The distribution of share capital of Italian Banking Companies

by ENANUELE RENZI

The distribution of share capital of Italian Banking Companies

1. In the course of the comprehensive investigation made in 1945-46 by the Economic Committee of the Ministry for the Constituent Assembly to throw light on the present problems of Italian economy (1) a special inquiry dealt with the distribution of share capital among Italian joint stock companies. An inquiry of this kind, in the nature of a census, had never before been attempted in Italy; it was therefore of special interest and presented, of course, considerable difficulties. The survey—made by the writer—was limited to those joint stock companies which on Dec. 31, 1945, had a capital of more than one million lire; nevertheless it covered some three thousand three hundred companies with a share capital amounting to more than 66,000 million lire, among 95,000 shareholders, and about one million three hundred thousand persons in their employ.

I believe the results obtained are very interesting not only to Italians but also to the foreign reader, especially in those countries where it has not yet been possible to make similar surveys and where therefore the most varied and conflicting conjectures are current on this subject. The Italian inquiry, ordered by a legislative decree, has indeed made it possible to throw light on the essential features of some much discussed points. It has more especially shown the distribution of the capital of companies among the several groups of shareholders, the "degree in which it is concentrated in the hands of private shareholders, the network of government holdings and those of public corporations, the grouping of the companies, the importance of foreign capital invested in Italian companies, etc. These several aspects of the question are illustrated in one of the three volumes of the general investigation now being printed and we refer readers to it for detailed information. Here I shall only draw up a summarised table (Table I) which shows, in a very general way, the degree of concentration of share capital and of the main branches of economic activity.

The inferences which may be drawn from the Table I are in themselves significant. In the first place it shows the undoubtedly high degree of general concentration. Taken as a whole, 1,022% of the shareholders are shown to have possessed (on Dec. 31, 1945) nearly 80% of the share capital of the companies for which returns were made; while 0.13% of their number owned 56.3% of the capital; and the great mass of the shareholders (82.33% of the total number) only held 6.1%.

These general data naturally acquire much more significance when we are said to apply them more thoroughly with the qualifications which give them concrete shape, above all when the relations between government and private shareholders are defined and a study is made of the concentration both in the several branches of industry and trade, and in the several groups in which the companies can be classified as regards the amount of their capital. Analytical inquiries on the subject are now being made and will be published as soon as they are ready. We will here only take into consideration for a summary study the Italian Banking Companies.

2. So as to fix the limits of the inquiry clearly I will here set forth some qualifications:

a) First of all, as above stated, the inquiry dealt with the Banking Companies which on December 31, 1945, had a capital of more than 10 millions lire (2) and with most of the Banking Companies with a capital of 10 to 100 million lire. It is therefore based on purely nominal values, at that date, the cases of revaluation of capital and capital increases based on the depreciation of the lira were still few and unimportant. It was only in 1946 that a notable series of banking companies increased their capital either by revaluation or by new subscriptions. These increases are an aspect of a general phenomenon of Italian economy, running parallel to that of the depreciation of the lira, a phenomenon which has acquired special intensity in the case of industrial companies in these first months of 1947 and which may be expected also to have further developments in the case of the Banking Companies, and above all in that of the more important (3). But however this may be, under the modalities adopted such increases should not make any marked alteration in the comparative position as shown by this analysis. On the other hand, the date selected (the end of 1945) is of special importance. It is perhaps the one best suited for studying the conclusion of that phase of our economy between the two world wars which offers such characteristic features when viewed from the standpoint of capitalist economy.

Likewise, all the data used in this study relate to the situation existing on December 31, 1945.

3. The results of this general inquiry, now in Italy, have been collected in 15 volumes of which three are now under press; they provide a rich source of information and data for persons desirous of an understanding of the fundamental questions of Italian economy and the bearing on the present transitional stage of the country. (Ministero per la Costituzione - Rapporto della Commissione Economica, vol. 17, Roma, Istituto Poligrafico dello Stato, 1946-1947).
The distribution of share capital of Italian Banking Companies is summarised in Table II, compiled on the basis of the data of the Economic Studies Service of the Banca d'Italia.

### Table II

<table>
<thead>
<tr>
<th></th>
<th>Public Law Credit Institutes</th>
<th>Banks of National Interest</th>
<th>Ordinary Credit Institutes</th>
<th>Peoples Co-operative Banks</th>
<th>Savings Banks and Pledge Banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Banks</td>
<td>25</td>
<td>19</td>
<td>14</td>
<td>4</td>
<td>3</td>
<td>65</td>
</tr>
<tr>
<td>Deposit and current account</td>
<td>88,864</td>
<td>11,494</td>
<td>9,809</td>
<td>700</td>
<td>47,972</td>
<td>207,571</td>
</tr>
<tr>
<td>Capital and endowment fund</td>
<td>1,397</td>
<td>1,397</td>
<td>1,397</td>
<td>1,397</td>
<td>1,397</td>
<td>5,882</td>
</tr>
<tr>
<td>Reserve (1)</td>
<td>1,566</td>
<td>1,566</td>
<td>1,566</td>
<td>1,566</td>
<td>1,566</td>
<td>7,972</td>
</tr>
<tr>
<td>(1) Millions of lire</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The 77 Banking Companies here reviewed include first of all the so-called "Banca di National Interest", i.e. the Banca Commerciale Italiana, the Credito Italiano, and the Banco di Roma; the others considered are the more important of the banks belonging to the third group (ordinary credit banks) with few exceptions of no importance (7). The total capital of the 77 Banking Companies stood at 3,864,725,443 lire, the reserves at 903,477,623; the nominal aggregate capital and reserves thus amounted to 3,757,984,255 lire, equivalent to about 32% of the capital funds of the 365 principal Credit Institutes. The deposits held by these 77 Banking Companies amounted in total over 190 thousand million lire (on December 31, 1945). The deposits amounting to 41,115,784,795 lire, equivalent to 83% of the total of the group, whose capital (capital plus reserves) amounted to about 760 million lire, equivalent to nearly 65% of the total capital belonging to the group, and to 7% of the total capital of the 365 Credit Institutes.

3. — In Table III, the 77 Banking Companies are classified in two groups and each group in three classes.

In group (a) are included all the Banking Companies dominated by individuals or private corporate bodies; this group, consisting of 69 concerns, may be described as the "private group".

In group (b) are included the Banking Companies dominated by public corporations, and therefore, broadly speaking, publicly owned; this second group, consisting of 8 concerns, may be described as the "public group".

It was easy to identify the two groups, as in the banking branch of Italian economy there are not, as in other branches, intermediate and ill-defined situations. In banking, the respective positions of public shareholders and of private are clearly distinguishable one from the other. In the case of Banking Companies the
control exercised by public institutes, where it exists, is full and complete, with at least 80% of their capital in public ownership; a similar undeniable prevalence of private capital exists in the other Banking Companies under private control.

The classes into which each group is divided have been limited to three. Class I brings together the Banking Companies with a capital of more than 50 million lire; Class II those with a capital of more than 10 and not exceeding 50 million lire; Class III those with a capital of more than 1 and not exceeding 10 million lire.

The position of the several classes in the two groups differs widely.

In the "private group" the secondary regional and provincial banks are very much more numerous. Thus in that group the 1st class numbers three banks with a total capital of 580 million lire; whereas 66 banks are included in classes II and III with a total capital of 959,874,434 lire.

The consistency of the "public group" is quite different. It consists almost entirely of banks of class I, composed as is well known, of the three Banks of National Interest and one of the regional Banks (the Banco di S. Spirito of Rome), in each of the other two classes are placed two local banks of moderate importance. The four Banks belonging to class I were placed at the end of 1945 a total nominal capital of 1,690,000,000 lire as compared to a total capital of 74,957,800 lire held by the four banks classified in the other two classes.

The situation is one which was brought about by government action taken for rehabilitation, and more especially by the depression of 1931-33, and the then urgent need of coming to the assistance of the great commercial Banks with their frozen credits. It was thus that the Institute for Industrial Reconstruction — the I.R.I. —, through which the work of rehabilitating the banks has been carried out, became the largest shareholder in the public group. In spite of the discussions to which its functions have given rise, the I.R.I. is still the great Holding Company for State participation; among these it holds most of the capital of the three banks of national interest. To be precise, the I.R.I. holds 95.50% of the shares of the Banco Commerciale Italiano (capital 700 million lire), 80.8% of the shares of the Crediti Italiani (capital 500,000,000 lire), and 66.2% per cent of the shares of the Banco di Roma (capital 300,000,000 lire). It holds moreover in similar ratios the capital of the 6 other regional Banks. Altogether, it controls a banking capital amounting to 1,674,978,800 lire, equivalent to 58.45% of the total capital of the Banking Companies, as we are referring to. Lastly, three local Banks are affiliated to public Banking Corporations. These participations are of secondary importance in a total capital of 50 million lire. Thus the Banco di Napoli holds 66% of the capital of the Banco Italiano di Messina; the Monte dei Paschi of Siena holds 82.6% of the capital of the Banco Toscano of Florence; the Cassa di Risparmio (Savings Bank) of Bologna holds 100% of the capital of the Banco Commerziale di Bologna.

To sum up, the public group, consisting of a small number of Banks, held a nominal capital of L. 1,74,957,800. Of these 65% (or 50) the private group, consisting of 69 banks, held a nominal capital of L. 1,190,874,343 (38.80%). Even if we major this amount by the capital of the Banking Companies not included in our survey and that of the several private banking firms, the sum only stands at L. 1,351,052,200. Thanks to the importance of the three Banks of National Interest, the public group was handling a volume of deposits amounting to 125,152 million lire; the second, even if we were to include the Banking Companies not here considered and the private banking firms, only held deposits amounting to L. 78,833 million.

These figures clearly show the extent to which public ownership has entered the field of the Banking Companies, formerly reserved to private ownership, reducing the latter in Italy now to a definitely subordinate position in the banking system. Thus on December 31, 1945 the banking companies dominated by private capital only handled 24% of the total volume of Italian bank deposits, as stated in the note 6; and moreover more than two fifths of this 24% were managed not by "capitalistic" concerns, but by co-operative banks (Popular Banks and Rural Banks — Banche Popolari and Case Rurali). No less than 37.5% of the deposits were held by public institutes (Public Law Credit Institutes, Savings Banks and Post Office Savings Banks) or by Banking Companies dominated by public bodies.

This aspect of the present Italian banking system is closely connected with the problem of the nationalisation of the banks. This is not the place to discuss the problem from the point of view which are now being considered in Italy. Anyone who may wish for details on the matter can consult the results of the inquiry made by the Ministry for the Constituent Assembly which illustrates the several opinions about it (8). Here we will only remark that the transfer to public ownership of the three great commercial banks, which took place naturally, that is to say as the result of the spontaneous force of events in 1933, the effort to find a solution for a dangerous situation, has shifted the objective point of the discussions on the subject of nationalization.

Generally speaking, there is no more talk in Italy now of a general structural reform of this field; talk, if any, is only about amendments and improvements of the present structure. An important point to note is that few favourable returns of the banks of National Interest to the ownership of private shareholders. The great majority are against such a step, as they are convinced that the present arrangement has not been prejudicial to their efficiency, and may allow of more positive protection of general interest. A certain number would, indeed, wish to keep the existing situation, which, were empirically under the pressure of necessity, should be made permanent and improved by the liquidation of the minority of private shareholders still surviving in the three afore-mentioned Banks. On the other hand, there is a great preponderance of opinion in favour of the principle of preserving the present position held by private shareholders in the other Banking Companies. This general trend, which has so far prevailed in France also — is in line with the prevailing opinion on the difference in the functions fulfilled by a great bank and those served by a popular bank.
fulfilled by the smaller banks whose work is limited to a region or a locality; and it reflects in a realistic spirit the requirements and peculiarities of the Italian banking structure which match the peculiar features of the economic structure of the country. As things stand, one conclusion would seem to be seriously justified and that is that the relations between public ownership and private ownership in the field of Italian banking activities have reached a fairly rational de facto balance, which is hardly likely to be displaced in any marked degree if the present political set-up continues. 

At most, it may be touched up in some particulars; thus, for instance, on the one hand the small participations still held by private shareholders in the three Banks of National Interest might be transferred to public ownership; and on the other, the participations held by public bodies in small banking companies might be transferred to private ownership. As a matter of fact, the problem of public or private ownership of the Banks no longer raises serious problems in Italy; the substantial problems now under discussion are of a different nature. They are the planning of national economic activities, the reorganisation of the public control of credit and investments, the soundness of the banks, the banking cartel, the revision of the territorial distribution of banking branches, etc.

4. — How were the shareholders and the subscribed capital distributed on December 31, 1945 among the several groups of Companies?

Table III already gives significant indications; but it somewhat oversimplifies the analysis by distinguishing only two groups of shareholders, to the first of which belong those holding shares for a nominal value not exceeding L. 500,000, and the second those holding amounts exceeding 500,000 lire. Table 3 is further elaborated in Table 4, which analyses in detail the distribution of the shareholders and of the capital, showing the absolute amounts and the percentages, classifying the shareholders in ten classes, rising from a minimum (up to a nominal value of 10,000 lire) to a maximum nominal of over 50 million lire. Moreover, so as to allow of interesting comparisons, in addition to the two groups—private and public banks—into which the 77 Banking Companies fall, Table IV gives the figures for a third group consisting of the 27 more representative co-operative banks already referred to. A more comparison between the total number of shareholders and the total amount of capital of the groups and classes would lead to the conclusion that the capital of the Banking Companies is very much subdivided. This would seem to be the case more especially for the group of the private banks but it would also not be inconsiderable in the case of the public group. Thus (a) in the "private group", a total capital of L. 1,125,874,543 is shown to be distributed among 66,917 shareholders; and (b) in the public group a total capital of L. 1,974 million 909,800 is held by 27,146 shareholders.

But the conclusions to which we are led are very different if we consider the classification of shareholders and the capital among the several classes, divided according to the nominal value of the shares owned by each shareholder. For both groups the trend of this classification is of undoubted interest. The maximum density of the shareholders in the first classes is not matched by a similar density of capital; in the last classes we find instead the maximum density for the capital and the minimum density for the shareholders.

The comparison between the absolute and percentage figures of the sum total of the classes of capital up to L. 500,000 and of that of the classes of capital exceeding the maximum is particularly significant. Yet more so is the comparison between the first class (up to L. 10,000) and the last one (from L. 10 million to L. 50 million and more).

Group of Privately Owned Banks: of the 66,917 shareholders returned for the 69 Banking Companies considered, 214 shareholders (0.32%) hold 62% of the capital (L. 707 million); the other 66,303 shareholders (99.68%) own only 38% of the capital (L. 423,805,199). 99.00% of the shareholders are included in the first class (up to L. 10,000), who own only 4.7% of the total capital. The classes of the largest capital holdings (IX and X) only account for 0.001% of the shareholders, but to them pertain no less than 29.53% of the capital.
Group of Publicly Owned Banks: Of the 27,146 shareholders returned for the 8 Banking Companies considered, 31 shareholders (0.11%), hold 93.12% of the capital; (L. 3,617 million 215,649); the other 27,115 shareholders are approximately 0.505% (L. 107,662,169), less than 0.05% of the shareholders are included in the lowest class (up to L. 1,000), and hold only 1,831 of the capital; the class with the maximum holdings (over 50,000,000 lire) represents only 0.004% of the shareholders but holds 87.60% of the capital.

We undoubtedly find a divergence in the degree of the phenomena noted as between the two groups of Banking Companies. For obvious reasons the phenomenon is much more marked in the group of publicly owned banks, in which the concentration of the mass of the shareholders is extremely high in the lower classes and the concentration of capital is most marked in the higher classes, in which the L.R.I. has absolute prevalence, while the intermediate classes are much smaller than the case is for the group of privately owned Banking Companies. The divergence should be noted. But it is a divergence which, viewed from the standpoint of the concentration of capital, does not alter the right contrast between the two groups. Again, in the group of the publicly owned Banking Companies, the phenomenon of the concentration of capital exists in a really remarkable proportion; as it is natural, the form of this concentration varies in each of the 60 Companies, and in some of them it is reduced to a minimum or disappears entirely; but seen in the aggregate—the only way in which the phenomenon can be publicly identified—it finds expression in incontrovertible figures. The Table here given affords very clear indications, and the data mentioned might seem sufficient. Should anyone, however, wish to study the phenomenon more minutely, he need only examine attentively Table VI, those particulars which supply the analysis of the higher classes, Table X. This analysis is decisive; it confirms the fact that even in the case of the Banking Companies dominated by private shareholders (individual of corporate bodies) the share capital is, generally speaking, highly concentrated in the hands of a fairly small number of shareholders, and that we find it subdivided only in the case of the lower groups of shareholders, and more especially in the first in which holdings are very small; such sub-division in the lower categories is, in its turn a circumstances which facilitates the action of the exiguous predominating minorities.

Classes of the Private Group:

Class I, consisting of thirteen inter-regional banks: the first category brings together nearly 93% of the shareholders (30,098), who hold over 12.7% of the capital belonging to the class; on the other hand, the four higher categories (VIII-X) bring together only 35 shareholders (approximately 0.066%) owning almost 58% of the capital.

Class II, consisting of 20 Regional and Provincial Banks: in the first category we find over 84% of the shareholders (27,657), who hold only 12.7% of the capital of the class; on the other hand, the three higher categories (VII-X) number 68 shareholders (0.33%) possessing over 59% of the capital.

Class III, consisting of 45 Banks, mostly of a local description: in the first category we find 94.9% of the shareholders (12,208), who hold only 9% of the capital of the class; on the other hand, the three higher categories (VI-VIII) number 61 shareholders (0.45%) possessing about 53% of the capital.

A comparison with the Co-operative Banks surveyed may be of use in showing more clearly the concentration of capital in the Banking Companies. The subdivision of capital in the co-operative banks in their case a distinguishing feature, sanctioned by the law which at the price of 50,000 lire the maximum value of the shares any individual member may hold (9). Therefore, in the case of the co-operative banks, there are only three classes of shareholders corresponding to the lower categories. Among these three classes (see Table VI) a total capital of L. 3,828,216.330 was held by no fewer than 154,677 shareholders on December 31, 1945. It is a fact that the first class accounted for 94.73% (146,502) of the shareholders, holding about 50% of the capital; nevertheless, the remaining half of the capital was distributed among 8,179 members (5.25%). These data show, on the one hand, the confidence the co-operative banks had succeeded in securing among the class of small savers, and on the other make it doubtful whether steady and exclusive dominant minorities exist.

5. — The marked concentration of capital is therefore a typical general-feature of the Banking Companies as a whole. In the case of the major banks it is concentrated in a government holding; in the case of the medium-sized and smaller banks it is concentrated in private hands. The former now form part of the National Estate; the latter, in the hands of individuals, families, companies, small groups, varying in character and in their areas of activity, almost always Italian, in some cases foreign.

The relative importance of foreign capital in Italian Banking Companies may deserve the attention of the students of international economic relations, and we therefore add a few particulars on this matter.

Generally speaking, it should be stated that international capital, although widely represented in almost all branches of Italian economy, has not large participation in the Banking Companies. During the present century it has gradually lost the initial importance it had for the Banking Companies which was originally without doubt very considerable, and it is now reduced to modest, marginal proportions. The phenomenon which might be described as "nationalisation" from the international point of view, has taken place parallel to that of the other internal "nationalisation," understood as meaning the change in the forms of ownership which, as above stated, has taken place de facto in the case of the three groups of companies under the pressure of various factors, among which the dangerous situation which arose during the economic depression. But while "internal" nationalisation has not yet been sanctioned by law, the possibility for foreign capital to hold shares in the major banks was limited by the Banking Law of 1936-37. Article 36 of that law prohibits foreign nationals from holding shares in the Banks of National Interest, except on condition that they renounce the right to vote. They can therefore only participate in such capital with full rights of control in the case of the Banking Companies of secondary importance.

As a matter of fact, only three Banking Companies are today controlled by foreign capital. Two of these are really considered as branches of foreign banks organised in the form of Italian share companies (Barclay's Bank S.A. L., capital L. 50,000,000, and the American Express Company, capital L. 2 million 500,000); the third (Banca d'America e d'Italia, capital L. 200 million) is, on the other hand, a real Italian company in which the majority of the capital is foreign. All three are controlled by Anglo-Saxon capital. Taken as a whole, their capital amounted on December 31, 1945 to L. 252,500,000, equivalent to 8.8% of the total capital invested in the 77 Banking Companies.

The concentration of capital in the case of the three banks considered is very high, and may be compared to the degree of concentration found in the case of the Banking Companies owned by the Government through the agency of the L.R.I. The three foreign companies that exercise this control held, on December 31, 1945, nearly 35% of the subscribed capital.

The capital belonging to foreign Companies or corporate bodies (including capital owned by the Holy See and by the extraterritorial ecclesiastical bodies) invested in Italian Banking Companies is insignificant. Held as minority "parcels" of more than L. 100,000 it has been estimated at about 12 million lire. The existence of minority capital holdings belonging to private foreigners has not been ascertained, but for the sake of completeness it should be noted that their amount could not be such as to alter substantially the general situation here outlined.