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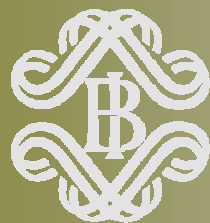
BANK FOR INTERNATIONAL SETTLEMENTS

IFC Workshop on Financial Inclusion Indicators
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What can household surveys tell us? The Bank of Italy's experience¹

Claudia Biancotti, Bank of Italy

¹ This presentation was prepared for the workshop. The views expressed are those of the author and do not necessarily reflect the views of the BIS or the central banks and other institutions represented at the workshop.



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**What can household surveys tell us?
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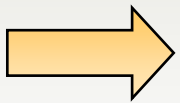
Bank of Italy

Economic and Financial Statistics Department

**Workshop on Financial Inclusion Indicators
IFC and Bank Negara Malaysia, Kuala Lumpur
November 5, 2012**

Why should we have household surveys?

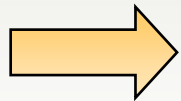
- **What's the value added of HH surveys compared to other sources?**
 - **distributional** information;
 - in multipurpose surveys, evidence on **correlations** (demographic characteristics / economic behavior etc.)



This type of information is crucial whenever a policy-relevant issue can be properly understood only by looking at specific subpopulations. Example: if the general average of the debt-to-income ratio is high we could be looking at a healthy economy with good access to credit, but also at a situation where creditworthiness of some subgroups is overestimated.

Household surveys and financial inclusion

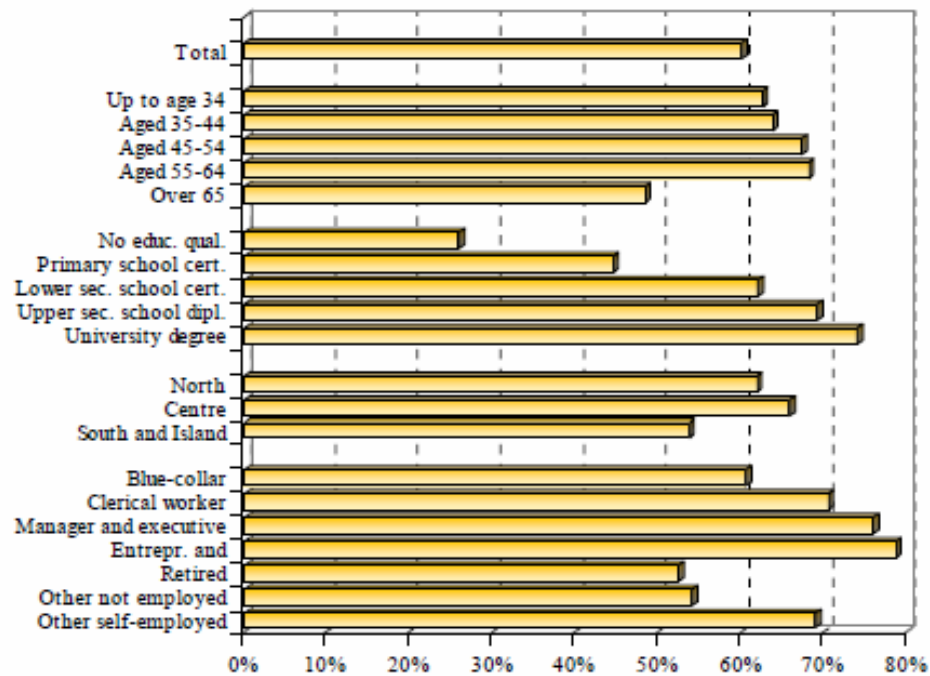
- **Surveys on household wealth now widely recognized as policy-relevant** (ECB HFCS, OECD handbook on micro-level measurement of wealth, LWS expanding to cover middle-income countries etc.)
- **Highly detailed information from different perspectives** (*de facto* access to various segments of financial markets, including informal ones; understanding of instruments; perceptions)



Examples: financial instruments held by households (from sight accounts to complex derivatives); experienced and perceived credit constraints; availability of informal credit from friends and relatives; financial literacy

Example I: financial literacy, 2010

Italian households' financial knowledge
according to the characteristics of the head of household
(per cent of correct answers)



Example II: sociodemographic characteristics and risk appetite

Ownership of risky financial assets by characteristics of head of household^(*)
(per cent)

	2000	2002	2004	2006	2008	2010
Work status						
Employee						
blue-collar worker	13.0	10.9	7.4	8.5	5.2	5.0
clerical worker.....	29.1	27.7	22.2	21.5	21.9	20.0
manager, executive	42.3	44.6	38.8	41.7	39.5	37.7
total.....	23.2	21.8	16.8	17.5	15.0	14.3
Self-employed						
entrepreneur, professional.....	38.1	44.5	33.7	27.9	34.7	36.0
other	25.2	25.8	20.3	17.3	18.8	18.4
total.....	29.3	32.1	24.9	20.7	24.3	25.8
Not employed						
pensioner	15.2	15.4	14.9	13.2	12.0	14.8
other	6.3	4.4	3.8	5.9	3.5	6.0
total	14.4	14.5	14.1	12.7	11.5	14.1
Educational qualification						
none	18.6	13.5	7.0	7.3	13.1	7.0
primary school certificate	23.8	21.1	17.0	16.8	11.5	11.0
lower secondary school certificate	23.5	24.5	18.7	20.5	17.3	16.1
upper secondary school certificate	25.1	26.9	23.3	19.1	19.8	23.3
university degree	12.0	12.3	12.0	11.4	11.1	13.3
Household income quintile						
1st quintile	3.1	0.5	0.5	1.8	1.1	1.8
2nd quintile	8.5	6.2	4.4	6.6	5.5	5.5
3rd quintile.....	21.0	18.8	14.1	12.3	9.7	12.1
4th quintile	33.6	32.3	25.3	21.6	18.4	17.7
5th quintile.....	51.3	48.4	38.1	37.5	38.9	41.7
Total	20.4	20.3	16.8	16.0	14.7	15.8

(*) Bonds, shares, investment funds, individually managed portfolios and foreign securities. Individual characteristics refer to the head of the household, i.e. the member with the highest income.

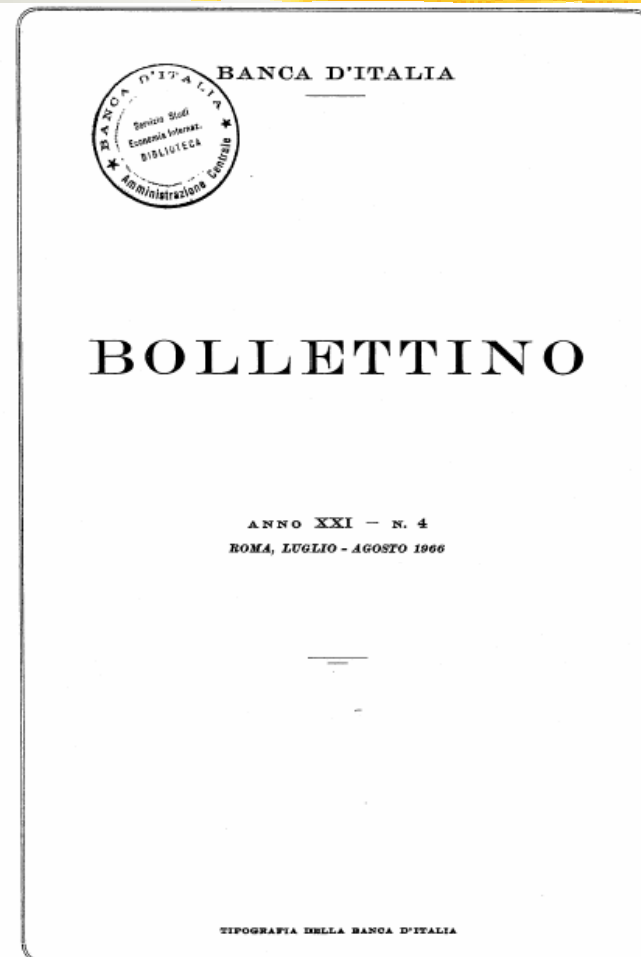
The Survey on Household Income and Wealth (SHIW), 1966

1966: First Report on Household Income, Savings and Consumption

Main topics of the Report (14 pages)

- Income distribution (concentration, employees vs self-employed)
- Durables (expenses for radios, grammophones, sewing machines...)
- How were the durables paid (consumer credit)?
- Home ownership (about 50%)

The report described a nation that was still relatively poor: the rapid pace of post-WWII economic growth implied widespread access to “new” consumer goods, such as cars and television sets, but retail financial markets were not developed. Sight accounts and government bonds were the only instruments known to the majority of the population. Credit to the increasing number of small businesses was generally extended by local banks on a near-informal basis.



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The Survey on Household Income and Wealth (SHIW), 2012

2012: most current report on Household Income and Wealth (data on 2010)

Main topics of the Report (142 pages)

- Household structure (demographic profile)
- Income distribution (concentration, employees vs self-employed)
- Retirement age (expectations and realizations)
- Home ownership (approximately 80%)
- **Wealth (concentration, prices)**
- **Financial Assets (portfolio choices, risk aversion)**
- Payment instruments

All in all, the survey has always aimed at collecting data on the economic resources acquired, consumed or held but Italian society has changed a lot since then, and the survey too

Participation in the financial markets is one of the relatively new phenomena, requiring increasing attention



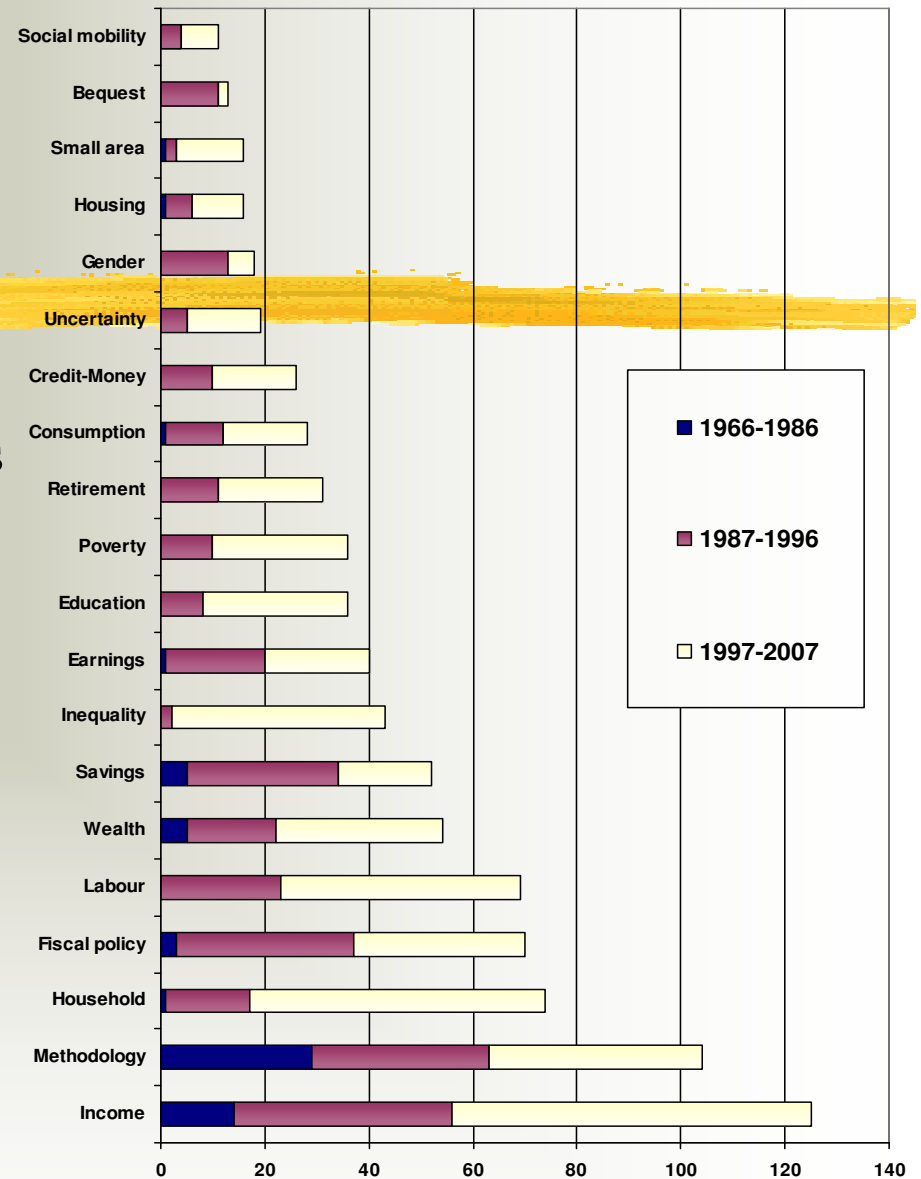
Use and users of the SHIW

- Policy-relevant research projects
- Simulation of the impact of policy choices
- Financial and wealth accounts
- Academic research

→ BI researchers, decision-makers and academics

• The Report usually becomes an important reference for the domestic political debate on the economic conditions of households

→ also the press and the general public



Bibliography of SHIW-based papers (October 2012):

Approximately 750 papers; slightly less than 30% by Bank of Italy researchers

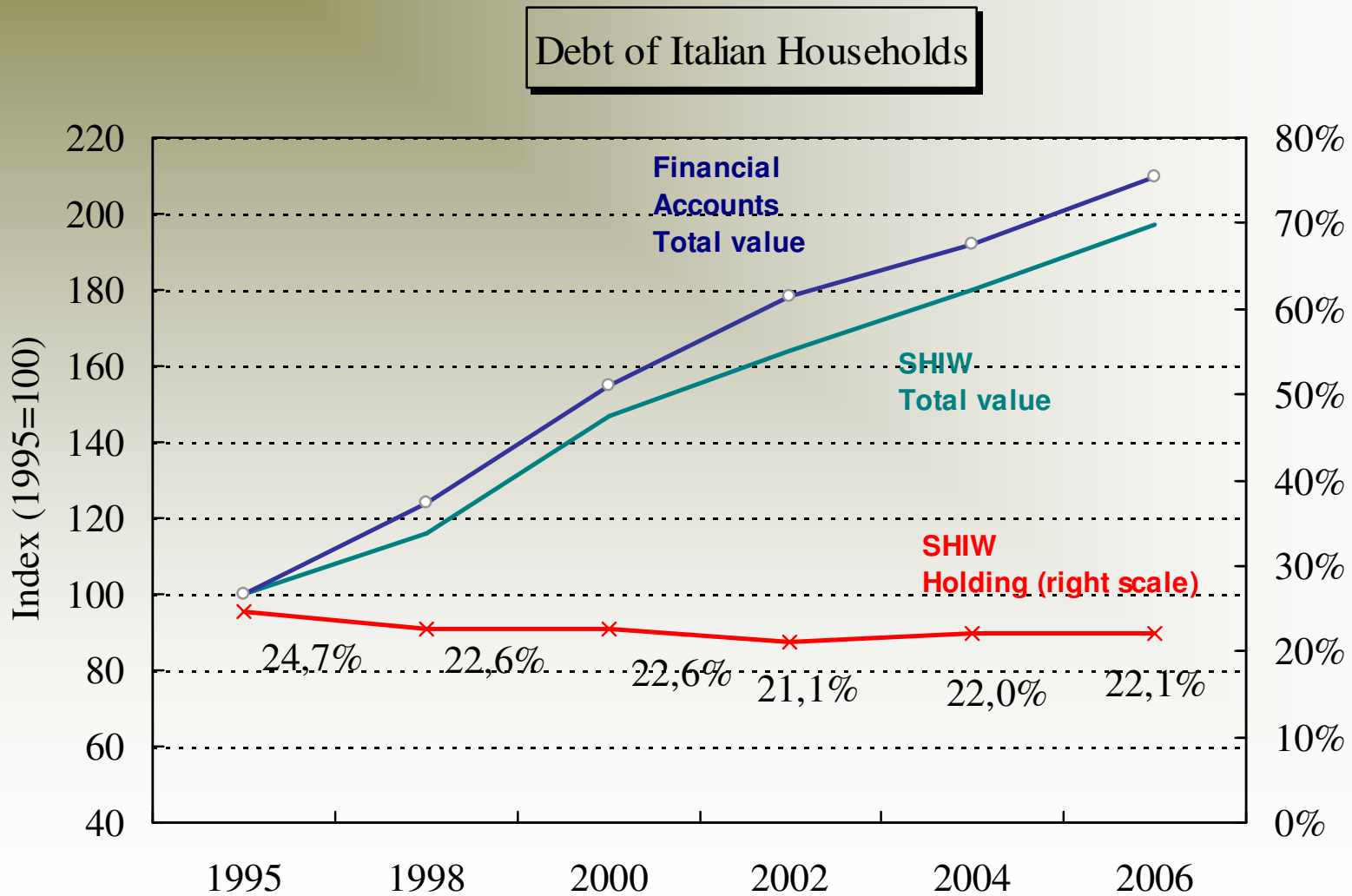
Main features of the SHIW

- Since 1966 (yearly up to 1986; since 1987 **every two years**; will revert to being yearly in 2013!)
- Sample of **8.000 households** (about 20.000 individuals)
- **Two-stage stratified sample design** (municipalities, households)
- Stratification of municipalities; post-stratification of households
- **Panel** component (about 40 per cent) since 1989
- Face to face interview (use of CAPI)
- Micro data freely available on the Internet (data from 1977 on)
- Part of the **Eurosystem HFCS**

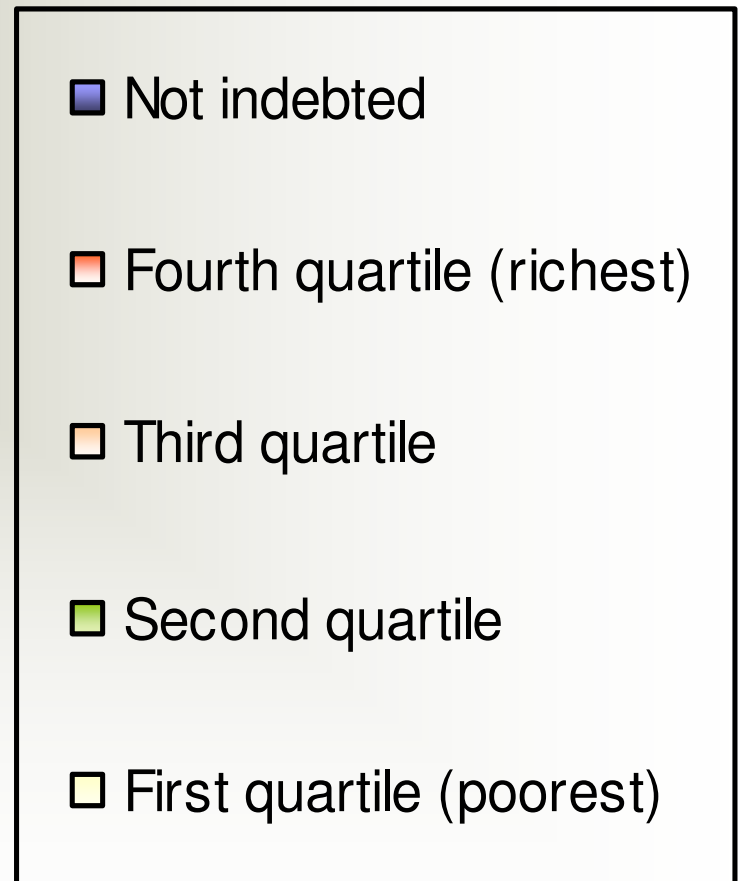
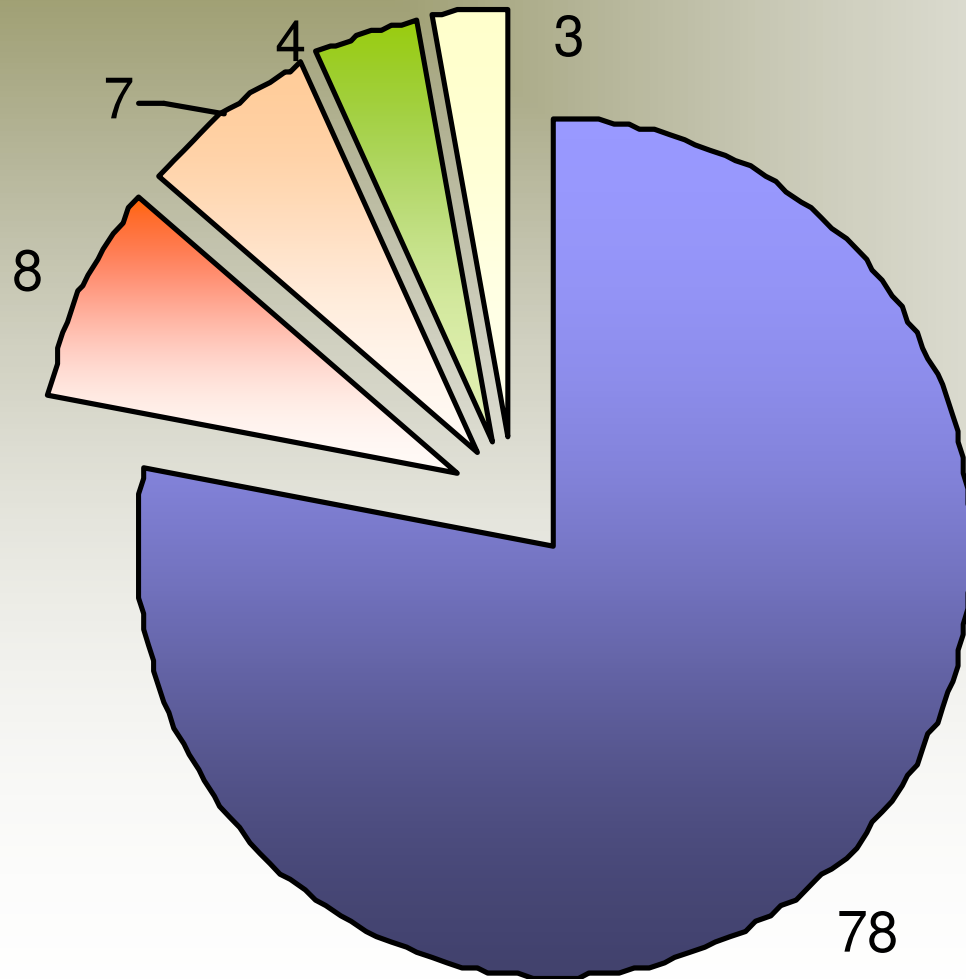
The questionnaire: permanent sections

- A. Structure of the household at the end of the year (size; gender, age, education, place of birth, citizenship of each member, ..)
- B. Employment and incomes (job status, hours worked, wages, income from self-employment, pensions)
- C. Payment instruments and forms of saving (current accounts, credit cards, checks, financial instruments held,)**
- D. Principal residence and other property (tenure status, value, rent paid/collected, size, location, ...)
- E. Non-durable and durable consumer goods (annual expenses for non-durable goods; expenses for cars, furniture...)
- F. Forms of insurance
- G. Assessment of the interview (to be provided by the interviewer)

Example III: aggregate dynamics...



...and distributional facts (2006)



A sketch of the possibilities

- Ad hoc sections of the questionnaire providing further information:

Capital gains, inheritances, risk aversion, housework, intergenerational mobility, use of public services, social capital, tax evasion, income and employment expectations, retirement expectations, financial choices, use of new technologies....

- Studying financial inclusion:

- How many financially vulnerable households are there? Who and where are they?
- How does the poorest segment of the population fare with respect to access to credit, value of debt, debt-to-income ratio, financial literacy?
- Is there any difference in attitudes to saving and risk between subpopulations with a good understanding of financial issues and the rest? What's the feedback on income?
- Example: recent changes in the pension system. Who is prepared and who is not? How does the increasing relevance of private pensions affect inequality?

Example IV: financial vulnerability, 2010

Financial vulnerability of households (per cent; euro)

Household income	Proportion of indebted households(*)	Average annual debt service	Proportion of vulnerable households(**)	Indebted households only: total annual debt service and household income(***)				
				Median debt service	Median ratio of debt service to income (****)	Mean debt service	Mean ratio of debt service to income (*****)	Proportion of vulnerable households
1 st quintile.....	11.1	338	4.2	2,400	23.2	3,043	45.0	37.9
2 nd quintile	16.8	619	2.9	3,000	14.0	3,693	16.9	17.0
3 rd quintile	22.0	1,093	2.7	4,000	14.6	4,970	16.6	12.1
4 th quintile	28.7	1,641	1.5	5,000	13.0	5,726	14.0	5.3
5 th quintile	28.8	2,183	0.6	6,000	9.3	7,584	11.8	2.2
Total	21.5	1,175	2.4	4,250	12.4	5,474	17.4	11.1

(*) Excludes households with only business debt, current account overdrafts and credit card debt. (**) "Vulnerable" households are those whose total annual debt service payment amounts to more than 30 per cent of their disposable income. (***) Household income gross of financial costs. (****) Median ratio of individual households' total annual debt service payment to income. (*****) Mean ratio of individual households' total annual debt service payment to income.

Example V: credit rationing

D35. Did the household contact a bank or financial company in 2010 with a view to obtaining a loan or mortgage?
 - Yes1
 - No2 → **Question D40 MUTUOR**

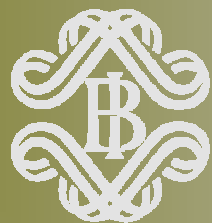
D36. (If "Yes") Was the request granted in full, granted in part or refused?
MUTUOE
 - granted in full1 → **End of Section**
 - granted in part2
 - refused3

D37. (If "granted in part" or "refused" to Question D36) What was the purpose of the loan you requested?
 - purchase of dwelling/property1
 - purchase of goods or various expenses2
 - business purposes3

D38. (If "granted in part" or "refused" to Question D36) What reason was given for the refusal (or partial refusal)?
MUTUORIF
 - no collateral (personal or real guarantees)1
 - report by the Central Credit Register2
 - other reasons3

D39. (If "granted in part" or "refused" to Question D36) Did your household later succeed in obtaining the amount needed, either from the same or from another financial intermediary?
REAPMUT€
 - Yes1
 - No2 } → **End of Section**

D40. (If "No" to Question D35) During 2010 did you or a member of the household consider applying for a mortgage or a loan from a bank or financial company but later change your mind because you thought the request would be refused?
 - Yes1 **MUTUORIC**
 - No2



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Thank you for your attention!