FITD
FONDO INTERBANCARIO DI TUTELA DEI DEPOSITI

Financial education

Economics and banking lessons explained by FITD

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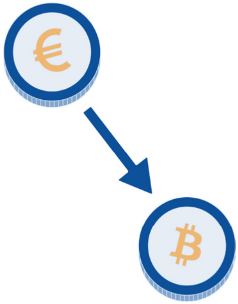
October 2024

Do you think there are ways to make money quickly, without working and without any special knowledge of economics?

Would you like to become rich by finding the lucky ticket?

Beware
The odds of winning are 1 in 4.5 million!

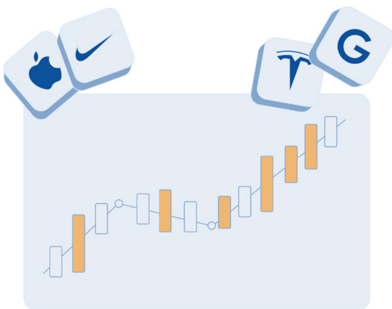


Are you thinking of buying cryptocurrency to make a quick profit?

Beware
The value of cryptocurrency is highly volatile, and you could lose everything in an instant!

Have you ever received an email from a person living abroad offering you an easy way to make money?

Watch out, it's a scam!



Have you heard that automatic trading via artificial intelligence can make you money without any experience in as little as 10 minutes a day?

Watch out, it's a scam!

FITD will help you to learn more about the economy and banks

An informed depositor is a better citizen
and a more aware and confident saver in the banking system

Contents

Money

DeFinition

Money is the payment instrument commonly used to purchase goods and services, and represents the unit of measurement of the value of goods.

CharacterIstics

Acceptability

It must be generally accepted by everyone within an economic system. Without broad acceptance, money cannot effectively fulfil its role as a **medium of exchange**.

Divisibility

It must be easily divisible into smaller units to allow trading of any value (**units of currency**).

A store of value

Money can be preserved over time.

Transportability

It must be easily transportable, allowing individuals to carry out transactions without difficulty.
Banknotes and coins are physically

transportable, while electronic money can be transferred digitally.

Uniformity
The units of currency must be homogeneous, that is, each unit must be identical to any other of the same value.

Value stability
It must maintain a relatively stable value over time. High inflation can compromise confidence in money as a store of value.

Types

There are different types of money. They are not all the same and have different characteristics. The main types are:

Commodity money
Objects that have intrinsic value, such as gold or silver, that can be used directly as money.

Legal tender
State currency considered as a valid legal tender, which must be accepted as a means of payment and may also have its own intrinsic value.

Bank money
Amounts available in banks, which can be used to make payments.

Electronic money
The electronically stored monetary value represented by a claim on the issuer, issued against the receipt of funds, and accepted by natural or legal persons other than the issuer. Among them, the digital euro is an electronic currency that the European Central Bank (ECB) could issue as a complement to the physical euro (banknotes and coins).

Don’t forget

Confidence
Acceptance as a means of payment depends on the degree of public confidence in the currency.

Trade facilitation
Money facilitates domestic and international trade and commerce, expanding the possibilities of the market.

Inflation
The value of money can change over time due to inflation or deflation (see below).

Savings

DeFinition

Savings are the part of income that is not spent on immediate consumption, but rather is set aside for future use.

CharacterIstics

Purpose

Savings are accumulated for various purposes, including future planned expenses, emergencies, investments far in the future or social security needs.

Security

Savings are associated with a desire for financial security, whether to cope with unforeseen events or for specific projects such as buying a house, children's education or retirement.

Returns

Savings can generate returns if invested. Savings accounts, certificates of deposit, bonds and investment funds are examples of instruments that can offer returns over time.

Inflation
The value of savings can be affected by inflation. To protect purchasing power, which decreases as inflation rises, it would be necessary to invest savings in instruments that offer returns above inflation.

Behaviour
Saving money presupposes discipline and requires planning. Virtuous behaviours such as reducing unnecessary expenses, planning the family budget and automating money transfers to savings accounts can facilitate the accumulation of resources and, therefore, the increase in savings.

Types

Some of the most common forms of using savings are:

Bank current account
A savings instrument that allows money to be deposited, payments to be made and services to be used (e.g. salary crediting and bill payments).

Saving deposit account
Offers an interest rate for deposits, with high liquidity.

Certificates of deposit
Generally offer higher rates of interest than conventional deposit accounts, but require the sums deposited to be tied up for a certain period of time.

Postal interest-bearing bonds
Issued by Poste Italiane, they offer a fixed return with various maturities. They are guaranteed by the State and are exempt from inheritance tax.

Retirement plans
Tax-incentivised long-term savings programmes designed to provide a regular income, usually upon reaching retirement age.

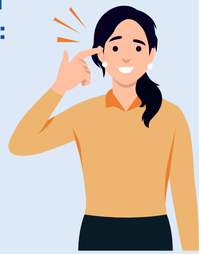
Don’t forget

Stability
Savings allow economic stability to be maintained and to be prepared for periods of reduced income or unforeseen expenses.

Economic independence
Offers the opportunity to realise projects without having to depend on external funding.

Planning for the future
Savings facilitate the achievement of long-term objectives and the management of personal finances in a strategic way.

Article 47 of the Italian Constitution provides:
"The Republic encourages and protects savings in all its forms; it regulates, coordinates and controls the exercise of credit".



Investments

DeFinition

An investment is the allocation of capital to a financial asset or an item with the intention of generating a return or appreciation in value over time.

CharacterIstics

Expected returns

Investments are made with the expectation of future returns, which can be generated in the form of income (such as interest or dividends) or capital appreciation (increase in the value of the asset).

Fixed rate or variable rate interest

If fixed, the interest rate remains constant throughout the duration of the contract, while if variable, the rate may change in relation to the performance of certain factors.

Risk

Each investment involves a certain degree of risk, that is, the possibility that the actual returns differ from what was expected. The risk may arise from a variety of factors, including economic, political or investment- and issuer-specific changes. A higher level of risk is generally associated with a higher expected return. Conversely, a lower level of risk will result in a lower expected return.

Time horizon

Investments have their own expected duration, which is called the "time horizon", which can be short, medium or long-term.

Liquidity

The liquidity of an investment refers to the ease with which it can be converted into money without a significant loss of value.

Diversification

Spreading investments over products with different characteristics helps to reduce the overall risk (this is known as the "diversified portfolio" technique). Diversification can minimise the losses of a single investment with the returns of others.

Types

Shares

Instrument of participation in the ownership of a company. Ownership of a share entitles the holder to a number of economic and administrative rights (e.g., participation in profits and voting rights at shareholders' meetings). Being a shareholder means participating in the business risk of the company in which you have invested (referred to as "risk capital").

Bonds

Debt securities issued by companies (corporate bonds) or states (government bonds) that can generate periodic interest and repay principal at maturity.

Mutual investment funds

Containers that collect money from various investors to structure a diversified portfolio of shares, bonds and other financial instruments.

ETFs (Exchange-Traded Funds)

Exchange-traded funds that follow the performance of an index or basket of shares.

Property

Investments in property for commercial, residential use, etc.

Raw materials

Investments in goods derived from natural resources (e.g., oil, diamonds, nickel) that are the basis for the production of other goods (petrol, jewellery, batteries).

Investment policies

These are financial products that combine an insurance component with an investment opportunity. These types of policies allow the policyholder to pay premiums that are then invested in mutual funds or other financial instruments, with the aim of earning a return.

Don’t forget

Short-term investments

Investment of financial resources for a relatively short period of time: typically a few months to a maximum of one year. These investments typically maintain good liquidity while offering a return that is generally lower than longer-term investments.

Medium-term investments
Investments with a normal duration of one to five years.

Long-term investments
Investments in financial assets or goods that are expected to be held for an extended period of time, usually greater than five years.

Conservative investments
Aim to preserve capital and generate stable (albeit lower) returns, often through bonds or government securities.

"Aggressive" investments
Aims for high returns by taking on greater risks, often by investing in shares of high-growth innovative companies or start-ups.

Inflation

DeFinition

Inflation is the increase in the prices of goods (food, electricity, fuels, etc.) and services (a haircut, a train ticket, a coffee, etc.).

CharacterIstics

General price increases
This does not only concern some specific goods or services, but is a widespread phenomenon involving the entire economy.

Persistence
This is not a temporary or episodic increase in prices, but a sustained trend over time.

Reduction in purchasing power
As prices increase, the real value of money decreases and, therefore, fewer goods or services can be purchased with the same amount of money.

Measurement through price indexes
Inflation is often measured through

the consumer price index (CPI) or the producer price index (PPI). These indexes calculate the percentage change in the prices of a basket of goods and services representative of the average consumption of households or industrial production.

Types

Demand-pull inflation
Occurs when the overall demand for goods and services exeeds the supply in an economy. This imbalance between supply and demand leads to an increase in prices.

Cost inflation
Occurs when production costs increase (for example, due to increased prices of raw materials or wages) and producers transfer these costs to the final prices of goods and services.

Structural inflation
Linked to structural factors of the economy, such as inefficiencies in the labour market or imbalances between the various production sectors.

Imported inflation
Caused by the increase in the prices of imported goods. For example, if the price of oil increases internationally, the cost of goods produced with oil will also increase.

Don’t forget

Erosion of savings
Inflation reduces the real value of money saved, penalising savers.

Economic uncertainty
Situations of highly variable inflation generate uncertainty in the economy, negatively affecting investment and economic growth.

Currency devaluation
Under certain conditions, inflation can lead to a change in the exchange rate of the national currency against other currencies, with effects on the average price of goods and services and on international trade relations.

Spread

DeFinition

The spread is the difference between the value of two parameters, often used in different financial and economic contexts.

CharacterIstics

In the financial sphere, it can represent the difference between prices or quotes, interest rates or yields on financial instruments, and cost of debts.

This difference is generally expressed in **basis points** (100 basis points equals 1%), percentages or currencies, depending on the context in which it is used.

Sensitivity to financial markets: The spread can vary rapidly in response to changes in economic, political or global financial markets. Factors such as economic crises, political instability, or monetary policy decisions can influence the spread.

Types

Spread between government bonds (Supranational Spread)
Difference between the yield on government bonds of one country and those of another country considered safer (often the German Bund* in the European Union).

Credit Spread
Difference between the yield of a corporate bond and that of a virtually risk-free government bond. This spread reflects the credit risk of the company that issues it.

Bid-ask spread
Difference between the purchase price (bid or money) and the sale price (ask or letter) of a financial asset.

Exchange spread
Difference between the purchase price and the sale price between two currencies in the foreign exchange market.

Spread on mortgage rates
Represents the margin that the bank adds to the reference rate to determine the final rate that the borrower will have to pay as interest.

Yield spread
This is the difference between the yields of two financial instruments (usually bonds or government securities) that have different characteristics, such as: maturity, credit quality or country of issue.

Don’t forget

Credit risk
This is the risk that a debtor will not pay what is due on the due date. The greater the credit risk, the higher the price requested by the creditor.

Liquidity risk
This is the risk that a security in the portfolio cannot be sold before maturity at an adequate price, with low transaction costs, and in a short time.

Macroeconomic factors
Global economic conditions, central bank monetary policies, inflation, economic growth rates and fiscal policies can influence the spread.

Market variability
Lack of investor confidence in a country or company affects *spread*. For example, political or economic crises in a country can cause the spread of government bonds issued by that country to increase. The increased risk of an issuer (state or corporate) also causes the spread to increase.

* *Abbreviation for "Bundesanleihen", government bonds issued by the German Government.*

Bank

DeFinition

A bank is a company that offers a wide range of financial products and services, including deposits, loans, payment instruments and financial advice.

CharacterIstics

Security and trust

Banks offer a secure environment for depositing money, guaranteed by regulations and controls. Customer trust is essential for the proper functioning of a bank.

Financial intermediation

The bank acts as an intermediary between those who have a surplus of funds (savers) and those who need them, helping to develop the economic system and make the financial market more efficient.

Regulation and supervision

Banks are subject to strict regulations and controls by supervisory authorities to ensure the stability and transparency of the financial system.

Diversification of services
In addition to deposit and loan services, banks offer a diverse range of services, including payment services, financial advice, investments, currency exchange and distribution of insurance products.

Capital structure
Banks must maintain an adequate level of capital in compliance with regulatory (prudential) requirements to guarantee their stability. This capital serves as a buffer against any losses.

Technological innovation
Banks are increasingly committed to technological innovation, offering online banking, mobile banking and fintech solutions (digital tools in the financial field) to improve and automate the provision of financial services.

Types

Central banks
Public institutions that manage the currency of a country or group of countries, through monetary policy.

Commercial banks
They offer conventional banking services, such as current accounts, loans and mortgages and payment services.

Investment banks
They mainly focus on investment services for large clients, companies or governments. They offer advice on mergers and acquisitions, portfolio management, securities issuance and complex financial transactions.

Online banks
They operate mainly (or exclusively) through the internet, often without a physical network of branches.

Don't forget

Deposit collection
Banks collect savings from customers in the form of deposits.

Granting loans
Banks lend money to customers for various purposes, such as the purchase of homes, the financing of business activities or personal consumption.

Payment management
Banks facilitate transactions, such as money transfers, bill payments and other electronic payments.

Investment and protection services
Banks offer investment products and services, such as mutual funds, bonds, insurance and financial advice.

Deposit guarantee

DeFinition

The Interbank Deposit Protection Fund (FITD) is a consortium under private law between banks, the purpose of which is to guarantee the depositors of banks belonging to the consortium up to 100,000 euros per depositor and per bank.

CharacterIstics

Mandatory membership

All Italian banks are required to join one of the two deposit guarantee schemes established and recognised in Italy. Membership is a necessary condition for the exercise of banking activities.

All Italian banks join the FITD, with the exception of credit cooperative banks that are members of a similar fund (FGDCC), Italian branches of foreign banks based in non-EU countries and, on a voluntary basis, branches of EU banks to supplement the protection of the scheme to which they belong.

Scope of guarantee
The FITD guarantee includes current accounts, deposits accounts (including time deposits), nominative certificates of deposit, nominative saving books and banking drafts.

Exclusions
Investment instruments issued by the bank (shares, bonds, repurchase agreements, etc.), as well as deposits in the name and on behalf of banks, financial companies, insurance companies, public bodies and pension funds, are not covered by the FITD.

Interventions of the FITD
The **repayment of depositors** is made by the FITD in cases where the bank of Italy has adopted the order declaring the deposits unavailable or the compulsory administrative liquidation of the member bank has been ordered.

The Fund may also intervene in other ways to protect the depositors of the member banks authorised in Italy, through:

- **interventions in the sale of assets and liabilities**, in the event of compulsory administrative liquidation of a member bank;
- **preventative interventions** to anticipate or overcome the bank's crisis situation and enable its recovery;
- **contribution to the financing of the resolution procedure** (a process managed by the resolution authority, with the objective of managing the faliing or likely to fail situation of a bank in an orderly manner) activated against member banks.

Repayment times
Repayment is made available within 7 working days, starting from the date on which the unavailability of deposits or compulsory administrative liquidation of the bank takes effect.

Financing
The resources for carrying out interventions are provided to the FITD by member banks through periodic contributions proportional to the volume of covered deposits and their level of risk. If necessary, the FITD may request extraordinary contributions from member banks.

Types

Public deposit guarantee schemes
These deposit guarantee schemes are managed by public bodies (e.g., central banks, ministries) and are financed with public resources or with contributions paid by banks. Such systems are present in many countries, but not in Italy.

Private deposit guarantee schemes
These schemes are managed and financed by private entities, for example, banking consortia (such as the FITD).

Mixed deposit guarantee schemes
These schemes combine both public and private elements.

Schemes financed *ex-ante*
These include deposit guarantee schemes, public or private, in which member banks pay regular contributions to a fund that is used to carry out interventions (such as the FITD).

Schemes financed *ex-post*
In these schemes, banks pay contributions only after a banking crisis occurs, in order to repay depositors or implement other forms of intervention provided for by law.

Voluntary schemes
In some countries, in addition to

compulsory schemes, there are also voluntarily established schemes, where banks choose to participate to offer an additional level of security to their depositors (the FITD has established an in-house voluntary intervention scheme in which 101 banks currently participate voluntarily).

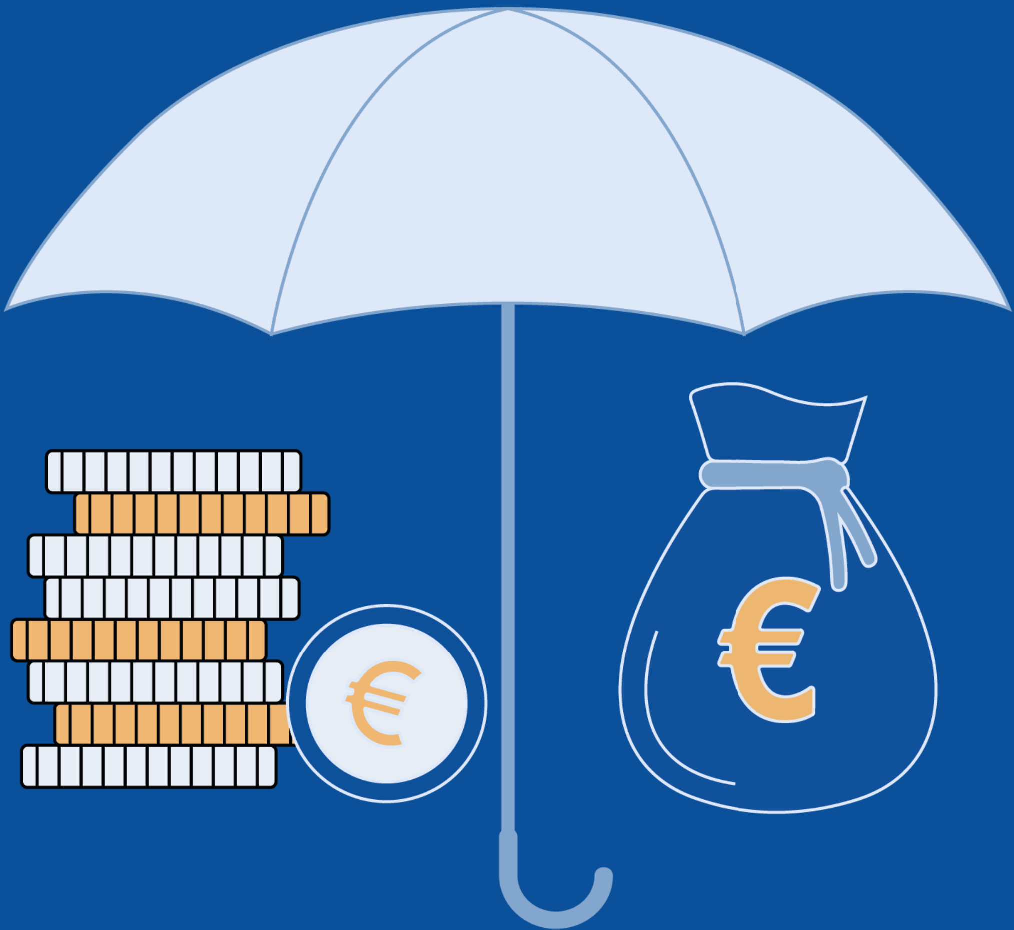
Don't forget

Protection of depositors
The FITD guarantees depositors the protection of their savings and the recovery of their deposits in the event of compulsory liquidation of the bank.

Financial system stability
The FITD works closely with regulatory and supervisory authorities, including the Bank of Italy and the Ministry of Economy and Finance, to ensure financial stability and depositor guarantee.

Conformity with European directives
The FITD complies with European legislation on deposit protection (Directive 2014/49/EU), which has harmonised deposit guarantee schemes in all countries of the European Union, in particular the level of coverage (100,000 euro), repayment times (7 working days) and financing methods.

International cooperation
The FITD actively works with the other guarantee systems at an international level and within the framework of the associations that group them (EFDI, European Forum of Deposit Insurers and IADI, International Association of Deposit Insurers), for the purposes of cooperation, exchange of experiences and best practices, operational coordination and participation in the development of sectoral legislation.



Banking Union

DeFinition

The Banking Union is the set of European rules and institutions for the supervision, resolution and guarantee of bank deposits in the member countries of the European Union where the legal currency is the euro. The objective of the Banking Union is to ensure a stable, secure and integrated banking system. In addition to all countries that adopt the euro, some EU countries that do not adopt the euro have decided to participate voluntarily.

CharacterIstics

The Banking Union is relies into three pillars:

The 1st pillar of the European Banking Union is Common Banking Supervision (SSM – Single Supervisory Mechanism)
The European Central Bank (ECB) is responsible for the direct supervision of the significant banks in the Eurozone and in cooperation with national authorities for the supervision of less significant banks, with the aim of ensuring that banks operate in a healthy and prudent manner, reducing the risk of bank failures.

The 2nd pillar of the European Banking Union is the Single Resolution Mechanism (SRM)
managed by the Single Resolution Board (SRB), which deals with the orderly resolution of banks in crisis, minimising the impact on taxpayers and the economy. It uses a Single Resolution Fund (SRF) financed by the banks themselves, to cover the costs of resolution.

The 3rd pillar of the European Banking Union is the European Deposit Insurance Scheme (EDIS)
It is still being defined and aims to strengthen deposit guarantee and financial stability in the Banking Union by integrating the resources of the national deposit guarantee schemes of the Eurozone countries. Deposit guarantee schemes in the 27 countries of the European Union have been harmonised by Directive 2014/49/EU.

ObjecTives

Financial stability
The Banking Union aims to reduce the risk of banking crises and strengthen the resilience of the banking sector.

Taxpayer protection
Prevent bank failures from falling on taxpayers through the use of public funds.

Banking market integration
Promoting the integration of the European banking market, ensuring a level playing field between the banks of the different Member States.

Investor and consumer confidence
Increase confidence in the European banking system, protecting depositors and investors.

Don't forget

Strengthening of the Eurozone
The Banking Union contributes to strengthening the Eurozone, creating a more cohesive and secure banking market.

Reduction of systemic risk
Reduces systemic risk and the possibility of financial contagion between member countries.

Supporting the real economy
The Banking Union promotes the stability necessary for the healthy functioning of the real economy, facilitating access to credit for individuals, households and businesses.

Improved supervision and resolution
Introduces stricter supervision and more effective resolution processes, reducing the likelihood of disorderly bank failures.

ECB and monetary policy

DeFinition

Monetary policy is defined as the set of actions taken by the European Central Bank (ECB) with the aim of keeping inflation low and stable (2% in the medium term), promoting economic growth and employment in the Eurozone.

CharacterIstics

Monetary policy instruments include:

Reference interest rates

The ECB sets three main rates:

- Interest rate on main refinancing operations (MRO rate).
- Interest rate on marginal lending operations (Marginal Lending Facility – MLF rate).
- Interest rate on deposits with the central bank.

Open market operations

Operations through which the ECB regulates liquidity in the banking system, mainly through weekly refinancing auctions (MROs) and long-term refinancing operations (LTROs).

Reserve requirements
Banks are required to hold a percentage of their deposits with the ECB, thus regulating the amount of money available for loans.

Asset purchases
Securities purchase programmes (such as the Asset Purchase Programme – APP) to influence long-term interest rates and stimulate the economy.

ObjecTives

Price stability
The ECB works to keep inflation under control and to avoid periods of high inflation – or deflation, that is, price reduction – which can destabilise the economy. The aim of the ECB's monetary policy measures is to maintain an inflation rate of 2% in the medium term. Inflation is measured by the consumer price index (CPI).

Supporting economic growth
Maintaining price stability fosters conditions for economic growth and employment.

Financial stability
Ensures a stable and shock-resistant financial system.

Management of expectations
Monetary policy decisions influence expectations of inflation and economic growth, with impacts on investment and consumption.

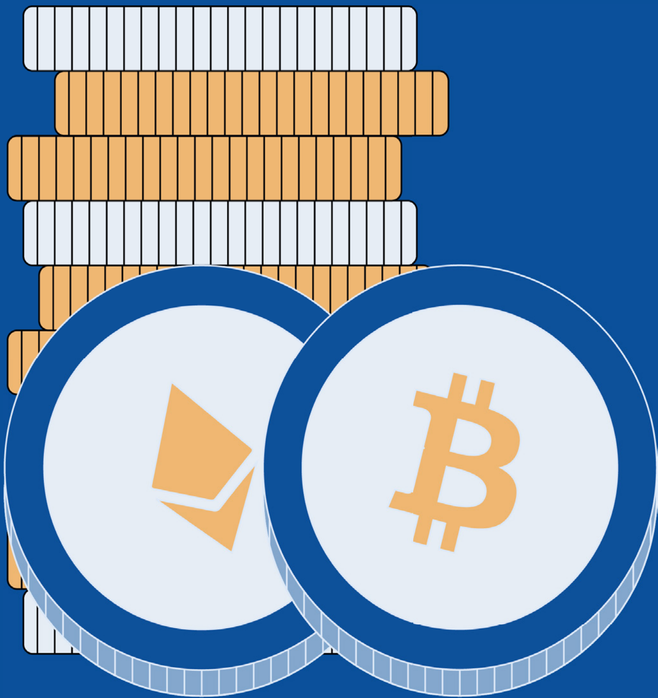
Don't forget

Influence on the economy
Through the control of interest rates and liquidity, the ECB has the ability to stimulate or curb economic activity. When the ECB raises interest rates, which increases the cost of money, this is called restrictive monetary policy. Conversely, when the ECB reduces interest rates, which reduces the cost of money, this is called expansionary monetary policy.

Channels of transmission
Monetary policy influences money and credit market aggregates, which, by changing the demand for goods and services, are able to regulate the level of inflation. If the interest rate increases, the cost of money increases, business investments decrease, private savings increase, consumption and domestic demand decrease: therefore, prices decrease and inflation falls. A decrease in the interest rate determines exactly the opposite effect.

Response to crises
In times of economic or financial crisis, the ECB has the ability to adopt extraordinary measures, such as negative interest rate policies or (unconventional) asset purchase programmes, to regulate liquidity and stabilise the economy.

Cryptocurrency



DeFinition

Cryptocurrencies are digital, decentralised currencies, based on cryptographic technologies to ensure the security of transactions and to control the creation of new units.

CharacterIstics

Decentralisation

Cryptocurrency is not issued or controlled by any central authority, such as a central bank or a government. The network is managed by a community of users through a distributed system of nodes.

Security

Enhanced encryption is used to protect transactions and wallets. Transactions are generally anonymous, guaranteeing the privacy of users.

Blockchain

Most cryptocurrencies use a blockchain, that is, a public and immutable register that records all transactions transparently. Each block contains a set of transactions and a cryptographic link to the previous block.

Peer-to-peer (P2P) transactions

Cryptocurrency allows direct transactions between two parties, without intermediaries. This reduces transaction costs and increases their speed.

Limited supply

Many cryptocurrencies have a limited supply, which means that there is a maximum number of coins that can be created. For example, Bitcoin has a limit of 21 million units.

Portability and inalterability

Cryptocurrencies can be easily transferred between users through the internet. They can be divided into small fractions, facilitating transactions of any amount. In addition, many cryptocurrencies are developed as projects.

Types

So-called "**stablecoins**" are a type of cryptocurrency designed to maintain a stable value against a reference asset (dollar, euro, etc.), a raw material (gold, oil, etc.) or another type of asset.

Non-guaranteed cryptocurrencies, called non-collateralised cryptocurrencies, are cryptocurrencies that are not guaranteed by saleable goods if the debtor does not fulfil their obligation. Their value is mainly determined by demand and supply on the market, as well as by user confidence in the system and the underlying technology.

Don’t forget

Advantages of cryptocurrency

Accessibility: they allow the financial inclusion of individuals who do not have access to banking services.
Transparency: Transactions are publicly visible on the blockchain.
Speed: fast transactions, especially for international transfers.
Cost: lower transaction costs than conventional systems.

Disadvantages of cryptocurrency

Volatility: the value of cryptocurrency can be highly volatile.
Regulation: cryptocurrency trading markets are less or not at all regulated and trading may not close.
Security: risks associated with cyberattacks and fraud.
Acceptance: Not all companies and merchants accept cryptocurrency.

MICAR (Markets in Crypto-Assets Regulation) is the regulation approved by the European Union aimed at establishing a uniform regulatory framework for cryptocurrency markets.

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100,000 reasons to be by your side

An informed depositor is a better citizen
and a more aware and confident saver in the banking system

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FITD – Interbank Deposit Protection Fund

FITD

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