



## Financial Intermediation : Analysis and Perspectives

### KEYWORDS

financial intermediaries , money markets , monetary policy , securitization , Basel 3 .

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**ABSTRACT** *The paper analyzes the role of financial intermediaries , focusing especially the implications for monetary policy . And it also tried to consider , however briefly , the pattern of international regulation for more resilient banks and banking systems , namely , Basel 3 .*

### 1. Introduction

After the establishment of the monetary union , financial intermediation in the euro area has taken an increasingly important role . The financial activity , the eurozone , is , in fact , a strongly expanding sector . Sign that financial intermediation has a significant weight on the economy of the area . In a globalized economy , where it grows innovation , trade and accumulation of wealth , there is always more to the growth of financial intermediation. In light of this , this phenomenon can not be overlooked especially because affects the monetary system . In particular , tends to make the weaker the relationship between money growth and inflation<sup>1</sup> .

The essay analyzes the financial intermediation of its implications for the economy . In particular , the second section describes the interaction between money markets and monetary policy . The third section describes the services provided by the various financial intermediaries . In the fourth section we focus briefly on securitization transactions . In the fifth section analyzes the choices of the various economic operators in relation to their financial resources . The sixth section describes the effects of banking on the money supply . The seventh analyzes the money supply . The eighth section focuses on Basel 3. The ninth describes banking intermediation in Italy . The final section reviews the various theories on financial intermediation .

### 2. The euro area money market : general

In the money market are very active banks, investment funds, insurance companies, pension funds and non-financial companies. In this market, these institutions raise funds in the short term. It is, in fact, of a market for euro deposits and short-term derivatives<sup>2</sup>. The derivatives market, including, in particular, futures contracts on interest rates in the short term, over the counter (OTC), the overnight index swap (OIS), the interest rate swaps (IRS), the swap operations forex (foreign exchange, FX) agreements forward rates (forward rate agreement, FRA). These are tools that still have a different credit risk. The credit risk of such contracts secured repo is lower than that of unsecured<sup>3</sup>. The trading volume of the euro money market, until 2007 it was growing. In 2007, the increase, for example, the instruments guaranteed was approximately 19.6 percent. The trading volume of the swap market on foreign exchange transactions increased by about 10, 5 percent. The trading volume of the market for unsecured increased by 5.5 percent. While, the market turnover of OIS, an increase

of 52 percent in 2006, showed, in 2007, a decrease of 20 percent. From 2001 until 2007 the market for the instruments guaranteed showed a volume increase. Always up to 2007 the market for unsecured instruments remained the most active market. Swaps on foreign exchange transactions showed an increase of 18.1 per cent and the OIS market increased by 14.1 percent (ECB, 2008). Of course the prospects have changed since the financial crisis . The "euro money market" is one of the most liquid markets in the world.

The functioning of the money market is of great importance for the ECB, by affecting monetary policy, and interferes with the transmission mechanism of monetary policy. All this means that the ECB, by targeting short-term rates at levels close to the minimum bid rate on the main refinancing operations of the Eurosystem, may, after having announced its monetary policy strategy, influence rates and long-term yields. If markets work well, the ECB is able to ensure price stability. It should be noted that short-term rates reflect developments in the money market and are not under the control of the ECB, this is evident especially in times of financial market instability. And it is precisely in times of financial stress that the ECB's interest that the money market functions well, then, intervenes, promoting the smooth functioning of this market, because an efficient market promotes price stability. In other terms, conditions the monetary policy stance. The euro area is characterized by the interaction between money markets and monetary policy. The Council shall decide the reference rate of the ECB, namely, fixing the level of the minimum bid rate in the MROs weekly dell'Eurosistema (ECB, 2008). In MROs, the ECB provides liquidity to the banking system, so that the interest rates of short-term market are in line with monetary policy. It is clear the link between the key ECB interest rates and market rates. It must be said, also, that the ECB is committed to ensure the stability of interest rates of short-term market, keeping rates close to the minimum bid rate. In summary, the ECB has as its primary objective of price stability. To safeguard its target, it can affect only the short-term maturity of the money market. This means that its action has a limited effect on the money market. However, it is committed to facilitate the smooth functioning of the euro money market, ie, the ECB shall ensure that its monetary policy actions to ensure the stability of the economic system.

### 3. The services provided by financial intermediaries

To classify the different intermediaries, reference is made

to the European System of Accounts (ESA 95). Therefore we have:

- 1) Monetary Financial Institutions (MFIs), which are divided into banks, Eurosystem, money market funds;
- 2) non-monetary financial institutions (AIF), which stand in investment funds, financial vehicle corporations, central counterparties. The OFI sector also includes financial holding companies, intermediaries in securities and derivatives, the venture capital firm.
- 3) Insurance companies and pension funds (CAFP).

The sector of financial intermediaries is very articulate and very homogeneous. There are, in fact, monetary financial intermediaries and non-financial intermediaries. In this context, heterogeneous, intermediaries perform the following tasks:

- 1) maturity transformation;
- 2) the transformation of the names;<sup>5</sup>
- 3) monitoring and processing of information;
- 4) payment services, through which make it more accessible to the exchange and payment of goods and services between economic operators;
- 5) liquidity transformation;<sup>6</sup>
- 6) reduce the costs of transition.<sup>7</sup>

Between financial intermediaries have banks or lenders, which in the euro, until 2011, were 6,230 (ECB, 2012). They are able to create liquidity, thanks to the ability to finance long-term loans through short-term deposits received. It must be said, however, that the activity of the banks is not very stable, because the ability to make loans is strongly constrained by the depositors, ie, the ease with which depositors can withdraw their deposits at any time. Therefore, there is at the base of the banks a fiduciary relationship.

Money market funds<sup>8</sup>, indicate essentially a tool for short-term financing, similar to monetary financial institutions, as the equity issued represent a perfect substitute for deposits. They are responsible for raising funds from private and institutional investors. Manage these funds by issuing equity, revenues of the investments they invest in the money market. MMFs present in euro at the end of 2011 amounted to 1,376 (ECB, 2012).

Respect, however, insurance companies and pension funds, one can say that it is financial intermediaries investing in the financial markets to which they refer families for their investment, in fact, a third of household financial assets compose reserves insurance technical<sup>9</sup>. Until 2011, the euro area, the insurance companies present was 3400, while pension funds were equal to 3200 (ECB, 2012).

Investment funds are part of the non-monetary financial institutions. Through the issuance of equity allow private and institutional investors to diversify their asset portfolios. In 2011, the euro area investment funds amounted to 48 913 (ECB, 2012). Besides investment funds, including financial institutions that make up the "shadow banking system", there are the financial vehicle corporations (FVC), engaged

mainly in the securitization transaction (see. Paragraph. 3). In fact, the SVF transforms assets accounted for by the bank in negotiable instruments. Through securitization the SVF becomes a financial intermediary, as MFIs transform illiquid assets into liquid. In 2011, the SVF in the area were EUR 2,972 (ECB, 2012).

Among the non-monetary financial institutions are also central counterparties (CCP), which contracts traded assume the role of buyer against the seller or the seller to the buyer, reducing, thus, the risk of credit for original counterparties of the contract.

Among the non-monetary financial intermediaries will also belong the financial holding company and venture capital and development companies.

#### 4 . Securitization transactions

Starting in 1999, the securitization transactions have taken, in the euro area, a considerable importance. Securitization is important as having effects on both the financing of the banks that the credit market, it can affect the transmission mechanism of monetary policy (through the provision of loans) and on monetary analysis. In the context of financial innovation, securitization, in the euro area, favored by credit derivatives, integration of capital markets. Though the growth was not limited to the euro, but globally; However, the expansion was more rapid in the area, both for the introduction of the single currency, which for the strong integration of capital markets. In the euro area, securitization has favored both the changing role of banks, which have increasingly securitized its loan portfolio; is that of the financial structure. Not to mention that, initially, the role of financial intermediaries was resized.

Securitization transactions, in euro, this basically two types of intermediaries, ie, MFIs and SVF. This is because there is a real interaction between MFIs and SVF. On one side is an MFI that securitization activities, on the other there is a SVF it addresses the MFIs to achieve this task. MFIs frequently resort to the SVF to make securitization.

MFIs have made securitization, between late 2009 and September 2011, amounting to 271 billion euro. Of this amount, approximately 203 billion euro were securitized through SVF. It was, however, remained in the operations of the MFI balance sheet. While, the operations removed from the budgets and having as counterpart SVF the euro were, again in the period, 2009-2011, amounting to 62 billion euro. Few were the transfers that had as counterpart SVF not the euro. And 'evident from these data the strong interaction between MFIs and SVF of the euro. Not surprisingly, at the end of the third quarter 2011 SVF had securitization loans for 1, 5 billion euro, 1.2 of those originated by euro area MFIs. About two-thirds of these securitized loans were granted to households in the area, a fifth to companies outside the euro area. Half of MFI loans, again in the third quarter of 2011, were recorded in the financial statements of the originator, for an amount of 590 billion euro.

The debt securities issued by euro area MFIs, but held by SVF were equal to 42 billion euro. Debt securities issued by SVF, were, in the period under review amounted to 1.8 trillion euro. The titles of the SVF by MFIs were equal to 953 billion euro (ECB, 2012).

#### 5.The choices of economic operators

Economic operators, tend to diversify the use of its resources. On the one hand, there are investors who are

more risk averse and tend to set aside funds to be used for future consumption.

On the other hand, we borrowers, more risk-averse and prefer to make investments with high future returns.

Though traders, they are to act in a sector rather heterogeneous. The exchange, however, is done directly through the financial markets, or indirectly through the monetary financial institutions (MFIs), insurance companies and pension funds (CAFP) and other financial intermediaries (OFI). Approximately 58 percent of total financial, until 2010, was carried out by financial companies. In fact, more than half of the percentage above was carried out by monetary financial institutions (MFIs), particularly by lenders. Only a quarter from other financial intermediaries (AIF) and the remaining by insurance companies and pension funds. Also in 2010, families and businesses held 20 percent of total financial assets and governments around 4 percent. In fact, the total financial assets in the 'euro area, from 1999 until 2010, have seen a sharp increase, and even in 2010 the total financial assets have more than doubled compared to 1999. Currently, levels of growth in total financial assets are higher than nominal GDP. While in 1999 the total value of financial assets to GDP ratio stood at 800 percent; in 2010 the value of these assets to GDP ratio stood at 100 percent (ECB, Eurostat, 2012). Though, financial assets are growing, however, this increase was not uniform across sectors. The highest growth was recorded for the financial sector, particularly for MFIs and AIF, which recorded an increase in financial resources, doubled compared to 1999. Regarding the growth of MFIs, it can be observed that this increase was mostly favored by lenders and marginally by euro area investment funds. Without forgetting the contribution of financial vehicle corporations (FVC), there is a proof of this duplication, 2000-2008, in securitization. As for the household sector, we can observe a growth of 47 per cent of financial assets. This percentage shows a modest increase of the household sector, because this occurred, simultaneously, a substantial growth of the non-financial wealth, particularly real estate.

## 6.The effects of financial intermediation on monetary policy

At present, there is in the eurozone, a strong interaction between financial intermediaries. This interaction has an impact on monetary policy, ie, the information obtained from the currency and credit affect the monetary policy strategy of the ECB. In particular, increases in money balances involve increases in consumer spending and, if this does not correspond to an increase in production is generated inflation. The interaction between intermediaries affects, therefore, on the monetary aggregates and inflation through them. If the business of banking intermediation affects the economy, it means that in the economic system, the banks play a role not passive, as their ability brokerage condition credit and currency.

Monetary developments, determined by demand and supply of money, go to condition the feedback regarding the relationship between money, asset prices and wealth. This means that the assessment of monetary developments is conditioned by the trends in wealth and asset prices. While it is true that the money supply of traders, depends on the wealth owned by the operators, however, this wealth and asset prices are constrained by money. When the level of the currency is in line with the growth of

prices, income, interest rate means that monetary growth reflects the performance of the economy. If it is less price stability because of excessive economic expansion, monetary developments will reflect this situation. No shortage of situations where monetary developments is not consistent with that of prices, income and interest rate, ie, the currency is not able to provide information, then monetary policy draws information from other macroeconomic variables. You can verify that the trend of the currency is not in line with the macroeconomic variables due to changes in the money supply, in this case, monetary policy must take account of these changes to avoid consequences on price stability. As stated above, we understand that it is not easy to assess to what extent the evolution of the currency is dependent on demand and money supply. The two interact on monetary variables.

## The role of banks

The money supply (see. Paragraph 6.) is conditioned by monetary policy to the extent that it influences the activity of the banks. The bank is an institution that provides loans and collect deposits from the public. Through these activities it provides liquidity services and payment, perform verification and monitoring for creditworthiness of borrowers, redistribute risks. These activities, in any case affect the function of intermediation of banks. It must be said that the brokerage activities of banks is not exclusive, since (as mentioned in the previous paragraphs) is also carried out by non-monetary intermediaries, such as pension funds, investment funds, insurance companies.

The banks, through the provision of loans to borrowers, create deposits. For banks these deposits represent a safe activity in terms of capital and repayable at a nominal value known. The banks are also able to process the bank loans (illiquid assets) in bank deposits (liquid assets). The latter function, carried out by banks, allows to distinguish themselves from non-monetary financial intermediaries, who can not offer cash deposits. The intermediation of banks, in fact, influence the supply of money, because their liabilities are the central element of monetary aggregates. There are several determinants that affect the activity of the banks, just remember as an example, their aversion to risk and the cost of borrowing.

## The role of banks in the literature

Traditional models, do not examine the role of banks as financial intermediaries, therefore does not take into account the difference between the interest rate assets and liabilities, it is simplistic models because of the presence of a single rate and, therefore, no risk.

The current economic literature refers to the difference between deposit rates and lending rates. According to this line the banks are able to get a positive profit, as set deposit rates at a level lower than the interbank rate, while lending rates are set at a level higher than the interbank rate. They also affect the rates to customers only when changes are monetary policy rates, this allows them to preserve their customers because the cost of compliance rates are low.

Always in the literature, there is an approach that justifies the behavior of banks by referring to information asymmetries present in this market, ie, borrowers have more information about investment projects, compared to banks. This leads banks to protect themselves, distinguishing between borrowers unable to pay debts and insolvent borrowers and by ensuring that the differential between lend-

ing and borrowing rates represent an insurance against default of debts. The activities of banks, today, is based on different mechanisms or better management techniques, so there is a dominant mechanism for managing the assets and liabilities and provide brokerage services. Regarding, for example, the management of liabilities, some banks may decide to invest in human resources and capital to allow customers easy access to liquidity, for example, Internet banking allows those who made the payment to be transferred to the account of beneficiary without incurring transaction costs. All this makes us understand that different management mechanism, which characterize the activity of the banks, they are not able to define the role of banks in the intermediation process. There is no literature in a unique model of the bank because the different management techniques can not integrate. It must be said that today the banks are committed to improving the management of assets and liabilities to reduce risk and provide services that could not offer a financial intermediary no money. These considerations, in fact, highlight the improvements of management are growing the money supply in the economy. Banking has the effect, therefore, on the money supply and, it has implications on the economy. There are two channels through which the money supply can vary: the effect of credit availability and the effect of liquidity. When it comes to credit availability, we refer to those situations in which improvements in the intermediation process involving a reduction in the cost of credit institutions, which affects the customers through higher rates liabilities and decrease in lending rates. The change in interest rates, in turn, will manifest its effects on the net present value of investment projects and allocation of consumption. All this, in aggregate affects spending and inflation. Below, by way of example, some situations in which improves the intermediation and credit availability. If it improves financial intermediation, this implies an ease of access by households and businesses to credit, since they decrease lending rates and also apply loan contracts more favorable. Economic operators, despite having the knowledge that their spending capacity depends on their disposable income, ease of access to financing will result in an increase in consumption and investment. This situation, however, will have negative consequences in terms of inflation. The securitization of loans, for example, allows banks to more easily meet the demands of credit by households and, to provide mortgage loans on terms more favorable to an increasingly large number of borrowers. Another example that promotes the availability of credit from banks is given by 'introduction of know hou in the techniques of bank risk management, as the risk mitigation, for a given value of funding and capital allows banks more credit exposure. Regarding liquidity effect, we list below the mechanism that gives rise to this effect. Economic operators borrow from banks to buy goods and services. From this purchase will generate new deposits that banks make available to other traders. In fact, in the short term such deposits constitute a cash reserve; in the medium term, companies use these deposits to banks to repay loans taken and there will be the absorption of the deposits. The other possibility is that operators use the excess deposits to buy additional goods and services. Is created in the economy increased demand for goods and services, which will lead to higher inflation, but also the balance between supply and demand for money. If some operators decide to purchase goods and services, others may use the excess deposits to buy assets and rebalance their portfolio. This rebalancing of the portfolio will result in higher prices of alternative activities, and consequently decrease yields and increase the net present value of fixed investments.

From the foregoing, it is clear that the effect of the availability of credit, that the effect of liquidity causing increases in aggregate demand and therefore a higher inflationary effect. On this basis, we can say that these effects have implications for monetary policy.

#### **The management of the assets and liabilities of banks**

The know hou introduced by banks led to changes in the management of funding, mitigating the risk of funding liquidity. Therefore, the greater efficiency achieved in risk management, allows banks to transform deadlines using, to a greater extent, the collection in cash deposits. All this leads to an increase in the money supply.

Between 1999 and 2008, euro area banks have seen an increase in their budgets and liabilities recognized (they are doubled). Wanting to dwell on the collection is crucial to emphasize that the banks deposits can have different consequences for their collection, ie, a deposit held by the family has different implications than a fund investment, the cause is the different probability of renewal. Therefore, we must distinguish between funding sources and stable sources volatile. The stable sources include deposits of households and non-financial companies, securities of long-term debt held by insurance companies, pension funds and deposits of operators other than MFIs. These sources account for about half of the financing needs of euro area banks. The sources include volatile securities short-term debt and short-term deposits placed by financial intermediaries. Looking at the structure of the liabilities of banks, shows that deposits are the main source to these are added the issue of debt securities, capital and reserves.

The sources of funding of banks are divided into sources provided by the market and traditional sources. On market sources the bank pays investors a high risk premium, while traditional sources are exempt from this because it is of deposits guaranteed by the government. The market sources also are easily adaptable to different needs, the traditional sources require more time to adjust. Today banks can tap into a large stock of funds market, thanks to strong growth of assets managed by institutional investors. This has encouraged the growth of securitization and the covered bond market or covered bonds. The securitization enables economies of scale and provides sources of funds internationally, as the loan portfolio becomes negotiable and, therefore, are less quantity limitations present in the deposit base. Securitisation is strongly linked to lending, ie, there are many securitized loans retained on the balance sheet. After the financial crisis, banks have used securitization to create collateral, useful in refinancing operations with the Eurosystem, this is a "self-securitization".

Although the expansion of credit is due to market sources, who provided additional funds to the banks, however, much of the loan growth in the euro area is based on the traditional sources. This is going to mean that the credit activity in the euro area is still based on the model originate and hold.

#### **7. The money supply**

Behind the money supply are the central bank and commercial banks. In this regard, we distinguish between money supply external, managed by the central bank and money supply internal managed by commercial banks.

The central bank manages monetary policy by controlling the money supply. Depending on the objective that

the central bank wants to pursue decide to increase or decrease the money supply, namely, revises the outside money. As regards the volume of currency in the economy is justified through the money multiplier. Under the money multiplier, the banks receive deposits from economic agents, this happens for the trust to the banking system, banks hold a portion of these deposits them in liquid form, while the remainder of the deposits using them to buy less liquid assets, but high yield, ie loans. When the central bank increases the volume of reserves available to banks, means that banks can create additional deposits equal to a multiple of that increase. In literature it is believed that the money multiplier is an instrument of monetary policy, and thus able to determine the money supply, while interest rates of short-term interest would ensure the balance between demand and supply of money. In reality, things are different, since the banks before securing the interest rate, then offer the volume of reserves for maneuvering interest rates in the short term and align them to the discount rate, which is the instrument of monetary policy used by central bank . Though, the central bank could stimulate the economy by increasing the money supply through the multiplier, however, things are different, because the portfolio choices of operators are not as predictable, as the multiplier, but mainly depends on the performance. As evidence of this it may be recalled that the financial crisis of 2008, was accompanied by a decline in the money multiplier, but the climate of uncertainty, banks have increased the reserves at the central bank. Therefore, the substantial reserves of the central bank, was not followed by a choice of the portfolio in line with the multiplier.

Between 2005 and 2008, the euro area, the money multiplier has shown some stability, so it has highlighted the uncertainty and changes present in the activity of banking intermediation. All this means that the link between monetary policy and money supply, indicated by the multiplier, does not help to understand the changes in the monetary aggregates. Ultimately, as has already been said, the money supply is affected by monetary policy through the activities of banks.

### 8.The new framework: Basilea3.

In July 2009, the Basel Committee has set itself the goal of improving the international regulatory framework in terms of capital and liquidity, and give life to an international banking system more robust. With the new structure we tried to put the banks in a position to cope with shocks to financial crises and improve the governance of the credit institutions, fostering greater transparency. The need for a new regulation stems from the close relationship between the banking system and economic system, ie, a solid banking system promotes the growth of the real economy.

After the economic and financial crisis we have realized that the weakness of the banks was especially highly leveraged both in and off balance sheet. This had resulted in erosion and quality of the capital base. The credit system was not able to play the role of intermediary in the face of exposure accumulated in the "shadow banking system". With the crisis had failed confidence in the solvency and liquidity of many banks. The distrust of the banking system has expanded to the entire financial system and the economic system, therefore, registered is reducing liquidity. To avoid heavy losses, the government authorities intervened through recapitalizations and guarantees and, of course, injections of liquidity. The Committee, with Basel 3 reformed the international regulatory framework,

to improve the soundness of individual banks and thus the banking system. With the reform of the Committee has improved the capital adequacy framework, strengthening the three pillars of Basel 2. It is, therefore, for reforms that strengthen both the quality and the amount of the capital base and enhance the risk coverage, introducing an index leverage (leverage ratio). The Committee has established with Basel 3 quanto follows: "The core capital (Tier 1) should consist predominantly of ordinary shares and retained earnings not distributed (common equity). This requirement is reinforced by a set of principles that can be adapted to the context of banks constituted in a form other than stock company (non-joint stock companies) to hold comparable levels of core capital of high quality. Deductions from capital and prudential filters have been harmonized internationally and are now generally applied at the level of common equity or equity component equivalent in the case of non-joint stock companies. The remaining portion of the core capital must consist of subordinated instruments that correspond dividends or interest in a totally discretionary and non-cumulative and do not contain either an expiration date or incentives for early redemption. Hybrid instruments Innovative capital with an incentive to redeem as review clauses automatic return rate (step-up clauses), computable currently a limit of 15% of Tier I capital, will be gradually excluded. In addition, the tools will be harmonized in the supplementary capital (Tier 2), while those belonging to the Tier 3, which could only be used to hedge market risk, will be eliminated. Finally, in order to improve market discipline, will be increased transparency of regulatory capital, as they will be made known all components, as well as their connection with detailed items of the financial statements (...) ". (Basel 3 - A global regulatory framework for more resilient banks and banking systems). With Basel 3 emerge the need to review the coverage of risks, as the crisis has highlighted the inability to detect them. Therefore, were introduced capital requirements related to the portfolio and securitization, ie, was "introduced a capital requirement based on the value-at-risk of acute stress (stressed VaR), calculated assuming a continuous period of 12 months financial tensions significant. In addition, the Committee has introduced more stringent capital requirements for so-called re-securitisations, both in the banking and in the trading. These changes have also improved the standards for the supervisory review process (Pillar II) and for public disclosure (Pillar) ". (Basel 3 - A global regulatory framework for more resilient banks and banking systems). Basel 3 has strengthened capital requirements, and reduced financial risks, but were also introduced incentives to strengthen the management of counterparty risk, providing that: "in the future banks will determine the capital requirement for counterparty risk using inputs that take account of stress conditions. This will avoid that capital requirements decrease excessively during periods of reduced market volatility and help to dampen procyclicality of regulation. The approach, similar to that introduced to the market risk, will also promote a more integrated management of market risk and counterparty; banks will be subject to a capital requirement to cover potential losses due to the variation of the Committee strengthens the requirements with regard to collateral management and initial constitution of haircuts. Banks with large and illiquid derivative exposures to a counterparty will consider periods remargin longer to determine capital requirements. Additional standards were adopted to strengthen the practice of risk management related to the collateral; to deal with the systemic risk arising from the interconnection between banks and other financial institutions through the derivatives markets,



the Committee supports the efforts of the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) aimed at develop robust standard in the area of financial market infrastructures, including CCPs (central counterparties, CCP). The capital treatment of banks' exposures to CCPs will depend in part on the compliance with these standards by the CCP and will be finalized at the end of a consultation process in 2011. The collateral and exposures valued at market prices held by a bank to the CCP that satisfy these stringent standards will be subject to a weighting factor prudential low, proposed 2%; exposures to the guarantee funds (default funds) of the CCP will be subject to risk-weighted capital ratios associated. These policies, along with the strengthening of capital requirements for exposures in bilateral OTC derivatives, will create strong incentives for banks to transfer exposures to which CCP. Furthermore, in order to contain systemic risk present in the financial sector, the Committee raises the weights applied to exposures to financial institutions than to non financial companies, the first being more correlated than those with non-financial factor systematic risk used for the estimation of the Basel 2 requirements; The Committee raises the requirements for the management of counterparty risk in several areas, including the treatment of so-called risk Wrong (wrong-way risk), ie cases where the exposure increases when the credit quality of the counterparty deteriorates ". ((Basel 3 - A global regulatory framework for more resilient banks and banking systems). The Committee reviewed further measures to reduce reliance on external ratings introduced by Basel 2. The Committee has reduced the pro-cyclicality of the shocks financial, trying also to enhance the soundness of the banking system. in summary, with Basel 3 trying to accomplish the following: improve the capacity of the banking system to absorb shock, reduce risk and improve governance; create a banking system more transparent and, therefore, improve the disclosure of the banks. the points of the reform are: the micro-prudential regulation, namely, to enable individual banks to withstand difficult situations; macro-prudential risks, that is, in terms of the banking system.

### 9.The 'to banking in Italy.

The reform of international regulation (Basel 3) resulted in Italy, but also in other countries, a discussion about the role and responsibility of banks. Today we live in the cultural context in which the concept of responsibility of the banking system has changed considerably, as has changed the banking business. This is even clearer after the financial crisis. Today the credit system asks for more transparency and greater customer protection. Since 2010, the transparency of the relationships with customers and controls the credit authorities are a valid reference in the Banking Law. The banking system Italian is aware of the challenges ahead, however, it remains rooted in the territory and linked to its commercial banking activities, ie, administer the savings, finance companies. Not to mention that banks, being companies, have the mind also the profits and, therefore, try to be competitive. Of course banks have to be competitive, since the crisis, increased its assets. This was done also in view of Basel 3 and the pressure that the market exerts on banks for you to adapt as soon as possible to the new prudential requirements, and thus give a contribution to economic growth.

In this context plays a crucial role household wealth. In 2010, in Italy the gross wealth of households amounted to 9.525miliardi euro, about 400 thousand euro on average per household. Real assets accounted for 62.2 percent of

gross wealth, financial assets 37.8 percent. Financial liabilities amounted to 887 billion euro, accounted for 9.3 percent of total assets.

From 2009 to 2010 the total net wealth has not undergone major changes, with a reduction of only 1.5 percent. Since late 2007, at the aggregate level, the reduction was equal to 3,2per percent.

Remaining data of 2010, it is noted that the wealth in real estate amounted to 4.95 trillion euro. In 2010, the housing wealth showed an increase of 1 percent compared to 2009 (all in nominal terms).

While there has been an increase in real assets (1.1 percent), from the other, there was a decrease in financial assets (0.8 percent) and an increase in liabilities (4.2 per percent).

At the end of 2010, approximately 35 percent of the amount of securities deposited with Italian banks to households was reported to securities accounts of a total value of less than EUR 50 000; loans granted to households of between 30 000 and 75 000 euro accounted for 20 percent of the total; those of between 75 000 and 250 000 euro were 56, while the remaining 23 percent was attributable to loans above 250 thousand euro.

In the first half of 2011, the net wealth of Italian families had, in nominal terms, an increase of 0.4 percent in nominal terms the increase in liabilities was more than offset by the growth of the real and financial assets. Wanting to make an international comparison, it is observed that the Italian families possess a high wealth. In 2009 it resulted in 8.3 times disposable income, compared with 8 in the UK, 7.5 in France, 7 in Japan, 5.5 in Canada and 4.9 in the United States).

They are also relatively little debt: the amount of debt is equal to 82 percent of disposable income (in France and Germany is about 100 percent, in the United States and Japan is 130 percent, in the United Kingdom of 170 percent) (Bank of Italy, 2011).

### 10. The different theoretical contributions on financial

There are several contributions that justify the existence of financial intermediaries. Their presence has given rise to a real theoretical debate, which brought different approaches that justify the presence of financial intermediaries.

The neoclassical school is not able to justify, through its approach, the theory of financial intermediaries.

The neoclassical approach, part of the existence of a perfectly competitive market, characterized by pulverizing the market, the perfect information, the absence of barriers to entry, the absence of transaction costs and the prices that are formed on market. Therefore in this market who offer funds can easily meet those who demand funds, without any need for financial intermediaries. This is possible because, in this market, the information is perfect. Financial theory, inspired to 'neoclassical approach, therefore, is not able to justify the presence of intermediaries funded. In this perspective fits the financial theory of Modigliani and Miller (1958). This theory excludes the possibility of interaction between the real market and the financial market, as it is in the presence of perfect markets. And it is the perfection of the market leading to justify intermediaries as simple operators to exchange financial instruments. This

neoclassical financial theory, will launch a theoretical debate which arise from the different contributions that recognize financial intermediaries play a role in the financial system.

The theoretical approach of Gurley and Shaw (1960), justifies the presence of financial intermediaries for the existence of transaction costs. The financial market is an imperfect market, because of the presence of transaction costs. Therefore, these authors believe that the financial intermediary can ensure the efficient allocation of savings to cost less than those incurred with the direct financing. This is made possible thanks also exploitation of economies of scale. For other authors (Fama and Laffer, 1971), the presence of financial intermediaries is explained by the 'asymmetric information that characterizes the financial market. This means that information between traders circulate so no symmetrical. Therefore, the public and private information, are available to economic agents through the incurrance of costs.

The asymmetric distribution of information, from place to phenomena of adverse selection and moral hazard, causing an inefficient allocation of financial resources; what is a justification the role of financial intermediaries. Akerlof (1970), through his studies, shows that those who borrow funds know more about the project to be funded compared to lenders, has been in the presence of a non-homogeneous distribution of the information (hidden information) generating mechanisms of adverse selection .

The moment which the two operators engaged in a transaction have different information emerges the phenomenon of lemon principle. In this imperfect market, the price pushes investors to make decisions that do not correspond to the objectives. Though, in the financial market there is, by operators, a commitment to improve this market, however, there is, according to some authors (Grossman, Stiglitz, 1980), the inability to eliminate the 'information asymmetry, as it represents a physiological phenomenon of financial exchange.

Still with reference to imperfections in the market, we report the theory of Leland and Pyle (1977), according to which the reasons that lead to financial are the presence of transaction costs, but especially the asymmetric information. The information asymmetry, for the authors, can be eliminated through the signaling (signaling) of the value of investment projects. Therefore, mediation is seen as a tool to report the value of the investment project, that is, the borrower indicates to the market performance expected net future of 'investment, through the assumption of risk. The activity of signaling is especially burdensome for borrowers. To reduce the cost of the report, the authors propose the coalition (coalitions) of borrowers. Financial intermediaries, therefore, are considered as an "information sharing coalition" that are able to get information on investment projects and ensure efficient allocation of financial resources.

Boyd and Prescott (1986), justifying the presence of financial intermediaries, in the activity screening that they are able to perform. In other words, for the authors, financial intermediaries assess the risk profile and performance of individual projects, selecting the best projects and rejecting invalid ones. Diamond (1984), describes the financial intermediary as a "delegated monitoring", can monitor the opportunistic behavior of borrowers and reduce risks for employers funds through investment diversification. There-

fore, the financial intermediary is able to counteract the phenomena of adverse selection and moral hazard and to exploit economies of scale in collection and dissemination of information.

Finally, it should be reported the theoretical contributions related all'agency theory. In the contribution of Jensen and Meckling (1976), the focus is on the costs arising from the principal-agent relationship, ie, the asymmetric information of such financial exchange justify the relevance of agency costs, related to the intermediation finanziaria.L 'agency theory identifies the optimal conditions to minimize agency costs, asymmetric information, and due to the diversity of interests between principal and agent. The principal is the giver of funds, the agent is the borrower. The optimal solution would be the elimination of asymmetric information, but this is difficult to achieve. Therefore, it is feasible a suboptimal position, which seeks to minimize agency costs, so that the agent has a behavior consistent with the interests of the employer's funds.

### 11. Conclusion

Through the analysis of the credit, the present work, examined the activities of financial intermediation and its effects on the economy. At the same time, we focused on the implications that the behavior of the banks in the making of monetary policy. In addition we have shown how the securitization has become a booming business in the euro area, also highlighting the weaknesses of this activity emerged especially in the period of financial turmoil.

Finally, we have shown that the financial market is an imperfect market for the presence of transaction costs and asymmetric information. The imperfections in the direct exchange of financial resources, justifying, therefore, the presence of financial intermediaries. The various contributions analyzed (See., Paragraph 8), recognize the financial intermediaries can reduce transaction costs, exploit economies of scale and ensure efficient allocation of resources, and the ability to diversify your portfolio and assets, thus reducing the risks.

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