

# Treasury Management in Italy

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## Italy Overview

Italy is a large European country that serves as a bridge to the European Community, the Balkans, and northern Africa.

The unit of currency is the euro (EUR) which is divisible into 100 cents. The Italian lira (ITL) became a denomination of the EUR on January 1, 1999 and will be eliminated as legal tender in 2002. The Lira is one of 11 currencies comprising the Euro (EUR) which is freely traded on the foreign exchange market. The locking rate of the EUR to the ITL is EUR 1 = ITL 1936.27

The Banca d'Italia is the central bank and regulates all financial institutions in the country. With the advent of the Euro a key role of the Banca d'Italia is coordination of the central monetary policy with the European Central Bank. Banca d'Italia reporting requirements have minimal impact on cash management activity and the regulatory environment is open.

There are two settlement systems and five payment circuits in Italy that relate to cash and treasury management.

1. BI-REL is a real time gross settlement system (RTGS) owned and operated by the Banca d'Italia and part of the National Interbank Network (RNI or Rete Nazionale Interbancaria). It is the Italian component of TARGET and participation is in accordance with TARGET rules. Through BI-REL participants are able to settle transactions with other participants using their Euro denominated settlement accounts (conto di gestione) with the Banca d'Italia. BI-REL is used to settle transactions made through various systems for paper and electronic payments.
2. All Italian banks are members of the Rete Nazionale Interbancaria (RNI). The RNI operates a net settlement system called BI-COMP (Compensazione) using accounts with the Banca d'Italia.
3. The system for low value electronic payments for domestic transactions (bonifici di importo non rilevante) is called Dettaglio; the Italian ACH system. Settlement of Dettaglio payments is through BI-COMP
4. Checks are processed by clearing houses (recapiti locale) in Rome and Milan. Following data capture, payment information is transmitted electronically and settled through BI-REL or BI-COMP.
5. The Girofondi e Cambi (GEC) is for the Italian leg of foreign exchange transactions and Interbank foreign transactions. Settlement is through BI-REL.
6. High value electronic payments for domestic transactions - 500 million Lira (EUR 258,000) or above - called bonifici di importo rilevante use a system called BIR and settle through BI-REL.
7. Electronic payments for cross border transactions are handled

## Weblinks

Background from the [US CIA](#) and the [US State Department](#)

Country profile information from [Ernst & Young](#) and the [Financial Times](#)

Summary tax information from [DTT World Tax](#)

Central Bank sites of the [European Central Bank](#) and the [Banca D'Italia](#)

Association websites of the [Italian Association of Corporate Treasurers](#) and the [Italian Banking Association](#)

Commercial banking websites of [Banca Intesa](#), [Banca Commerciale Italiana](#), [UniCredito Italiano](#), [Monte dei Paschi di Siena](#), and [Banca Sanpaolo](#)

through the bonifici esteri (BOE) and settled through BI-REL.

A company is resident in Italy if its registered office, management and control, or principal business activity was located in Italy for the majority of the tax year. Resident companies are taxed on their worldwide income and non resident companies are taxed on their Italian source income. The current rate of corporate income tax is 37%.

## Treasury Management

Italy's location and culture made it the world's first financial center. While that role has been passed to others, a large base of export focused middle market companies make Italy an active trading partner with the world. Treasury management within Italy is a complex process due the web of relationships that characterize Italian industry, a high degree of business regulation, and the aggressive practice of internal tax avoidance. The cash management timeline consisting of invoicing, mail, and deposit float is significantly longer than that of other developed countries.

All common treasury management techniques are permitted in Italy including leading/lagging, re-invoicing, sweeping, and cash concentration. Multilateral netting is permitted without restriction. Notional pooling of Italy lira is not permitted except for non resident companies. A common technique for replicating the benefits of pooling for resident companies is to concentrate Lira funds and create a notional position for the company as if the concentration had not taken place.

Strict regulation of Italy lira activity due to money laundering concerns along with the cost and complexity of settling Lira transactions limit its use in world trade. Foreign exchange (FX) spreads and commissions are a major revenue source for foreign and domestic banks. Value dating practices can also surprise the unwary and pose a burden on bank customers.

Multiple ITL accounts at a group of banks are traditionally held to facilitate cash management objectives. Sweeping (zero balancing) and concentration between banks are permitted and common business practice.

## Accounts

The basic ITL operating account is referred to as a current account and may be held by resident or non-resident corporations. Companies may earn interest on current accounts and overdrafts are permitted.

Resident and non-resident corporations may hold accounts in Italy that are denominated in Lira, US dollars, and other currencies.

Treasury bills and time deposits are the principal short term investment vehicles and offer flexible terms and tenors. Simple demand interest on current accounts is competitive with short term time deposits and is often used.

Overdrafts are permitted but are quite costly. Short term loans known as anticipazioni are a growing source of short term finance. Despite this and other sources of short term finance, supplier credit is a major source of short term funding for most companies.

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## Payments and Receipts

Checks and cash are widely used because of their float properties and lack of transparency to the tax authorities. Two ACH applications have relevance to treasury management; the Ricevuta Bancaria (RIBA) and the Rapporti Interbancari Diretti (RID). The RIBA is an instruction provided to the buyer authorizing the buyer's bank to credit the seller's account through the ACH on a specified date. Since there is a delay between receipt of the RIBA form by the buyer and credit to the seller a more popular method of collection is the RID, simply an authorization for the seller's bank to debit the buyer's account. Larger collections can also be handle by the Ingrosso. Debit cards called Bancomat are also growing in popularity.

Lockbox type arrangements are permitted and employed in Italy. These are generally provided to banks by outside service bureaus.

Controlled disbursement is not possible because the timing of cleared check presentment and BI-REL or RNI cutoffs do not permit coverage of check presentments. A functional alternative is to have a disbursement account that is covered by book transfer from a surplus account at the same bank.

## Technology and Marketplace

Italy has a modern telecommunications system including fiber optic cable and digital switches. Bandwidth is expensive but readily available. Electronic banking, including transaction initiation and balance reporting is in common use.

Italy is a heavily banked country and home to major local, regional, and international banks. Political and labor difficulties associated with banking consolidation skew bank pricing and the high cost of operations forces a high degree of focus on privately supported commercial banks. The major banks include Banca Intesa, Banca Sanpaolo IMI, Banca Commerciale Italiana (soon to merge with Banca Intesa), and Credito Italiano. Cooperative banks (Banche di credito cooperativo) and large regional banks also serve the depository needs of companies operating in Italy. The advent of the Euro has increased cross border competition but local services are very much the province of local banks. Virtually all of the major international banks offering global cash management services have a branch presence in Milan including ABN-AMRO, Deutsche Bank, Citibank, Bank of America and Chase.

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