



18 May 2011, Milan, Four Seasons

GIOVANNI PERISSINOTTO – GENERALI GROUP CEO

ADVANTAGE FINANCIAL CONFERENCE

“GLOBAL PERSPECTIVES, CAPITAL AND REGIONAL IMBALANCES”

Ladies and Gentlemen,

I want to look at three aspects of the issue addressed by this panel. **First**, the economic scenario we'll be working in. **Second**, the role that major multinational institutional investors – like the Group I represent – can play in this scenario in terms of promotion of growth and creation of earnings, as well as stability. And **third**, the constraints and dangers these investors will be facing as they compete in the global arena and do their part to increase well-being and protect wealth.

Let's begin with the scenario. My remarks look ahead over the medium/long term, as I don't think we're here to talk about current conditions, about how many fractions of a percentage point the FED will raise rates next quarter or how many notches Moody's will downgrade Greece's sovereign debt rating.

Most analysts forecast a future of variegated growth for the world economy. The mature regions and countries – Europe, the USA and Japan – will grow very little and suffer from high financial volatility. They will have a heavy public and private debt overhang, and consequently limited new resources to drive growth. They will be dealing with the rising pressure of an ageing population on public finances, social welfare, healthcare and available savings. Asia and, many believe, Africa and Russia are the world regions with high growth potential. Latin America and the most mature countries of East Europe are in an intermediate category, with high potential risks and high constraints to as many high upsides. London School economist Danny Quah has illustrated this trend graphically, showing how the “centre of gravity” of global business and economic growth will shift eastward from the mid-Atlantic to reach China and India in 2050. CITI Chief Economist Willem Buiter identifies 11 countries, mainly in Asia and Africa, as the “growth winners” of the future; and I'm pleased to see my Group is already present in most of those economies.

So the majority of the “growth drivers” of the future are “emerging” countries, including China, Bangladesh, Vietnam, Egypt, Brazil. In the West, on the other hand, available income, savings and consumer spending are falling, productivity is low, unemployment is high. In Italy, for example, which is often cited as a leader in household savings, the dramatic drop in available income, together with the generational dynamic, has created a fall of almost 60% in per capita real savings since 1990,

according to a recent study published by Confcommercio. A low level of accumulated savings means low available resources over the long term for investment, and therefore for growth.

Like every long-term outlook, the picture is by no means uniform. Germany has just shown that extensive structural reforms can boost growth (by almost 5%) even in more mature economies.

What distinguishes the high-growth emerging economies and the advanced economies is their distance from the production-possibility frontier: the emerging economies still have a large gap to bridge, in other words great potential for efficiency and growth. Whereas to achieve growth, the advanced economies have to raise the frontier, through technological innovation, investment in research and human capital, and a restoration of the balance between manufacturing and services.

To trigger new growth, the West, Europe and Italy need to drive the creation of long-term savings to fund productive investments. Promote their transformation into real service economies. Stimulate an increase in productivity that embraces a structural change in the quality and age profile of the workforce. Cut unemployment among young people. Invest in innovation, research, human capital. Stimulate greater mobility in capital and labour, at national and international level.

A particular characteristic of the global economy today is the imbalance in trade and in investment flows: this is a persisting imbalance and was partly responsible for the global economic and financial crisis. Some economists refer to it as the “savings glut” of the poor nations. Contrary to what people might expect, the poorest nations are those that have accumulated the largest savings, which they have invested in the West, where returns are lower, thereby financing excessive consumer spending and debt leading the West to the idea it could go on living beyond its means indefinitely. An interesting study by Goldman Sachs (*“Why Doesn’t Capital Flow where the Returns are Highest?”*, 2010), analyses how and why this phenomenon developed over the last decade. The poorer nations have a demographic structure (large numbers of young people, fewer old people) that favours savings, a climate of great uncertainty, which fosters precautionary savings, and frequently under-developed domestic financial markets. This means their savers do not invest, as they should, in their domestic markets, which offer sufficiently high returns to cover any risk premium, and countless opportunities.

Given these conditions, what **contribution** can **major institutional investors** make to **growth**, to stability, and to their own success on the global stage? First of all, they have to promote long-term savings, efficient investment and the protection of the individual over the long term in a world where he is increasingly exposed to risk and the welfare state is being curtailed. So the role of groups like the one I represent is to provide products and solutions for the accumulation and efficient management of savings over the long term, and to “educate savers” to manage risk correctly. They should also defend the insured and the retired with prudent investments, and simultaneously provide shareholders with adequate returns through appropriate investments and an effective industrial growth strategy.

Clearly, a cornerstone of the winning strategy for global players like Generali is to pursue a global vision. The “paradox” described by Goldman Sachs, of the return differentials that do “not” attract investment, has powerful implications for institutional investors not affected by short sight or the need for precautionary savings: investing in countries with high returns, even with a high risk premium, is a winning strategy, with a high profit potential. Multinational investors need a global portfolio and asset management strategy, along with a global industrial positioning strategy, which emphasises the upside of the expanding markets for the transfer of know-how and, simultaneously, matching with corresponding investments in high-return assets.

What are the **constraints**, the **dangers** facing these global players in offering investment products and pursuing growth strategies? They are numerous, and include the costs of developing effective new strategic operating bases, internal psychological resistance to moving to new frontiers in companies that have built solid bases for success before anyone else and, above all, on their own territory, and the opposition often imposed by corporate governance systems.

But two constraints stand out: regulation and capital (and its structure). States, and regulatory authorities, have to find the right balance in the trade-off between protecting consumers, insured, retired and savers through greater transparency, greater capitalisation and control of institutions, and ensuring that institutional and financial investors have sufficient room to exercise fully their role I’ve just described as drivers of growth, savings and the economy. Overly restrictive regulations that curb equity investment by major institutional investors unduly, and prevent them from offering long-term products, like annuities, or products with guaranteed returns, can have truly disastrous effects, and undermine the potential of those products and solutions to drive growth and protect investors.

Obviously, an overly restrictive capital solvency and investment policy will make constraints on capital even more binding, and make it even more difficult to finance growth. We also need to find flexible and innovative forms of funding to stimulate growth, but without straying back into the area of toxic products and paper castles. I’ll leave the question of forms of financing and recapitalisation for growth to the other members of the panel.

Thank you