THE OWNERSHIP OF ITALIAN ASSET MANAGEMENT COMPANIES: CONSEQUENCES ON THE COMMISSIONS STRUCTURE

Maria Cristina Arcuri*, Elisa Bocchialini**, Monica Rossolini***

Abstract

Recent actions by market operators and numerous contributions existing in literature have pointed out and stressed the importance of investigating the consequences of the ownership structures of the Asset Management Companies (AMCs).
The objective of the paper is to delve into such field, trying to define the presence of a significant influence between ownership of the AMCs and the commissions system. The analysis has been conducted on a sample of AMCs, distinguished between independent and not-independent (in this context meaning ownerships of banks and insurances). We have analysed the receivable and payable commissions of the independent and not independent AMCs, for the four-year period: 2005-2008. The results achieved allow us to submit useful considerations about the importance of the governance characteristics of the asset managers and their choices in order to recover margins of profitability.

Keywords: Corporate governance, Ownership, Commissions, AMCs (Italian SGRs), Financial Crisis

JEL Codes: E44, G01, G12, G20, G32, G30

** Research Fellow, Department of Economics, University of Rome "La Sapienza", Member of the "Associazione dei docenti di Economia degli intermediari e dei mercati finanziari" (ADEIMF), Via J.F. Kennedy, 6 – 43125 Parma, Italy*
E-mail: maria.arcuri@sdabocconi.it
*** Research Fellow, Department of Economics, University of Parma; Assistant Professor, Banking and Insurance Department, SDA Bocconi School of Management, Member of "Associazione dei docenti di Economia degli intermediari e dei mercati finanziari" (ADEIMF), Via J.F. Kennedy, 6 – 43125 Parma, Italy*
E-mail: elisa.bocchialini@unipr.it
**** Assistant Professor, Department of Business Administration, Management, Finance and Law, University of Milan Bicocca, Assistant Professor, Banking and Insurance Department, SDA Bocconi School of Management, Member of the "Associazione dei docenti di Economia degli intermediari e dei mercati finanziari" (ADEIMF), Via Bicocca degli Arcimboldi, 8 - 20126 Milan, Italy*
E-mail: monica.rossolini@unimib.it

1. Introduction

Nowadays, in Italy and abroad, corporate governance represents a very debated subject. A widespread conviction is that a good management promotes value creation, economic growth and development; in addition, it represents a key element for achieving trust from investors. Many studies (Himmelberg et al., 1999; Klapper and Love, 2004) suggest that a better corporate governance influences the protection level of the investors. Yet, such subject assumes more important and delicate traits if dealt with reference to the context of asset management.

Many contributions, among which Lener (2005), as well as frequent actions by the market operators, have pointed out the importance of investigating the possible consequences generated by the ownership structures of the Asset Management Companies (AMCs). The present research is ranked amongst this trend of literature: it proposes of directing the analysis on the governance system of Italian Asset Management Companies (the so-called "Società di Gestione del Risparmio" - "SGR"), paying attention to the SGRs' profitability and, in particular, to the receivable and payable commissions' structure (Linciano and Marrocco, 2002; Otten and Schweitzer, 2002).

The purpose of the research is to understand whether the presence of financial brokers (banks and insurance companies), as shareholders of the AMCs, could generate some consequences in terms of different commissions'system implemented. The research has been conducted on the four-year period 2005-2008.

In order to achieve the stated objective, we deem necessary to face the following research questions: is the ownership of AMCs capable of affecting the system of receivable commissions? And the system of payable commissions?

The analysis was conducted on a sample of AMCs members of Assogestioni[1], distinguished between independent and not-independent.

Based on the previous studies, we expect differences between the banking/insurance and independent AMCs, especially in reference to the payable commissions. Moreover, the analysis could supply useful information in reference to the subjects of fund governance and conflict of interests.

2. Ownership of AMCs and profitability: a literature review

Existing literature sustains that the sector of asset management is important and points out the need of promoting growth and development of a strong and efficiently asset management industry (Stoughton et al., 2011). Much more so following the recent financial crisis defined by many studies (Adams , 2009; Draghi, 2009; Kirkpatrick, 2009; Randall, 2009) as the most serious recession since the years after World War II.

The crisis has brought negative repercussions also on the asset management sector and it has made necessary to act in the following directions: monitoring the risk, need of promoting long term and social security savings, spreading the financial education, regulations and investor protection, search for efficiency of costs and competitiveness and need of paying attention to the governance system of the sector's players. The analysis is concentrated on the last issue, considering the peculiar organisation of the Italian asset management sector. Messori (2008) talks about true and actual "distortions" on the offer side, in order to identify the preponderant AMCs'ownerships dependency from the banking and insurance groups and the vertical integration between production and distribution.

The supply model of asset management products existing in our Country is essentially based on the banking networks held by the same group of AMCs. This situation depends on the customer retention schemes generated by the *lock-in* mechanisms, related to the joint offer of different banking and financial services, bearing high costs of *switching*. The importance of the just described context is yet greater when we think that the asset management products are offered to customers, in lieu of other more dubious and risky financial instruments, as part of the same distribution channel. This generates a potential conflict of interest, given that the distribution channel could favour the placement of more convenient "home" products; distributor's marketing policies could be influenced by such model of distribution and, thus, they could not be aimed at satisfying the investors'needs. The matter assumes a strategic importance in light of the national[2] and international[3] legislations, ever more poised at safeguarding the customers'interests, the reduction of conflicts of interests and the supply of more "adequate" financial services. Several times governor of the Bank of Italy explained that it is necessary to increase the level of efficiency in the supply of asset management services, so it is important that management companies are *independent* from banking and insurance groups. Everything stated so far can be achieved through the improvement of the mechanisms of *governance* and, whereby necessary, by undertaking decisions pertaining to ownership structures. Many essays, among which La Porta et al. (1997, 1998) have pointed out the importance of investigating the possible consequences of the ownership structures of subjects managing savings.

A broad literature (Becht et al., 2002; Boot et al., 2006; Burkart et al., 2003; Shleifer and Vishny, 1997; Walter, 1999) describes the costs and benefits tied to the corporate governace system. Plus, many studies (Adams et al., 2008; Borokhovich et al., 1996; Fernandes 2005; Khorana et al., 2007; Weisbach, 1988) analyse the features of the various mechanisms of governance, as well as the consequences, both internal and external, of the analysed situations. The study of the governance features is more important if we consider that the SGRs are exposed not only to the agency problem (and related costs) typical of stock companies (Jensen and Meckling, 1976), but also to the so called *fund governance*, that is the conflict of interest between the shareholders and the subjects sharing in the funds they manage. Such problem has forced the legislator and regulatory authorities (i.e.: Bank of Italy and Consob[4]) to enact rules and regulations safeguarding the *interests of the customers and the markets'integrity*[5]. Many measures on the matter are based on the idea that SGRs provided with an adequate level of independence are favoured in the implementation of correct strategies of development and are capable of reducing any conflict of interests, with a benefit either of their shareholders as well as the funds'clients. Such conviction is reinforced by many researches (Faccio and Lang, 2002; La Porta et al., 1999), which prove how the existence of little efficient governance systems is associated with the lower level of protection of investors.

One of the major distortions caused by the Italian distribution system of asset management products, based mainly on the banking group networks holding the AMCs, consist of the structure of costs (commissions) charged to the investor (Chordia, 1996; Knuutila et al., 2007; Otten and Schweitzer, 2002; Sirri and Tufano, 1999). In Italy the asset management products tend to insure very high reconveyances to the distributors and to bear considerable costs for the accessory services generated within the controlling banking group. This situation cause a strong incidence of distribution and accessory costs compared to the production costs. Two negative consequences arise: firstly, those savers purchasing managed savings products sustain too high overall costs. Secondly, the SGRs retain an insufficient portion of their revenues and, thus, they have limited margins of investments. So, it appears fundamental to analyse the commissions systems of these intermediaires. Many studies (Das and Sundaram, 2002; Elton et al., 2003; Ferris and Chance, 1987; La Plante, 2001; Malhotra and McLeod, 1997) have expanded the subject, pointing out that some factors, like the dimensions, the age and the products'management style, affect the level of commissions. Various reasons justify the analysis of costs charged to investors in mutual funds, for example: investors tend, usually, to pay little attention on costs and to concentrate on analysing past returns and, also, the awareness that a sizeable percentage of such costs are under the direct control of the managing companies. Thus, it becomes essential to take in consideration the existence of reconveyances agreements. Linciano and Marrocco (2002) sustain that the presence of reconveyance agreements represent a critical area for the efficiency of the asset management sector in Italy, because it promotes potential conflicts of interests. Indeed, there is an overlapping between the subject owner of the AMCs and the one controlling the distribution channels of their products and most of the replaceable financial instruments. It's basically about structured bond and insurance policies, which in the last few years have been successful as compared to the asset management products, because meantime they offer to savers the possibility of protecting (all or in part) the invested capital and share in any positive trends of the market. The spreading of such instruments though has been certainly fuelled by the strong push exercised on the distribution networks, based on their high returns. De Rossi et al. (2008) believe that the predominance of the bank distribution channels could generate conditions of rigidity in pricing of asset management, reducing noticeably the possibility for investors to benefit from economies of scale generated by the managing activities. European Commission (2006) has ascertained that the situation of the asset management market is characterised by the heavy incidence of the distribution costs, even if the same EC has clarified that the main end-purpose of the regulation on the matter is the protection of investors'interests. The Commission has ruled in reference to the onset of conflicts of interest, even by drafting some guiding criteria. In particular, the commissions collected by the distributors must be justified by the supply of pre and post sale services and it has decreed that any conflicts of interests must be made public, specifying, among others, that brokers operating in direct contact with investors are obligated to assist them diligently. The law on the matter state that these subjects have been obligated to act in an *honest, fair and professional manner for serving at best the customers interests*.

Our study proposes to analyse any connection between the AMCs'governance system and the driving factors of their profitability.

3. Sampling and methods

3.1 Sampling

The empirical analysis expands around the Italian asset managers, meaning the Asset Management Companies (AMCs).

The aim of the analysis is to investigate if (and how) the ownership of AMCs affects the systems of receivable and payable commissions and if some differences during the years before and after the recent financial crisis exist. In details, we defined two different research questions: is ownership of the AMCs capable of affecting the system of receivable commissions? And system of payable commissions?

In order to answer such questions, we constructed a sample of Italian AMCs, all belonging to "Assogestioni", and we analysed data of governance and payable-receivable commissions for the years 2005, 2006, 2007 and 2008. Such data have been retrieved from the following sources of information: financial statements of the AMCs analysed, their official websites, as well as Assogestioni website.

The sample being analysed was constructed at first by creating split samples, two for each year: the first pertaining to the analysis of receivable commissions and the second pertaining to the payable commissions. Then, the eight split samples have been grouped in two equation systems (as better explained further).

Table 1. Split samples "receivable commissions" years 2005-06-07-08

Year	Total	Independents	Not Independents
2005	68	13	55
2006	70	14	56
2007	66	14	52
2008	67	13	54

Table 1 shows split samples composition (receivable commissions)

Table 2. Split samples "payable commissions" years 2005-06-07-08

Year	Total	Independents	Not Independents
2005	63	10	53
2006	67	12	55
2007	59	11	48
2008	61	11	50

Table 2 shows split samples composition (payable commissions)

As shown on the Tables 1 and 2, for every split sample the number of AMCs being analysed varies, as also the proportion between the independent and not independed AMCs.

The analysis of the AMCs' governance system was conducted with special reference to the independence of such intermediares compared to banking-insurance structures, reasons why the various split samples are formed by a portion of independent and a portion of not independent AMCs.

The concept of "independence" we have considered for the analysis is borrowed from article 2359 of the Italian Civil Code, which identifies two types of relations between companies: the control and the association. The article in question reads exactly:

"Are considered controlled companies:

1) companies in which another company holds the majority of votes exercisable in the general assembly; 2) companies in which another company holds sufficient votes for exercising a dominating influence in general assemblies; 3) companies which are subjected to a dominating influence of another company based on special contractual constraints.

For the purpose of applying number 1) and 2) of the first paragraph, the voting rights due to a subsidiary (controlled) company, trust company and to a third party are also calculated; are not calculated instead the votes due on behalf of third parties. Are considered associated, companies on which another company exercises a considerable influence. ***Influence is presumed when in the general assemblies at least one fifth of the votes or one tenth if the company has shares traded on the stock market, can be exercised****".*

In particular, starting from the definition of "considerable influence", the following criteria were noted: the AMC **is not independent** if the banking-insurance overall holding is at least 20% (1/5 of the votes in general assembly). In other words, if the shareholding of the AMC is held at least for 20% by banking-insurance players, the asset management company is considered *associated* to the distribution network.

As pointed out, the analysis conducted refers to the four-year period 2005 – 2008 and it utilised an independent variable and different dependent variables.

More specifically, the dependent variables are represented by receivable and payable commissions (operating, incentive, subscription/redemption, switch and other commissions), meaning, in general, from revenues and related charges, respectively on the services supplied and received by the broker, based on specific contractual provisions (guaranties, collections and payments, management and brokerage, etc…).

Tables 3 and 4 supply a breakdown of the dependent and independent variables taken in consideration in the analysis.

Table 3. Description of the independent variables

Name of independent variables	Abbreviation
Ownership	Own
Market Share	MS

Table 3 shows the independent variables.

The independent variable ownership is represented by a dummy variable with value "1" if the AMC belong to banking or insurance group and "0" if the AMC is independent. The independent variable market share, added in order to keep in mind the size of the individual AMC being analysed, is calculated by placing in relation the individual AMC's annual managed asset with the sector's gross total managed[6] asset.

Table 4. Description of dependent variables

Name of dependent variables	Abbreviation
Receivable Commissions	
Own Managing – Mutual Funds	
Managing Commissions	OwManMF_man-R
Incentive Commissions	OwManMF_inc-R
Subscription/redemption Commissions	OwManMF_subred-R
Switch Commissions	OwManMF_sw-R
Other commissions	OwManMF_oth-R
Own Management – Individual Management	
Managing Commissions	OwManINDMA_man-R
Incentive Commissions	OwManINDMA_inc-R
Subscription/redemption Commissions	OwManINDMA_subred-R
Switch Commissions	OwManINDMA_sw-R
Other commissions	OwManINDMA_oth-R
Management by mandates	
Managing Commissions	ManMand_man-R
Incentive Commissions	ManMand_inc-R
Other commissions	ManMand_oth-R
Other services	
Consultancy	OthSe_cons-R
Other services	OthSe_othse-R
Payable Commissions	
Own Management – Mutual Funds	
Managing Commissions	OwManMF_man-P
Incentive Commissions	OwManMF_inc-P
Subscription/redemption Commissions	OwManMF_subred-P
Switch Commissions	OwManMF_sw-P
Other commissions	OwManMF_oth-P
Own Management – Individual Management	
Managing Commissions	OwManINDMA_man-P
Incentive Commissions	OwManINDMA_inc-P
Subscription/redemption Commissions	OwManINDMA_subred-P
Switch Commissions	OwManINDMA_sw-P
Other commissions	OwManINDMA_oth-P
Management by mandates	
Managing Commissions	ManMand_man-P
Incentive Commissions	ManMand_inc-P
Other commissions	ManMand_oth-P
Other services	
Consultancy	OthSe_cons-P
Other services	OthSe_othse-P

Table 4 shows the dependent variables.

Every variable listed on Table 4 represents the normalised annual amount of payable or receivable commissions each time analysed. All annual amounts of commissions, gathered from the financial statements, are normalised based on the value of management pertaining to the specific product analysed. As such, for example, the amount of annual management commissions pertaining to own management of mutual investment funds has been normalised for the total amount of own managed CIUs (Collective Investment Undertakings), while the amount of annual management commissions pertaining to own individual management has been normalised for the total amount of own individual managing activities for that year, and so forth.

We specify that for:

- *management commission*, we mean commission applied as remuneration for the activity of managing the fund assets;
- *incentive commission*, we mean commission charged to the fund in case of a performance better than the parameter of reference;
- *subscription/redemption commission*, we mean commission paid by the investor at the time of subscription/redemption;
- *switch commission*, we mean commission paid by the investor when switching from one fund to another held by the same managing company;
- *other commissions*, we mean other commissions attributable to the activity of operator;
- *consultancy*, we mean activity of consultancy in managing third parties portfolios;
- *other services*, we mean other services attributable to the activity of operator.

3.2 Methods

The results of the research have been achieved using a special statistical method, *Seemingly Unrelated Regression (SUR)*, a multi-equation method formulated by Zellner (1962). The *SUR* method is applied to economic models presenting multiple equations seemingly independent one from the other (for example, why they do not estimate the same dependent variable, as for the case at hand, or present various independent variables).

The *SUR* method, which allows estimating the equations jointly, makes more efficient the estimator of coefficients compared to the estimators of the *single-equation* least squares. In all equations the coefficients of regression are estimated simultaneously by applying the generalised least squares (GLS) by Aitken, to the entire system of equations. To build the Aitken's estimators, the variances and covariances of the terms of disturbance are estimated based on the residuals generated by an application of the least squares according to a logic of *equation by equation*.

For the case in question, the first analysis was aimed at highlighting the influence of the ownership and market share on the receivable commissions. As we have said, in the system of equation implemented, the dependent variable is represented each time by a type of commission, while the independent variables are represented by the ownership and the market share.

Because we are analysing different years, the dependent and independent variables change over time. For clarity purpose, we have decided to add on the side of the variable the number of the related year.

equation OwManMF_man-R_05 Own_05 MS_05 c
equation OwManMF_inc-R_05 Own_05 MS_05 c
equation OwManMF_subred-R_05 Own_05 MS_05 c
equation OwManMF_sw-R_05 Own_05 MS_05 c
equation OwManMF_oth-R_05 Own_05 MS_05 c
equation OwManINDMA_man-R_05 Own_05 MS_05 c
equation OwManINDMA_inc-R_05 Own_05 MS_05 c
equation OwManINDMA_subred-R_05 Own_05 MS_05 c
equation OwManINDMA_sw-R_05 Own_05 MS_05 c
equation OwManINDMA_oth-R_05 Own_05 MS_05 c
equation ManMand_man-R_05 Own_05 MS_05 c
equation ManMand_inc-R_05 Own_05 MS_05 c
equation ManMand_oth-R_05 Own_05 MS_05 c
equation OthSe_cons-R_05 Own_05 MS_05 c
equation OthSe_othse-R_05 Own_05 MS_05 c
equation OwManMF_man-R_06 Own_06 MS_06 c
(…)
equation OwManMF_man-R_07 Own_07 MS_07 c
(…)
equation OwManMF_man-R_08 Own_08 MS_08 c
(…)

The second analysis is conducted in reference to the payable commissions, investigating on how the governance and size of the managing company affects them. As in the previous case, the dependent variable is represented each time by a type of commission, while the independent variables are represented by the ownership and market share of the AMCs.

equation OwManMF_man-P_05 Own_05 MS_05 c
equation OwManMF_inc-P_05 Own_05 MS_05 c
equation OwManMF_subred-P_05 Own_05 MS_05 c
equation OwManMF_sw-P_05 Own_05 MS_05 c
equation OwManMF_oth-P_05 Own_05 MS_05 c
equation OwManINDMA_man-P_05 Own_05 MS_05 c
equation OwManINDMA_inc-P_05 Own_05 MS_05 c
equation OwManINDMA_subred-P_05 Own_05 MS_05 c
equation OwManINDMA_sw-P_05 Own_05 MS_05 c
equation OwManINDMA_oth-P_05 Own_05 MS_05 c
equation ManMand_man-P_05 Own_05 MS_05 c
equation ManMand_inc-P_05 Own_05 MS_05 c
equation ManMand_oth-_05 Own_05 MS_05 c
equation OthSe_cons-P_05 Own_05 MS_05 c
equation OthSe_othse-P_05 Own_05 MS_05 c
equation OwManMF_man-P_06 Own_06 MS_06 c
(…)
equation OwManMF_man-P_07 Own_07 MS_07 c
(…)
equation OwManMF_man-P_08 Own_08 MS_08 c
(…)

4. AMC's ownership, market share and receivable and payable commissions

Presentation of the analysis's results is accomplished by first highlighting the influence by the AMCs' ownership and market share on receivable commissions, then the same analysis is applied on the payable commissions.

Receivable commissions

Analysis of the receivable commissions has returned some interesting results summarised in the Table 5.

Table 5. Relation between ownership, market share and receivable commissions

Year	Commission (Dependent variable)	Estimated Coefficient (Independent Ownership variable)	p-value		Estimated Coefficient (Independent Market Share variable)	p-value	
2005	OwManMF_inc-R	-0.0026	0.0016	***	-0.0209	0.2734	
2006	OthSe_cons-R	-0.0007	0.0416	*	-0.0024	0.8505	
2007	OwManMF_inc-R	-0.0022	0.0275	**	-0.0242	0.2838	
	OthSe_cons-R	-0.0002	0.0263	**	0.0005	0.7840	
2008	OwManMF_man-R	0.0033	0.2104		-0.1049	0.0132	**
F Test	(64,4032) = 151,05 [0,0000]						

Table 5 shows the estimated coefficients, using the SUR method, of the independent variables (ownership and market share), indicating the significance at 1% (***), 5% (**), 10% (*), the receivable commissions and the year (2005-2008).

Based on the SUR method, the table shows the estimated coefficients of the independent variables ownership and market share, indicating the significance at 1% (***) or at 5% (**), the receivable commission (dependent variable) and the year. In order to test the significance of the entire regression, we have performed the *F test*. Such measurement allows to verify the assumption that the coefficients of the variables resulting significant are equal to zero, against the alternative assumption that at least one of them is different than zero.

The commissions shown on table 5 are the only ones resulting significant for at least one of the two analysed independent variables and for each year analysed. In other words, they are the only commissions whose amount is affected by the ownership of the AMC and/or the market share. As far as it pertains to the analysis of the governance, we can see how for 2005 the bank-insurance and independent AMCs are characterised for the amounts statistically different in reference to incentive commissions of the mutual investment funds. In particular, the analysis proves that when the ownerships of the AMCs belong to a banking or insurance group, the amounts of these commissions are lower. The 2006 results establish a significance of the item consultancy, which shows amounts lower for the banking AMCs than the independent AMCs. The 2007 analysis confirms the strong significance of mutual funds incentive commissions and consulting services which, once again, show amounts lower when the AMC belongs to a banking group. Lastly, in reference to the last year analysed, it's interesting to note how the significance of the mutual funds incentive commissions is lost which, therefore, are not influenced by the ownership anymore, while a significance of the influence by the market share on the amount of mutual investment funds management commissions emerges. In particular, as the AMCs' market share increases, the incidence of commission for managing such financial instruments decreases.

The analysis of the receivable commissions allows to obtain some early general considerations. It's possible to note how the item incentive commission seem to distinguish, more forcefully and throughout the years, the banks'AMCs from the independents AMCs. As specified, this commission is applied when the performance of the mutual fund or management by mandate exceeds defined amounts. The reasons why the AMCs belonging to a banking or insurance group show lower amounts of such commissions could be various: lower performance of the funds and managements, more stringent restrictions in paying incentive commissions or lower cost of the commission itself. To supply an exact answer appears difficult, we can only propose some reasoning. Inasmuch as it pertains to the performance, virtual examples in both groups analysed certainly exist. Thus, it is not possible to sustain beforehand and without supporting statistical results that the banks'AMCs are characterised by lower performances. In reference to the presence of more stringent restrictions, even in this case it's rather difficult reach any conclusion, given that the various AMCs could apply methods of defining benchmark of parameters and calculation of such commissions very much different amongst them based on the type of fund. Plus, not to forget that the difference in incentive commissions could be tied to a different financial products offer by the AMCs, given that such commissions are more frequent for the flexible and balanced equity funds, while much less in the monetary and bond funds.

Another item on the P/L (Profit and Loss) statements that appears to be affected by the ownership structure of the AMCs is consultancy. In 2006 and 2007 this revenue item differentiated the two groups of analysis and appears higher for the independent rather that the banks' AMCs. Probably, the independent AMCs are called more frequently than the banks'AMCs to supply "non-binding" opinions on managing third parties portfolios. The possible explanations could be found in higher expertise actual or perceived by the independent AMCs or in a different opening to the market. The banks'AMCs can concentrate distribution of the products throughout the sole network of the home bank thus reducing the possibility of recuperating profitability through the development of an additional service to third parties. Lastly, in reference to the last year analysed, we note the absence of important differences based on the AMC ownership, while the market share assumes significance.

The reflection that can be advanced takes in consideration the 2008 economic context, characterised by the financial crisis. During such period, the AMCs with higher market share have contained unit's revenues from managing mutual funds; we can suppose that by acting on a wide scale they have been able to contain better such item of cost for the investors.

Payable Commissions

After having analysed the relation between ownership, market share and receivable commissions, we applied the same method on the analysis of payable commissions.

Table 6. Relation between ownership, market share and payable commissions

Year	**Commission (Dependent variable)**	**Estimated Coefficient (Independent Ownership variable)**	**p-value**		**Estimated Coefficient (Independent Market Share variable)**	**p-value**	
2005	OwManMF_man-P	0.0023	0.0308	**	0.0304	0.2214	
	OwManMF_oth-P	-0.0213	0.0342	**	-0.0213	0.9603	
2006	OwManMF_man-P	0.0035	0.0031	***	0.1565	0.0000	***
	OwManMF_inc-P	0.0005	0.0096	***	-0.0033	0.4745	
	OwManMF_oth-P	-0.0766	0.0323	**	-0.0656	0.9636	
2007	OwManMF_man-P	0.0032	0.0191	**	0.0084	0.7067	
	OwManMF_inc-P	0.0004	0.0500	**	-0.0028	0.4091	
	OwManINDMA_inc-P	0.0039	0.7643		-0.0709	0.000	***
	ManMand_man-P	0.0007	0.4840		-0.0125	0.0000	***
2008	OwManMF_man-P	0.0058	0.0014	***	-0.0117	0.5568	
	OwManINDMA_man-P	0.0665	0.7741		-0.7859	0.0003	***
	OwManINDMA_subred-P	0.0000	0.4733		0.0057	0.0022	***
	ManMand_man-P	0.0006	0.4754		-0.0056	0.0013	***
	OthSe_cons-P	0.0010	0.1033		-0.0118	0.0406	**
F Test	(60,3540) = 535,827 [0,0000]						

Table 6 shows the estimated coefficients, using the SUR method, of the independent variables (ownership and market share), indicating the significance at 1% (***), 5% (**), 10% (*), the payable commissions and the year (2005-2008).

Based on the SUR method, the table shows the estimated coefficients of the independent variables ownership and market share variable, indicating the significance at 1% (***) or at 5% (**), the payable commission (dependent variable) of reference and the year. In order to test the significance of the entire regression, we have performed the *F test*.

To note on Table 6 that, during 2005 the belonging of an AMC to a banking or insurance group affected the payable management commissions and other commissions on mutual investment funds. In details, the banks' AMCs tend to have higher payable management commissions for the mutual funds, thus pointing out how the reconveyance policy is probably much more developed, at the same time they have lower costs tied to the item other commissions, as for example, commissions recognised to third parties to whom the company has mandated their management. From the ownership standpoint, in 2006 the significance of the variables presented before remain and the presence of differences regarding the payable incentive commissions on mutual funds is added. It appears that banks' AMCs implement a strong policy or reconveyance not just in reference to the commissions for managing funds, but also on the incentive commissions. In 2007 the strong prevalence in the bank-insurance AMCs, as compared to the independents, of payable management commissions on mutual funds is confirmed. Even in 2008, the banks' AMCs show a higher amount of payable management commissions on mutual funds.

In summarising the above reported analysis, we notice how the items of greater interest throughout the various years are: management commissions, incentive and other commissions on mutual funds. In literature and even in the operating world much has been discussed about the subject of banks reconveyances, underlying the potential problem of loss of profitability by the AMCs caused by the reconveyances to the group. Based on the analyses conducted, we can sustain that the bank-insurances AMCs, unlike independent AMCs, bear a prevalence of reconveyances tied to the management commissions for mutual investment funds. As far as it pertains to the analysis of the influence by the market share, we can note how in 2006 this has affected the amount of commissions for managing mutual funds, the larger AMCs have applied the majority of the reconveyances, in 2007 the same observation can be applied to the incentive commissions by individual management and commissions for management by mandate. As shown on the table, in 2008 the following commissions are affected by the market share: management and subscription commissions and redemptions from own individual management, commissions from management by mandates and consultancy commissions. In each of the cases highlighted, a direct relation between the market share and unit's amount of payable commissions stand out. The larger AMCs appear to be those which apply more reconveyances.

5. Conclusions

After the completion of the research, we deem appropriate supplying an overall reflection on what emerged from the analyses conducted. The objective of the analyses was to investigate the differences between the AMCs belonging to a banking or insurance group and independent AMCs in reference to the system of receivable and payable commissions and the possible influence on such commissions by the market share of the AMCs. The project could represent a contribution to the discussion existing in the academic and operating world in reference to the oddities pertaining to the AMCs. In particular, they are characterised by a close tie between production and distribution, a problem clearly evident in the case of AMCs belonging to a banking-insurance group.

Thus, the research aims at investigating which are the major points of difference between banking and independent AMCs. Starting from the analysis of receivable commissions, the analysis proves how two of the major distinguishing elements of profitability between the two groups of AMCs are the incentive and consulting commissions which, systematically, are lower in the banks'AMCs than the independent AMCs. Such result may appear worrisome because, generally, a good portion of the AMCs'margins are generated by incentive commissions, which are exactly variable revenues and typically subject to actions of reconveyance, unlike, for example, the management commissions. Consultancy too does not appear to be an area on which the banks'AMCs concentrate their efforts for recuperating profitability.

The market share affected the receivable commissions only in 2008 and in reference to commissions for managing mutual investment funds. The larger AMCs have reduced the margins of profitability on such commissions, such event, peculiar in 2008, can be associated to the financial crisis existing on the markets.

Analysis of the payable commissions allows to supply a contribution to the discussion on reconveyances. We believe that the latter could assume problem laden impacts, especially for the banks'AMC profitability, which frequently bear the obligation of reconveying, a good portion of the revenues collected, back to the parent group. The research has investigated the existence of significant differences in terms of reconveyances amongst the banks- insurances AMCs and independent AMCs and highlighting which are the items of commissions more reconveyed. It emerges how the major differences pertain to management and incentive commissions for mutual funds and other commissions. Although the banks'AMCs do not record higher amounts of payable commissions for managing mutual funds, they are characterised for higher amounts of reconveyance of such commissions. This prompts to think that the differences are not related to the absolute amount of the commissions applied to the managed mass, but to a more stringent policy of reconveyance to which the banks' AMCs are subjected. The independent AMCs instead are characterised for higher reconveyances to third party companies to which have delegated some of their managements.

Insofar as it pertains to the influence generated by the size of the AMC (market share) on the payable commissions, we note that most of the significant amounts are concentrated in 2007 and 2008, there again years characterised by the financial crisis. The analysis proves how the large size AMCs tend to apply also the majority of the reconveyance policies.

In conclusion, it is possible to sustain that the tie production-distribution, which for the case at hand is represented by the banks-insurances AMCs, influence some aspects of either receivable as well as payable commissions. In reference to the first, we can imagine that the presence of lower incentive commissions could be the symptom of a lower push toward profit by the banks AMCs as compared to the independent ones. This could be confirmed also by a strong policy of reconveyances, which characterises one of the major items on the P/L statements, meaning the management commission for managing mutual funds, with the effect of enriching the distribution to the detriment of production. This weak focusing by the holding groups on the banking-insurances AMCs' profits can be additionally underlined by the fact that, for the entire period analysed, there weren't any significant changes in the policies of reconveying commissions for managing mutual funds, which remain higher than the independent AMCs. Perhaps, if they were reduced they could somehow allow to recuperate profitability.

The next developments of research will be targeted to delve into the subject of reconveyances, as well as on the impact of the crisis, analysing the trend of the commissions for 2009. The project could be enriched by trying to understand whether the two types of AMCs offer various products and if this could influence the various commissions.

Footnotes

[1] Assogestioni is the Italian Professional Association of Funds Managers.

[2] Law on savings (Law nr. 262 - 28 December 2005).

[3] *MIFID* (directive nr. 2004/39/CE on Financial Instruments Markets) and UCITS III (directive 2001/107/CE and 2001/108/CE) and UCITS IV.

[4] Consob is the Italian *Commissione Nazionale per le Società e la Borsa*.

[5] Articles 13-21-40 of the TUF (Financial Services Act) and joint Bank of Italy and Consob Regulations.

[6] Source: Assogestioni.

References

1. Adams R., Hermalin B., Weisbach M. (2010), "The role of boards of directors in corporate governance: a conceptual framework and survey", *Journal of Economic Literature*, Vol. 48 No. 1, pp. 58–107.
2. Becht M., Bolton P., Röell A. (2002), "Corporate Governance and Control", Finance Working Paper No. 2, ECGI.
3. Boot, A.W., Gopalan, R., Thakor, A.V. (2006), "The entrepreneur's choise between private and public ownership", *Journal of Finance*, Vol. 61 No. 2, pp. 801-836.
4. Borokhovich, K., Parrino, R., Trapini, T. (1996), "Outside directors and CEO selection", *Journal of Financial and Quantitative Analysis*, Vol. 31 No. 3, pp. 337-355.
5. Burkart, B., Panunzi, F., Shleifer, A. (2003), "Family firms", *Journal of Finance*, Vol. 58 No. 5, pp. 2167-2202.
6. Chordia, T. (1996), "The structure of mutual fund charges", *Journal of Financial Economics*, Vol. 41 No. 1, pp. 3-39.
7. *European Commission*, (2006), "White paper on the strengthening of the regulatory framework of the single market on investment funds".
8. Das, S. and Sundaram, R. (2002), "Fee Speech: signaling, risk-sharing and the impact of fee structure on investor welfare", *Review of Financial Studies*, Vol. 15 No. 5, pp. 1465-1497.
9. De Rossi, F.M., Gariboldi, D., Leggieri G., Russo, A. (2008), "Il marketing dei fondi comuni italiani. Modelli organizzativi, costi, andamento e nuove prospettive conseguenti all'introduzione della MIFID nell'ottica della vigilanza", *Consob,* Finance Notebook No. 61, Rome, Italy.
10. Elton, E., Gruber, M., Blake, C. (2003), "Incentive fee and mutual funds", *Journal of Finance*, Vol. 58 No. 20, pp. 779-804.
11. Erkens, D., Hung, M., Pedro, M. (2009), "Corporate Governance in the 2007-2008 Financial crisis: evidence from financial institutions worldwide", *ECGI* Finance Working Paper No. 249. Available at SSRN: http://ssrn.com/abstract=1397685
12. Faccio, M. and Lang, L. (2002), "The ultimate ownership of western European corporations", *Journal of Financial Economics*, Vol. 65 No. 3, pp. 365-395.
13. Fernandes, N. (2005), "Board compensation and firm performance: the role of "independent" board members", *ECGI* Working paper No. 104. Available at SSRN: http://ssrn.com/abstract=830244.
14. Ferris, S.P. and Chance, D.M. (1987), "An Empirical Analysis of Mutual Funds Expense Ratios: A Note", *Journal of Finance*, Vol. 42 No. 4, pp. 1077-1082.
15. Himmelberg, C., Hubbard, R.G., Palia, D. (1999), "Understanding the determinants of managerial ownership and the link between ownership and performance", *Journal of Financial Economics*, Vol. 53 No. 3, pp. 353-384.
16. Jensen, M. and Meckiling, W. (1976), "Theory of the firm: Managerial Behavior, Agency Costs and Ownership Structure", *Journal of Financial Economics*, Vol. 3 No. 4, pp. 305-360.
17. Khorana, A., Wedge, L., Tufano, P. (2007), "Board structure, Mergers and shareholder wealth: a study of the mutual fund industry", *Journal of Financial Economics*, Vol. 85 No. 2, pp. 571-598.
18. Kirkpatrick, G. (2009), "The Corporate Governance Lessons from the Financial Crisis", *OECD Financial Market Trends*, No. 1. Available at: http://www.oecd.org/dataoecd/32/1/42229620.pdf.
19. Klapper, L.F. and Love, I. (2004), "Corporate governance, investor protection, and performance in emerging markets", *Journal of Corporate Finance*, Vol. 10 No. 5, pp. 703-728.
20. Knuutila, M., Puttonen, V., Smythe, T. (2007), "The effect of distribution channels on mutual fund flows", *Journal of Financial Services Marketing*, Vol. 12 No.1, pp. 88-96.
21. LaPlante, M. (2001), "Influences and Trends in Mutual Fund Expense Ratios", *The Journal of Financial Research*, Vol. 24 No.1, pp. 45-63.

22. La Porta, R., Lopez de Silanes, F., Shleifer A. (1999), "Corporate ownership around the world", *Journal of Finance*, Vol. 54 No. 2, pp. 471-517.
23. La Porta, R., Lopez de Silanes, F., Shleifer A., Vishny, R. (1998), "Law and finance", *Journal of Political Economy*, Vol. 106 No. 6, pp. 1113-1155.
24. La Porta, R., Lopez de Silanes, F., Shleifer, A., Vishny, R. (1997), "Legal determinants of external finance", *Journal of finance*, Vol. 52 No. 3, pp. 1131-1150.
25. Lener, R. (2005), "Corporate Governance Rules for Investment Funds in Italy", *European Business Organization Law Review*, Vol. 6 No. 2, pp. 269-290.
26. Linciano, N. and Marrocco, E. (2002), "Fondi di fondi e accordi di retrocessione – Analisi degli effetti degli accordi di retrocessione sule scelte di investimento e sui costi a carico dei patrimoni gestiti", *Consob* Finance Notebook No. 49, Rome, Italy.
27. Malhotra, D. and McLeod, R. (1997), "An empirical analysis of mutual fund expenses", *The Journal of Financial Research*, Vol. 20 No. 2, pp. 175-190.
28. Messori, M. (2008), I problemi del settore italiano del risparmio gestito, *Assogestioni* Working Paper, No. 4.
29. Otten, R. and Schweitzer, M. (2002), "A comparison between the European and the U.S. mutual fund industry", *Managerial Finance*, Vol. 28 No. 1, pp. 14-35.
30. Randall Wray, L. (2009), "Money manager capitalism and the global financial crisis", *Real-world Economics Review*, Vol. 51 No. 1, pp. 55-69.
31. Shleifer, A. and Vishny, R.W. (1997), A Survey of Corporate Governance, *Journal of Finance*, Vol. 52 No. 2, pp. 737-783.
32. Sirri, E. and Tufano, P. (1999), "Costly search and mutual fund flows", *Journal of Finance*, Vol. 53 No.5, pp. 1589-1622.
33. Stoughton, N.M., Youchang, W., Zechner, J. (2011), "Intermediated Investment Management", *Journal of Finance*, Vol. 66 No. 3, pp. 947-980.
34. Walter, I. (1999), "The global asset management industry: competitive structure, conduct and performance", *Journal of Financial Markets, Institutions and Instruments*, Vol. 8 No. 1, pp. 1-78.
35. Weisbach, M. (1988), "Outside directors and CEO turnover", *Journal of Financial Economics*, Vol. 20 No. 1, 2, pp. 431-460.
36. Zellner, A. (1963), "Estimators for seemingly unrelated regression equations: Some exact finite sample results", *Journal of the American Statistical Association*, Vol. 58, pp. 977-992.
37. Zellner, A. (1962), "An Efficient Method of Estimating Seemingly Unrelated Regressions and Tests for Aggregation Bias", *Journal of the American Statistical Association*, Vol. 57 No. 298, pp. 348-368.