centred on the same social goals, they differ from the Operative Foundations because of the method through which they follow their activity. In fact, in order to fulfil their task, they interact by means of a series of intermediaries (public organisations as well as private) financing them with their own capital.

They are, therefore, defined as "Grant-Making" because they don't undertake directly public utility activities by their own organisation, but by granting goods in kind or financial assets. It is important also to underline how much does the Grant-Making development level differ from that one of the Foundations of Operative origin. We have to consider that they are two types of Foundations which have undergone – and still today are undergoing – the social context in which they are developing.

If we compare the related numerous analysis, we can notice how much the gap between USA and Europe is marked in the development of the Operative Foundations and the Grant-Making. In fact in the USA, a large margin of efficacy has been given to the Foundations which grant financings. In this case, we are dealing with Foundations which largely are engaged in the sector of instruction and Venture Philanthropy, which are not under the State Public supervision. On the contrary, the level of development in Europe of the Operative Foundations, as well as the Mixed one, is definitely larger.

Therefore, the relevant role of the socio-political power would have determined the orientation and the own insertion of the Foundations.

In Italy, for example, according to the Central Institute of Statistics' data, the large body of the Foundations engaged in the operative sector is principally financed by the public system. On the contrary, the Grant-Makings imply a relevant percentage of private financings.

**Table 1. The Foundations according to normative origin, territorial distribution, type and setting up period**

	Nessuna norma	Ex fab	Origine bancaria	Altra norma	Totale (=100)
<b>RIPARTIZIONI TERRITORIALI</b>					
Nord-ovest	52,1	41,2	0,8	5,9	2.087
Nord-est	62,9	24,0	3,1	10,0	978
Centro	73,3	10,0	3,2	13,5	951
Mezzogiorno	62,7	11,6	1,6	24,1	704
Italia	60,2	26,9	1,9	11,0	4.720
<b>TIPOLOGIE</b>					
Operative	53,2	38,8	-	8,0	2.338
Erogative	53,3	13,9	9,2	23,6	943
Miste	76,1	16,2	0,1	7,6	1.439
Totale	60,2	26,9	1,9	11,0	4.720
<b>PERIODI DI COSTITUZIONE</b>					
Prima del 1976	63,1	25,2	-	11,7	691
1976-1985	49,4	4,7	-	46,9	508
1986-1995	64,8	20,1	8,5	6,6	946
1996-2005	59,8	34,3	0,3	5,6	2.575
Totale	60,2	26,9	1,9	11,0	4.720

Source: Istat, 2009, *Le fondazioni in Italia al 2005*.

## 2. THE SAVINGS BANKS AND THE BIRTH OF THE FOBS IN ITALY

Within this context, therefore, we intend to identify the role and the governance of the Banking Foundations (hereinafter identified also as FOB), institutions which first were intended as Grant-Making Foundations but regulated over the years by growing specific rules.

Consequently, here, we will analyse the metamorphosis featuring the Foundations of Banking origin and their process of radicalisation over the Italian territory. But before this step up, it is better to consider the concept of Savings Banks.

The Savings Bank institution has very ancient origin. The first historical manifestations there were between the 15<sup>th</sup> and the 16<sup>th</sup> century thanks to initiatives promoted by privates, religious men as well as public institutions. (ACRI, 2002, "Settimo Rapporto sulle Fondazioni Bancarie")

The official birth of the modern Savings Bank is often attributed to Henry Duncan in 1810 in Scotland. Instead in Italy, its official acknowledgement was just after, in 1822.

It is important to underline that though the Savings Bank had different aspects and had spread in various forms on the international level, it always has been relevant in the local dimension at the service of the citizen, demonstrating to be promoter of a valuable alternative to the services promoted by bank credit institutions. However, the engagement involving this institution must not be seen as part of the solely social aspect.

Over the centuries, the role of the Savings Banks had a double relevance.

If through charitable contributions we can observe the typical socio-cultural factor, it is important to consider also the second function which is purely economic.

In fact, the socio-economic interaction amongst citizens (later called “savers”) and Savings Banks not only laid the foundations of a steady support of the destitute and the needy, but also of a consequent consolidation of the more general local economic fabric development.

Therefore, it was a valuable alternative which such institutes were able to become reality thanks to the economic and financial support granted to the local enterprises. Over the years, this interaction has become more and more stronger, and today, for many corporate realities, it has become indispensable, almost indissoluble – the present international crisis is the most evident proof of that.

But if, on one hand the financial support granted to their own clients has been a feature which has likened the Savings Banks to the more common Credit Institutes, a depth difference is just in the organisation of the governance, or rather in the *modus operandi* which always has featured them.

Savings Banks have been institutions without shareholders. They have been managed by a non-elective Board of Auditors and, a part of preventive reserves and have a mutualistic type of organisation. The administrative system management are no more than the consequence of the philanthropic goal of the Savings Banks' original activity, which wants to promote saving and thus, a financial security amongst the poor people.

The savings deposits are the major Savings Banks' funds resource – approximately the 99% - even though the services provided are also extended to other types of financial investments; the mortgage loans, for example, are the main promoted financial resource in addition to the savings management.

In Italy the Savings Banks' system has observed a remarkable increase and spread.

At the end of the 19<sup>th</sup> century, the Savings Banks had already reached in Italy the number of 183 seats. An increasing steady transformation always has characterised them, insomuch as in order to reduce their considerable number, with a law dated 1926, the more little-sized Savings Banks were required to be incorporated to the large-sized ones.

**Table 2. Bank offices according to the bank concern category  
(1936-1966)**

Anno	Istituti di credito di diritto pubblico	Banche di interesse nazionale	Aziende di credito ordinario			Banche popolari cooperative	Casse di risparmio e Monti di credito su pegno 1 <sup>a</sup> cat.	Monti di credito su pegno di 2 <sup>a</sup> cat.	Casse rurali e artigiane	Totale	Fiazze bancabili
			di cui: Società di capitali	di cui: Ditte bancarie							
1936	935	607	2.215	1.929	192	1.161	1.514	22	1.202	7.656	3.920
1937	1.010	610	2.069	1.804	174	1.205	1.563	19	1.126	7.602	....
1938	951	626	2.011	1.760	162	1.165	1.605	19	1.066	7.443	....
1939	959	578	1.890	1.675	148	971	1.615	19	1.017	7.049	3.767
1940	996	577	1.696	1.502	136	946	1.646	18	987	6.866	....
1941	1.026	583	1.681	1.505	123	954	1.677	14	937	6.872	....
1942	1.031	591	1.682	1.509	120	962	1.700	14	878	6.858	....
1943	1.031	592	1.679	1.510	119	957	1.705	13	862	6.839	....
1944	1.032	592	1.676	1.509	118	957	1.704	13	857	6.831	....
1945	1.048	595	1.685	1.523	113	960	1.736	13	836	6.873	....
1946	1.106	617	1.797	1.622	118	1.031	1.861	12	799	7.223	3.864
1947	1.153	642	1.862	1.703	105	1.057	1.948	12	728	7.402	3.904
1948	1.153	646	1.856	1.701	101	1.056	1.950	14	713	7.388	3.870
1949	1.164	650	1.893	1.735	104	1.108	2.048	14	702	7.579	4.015
1950	1.183	661	1.943	1.778	109	1.142	2.118	13	691	7.751	4.109
1951	1.192	672	1.950	1.786	105	1.159	2.141	13	687	7.814	4.083
1952	1.189	674	1.946	1.785	102	1.158	2.149	13	695	7.824	4.087
1953	1.192	675	1.959	1.801	99	1.159	2.166	10	695	7.856	4.093
1954	1.197	676	1.960	1.803	98	1.173	2.178	10	702	7.896	4.105
1955	1.229	676	1.945	1.812	98	1.187	2.192	9	711	7.949	4.126
1956	1.257	691	2.028	1.898	102	1.259	2.295	9	713	8.252	4.250
1957	1.300	702	2.103	1.963	112	1.344	2.447	9	719	8.624	4.440
1958	1.301	700	2.102	1.968	106	1.346	2.450	9	733	8.641	4.452
1959	1.314	700	2.108	1.974	106	1.355	2.466	9	755	8.707	4.481
1960	1.371	737	2.229	2.087	114	1.476	2.623	9	758	9.203	4.642
1961	1.381	737	2.244	2.109	108	1.497	2.630	8	755	9.252	4.655
1962	1.445	780	2.384	2.259	96	1.648	2.803	7	759	9.826	4.833
1963	1.460	784	2.400	2.275	97	1.664	2.840	7	790	9.945	4.897
1964	1.466	784	2.409	2.285	95	1.668	2.851	7	810	9.995	4.930
1965	1.478	786	2.435	2.311	95	1.679	2.877	7	810	10.072	4.954
1966	1.501	791	2.459	2.334	96	1.695	2.933	7	813	10.199	4.999

Source: Banca d'Italia, Functional and territorial structure of the Italian Banking System 1936-1974, Roma, 1977.

As we can see in the period between 1936 and 1966, the number of the active Savings Banks' offices over the Italian territory is almost redoubled. In comparison with the development of the other Credit Institutes, it is a definitely considerable increase.

The services provided do not much differ from the main more widespread standard banking services, becoming in this way, a very competitive alternative.

**Table 3. Savings Banks' roles  
(1937-1965 in Italian £ millions)**

Anno	Portafoglio		C/c attivi		Partecipazione prestiti	Riparti attivi	Impiegata breve		Impiegata medio e lungo termine			Impieghi totali inclusi ammassi	
	ammassi	totale	c/c finanziamento ammassi	totale			totale inclusi ammassi	di cui: in valuta	Prestiti contro cessione stipendio	Crediti di rognofari	Mutui e c/c ipotecari		Totale
1937	....	1.561	....	1.277	689	274	3.961	....	....	....	....	4.961	8912
1938	....	1.253	....	807	2.489	229	4.778	....	....	....	....	5.940	10.318
1939	....	1.325	....	689	2.252	195	4.461	....	....	....	....	5.800	10.261
1940	....	1.461	....	893	2.121	204	4.679	....	....	....	....	5.685	10.364
1941	....	1.710	....	1.441	307	396	3.894	....	595	....	....	5.515	9.369
1942	....	2.039	....	2.252	435	338	5.084	....	575	....	....	5.377	10.461
1943	....	2.510	....	2.563	559	146	5.778	....	462	....	....	5.075	10.853
1944	....	3.454	....	4.723	363	64	8.604	....	448	....	....	4.838	13.442
1945	....	6.753	....	10.250	929	174	18.106	....	561	....	....	5.266	23.372
1946	....	18.726	....	24.006	1.595	226	44.533	....	1.315	....	....	9.646	54.199
1947	....	48.660	....	50.573	4.167	121	103.521	....	5.578	....	....	20.736	124.257
1948	22.526	72.129	8.391	51.936	7.117	79	131.261	-	7.838	26.414	11.510	45.762	177.023
1949	27.682	97.910	4.783	62.568	9.482	57	170.017	-	13.321	30.051	19.330	62.722	232.739
1950	15.742	104.122	3.692	70.065	11.296	39	185.542	-	16.513	42.116	30.398	89.027	274.569
1951	11.536	115.244	3.083	75.736	12.493	88	203.561	-	16.976	53.827	39.781	110.584	314.145
1952	16.787	126.019	3.413	87.059	14.540	72	237.690	-	16.837	64.874	47.589	129.300	366.990
1953	17.395	154.757	5.364	113.789	15.633	105	284.284	-	18.675	79.541	39.938	138.174	442.438
1954	17.446	179.246	4.692	139.274	18.275	79	326.974	-	20.079	95.606	74.134	189.819	526.793
1955	17.441	205.174	8.434	171.292	23.096	73	399.635	-	20.477	117.177	90.649	228.303	627.938
1956	21.572	229.224	8.263	209.361	25.677	38	464.320	-	25.235	155.148	113.819	294.202	758.522
1957	20.884	263.764	9.443	261.077	28.464	64	553.369	-	29.398	189.424	134.382	333.204	906.573
1958	22.166	271.967	12.014	282.603	27.561	32	588.636	6.473	31.707	229.829	130.789	412.325	1.000.961
1959	26.701	301.749	6.483	307.065	29.617	1	648.333	9.901	40.098	261.698	167.772	469.568	1.117.901
1960	23.126	383.654	4.621	361.864	32.333	1	793.366	15.514	53.381	289.634	188.120	531.385	1.324.751
1961	20.222	470.133	11.456	481.644	36.243	1	1.010.202	22.181	66.475	313.513	218.118	598.106	1.608.308
<b>1961</b>	<b>20.222</b>	<b>468.869</b>	<b>11.456</b>	<b>453.692</b>	<b>36.141</b>	<b>1</b>	<b>978.863</b>	<b>20.160</b>	<b>66.475</b>	<b>301.797</b>	<b>218.118</b>	<b>586.390</b>	<b>1.565.253</b>
1962	15.696	548.370	28.089	557.343	37.579	1	1.169.773	26.480	81.126	364.474	268.920	714.520	1.884.293
1963	9.283	601.800	17.157	715.539	45.483	1	1.400.177	37.254	94.932	474.329	373.525	942.796	2.242.973
1964	7.594	546.499	13.253	690.870	46.793	1	1.312.326	28.163	104.278	394.753	461.447	1.160.478	2.472.804
1965	4.775	547.262	12.718	746.849	46.301	1	1.373.746	33.333	118.453	684.668	524.894	1.327.995	2.701.741

Source: Banca d'Italia, Bollettino, anni vari.

The recourse to Savings Banks and their widening process over the years was one more reason to find measures which could control an Institution more and more similar to those one of the banking system.

The majority considers the Amato Law (1990) to be the normative which gave the official birth to the Banking Foundations and the end of the Savings Banks in the strict sense of the word.

Under this law, a privatization plan of the banking system must be started and, moreover, there was a separation of the purely banking activities from the philanthropic activity.

The Amato Law determined a new scenery for the banking system, particularly for the Savings Banks.

These institutions could be two types of organisation: **Banking Foundations** – with philanthropic and social aim - and Credit Institutions organized as **Joint-Stock Companies**. (ACRI, 2002, “VII report on Banking Foundations”)

In fact, the FOB's goal is the same which always has featured the Savings Banks and we can state that the latter were just the origin of the Banking Foundations.

Nowadays the Foundations of Banking origin which have risen on the Savings Banks' structure are 88.

The ACRI's estimates (ACRI = Associazione Casse di Risparmio Italiane, eng. Italian Savings Banks Association) show that the FOB can be grouped according to their net assets value. It is possible, therefore, to identify five macro groups (ACRI – The Italian Banking Foundations Overview, p.3):

- Large Found - net assets from € 612 mil. and up
- Medium-large Found - net assets between € 207 mil. and € 611 mil.
- Medium Found - net assets between € 135 mil. and € 206 mil.
- Medium-small Found - net assets between € 65 mil. and € 134 mil.
- Small Found - net assets up to € 64 mil.

Foundations always contribute to socially-oriented and philanthropic activities concerning Research, Social Assistance, Education, Arts and Cultural activities, Voluntary activities and Charity, Local development, Public Health as well as Family assistance and Sport development.

The fulfilment of such social tasks is possible thanks to the reserve funds accrued over the previous years.



These reserves are the result of different activities which represent the 52,6% of the total assets, equal to the sum of € 31,3 billion. In this net assets, it is possible to distinguish: the sum of the banking investments (including only financial investments) which have amounted approximately to € 25,3 billion in 2011 - the 42,5% of the total net - and the total investments in companies outside the original spin-off banking companies, which is equal to the sum of € 6 billion.

As we specified before, Banking Foundations are classified as Grant-Making and they don't act directly in socially-oriented activities through their own organisation.

It is possible, therefore, to identify the beneficiaries to whom the FOBs' action is destined. They are local authorities (of which the 78% of the grants are assigned for regional and provincial projects, while only the 6% for projects outside the Region), non-governative local departments as well as operative foundations and more general associations. In the following table, we report in percentages the estimate data by the ACRI:

**Table 4. Main beneficiaries of FOBs' grantings**

BENEFICIARIES	%	TOTAL
Foundations	26.9	
Associations	12.2	
Other Private Organizations	25.8	64.9% Private Sector
Local Authorities	19.3	
Central Government Agencies	1,2	
Others	14.6	35.1% Public Sector

*Source:* ACRI's data readjustment, The Italian Banking Foundations Overview.

## 2.1. BANKING FOUNDATIONS IN THE ITALIAN LEGISLATION

It is interesting to consider the legislation that, over the course of the years, has characterized Italian "foundations with origins in the banking sector," or "FOB," for two reasons: (1) First of all, to understand the role these FOB are expected to play under the law; (2) Secondly, to understand the complex political, financial, and social profiles that surround these FOB.

As explained in the first part of this report, one cannot say that FOB are a mere emanation from the early 1900's. These institutions are the forced result of centuries of development during which the Italian savings banks, as public institutions, carried out their role as social actors. In doing so, these banks, therefore, struggled in the battle between public and private interests until the formal institutionalization of the FOB in the last decade of the twentieth century. It is on this basis that a thriving and elaborate legislative framework has developed, which, however, needs to do a better job of identifying the uncertain role that FOB now play between the private the public sectors.

The formal institutionalization of the FOB occurred in 1990. **With Law no. 218 of July 30, 1990** and the following **Legislative Decree no. 356 of November 30, 1990** (the so called "Amato Law"), a definitive turning point occurred for these savings bank institutions. The savings banks underwent a complete reorganization, with their original reason for existing being separated between the FOB profile and the institutional joint-stock company profile. The Amato Law, in fact, began a decisive plan of privatization that certainly stimulated the modernization of the Italian banking system, but that also marked the irremediable end of the most exquisite feature at that time of the Italian savings banks, their philanthropic function. In this manner, a dichotomy was created between what was to be exclusively social and what was to be purely financial, changing forever the structure that had historically characterized the Italian banking system. The new legislation, however, was only activated in name and did not immediately nor considerably influence the existing equilibriums, which to some extent are still strong. The Amato Law actually foresaw that banks should choose between one profile or another but left unvaried the controlling shareholders of the parent banks.

With **Law no. 474 of July 30, 1994** and the **Ministry of the Treasury Directive of November 18, 1994**, the Amato Law was given additional form and strength concerning the definition of FOB's social and philanthropic goals. The legislation's objective was to accelerate the then long process of divestiture of national and local governmental shares in holding companies. The diversification of investment risk in financial holdings was therefore advocated through the diversification of assets by, as the legislation states, covering costs for legal purposes above 50% with incomes different from those derived from the parent companies, and additionally not more than 50% of the holdings were to be invested in stocks of the parent company. In the following years, these provisions were to be rescinded.

With **Law no. 461 of December 23, 1998** (the “Ciampi Law”), emphasis was placed on the need for FOB to separate their social objectives from their share holdings in the parent companies. This legislative measure aimed to restructure and to modernize the banking system through the recognition of the statutory independence of the FOB. All of these changes confirmed the strong connection between the FOB and local communities.

**Law no. 448 of December 28, 2001** (the “Tremonti Reform”) provoked considerable discussion and was the root cause of many complaints launched both by the directly involved FOB and by the regional Italian governments. The provisions of this law significantly reduced the independence of the FOB, which thanks to the previous legislation had been free to the fullest possible extent to operate with complete legal autonomy. This autonomy became markedly “controlled” when thoroughly disciplined criteria and relevant sectors were identified in which the FOB could intervene via philanthropic programs.

**Constitutional Court Sentences no. 300 and 301 of September 24, 2003** also refer back to the Tremonti Reform. The latter sentence was primarily in response to the numerous appeals made by the Marche, Tuscany, Emilia Romagna, and Umbria regions on the unconstitutionality of the Tremonti Reform. As stated in this judgment, the aversion to the 2001 legislation was motivated by the decision to carry out a definitive process of “transformation of the FOB into private legal entities” (Sentenza n.300 del 24 Settembre, 2003) and by the requirement that the FOB become completely independent from the banking institutions.

It is at this time that the difficult questions about the possibility of combining the legislation on foundations with that of non-profit, private legal entities were raised. One must take into consideration the dual dimensions in which the FOB found themselves in at the time: the purely public function insofar as the FOB still fell within the realm of the credit aspect – therefore subject to the legislation under article 117, comma three – and the purely local function due to their being philanthropic organizations, which means they would fall under the responsibility of regional ordinances. On these grounds, however, the Constitutional Court declared the claims of unconstitutionality unfounded. Therefore, to this day FOB remain suspended between the various provisions of legislation made over the years without any one law determining their position in a decisive manner.

**Law no. 22 of 2010** is proof to that effect because it gives the Ministries of Economy and of Finance the power to supervise the FOB with holdings in their parent banks. This law therefore assumed that the FOB still held a participatory role within the credit institutions while carrying out its social and philanthropic functions.

## 2.2. CORPORATE GOVERNANCE IN FOB

As seen through the examination of the FOB's historical background and the profuse relevant legislation surrounding them, the FOB on an organizational level are relatively young institutions. Although caught somewhere between the public and private sectors, and enjoying the heritage left to them by the savings banks, the FOB still remain in control of a modest structure of governance that – as ascertained by the Association of Italian Savings Banks (or "ACRI") – over the course of the years is increasingly in need of improvement and amplification in order to better satisfy the changing needs of the Italian socio-economic situation.

These needed improvements can be summarized as follows:

- a) Arrangement of a sophisticated organizational structure
- b) Putting in place of a rigorous system for the planning of future projects
- c) Organization of an accurate financial management system
- d) Attainment of a detailed control of the grant management (in order to fulfill the function of "grant making" as identified in the statute)
- e) Definition of a clear managerial plan for Human Resources
- f) Continuation of proper accountability

These improvements are related to the increasing importance FOB are gaining every day. Thanks to the development of accountability plans, which every FOB has, and which are used to periodically monitor both their financial and institutional progress, a survey can be completed on the equity of FOB and on the subsequent necessity of the FOB to adopt a rigorous and appropriate governance structure.

To better understand this relationship, one can also study the data published by ACRI, the authority on bank foundations in Italy. Looking at the period between 2000 and 2010, one can see how the equity value of the FOB has grown.

**Table 5. Equity Value of FOB in period 2000-2010**

YEAR	EURO VALUE
December 31, 2000	35.4 billion
December 31, 2001	36 billion
December 31, 2002	37 billion
December 31, 2003	40 billion
December 31, 2004	41 billion
December 31, 2005	45.850 billion

YEAR	EURO VALUE
December 31, 2006	47.152 billion
December 31, 2007	48.759 billion
December 31, 2008	48.852 billion
December 31, 2009	49.487 billion
December 31, 2010	50 billion

*Source: Data reprocessed from ACRI 2000-2010 Annual Reports.*

This significant increase in equity is the result of two main factors: legal accounting provisions, and the capital gains resulting from the sale of shares previously held by the parent banks. From this equity table it is therefore possible to estimate the quota designated to investments in financial activities – in 2010 they were equal to 97% of assets – and that one to tangible and intangible assets – to 2010 in which they amounted only to 2.7% of assets (XVI Annual Report, ACRI, 2011, pg. 5). Among this income, one can primarily identify shareholder dividends from the parent banks with values ranging from 35 to 57%. Other income comes from asset management and from the management of various other financial instruments.

**Table 6. Total income by type and percentage**

Type of income	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Dividend from Parent Bank	57.0%	64.4%	42.8%	41.6%	38.7%	36.7%	51.4%	78.5%	26.0%	35.6%
Other income:	43.0%	35.6%	57.2%	58.4%	61.3%	63.3%	48.6%	21.5%	74.0%	64.4%
- Asset management	1.0%	0.9%	15.0%	16.5%	13.9%	9.6%	9.5%	6.5%	20.2%	18.1%
- Dividends from other investments	11.2%	8.4%	8.7%	8.1%	11.3%	17.3%	15.1%	21.8%	10.6%	12.4%
- Other financial investments	24.5%	17.6%	28.1%	25.6%	28.7%	28.9%	20.1%	5.7%	35.1%	27.5%
- Other ordinary and extraordinary income	6.3%	10.5%	5.4%	8.2%	7.4%	7.5%	3.9%	11.9%	8.1%	6.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Source: ACRI, 2011, XVI Report.*

Having summarized in the previous part of this report the history that transformed the Italian savings banks into FOB and holding companies, it is interesting to contemplate these equity interests held by the FOB in the parent banks and even more so the resulting income.

As widely observed throughout the legislation, the evolution of the control held by the FOB in the parent banks has significantly evolved. The saving banks that initially retained the majority interest before the first legislative provision in 1990 subsequently observed a shift away from this original control. The current role played by the FOB, however, should not be overlooked. Over the years this role has been strengthened and has not in any way been made to seem a mere and last-choice resource for the banking system; rather their role has been to constantly provide sustainable plans of development and investment.

**Table 7. Number of FOB in relation to bank holdings**

A) Foundations with controlling shares in parent banks >50%	15
B) Foundations not holding shares in parent banks	18
C) Foundations with minority interest in parent banks <50%	55
Among which:	
C.1 Holdings less than 5%	21
C.2 Holdings between 5% and 20%	14
C.3 Holdings between 20% and 50%	20
Total Foundations	88

**Source:** ACRI, 2011, XVI Report.

As one can see the percentage of FOB that hold controlling shares in the parent banks is moderately low, however, the values are relative when one compares it to the number of FOB that do not hold shares in the parent banks. Of the 88 FOB, currently only 15 have holdings superior 50%, while those with less than 50% are 55 in total. In this last category, no. 21 have shares less than 5%, no. 14 have shares between 5% and 20%, and no. 20 have shares between 20% and 50%.

This situation is the direct and natural consequence of the provisions set forth in **Law no. 474 of July 30, 1994**, which mandated divestment in order to reduce the system of control of the FOB in the parent banks. In this manner, the historic link with the savings banks was severed and a gradual process of privatization

was introduced into the Italian banking system. The FOB, therefore, continue to be a considerable resource for the entire Italian banking system.

Today, even though the FOB are largely focused on illustrious philanthropic principles, still an element remains that connects them to local banks: their ties with the parent saving banks and institutions, and the innumerable related legislative reforms put forth since 1990. The FOB are entities that are now constantly growing. They are organisms that in order to meet their own social and organizational objectives require increasing resources. This can be seen in the number of personnel hired by FOBs – in 2010, 1,040 people – but also in terms of the management structure itself.

This has therefore been an epochal transformation for FOB. A metamorphosis that foresees the necessity to adopt a managerial framework better suited for the management typical of private organizations, in order to free themselves of the purely administrative legacy left to them by the public apparatus (XVI Annual Report, ACRI, 2011, pg. 8).

## **CONCLUSIONS**

As this report comes to an end, the main points covered in regard to the “Foundations of Banking Origin” or “FOB”, shall be again emphasized. Many other equally important issues could have been brought forth in order to give a complete profile of the FOB, but in order to respect the given limits they have been left out here for now. In any case and despite these limits, with the methods of analysis and reflection used here we believe to have provided a modest contribution that allows one to understand the importance the FOB hold not only for the humanitarian and philanthropic causes they support but also the support they provide to the Italian banking system via their share holdings within.

Furthermore, through the historical recounting presented it has also been possible to identify the important social action and economic development provided by the Italian saving banks primarily and secondarily through the FOB, the latter having direct influence directly through the former. We have seen that this valid and local economic contribution has faded over the course of time for the previously mentioned regulations. This legislation, in addition to undermining the foundations of an institution aimed principally at the dialogue with local business, has likewise influenced the governance and legal liberty of the FOB, limiting their field of action.

Many scholars in this field ascertain how important it is to restore the former glory and original independence of the FOB. They should return to a role that

can, in the first place, respond effectively to the diverse needs felt by local businesses, but also support the parent banks to which until today they have been connected. The banking system itself has demonstrated to not know how to neither understand nor promote this dialogue between banks and businesses, given the implications the financial crisis has brought in recent years.

In this regard, it should be emphasized again how divergent the values between supply and demand are in Italy regarding the credit granted by banks to local businesses. This disastrous imbalance has serious consequences on the economic development of the entire country. Local businesses up until now have been accustomed to a direct relationship with their lending institutions (whether it be a local bank, a cooperative bank, or a savings bank). They have seen this now obsolete financial support suddenly crumble, which had accompanied them on their entrepreneurial journey, and they are now lost and unprepared to confront increasingly urgent difficulties.

The need is consequently felt to return to the old relationship between bank and local business. Such an understanding could be facilitated by the valuable contribution that the FOB can offer as heirs of the savings banks. This, however, could only happen now by giving greater freedom and independence to the actions of the FOB both within the objectives set out in their statutes and in their future financial decisions. Additionally, the efficiency of the FOB will likewise be influenced by the purely technical factor of governance. The FOB must move towards a structure more similar to that of joint stock companies, given that the Italian legislation – at an organizational level – is pushing them to do so anyways.

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