ITALIAN INSURANCE

2019 - 2020

Ania

Associazione Nazionale
fra le Imprese Assicuratrici

ITALIAN INSURANCE

2019 - 2020

Ania

Associazione Nazionale fra le Imprese Assicuratrici

SUMMARY

SUMMARY

SUMMARY

SUMMARY

SUMMARY

BOXES

SUMMARY

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This year's Annual Report is clearly a most particular one, produced under objectively extraordinary circumstances. The Covid-19 epidemic spread throughout the world in the span of just a few weeks, creating a truly unprecedented health and economic crisis.

This Report is, by nature, retrospective. It offers the occasion for a thorough examination of what the insurance industry achieved during the previous year. But at the same time it is also a key tool for interpreting tendencies, constructing scenarios, developing forecasting frameworks.

The scale and peculiar nature of this crisis severely limits the informative value of the data on business activity in normal times. The forecasting framework is complicated even further by the ongoing health crisis, which makes all outcomes highly uncertain. New challenges await Italy and the rest of the world in this critical and constantly evolving situation. This year's Report accordingly devotes considerable space to an analysis of the pandemic's impact on the economy, markets, and the insurance industry, in the present and in the immediate future.

The world economy slows

In 2019 the world economy turned in growth of 2.9%, down substantially from 3.6% in 2018. The slowdown mainly reflected the climate of geopolitical uncertainty that has reigned for nearly two years.

Deceleration in both advanced and emerging economies

The slowdown affected both the advanced economies (recording growth of 1.7%, against 2.2% in 2018), which continued to grow less than the global average, and the emerging economies, albeit somewhat more moderately (growth of 3.7%, down from 4.5%).

Italian GDP growth is nearly nil, owing to a fourth-quarter contraction

The Italian economy slowed further in 2019 to an annual rate of expansion near zero (0.3%, compared with 0.7% in 2018). Positive signals in the first three quarters were practically wiped out by a contraction in the fourth.

The economy contracts sharply everywhere in the first quarter of 2020 owing to the Covid-19 epidemic

The measures taken nearly everywhere to contain the pandemic starting in March worked their effects practically immediately, as is clear from the earliest official data available, which showed deep falls in output already in the first quarter. In Italy too the first quarter of 2020 revealed the initial, strongly adverse effects of the containment measures. GDP contracted by a full 5.3% compared with the fourth quarter of 2019, owing to sharp downturns in all components of domestic and foreign demand.

A global contraction of nearly 5% is predicted for 2020, followed by a comparable rebound in 2021 …

The IMF forecasts a contraction of 4.9% in global output in 2020-21, after the 3% growth of 2019. This should be followed the next year by a rebound of 5.4%, still not enough to bring output volume back to its 2019 level. These estimates all depend on the assumption of no "second wave" of the epidemic, which would entail a much sharper fall in world GDP.

… while in Italy the fall in GDP will be much sharper and the recovery in 2021 more modest

Istat's official estimates, released at the start of June, foresaw a contraction of 8.3% in 2020 and a partial recovery, with growth of 4.6%, in 2021. In the weeks that followed, the expected scenario deteriorated steadily as the severity of the economic impact of the global lockdown became clearer. Ultimately, the IMF forecast a GDP decline of 12.8% in 2020 and growth of 6.3% in 2021.

EXECUTIVE SUMMARY

ITALIAN INSURANCE: THE RESULTS FOR THE YEAR

Total premiums gain 4.0% …

Premiums from domestic and foreign business, direct and indirect, gross of reinsurance, grew by 4.0% in 2019: this was the second increase registered after two years of decline which, in 2016-2017, reduced premiums by more than 10%.

… +3.8% in life and +4.5% in non-life …

The 2019 expansion reflects the trend of both the life sector, whose premiums went up by 3.8% (+3.3% in 2018), and the non-life sector, where premium growth accelerated from 2.3% to 4.5%.

… overall technical account: life €6.4 billion, non-life €3.2 billion …

In the life sector the technical account result jumped from just €0.8 billion in 2018 to €6.4 billion last year, and the ratio to premiums soared from 0.8% to 6.0%. For non-life business the technical account result was positive by €3.2 billion (€2.9 billion in 2018) and its ratio to premiums rose from 9.4% to 9.9%.

… profit from ordinary and extraordinary activity: €11.2 billion …

In 2019 the result from the ordinary activity of the life and non-life sectors was €10.7 billion, nearly three times more than in 2018 (€4 billion); extraordinary income remained positive at €0.5 billion, in line with 2018. In total, pre-tax profit for the year, calculated as the result of ordinary plus extraordinary business, thus amounted to €11.2 billion.

…net profit: €8.7 billion

After taxes totaling €2.6 billion, the industry showed an overall net profit of €8.7 billion (€4.2 billion in 2018). Profit from non-life business rose from €2.2 billion to €2.7 billion, while that of the life sector jumped from €2 billion to €6 billion.

Balance-sheet liabilities increase by 7%

In 2019, balance-sheet liabilities totaled €927 billion, an increase of 7% compared with 2018. Life provisions, which accounted for 80.1% of the total, grew by 7.5% to €742.5 billion, while non-life provisions (for claims and unpaid premiums) remained stable at €58.9 billion.

Study of insurance investments

This year’s Report offers a detailed examination of the insurance industry’s investments in corporate bonds, equities, and infrastructure.

Solvency ratio for the entire Italian insurance industry stands at 2.33 in 2019 …

In 2019, the solvency ratio for the entire market was 2.33, higher than in 2018 (2.23), as total eligible own funds came to €137 billion and the Solvency Capital Requirement to some €59 billion.

… 1.98 for non-life companies …

For firms doing only non-life business the solvency ratio rose from 1.88 to 1.98.

…2.26 for life companies …

For life insurance companies, the ratio rose from 2.00 to 2.26.

2.40 for mixed companies

For mixed companies (doing both life and non-life business) it edged up from 2.37 to 2.40.

The insurance industry pays €2.6 billion in direct taxes

Italian insurance companies paid a total of €2.6 billion in direct taxes in 2019, up sharply from 2018.

LIFE INSURANCE – THE DIRECT ITALIAN PORTFOLIO

Life premiums come to €106 billion …

Premiums from direct domestic business of the 46 insurance companies operating in the life sector totaled €106 billion in 2019, up 3.9%, outpacing the 3.5% gain of the previous year.

… and net cash flow to €30 billion …

Net cash flow, defined as the difference between premiums and incurred claims, was positive, amounting to €30 billion, growing for the second consecutive year by 3.6% from 2018, but remaining far less than in 2014-2016, when the lowest net cash flow was €40-€45 billion.

… claims costs rise by 4.0%

Incurred claims, defined as amounts paid and the changes in provisions against payable amounts net of recoveries, amounting to €76 billion in 2019, rose by 4.0% from 2018, despite a 7% drop in surrenders or divestments, which came to 55% of total expenses on this head.

… operating expenses increase by 1.2% …

Operating expenses, which consist in contract acquisition costs and costs relating to the organization and management of the distribution network, plus administration expenses, amounted to €3.9 billion (75% of which related to Class I and V, 23% to Class III and 2% to other life classes), up slightly (by 1.2%) over the previous year.

… investment income rises to €34 billion …

The investment balance amounted to €34 billion, increasing enormously over 2018, when it failed to reach €1 billion, thanks mainly to the considerable revaluation of the assets underlying unit-linked policies.

… the technical account is positive by €6.1 billion …

The technical account balance was positive at €6.1 billion (around 80% of it for Class I), incomparably higher than in 2018 (€500 million).

The balance on reinsurance cessions and net indirect business amounted to €168 million (€257 million in 2018).

… and the overall technical account by €6.3 billion

Taking the balance of outward reinsurance into account, the overall balance of the technical account was positive by €6.3 billion (compared with scarcely €700 million in 2018).

The average annual yield on segregated funds over the last five years is 3.2%

Over the last five years, the average yield of insurance companies' segregated funds came to 3.2%, against 1.3% for Italian government securities, 1.9% for severance pay entitlements, and average inflation of 0.5%. For 2019 alone, the return on these funds came to 2.84%.

Enrollments in supplementary pension plans number 9.1 million

Enrollments in supplementary pension plans continued the gradual growth of recent years. At the end of 2019, the number of pension plan accounts reached 9.1 million, with 4.4% growth from the previous year.

EXECUTIVE SUMMARY

NON-LIFE INSURANCE – THE DIRECT ITALIAN PORTFOLIO

Non-life premium income comes to €34.3 billion …

In 2019, non-life classes' premium income amounted to €34.3 billion, up 3.2% from 2018. Their share of total premiums slipped from 24.5% to 24.4% as a result of the sharper increase in life premiums.

… the combined ratio worsens, but the overall technical account is positive by €3 billion

The combined ratio for the 2019 accident year showed a slight deterioration (91.2% against 90.3% in 2018), as both the expense ratio and the loss ratio worsened. The overall technical account result was €3 billion, up slightly from 2018.

MOTOR INSURANCE

Motor liability premiums are broadly stable …

In 2019 motor liability insurance premiums diminished by 0.8%, on a uniform basis, after having held practically unchanged in 2018. The combined ratio came to 97.5%, about the same as the previous year. The technical result came to €645 million. The technical indicators for land vehicle insurance worsened, although the technical result remained positive.

… and so is number of vehicles insured, at 39.5 million …

The number of vehicles insured held practically steady in 2019 at 39.5 million. The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer, the number rose by 0.2% to 42.4 million.

… the average premium decreases …

The reduction in the average motor liability premium continued in 2019 (-0.7%). This is confirmed by IVASS's survey on actual motor insurance prices, which found a decline of 1.8% compared with 2018. The survey shows that the average yearly cost of passenger car insurance fell by 26.9% between 2013 and 2019, from €558 to €406, further narrowing the gap between prices in Italy and in the other main European countries.

… as does the number of claims …

The total number of accidents reported with claims incurred came to 2.1 million in 2019, down 0.8%. Claims frequency edged down from 5.45% to 5.42%, or by 0.7 percent. Including estimated claims incurred but not reported, claims frequency for the year came to 5.93% (5.95% in 2018).

… during lockdown, claims frequency plummets

The trend in claims frequency, regular enough throughout 2019, was altered drastically by the Covid-19 pandemic and the consequent lockdown. Through March 2020 claims frequency is estimated to have dropped by about 24% compared with the first quarter of 2019. For March alone, the decrease came to 60%.

Incurred claims cost of €10.7 billion …

The incurred claims cost for the 2019 accident year, defined as the sum of the total paid and the total reserved for all claims incurred, amounted to €10.7 billion, about the same as in 2018. Counting total claims (including the estimate of claims incurred in 2019 but not yet reported, IBNR), their average cost, at €4,556, was virtually unchanged.

… claims cost for the financial year: €10.1 billion …

The claims cost for the financial year was €10.1 billion, practically the same as in 2018. The difference with respect to the incurred claims cost reflected the utilization of €0.6 billion in excess reserves for previous years. The loss ratio rose from 76.1% to 76.3%.

… operating expenses: €2.8 billion …

Operating expenses came to €2.8 billion (roughly the same as in 2018). The ratio of expenses to premium income edged up from 21.1% to 21.3%.

… overall technical account result: €0.6 billion

The variations in all the relevant components produced an offset between income and expenses, resulting in a positive technical balance of €0.1 billion, down from €0.2 billion in 2018. Counting investment profits of €0.5 billion (up from €0.3 billion), the result of the technical account was positive by €0.6 billion, up from €0.5 billion in 2018. Factoring in the reinsurance balance (negative by a marginal €3 million), the overall technical account result too improved from €0.5 billion to €0.6 billion.

Special sections

In addition, the *Report* has special sections concerning:

- The Interior Ministry data on car thefts in Italy in 2019, plus the update to 2019 of ANIA's statistics on technical indicators and the percentage of fire and theft policies in the land vehicle insurance class
- Analysis of the cost of personal injury claims, which account for 60.9% of total motor liability damages paid, for a total of €6.6 billion in 2019
- An estimate of the number of uninsured vehicles on the roads. The open data of the Motor Vehicles Bureau indicate a total of 2.7 million in 2019, or 6.0% of all vehicles
- The calculation of the single direct indemnity amounts for 2020. For geographical areas with coefficient of 1, the CARD-CID amount is €3,270 for motorcycles and scooters, €1,830 for other vehicles
- The revision of the process of appointment of claims adjusters and assignment of cases, following which insurance companies confirmed or renewed their designated independent adjusters, with demonstrated training in CARD cases
- New forms of mobility, with a view both to insurance innovation and to sustainability and opportunities for the insurance market deriving from new technologies
- Regulations and jurisprudence relating to the "family bonus" for motor liability insurance introduced by the 2020 tax decree; the basic contract and the new liability premium estimator; the state of implementation of the tripartite agreement between ANIA, repair shops and consumer organizations; there is also a report on "Project Plate Check" for support to law enforcement bodies in combating insurance evasion.

THE IMPACT OF THE PANDEMIC

The Report devotes ample space to the repercussions of the Covid-19 crisis on the various aspects of the insurance industry

A special section reports the findings of a study by Lloyds of London, which estimates that insurance companies will have to pay claims relating to the Covid-19 crisis of some $107 billion worldwide. On top of this, expenses in connection with the management of reserves are likely to amount to another $100 billion, owing to asset devaluation.

The Report recounts an analysis of various aspects of the effect of the crisis on the evolution of future mobility, sustainability, and the diffusion of "smart" platforms.

An account is provided of the main regulatory measures adopted to deal with the pandemic affecting the motor liability sector.

A special section focuses on the possible repercussions of the pandemic on claims frequency in the most highly exposed non-life insurance classes.

As regards human resources, there is an examination of the labor regulations applying to the insurance industry and the manner in which the industry has mobilized to curb the spread of the infection and handle the repercussions on business operations, including smart working and extraordinary measures in favor of customers and collaborators.

Finally, the *Report* includes:

- An account of the repercussions of the crisis on the volatility adjustment
- A discussion of the special European and Italian supervisory measures
- A list of the Government measures taken during the crisis.

1

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2019

In 2019 total Italian premium income (after taxes) was €8.7 billion, significantly higher than the previous year. Consequently, the ROE for the insurance business also rose to 14% (from 7% in 2018). The improvement was driven mainly by the technical account of life business, which surpassed €6 billion, chiefly thanks to the surge in net financial income, which was triggered in turn by revaluation gains on securities in the portfolio resulting from the mitigation of the end-of-year spread. The technical account result of non-life business remained in line with previous years, at just over €3 billion. By contrast, the non-technical account of insurance business was negative by €1 billion, owing essentially to tax payments of over €2.5 billion. In the course of the year the number of insurance companies established and operating in Italy slipped from 217 to 214.

OPERATING INSURANCE COMPANIES

Insurance companies operating in Italy numbered 214 as at 31 December 2019, compared with 217 at the end of the previous year. In fact, while the number of companies with registered offices in Italy increased from 97 to 98 between 2018 and 2019, the number of branch offices of foreign companies in Italy went down from 120 to 116, most of which are EU companies (113). In addition, over 1,000 insurance companies with registered offices in other EU countries (or other countries belonging to the European Economic Area) were operating in Italy at the end of 2019 under the freedom to provide services.

Number of companies by legal status

BUSINESS SECTOR	YEAR	DOMESTIC COMPANIES				FOREIGN BRANCHES		TOTAL
	situation as at 31 December	limited companies	cooperatives	mutual	total	with head office in non-EU countries	with head office in EU countries	
Non-life	2018	49	–	2	51	3	74	128
	2019	50	-	2	52	3	71	126
Life	2018	33			33	-	23	56
	2019	33			33	-	22	55
Professional reinsurers	2018	–	–	–	–	-	7	7
	2019	–	–	–	–	-	6	6
Multi-class	2018	11	1	1	13	-	13	26
	2019	11	1	1	13	-	14	27
TOTAL	2018	93	1	3	97	3	117	217
	2019	94	1	3	98	3	113	214

At the end of 2019, 55 insurance companies (56 in 2018) engaged exclusively in life business (of which 22 branch offices) and 126 (128 in 2018) exclusively in non-life business (of which 71 branch offices). A total of 27 companies (of which 14 branch offices) did business in both life and non-life classes, accounting for more than 35% of total premium income. Six undertakings, all of them branches of foreign companies, engaged only in reinsurance. At 31 December 2019 ANIA counted 144 member companies (of which 37 correspondent members, including 14 operating under the freedom to provide services) representing 85% of the insurance business in terms of premiums. The 98 insurers with registered offices in Italy comprised, by legal form, 94 limited companies, three mutual companies and one cooperative society.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2019

The data reported in the first part of this chapter refer to the statutory financial statements (prepared in accordance with the national accounting standards) of the Italian insurance undertakings and differ from those of the Solvency II regime both in terms of fair value accounting and of balance-sheet item classification. The statutory financial statements of Italian companies are not marked to market, in contrast with Solvency II requirements. The main data on the criteria established by Solvency II are dealt with in the last part of the chapter.

INCOME STATEMENT – STATUTORY FINANCIAL STATEMENTS

Income Statement
Euro million

	2012	2013	2014	2015	2016	2017	2018	2019
Technical account of non-life and life classes (*)								
Written premiums	103,139	117,374	142,035	146,005	132,954	129,288	133,094	138,484
Changes in reserves (-)	9,631	29,520	60,006	53,343	49,039	38,943	26,053	54,999
Investment income	27,480	20,068	22,511	17,770	18,291	20,053	2,045	35,835
Other technical income	1,560	1,641	1,781	2,325	2,624	2,821	3,071	3,356
Incurred claims (-)	98,776	88,322	84,838	90,530	82,209	90,518	91,935	95,886
Operating expenses (-)	11,539	11,725	12,126	12,382	12,213	12,349	12,512	12,969
Other technical costs (-)	2,537	2,625	2,744	3,330	3,619	3,842	4,028	4,299
Balance	**9,696**	**6,891**	**6,613**	**6,516**	**6,789**	**6,510**	**3,682**	**9,522**
Technical account non-life (*)								
Written premiums	32,763	31,618	31,071	30,501	29,777	30,008	30,485	31,830
Changes in premium reserves (-)	-494	-623	-282	-173	190	440	611	748
Investment income	1,660	1,262	1,346	1,288	1,161	1,278	825	1,346
Other technical income	469	429	393	382	401	401	379	344
Incurred claims (-)	23,480	21,323	20,187	19,291	18,826	18,770	18,745	19,769
Operating expenses (-)	8,018	8,041	8,243	8,318	8,219	8,316	8,510	8,923
Other technical costs (-)	1,124	1,021	913	984	1,015	1,013	966	926
Balance	**2,765**	**3,546**	**3,749**	**3,751**	**3,089**	**3,148**	**2,857**	**3,154**
Technical account life (*)								
Written premiums	70,376	85,756	110,963	115,504	103,177	99,280	102,609	106,654
Changes in technical provisions (-)	10,125	30,143	60,288	53,516	48,849	38,503	25,442	54,251
Investment income	25,820	18,806	21,166	16,482	17,130	18,775	1,220	34,489
Other technical income	1,091	1,212	1,388	1,943	2,223	2,421	2,692	3,012
Incurred claims (-)	75,296	66,999	64,651	71,239	63,383	71,749	73,190	76,117
Operating expenses (-)	3,521	3,684	3,884	4,064	3,994	4,033	4,002	4,046
Other technical costs (-)	1,413	1,604	1,831	2,346	2,604	2,828	3,062	3,373
Balance	**6,931**	**3,344**	**2,864**	**2,765**	**3,700**	**3,363**	**825**	**6,368**
Non-technical account (*)								
Other non-life income	94	825	925	860	1,121	1,395	1,319	1,658
Other life income	1,626	1,444	1,917	1,821	1,824	1,773	1,442	2,202
Balance on other income and expenses	-1,922	-2,182	-2,064	-2,104	-2,251	-2,361	-2,483	-2,690
Balance on ordinary activities	**9,494**	**6,978**	**7,391**	**7,093**	**7,483**	**7,317**	**3,960**	**10,692**
Balance on extraordinary activities	**-28**	**1,314**	**961**	**1,010**	**223**	**459**	**541**	**533**
Taxes (-)	3,696	3,062	2,405	2,395	2,006	1,800	335	2,566
Result for the financial year	**5,770**	**5,231**	**5,947**	**5,709**	**5,700**	**5,975**	**4,166**	**8,659**
Profit/loss for the financial year, non-life sector	*641*	*2,125*	*2,448*	*1,956*	*2,114*	*2,439*	*2,183*	*2,668*
Profit/loss for the financial year, life sector	*5,129*	*3,105*	*3,498*	*3,753*	*3,586*	*3,536*	*1,983*	*5,991*
Return on Equity	11.5%	9.7%	10.1%	9.6%	9.4%	9.9%	6.9%	14.1%
Return on Equity (non-life)	3.1%	9.7%	10.2%	7.9%	8.4%	9.6%	8.6%	10.3%
Return on Equity (life)	17.3%	9.8%	10.1%	10.8%	10.2%	10.0%	5.6%	16.9%

(*) Net of cessions and back-cessions

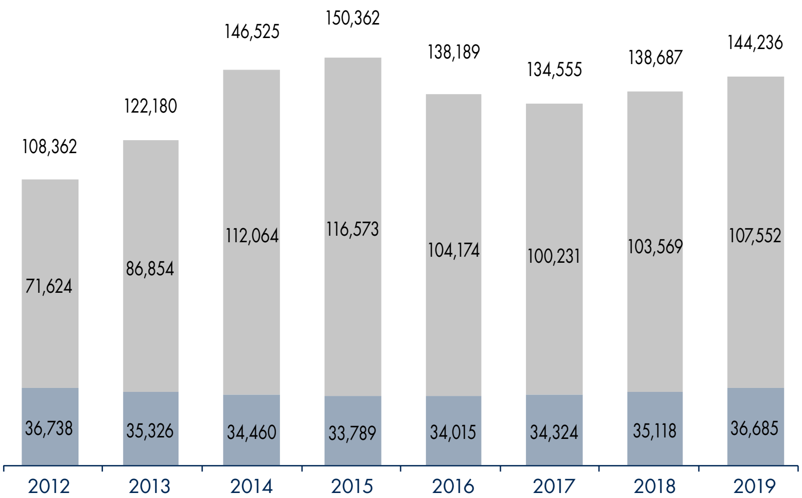
TECHNICAL ACCOUNT – STATUTORY FINANCIAL STATEMENTS

Premiums

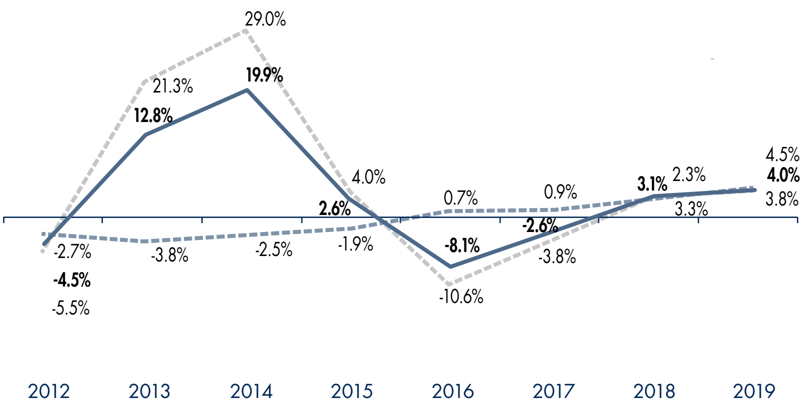
Premiums from domestic and foreign business, direct and indirect, gross of reinsurance, collected by the companies having their registered office in Italy and by the Italian branches of non-EU companies totaled €144.2 billion in 2019, of which €36.7 billion from non-life policies and €107.6 billion from life policies. Overall, the business grew by 4.0%: it is the second increase registered after two years of decline which, in 2016-2017, had led to a contraction in premiums of more than €15 billion (-10.5%). The 2019 expansion reflects the trend of both the life sector, whose premiums went up by 3.8% (+3.3% in 2018), and the non-life sector, where premiums increased further by 4.5%, confirming the uptrend that started in 2016.

As a result of these developments, the share of life and non-life premiums in total income remained virtually unchanged at 74.6% and 25.4% respectively.

Gross total premiums
Euro million



Nominal change in gross premiums – Life, Non-life and total portfolio



Total premiums, net of those ceded (€5.8 billion or 4.0% of the total), reached €138.5 billion, of which €31.8 billion from non-life policies and €106.7 million from life policies.

Claims and benefits paid

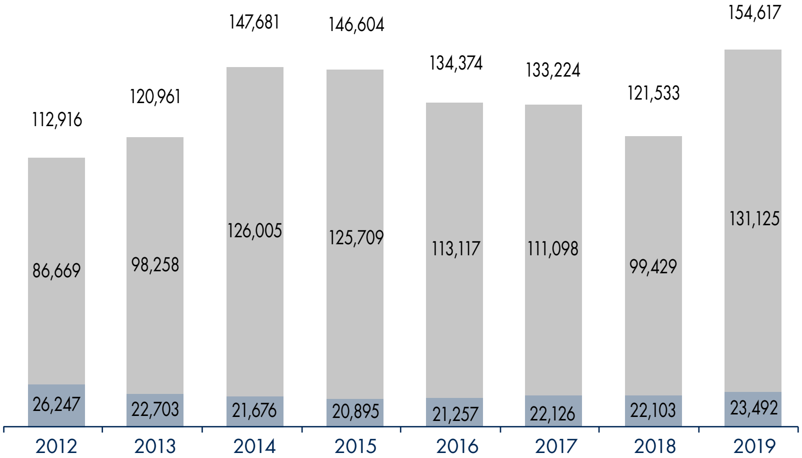
Benefits and claims paid to insured parties and other persons entitled, gross of reinsurance, are calculated as the sum of the following:

– incurred claims costs plus the change in the premium reserves for non-life classes;
– incurred claims cost plus the change in the mathematical provisions and other technical provisions for life classes.

Benefits and claims paid increased by 27.2% on 2018 to total €154.6 billion: €23.5 billion in non-life classes (up 6.3%) and €131.1 billion in life classes (up 31.9%).

The **share borne by reinsurance** was €3.7 billion, and as a result **net benefits and claims paid** went up to €150.9 billion (+27.9%): €20.5 billion in non-life classes and €130.4 billion in life classes.

Gross total claims and benefits
Euro million
Life
Non-life

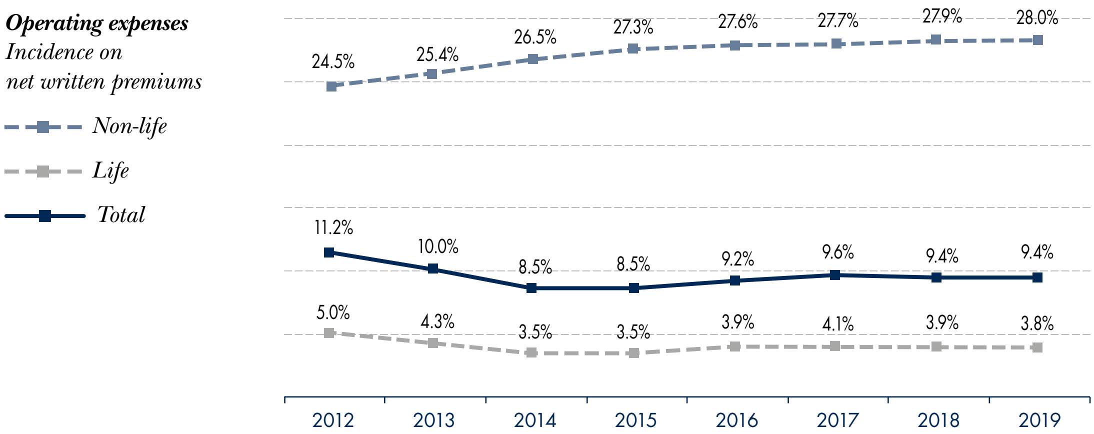


Operating expenses

Operating expenses relating to direct and indirect business, which comprise contract acquisition, premium collection, distribution network organizational and operating costs, and the administration expenses relating to technical management of insurance business, totaled €13 billion in 2019 (net of reinsurance cessions), 3.7% more than in 2018. Given the analogous increment in premiums, the ratio of total operating expenses to written premiums was unchanged from the previous year at 9.4%.

Overall, the ratio remained the same also for the life and non-life sectors. In particular, operating expenses for non-life business went from €8.5 billion in 2018 to €8.9 billion in 2019, thus leading to a slight increase in the ratio from 27.9% to 28.0%. In the life sector, instead, operating expenses totaled €4 billion (the same as in 2018), resulting in a marginal decrease in the ratio from 3.9% to 3.8%.

Operating expenses
Incidence on net written premiums



Technical account result

The overall (non-life plus life) technical account result – net of reinsurance – was positive to the tune of €9.5 billion, equal to 6.9% of net direct and indirect premiums, on a par with the best result in the 2013-2018 period but 26% lower than in 2012. For non-life business the technical account result was positive by €3.2 billion (€2.9 billion in 2018) and its ratio to premiums rose to 9.9% (9.4% in 2018). In the life sector the result jumped from just €825 million in 2018 to €6.4 billion last year; the ratio to premiums soared from 0.8% in 2018 to 6.0% in 2019. The €5.5-billion surge in the life sector is chiefly attributable to the increase in net financial income (as detailed in the next section), which in turn reflected the favorable trend in the spread between Italian and German government securities. During the past financial year, the spread fell by 100 b.p., allowing insurers to record with-profit life policies (Class I) worth €5 billion more than in 2018, as gains in value adjustments of portfolio securities net of costs.

Technical account result/ Premiums
Incidence on net written premiums (%)

	2012	2013	2014	2015	2016	2017	2018	2019
Non-life and Life	9.4%	5.9%	4.7%	4.5%	5.1%	5.0%	2.8%	6.9%
Non-life	8.4%	11.2%	12.1%	12.3%	10.4%	10.5%	9.4%	9.9%
Life	9.8%	3.9%	2.6%	2.4%	3.6%	3.4%	0.8%	6.0%

RESULT ON INVESTMENT ACTIVITY

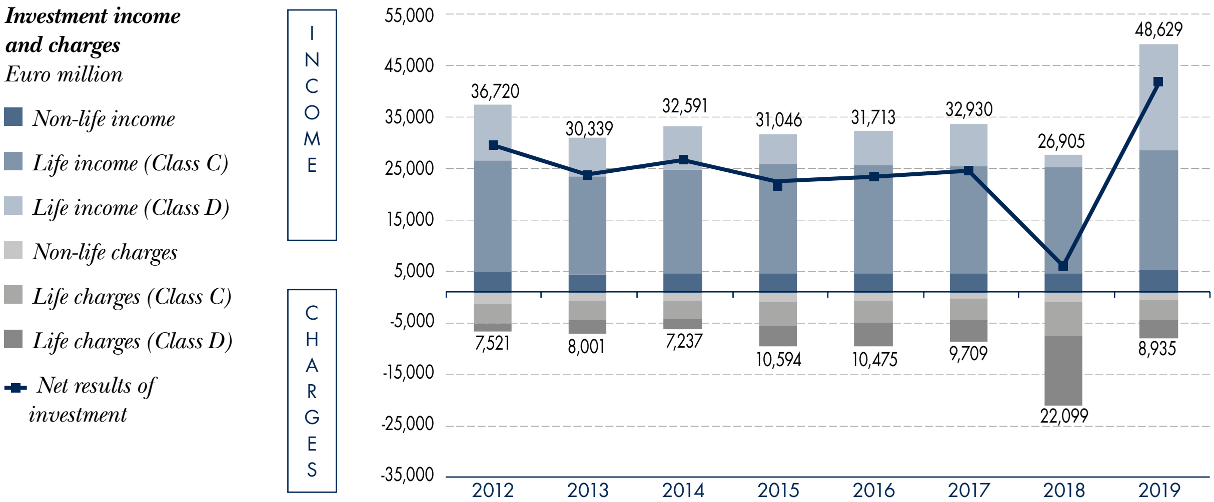
In 2019 **net investment income** was €48.6 billion, nearly twice the amount recorded in 2018 (€26.9). In detail:

– non-life investment income rose by 12.5% to €4.4 billion;
– Class C life investment income increased by 14.4% to €23.5 billion;
– Class D life investment income skyrocketed to €20.7 billion (up an extraordinary €18 billion) thanks to the positive financial conjuncture and progressive rise in the stock market during 2019.

More specifically, as shown in the table below, the **ordinary gross investment income of life and non-life classes** is divided as follows:

– *income from securities, bonds and other investments*, amounting to €18 billion (+0.1% on 2018): 37.1% of the total;
– *income from investments held for the benefit of life insurance policyholders and from the management of pension funds (Class D)*, amounting to €20.7 billion: 42.7% of the total;
– *revaluation gains and realized profits on investment*, amounting to €5.7 billion (+105.6%): 11.7% of the total;
– *income from shares and other equity*, amounting to €4 billion (+14.3% compared with 2018): 8.2% of the total;
– *income from land and buildings*, amounting to €185 million (+4.8%): 0.4% of the total.

Investment income and charges
Euro million



Breakdown of gross ordinary investment income %
Life and Non-life

	2012	2013	2014	2015	2016	2017	2018	2019
Shares and other equity	4.5%	6.3%	8.6%	8.7%	9.3%	9.4%	13.0%	8.2%
Land and buildings	0.6%	0.7%	0.6%	0.7%	0.6%	0.6%	0.7%	0.4%
Securities, bonds and other inv.	43.2%	53.3%	53.0%	56.7%	56.4%	54.6%	67.0%	37.1%
Revaluations	22.3%	14.8%	11.5%	15.0%	12.5%	10.3%	10.3%	11.7%
Inv. benefiting policyholders	29.4%	24.9%	26.2%	18.9%	21.2%	25.0%	9.1%	42.7%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The doubling of income was accompanied by an even sharper reduction in investment charges, which plummeted from €22.1 billion to €8.9 billion in 2019. In particular:

- in the non-life sector investment charges went down by 22% to €1.3 billion; therefore, the sector's net investment profit was positive at €3 billion with an improvement of 40% on 2018 (when it was €2.1 billion);
- in the life sector (Class C), investment charges decreased by 41.6% to €4 billion, with net investment profit at €19.6 billion, up from €13.8 billion in 2018;
- in the life sector (Class D), investment charges contracted by €10 billion compared with 2018 down to €3.6 billion; this was a factor in the net investment gain of €17.1 billion (against a negative result of €11.1 billion in 2018).

The insurance industry's overall **net profit on investment** amounted to €39.7 billion, compared with €4.8 billion in 2018, of which €35.8 billion (90%) came from the technical account (up from €2.1 billion in 2018) and €3.9 billion (10%) from the non-technical account (up from €2.8 billion in 2018).

Extraordinary income, gross of charges, amounted to €1.2 billion, slightly up from €1 billion in 2018. The relevant charges totaled €691 million (they were €490 million in 2018).

THE RESULT FOR THE FINANCIAL YEAR

Thanks to the positive trend described above, which is chiefly attributable to the net financial income of the life sector, in 2019 the **result from the ordinary activity** of the life and non-life sectors was €10.7 billion, nearly three times more than in 2018 (€4 billion); **extraordinary income** (which is added to that from ordinary activity) remained positive at €533 million, in line with the previous year, when it was €541 million. Overall, pre-tax **profit for the year**, calculated as the result of ordinary and extraordinary activity, thus amounted to €11.2 billion.

After taxes totaling €2.6 billion, the industry showed an **overall net profit of €8.7 billion** (more than double the result of 2018, when it was €4.2 billion), ascribable, as noted, mainly to the positive results of the life sector which nearly tripled from €2 billion in 2018 to €6 billion in 2019, whereas the non-life sector increased modestly, from €2.2 billion to €2.7 billion.

With net profit more than doubled, the sector's profitability, expressed in terms of ROE, jumped from 7% to 14%, regaining its 2005 level; the life and non-life sectors separately registered ROE of 16.9% (5.6% in 2018) and 10.3% (8.6% in 2018) respectively.

In particular, the profit of the non-life sector for 2019 was €2.7 billion, with an increase compared with the previous year (€2.2 billion); this was the result of different trends shown by the following items:

– an **intermediate operating result** (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €4.8 billion (up from €650 million in 2018);
– a negative balance of €1.7 billion on other income less other charges, virtually unchanged from the loss of €1.6 billion in 2018;
– a positive balance of €269 million on other net extraordinary income, slightly higher than in 2018 (€176 million);
– income taxes increased by over €150 million from €600 million in 2018 to €757 million in 2019.

Profit-and-loss account by sector
Euro million

	2012	2013	2014	2015	2016	2017	2018	2019
Non-life								
Technical account result	2,765	3,546	3,749	3,751	3,089	3,148	2,857	3,154
Net investment income	94	825	925	860	1,122	1,395	1,319	1,658
Intermediate operating result	2,859	4,371	4,674	4,612	4,211	4,543	4,176	4,812
Other net income	-1,295	-1,354	-1,502	-1,469	-1,438	-1,471	-1,571	-1,656
Net extraordinary income	1	473	450	72	137	208	176	269
Income tax for year (-)	924	1,365	1,173	1,259	795	841	599	757
Profit/loss for the year	641	2,125	2,448	1,956	2,114	2,439	2,182	2,668
Life								
Technical account result	6,931	3,344	2,864	2,765	3,700	3,363	826	6,368
Net investment income	1,626	1,444	1,917	1,821	1,824	1,773	1,442	2,202
Intermediate operating result	8,557	4,788	4,781	4,586	5,525	5,136	2,268	8,570
Other net income	-627	-828	-563	-636	-814	-891	-913	-1,034
Net extraordinary income	-29	841	511	939	86	250	365	264
Income tax for year (-)	2,772	1,696	1,231	1,136	1,211	959	-262	1,809
Profit/loss for the year	5,129	3,105	3,498	3,753	3,586	3,536	1,982	5,991

The profit of the life sector for 2019 amounted to €6 billion, three times that of 2018 (€2 billion); this result was due to different trends registered by the following items:

– an **intermediate operating result** (the sum of the technical result plus the net investment result pertaining to the non-technical account) of €8.6 billion, nearly four times the amount of 2018 (€2.3 billion);
– a negative balance of €1 billion on other income less other charges, in line with 2018;
– a positive balance of €264 million on net extraordinary income, €100 million less than in 2018 (€365 million);
– a volume of income taxes for the overall life business of €1.8 billion, compared with a tax credit of €260 million in 2018.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2019

BALANCE SHEET — STATUTORY FINANCIAL STATEMENTS

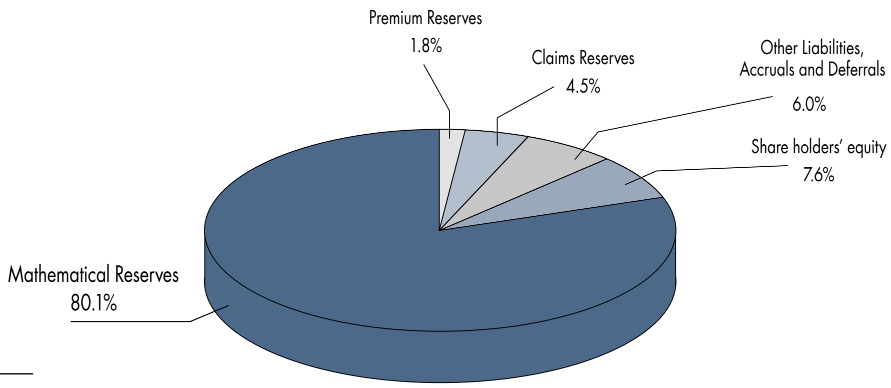
Balance sheet
Euro million

	2012	2013	2014	2015	2016	2017	2018	2019
LIABILITIES	603,706	641,230	703,134	762,742	810,241	848,694	867,907	926,896
NET WORTH	54,299	63,906	64,403	66,223	66,361	66,805	65,475	70,007
TECHNICAL PROVISIONS	504,067	530,905	591,746	647,523	693,910	729,542	749,245	801,345
Non-life classes	*66,838*	*64,764*	*63,368*	*62,005*	*61,384*	*60,015*	*58,872*	*58,858*
Life classes	*437,229*	*466,141*	*528,378*	*585,518*	*632,525*	*669,527*	*690,373*	*742,487*
OTHER LIABILITIES	44,601	45,739	46,301	48,380	49,353	51,829	52,611	55,031
ACCRUED EXPENSES AND DEFERRED INCOME	739	680	684	616	617	518	575	513
ASSETS	603,706	641,230	703,134	762,742	810,241	848,694	867,907	926,896
AMOUNTS OWED BY SHAREHOLDERS	7	0	0	0	0	0	0	0
INTANGIBLE ASSETS	5,747	6,194	6,907	6,664	6,521	6,374	6,095	5,757
INVESTMENTS:	526,975	562,960	629,566	692,645	741,207	778,997	798,917	856,558
Land and buildings	6,780	6,459	6,041	6,645	6,251	6,188	5,530	5,746
Shares and other equity	50,129	57,297	56,387	57,022	56,808	59,899	61,324	61,450
Bonds and other fixed income securities	335,627	363,826	410,269	437,571	464,578	473,506	484,750	503,360
Mutual funds and other investments	36,918	38,565	48,098	63,156	74,049	85,160	95,061	106,588
Investments benefiting policyholders and proceeds from management of pension funds	97,521	96,814	108,771	128,252	139,521	154,243	152,252	179,414
TECHNICAL PROVISIONS BORNE BY REINSURERS	17,768	16,533	15,109	14,104	13,734	13,667	12,794	12,439
AMOUNTS OWED BY DEBTORS	26,497	28,192	28,612	26,559	28,200	29,765	31,298	34,027
OTHER ASSETS	21,428	21,868	17,164	16,954	14,664	14,167	13,142	12,499
ACCRUED INCOME AND PREPAID EXPENSES	5,284	5,483	5,777	5,814	5,914	5,725	5,661	5,616

Liabilities

In 2019, balance-sheet liabilities totaled €927 billion, an increase of 7% compared with 2018.

Breakdown of liabilities (%) – Year 2019



€ 926,896 million

In detail:

– *Shareholders' equity*, or net worth, at €70 billion, grew by 6.9% compared with 2018; it accounts for 7.6% of total liabilities.
– *Technical provisions,* which represent the commitments undertaken vis-à-vis the insured, rose by 7% to €801.3 billion; they made up 86% of total liabilities. Life provisions, which accounted for 80.1% of the total, grew by 7.5% to €742.5 billion, while non-life provisions (for claims and unpaid premiums) remained stable at €58.9 billion.
– *Other liabilities*, amounting to €55 billion (5.9% of the total), were up 4.6% from a year earlier.
– *Accrued expenses and deferred income* amounted to €513 million (0.1% of the total).

Assets

On the asset side the main items composing the total of €927 billion are investments, the reinsurance share of technical provisions, claims on debtors, other asset items, accrued income and prepayments, thus balancing out total liabilities.

In particular:

– *Investments* totaled €856.6 billion, an increase of 7.2% from a year earlier, and made up nearly 92% of total assets. Investments in the life and non-life sectors amounted respectively to €770.7 billion (90% of the total) and €85.9 billion (10% of the total).

In detail, the total investments were distributed as follows:

- debt securities and other fixed-income securities: €503.4 billion, up 3.8% (58.8% of the total);
- investments pertaining to Class D: €179.4 billion, up 17.8% (20.9% of the total);
- shares of mutual funds and other investments: €106.6 billion, up 12.1% (12.4% of the total);
- shares and other equity: €61.5 billion, up 0.2% (7.2% of the total);
- land and buildings: €5.7 billion, up 3.9% (0.7% of the total).

– *Technical provisions* borne by reinsurers came to €12.4 billion, down 2.8% from a year earlier, and made up 1.3% of total assets.
– Claims due from *debtors* came to €34 billion, up 8.7% (3.7% of the total).
– *Claims on shareholders* (equal to zero), *other intangible assets* (€5.8 billion) and *other assets* (€12.5 billion) came down by 5.1% to €18.3 billion (2% of the total).
– *Accrued income and prepaid expenses* were equal to €5.6 billion, down 0.8% (0.6% of the total).

SOLVENCY II BALANCE SHEET

The following data are drawn from the reporting system established by the Solvency II regime and are characterized by a different valuation of assets (at fair value) and balance-sheet item classification than the data drawn from the statutory financial statements described above.

Liabilities (Solvency II)

Balance-sheet liabilities increased by 11.8% in 2019, totaling €896 billion at the end of the year.

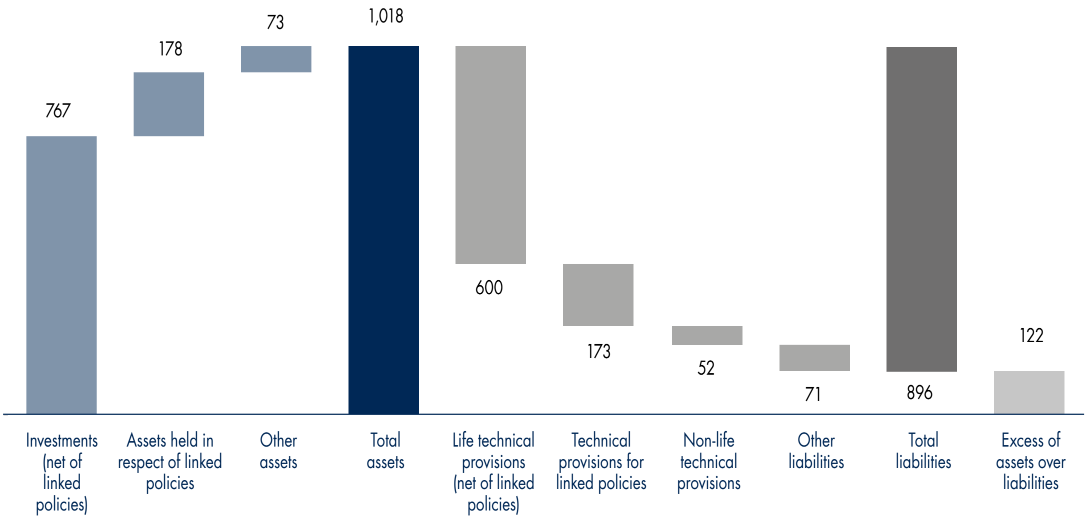
Solvency II – Balance sheet of Italian companies
Euro million

	2015 (Day one)	2016	2017	2018	%	2019	%	Change 19/18 %
Total assets	**841,455**	**883,181**	**920,838**	**911,093**	**100.0%**	**1,018,350**	**100.0%**	**10.6%**
Buildings, plant and equipment for own use	2,845	2,738	2,071	2,026	0.2%	2,560	0.3%	26.3%
Investments (net of linked policies)	636,890	671,580	696,659	690,376	75.8%	766,709	75.3%	11.1%
Assets held in respect of linked policies	127,983	139,464	154,217	152,219	16.7%	178,350	17.5%	17.2%
Mortgages and loans	6,025	4,117	5,301	7,374	0.8%	6,650	0.7%	-9.8%
Amounts recoverable from reinsurance	12,953	12,778	12,134	11,201	1.2%	10,980	1.1%	-2.0%
Deposits with ceding undertakings	9,127	9,032	7,984	5,732	0.6%	5,351	0.5%	-6.7%
Receivables in insurance and from intermediaries	6,935	8,316	8,751	8,812	1.0%	9,664	0.9%	9.7%
Receivables from reinsurance	1,183	1,329	1,082	848	0.1%	1,218	0.1%	43.6%
Trade credits	10,122	10,662	11,383	12,463	1.4%	14,856	1.5%	19.2%
Cash and cash equivalents	14,422	10,209	9,332	8,671	1.0%	7,900	0.8%	-8.9%
Deferred tax assets	6,490	6,254	4,503	3,632	0.4%	6,180	0.6%	70.2%
Own shares (directly owned)	37	52	81	64	0.0%	70	0.0%	9.5%
Other assets	6,442	6,649	7,341	7,673	0.8%	7,862	0.8%	2.5%
Total liabilities	**733,715**	**778,450**	**803,562**	**801,948**	**100.0%**	**896,430**	**100.0%**	**11.8%**
Non-life technical provisions	57,556	55,809	52,860	51,728	6.5%	52,309	5.8%	1.1%
Life technical provisions (net of linked policies)	488,464	525,282	538,822	538,966	67.2%	599,660	66.9%	11.3%
Technical provisions in respect of linked policies	122,652	133,438	146,073	146,973	18.3%	173,107	19.3%	17.8%
Deposits from reinsurers	6,825	6,906	6,464	6,005	0.7%	5,523	0.6%	-8.0%
Derivatives	989	1,275	953	986	0.1%	935	0.1%	-5.1%
Financial liabilities	12,630	11,786	12,269	13,437	1.7%	14,497	1.6%	7.9%
Payables in insurance and from intermediaries	3,525	3,648	3,894	4,691	0.6%	5,104	0.6%	8.8%
Payables from reinsurance	715	862	823	610	0.1%	570	0.1%	-6.6%
Trade payables	7,128	5,497	5,694	5,124	0.6%	7,025	0.8%	37.1%
Subordinated liabilities	16,512	17,062	18,068	19,025	2.4%	17,808	2.0%	-6.4%
Other non-technical provisions	1,442	1,510	1,373	1,500	0.2%	1,515	0.2%	1.0%
Deferred tax liabilities	12,186	10,135	10,697	7,666	1.0%	12,350	1.4%	61.1%
Other liabilities	3,090	5,240	5,571	5,238	0.7%	6,028	0.7%	15.1%
Excess assets over liabilities	**107,740**	**104,731**	**117,276**	**109,145**		**121,920**		**11.7%**
Excess over total assets (%)	*12.8%*	*11.9%*	*12.7%*	*12.0%*		*12.0%*		

In detail:

- life insurance technical provisions (net of linked policies) totaled €599.7 billion, up by 11.3% from 2018, accounting for 67% of total liabilities; the risk margin – that is, the component of the technical provisions that serves to ensure that in the event that the policy portfolio is transferred to another company, the technical provisions are sufficient and equivalent to the price the company would pay in a regulated market for said liabilities – was 0.8% (€4.8 billion);
- technical provisions for linked policies, amounting to €173.1 billion, increased by 17.8%, thus accounting for over 19% of total liabilities; the risk margin for these provisions was 0.7% (about €1.2 billion);
- non-life insurance technical provisions increased by more than 1% to €52.3 billion, accounting for 5.8% of total liabilities; the risk margin was 4.3% (about €2.3 billion);
- subordinated liabilities shrank by 6.4% to €17.8 billion over the last year, accounting for 2.0% of total liabilities;
- other liability items in the balance sheet include financial liabilities (€14.5 billion, 1.6% of the total, +7.9% compared with 2018) and deferred tax liabilities (€12.4 billion, 1.4% of the total, +61.1% compared with 2018).

The balance sheets of Italian companies in 2019
Euro billion



Assets (Solvency II)

At the end of 2019, Italian insurers had assets for €1,018 billion, 10.6% more than a year earlier.

The consequent excess of asset items over liability items was €122 billion (it was €109 billion in 2018). The incidence of the excess on the balance-sheet assets was 12% as in 2018.

More in detail:

- investments (net of linked policies) rose by 11.1% to €766.7 billion over the last year, accounting for 75.3% of total assets;
- assets held in respect of linked policies went up by 17.2% to €178.4 billion, accounting for 17.5% of total assets;
- other asset items in the balance sheet include trade credits (€14.9 billion, 1.5% of the total, +19.2% compared with 2018) and amounts recoverable from reinsurance (€11 billion, 1.1% of the total, -2.0% compared with 2018).

INVESTMENTS (SOLVENCY II)

As described in the previous section, which highlights the different balance sheet assets, insurance industry investments amounted to €945 billion, with an increase of more than 12% compared with the previous year. Of these, nearly €767 billion (+11.1% on 2018) refer to insurance contracts net of linked policies, the remaining €178 billion (+17.2% on 2018) to linked policies in the life sector.

Type of investment
Euro million

	2015 (Day one)	2016	2017	2018	%	2019	%	Var. % 19/18
Investments (net of assets in respect of linked contracts)	636,890	671,580	696,659	690,376	100.0%	766,709	100.0%	11.1%
Italian government securities	319,762	320,835	310,752	297,301	43.1%	323,246	42.2%	8.7%
Bonds	105,916	133,113	140,438	138,187	20.0%	151,009	19.7%	9.3%
Shares of affiliated undertakings, including holdings	77,530	77,641	84,646	83,205	12.1%	86,555	11.3%	4.0%
UCITS	47,131	59,569	73,514	80,106	11.6%	96,684	12.6%	20.7%
Foreign government securities	41,330	39,237	51,547	62,448	9.0%	76,905	10.0%	23.2%
Structured securities	26,432	23,173	15,204	10,140	1.5%	10,007	1.3%	-1.3%
Listed equity instruments	8,636	7,600	8,855	8,057	1.2%	10,740	1.4%	33.3%
Unlisted equity instruments	1,966	2,328	2,595	2,857	0.4%	3,160	0.4%	10.6%
Land/buildings (other than for own use)	4,876	4,536	5,262	4,691	0.7%	4,943	0.6%	5.4%
Covered securities	2,108	2,145	2,415	2,537	0.4%	2,444	0.3%	-3.6%
Deposits other than cash-equivalent	891	1,009	996	361	0.1%	360	0.0%	-0.3%
Derivatives	272	344	416	469	0.1%	640	0.1%	36.5%
Other investments	40	50	19	17	0.0%	17	0.0%	-0.1%
Assets held in respect of linked policies	127,983	139,464	154,217	152,219	100.0%	178,350	100.0%	17.2%
UCITS	99,223	109,210	128,137	125,036	82.1%	147,921	82.9%	18.3%
Italian government securities	16,345	15,726	11,072	10,864	7.1%	11,403	6.4%	5.0%
Foreign government securities	3,798	3,366	3,171	4,611	3.0%	5,282	3.0%	14.6%
Cash and deposits	5,900	5,627	5,608	3,571	2.3%	2,835	1.6%	-20.6%
Equity	1,223	3,576	4,239	5,075	3.3%	6,667	3.7%	31.4%
Bonds	1,193	1,410	1,536	2,970	2.0%	4,112	2.3%	38.4%
Other investments	301	549	455	91	0.1%	130	0.1%	43.1%
Total investments	764,873	811,044	850,876	842,595		945,059		12.2%

A more specific analysis of the nearly €767 billion of insurance-based investments (net of linked policies) at the end of 2019 shows that companies made the following investment choices:

- €323 billion in Italian government securities (42.2% of the total), roughly 9% more than in 2018; of the €26 billion in absolute value gained on the previous year, the bulk came from changes in the value of securities recorded over 2019 and only a minimum part from net purchases during the year;
- €151 billion in corporate bonds (19.7% the total), 9.3% more than in 2018;
- €86.6 billion in shares of affiliated undertakings (11.3% of the total), up by 4.0% compared with 2018;
- €96.7 billion in UCITS (12.6% of the total), roughly 21% more than in 2018;
- €76.9 billion (10.0% of the total) in foreign government securities, up by more than 20% from a year earlier;
- €10 billion in structured securities (1.3% of the total), down by 1% compared with 2018;
- some €14 billion in equity, of which €10.7 billion (+33.3%) in listed instruments and €3.2 billion (+10.6%) in unlisted instruments.

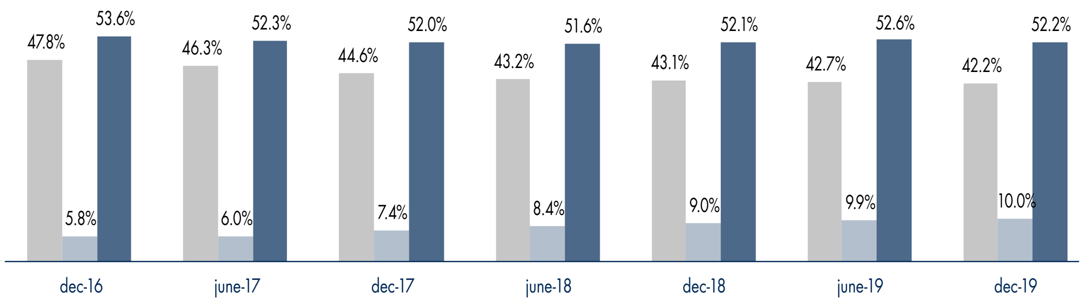
With regard to the over €178 billion of assets held in respect of linked policies, the following lines of investment emerge:

- about €148 billion (83% of the total) in investment funds, up by 18.3% from 2018;
- €11.4 billion in Italian government securities (6.4% of the total), up by 5%;
- €6.7 billion in cash and deposits (3.7% of the total), up by over 30%.

With regard to insurance company investments, net of linked policy assets, the figure below shows the six-month trend of government securities from 2016 to 2019.

Government securities over total investments (%)
Euro million

Italian
Foreign
Total



Net of assets in respect of linked contracts
Source: ANIA

In the first three years observed, while investments in government securities remained virtually unchanged at around €360 billion, their share over total investments decreased from 53.6% in 2016 to 52.1% at the end of 2018. Conversely, in 2019 the value of Italian government securities increased by 11% to total €400 billion, while their share of total investments remained steady at 52.2%, reflecting a greater increase in other forms of investment, specifically in UCITS.

In particular, over the last four years:

– Italian government securities, taking into account both changes in value and net sales/purchases, went from €320 billion at the end of 2016 to €300 billion at the end of 2018, then recovering to €320 billion at the end of 2019; their incidence on total investments came down from 47.8% to 42.2%;
– foreign government securities holdings increased from roughly €40 billion to €77 billion and their incidence on total investments nearly doubled from 5.8% in 2016 to 10.0% in 2019.

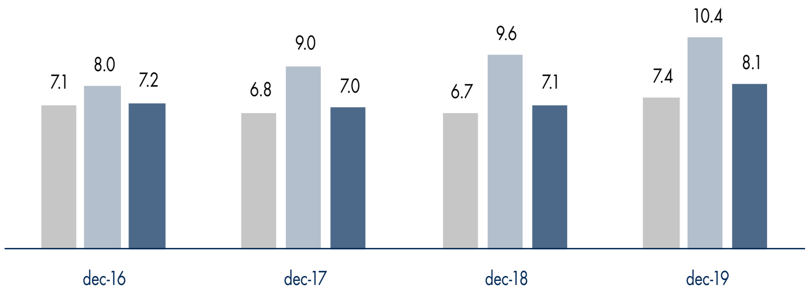
Finally, an analysis of the duration, i.e the average residual maturity, of the insurance portfolio invested in government securities shows that during the last financial year maturity increased by a year to 8.1 years, compared with 7.1 years in 2018, after holding steady for three years. In particular, while the average financial duration of Italian securities was practically unchanged, varying from 7.1 to 7.4 over the course of four years, the average duration of foreign government securities lengthened constantly, from 8.0 years in 2016 to 10.4 years in 2019.

Average duration of government securities portfolio

Italian

Foreign

Totale



INVESTMENTS OF THE INSURANCE INDUSTRY IN BONDS AND SHARES

Corporate bonds

At the end of 2019, insurance companies had €186 billion (25% of the total) invested in direct and indirect private-sector bonds (net of assets in respect of linked policies), thus registering an increase of 9.4% compared with 2018; of this, €150 billion was in direct private-sector bonds (up by 8.6% on 2018) and €36 billion in bond-based investment funds (up by 20%).

With regard to direct corporate bonds specifically, in line with 2018, 71% were straight corporate bonds, just under 12% were subordinated bonds, and 7% ordinary hybrid bonds (Figure 1).

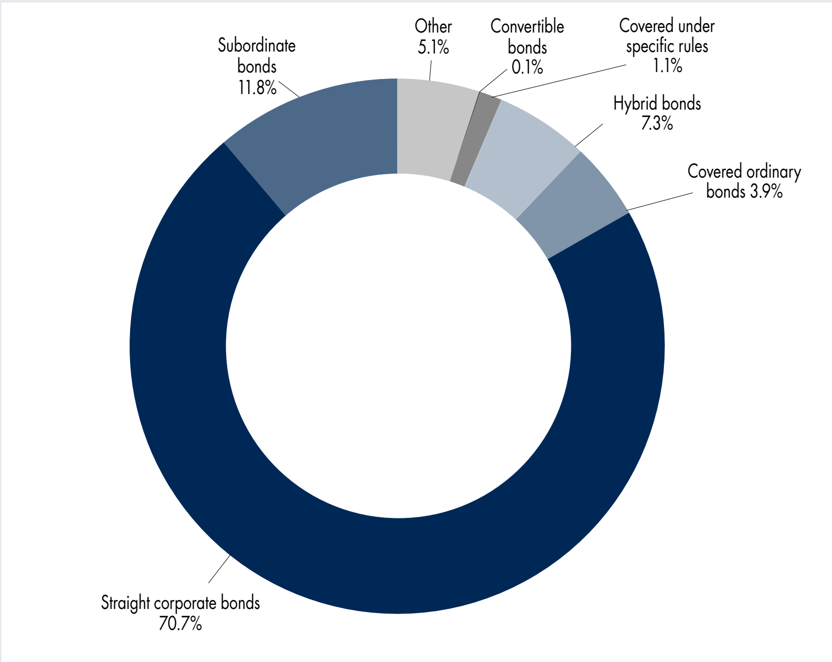
By country of issue, 21% were securities of Italian issuers (3 percentage points less than in 2018).

The average duration of the bonds in the portfolio was 5 years; 50% were CQS3 instruments (equivalent to BBB-rated), 24% CQS2 (A), 6% CQS4 (BB) and another 6% CQS1 (AA); unrated bonds[1] accounted for approximately 2% of the total.

With regard to the business sector of the issuers, more than 40% were from finance and insurance, 20% from manufacturing, 11% from the energy sector (electricity, gas, heating), 9% from the information and communication industry, and 5% from real estate.

Figure 1
Corporate bonds of Italian insurers
Data as of 31/12/2019
Net of linked policies

Source: ANIA elaborations on InfoQRT data



Shares

With regard to the stock component of the portfolio of insurance companies (net of investments in respect of linked policies), the overall investments amounted to €110 billion (14% of the total, +7% compared with December 2018), of which 80% (€87 billion) was in shares of affiliates and the rest (€23 billion) in direct listed and unlisted shares, equity funds and private equity funds.

As for the sectors to which these resources were allocated, 90% went for financial and insurance-related business, 5% real estate, 5% manufacturing industry.

(1) To interpret the data correctly, one must bear in mind that for 12% of these assets there is no indication of rating or unrated status.

INVESTMENTS IN INFRASTRUCTURE

As of 31 December 2019, infrastructure investments in the balance sheets of insurance companies were still moderate at €7 billion, 1% of total investments, in line with the two previous years; of these, nearly one third were infrastructure investments with an Italian issuer.

Also in 2019, the main forms of investment used by the insurers in this type of asset were: straight corporate bonds (45%), infrastructure investment funds (25%), hybrid corporate bonds (13%), ordinary shares (4%), and bond-based investment funds (5%).

As for the allocation of resources, the main target sectors in 2019 were: energy (27%), financial and insurance business (25%), construction (16%), activity of extra-territorial organizations and bodies (9%), information and communication (9%), transport and storage (5%).

The amount of qualifying infrastructure investments[2] – that is, investments that can benefit from special regulatory treatment with facilitations in terms of capital requirements – was unchanged compared with 2018 at roughly €1.5 billion, mainly achieved through the recourse to funds.

INVESTMENTS IN FUNDS

At the end of 2019, insurance companies' investment fund assets amounted to a total of €245 billion, of which €97 billion in assets covering traditional contracts (+21% compared with 2018) and €148 billion for linked policies (+18%).

With regard to investments for traditional contracts, among the funds – representing 13% of total investments – insurers favored bond-based funds (35%), asset allocation funds (17%), real estate funds (15%), money market funds (8%), and equity funds (6%).

As for assets held in respect of linked policies, funds accounted for 83% of the total, more or less equally distributed between debt and equity instruments.

[2] Since 2016, insurance companies electing to invest in infrastructural development benefit from lower capital charges than for traditional bonds or shares.

THE SOLVENCY OF THE ITALIAN INSURANCE INDUSTRY

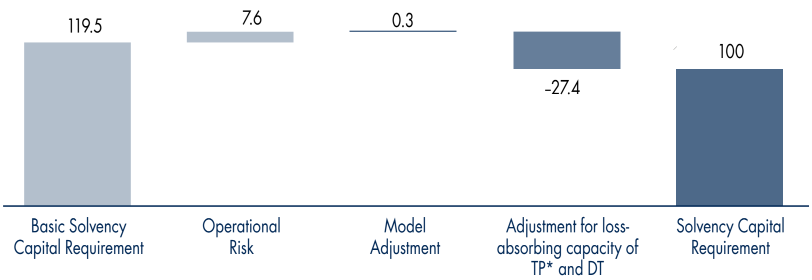
Composition of the Solvency Capital Requirement (SCR)

In accordance with the current legislation, every insurance undertaking must calculate its Solvency Capital Requirement (SCR) either by adopting the standard formula or by using a full or partial internal model. For application, the internal models must be previously validated and authorized by the Supervisory Authority, whereas companies adopting the standard formula may, upon authorization of the Authority, add to the calculation of the underwriting risk modules their own Undertaking-Specific Parameters (USP) instead of the preset parameters of the formula. Based on an estimate calculated on annual data received by ANIA (roughly 90% of companies in terms of premiums), the SCR for the industry was over €59 billion at the end of 2019 (+7% compared with 2018). Of this, nearly €39 billion (66%) referred to the 14 undertakings that adopted internal models (full or partial), and the remaining €20 billion (34%) to companies that used the standard formula.

Figure 1 shows the composition of the SCR, in percentage values and for the whole insurance market, calculated as the sum of the Basic Solvency Capital Requirement (BSCR), operational risk and the Adjustment components for 2019.

Figure 1
SCR % composition – Year 2019
Standard Formula and Internal Model

Source: InfoQRT ANIA



(*) The majority of companies using internal models reported – for the individual risk module requirements – only the amounts net of the technical provision (TP) adjustment. Therefore, the "Gross SCR" and "TP Adjustment" could not be broken down and are thus already included in the individual risk modules in the next chart.

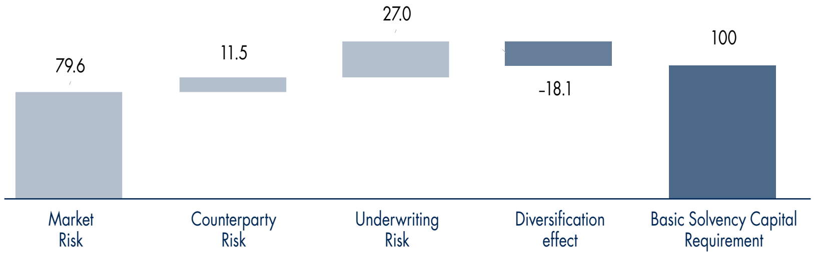
The operational risk – defined as the risk of loss due to the inefficiency of individuals, processes and systems or to events such as fraud or service suppliers' activities – accounts for 8% of the SCR, as clearly highlighted in the chart. While the benefit from fine-tuning of methods and processes is marginal (0.3%), the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes has a considerable impact on the SCR (27.4%). In particular, it accounts for 8% of SCR for companies using internal models and for 70% for those using the standard formula.

This divergence reflects the fact that most companies adopting internal models report the impact of the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes in each risk module, without explicitly so stating. The adjustment component for these companies is therefore underestimated.

Figure 2 reports the percentage composition by risk class of the Basic Solvency Capital Requirement.

Figure 2
BSCR % composition – Year 2019
Standard Formula

Source: InfoQRT ANIA



The main risk factor for the insurance industry is market risk (79.6%): 79.4% for companies using internal models and 80% for those using the standard formula.

Counterparty risk measures the vulnerability of different types of assets held by insurers to default of issuers and other counterparties. This risk accounts for nearly 12% of the overall risk: 16% for companies using internal models and 4.5% for those using the standard formula.

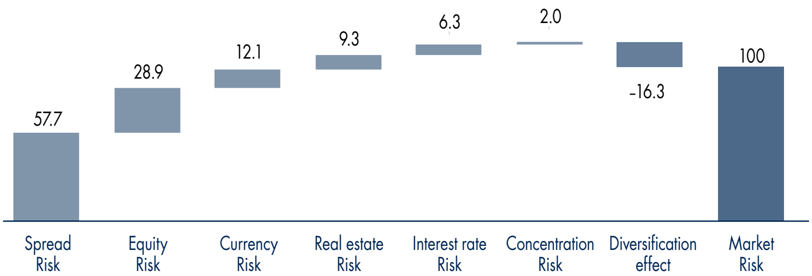
Underwriting risks (life, non-life and health) represent overall nearly 27% of the BSCR. More specifically, 20.6% for companies using internal models and over 35% (22% life, 12% non-life and 3% illness) for those using the standard formula.

The diversification benefit stems from the fact that companies with a portfolio composed of different types of policies and assets geographically distributed across different markets may exploit the negative correlation of risks, thus reducing, by offsets, the solvency requirement. For the insurance market as a whole, the impact of diversification was on average 18%: 16% for companies using internal models and 22% for those using the standard formula.

With regard to companies which adopted the standard formula, Figure 3 provides a more detailed analysis of the individual components of market risk.

Figure 3
Market Risk % composition – Year 2019
Standard Formula

Source: InfoQRT ANIA



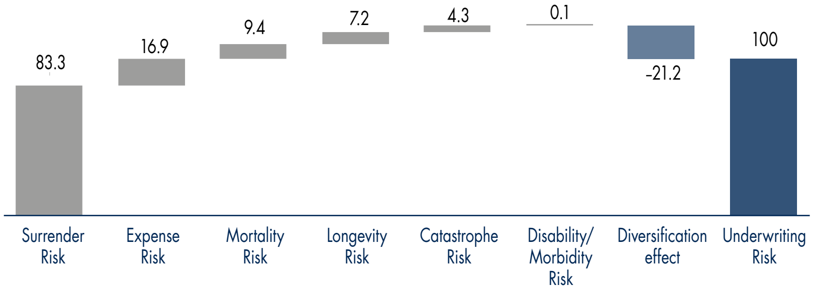
The results show that the greatest source of risk for the industry is the evolution of the spread (57.7%). This share is considerably higher than that of equity risk (28.9%), even though the latter is intrinsically volatile. The currency risk weighs for over 12%, whereas real estate risk, interest rate risk and concentration risk have a lower incidence, respectively of 9.3%, 6.3%, and 2.0%.

Also in this case, there is a diversification effect of about 16%.

For companies which adopt the standard formula, the underwriting risk was analyzed by insurance class: life (Figure 4), non-life (Figure 5) and, within the latter class, catastrophe risk (Figure 6).

Figure 4
Underwriting Risk % composition (Life Policies) – Year 2019
Standard Formula

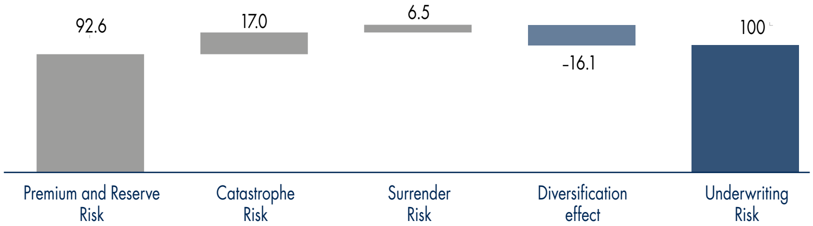
Source: InfoQRT ANIA



A major component in the composition of the underwriting risk for life policies is surrender risk, which accounts for 83% of the overall risk for average companies, followed at a distance by expense risk (17%), mortality risk (9.4%), and longevity risk (7.2%). The diversification benefit exceeds 20%.

Figure 5
Underwriting Risk % composition (Non-life Policies) – Year 2019
Standard Formula

Source: InfoQRT ANIA



A major component in the composition of the underwriting risk for non-life policies is premium and reserve risk, which accounts for 93% of the overall risk, followed at a distance by catastrophe risk (17%). The diversification effect exceeds 16%.

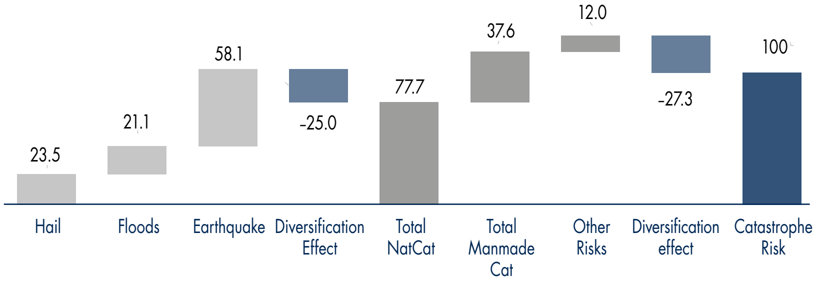
A detailed analysis of the catastrophe risk for non-life policies (Figure 6) shows that natural catastrophes have an incidence of 78%, nearly double that of man-made catastrophes (38%).

More specifically, among natural catastrophes, earthquakes represent the greatest risk (58%). Floods and hail weigh equally on the total (20%).

The overall diversification effect is around 50%.

Figure 6
Catastrophe Risk % composition (Non-life) – Year 2019
Standard Formula

Source: InfoQRT ANIA

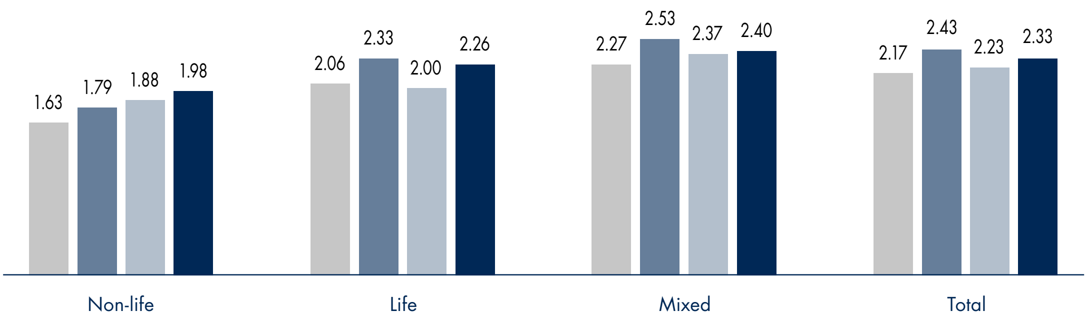


Solvency II ratio

This core Solvency II indicator measures the extent to which insurance companies' own capital is adequate to face the technical/financial risks specific to the insurance sector; it is calculated as the ratio of eligible own funds to the Solvency Capital Requirement (SCR).

Figure 1 shows the evolution of the indicator for Italian insurance companies in the period 2016-2019 by business sector. In 2019, the solvency ratio (for the sample analyzed) was 2.33, higher than in 2018 (2.23). The analysis by business sector between 2018 and 2019 shows a rise in the indicator across all three sectors. In particular, the ratio went from 1.88 to 1.98 for non-life companies, from 2.00 to 2.26 for life companies and from 2.37 to 2.40 for mixed companies. The solvency ratio for the total market (2.33) is calculated as the industry's €137 billion of eligible own funds over the Solvency Capital Requirement of approximately €59 billion.

Figure 1
Solvency II ratio

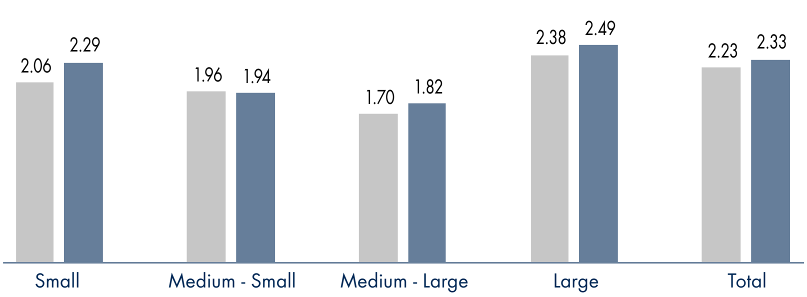


Source: InfoQRT ANIA

The indicator was also analyzed according to undertaking size (Figure 2). The results (comparing annual data for 2018 and 2019) highlight a significantly higher value for large companies with premiums of more than €4.5 billion (2.49 in 2019 compared with 2.38 in 2018) than for small and medium-sized insurers, whose ratio is on average under 2.0.

The solvency ratio for small companies (total premiums of less than €0.3 billion) increased from 2.06 at the end of 2018 to 2.29 a year later.

Figure 2
Insurance sector's solvency ratio by company size*



Source: InfoQRT ANIA

** Company size is calculated based on written premiums in the direct portfolio for 2019, with the following criteria: small: premiums< €0.3 bln; medium-small: €0.3 bln<=premiums<€1.0 bln; medium-large: €1.0 bln<=premiums€<4.5 bln; large: premiums>=€4.5 bln*

The excess of assets over liabilities

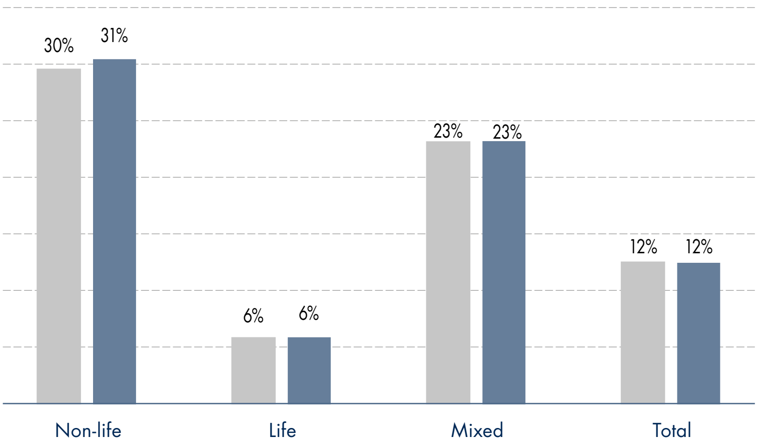
The excess of asset items over liability items plays a crucial role in the Solvency II system, as together with subordinated liabilities it forms an integral part of basic own funds.

One Key Performance Indicator (KPI) is based on this element, namely excess assets in relation to total assets. In particular, Figures 3 and 4 provide an analysis of the ratio by sector and by company size. On average, in 2019 the indicator was 12% (unchanged from 2018), with distribution differing according to business sector. The excess ratio was between 20% and 30% both for non-life and mixed companies, but for the life sector it was far lower (6%). Only the non-life sector showed a mild uptrend in assets excess at 31%.

Figure 3
excess asset ratio (%) by company type

2018
2019

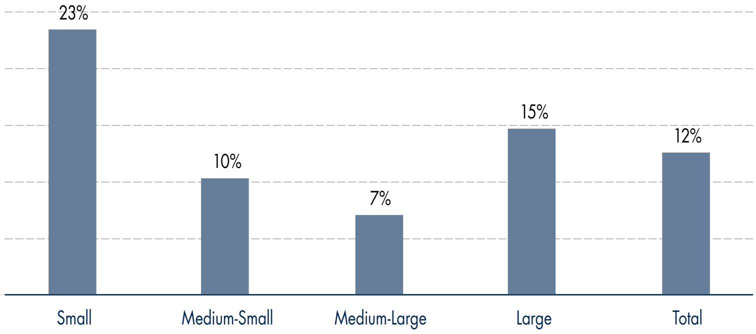
Source: InfoQRT ANIA



The distribution by company size also painted a varied picture: at the end of 2019, for small insurers (with less than €300 million in premiums) the excess was 23% of total assets, while for all other companies it was significantly lower at between 7% and 15%.

Figure 4
excess asset ratio (%) by company size – 2019

Source: InfoQRT ANIA



Own Funds

Own funds allocated to cover the SCR consist of the excess of asset items over liability items, minus the amount of own shares held by the company and of subordinated liabilities; at the end of 2019, own funds amounted to €137 billion.

Own funds are classified in three tiers defined on the basis of their quality, i.e. their ability to absorb losses over time. In particular, the characteristics considered for the classification in tiers include the level of subordination, the absence of incentives for redemption, the absence of mandatory service costs, the absence of surcharges and constraints. The range is from Tier 1 capital (paid-up ordinary share capital, paid-up preferred shares, retained earnings, reconciliation reserve) to Tier 2 and Tier 3 items with progressively lower absorption capacity. With regard to Tier 1 own funds, these are divided into limited funds, subject to specific caps (such as subordinated liabilities), and unlimited funds.

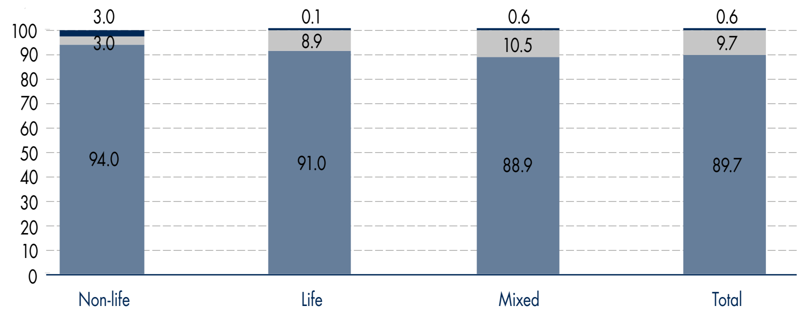
Table 1 and Figure 5 show the percentage of eligible own funds distributed according to tier and insurance sector. At the end of 2019 the incidence of Tier 1 own funds was nearly 90%; Tier 2 accounted for 9.7% and the remaining 0.6% consisted of Tier 3 elements. The tier composition showed a greater incidence of Tier 3 elements in the non-life sector, while Tier 2 elements were most common in mixed companies.

Table 1
Composition (%) of eligible funds by Tier – 2019

	T1 limited	T1 unlimited	Total Tier 1	Tier 1	Tier 2	Tier 3	Total
Non-life	0.3	99.7	100.0	94.0	3.0	3.0	100.0
Life	3.3	96.7	100.0	91.0	8.9	0.1	100.0
Mixed	6.0	94.0	100.0	88.9	10.5	0.6	100.0
TOTAL	5.0	95.0	100.0	89.7	9.7	0.6	100.0

Figure 5
Composition (%) of eligible own funds by Tier and sector – 2019

Tier 1
Tier 2
Tier 3



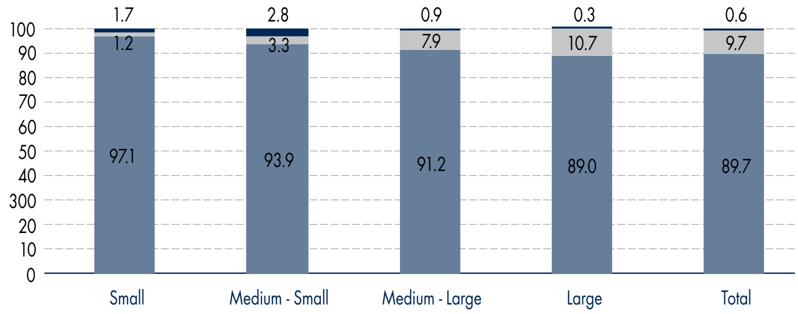
Source: InfoQRT ANIA

The distribution by company size (Figure 6) shows that for large and medium-large companies (with over €1 billion in premiums), Tier 1 own funds account for approximately 90% of the total. For these companies, Tier 2 elements are still significant (8%-10%), while Tier 3 is residual (under 1%). The other companies show a greater incidence of Tier 1 (nearly 95%) and a much smaller incidence of Tier 2.

Figure 6
Composition (%) of own funds by Tier and company size – 2019

Tier 1
Tier 2
Tier 3

Source: InfoQRT ANIA



The following figures analyze, according to business sector, various KPIs deriving from the solvency data; each KPI is broken down by insurance sector and company size.

Reconciliation reserve over SCR

The reconciliation reserve is part of basic own funds and equals the excess of assets over liabilities, minus own shares (directly and indirectly owned), expected dividends, distributions and charges, and other elements of basic own funds; the indicator in Figure 7 measures the percentage incidence of the reconciliation reserve on the SCR. At the end of 2019, the indicator was 142.8%, higher than at the end of 2018 (126.5%). The rise was mainly due to the result for the life sector. In general, across the sectors analyzed (non-life, life and mixed), the overall reconciliation reserve was higher than the SCR, producing an indicator always above 100%. In particular, at the end of 2019 the indicator for mixed companies was 147.0% (134.9% in 2018), more than the 135.8% registered for companies operating exclusively in the life sector – whose indicator still rose very sharply from 109.3% in 2018 – and more than the 132.1% of non-life companies (up from 120.8% in 2018).

Figure 7
Reconciliation Reserve over SCR (%) by sector

2018
2019

Source: InfoQRT ANIA

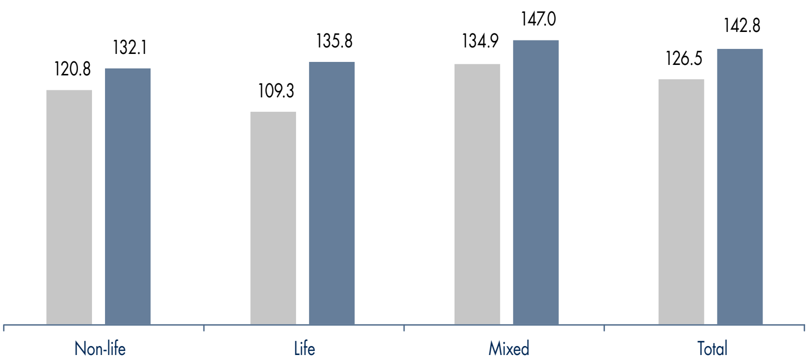
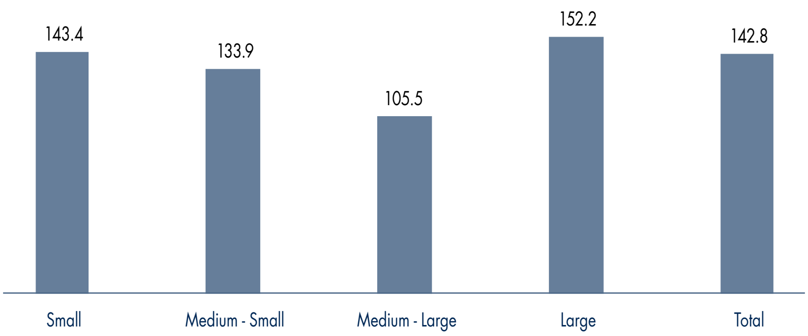


Figure 8
Reconciliation reserve over SCR (%) by company size – 2019

Source: InfoQRT ANIA



The breakdown by company size shows that at the end of 2019 large companies (with premiums higher than €4.5 billion) have an indicator of 152.2%, higher, on average, than that of the other insurance companies.

Reconciliation reserve over eligible own funds

Figure 9 shows that at the end of 2019 the incidence of the reconciliation reserve on total eligible own funds amounted to 61.2% overall, the highest incidence being for non-life businesses (66.7%), followed by mixed companies (61.3%) and finally life businesses (60.2%). The results at the end of 2018 were similar. The distribution of the indicator by company size was quite even, with the exception of medium-small companies (those with premiums between €300 million and €1 billion), which registered a value of 69.1% at the end of 2019.

Figure 9
Reconciliation reserve over eligible own funds (%) by sector

2018
2019

Source: InfoQRT ANIA

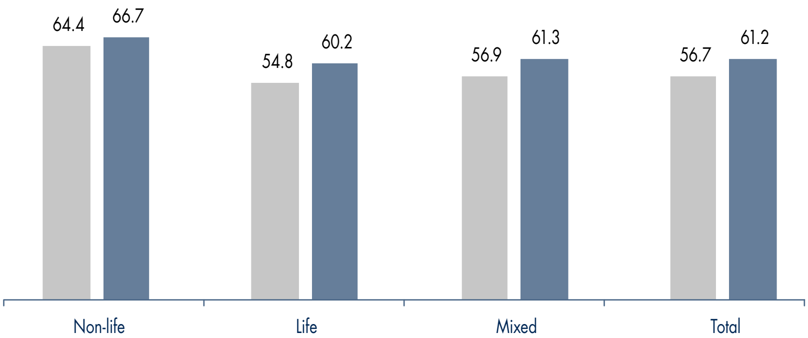
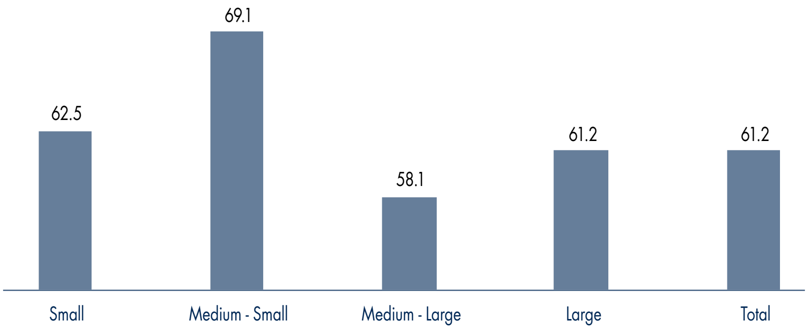


Figure 10
Reconciliation reserve over eligible own funds (%) by company size – 2019

Source: InfoQRT ANIA



Minimum Capital Requirement/SCR

This indicator measures the ratio of the Minimum Capital Requirement (MCR) to the Solvency Capital Requirement. Without prejudice to the minimum levels set for MCR, this cannot be less than 25% or more than 45% of the company's solvency capital requirement. The end-year results for 2019, very similar to those registered a year earlier, show that, especially for companies operating exclusively in the life or non-life sector, the ratio is close to the ceiling (45%); on the contrary, for mixed companies the value is 33.6%, essentially mid-way between the minimum and maximum. The breakdown by company size shows that for large companies the value of the indicator (35.1%) is lower than for other insurance companies.

Figure 11
MCR/SCR (%) by sector

2018
2019

Source: InfoQRT ANIA

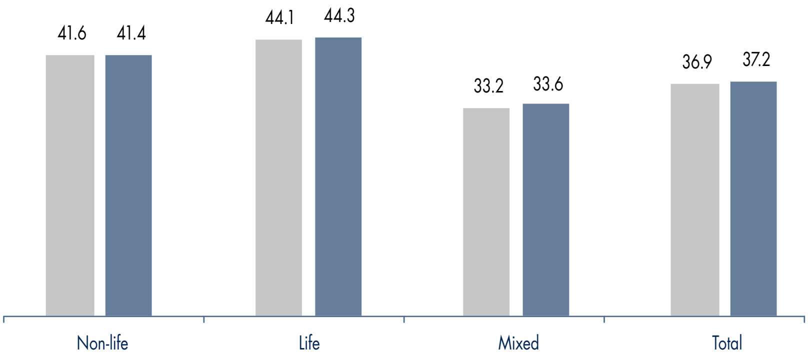
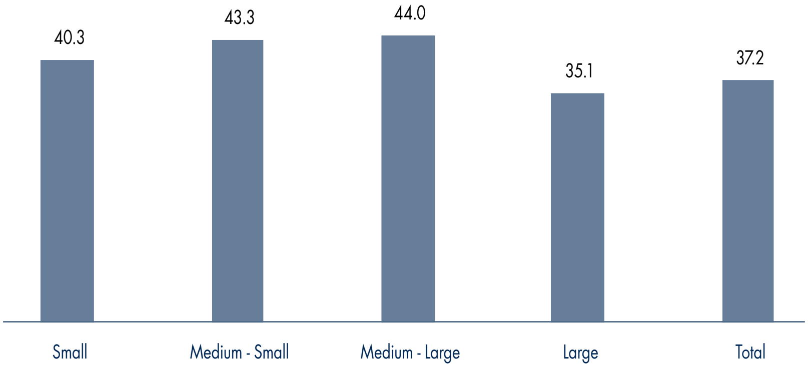


Figure 12
MCR/SCR (%) by company size – 2019

Source: InfoQRT ANIA



EPIFP/*Reconciliation Reserve*

The ratios of expected profits included in future premiums (EPIFP) to reconciliation reserves are much more diversified. This ratio was 13.5% at the end of 2019 on average. But it was 4.6% for non-life businesses, 31.9% for life businesses and 6.3% for companies operating in both the life and non-life classes. With the exception of large companies, which registered an indicator lower than the average at 12.5%, the analysis by size highlights a positive correlation between company size and expected profits.

Figure 13
EPIFP/reconciliation reserve (%) by sector

2018
2019

Source: InfoQRT ANIA

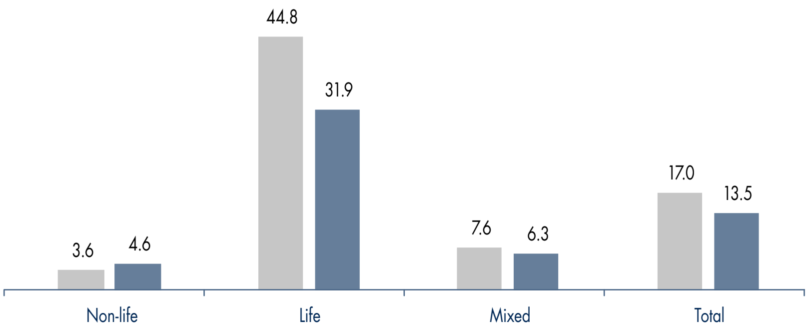
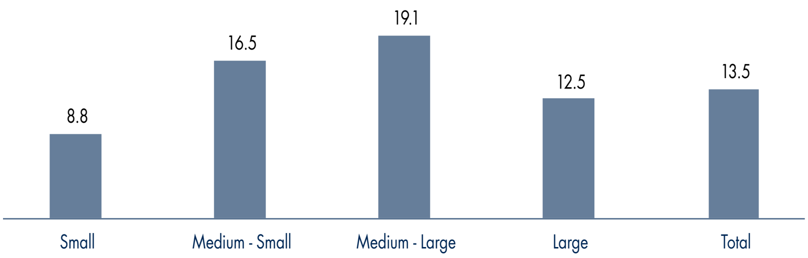


Figure 14
EPIFP/reconciliation reserve (%) by company size – 2019

Source: InfoQRT ANIA



Results for the first quarter of 2020

The following section provides an account of some of the results for the first quarter of 2020, to better gauge the effects that the health emergency, and the economic and financial crisis that ensued, had on the current value of the securities held by insurers.

At the end of March 2020, total investments of the insurance industry, calculated at current value, were down by €50 billion (-5.2%) compared with the end of 2019. In particular, investments in respect of linked policies dropped from €178 billion at the end of December to €164 billion at the end of March, or by more than 8% in just three months. The remaining investments, mainly in respect of variable-yield policies, also contracted, albeit to a lesser extent (-4%). In detail, the current value of total Italian government securities came to €390 billion (-2.3% from €400 billion). The decline in the value of insurance industry investments in the first quarter of this year reflects the onset of the economic and financial crisis stemming from the spread of the Covid-19 infection, which resulted in a crash in stock indexes (the FTSE MIB index, for instance, plummeted by 35% in the quarter), as well as the increase in the spread between Italian and German government securities (in these three months, the spread between 10-year Italian and German government bonds widened significantly from 160 to 197 basis points).

Investments by type
Euro million

	mar-19	dec-19	mar-20	Change mar. 2020/dec. 2019
Investments net of assets in respect of linked contracts	710,176	766,709	732,605	-4.4%
Investments in respect of linked contracts	160,262	178,350	163,544	-8.3%
Total investments	870,438	945,059	896,149	-5.2%

As a direct consequence of this market turmoil, the two components of the solvency ratio, a key indicator to measure company solvency, decreased.

In particular, the SCR contracted by 4.1% from €59 billion at the end of 2019 to €56 billion at the end of March 2020. The decrease in eligible own funds was even more pronounced (-13.1%), from €137 billion to just over €119 billion at the end of March. This, in turn, led to a lower solvency ratio, which came down to 2.12 at the end of March 2020 (the same as in the first quarter of 2019), compared with 2.33 at the end of the previous year.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2019

Solvency ratio
Euro million

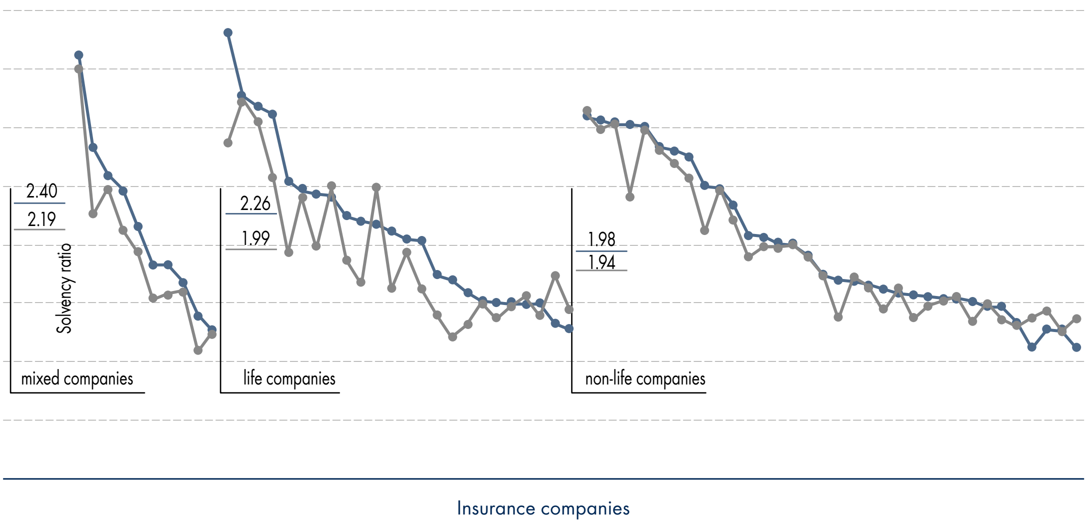
	mar-19	dec-19	mar-20	Change mar. 2020/dec. 2019
SCR	57,369	58,824	56,394	- 4.1%
Eligible own funds	122,034	137,327	119,367	- 13.1%
Solvency ratio	2.13	2.33	2.12	- 0.21 b.p.

The fall in the solvency ratio was much more pronounced for life insurance companies with larger quotas of fixed income securities in their portfolios, which therefore suffered more from the financial distress described earlier. In March 2020, the solvency ratio for these companies dropped to 1.99, from 2.26 at the end of 2019 (-27 b.p.). The impact on mixed companies was slightly milder (from 2.40 to 2.19 or -21 b.p.), whereas non-life insurance businesses were affected only slightly (from 1.98 to 1.94 or -4 b.p.).

Solvency ratio 2019 vs Q1 2020

Solvency ratio 2019

Solvency ratio Q1 2020



THE IMPACT OF TAXATION ON INSURANCE COMPANIES' FINANCIAL STATEMENTS

For many years now, Italian insurers have been subject to a series of ad hoc fiscal measures that have burdened the insurance industry exclusively. In particular, the measures described in this box have consisted in "special" levies or in increases in the tax rates applied to taxpayers in general.

On a preliminary basis, in 2019 the industry paid €2.6 billion in direct taxes.

Direct taxes

Tax period	Total taxes (Euro million)
2016	2,014
2017	1,806
2018	338
2019	2,566

The impact of the individual fiscal measures on the latest financial statements of insurance companies is estimated here below.

Higher IRAP rate

Since 2011 insurance companies have been subject to IRAP with a rate 2 percentage points higher than that applied to other industries (5.90% compared with 3.90%). This surcharge for insurance companies is also considerably more than that – this too ad hoc – for banks (which pay 4.65%).

In addition, under Article 16(3) of Legislative Decree 446/1997, most Regions (including Emilia Romagna, Lazio, Liguria, Lombardy, Piedmont, Tuscany and Veneto) have adopted a further 0.92% surcharge for companies operating in the insurance business, thus bringing the IRAP tax rate to 6.82%.

There is no theoretical or conceptual justification for the IRAP surcharge, given that insurance undertakings do not per se generate more taxable income from production than other business sectors.

It should be noted that the IRAP data surveyed were modified for the year 2019. In the three-year period 2016-2018 the analysis observed the amounts paid during the previous year, consisting in the balance due for year X-1 and payments on account for year X. Starting in 2019, instead, the data refer to the tax liability as calculated in the tax return filed for the previous year (2018 is the reference year for the 2019 IRAP tax declaration). So calculated, the amount of IRAP taxes paid by insurance companies was estimated at €240 million in 2019.

IRAP

Tax period	Estimated IRAP (million)	of which, amount corresponding to extra tax (2%) (Euro million) on insurance companies	"Total" tax rate (%)	of which: "standard" nat'l govt. tax rate (%)	of which: reg. govt. surcharge (%)
2016	344	101	6.82%	5.90%	0.92%
2017	348	102	6.82%	5.90%	0.92%
2018	325	95	6.82%	5.90%	0.92%
2019*	240	70	6.82%	5.90%	0.92%

(*) For the first time, the 2019 data refer to tax liability as calculated in the tax return filed for the previous year (2018 is the reference year for the 2019 IRAP tax declaration), whereas in the three-year period between 2016 and 2018 the analysis considered the amounts paid for IRAP during the previous year, consisting in payment of the balance due for year X-1 and payments on account for year X.

Tax on life insurance mathematical provisions

Since 2003, insurance companies have been subject to a tax on the stock of mathematical provisions against written life premiums.[3]

[3] Excluding reserves against policies for death or permanent disability for whatever cause, for non-self-sufficiency, or for pension funds or insurance contracts for retirement.

This is an advance payment on the tax that will be due on the income produced by the policy when the benefit is paid at maturity or partial or total reimbursement of the insured capital: the legislation (Article 1 of Legislative Decree 209/2002), in fact, establishes that such payment will give rise to a tax credit to be used to offset withholding and substitute tax liabilities on the taxable investment income when the policy starts to pay benefits.

In practice, this tax amounts to a non-interest-bearing compulsory loan from insurance companies to the Treasury, given that the companies must pay in advance taxes that would otherwise be due later, when the benefits are paid.

The rate of this tax has been modified numerous times over the years (mostly increasing). More in detail it was:

- 0.20% from 2003 to 2007
- 0.39% in 2008
- 0.35% from 2009 to 2011
- 0.50% in 2012
- 0.45% since 2013

Over the years, as a consequence of the increase in the tax rate on the one hand and the practically constant increase in mathematical provisions on the other, insurance companies have been confronted with the outright impossibility of recovering in full the amounts advanced to the Treasury. In an attempt to resolve this problem, an automatic tax credit recovery system had been implemented whenever the taxes paid on policy yields for the year were lower than the taxes paid in the previous five-year period. In this case, the difference may be offset, with no cap, with other tax or social security contribution liabilities or, alternatively, ceded to other companies within a group.

This mechanism, too, however, has proven practically incapable of ensuring full recovery of the amounts advanced to the Treasury as tax on mathematical provisions.

To this end, Law 228/2012 (the so-called stability law) introduced an automatic cap in order to limit the amount due in the year where tax credits yet to be recovered exceed a given percentage of the mathematical provisions (1.9% in 2019). Despite this corrective mechanism, at the end of 2019 the industry's unused tax credit still amounted to nearly €9.4 billion, having increased steadily over the years. More specifically, this is a tax credit less than five years old, since tax credits accumulated previous to that can be offset by other taxes or social security contributions (or else transferred to other companies in the same group).

Credits on advance payment of tax on life insurance reserves

Tax period	Estimated tax credit not recovered as at 31 December (Euro million)	Annual change
2016	7,917	977
2017	8,274	357
2018	9,086	813
2019	9,351	265

2

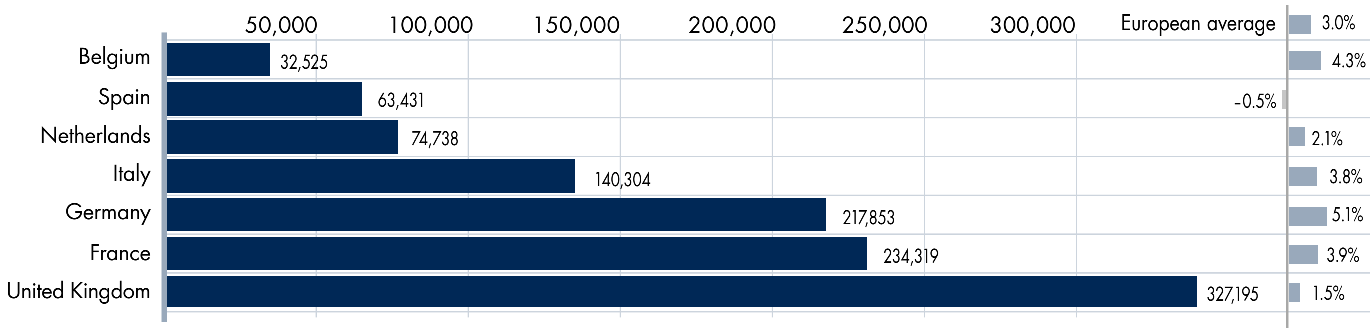
THE ITALIAN INSURANCE INDUSTRY IN THE EUROPEAN CONTEXT

THE IMPORTANCE OF INSURANCE IN THE MAIN EU MARKETS

In 2019, overall premium income in the main EU countries (Belgium, France, Germany, Italy, the Netherlands, the United Kingdom and Spain) was €1,090 billion, up by 3.0% on 2018. In detail, apart from a small drop in Spain (-0.5%), premium income increased across the board: Germany (+5.1%), Belgium (+4.3%), France (+3.9%), Italy (+3.8%), the Netherlands (+2.1%) and the United Kingdom (+1.5%).

Direct premiums in the main EU countries in 2019 – Total
€ million

% change in direct premiums 2019/2018 – Total

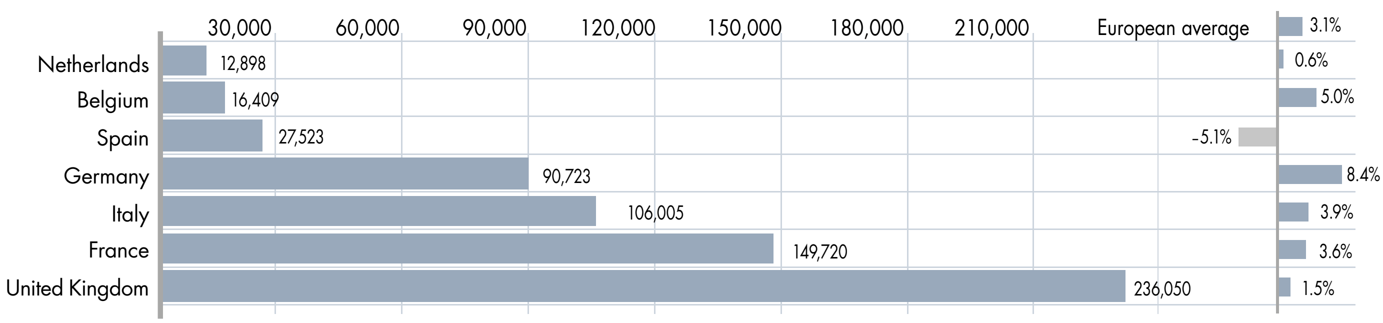


Source: Swiss Re - Sigma n. 3/2020

The volume of life premiums in the countries of the sample, amounting to €639 billion in 2019, rose by 3.1% from the previous year. In particular, the growth was driven by the volume of premiums in Germany (+8.4%), Belgium (+5.0%), Italy (+3.9%), France (+3.6%) and the United Kingdom (+1.5%). Premium income was virtually unchanged in the Netherlands (+0.6%), and shrank in Spain (-5.1%).

Direct premiums in the main EU countries in 2019 – Life
€ million

% change in direct premiums 2019/2018 – Life

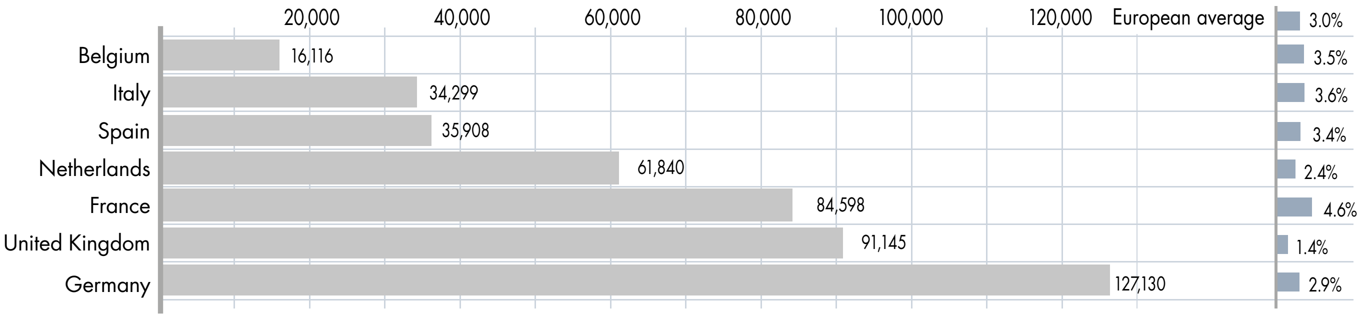


Source: Swiss Re - Sigma n°3/2020

The volume of premiums increased also in the non-life sector, to €451 billion, up 3.0% over 2018, thanks to an increase in premium income across all EU markets in the sample. In detail, the yearly increase came to 4.6% in France, 3.6% in Italy, 3.5% in Belgium, 3.4% in Spain, 2.9% in Germany, 2.4% in the Netherlands and 1.4% in the United Kingdom.

Direct premiums in the main EU countries in 2019 – Non-life
€ million

% change in direct premiums 2019/2018 – Non-life

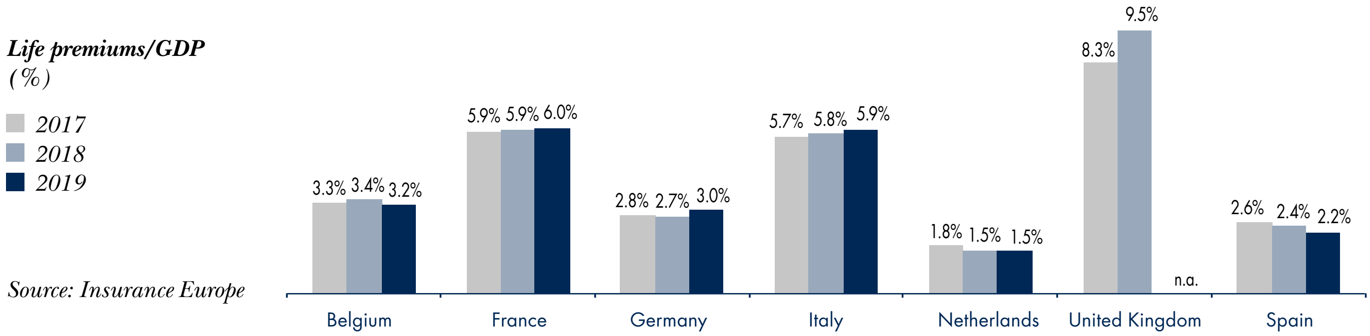


Source: Swiss Re - Sigma n°3/2020

In the three years from 2017 through 2019 the ratio of the volume of premiums to GDP – the so-called insurance penetration index – performed differently in the life and non-life sectors. It is to be noted that the data for 2019 provided by Insurance Europe are still provisional and in some cases consist in estimates based on data from national insurance associations.

As for the ratio of life premiums to GDP, the indicator in 2019 increased slightly in France, from 5.9% in 2017-2018 to 6.0%, and in Italy, from 5.8% in 2018 to 5.9% (it was 5.7% in 2017). The ratio also grew in Germany from 2.7% in 2018 to 3.0% in 2019 (it was 2.8% in 2017). The United Kingdom showed a similar trend between 2017 and 2018 (the last two years available), going up from 8.3% to 9.5%, showing once again the highest index among the countries analyzed. In the Netherlands, the ratio was unchanged in the last two years (1.5%), but down from 1.8% in 2017. In Belgium, after slight growth between 2017 and 2018 from 3.3% to 3.4%, the ratio dropped to 3.2% last year. In Spain, the ratio continued its downtrend, from 2.6% in 2017 to 2.2% in 2019.

Life premiums/GDP
(%)



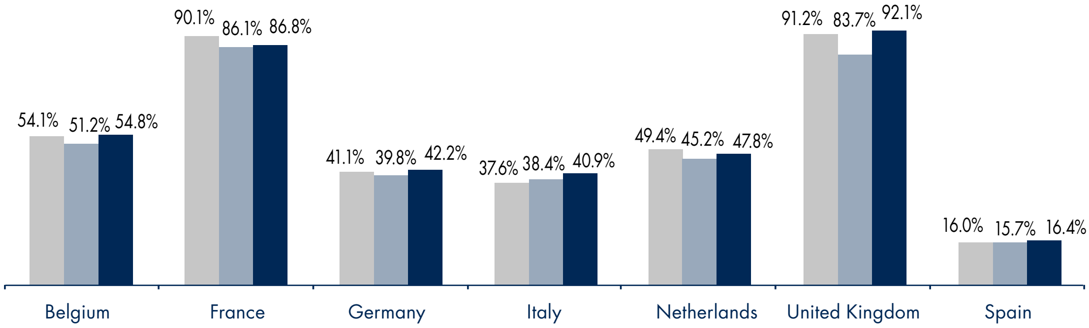
Source: Insurance Europe

In Italy the ratio of mathematical provisions to GDP – an indicator that can proxy for the degree of maturity of the life insurance market – showed a steady increase in the three-year observation period from 37.6% in 2017 to 38.4% in 2018 and 40.9% last year. However, Italy's index is still lower than those of most of the other European countries, although more than twice as high as that of Spain, which was 16.4% in 2019, increasing from 15.7% in 2018 (after dropping from 16.0% in 2017). After a decrease of the indicator in 2018, in the other countries analyzed there was an increase in 2019, especially in Belgium, from 51.2% to 54.8%; France, from 86.1% to 86.8%; Germany from 39.8% to 42.2%; the Netherlands, from 45.2% to 47.8%; and the United Kingdom, from 83.7% to 92.1%, the highest value in the countries considered.

Life mathematical provisions/GDP
%

2017
2018
2019

Source: EIOPA

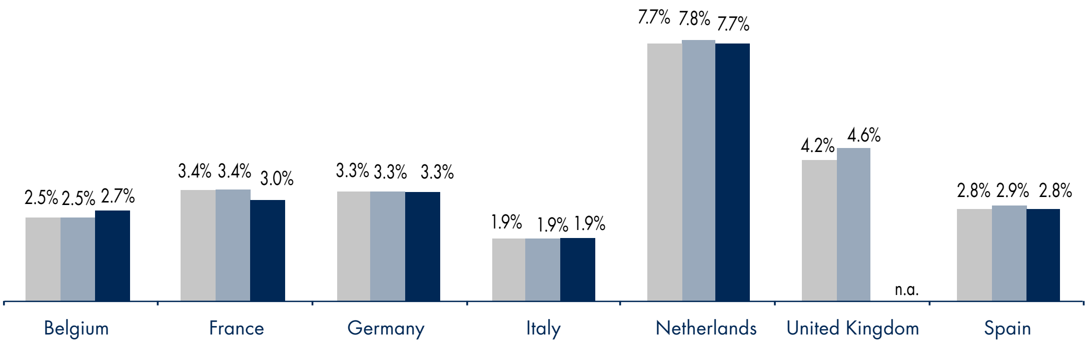


In the non-life sector, again in 2019 Italy had the lowest ratio of premiums to GDP. The Italian ratio is unchanged in the three-year observation period, at just 1.9%. The index remained unchanged also in Germany (3.3%) in the 2017-2019 three-year period. In Spain and the Netherlands, the ratio dropped marginally from 2018 to match the 2017 data: respectively, 2.8% (from 2.9% in 2018) and 7.7% (from 7.8% in 2018). The Netherlands' non-life insurance penetration index is once again the highest in Europe and 6 percentage points above the Italian indicator, reflecting the positive impact on premium collection of the privatization of the healthcare system in 2006. The ratio improved in Belgium from 2.5% in 2017-2018 to 2.7% in 2019 and in the UK from 4.2% in 2017 to 4.6% in 2018 (the last years available).

Non-life premiums/GDP
(%)

2017
2018
2019

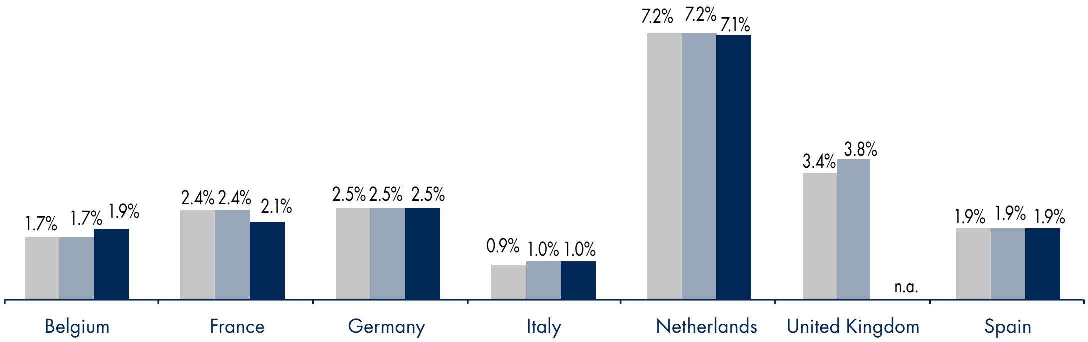
Source: Insurance Europe



If motor liability insurance (compulsory everywhere) is excluded, the gap in non-life premiums between Italy and the other European countries is even wider. In 2019 the ratio of these premiums to GDP came to 1.0% in Italy, unchanged from 2018 and up from 0.9% in 2017, while in Belgium and Spain the ratio was almost double Italy's (1.9%, growing from 1.7% in 2017-2018 in Belgium). In France, after 2.4% in 2017-2018, the indicator went down to 2.1% in 2019. It performed slightly better in Germany, 2.5% over the three-year observation period, and in the United Kingdom (from 3.4% in 2017 to 3.8% in 2018 – the last two years available). The highest value of the index was registered in the Netherlands (7.1% in 2019).

Non-life net of motor liability premiums/GDP *(%)*

2017
2018
2019



Source: Insurance Europe

THE TAXATION OF PREMIUMS IN THE EUROPEAN UNION

The year 2019 displays a broadly unchanged pattern of premium taxation in the EU countries. Confirming the situation of the last few years, Italy again stands out for its significantly higher tax rates on insurance.

The situation is summarized in the charts below, which specify the tax rates applied to insurance premiums in the various EU countries for motor liability, fire, general liability and goods in transit.

In the motor liability branch the average total tax rate on premiums in Italy is still 26.2%, the result of the 15.7% average tax rate on insurance plus social contribution charges of 10.5%. The 15.7% value is the average de facto rate applied at local level throughout Italy inclusive of the local increases up to a ceiling of 16%, decided by almost all Italian provinces, to which the tax revenue is allocated.The latest data from the Fiscal Federalism Bureau of the Finance Department confirms that, indeed, only three Italian provinces – the three special statute provinces – kept the tax rate below the 12.5% basic rate in 2018; all the other provinces have raised the rate, in most cases up to the ceiling of 16%.

The average tax rate on motor liability premiums in the EU was 19.7%, considerably lower than the total tax levy in Italy. The tax burden in Italy thus remained higher than the average and higher than in Spain (7.65%), Austria

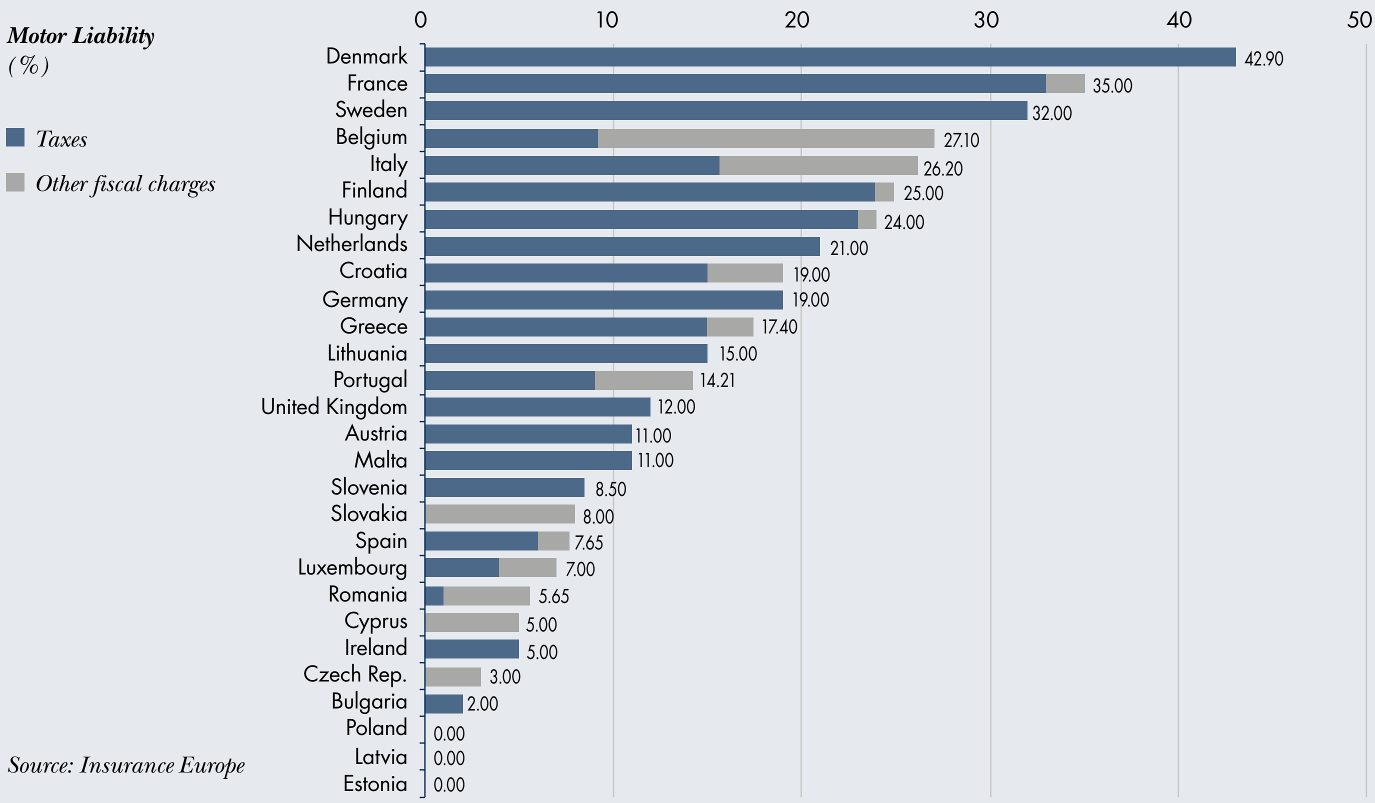
(11%), and the United Kingdom (12%). In the Netherlands the tax rate is confirmed to be slightly above average (21%), while in France the overall charge is far above the average at 35%.

The tax rate on fire insurance premiums in Italy (22.25%) continues to be significantly higher than in Spain, the United Kingdom and Austria (11.15%, 12% and 15% respectively) and exceeded only in France (30%) and Finland (27%).

Italy and Finland are confirmed as the countries with the most onerous tax burden in Europe for general third-party liability (22.25% and 24% respectively), consistently higher than in Germany (19%), the United Kingdom (12%), France (9%) and Spain (6.15%).

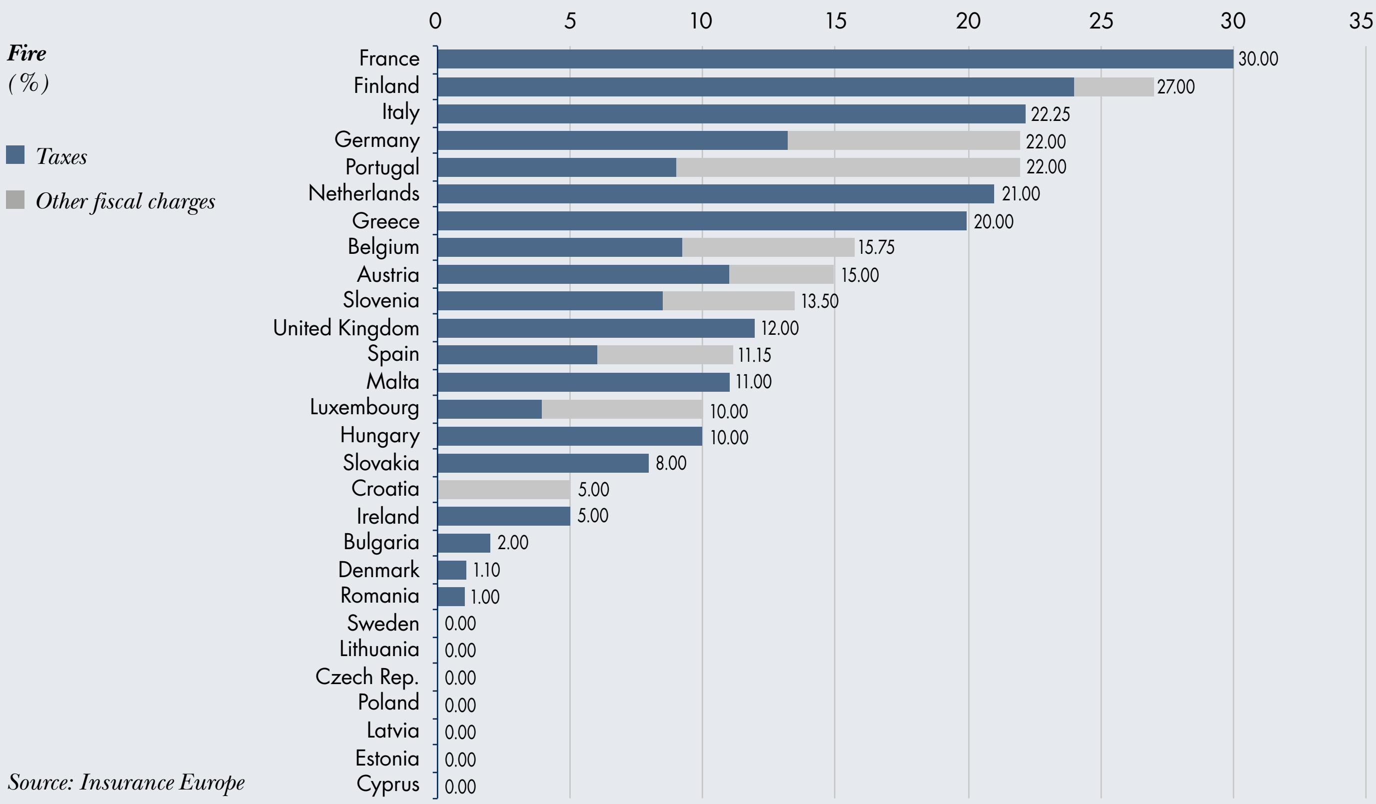
There were no changes last year in Italy in the indirect taxation of shipping insurance premiums, taxed at 7.5% for goods transported by sea or air and at 12.5% for those shipped overland. The European countries with the highest tax rates in this sector are, once again, Finland (24%), Germany (19%) and Austria (11%). The United Kingdom kept its rate at 12%, while in France and most of the other countries such premiums are either exempt or taxed at an almost zero rate.

Motor Liability
(%)



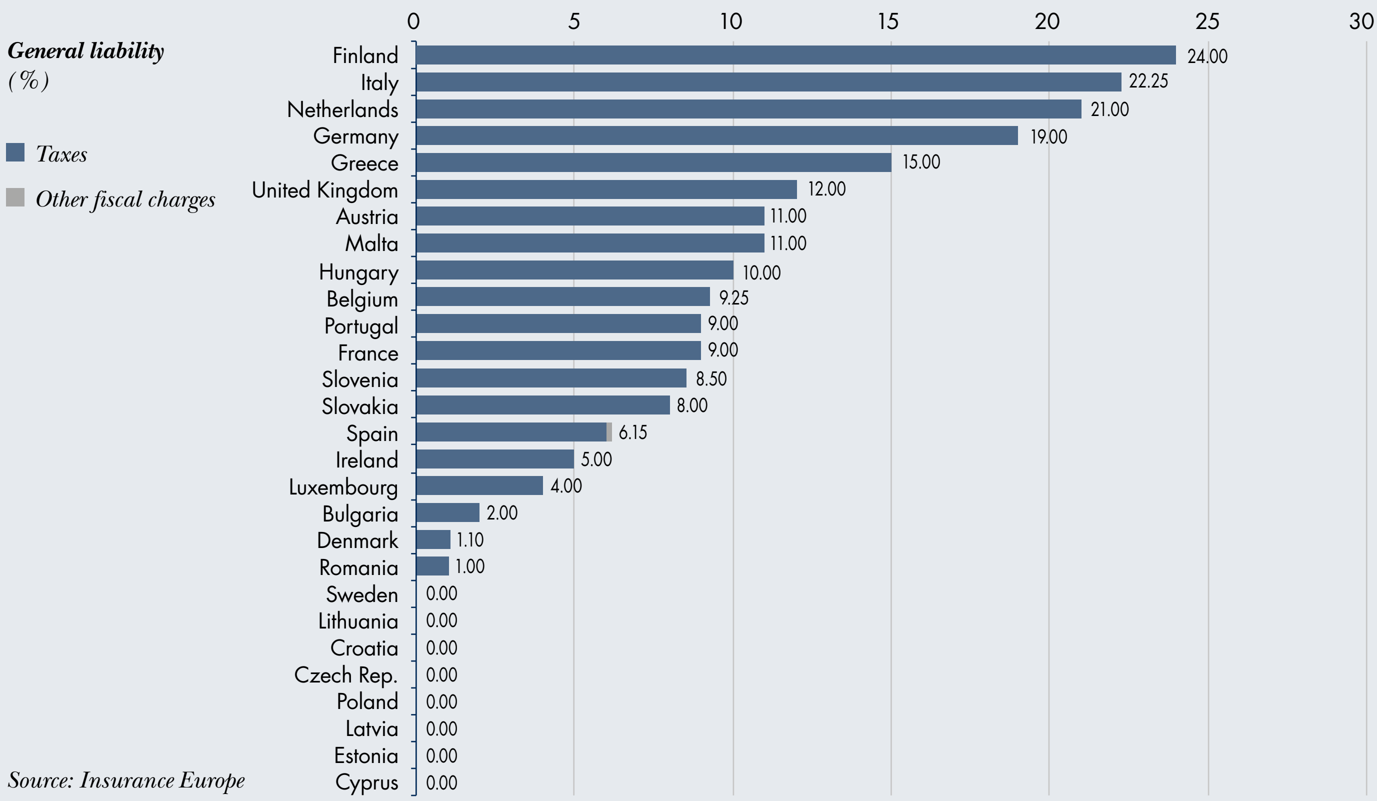
Source: Insurance Europe

Fire
(%)



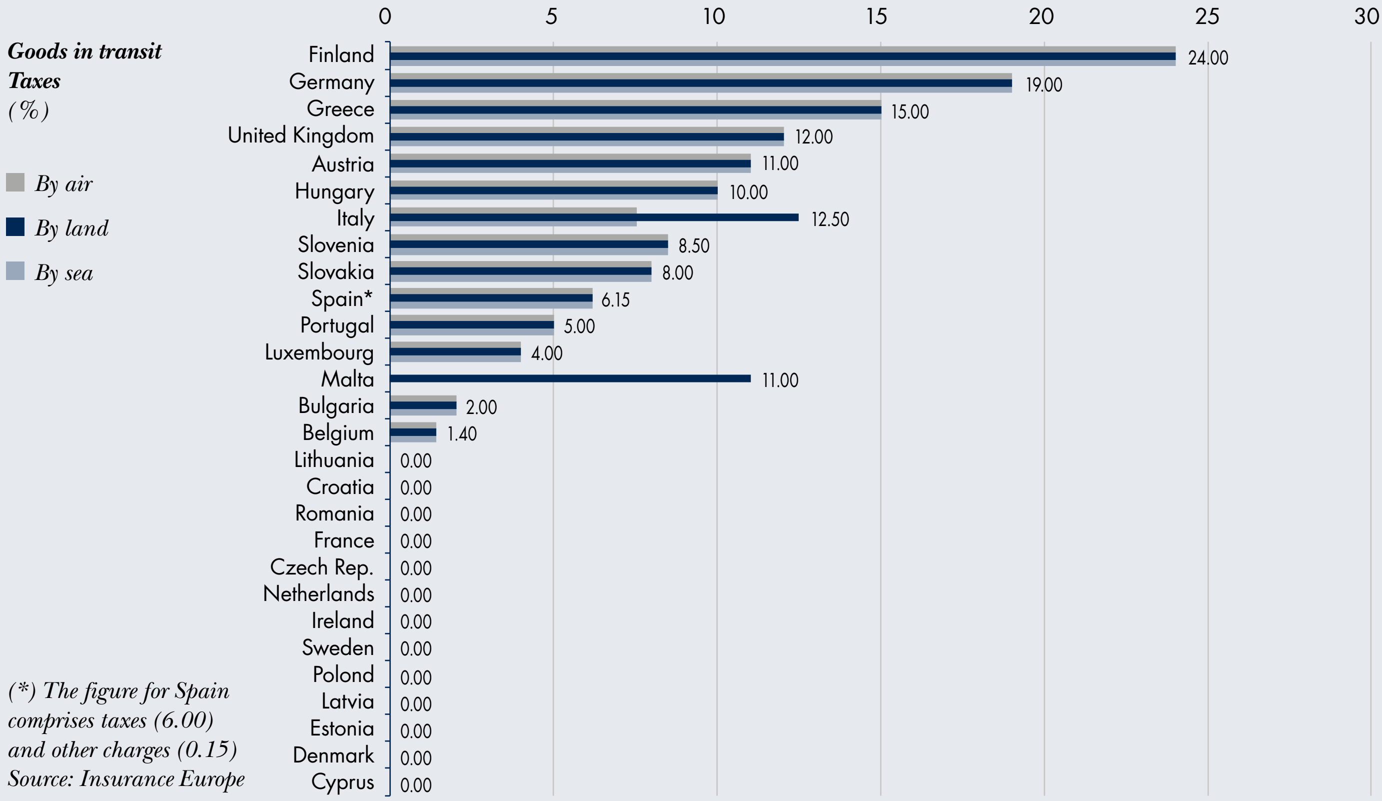
Source: Insurance Europe

General liability
(%)



Source: Insurance Europe

Goods in transit Taxes
(%)



(*) The figure for Spain comprises taxes (6.00) and other charges (0.15)
Source: Insurance Europe

INVESTMENTS AND SOLVENCY IN EUROPE

Investments

An analysis of the composition of the assets covering technical reserves (net of linked policies) in the main insurance markets in Europe shows a rather heterogeneous picture, similar to 2018.

The analysis, based on data published by EIOPA in May 2019 on the Quantitative Reporting Templates (QRTs) for the fourth quarter of 2019, focuses on Italy, France, Germany, Spain, the Netherlands and the United Kingdom.

Fixed income securities are the main investment instrument across all markets, albeit with different proportions of exposure between corporate and government bonds.

The concentration of government securities in the six countries averaged 25% on 31 December 2019. In Italy, the concentration of the portfolio on government securities, despite the progressive disinvestment of the past few years, is still more pronounced than in the other countries examined, lower only than Spain (42.2% and 51.6% respectively). The investment share of this category of assets was 21.5% in France, 14.1% in the United Kingdom, 11.5% in the Netherlands, and only 7.6% in Germany. The share of foreign government securities was especially large in the Netherlands (37.7%), and smaller in other countries (12.1% in France, 11.3% in Germany, 10.0% in Italy, 9.5% in Spain and 2.8% in the United Kingdom).

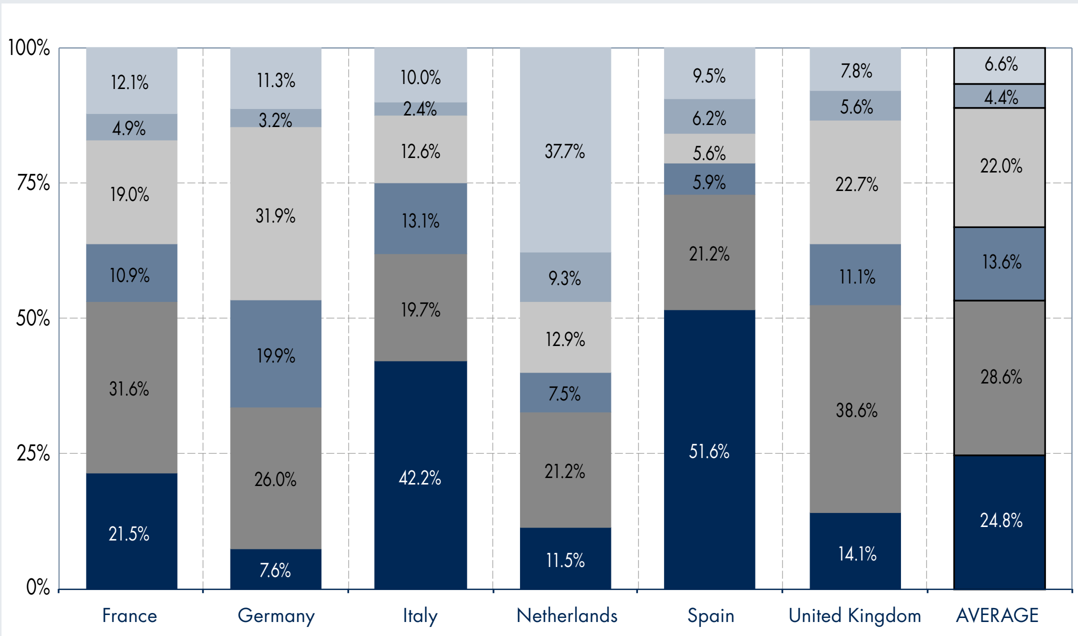
The average exposure of the European sample to corporate bonds was around 30%. British companies were the leading investors in this asset class (38.6%), followed by French and German companies (31.6% and 26.0% respectively). The share of this asset class in the portfolio of Italian, Dutch and Spanish insurers was lower, at around 20%.

The main asset class in the portfolio of German insurers, higher than the average of the six countries, was investment funds (31.9%, mainly in bond funds); the share was high also in the United Kingdom (22.7%) and France (19.0%), in both cases distributed among money market, bond, and equity funds.

As for equity instruments, which averaged 15% of total investments including the shares of affiliates, the largest portion was that of German insurers (19.9%), followed by Italian (13.1%), British (11.1%), French (10.9%), Dutch (7.5%), and Spanish (5.9%).

Figure 1
Investments of European insurance companies
Data at 31/12/2019

- *Domestic government securities*
- *Corporate bonds*
- *Shares and other equities*
- *Investment funds*
- *Other*
- *Foreign government securities*



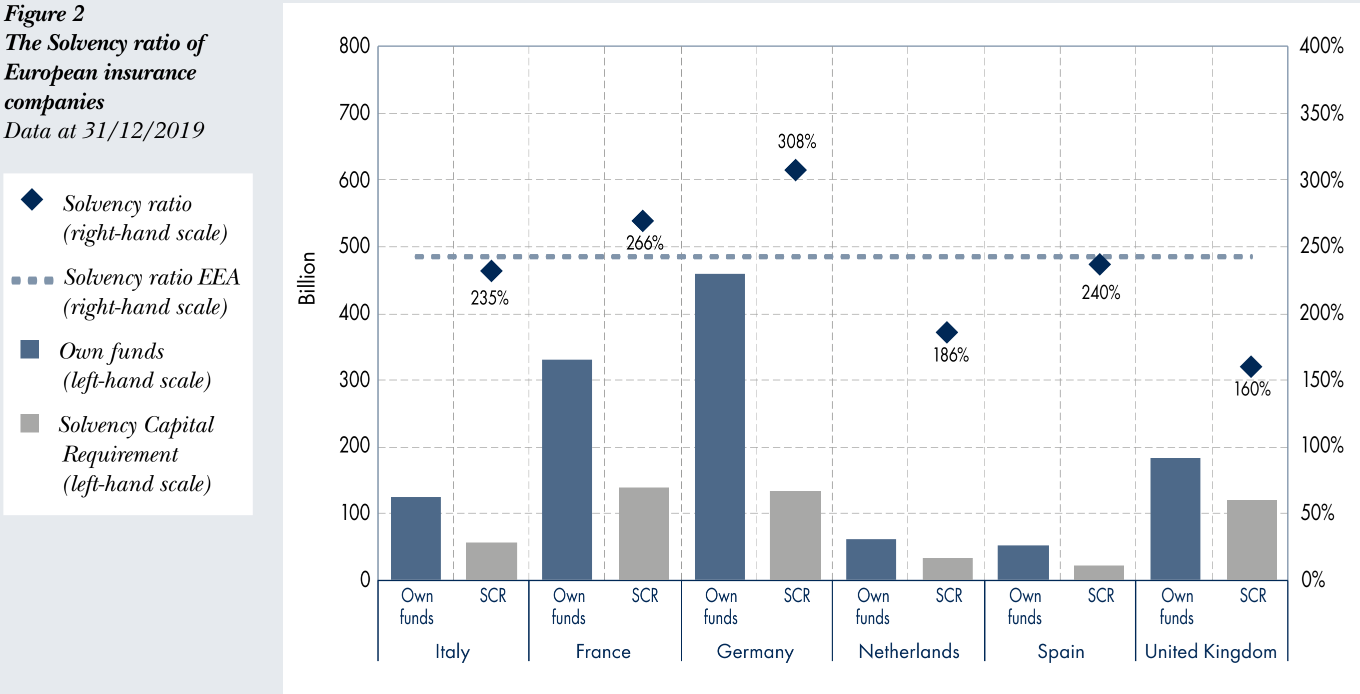
Note: Other investment comprises Structured bonds, Guaranteed securities, Cash and deposits, Mortgages and loans, Real estate.
Source: ANIA Elaborations based on data from EIOPA, Insurance statistics

Solvency

At 31 December 2019, the solvency ratio of insurance companies in the European Economic Area (EEA) averaged 2.42, practically unchanged from a year earlier.

As for the individual countries, the indicator was in line with the European average in Italy and Spain, where own funds amounted respectively to 2.35 and 2.40 times the solvency capital requirement (2.24 and 2.39 in 2018). Dutch and British companies showed values below the EEA average at 1.86 and 1.60 respectively (compared with 1.96 and 1.53 in 2018), while German companies again registered a significantly higher ratio of 3.08, albeit down from the previous year (3.47).

Figure 2
The Solvency ratio of European insurance companies
Data at 31/12/2019



Note: EEA (European Economic Area) consists of EU member states plus Liechtenstein, Norway and Iceland. Source: ANIA Elaborations based on data from EIOPA, Insurance statistics

3

LIFE INSURANCE

LIFE INSURANCE

In 2019, the volume of premiums in life business amounted to €106.0 billion, up by 3.9%, with growth very close to that observed in 2018. This figure was achieved due to the growth of Class I premiums, more than offsetting the drop in Class III premiums. The growth rates of total expenditures (incurred claims) and of premiums were comparable (+4.0%), achieving a €30 billion net cash flow, slightly larger than the previous year. The increase in the absolute variation of mathematical provisions more than doubled as compared with 2018, regaining the 2014-2015 level exceeding €50 billion. Financial income increased very significantly, from scarcely €800 million in 2018 to €34 billion in 2019 (mainly due to the revaluation of the assets backing unit-linked policies), thus determining a marked growth in the overall technical balance (€6.3 billion, +€5.5 billion as compared with 2018).

DOMESTIC BUSINESS

Premiums from direct domestic business of the 46 insurance companies operating in the life sector totaled €106,005 million in 2019, up 3.9%, outpacing the 3.5% gain of the previous year. 85% of premiums was generated by the issuance of new contracts or by additional single premiums on existing policies. Percentage-wise, in 2019 life premiums amounted to more than three quarters of the total (life and non-life), about the same as in the previous two-year period.

Total life classes (domestic business)
Euro million

Account item	2011	2012	2013	2014	2015	2016	2017	2018	2019
Premium income	73,869	69,715	85,100	110,518	114,947	102,252	98,611	102,048	106,005
Incurred claims (-)	73,971	75,022	66,788	64,577	71,196	62,932	71,155	73,223	76,153
Changes in mathematical and other technical provisions (-)	2,547	10,013	29,928	59,967	53,023	48,448	38,428	24,937	53,414
Balance of other technical items	- 177	- 222	- 325	- 381	- 378	- 328	- 370	- 330	- 373
Operating expenses (-)	3,832	3,367	3,538	3,812	3,974	3,842	3,920	3,901	3,947
– Commissions	2,205	1,788	1,982	2,206	2,349	2,181	2,240	2,203	2,168
– Other policy acquisition costs	709	681	683	686	701	686	671	667	740
– Other administration costs	918	898	874	921	924	975	1,009	1,030	1,039
Investment income	3,019	25,382	18,409	20,588	15,976	16,611	18,181	825	34,013
Direct technical account result	**- 3,639**	**6,473**	**2,929**	**2,369**	**2,352**	**3,313**	**2,919**	**483**	**6,130**
Reinsurance results and other items	268	388	369	383	315	289	294	257	168
Overall technical account result	**- 3,371**	**6,861**	**3,298**	**2,752**	**2,667**	**3,602**	**3,213**	**739**	**6,298**
Net cash flow	**- 102**	**- 5,306**	**18,312**	**45,941**	**43,751**	**39,320**	**27,456**	**28,825**	**29,851**
Annual % change in premiums	- 18.0%	- 5.5%	22.1%	29.9%	4.0%	- 11.0%	- 3.6%	3.5%	3.9%
Expense ratio	5.2%	4.8%	4.2%	3.4%	3.5%	3.8%	4.0%	3.8%	3.7%
– Commissions / Written premiums	3.0%	2.6%	2.3%	2.0%	2.0%	2.1%	2.3%	2.2%	2.0%
– Other acquisition costs / Written premiums	1.0%	1.0%	0.8%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%
– Other administration costs / Written premiums	1.2%	1.2%	1.0%	0.8%	0.8%	1.0%	1.0%	1.0%	1.0%
Investment income / Technical provisions	0.7%	6.1%	4.2%	4.3%	3.0%	2.8%	2.9%	0.1%	4.8%
Technical account result/Written premiums	**- 4.9%**	**9.3%**	**3.4%**	**2.1%**	**2.0%**	**3.2%**	**3.0%**	**0.5%**	**5.8%**
Overall technical account result / Written premiums	**- 4.6%**	**9.8%**	**3.9%**	**2.5%**	**2.3%**	**3.5%**	**3.3%**	**0.7%**	**5.9%**
Overall technical account result / Technical provisions	**- 0.82%**	**1.64%**	**0.75%**	**0.57%**	**0.49%**	**0.61%**	**0.51%**	**0.11%**	**0.89%**
Premiums / total life and non-life premiums (%)	*67.0%*	*66.3%*	*71.6%*	*77.1%*	*78.2%*	*76.2%*	*75.3%*	*75.5%*	*75.6%*

Indexes and changes (%) are calculated on data in thousands of euros

LIFE INSURANCE

The growth of life business in 2019 confirmed the previous year's positive trend. This gain was driven by profit-sharing products; Class I premiums reached nearly 70% of total life business as compared with the average of 65% in the previous two-year period, more than offsetting the drop in Class III premiums. This pattern stemmed, given the context of uncertainty in financial markets, from policyholders' search for safer investments.

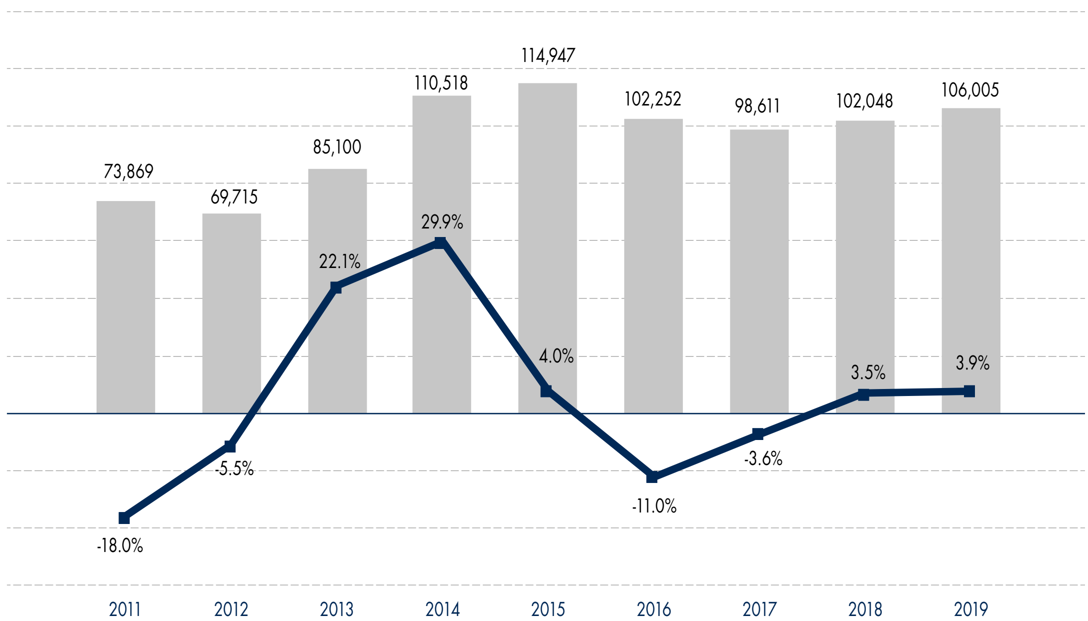
The strong development of multi-class products continued in 2019. Their premiums are partly invested in segregated funds and partly in unit-linked products, which are marked by diversified asset allocation. These products increased their share of overall life business to 35% in 2019 (from 30% in 2017 and just 20% in 2015-2016), against a volume of written premiums amounting to €37 billion (+18.4% from 2018), 70% of which is produced by bank and post office branches (+32.1%). More in detail, 63% is accounted for by Class I premiums (+31.0% from 2018), six percentage points more than the previous year; only in 2017 were Class I and Class III premiums evenly distributed; therefore Class III premiums came to 37% in 2019 (+1.8% from the previous year).

The development of long-term Individual Savings Plans (*Piani Individuali di Risparmio*, PIR: instituted by Law 232/2016, the 2017 budget law), characterized by the tax exemption of yields when they meet specified conditions for investment in the real economy, was unfortunately affected by later provisions, bringing the market for these products to a halt already by the final months of 2018 and for the whole following year.

Total direct premiums (Life)
Euro million

Premiums (right-hand scale)

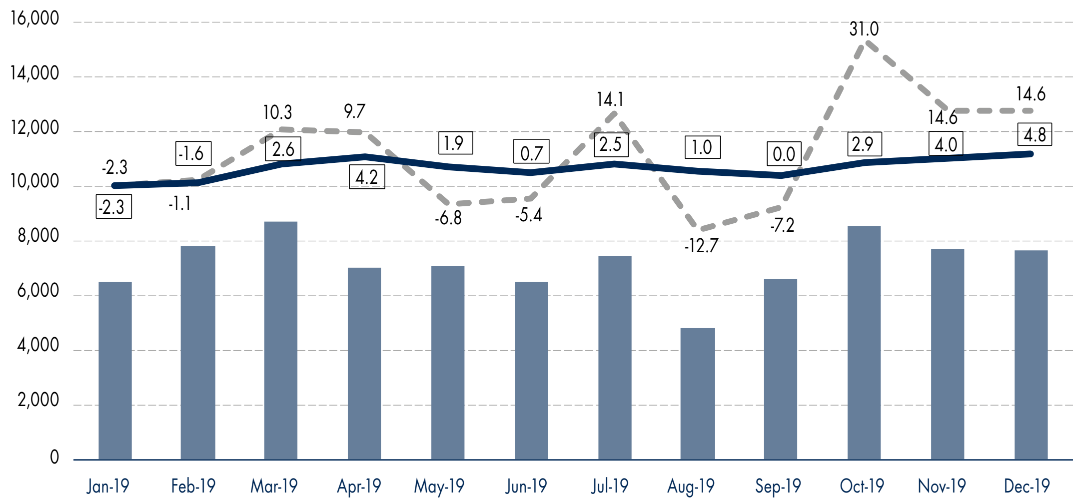
Growth rate (annual % variation)



The trend in life product sales in 2019 is also seen in the monthly values of new business (individual policies) issued by Italian and non-EU companies, constituting the bulk of overall premiums. In detail, Class I premiums went up almost every month, consolidating end-year growth of 12.8%. The variation in Class V premiums (capital redemption policies) was positive, closing the year with a growth of 6.8% from 2018, after a series of ups and downs in the first half of the year. Class III premiums, instead, after recording significant declines in all of the first eight months (for an aggregate drop of 26.1% through August compared with the same period in 2018), suddenly turned up with successive gains over in the following months, nevertheless recording an overall contraction of 11.3% for the year. Total new life business, also including group policies, amounted in 2019 to around €90 billion, growth of 5.4% against 2018. Among the distribution channels, the growth of new premiums is mostly due to the bank and post office channel (+3.6%) and insurance company agencies (+21.7%), offsetting the drop registered by authorized financial salesmen (-2.4%).

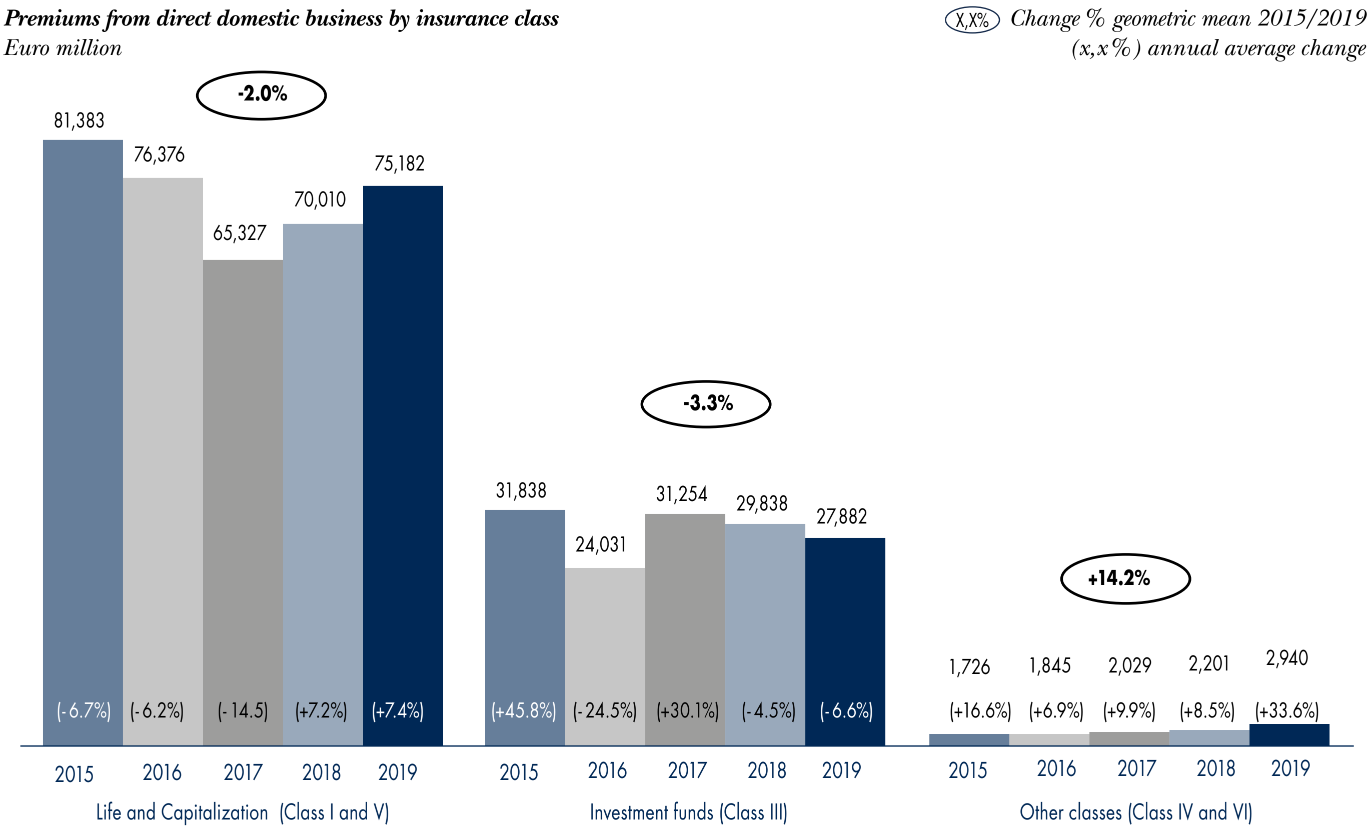
Life premiums from new business - Year 2019 Individual policies
Euro million

Premiums
Change % month/month
Cumulative % change



Analyzing the trends of **written premiums** of each class, in 2019 there was an annual increase of 7.4% in Class I and V, confirming the positive trend observed in the previous year (+7.2%), with premium collection exceeding €75 billion (the average change over the last five-year period in these classes has been negative by 2.0%). In 2019, these premiums accounted for 71% of the entire life portfolio (69% in the previous year), 97% of which consists in Class I policies (a 9.7% rise as compared with 2018) and the other 3% related to Class V policies (dropping by 32.9%). The rise in Class I policies is mostly ascribable to bank and post office branches, which placed around 64% of those policies, an increase of 9.2% over the previous year.

Premiums from direct domestic business by insurance class
Euro million



The trend in Class III premiums (investment funds or index-linked), by contrast, was negative for the second consecutive year, collecting a total of around €28 billion in 2019, a further shrinkage of 6.6% after the previous year's loss of 4.5%. In 2019, those products represented 26% of the total life business, three percentage points less than in 2018. The average annual change over the last five years comes to -3.3%, a severe deterioration from the 8.1% annual growth recorded in the previous five-year period. Premium collection in 2019 was mostly due to the work of bank and post office branches, which achieved a market share of 60% of the whole Class III portfolio, even while dropping by 8.1% as compared to 2018. Almost all the rest of Class III policies (27%) was marketed by authorized financial salesmen, whose premium sales declined by 4.2%.

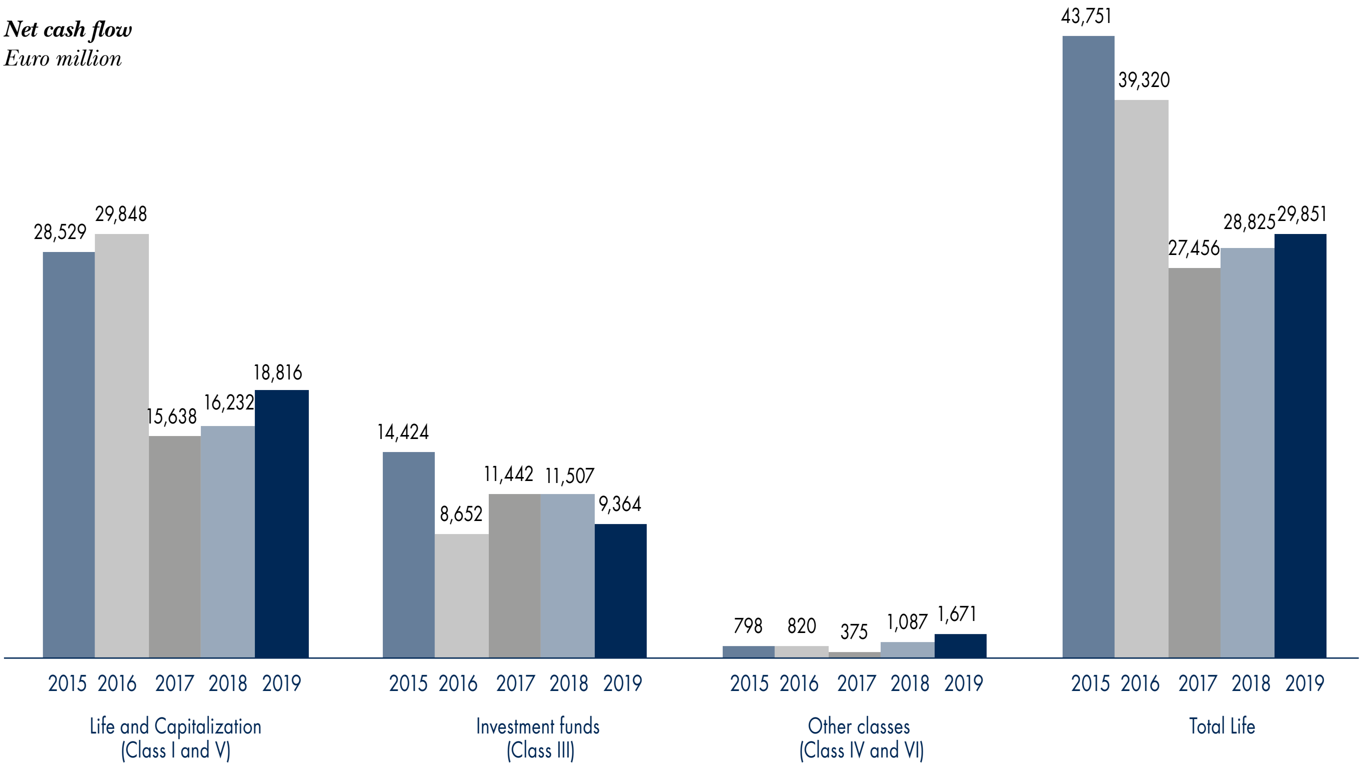
On the other hand, the trend of the premiums related to other life policies (Class IV and VI) was positive. In 2019, the two classes recorded an expansion (+33.6%), and their total premium volume rose to €2,940 million, 3% of all life insurance premium income. The average annual change over the last five years amounted to +14.2%, almost four percentage points more than in the previous five years. In detail, €149 million related to long-term care and protracted illness policies (Class IV), up 36.2% as compared to 2018 (mostly thanks to the premiums marketed by brokers and agents), while the remaining €2,791 million refers to the management of pension funds (Class VI), with a 33.5% increase as compared to the previous year (thanks to direct sales and marketing through bank and post office branches).

Incurred claims, defined as amounts paid and the changes in provisions against payable amounts net of recoveries, amounting to €76,153 million in 2019, rose by 4.0% from 2018, despite a 7% drop in surrenders or divestments, which came to 55% of total expenses.

On the whole, the **net cash flow**, defined as the difference between premiums and incurred claims, was positive, amounting to €29,851 million, growing for the second consecutive year by 3.6% from 2018, but remaining far less than in 2014-2016, when the lowest net cash flow was around €40-45 billion. In 2019, the balance for multi-class products amounted to €25,663 million, 66% of which relating to Class I policies (56% in 2018), up by 15.9% from the net flow observed in 2018 and by 23.3% as compared with 2017.

In detail, the net cash flow for Class I and V products totaled €18,816 million, growing by 15.9% from 2018 when there was a more moderate increase (+3.8%). As for Class III, due to the shrinkage in premiums, the net cash flow was down 18.6% compared with 2018, for an amount of €9,364 million. Even though the volumes are still very small, the net cash flow achieved in the other life classes (Class IV and Class VI) topped the €1.5 million threshold, the highest amount in this five-year period.

Net cash flow
Euro million

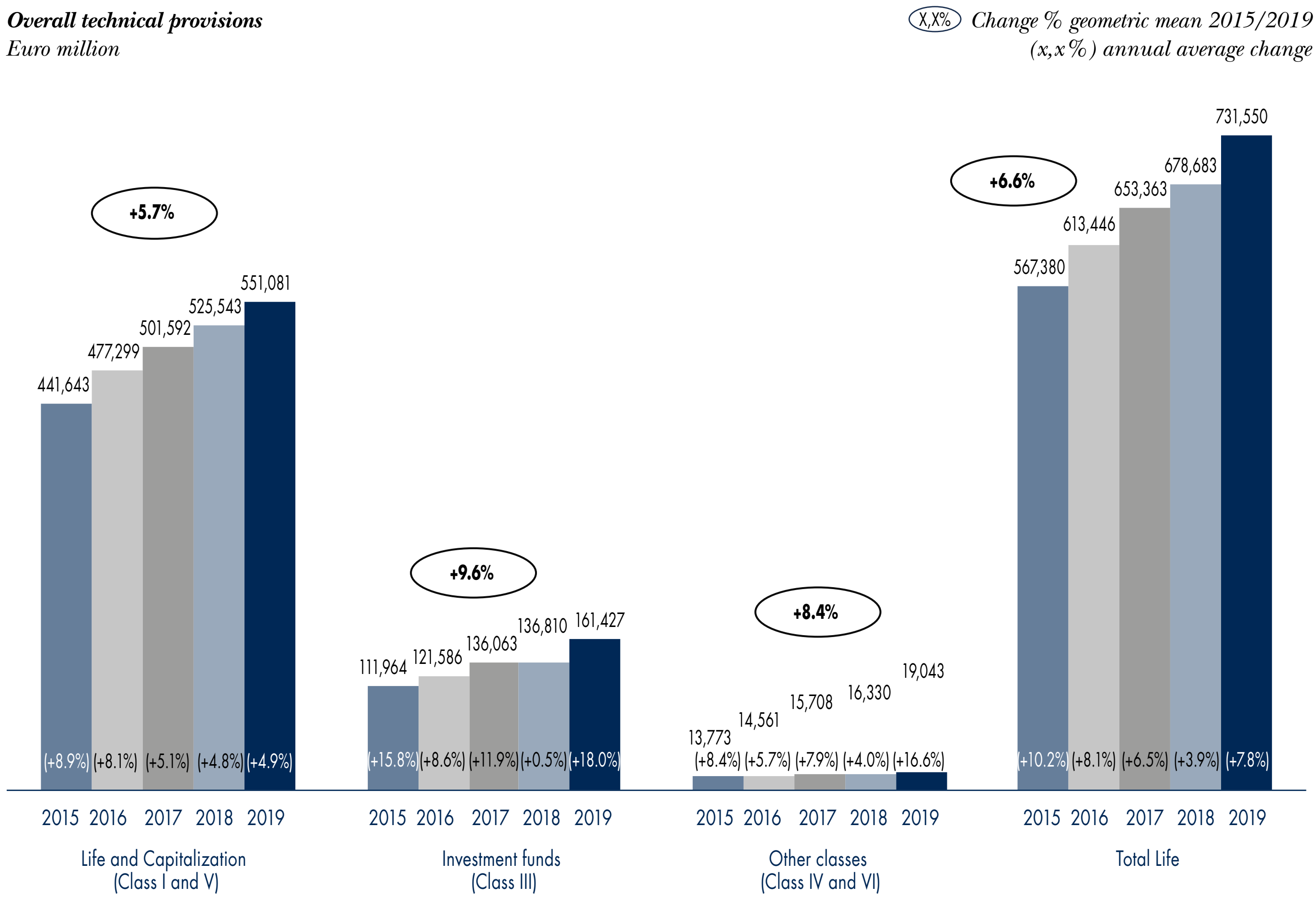


In 2019, the **change in the mathematical reserves and diverse technical provisions** amounted to €53,414 million, more than doubling the 2018 figure, owing mainly to the performance of Class III products, which jumped from scarcely €500 million in 2018 to nearly €25 billion.

Overall technical provisions, amounting to €731,550 million, rose by 7.8% from 2018, reversing the progressive slowdown in growth between 2015 and 2018. At the end of 2019, the technical provisions related to multi-class contracts slightly exceeded €140 billion (19% of total life provisions), up by 27% from 2018; 60% of this relates to Class I products (+26% from 2018), while Class III represented 40% (with a 29% increase).

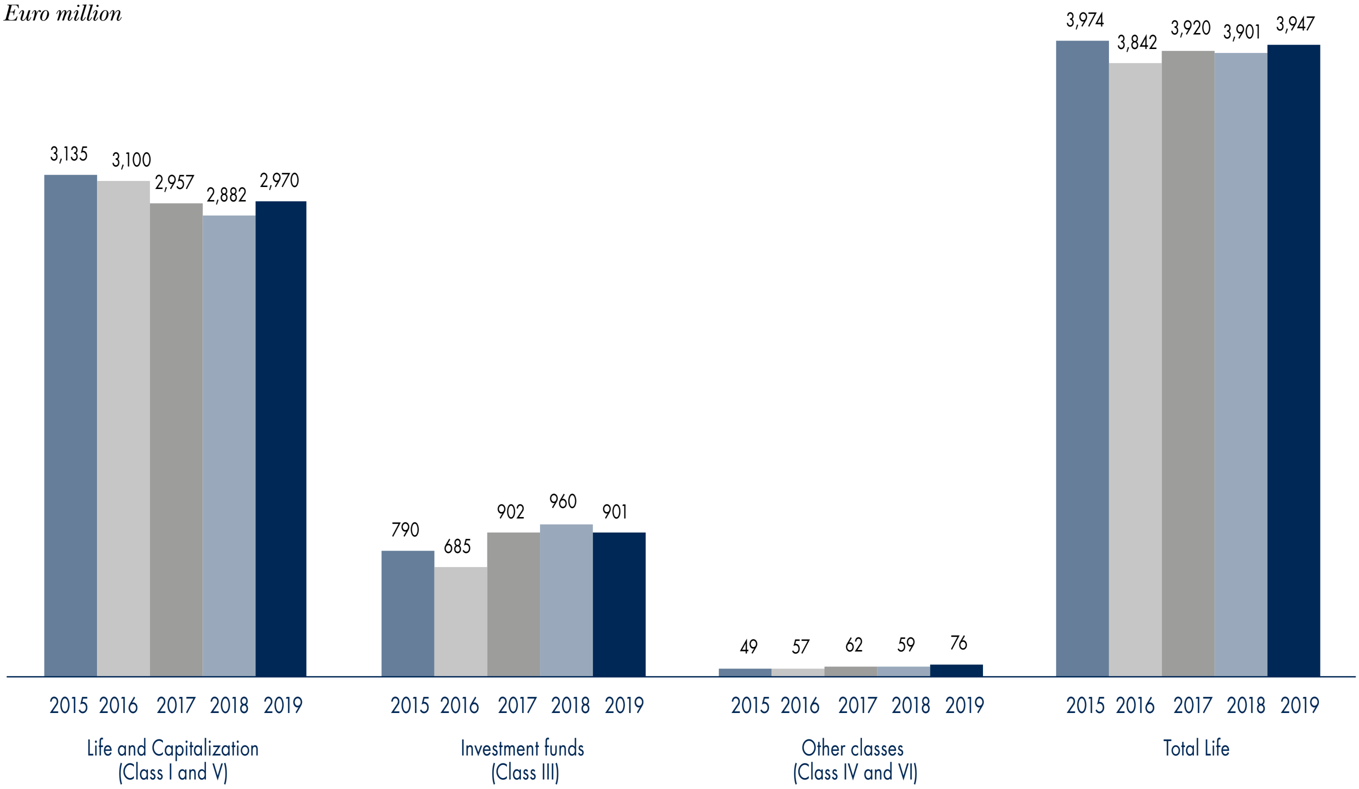
In detail, the provisions set aside in Classes I and V amounted in 2019 to €551,081 million (of which €525,806 related to Class I), rising by 4.9% against the previous year. These provisions account for 75% of the total life provisions and had an average growth of 5.7% in the last five-year period. The technical provisions related to Class III policies came to €161,427 million (22% of total provisions), up by 18.0% from 2018 and with annual average growth of 9.6% over the last five-year period. The provisions set aside in other classes (Class IV and VI) amounted in 2019 to €19,043 million, rising by 16.6% against the previous year and by an annual average of 8.4% over the 2015-2019 five-year period.

Overall technical provisions
Euro million



Operating expenses, which consist in contract acquisition costs and costs relating to the organization and management of the distribution network, and administration expenses, amounted to €3,947 million (75% of which related to Class I and V, 23% to Class III and 2% to other life classes, up slightly (by 1.2%) over the previous year.

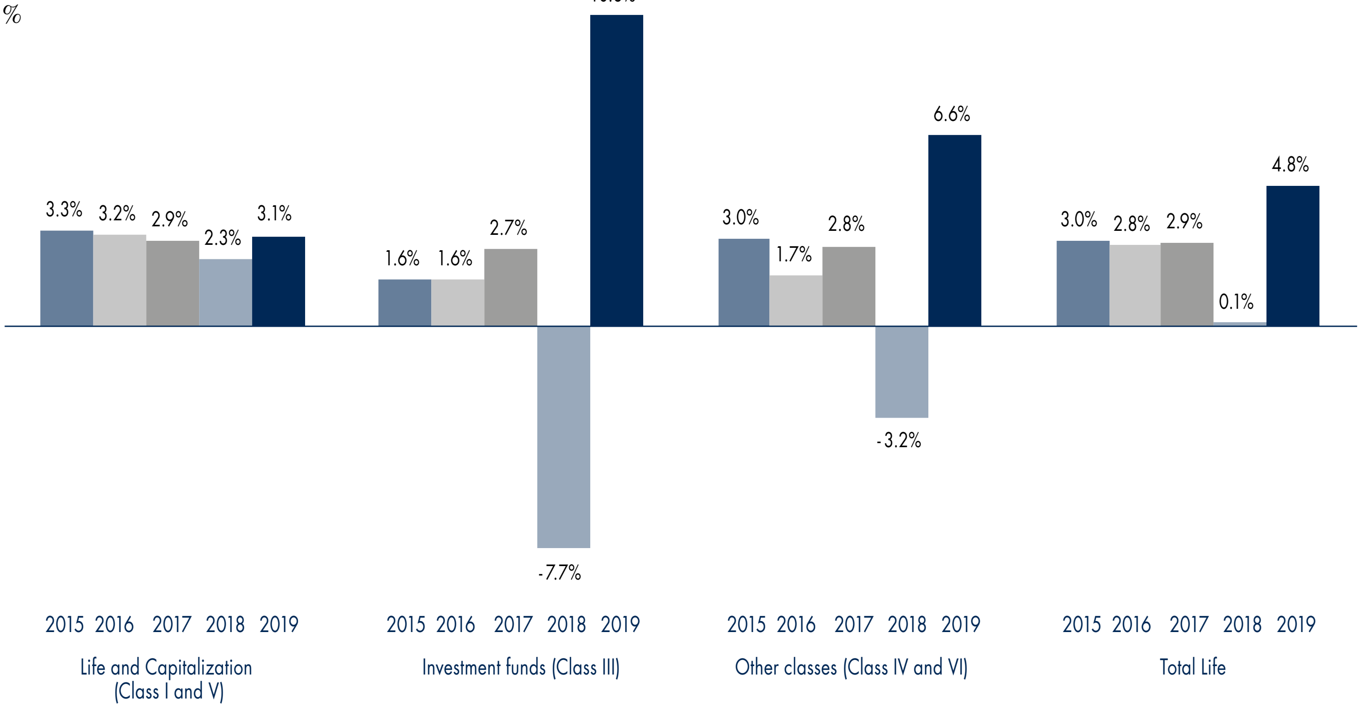
Operating expenses
Euro million



The **investment balance** amounted to €34,013 million, the highest level ever observed (the best previous result was €25,382 million in 2012), increasing enormously over 2018, when it failed to reach €1 billion. This result was mainly due to the considerable revaluation of the assets underlying unit-linked funds, which determined €16,037 million in investment income (whereas in 2018, the valuation of assets for Class III resulted in a €10,522 million investment loss); the Class I result (mainly with government securities as underlying assets) also registered a gain (from €11,116 million in 2018 to €15,925 million). In detail, over the five-year period, investment income, measured against average mathematical reserves in the traditional insurance classes (Class I and Class V) recovered last year to growth of 3.1%, after the progressive decline from 2015 to the low of 2.3% in 2018. For Class III (investment funds or indices) in 2019 the balance registered a record high of 10.8% last year, following the significant decrease of 2018 (-7.7%); for the other life businesses the performance was comparable to that of Class III products, switching from -3.2% in 2018 to +6.6% in 2019.

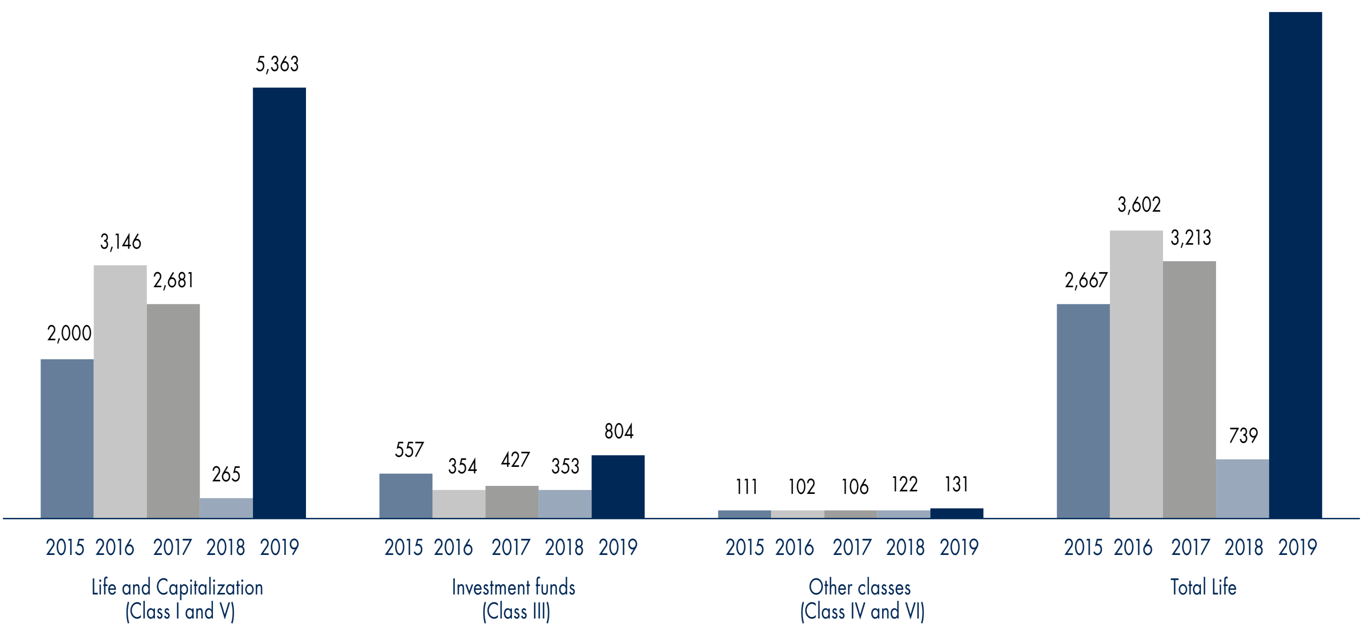
LIFE INSURANCE

Profits from investments on mathematical provisions
%



The **technical account balance** was positive at €6,130 million (around 80% of which for Class I), second only to the historic record of 2012 (around €6,500 million), incomparably higher than in 2018 (when it was below €500 million).

Overall technical balance
Euro million



The balance on reinsurance cessions and net indirect business amounted to €168 million (€257 million in 2018).

Taking the balance of outward reinsurance into account, the **overall balance of the technical account** was positive by €6,298 million (compared with scarcely €700 million in 2018); therefore, the ratio to premiums shot up from (from 0.7% in 2018 to 5.9% in 2019) as did that to technical provisions (from 0.11% to 0.89%). In detail, the balance for the traditional classes (I and V) jumped from €265 million in 2018 to €5,363 in 2019, while Class III (investment funds or indices) showed a technical balance amounting to €804 million, more than doubled as compared with 2018. Conversely, the balance of the other life classes improved slightly, to €131 million (€122 million in 2018).

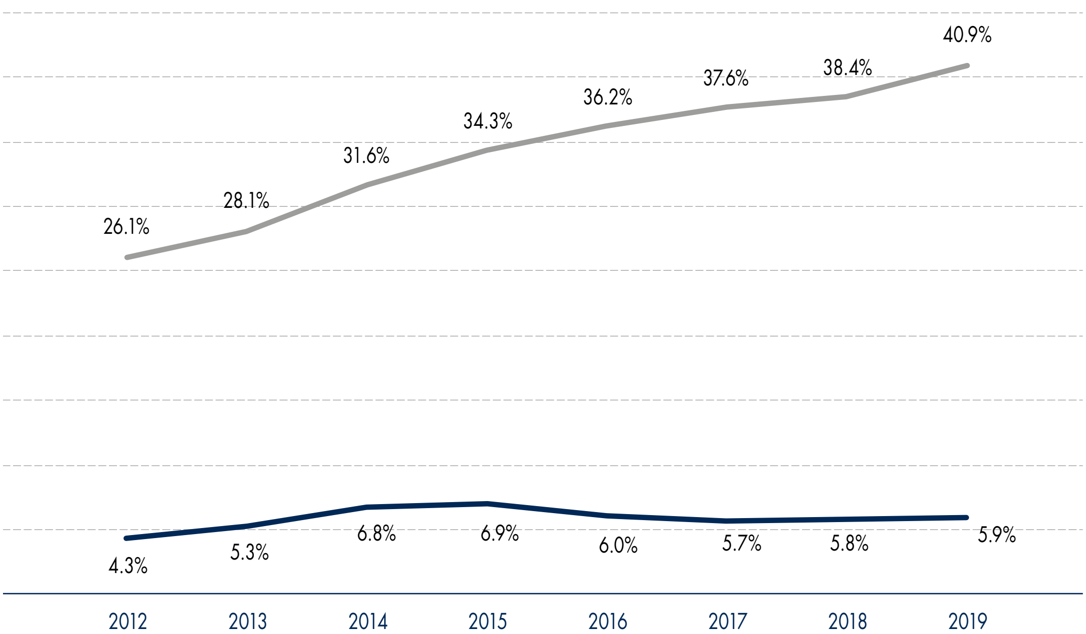
LIFE INSURANCE AND GDP

In 2019 life insurance technical provisions grew by 7.8% from 2018, and their ratio to GDP accordingly rose from 38.4% in 2018 to 40.9% in 2019, confirming the progressive growth that started in 2012. The ratio of life premiums to GDP also picked up, from 5.8% in 2018 to 5.9% in 2019.

Premiums and reserves as a % of GDP

Reserves/GDP

Premiums/GDP



EVOLUTION OF THE SUPPLY OF LIFE PRODUCTS

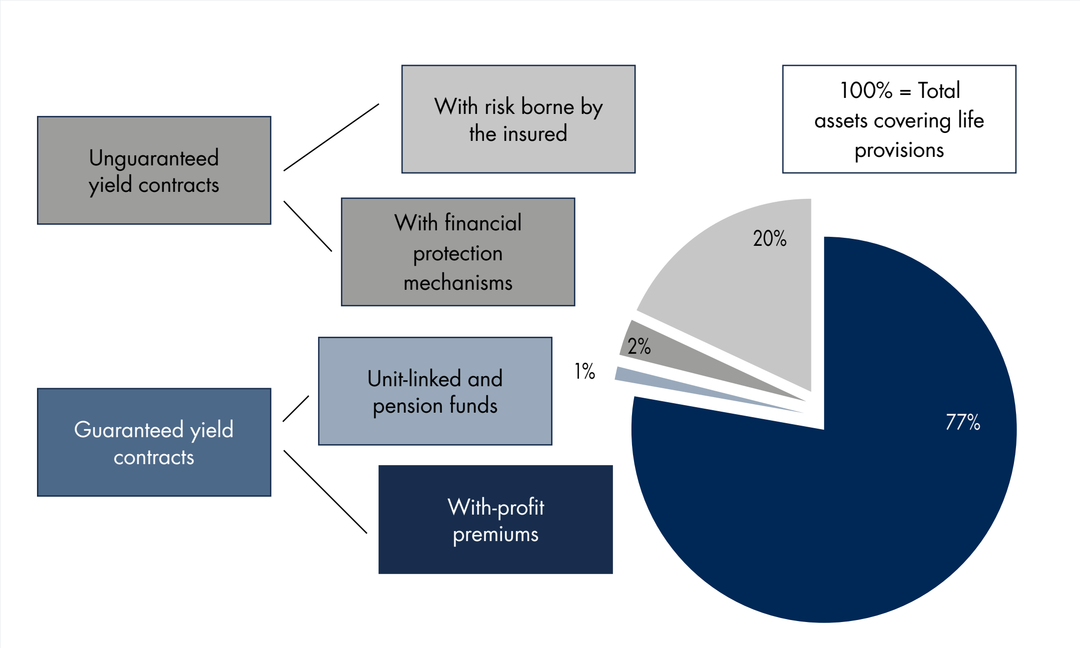
Estimate of asset shares covering guaranteed yields

According to industry statistics, with some approximation and assumptions, and based on the assets covering commitments to policyholders, we can estimate the share of life insurance policies that offer guaranteed yields.[1]

It is estimated that at the end of 2019 such policies accounted for 78% of life insurance policies (Figure 1), the same as a year earlier. That share is covered almost exclusively by resources invested against commitments guaranteed by profit-sharing and multi-class contracts (Classes I and V), amounting to 77%, while the incidence of the guaranteed components in linked contracts (Class III) and pension funds (Class VI) account for the other 1%.

Around 2% of the assets has been invested in contracts envisaging financial protection mechanisms, mostly "protected" unit- or index-linked funds providing for the repayment of premiums at contract maturity but with no guaranteed yield. The remaining 20% relates to unit-linked products where the investment risk is borne by policyholders.

Figure 1
% composition of asset shares covering life provisions per type of guarantee: estimates for 2019



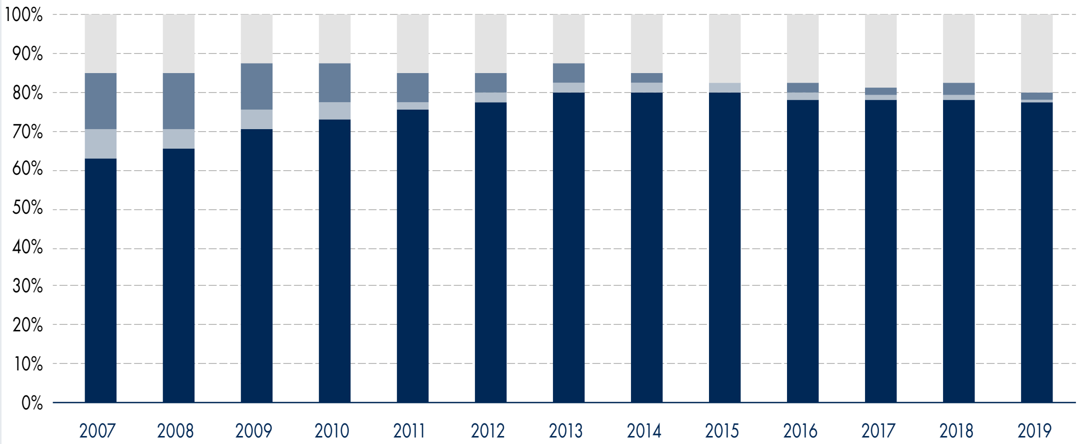
Source: Based on IVASS and COVIP data

(1) The share of guaranteed life premiums comprises the following:
- Class I and Class V profit-sharing products, including with a minimum return guaranteed;
- unit-linked products, classified as "guaranteed";
- index-linked products featuring the insurance company's guarantee;
- guaranteed sub-funds of pension funds (Class VI).

Over the 2007-2019 period, the portion of resources allocated to the coverage of guaranteed yields has increased – from just over 60% to 78% – owing to the increasing incidence of Class I and V contracts. Conversely, the shares related to "protected" or guaranteed contracts in Class III and VI (Figure 2) have dropped, while the share of totally unguaranteed contracts has risen.

Figure 2
Trend of the composition of guaranteed life provisions managed by insurance companies

Share of policies with risks borne by the insured
Share of protected policies
Share of guaranteed policies (Classes III and VI)
Share of guaranteed policies (Classes I and V)



Source: Based on IVASS and COVIP data

Asset allocation for life products

Using industry statistics, with some approximations[2] and assumptions, we can estimate the asset allocation related to life insurance contracts. At the end of 2019, government securities constituted slightly more than 54% of the assets (Table 1) and corporate bonds just over 30%, while equities accounted for 11% of the portfolio.

Table 1
Asset allocation of life products at the end of 2019

Macro-asset class	Asset allocation corresponding to life products			
	Total life market	Sub-total profit-sharing products	Sub-total linked products and pension funds	
			Total	of which unit-linked
Government securities	54.4%	64.8%	19.3%	15.8%
Corporate bonds	30.3%	27.8%	38.3%	42.6%
Shares and other equities	10.8%	3.0%	36.7%	36.3%
Liquidity	1.5%	0.8%	4.5%	5.2%
Property and other	3.0%	3.6%	1.2%	0.1%
TOTAL	100.0%	100.0%	100.0%	100.0%

Source: Based on IVASS and COVIP data

[2] In particular, the effective composition of investments in UCITS is estimated with a look-through approach to obtain the elementary assets (government securities, bonds, etc.) composing the investment.

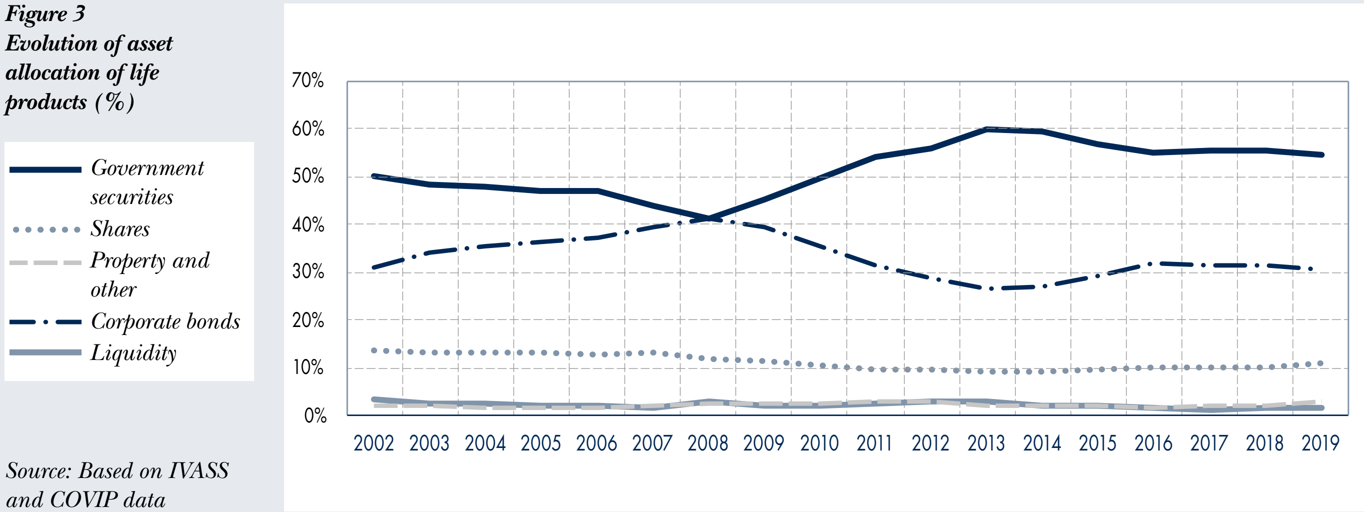
Regarding with-profit and profit-sharing products offering guaranteed minimum returns, the share invested in government securities amounted to around two thirds, while corporate bonds represented less than 30%. Equities account for just a few percentage points.

As for linked products and pension funds, where benefits are usually linked directly to the performance of different types of investment fund, there is a higher risk-yield profile. In particular, the portion invested in corporate bonds was 38% of the portfolio and that invested in equities 37%.

Taking a look at asset allocation since 2002 (Figure 3), with reference to all life business contracts, we find a small decline in government securities investment in recent years and a moderate upward trend in corporate bonds. The investment shares of these two macro-asset classes were more or less equal in 2008 but then diverged progressively until 2014.

Over the whole period a small shrinkage in the already small portion of equity securities has been registered, dropping to around 10%, while the portion allocated to liquidity, real estate and "other" assets remained negligible.

Figure 3
Evolution of asset allocation of life products (%)



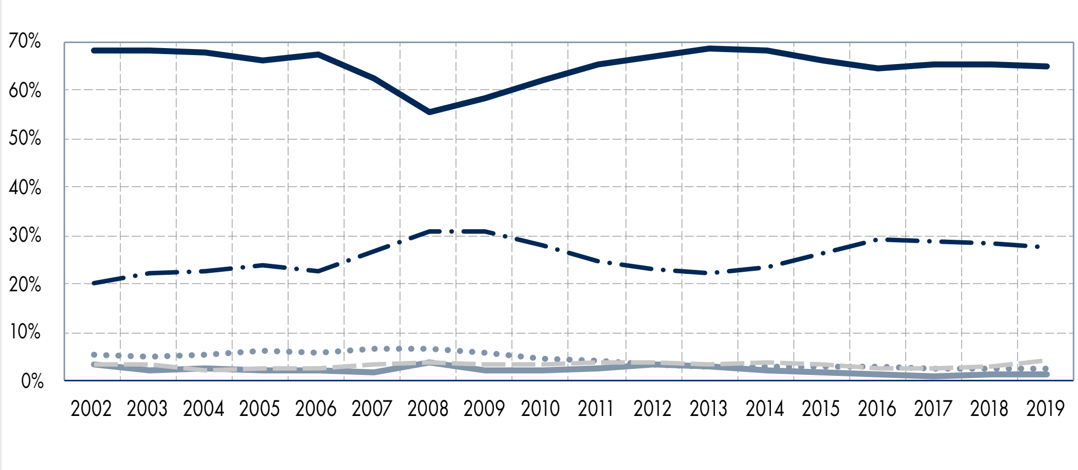
Source: Based on IVASS and COVIP data

Referring just to profit-sharing and guaranteed minimum yield contracts of the life business (Class I and V), the ratio of investments in government securities, still accounting for the bulk, almost two thirds of the portfolio (Figure 4), has not changed in recent years. Likewise, the share invested in corporate bonds has not changed, accounting for around 30%; the portion invested in other assets remains negligible.

Figure 4
Evolution of asset allocation of Class I and V products

Government securities
Shares
Property and other
Corporate bonds
Liquidity

Source: Based on IVASS and COVIP data

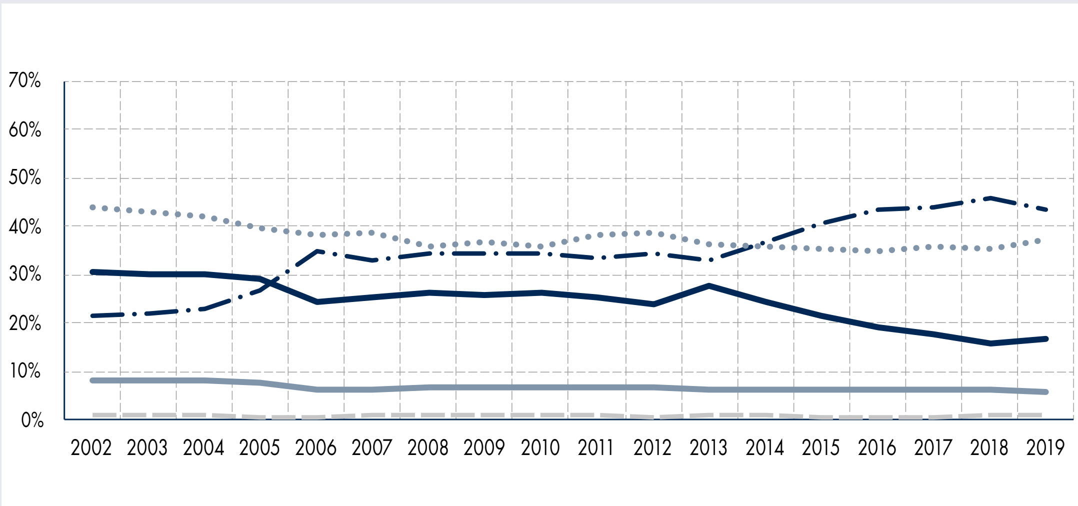


Finally, as far as the investment allocation to unit-linked funds is concerned, fixed income securities (government and corporate bonds) still account for the majority, while the proportion invested in equities remains stable, accounting for more than one third of the portfolio in the last few years (Figure 5).

Figure 5
Evolution of asset allocation of unit-linked products

Government securities
Shares
Property and other
Corporate bonds
Liquidity

Source: Based on IVASS and COVIP data

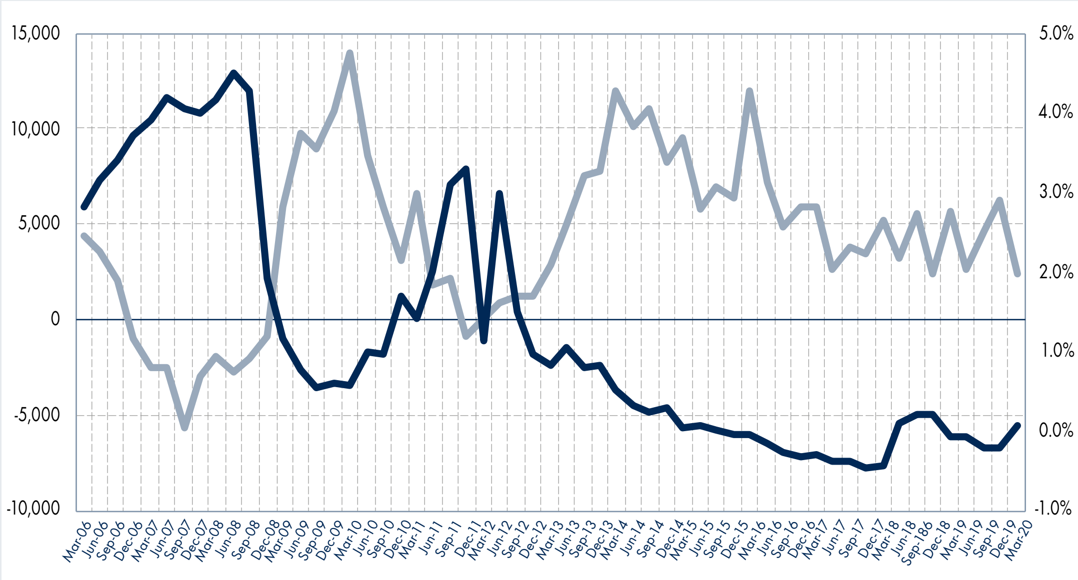


Historical evolution of net premium income

Over the period from 2006 to the first quarter of 2020, the quarterly performance of net premium income in life insurance – meaning, the difference for the life classes between paid premiums and amounts paid for surrenders, policies maturing, claims and annuities – has gone up and down, alternating negative and positive periods.

In particular, the performance of Class I and V products shows a clear negative correlation during the period with the nominal rates on Italian government securities (Figure 6). In fact those policies, considering the features of the separate asset portfolios to which they are usually linked, characterized by a minimum guaranteed return, are especially competitive when government securities yields are low, as in recent years, owing among other things to the Euro area monetary policy stance. In the last quarter examined (January-March 2020), net premium income dropped due to the impact of the lockdown measures to counter the Covid-19 pandemic, drastically reducing the volume of premiums. However, net premium income managed to remain positive even through April and May, the overall net flow for these two months amounting to around €2.2 billion.

Figure 6
Net premium income of traditional policies in each quarter and yield on Italian Treasury bills



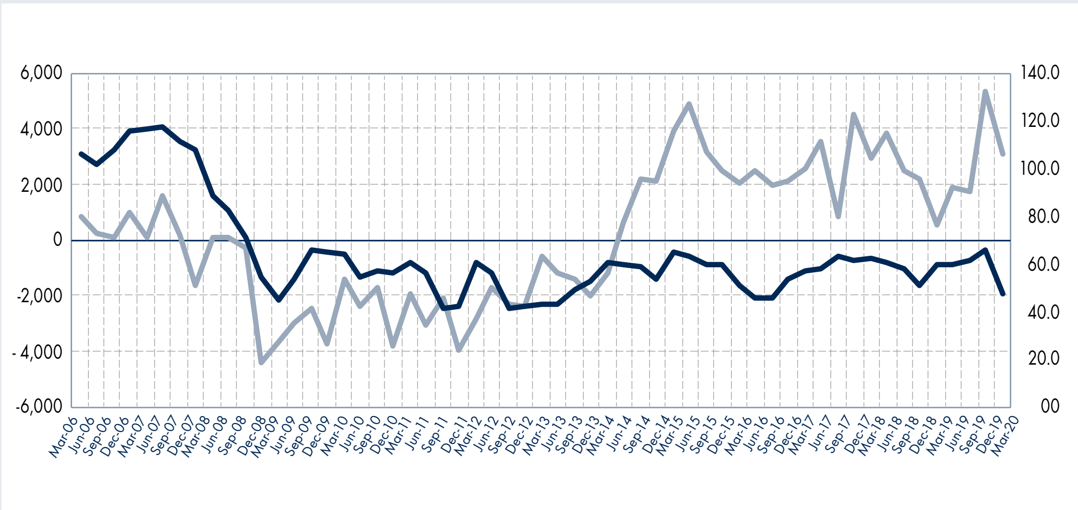
Net life premium income (Class I and V) - € million (left-hand scale)

Gross yield on 6-month T-bills (right-hand scale)

Source: ANIA, Thomson Reuters, Refinitiv

As for the net premium income of Class III policies, since 2014 the series has always been positive, showing a close correlation with the Italian FTSE MIB share index (Figure 7).

Figure 7
Net premium income of linked policies in each quarter and index FTSE MIB



Net life premium income (Class III) € million (left-hand scale)

Survey index base 1.1.2006 = 100 (right-hand scale)

Source: ANIA, Thomson Reuters, Refinitiv

Again, the result for the first quarter of 2020 was affected by the pandemic, with a drop in net premium income, which nevertheless remained positive. April and May also show positive net flow, amounting to €1.1 billion.

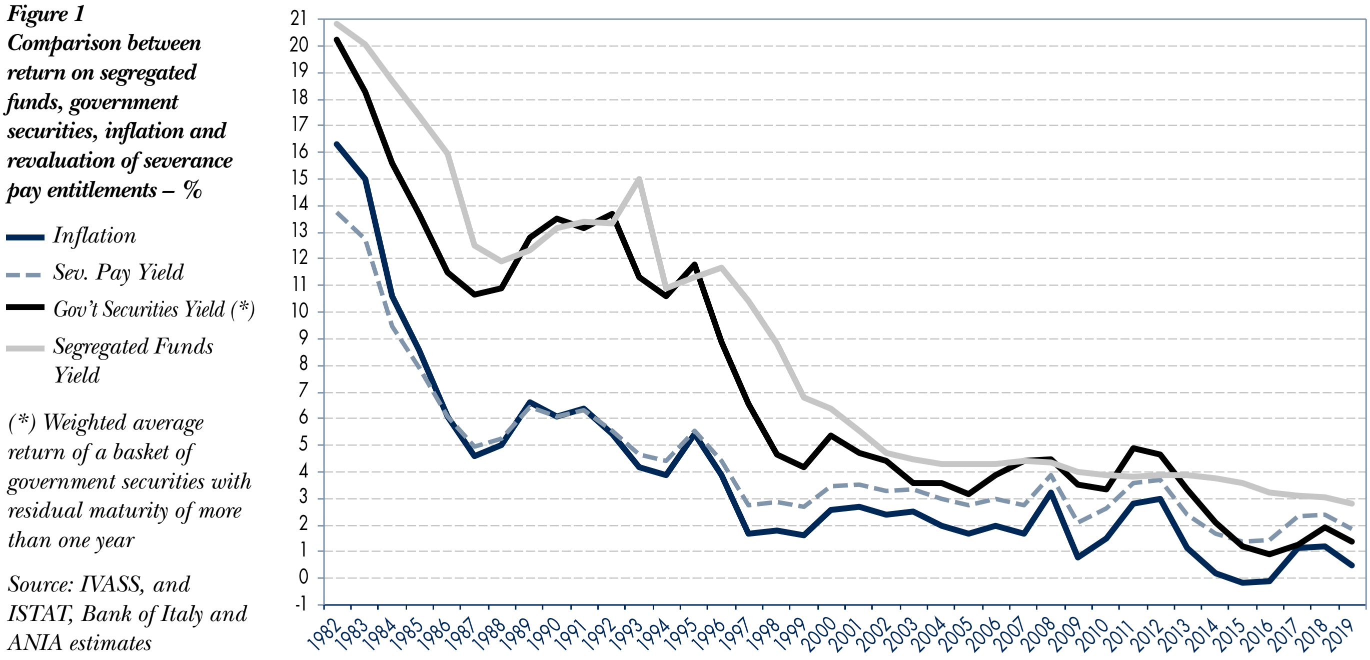
THE HISTORICAL PERFORMANCE OF WITH-PROFIT POLICIES AND THE ANALYSIS OF SEGREGATED FUNDS

The return on with-profit policies

The annuities generated by with-profit policies grow according to the returns on the segregated funds, special insurance funds mostly invested in fixed-income securities, entering the assets at purchase or book value, a method also defined as "historical cost". The return of the segregated fund is specified as the ratio of the sum of coupons, dividends and realized capital gains or losses to the average amount of assets held over a given period, generally one year. The return is assigned to benefits according to a set percentage or net of a fixed amount, without prejudice to the guaranteed minimum yield envisaged by the insurance contract.

Historically, the average return on the segregated funds has always been positive (Figure 1) and higher than government securities yields, the rate of revaluation of severance pay entitlements, or the inflation rate. Over the last five years, in particular, the average came to 3.2%, against 1.3% for the Rendistato index (a basket of government securities with a residual maturity of more than one year), 1.9% for severance pay entitlements, and 0.5% for inflation.

Figure 1
Comparison between return on segregated funds, government securities, inflation and revaluation of severance pay entitlements – %



(*) Weighted average return of a basket of government securities with residual maturity of more than one year

Source: IVASS, and ISTAT, Bank of Italy and ANIA estimates

Investing 100 in a segregated fund in 1982, according to the gross average annual returns of those funds, at the end of last year, the investment would have had a value of 1,806 (Figure 2), with an average annual return of

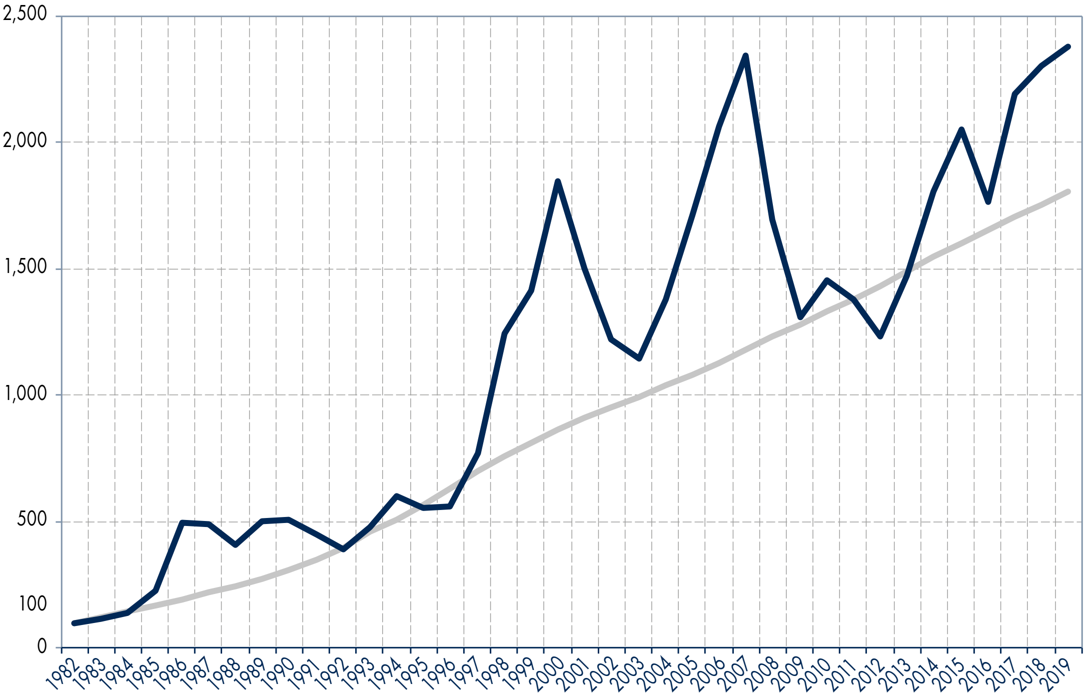
8.1% – 4.7% in real terms – and annualized volatility (standard deviation) of 5.5%.

The same investment in Italian equities, assuming full re-investment of dividends, would have reached over the same time frame the value of 2,377, with an average annual return slightly above 8.9% and annualized volatility of 28.0%.

Figure 2
Comparison between yields of segregated funds and Italian shares

Segregated funds gross yield

Shares yield (Datastream index including dividends; annual average)



Source: Thomson Reuter, IVASS and ANIA estimates

The Sharpe ratio, which considers the return at standard deviation in order to measure the performance adjusted for its financial risk, amounted, in the period, to 1.49 for segregated funds and 0.32 for Italian equities. Even if the figures refer to the gross returns of segregated funds, their advantages are confirmed: positive and stable returns, as well as neutralization of volatility and investment value oscillations.

Analysis of segregated funds composition and returns in 2019

Last April, ANIA published, online, its Segregated Funds Portal, 2019 Edition, with a full and thorough analysis (summary statement and breakdown of investments) of segregated funds of the insurance companies active in 2019. The data cover 293 segregated funds of 43 companies. In 2019 (Table 1) the assets managed amounted to €552.5 billion (€515.1 in 2018 for a homogeneous group of funds), against €541.5 billion in contractual commitments of the insurers (€506.9 billion in 2018), with a coverage ratio of 102.0% (101.6% in 2018).

Table 1
***Breakdown of investments of segregated funds. From the online "Annual Segregated Funds Portal - 2019 Edition"** (*)*
In thousands

Items	2018		2019		Annual change
	Amounts	%	Amounts	%	
Bonds and other fixed-income securities	425,335,998	82.6%	448,948,580	81.3%	5.6%
BTPs	225,551,031	43.8%	233,624,920	42.3%	3.6%
Listed bonds in Euro	113,765,797	22.1%	117,307,109	21.2%	3.1%
Equity securities	8,792,561	1.7%	10,401,654	1.9%	18.3%
Listed shares in Euro	6,747,605	1.3%	8,176,054	1.5%	21.2%
Other assets	81,009,097	15.7%	93,177,921	16.9%	15.0%
UCITS	72,714,500	14.1%	84,186,499	15.2%	15.8%
Liabilities	- 884	0.0%	- 888	0.0%	- 0.5%
Balance of assets in segregated funds	515,136,772	100.0%	552,527,266	100.0%	7.3%
Mathematical provisions	506,897,086		541,547,626		6.8%
Average rate of return in period	*3.03%*		*2.84%*		
Coverage rate of assets vs mathematical provisions	*101.63%*		*102.03%*		

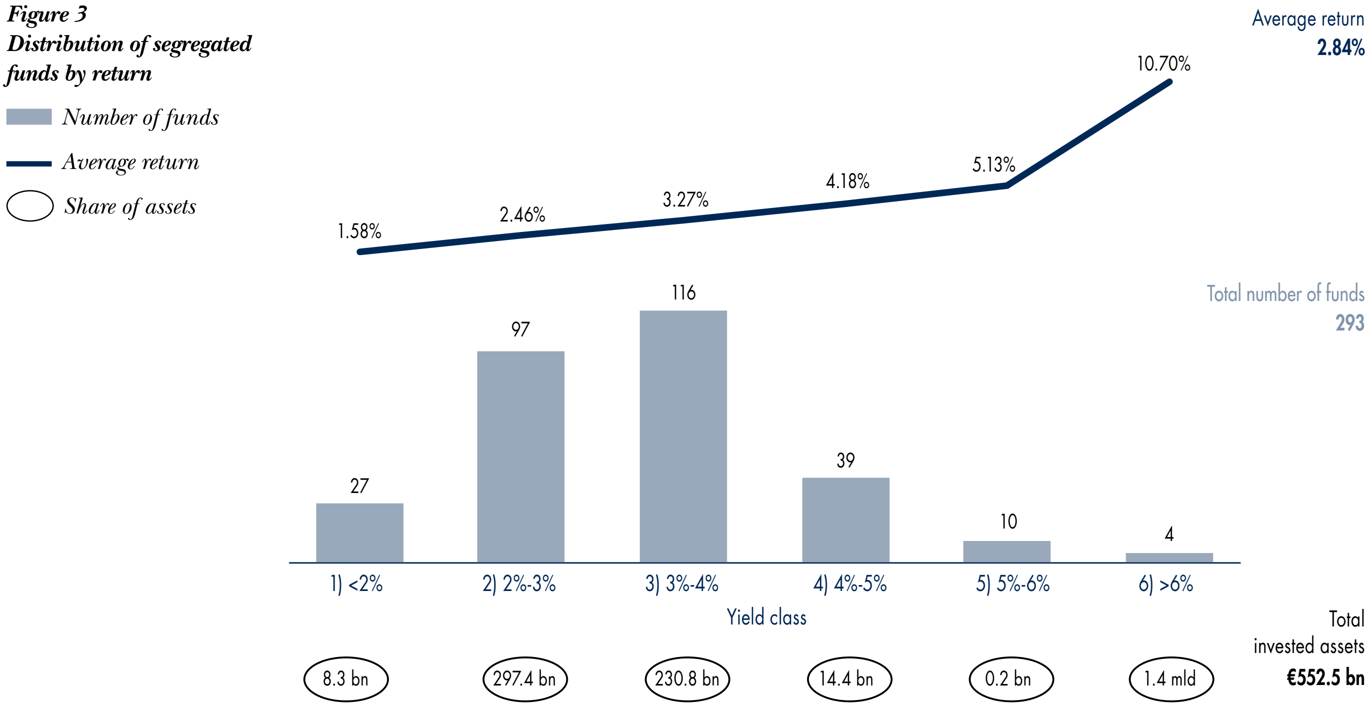
(*) The web portal with full details is available at: www.statvita.ania.it/qlikview.

Analyzing the composition of assets, more than 81% was invested in bonds and other fixed-income securities in 2019 (of which 42.3% in BTPs), more than a percentage point less than in 2018 (82.6%, of which 43.8% in BTPs). The investment in equity securities (1.9% in 2019 against 1.7% in 2018) is still marginal. The investment in UCITS rose from 14.1% in 2018 to 15.2% in 2019.

The average return on segregated funds in 2019 came to 2.84%, down from 3.03% the previous year and 3.13% in 2017.

Hereunder is the breakdown of segregated funds by gross return in 2019 (Figure 3). Of the funds, 97 (accounting for 54% of invested assets) achieved

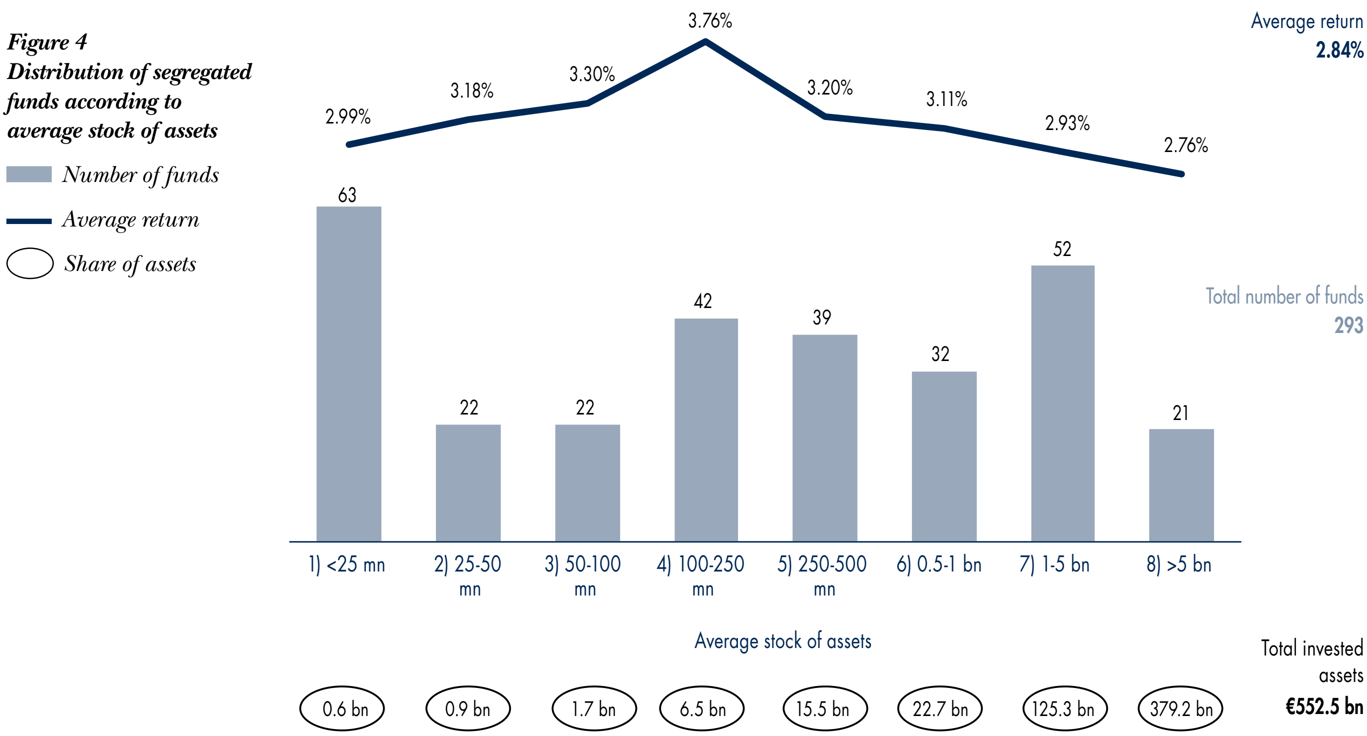
Figure 3
Distribution of segregated funds by return



returns of between 2% and 3%, a range that spans the average market performance; only 27 funds (with just 2% of total invested assets) failed to yield 2%, and the rest (169 funds, with an asset share of almost 45%) achieved gross returns better than 3%.

Analyzing gross average returns by stock of assets, we find that when assets increase, the average return shrinks (Figure 4). In particular, the 149 segregated funds that had an average stock of assets of at most €250 million, representing only 2% of these funds' total assets, achieved returns exceeding the average (2.84%). The 42 funds with invested assets of between €100 million and €250 million had the best average performance (3.76%). As for the funds with larger average stocks, we find a progressive drop in average return, reaching a low of 2.76% for the 21 funds with assets above €5 billion, which account for almost 70% of total invested assets.

Figure 4
Distribution of segregated funds according to average stock of assets



LIFE INSURANCE AND ITALIAN HOUSEHOLDS' SAVINGS

In 2019, the growth in the disposable income of Italian consumer households slowed down as compared to 2018 both in nominal terms (+1.1%, +1.8% in 2018) and in real terms (+0.6%, +0.8%) (Table 1).

Table 1

Gross disposable income and households' propensity to save (1) (current prices, except where indicated)
% change from the previous period

	Composition %	Change %		
	2019	2017	2018	2019
Compensation of employees	62.9	2.5	3.3	2.1
Income from self-employment (2)	25.4	0.9	1.3	0.9
Net income from property (3)	21.6	2.8	-0.5	-1.1
Social benefits and other net transfers	32.9	1.6	1.9	3.6
Net social contributions (-)	24.0	2.5	4.0	3.0
Current taxes on income and property (-)	18.7	1.1	0.7	3.2
Gross disposable income	**100.0**	**2.1**	**1.8**	**1.1**
in real terms (4)		1.0	0.8	0.6
Average propensity to save (5)		**7.5**	**7.5**	**7.7**

Source: Based on ISTAT and Bank of Italy data.
(1) Referred to consumers household.
(2) Mixed income and withdrawals from income of quasi-corporations.
(3) Gross result (mainly rental income). net income from land and intangible assets, net interest, dividends and other profits distributed by companies.
(4) Deflated by consumption deflator of consumer households.
(5) % ratio between savings, gross of amortization and net of variations in pension fund reserves, and gross disposable income.

The aggregate figure reflected slower growth in all types of income: compensation of employees, from +3.3% to +2.1%; self-employment income, from +1.3% to +0.9%; and property income, from -0.5% to -1.1%. Combined with the acceleration in current taxes (+3.2%, +0.7% in 2018), these changes more than offset the decrease in social security contributions (+3.0%; +4.0% in 2018) and the growth in net social benefits (+3.6%, +1.9%).

The propensity to save of consumer households, measured as the ratio of savings, gross of depreciation and net of changes in provisions, increased slightly (7.7% compared with 7.5% in 2018).

Financial saving

In 2019, the net financial saving of Italian households and non-profit institutions serving households (for brevity, simply "households") amounted to €22.9 billion, down from €25.0 billion in 2018. A slight increase in gross outflows (€22.4 billion, from €22.0 billion in 2018) was compounded by a larger decline in inflows to household assets (€45.3 billion down from €47.0 billion in 2018) (Table 2).

In 2019, the only instrument classes with positive inflows were bank deposits, especially overnight deposits (+€52.4 billion), insurance, pension funds and severance pay provisions (+€25.4 billion, +€39.0 billion in 2018), of which +€17.0

billion in life provisions (+€30.5 in 2018) and other instruments issued by residents (+€7.4 billion, +€5.8 billion in 2018).

Conversely, there were significant net disposals of bonds (-€33.1 billion, compared with -€9.3 billion 2018), especially in the Italian component (-€28.1 billion, against -€11.6 billion) and equity securities (-€16.1 billion, against -€19.0 billion). In 2019, the flow into mutual fund units fell practically to zero.

At the end of 2019, the stock of financial assets held by Italian households amounted to €4,445.4 billion. The largest share of Italian households' financial wealth still consists in liquid instruments, i.e. bank deposits (29.1%, 29.3% in 2018), followed by insurance, pension funds and employee severance pay

Table 2
Financial assets of Italian households [(1)]

INSTRUMENTS	YEAR-END STOCKS (millions of euro)	YEAR-END STOCKS / TOTAL ASSETS (%)		FLOWS (millions of euro)	
	2019	2018	2019	2018	2019
ASSETS [(2)]					
Cash	165,890	3.8	3.7	6,668	3,469
Deposits [(3)]	1,294,966	29.3	29.1	22,570	58,182
Italian	1,254,446	28.3	28.2	24,123	57,160
sight deposits	813,243	18.0	18.3	36,683	52,446
other deposits	441,203	10.3	9.9	-12,560	4,714
Foreign	40,520	0.9	0.9	-1,553	1,022
Bonds	271,082	6.8	6.1	-9,294	-33,126
Italian	203,255	5.1	4.6	-11,601	-28,145
of which: Government	135,017	3.4	3.0	10,318	-15,885
Bank	62,020	1.5	1.4	-21,071	-11,517
Foreign	67,827	1.6	1.5	2,307	-4,982
Shares of mutual funds	480,281	10.7	10.8	1,366	26
Italian	207,143	4.9	4.7	-9,416	-15,812
Foreign	273,138	5.8	6.1	10,781	15,838
Shares and other equity	966,950	22.1	21.8	-19,032	-16,080
Italian	890,880	20.1	20.0	-21,742	-15,181
Foreign	76,069	2.0	1.7	2,710	-899
Insurance, pension funds, severance pay entitlements	1,122,968	24.1	25.3	38,956	25,425
of which: reserves of the life sector	808,255	17.1	18.2	30,461	17,016
Other instruments issued by residents [(4)]	143,257	3.2	3.2	5,756	7,395
Total assets	4,445,394	100.0	100.0	46,992	45,290
LIABILITIES					
Short-term debt	48,096	5.2	5.0	-1,077	-141
of which: bank	43,579	4.7	4.5	-3,281	-275
Medium and long-term debt	688,922	71.0	71.2	21,226	16,829
of which: bank	586,948	61.4	60.6	5,586	6,552
Other liabilities [(5)]	231,079	23.8	23.9	1,861	5,747
Total liabilities	968,097	100.0	100.0	22,011	22,435
BALANCE	3,477,297			24,981	22,855

(1) Consumer households, producer households and non-profit institutions serving households
(2) Managed asset portfolios are not specified, as the invested assets are given under individual instruments
(3) Includes Cassa Depositi e Prestiti
(4) Trade credits, Bancoposta current accounts, banknotes, coins, other minor items
(5) Trade payables, severance pay funds, minor items
Source: Bank of Italy, Financial Accounts

provisions (25.3%, 24.1% in 2018) – including life insurance provisions (18.2%, 17.1% in 2018) – and by the amount invested in shares and other equity (21.8%, 22.1% in 2018). At the end of 2019, investments in mutual fund units accounted for 10.8% of the capital held by Italian households (10.7% in 2018).

SUPPLEMENTARY PENSION FUNDS: ENROLLMENTS, CONTRIBUTIONS AND RESOURCES ALLOCATED TO BENEFITS

Enrollments in supplementary pension plans continued the steady growth of recent years, albeit at a decreasing pace, with 588,200 new members in 2019, 62,000 fewer than the previous year.

At the end of 2019, the number of pension plan accounts reached 9.1 million, with 4.4% growth from the previous year (Table 1).

Table 1
Evolution of enrollments by pension plan

Pension plans	Number of participants 2018	Number of participants 2019	Change %
Occupational pension funds and Fondinps	2,980,164	3,141,914	5.4%
Open funds	1,462,072	1,551,223	6.1%
Individual retirement plans	3,645,658	3,773,660	3.5%
Pre-existing funds	646,873	650,666	0.6%
Total	**8,734,767**	**9,117,463**	**4.4%**

Source: ANIA elaborations based on COVIP data

At the end of 2019, the effective number of enrollees (shorn of multiple enrollments) was 8.3 million, 31.9% of the labor force, namely persons employed plus job seekers above 15 years of age, with 4.0% growth from 2018 (Table 2). However, in 2019 the number of enrollees who had quit paying contributions remained significant, numbering more than 2 million; they were relatively most numerous for the individual retirement plans.

Table 2
Evolution of enrollments by pension plan (shorn of multiple enrollments)

Pension plans	Number of participants (shorn of multiple enrollments) 2018	Number of participants (shorn of multiple enrollments) 2019	Change %
Occupational pension funds and Fondinps	2,404,036	2,511,097	4.5%
Open funds	1,428,866	1,515,989	6.1%
Individual retirement plans	3,500,336	3,618,291	3.4%
Pre-existing funds	612,977	618,216	0.9%
Total	**7,946,215**	**8,263,593**	**4.0%**
Labor force (million)	26.5	25.9	-2.1%
Share of labor force	30.0%	31.9%	1.9%

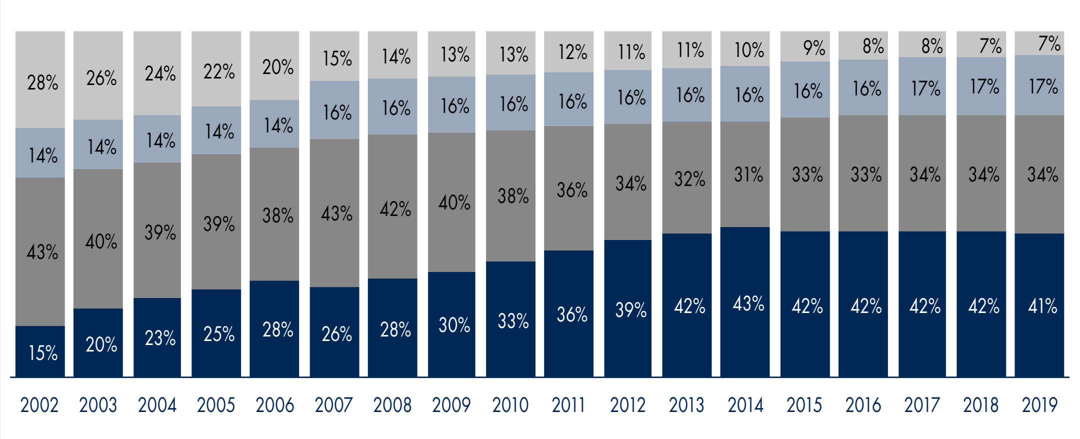
Source: ANIA elaborations based on COVIP data

In particular, enrollments in open funds grew the most (6.1%), followed by occupational pension funds (4.5%) thanks in part to “contractual” enrollments in occupational plans. However, individual pension plans showed the highest increase in absolute terms (almost 120,000), confirming their leadership in terms of total number of participants and accounts (Figure 1).

Figure 1
Historic evolution of existing positions by type of pension fund

Pre-existing funds
Open funds
Occupational pension funds
Individual retirement plans

Source: ANIA elaborations based on COVIP data



The overall contributions paid to pension funds remained substantially unchanged, albeit with a marginal decrease, for the first time ever (-0.8%) from the previous year (Table 3). In particular, this drop was due to pre-existing funds, whose flow of new members shrank by almost 16%, while the number of participants in other pension plans increased.

Table 3
Evolution of pension fund contributions
Euro million

Pension plans	Contributions 2018	Contributions 2019	Var. %
Occupational pension funds and Fondinps	5,070	5,340	5.3%
Open funds	2,044	2,212	8.2%
Individual retirement plans	4,574	4,733	3.5%
Pre-existing funds	4,618	3,886	-15.9%
Total	16,306	16,171	-0.8%

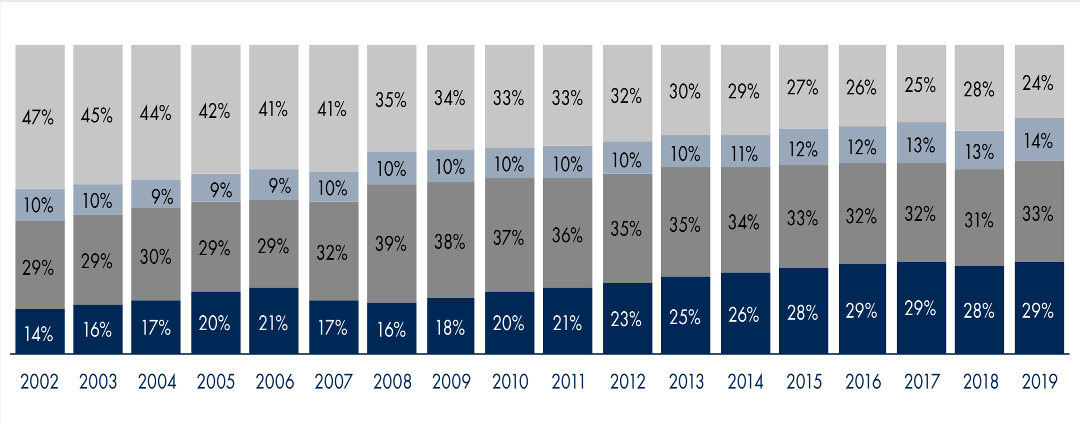
Source: ANIA elaborations based on COVIP data

Therefore, the share of payments to pre-existing funds returned to the declining trend in course since 2002, which had been interrupted only in 2018 (Figure 2), to the benefit of occupational pension funds, open funds and individual pension plans, which returned to growth.

Figure 2
Time series of contribution flows by type of supplementary pension

Pre-existing funds
Open funds
Occupational pension funds
IRPs

Source: ANIA elaborations based on COVIP data



The average return on pension plans in 2019 benefited from the positive trend in the markets, while the revaluation of severance pay entitlements was equal to 1.6%. In particular, the average yield on the various occupational pension plan lines was 7.5%, that on open funds 8.3%, that on IRP unit-linked funds 12.2%, and that on IRP segregated accounts 1.6%.

Resources allocated to benefits recorded 10.8% growth, with a volume exceeding €185 billion, or 10.4% of nominal GDP, increasing from 2018 and far outpacing the 4.2% growth in the financial assets held by Italian households (Table 4).

Table 4
Resources set aside for benefits by type of supplementary pension
Euro million

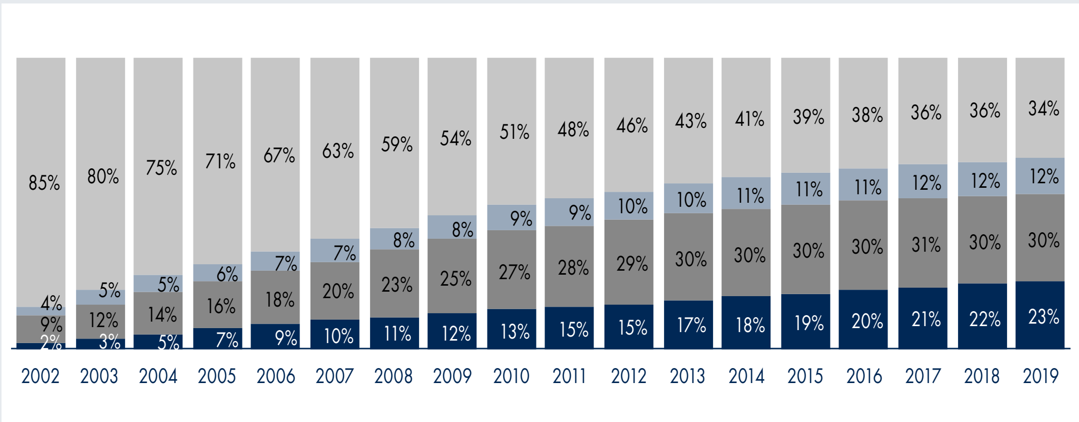
Pension plans	Resources managed 2018	Resources managed 2019	Change %
Occupational pension funds and Fondinps	50,492	56,222	11.3%
Open funds	19,624	22,844	16.4%
Individual retirement plans	37,330	42,542	14.0%
Pre-existing funds	59,699	63,513	6.4%
Total	167,145	185,121	10.8%
Share of GDP	9.5%	10.4%	0.9%
Share of households' financial savings	4.0%	4.2%	0.2%

Source: ANIA elaborations based on COVIP data

The sharpest increase was recorded by resources managed by open funds (+16.4%), followed by IRPs (+14.0%). Despite the progressive drop during this period, pre-existing funds maintained the highest share of allocated resources (Figure 3).

Figure 3
Time series of asset allocation by type of supplementary pension

Pre-existing funds
Open funds
Occup. pension funds
Ind. retirement plans



Source: ANIA elaborations based on COVIP data

PURE RISK POLICIES: DEVELOPMENTS IN EARLY RETIREMENT LOANS GUARANTEED BY PENSIONS AND NEW PRODUCTION

The main features of the voluntary early retirement program

The 2017 budget law introduced the so-called APE (Anticipo Pensionistico) early retirement scheme for a two-year experimental period, both in its "social" version – with special benefits for some disadvantaged categories of workers – and in its "voluntary" version, addressed to those workers who, on an individual basis or in agreement with the employer, intend to avail themselves of some form of age flexibility in exiting the labor market, possibly compatible with continuing labor income, and thus receiving a temporary income bridge prior to actual pension eligibility.

The "social" APE scheme was confirmed and is still in force, while the "voluntary" scheme was not renewed and closed out participation on 31 December 2019. Since ANIA and the insurance sector are involved in this complex initiative, a final balance of the operation is provided hereunder, together with the most important data on the related insurance coverage.

The APE scheme entitled participants to a bank loan, paid out monthly, for a time span commensurate with the period before reaching retirement, from a minimum of 6 months to a maximum of 3 years and 7 months. The loan terminated at the worker's actual retirement, and repayment initiated in the form of a deduction from the pension over the next twenty years.

The program also called for compulsory insurance to cover the risk of early death of the applicant, in order to protect the bank credit. Both the loan and the insurance could be subscribed with the banks and insurance companies participating in framework agreements signed by the representatives of the related sectors, the Minister of the Economy and Finance and the Minister of Labor and Social Policies.

Enrollees could only apply for the APE scheme through the INPS web portal, the entity that is still in charge of centralizing a large part of operational management. Moreover, the framework agreements defined the interest rate of the loan[3] and the amount of the premium covering the risk of

---

(3) The interest rate (APR) in the amortization phase is equal to: Rendistato index with duration of 12 years and 7 months to 20 years and 6 months + (5-year bank CDS minus 5-year ITA CDS) + 0.35% where: i) the Rendistato index is the monthly interest rate calculated by the Bank of Italy, representing the average yield of fixed coupon bonds with a duration of 12 years and 7 months to 20 years and 6 months; ii) bank CDS is the average 5-year Credit Default Swap in Euro of the 6 top banks by total assets operating in Italy, excluding from the average the highest and the lowest rates; iii) ITA CDS is the average of 5-year Italian Credit Default Swaps in Euro. The interest rate in the pre-amortization phase is equal to the nominal interest rate less 0.10%.

early death, thus making prices homogeneous for all operators and for all applicants, regardless of any subjective conditions regarding their financial situation or health status. Finally, the framework agreements set the terms and conditions for participation of banks and insurance companies; the technical specifications for information flows among INPS, the lending banks and the insurance companies; the effects of the payment of direct pensions before eligibility for the old-age pension; and the consequences of the demographic adjustment of official retirement age to life expectancy.

The amount of the loan consisted of the APE installments paid, the insurance premium, the fee for access to the Guarantee Fund to which banks still have access in case of applicants' problems with repayment or insurers' non-payment of the amount covered, plus the interest accrued in the pre-amortization phase.

The regulations provided that, from retirement, the first three items - total of APE installments paid, premium and fee for the guarantee fund – would be repaid following a "French" amortization plan (i.e., with deferred constant installments), while the interest accrued in the pre-amortization phase was to be repaid in equal installments for the entire amortization period.

The loan had a fixed rate and the interest rate applied to new contracts was recalculated every 2 months.

The compulsory insurance was a temporary, single-premium term life policy, advanced by the bank and added to the amount of the loan, covering the value of the residual debt. Thus the insured capital was meant to be increasing in the pre-amortization phase as the advance was paid and decreasing from retirement, when the applicant began repaying the loan. The premium was therefore a function of the duration of the APE scheme and the interest rate of the loan.

All APE applications were examined by the bank to make sure that there were no problems in the applicant's financial situation, which would allow the bank to reject the application. Once the application was accepted, the insurance policy was issued with the predetermined premium, without any check on the insured's state of health or other life conditions. The contracts still in effect cover any and all cases of death, subject exclusively to the limitations provided for by the law.

The applicant was entitled to an annual tax credit up to 50% of the amount paid, i.e. one twentieth of the interest and the premium.

The date on voluntary APE

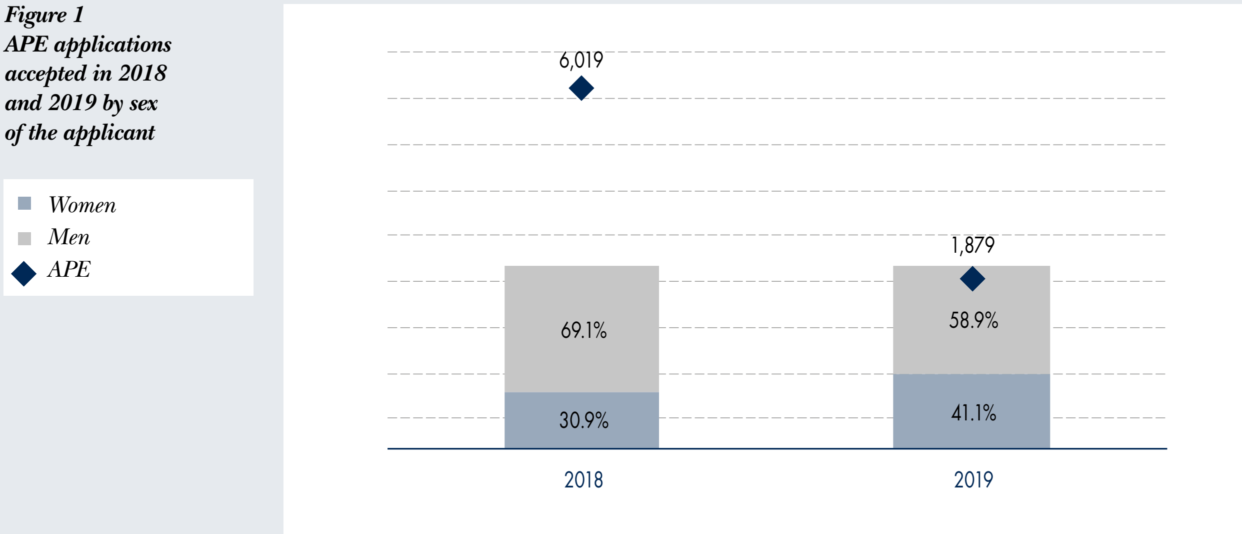
In the experimental period - actually starting April 2018 after a complex implementation phase and following Prime Ministerial Decree 150 of 4 September 2017 setting the terms and conditions and ending on 31 December 2019 - 10,972 APE applications were filed, 77% of them in 2018.

After the introduction of other forms of flexibility for exiting the labor market, such as the "quota 100" retirement eligibility scheme (sum of age and years of contributions totaling 100), interest in the Voluntary APE scheme dropped off, as the first part of 2019 saw a good many applicants take advantage of the early retirement opportunity to shorten or extinguish the Voluntary APE loan. On the whole, in 2019 there were only 2,500 applications.

Of the applications received, 26% were rejected by credit institutes and another 2% rescinded by the applicant before signing the contract. The 7,898 applications accepted have been analyzed according to the main characteristics of the operation in the light of the related insurance coverage.

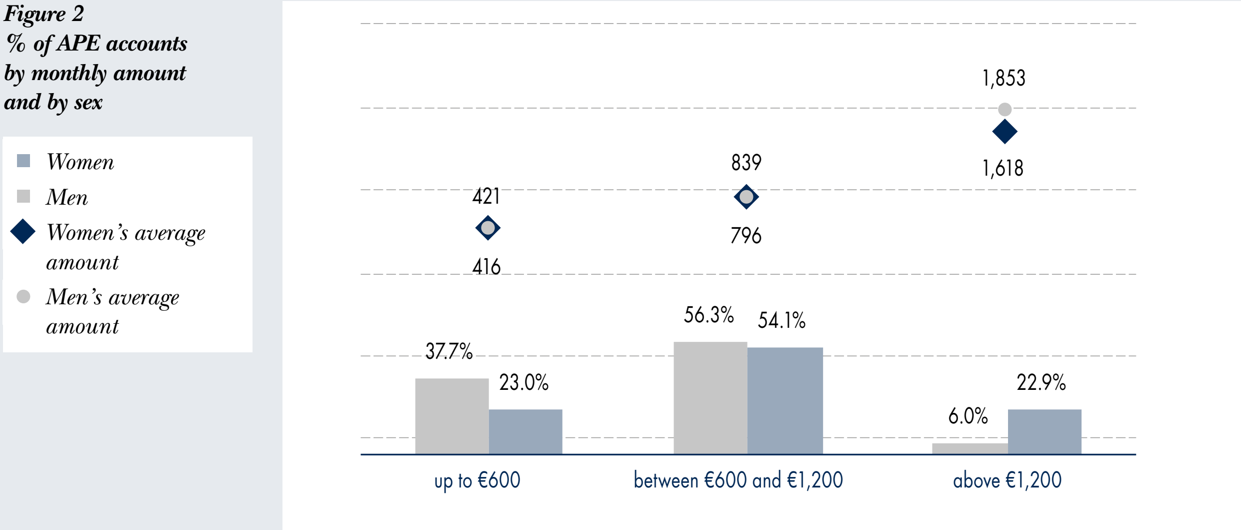
In the initial phase of the scheme, almost 70% of the applicants actually obtaining the Voluntary APE loan were men, but over time more and more women workers applied, progressively reducing the male prevalence to 59% at the end of 2019 (Figure 1).

Figure 1
APE applications accepted in 2018 and 2019 by sex of the applicant



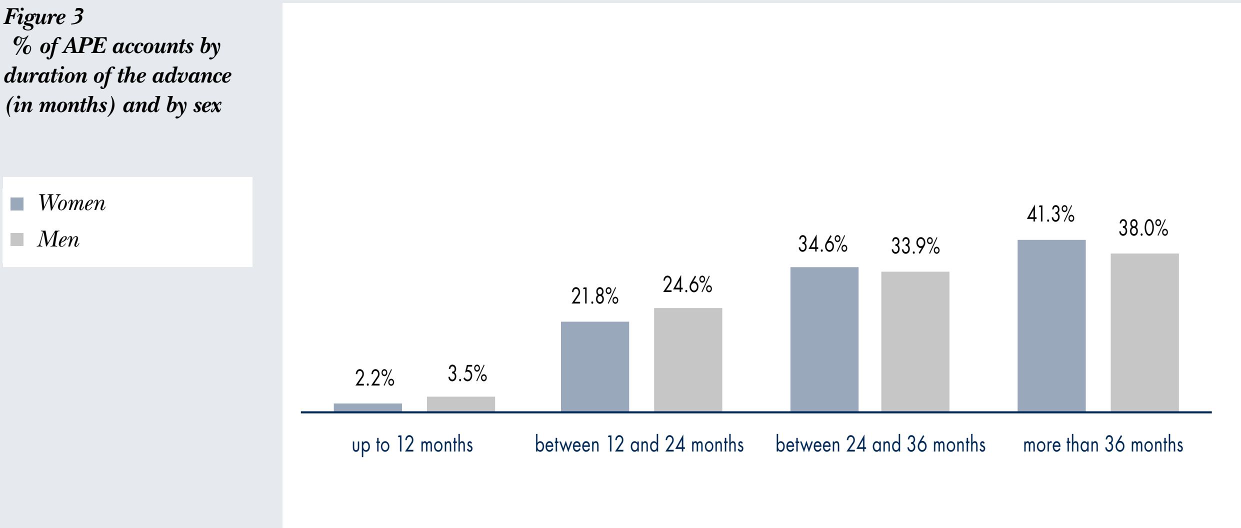
The average monthly amount granted was around €900. For both sexes, the bulk of loans ranged between €600 and €1,200 monthly (Figure 2). Amounts smaller than €600 accounted for less than one fourth of the loans to men and around 40% for women; 22.9% of men and 6.0% of women received more than €1,200 per month.

Figure 2
% of APE accounts by monthly amount and by sex



Finally, on average, the advance had a duration of 31 months, the amortization period remaining fixed at 20 years. For 40% of recipients, the advance was for a period longer than 36 months, and more than three quarters exceeded 24 months. The duration of the advances is equally distributed between men and women (Figure 3).

Figure 3
% of APE accounts by duration of the advance (in months) and by sex

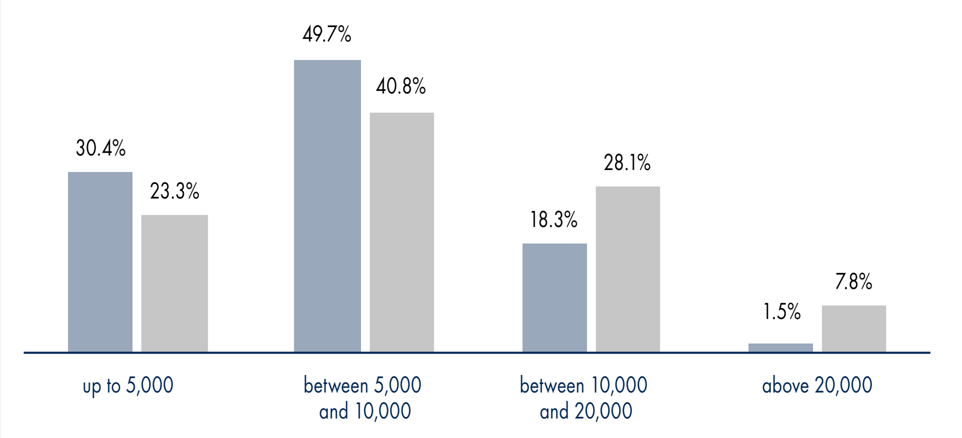


In the entire period when the Voluntary APE scheme was in force, the total amount of premiums for term life policies was €71.2 million, while the insured capital, calculated at the end of the payment period for each account, amounted to €291.4 million. These amounts are gross of partial or total repayment of the loan and of early retirements, which reduced the total amount of open positions, written premiums and insured capital.

The average single APE premium was €9,010, €9,856 for contracts subscribed by men and €7,318 for those of women. Almost 65% of men's policies and 80% of women's were smaller than €10,000 (Figure 4). Premiums above €20,000 accounted for 7.8% of the contracts signed by men but just 1.5% of women's.

Figure 4
Insurance coverage by amount of premium (in Euro) and by sex

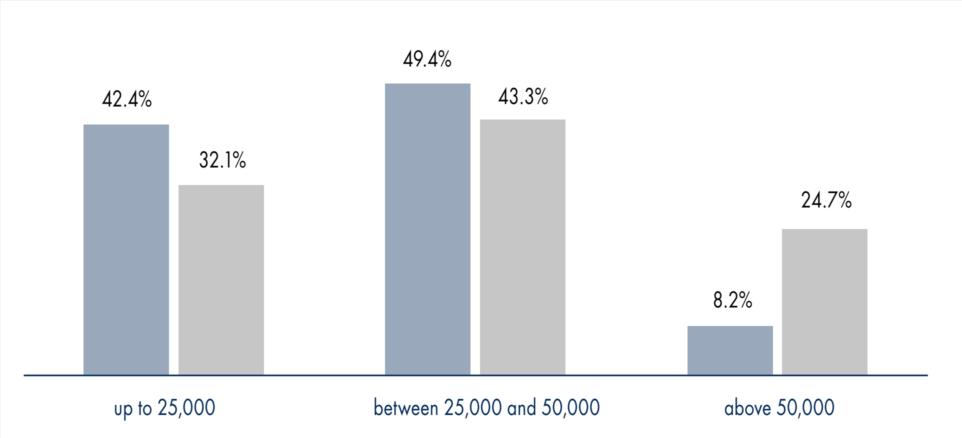
Women
Men



The average amount of insured capital was €36,897, €40,408 for male applicants and €29,881 for women. Around 90% of policies for women had a capital of €50,000 or less, compared with only 75% for male applicants (Figure 5). Only 5% of the policies stipulated by men exceeded €100,000 of insured capital.

Figure 5
Insurance coverage by insured capital (in Euro) and by sex

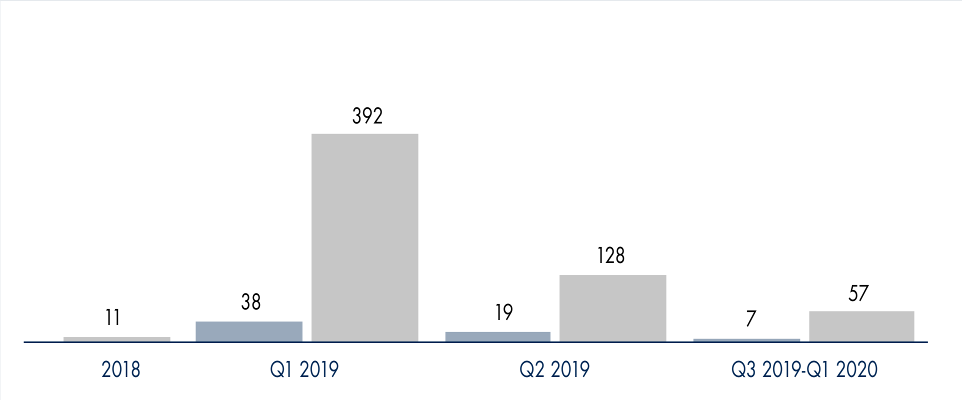
Women
Men



Finally, with the introduction of other forms of flexibility, first and foremost the new requirements for the “quota 100” retirement scheme, from the first quarter of 2019 there was a growth in the number of requests for interruption of the Voluntary APE scheme, since the applicants had access to an alternative early retirement plan (Figure 6).

Figure 6
Requests for interruption of APE scheme for early retirement

Women
Men

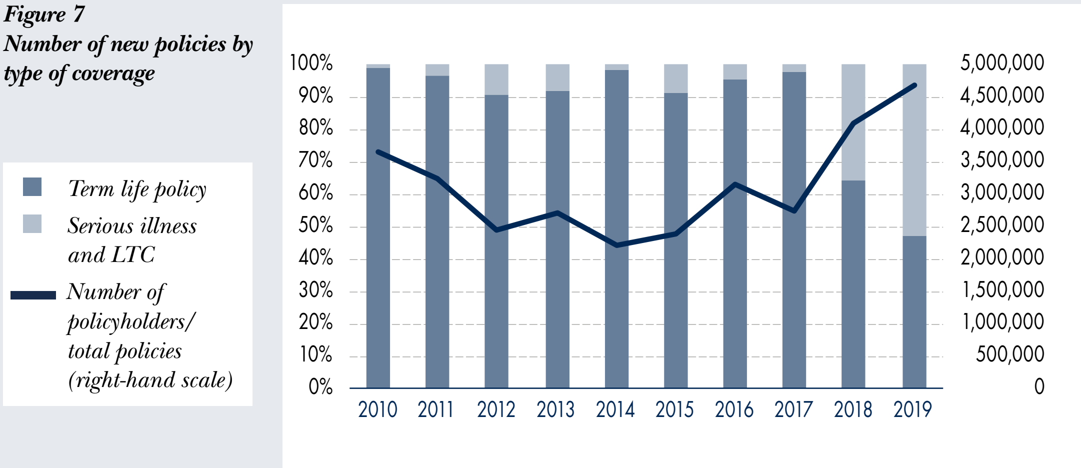


Analysis of the main characteristics of pure risk life policies placed since 2010

This analysis examines the characteristics of the pure risk life policies – i.e. products covering the risk of death (term life policies), disability, serious illness or non-self-sufficiency (LTC - Long-term care) – purchased in the last ten years.

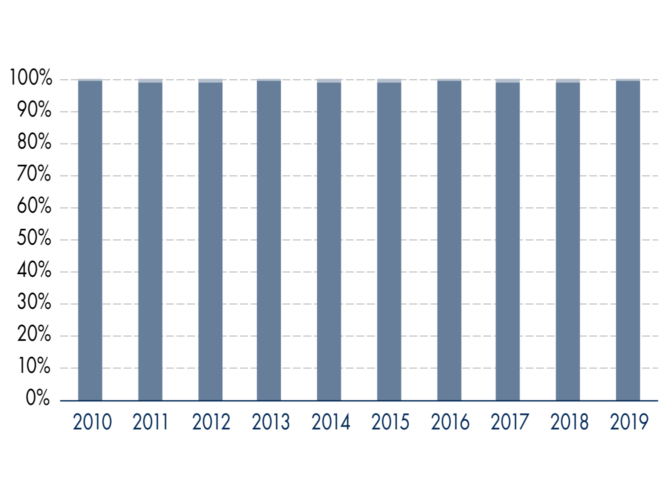
Over the last decade, these policies have shown significant growth in the number of insured under new contracts, from around 3.6 million in 2010 to 4.7 million at the end of 2019 (Figure 7). This increase was due to an increase in policies covering the risk of serious illness and LTC which, in the same period, soared from under 25,000 to over 1.9 million, according to IVASS data. This growth, which has been particularly sharp in the last few years and in group policies, is presumed to be due to the renewal of agreements signed by health care funds and firms, partly in response to the new tax incentives for corporate fringe benefits for employees. In the same period, the drop in the number of new term life policies was significant, from 2.2 million in 2010 to 1.7 million in 2019. Note that these figures do not take multiple enrollments into account.

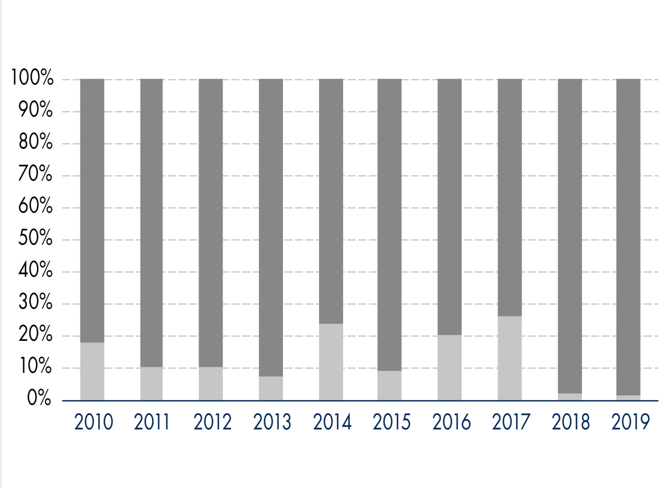
Figure 7
Number of new policies by type of coverage



With reference to the type of benefit, in term life policies there is a strong prevalence of policies where the benefit is in the form of a lump-sum capital payment (Figure 8 - left-hand graph), while in the case of serious illness and LTC the benefit is most commonly in the form of an annuity (Figure 8 - right-hand graph).

Figure 8
Number of new policies by type of coverage and contract





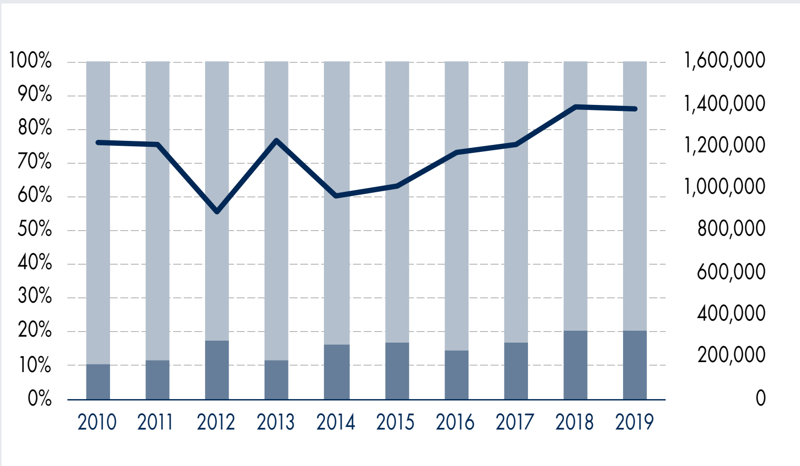
Capital term life policy
Annuity term life policy

Serious illness and LTC capital
Serious illness and LTC annuity

As to methods of payment of the premium, single-premium contracts accounted for the bulk, although their share dropped from 90% of premiums in 2010 to 80% in 2019 (Figure 9).

Figure 9
Pure risk life premiums from new business by method of payment

Periodic premiums
Single premiums
Total premiums (right hand scale)



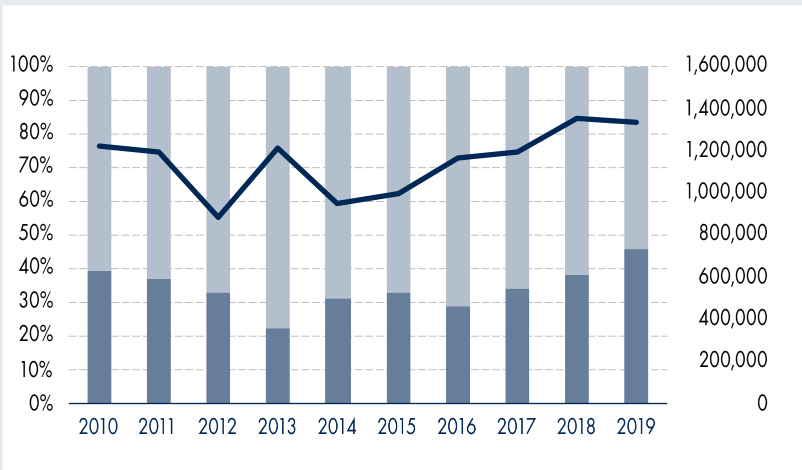
Type of premium payment varies with type of coverage. In term life policies, single-premium contracts predominate (Figure 10 - left-hand graph), while in the case of serious illness and LTC, periodic premiums are far more prevalent, representing around 70% of the new business for this type of coverage in 2019 (Figure 10 - right-hand graph).

Figure 10
Premiums from new business by type of coverage and method of payment

For term life policies alone, there was a growth in the share of individual coverage, from slightly under 40% (€480 million in premiums from new business) in 2010 to 46% (€588 million) in 2019 (Figure 11), against an increase in total premiums from new business from around €1.2 billion to almost €1.3 billion.

Figure 11
Term life premiums from new business divided between individual and group policies
Euro thousands

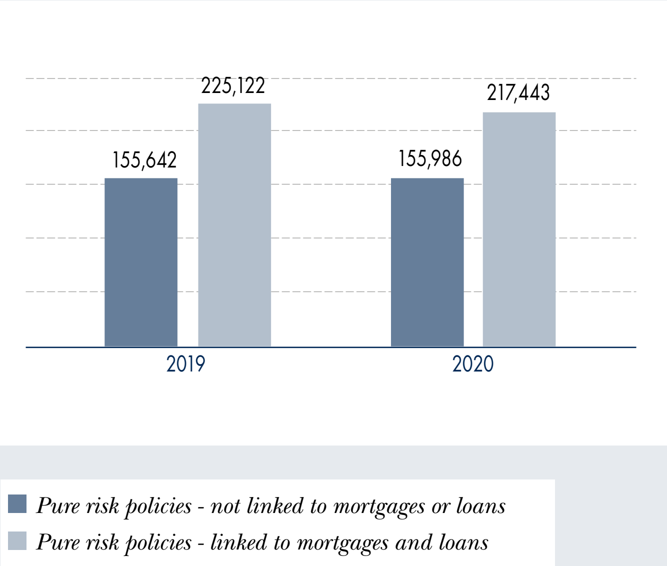
Individual term life policies
Group term life policies
Total premiums (right hand scale)



Finally, in the first part of 2020, pure risk policies from new business, after initial growth, ended the quarter with a shrinkage of just under 2% compared with the same period of 2019. In particular, in the first quarter of 2020, new premiums linked to mortgage and consumer credit loans came to around €217 million (Figure 12 - left-hand graph), 3.4% less than in the first quarter of 2019, while the volume of new premiums unrelated to mortgages or consumer credit remained stable. With reference to the types of risk, there was a moderate reduction in new premium collection for term life policies (-2.2%), while for serious illness and LTC (Figure 12 - right-hand graph), premiums were practically unchanged.

Ania

Figure 12
New premiums in the 1st quarter 2019-2020 by linkage (left) and by type of risk (right)
Euro thousands

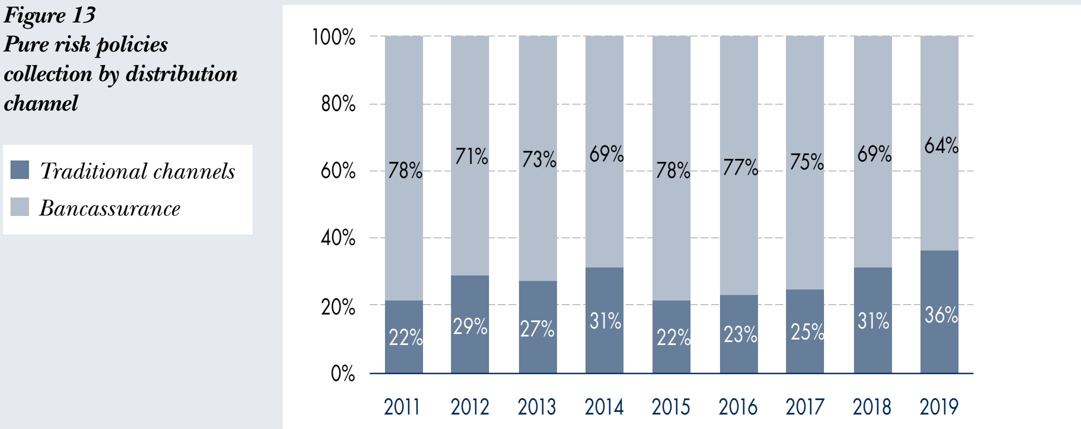


Analysis of pure risk policies by distribution channel

The numbers of new policies activated and the amount of premiums and benefits, as described in the previous sections, can also be analyzed according to distribution channel.

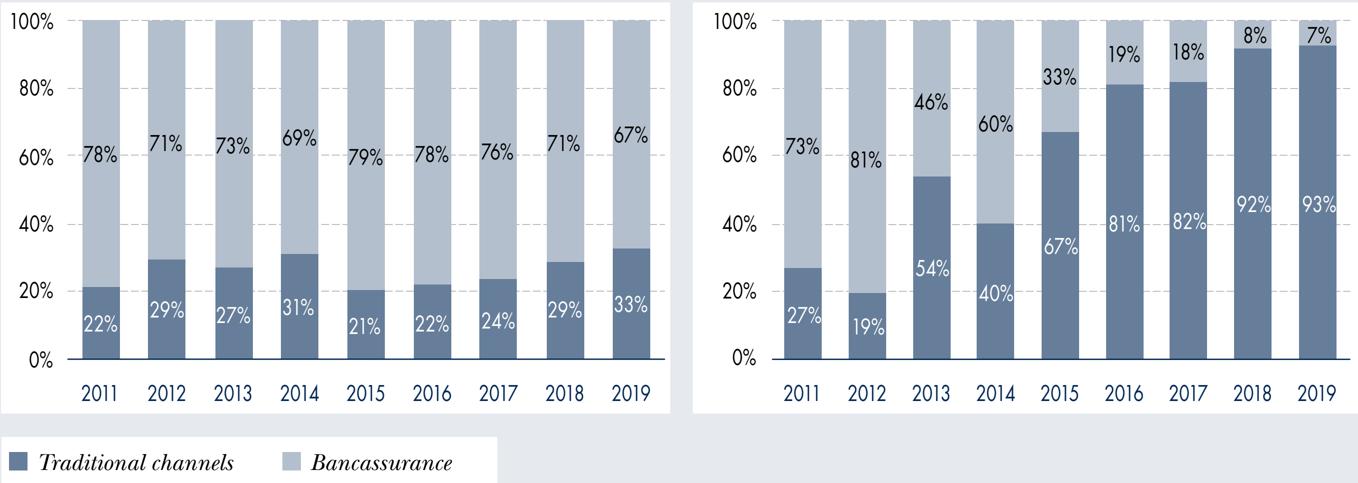
Between 2011 and 2019 the bancassurance channel – here defined as the sum of policies distributed through banks, post offices and financial salesmen – remained predominant, but with a decline in market share from 78% in 2011 to 64% in 2019 (Figure 13), against growth in collection from the other channels, mainly agencies, from 22% to 36%).

Figure 13
Pure risk policies collection by distribution channel



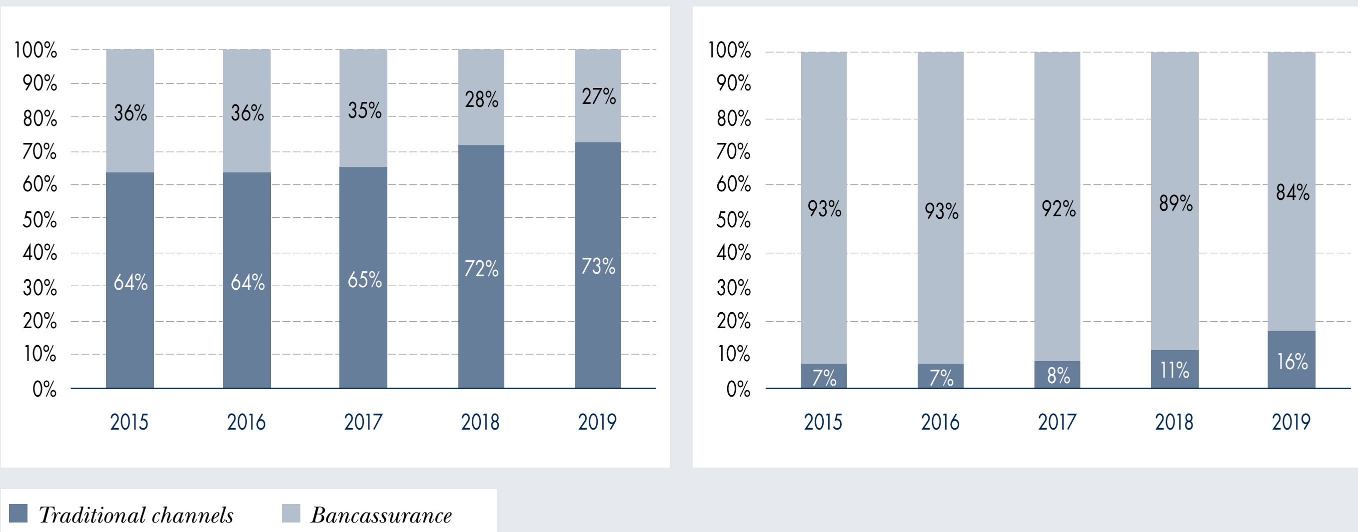
Breaking the various types of coverage down according to channel, in the period considered premium collection through the traditional channels grew moderately for term life policies (Figure 14 - left-hand graph), while there was a significant increase in serious illness and LTC policies; for the latter, these channels collected more than 90% of premiums from new business in 2019, whereas in 2011 they had distributed only slightly more than one fourth of them (Figure 14 - right-hand graph).

Figure 14
Premiums from new business for term life policies (left), serious illness and LTC (right) by distribution channel



Since 2015 ANIA has measured the share of premiums from new business relating to pure risk policies both with and without linkage to mortgages or consumer credit. In the period, for loan-linked policies, banks, post offices and financial salesmen were the predominant channels, collecting 84% of total premiums in 2019 (Figure 15 - right-hand graph). Conversely, with reference to non-loan-linked policies, the traditional channel grew in terms of premium collection from around 64% of premiums from new business in 2015 to 73% in 2019 (Figure 15 - left-hand graph).

Figure 15
Premiums from new business divided between non-loan-linked (left) and loan-linked policies (right) by distribution channel



CHANGES IN THE LEGISLATION GOVERNING INDIVIDUAL SAVING PLANS

A long series of legislative acts have modified the rules governing individual saving plans (PIRs) since they were introduced in Italian legislation. Among the most significant are those enacted with Decree Law 124/2019 (Urgent provisions on tax matters) converted into Law 157/2019.

Previously the 2019 budget law, in response to the pressing requests of the sectors involved to make it easier to channel the resources accrued in individual savings plans to SMEs and venture capital initiatives, substantially altered the framework for the plans, redefining the minimum tied investment percentages in order to qualify the individual saving plan as compliant (and as such eligible for tax benefits, i.e the personal income tax exemption for the yields on the plan's underlying assets, on the conditions prescribed by law).

In particular, within the tied investment share – at least 70% of the total value of the investment – in equities and bonds of listed and unlisted companies resident in Italy (or in the EU or other EEA Agreement member states but with a permanent establishment in Italy), the legislation set the new minimum tied investment percentage at 5% of that share in financial assets traded in multilateral trading facilities and an additional 5% in shares or units of venture capital funds resident in Italy that invest at least 70% of the capital raised in unlisted SMEs.

The new minimum tied investment thresholds were applied only to PIRs instituted after 1st January 2019: this clarification made it possible to maintain the same structure of investments underlying the PIRs subscribed (or signed through a PIR-compliant insurance contract) through 31st December 2018 in compliance with the minimum investment thresholds originally set by the 2017 budget law (namely 49% of the total value of the investment in equities or bonds issued by companies resident in Italy or in other EU or EEA member states having a permanent establishment in Italy; 21% in equities or bonds issued by resident companies not listed on the Italian FTSE MIB index; and 30% unconstrained investment).

These amendments fueled a protracted and profound debate among the different parties in the financial world on the desirability of introducing specific percentage investment obligations on PIRs – for the purposes of tax benefits – to invest in financial assets that may not be easily liquidated.

This situation of great uncertainty affected PIRs in 2019, when their growth slowed down significantly; with reference to the insurance industry, ANIA informed the relevant parliamentary fora of the objective difficulties of insurance companies in designing PIRs that are compliant with the new criteria set by the 2019 budget law, while at the same time meeting the standards of security, profitability and liquidity laid down by the insurance supervisory regulations for the assets covering mathematical provisions.

The objective fact that the fundraising of PIRs was brought to a halt, de facto, by the new investment thresholds under the 2019 budget law induced Parliament to intervene again.

Following the urgent demands for modifications of the PIR regulations on investment parameters, new minimum investment thresholds in qualified assets were introduced for plans instituted after 1st January 2020 (see Decree Law 124/2019 of 26 October, art. 13-*bis*, converted into Law 157 of 19 December 2019).

More precisely, in compliance with the previous provisions originally introduced by the 2017 budget law, it was confirmed that for at least two thirds of each calendar year at least 70% of the PIR's total investment must go, directly or indirectly, to financial instruments, including those not traded in regulated markets or multilateral trading facilities, issued or subscribed with companies resident in Italy or in EU or EEA member states with a permanent establishment in Italy.

Conversely, the minimum investment percentages were appropriately adjusted and calculated as a function of the 70% tied portion of total investment within the plan:

– at least 25% of the tied portion must be invested in financial assets of companies that are not included in the Italian FTSE MIB index or equivalent indexes of other regulated markets; and
– a further 5% of this portion must be invested in financial assets of firms not included in the Italian FTSE MIB and FTSE Mid Cap indexes or equivalent indexes of other regulated markets.

Essentially, that is, without prejudice to the 30% ceiling on the unencumbered investment share (except for the ceiling of 10% on allocations to deposits, current accounts or assets by the same issuer or counterparty or companies belonging to the same group), as a result of the amendments effected by Decree Law 124/2019 to the mandatory composition of the 70% tied investment share, qualified investments must comply with the following requirements:

– at least 49% of the total value of the investment must be invested in financial instruments, including those not traded in regulated markets or multilateral trading facilities, issued or subscribed with companies resident in Italy or in EU or EEA member states with a permanent establishment in Italy – similar both quantitatively and qualitatively to the previous legislation;
– at least 21% of the total value must be invested in financial instruments of firms that are not included in the Italian FTSE MIB index or equivalent indexes of other regulated markets, of which at least 3.5% in financial instruments of firms that are not included in the Italian FTSE MIB and FTSE Mid Cap indexes or equivalent indexes of other regulated markets.

To conclude, the aforementioned amendments were intended to modify the rules by specifying that the minimum investment requirement in these less liquid assets is to be satisfied within the 30% investment portion compulsorily allocated to financial instruments of firms not listed on the Italian FTSE MIB or equivalent regulated markets in other countries. Therefore, the "generic" minimum portion, to be invested in financial instruments of companies resident in Italy or in other EU or EEA member states with permanent establishments in Italy – equal to 49% of the amounts or values allocated by the PIR – remains unchanged.

ANIA has dealt with the issue of adapting the first-generation individual saving plans to the new mandatory investment thresholds and designing new plans that are compliant with the new regulations.

4

NON-LIFE INSURANCE

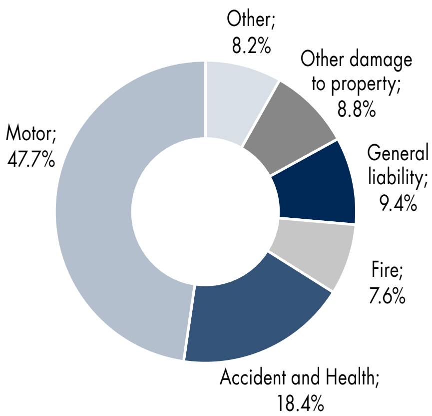
NON-LIFE INSURANCE

In 2019, non-life classes' premium income amounted to €34.3 billion, up 3.2% from 2018, continuing the positive trend that started in the last quarter of 2016. The non-life classes' share of total premiums fell slightly from 24.5% to 24.4% as a result of the sharper increase in life premiums. The combined ratio for this accident year showed a slight deterioration (91.2% against 90.3% in 2018) as both the expense ratio and the loss ratio for this accident year worsened. The overall technical account result was €3 billion, up slightly from 2018.

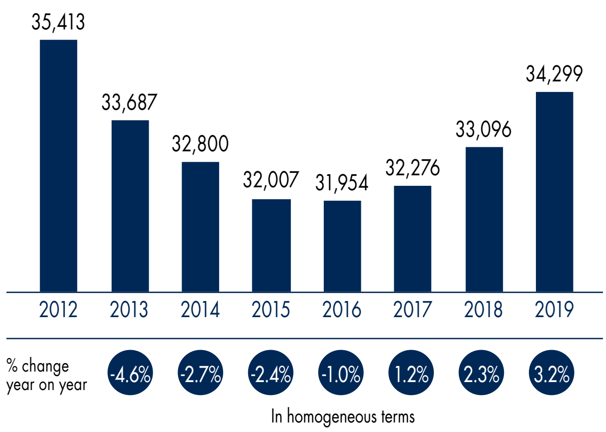
DOMESTIC BUSINESS

Premiums from direct domestic business for the 70 Italian companies and 3 branch offices of extra-EU companies operating in Italy in non-life classes amounted to €34,299 million, with growth of 3.2% calculated in homogeneous terms compared with the previous year. This increase was ascribable to non-motor insurance alone, which recorded a 6.3% rise in premiums. The ratio to total (non-life plus life) premiums was equal to 24.4%, with a slight drop compared with the 24.5% registered in 2018.

Breakdown of main non-life classes - 2019



Direct premiums and change on year (%)
Euro million



Earned premiums, calculated as the difference between written premiums and the changes in premium reserves and other balance items, amounted to €33,486 million, up from 2018.

The **incurred claims cost**, defined as the sum of the total settlement costs and the total amount reserved for all claims incurred in the current financial year, amounted to €23,368 million, up 5% from 2018. Given that the costs showed higher growth in percentage terms than premiums, the ratio of claims to premiums worsened compared with 2018 (from 68.9% to 69.8%).

NON-LIFE INSURANCE

Non-life technical account
Euro million

	2012	2013	2014	2015	2016	2017	2018	2019
Gross written premiums	35,413	33,687	32,800	32,007	31,954	32,304	33,096	34,299
Changes in premium reserve and other items (-)	-473	-754	-388	-176	104	499	556	813
Incurred claims (-):	25,793	22,400	21,201	20,080	20,008	20,234	20,372	21,211
- incurred claims cost for the current accident year (-)	24,813	22,891	22,301	21,691	21,842	22,311	22,431	23,368
- excess/shortfall for claims in previous years	-981	491	1,100	1,611	1,833	2,077	2,059	2,157
Balance of other technical items	-663	-605	-527	-599	-612	-609	-577	-581
Operating expenses (-)	8,504	8,433	8,599	8,647	8,767	8,907	9,172	9,552
- commissions	5,509	5,361	5,350	5,378	5,565	5,688	5,844	6,026
- other acquisition costs	1,422	1,478	1,629	1,617	1,489	1,477	1,523	1,675
- other administration costs	1,573	1,594	1,621	1,652	1,713	1,742	1,806	1,852
Direct technical balance	**926**	**3,004**	**2,860**	**2,856**	**2,462**	**2,055**	**2,419**	**2,141**
Investment income	1,607	1,202	1,278	1,220	1,044	1,155	704	1,194
Direct technical account result	**2,533**	**4,205**	**4,138**	**4,077**	**3,507**	**3,210**	**3,123**	**3,335**
Reinsurance result	537	-772	-600	-495	-587	-253	-333	-326
Overall technical account result	**3,070**	**3,434**	**3,538**	**3,581**	**2,920**	**2,958**	**2,790**	**3,009**
Annual % change in premiums	-1.9%	-4.6%	-2.7%	-2.4%	-1.0%	1.2%	2.3%	3.2%
Combined ratio	**95.9%**	**90.1%**	**90.1%**	**89.4%**	**90.3%**	**91.2%**	**90.3%**	**91.2%**
- Expense ratio	24.0%	25.0%	26.2%	27.0%	27.4%	27.6%	27.7%	27.9%
- Commissions/Gross written premiums	15.6%	15.9%	16.3%	16.8%	17.4%	17.6%	17.7%	17.6%
- Other acquisition costs/Gross written premiums	4.0%	4.4%	5.0%	5.1%	4.7%	4.6%	4.6%	4.9%
- Other administration costs/Gross written premiums	4.4%	4.7%	4.9%	5.2%	5.4%	5.4%	5.5%	5.4%
- Loss ratio:	71.9%	65.0%	63.9%	62.4%	62.8%	63.6%	62.6%	63.3%
- Loss ratio for the current accident year	69.1%	66.5%	67.2%	67.4%	68.6%	70.1%	68.9%	69.8%
- Excess/shortfall of claim reserves for previous years/Earned premiums	-2.7%	1.4%	3.3%	5.0%	5.8%	6.5%	6.3%	6.4%
Technical balance/Earned premiums	**2.6%**	**8.7%**	**8.6%**	**8.9%**	**7.7%**	**6.5%**	**7.4%**	**6.4%**
Technical account result/Earned premiums	**7.1%**	**12.2%**	**12.5%**	**12.7%**	**11.0%**	**10.1%**	**9.6%**	**10.0%**
Overall technical account result/Earned premiums	**8.6%**	**10.0%**	**10.7%**	**11.1%**	**9.2%**	**9.3%**	**8.6%**	**9.0%**
Premiums as ratio to total life plus non-life premiums (%)	*33.7%*	*28.4%*	*22.9%*	*21.8%*	*23.8%*	*24.7%*	*24.5%*	*24.4%*

Indexes and changes (%) are calculated on data in Euro thousands.
Changes calculated for a homogeneous group of companies.

Incurred claims, which along with the cost incurred for the current accident year also include any excess/shortfall of the amounts reserved for claims incurred in previous accident years, amounted to €21,211 million, more than in 2018. A factor in this result was the significant release of provisions set aside for claims incurred in the previous years, amounting to €2,157 million (€2,059 million in 2018). The loss ratio to earned premiums thus worsened compared with 2018, rising from 62.6% to 63.3%.

Operating expenses, i.e. costs of contract acquisition, premium collection and dealers' organization and management expenses, as well as administration expenses for technical management, amounted to €9,552 million, representing growth of approximately 3% and a ratio to direct premiums of 27.9% (27.7% in 2018). Other administration expenses diminished from 5.5% to 5.4% of premiums and commissions paid from 17.7% to 17.6%, while other acquisition expenses rose from 4.6% to 4.9%.

The **technical balance for direct business** was positive by €2,141 million, down from €2,419 million in 2018.

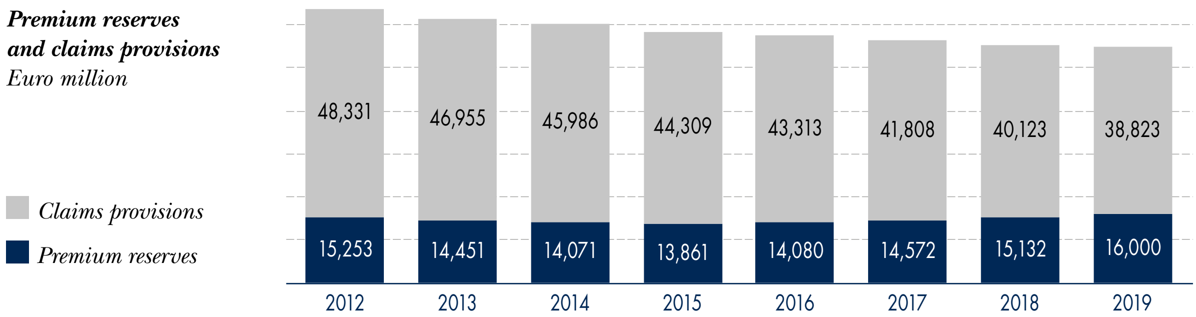
Counting also investment income of €1,194 million (€704 million in 2018), the **direct technical account result** was positive by €3,335 million (€3,123 million in 2018). Its ratio to earned premiums came to 10.0% (9.6% in 2018).

The result for reinsurance cessions and net indirect business was negative by €326 million (against -€333 million in 2018).

Therefore **the overall technical account result** was positive by €3,009 million (€2,790 million in 2018), and the ratio to earned premiums rose from 8.6% to 9.0%.

Direct technical reserves, net of sums to be recovered from policyholders and third parties, were equal to €54,823 million at the end of 2019, of which €16,000 million consisted in premium reserves and €38,823 million in claim provisions.

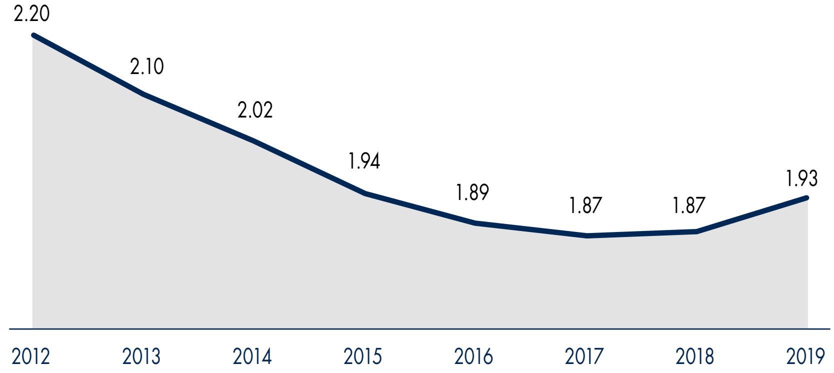
Premium reserves and claims provisions
Euro million



NON-LIFE INSURANCE AND GDP

The ratio of direct non-life insurance premiums to GDP, after a long period of shrinkage, rose from 1.87% in 2018 to 1.93% in 2019.

Non-life premiums/GDP (%)



5

MOTOR INSURANCE

MOTOR INSURANCE

In 2019 motor insurance premiums diminished by 0.8%, on a uniform basis, after having held practically unchanged in 2018. The combined ratio came to 97.5%, about the same as the previous year, owing to broad stability in all the technical components. The technical result came to €645 million. The technical indicators for land vehicle insurance worsened, although the technical result remained positive.

MOTOR LIABILITY OPERATIONS

The data indicated below include figures relating to compulsory third party liability insurance for watercraft.

Premiums for direct domestic business, collected by the 42 companies operating in this class, totaled €13,244 million in 2019, down by 0.8%, when calculated for a homogeneous group of firms. This new contraction, following the tiny gain of 0.1% registered in 2018, essentially continued the six-year series of substantial declines averaging some 4% or 5% annually from 2012 through 2017, bringing total premiums down by nearly 26% compared with 2011. Motor liability now accounts for 38.6% of total premiums for non-life classes (down from 40.0% in 2018 and 49.6% in 2012). In addition, a significant share of premiums (4.5% of the total, amounting to almost €610 million) was collected by branch offices of foreign companies registered in EU countries operating under the freedom of establishment. These insurers too reversed the trend of recent years: their written premiums, after falling 35% between 2013 and 2017, gained about 10% in 2018 and another 5.5% last year. Overall, Italian, EU and non-EU insurers collected total premium income of €13,854 million in 2019, down 0.6%. No data on technical results are available for the non-Italian EU companies, as they are subject to the home country supervisory authorities under the principle of home country control.

Earned premiums, i.e. total premiums net of the change in premium reserves and some other balance items, came to €13,229 million, practically the same as in 2018.

The **incurred claims cost for the current accident year**, defined as the sum of the total cost paid and the total cost reserved for all claims incurred in 2019, amounted to €10,667 million, about the same as in 2018. This reflects the broad stability both in the total number of claims (including the estimate of claims incurred but not reported) and in the average cost of claims.

The ratio of claims cost to premium income in the 2019 accident year edged marginally upward from 80.3% to 80.4%.

The **incurred claims cost for the financial year**, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal to

€10,113 million, compared with €10,073 in 2018. The difference with respect to incurred claims cost reflected the utilization of €554 million in excess reserves for previous years. The excess of previous years' reserves came to 4.2% of earned premium income, and the loss ratio accordingly rose from 76.1% to 76.3%.

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €2,815 million (€2,795 million in 2018). The ratio of expenses to premium income edged up from 21.1% to 21.3%. In particular,

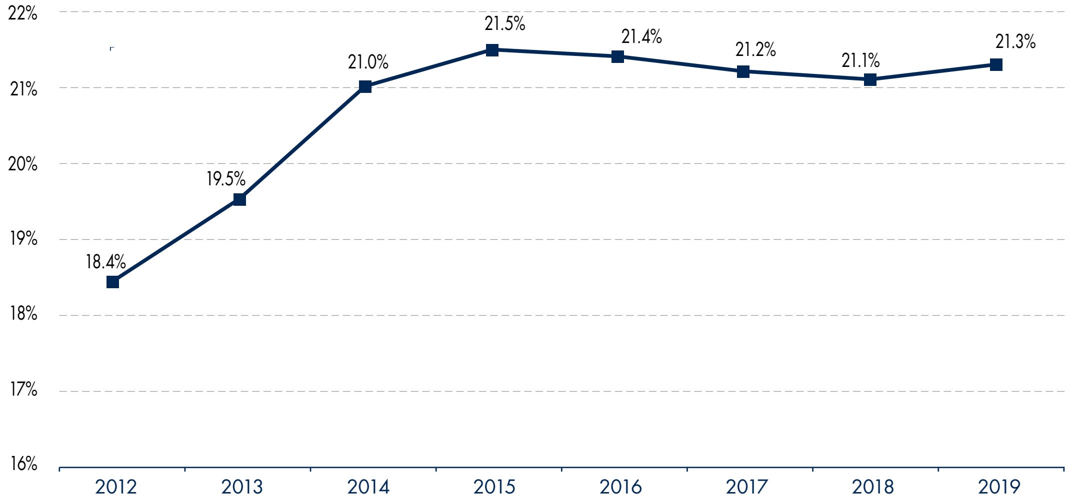
Motor and marine liability insurance
Euro million

	2012	2013	2014	2015	2016	2017	2018	2019
Gross written premiums	17,576	16,263	15,211	14,218	13,526	13,234	13,252	13,244
Changes in premium reserves and other items (-)	-121	-572	-347	-232	-164	-17	17	-15
Incurred claims (-)	13,110	11,563	10,818	10,421	10,421	10,053	10,073	10,113
– incurred claims cost for the current accident year (-)	12,108	11,539	11,176	11,032	11,022	10,773	10,631	10,667
– excess/shortfall of reserves for those claims incurred in prev. accident years	-1,002	-24	358	611	601	720	558	554
Balance of other technical items	-272	-248	-143	-127	-172	-185	-187	-194
Operating expenses (-)	3,233	3,167	3,187	3,060	2,900	2,805	2,795	2,815
– commissions	1,840	1,732	1,634	1,571	1,521	1,457	1,440	1,430
– other acquisition costs	638	690	789	731	631	614	601	645
– other administration costs	755	746	765	757	749	734	753	740
Direct technical balance	**1,084**	**1,857**	**1,410**	**842**	**196**	**208**	**180**	**138**
Investment income	799	613	654	600	500	531	312	508
Direct technical account result	**1,883**	**2,469**	**2,064**	**1,442**	**696**	**738**	**493**	**645**
Reinsurance results	1	-47	-1	10	-16	-37	-26	-3
Overall technical account result	**1,883**	**2,423**	**2,063**	**1,452**	**680**	**702**	**466**	**642**
Annual % change in premiums	-1.2%	-7.0%	-6.5%	-6.5%	-5.6%	-2.2%	0.1%	-0.8%
Combined ratio	**92.5%**	**88.2%**	**90.5%**	**93.6%**	**97.6%**	**97.1%**	**97.2%**	**97.5%**
– Expense ratio	18.4%	19.5%	21.0%	21.5%	21.4%	21.2%	21.1%	21.3%
- Commissions/Gross written premiums	10.5%	10.6%	10.7%	11.1%	11.2%	11.0%	10.9%	10.8%
- Other acquisition costs/Gross written premiums	3.6%	4.2%	5.2%	5.1%	4.7%	4.6%	4.5%	4.9%
- Other administration costs/Gross written premiums	4.3%	4.6%	5.0%	5.3%	5.5%	5.5%	5.7%	5.6%
– Loss ratio:	74.1%	68.7%	69.5%	72.1%	76.1%	75.9%	76.1%	76.3%
- Loss ratio for the current accident year	68.4%	68.5%	71.8%	76.3%	80.5%	81.3%	80.3%	80.4%
- Excess/shortfall of reserves for previous years claims/Earned premiums	-5.7%	-0.1%	2.3%	4.2%	4.4%	5.4%	4.2%	4.2%
Technical balance/Earned premiums	**6.1%**	**11.0%**	**9.1%**	**5.8%**	**1.4%**	**1.6%**	**1.4%**	**1.0%**
Technical account result/Earned premiums	**10.6%**	**14.7%**	**13.3%**	**10.0%**	**5.1%**	**5.6%**	**3.7%**	**4.9%**
Overall technical account result/Earned premiums	**10.6%**	**14.4%**	**13.3%**	**10.1%**	**5.0%**	**5.3%**	**3.5%**	**4.8%**
Premiums over total non-life premiums (%)	*49.6%*	*48.3%*	*46.4%*	*44.4%*	*42.3%*	*41.0%*	*40.0%*	*38.6%*
Premiums of EU representatives	**954**	**956**	**805**	**762**	**631**	**618**	**679**	**610**
Annual change in premiums (%)	-1.5%	4.8%	-0.6%	-11.8%	-15.8%	-3.6%	9.8%	5.5%
Total premiums of Italian, other EU and non-EU insurers	**18,530**	**17,219**	**16,016**	**14,980**	**14,157**	**13,852**	**13,931**	**13,854**
Annual change in premiums (%)		-7.3%	-7.0%	-6.5%	-5.5%	-2.2%	0.6%	-0.6%

Indexes and changes (%) are calculated on data in thousands of euros.
Changes (%) were calculated in homogeneous terms. Note that the representative offices of two insurers with legal offices in countries of the European Economic Space were incorporated into the portfolio of direct Italian insurance business in 2019,

the incidence of “other administration costs” on income came marginally down from 5.7% to 5.6%, while that of commissions diminished from 10.9% to 10.8%, and that of other acquisition costs rose from 4.5% to 4.9%.

Operating expenses
(%) of premiums



Adding the loss ratio (for the current year or the entire policy year) to the expense ratio gives the **combined ratio** (for the current year or for the entire policy year, which also includes the excess/shortfall of reserves set aside against claims incurred in previous accident years). The figure, plotting the combined ratio from 2012 to 2019, shows that:

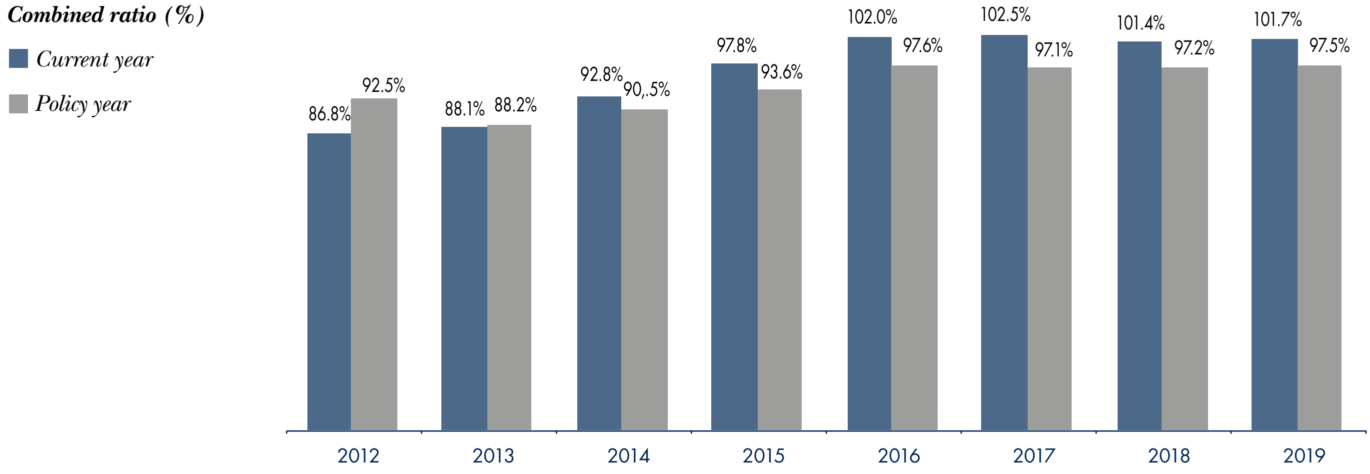
1) The combined ratio for the accident generation of 2019 was 101.7%, representing a very slight deterioration of 0.3 percentage points compared with the 2018 generation (101.4%) but nearly 15 points worse than in 2012, when the ratio stood at 86.8%, the best technical result on record.
2) In the two years 2012-2013 the balance-sheet combined ratio for the policy year (current year + previous years) was equal to or higher than that of the current accident year, showing that there was a shortfall (sometimes quite substantial) of reserves against previous years’ claims. In 2014, and more significantly in the years that followed, drawings on excess reserves were sufficient to push the combined ratio for the policy year below that for the current year.

The foregoing variations in the relevant components produced an offset between income and expenses, resulting in a positive **technical balance** of €138 million, down from €180 million in 2018.

Owing to the rise in profits from investments from €312 million in 2018 to €508 million last year, the **result of the technical account for direct business** was positive by €645 million (€493 million in 2018).

MOTOR INSURANCE

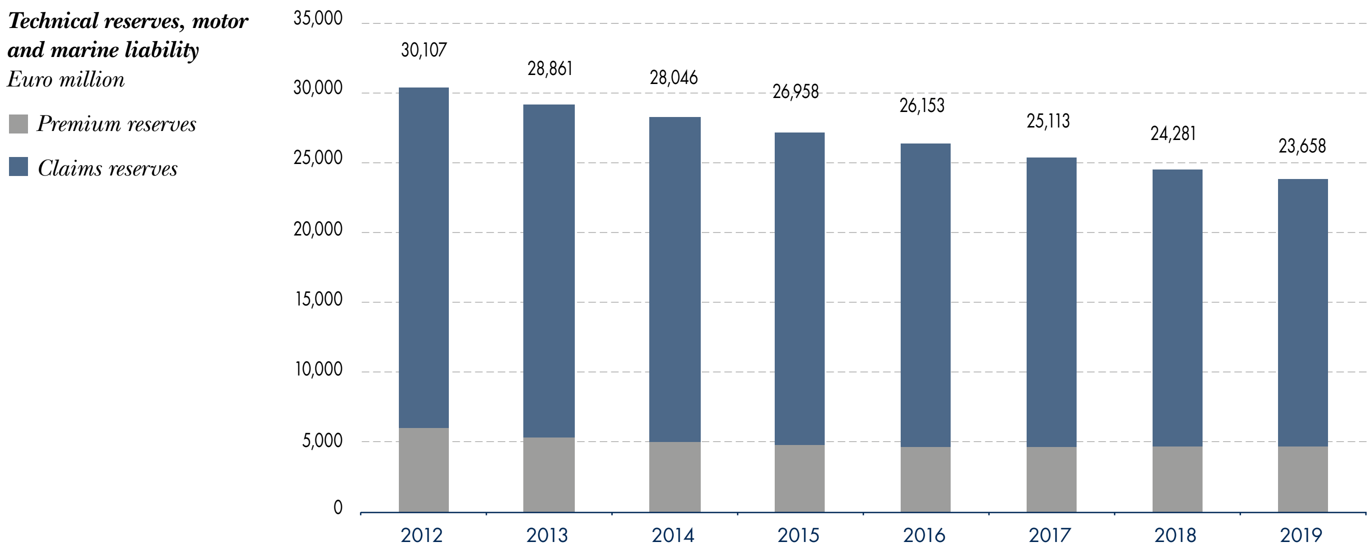
Combined ratio (%)



Taking the balance for reinsurance into account (negative by €3 million in 2019), the **overall technical account result** was positive by €642 million, up from €466 million the previous year.

The **technical reserves for direct business** of the motor and marine liability sector, net of recoverable sums, amounted to €23,658 million in 2019, down by about 2.5% compared with 2018. Among these reserves, the premium reserve was about €4,600 million, while the claims reserve for current and previous accident years was about €19,000 million.

Technical reserves, motor and marine liability
Euro million



LAND VEHICLE INSURANCE OPERATIONS

The legally defined class of "land vehicles" comprises insurance against all forms of damage to or loss of land motor vehicles. Essentially, this means fire, theft and collision insurance (partial or total).

Premiums for direct domestic business for the 45 insurance companies operating in this class amounted to €3,112 million in 2019, accounting for 9.1% of total non-life insurance premiums. This represented an increase in premiums of 4.4%, continuing the growth under way since 2015; in the last five years premiums have increased by a total of 31.5%, following a seven-year contraction in 2008-14 that had brought a total premium reduction of about 30%. Sales of these policies are closely correlated with new car sales, which according to ACI data had plunged by over 40% in 2009-2013 but then rebounded to growth of 5.5% in 2014, 15% in 2015, 18% in 2016 and 7% in 2017.

Earned premiums, i.e. total premiums net of the change in premium reserves and some other balance items, came to €3,026.

Land vehicle insurance
Euro million

	2012	2013	2014	2015	2016	2017	2018	2019
Gross written premiums	2,648	2,413	2,387	2,455	2,634	2,800	2,966	3,112
Changes in premium reserves (-)	-72	-76	-13	54	87	119	106	86
Incurred claims (-)	1,630	1,654	1,459	1,396	1,463	1,626	1,687	2,068
– incurred claims cost for the current accident year (-)	1,701	1,695	1,512	1,463	1,515	1,673	1,726	2,088
– excess/shortfall of reserves for those claims incurred in prev. accident years	71	41	53	67	53	47	38	21
Balance of other technical items	-28	-21	-10	-11	-14	-11	-10	-9
Operating expenses (-)	703	660	692	733	804	861	935	998
– commissions	477	447	460	492	547	594	641	671
– other acquisition costs	109	102	117	119	122	125	137	164
– other administration costs	117	111	115	121	134	142	157	163
Direct technical balance	**360**	**154**	**238**	**261**	**268**	**184**	**228**	**-49**
Investment income	48	35	38	36	32	39	25	45
Direct technical account result	**408**	**189**	**276**	**298**	**300**	**222**	**254**	**-4**
Reinsurance results	-18	1	-27	-36	-64	-36	-37	116
Overall technical account result	**390**	**191**	**249**	**262**	**237**	**186**	**217**	**112**
Annual % changes in premiums	-8.4%	-8.6%	-1.1%	2.9%	6.5%	6.3%	5.9%	4.4%
Combined ratio	**86.4%**	**93.8%**	**89.8%**	**88.0%**	**87.9%**	**91.4%**	**90.5%**	**100.4%**
– Expense ratio	26.5%	27.4%	29.0%	29.8%	30.5%	30.7%	31.5%	32.1%
- Commissions/Gross written premiums	18.0%	18.5%	19.3%	20.0%	20.8%	21.2%	21.6%	21.6%
- Other acquisition costs/Gross written premiums	4.1%	4.2%	4.9%	4.9%	4.6%	4.4%	4.6%	5.3%
- Other administration costs/Gross written premiums	4.4%	4.6%	4.8%	4.9%	5.1%	5.1%	5.3%	5.2%
– Loss ratio:	59.9%	66.4%	60.8%	58.2%	57.4%	60.6%	59.0%	68.3%
- Loss ratio for the current accident year	62.5%	68.1%	63.0%	60.9%	59.5%	62.4%	60.3%	69.0%
- Excess/shortfall of reserves for previous years claims/Earned premiums	2.6%	1.7%	2.2%	2.8%	2.1%	1.7%	1.3%	0.7%
Technical balance/Earned premiums	**13.2%**	**6.2%**	**9.9%**	**10.9%**	**10.5%**	**6.8%**	**8.0%**	**-1.6%**
Technical account result/Earned premiums	**15.0%**	**7.6%**	**11.5%**	**12.4%**	**11.8%**	**8.3%**	**8.9%**	**-0.1%**
Overall technical account result/Earned premiums	**14.3%**	**7.7%**	**10.4%**	**10.9%**	**9.3%**	**7.0%**	**7.6%**	**3.7%**
Premiums over total non-life premiums (%)	*7.5%*	*7.2%*	*7.3%*	*7.7%*	*8.2%*	*8.7%*	*9.0%*	*9.1%*

Indexes and changes (%) are calculated on data in thousands of euros.
Changes (%) were calculated in homogeneous terms

The **incurred claims cost for the current accident year**, defined as the sum of the total paid and the total reserved for all claims incurred in the current accident year, amounted to €2,088 million, a gain of over €300 million compared with 2018. Given that this cost increased more than the volume of accrued premiums, the loss ratio for the year deteriorated, from 60.3% to 69.0%. The rise in the indicator stemmed mainly from an increase in compensation for damages due to meteorological events in 2019 (in particular storms in the Center and North of Italy).

The **incurred claims cost** for the financial year, which also includes the excess/shortfall of reserves for claims incurred in previous accident years, was equal to €2,068 million, up from €1,687 million in 2018. The loss ratio with respect to earned premiums thus worsened sharply, from 59.0% to 68.3%.

Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs, premium collection costs and costs relating to the organization and management of the distribution network – amounted to €998 million (€935 million in 2018). The ratio to premium income in 2019 was 32.1% (31.5% in 2018). In spite of the rise in premium income, the expense ratio in 2019 reached its highest value since 1998, owing above all to "other acquisition costs", which came to 5.3% of income, against 4.6% in 2018.

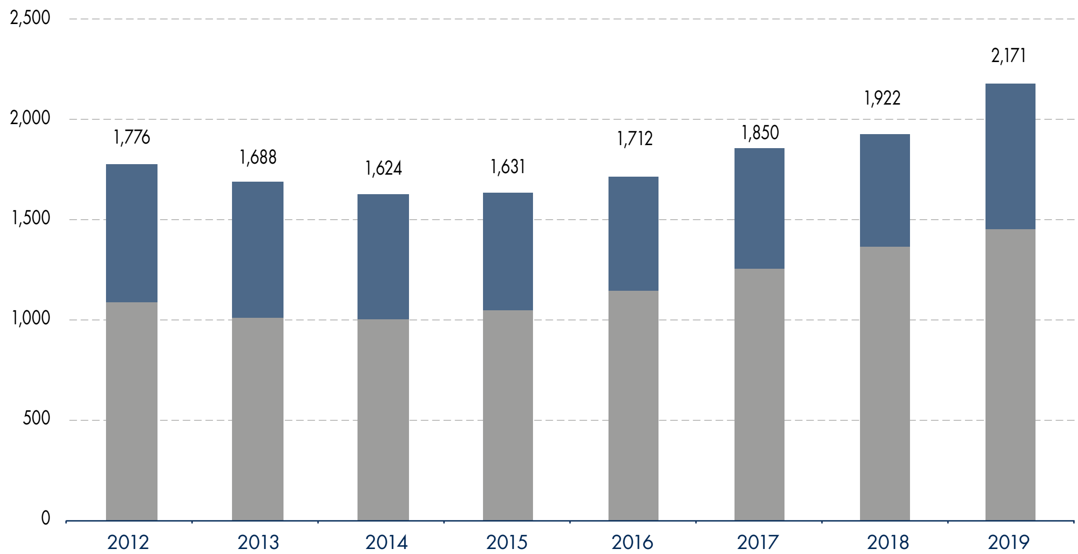
The **technical balance for direct business** was negative in 2019 by €49 million, after a positive balance of €228 million in 2018. This was the first loss registered for this item in more than twenty years.

Including investment income, the **technical account result** was negative by €4 million, compared with a positive balance of €254 million in 2018.

Thanks to the positive balance on reinsurance, the **overall technical account result** turned in a positive result at €112 million (€217 million in 2018), but the ratio to premiums fell from 7.6% to 3.7%.

Land vehicle insurance technical reserves
Euro million

Premium reserves
Claims reserves



Technical reserves for direct business, net of recoverable sums, amounted to €2,171 million in the land vehicles class in 2019, up from €1,922 million in 2018. Among these reserves, claims reserves accounted for some €700 million, while premium reserves amounted to over €1,450 million.

CAR THEFT IN ITALY

The Ministry of the Interior has released the data (not yet definitive) on thefts of passenger cars in Italy in 2019. We have compared them with the data for 2018 and 2017 (Table 1).

Table 1 – Car thefts by region

Region	Car thefts**			Change %			% of cars regist. 2019*	Car thefts per 1,000 registered		
	year 2019	year 2018	year 2017	2019 / 2018	2018 / 2017	2017 / 2016		2019	2018	2017
PIEDMONT	4,514	4,711	4,870	-4.2%	-3.3%	-13.5%	7.4%	1.54	1.60	1.66
VALLE D'AOSTA	10	18	31	-44.4%	-41.9%	-16.2%	0.5%	0.05	0.10	0.17
LOMBARDY	10,013	10,455	10,426	-4.2%	0.3%	-6.8%	15.7%	1.61	1.70	1.70
LIGURIA	401	494	528	-18.8%	-6.4%	-9.6%	2.1%	0.47	0.59	0.63
FRIULI-VENEZIA GIULIA	167	339	294	-50.7%	15.3%	-14.0%	2.0%	0.21	0.42	0.37
TRENTINO-ALTO ADIGE	142	279	140	-49.1%	99.3%	-16.2%	3.0%	0.12	0.25	0.13
VENETO	1,144	1,178	1,186	-2.9%	-0.7%	-26.2%	8.1%	0.36	0.37	0.38
EMILIA-ROMAGNA	1,946	1,977	2,113	-1.6%	-6.4%	-9.4%	7.4%	0.67	0.69	0.73
NORTH	*18,337*	*19,451*	*19,588*	*-5.7%*	*-0.7%*	*-10.5%*	*46.3%*	*1.00*	*1.08*	*1.08*
TUSCANY	1,340	1,697	1,357	-21.0%	25.1%	-19.3%	6.5%	0.52	0.67	0.54
UMBRIA	270	365	324	-26.0%	12.7%	1.6%	1.6%	0.42	0.57	0.51
MARCHE	460	624	702	-26.3%	-11.1%	1.9%	2.6%	0.44	0.61	0.68
LAZIO	17,021	16,790	15,941	1.4%	5.3%	3.9%	9.7%	4.46	4.45	4.23
CENTER	*19,091*	*19,476*	*18,324*	*-2.0%*	*6.3%*	*1.6%*	*20.4%*	*2.36*	*2.44*	*2.30*
ABRUZZO	1,030	1,117	1,507	-7.8%	-25.9%	12.5%	2.3%	1.15	1.27	1.71
MOLISE	368	281	303	31.0%	-7.3%	-19.6%	0.5%	1.71	1.32	1.42
CAMPANIA	23,554	19,369	17,969	21.6%	7.8%	-14.3%	9.0%	6.65	5.55	5.15
CALABRIA	2,326	2,793	2,522	-16.7%	10.7%	-20.2%	3.3%	1.79	2.18	1.97
PUGLIA	16,389	15,726	13,775	4.2%	14.2%	-4.6%	6.1%	6.82	6.64	5.81
BASILICATA	283	289	301	-2.1%	-4.0%	-19.1%	1.0%	0.75	0.77	0.80
SOUTH	*43,950*	*39,575*	*36,377*	*11.1%*	*8.8%*	*-10.6%*	*22.1%*	*5.03*	*4.60*	*4.22*
SICILY	13,178	11,880	11,174	10.9%	6.3%	-6.3%	8.5%	3.93	3.59	3.38
SARDINIA	847	882	1,030	-4.0%	-14.4%	-6.9%	2.7%	0.79	0.84	0.98
ISLANDS	*14,025*	*12,762*	*12,204*	*9.9%*	*4.6%*	*-6.4%*	*11.2%*	*3.17*	*2.93*	*2.80*
TOTAL ITALY	95,403	91,264	86,493	4.5%	5.5%	-7.6%	100.0%	2.41	2.34	2.22

Sources: (*) Ministry Infrastructures and Transport / ACI – No. vehicles registered at 31 December 2019.
(**) Ministry of Interior – The data for 2019 are subject to rectification.

The number of vehicle thefts rose in 2019 for the second straight year, from 91,264 to 95,403, an increase of 4.5%. Whereas the number of auto thefts declined steadily from 2012 to 2017 by more than a quarter overall (or about

30,000 fewer vehicles stolen), in 2018 the number of thefts turned back up, rising by some 5,000, and continued to rise at about the same pace in 2019 as well. The trend has not been paralleled by recoveries of stolen vehicles by the law enforcement forces (Table 2): in 2017 39.2% of the stolen vehicles (about 34,000) were recovered, but this slipped to 39.0% (but 35,567 vehicles) in 2018 and declined further to 35.8% last year, with about 34.200 recoveries.

Table 2
Stolen cars recovered by the law enforcement forces

Region	Stolen vehicles recovered			% stolen vehicles recovered		
	2019	2018	2017	2019	2018	2017
PIEDMONT	1,798	2,106	2,289	39.8%	44.7%	47.0%
VALLE D'AOSTA	10	9	14	100.0%	50.0%	45.2%
LOMBARDY	3,705	3,903	4,199	37.0%	37.3%	40.3%
LIGURIA	286	415	439	71.3%	84.0%	83.1%
FRIULI–VENEZIA GIULIA	80	165	151	47.9%	48.7%	51.4%
TRENTINO-ALTO ADIGE	113	105	93	79.6%	37.6%	66.4%
VENETO	734	853	865	64.2%	72.4%	72.9%
EMILIA-ROMAGNA	1,327	1,427	1,717	68.2%	72.2%	81.3%
NORTH	*8,053*	*8,983*	*9,767*	*43.9%*	*46.2%*	*49.9%*
TUSCANY	879	1,000	1,057	65.6%	58.9%	77.9%
UMBRIA	163	231	254	60.4%	63.3%	78.4%
MARCHE	219	297	379	47.6%	47.6%	54.0%
LAZIO	4,435	4,708	4,463	26.1%	28.0%	28.0%
CENTER	*5,696*	*6,236*	*6,153*	*29.8%*	*32.0%*	*33.6%*
ABRUZZO	385	422	529	37.4%	37.8%	35.1%
MOLISE	48	60	55	13.0%	21.4%	18.2%
CAMPANIA	7,746	6,609	5,391	32.9%	34.1%	30.0%
CALABRIA	1,088	1,463	1,290	46.8%	52.4%	51.1%
PUGLIA	5,609	6,300	5,876	34.2%	40.1%	42.7%
BASILICATA	52	67	77	18.4%	23.2%	25.6%
SOUTH	*14,928*	*14,921*	*13,218*	*34.0%*	*37.7%*	*36.3%*
SICILY	5,173	4,961	4,234	39.3%	41.8%	37.9%
SARDINIA	348	466	548	41.1%	52.8%	53.2%
ISLANDS	*5,521*	*5,427*	*4,782*	*39.4%*	*42.5%*	*39.2%*
TOTAL ITALY	34,198	35,567	33,920	35.8%	39.0%	39.2%

Source: Interior Ministry; the data for 2019 are subject to rectification

Using ACI's data on the provincial distribution of cars in circulation in 2019 as a base, we can make an approximate calculation of theft rates. Overall in 2019, 2.41 vehicles per thousand were stolen, compared with 2.34 per thousand in 2018 and 2.22 per thousand in 2017.

In regional terms, whereas in 2017 the territorial breakdown shows a significant decline of 10.6% in the South, 2018 saw a resurgence in auto theft in that part of the country (+8.8%), intensifying in 2019 (+11.1%). If auto thefts diminished in Calabria, Abruzzo and Basilicata in 2019 (by 16.7%, 7.8%, and 2.1% respectively), the other southern regions all showed increases. The sharpest rise was in Molise (31.0%, though in absolute terms the number of vehicles stolen in this small region was not great), followed by Campania (21.6%, or nearly 4,200 more thefts) and Puglia (4.2%, or an additional 663 thefts). Again in 2019 the regions with the highest theft rates in proportion to the number of cars on the roads were Puglia at 6.82‰ and Campania at 6.65‰.

The Center regions registered a decrease in auto theft in 2019, with a decline of 2.0%. Except for Lazio, which accounts for the bulk of auto thefts in this part of the country and which recorded an increase of 1.4% last year (200 more thefts), all the central regions showed significant decreases. The fall was sharpest in Marche (down 26.3%) and Umbria (26.0%), slightly less pronounced in Tuscany (21.0%). In the regions of central Italy the incidence of theft to cars on the road is less than 0.52‰, if we exclude Lazio, where it came to 4.46‰ (practically unchanged for the year but up from 4.23‰ in 2017). The Center regions account for some 20.4% of passenger cars on the roads.

The North also recorded a diminution in the number of thefts (down 5.7%). By region, the sharpest declines were in the regions of Friuli-Venezia Giulia, Trentino-Alto Adige, and Valle d'Aosta (the number of thefts, already very small, being practically cut in half last year). Thefts dropped by 18.8% in Liguria, by 4.2% in Piedmont and Lombardy, 2.9% in Veneto, and 1.6% in Emilia Romagna. It is worth remarking that the North has nearly half of all Italy's passenger cars (46.3% in 2019) and also the lowest incidence of theft, averaging 1.00‰ overall and a strikingly low 0.12‰ in Trentino-Alto Adige and 0.05‰ in Valle d'Aosta.

The island regions registered a rise of 9.9% in auto theft, While Sardinia recorded a reduction of 4.0% and a consequent improvement in the theft rate from 0.84‰ to 0.79‰, in Sicily the number of cars stolen rose by 10.9%, pushing the theft rate up from 3.59‰ to 3.93‰.

The Ministerial data on passenger car thefts and the regional frequency indicators derived from them are not directly comparable with those produced by the insurance industry (described in the next section). The theft rates set out above are calculated as the ratio between thefts of cars and SUVs reported to the police and the number of such vehicles registered according to ACI, the Italian Automobile Club. The frequencies calculated by insurers only consider vehicles with theft insurance, on average about a third of all those on the roads. The insurance technical indicator is thus the ratio between the number of thefts reported to insurers and the total number of vehicles with theft coverage.

Nevertheless, as far as identifying the riskiest areas, the Ministerial data confirm those of the insurance industry: the regions with the highest incidence of stolen cars are also those where claims frequency for auto theft is highest.

PASSENGER CAR FIRE AND THEFT COVERAGE IN ITALY

ANIA gathers annual statistics on the technical performance and the diffusion of the various kinds of land vehicle insurance. This means mainly car theft and fire, collision (so-called partial or full "kasko"), breakage of windows and windshields, damage from weather, vandalism, or political events. This section reports the preliminary results for 2019 and a homogeneous comparison with 2017 and 2018 for the most common type of coverage, namely fire and theft. The observation is for a sample of companies that account for 92% of premium income in this class and refers only to private passenger cars (no fleet policies).

Diffusion of coverage

Based on our sample, we estimate that there were 9.2 million passenger car fire and theft policies in Italy in 2019, up from 9 million in 2018 and 8.8 million in 2017. The increase was larger than the rise in new car sales in 2019 (0.2% according to ACI), which is generally the main cause of purchases of this type of voluntary insurance coverage.

Nationwide, this works out to a coverage ratio of about 30% of all cars with motor liability insurance. But the geographical distribution is quite uneven. The regions with higher-than-average coverage are found in the Center and North: more than half the cars (51.2%) in Lombardy, about 40% in Piedmont and Lazio, and 32% in Liguria and Emilia Romagna. Very low diffusion of 18% to 19% (half the national average) is registered mainly in the regions of the South: Campania, 18.1%; Puglia, 18.8%; Sicily, 19.1%; and Basilicata, 19.3%. However, the northern regions of Trentino-Alto Adige and Valle d'Aosta too have less than 20% theft coverage.

Claims frequency

Claims frequency (i.e. the ratio of claims in a year to the number of vehicles insured) is much higher for theft insurance (8.15 claims per 1,000 insured vehicles in 2019, lower than in the previous two years) than for fire (0.32 per 1,000, up slightly on the year but down from 2017; see Tables 1 and 2).

This indicator too displays great geographical variability (Figure 1). The region with the greatest frequency of theft claims in 2019 was again Puglia, with nearly 23 cars stolen for every thousand insured, down from 25 in 2018 but up slightly from 22 in 2017, followed by Campania (over 17, marginally more than in the two previous years), Lazio (11, down by comparison with 2018 and 2017) and Molise (about 10 as in 2018). By province, the highest frequencies in 2019 were registered in Foggia (nearly 37 auto theft claims for every thousand vehicles insured, up from 35 in 2018 and 30 in 2017), Barletta-Andria-Trani (32, as in 2018 and up from 28 in 2017), Bari (26, compared with 30 in 2018 and 26 in 2017), Naples (23, the same as in 2018), and Caserta (19, as in 2018).

The most "virtuous" regions are nearly all found in the North-East: Trentino-Alto Adige scored 2.52 thefts per thousand vehicles insured in 2019 (down from 2.68 in 2018), Friuli-Venezia Giulia 2.71 (down from 2.87), and Veneto 3.98 (down from 4.64).

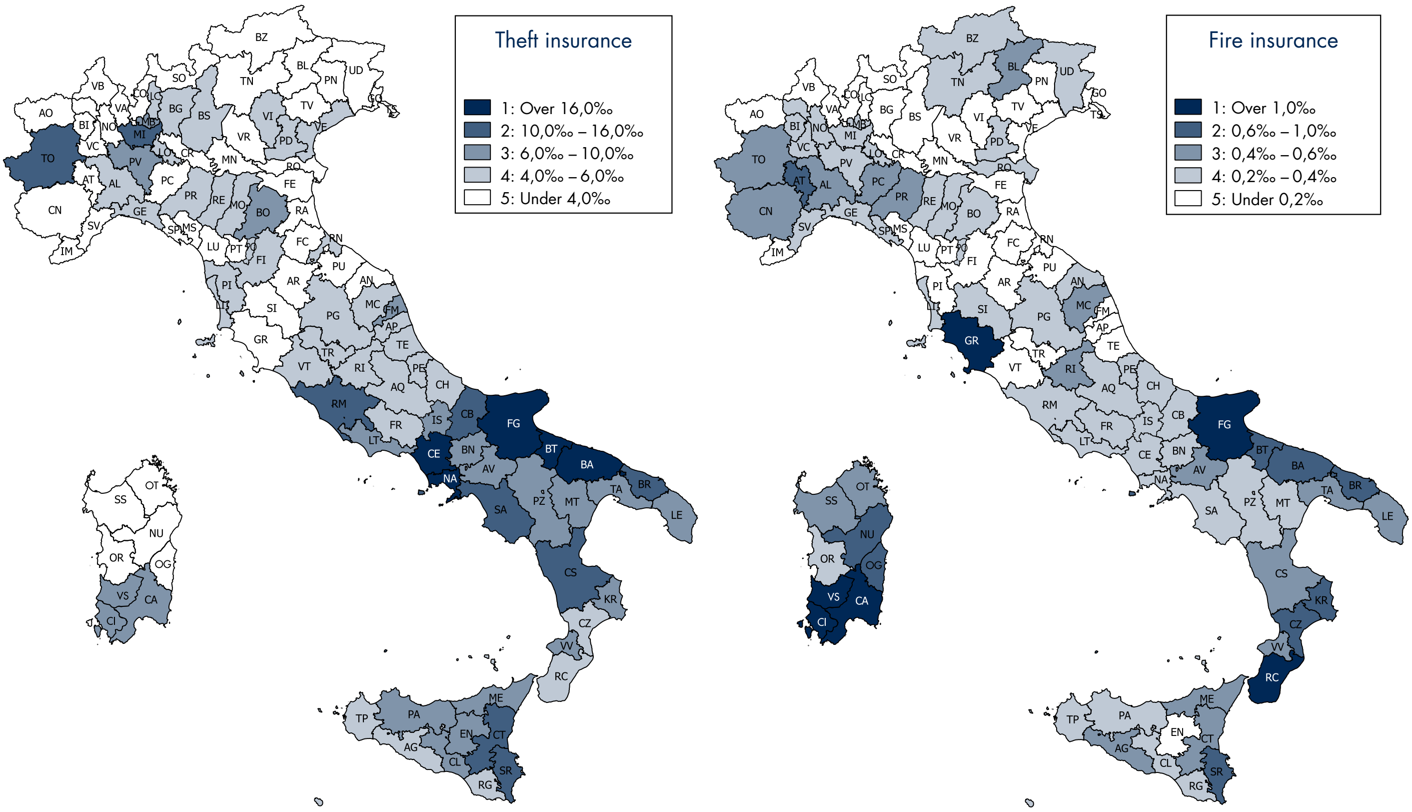
Sardinia also registered a low claims frequency of 3 thefts per thousand vehicles insured in 2019, down from over 4 in each of the previous two years. The provinces with the lowest theft rates are Oristano, Sondrio, Pordenone, and Belluno, all under 2‰.

Fire insurance claims were particularly uncommon in Veneto and Friuli-Venezia Giulia, but also in Marche, Lombardy and Tuscany, while claims frequency was above average in a number of regions of the South and Islands (Table 2 and Figure 1). Sardinia, Calabria and Puglia were the regions with the highest claims frequency (2.5 times the national average), followed by Sicily (nearly 1.5 times the national average). By province the highest risk levels for fire insurance claims in 2019 were registered in Foggia at 1.3‰, followed by

Table 1
Technical indicators, passenger car theft insurance

	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Friuli-Venezia Giulia	1.7%	1.6%	1.6%	2.71‰	2.87‰	2.92‰	19.9%	25.2%	25.8%
Veneto	8.3%	8.0%	7.7%	3.98‰	4.64‰	4.54‰	18.0%	16.7%	16.8%
Trentino-Alto Adige	1.2%	1.2%	1.1%	2.52‰	2.68‰	3.17‰	28.3%	30.3%	30.3%
Emilia-Romagna	8.6%	8.5%	8.4%	5.27‰	6.27‰	6.88‰	19.9%	20.1%	18.3%
TOTAL NORTH-EAST	*19.9%*	*19.3%*	*18.8%*	*4.34‰*	*5.09‰*	*5.37‰*	*19.2%*	*19.2%*	*18.4%*
Piedmont	10.3%	10.6%	10.7%	8.25‰	9.28‰	8.88‰	31.7%	31.7%	31.6%
Lombardy	28.4%	29.0%	29.6%	7.17‰	8.54‰	9.32‰	34.6%	34.5%	32.3%
Liguria	2.4%	2.5%	2.5%	4.02‰	6.23‰	6.71‰	21.2%	18.4%	18.9%
Valle d'Aosta	0.2%	0.2%	0.2%	3.31‰	3.25‰	3.47‰	21.7%	23.9%	29.5%
TOTAL NORTH-WEST	*41.3%*	*42.2%*	*43.1%*	*7.24‰*	*8.57‰*	*9.03‰*	*33.3%*	*33.0%*	*31.5%*
Tuscany	4.7%	4.6%	4.6%	4.34‰	6.03‰	6.15‰	22.4%	22.7%	20.0%
Marche	1.8%	1.7%	1.7%	4.35‰	5.30‰	6.02‰	37.8%	30.8%	29.2%
Umbria	1.2%	1.2%	1.2%	4.85‰	5.92‰	5.95‰	26.9%	29.3%	26.3%
Lazio	11.9%	12.2%	12.5%	11.35‰	13.28‰	13.92‰	63.4%	62.4%	58.0%
TOTAL CENTER	*19.6%*	*19.7%*	*19.9%*	*8.62‰*	*10.43‰*	*11.00‰*	*49.6%*	*48.4%*	*45.4%*
Molise	0.5%	0.5%	0.5%	10.06‰	10.13‰	10.40‰	62.3%	53.5%	50.1%
Campania	4.2%	4.1%	3.9%	17.30‰	17.14‰	16.31‰	55.5%	53.9%	51.0%
Basilicata	0.6%	0.6%	0.6%	7.51‰	8.77‰	8.40‰	68.7%	61.9%	63.4%
Abruzzo	2.0%	1.9%	1.9%	5.67‰	7.21‰	9.01‰	54.6%	52.5%	50.4%
Calabria	1.8%	1.8%	1.8%	7.78‰	9.62‰	9.03‰	47.0%	45.4%	39.1%
Puglia	3.5%	3.4%	3.2%	22.89‰	25.18‰	22.06‰	83.2%	76.2%	70.4%
TOTAL SOUTH	*12.6%*	*12.2%*	*11.8%*	*14.94‰*	*16.00‰*	*14.96‰*	*67.2%*	*63.1%*	*58.4%*
Sardinia	1.7%	1.7%	1.7%	3.24‰	4.06‰	4.15‰	42.8%	32.9%	34.2%
Sicily	4.5%	4.5%	4.5%	9.83‰	9.11‰	9.60‰	46.3%	39.5%	39.3%
TOTAL ISLANDS	*6.2%*	*6.2%*	*6.3%*	*8.01‰*	*7.69‰*	*8.07‰*	*45.8%*	*38.6%*	*38.6%*
TOTAL ITALY	100.0%	100.0%	100.0%	8.15‰	9.34‰	9.59‰	41.7%	39.9%	37.3%

Figure 1
Claims frequency for passenger car theft and fire insurance by province – 2019



Grosseto at 1.2‰ and Reggio Calabria at 1.1‰. The most "virtuous" provinces were Imperia, Fermo, Aosta, Venice and Ascoli Piceno, all with claims frequency of less than 0.1‰.

Average degree of damage

The other significant indicator in analyzing technical trends in fire and theft insurance is the average degree of damage, i.e. the percentage of the value of the good insured that is lost. For given that in the case of both (partial) theft and fire the entire value of the car is not necessarily lost, it is worth determining what portion of damage is indemnified in relation to the value insured. This indicator is normally less than 100%; a value greater than 100% can arise only due to an accounting effect in quantifying the insured value exposed to risk during the year.

The insurers' average exposure for both types of policy (i.e. value insured divided by risk insured) was practically unchanged at €11,000 last year.

For theft insurance, the degree of damage averaged 41.7% nationwide in 2019, nearly 2 percentage points higher than in 2018 and over 4 points higher

Table 2
Technical indicators, passenger car fire insurance

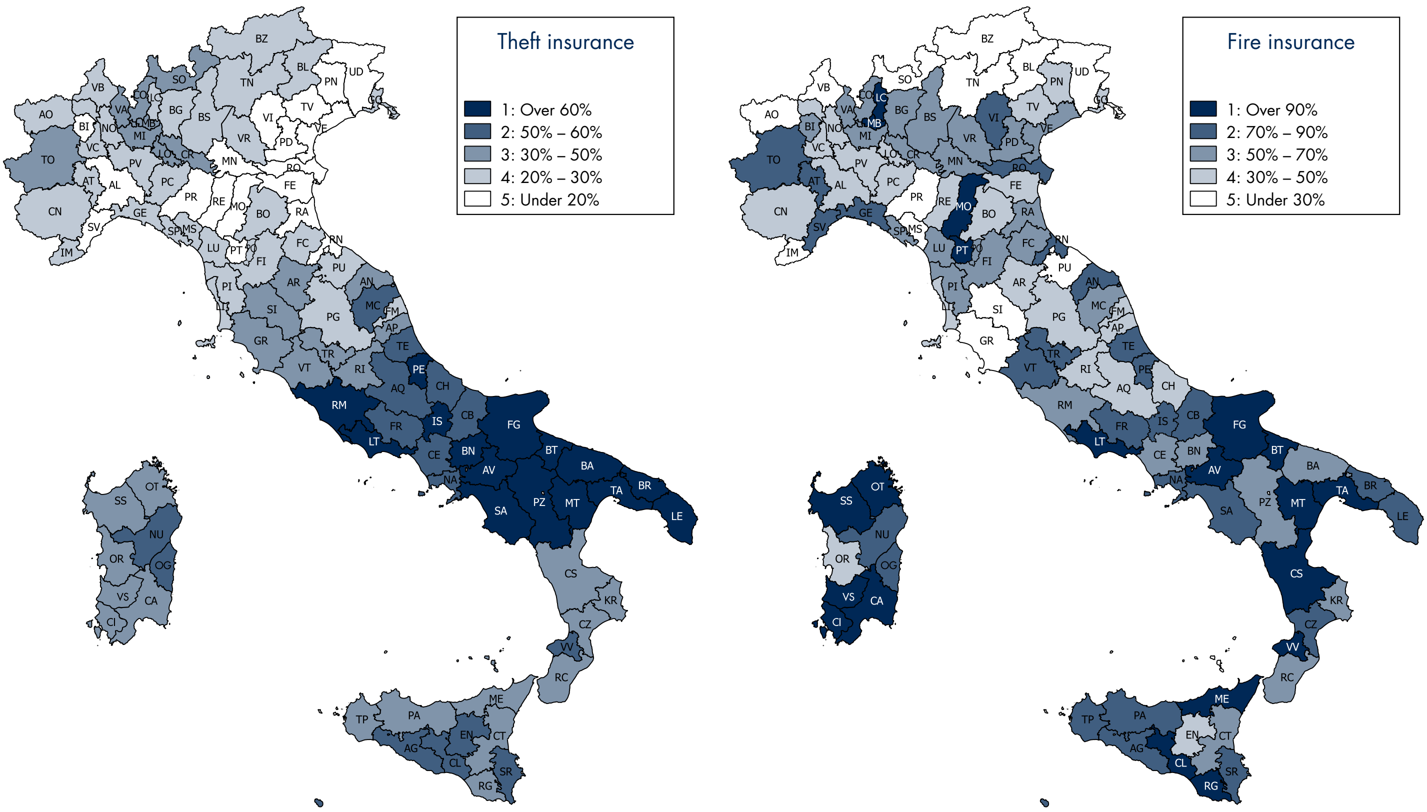
	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Friuli-Venezia Giulia	1.8%	1.8%	1.8%	0.23‰	0.12‰	0.15‰	32.1%	80.6%	61.8%
Veneto	8.9%	8.7%	8.6%	0.17‰	0.15‰	0.14‰	56.7%	51.8%	53.7%
Trentino-Alto Adige	1.4%	1.3%	1.2%	0.31‰	0.21‰	0.27‰	19.9%	38.2%	58.3%
Emilia-Romagna	8.6%	8.4%	8.4%	0.32‰	0.20‰	0.26‰	51.3%	45.2%	45.9%
TOTAL NORTH-EAST	*20.6%*	*20.3%*	*20.0%*	*0.24‰*	*0.17‰*	*0.20‰*	*48.0%*	*49.3%*	*50.3%*
Piedmont	10.5%	10.8%	10.8%	0.42‰	0.38‰	0.42‰	65.4%	64.1%	56.2%
Lombardy	28.0%	28.4%	29.1%	0.24‰	0.25‰	0.27‰	58.7%	60.1%	59.3%
Liguria	2.4%	2.5%	2.5%	0.26‰	0.27‰	0.28‰	70.0%	68.6%	55.1%
Valle d'Aosta	0.2%	0.2%	0.2%	0.08‰	0.08‰	0.56‰	17.6%	83.0%	82.9%
TOTAL NORTH-WEST	*41.0%*	*41.8%*	*42.6%*	*0.29‰*	*0.28‰*	*0.31‰*	*61.4%*	*61.8%*	*58.0%*
Tuscany	4.7%	4.7%	4.6%	0.24‰	0.18‰	0.22‰	44.8%	49.1%	76.0%
Marche	1.9%	1.8%	1.7%	0.22‰	0.23‰	0.23‰	53.9%	47.8%	42.1%
Umbria	1.2%	1.2%	1.2%	0.27‰	0.14‰	0.27‰	50.9%	33.9%	51.3%
Lazio	11.6%	11.7%	12.0%	0.36‰	0.35‰	0.46‰	69.2%	65.0%	68.3%
TOTAL CENTER	*19.4%*	*19.4%*	*19.4%*	*0.31‰*	*0.29‰*	*0.37‰*	*58.8%*	*56.0%*	*63.5%*
Molise	0.5%	0.5%	0.5%	0.28‰	0.34‰	0.19‰	72.1%	61.7%	37.5%
Campania	4.1%	4.0%	3.8%	0.32‰	0.29‰	0.29‰	79.9%	70.7%	72.1%
Basilicata	0.6%	0.6%	0.6%	0.28‰	0.26‰	0.36‰	94.8%	59.2%	98.8%
Abruzzo	2.0%	1.9%	1.9%	0.26‰	0.34‰	0.30‰	52.0%	52.4%	71.8%
Calabria	1.7%	1.7%	1.7%	0.73‰	0.75‰	0.82‰	84.7%	84.1%	77.1%
Puglia	3.6%	3.4%	3.2%	0.68‰	0.73‰	0.80‰	89.6%	87.6%	82.4%
TOTAL SOUTH	*12.5%*	*12.0%*	*11.6%*	*0.47‰*	*0.49‰*	*0.51‰*	*81.8%*	*77.4%*	*77.7%*
Sardinia	1.7%	1.8%	1.8%	0.82‰	0.76‰	0.74‰	93.8%	91.6%	95.7%
Sicily	4.5%	4.4%	4.5%	0.42‰	0.48‰	0.56‰	81.5%	75.6%	86.2%
TOTAL ISLANDS	*6.2%*	*6.2%*	*6.2%*	*0.53‰*	*0.56‰*	*0.61‰*	*87.0%*	*81.6%*	*89.5%*
TOTAL ITALY	100.0%	100.0%	100.0%	0.32‰	0.30‰	0.34‰	63.2%	62.5%	63.2%

than in 2017 (Table 1), which means that partial auto theft remains quite a significant phenomenon: the average incidence of damage in fact does not even come to half the value insured. For fire insurance the damage rate is considerably higher at 63.2% (62.5% in 2018 and 63.2% in 2017). For fire claims, that is, a higher percentage of the total vehicle value is lost (Table 2).

Again, the degree of damage varies significantly by region for both types of coverage (Figure 2). For theft, the values were higher than the national average in the South: nearly twice the average in Puglia (83.2%), followed by Basilicata (68.7%), Molise (62.3%), Campania (55.5%), and Abruzzo (54.6%). Among the regions of the Center and North, a high degree of damage was recorded in Lazio (63.4%, up somewhat from 2018 and sharply over 2017). The provinces with the highest figures were Barletta-Andria-Trani (practically 100% of the value of the insured vehicle), Bari (84%), Matera (77%), Foggia (75%), Isernia (73%), and Lecce and Brindisi (70%).

For fire insurance, the results are similar: degree of damage of 94% in Basilicata and Sardinia, 90% in Puglia, and 85% in Calabria, while values of around 80% were registered in Campania and Sicily. Elsewhere, values above the national average were found in Molise (72.1%), Liguria (70%), Lazio (69.2%), and

Figure 2
Average degree of damage by province, passenger car theft and fire insurance – 2019



Piedmont (65.4%). More in detail, values of 100% were recorded in many provinces, such as Ragusa, Matera, Cosenza, Foggia, Vibo Valentia, Monza-Brianza, Cagliari, and Barletta-Andria-Trani.

THE AVERAGE COST AND FREQUENCY OF MOTOR LIABILITY CLAIMS

Analysis of the overall loss ratio of the motor liability insurance sector for the entire market must take into account both the number of claims made during the year (which in proportion to the number of vehicles insured gives the claims frequency) and their average cost.

Number of claims. The total number of indemnifiable claims incurred and reported is given by the sum of claims incurred and settled during the year and of claims reserved (which will give rise to a payment in the future), but does not include the estimate of those incurred but not reported (IBNR) during 2019 but that will be reported in future years. By this count, the number of claims lodged with Italian or non-EU insurance companies totaled 2,139,867 in 2019, down 0.8% from 2,156,347 in 2018.[1]

Claims frequency (excluding IBNR, Table 1, Panel A). Claims frequency as shown in Panel A of Table 1 is defined as the ratio of the number of claims incurred and reported during the accident year that have given or will give rise to compensation to the number of vehicles exposed to the risk of claim-generating accidents (measured on the basis of days of exposure during the year, converted into "vehicle-years"). This technical indicator eased from 5.45% in 2018 to 5.42% in 2019, a decrease of 0.7%.[2]; after five years of decline from 2010 through 2014, with an overall reduction of nearly 30%, the trend was reversed in 2015. The increase continued in 2016 but the curve turned marginally back down in 2017, a contraction that intensified in 2018 (down 3.2%) and continued last year as well (down 0.7%).

The number of vehicles insured held practically steady in 2019 at 39.5 million. The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer doing business in Italy, the number of insured vehicles rose by 0.2% to 42.4 million.

ANIA has compared quarterly data from 2008 through 2019 on the average cost and consumption of vehicle fuel (gasoline, diesel fuel, LPG) with that on claims frequency, in order to show how the cost of vehicle use may interact with the probability of accidents (Figure 1). The trend in fuel consumption turns out to parallel that in claims frequency and to move inversely to fuel prices.

The table shows, in fact, that claims frequency declined from 7.73% in 2008 to 5.48% in 2014, a decrease of 2.3 percentage points or 30%. In those years fuel prices were steady or rising, which presumably discouraged vehicle use and lowered fuel consumption, with a consequent fall in claims frequency.

However, in 2015, after declining for five years, claims frequency turned marginally back upward (to 5.55%) and rose further to 5.65% in 2016, 3.1% higher than in 2014. Since 2015, however, average fuel prices have fallen sharply, with a low of €1.28 per liter in 2016, with the opposite impact on vehicle use, which increased, and with it the number of accidents as well. The same trend, albeit less marked, is found in fuel consumption, which averaged 1% more in 2015 and 2016 than in 2014.

Claims frequency turned back down by 0.7% in 2017 to 5.61%, and this trend continued in 2018 and 2019 with declines of 3.2 and 0.7% respectively, reaching

[1] For homogeneous comparison with the latest year, the claims frequency in 2018 has been recalculated taking account of data of the representative offices of two insurers with legal offices in countries of the European Economic Space that were incorporated into the portfolio of direct Italian insurance business in 2019.

[2] For homogeneous comparison with the latest year, the claims frequency for 2018 has been recalculated taking account of data of the representative offices of two insurers with legal offices in countries of the European Economic Space that were incorporated into the portfolio of direct Italian insurance business in 2019. In Table 1, the value for 2018 is that registered in that year, not recalculated.

Table 1 – Average cost of claims and claims frequency in the motor and marine liability insurance sectors
Values in €

	PANEL A: Excludes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items								PANEL B: Includes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items	
Year	Claims frequency %	Change %	Average claim cost - property damage	Change %	Average claim cost - personal injury	Change %	Average total claim cost**	Change %	Claims frequency %	Average claim cost.
2000	9.82%	-1.3%	1,278	2.9%	9,920	14.9%	2,809	13.1%	10.95%	2,825
2001	8.54%	-13.1%	1,431	12.0%	11,175	12.7%	3,186	13.4%	9.55%	3,207
2002	7.82%	-8.4%	1,535	7.3%	12,686	13.5%	3,532	10.9%	8.78%	3,503
2003	7.66%	-2.1%	1,634	6.4%	13,542	6.7%	3,805	7.7%	8.63%	3,771
2004	7.61%	-0.6%	1,701	4.1%	13,206	-2.5%	3,982	4.7%	8.58%	3,964
2005	7.55%	-0.8%	1,644	-3.3%	13,106	-0.8%	4,047	1.6%	8.51%	4,038
2006	7.47%	-1.1%	1,674	1.8%	13,233	1.0%	4,100	1.3%	8.47%	4,080
2007	7.61%	1.9%	1,764	5.4%	11,958	-9.6%	3,967	-3.2%	8.52%	4,014
2008	7.73%	1.6%	1,772	0.5%	11,830	-1.1%	3,913	-1.4%	8.57%	3,972
2009	7.77%	0.5%	1,725	-2.7%	11,694	-1.1%	3,903	-0.3%	8.60%	3,986
2010	7.36%	-5.2%	1,716	-0.5%	12,052	3.1%	4,057	4.0%	8.12%	4,117
2011	6.53%	-11.3%	1,803	5.0%	13,155	9.2%	4,345	7.1%	7.21%	4,519
2012	5.87%	-10.1%	1,899	5.3%	14,804	12.5%	4,495	3.5%	6.48%	4,763
2013	5.65%	-3.8%	1,883	-0.8%	15,986	8.0%	4,564	1.5%	6.24%	4,828
2014	5.48%	-2.9%	1,894	0.6%	16,150	1.0%	4,532	-0.7%	6.05%	4,796
2015	5.55%	1.2%	1,908	0.7%	16,389	1.5%	4,467	-1.5%	6.11%	4,721
2016	5.65%	1.8%	1,912	0.2%	16,132	-1.6%	4,374	-2.1%	6.20%	4,597
2017	5.61%	-0.7%	1,941	1.5%	16,297	1.0%	4,326	-1.1%	6.13%	4,507
2018	5.43%	-3.2%	1,980	2.0%	17,026	4.5%	4,361	0.8%	5.95%	4,552
2019*	5.42%	-0.7%	2,009	1.5%	17,499	2.8%	4,348	-0.1%	5.93%	4,556

(*) ANIA estimates based on advance information on 2019 financial statements. The changes are affected by the inclusion in the direct Italian portfolio of the data for two insurers previously having legal offices in countries of the European Economic Space – see footnote 1
(**) Source: IVASS; for 2019. data from supervisory reporting forms.

5.42%. There was an upturn in the average cost of fuel in 2017, and the rise continued in 2018 to €1.50 per liter, or by 7% compared with 2017 and more than 15% compared with 2016. The price steadied in 2019. Meanwhile, fuel consumption edged downward by 1.5% in 2017 but increased by 3.1% in 2018 despite the higher cost, then holding broadly constant in 2019.

The pattern of claims frequency, which was fairly regular through 2019, and easy to explain in terms of the correlation with fuel prices and consumption, was altered abruptly by the Covid-19 epidemic starting in late February 2020. The resulting lockdown imposed a travel ban that lasted, albeit steadily diminishing in severity, until 3 June.

The preliminary data for a sample of insurers representing over 90% of the Italian market indicate that through March 2020 claims frequency plunged by about 24% compared with the first quarter of 2019 (Table 2). In particular, as a consequence the month of March 2020 registered a drop of 60% in claims

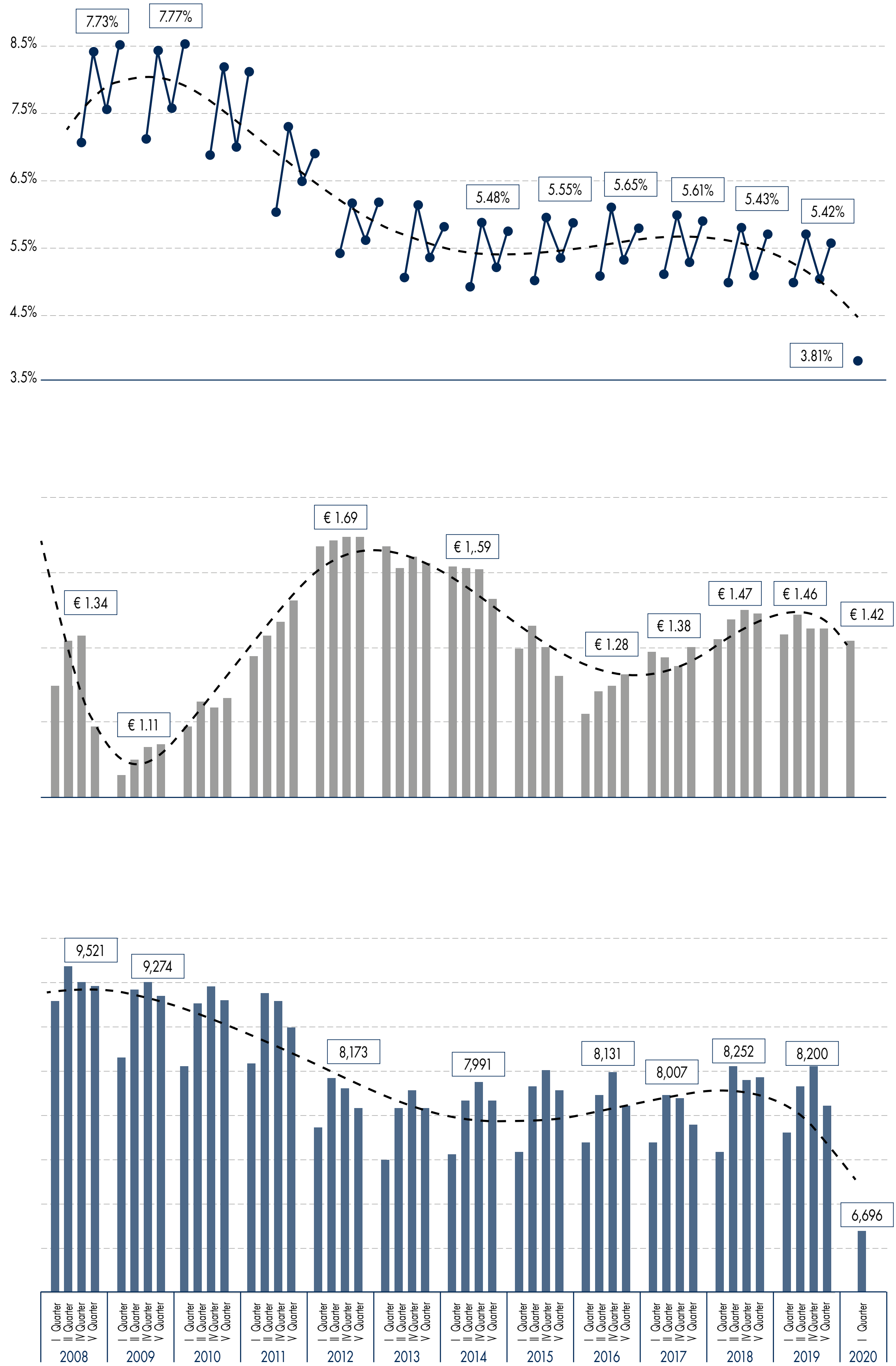
MOTOR INSURANCE

Figure 1 – Claims frequency, fuel consumption and fuel prices

Claims frequency

Fuel price

Fuel consumption (thousand tons)



frequency (considering that the ban on circulation lasted for twenty days that month). Passenger cars and motorcycles and scooters recorded sharper-than-average declines (62% and 66%), since all private passenger traffic was prohibited. Trucks registered smaller decreases – those weighing less than 3.5 tons, a fall of 53%, larger trucks a decline of 44% – since transport of essential goods was not restricted but these vehicles nevertheless found themselves driving under conditions of drastically reduced traffic. By region (Table 3), for all vehicles the sharpest declines in claims frequency, both in March alone and in the entire first quarter, came in the North of Italy, and chiefly in the regions where the epidemic was most severe (Lombardy, Emilia-Romagna, Piedmont, Veneto and Marche).

Table 2
Claims frequency, March and 1st quarter 2020 by vehicle type

	First quarter			March 2020
Vehicle type	2020	2019	Variation	Variation from 2019
Private passenger cars	4.1%	5.4%	-24%	-62%
Private motorcycles	2.0%	2.4%	-19%	-63%
Private motorscooters	1.5%	1.8%	-15%	-66%
Trucks under 3.5 tons	3.7%	4.7%	-22%	-53%
Trucks over 3.5 tons	6.0%	7.2%	-18%	-44%
Total	3.8%	5.0%	-24%	-61%

Table 3
Claims frequency, March and 1st quarter 2020 by region

	First quarter			March 2020
Region	2020	2019	Variation	Variation from 2019
LOMBARDY	3.8%	5.3%	-28%	-70%
EMILIA ROMAGNA	3.4%	4.7%	-27%	-67%
FRIULI VENEZIA GIULIA	2.5%	3.4%	-26%	-65%
PIEDMONT	3.9%	5.3%	-26%	-64%
VENETO	3.0%	4.0%	-25%	-62%
MARCHE	3.2%	4.3%	-25%	-62%
TUSCANY	4.0%	5.1%	-23%	-60%
ABRUZZO	3.4%	4.2%	-19%	-59%
LIGURIA	4.4%	5.9%	-26%	-58%
BASILICATA	2.8%	3.7%	-24%	-58%
MOLISE	3.1%	3.9%	-22%	-57%
UMBRIA	3.5%	4.4%	-20%	-57%
CALABRIA	3.1%	3.9%	-20%	-57%
SARDINIA	4.0%	5.2%	-23%	-55%
LAZIO	4.6%	5.9%	-21%	-55%
TRENTINO ALTO ADIGE	2.9%	4.1%	-29%	-54%
SICILY	4.2%	5.3%	-21%	-53%
PUGLIA	3.7%	4.6%	-18%	-53%
CAMPANIA	4.8%	5.9%	-18%	-51%
VALLE D'AOSTA	3.1%	3.9%	-20%	-50%
Total Italy	3.8%	5.0%	-24%	-61%

Average cost of claims (excluding IBNR, Table 1, Panel A). The average cost of claims shown in Panel A of Table 1 is derived by dividing the total cost of claims (paid and reserved) by their number. The indicator takes account both of payments made in final or partial settlement and of settlements that companies expect to make in the future for claims that have been reported but whose amount has yet to be determined (reserved amounts). It excludes claims incurred but not reported (IBNR reserves), contributions to the Road Accident Victims Guarantee Fund and other residual items. These items have been excluded from the 2019 data in order to allow uniform comparison with the data for previous years, derived from analyses conducted by the insurance supervisor using this methodology. Based on these calculations, the average claim cost in 2019 was €4,348, down very slightly from €4,355 in 2018.[3] In detail, the average cost of claims involving only material damage increased by 1.5% to €2,009 in 2019, while that of claims involving personal injury (including the material damage component of mixed claims) rose by 2.8% from €17,026 to €17,499. The overall average claim cost came down very slightly (by 0.1%),[4] while the general price index showed inflation of 0.6% in 2019. The decrease in claims cost may be explained, at least in part, by the increasing installation of data recorders – "black boxes" – on cars, especially in areas where fraudulent claims are most common. The availability of data recorded at the moment of the crash may have helped in gauging the claims more accurately, avoiding possible overestimates of damages. And in fact the percentage of claims involving personal injury diminished again in 2019, from 15.8% to 15.1%.

Number of claims and average cost (including IBNR, Table 1, Panel B). The total number of claims, including the IBNR estimate, came to 2,341,329 in 2019, a decrease of 0.8%, and claims frequency also diminished, coming down 0.7% from 5.97%[5] to 5.93%. Counting all the components included in the definition of the cost of claims for the period (item 18 of Supervisory Form 17), i.e. including IBNR reserves, the contribution to the Road Accident Victims Guarantee Fund and the other residual items, the average cost of claims for the period increased by 0.2% to €4,556.

The 0.8% decline in the number of claims (including late reports or IBNR claims) was thus only partly counteracted by the 0.2% rise in their average cost, so the total cost of claims for the year contracted by 0.5%.

A provincial breakdown of claims frequency including IBNR (Figure 2, left-hand map) revealed Naples and Prato to be the provinces with the highest rates in 2019 (11.04% and 8.89% respectively), with a frequency well above the national average, which as we have seen was 5.93%. Other provinces

[3] For homogeneous comparison with the latest year, the average cost of claims in 2018 has been recalculated taking account of data of the representative offices of two insurers with legal offices in countries of the European Economic Space that were incorporated into the portfolio of direct Italian insurance business in 2019. In Table 1, the values for 2018 are those registered in that year, not recalculated.

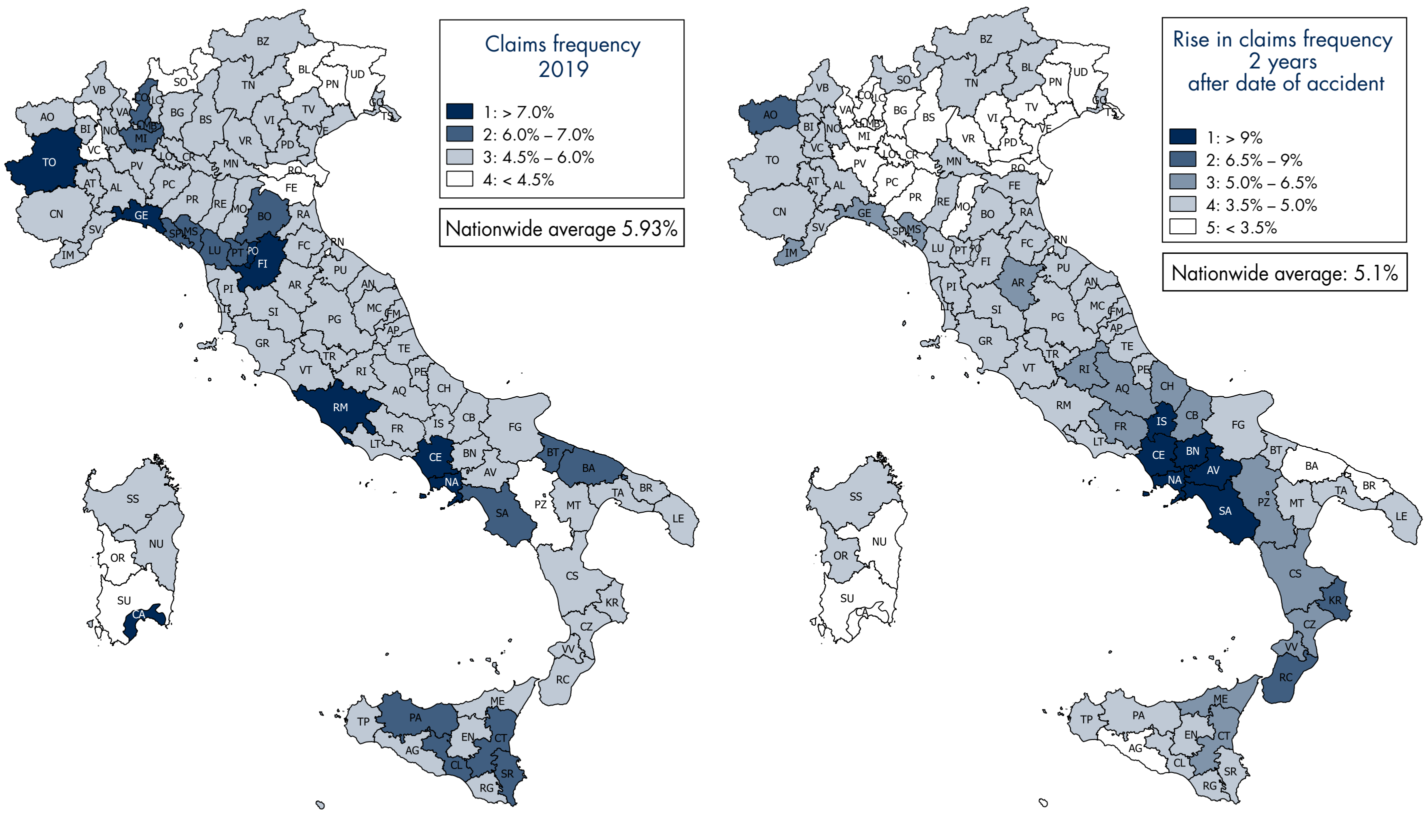
[4] See note 3.

[5] See note 2.

significantly above the national average were Genoa (8.09%), Caserta and Rome (7.70%), Cagliari (7.38%), Florence (7.20%), and Catania and Turin (7.00%). Once again, the lowest claims frequencies were recorded in the provinces of the North-East, with Rovigo again recording the national low (3.66%), followed by Udine, Pordenone and Gorizia, none of which had frequencies higher than 4.10%. Lower-than-average levels were reported also in some provinces of the South, such as Potenza and Enna (4.47% and 4.66%, respectively), as well as Matera, Cosenza, Campobasso and Lecce, ranginging between 4.6% and 4.8%.

The geographical breakdown of claims frequency cannot ignore accident reports that are late in coming to the insurer. Policyholders, in fact, have two years from the date of the accident to submit the report. The right-hand map in Figure 2 shows, province by province, the increase in number of claims two years later by comparison with those reported in the year the accident occurred. Nationwide, on average, for all vehicles, the number of claims after two years is higher by 5.1%. However, a closer inspection reveals that the rate is well above 9% in some parts of the country, with extreme peaks of 17.4%

Figure 2
Claims frequency by province, 2019, and late accident reports



in the province of Caserta and 18.6% in Naples. This means that if in these two provinces we counted only the frequency of claims reported in the year of occurrence, we would be around one sixth short of the actual figures, once all accidents have been reported to the insurance company. The provinces where this indicator is lower than 3% were Bari, Lodi, Piacenza, Verona, Milan, Brescia, Monza-Brianza, Cremona, Lecco and Trieste, the latter scoring the lowest rate in Italy at 1.4%.

COMPENSATION FOR PERSONAL INJURY

The total damages paid (for both property damage and bodily harm) for claims incurred in 2019 came to €10.7 billion.[1] Of this, 60.9% (€6.5 billion) was in relation to personal injury (including the property-damage component of mixed claims). The remaining 39.1% (€4.2 billion) was in relation to damage to vehicles (spare parts and labor for repairs).

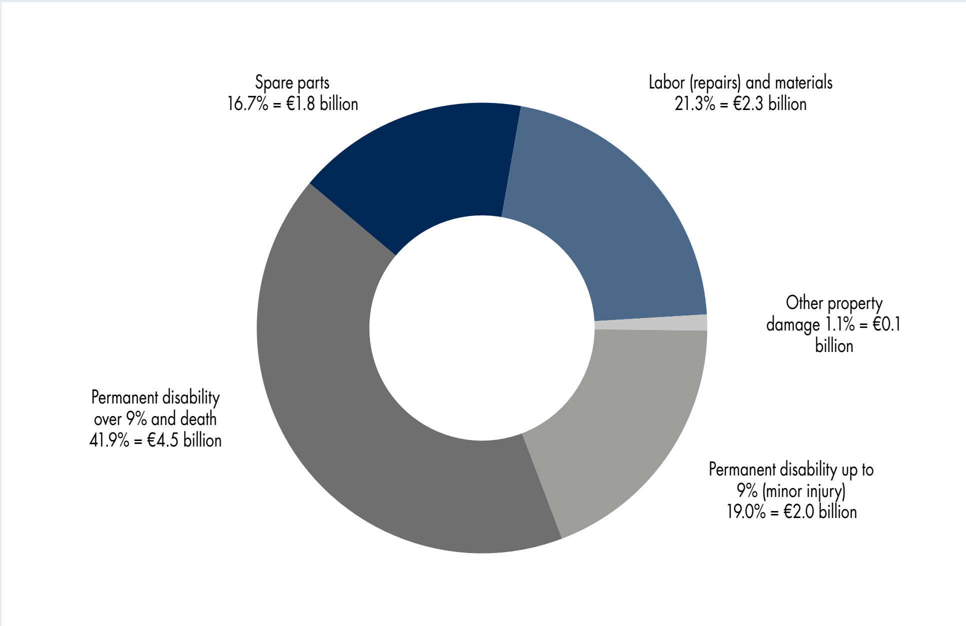
As regards personal injury compensation specifically, two facts stand out for 2019 (Figure 1):

– compensation for mild injury involving permanent disability of 1 to 9% amounted to €2.0 billion (19.0% of the total claims cost);
– severe injuries involving more than 9% permanent disability or death generated outlays of €4.5 billion (41.9% of total claims cost).

Figure 1
Distribution of total cost of liability compensation, 2019

■ *Compensation for property damage (€4.2 billion, 39.1% of total claims cost).*

■ *Compensation for personal injury (€6.5 billion, 60.9% of total claims cost). Includes the property component of mixed claims.*



The percentage of all motor liability claims involving personal injury was 15.1% last year, down again from 15.8% in 2018 (Table 1). After peaking in 2010 at nearly 23%, this share registered a first, modest downturn in 2011 and more significant declines in the eight subsequent years, most notably 2012, although at a declining rate that has nevertheless exceeded 4% in the last three years (4.4% in 2019). The main factor in the improvement was the reduction in the number of minor injury claims, especially those involving just 1 to 3% disability, as is explained below in greater detail.

[1] ANIA's estimate, based on data from Italian insurers and units of non-EU insurance companies operating in Italy. The data are for the cost of claims (amounts paid and reserved) for accidents occurring in 2019. The total cost of claims for the year, including excess or shortfall of reserves against claims from previous years, was €10.1 billion.

To analyze trends in the various components of personal injury claims, we have examined the changes in these items over time, assessing also their impact on the overall premium requirement of the motor liability sector.

Table 1 – Claims frequency by type of damage and severity of personal injury (*)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total claims frequency	7.36%	6.53%	5.87%	5.65%	5.48%	5.55%	5.65%	5.61%	5.43%	5.42%
% claims with only property damage	*77.3%*	*77.6%*	*79.9%*	*81.0%*	*81.5%*	*82.3%*	*82.7%*	*83.4%*	*84.2%*	*84.9%*
Frequency of claims with only property damage	5.70%	5.07%	4.69%	4.57%	4.47%	4.57%	4.67%	4.68%	4.57%	4.60%
% claims involving personal injury	*22.7%*	*22.4%*	*20.1%*	*19.0%*	*18.5%*	*17.7%*	*17.3%*	*16.6%*	*15.8%*	*15.1%*
Frequency of claims involving personal injury	1.67%	1.46%	1.18%	1.07%	1.01%	0.98%	0.98%	0.93%	0.82%	0.78%
Frequency of claims with up to 9% permanent disability	1.602%	1.401%	1.121%	1.016%	0.963%	0.932%	0.927%	0.874%	0.817%	0.778%
1% permanent disability										
2% permanent disability	0.689%	0.617%	0.506%	0.477%	0.428%	0.414%	0.410%	0.392%	0.352%	0.337%
3% permanent disability	0.552%	0.469%	0.294%	0.243%	0.233%	0.222%	0.207%	0.197%	0.181%	0.175%
4% permanent disability	0.190%	0.163%	0.137%	0.128%	0.116%	0.114%	0.121%	0.112%	0.112%	0.104%
5% permanent disability	0.078%	0.069%	0.071%	0.065%	0.071%	0.065%	0.070%	0.064%	0.065%	0.058%
6% permanent disability	0.040%	0.036%	0.043%	0.042%	0.041%	0.046%	0.049%	0.041%	0.042%	0.041%
7% permanent disability	0.021%	0.019%	0.027%	0.025%	0.028%	0.027%	0.030%	0.027%	0.025%	0.024%
8% permanent disability	0.013%	0.012%	0.019%	0.017%	0.019%	0.018%	0.019%	0.018%	0.016%	0.017%
9% permanent disability	0.010%	0.010%	0.014%	0.012%	0.015%	0.016%	0.013%	0.015%	0.015%	0.014%
Frequency of claims with over 9% permanent disability	0.007%	0.007%	0.010%	0.007%	0.011%	0.009%	0.008%	0.009%	0.009%	0.008%
Frequency of claims with over 9% permanent disability	0.067%	0.062%	0.059%	0.057%	0.052%	0.051%	0.051%	0.049%	0.045%	0.043%

(*) Valued at the end of the year in which the accident occurred

Minor injury – permanent disability of 1-9%. As a result of Law 27/2012 (the "liberalization" decree), which introduced provisions against speculative claims for very mild injuries, principally "whiplash" injuries, there has been a very substantial reduction in the frequency of claims for mild personal injury (calculated as claims for permanent injury of 1% to 9% as a percentage of total risks insured). In eight years, this indicator fell from 1.401% in 2011 (before the law) to 0.778% in 2019, or by some 44%; over the same period, property damage claims fell by just 9% (Table 1). More in detail, what really declined was the frequency of claims for the mildest injuries, those for at most 4% disability: 45% for 1 point of disability, 63% for 2 points, 36% for 3 points, 16% for 4 points. Meanwhile, claims for 5-9% disability actually rose (by 16% for disability of 5 points and a full 45% for disability of 8 points). It is worth noting that 1-4-point disabilities account for the overwhelming majority of minor injury claims (94% in 2011) and that thanks to Law 27 their number has been practically cut in half and their share reduced to under 87%.

The average cost of mild personal injury claims declined steadily from 2011 through 2017, coming down more than 12% from €6,135 to €5,397. This trend reversed in 2018 with an increase of 6.7%, then stabilizing in 2019 at €5,774 (Table 2).

Death and permanent disability of more than 9%. No comparable diminution was observed for more severe injuries (resulting in death or permanent disability of more than 9%), which are not subject to Law 27/2012. From 2011 through 2019, claims frequency for these injuries nevertheless diminished significantly (by 30%), nearly twice as much as overall claims frequency (which declined by 17%), and in any case much less sharply than claims for mild injuries (which decreased by 44%).

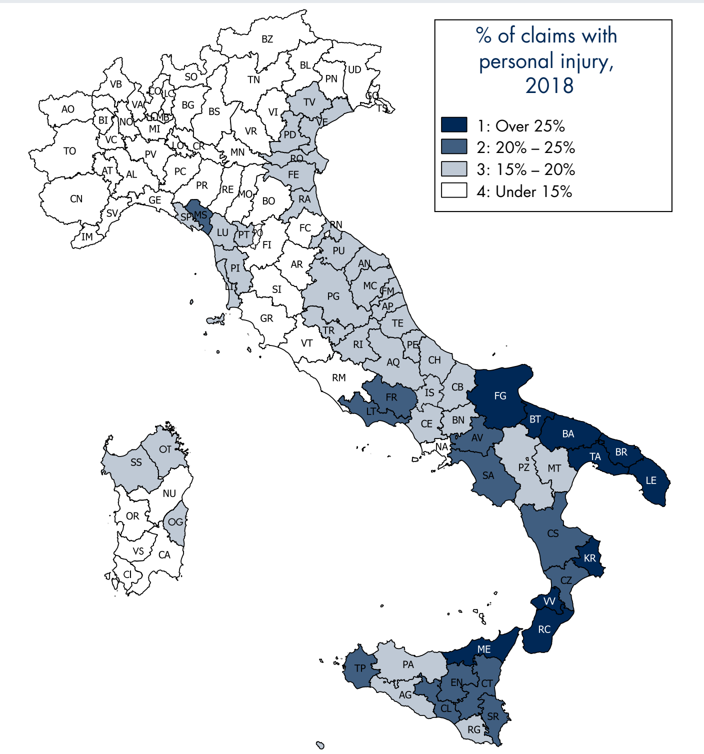
Turning to the cost of these more serious injury claims of more than 9% disability (including damages for fatalities), the average claim cost has risen constantly over the years: from €167,000 in 2010 to over €228,000 in 2019, or by nearly 37% (Table 2).

Table 2 – Average claim cost by type of damage and severity of personal injury (*)
Amounts in €

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total average claim cost	4,057	4,345	4,495	4,564	4,532	4,467	4,374	4,326	4,361	4,348
% of claims with only property damage (value)	*32.0%*	*31.7%*	*33.3%*	*33.2%*	*34.1%*	*35.1%*	*36.2%*	*37.4%*	*38.2%*	*39.1%*
Average cost of claims with only property damage	1,716	1,803	1,899	1,883	1,894	1,908	1,912	1,941	1,980	2,009
% incidence of personal injury claims (value)	*68.0%*	*68.3%*	*66.7%*	*66.8%*	*65.92%*	*64.94%*	*63.81%*	*62.58%*	*61.79%*	*60.93%*
Average cost of claims with personal injury	12,052	13,155	14,804	15,986	16,150	16,389	16,132	16,297	17,026	17,499
of which:										
Average cost of claims with personal injury up to 9 pct. permanent disability	6,022	6,135	5,951	5,756	5,668	5,508	5,605	5,397	5,758	5,774
Average cost of claims with personal injury over 9 pct. permanent disability	166,750	179,891	191,379	198,045	210,061	216,797	209,325	212,086	222,736	227,688

(*) Valued at the end of the year in which the accident occurred

Figure 2
Proportion of claims involving personal injury, by province, 2018



The geography of personal injury claims. The percentage of claims involving personal injury registers highs of almost 30% in some Italian provinces. Figure 2 and Table 3 show that in 2018 (the year of the most recent available data at province level) the provinces of the South were far out of line with the national average of 15.8%; the highest provincial proportions are found in Puglia (29.7% in Taranto, 27.9% in Barletta-Andria-Trani, 27.8% in Foggia, 25.8% in Lecce, 25.6% in Brindisi, 25.1% in Bari), Calabria (27.2% in Crotone, 25.7% in Vibo Valentia, 25.1% in Reggio Calabria, 22.8% in Cosenza, 22.7% in Catanzaro,), and parts of Campania (24.5% in Avellino, 24.2% in Salerno). In any case, nearly all the provinces registered a decline in the indicator by comparison with 2017, in line with the decline in the national average.

Table 3 – Incidence of claims with personal injury, by province, 2016-2018)(°) (percent)

Province	2018	2017	2016	Change 2018/2017
(1)	(2)	(3)	(4)	(5)
TARANTO	29.7%	30.0%	31.3%	–1.0%
BARLETTA–ANDRIA–TRANI	27.9%	27.0%	30.5%	3.1%
FOGGIA	27.8%	28.7%	31.4%	–3.1%
CROTONE	27.2%	28.8%	33.5%	–5.7%
MESSINA	26.5%	25.5%	29.4%	3.8%
LECCE	25.8%	26.4%	28.4%	–2.3%
VIBO VALENTIA	25.7%	23.8%	26.6%	8.0%
BRINDISI	25.6%	29.6%	31.8%	–13.5%
BARI	25.1%	26.2%	29.3%	–4.3%
REGGIO CALABRIA	25.1%	25.4%	26.9%	–1.2%
AVELLINO	24.5%	25.6%	26.2%	–4.5%
SALERNO	24.2%	26.0%	28.1%	–6.9%
COSENZA	22.8%	22.9%	23.9%	–0.4%
CATANZARO	22.7%	25.3%	27.0%	–10.0%
LATINA	22.7%	24.3%	25.2%	–6.6%
ENNA	22.0%	19.3%	22.2%	13.7%
CALTANISSETTA	21.6%	22.1%	22.2%	–1.9%
CATANIA	21.3%	21.3%	26.3%	–0.4%
TRAPANI	21.1%	19.2%	19.0%	9.5%
FROSINONE	20.6%	20.4%	21.5%	1.0%
MASSA–CARRARA	20.5%	20.0%	23.0%	2.3%
SIRACUSA	20.1%	19.9%	21.5%	1.1%
RAGUSA	19.8%	19.1%	20.7%	3.8%
RIMINI	19.7%	21.5%	20.2%	–8.3%
FERMO	19.4%	19.7%	19.0%	–1.3%
PESCARA	19.2%	20.3%	21.3%	–5.4%
CHIETI	19.1%	20.9%	21.6%	–8.7%
MATERA	18.9%	18.3%	19.0%	3.5%
AGRIGENTO	18.9%	19.0%	19.4%	–0.8%
CASERTA	18.7%	22.0%	23.6%	–14.7%
ANCONA	18.6%	21.1%	19.9%	–12.0%
VENICE	18.6%	19.9%	19.3%	–6.7%
PISA	18.5%	18.7%	20.3%	–1.3%
MACERATA	18.5%	20.0%	19.4%	–7.6%
BENEVENTO	18.3%	21.1%	24.7%	–13.3%
ASCOLI PICENO	18.1%	19.1%	18.8%	–5.3%
PESARO–URBINO	17.9%	19.5%	19.1%	–7.9%
TERAMO	17.7%	18.5%	19.5%	–3.9%
LUCCA	17.7%	19.2%	19.8%	–7.4%
OGLIASTRA	17.6%	13.6%	15.7%	29.7%
PALERMO	17.5%	18.4%	21.0%	–5.1%
PISTOIA	16.9%	18.2%	18.7%	–7.6%
TERNI	16.5%	19.1%	17.3%	–13.4%
PADUA	16.5%	16.9%	16.8%	–2.7%
ROVIGO	16.4%	18.2%	16.1%	–10.0%
LA SPEZIA	16.2%	16.9%	17.9%	–4.1%
SASSARI	16.0%	17.4%	19.0%	–8.3%
FERRARA	15.8%	16.8%	17.1%	–6.0%
L'AQUILA	15.8%	16.3%	16.9%	–3.3%
OLBIA–TEMPIO	15.6%	12.6%	13.9%	24.3%
POTENZA	15.5%	17.6%	17.1%	–12.0%
PERUGIA	15.4%	16.7%	16.3%	–7.6%
ISERNIA	15.4%	17.0%	18.6%	–9.5%
CAMPOBASSO	15.3%	15.1%	17.3%	1.3%
RAVENNA	15.3%	16.7%	17.1%	–8.6%
TREVISO	15.3%	16.5%	15.9%	–7.7%

Province	2018	2017	2016	Change 2018/2017
(1)	(2)	(3)	(4)	(5)
LIVORNO	15.1%	16.4%	16.2%	-7.6%
RIETI	15.1%	17.2%	20.8%	-11.9%
BOLOGNA	14.8%	15.8%	16.6%	-6.9%
AREZZO	14.5%	16.5%	16.1%	-11.9%
LODI	14.4%	15.2%	15.0%	-5.4%
SAVONA	14.3%	13.5%	13.0%	5.7%
MONZA-BRIANZA	14.3%	14.3%	14.2%	-0.3%
GORIZIA	14.3%	15.5%	15.6%	-8.3%
IMPERIA	14.2%	14.6%	13.8%	-2.5%
TURIN	14.0%	15.1%	15.8%	-7.6%
FORLÌ-CESENA	13.8%	15.6%	16.1%	-11.6%
NAPLES	13.7%	14.8%	21.5%	-7.2%
GENOA	13.7%	12.5%	13.0%	9.2%
PAVIA	13.7%	14.1%	14.0%	-3.3%
VARESE	13.6%	14.1%	14.5%	-3.4%
VERONA	13.4%	14.3%	14.5%	-6.5%
GROSSETO	13.1%	14.1%	15.0%	-6.7%
MILAN	13.1%	13.7%	13.7%	-4.2%
CARBONIA-IGLESIAS	13.1%	12.9%	12.0%	1.4%
VICENZA	13.0%	13.8%	13.8%	-5.8%
COMO	13.0%	13.3%	12.7%	-2.1%
PARMA	13.0%	13.7%	13.4%	-5.6%
REGGIO EMILIA	13.0%	14.7%	14.9%	-12.1%
ROME	12.9%	14.5%	19.0%	-10.5%
PIACENZA	12.9%	14.4%	13.8%	-10.8%
PRATO	12.8%	14.2%	15.6%	-9.2%
FLORENCE	12.7%	14.0%	15.2%	-9.2%
CREMONA	12.6%	14.1%	14.1%	-11.0%
MODENA	12.5%	13.8%	13.6%	-9.0%
MANTUA	12.4%	13.7%	13.3%	-9.5%
MEDIO CAMPIDANO	12.3%	12.6%	11.8%	-2.1%
NOVARA	12.3%	12.8%	13.3%	-4.3%
CAGLIARI	12.2%	12.5%	13.7%	-2.0%
BERGAMO	12.1%	13.1%	13.2%	-7.7%
LECCO	12.0%	11.5%	12.7%	3.8%
TRIESTE	11.9%	13.4%	13.6%	-11.1%
UDINE	11.8%	12.7%	12.5%	-7.1%
PORDENONE	11.8%	12.9%	12.9%	-8.7%
SIENA	11.6%	13.4%	13.4%	-13.8%
ALESSANDRIA	11.6%	12.0%	11.4%	-3.6%
VITERBO	11.5%	12.0%	13.5%	-4.2%
SONDRIO	11.3%	12.0%	11.8%	-5.8%
ORISTANO	11.1%	12.1%	12.7%	-8.5%
NUORO	11.0%	10.0%	10.6%	10.6%
VERBANIA	10.7%	9.5%	10.8%	12.2%
BRESCIA	10.6%	11.3%	11.3%	-6.2%
BELLUNO	10.6%	10.9%	10.9%	-2.8%
VERCELLI	10.5%	12.4%	11.7%	-15.4%
CUNEO	10.5%	11.0%	11.4%	-4.7%
AOSTA	10.4%	9.7%	10.2%	7.3%
ASTI	9.9%	10.5%	10.3%	-5.3%
TRENTO	9.5%	9.7%	9.7%	-2.6%
BIELLA	9.4%	9.8%	9.3%	-4.4%
BOLZANO	8.6%	8.9%	9.2%	-3.5%
TOTAL	15.7%	16.6%	17.8%	

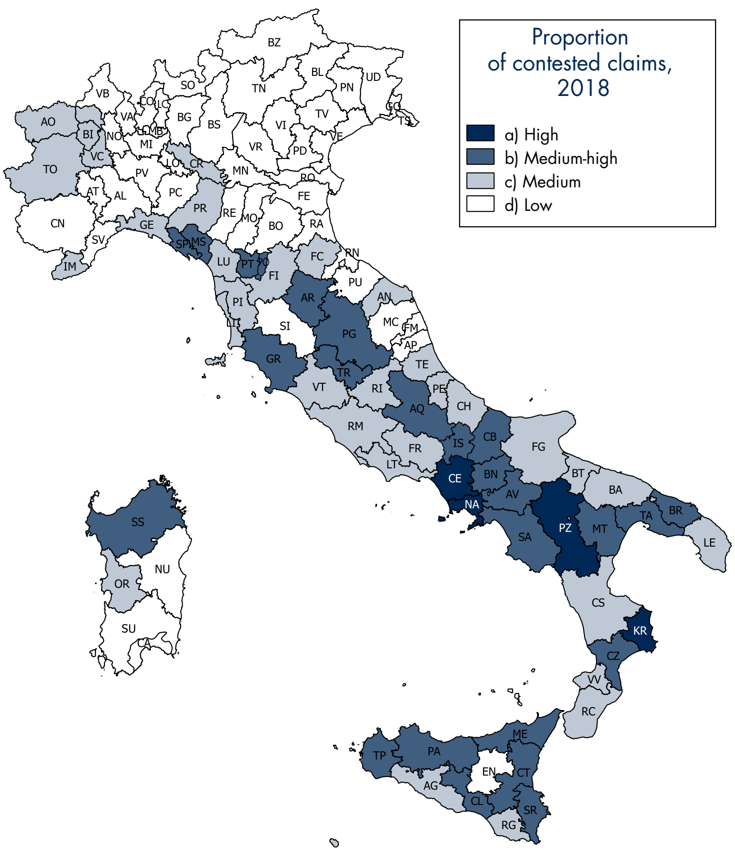
(°) The provincial incidence of personal injury claims is drawn from ANIA's annual statistics; this accounts for the slight difference in the total for 2018 (15.7%) from the IVASS data (15.8%), which lack the provincial breakdown

MOTOR INSURANCE FRAUD

The Covid-19 epidemic and the government measures to contain it limited insurers' production and marketing activities. The insurance supervisor IVASS, in consideration of the operational difficulties stemming from compliance with these measures, granted an extension of 60 days beyond the normal deadline of 30 May for the presentation of the anti-fraud reports required by Regulation 44/2012. This means that at the time of drafting of our Annual Report *the preliminary data for 2019 are not yet available concerning claims at risk of fraud, claims subjected to further investigation by insurers (and those terminated without payment), and claims engendering criminal or civil complaints.*

Using IVASS's definitive data for 2018, we can produce a breakdown, by province and type of damage claimed, of the percentage incidence of claims contested and the portion of claims still reserved at the end of the year. We can also estimate that the average cost of contested claims is about three times that of other claims. Figure 1 shows that while in the Center regions, except for Umbria and a handful of provinces in Tuscany and Abruzzo, the incidence of contested claims is around average (what we can call a "normal" level), in the North the percentage is lower. The contrary holds for the South, where above-average values are registered; indeed, in some provinces of Campania, Molise, Puglia and Calabria the incidence is 5 or even 10 times the national average.

Figure 1
Proportion of contested claims – 2018



Among the causes of motor liability fraud we must mention a series of rules governing the insurer's formulation of a settlement offer: designed to speed up the settlement process, these often appear to be incompatible with thorough-going antifraud action:

- the lengthy time allowed for submitting claims (2 years, and up to 5 in cases of personal injury), which enables fraudulent parties to eliminate the evidence that insurers can use to detect fraud; in the province of Naples, for instance, 18.6% of claims are filed more than a year after the date of the accident, compared with a national average of "late" claims of 5.1%;
- the deadline of 5 days for ascertaining vehicle damage is too short, and in certain regions in particular it is virtually impossible to estimate the damage before repair work begins;
- the term for the formulation of the indemnity offer is incompatible with the type of investigation required to demonstrate fraud. And even the derogation provided for under the Insurance Code, by which the insurer may suspend the term for the offer in order to conduct anti-fraud inquiry, is inadequate, given that at the end of the inquiry the insurer is required either to settle the claim or to lodge a formal legal complaint. The rule, in fact, does not envisage the possibility of withdrawal of the claim by the claimant.

Accordingly, ANIA has analyzed the vehicle damage claims for accidents that occurred and were settled in 2019 (and, for comparison, in 2018) that were settled via direct indemnity and with the CID claim form signed by both damaged and liable parties. In particular, we calculated the number of days between the date of the accident and the submission of the claim to the insurance company.

The study found that for these claims, which are settled most quickly (an average of 34 days, up very marginally over 2018), an average of 6.7 days elapse between the date of the accident and the date when it is reported to the insurer (Table 1).

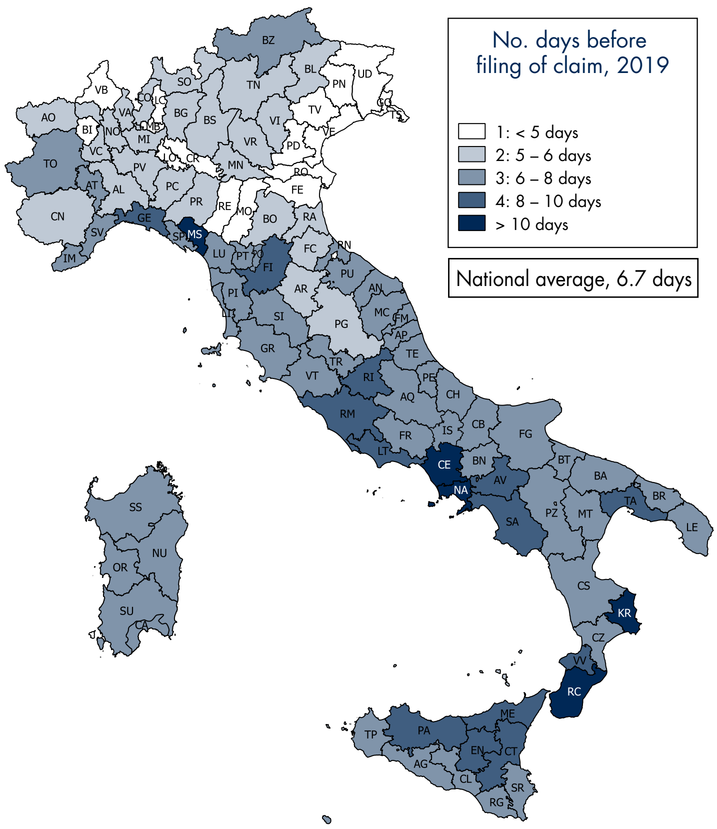
A regional breakdown, however, shows that the time period involved is lower than average in almost all the regions of the North, while in the Center and the South it is regularly higher, and nearly twice the average in Campania. In that region in 2019, on average, 12 days elapsed between accident and report (down from 13 in 2018). And on the provincial level (Figure 2) we find an average of 15 days in Naples, 11 days in Caserta and Crotone, 10 days in Massa Carrara, Messina, Palermo, Salerno, Reggio Calabria and Rome. The indicator is lowest in the northern provinces of Gorizia and Udine (under 4.6 days). In the major cities values range from 5.5 days in Bologna and Milan to 6.8 in Turin and over 10 in Rome and Palermo.

Motor insurance fraud is strictly correlated, geographically, with the circulation of uninsured vehicles. However, estimating the extent of insurance evasion is no easy task. On the one hand it would require strict, constant checks by the law enforcement bodies (virtually impossible, as a practical matter); at the same time it would require a central computer database of all the fines for driving without insurance levied by the Highway Police, municipal police and Carabinieri (at the moment no such database exists). ANIA has accordingly

Table 1
Time to report and time to settlement of consensual damage claims

Area	Region	Days between accident date and report date		Days between claim filing and settlement	
		2019	2018	2019	2018
	Liguria	7.4	7.5	34.5	34.1
	Lombardy	5.3	5.4	35.5	33.9
	Piedmont	6.1	6.2	35.1	34.7
	Valle d'Aosta	5.9	5.7	31.0	29.8
North-West	*Total*	*5.7*	*5.8*	*35.3*	*34.1*
	Emilia-Romagna	5.3	5.4	35.1	33.2
	Friuli-Venezia Giulia	4.7	5.1	34.0	32.0
	Trentino-Alto Adige	5.6	5.7	33.4	31.8
	Veneto	5.1	5.1	35.0	33.6
North-East	*Total*	*5.2*	*5.3*	*34.8*	*33.1*
	Lazio	9.3	9.7	38.1	38.1
	Marche	6.5	6.7	31.3	31.3
	Tuscany	7.4	7.7	35.9	35.3
	Umbria	5.9	5.7	27.7	27.7
Center	*Total*	*8.0*	*8.3*	*35.6*	*35.4*
	Abruzzo	6.6	6.5	28.6	27.2
	Basilicata	6.3	6.8	24.1	24.1
	Calabria	8.1	8.7	28.6	29.7
	Campania	12.0	13.3	33.5	34.6
	Molise	6.4	6.0	22.8	22.4
	Puglia	7.6	7.7	28.9	28.5
South	*Total*	*8.6*	*9.1*	*29.6*	*29.7*
	Sardinia	6.9	7.0	28.4	27.5
	Sicily	8.5	8.9	29.5	30.4
Islands	*Total*	*7.8*	*8.2*	*29.0*	*29.3*
	TOTAL ITALY	6.7	6.9	34.0	33.2

Figure 2
Time to consensual claim filing (vehicle damage only), 2019



estimated, as in 2018, the total number of uninsured vehicles on the roads on the basis of the open access data of the Motor Vehicles Bureau, which holds the data of the Public Automobile Registry (PRA). We have refined and cleaned these data and run screenings of the available information by the methodology described below.

First, note that the Motor Vehicles Bureau database covers all registered vehicles, divided into 4-wheeled vehicles (cars etc.) and 2-wheeled vehicles (motorcycles and motorscooters) and broken down by region, province and municipality. The data used for the present analysis refer to vehicles registered as at 31 December 2019; the data items used for the study comprise, in particular:

– date of initial registration of the vehicle
– status of compulsory inspection
– status of compulsory insurance

ANIA has its own data on the number of motor liability insurance policies in being at any given date, which added to the estimated number of uninsured vehicles at that date should give the total number of vehicles in circulation.

It should be underscored that in order to produce a realistic estimate of the number of uninsured vehicles from the Motor Vehicles Bureau database, the vehicles have been screened by date of registration in order to exclude five categories:

a) vehicles held in Italy's numerous judicial depositories (over 300 in 107 provinces), for which there is no central database of vehicles held;
b) unused vehicles (hence, non-circulating) but nevertheless regularly registered and kept in private garages or parking places;
c) vehicles abandoned on the street (mostly motorcycles and scooters), for which it is often impossible to identify the owner (burned, or license plate removed);
d) used vehicles registered with auto dealers but which will only be insured at the moment of sale to the customer (so-called "zero mileage" used cars);
e) vehicles with temporary insurance (mostly motorcycles and scooters that have coverage for the spring and summer and might therefore be without insurance at the time of the Public Automobile Registry "snapshot".

The screening and hypotheses used are as follows:

– <u>Four-wheeled vehicles</u>

  - by date of original registration, very old vehicles (prior to 1970) are excluded;
  - next, a count is made of all vehicles that according to the PRA circulate with regular inspection but without insurance; the hypothesis is that this is the real "hard core" of insurance evasion, because these are vehicles that have been inspected (and could therefore circulate legally) but that do not pay their insurance premiums;

- for vehicles that have not been inspected and have no insurance, exclusion of all those originally registered prior to 2010; in fact, the time series by year of original registration shows a "break" in the frequency distribution at that year, so newer vehicles can be considered "representative" of a second "hard core" of uninsured vehicles, while the older ones can be presumed to belong to the categories unused/abandoned or judicial depository;

– Two-wheeled vehicles

- here too, a first screening excludes all those originally registered prior to 1970;
- the percentage of insurance evasion is determined on the basis of the total number of insured vehicles according to ANIA, together with the total information on number of motorcycles and scooters according to the PRA. The percentage of two-wheeled vehicles with temporary coverage is substantial, in fact, and if this were not taken properly into account we would find a very high incidence of non-insurance.

On these assumptions, we estimate that in 2019 **2.6 million vehicles, 5.9% of the total in circulation**, lacked insurance coverage. This was down slightly from the estimate of 2.7 million and 6.0% in 2018. As in previous years, there is very significant geographical variation: against the national average of 5.9%, the proportion was nearly 9.4% in the South, about average in the Center, and much lower (3.8%) in the North (Table 2).

A more detailed geographical breakdown of the incidence of uninsured vehicles shows that practically all the regions of the North, and their capital cities, are at or well below the national evasion rate of 5.9%. In the Center, it is above all the Lazio region and the city of Rome whose rates are high, at 8.5% and 9.4% respectively, twice those of the other regions of the Center. In the South there is a range from values just above the national average in such regions as Molise, Basilicata, and Sardinia up to over twice the nationwide rate in Calabria and above all Campania, where the evasion rate is more than twice the average; in Naples in particular, one of every six vehicles on the roads is uninsured, and in Reggio Calabria one in eight (Table 3).

Table 2 – Estimate of uninsured vehicles, 2019, by geographical area
(millions)

Area	Total insured vehicles	Est. uninsured vehicles	Memo: est. uninsured vehicles					Total vehicles on road	% uninsured vehicles	Memo: % uninsured vehicles				
	2019	2019	2018	2017	2016	2015	2014	2019	2019	2018	2017	2016	2015	2014
North	21.3	0.8	0.9	0.9	0.9	1.1	1.4	22.1	3.8%	3.9%	4.1%	4.3%	5.2%	6.2%
Center	9.6	0.6	0.6	0.6	0.7	0.9	0.9	10.3	6.0%	6.1%	6.3%	6.6%	8.2%	8.5%
South	11.5	1.2	1.2	1.2	1.3	1.4	1.6	12.7	9.4%	9.6%	10.1%	10.7%	11.1%	13.5%
TOTAL ITALY	42.4	2.6	2.7	2.8	2.9	3.4	3.9	45.1	5.9%	6.0%	6.3%	6.7%	7.6%	8.7%

Source: Based on Motor Vehicles Bureau data

Table 3
Estimate of uninsured vehicles, 2019
Regions and regional capitals
(millions of vehicles)

Region/Capital	Total insured vehicles 2019	Est. uninsured vehicles 2019	Total vehicles on road 2019	% uninsured vehicles 2019
Bologna	0,723	0,028	0,751	3.7%
Total EMILIA ROMAGNA	3,512	0,134	3,646	3.7%
Trieste	0,168	0,005	0,173	2.9%
Total FRIULI VENEZIA GIULIA	1,005	0,029	1,035	2.8%
Genoa	0,592	0,022	0,614	3.6%
Total LIGURIA	1,186	0,045	1,231	3.7%
Milan	1,961	0,130	2,091	6.2%
Total LOMBARDY	7,201	0,330	7,531	4.4%
Turin	1,578	0,086	1,664	5.2%
Total PIEDMONT	3,388	0,156	3,544	4.4%
Trento	0,475	0,011	0,486	2.4%
Total TRENTINO ALTO ADIGE	0,937	0,022	0,959	2.3%
Aosta	0,118	0,008	0,125	6.1%
Total VALLE D'AOSTA	0,118	0,008	0,125	6.1%
Venice	0,566	0,016	0,582	2.8%
Total VENETO	3,905	0,117	4,021	2.9%
TOTAL NORTH	*21,251*	*0,841*	*22,093*	*3.8%*
Pescara	0,219	0,014	0,233	5.9%
Total ABRUZZO	0,992	0,058	1,050	5.5%
Rome	2,589	0,269	2,858	9.4%
Total LAZIO	3,781	0,353	4,135	8.5%
Ancona	0,362	0,013	0,375	3.5%
Total MARCHE	1,209	0,048	1,257	3.8%
Florence	0,711	0,030	0,741	4.0%
Total TUSCANY	2,907	0,121	3,028	4.0%
Perugia	0,571	0,026	0,597	4.3%
Total UMBRIA	0,759	0,034	0,793	4.3%
TOTAL CENTER	*9,648*	*0,615*	*10,263*	*6.0%*
Potenza	0,266	0,017	0,283	6.1%
Total BASILICATA	0,401	0,027	0,428	6.3%
Reggio Calabria	0,290	0,043	0,333	12.8%
Total CALABRIA	1,155	0,133	1,288	10.3%
Naples	1,271	0,244	1,515	16.1%
Total CAMPANIA	2,939	0,417	3,356	12.4%
Campobasso	0,175	0,011	0,186	5.8%
Total MOLISE	0,250	0,016	0,266	6.0%
Bari	0,777	0,052	0,830	6.3%
Total PUGLIA	2,516	0,186	2,701	6.9%
Cagliari	0,284	0,024	0,308	7.9%
Total SARDINIA	1,119	0,077	1,196	6.5%
Palermo	0,690	0,076	0,766	10.0%
Total SICILY	3,090	0,333	3,422	9.7%
TOTAL SOUTH	*11,470*	*1,188*	*12,658*	*9.4%*
TOTAL ITALY	42,369	2,644	45,013	5.9%

Source: Based on Motor Vehicles Bureau data.

MOTOR INSURANCE PRICE DEVELOPMENTS IN ITALY AND EUROPE: THE INSURANCE CYCLE

The change in the average motor liability premium

Given compulsory liability insurance, the annual change in the companies' premium income is a close gauge of the variation in the total amount spent by policyholders for coverage. To calculate the average price of individual coverage, however, one must obviously take account of the variation in the number of vehicles insured. Dividing premium volume by number of vehicles, one gets the average per-vehicle price of coverage.[1]

Table 1 shows the average Italian price for insurance of a vehicle and its component factors, as estimated by ANIA, between 1994 (the year insurance prices were liberalized) and 2019. In particular, the results since 2012-2013 can be summarized as follows:

– the average premium contracted in 2013, and even more sharply in 2014 and 2015 (the downturn actually came in the fourth quarter of 2012), continuing to decline in 2016 and 2017 as well, although at a diminishing pace. The five years thus registered an overall drop of 24% (4.6% in 2013, 7.0% in 2014, 6.7% in 2015, 5.9% in 2016, and 2.5% in 2017);
– in 2018 there was a further drop of 0.8%, smaller than in previous years but still a bit sharper than expected or estimated, the decline continuing in 2019 as well with a fall of 0.7%.

It is worth noting that as a result of the significant decreases registered in the course of the last seven years (a total reduction of 25.2% since 2012), in 2019 the average cost of insurance coverage came back down to its level of 20 years earlier (Table 1, column 3). The price reduction is also confirmed by IVASS's quarterly survey of actual motor liability insurance prices. This Survey of Effective Motor Insurance Prices (IPER),[2] covering passenger cars only, confirms the extent of the seven-year decline in prices as observed by ANIA.

[1] Methodologically, using the variation in the average premium to measure the rise in prices means employing the national accounts method for calculating consumption deflators, which is a Paasche index. The deflator, that is, is a variable-weights index, taking account of the exact composition of insurance expenditure and the price actually paid by the insured. Specifically, the deflator takes account of:
– the motorists' actual merit class, so that if in the reporting year they are in a better class than the previous year (which happens over 95% of the time), the deflator finds a reduction (or smaller increase) in price;
– discounts with respect to list prices, so that if a motorist gets a discount in the reporting year that he didn't have the year before, the deflator finds a reduction (or smaller increase) in price.
– changes in the characteristics of the insured vehicle, due in part to new car registrations.

[2] IVASS began the statistical survey of actual motor liability insurance prices (Indagine sui Prezzi Effettivi R.C. Auto, IPER) in the fourth quarter of 2013. It gives quarterly data on the actual prices paid by policyholders (not list prices or tariffs) for a sample of 2 million annual policies on private passenger cars only. The amounts include all the components of the final price, i.e. taxes, discounts from list price, and commissions to intermediaries.

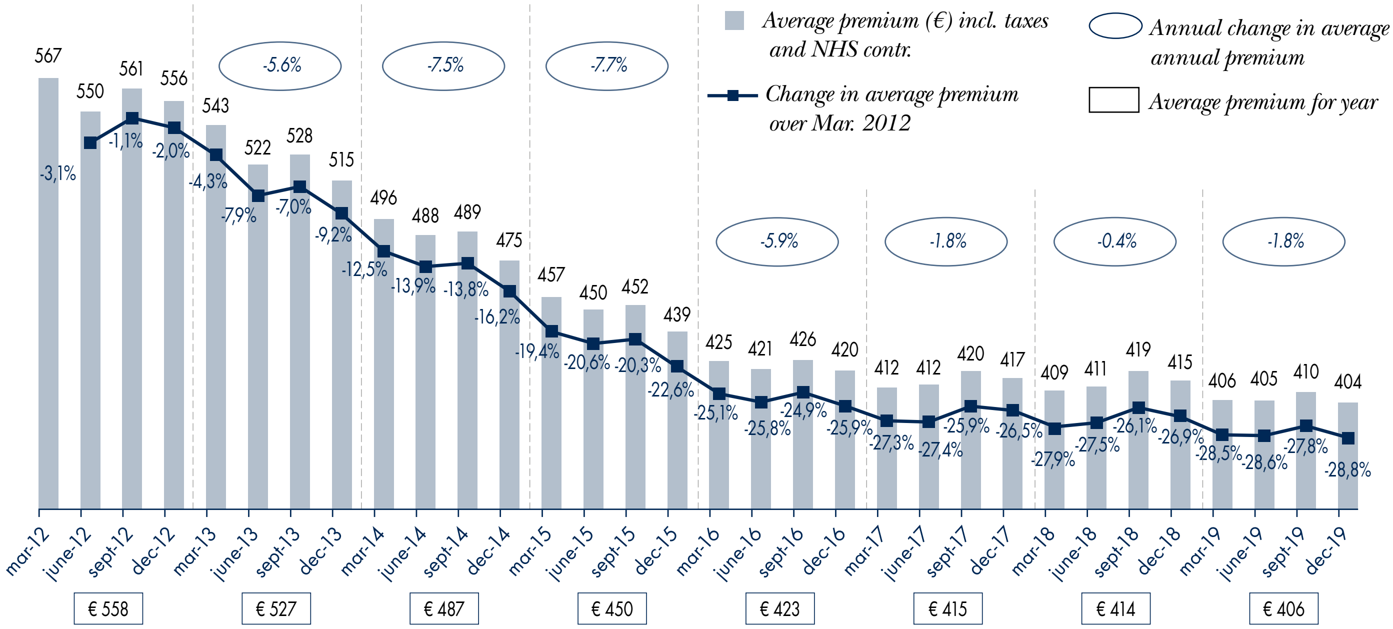
Table 1 – Motor liability insurance premiums, 1994-2019

YEAR	1. Premiums (Source: IVASS) (1)			2. No. vehicles in circulation (2)		3. Average price of coverage per vehicle		MEMO: 4. ISTAT motor liability index		MEMO: 5. ISTAT consumer price index	
	Mn. euro	Index	Annual % change (3)	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change
1994	8,663	100.0	6.1	100.0	3.0	100.0	2.9	100.0	8.5	100.0	4.1
1995	9,316	107.5	7.5	102.1	2.1	105.3	5.3	110.2	10.2	105.3	5.3
1996	9,770	112.8	4.9	101.8	-0.3	110.9	5.3	120.2	9.1	109.5	4.0
1997	10,655	123.0	9.1	102.8	1.0	119.6	7.8	131.2	9.2	111.7	2.0
1998	11,745	135.6	10.2	107.3	4.4	126.4	5.7	149.1	13.6	113.9	2.0
1999	13,226	152.7	12.6	109.6	2.1	139.4	10.3	174.0	16.7	115.8	1.7
2000	14,196	163.9	7.3	112.4	2.6	145.8	4.6	190.8	9.6	118.7	2.5
2001	15,315	176.8	7.9	116.9	4.0	151.2	3.7	211.3	10.7	122.0	2.7
2002	16,628	191.9	8.6	120.1	2.8	159.7	5.6	235.8	11.6	125.0	2.5
2003	17,622	203.4	6.0	123.5	2.8	164.7	3.1	247.7	5.0	128.4	2.7
2004	18,062	208.5	2.5	126.0	2.0	165.4	0.4	250.0	0.9	131.3	2.2
2005	18,171	209.8	0.6	128.7	2.1	163.1	-1.5	254.3	1.7	133.8	1.9
2006	18,387	212.3	1.2	131.2	2.0	161.8	-0.8	260.1	2.3	136.6	2.1
2007	18,208	210.2	-1.0	133.5	1.7	157.5	-2.7	264.0	1.5	139.1	1.8
2008	17,606	203.2	-3.3	133.9	0.3	151.8	-3.6	270.2	2.4	143.8	3.3
2009	16,963	195.8	-3.6	134.2	0.2	145.9	-3.9	278.1	2.9	144.9	0.8
2010	16,881	204.4	4.4	133.9	-0.3	152.7	4.7	298.2	7.2	147.1	1.5
2011	17,760	215.0	5.2	133.1	-0.5	161.5	5.8	314.3	5.4	151.2	2.8
2012	17,542	212.5	-1.2	130.7	-1.9	162.6	0.7	328.1	4.4	155.8	3.0
2013	16,232	197.6	-7.0	127.4	-2.5	155.1	-4.6	327.5	-0.2	157.7	1.2
2014	15,180	184.7	-6.5	128.2	0.6	144.2	-7.0	318.7	-2.7	158.1	0.2
2015	14,187	172.7	-6.5	128.3	0.1	134.6	-6.7	313.1	-1.8	158.1	0.0
2016	13,494	163.1	-5.6	128.7	0.3	126.7	-5.9	313.1	0.0	158.0	-0.1
2017	13,203	159.5	-2.2	129.2	0.4	123.5	-2.5	317.4	1.4	159.9	1.2
2018	13,220	159.7	0.1	130.4	0.9	122.5	-0.8	320.4	1.0	161.7	1.1
2019	13,211	158.4	-0.8	130.2	-0.1	121.7	-0.7	319.4	-0.3	162.7	0.6

(1) Premiums only of Italian companies and units of companies with registered offices in non-EEA countries, since the data on number of vehicles insured by units of companies located within EEA countries are not available.
(2) Through 2008, based on ACI data. Starting with 2009, the number is calculated on the basis of the change in the actual number of vehicles insured derived from an ANIA survey, using a methodology consistent with that which IVASS specifically requests of insurance companies in anticipating their financial reports. Preliminary data showed the number of insured vehicle/years in 2019 pratically unchanged (edging down 0.1% to 39.5 million). The number refers only to Italian insurance companies and units of non-EEA insurance companies. Counting all the other types of insurer doing business in Italy, the number of insured vehicles rose slightly by 0.2%.
(3) The percentage change in premiums in 2019, 2013 and 2010 is calculated in uniform terms.

Figure 1 summarizes the prices found quarterly by IVASS (those prior to December 2013 are ANIA estimates based on the average prices found by a comparable survey conducted by ANIA itself). The survey shows that the average yearly price (the average of the four quarterly values) of passenger car insurance fell from €558 in 2012 to €406 in 2019, or by 26.9%, in line with the insurance price index shown in Table 1, which as noted declined by 25.2%. For 2019 alone, the IPER survey shows that the cost of passenger car insurance was 1.8% lower than in 2018, coming down from €413.80 to €405.90.

Figure 1
Average price of passenger car insurance, 2012-2019



Sources: Dec. 2013-Sept. 2019, IVASS; previous dates, ANIA estimate based on IVASS data.

The latest data available also to ANIA,[3] for March 2020, indicate that the average price of motor liability insurance, net of taxes and NHS contributions, came down by a further 1.0% to €339[4] or €98 less than the €437 recorded in March 2013 – a fall of 22.4% (Table 2). In detail, premiums on cars fell by 0.7% in the year to March 2020, those on motorcycles by 3.3%, and those on motor scooters by 1.9%.

Table 2
Actual motor liability premiums at policy renewal: ANIA monitoring

Month/Year	Average premium (pre-tax) (€)	% change over year-earlier month
March 2020 – All policies	339	-1.0
of which:		
Private passenger cars	343	-0.7
Private motorcycles	226	-3.3
Private motor scooters	153	-1.9

[3] Since 2013 ANIA conducts a quarterly survey, covering over 85% of the Italian insurance market in terms of premiums, to estimate the price paid for the renewal of motor liability policies. This survey excludes fleet policies and, for better comparability, considers only annual policies expiring in the relevant month and excludes temporary policies. The premiums are net of taxes and NHS contributions.
[4] Including taxes (15.7%) and NHS contributions (10.5%), which amounted on average to 26.2% of the pre-tax premium in 2019, the average post-tax cost for all vehicles in March 2019 came to €428. For private passenger cars alone, the figure was €433. This amount differs from that given by IVASS and is generally higher, in that the ANIA survey covers only policy renewals within companies' portfolios, for which the previous year's premium is known. This excludes new policies issued during the month, which refer at least in part to motorists who have changed insurer in order to get a cheaper policy and who accordingly get larger reductions, on average, than those staying with the same company. Further, the premium reported by the companies surveyed does not take account of contractual changes or any additional discounts with respect to the previous year.

Looking, for purposes of comparison, to the rest of Europe (Table 3), based on Eurostat data (which are essentially the same as those observed by Istat for Italy and its counterpart institutions for the other countries), we find that only three countries registered decreases in the motor liability price index between 2013 and 2019, namely Greece (-29.6%), Denmark (-9.0%) and Italy (-2.8%). In the rest of Europe the index rose – quite sharply in the Netherlands (37.8%), the United Kingdom (21.6%), Finland (21.4%) and Ireland (19.6%), more moderately in Spain (11.7%), Austria (11.6%), France (9.1%), Norway (8.6%) and Germany (5.2%).

Table 3
Change in transport equipment insurance price index (%)

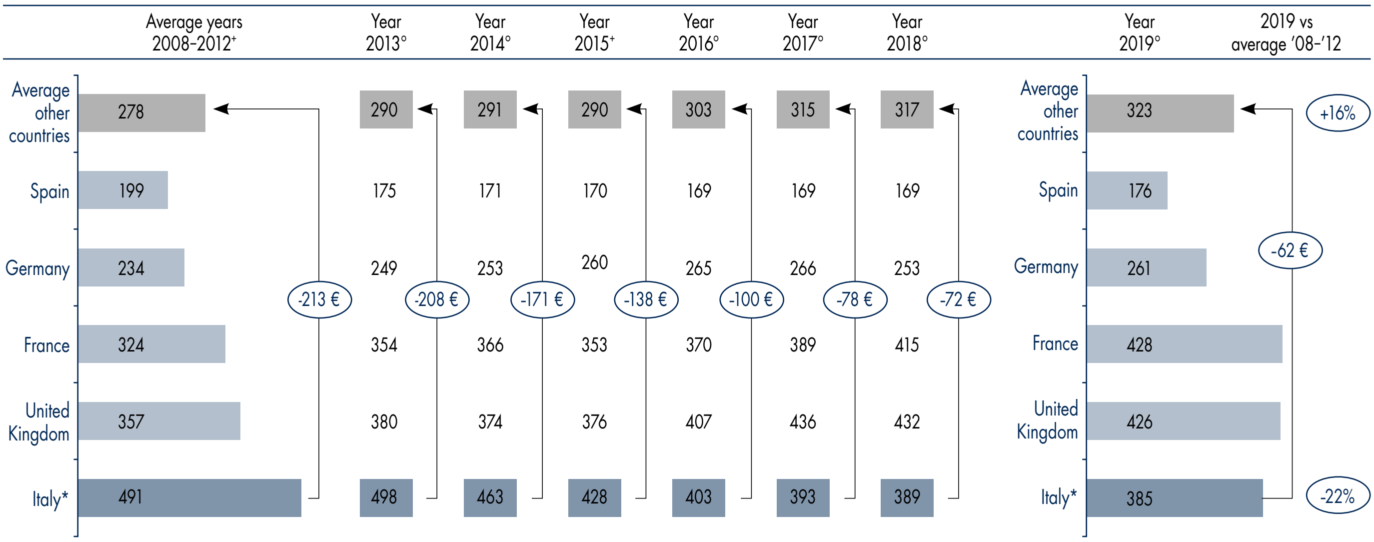
	AVERAGE FOR YEAR							TOTAL	12-MONTH CHANGE
	2013	2014	2015	2016	2017	2018	2019	2013-2019	May 2020-2019
Italy	-0.2%	-2.7%	-1.8%	-0.1%	1.4%	1.0%	-0.4%	-2.8%	-0.6%
Austria	2.5%	1.9%	1.7%	1.8%	2.0%	1.5%	-0.2%	11.6%	1.1%
Belgium	1.3%	1.3%	0.5%	0.1%	-0.3%	-1.3%	-1.1%	0.4%	-1.2%
Denmark	-17.4%	12.4%	1.9%	-0.1%	-2.3%	1.1%	-2.5%	-9.0%	1.9%
Finland	4.0%	3.9%	6.0%	2.7%	1.0%	1.2%	1.0%	21.4%	3.2%
France	-1.5%	-0.2%	1.7%	1.3%	1.4%	3.2%	3.0%	9.1%	4.1%
Germany	4.1%	1.7%	-1.6%	2.1%	0.3%	-4.7%	3.5%	5.2%	0.7%
Greece	-7.7%	-8.9%	-9.1%	-3.9%	-3.3%	-1.1%	0.3%	-29.6%	1.1%
Ireland	-7.5%	6.0%	19.6%	24.6%	-5.7%	-8.7%	-4.9%	19.6%	-5.8%
Luxembourg	0.8%	1.8%	0.1%	1.7%	0.0%	1.0%	1.4%	7.0%	0.6%
Norway	2.3%	1.0%	0.2%	-0.4%	-0.5%	1.6%	4.2%	8.6%	6.0%
Netherlands	12.1%	0.2%	3.4%	2.1%	6.2%	3.9%	5.2%	37.8%	2.6%
United Kingdom	-1.6%	2.1%	3.0%	11.9%	10.9%	-3.9%	-1.4%	21.6%	–
Spain	-0.3%	0.7%	1.8%	2.5%	2.6%	1.7%	2.1%	11.7%	1.7%
Sweden	0.4%	1.2%	1.9%	-0.1%	0.2%	0.2%	-1.4%	2.4%	1.6%
EU 28	0.5%	0.5%	0.4%	2.7%	2.3%	-0.3%	1.9%	8.3%	1.0%

Source: Eurostat. The change 2020-2019 is calculated excluding the United Kingdom

Accordingly, the gap between Italian prices and those in the other main countries narrowed once again. The Boston Consulting Group study conducted for ANIA in 2014 found that between 2008 and 2012 motor liability coverage cost €213 more in Italy than in Germany, France, Spain and the United Kingdom, on average. But an update of this study has found that the gap diminished to €138 in 2015. Using the trends in motor liability price indices released by Eurostat, ANIA has estimated that the gap has narrowed further in 2019 to scarcely €60 (Figure 2).

The reduction in premiums in Italy is the consequence of a series of concomitant factors. First and foremost was the April 2012 law instituting stricter standards for compensation of mild personal injury. The reduction in this micro-injury cost component allowed substantial price cuts starting in 2013. Second, the severe economic recession of 2008, continuing with ups and downs at least through 2014, curbed car use and thus, de facto, lowered claims frequency, to the benefit of insurers' technical accounts and so resulted in a decline in premiums.

Figure 2
Average motor liability insurance prices in Europe



(+) Source: BCG – Documento Finale Confronto sul Mercato RCA in Europa.
(°) ANIA estimates based on Eurostat and Insurance Europe data.
(*) The slight differences between the premium for Italy given here and that from IVASS's IPER survey are due to the fact that IVASS counts only private passenger cars.

In addition, sharper competition between insurers has enabled consumers to switch to more economical coverage, as in the possibility of subscribing policies that require mounting black boxes and offer, in exchange, sometimes very substantial premium discounts. The steady increase in the number of these devices has enabled insurers to reduce moral hazard both in risk profiling and in claims adjustment in case of accident, reducing fraud and permitting more correct valuation of damage.

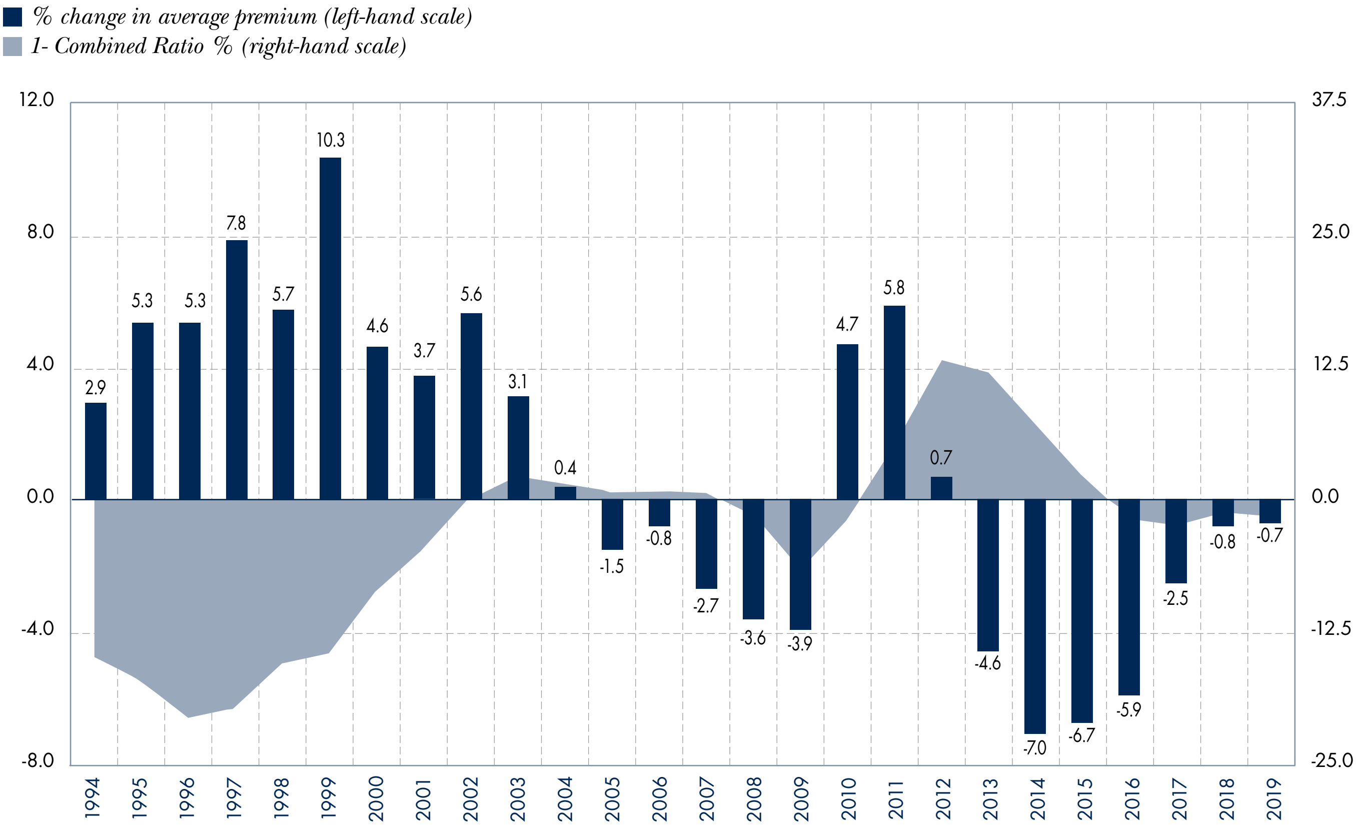
Policy premiums (or prices) are strictly correlated with insurers' profitability, as gauged by the combined ratio, which is the sum of the loss ratio for the accident year (i.e. claims costs over premiums) and the expense ratio (i.e. operating expenses over written premiums). Profits or losses obviously depend on the adequacy of prices with respect to the risks underwritten.

Comparing the complement to 1 of the combined ratio (a negative value indicates a loss, a positive one a profit) with average premium variations over the long run, we can track the "insurance underwriting cycle" (Figure 3). From the price liberalization of 1994 to 2002, the sector's technical results were sometimes sharply negative, and insurers had to bring the accounts back into balance by raising average premiums (the "hard" phase of the cycle). Once the technical results came back into positive territory (in 2002), companies began lowering prices (the "soft" phase). However, there is a lag between the inversion in the profitability trend and that in the price trend. Prices, in fact, can only reflect changes in claim frequency with a lag of months, insofar as the data for the calculation to estimate new premium rates are drawn from past experience, are not available immediately, and can take a considerable amount of time to process. The most recent trends indicate that in view of the positive technical results achieved starting in 2012, we have witnessed the sharpest cut in average premium rates since the 1994 liberalization (down 25.2% from 2013 to 2019).

The logic underlying the insurance cycle is clear. In high-profit years, insurers are more optimistic and compete harder for new business. In the case of motor liability insurance, as the demand is inelastic, this means winning accounts away from other insurance companies. In a mature and highly competitive market, this implies price cuts in order to gain market share. As a consequence, profits tend to decrease both because of steadily lower premiums and because of the acquisition of poorer quality policy risks. Profits do not return to growth until insurers adjust their prices and become more selective in screening the policyholders they choose to underwrite. This brings profits back up, and the cycle starts over.

Remember that different companies have different operating expenses, hence different minimum acceptable profit margins. Perceptions and expectations of future profits and losses develop in different ways and on different calendars, and individual insurers' strategies are not known. Hence no coordination of market actions is possible; this implies that the cyclical process never attains a point of equilibrium and so should be never-ending.

Figure 3
The insurance policy underwriting cycle



DIRECT INDEMNITY

CALCULATION OF THE SINGLE COMPENSATION AMOUNTS FOR 2020

The Technical Committee has set the single compensation amounts for payments between insurance companies for 2020 under current regulations. The applicable legislation is Article 29 of Decree Law 1/2012 ("Urgent measures for competition, infrastructural development and competitiveness"), converted into Law 27 of 24 March 2012, and the implementing provisions in IVASS's Measure 79 of 14 November 2018.[1]

Specifically, the compensation amount is divided into two components:

– a single "CARD-CID" amount for mild personal injury to the driver and damage to the vehicle insured and property transported, itself broken down into two vehicle categories, namely "motorcycles/scooters" and "vehicles other than motorcycles/scooters". The single amount, relating only to property damage, has been set distinctly for three geographical macro-areas;
– for the "CARD-CTT" procedure relating to personal injury to passengers and damage to their property, reimbursement is now on the basis of the actual settlement (again in 2020, no deductible was deemed necessary, in that examination of the average costs at 31 October 2019 of claims for personal injury and damage to property transported showed a reduction for both two-wheeled and other vehicles).

The study to determine the single compensation amount was based on CONSAP's statistics, which refer to settlements of all claims admitted to the clearing house between 1 January 2009 and 31 October 2019, which are sufficiently representative of the costs of the claim generation needed to determine the compensation amount.

Calculation of the CARD-CID amount

The examination of average definitive settlements revealed a slight increase in 2019 in indemnities for damage to vehicles and property transported for the class of "motorcycles/scooters" and a decline in the average cost of injury to drivers. The same trend, but less pronounced, characterized the class of "other vehicles."

The reference values for 2020 were set on the basis of the average costs of definitive settlement of claims of all the claim generations available (2009-2019).

[1] Measure 79 abrogates IVASS Measure 18 of 5 August 2014 but maintains the articles relative to determination of the single compensation amounts.

The method adopted for projecting the ultimate cost of claims of both types was the classical actuarial "chain ladder," based on the time series of average cost increases of previous claim generations according to claim duration.

The amounts so derived were first projected through December and then inflated for one additional year (given that they are to apply to all of 2020) based on the inflation forecast of 0.8% set in the Italian government's 2020 Budget Planning Document.

The base value for average cost of property damage is:

– €1,469 for "motorcycles/scooters"
– €1,646 for the broader class of "other vehicles".

The base value for average cost of mild injury to driver is:

– €4,638 for "motorcycles/scooters"
– €2,316 for the broader class of "other vehicles".

Determination of geographical adjustments

The CONSAP statistics on settlements of claims incurred from 1 January 2015 to 31 October 2019 were used to identify three geographical macro-areas. Determination of the geographical indices was by the same methodology as in the past. Based on average settlement cost, provinces were divided into three groups (so-called geographical "areas") depending on deviation from the national mean. The first "area" comprises all provinces with costs more than 10% higher than the mean; the second, those with a deviation of less than 10% either above or below; and the third, those with costs more than 10% below the mean. The average costs for the "areas" so defined were related to the overall average for all provinces and then normalized with respect to the central group, producing three adjustment coefficients (Table 1).

Table 1
Determination of average cost of property damage claims by province groups (€)

	MOTORCYCLES/SCOOTERS			OTHER VEHICLES		
	Group 1	**Group 2**	**Group 3**	**Group 1**	**Group 2**	**Group 3**
Average cost of damage to vehicle and property transported, to 30/06/2020	1,469	1,469	1,469	1,646	1,646	1,646
Adjustment coefficient by area	*1.28*	*1.00*	*0.83*	*1.18*	*1.00*	*0.84*
Average cost of claims by macro-area	1,887	1,469	1,224	1,935	1,646	1,389

MEMO:

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Average cost of damage to vehicle and property transported (€) (*)	1,598	1,651	1,556	1,550	1,559	1,588	1,601	1,625
Change (%)	*-0.9%*	*3.3%*	*-5.8%*	*-0.4%*	*0.6%*	*1.9%*	*0.8%*	*1.5%*

(*) Average cost for all sectors.

For "motorcycles/scooters", provinces with fewer than 500 claims were excluded, given the high volatility of costs there. These provinces were then all classed in the central group. The determination of the groups also factored in the new province structure of Sardinia. In particular, for the years through 2017 the old data on the provinces of Medio-Campidano and Carbonia-Iglesia (combined in the new province of Sud Sardegna) were aggregated; those of Olbia-Tempio (abolished) included in Sassari, and those of Ogliastra (abolished) in Nuoro. Starting in 2018, insurers have classified the data directly in the new provinces.

The single CARD-CID compensation amounts, separately for the two vehicle classes, were computed as the average of property damage and personal injury costs, weighted by their share of total claims (Table 2). The share incidence was calculated as the percentage of total valid CARD-CID claims involving the various types of damage, by vehicle type.

Table 2
Determination of single CARD-CID compensation amounts by province groups (€)

	MOTORCYCLES/SCOOTERS				OTHER VEHICLES			
	Group 1	**Group 2**	**Group 3**	***% of claims***	**Group 1**	**Group 2**	**Group 3**	***% of claims***
Average cost of damage to vehicle and property transported	1,887	1,469	1,224	*99.34%*	1,935	1,646	1,389	*99.93%*
Average cost of personal injury to driver with permanent disability of less than 9%	4,638	4,638	4,638	*39.11%*	2,316	2,316	2,316	*8.10%*
Average cost of claims by province group	3,688	3,273	3,029		2,098	1,815	1,561	
SINGLE CARD-CID AMOUNT (*)	**3,685**	**3,270**	**3,026**		**2,119**	**1,830**	**1,573**	

(*) Amounts obtained by re-basing, rounding the central class down to the nearest 10 euros.

THE IT PLATFORM FOR CARD DOCUMENT EXCHANGE: DATA AND MAIN RESULTS FOR 2019

Starting 1 March 2017 a sophisticated IT platform for document exchange enables insurers adhering to the CARD Convention to view the evidence produced by the other party's insurer to confirm or contest the claim submitted by its own policyholder and/or to apply the direct indemnity procedure on a timetable compatible with the legal deadline for the presentation or denial of a settlement offer.

The main results for 2019 can be summarized as follows. The accidents occurring in 2019 reported to the CARD system numbered 1,600,464 (excluding 194,716 "natural CARD" accidents, those in which both motorists are insured by the same company). Of these, 998,702 (61.78%) were presented with the amicable CAI form signed by both drivers. The remaining 38.22% of the reports (611,762 claims) were handled on the basis of unilateral requests for indemnity; of these, 243,447 (39.79%) were handled via the document exchange procedure.

In 184,941 cases (or 75.97% of all the cases handled via document exchange), liability was determined after viewing the documentation produced by the other insurer.

In 24,047 cases (9.88% of the document-exchange cases), liability was determined by the conciliation procedure under the Convention.

In 34,459 cases (14.15%) liability was assigned on a presumptive basis owing to the lapsing of the deadline for providing documentary evidence under the Convention.

Claims reported using the form signed by both drivers ("CAI2" claims) resulted in a rate of disputes between insurers of 0.84% in 2018, down by 0.22 percentage points from 2018; meanwhile, the number of CAI2 claims itself declined in absolute terms by 1.56%. By contrast, cases of unilateral claims ("CAI1") resulted in a dispute rate of 3.93%, down slightly (by 0.50 percentage points) by comparison with 2018, while the actual number of CAI1 claims increased by 0.31%.

REVISION OF APPOINTMENT OF CLAIMS ADJUSTERS AND PROCEDURES FOR ASSIGNMENT OF CASES, GUIDELINES FOR CARD ADJUSTERS

In the course of 2019 the CARD service was reorganized, with a series of organizational and functional measures that worked a thorough revision of the operational processes for managing the Card Convention and support applications. The aim was to provide better and more efficient services to insurance companies.

The process for the appointment of claims adjusters and the procedure for assigning cases were thoroughly revised, after which insurers confirmed or revised their lists of independent adjusters with demonstrated CARD training. This reform involved:

- an increase in the number of adjusters in each insurer's database, from 49 to 125;
- the setting of a time limit on adjusters' assignment (2 years), after which they can no longer perform this role unless reconfirmed by the insurance company;
- the introduction, in addition to the monthly limit of 50 cases for each adjuster, of an annual limit of 600, plus a new waiting time limit for files on Responline before the adjuster makes his determination (no longer 1 but 15 days during a four-month transitional period, and then 5 days).

As to the selection of adjusters, each CARD insurance company reports to ANIA the names of those to include in the list of adjusters for dispute resolution. These adjusters may be employees, consultants, or fiduciaries of the firm.

To serve as adjuster, one must be thoroughly familiar with the rules of the Convention, in particular the guidelines for arbitration. The CARD rules call for the creation of several different "buckets" of independent claims adjusters, each with specific competences. To facilitate the process of sorting and inclusion in the various competence buckets, insurers must transmit to ANIA profiles with different specializations (such as after-the-fact conciliation and estimates for third party passengers).

Under the Convention, to ensure efficiency, independent adjusters are evaluated based on two parameters:

– time to complete assignments;
– number of errors in application of the ANIA arbitration guidelines.

An adjuster with a particularly poor score may be temporarily suspended; or the insurer may be requested to revoke his/her assignment. The appointment of an independent adjuster is for a term of 2 years and can be renewed by the reporting firm, which in any case also has the power to remove or replace the independent adjuster at any time. The appointment of the independent adjuster is by means of a form filled out by the insurer and signed by the adjuster, for acceptance of the assignment and commitment to compliance with ANIA's code of conduct and regulatory procedures. The form is accompanied by an up-to-date *curriculum vitae* together with the letter of appointment signed by the adjuster for processing of personal data, and a declaration of any conflict of interest vis-à-vis other insurance companies apart from the reporting company.

Compulsory training of claims adjusters in the new arbitration guidelines for 2019 (and successive updated versions)

Before the latest version of the arbitration guidelines for independent claims adjusters went into force on 1 July 2019, ANIA organized – via the CARD service and in collaboration with ANIA SAFE – an information session with all the Convention Reference Department representatives of the CARD insurance companies and three training sessions for the adjusters, whose attendance was now compulsory, on pain of removal from the rolls.

Afterwards, ANIA, the companies and the adjusters made observations and suggestions to improve the text of the guidelines and resolve questions of interpretation that had arisen in connection with certain cases that had given rise to objections on the part of the companies. The procedure for revision of the guidelines was concluded, after wide-ranging and thorough discussion with the insurers, on 21 October 2019 with the approval of the definitive text of the new Guidelines for CARD claims adjusters, version 12, in effect as of 1 January 2020.

REVISION OF PROCESS FOR DESIGNATION OF ADJUSTERS SPECIALIZING IN CLAIMS FOR THIRD PARTY PASSENGERS AND COMPLEX CLAIMS, AND APPOINTMENT OF SPECIALIST ADJUSTERS

The reorganization of the CARD service included a thorough review and revision of the process for designation of claims adjusters specializing in claims of third party passengers and complex claims, as well as the appointment of expert adjusters (forensic physicians, reconstructing experts, assessors). In addition, an internal function for supervision of the process was instituted, to ensure continuing alignment and sharing of views with these expert adjusters, given the substantial economic impact of these cases.

The reform increased the number of expert complex claims adjusters in the database from 3 to 47. In detail, the following activities were brought to completion:

- definition of the fundamental parameters for the selection of specialists in third party passenger and complex claims (education, enrolment in professional registers, years of experience in insurance work);
- identification of specific technical and professional requirements for appointment of coordinators in the new arbitration panels, whose number was substantially increased in 2019;
- drafting of an operational manual on ex-post third party passenger conciliation, in support of the work of specialist adjusters;
- organization of an instruction and training meeting for adjusters specializing in complex claims and third party passenger claims, focusing on the activation and management of the new procedures; the manual mentioned above was distributed on this occasion;
- identification of technical and professional requirements for highly specialized experts in valuation of particularly complex claims, to be called on, as necessary, in the course of the investigation carried out by the arbitration panel; these include forensic physicians, reconstructing experts, and assessors. The process of appointment of these specialists involved the direct participation of insurance companies, which notified the CARD service of the names of professionals that they know and trust. As for the procedures for appointment of the coordinators of the arbitration panels and adjusters specializing in complex claims, it was deemed advisable to adopt objective selection criteria with a view to transparency and efficiency.

The reasoning behind the selection of the various categories of experts mentioned above, who are directly involved in the management of complex cases, panel coordinators and members, or in support of the panels, is set out below. Specifically, the process identifies:

- suitable candidates for appointment to the **arbitration panel**;
- suitable candidates for appointment as **panel coordinator**;

- suitable candidates for the following specialized assignments:
  - assessor;
  - reconstructing expert;
  - forensic physician.

Selection of adjusters qualified to manage complex claims

Candidates are judged via a weighted ranking based on three standards (years of experience, education, any certifications relevant to the assignment). Specifically:

- **experience**: 0.5 points for candidates with less than 15 years' experience; 1.0 point for 15-25 years; 1.5 points for over 25 years;
- **relevant certifications**: 0.5 points for each certification relevant to activity of panel member (e.g., enrolment in the bar association);
- **education**: 1.0 point for candidates with university degree in economic or legal fields; 0.5 points for those with other university degrees; finally, 0 points for those with only secondary education;
- **overall score**: the sum of the points awarded to each candidate gives the position in the final ranking.

In addition to these standards, additional standards for evaluation will be inserted into the process, such as indicators of performance drawn from the history of the individual adjusters' professional activity.

The suitability of the **panel coordinators** is determined on the basis of the individual *curriculum vitae* submitted and the candidate's presence within the Convention Reference Department of his/her insurance company. If they deem it necessary, coordinators may also request ANIA to provide the support of specialized adjusters as: **assessor**, **reconstructing expert**, or **forensic physician**.

Selection of forensic physicians in support of arbitration panels

Forensic physicians are judged by a weighted ranking of 11 standards. These are:

- **experience**: 0.5 points for candidates with less than 15 years' experience; 1.0 point for 15-25 years; 1.5 points for over 25 years;
- **education**: 1.0 point for candidates with university degree; 0 points for those with only secondary education;
- **specialization**: 1.0 point for candidates with specialization relevant to the role of forensic physician; 0 points for those lacking such specialization;
- **master's degree/advanced training**: 1.0 point for candidates with a master's or more advanced training relevant to the role of forensic physician; 0 points for those lacking such degree or training;
- **fiduciary physician**: 1.0 point for candidates with professional experience as fiduciary physician; 0 points for those lacking such experience;

- **assignment as Central Medical Consultant**: 0.5 points for candidates with professional experience as CMC; 0 points for those lacking such experience. In discharging the assignment, the central medical consultant gives his/her opinion on controversial cases (giving a second opinion) or preventive opinions;
- **assignment as hospital medical director/consultant**: 1.0 point for candidates with professional experience as medical director or consultant at a hospital; 0 points for those lacking such experience;
- **technical judicial consultant**: 1.0 point for candidates with professional experience as technical consultant for the courts; 0 points for those lacking such experience;
- **assignments for public committees and/or bodies**: 1.0 point for candidates who have had assignments at public committees and/or bodies; 0 points for those with no such assignments;
- **assignments at medical-scientific associations/entities**: 0.5 points for candidates with assignments at medical-scientific associations/entities; 0 points for those with no such assignments;
- **teaching assignments**: 0.5 points for candidates assigned as teachers at any and all schools, of whatever level; 0 points for those with no such assignments;
- **overall score**: the sum of the points awarded to each candidate gives the position in the final ranking.

Forensic physicians are called to serve arbitration panels at the specific request to the CARD service by the panel coordinator in relation to specific, complex cases.

Selection of reconstructing experts in support of arbitration panels

Reconstructing experts are judged by a weighted ranking of 9 standards. These are:

- **experience**: 0.5 points for candidates with less than 15 years' experience; 1.0 point for 15-25 years; 1.5 points for over 25 years;
- **education**: 1.0 point for candidates with university degree; 0 points for those with only secondary education;
- **specialization**: 1.0 point for candidates with specialization relevant to the role of reconstructing expert; 0 points for those lacking such specialization;
- **master's degree/further advanced training**: 1.5 points for candidates with a master's or further advanced training relevant to the role of reconstructing expert; 0 points for those lacking such degree or training;
- **fiduciary assignment**: 1.0 point for candidates with professional experience as fiduciary for an insurance company; 0 points for those lacking such experience;
- **technical judicial consultant**: 1.0 point for candidates with professional experience as technical consultant for the courts; 0 points for those lacking such experience;

- **teaching assignments**: 1.0 point for candidates assigned as teachers at any and all schools, of whatever level; 0 points for those with no such assignments;
- **assignments at technical-scientific associations/entities**: 0.5 points for candidates with assignments at medical-scientific associations/entities; 0 points for those with no such assignments;
- **enrolment in register of reconstructing experts**: 1.0 point for candidates enrolled in the register of reconstructing experts; 0 points for those not so enrolled;
- **overall score**: the sum of the points awarded to each candidate gives the position in the final ranking.

Reconstructing experts are called to serve arbitration panels at specific request to the CARD service by the panel coordinator in relation to specific, complex cases.

Selection of assessors in support of arbitration panels

Assessors are judged by a weighted ranking of 3 standards. These are:

- **experience**: 0.5 points for candidates with less than 15 years' experience; 1.0 point for 15-25 years; 1.5 points for over 25 years;
- **specialization/qualification**: 1.0 point for candidates with specialization or qualification relevant to the role of assessor; 0 points for those lacking such specialization/qualification;
- **fiduciary assignment**: 1.0 point for candidates whose curriculum includes assignments as fiduciary for insurance companies; 0 points for those lacking such assignments;
- **overall score**: the sum of the points awarded to each candidate gives the position in the final ranking.

Reconstructing experts are called to serve arbitration panels at specific request to the CARD service by the panel coordinator in relation to specific, complex cases.

Finally, there is a constantly active channel for communication and information sharing among company Convention officers, specialized adjusters, expert adjusters and the CARD service, for ongoing dialogue on all the cases assigned, to guarantee correct application and uniform interpretation of the CARD rules.

TECHNOLOGICAL INNOVATION IN MOTOR LIABILITY INSURANCE

LIABILITY POLICIES FOR THE NEW MOBILITY

ANIA is following the issues involved in the emerging forms of mobility closely, with a view to insurance innovation and to sustainability and the new insurance market opportunities deriving from the application of advanced and steadily evolving technology. With reference to motor liability insurance, ANIA conducted a study, posted on the website at the end of 2019, on matters relating to the new forms of mobility, and in particular so-called “smart” and “green” mobility, from the specific standpoint of insurance profiles, innovation and service provision.

The study makes it clear that the insurance market is bound to change radically to accommodate these emerging modes of mobility: multimodal, smart, connected and shared, for which it is expected that the “use” of the means of locomotion will outweigh their “ownership.” This change will be all the more pronounced when, in a future that is not far away, automatically driven cars – already being tested on Italian roadways – circulate freely. Insurers, like the other stakeholders – automakers, service providers, spare parts manufacturers – are thoroughly reviewing their positioning and role in the framework of this new mobility ecosystem, as well as their relations with drivers and vehicle owners.

In 2019 the insurance industry continued to contend with major transformations, essentially technological disruptions, as well as a changing macroeconomic framework and an evolving, often unpredictable geopolitical scenario.

In this rapidly developing, unpredictable context, insurers must clearly continue to prioritize the strategic development of projects based on insurance technology, both in order to remain competitive and also, indeed above all, to prevent the emerging risks and better serve the new, heterogeneous needs of the community.

Obviously, motor liability is one of the first insurance branches to be feel the impact of the technological disruption, Pending the epoch-making changes to mobility with the advent of self-driving cars, for years now motor insurance has been offering products conceived specifically for smart mobility, such as “on demand” policies or integrated coverage targeted not only to mobility but also to homeowners and household insurance. Insurers are also working on “instant/temporary” coverage plans that can be tailored to respond to the new mobility needs of policyholders. This new kind of motor insurance cannot do without information technology, which many traditional insurers have been incorporating in their traditional policies for years now. ANIA estimates that in 2019 some 6 million policies required the policyholder to install a device (“black box” or other computer recording device) that can record certain driving data (geopositioning, crashes, distance traveled, time at the wheel, speed, etc.) in order to provide coverage that is more personalized, more secure, and more reliable in the settlement phase.

POST-COVID SCENARIOS AND E-MOBILITY

The changes described above – profound but essentially “normal” – have now been flanked, starting in the first half of 2020, by the “pathological factor” of the coronavirus (Covid-19) pandemic. This has caused a unique global health emergency of a gravity unprecedented in the modern era. Given intensifying globalization, Covid-19 has had and will continue to have an impact on every aspect of collective life in countless countries, albeit to differing extent. Among other issues, in the countries affected the pandemic has necessitated a rethinking of the traditional model of mobility, especially in urban areas with greater population density and more intense public and private traffic.

At present the effects that the pandemic will have on mobility in Italy can be predicted only in very approximate fashion. We can only presume that in the short term, in connection with fears for personal health, there will be a resurgent use of privately owned or possessed vehicles at the expense of shared mobility and public transport. The latter, in fact, at first will be subject to capacity limits precisely in order to ensure social distancing as a preventive health measure.

In any event, in the unprecedented context of the Covid-19 pandemic we have seen that the restrictions on travel under the terms of the lockdown imposed by the Italian government in mid-March – and subsequently by governments in other countries – resulted in a notable technological acceleration, including the use of internet platforms for remote communication. This acceleration was required, among other things, in order to carry out a whole range of activities “at a distance,” such as school lessons, “smart working” from home or other remote locations at a remove from traditional workplaces (school, university, office, company premises, etc.).

In the view of some experts, the exceptional necessities and urgency of the pandemic constituted the springboard for extremely quickly achieving a quantum leap in technological innovation that under ordinary circumstances would have taken at least five years and that will significantly influence the future of urban mobility. While forecasting is difficult right now, one might well expect that an initial phase of increased use of traditional privately owned/possessed vehicles at the expense of public transport (where social distancing among passengers is now compulsory for health reasons) will be followed by a metamorphosis of traditional mobility if there is a consolidation of the decreased need for mobility thanks to the large-scale resort to remote activities and also of some other tendencies:

- the increased social favor, hence growing diffusion, of “green” vehicles (electric and hybrid), which are less polluting (in view of the fact that the coronavirus has heavy impact specifically on the respiratory apparatus);
- technological acceleration, among other things in order to produce higher-capacity but less cumbersome batteries, easier to dispose of, for electric vehicles.

The theme of smart, "clean" and hence environmentally sustainable mobility inevitably intersects that of innovation in today's technologies. So-called "e-mobility" refers to electrically powered vehicles, and in particular cars whose main source of energy is electricity. From this point of view, the post-Covid period may well be very favorable for the development of e-mobility in Italy, as the most ecologically compatible form of mobility, reducing CO_2 emissions and helping keep the air clean and cities livable. Electrically powered vehicles are estimated to produce 46% less greenhouse gases than standard vehicles. In addition, there is reason to hope that the Italian market for electric cars, still "limited" today, may acquire new impetus and seize the opportunity to realize its growth potential, objectively quite substantial.

With a view to the spread of the new forms of mobility, it is worth noting, government institutions are taking or planning a series of measures, some already under way, such as the "ecobonus" and its extension to four-wheeled mini-cars, the provisions of the "micromobility" decree, and administrative simplification of the installation of battery chargers. In this regard, according to the Ministry of Infrastructures and Transport the government has allocated about €1 billion to sustainable mobility, to go to SME start-ups as well as existing firms that are expanding.

Let us recall in particular the Ministry's "micromobility" decree on "light" electric vehicles, published in the *Gazzetta Ufficiale* on 13 July 2019. From that date, at the request of individual municipalities experimentation has begun – under the procedures set out in the decree – for electric scooters, hoverboards, Segways and monowheels. The experimentation, which must be begun within one year from the decree's entry into force, will last from a minimum of one to a maximum of two years. Potentially, these "light" electric vehicles may be a viable alternative for daily city transport, possibly also with a view to multimodal transport, helping to reduce traffic and protect the environment. This explains the attention dedicated to them in the decree, which has permitted, for the first time ever, the circulation of monowheels and hoverboards, albeit only in pedestrian areas and at speeds under 6 kilometers an hour. In these areas the circulation of Segways and electric scooters too is allowed, but always with the speed limit of 6 km/hr. Segways and electric scooters are also allowed – at speeds of up to 20 km/hr – on pedestrian paths, protected bike paths, and "zone 30" areas, i.e. streets with a 30-km speed limit. All these vehicles must have speed regulators that can be set according to the speed limit.

Finally, Decree Law 34/2020 – the "relaunch decree" – finances "good mobility," offering vouchers for up to €500 towards the purchase of bicycles, including electric bicycles (e-bikes), and light electric vehicles including scooters, Segways, monowheels and hoverboards. The voucher can be used by residents of the principal cities until 31 December 2020. Some of the Law's provisions amending the Highway Code sections governing the circulation of bicycles and e-bikes are cause for concern, such as the provision for bike paths to be created to the right of traffic lanes simply by a painted stripe, no "physical" separation from the ordinary lanes for motor vehicles. This heightens risk exposure for cyclists and drivers of light electric vehicles, as well as for pedestrians unfamiliar with these new means of locomotion and hence possibly not careful enough.

While these new rules have sometimes been called an "environmental breakthrough" towards e-mobility, there are certainly problems, both for road safety and for the identification of e-bikes and light electric vehicles. In case of accident, the damaged party must be assured of adequate compensation. In this regard, it must be underscored that today circulation on public streets and equivalent areas is permitted exclusively to the vehicles explicitly listed in the Highway Code (and regularly authorized to circulate); and this list does not include electric scooters, hoverboards, Segways, or electric monowheels. Consequently these vehicles can circulate only in specially designated "experimental" public areas, defined at municipal level. Outside such areas, where they are prohibited, they are subject to possible fines.

Finally, as regards insurance coverage of liability for damage caused by these vehicles in the experimental areas, Italy makes insurance of the electric vehicles compulsory solely for rental companies. This means that for non-rental situations, still today liability for any damages or illegal conduct in case of accident falls entirely on the drivers, unless they have voluntarily insured themselves – procuring coverage that is often accessory to regular motor liability or family motor liability policies – according to the general principle that the person causing unwarranted harm or loss to others is required to provide due compensation, under the extra-contractual liability for damage to third parties established by Article 2043 of the Civil Code on Aquilian liability.

LAWS, REGULATIONS, JURISPRUDENCE

NEW FAMILY BONUS

The motor liability "family bonus" introduced by the 2020 Tax Decree and IVASS implementing measure 95/2020

The 2020 Tax Decree introduces a new "family bonus" as Article 134.4-*bis* of the Private Insurance Code. This extends the pre-existing "Bersani" benefit to motor liability policy renewals and also to different types of vehicle. Thanks in part to ANIA's effort to sensitize legislators, the new rule's entry into force was postponed to 16 February 2020, under the terms of the "Milleproroghe" bill prolonging existing legislation.

The text amended by the Tax Decree reads:

"[I]n all cases of signature of a new contract and in all cases of renewal of contracts already stipulated, provided there have been no accidents in the past five years with sole, principal or equal responsibility of the policyholder, on the basis of the risk status certificate, in relation to an additional vehicle, including vehicles of a different type, acquired by the natural person already holding the policy or by a permanently cohabiting member of the latter's household, the insurance company may not assign to the contract a less favorable merit class than that indicated in the risk status certificate of the vehicle already insured […]."

Given that the new rule is formulated in a manner that is not readily comprehensible, it raised considerable doubt and problems of application. Some of the possible divergences in interpretation bear on the effective scope of the definitional term "renewal", the expression "additional vehicle … acquired", and above all the uncertain connection between the two terms, considering that if "additional vehicle acquired" means any newly acquired vehicle (even used vehicles), then contract "renewal" would not be compatible with it and therefore not applicable in practice, except in truly limiting cases.

Under a restrictive interpretation of the rule, given that the "bonus" applies to an "additional vehicle … acquired", it could not apply in case of contract renewal. On this reading, the provision changes nothing; indeed, it would limit the applicability of the "Bersani" benefit with respect to the past, by requiring the absence of accidents in the past five years.

Taking instead a more liberal reading, the benefit would extend also to vehicles not necessarily just entering the possession of the household. This means interpreting "additional vehicle … acquired" to mean not only a vehicle first and newly acquired by a household member but also a vehicle (possibly already) in that member's possession in previous years. However, this reading could induce opportunistic conduct, such as the fictitious sale within the household to an accident-free member in order to apply the better bonus-malus merit status to the vehicle.

Assuming, further, that the rationale of the law is to make the benefit available to persons with virtuous driving conduct and that the merit certificate must show no accidents in the last five years, the question of new drivers has been raised. It is hard to see how the right to the "family bonus" for them could be compatible with the requirement of a risk certificate showing five years without accidents.

Stakeholders, including ANIA, submitted these and other significant questions to the supervisory authority IVASS in the course of its exceptionally brief public consultation on Measure 95/2020 implementing the law. With regard to a good number of the aspects of the new benefit subject to uncertain interpretation, however, IVASS held that it was not proper for it to provide an authoritative reading of the new Article 134 of the Insurance Code, which it considered to be outside the scope of its regulatory competence.

Failing unequivocal and consistent lines of interpretation, insurers were faced with a truly complicated situation, in some respects unprecedented. They were obliged to apply the new "bonus" in a highly uncertain reference framework, and consequently in non-uniform fashion. There was also an added cost of application, because the IT procedures for motor liability had to be adapted extremely quickly in order, for instance, to apply the new bonus-malus system to different types of vehicle (and vehicles of differing riskiness) that had previously been managed by diversified, autonomous criteria and procedures.

Further, it is worth noting that the law adopting the “Milleproroghe” decree also introduced the so-called “Super-Malus”, penalizing by up to five merit classes drivers in the case of an accident involving more than €5,000 worth of damage caused by a driver who had benefited from the “family bonus” for a vehicle of a different type than that of the “original” vehicle eligible for the bonus. This “Super-Malus” too turns out to be costly and of uncertain application, while enabling insurers to recover only an insignificant portion of the premium requirement lost as a consequence of the “family bonus,” because it will apply only to a relative handful of claims. For this rule too, IVASS will have to issue a specific implementing measure.

In this context, ANIA deemed it necessary to request IVASS to reconvene the institutional technical talks as soon as possible in order to begin a more thorough reflection both on the “family bonus” and on the “Super-Malus,” given that after the latter’s introduction regulatory activity in this regard was suspended owing to the Covid-19 pandemic emergency.

THE BASIC MOTOR LIABILITY POLICY AND THE NEW MOTOR LIABILITY PREMIUM ESTIMATOR

The Ministry for Economic Development (MISE) issued a decree on17 June 2020 (Decree 54/2020), defining the basic motor liability insurance contract (instituted by Decree Law 221 of 17 December 2012), published in *Gazzetta Ufficiale* 152, 17/06/2020. The Decree refers to the Private Insurance Code, Article 132-*bis*, para. 1, which was introduced by the so-called “competition” law of 2017. Under it, prior to the signature of a motor liability insurance contract, insurance intermediaries are required inform the consumer, in a transparent and exhaustive manner, of the premiums offered by all the companies for which the intermediaries are agents with respect to the basic contract; it also refers to Article 132-*bis*, para. 2, under which IVASS shall adopt implementing provisions such as to guarantee online access and response both for consumers and for intermediaries, concerning the premiums applied by insurers to basic motor liability contracts.

The offer of the basic contract must utilize the electronic form now being prepared by IVASS in implementation of Article 132-*bis*. The form represents the common information standard serving as the basis for the offer of the basic contract, which must be supplied via the websites of the insurance companies and through the new IVASS/MISE public premium Estimator. Accordingly, the entry into force of the rules on the offer of the basic motor liability contract depends on the entry into force of the electronic form necessary to offer the contract to the public, which still has to be realized by IVASS as part of the new Motor Liability Estimator project, whose full phase-in, as a consequence of the Covid-19 pandemic, has been deferred by IVASS from the original deadline of 1 June 2020 to 1 January 2021.

COVID-19: SUMMARY OF REGULATORY MEASURES AND ANIA INITIATIVES RELATING TO MOTOR LIABILITY

The public health emergency in connection with the need to contain the pandemic gave rise to an unprecedented state of affairs, involving the entire national community and every sector of the economy. To cope with the emergency, a series of urgent decrees were issued, about which ANIA promptly informed insurers via ad hoc communications to clarify the provisions with operational impact on the industry. Among these provisions, the so-called "Cure Italy" decree (Decree Law 18 of 17 March 2020, converted as Law 27/2020 of 24 April), containing "Measures to strengthen the National Health Service and provide economic support for households, workers and firms in connection with the Covid-19 epidemiological emergency", enacted important rules for motor liability insurance. It extended the period of automatic continuation of motor liability policies lapsing between 21 February and 31 July 2020 from the 15 days specified in the Private Insurance Code (Article 170-*bis*) to 30 days throughout the entire national territory, with an impact on 22 million expiring policies. It also extended by 60 days the term laid down in the Code (Article 148) for formulating an offer or motivated objection to a claim for damages in the case of necessary involvement of a claims adjuster or forensic physician in order to estimate damages to property or persons. This extension too applied through 31 July 2020.

The "Cure Italy" decree also instituted the possibility for the policyholder to ask for legal suspension of motor liability coverage for a period specified by the policyholder up to 31 July 2020. This possibility is free of charge and is in addition to and not in lieu of any suspension option already envisaged by the insurance contract itself, which can be exercised normally also beyond the 31 July term. The law also explicitly prohibits parking the vehicle on the street during the contract suspension, insofar as the vehicle is without liability insurance, which as we know is compulsory for vehicles on roadways open to public use and equivalent areas (e.g. condominium garages open and publicly accessible). If a vehicle with a suspended policy parked on a public roadway were to cause damage to a third party (if, say, the handbrake disinserts), the owner is exposed to recourse by the Road Accident Victims Guarantee Fund for the amounts that it might have to pay to such third parties. The formulation of this provision was the result of intensive discussion between ANIA and the government with a view to clarity vis-à-vis policyholders.

Also in connection with the pandemic, at ANIA's specific request IVASS granted insurance companies a lengthening of the time limits for handling claims and requests for information. In order to ensure attentive examination of policyholders' claims and requests for information during this extraordinary health emergency, insurers now have 75 days to respond to claims and 35 days to respond to information requests, instead of 45 and 20, respectively, under the standing regulations.

To offer additional support for insurance companies, ANIA considered it necessary to ask IVASS to weigh the industry's request for extension of the deadline of 1 June 2020 for launching the new motor liability premium Estimator. IVASS acceded to this request and set a new deadline of 1 January 2021.

IVASS also informed all the insurance sectors forming part of the motor liability area, via a post on its website, of three important points:

- the deadlines for discharging legal obligations not expressly suspended remain fully in effect, and insurance is one of the commercial activities explicitly excluded from the suspension. This means that as regards obligations undertaken and consistently with the emergency situation, insurers must organize in such a way as to ensure business continuity and the best possible protection of customers' interests;
- for purposes of business continuity, the most extensive possible use should be made of e-mail and electronic means of communication for making the required notifications to customers, limiting recourse to the postal service to cases in which it is strictly indispensable. In this regard, the "Relaunch" decree (Decree Law 34/2020, Article 33) provides that contracts stipulated during the period between the date of the decree's entry into force and the end of the state of emergency declared by the Council of Ministers on 31 January 2020 are fully effective even if the customer's assent is expressed through his/her non-certified e-mail address or another suitable instrument, on condition that such assent is accompanied by a copy of a valid identity document of the contracting party, that it refers to a contract that can be identified with certainty, and that it is filed together with the contract itself by procedures such as to guarantee its security, integrity, and non-modifiability. The provision introduces – temporarily – a substantial derogation from the general principle that "the policy may be formatted as an electronic document subscribed via advanced electronic signature, qualified electronic signature or digital signature, in compliance with the regulatory provisions in effect on this matter" (IVASS Regulation 40, Article 62.2);
- insurance companies must provide clear and prompt information to customers concerning the organizational measures they have taken to ensure the continuity of their services and correct contractual relations; and they must retain specific evidence of any impediments to the regular performance of this activity and the remedies adopted to safeguard customers' rights, with due consideration also to the difficulties consumers may encounter in discharging their own obligations.

With a view to offering additional support to Italian households, finally, the ANIA Executive Committee, in explicit recognition of the diminution in traffic and vehicle use owing to the restrictions on circulation during the lockdown, recommended that all insurers consider some form of compensation for motor liability premiums, possibly granted at the normal policy expiration date, in the form that the companies themselves deem appropriate (for example, vouchers to be spent on any of the company's insurance products) and without violating the requisite technical balance, and taking account, in particular, of the decline in claims frequency during the lockdown period.

THE LAW FOR MARKETS AND COMPETITION: THE STATE OF IMPLEMENTATION OF ANIA'S AGREEMENT WITH REPAIR SHOPS AND CONSUMERS

Law 124/2017 (the annual law for markets and competition), which went into effect as of 29 August 2017, contained significant provisions for the insurance industry, mostly in the motor liability sector. On 16 May 2019, at the National Economic and Labor Council, ANIA signed an agreement with consumer associations and the most representative national associations of automobile repair shops for the definitive text of a set of Guidelines laying down minimum standards for properly executed repairs and making recommendations for quality service, pursuant to Article 1.10 of the Law.

The agreement is still in course of implementation. For one thing, the agreement is intended to establish the principles governing properly executed repairs and rules of conduct vis-à-vis consumers and any damaged party. At the same time, it also establishes a set of rules for the improvement of auto repair services in general, in a context of correct market competition and cost containment for consumers and a reduction in disputes.

The Guidelines are divided into two sections:

COMPREHENSIVE: addressed to the entire car repair and insurance market, this lays down the basic rules for the proper execution of repairs and those for estimation and settlement of damages;

OPTIONAL: addressed to parties who expressly adhere, this provides an instrument for simplifying relations between auto repair shops and insurers, but with no restriction on free competition.

Finally, repair shops taking part in the agreement undertake not to engage an attorney, even in the case of cession of a credit; the purpose here is to reduce settlement costs, avoid unnecessary litigation and improve relations between insurers and both consumers and repair shops.

On 4 July 2019 the Competition Authority held a hearing with ANIA representatives, asking them for clarifications concerning the technical profiles of the Guidelines. These were explained exhaustively at the hearing. Specifically, ANIA made it clear that the model envisaged by the Guidelines will flank conventions already in being between individual insurance companies and repair shops, designed to contain the cost of disputes, curb speculation in connection with the cession of credits, and improve the efficiency of claims management from the anti-fraud standpoint.

On 11 October 2019 the Competition Authority held a second hearing, this time with ANIA, consumer associations and repair shop associations. The Authority asked participants for clarifications of the Guidelines with special reference to the possible effects on consumers and on competition. The consumer groups, in setting out their reasons for signing the agreement, stressed the benefits: transparency in claims settlement procedures, guarantees for repair quality standards (skilled labor, shorter repair times, traceability of the work), and reduction in disputes, given the latter's incidence on claims costs, hence on the liability premiums paid by consumers. The repair shop associations also reaffirmed their endorsement of the agreement, emphasizing that it would improve relations between repair shops and insurance companies, with definite rules and certain schedules, including for payment. ANIA, lastly, in keeping with the positions set out above, again voiced its expectation of a favorable impact on claims handling: lower costs, shorter times, fewer disputes, hopefully discouraging possibly fraudulent actions. At the Authority's explicit question, all of the parties to the agreement confirmed their view that the Guidelines constituted an act already in force.

The signatories formed joint committees assigned to carry out all activities preliminary to the implementation of the Guidelines for properly executed repairs.

In January 2020 legal and technical feasibility studies were undertaken in relation to ANIA's proposal for a web platform for information exchange among the various parties to the process (insurance companies and repair shops) to improve the management of CARD claims potentially eligible for the "simplified" direct indemnity procedure. Pending this, ANIA declared its readiness to support the project by quickly activating a contact point for repair shops interested in using the settlement procedure envisaged by the Guidelines. Under ANIA's approach – which received a favorable *pro veritate* legal opinion of feasibility and compliance with existing privacy and antitrust legislation and regulations – the strictly necessary data communicated via the dedicated channel are transmitted in "one-to-one" mode, including the information as to the negative or positive outcome of the procedure.

PROJECT PLATE CHECK, ONE YEAR ON

Evasion of compulsory motor liability insurance coverage engenders considerable social alarm, not to mention the economic losses suffered by insurers, who have to fund the Road Accident Victims Guarantee Fund to pay for the damages suffered by third parties due to uninsured vehicles, and by the revenue agency owing to non-payment of taxes on premiums (estimated at €2 billion annually). In addition, the lack of compulsory insurance coverage has a series of adverse effects in terms of road safety, such as an increase in hit-and-run accidents. For 2017, hit-and-run accidents involving personal injury numbered over 1,000 and deaths 118, according to Highway Police estimates. Clearly, in these cases it is much more difficult for the innocent victims to obtain adequate indemnity (in recent years the Accident Victims fund has run substantial losses).

In response, towards the end of 2018 the ANIA Foundation approved a project to support law enforcement bodies in countering insurance evasion, with a protocol signed on 13 December at Cagliari between the Foundation and the Highway Police Service. The project calls for supplying the technological tools for quick checks of uninsured and/or uninspected vehicles. A protocol for cooperation with the Highway Police was signed, launching Project Plate Check as of 1 January 2019 to monitor, prevent and combat insurance evasion.

The project calls for supplying the Highway Police, for a period of 36 months, with 120 street control kits (plus an additional 20 at the end of 2019). The kits will be deployed on a priority basis for massive checks in the 29 provinces signaled by IVASS (Regulation 37/2018) as those at greatest risk of insurance invasion.

Project Plate Check has imparted a powerful impetus to Highway Police action to combat evasion. In Emilia Romagna, for instance, the number of vehicles checked jumped by 540% between 2018 and 2019, and sanctions levied increased by 22%. It is estimated that the Highway Police levied 60,000 fines (for a total of about €50 million) for violation of Article 193 of the Highway Code (on compulsory liability insurance) and 110,000 (for €18 million) for violation of Article 89 (compulsory biennial inspection of vehicles).

The checks resulted in recovery of premiums estimated at €26 million from car owners who then regularized their liability insurance position. The table shows

Region	No. checks	Uninsured vehicles	%	Uninspected vehicles	%
ITALY	**5,790,501**	**105,913**	**1.83**	**148,460**	**2.56**
Abruzzo	351,085	8,138	2.32	10,512	2.99
Basilicata	206,491	4,369	2.12	5,701	2.76
Calabria	169,055	3,668	2.17	5,070	3.00
Campania	190,636	5,258	2.76	8,032	4.21
Emilia-Romagna	692,341	9,807	1.42	13,894	2.01
Friuli-Venezia Giulia	178,382	740	0.41	1,685	0.94
Lazio	372,759	7,115	1.91	11,275	3.02
Liguria	337,240	6,766	2.01	9,137	2.71
Lombardy	766,333	11,091	1.45	15,512	2.02
Marche	153,450	2,777	1.81	3,719	2.42
Molise	65,384	1,857	2.84	2,360	3.61
Piedmont	457,770	9,922	2.17	13,158	2.87
Puglia	74,675	1,392	1.86	2,007	2.69
Sardinia	248,180	6,579	2.65	8,903	3.59
Sicily	161,307	4,827	2.99	7,484	4.64
Tuscany	649,795	10,965	1.69	15,109	2.33
Trentino-Alto Adige	74,287	830	1.12	1,219	1.64
Umbria	148,935	2,872	1.93	3,872	2.60
Valle d'Aosta	26,635	563	2.11	790	2.97
Veneto	465,761	6,377	1.37	9,021	1.94

the results of the first year of Plate Check operations (through 31 December 2019): of the nearly 5.8 million vehicles checked, 1.83% were uninsured and 2.56% uninspected.

It must be underscored that the percentage of uninsured vehicles discovered (1.83%) is far lower than ANIA's estimate. The present annual report, in fact, gives our estimate of the number of vehicles lacking coverage at 2.6 million, or 5.9% of all those on the roads. The difference between ANIA's estimates and the results of the direct on-road checks may depend on the fact that the Highway Police data come from checks only of motorways and the main highways, where vehicles presumably are more commonly in compliance with the rules.

Geographically, the results confirm ANIA's estimates in finding insurance evasion to be concentrated in certain regions in the South of Italy (Sicily 2.99%, Molise 2.84%, Campania 2.76%), while the most virtuous regions are in the North (Friuli Venezia Giulia 0.41%, Trentino Alto Adige 1.12%, Veneto 1.37%). By province, the highest rate of non-insurance for circulating vehicles was in Caserta (4.96%), followed by Macerata (4.47%), Siracusa (4.38%), Naples (4.26%), Taranto (3.65%), Isernia (3.27%), Massa Carrara (3.26%) and Frosinone (3.16%). The most virtuous provinces were Trieste (0.26%), Belluno (0.28%), Cremona (0.40%) and Milan (0.54%).

6

OTHER NON-LIFE INSURANCE CLASSES

OTHER NON-LIFE INSURANCE CLASSES

Written premium income of non-life business other than motor vehicle insurance (which means excluding motor liability and third-party liability insurance for watercraft and land vehicle insurance) increased by 6.3% in 2019, the highest rate since 2002. The combined ratio was virtually unchanged from 2018 at 84.5%, since the growth in the volume of premiums was offset by increased claims and operating expenses.

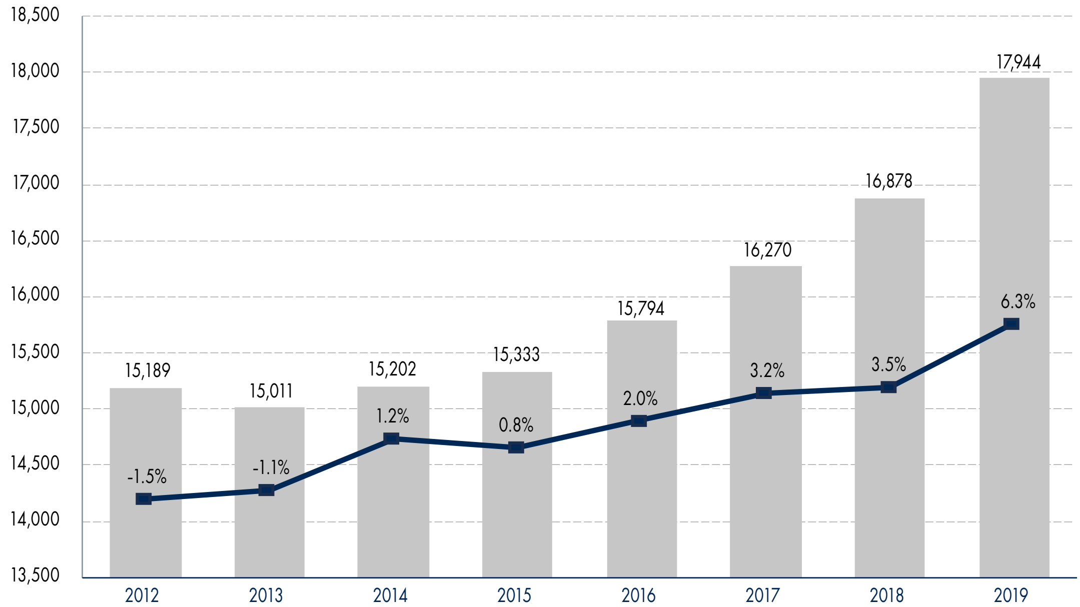
NON-LIFE INSURANCE CLASSES OTHER THAN MOTOR INSURANCE

Premiums from direct domestic business in non-life classes other than motor insurance (i.e. excluding land vehicles and motor and marine vehicle third party liability) totaled €17,944 million in 2019, up 6.3% from the previous year (calculated in homogeneous terms). This was the highest growth since 2012, and was due to widespread growth involving almost all classes. The classes showing growth in written premiums equaling or exceeding the average were: suretyship (+6.6%), ships (+6.6%), credit (+8.9%), financial loss (+9.0%), assistance (+9.9% due to a rise in homeowners' and health insurance, including a set of assistance services, also in relation to the provision of telematic devices connected to the policy), sickness (+10.8%, thanks above all to corporate fringe benefits), legal expenses (+10.9% due to the introduction of policies covering the crime of vehicular manslaughter pursuant to Law 41/2016, but also due to an increase in multi-risk products for homeowners and companies, for cyber-risk coverage and insurance guarantees related to pets, often including the "legal expenses" guarantee), aircraft (+14.1%), and railway rolling stock (+25.4%). Most of the other classes also showed increased premium income: general liability (+6.2%), fire (+5.0%), accident (+4.6%), other damage to property (+3.1%) and aircraft T.P.L. (+2.0%). The only class recording a decline

Direct premiums of non-life insurance classes other than motor insurance (*)
Euro million

Written premiums

Annual % change in premiums



** All non-life branches except land vehicles, motor liability, and marine liability* was goods in transit (-2.7%). Non-motor insurance premiums' share of total non-life premiums increased from 51.0% in 2018 to 54.2% in 2019.

Earned premiums, calculated as the difference between written premiums and the changes in premium reserves and other balance items, amounted to €17,201 million, with 4.6% growth compared with 2018.

The **incurred claims cost**, defined as the sum of settlement costs and amounts reserved for claims incurred in 2019, amounted to €10,613 million, up 5% on the year. Since this cost item grew more than premiums, the loss ratio worsened slightly (from 61.3% in 2018 to 61.7% in 2019).

Incurred claims, which along with the cost incurred for the current accident year also include any excess/shortfall of the amounts reserved for claims incurred in previous accident years, amounted to €9,031 million, up nearly 5% over 2018. Even though there had been a further significant freeing-up of the amount reserved for claims incurred in the years before 2019, the increased incurred claims cost for the current year was not offset.

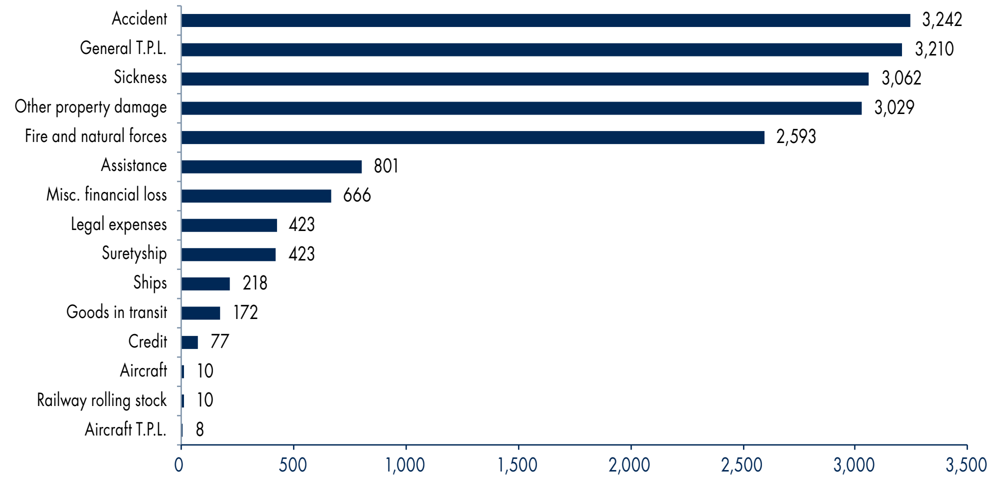
Non-life insurance classes other than motor insurance (excluding land vehicles insurance and motor and maritime liability)
Euro million

	2012	2013	2014	2015	2016	2017	2018	2019
Gross written premiums	15,189	15,011	15,202	15,333	15,794	16,270	16,878	17,944
Changes in premium reserve (-)	-280	-105	-28	1	181	397	434	743
Incurred claims (-):	11,054	9,183	8,924	8,263	8,124	8,555	8,612	9,031
– incurred claims cost for the current year (-)	11,004	9,657	9,613	9,196	9,304	9,865	10,075	10,613
– excess/shortfall of reserves for those claims incurred in previous years	-50	474	689	933	1,179	1,310	1,463	1,583
Balance of other technical items	-363	-335	-375	-462	-426	-413	-380	-378
Operating expenses (-)	4,568	4,605	4,720	4,854	5,063	5,242	5,442	5,740
– commissions	3,192	3,182	3,256	3,315	3,497	3,636	3,762	3,924
– other acquisition costs	675	686	723	767	736	739	784	867
– other administration costs	701	737	741	773	830	866	896	949
Direct technical balance	**-517**	**993**	**1,211**	**1,753**	**1,999**	**1,664**	**2,010**	**2,052**
Investment income	760	554	587	584	512	586	367	641
Direct technical account result	**243**	**1,546**	**1,798**	**2,337**	**2,511**	**2,250**	**2,377**	**2,694**
Reinsurance result	554	-726	-572	-469	-507	-180	-270	-438
Overall technical account result	**796**	**820**	**1,226**	**1,868**	**2,003**	**2,070**	**2,107**	**2,255**
Annual % change in premiums	-1.5%	-1.1%	1.2%	0.8%	2.0%	3.2%	3.5%	6.3%
Combined ratio	**101.5%**	**91.4%**	**89.6%**	**85.6%**	**84.1%**	**86.1%**	**84.6%**	**84.5%**
– Expense ratio	30.1%	30.7%	31.0%	31.7%	32.1%	32.2%	32.2%	32.0%
– Commissions/Gross Written premiums	21.0%	21.2%	21.4%	21.6%	22.1%	22.4%	22.3%	21.9%
– Other acquisition costs/Gross Written premiums	4.4%	4.6%	4.8%	5.0%	4.7%	4.5%	4.6%	4.8%
– Other administration costs/Gross Written premiums	4.6%	4.9%	4.9%	5.0%	5.3%	5.3%	5.3%	5.3%
– Loss ratio:	71.5%	60.7%	58.6%	53.9%	52.0%	53.9%	52.4%	52.5%
– Loss ratio for the current year	71.1%	63.9%	63.1%	60.0%	59.6%	62.1%	61.3%	61.7%
– Excess/shortfall of reserves for previous years claims/Earned premiums	-0.3%	3.1%	4.5%	6.1%	7.6%	8.3%	8.9%	9.2%
Technical balance/Earned premiums	**-3.3%**	**6.6%**	**8.0%**	**11.4%**	**12.8%**	**10.5%**	**12.2%**	**11.9%**
Technical account result/Earned premiums	**1.6%**	**10.2%**	**11.8%**	**15.2%**	**16.1%**	**14.2%**	**14.5%**	**15.7%**
Overall technical account result/Earned premiums	**5.1%**	**5.4%**	**8.0%**	**12.2%**	**12.8%**	**13.0%**	**12.8%**	**13.1%**
Ratio of premiums to total non-life premiums (%)	42.9%	44.6%	46.3%	47.9%	49.4%	50.4%	51.0%	54.2%

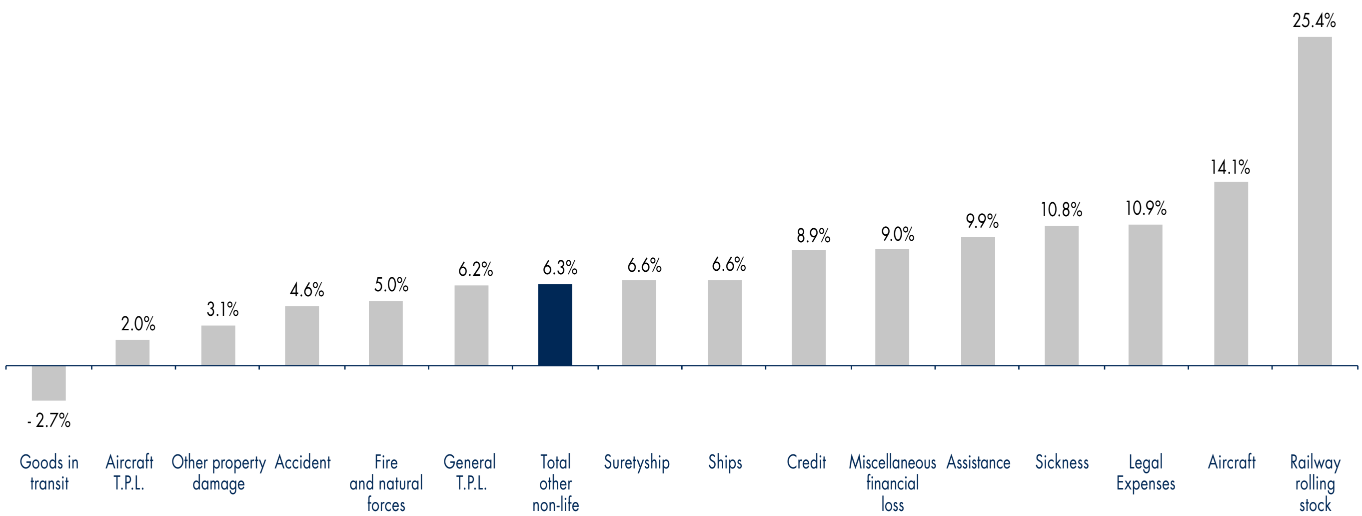
Indexes and changes (%) are calculated on data in Euro thousands
Changes (%) calculated in homogeneous terms

In addition, the freeing-up of the amount reserved for claims incurred in the years before 2019 came to €1,583 million, showing a ratio to earned premiums in excess of 9%. The loss ratio to earned premiums was virtually unchanged (52.4% in 2018, 52.5% in 2019) due to the practically equal growth in the two technical items that factor into this ratio. The classes where the loss ratio improved and whose incidence in terms of premiums is higher than the others were general liability, whose loss ratio dropped sharply from 36.5% in 2018 to 30.9% in 2019; and sickness, from 70.4% to 70.1%. The classes showing a deterioration are accident insurance, whose loss ratio rose from 38.6% in 2018 to 39.8% in 2019; other damage to property, from 67.2% in 2018 to 68.6% in 2019, and fire, from 61.4% to 74.6%.

Direct premiums by insurance class – 2019
Euro million



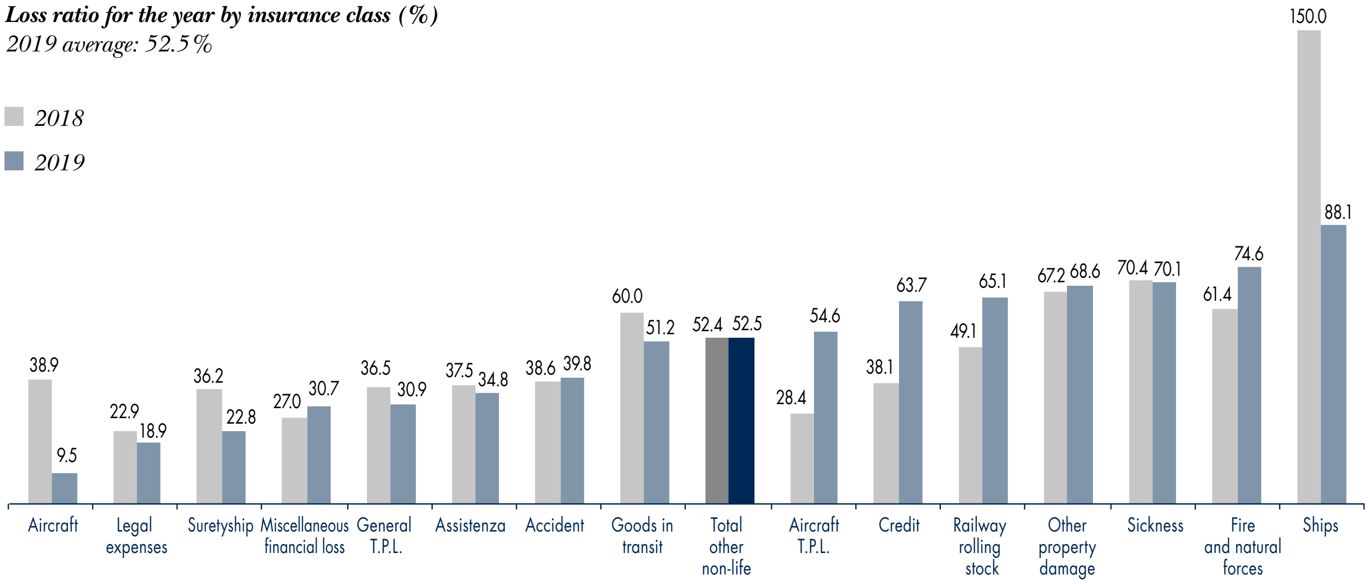
Nominal growth rate of direct premiums by insurance class – 2019 (*)
2019 average: 6.3%



(*) Change calculated in homogeneous terms

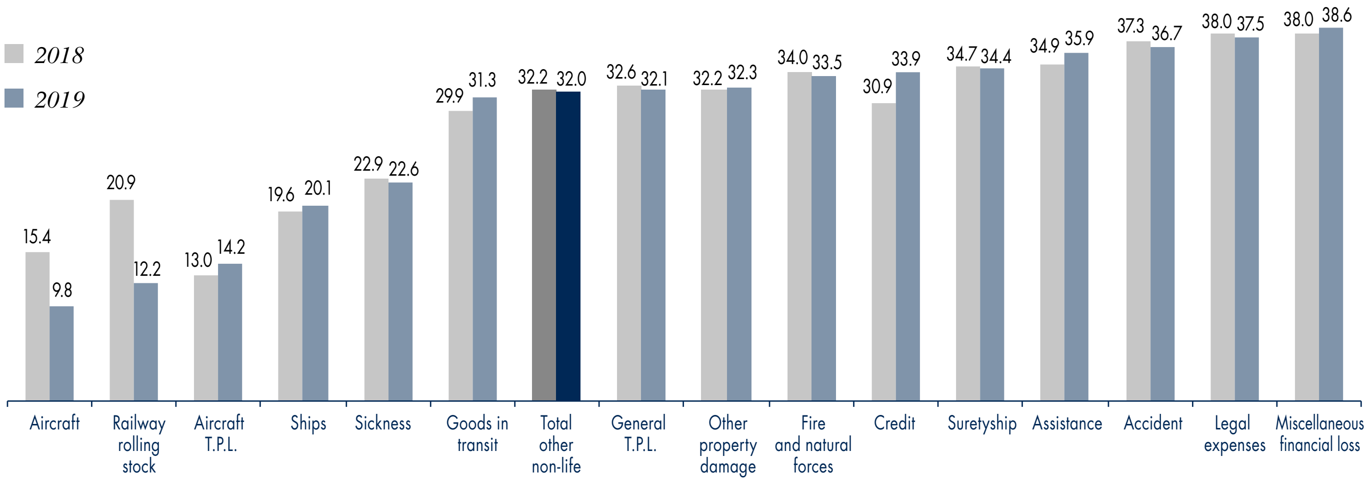
OTHER NON-LIFE INSURANCE CLASSES

Loss ratio for the year by insurance class (%)
2019 average: 52.5%



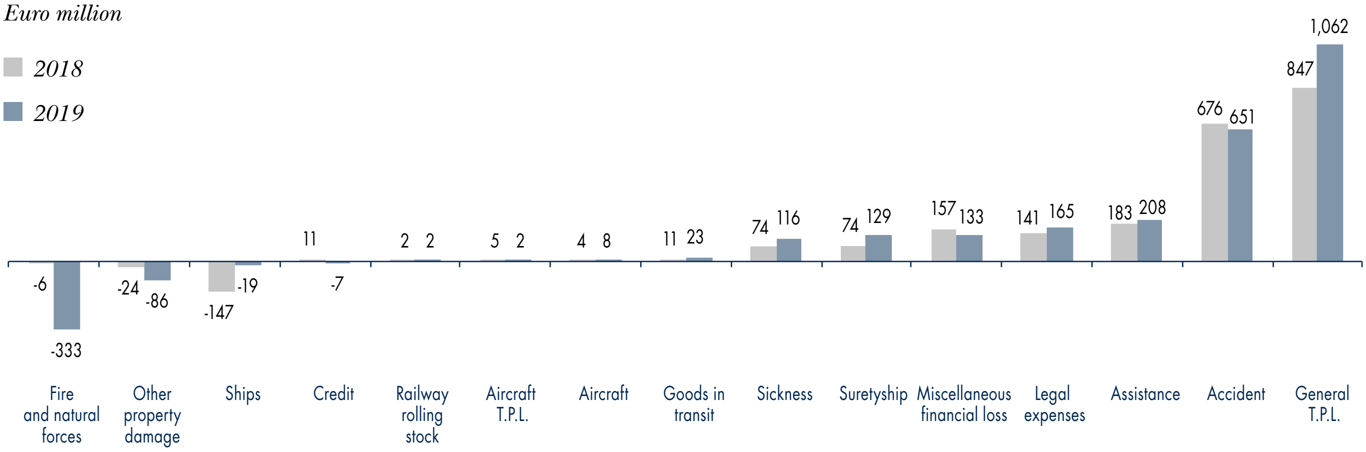
Operating expenses – administration expenses relating to the technical management of insurance business, acquisition costs and costs relating to the organization and management of the distribution network – amounted to €5,740 million in 2019 (€5,442 million in 2018). The ratio of expenses to premiums was 32.0%, down slightly from 32.2% in 2018. In particular, the ratio of commissions to premiums dropped from 22.3% in 2018 to 21.9% in 2019, whereas that of other acquisition costs went up from 4.6% to 4.8% while that of other administration expenses has remained stable at 5.3% for four years now. The business segments with the highest indicators were miscellaneous financial loss (38.6%), legal expenses (37.5%), accident (36.7%), assistance (35.9%) and suretyship (34.4%). Lower ratios, under 20%, were recorded for aircraft liability (14.2%), railway rolling stock (12.2%) and aircraft (9.8%).

Expense ratio for the year by insurance class (%)
2019 average: 32.0%

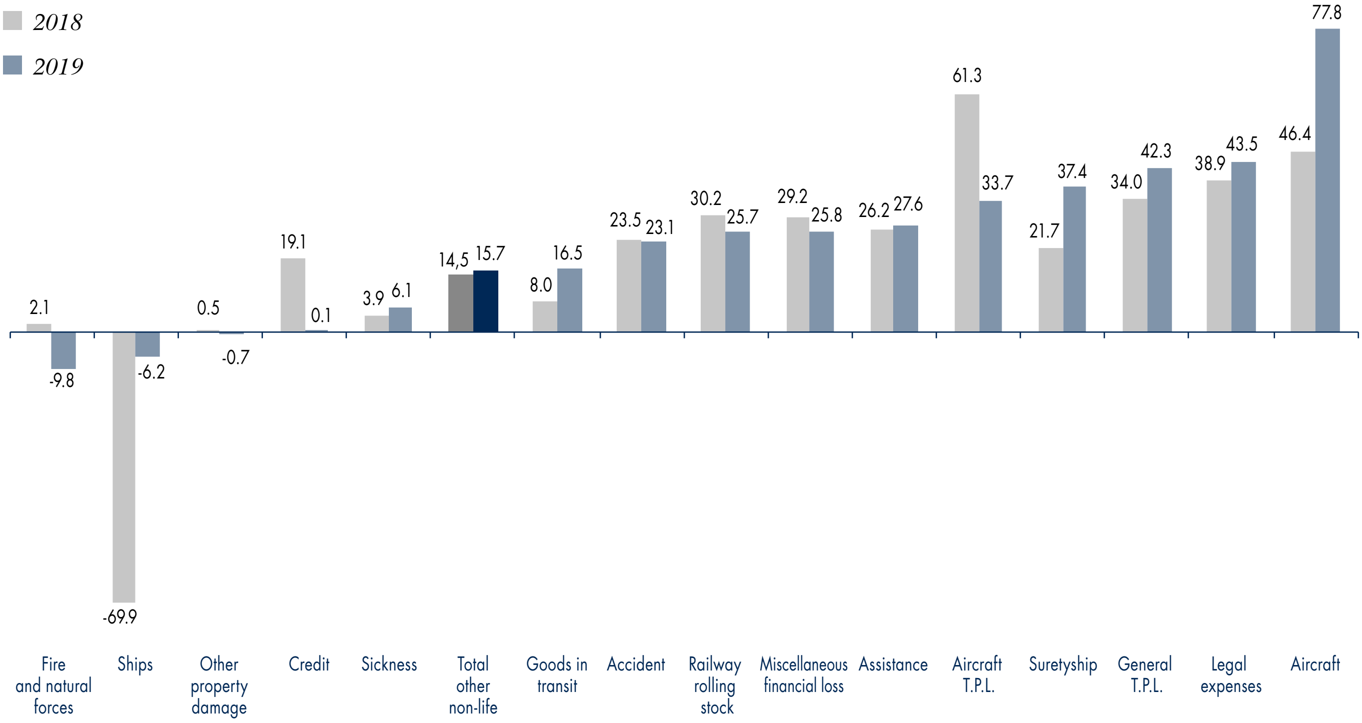


The **technical balance** for direct business was positive by €2,052 million (quite comparable to the €2,010 million recorded in 2018). Positive balances exceeding €150 million were scored by legal expenses (€165 million, €141 million in 2018), assistance (€208 million, €183 million in 2018), accident (€651 million, €676 million in 2018) and general third-party liability (€1,062 million, €847 million in 2018). The balance was negative for fire insurance (-€333 million), other property damage (-€86 million), ships (-€19 million) and credit (€-7 million).

Direct technical balance by insurance class
Euro million



Incidence of overall technical account result on earned premiums by insurance class (%)
2019 average: 15.7%



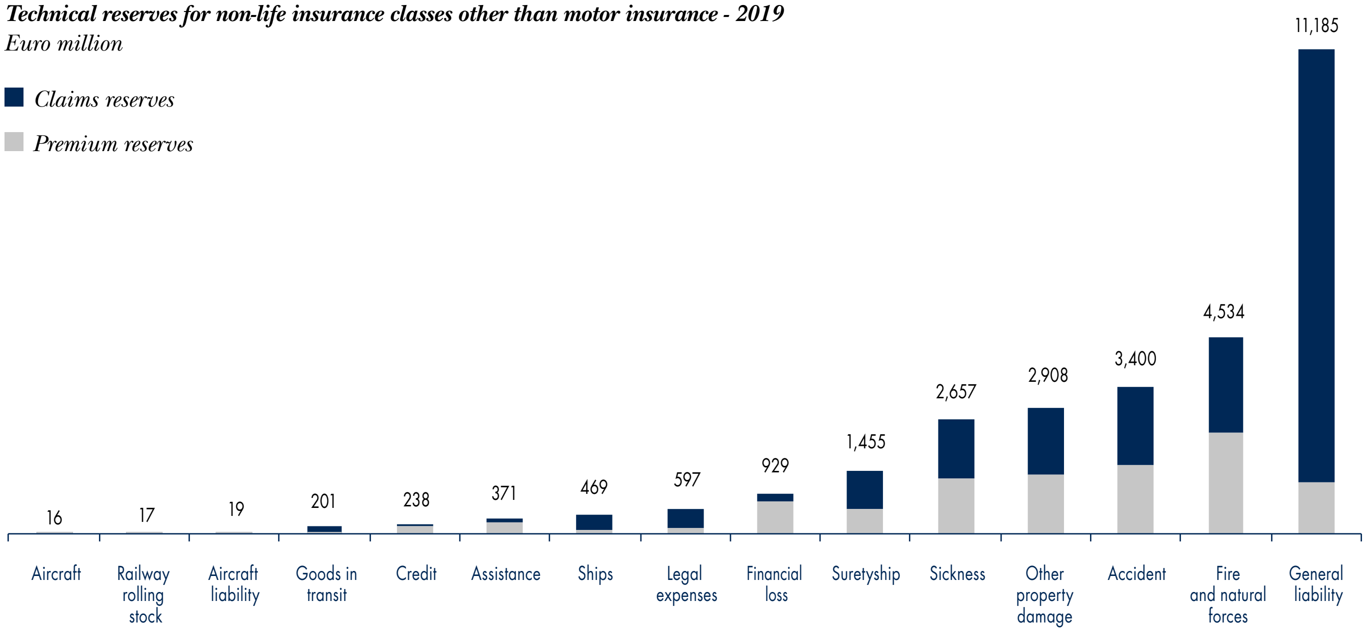
OTHER NON-LIFE INSURANCE CLASSES

Since **investment income** nearly doubled last year (from €367 million in 2018 to €641 million), the technical balance for direct business grew from €2,377 million in 2018 to €2,694 million in 2019, with a ratio of 15.7% to earned premiums (14.5% in 2018). More specifically, negative or below-average ratios were scored in the following lines: fire (-9.8%); ships (-6.2%), other property damage (-0.7%), credit (0.1%) and sickness (6.1%). Among the most important classes in terms of premiums, general third-party liability and accident insurance scored particularly well at 42.3% and 23.1% respectively.

Counting also the balance for reinsurance (negative by €438 million), the **overall technical account result** was positive by €2,255 million (€2,107 million in 2018), equal to 13.1% of premiums (12.8% in 2018).

The **direct technical reserves** of non-life insurance classes other than motor insurance, net of sums to be recovered from policyholders and third parties, amounted to €28,994 million in 2019; premium reserves totaled €9,915 million and claims reserves €19,080 million. General liability was the business segment with the highest technical provisions (€11,185 million counting claims and premium reserves for 2019); total provisions topped €3 billion for accident (€3,400 million) and fire insurance (€4,534 million).

Technical reserves for non-life insurance classes other than motor insurance - 2019
Euro million



NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2019, ITALIAN INSURANCE'S ESTIMATED CURRENT EXPOSURE, AND REMARKS ON THE LAW FOR COVERAGE OF THESE RISKS

Worldwide, the number of natural disasters came to 202 last year (181 in 2018), the highest number ever recorded. However, both total and insured losses were lower than the previous year. In particular, economic losses were 17% lower (€122 billion in 2019 from €147 billion in 2018): this is mainly ascribable to the absence of severe hurricanes in the United States. Insurance companies covered €45 billion, or 40% of the total storm damage worldwide, less than the average of the last 10 years (about €58 billion). The events with the greatest impact in terms of insurance were Typhoon Hagibis and Typhoon Faxai, which struck Japan causing €7 billion and €6 billion in claims respectively.

The largest share of losses from natural disasters is ascribable to numerous relatively modest events: the so-called secondary perils (this definition also includes the natural disasters occurring as a consequence of a primary peril – for example, a tsunami after an earthquake). The causes underlying the increase in damage from relatively small-sized events are population growth and urbanization in areas with extreme climate conditions, making these areas more vulnerable and at risk.

As we know, Italy lies in a particularly fragile area exposed to natural disasters. According to the earthquake risk map, around 44% of Italy consists in high seismic risk areas (zone 1-2), which embrace 23 million people and over 6 million buildings, of which 1 million for production purposes. Another 19 million live in zone 3 municipalities. These areas are not high risk, but they cannot be considered safe either, since many municipalities struck by the 2012 Emilia earthquake are in zone 3 areas. In addition, 1.3 million buildings stand in flood-risk areas and half a million in landslide-risk zones. Notwithstanding this picture, under 5% of dwellings are insured. In 2019, Italy suffered several hydrogeological events in October and November. According to the Civil Protection report to the European Commission for Solidarity Fund activation, these extreme weather events caused €5.6 billion worth of damage, more than €4.5 billion of it ascribable to direct damage to buildings, public infrastructure and productive activity and the remaining €1.1 billion to immediate emergency relief expenditure.

According to the PERILS survey on insurer's catastrophic event risk exposure in Italy for 2020 (which sees the participation of 70% of the market in terms of the volume of fire premiums), overall exposure of the insurance market to such risks is:

– business risk – for buildings, goods and incidental damages – of around €785 billion in respect of earthquakes (+8.7% compared with 2019) and €781 billion in respect of floods (+13.4% from 2019), net of the contractual limits set by the insurance policies. Nearly 641,000 businesses are insured against earthquakes and 657,000 against floods. Lombardy is estimated to be the region contributing the most to the increase in insurance against both risks;

– homeowners' risk – for buildings, goods and incidental damage – of around €200 billion in respect of earthquakes (+27% compared with 2019) and €90 billion in respect of floods (+20% from 2019), net of the contractual limits set by the insurance policies. A total of 656,000 dwellings were insured against earthquakes and 232,000 against floods, so many dwellings with fire insurance are assumed to have earthquake insurance as well.

Geographically, total insurance exposure to natural disaster risk (businesses and homeowners) is concentrated mostly in the North of Italy, nearly 60% of all policies. The central regions are becoming increasingly important, with nearly 20% of total exposures.

In the light of the absolute levels of insurance coverage, the variations from the previous year may be partly due to the steady, year-to-year improvement in insurers' classification of data as a consequence of greater attention to risk management. However, it is important to make it clear that these are estimates, thus subject to some deviations from what will actually occur during the year.

The insurance sector has been working hard to offer appropriate protection against this kind of risk, designing specific solutions based on a public-private partnership for more effective management.

Talks with institutional partners recommenced in September 2019 on the occasion of the presentation of a bill for a national program for compulsory insurance of dwellings against natural disasters. This bill is exactly what the Association had been advocating for years, in that by making natural disaster coverage compulsory, it will allow for maximum risk coverage and affordable premiums everywhere in Italy, reducing the public and private capital requirement as much as possible to make the system solvent. The bill provides that the Government guarantee should only apply in case of insufficient reinsurance coverage of the consortium. Outside the consortium, companies would still be able to offer insurance coverage for dwellings against natural disaster risk over and above the compulsory policy.

Along with the problems relating to natural disasters, 2019 was also characterized by a significant number of claims regarding vehicles and properties damaged by bad weather. In this regard, ANIA is researching models able to support insurance companies in risk management and assessment, responding to increasing market demand.

IMPACT OF COVID-19 ON THE MAIN NON-MOTOR NON-LIFE CLASSES: PROBLEMS AND PROPOSALS

The Covid-19 pandemic has strained the entire national and global economic system. Even the insurance industry, despite being accustomed to assessing and working with risks, often had to drastically review and adapt its business models. With reference to the non-motor non-life classes, the main concern has been a dramatic increase in claims in some specific sectors.

Since the beginning of the emergency ANIA, with the support of its member companies, has monitored the situation with a view to devising the initiatives best suited to mitigate the adverse effects of the pandemic.

Hereunder is an analysis of the sectors that are most exposed to an increase in claims.

Medical malpractice

The strain on healthcare facilities, public ones in particular, may translate into a strong increase in claims due to:

- an increase in errors not relating directly to Covid-19 but to organizational shortcomings originated by the state of emergency in which many facilities are working;
- an increase in infections of patients due to the lack of adequate safety measures, especially in the initial phase of the emergency.

It must be determined whether the increase in staff and beds in public facilities may aggravate risk or whether this may be offset by the suspension of ordinary, non-urgent activities.

The increase in claims might also involve private healthcare and socio-healthcare facilities (nursing homes), which have been called on by the Government to help in the emergency by making beds and staff available. As is known, nursing homes above all have become hotspots of contagion, owing to failure to take adequate safety measures for the protection of staff and residents.

In order to limit the risk exposure of healthcare and socio-healthcare facilities and their medical staff, ANIA supported a bill to limit the liability of healthcare professionals, for the entire emergency period, to acts of "gross negligence," which the draft defines as "blatant and unjustified violation of the basic principles governing the healthcare profession or the emergency protocols or programs instituted to cope with the current situation, and acts of malice."

Employer liability

Another segment where a dramatic increase in claims is feared is employer liability (to third parties and to employees) in the general liability class, since workplaces may be particularly suitable for the spreading of the virus if appropriate safety measures are not taken.

This topic became even more pressing with Article 42 of the "Cure Italy" decree, which provided for treating a Covid-19 infection as a work accident. According to this provision, the claims filed at INAIL as work accidents as a result of Covid-19 infections might, failing specific clarification, be grounds for recourse against the employer (hence against the employer's insurance company), with evident impact on employer liability insurance coverage. In addition, the employee can still take independent legal action against the employer for the compensation of the excess damage.

Immediately upon the introduction of Article 42, ANIA noted that the provision, which envisages that such work accidents shall not be counted for purposes of calculating the average rate of accident claims, should be interpreted as barring any and all recourse by INAIL against the employer.

Following a series of requests from stakeholders, the Government, in response to a parliamentary question on this topic, specified that employer's liability shall be held to be residual, i.e. shall subsist only in the case of specific events such as the failure to comply with measures for the protection of employees' health, in particular in relation to the coronavirus crisis.

However, this provision does not totally preclude the danger that the employer may be held liable also for things that happen outside the workplace, insofar as Article 42 also includes the case of commuting accidents.

Following this clarification, INAIL issued circular 22 of 20 May 2020:

- it makes a clear distinction between the grounds for indemnification by INAIL and those for civil and criminal liability, which instead must be strictly ascertained by quite different criteria from those used to determine insurance eligibility (with burden of proof on the Public Prosecutor in criminal cases or the plaintiff institution in civil lawsuits);
- it clarifies that requests for recourse from the employer cannot be based solely on the mere recognition of Covid-19 infection, but have as prerequisite that the conduct causing the damage can at least be ascribed to negligence.

Notwithstanding this clarification, during the hearing for Decree Law 34/2020 (so-called "Relaunch Decree"), ANIA reasserted the need for a regulatory intervention with the addition under Article 42 of another paragraph stating expressly that the employer has neither civil nor penal liability and precluding any recourse by INAIL against the employer where the latter is compliant with the provisions of the security protocols against coronavirus under the Prime Ministerial Decree of 26 April 2020.

On 6 June 2020 the law converting Decree 23/2020 (the "Liquidity Decree") was published in the Gazzetta Ufficiale; its Article 29-bis is a step in the direction called for by ANIA, specifying that public and private employers shall comply with the obligation under Art. 2087 of the Civil Code through the adoption, application and maintenance of the "provisions contained in the shared protocol regulating the measures to fight and contain the spread of Covid-19 in workplaces as agreed on 24 April 2020 among the Government and the social partners, as subsequently amended and extended, as well as in the other protocols and guidelines under Art. 1, par. 14, of Decree Law 333/2020". It further clarifies that "where these provisions do not apply, the measures contained in the sectoral protocols or agreements signed by the nationally most representative trade unions and employers' organizations shall apply". This provision should make it possible to define the perimeter of the employer's liability and to avoid recourse by INAIL, provided that the employer is compliant with the protection measures contained in the relevant protocol.

Accident and sickness insurance

The fact that Article 42 of Decree Law 18/2020 makes Covid-19 infection equivalent to a work accident may also have an impact on private accident policies on the mistaken assumption that this assimilation applies also to purely private contracts. INAIL's interpretative communication of 3 April 2020 explicitly provides that "virulent cause" must be equated with "violent cause".

ANIA favors excluding this possibility, given that the Article must be considered to be a special rule (created to deal with an emergency situation), so the extensive interpretation made pursuant to it cannot apply without further qualification to the private regimes of the traditional accident policies, for which insurance companies are free to define accidents however they want, in keeping with their business strategy. With reference to these contracts, the Covid-19 infection shall continue to be regarded as "sickness", therefore falling under sickness policies unless these do not expressly exclude the pandemic risk.

With a view to avoiding adverse repercussions, in any case scrupulous observance of the recommendations of EIOPA (Recommendation of 1 April 2020) was counseled; EIOPA called on companies to "provide clear and timely information to consumers on contractual rights," observing that it is essential "that consumers understand and are aware of the scope of their cover, the exemptions that apply and the impact of Coronavirus/COVID-19 on their insurance policies" so as to guarantee correct treatment.

Credit insurance

Another insurance class that has been severely affected by the pandemic is short-term credit insurance, owing to the strong correlation between this type of risk and the performance of the economy. The crisis triggered by the health emergency significantly increased the probability of default for small and medium-sized enterprises, which are the main users of this type of insurance.

Accordingly the insurance companies operating in this field (a limited number of players at a global level), fearing a considerable worsening of insolvency risk, started to reduce their own exposure not only in Italy but also abroad, revoking many existing guarantees.

In the light of this situation, some European countries (France, Spain, Germany, the Netherlands and Belgium) created state funds in support of the private insurance industry to absorb part of the riskiest exposures.

With the support of ANIA, a similar scheme was proposed both during the conversion of Decree Law 18/2020 and the passage of Decree Law 34/2020, asking for the creation of a €2 billion reinsurance fund at the Ministry of Finance which would have a leveraged effect on commercial transactions estimated at between €20 billion and €35 billion.

This proposal was approved and included under Article 35 of Decree Law 34/2020.

Business interruption coverage

These products are still quite uncommon in Italy; mainly they provide a daily allowance for a set period of time in case of business interruption; if they become common practice, these policies might represent a useful tool to tackle the cases of forced business interruption due to external events, especially for small and medium-sized enterprises.

Business interruption policies were the subject of protracted debate both at national and international level, particularly in the initial phase of the health emergency. However, in Italy as in other European countries, these policies did not experience any significant increase in claims owing to the emergency, because in most cases they are activated only by direct material damage, i.e. fire or flood at the firm’s premises. Pandemics, instead, are considered to be excluded from this type of coverage.

THE DIFFUSION OF FIRE INSURANCE WITH EXTENSION TO NATURAL DISASTERS

With a view to continuing assessment of the impact of the 2018 Budget Law, which introduced tax incentives for natural disaster insurance policies for dwellings, ANIA carried out a new statistical study (whose date of assessment is 31 March 2020) to quantify the number of policies and the risk exposure (value insured) of Italian homes insured against fire, with a special focus on policy extension to natural disasters and how this has changed from the two previous editions of the survey (31 March 2018 and 31 March 2019).

The survey again saw the participation of a large sample of companies (representing 92% of all fire policy premiums), comparable to the previous editions, and on this basis the exposure for the entire market was estimated. The results for the main factors characterizing the fire insurance policies examined by the survey are set out below.

Type of policy. On 31 March 2020, the total number of active policies (for the whole market) was **10.4 million**, up by 7.3% from the previous survey and by 15.0% from that of March 2018 (some 1.5 million policies more in two years); compared with the September 2016 survey, the increase in policies comes to 20%, showing that growth has been sharpest in the last two years. The total **value insured** was **€3,811.0 billion** for the 10.4 million policies, up by nearly 4.7% compared with 2019 and 12.9% from 2018 (Table 1). By type of policy, in 2020 over 58% are multi-risk policies,(1) up by three points from 2019; almost 30% are pure fire policies (single risk), less than 12% comprehensive building policies, and only 0.5% policies covering earthquake but not fire. In 2020 the survey also began to report flood-only policies or earthquake plus flood (without fire), although their number is still limited.

Table 1
Type of policy

Type of policy	March 2020		March 2019		March 2018		March 2020		March 2019		March 2018		% change 2020 vs 2018	
	No. policies	Distr. % No. Policies	No. policies	Distr. % No. Policies	No. policies	Distr. % No. Policies	Value insured (euro mln)	Distr. % Insured value	Value insured (euro mln)	Distr. % Insured value	Value insured (euro mln)	Distr. % Insured value	No. policies	Insured value
Multi-risk	6,084,712	58.2%	5,366,686	55.1%	4,996,969	55.0%	1,478,605	38.8%	1,231,682	33.8%	1,107,530	32.8%	21.8%	33.5%
Fire (single risk)	3,114,808	29.8%	3,096,137	31.8%	2,839,114	31.2%	588,961	15.5%	621,989	17.1%	546,912	16.2%	9.7%	7.7%
Comprehensive building policy	1,199,628	11.5%	1,214,119	12.5%	1,143,081	12.6%	1,724,592	45.3%	1,762,973	48.4%	1,691,073	50.1%	4.9%	2.0%
Earthquake only	53,491	0.5%	63,825	0.7%	62,566	0.7%	17,656	0.5%	23,005	0.6%	22,512	0.7%	–14.5%	–21.6%
Earthquake and/or flood only	1,069	0.0%	n/a	n/a	n/a	n/a	539	0.0%	n/a	n/a	n/a	n/a		
Flood only	597	0.0%	n/a	n/a	n/a	n/a	672	0.0%	n/a	n/a	n/a	n/a		
Uncoded	–	0.0%	735	0.0%	50,655	0.6%	–	0.0%	38	0.0%	6,391	0.2%		
TOTAL	10,454,305	100.0%	9,741,502	100.0%	9,092,385	100.0%	3,811,025	100.0%	3,639,687	100.0%	3,374,417	100.0%	15.0%	12.9%

(1) Multi-risk policies cover several risks such as theft, fire and third-party liability. However, the survey data refer only to fire insurance.

By contrast, the distribution of the amounts insured shows that over 45% of the assets insured are covered by comprehensive building policies (these evidently being the most significant in terms of value), 39% by multi-risk policies and a bit over 15% by individual fire policies (single risk).

Risk sector. Table 2 shows that 85.5% of fire insurance policies are for dwellings (almost a million policies more than in March 2019 and over a million more than in March 2018), 12.6% for industrial buildings[(2)] (substantially stable from the last survey) and only 1.8% (against 3.3% in 2019) for ancillary commercial units, i.e. those units used for business activities and located on the ground floor of mainly residential buildings.[(3)] Clearly, in terms of amounts insured the percentage distribution varies greatly, as industrial buildings, having a greater value than individual dwellings, account for almost half the total amount insured (48.9%), on a par with dwellings, while only 2.2% relates to ancillary commercial units.

Table 2
Risk sector

Risk sector	March 2020		March 2019		March 2018		March 2020		March 2019		March 2018		% change (2020 vs 2018)	
	No. policies	Distr. % No. Policies	No. policies	Distr. % No. Policies	No. policies	Distr. % No. Policies	Value insured (euro mln)	Distr. % Insured value	Value insured (euro mln)	Distr. % Insured value	Value insured (euro mln)	Distr. % Insured value	No. policies	Insured value
Dwelling	8,942,717	85.5%	8,023,209	82.4%	7,652,344	84.2%	1,862,175	48.9%	1,698,987	46.7%	1,564,694	46.4%	16.9%	19.0%
Building	1,321,566	12.6%	1,389,831	14.3%	1,253,848	13.8%	1,865,320	48.9%	1,828,193	50.2%	1,729,231	51.2%	5.4%	7.9%
Ancillary commercial unit	190,021	1.8%	326,307	3.3%	186,192	2.0%	83,530	2.2%	112,367	3.1%	80,492	2.4%	2.1%	3.8%
Uncoded	-		2,155	0.0%	-				140	0.0%	-			
TOTAL	10,454,305	100.0%	9,741,502	100.0%	9,092,385	100.0%	3,811,025	100.0%	3,639,687	100.0%	3,374,417	100.0%	15.0%	12.9%

It is worth noting that as 1.3 million policies cover entire buildings, and since the average number of apartments per building is 4.3,[(4)] based on ISTAT data, the overall number of **dwellings insured** for the whole market may be estimated at roughly **14.9 million** = [8.943 mln (dwellings) + 1.322 mln (industrial buildings) x 4.3 + 0.190 mln (ancillary units)]. Of all **dwellings included in the ISTAT survey** in 2011 (31.2 million), **47.9%** have fire insurance (46% in 2019, 42.8% in March 2018 and 42.2% in 2016).

---

(2) ISTAT's definition of building: "roofed construction, separated by streets or empty spaces, or by other buildings through main walls going from the foundations to the roof top seamlessly, having one or more than one free access to the street and, possibly, one or more than one independent staircase".
(3) This decrease is mainly due to a more precise identification of the type of risk by some companies participating in the census.
(4) This differs from the number published by ISTAT (3.3 nationwide) for two reasons: 1) in calculating the average number of dwellings per building, ISTAT counts buildings with just one dwelling; for the present statistic, however, as single dwellings are counted separately, the average per building is calculated only for buildings with more than one dwelling; and 2) because the provincial distribution of insured dwellings differs from that of all the dwellings found in the census. This is why our estimate of dwellings per building (4.3) is higher than that indicated by ISTAT.

Policy extension to natural disasters. Italy's traditional way of dealing with damage caused by natural disasters is simply ex-post state intervention. This approach, implemented repeatedly over time, has strengthened the popular belief that there is, essentially, a last-resort guarantor in charge of reconstruction. This is why insurance coverage against natural disasters is so rare: 88.4% of fire policies have no such coverage extension (Table 3).

Table 3
Policy extension to natural disasters

Policy extension to natural disasters	March 2020		March 2019		March 2018		March 2020		March 2019		March 2018		% change 2020 vs 2018	
	No. policies	Distr. % No. Policies	No. policies	Distr. % No. Policies	No. policies	Distr. % No. Policies	Value insured (euro mln)	Distr. % Insured value	Value insured (euro mln)	Distr. % Insured value	Value insured (euro mln)	Distr. % Insured value	No. policies	Insured value
No extension	9,239,681	88.4%	8,915,522	91.5%	8,469,908	93.2%	3,412,687	89.5%	3,364,447	92.4%	3,194,456	94.7%	9.1%	6.8%
Earthquake only	664,773	6.4%	458,203	4.7%	289,400	3.2%	271,149	7.1%	172,417	4.7%	102,892	3.0%	129.7%	163.5%
Flood only	234,431	3.0%	195,633	2.0%	220,147	2.4%	45,743	2.1%	43,841	1.2%	44,458	1.3%	6.5%	2.9%
Earthquake and flood	315,420	2.2%	172,144	1.8%	112,930	1.2%	81,446	1.2%	58,983	1.6%	32,612	1.0%	179.3%	149.7%
TOTAL	10,454,305	100.0%	9,741,502	100.0%	9,092,385	100.0%	3,811,025	100.0%	3,639,687	100.0%	3,374,417	100.0%	15.0%	12.9%

A survey of all active policies at 31 March 2020 found that 11.6% of policies have an extension of coverage to natural disasters, up from 8.5% in March 2019 and 6.8% in March 2018, and more than doubled from 5.1% in September 2016.

As of 31 March 2020, there were **some 1.2 million policies with extension to natural disasters** on the market (826,000 in 2019, 622,000 in 2018 and 440,000 in 2016), a number obtained from the sum of straight earthquake policies (665,000), straight flood policies (234,000) and combined earthquake and flood policies (315,000). Compared with the survey carried out in 2016, after three and a half years, the number of straight earthquake policies had more than tripled (+249%), combined policies had increased by 403%, and straight flood policies had grown by 25%.

To promote nat-cat policies (earthquake and floods), Law 205 of 27 December 2017 established, from the year 2018, tax incentives for anyone taking out this type of homeowner insurance. To gauge the impact of the law, **considering only the policies with nat-cat extension subscribed from 2018 to March 2020, this type of policy accounted for 60% of the 1.2 million active policies**. The tax incentives would therefore appear to be having an effect, even if still quite limited.

Based on the number of active policies with extension to natural disasters and using the same calculation method to "convert" policies into dwellings covered (as described earlier in the "Risk sector" section), **the number of dwellings insured against natural disasters as at 31 March 2020 is estimated at 1.4 million** (it was under a million in 2019 and 766,000 in 2018). In relation to the total number of dwellings counted by ISTAT (31.2 million) **insurance penetration would appear to be still very moderate at 4.5%** (growing from 3.2% in 2019 and 2.5% in 2018). Comparison with 2009 (when dwellings insured against natural disasters numbered a mere 35,000) shows a forty-fold increase in insurance coverage, signifying that the Italian market is increasingly sensitive to this type of insurance. As a matter of fact, since 2009 there have been more than 40 floods and several major earthquakes (L'Aquila in 2009, Emilia Romagna in 2012, central Italy between August 2016 and January 2017, Venice in November 2019), which has evidently helped to increase awareness of the need to protect real estate property.

Based on the available data, we estimate, at national level, that:

– the **amounts insured** exceed **€271 billion** for **straight earthquake** policies and roughly **€81 billion** for **straight flood** policies, plus an additional **€46 billion** for combined policies covering **both these risks**. Overall, **total exposure amounts to roughly €400 billion** (it was €275 billion in March 2019, €180 billion in March 2018 and €175 billion in 2016);
– **the average premium (net of taxes[5]) of fire insurance** for the 10.4 million policies surveyed is **€179.** Given that these policies provide insurance for 14.9 million dwellings (with an average floor area of 130 m^2), the average premium per dwelling would be €125. As for the **extension to natural disasters, the average premium (net of taxes)** for the over 1.2 million policies insuring against either earthquake or flood or both, is **€125**. As these policies cover about 1.4 million dwellings (with an average area of 110 m^2), the average premium per dwelling would be €108.

Incidence (%) of dwellings covered by fire insurance on all existing dwellings. Analyzing the incidence by province of insured over total dwellings (47.9% at national level – see above), we find that almost everywhere in the North of Italy more than two of every three dwellings have fire insurance, whereas in the South the proportion is less than one fifth and in central Italy one in two (Figure 1). In Biella, Milan and Trieste, more than 85% of dwellings are insured, 79% in Varese, 75% in Monza-Brianza and Florence, compared with only 10% in Oristano, Benevento, Potenza and Sardegna Sud, and scarcely 8% in Agrigento, Enna and Crotone.

Incidence (%) of dwellings covered by natural disaster insurance on all existing dwellings. Also significant is the analysis of the incidence by province of dwellings insured against natural disasters on all existing dwellings (4.5% at national level). This indicator exceeds 9% only in Milan, Monza-Brianza, Varese, Trento and Mantua (Figure 2); generally, across the North, the incidence exceeds 5%. In Emilia-Romagna, the cities with the highest incidence are Bologna, Ferrara and Modena (over 7%), followed by Reggio Emilia (slightly less than 7.0%). In central Italy, where the average incidence of nat-cat policies is around 4.4%, the cities with the greatest incidence are Florence (8.7%), Siena (8.5%) and Prato (8.0%), whereas in the South the percentage of insured dwellings averages about 1.4%.

(5) Currently 22.25% of the premium.

Figure 1
Incidence (%) of dwellings covered by fire insurance on all existing dwellings

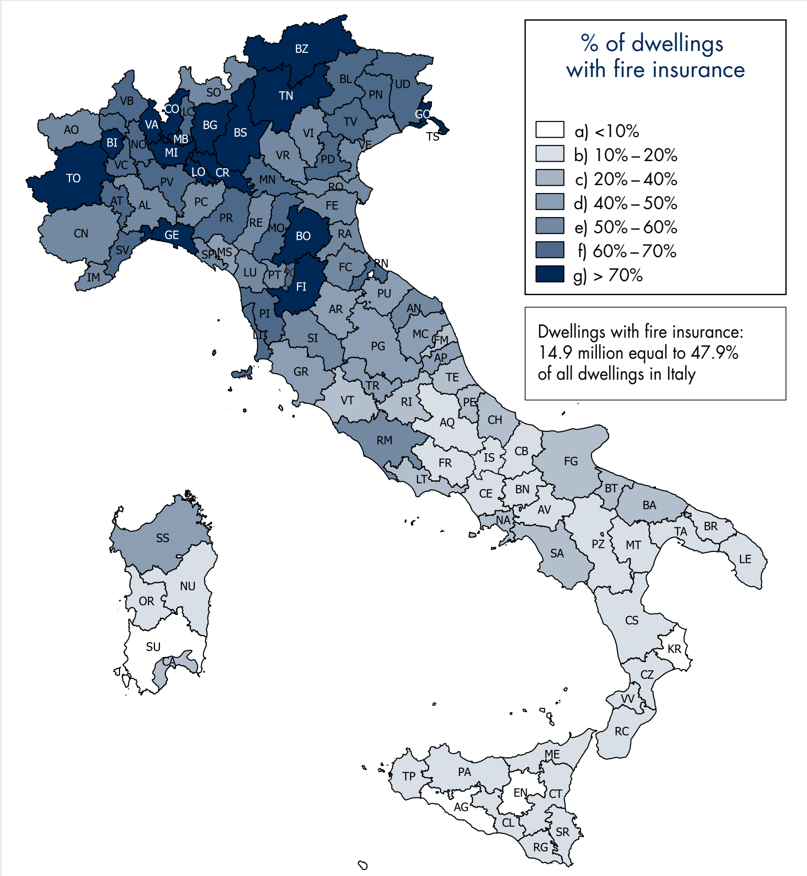
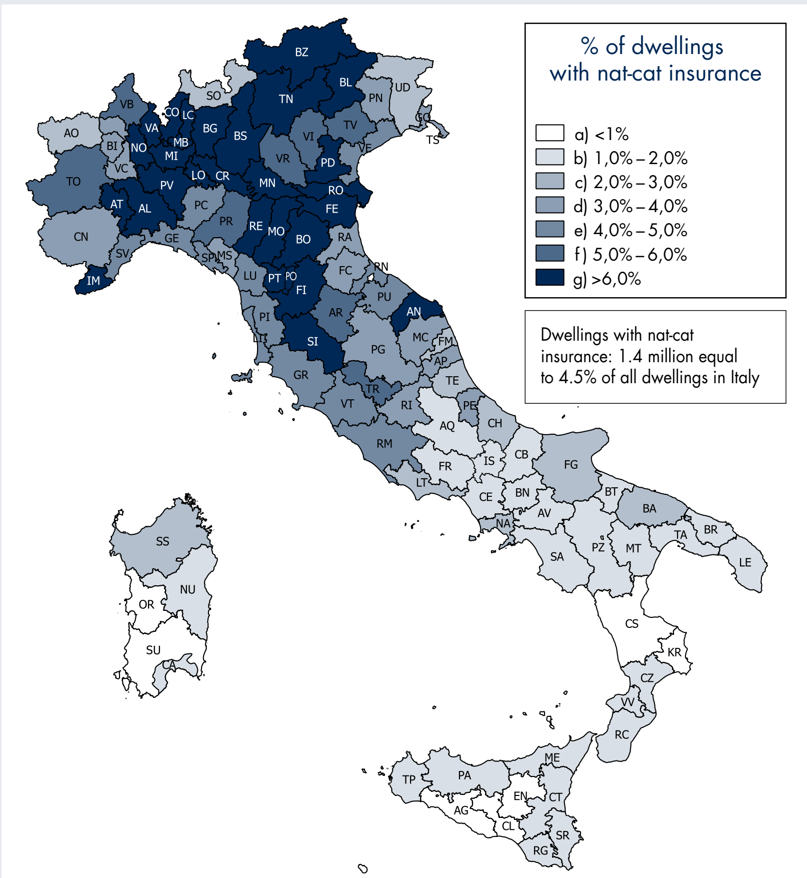


Figure 2
Incidence (%) of dwellings covered by natural disaster insurance on all existing dwellings



MEDICAL MALPRACTICE: THE SENTENCES OF THE COMBINED SECTIONS OF THE COURT OF CASSATION, 11 NOVEMBER 2019

In November 2019, eleven years after the San Martino sentences of 2008, the combined sections of the Court of Cassation deposited ten sentences (dubbed the "San Martino-bis" sentences) establishing the definition of non-pecuniary damages with specific reference to third-party liability in medicine (malpractice). These sentences were intended to clarify a series of uncertain points regarding the application of the regulations on the liability of medical practitioners, also in the light of the entry into force of Law 24/2017 (the Gelli-Bianco Law), confirming, in some cases, the orientation of previous jurisprudence.

These sentences define non-pecuniary damages more clearly, restore clarity and uniformity in quantification criteria and move in the direction of a model for predicting damages that not only protects damaged parties but the whole community. However, for this system to work the principles laid down by the Court must be followed by lower courts as well.

Sentence 28985/2019: Ommitted/erroneous information to the patient

With this sentence, the Court reaffirms that practitioners have an information obligation vis-à-vis patients, in that they must provide adequate information on the nature and the possible outcomes of the treatment, as well as on any alternative treatments. In line with previous rulings in the last decade, the Court confirms that any infringement of the informed consent process may constitute violation of two fundamental rights (to self-determination and to health), therefore generating two distinct damage items. In particular, one may adduce damage to health when it can be reasonably held that the patient (on whom the burden of proof falls), if correctly informed, would have refused the operation in order to avoid its detrimental consequences. One may speak of damage to the right to self-determination when, owing to the omitted information, the patient suffered pecuniary or non-pecuniary damage other than a violation of the right to health.

The Court identifies five specific cases of omitted/erroneous information to the patient that may give rise to the right to compensation for one of the two types of damage (or both, or neither).

Sentence 28986/2019: Relevance of pre-existing, co-existing or concurrent impairment and calculation of the differential damages

With this sentence, the Court clarifies that, in case of permanent disability, for the purposes of the settlement of biological damages, any pre-existing impairment must be taken into account. For this purpose, the Court of Cassation makes a distinction between concurrent and co-existing impairments:

in the former case, the damaged person's previous condition was not a concurrent cause of the damage but did entail more serious after-effects than the patient would have suffered if he/she had been healthy at the moment of the malpractice; in the latter case, not only did previous illnesses or impairments not co-cause the damage; they did not aggravate nor were aggravated by the supravening impairment. The Court further clarifies that only pre-existing concurrent impairments (involving the same anatomical-functional area) must be taken into account for the purposes of the settlement of biological damages, therefore excluding coexisting impairment (involving a different anatomical-functional area). For the purposes of the settlement, in this type of impairment, the difference between the monetary value of the overall degree of permanent disability (caused by the pre-existing impairment and the impairment caused by the malpractice) and the monetary value of the degree of disability prior to the claim must be taken into account.

Therefore, one cannot merely subtract from the present degree of permanent disability the degree that would presumably have obtained in the absence of the malpractice. Instead, it is necessary to refer to the corresponding monetary values, considering that compensation increases more than proportionally to the severity of the harm.

This sentence also reaffirms that the judge has the power cum duty to impose corrective equity where the strict application of the aforementioned calculation leads to an inequitable outcome by excess or by default, thus allowing for discretion in the assessment of damages.

Sentence 28987/2019: Recourse by healthcare structures against practitioner for malpractice damages

This sentence reaffirms that the Gelli-Bianco Law has no retroactive effect in cases of recourse by healthcare facilities against practitioners for malpractice damages, ruling that prior to Law 24/2017, in the event of exclusive fault of the practitioner, liability must be equally shared between the facility and the practitioner, in their consequent relationships, save in the exceptional cases of inexcusably gross, utterly unforeseeable and improbable deviation from the shared health protection program that the structure is bound by.

In order to hold that the presumption of equal distribution of joint and several liability is superseded, the healthcare facility is under the onus of demonstrating both the practitioner's exclusive fault and the causal derivation of the event from practitioner's conduct utterly deviating from the ordinary service provision plan.

Instead, Article 9 of Law 24/2017 (Gelli-Bianco) provides that recourse by the healthcare unit against the practitioner is possible exclusively in case of malice or gross negligence, and in the latter case for an amount no greater than three times the practitioner's remuneration.

Sentence 28988/2019: Settlement of non-pecuniary damages

This sentence clarifies that in the event of permanent damage to health, "duplicate compensation occurs in the case of joint payment of a monetary amount as compensation for biological damages and a further payment as compensation for the damage already indicated by the percentage of permanent disability (such as harm to everyday, personal and relational activities, inherently depending on the anatomic or functional loss: that is, the dynamic relational damage)". The Court indicates that, in the case of permanent health damage, the standard amount of compensation laid down by law or by the uniform criterion of equity adopted by the competent courts (now in accordance with the so-called variable-point system) can be increased exclusively in the event of totally anomalous and truly peculiar harmful consequences.

Loss of the ability to perform any activity as a consequence of damage to health, if it constitutes a "normal" and "inherent" consequence of the damage, shall therefore be compensated by the biological damage settlement, whereas if it is a peculiar consequence, it shall be compensated by an adequate increase in the estimate of biological damage. For the purposes of personalized compensation, therefore, what matters is not which aspect of the damaged person's life was affected, but whether or not the consequences were exceptional.

Sentence 28989/2019: Burden of proof in contractual liability of healthcare facility to patient and damages from loss of relationship status

In the field of contractual liability borne by healthcare facilities, this sentence reaffirms the principle of division of the burden of proof between the healthcare facility, which is required to demonstrate the impossibility to provide the treatment for reasons not attributable to the facility itself, and the patient, who is required to prove the cause-effect relation between the onset of a new disease and the actions or omissions of medical personnel.

In addition, the Court recalls the principle of the "San Martino Sentence" of 2008, whereby "the joint attribution of moral damages (not otherwise specified) and the damages from loss of relationship status is an undue duplication of compensation, because the suffering endured at the moment the loss is perceived (on the subjective moral plane) and the pain all through the victim's life (on the dynamic relational plane) represent essential elements of the complex and articulated harm that must be compensated not only in full but also singly".

Therefore, duplication of compensation consists in the joint award to the victim of both biological damages and dynamic/relational and/or moral damages; conversely, the joint payment of biological damages plus an additional amount as compensation for any harm that is not legally and medically based (internal psychic pain) does not constitute duplication of compensation.

In addition, the Court recognizes terminal damages as a separate item exclusively where an appreciable time elapses between the injury and the death and where the victim is in a condition of "conscious terminal illness". This interval justifies compensation for so-called terminal biological damage, i.e. biological damage as damage to health, to which, as part of the single non-pecuniary damage, one may add terminal non-pecuniary damages, i.e. the perception damage taking the form of physical pain and psychological suffering (death agony).

Sentence 28990/2019: Application of tables also in cases prior to Balduzzi and Gelli-Bianco laws

The Court of Cassation clarifies that Art. 3 of the Balduzzi Law, which refers, for compensation of damages in medical malpractice to the standards under Articles 138 and 139 of the Insurance Code for motor liability, as well as Art. 7 of the Gelli-Bianco Law recalling the same standards, also applies – with the exclusive limitation of *res judicata* – when the wrongful conduct has been committed and the damage produced prior to the entry into force of the Balduzzi Law and the action for damages was undertaken before said law.

This sentence reaffirms the underlying rationale in the legislative decision to extend the settlement criteria envisaged for motor liability also to the field of medical malpractice, in order to protect the damaged parties' interest in obtaining full compensation of the damage to their health and all users' interest in receiving proper medical treatment, allowing practitioners to continue to practice their profession in order to pursue high standards of efficiency and effectiveness in their treatments.

Sentences 28991/2019 and 28992/2019: Causation and burden of proof

The sentence establishes that where the practitioner's contractual liability for failure of professional due diligence and infringement of the right to health is adduced, the creditor must prove – including by means of presumptions – the causal relationship between the worsening of existing pathologies or the onset of new ones and the practitioner's conduct, while the debtor must show – where the creditor has discharged the burden of proof obligation – that an unforeseeable and unavoidable cause made the correct execution of the treatment impossible.

As a consequence, "if the cause of the damage remains unknown – even on a presumptive basis – the detrimental effects for the purposes of the judgment are borne by the creditor of the professional service; conversely, where the cause of the impossibility of professional due diligence remains unknown, or the unforeseeable and unavoidable nature of said cause is not demonstrated, the detrimental effects are borne by the debtor."

Sentence 28993/2019: Loss of chance

With this sentence the Court of Cassation defines the criteria to identify the cases of "loss of chance" and other similar cases that can occur in the area of medical malpractice in a clear and precise way, confirming the application of the standard of equity to settle the damages if the causal relationship between the conduct and the uncertain event is proven, in case of substantiated detrimental consequences that are sufficiently appreciable, serious and substantial.

Sentence 28994/2019: Non-retroactivity of the Balduzzi Law and Gelli-Bianco Law

With this sentence the Court defines its position on the matter, aligning itself with the case-law that considers the effects of the Balduzzi Law and the Gelli-Bianco Law to be non-retroactive as far as the contractual or extra-contractual liability of practitioners is concerned.

The relevant provisions set forth by Law 189/2012 (Art. 3, par. 1), as well as by Law 24/2017 (Art. 7, par. 3), are not retroactive and cannot be applied to events that occurred prior to their entry into force, with the exception of the provisions referring to Articles 138 and 139 of the Insurance Code concerning the settlement of damages, which are instead immediately applicable also to previous events (see Court of Civil Cassation, Sentence 28990/2019).

ANIA–FISE ASSOAMBIENTE GUIDELINES ON FIRE RISK PREVENTION AT WASTE DISPOSAL SITES

In 2019, following some reports by ASSOAMBIENTE (the association representing firms providing environmental services) concerning the problems encountered by the operators of waste disposal sites in procuring fire insurance owing to the significant increase in the number of fires, including by arson, in these plants (110 events were reported in 2017 alone), the ANIA–ASSOAMBIENTE Working Group was established with the participation of technical staff in order to draft a set of guidelines aimed at encouraging this type of insurance coverage.

These guidelines provide plant operators with specific indications on the preventive measures to be adopted to avoid the materialization of fire risk; they represent a useful tool for insurance companies in the initial phase of pricing fire risk, as well as in the subsequent operational phase.

The document drafted by the Group is divided into three sections. The first part, *Certifications and legal requirements*, provides that, in the phase of risk assumption waste disposal firms must provide the insurer with all documentation and certifications relevant to verifying their compliance with the legal obligations in the field of fire prevention and safety.

The second part of the document, *Fire prevention measures*, provides that plant operators must comply with the provisions on organizational and technical measures in waste storage areas, train the staff operating in these plants, control and monitor all sources of heat and ignition, and see to the proper maintenance of the areas, vehicles and tools, technological plants and any fire protection plants and devices. Also, in order to prevent arson, further preventive measures have been identified as compulsory if insurers are to underwrite this type of risk. Among these measures we find: video surveillance (preferably on a 24/7 basis), video recording and conservation systems in areas not reachable by fire; a minimum distance between the external enclosure and the piles of waste or other combustible material; heat sensors and permanent surveillance.

The last part of the document, *Early intervention measures*, lists specific actions to take in case of fire. In order to allow for the quickest intervention possible, waste storage sites must be provided with automatic fire detectors (also thermal cameras), fireproof compartments, smoke and heat vents as well as automatic sprinkler systems.

Given the social function of waste management and disposal, ANIA hopes that these guidelines can contribute to re-establish the conditions for fire risk insurability.

GEOSOSTA, THE HEAVY GOODS TRANSPORT USERS' PORTAL

A recent study commissioned by the European Commission (*Study on Safe and Secure Parking Places for Trucks*) highlighted a general lack of safe parking places in Europe and therefore the need to upgrade the existing facilities and create new ones.

At the moment, heavy goods vehicles are often forced to park in unsafe areas, thus making it easy for criminals to act, especially at night, with a higher risk exposure for the drivers and the goods.

The instruments identified by the study to tackle this problem most effectively, based on the *desiderata* of European transport and logistics operators, include European implementation of a uniform system to classify the safety and security standards and services provided by parking areas, based on independent evaluations by third parties of all the participating facilities.

The introduction of these standards would make freight transport safe and protected within the global supply chain and raise safety levels for persons working in the transport sector.

This type of approach presupposes decisive intervention by the competent public authorities protecting the road-transport sector, which, in Italy more than in other countries, is highly fragmented and made up mostly of small independent carriers, not medium-sized and large cooperatives and consortia. In Italy only three parking areas are quality-certified in compliance with the European standards, which is remarkable indeed considering that 85% of goods transport in this country is by road haulage.

ANIA has always been sensitive to the problem of lack of safe parking areas; the first “ANIA list of parking areas for trucks in Italy” dates back to 1983 and periodic updates have been released as more and more sophisticated analysis has gradually been introduced. In 2007, collaboration with the ANIA Foundation for road safety resulted in the creation of GEOSOSTA, an integrated web portal with a cartographic system allowing carriers to better plan their stops along Italian highways and motorways.

In December 2019, the long and complex review of the facilities already surveyed in the portal and those newly added was completed; the latter were located through online searches and thanks to the indications provided by the partners of the Italian Observatory on theft and robberies in road transport at the Ministry of the Interior, of which ANIA is a founding member.

All the sites (parking areas, freight terminals and service stations) included in GEOSOSTA were asked by ANIA to update or (if not already present in the portal) provide data, through a detailed form collecting information on accommodation services and location of the site, on protection requirements (presence of perimeter fence, alarm system and video-surveillance), on access modalities, type of lighting and other services for drivers.

The owners or managers of these sites signed the privacy agreement and a declaration of responsibility for the truthfulness and updating of the data provided.

Many operators responded to ANIA’s call to collaborate in creating a virtuous cycle of paramount importance for the safety of people and goods: the more areas available for road transport, the more the protected facilities will be used. However, the road ahead is still long. ANIA, convinced of its social benefits, intends to continue the promotion of GEOSOSTA. Meanwhile, this initiative has been brought to the attention of the International Union of Transport Insurance. For more information visit https://www.ania.it/geososta.

REGULATORY CHANGES

SURETY PROTECTING THE ADVANCE PAYMENTS OF PURCHASERS OF REAL ESTATE PROPERTIES TO BE BUILT: UPDATE FOLLOWING THE NEW MINISTERIAL TALKS

The new Code on business crisis and insolvency, Legislative Decree 14/2019, in force as of January 2019, introduced two compulsory insurance schemes to guarantee better protection of the purchasers of real estate properties to be built. One is a surety protecting their advance payments, which must be issued through a Ministry of Justice Decree; the second is a 10-year post-construction policy that the builder must sign at the time the property is transferred, for which the Ministry of Economic Development is responsible.

Article 389 of the Code establishes that the aforementioned provisions are immediately operational and the policies must comply with the new regulations even in the absence of implementing decrees.

In 2019 ANIA and other organizations were summoned by the Ministry of Justice to discuss the content of these policy schemes. Following this initial meeting, some restricted working groups were formed among the organizations most directly affected, including ANIA, ANCE, Confcooperative Habitat, Legacoop Abitanti and ABI, in order to develop a set of proposals to present in the plenary session.

Surety

Following discussion among ABI, ANCE and the representatives of the building cooperatives, a draft surety contract was presented at the last meeting with the Ministry. The most critical point, on which some institutional representatives dissented, is the inclusion, at ANIA's behest, of a clause for automatic termination of the surety when the purchaser elects to sign the notarial deed even where the builder has failed to take out the 10-year post-construction policy. In ANIA's view this provision is necessary to fill a legislative void, since the primary regulation governs only the hypothesis of enforcement of the surety where the 10-year post-construction policy is not provided and the purchaser therefore decides on rescission of the preliminary contract. In ANIA's interpretation, instead, the surety must be terminated anyway when the property is transferred, even in case of failure to provide the 10-year policy.

10-Year post-construction policy

Following a preliminary meeting with some of the organizations involved (ANCE and the representatives of cooperatives), for the 10-year post-construction policy too, the Ministerial talks examined the policy scheme drafted by ANIA, which makes a series of previously optional guarantees compulsory. This draft, in line with the extensive interpretation of Art. 1669 of the Civil Code (Ruin and defects of real estate properties) made in some sentences of the Court of Cassation, is not supported by the builders' associations, which would limit the number of mandatory items to point no. 1 (property guarantee). As a consequence, among other things pending inspection reports by the Technical Supervisor on insured properties, the other participants propose to limit inspection reports exclusively to item no. 1, while ANIA considers them to be necessary for all the individual guarantees contained in the policy. At the moment, then, this point, like that concerning sureties, will probably have to be settled by the Ministry, in order to proceed to draft the definitive version of the scheme.

Following the interruption of the activity of this working group, the Ministry of Economic Development has recently contacted ANIA again, pointing out that in the light of new considerations it considers it advisable to eliminate from the list of compulsory items in the 10-year post-construction policy item 5 (flooring and interior fittings) and item 6 (plasters and external cladding); but the Ministry would maintain item 1 (collapse and total or partial destruction), item 2 (serious construction defects), item 3 (building envelope), and item 4 (waterproofing of roofing surfaces). We pointed out that item 6 should be kept compulsory since it is complementary to item 3 (envelope).

The technical working group was scheduled to meet in March but, due to the global health crisis, its activity was interrupted again.

SURETIES ISSUED BY INSURANCE COMPANIES COVERING THE PERIOD OF ACTIVITY OF WASTE DISPOSAL SITES AND THE POST-OPERATION PERIOD

On 20 November 2019, ANIA testified before the Parliamentary Commission of Inquiry on illegal activities associated with waste management to describe the functioning of the sureties issued by insurance companies to guarantee the period of activity of waste disposal sites and the post-management period.

The Association's testimony was called for in order to clarify the insurance industry's position, which highlights the obstacles to the development of the market (mainly the excessive length of the period insured, with a significant consequent risk exposure) and make proposals to resolve these issues. Following the hearing, the Commission asked ANIA to supplement the data presented with those related to the claims for this specific sector. ANIA accordingly opened an inquiry involving 78% of this insurance market, asking insurers to supply the numbers and the amounts of claims between 2008 and 2018. The results were published in a supplementary note sent to the Commission on 7 February 2020. The average amount paid and/or reserved came to €273,000 per claim, the total amount paid in the period was €17 million for 73 claims, and the portion subject to litigation was limited to 14.5% of indemnified claims.

On 3 February 2020, IVASS and the Bank of Italy too were called to testify before the Commission. IVASS reported on some problems with this type of insurance, with its long duration and complex risks, such as the issuance of false policies and the presence of foreign insurers operating in Italy under the freedom to provide services, which have occasionally proven to be unreliable in complying with their contractual obligations. IVASS offered its own contribution to an exchange with the subjects involved in order to define the contractual schemes for sureties, similarly to the provisions of the Public Procurement Code (Legislative Decree 50/2016), Art. 103, par. 9, and to identify the shortcomings of the financial guarantee, allowing appropriate consideration for proposals for regulatory amendments. In addition, IVASS saw as an area for action that of contract profiles themselves, so as to overcome some problems, in particular to improve the clarity of the texts (they should be simple and clear) and to enhance the functionality and objective scope of the “first request” clause, in order to make insurance coverage an effective guarantee tool.

The Bank of Italy also expressed its willingness to further explore this matter together with the other institutions involved in order to foster a more dynamic and functional market. Among other proposals, the Bank suggested rationalizing the regulatory framework, standardizing contractual arrangements for better clarity and comparability, and designing ex-ante controls to prevent the acceptance of false surety policies or policies issued by subjects lacking the requirements.

7

HUMAN RESOURCES AND LABOR

STAFF AND LABOR COSTS

Personnel make-up and costs: the statistics

At the end of 2019 the Italian insurance industry's managerial and non-managerial staff numbered 46,668, up 1.0% from a year earlier, when total staff came to 46,197.

The growth reversed the downward movement in insurance employment every year since 2014 (except 2016).

ANIA produced this estimate for the entire industry, which includes some 4,000 employees of subsidiaries covered by the insurance industry labor contract, using data from a sample of companies accounting for about 85% of total insurance employment.

Staff comprises administration personnel (37,512 employees), dealers and organization staff (5,398), contact center staff (2,408) [1] and managers (1,350).

For the entire industry, the number of women employed rose more sharply than that of men (1.6% as against 0.5%).

At the end of the year female personnel accounted for 47.0% of the total, up marginally from 46.8% a year earlier. About 49% of all insurance employees are now university graduates and 47% have upper secondary school diplomas.

The total cost of staff (administration staff, managers and contact center personnel but excluding dealers and their organization staff) amounted to €3,882 million in 2019, 1.5% more than the previous year. The increase was due to salary raises in 2019 for non-managerial employees under the renewed collective bargaining agreement combined with the increase in their numbers. The per capita cost[2] for these employees came to €94,280, up 1.7% over 2018.

However, the total cost for dealers and related staff increased by 11.7% during the year to €311 million, owing above all to the rise in commissions, which gained 12%. Their per capita costs accordingly rose by 9.1% to €59,120 in 2019.

For the entire industry – i.e. administration and managerial staff, contact centers, and dealers and their organizational staff – the companies' total labor costs rose by 2.2% in 2019 to €4,193 million, and per capita costs also rose (by 2.1%) to €90,300.

---

(1) Contact center staff is subdivided into contact center operations employees (formerly called "call center, first section") numbering 1,583, and contact center sales employees (formerly called "call center, second section") numbering 825.

(2) As usual, to enhance the statistical significance of the data, per capita labor costs are calculated as the total staff cost for a given year over the average number of employees in service during that year and the previous one.

HUMAN RESOURCES AND LABOR

Number of staff

Year	Administrative (*)	Dealers	Total
2009	41,881	5,488	47,369
2010	41,730	5,456	47,185
2011	42,193	5,284	47,477
2012	42,498	5,214	47,712
2013	42,747	5,189	47,936
2014	42,199	5,253	47,452
2015	41,536	5,218	46,754
2016	41,598	5,252	46,850
2017	41,402	5,156	46,558
2018	41,073	5,124	46,197
2019	41,270	5,398	46,668

(*) Administrative, contact center and managerial staff

Total staff costs
Euro million

Year	Administrative (*)	Dealers	Total
2009	3,142	261	3,403
2010	3,192	263	3,456
2011	3,284	267	3,551
2012	3,478	262	3,740
2013	3,635	262	3,897
2014	3,742	274	4,016
2015	3,735	292	4,027
2016	3,832	287	4,119
2017	3,857	285	4,142
2018	3,824	278	4,103
2019	3,882	311	4,193

(*) Administrative, contact center and managerial staff

Change in total staff costs (from the previous year)
(%)

Year	Administrative (*)	Dealers	Total
2009	0.8%	-4.2%	0.4%
2010	1.6%	0.7%	1.6%
2011	2.9%	1.5%	2.7%
2012	5.9%	-1.7%	5.3%
2013	4.5%	0.0%	4.2%
2014	3.0%	4.3%	3.0%
2015	-0.2%	6.6%	0.3%
2016	2.6%	-1.7%	2.3%
2017	0.6%	-0.6%	0.6%
2018	-0.8%	-2.3%	-0.9%
2019	1.5%	11.7%	2.2%

Change in per capita staff costs (from the previous year)
(%)

Year	Administrative (*)	Dealers	Total
2009	-0.1%	-7.2%	-0.8%
2010	1.3%	-0.2%	1.2%
2011	2.5%	3.4%	2.6%
2012	5.0%	0.5%	4.8%
2013	3.8%	0.9%	3.7%
2014	3.3%	3.9%	3.3%
2015	1.3%	6.3%	1.5%
2016	3.3%	-1.7%	2.9%
2017	0.8%	0.0%	0.8%
2018	-0.2%	-1.1%	-0.2%
2019	1.7%	9.1%	2.1%

LABOR REGULATIONS AND THE INDUSTRY SOLIDARITY FUND

Last year ANIA's activities of support and advice to insurers again included labor issues, illustrating and explaining the laws and regulations that were enacted. The first part of 2020 was marked by the health emergency provoked by the Covid-19 pandemic, which produced multiple changes to labor regulations.

The most important of the successive provisions of those months, for our purposes, were the so-called "Cure Italy" decree (Decree Law 18 of 17 March 2020, converted as Law 27/2020 of 24 April), enacting "Measures to strengthen the National Health Service and provide economic support for households, workers and firms in connection with the Covid-19 epidemic emergency", and the "Relaunch" decree (Decree Law 34 of 19 May 2020, converted as Law 77 of 17 July), enacting "Urgent measures for health, support to labour and the economy, and social policies in connection with the Covid-19 epidemic emergency."

For the insurance industry, seven highly significant measures were taken:

1) Permission for employers who suspend or reduce work activity owing to events in connection with the Covid-19 pandemic to apply for access to the ordinary benefits of the Intersectoral Solidarity Fund for insurance companies and insurance/assistance companies, citing "Covid-19 emergency" as the cause, for periods between 23 February and 31 August 2020 totaling a maximum of nine weeks, plus an additional five weeks during the same period for employers having used up the entire nine weeks. Another four weeks, maximum, is recognized in the period between 1 September and 31 October. Access to this benefit was simplified by comparison with the original regulations enacted at the Fund's institution, and namely:

    - the supplementary contribution – 1.5% of the earnings subject to social security tax lost by workers owing to shortened hours – is no longer required;
    - a company-level contribution cap is set – 1.4% of the amount paid by the company up to the previous quarter, starting as of the commencement of the contribution requirement;
    - the limit to the duration of the benefit – 52 weeks over a rolling two-year period, 24 months over a rolling five-year period – is lifted;
    - benefit periods are "neutralized" in the case of successive applications; thus the benefits paid under the head "national Covid-19 emergency" are separate and apart from any applications subsequent to the month of October 2020 qualifying as ordinary benefits under other heads;
    - for eligibility, workers no longer have to have 90 days' seniority of effective work in their production unit; they only have to have been employees of the applicant company as of the date of 25 March 2020;

- the company no longer has to demonstrate that the situation is transitory or attest that work activity has recommenced, nor must it demonstrate that the layoff or short time work is not ascribable to actions of the employer or the employees;
- in derogation to the ordinary rules, the application can be submitted by the end of the month following that in which the work suspension or reduction occurred. Further, in general the deadline for presentation of applications for benefits in relation to suspensions or reductions beginning between 23 February and 30 April 2020 is set at 31 May 2020.

2) Special leave of up to 30 days for parents employed in the private sector and for working parents of children under 12 enrolled in the separate INPS pension fund, between 5 March and 31 August 2020, consequent to the measures suspending day care and school services, with daily payment of an amount equal, respectively, to 50% of salary and to 1/365 of yearly earnings, using the standards applied to determine maternity benefits. These periods are covered, for pension purposes, by imputed contributions. The same allowance is extended to self-employed parents registered with INPS (the social security administration), equal to 50% of conventional daily earnings established by law. Alternatively, the working parent can opt for a bonus towards the purchase of baby-sitting services for up to a maximum of €1,200, paid through the INPS household payment account.

3) Private sector employees who are parents of children under 16 may take leave from work during the period of suspension of day care and school services; this leave is unpaid and without imputed pension contribution payments; such workers cannot be dismissed, and shall have the right to return to the same job.

4) For the months of March, April, May and June 2020 only, the number of days of paid leave – 3 per month under Law 104/1992, Art. 33, with imputed pension contributions – is increased by a total of 24 additional days for public and private employees who assist a person with handicap in a situation of grave need.

5) An additional allowance of €600 a month in March and April 2020 goes to: self-employed workers with VAT accounts who were active at 23 February; workers active that month registered in the separate INPS pension fund with continuous collaboration contracts, not receiving a pension and not enrolled in any other compulsory pension plan; self-employed workers enrolled in the special funds of the general compulsory pension system (including insurance agents and insurance intermediaries with VAT accounts) who are not receiving a pension and are not enrolled in any other compulsory pension plan.

6) In derogation to Legislative Decree 81/2015, Article 21, firms recommencing activities suspended as a consequence of the pandemic may renew or extend

until 30 August 2020 fixed-term contracts in being at 23 February, even without meeting the conditions laid down in Article 19.1 of the Decree (the so-called "causes").

7) Facilitation of "smart working": a provision that until termination of the state of emergency due to the epidemic (scheduled originally for 31 July 2020), private sector employees who are parents of children under 14 have the right to work in "agile" mode,(3) even in the absence of individual agreements, without prejudice to compliance with the information requirements laid down in Law 81 of 22 May 2017 and providing that this mode of work is compatible with the nature of the job; agile work may also be performed via information technology instruments of the employee's if they are not supplied by the employer.

The Intersectoral Solidarity Fund for income support, jobs, occupational reconversion and requalification for employees in insurance and social assistance (Ministerial Decree 78459/2014)

As to the Intersectoral Fund's activity, in 2019 some insurance companies and groups involved in major corporate reorganization and restructuring with an impact on jobs had recourse to both ordinary and extraordinary benefits to fund professional training and retraining programs for the employees directly affected by such operations. As reported above, as a consequence of the epidemic-related health emergency, some insurers applied for ordinary benefits owing to suspension and/or reduction of work activity. The Fund's management committee has already decided on the applications of a score of insurance companies.

Single National Fund for insurance against risk of non-self-sufficiency (Long Term Care Fund)

The activity of the Board of Directors of the LTC Fund to ensure payment to eligible beneficiaries continued also throughout 2019.

LABOR RELATIONS AND COLLECTIVE BARGAINING, INDUSTRY-WIDE AND COMPANY-LEVEL

On 14 June 2019 ANIA and the trade unions FIRST-CISL, FISAC-CGIL, FNA, SNFIA, and UILCA signed the Joint Declaration on gender-based harassment and violence at the workplace. The Declaration is the fruit of a cooperative effort on the part of the social partners at the National Equal Opportunity

(3) Providing that the household does not include another parent receiving income support benefits in the case of suspension or cessation of work activity or another parent not employed.

Committee, which resumed activity in 2019; one of the Committee's purposes is fostering and diffusing the culture of gender equality at the workplace. The main points as far as insurance companies are concerned are: the adoption of the definitions of gender harassment, sexual harassment, gender-based violence, and workplace; the specific declaration that with a view to ensuring the respect of workers' dignity and professionalism, any act of gender-based harassment or violence at the workplace, either physical or psychological, is unacceptable and must be reported and properly investigated and punished, while at the same time providing support to the victims; guarantee for the privacy of all the parties involved, shielding them from any retaliation and penalization; the designation within the Human Resources function (or another central function indicated by the company) of the unit assigned to handle reports on gender-based harassment. Lastly, the parties agreed to increase from three to four months the leave provided for by law in instances of protection stemming from duly certified cases of gender violence.

***

In September 2019 ANIA, followed by the insurance industry trade unions, gave formal notice of non-extension of the industry-wide collective bargaining agreements for non-managerial employees of insurance companies and insurance/assistance companies, both expiring in December 2019. ANIA and the insurance companies are now awaiting the presentation of the unions' platform of demands for the new contract.

As a consequence of the pandemic health emergency, on 24 March 2020 ANIA and the insurance industry unions (FIRST-CISL, FISAC-CGIL, FNA, SNFIA, and UILCA) agreed to a memorandum of understanding for "Prevention, counteraction and containment of the spread of the Covid-19 virus at workplaces." The Memorandum, which implements the measures and indications of a series of provisions issued by the government during the emergency, specifies that from the outset of the extraordinary situation ANIA, insurance companies, and insurance/assistance companies have taken precautionary measures of social distancing, encouraging the greatest possible amount of "smart working" and managing as flexibly as possible the problems created for employees' families owing to the closing of schools and the restrictions imposed progressively by the authorities as the pandemic worsened.

The stated purpose of the joint Memorandum is to provide operational indications for insurers and insurance/assistance companies to enhance the effectiveness of the precautionary measures for containing the virus mandated by legislation and the health authorities. It consists in 13 points on the various aspects of work activity and the proper conduct of workers and companies both at workplace entry points and during work, as well as the responsibilities of all those involved vis-à-vis others, with definite guidelines for behavior and management procedures. For instance, the employer is required to inform workers also of the existence of organizational measures such as to guarantee a distance of at least one meter between people; of the obligation not to come to work if you are running a temperature; on the modalities of entry to the firm for employees and suppliers; of the obligation to sanitize workplace premises, to provide detergents at bathrooms, and to make available adequate individual protective devices where the work does not allow inter-personal distancing of at least one meter.

Workers must do their part by having their temperature taken, where required, upon entry into the firm's premises; by reporting any symptoms that may require them to leave the workplace so as to protect their colleagues; by taking all proper hygiene precautions, specifically washing their hands with special products supplied by the employer; and observing the company's rules for access to and presence in common spaces.

As to organization and personnel management, the insurance company shall prepare, in case of need to ensure business continuity, a plan for personnel work shifts such as to minimize contacts between employees and with the public. Further, without prejudice to the maximum utilization, where possible, of agile working modes, if the persistence of the pandemic brings the reduction or suspension of work for some units, recourse will be had to the instruments specified in the industry-wide and company-level collective bargaining agreements, such as the "hours bank", paid leave, parental leave, and the use of vacation time while safeguarding, as much as possible, the vacation available for the current year. In these cases the ordinary benefits of the Intersectoral Solidarity Fund for insurance and insurance/assistance employees will be drawn on, by the simplified procedures instituted under the emergency rules; this will apply to all categories of workers (e.g. salesmen and/or employee dealers) suffering immediate harm from the situation of health emergency.

Finally, employers and unions agreed to meet again as part of broader talks about the insurance market more generally and government unemployment and income support measures, for a joint assessment of the implementation of the Memorandum of Understanding, and for its continuous updating.

Subsequently, on 29 April, the two parties agreed – with specific reference to access to the Fund's ordinary benefits – on the need to supplement the Memorandum of 24 March with an appendix setting out guidelines to serve as a single point of reference for insurers and unions in the case of undertaking the procedure for access to ordinary benefits. Given that the Memorandum itself provides for recourse to measures for workers introduced by emergency legislation, including the ordinary benefits of the Fund, for all categories suffering immediate harm (including salesmen and/or employee dealers), the Appendix defines a procedure for employer-union dialogue to conclude an agreement providing for recourse to the benefit for the duration and with the modalities established by the legal provisions in force at any given time.

As for supplements to ordinary benefits, it is established that "without prejudice to full pension contribution coverage via payment of the related contribution, including the employees' portion, access to the ordinary benefit shall be without prejudice to the earnings subject to social security tax that would have been received by the worker in the absence of the suspension/reduction of work activity, transferring to company level those components that can be supplemented and seeking shared solutions to safeguard employees' earnings."

Essentially, insurers pledge to supplement earnings up to 100% of the salary that INPS sets for payment of the ordinary benefits, which the worker would have earned had there been no suspension/reduction of work, without prejudice to the possibility, in company level talks, of taking account of the specifics of work organization. In addition, the suspension/reduction periods with access to ordinary benefits will have no repercussions on fringe benefits of the employment relationship (for purely illustrative purposes: supplementary retirement plans, supplementary health insurance, vacation days accumulated).

Agreements with trade unions on corporate reorganization and restructuring

Throughout 2019 ANIA continued to provide consulting and support to insurance companies in relation to corporate and group reorganization and restructuring and to the procedures for applying for the ordinary Covid-19 benefits, above all to assist them as regards compliance with the procedures for negotiation with the trade unions laid down in the industry-wide bargaining agreement. The talks resulted in agreements with the trade unions preliminary to recourse to the benefits of the Intersectoral Solidarity Fund.

Formation of working groups within the Standing Industrial Relations Committee

Working group on insurance/assistance companies: with reference to the specific activity of these companies, we offered assistance for access to the ordinary Fund benefits for Covid-19. Consultations on industry-specific labor issues continued, in view among other things of the upcoming renewal of the collective bargaining agreement covering the assistance sector.

8

INSURANCE DISTRIBUTION

The share of life premiums written through bank and post office branches and agents remained stable in 2019, while the share accounted for by agents increased.
In the non-life sector, agents were again the main sales channel, but their business contracted by more than the market-wide average, confirming the downtrend of the past year and boosting direct sales and sales through bank and post office branches.
Moreover, an ANIA study based on data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) has shown that insurance company figures underestimate the importance of brokers in the non-life sector.

LIFE INSURANCE

In 2019 life premiums confirmed the growth shown last year (+3.9%), after three consecutive years of contraction. In particular, premium income produced by agents registered a significant acceleration, followed, in percentage terms, by bank branches and direct sales.

More in detail, in 2019 bank and post office premiums showed an uptrend for the second consecutive year (+3.8%), in line with the industry average (+3.9%), thus remaining the market leader for life business. Their market share was unchanged from 2018 at 61.1%, but the five-year average annual change is still negative at -2.9% (Table 1).

After contracting for three years (2016-2018), the volume of life premiums sold by agencies expanded significantly (+13.8%), more than all other intermediaries and more than the industry average, thus becoming the second-leading channel for life policies, with a market share that went from 13.2% in 2018 to 14.4% in 2019.

In 2019, written premiums sold through financial salesmen declined for the second consecutive year (-1.4%), thus falling to third-leading channel, with a negative impact on their market share, which went from 15.0% in 2017 to 13.2% in 2019 and a five-year average premium change negative at -6.5%.

Table 1 - Breakdown of distribution channels for the 2015-2019 observation period – Life classes

CHANNEL	Gross written premiums (Euro million)					Market share %					Average	Annual change (%)					Av. change (%)
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	(2015-2019)	2015	2016	2017	2018	2019	(2015-2019)
Bank branches [1]	72,929	64,294	60,425	62,389	64,731	63.4	62.9	61.3	61.1	61.1	*62.0*	5.7	-11.8	-6.0	3.2	3.8	*-2.9*
Financial salesmen	18,306	14,276	14,759	14,184	13,982	15.9	14.0	15.0	13.9	13.2	*14.4*	1.3	-22.0	3.4	-3.9	-1.4	*-6.5*
Agents	14,684	14,669	13,699	13,459	15,316	12.8	14.3	13.9	13.2	14.4	*13.7*	4.0	-0.1	-6.6	-1.8	13.8	*1.1*
Direct sales	8,434	8,358	8,789	10,183	10,409	7.3	8.2	8.9	10.0	9.8	*8.8*	-3.2	-0.9	5.2	15.8	2.2	*5.4*
Brokers	594	659	939	1,833	1,567	0.5	0.6	1.0	1.8	1.5	*1.1*	-5.1	10.9	42.4	95.3	-14.5	*27.4*
TOTAL	114,947	102,257	98,611	102,048	106,005	100.0	100.0	100.0	100.0	100.0	*100.0*	4.0	-11.0	-3.6	3.5	3.9	*-2.0*

([1]) Data for this channel includes premiums distributed by post office branches.

Direct sales, which comprise not only the Internet and telephone channels but also policies marketed through tied agencies, improved only mildly (+2.2%) compared to 2018, when they had registered a sharp increase (+15.8%). Thus, their market share remained stable at 9.8%.

With premium income still marginal (€1.5 billion), brokers intermediated 14.5% less life premiums than the previous year, with a market share that shrank from 1.8% in 2018 to 1.5% in 2019.

By type of product (Tables 2 and 3), Class I products (traditional life insurance policies) surged by 9.7%, as business done by all the main channels increased. In particular: banks and post offices grew by 9.2%, thus accounting for 64% of the total; agents gained 15.9%, outpacing the market average, and direct sales increased by 12.1%. The market shares of these latter two thus rose respectively from 15.3% to 16.2%, and from 9.8% to 10%. Conversely, premiums sold through financial salesmen increased (+2.0%) but less than the Class average, resulting in a decline of their market share from 9.1% to 8.5%. Life premiums sold by brokers remained unchanged.

Premiums of Class III (unit linked policies) declined (-6.6%), mainly as a result of the contraction registered across all channels with the exception of brokers, whose market share was in any case minuscule. Premium income through banks and post offices continued to lead the market in the sale of Class III policies, with a percentage weight of 60.4%, down from 61.4% in 2018, thus registering a sharper decrease (-8.1%) in the volume of premiums than the Class average. Also decreasing, although less than the average, were premiums sold through financial salesmen, whose market share thus went up from 26.7% in 2018 to 27.3% in 2019. Agents, whose volume of premiums dropped by 9.1%, confirmed their position as third-leading channel for the Class, accounting for 8.1% of the market (8.4% in 2018); direct sales remained unchanged in terms of percentage weight (3.6%).

As for capital redemption policies (Class V), there was an overall contraction of 32.9% in 2019 as a result of the downtrend registered in all channels but agents, whose sales practically doubled (+95.0%), nearly tripling their market share for this Class to 34.4%. Consequently, direct sales, which decreased more than the industry average (-60%), lost their leading position for the Class, coming down to a market share of 28.5% in 2019 from 48.5% in 2018; premiums sold through brokers shrank by approximately 60%, more than the average, going from 18.5% in 2018 to 11.3% in 2019 in terms of market shares.

A negative trend, although more moderate than the market average, was also registered by bank and post office branches (-18.6%) and financial salesmen (-1.8%), whose market shares thus expanded (from 20.2% to 24.5% and from 1.0% to 1.4% respectively).

Class VI products (pension funds) registered premium growth of 33.5%, with positive performance in all channels. In particular direct sales, with growth of 71.1%, continue to be the leading channel, their market share increasing from

Table 2
Breakdown of life market by class and distribution channel (%)

Class	Agents	Brokers	Bank branches (1)	Financial salesmen	Direct sales	Total
YEAR 2019						
I - Life	16.2	1.4	64.0	8.5	10.0	100.0
III - Investment funds	8.1	0.6	60.4	27.3	3.6	100.0
IV - Health	39.8	41.9	13.7	0.0	4.5	100.0
V - Capitalization	34.4	11.3	24.5	1.4	28.5	100.0
VI - Pension funds	13.4	1.0	27.6	6.4	51.7	100.0
Individual retirement policies (2)	37.8	0.3	27.9	18.2	15.8	100.0
TOTAL LIFE	14.4	1.5	61.1	13.2	9.8	100.0
YEAR 2018						
I - Life	15.3	1.6	64.3	9.1	9.8	100.0
III - Investment funds	8.4	0.1	61.4	26.7	3.5	100.0
IV - Health	33.9	43.1	19.1	0.0	3.9	100.0
V - Capitalization	11.8	18.5	20.2	1.0	48.5	100.0
VI - Pension funds	16.6	1.3	34.0	8.0	40.2	100.0
Individual retirement policies (2)	35.3	0.3	30.4	18.3	15.7	100.0
TOTAL LIFE	13.2	1.8	61.1	13.9	10.0	100.0

Table 3
% change in life premium volume by Class and distribution channel 2019/2018

Class	Agents	Brokers	Bank branches (1)	Financial salesmen	Direct sales	Total
I - Life	15.9	0.2	9.2	2.0	12.1	9.7
III - Investment funds	-9.1	493.6	-8.1	-4.2	-3.8	-6.6
IV - Health	60.0	32.7	-2.3	372.7	56.1	36.2
V - Capitalization	95.0	-59.2	-18.6	-1.8	-60.6	-32.9
VI - Pension funds	7.2	5.5	8.3	7.3	71.7	33.5
Individual retirement policies (2)	12.2	-13.4	-3.9	3.9	5.1	4.6
TOTAL LIFE	13.8	-14.5	3.8	-1.4	2.2	3.9

(1) Data for this channel includes premiums distributes by post office branches.
(2) Individual retirement plan premiums (written as per Article 13, paragraph 1(b) of Legislative Decree 252/2005) are a subgroup of individual policies in Class I (life) and Class III (investment funds).

40.2% to 51.7%. All the other channels, registering below-average increases, shrank in terms of market share. In detail, with an 8.3% increase, bank and post office branches accounted for 27.6% of premiums (34.0% in 2018); sales by agents and financial salesmen grew by just over 7%, thus reducing their percentage weight from 16.6% and 8.0% to 13.4% and 6.4% respectively.

Premiums/contributions of individual retirement policies confirmed their upward trend across all channels in 2019, with a positive change of 4.6%. This was mainly attributable to the increase in premiums sold by agents (+12.2%), whose market share went up from 35.3% to 37.8%, and by financial salesmen and direct sales, whose premium shares grew by 3.9% and 5.1%, thus maintaining a percentage weight in line with the previous year at 18.2% and 15.8% respectively. Conversely, the market share of bank and post office branches diminished from 30.4% to 27.9%, owing to their 3.9% drop in premiums.

NON-LIFE INSURANCE

In 2019 non-life business confirmed the uptrend that started in 2017, gaining 3.2% on 2018. The increase involved all marketing channels except brokers, who registered a mild decline.

In particular, the agent network continued to grow (+2.0%), although less than the industry average of 3.2%, and confirmed its position as main distribution channel in the collection of premiums in the non-life sector (74.1%) (Table 4). The five-year average change remains virtually zero.

Despite a 0.6% drop and a shrinking market share (from 9.5% in 2018 to 9.1% in 2019), brokers remain the second-leading channel for the non-life sector. It has to be noted, however, that this share is underestimated, insofar as a significant portion of the premium income they generate (around 20.9% of the entire market) is presented to the insurance companies not directly by the brokers but via agencies. Taking this into account, the non-life premiums intermediated by brokers amounted to €10.3 billion (€3.1 billion in the official statistics) or to 30.1% of all non-life premiums (9.1% in the official statistics). As a consequence, the share effectively accounted for by agents should be adjusted to €18.2 billion (and not €25.4 billion, as in the official statistics) and their market share from 74.1% to 53.2%. For motor liability insurance, brokers' share in 2019 would thus come to 9.3% against 4.9% in the insurance company figures, while agents' share would come down from 82.6% to 78.2%. But this anomaly is significant mainly in the other non-life classes, where brokers' share should be adjusted from 13.0% in the official statistics to 48.9%, and that of agents reduced from 66.4% to 30.5%.

To estimate the market shares accounted for by brokers, ANIA uses data from the Italian Association of Insurance and Reinsurance Brokers (AIBA) and additional information gathered from the leading Italian insurance brokers. In particular, AIBA lacks official data on the volume of premiums handled

Table 4 - Breakdown of distribution channels, 2015-2019 – Non-life classes

CHANNEL	Gross written premiums (Euro million)					Market share %					Average	Annual Change (%)					Av. change (%)
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	(2015-2019)	2015	2016 (3)	2017	2018	2019	(2015-2019)
Agents	25,147	24,633	24,643	24,912	25,417	78.6	77.1	76.3	75.3	74.1	76.3	– 3.3	– 2.7	0.1	1.0	2.0	0.3
Brokers (1)	2,694	2,927	3,013	3,155	3,136	8.4	9.2	9.3	9.5	9.1	9.1	– 6.0	4.5	3.0	4.6	– 0.6	3.9
Direct sales (*)	1,089	1,163	1,185	1,359	1,536	3.4	3.6	3.7	4.1	4.5	3.9	8.6	7.6	1.5	15.8	13.0	14.5
Distance Sales (**)	1,504	1,407	1,389	1,419	1,546	4.7	4.4	4.3	4.3	4.5	4.4	– 5.2	– 6.5	– 0.7	1.6	0.9	0.7
Bank branches (2)	1,497	1,756	1,981	2,176	2,577	4.7	5.5	6.1	6.6	7.5	6.1	18.0	17.3	12.9	9.7	18.0	14.5
Financial salesmen	76	65	91	74	87	0.2	0.2	0.3	0.2	0.3	0.2	18.3	– 14.0	39.9	– 18.7	16.6	3.3
TOTAL	32,007	31,953	32,304	33,096	34,299	100.0	100.0	100.0	100.0	100.0	100.0	– 2.4	– 1.0	1.2	2.3	3.2	1.7

(*) *Pursuant to Article 107-bis, paragraph 1 of Legislative Decree 68/2018, the activity of insurance distribution may be exercised directly by the undertaking through: a) Headquarters and tied agencies, i.e. subsidiary or business agencies directly tied to the insurance undertaking, which perform marketing functions with offices open to the public; b) Accessory market participants registered in section F of the Single Register of Intermediaries who act with the insurance undertaking's mandate; c) Direct producers registered in Section C of the Single Register of Intermediaries who deal in insurance distribution in the life, non-life and health insurance business.*
(**) *Internet and telephone sales.*
(1) *Brokers' contribution over the years does not include the share of premiums generated through this channel with presentations via agencies and not directly to the company (estimated at 20.9 percentage points in 2019).*
(2) *Data for this channel includes premiums distributed by post office branches.*
(3) *Changes (%) are calculated on a homogeneous basis in terms of companies covered.*

by brokers but derives an estimate from their payments to the compulsory Guarantee Fund plus a portion of premiums deriving from brokerage fees (not subject to the compulsory contribution). On this basis AIBA estimates brokers' premiums for the entire non-life sector at over €13.4 billion, which is higher than ANIA's own estimate, owing essentially to the different estimate of premiums deriving from brokerage fees and to AIBA's inclusion of the premiums collected by EU insurance companies, which are not counted in ANIA's statistics.

For completeness, Table 5 shows the estimated non-life market shares of agents and brokers from 2009 on, adjusted as above. Note that in these eleven years the share of total non-life insurance accounted for by brokers gained 3 percentage points, from 27.1% to 30.1%, whereas in the official statistics the gain was scarcely 1 point. After widening constantly to nearly 26 percentage points in 2016, the gap between the figures derived from the insurance companies and those estimated by ANIA on AIBA data has thus narrowed to less than 21 points in 2019.

Table 5 - Estimated market share of agents and brokers

Year	MOTOR				NON-MOTOR				TOTAL			
	Brokers share		Agents share		Brokers share		Agents share		Brokers share		Agents share	
	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)	Insurance company data (%)	ANIA estimate (%)
2009	3.2	8.7	89.6	84.1	13.8	49.3	75.1	39.6	7.9	27.1	83.0	63.8
2010	3.0	8.7	88.6	82.9	13.5	50.8	74.6	37.3	7.7	27.4	82.4	62.7
2011	3.5	9.9	87.6	81.2	13.0	57.0	74.3	30.3	7.6	30.2	81.8	59.2
2012	3.3	9.8	86.8	80.3	13.3	58.4	73.4	28.3	7.6	30.7	81.0	57.9
2013	3.5	9.8	86.3	80.0	13.3	58.1	73.3	28.5	7.9	31.4	80.5	57.0
2014	3.6	10.8	85.7	78.5	14.7	61.3	71.8	25.2	8.7	34.2	79.3	53.8
2015	3.7	10.9	85.3	78.1	13.6	57.7	71.3	27.2	8.4	33.3	78.6	53.7
2016	4.5	12.2	84.2	76.6	13.9	58.3	69.8	25.5	9.2	35.0	77.1	51.3
2017	4.7	9.1	83.8	79.4	13.9	52.6	68.9	30.2	9.3	31.1	76.3	54.6
2018	5.1	9.9	83.1	78.3	13.7	54.9	67.8	26.6	9.5	32.9	75.3	51.9
2019	4.9	9.3	82.6	78.2	13.0	48.9	66.4	30.5	9.1	30.1	74.1	53.2

The volume of premiums marketed by direct sales increased by 13.0%, more than the sector's average, going from 4.1% to 4.5% in market share; direct distance sales, through internet and telephone, also grew in terms of percentage weight (to 4.5%) as a result of a slight increase in premiums (+0.9%).

The marketing of non-life policies through bank and post office branches increased much more sharply than the overall market, with premiums rising by 18.0%, bringing their five-year annual average to 14.5%; the growth in their market share thus continued, from 4.7% in 2015 to 7.5% in 2019.

Financial salesmen continue to have an extremely marginal market share (0.3% in 2019).

As for motor insurance (motor third party liability and land vehicles), agents are still the main sales channel, accounting for 83% of the entire market; the volume of premiums remained virtually unchanged from 2018 and in line with the industry trend (Tables 6 and 7). In 2019 Internet and telephone sales remained the second-leading channel for motor insurance, accounting for 8.3% of the business (up from 7.6% in 2018) thanks to an increase in distance sales through the Internet (+2.4%). By contrast, the volume of premiums intermediated by brokers declined (-3.7%) and their market share shrank to 4.9%. Bank and post office branches expanded their motor insurance business by 5.8%, and consequently their market share from 3.1% to 3.3%.

In 2019, non-motor non-life business continued to expand (+6.3%). The best performances were those of bank and post office branches, which grew by 21.7% thus accounting for 11.3% of the market, and of direct sales, with growth of 16.5% and a market share of 7.7%. Also growing (+4.1%), but more slowly than the sector average, was the business of agents, whose market share dropped from 67.8% in 2018 to 66.4% in 2019.

Table 6
Breakdown (%) of non-life market by class and distribution channel

CLASS	Agents	Brokers(1)	Bank branches(2)	Financial Salesmen	Direct Sales*	Direct distance sales: Telephone	Direct distance sales: Internet	TOTAL
YEAR 2019								
Motor liability	84.6	3.3	2.8	0.0	0.6	2.0	6.8	100.0
Land vehicle insurance	74.0	11.8	5.6	0.1	2.4	1.4	4.6	100.0
Total motor	82.6	4.9	3.3	0.0	0.9	1.9	6.4	100.0
Health and accident	53.6	11.8	15.3	1.0	17.0	0.5	0.8	100.0
Transport (3)	34.1	61.0	0.4	0.0	4.4	0.1	0.1	100.0
Property (4)	73.2	10.9	11.6	0.2	2.5	0.5	1.0	100.0
General liability	79.0	12.4	5.4	0.1	2.8	0.1	0.1	100.0
Credit and suretyship	72.2	19.4	4.5	0.0	4.0	0.0	0.0	100.0
Total non-motor	66.4	13.0	11.3	0.5	7.7	0.4	0.7	100.0
TOTAL NON-LIFE	74.1	9.1	7.5	0.3	4.5	1.1	3.4	100.0
YEAR 2018								
Motor liability	85.1	3.4	2.8	0.0	0.7	1.7	6.3	100.0
Land vehicle insurance	74.3	12.8	4.6	0.1	2.4	1.4	4.4	100.0
Total motor	83.1	5.1	3.1	0.0	1.0	1.6	5.9	100.0
Health and accident	56.5	12.9	13.1	0.9	15.3	0.6	0.8	100.0
Transport (3)	32.5	61.3	0.3	0.0	5.8	0.1	0.1	100.0
Property (4)	73.6	12.1	10.3	0.2	2.3	0.5	1.0	100.0
General liability	80.3	11.8	4.7	0.1	2.9	0.1	0.1	100.0
Credit and suretyship	72.8	18.0	6.1	0.0	3.1	0.0	0.0	100.0
Total non-motor	67.8	13.7	9.9	0.4	7.0	0.4	0.7	100.0
TOTAL NON-LIFE	75.3	9.5	6.6	0.2	4.1	1.0	3.3	100.0

Table 7
Change (%) in non-life premium volume by class and distribution channel 2019/2018

YEAR 2019/2018 (5)								
CLASS	Agents	Brokers(1)	Bank branches(2)	Financial Salesmen	Direct Sales*	DIRECT DISTANCE SALES: Telephone	DIRECT DISTANCE SALES: Internet	TOTAL
Motor liability	-0.6	-4.4	0.0	(...)	-23.2	-4.9	1.8	-0.8
Land vehicle insurance	4.5	-2.9	20.4	29.1	4.7	1.4	6.5	4.4
Total motor	0.2	-3.7	5.8	29.1	-11.2	-4.1	2.4	0.1
Health and accident	2.2	-1.1	25.6	15.9	19.4	-6.7	3.0	7.5
Transport (3)	8.1	2.4	31.8	50.0	-22.7	0.3	8.8	2.9
Property (4)	4.9	-4.6	18.9	17.6	11.6	-1.2	4.4	5.4
General liability	4.6	11.3	23.5	10.0	3.6	-2.2	2.5	6.2
Credit and suretyship	5.9	15.0	-21.5	(...)	39.7	(...)	(...)	6.9
Total non-motor	4.1	0.5	21.7	15.9	16.5	-3.8	3.8	6.3
TOTAL NON-LIFE	2.0	-0.6	18.0	16.6	13.1	-4.0	2.6	3.2

(*) Pursuant to Article 107-bis, paragraph 1 of Legislative Decree 68/2018, the activity of insurance distribution may be exercised directly by the undertaking through: a) headquarters and tied agencies, i.e. subsidiary or business agencies directly tied to the insurance undertaking, which perform marketing functions with offices open to the public; b) accessory market participants registered in section F of the Single Register of Intermediaries who act with the insurance undertaking's mandate; c) direct producers registered in Section C of the Single Register of Intermediaries who deal in insurance distribution in the life, non-life and health insurance business.
(1) Brokers' contribution over the years does not include the share of premiums generated through this channel with presentations via agencies and not directly to the company (estimated at 20.9 percentage points in 2019).
(2) Data for this channel includes premiums distributes by post office branches.
(3) The class of transport insurance includes: railway rolling stock; aircraft, ships, goods in transit, and aircraft and marine third party liability.
(4) The Property class comprises: fire and natural forces, other damage to property, miscellaneous financial loss, legal expenses, and assistance.
(5) Changes (%) are calculated on a homogeneous basis in terms of companies covered.

THE IMPACT OF COVID-19 ON INSURANCE DISTRIBUTION

The industry's effort to curb the spread of the virus and manage the repercussions on the business with remote working and extraordinary measures for clients and employees

The Covid-19 epidemic has resulted in an unprecedented emergency that calls for the implementation of extraordinary measures throughout the economy, including the insurance industry.

The first action was taken on 24 February 2020, a few days after the Decree of the President of the Council of Ministers (DPCM) that established the red zones: ANIA announced the creation of a coordination unit, in close cooperation with its member companies and IVASS, to monitor the situation and design the best measures to guarantee insurance services.

Unfortunately, the attempt to contain the outbreak of the coronavirus by establishing a red zone in the municipalities of Bertonico, Casalpusterlengo, Castelgerundo, Castiglione D'Adda, Codogno, Fombio, Maleo, San Fiorano, Somaglia, Terranova dei Passerini and Vo' failed, and the virus spread across the peninsula. Italy became one huge red zone.

On 24 March, ANIA published a Note announcing a Memorandum of Understanding with the Trade Unions First-Cisl, Fisac-Cgil, Fna, Snfia and Uilca to prevent, curb and contain the spread of the virus in work environments in the insurance industry.

The document emphasizes the adoption of precautionary social distancing measures, promoting and encouraging remote working to the maximum extent possible and addressing with the greatest flexibility and helpfulness the inconvenience to the families of insurance workers as a result of the lockdown of schools and the progressive restrictions imposed by the authorities as the pandemic intensified.

In tune with this initiative, on 1 April the Association published the ANIA Guidelines on agency network practices to provide insurance services. The initiative forms part of the measures adopted by the insurance industry to protect all market operators who, while guaranteeing the provision of services to the general public, must also protect employees and collaborators with measures to prevent, combat and contain the spread of the Covid-19 virus at the workplace.

The document is structured in five points regarding different aspects of work and rules of conduct for agency points of sale: from rules on how to enter the premises – which apply to suppliers and clients as well as agency personnel – and perform the assigned tasks and use any common areas, to measures to sanitize the space and protocols to be implemented should any member of the personnel or any person that stayed on the premises test positive for the virus.

Following the adoption on 24 April of the new Protocol by the Ministry of Labor and Social Policies on the measures to combat and contain the spread of the Covid-19 virus at the workplace published in preparation for "Phase 2," ANIA supplemented its Guidelines on the provision of insurance services by the agency network.

In particular, the update of 8 May focused on the section regarding the modality in which to perform the services outside the office in full compliance at all times with the safety measures for social distancing, correct use of public transport, personal hygiene and health protection. As a reference, the "Technical Document on possible remodulation of measures to contain the infection at the workplace and on prevention strategies" published by INPS, which identifies the indexes to assess the risk of infection by business sector, was annexed to the Guidelines.

Concomitantly with these initiatives, the Supervisory Authorities have also intervened to mitigate the impact of the operational costs arising from the implementation of the regulatory provisions.

On 17 March IVASS approved a series of extraordinary measures to support intermediaries and insurance companies in their business. By way of derogation to the provisions of Regulation 40/2018, IVASS established that the end-of-course tests for intermediaries' professional training courses may be taken remotely. The deadline for adoption of "home insurance" was pushed back from 1 May to 1 July 2020, while the deadlines for the report on claims and the report on distribution networks were postponed to 29 March. A week later, in line with the provisions of the so-called "Cure Italy" Decree, IVASS suspended all administrative proceedings within its jurisdiction scheduled between 23 February and 24 April.

Concomitantly with the first actions taken by IVASS, the European supervisory authority, EIOPA, called upon National supervisors to adopt a flexible approach in the reporting and disclosure of supervisory activities.

EIOPA assured that requests for information will be limited to a strict indispensable minimum and that it is ready to use all the regulatory tools available to mitigate the risks and possible consequences for the industry, in conjunction with the national authorities. One of the first actions was to postpone the deadline for the holistic impact assessment of the Solvency II review to 1 June 2020.

In this emergency period, the insurance market too adopted initial measures, starting with provisions for remote working, a solution that is strongly supported by the Government to prevent the risk of infection.

In practice, all insurance companies authorize their employees to work remotely, with the exception of a few employees physically present at the office by turns. In some cases, the initiative was extended to distribution networks.

Other initiatives were also adopted to protect the workforce, extending to all employees insurance packages that include guarantees specifically associated with the coronavirus, and access to certain healthcare services, such as medical and psychological consultation. Also in this case, the initiatives initially designed to provide further support to employees were in most cases extended also to the distribution facilities, in particular to agencies and their employees and collaborators.

Another set of measures focused on strengthening ITC equipment, to allow employees to keep in contact with the distribution networks remotely, and allow the latter to interact with their clients with simpler and more streamlined procedures that, notwithstanding initial concerns over possible disintermediation, guaranteed the continued assistance that the clients needed, without forcing them to go physically to the agency's premises.

The emergency necessitated extraordinary measures directed to intermediaries. To this end, many insurance companies undertook a series of initiatives to financially support the distribution network: early payment of commission bonuses, postponement of accounts payable, suspension of rents due, extraordinary funding. These are only some of the measures that insurance companies have taken to support their intermediaries. The initiatives were implemented in full and legitimate autonomy by the companies individually to relieve the economic and financial pressure, and alleviate the inevitable social repercussions.

ANIA has been monitoring the various provisions that the Government has been issuing on a constant basis to tackle the Covid-19 emergency, and in particular their impact on the insurance industry. To this end, ANIA has produced a study on unemployment benefits and how they are implemented with regard to all types of worker in the distribution networks.

However, the greatest challenge will certainly be relaunching the national economy and resuming all production activities, with insurance companies playing a crucial role in supporting the development of the real economy and the initiatives on which Italy's recovery hinges. To this purpose, ANIA has created a series of working groups with its members, focusing on specific issues related to the resumption of business, with the objective of producing concrete proposals to governmental institutions.

AGENTS' PENSION FUND

Renewal of the corporate bodies

The corporate bodies of the Agents' Pension Fund were renewed during the past financial year. The ordinary Delegates Meeting elected the members of the Board of Directors (BoD) and of the Board of Statutory Auditors in separate elections for the representatives of enrollees and the representatives of the companies. The 6 members of the BoD and the 4 Auditors were confirmed.

Activity of the Board of Directors

During the past financial year, the BoD continued its policy of strengthening the organizational and control structure, approving the Document on Corporate Governance Policies and, after careful screening, entrusting the Internal Audit Function to a leading consulting company.

The selection of the Internal Audit Function and the approval of the Document on Corporate Governance Policies – although drawn up pending the issuance by the COVIP of the implementing provisions of Legislative Decree 147/2018 and, therefore, subject to amendment when the provisions enter into force – marked the conclusion of the Fund's assessment activity, thus successfully strengthening the structure and improving its organization to make it increasingly more efficient and better suited to market best practices and industry legislation.

Appointment of the new General Manager

Following the resignation of Sandro Bianchini upon reaching retirement age, after having served as the Fund's General Manager since 2001, the BoD appointed Marco Guglielmi, head of the Finance Department and an employee of the Fund since 1997, as the new General Manager, effective 1 July 2019.

Referendum for the election of the Enrollee Delegates to the Meeting for the five-year period 2020-2025

With a resolution adopted on 29 October 2019, and in compliance with the electoral rules currently in force, the BoD called the Referendum for the election of the enrollees' delegates to the Delegates Meeting for the period 2020-2025, while at the same time inviting ANIA to appoint its representatives. At the Executive Committee's meeting of 19 November 2019, ANIA appointed the delegates of the companies at the Agents' Pension Fund Meeting.

Technical Financial Statements as at 31 December 2019

As of 31 December 2019 the Technical Financial Statements showed an overall surplus of €159.82 million, despite having to hold supplementary assets for 4% of the technical provisions (as per Article 5 of Ministerial Decree 259/2012). The technical surplus is chiefly attributable to the **return on financial assets**, which in 2019 was again higher than the 3.50% interest rate applied to the assessments as at 31 December 2018 (**9.26% for ordinary operations and 9.07% for supplementary operations**).

Website and Apps

The year 2019 confirmed the success of the BoD's choice to invest in communication with enrollees by consolidating and improving the web-based platform www.fonage.it and the FONAGE FPA MOBILE app for smartphones and tablets. The website will integrate the new CHATBOT Artificial Intelligence system (virtual assistant) to provide assistance and reply to questions in a completely automated way.

Both the website and the app have a reserved area where enrollees can consult their individual contribution position and make estimates of their future benefit entitlements, and retirees can check their pension position and the size of their bimonthly pension installments. Moreover, both retirees and those who have redeemed their contribution position can download every year the new earned income certificate directly from the website.

Enrollees

Between 1 January and 31 December 2019 there were **311 new enrollments**, 50 more than the previous year (152 agents who started their activity in 2019 and 159 with seniority of service who took advantage of the possibility of enrolling without paying the charge for the years of agency activity prior to their enrollment) plus **46 enrollments of agents who had stopped paying their contributions**.

In 2019, **434 paying enrollees left the fund** (of whom 34 suspensions or annulments, 200 cancellations and 200 retirees).

As of 31 December 2019, **contributing enrollees** numbered **12,053**, of whom 11,983 were agents in activity; another 59 were agents of retirement age who voluntarily continue contributing or contributing retirees. Among the 12,042 non-retired enrollees, 9,494 are men and 2,548 are women.

Retirees

As of 31 December 2019 **pensions paid** numbered 11,402 in total, of which 262 authorized and awarded during the year.

Contribution

As is well-known, pursuant to the Fund Rule-Bylaws, ordinary contribution accounts (consisting of a base contribution plus an equal amount in supplementary contributions) are revalued annually by the Board of Directors, based on the change in the cost of living as calculated by the national Consumer Price Indices for the households of blue-collar and white-collar workers calculated by ISTAT, up to a yearly ceiling of 4%.

In 2019, annual ordinary contributions amounted to **€2,756** per capita, €1,378 paid by the company and €1,378 by the agent.

These figures are unchanged for 2020.

In addition to annual ordinary contributions, there are supplementary contributions paid under Article 7, para. IV(c) – of the Bylaws, which amount to a minimum of **€310** (€155 from the company and €155 from the agent) and which can be increased with no ceiling, at the discretion of and charged solely to the agent.

Contributions for operating expenses

In 2019, charges for operating expenses amounted to **€154** per capita, divided equally between company and agent (**€77** each), or €12 per year for direct retirees. For 2020, the Board of Directors has decided to maintain the amount of charges for operating expenses to be paid by enrollees and retirees unchanged.

IVASS REGULATION 1/2019 ENACTING PROVISIONS ON THE REQUIREMENTS FOR INSURANCE PRODUCT OVERSIGHT GOVERNANCE

The IVASS Regulation introduces new provisions on Product Oversight Governance (POG) aimed at enhancing the effectiveness of national and European legislation and bringing regulatory provisions into line with the new regulatory framework, with specific reference to insurance investment products.

The requirements for product oversight governance applicable to insurance companies and intermediaries are laid down in Delegated Regulation EU 2017/2358 which regulates in particular:

- the product approval process, identification of the target market, product testing, product monitoring and review, distribution channel selection;
- product distribution arrangements and information on the distribution activity that the distributor is required to provide to the manufacturer.

The EU regulatory framework is completed – at national level – by rules cited in the Private Insurance Code, adequately supplemented for the implementation of the IDD directive.

Pursuant to Article 30-*decies*, in particular, insurance companies and intermediaries that manufacture insurance products must:

- design and institute a product approval process for each insurance product or significant adaptation of an existing product, before it is marketed or distributed to customers;

- identify, for each insurance product, the target market and the group of compatible customers (so-called positive target), as well as the groups of customers for whom the insurance product is not compatible (so-called negative target);
- adopt all reasonable measures to ensure that the insurance product is distributed to the identified target market;
- make available to distributors all appropriate information on the insurance product and the product approval process, including the target market identified.

Finally, article 30-*decies* of the Private Insurance Code entrusts IVASS with the authority to adopt the relevant implementing provisions, upon consultation with CONSOB.

Accordingly, in line with the regulatory framework of the Private Insurance Code, and in accordance with the provisions of the POG Delegated Regulation, the text governs:

- the insurance product approval process, laying down specific obligations on the producer, who is called on in particular to identify in sufficient detail the target market for the insurance product and the negative target market of categories of persons to whom it cannot be distributed, while undertaking suitable actions to make sure the product is distributed to the target market;
- insurance product distribution, by graduating – in accordance with the proportionality principle – the obligations of intermediaries registered in the various sections of the Single Register of Intermediaries involved in distribution;
- insurance-based investment products, laying down specific provisions for the distribution and approval processes involving those products.

IVASS REGULATION 2/2019 AMENDING INSURANCE DISTRIBUTION PROVISIONS

The Regulation is intended to streamline and simplify the obligations for operators and enhance protections for policyholders, by amending and supplementing the regulations issued by the Supervisory Authority and introducing new provisions on the distribution of insurance-based investment products.

This regulatory intervention regulates the placement of insurance-based investment products (IBIPs) through the distribution channels subject to IVASS supervision. The new regulatory provisions are inspired by Delegated Regulation EU 2017/2359 on the distribution of insurance-based investment products, and by Delegated Regulation EU 2017/565 supplementing the MiFID II Directive.

In essence, the amendments serve to simplify the content of the explanatory note to policyholders, rationalize the manner in which pre-contractual documents are submitted, and enhance consumer protection by introducing a new document assessing policyholders' requests and needs, by which the distributor attests that the product meets the policyholder's needs and requests and explains how.

In addition, specific rules have been adopted on the cross-selling of insurance products together with ancillary products/services other than insurance.

However, the main changes – those that will have the strongest impact on the distributors' activity – involve the rules of conduct for IBIP distribution. In particular, the sale of insurance-based investment products through mandatory consultancy requires distributors to refrain from formulating any offers should they believe that the product is not compatible with, or suitable for, the insurance requests and needs of the policyholder, or should the distributor fail to obtain from the latter the information requested to that end.

Also of primary importance, the new rules on **inducements**, adopted in accordance with MiFID II-related legislation and regulations, identify the requirements for allowing payment of the inducements to intermediaries and insurance companies, such as **enhancement of the quality** of insurance distribution and absence of any form of conduct detrimental to customers' interests.

CONSOB'S CONSULTATION PAPER: PROPOSED AMENDMENT TO THE INTERMEDIARIES REGULATION ON INFORMATION REQUIREMENTS AND RULES OF CONDUCT FOR INSURANCE-BASED INVESTMENT PRODUCTS (IBIPs)

The consultation paper with the amendments to the Intermediaries Regulation is intended to lay down rules for the addressees as closely aligned as possible with the applicable legislation on the provision of investment services and activities arising from the MiFID II directive, taking into account the minimum harmonization principle of the IDD.

The decision to transpose the IDD provisions based on the principles of the MiFID II directive guarantees investors a level of protection in line with that provided within the framework of the provision of investment services and activities. Moreover, this approach takes account of the intermediaries' need to operate through processes that are as standardized as possible, thus minimizing the costs and expenses for compliance with the legislation in course of issue.

The amendment proposals concern the rules of conduct and information requirements with which authorized insurance distributors must comply when distributing IBIPs.

In particular:

- with regard to **mandatory consultancy**, the obligation to provide advice on the distribution of IBIPs that fit the definition of "complex" products;
- with regard to **inducements**, the possibility that they be admissible only if they enhance the quality of the insurance distribution activity without prejudice to the intermediary's duty to act in the customer's interest;
- with regard to **Product Oversight Governance** for IBIPs, authorized insurance distributors are required to identify a positive and a negative target market, without prejudice to the ban on distributing insurance-based investment products to customers belonging to the **negative target market**.

In addition, the distributor is allowed to provide those products to customers not belonging to the pre-set target market, provided that the IBIPs meet the insurance needs and requests of those customers and are suitable for them (consultancy regime) or compatible with them (mere placement regime).

LEGISLATIVE DECREE 165/2019: ADDITIONS AND CORRECTIVES TO DECREE 129/2017 IMPLEMENTING THE MIFID II DIRECTIVE

Following final approval by the Council of Ministers, Legislative Decree 165 of 25 November 2019 was issued, enacting provisions supplementing and correcting Legislative Decree 129 of 3 August 2017 implementing Directive 2014/65/EU (MiFID II) which in turn amended the Consolidated Law on Finance (TUF).

This legislative intervention includes numerous amendments to the TUF and an amendment to Article 121-*quater* of the Private Insurance Code, in addition to transitional and final provisions, to simplify, where possible, the burden of compliance for supervised entities. Here below is a summary of the most significant novelties for the insurance industry.

Article 1 of the Legislative Decree, amending some of the provisions in Part I of the TUF, abrogates the obligation for manufacturers or distributors of packaged retail insurance-based investment product (PRIIPs) to transmit the key information document (KID) to CONSOB beforehand. As a consequence, all the related administrative sanctions are also abrogated. In order to provide continuity with the CONSOB's supervisory activity, a transitional regime was instituted to make the entry into effect of the abrogations conditional on the adoption of CONSOB's regulatory provisions, which shall identify "ways to access key information documents before the PRIIPs are marketed in Italy".

Article 2 of the Decree, amending some of the provisions contained in Part II of the TUF, broadens the Supervisory Authority's powers of supervision and of keeping of the Single Register of Intermediaries. In particular, the Supervisory

Authority is charged with supervising financial salesmen registered in section E of the Register for the distribution of insurance-based investment products on behalf of authorized insurance distributors (banks, investment firms, Poste Italiane, other financial intermediaries).

Article 5, amending some of the provisions contained in Part V of the TUF, establishes that the sanctions laid down in the TUF are applicable by CONSOB against authorized insurance distributors (banks, investment firms, Poste Italiane, other financial intermediaries) whenever they violate the provisions issued by CONSOB itself but also when they violate the Private Insurance Code or directly applicable EU legislation.

9

THE CONDUCT OF INSURANCE BUSINESS

SOLVENCY II

THE 2020 SOLVENCY II REVIEW: THE STATE OF THE ART

The second phase of the review of the Solvency II regulations, “Review 2020”, was launched in February 2019 with the European Commission’s formal Call for Advice to EIOPA, focusing on countercyclical measures and long-term guarantees. On 15 October 2019 EIOPA issued its Opinion, which was followed by the usual public consultations, concluded 15 January 2020.

At the same time as the start of the consultation, EIOPA issued – through national supervisory authorities – a first data call for information on the presumed impact of the various options proposed in the consultation paper with specific regard to certain measures, including the volatility adjustment (VA), long term equity (LTE) and the interest rate risk module (IRR). The data call ran from 16 October to 6 December.

After examining the results submitted, on 2 March 2020 EIOPA began the second phase of the data call, the holistic impact assessment (HIA), asking insurers to test a single “stress scenario” with the various options selected at the end of the first consultation phase. The deadline for submission of the data to the national supervisory authorities, originally set for 31 March, was postponed to 1 June as a consequence of the Covid-19 emergency.

To enable both EIOPA and the Commission to factor in the impact of the extraordinary conditions produced by the emergency, EIOPA issued a further data call from July to mid-September (with data as at 30 June), in order to supplement the information received from the HIA. Lastly, the deadline for EIOPA’s submission to the Commission of its final technical Opinion for Review 2020 was deferred from 30 June to 31 December.

ANIA, with the support of a consulting firm, conducted the collection, aggregation and synthesis of the results of both the first data call and the HIA, to produce evidence to back its case before the supervisory authority, institutions, and other stakeholders involved in the review process.

CONSULTATION PAPER ON THE OPINION ON THE 2020 REVIEW OF SOLVENCY II: THE ITALIAN RESPONSE

As in the first Solvency II review phase (Review 2018), ANIA worked in various ambits, with direct, regular contact with IVASS and the other national and international stakeholders, responding to the consultation paper both directly in the form of ANIA’s own “position paper” reflecting, in detail, the position of the Italian insurance industry and also via Insurance Europe, the EU insurers’ federation.

With the contribution of the Review 2020 working group, which analyzed and assessed the themes subjected to the Review, ANIA developed Italy's response focusing on five main themes:

i. Volatility adjustment: we reasserted the necessity for a revision, pointing out the inadequacy of some of the options proposed by EIOPA and suggesting an approach that could resolve the main problems.
ii. Interest rate risk module: we proposed introducing a floor (allowing realistic reflection of negative rates) in EIOPA's desired formula for calculating the capital requirement, as well as recalibrating the correlation matrix with reference to the parameters of spread risk and interest rate risk (so as to better reflect a scenario with negative interest rates).
iii. Equity risk: we stressed the need to relax the conditions for application of the long term equity risk module.
iv. Technical reserves: we pointed out several major problems, including the necessity for revision of the methodology for determining the risk margin, which in our view is excessively conservative.
v. Matching adjustment: we took this opportunity to reaffirm the need to relax the conditions for application of this measure.

FOCUS: VOLATILITY ADJUSTMENT

Already in Review 2020 ANIA set out a series of possible solutions – both in the short term and with a view to the 2020-21 review. However, the Commission did not agree to them and instead confirmed its intention to deal with the volatility adjustment(1) as part of Review 2020, while developing a temporary solution of lowering the absolute threshold for activation of the national VA component (the "country add-on") from 100 to 85 basis points.

The amendment, introduced by Article 77d of the Solvency II Directive, was published in the *Official Journal of the European Union* on 27 December 2019 and transposed into Italian law by Decree Law 18/2020 of 17 March (measures to strengthen the National Health Service and support the economy in the Covid-19 emergency), applying for the 2020 financial year.

---

(1) The volatility adjustment is an optional correction to the risk-free interest rate curve used to calculate a company's technical reserves, structured in such a way as to absorb the impact of artificial short-term volatility on own funds and the solvency ratio, due mainly to sharp swings in the bond markets, and thereby to diminish the risk of forced asset sales. The volatility adjustment is calculated on the basis of the yield spread on the insurance companies' average portfolios, aggregated both by currency (the currency spread) and by country (the country spread).

Lowering the threshold would improve the continuity of activation of the country add-on, which would be more consistent with the purpose of the instrument than is now the case, but it would not be a definitive solution to the fundamental problems with this mechanism. The exceptional circumstances of March and April with the Covid-19 pandemic have only thrown these shortcomings into sharper relief.

ANIA's simulations show that notwithstanding the rise in the VA for Italian government bonds in the first half of March, the Italian country add-on would have been activated only on 12 and 13 March, with respective values of 32 bps (28 + 4) and 38 bps (23 + 15) – Figure 1. The simultaneous rise in the yields on European corporate bonds in addition to that on Italian government securities wiped out, de facto, the value of the country add-on, hence the benefit of the amendment (Figure 2).

In its call for advice, the Commission asked EIOPA to assess two possible approaches to revising the VA framework: one based on the notion of illiquidity of liabilities and representative portfolios, the other on cash-flow matching and entity-specific portfolios.

Figure 1
Volatility adjustment for Italian insurers (basis points)

Sources: Based on EIOPA and Refinitiv data.
*VA currency = 65% * risk-corrected currency spread;*
*country add-on = max [65% *(risk-corrected country spread – 2*risk-corrected corrected currency spread; 0]*

Figure 2
Spreads (basis points)

Absolute threshold
BTP-Bund spread (10-yr.)
Risk-corrected country spread (Italy)
Risk-corrected currency spread

Sources: Based on EIOPA and Refinitiv data.
N.B. The country add-on is activated only if the risk-corrected country spread (dark blue line) is at least twice the risk-corrected currency spread (gray line).

Of the eight options posted for consultation in October 2019, ANIA initially gave a positive assessment of two solutions: i) one entity-specific (albeit not EIOPA's formulation of it), which means valuing the spreads used to calculate the VA not for "average" portfolios but for the actual portfolio of each company; and ii) "Option 7," i.e. the recalibration of the thresholds for activation of the country add-on.

The consultation and follow-up impact assessments led EIOPA to select the latter (with some modifications) as the option to test in the Holistic Impact Assessment exercise, which insurers conducted from March to June 2020.

In the option tested, calculation of the VA retains practically the present formulation but the parameters for activation of the country add-on are revised as follows:

- lowering the multiplier in calculating the country add-on to 1.3;
- replacing the absolute threshold (currently 85 bps) with a gradual activation mechanism starting at 60 bps.

The additional changes to the formula for VA calculation tested in the HIA are:

- raising the General Application Ratio from 65% to 85%;

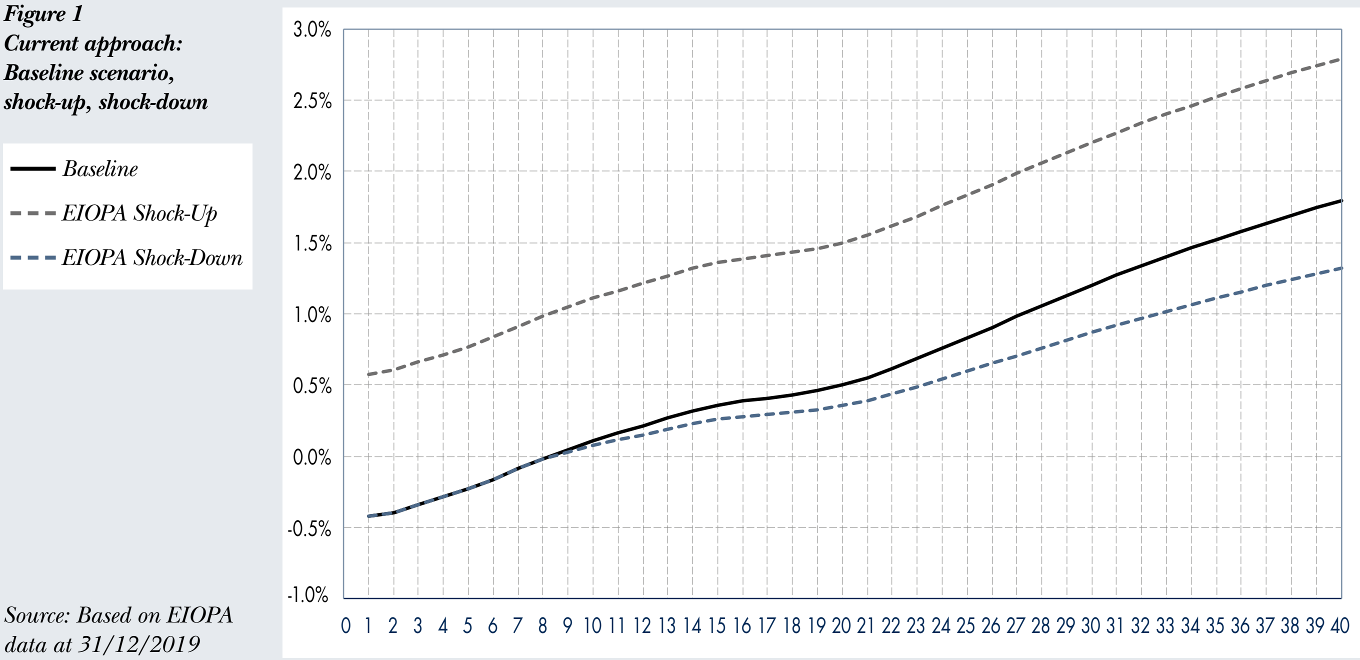
– introducing a new application ratio (AR4) based on the characteristics of duration mismatch of the insurer's fixed-return assets and another application ratio (AR5) based on the characteristics of liability illiquidity;
– modification of the risk correction formula.

In ANIA's opinion, by eliminating some remaining problems this option can attain the objective of increasing the size and timeliness of activation of the country add-on, as well as making it more predictable. ANIA is participating in discussions in various European forums on the development of a package of reforms to the regulatory framework, to be implemented very quickly, if necessary. One of the gauges currently under consideration is the volatility adjustment.

FOCUS: INTEREST RATE RISK MODULE

One of the main themes of the 2020 Solvency II review, namely the modification of the calibration of the interest rate risk sub-module, will have a major impact on insurance companies' capital requirements. Solvency II provides that the requirement be calculated comprising not only the single risks of the insurer's specific business (life, non-life, health) but also market risks. These risks are then aggregated via specific correlation matrices; the value so obtained in relation to the company's own funds gives the solvency ratio.

Figure 1
Current approach: Baseline scenario, shock-up, shock-down



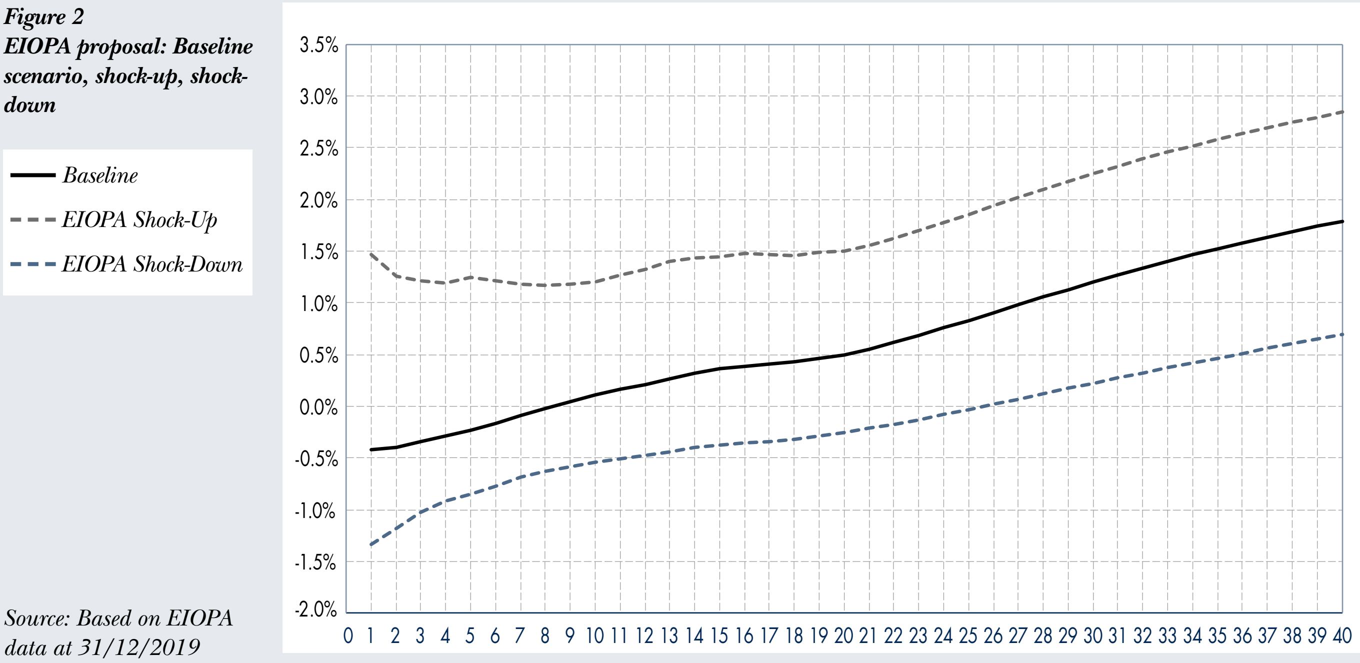
Source: Based on EIOPA data at 31/12/2019

One of these risks is interest rate risk, which measures the sensitivity of a company's assets and liabilities to changes in the maturity structure of interest rates. The requirement is derived as the greater between the loss of own funds stemming from a rise in the reference interest rates (for balance-sheet purposes) and that stemming from a decline in rates. The current method of calculation (the relative approach) constructs two stress scenarios: shock-up, or an upward shift of at least 100 basis points in the risk-free interest rate curve, and shock-down, which for negative rates is 0 (Figure 1).

During the first phase (Review 2018), EIOPA issued a consultation paper on a proposed modification of this calibration, motivating it by reference to the protracted situation of negative interest rates and the need to model this scenario, absent in the current shock-down scenario. EIOPA proposes recalibrating the stress parameters on the basis of the latest data and modifying the formulas for calculating the curves, so as to reflect negative shocks even in the shock-down scenario.

The new calibration (the "relative shifted" approach) would alter the "up" and "down" curves above all for short durations.

Figure 2
EIOPA proposal: Baseline scenario, shock-up, shock-down



Source: Based on EIOPA data at 31/12/2019

The insurance industry succeeded in getting this proposal deferred to the next phase (Review 2020), mainly owing to the absence, on EIOPA's part, of any impact assessment permitting evaluation of the effects. For instance, EIOPA posits a decline in rates to levels never observed historically and, in the insurance industry's view, not economically justifiable. Furthermore, the proposed methodology fails to take account of the peculiarity of insurance business, and in particular of the adaptation of investment strategies that insurers would carry out consequent to a continued slide in interest rates (say, by shifting their portfolio allocation towards cash or real estate, assets that are less sensitive to interest rate variations).

In this framework, a realistic model is set out in the guidelines of the European Banking Authority,[2] which envisage – in the shock-down scenario – a floor equal to -100 basis points for the nearest maturities, and rising gradually by 5 bp a year to reach 0% at 20 years. That is, if modification of the prudential regulations to reflect the existence of negative rates can be deemed inevitable, it is equally necessary that these changes reflect hypotheses under which markets can work efficiently.

ANIA'S INITIATIVE ON SOLVENCY II BALANCE SHEETS

The new Solvency II supervisory regime introduces the requirement for an annual Solvency and Financial Condition Report (SFCR), which contains a mass of information on technical results, governance, the internal control system and capital management of insurance companies and insurance and reinsurance groups.

In 2016 ANIA undertook a two-year project to support insurers, initially, among other things, with an online Forum for drafting the initial SFCR and analysis of the qualitative information and quantitative data in the reports, so as to highlight elements of difference and best practices. In view of the importance of this initiative, ANIA SAFE has decided to renew the project for the next two years as well, covering the balance sheets for 2018 and 2019.

The analysis released in November 2019 refers to the data at 31 December 2018 for a sample of 93 Italian insurance companies accounting for 99% of the national insurance market in terms of premiums, comprising both individual policies and those included in "single" policy relationships. In addition, the study covers the 17 Italian insurance groups and the 40 leading European groups.

By comparison with the first two years, the analysis has now been further extended, both for solo insurers and for groups, in order to reflect the interventions of the Italian supervisory authority with the entry into force of IVASS Regulation 38/2018 and its market letter of 5 July 2018 on application of the proportionality principle.

This being the third year, comparative analysis with the data at the end of 2016 and 2017 is possible. One trend that has emerged is insurers' increasing maturity as regards Solvency II disclosures. This is confirmed by the improvement in the depth, timeliness and consistency of the data in the Reports with respect to the regulators' expectations.

---

[2] EBA, *Guidelines on the management of interest rate risk arising from non-trading-book activities,* July 2018

Quantitatively, in 2018 the Italian market saw a decline in the solvency ratio, i.e. the ratio of eligible own funds to the solvency capital requirement (SCR), which fell by 19 percentage points to 222%. The average ratio in Italy is higher than in the UK (153%), the Netherlands (196%) and Belgium (219%) and slightly lower than in France and Spain. Among the main countries, Germany continues to rank first with a solvency ratio of 349%.

As for the risk modules that determine the overall requirement, the most significant continues to be market risk, whose weight in the Basic SCR was practically unchanged on the year at 79%. While the benefit of diversification among modules increased by 2 percentage points (-23%), there was a lesser effect of the adjustments for the loss-absorption capacity of technical provisions and deferred taxes, with a joint impact of 27% compared with 30% in 2017.

The number of insurers utilizing the volatility adjustment came down from 66 to 64, with a solvency ratio benefit averaging 20 percentage points. In addition to the VA, one insurer also applied, for the first time, the transitional measures on technical provisions, as IVASS provides.(3)

Total assets in the Market Value Balance Sheet amounted to over €909 billion (-€21 billion compared with 2017); financial investment accounted for 76% of this (virtually unchanged on the year), while government securities amounted to €361 billion, a decrease of €9 billion.

Italian insurance groups too showed a decline in the market-wide solvency ratio, albeit a more moderate one, to 207% at 31 December 2018 from 211% a year earlier.

The main European insurance groups, in general, made greater use of the transitional measures and the matching adjustment, with variable impact on their solvency ratios.

One innovation this year was an online platform for access to the data contained in the individual SFCRs for the Italian market and the sample of European groups. The platform enables users to create personalized benchmarks and export information, data, and pre-set graphs.

The analyses described above will be replicated also for the SFCRs based on the data at 31 December 2019, possibly with special inquiry into qualitative data in the light of possibly important developments such as the Covid-19 pandemic. On this latter aspect, in order to facilitate insurers in difficulty, on 30 March 2020 IVASS granted postponements of some deadlines for Solvency II reporting, as indicated in EIOPA's recommendations of 20 March. An eight-week extension of the deadline for the SFCR was granted, both for solo and for group Reports, with the exception of some numerical data, for which the postponement was for just two weeks.

(3) IVASS Clarification of 31 October 2018 on application of the provisions referred to in Article 344-*decies* of Legislative Decree 209 of 7 September 2005 on transitional measures on technical reserves.

CONSULTATION ON SUPERVISORY REPORTING AND PUBLIC DISCLOSURE

As part of Review 2020, EIOPA has reviewed the adequacy of the reporting and disclosure requirements laid down by Solvency II, with a view to risk-based thresholds and proportionality. The consultation was conducted in three phases. The first, opening in July and closed in October 2019, bore on such topics as general matters relating to supervisory reporting and public disclosure, individual quantitative reporting templates (QRTs), and the Solvency and Financial Condition Reports.

The European insurance industry's position in the consultation was for a reduction in the number of QRTs required, simplification of the SFCR, and no change to existing QRTs.

In October, EIOPA launched the second phase of the consultation (included in its more general Opinion on all the topics of Review 2020), which centered on groups' reporting and regular supervisory reporting (RSR) and was scheduled to close in January 2020. EIOPA called for modifying the structure and content of RSR and set out possible new contents in a special section of the consultation paper. It also proposed modifications of the group SFCR similar to that requested in the first consultation phase for the solo SFCR, including the requirement of outside auditing.

The industry welcomed EIOPA's intention to revise the structure and content of regular supervisory reporting, but disagreed with EIOPA's opinion that its frequency be determined at the discretion of national supervisory authorities and with its rejection of the idea of having a single group RSR. As to QRTs, the industry endorsed the proposal to allow individual companies to benefit from exemption of the group reporting requirement without the condition – laid down in current rules – that all the individual insurance companies belonging to the group be exempt. In general, as affirmed in the response to the first phase, the industry continued to maintain the need for broader application of the proportionality principle in reporting.

Lastly, on 5 February 2020 EIOPA initiated the third and final phase of the consultation (closed on 1 June), which bears on technical implementing measures. The aim is improved efficiency and efficacy of the reporting and disclosure framework, hence cost savings.

OTHER EIOPA CONSULTATONS AT A GLANCE

EIOPA consultation paper on methodological principles of insurance stress testing

In December 2019 EIOPA published the final version of its discussion paper on methodological principles of insurance stress testing, representing the outcome of the consultation on the theme conducted between July and October. The issues treated in the document are: *i*) objectives and process of stress testing; *ii*) scope; *iii*) scenario design; *iv*) specification of shocks; *v*) data collection and validation.

On 24 June 2020 EIOPA published a supplementary paper on specific topics relating to stress tests, such as assessment of liquidity conditions in adverse scenarios, assessment of resilience to physical and transition risks deriving from climate change, and possible approaches to multi-period stress tests.

EIOPA discussion paper on IBOR transitions

On 6 February 2020 EIOPA released its discussion paper on the transition from IBOR to the new reference interest rates, as envisaged in the new EU Benchmark Regulation (EU BMR 2016/1011), in effect as of 1 January 2018. The Regulation enacts measures concerning the indices to use as reference for financial instruments; in particular, it specifies termination of some indices, including the Euro Over-Night Index Average (EONIA) for the euro area. The Regulation will affect the valuation of liabilities, assets and derivative instruments, as well as the structure of a good number of financial and insurance products. The paper focuses on the impact of the transition on the calculation of the risk-free interest rate curve used to value insurance technical reserves.

COVID-19: MEASURES FOR SUPERVISORY FLEXIBILITY

European measures

On 20 March, in response to the Covid-19 pandemic, EIOPA issued a series of Recommendations to mitigate the impact on the insurance industry. EIOPA also decided to postpone the closure of the Holistic Impact Assessment exercise within the framework of Review 2020 (which began on 2 March), from 31 March to 1 June 2020.

In April EIOPA announced additional measures in relation to the Covid-19 emergency, including:

- postponement or extension of deadlines on consultation papers and requests on the part of the Authority;
- postponement of the technical advice relating to Review 2020, from 30 June to 31 December 2020;
- additional Impact Assessment to be conducted between 1 July and 14 September, supplementing the HIA closed in June.

National measures

In keeping with EIOPA's Recommendations, on 30 March IVASS postponed the deadlines for certain Solvency II reporting requirements and also extended those for some other obligations laid down in its recommendations, circulars and market letters. In addition, the Authority instituted:

- special weekly monitoring of financial report data for a predefined set of insurance companies, to be carried out from March to July. ANIA is providing support for insurers in this exercise, by weekly calculation and transmission of the current value of the volatility adjustment and of the reference risk-free interest rate curve for the monitoring;
- monthly monitoring of liquidity trends (begun in June in coordination with EIOPA), collecting a data flow from a representative sample of insurance companies.

NEW IVASS INSTRUCTIONS ON THE TRANSITIONAL MEASURE ON TECHNICAL PROVISIONS

The extraordinary circumstances engendered by the pandemic starting in early March 2020 led ANIA to explore solutions that could benefit insurers' in terms of solvency. As a response not requiring significant legislative or regulatory intervention, at insurers' request ANIA resumed its dialogue with IVASS on the application of the transitional measure on technical provisions (TMTP), which had ended on 18 April 2019 with IVASS's release of a paper clarifying some questions of interpretation.

Following further talks with ANIA, on 28 May 2020 IVASS issued a paper supplementing and updating the "Clarification" of 31 October 2018 containing provisions on the application of the TMTP. The supplement clears up the following points:

- Risk Appetite Framework, risk management and dividend distribution: with IVASS's prior assessment and a Board of Directors resolution, a four-month grace period for the medium limits (not, however, for the lower tolerance level, i.e. the hard limit, as ANIA had asked) – calculated net of the benefit of the TMTP – defined by the company within the framework of its risk targets, as per Article 5, para. 2(e) of Regulation 38/2018.

- Periodic check on the transitional measure: the annual check will use the same calculation procedure as in the authorization phase, which means implicitly factoring into the re-calculation any excesses or shortfalls accumulated during the utilization phase.
- New requests: As to the technical-financial parameters for calculating the TMTP, those in force at the closure of the latest financial year are to be considered. However, given the emergency situation, by way of exception, only for requests to adopt the measure submitted in 2020 (or for insurers already authorized, where they have found a change in risk profile), the reference date may be 31 March 2020 rather than 31 December 2019.
- Interaction TMTP-LTG: annual monitoring serves only to make sure the portfolio run-off remains consistent with the linear amortization factor envisaged during the authorization phase; that is, it is not preliminary to automatic adjustment of the measure. Hence a change in the VA subsequent to authorization will not entail any automatic reduction in the transitional measure.

SOLO AND CONSOLIDATED ACCOUNTS

MEASURE 92 OF 19 NOVEMBER 2019: AMENDMENTS AND SUPPLEMENTS TO IVASS REGULATION 43 OF 12 FEBRUARY 2019 ON ACTIVATION OF PROVISIONS FOR TEMPORARY SUSPENSION OF CAPITAL LOSSES ON SECURITIES NOT HELD TO MATURITY

A decree of the Ministry for Economy and Finance of 15 July 2019, published in *Gazzetta Ufficiale* No. 233, 4 October 2019, extends to the 2019 financial year the temporary suspension of capital losses on securities not held to maturity as provided in Decree Law 119/2018 (urgent fiscal and financial measures), converted into Law 136 of 17 December 2018.

Accordingly, after a public consultation, IVASS issued Measure 92 of 19 November 2019, amending Regulation 43/2019, to extend to the 2019 financial year the possibility for companies not applying international accounting standards, in situations of exceptional financial market turmoil, to value securities not to be held to maturity at the cost entered in the latest approved balance sheet rather than at market price, thus suspending the capital losses on such securities and avoiding volatility due to changes in the spread. This possibility does not extend to permanent losses of value.

Consistent with previous measures, the insurers that exercise this option must set aside profits in an encumbered reserve and transmit additional data to IVASS; and they are subject to additional disclosure requirements and strengthened governance safeguards.

IFRS 17: THE STATE OF THE ART INTERNATIONALLY

In May 2017 the International Accounting Standards Board (IASB) issued its new accounting standard on insurance contracts, IFRS 17, which will apply to the accounts drawn up in conformity with the IFRS accounting standards. In view of the numerous problems with the standard as released, starting in October 2018 the IASB began assessments with a view to possible amendments. In June 2019 the Board published its exposure draft "Amendments to IFRS 17" containing a set of proposals for changes to the original text.

After closure of the consultation, in response to 122 letters of comment the IASB opened a new "Redeliberation Plan" for further inquiry focusing on several specific issues. Some of these had already been presented in the exposure draft, such as the date of entry into effect; others bore on new questions raised by the stakeholders, not originally envisaged by the IASB. For instance, the requirement for annual cohorts of contracts featuring intergenerational mutuality had not been part of the consultation, but it was taken as an additional question to deal with as part of the Plan.

After completing the additional inquiry in March, the IASB approved some changes to the standard that the insurance industry had requested repeatedly, above all the date of entry into force. In fact, the Board voted for postponement for an additional year from the date of 2022 proposed in the exposure draft. It was therefore decided that the standard will go into effect as of 1 January 2023, with an equal extension of the insurance industry's temporary exemption from application of IFRS 9.

On other questions, however, the Board opted not to amend the standard, despite stakeholders' revelation of numerous problems. At its meeting in February, the Board deliberated on one of the key issues for the Italian and European markets, namely level of aggregation. Notwithstanding the many objections reported by the industry, the IASB opted to retain, unaltered, the requirement to subdivide contracts featuring intergenerational mutuality into annual cohorts, just like all other contracts, even though it has been acknowledged that for certain types of policy the costs of the requirement could well outweigh the benefits.

The European Financial Reporting Advisory Group (EFRAG), which in the consultation on the exposure draft had already confirmed the insurance industry's position, namely that it was essential to provide for an exception to the annual-cohort requirement for such policies, in a letter dated 24 March expressed its disappointment with the Board's decision and underscored how important it is for the definitive version of the standard to resolve this problem.

On 28 April the IASB published an article, "In Brief: IFRS 17 Insurance Contrasts – why annual cohorts?" in which the Chair, Hans Hoogervorst, set out the reasons for the decision. He stressed that annual cohorts were necessary to provide information on the insurer's financial performance, and in particular on changes in profitability over time. In his words, "Any exemption from the requirement, even if aimed at the very limited population of contracts for which the costs and benefits of the requirement might be open to question, runs too great a risk of an unacceptable loss of information."

On 25 June the IASB accordingly published the amendments to Standard 17, confirming the decision taken as part of the Redeliberation Plan. And in order to allow the postponement to 2023 of the application of IFRS 9 as well, it issued a paper, "Extension of the Temporary Exemption from Applying IFRS 9". The process of European harmonization will thus get under way, involving first and foremost EFRAG, which must provide its "Endorsement Advice" to the EU Commission and then to the Commission's Accounting Regulatory Committee, composed of representatives of all EU member countries, and finally to the Parliament and the European Council.

IFRS 17: LIMITED UPDATE ON EFRAG'S CASE STUDY

Following the publication of IFRS 17 in May 2017, the European Commission, which should transpose it into European law, asked EFRAG for its opinion on the new international accounting standard. With a view to its endorsement advice, in order to gauge the effects and model the IFRS 17 requirements, in 2017 and 2018 EFRAG carried out a detailed case study on a sample of European insurance groups with the resources required to carry out a study at that level, plus a simplified case study, in order to get feedback from companies that did not take part in the detailed study.

In light of the IASB consultation in the summer of 2019 and the amendments that the Board subsequently approved in its Redeliberation Plan, on 27 January 2020 EFRAG published a limited update on the case study, updating the results of the two previous case studies and adjusting for the effect of the amendments. The insurance companies that elected to take part in the exercise were to submit their questionnaires, completed in all sections save that on costs and benefits, by 15 April. Originally that section had a deadline of 15 May, but given the operational difficulties created by the pandemic, EFRAG deferred it to 3 June. With six companies/groups taking part in the field test, Italy is the European country with the broadest representation in the study.

The findings of the case study, as EFRAG has confirmed, will serve also for the drafting of the Group's endorsement advice to the European Commission, which will be the subject of a consultation.

IFRS 9: EFRAG'S ADVICE ON ALTERNATIVE ACCOUNTING TREATMENTS FOR LONG TERM EQUITY INVESTMENTS

On 30 January 2020 EFRAG submitted to the European Commission its response to the request for technical advice on alternative accounting treatments to those laid down in IFRS 9 for long-term equity investments. The Commission had asked EGRAG, within the framework of work towards the Action Plan on Sustainable Finance, to assess alternative accounting treatments for better representation of the performance and risks of equity instruments held in business models of long-term investment.

Previously, in its advice to the Commission on European adoption of the IFRS 9 standard, EFRAG had observed that standards such as fair value through profit & loss or fair value to other comprehensive income, with no "recycling" to the profit & loss account, might not be capable, in the case of equity instruments, of correctly representing investors' conduct in the long term. EFRAG accordingly held a public consultation, closed in July 2019, working out and submitting to the Commission its technical advice.

EFRAG pointed out that in a situation in which the IFRS 9 standard had only recently been applied, or in substance not even yet adopted in the insurance industry, no data were available to determine whether the lack of recycling to the profit and loss account had an impact on investors' behavior. But it did observe that many consultation participants had stressed that there were a series of conceptual, management and strategic reasons underlying the necessity to revise this accounting treatment. The Group further noted that IFRS 9 contained no conceptual reason for disallowing recycling on the basis of the instances envisaged for exclusion from the Conceptual Framework, which had been revised subsequent to the publication of IFRS 9. Accordingly EFRAG advised the Commission to recommend that the IASB conduct a rapid review of the non-recycling requirement, in order to determine whether the current Framework could justify its re-introduction. If so, EFRAG recommended that the IASB accompany re-introduction by a robust model of impairment that comprises value adjustments.

Given this advice, the Commission notified the IASB of the necessity to review and revise the IFRS 9 non-recycling requirement for equity instruments, underscoring the importance that the revision be made prior to application of IFRS 17 and IFRS 9 to the European insurance industry.

VAT IN COINSURANCE AND MODIFICATIONS TO THE ANIA SELF-REGULATORY CODE

For over a decade now the fiscal treatment of coinsurance for purposes of value added tax has been the subject of a vast, enervating dispute with the Revenue Agency, which has strenuously defended the thesis that the commissions going to delegated coinsurers are subject to VAT, on the presupposition that they are merely providing a service to the benefit of their partner companies and not in the interest of the contracting party, and that this activity is therefore extraneous to the insurance nature of the contract.

In recent years these disputes have come before the Court of Cassation, which has handed down a number of sentences. At first the Court's interpretative approach favored the insurance companies' thesis of VAT exemption for delegated commissions, but later it came progressively more into line with the tax authorities' position in an increasing number of sentences, although these were all issued by just one of the Court's various panels.

This state of affairs induced a rethinking of the *modus operandi* governing ANIA's self-regulatory codes as regards coinsurance for the various insurance branches, in the effort to verify the feasibility of a new arrangement that more faithfully reflects the actual conduct of the business, according proper importance to the activity performed by the delegated coinsurer, which is deemed indispensable to the material management and execution of the contract.

The new contractual arrangement has two fundamental features: provision for conferring the assignment directly by the contracting party upon subscription of the policy and the possibility for the insurer so assigned to withhold in advance an increased share of the premium as one-off relief for the expected expenses of handling the contract. At contract signing the policyholder is to be properly informed that the delegated insurer will retain a larger portion of the premium than that to which coinsurers are entitled.

In response to pressing requests from members, in early 2019 ANIA submitted a request to the Revenue Agency for a legal consultation to determine the applicability of the VAT exemption for the remuneration of the company charged with the material management and execution of the policy within the framework of coinsurance contracts drafted according to this new model devised by the self-regulatory codes for the market. In its request, ANIA properly highlighted the radical difference of the new arrangement from that enshrined in the previous codes in terms of management and execution of insurance contracts under coinsurance. In particular, it emphasized that the relief for the delegated insurer is set in advance and on a one-off basis, in that upon contract stipulation the insurer can only estimate the expenses it will effectively incur.

The difference from the *modus operandi* of the old Codes is further marked by the direct conferral by the policyholder of the assignment for material management and execution of the policy.

On 29 November 2019 the Revenue Agency responded to ANIA's request for a legal consultation by recognizing the applicability of the VAT exemption for contracts structured according to the new model. In this manner there is no question that coinsurance policies in conformity with the model set out in the new self-regulatory Codes will not be subject to VAT on their remuneration, which instead will be collected and paid by the company charged, in each instance, with the material management and execution of the policy.

ANIA's Executive Committee, meeting on 17 March 2020, formally approved the new self-regulatory codes for coinsurance, which can be used in all non-life and life classes. At the same time it abrogated the old codes.

The new codes, which are the fruit of a complex project carried out by an ad hoc interdisciplinary working group formed at ANIA and the demanding dialogue with the Revenue Agency, have been reformulated for the express purpose of bringing the content up to date – in keeping, among other things, with the evolution of the market – and improving the management of coinsurance relationships so as to produce a faster and more efficient service, to the benefit of policyholders.

ANIA has also submitted the new formulation to IVASS for confirmation that it is compliant with European and international insurance law. This confirmation was given in a letter dated 20 December 2019. The new self-regulatory codes apply as of 1 January 2020 for those insurance companies that explicitly adhere to them.

VAT RULES FOR ASSISTANCE AND LEGAL EXPENSE INSURANCE

In 2019 the Lombardy regional office of the Revenue Agency conducted a series of verifications at insurers exercising business in non-life class 17 ("legal expenses") and 19 ("assistance"). These were companies that lack an internal operations center and that therefore transfer, as reinsurance, a portion of the risk to a company authorized to do reinsurance business and also assign the latter to manage the relevant claims, under the procedures laid down in ISVAP Regulation 10/2008.

The checks covered practically all insurers doing assistance or legal expense business with a registered office within the Region of Lombardy. The Agency considered that the reinsurers' re-debiting of the expenses incurred by its operations center must be invoiced with VAT, as these represent remuneration for administrative services. The insurers' position is diametrically opposed; that is, in their view such re-debiting is a merely financial transfer, functional to the execution of the contractual benefits to the policyholders in the context of what is objectively an insurance relationship.

The Agency's charges against the insurers are based on the assumption that it would be impossible to apply differential VAT treatment according to the operational regime selected for the exercise of the business – in this case, the non-life class of assistance (or legal expenses) insurance – through a reinsurance agreement with another insurer with or without an operations center and simultaneous assignment to the latter of claims handling and settlement in lieu of assignment of the claims to a person not authorized to engage in insurance activity.

Essentially, the auditors deemed illegitimate the differential treatment of transactions depending on the operational procedures chosen, meaning that in any case the operation became taxable once again. There is no question that if claims handling is assigned to a non-insurance third party the latter's re-debits of costs to the insurer are taxable; as the entity materially overseeing claims handling is not an insurance company, there is no question of considering this an "insurance transaction," which would be exempt under Article 135 of the VAT Directive and Article 10, para. 1(2) of Presidential Decree 633/1972.

In the initial encounters with the Revenue Agency ANIA pointed out that undertakings in this sector were simply applying the express provision (indeed, an obligatory requirement for authorization to engage in these classes of non-life insurance) of the relevant supervisory rules, namely ISVAP Regulation 10/2008. Moreover, the fact that in the framework of that Regulation the supervisory authority has expressly authorized insurance undertakings lacking an operations center to stipulate assistance policies, without prejudice to the need to transfer a portion (up to 90%) of the premiums to a reinsurance undertaking, can in no way be construed as having adverse consequences in terms of the contract's classification for purposes of VAT.

Obviously, the auditors' opinion is not convincing either fiscally or legally, given that there is no question that these cases involve the exercise – in full compliance with the sector's regulations – of an insurance activity, which as such is VAT-exempt under both European and Italian law. ANIA has notified IVASS of the question, calling on the supervisor to intervene with the Revenue Agency to explain the special features of the operating procedures of the assistance and legal expense insurance business. IVASS has expressed its general willingness for technical talks with the Agency should the latter so request. Although such a meeting has not yet been held – owing in part to the pandemic – ANIA has not relaxed its effort towards further study of the question, which will hopefully lead to the termination of the audits conducted by local Revenue Agency offices.

DESIGN AND MARKET PRESENTATION OF ANIA'S TAX CONTROL FRAMEWORK PLATFORM

Last year, responding to one of the insurance industry's increasingly strongly-felt needs, ANIA's tax department, in cooperation with ANIA SAFE, launched a project for the design of an IT platform, for detection, assessment and management of fiscal risk. The availability of such a platform is one of the prerequisites for access to "cooperative compliance" with the tax administration. The cooperative compliance regime, introduced by Legislative Decree 128/2015, features advance determination of taxable income in a framework of constant dialogue between the largest undertakings and the Revenue Agency, together with the progressive reduction in tax checks and audits, ultimately with a view to reducing disputes.

The regime is open to taxpayers with turnover or revenues of at least €10 billion (now reduced to €5 billion by the ministerial decree of 30 March 2020) and also to taxpayers that applied for admission to the pilot project for the cooperative compliance regime initiated in 2013 and having turnover or revenues of at least €1 billion and equipped with an internal control system for fiscal risk management.

An essential element for application of cooperative compliance is the Tax Control Framework platform (TCF), based on a system of processes designed to guide undertakings in the crucial actions of detection, assessment and management of the fiscal risk implied in management choices, as a function of a series of variables, including the impact of possible errors in applying tax rules governing balance-sheet items, the amount of sanctions, and the adequacy of the safeguards instituted by each firm in the management of compliance with individual taxes.

After careful selection of the supplier for the platform, ANIA worked together with the firm chosen in designing an instrument that should represent a best practice for the insurance industry. The aim was to make the product available to participating insurers in the first half of 2020. An ad hoc working group coordinated by ANIA's tax department, with the participation of the insurers – formed formally under the aegis of ANIA SAFE – laid down the essential phases in implementation of the TCF platform for subsequent presentation to the Revenue Agency.

Discussion with the Agency, which is still the responsibility of the ANIA tax department, is essential to the implementation of the project, insofar as the platform is the key prerequisite for companies that intend to accede to the tax benefits of the cooperative compliance regime. The platform's strategic importance is attested by the interest shown not only by the largest insurers – whose level of income makes them eligible for the regime by law – but also by other undertakings which while not currently comprised under the law nevertheless intend to avail themselves of the platform as a valid instrument for assessment and containment of tax risk.

Once the launch phase is completed, special administrative provisions are expected to identify progressively more extensive classes of taxpayers for admission to the platform, down to those with turnover of just €100 million and members of groups, significantly increasing the number of eligible firms.

THE INFRASTRUCTURE PROJECT

For years now insurance companies have been diversifying their portfolios as an alternative to the strategy of heavily bond-based investment. This follows from the need for sufficient yield but always in keeping with stringent regulations penalizing medium-to-high risk profile investments. There are several reasons why infrastructure investment is an excellent alternative to the traditional asset allocation: a) higher yield profiles than the traditional asset classes, thanks to an illiquidity premium; b) cash flows that are predictable and accordingly suitable for asset-liability management analysis; c) low uptake of capital, if some Solvency II requirements are complied with. In their equity-type infrastructural investments, insurance companies have focused mainly on core infrastructures, which with their conservative risk profile ensure reasonably predictable cash flows, so that in compliance with certain look-through requirements they may be classified as “qualifying infrastructure investments” and so benefit from lower capital requirements.

The low interest rates and high volatility of the spread on Italian government bonds makes a progressive shift of portfolios towards illiquid assets likely, as far as this is compatible with the Covid-19 contingency, which could engender a liquidity crunch in the short run. Among less liquid assets, infrastructures have the most interesting risk-return profile for insurance companies, including in terms of the Solvency II standards.

Insurance companies’ investment in infrastructure funds nearly doubled between 2017 and 2018, from €1.2 billion to €2.3 billion, and rose further to €3 billion at the end of 2019. Of this, the portion invested in Italy slipped from 40% to 36%, with greater geographical diversification thanks to an increased volume of infrastructural investment proper, which has more than doubled since 2017.

This is the backdrop to ANIA’s systemic project for a Fund for Italian Infrastructures to bolster the productive economy with the participation of the country’s leading insurance companies. Accordingly, in February 2020 the first closing of ANIA’s Fund F2i, for €320 million, was announced. This is an alternative real estate investment fund, a reserved, closed-end fund investing in strategic sectors such as energy, motorways, ports, renewable energy, logistics, transport, health, airports and telecommunications. The investment target is €500 million, and a second closing is planned for 2020.

The Fund is managed by F2i, a company specializing in infrastructural investment in Italy. It was selected as the independent fund manager with the most experience and best track record in the Italian infrastructure market. We feel that in this market it is important to stay local, to have a good network and to be of the right size to seize opportunities and create synergies with existing investments, including with a view to co-investment.

ANIA has played a key role throughout this process. It publicized the initiative with its member firms, voicing the main requests; it defined the investment strategy and initiated the process of selecting the fund manager, subsequently negotiating the terms of its mandate and ensuring the participation of the investor companies. The process was highly structured and served the interests of all parties. This is reflected in the Fund’s governance, with the presence of ANIA member companies in the various committees alongside the Fund manager, guaranteeing analysis of the investments chosen and of all questions relating to the Fund rule.

The Fund’s purpose is primarily core and brownfield infrastructure investment in Italy, unlisted equity instruments with a target yield in line with the market. Given the nature of core infrastructure, the risk-return profile is conservative for its category, in keeping with the financial objectives of the insurance industry and hence compliant with the Solvency II rules, which means low capital absorption for qualifying infrastructure equity investments.

The assets to invest in will be selected according to environmental, social and governance principles (ESG), via active screening and barring sectors deemed to be contrary to these principles. Sustainability is a strategic consideration for ANIA, and the invaluable internal competence developed by ANIA and its member companies in the field of ESG will help ensure observance of the highest standards of quality in investment selection. The time horizon for effecting investments is four years, but the manager expects that a good portion of the funds raised will be invested considerably sooner.

In April the Fund announced its first investment, acquiring a majority stake in Compagnia Ferroviaria Italiana S.p.A. (CFI), Italy's leading independent railway operator for freight transport. Founded in 2007, CFI runs about 170 trains weekly, linking the main production areas of the country, with some of the country's leading corporations as customers. It has about 230 employees. Over the years, CFI has specialized in services to the steel, automobile and agri-food industries, with the planning and realization of complete train transport (formation, verification, running and escorting trains with its own personnel and locomotives).

This investment goes to a sector that provides essential support to the national productive economy and contributes to the progressive decarbonization of freight transport in Italy, in keeping with the European targets of 30% of goods traffic by means other than road haulage by 2030 and 50% by 2050.

This year, new investment opportunities will be studied, with account taken of the new economic context ushered in the by Covid pandemic and the fund manager's fundraising activities.

EXTRAORDINARY MEASURES FOR COVID-19

On 31 January 2020 the Council of Ministers declared a state of emergency for six months – until 31 July – owing to the health risks posed by pathologies deriving from transmissible virus agents.

Decree Law 6/2020 (Urgent measures for containment and management of the Covid-19 epidemiological emergency) laid down the first measures for personal and social containment, "adequate and proportionate" to the evolving epidemic. The measures were initially applicable to certain specified parts of Italy ("red zones") but then gradually extended to the entire national territory. Among other things, they banned movement from one's domicile without a valid reason, duly certified, which helped the diffusion of "smart working."

Decree Law 9/2020 (Urgent measures for relief to households, workers and firms in connection with the Covid-19 emergency) suspended, in some municipalities of the Lombardy and Veneto regions forming the first "red zone," the payment of insurance premiums falling due between 21 February and 30 April – suspending legal and conventional, substantial and judicial terms – and the postponement of civil, criminal and administrative hearings to 31 March 2020.

Decree Law 11/2020 (Extraordinary and urgent measures to counter the Covid-19 epidemiological emergency and attenuate the adverse effects on judicial activity) enacted a nationwide deferral of hearings and suspension of the terms in civil, criminal, tax, and military hearings to 22 March 2020, plus additional measures to counter the epidemic and attenuate the effects on the justice system. These terms, under provisions included in successive government emergency interventions against the epidemic, were postponed to 11 May.

Decree Law 18/2020 of 17 March (Measures to strengthen the National Health Service and provide economic relief to households, workers and firms in connection with the Covid-19 epidemic) – known as the "Cure Italy" Decree – converted into Law 27/2020, provided nationwide and through 31 July that the period of 15 days during which insurance companies are required to maintain coverage even for expired policies until the new policy takes effect was lengthened by an additional 15 days, while the term for making an offer or a motivated refusal to make an offer, in cases where the intervention of a forensic physician is necessary to assess personal injury or property damage is extended for 60 days. Further provisions of the "Cure Italy" Decree are: from 23 February to 1 June, suspension of the deadlines for social security, assistance and insurance payments by INPS and INAIL; authorization for the heads of judicial offices to defer hearings in civil, criminal and administrative proceedings until after 30 June 2020; suspension of the deadline for any action forming part of arbitration or assisted negotiations, and in all out-of-court settlement proceedings if lodged or pending between 9 March and 11 May and constituting a necessary condition for the suit to proceed. The Decree also established that in the case of administrative proceedings (including those of independent administrative authorities) already pending as of 23 February, and administrative proceedings initiated subsequent to 23 February, the period from 23 February to 15 April 2020 (extended to 15 May by Decree 23/2020) shall not be taken into account.

The "Cure Italy" decree further provided that compliance with containment measures against the Covid-19 virus (e.g. restrictions on personal movement, limitation or suspension of the activities of firms or self-employed workers) shall always be taken into account for purposes of ruling out a debtor's responsibility, including as regards application of any expirations or penalties for late or omitted performance of obligations. As regards the Solidarity Fund for "first home" mortgages, the Decree allows professionals and self-employed workers (hence including insurance agents) who self-certify a drop in their average daily invoicing of more than 33% compared with the fourth quarter of 2019 to request, within 9 months from 17 March 2020, the suspension of their repayment installments for a period of 18 months, adducing the additional cause of suspension or shorter hours of work during a period of at least 30 days. For mortgages and other loans with installments falling due prior to 30 September, the Decree provided that micro-firms and SMEs resident in Italy may request suspension of the installments until 30 September, while the repayment schedule for installments and accessory elements (such as insurance policies) shall be deferred with no new or increased obligations for either party.

The Decree also enacted appropriate measures concerning the Volatility Adjustment, allowing insurers to deal with the sharp market fluctuations provoked by the Covid-19 emergency on the asset-liability plane; as to shareholder meetings, it laid down that in derogation to the Civil Code or other statutory provisions, the ordinary general meeting shall be convened within 180 days of the closure of the accounts for the financial year (that is by the end of June rather than April 2020). Lastly, the Decree extended to 31 August the validity of personal identity documents, including drivers' licenses, already expired or expiring after 31 January 2020. In the conversion of the Decree into law, a provision was inserted to enable associations (including those not officially recognized), foundations, and in general public and private entities other than companies, to approve their financial reports and balance sheets by 31 October, also in derogation to law, regulations or statutes (this provision applies exclusively to the so-called "third sector" of non-profit organizations). Some modifications were also made to the provisions regarding the Solidarity Fund for "first home" mortgages. And finally, the law added the provision that all certifications, attestations, permissions, concessions, authorizations and licensing acts under whatever name expiring between 31 January and 31 July 2020 remain valid for 90 days subsequent to the declaration of the cessation of the state of emergency.

Decree Law 23/2020 (Urgent measures on firms' access to credit and tax obligations, special powers in strategic sectors, and interventions on health and labor, extension of terms for administrative and legal proceedings – the "Liquidity" Decree) again acted on the Solidarity Fund for "first home" mortgages and also enacted urgent measures for special powers ("golden power") in sectors of strategic importance.

Decree Law 34/2020 (Urgent measures on health, relief for workers and the economy, and social policies in connection with the Covid-19 epidemiological emergence – the "Relaunch" Decree) authorizes those engaged in earthquake-resistant construction interventions to transfer their government credit not only to banks and other financial intermediaries but also to insurance companies. In this case the beneficiary of the tax credit who together with the cession of the credit subscribes an insurance contract covering natural disasters is also eligible for a tax credit for 90% of the premium. The Decree provides for a State guarantee, via SACE S.p.A., on trade credits for a total of €2 billion, covering 90 percent of the indemnities stemming from exposures to trade credits coming due between 19 May and 31 December 2020. The Decree also introduced a new kind of Individual Saving Plan, it too instituted by means of insurance contracts, which must invest at least 70% of its overall value in financial instruments, including instruments not traded on regulated markets or multilateral trading facilities, issued or stipulated by firms not listed on FTSE MID or FTSE Mid Cap. The concentration ceiling for these new ISPs is raised to 20% for a single issuer, and the amount of payments in regard to which, when all legal requirements are met, the returns are tax-exempt is increased to €150,000 per year and €1.5 million in total. The Decree further provides that insurance contracts stipulated online between 19 May and 31 July 2020 shall be deemed to satisfy the requirement of being "in writing" even where customers express their consent via their uncertified email address or other suitable instrument; in addition, it provides that the requirement of delivery of a copy of the contract and the compulsory information documentation shall be deemed to be satisfied also via making available to the customer a copy of said documents on a durable support, and that up to 31 July the customer can use the same instrument used to express consent to the contract also to exercise all the rights laid down by law or by the contract itself. Lastly, the Decree institutes specific incentives for sustainable mobility.

IVASS granted insurers a considerable number of deadline extensions and simplifications of their obligations: shifting from the end of February to the end of March the term for their reports on distribution networks pursuant to Article 46 of IVASS Regulation 40/2018 and of the tables, report and assessments of complaints pursuant to Article 9 of ISVAP Regulation 24/2008; postponement from 1 May to 1 July of the deadline for implementation of reserved areas (homeowners insurance) in compliance with the provisions of IVASS Regulation 41/2018; possibility of online tests for vocational training courses. Further, by a communication of 23 March 2020, IVASS extended the terms laid down in Regulations 24/2008 and 41/2018 for insurers to handle complaints and requests for information – complaints to be dealt with within 75 rather than 45 days and customer information requests within 35 rather than 20 (the ordinary terms were restored by the notification of 30 June).

IVASS notification of 24 March 2020 specified that the suspension of the terms enacted by the “Cure Italy” Decree also applied to the administrative proceedings or phases of administrative proceedings under IVASS’s jurisdiction, including sanction proceedings, whose terms were accordingly postponed by law from 23 February to 15 May 2020.

IVASS communication of 30 March 2020 granted further postponements in order to facilitate the activities of insurance companies and intermediaries. Specifically, the term for the obligations in connection with Solvency II reporting was deferred in keeping with EIOPA’s Recommendations of 20 March on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure – Coronavirus/COVID-19. IVASS allowed 8 extra weeks for solo and group Regular Supervisory Reports; 8 weeks for solo and group annual quantitative reporting templates, except for some templates for which a 2-week extension was granted; 8 weeks for solo and group Solvency and Financial Condition Reports, except for some templates for which an extension of 2 weeks was granted; 1 week for solo and group Q1-2020 Quarterly Financial Stability reporting, except for the Derivative Transactions template, for which an extension of 4 weeks was granted; the deadline for the solo ORSA report was deferred to 30 June and that for the group report to 15 July; 30 more days were allowed for submitting the quarterly report on the state of controlling stakes and stocks held, the report on plans for reinsurance cessions, the annual accounts of internal funds, requests for information on insurance activity to assess the risk of money laundering and terrorist financing in life insurance, data on production in non-life insurance classes by intermediary, the tables on assets covering technical provisions, information on CARD claims, data for the IPER survey for the first quarter of 2020, direct and indirect premiums earned abroad by Italian insurers and their foreign subsidiaries as at the end of 2019, the report on anti-fraud action, the report on the structure of claims settlement, information on medical malpractice coverage relating to risks located in Italy, data on premiums from group policies for sickness coverage entered in the accounts for 2019, data for group health policies on claims costs and number of risk units in 2019. Finally, by a notification dated 3 April 2020, IVASS recommended that supervised entities act so that insurance activity continues to be carried out correctly and in the interest of policyholders, even in the exceptional circumstances that prevail. In particular, insurers must provide clear and timely information to customers on organizational measures taken to ensure business continuity and correct contractual relations, promptly calling their attention to any operational changes and situations of impediment to ordinary management of relations. They must retain specific evidence of any impediments to the regular conduct of activity and the remedies instituted to safeguard any customer rights that might be jeopardized by slowness or error in communications to customers. And they must take proper account of the problems that customers too may face in discharging their own obligations owing to the measures to contain Covid-19 contagion.

In **CONSOB's Communication 2/2020** the stock exchange supervisor gave notice that for purposes of calculating the deadlines of the administrative proceedings under its jurisdiction, including sanction proceedings, that were already pending at 23 February or were initiated subsequently, account shall not be taken of the period between that date and 15 May; this suspension also applies to administrative proceedings characterized by a "significant" term for conclusion, i.e. one whose expiry without a judgment being handed down results under the law either in acceptance (tacit consent) or in rejection (tacit rejection) of the private party's case. By resolution 21314/2020, CONSOB extended for 60 days the terms laid down in its "Provisions concerning requirements for communication of data and transmission of acts and documents by supervised entities, with special regard to the deadline for transmitting the Report referred to in Annex II.15 – Template of report on procedures for distribution of insurance financial products" (definition now changed to "insurance investment products"), which bears solely on the placement of these products by intermediaries entered in section D of the Single Register of Intermediaries ("intermediaries authorized for insurance distribution" in the words of the Consolidated Law on Finance), insofar as direct sales are now exempt from reporting requirements to CONSOB, in the light of past amendments to the primary legislation (the Insurance Code and the Consolidated Law on Finance) and the new division of powers between IVASS and CONSOB laid down by Parliament.

The pension supervisory authority **COVIP**, by means of its **communication of 11 March 2020**, offered some operational indications for supplementary retirement plans. The authority deemed it feasible for the meetings of corporate bodies of pension funds to be held via teleconference (both video and audio), even where this is not envisaged in the fund statutes. As to the approval of the accounts for 2020 by shareholder meetings, COVIP allowed them to be convened up to the end of June. Finally, it allowed all supplementary retirement plans/companies to send their periodic communications to members and deposit the information note by 31 May 2020, posting notification of this on their websites. By Circular 1231/2020, COVIP further postponed to 30 June the deadline for the report by the fund manager and the approval of the accounts for open pension funds.

Lastly, pursuant to the “Cure Italy” Decree, COVIP extended to 15 May the terms of its administrative proceedings pending on 23 February or initiated thereafter.

The **Bank of Italy** and its **Financial Intelligence Unit**, by means of the **communication of 23 March 2020**, granted a 30-day extension of the regular due date for the transmission of aggregate data. The notice further specified that the suspension of terms from 23 February to 15 May shall apply to the administrative proceedings for rules violations ascertained by the FIU and those on which the FIU has powers of inquiry. The FIU then issued a communication of 15 April laying down a comprehensive and detailed account of the main risks of illicit conduct to which the economic and financial system is exposed by reason of the health emergency, calling on all the entities subject to the rules on money laundering and terrorist financing – obviously including life insurance companies – to assess with the greatest possible care situations that could be symptomatic of these criminal acts so as to report suspicious transactions to the FIU as promptly as possible.

The **Competition and Market Authority** issued a **communication dated 1 April 2020** on sanctions, providing that: on anti-trust rules, the term for payment of fines falling due between 23 February and 15 May is deferred to 1 October 2020; on consumer protection, the term of 30 days from notification for payment of fines is suspended and will start to elapse at the end of the suspension; on sanctions, regarding both anti-trust and consumer protection, for which payment by installments has been allowed, the terms for installments falling due between 23 February and 15 May are suspended. In addition, the Authority issued a notice on the suspension of the deadlines laid down in the implementing regulation on legality ratings, including that for the conclusion of the procedure of assignment/renewal/upgrading of ratings, suspending it from 23 February to 15 May 2020.

The **Data Protection Authority** issued a **notice of 28 March 2020** for the suspension of the terms for conclusion of proceedings pending at 23 February or initiated between that date and 15 May.

The **Anticorruption Authority** released **resolution 268 of 19 March 2020** regarding all proceedings (sanction, supervisory, and advisory) under its jurisdiction. The resolution provides that proceedings under way, whose initiation was notified subsequent to 23 February, are suspended to 15 May 2020; that new proceedings will not be initiated, save for specific measures providing otherwise, prior to 15 May; and that the terms for response to inquiry or pre-inquiry requests for information are postponed by 60 days, save for subsequent resolutions of the Authority relating to the continuation of the health emergency.

INSURANCE OMBUDSMAN

Legislative Decree 68 of 21 May 2018 transposing Directive 2016/97 EU on insurance distribution added Article 187-ter to the private insurance code, Legislative Decree 209/2005. The article relates to out-of-court dispute settlement systems.

The article introduces – without prejudice to the other forms of out-of-court dispute settlement envisaged by law as precondition for trial of insurance disputes (civil and commercial mediation, assisted negotiation, preventive technical consultation for purposes of conciliation) – the Financial Dispute Arbiter (Arbitro per le Controversie Finanziarie, ACF) – a new alternative dispute resolution system for "disputes with customers on benefits and insurance services deriving from all insurance contracts". This new system will be similar to those already in being for sectors contiguous to insurance, namely the Banking and Financial Ombudsman (Arbitro Bancario e Finanziario, ABF) and the ACF.

The new system, i.e. the future Insurance Ombudsman, provides for compulsory participation of all insurance undertakings, however designated or constituted, doing business in Italian territory and all insurance intermediaries. The Ombudsman's becoming operational depends on the issue of a decree by the Minister for Economic Development in concert with the Minister of Justice at the proposal of IVASS. In observance of the principles, procedures and requisites laid down by Legislative Decree 206/2005 (the Consumer Protection Code), Title 2-bis, Part V, on alternative dispute resolution, the decree must specify:

- the criteria for conducting proceedings before the Ombudsman, which must in any case be rapid, economical and such as to provide effective protection;
- the criteria for selecting the members of the body, in such a way that it is guaranteed to be impartial and representative of the interested parties;
- the nature of the disputes that the Ombudsman can handle, which must relate to benefits and insurance services deriving from an insurance contract.

BREXIT – THE TRANSITION PERIOD

On 31 January 2020 the Ministry for Economy and Finance announced in a press release that owing to the ratification of the Withdrawal Agreement between the United Kingdom and the European Union, as of 1 February 2020 a transition period begins during which financial services maintain complete continuity. On 30 January, in fact, the ratification of the Agreement was concluded with the EU Council's approval. Thus as from 1 February the United Kingdom is no longer a Member State and has ceased to be represented in European institutions. Part IV of the Agreement provides for a transition period ending on 31 December 2020 (save possible extensions), during which European rules continue to apply in the United Kingdom and to the United Kingdom as if the latter were still a Member State.

Given this state of affairs, Decree Law 22 of 25 March 2019 does not apply. The Decree Law, converted with amendments into Law 41 of 20 May 2019, lays down transitory rules only for the case of UK withdrawal in the absence of an Agreement. Under the provisions of the Agreement, as regards banking, financial and insurance services the current regime of mutual recognition of authorizations and supervision (the "passport" regime) remains in effect, guaranteeing business continuity and continuity of relations (trading and post-trading) between infrastructures and financial markets, intermediaries and customers towards and from the United Kingdom, as well as depositor and investor protections (Part IV of the Agreement).

At the end of the transition period, if no agreement providing otherwise has been reached between UK and EU, British entities that want to operate within the European Union, hence also in Italy, will be subject to the rules governing relations with third countries; similarly, in the absence of agreements providing otherwise, EU entities doing business in the United Kingdom will be subjected to the rules governing operations of non-EU entities.

Any decision for a possible extension of the transition period for an additional one or two years must be made jointly by the European Union and the United Kingdom by 30 June 2020 (Article 132.1 of the Agreement).

FINTECH COMMITTEE AND EXPERIMENTATION – THE MINISTERIAL IMPLEMENTING DECREE

Decree Law 34/2019 ("Growth"), as amended in its conversion into Law 58/2019, provides in Article 36.2-*bis* for the adoption of one or more regulations by the Ministry for Economy and Finance, after consulting the Bank of Italy, CONSOB and IVASS, governing the conditions and procedures for experimentation with financial technology (fintech). The aim is to use new technologies for innovation in financial, credit and insurance services and products.

Paragraph 2-*octies* institutes within the Ministry a Fin Tech Committee, charged with setting objectives, defining programs and undertaking actions to foster the development of techno-finance, as well as making legislative proposals and facilitating contact between industry operators and institutions and authorities. It also remands to the regulations referred to in paragraph 2-*bis* the definition of additional powers of the Committee.

The Ministry posted its draft implementing regulation, in two Chapters, for public consultation. Chapter I lays down the rules governing the Fin Tech Committee's composition, operating procedures and powers. Chapter II specifies rules for Fin Tech trials, specifying the activities for which it can be requested, the subjective and objective prerequisites for access, operational scope and, finally, the rules for the conclusion of the trials. Overall the draft posted for consultation is intended to foster technological innovation by allowing Fin Tech firms to try out new services and products using information technology in the financial, credit and insurance sectors, with the monitoring of the relevant supervisory authorities and for a limited period of time, not longer than 18 months. As usual, ANIA submitted the insurance industry's proposals to the Ministry. The issue of the regulation is pending.

IVASS REGULATION ON WHISTLEBLOWING

IVASS has held a public consultation on its draft regulation on whistleblowing, referred to in the Insurance Code (Legislative Decree 209/2005), Articles 10-*qater* and 10-*quinquies*. The regulation governs the procedural and organizational safeguards that the regulated subjects (insurance and reinsurance companies and intermediaries) must install in order to allow their staff to report acts or events that may constitute violation of the rules governing the insurance business conducted, viewed as a whole.

In particular, the rules on whistleblowing are designed to set the minimum, essential requirements for systems of reporting of violations, leaving undertakings and intermediaries the autonomy to choose, in keeping with the proportionality principle, the most suitable and effective technical and organizational arrangements given the characteristics of their own organization and activities. The draft – which is accompanied by a descriptive report and a preliminary regulatory impact assessment – is in three Titles.

Title I sets out definitions, sources of law and the scope of the regulation and lays down provisions governing the culture of legality and transparency.

Title II is divided into two Chapters: Chapter I refers to internal reporting of violations, distinguishing the so-called basic regime from the "reduced" regime and laying down rules on the obligations of the intermediaries entered in Section D of the single register of intermediaries, on confidentiality of personal data and protection of the person making reports and the persons referred to in the reports, on the content of reports of violations, on the outsourcing of report receipt, examination and assessment by insurance undertakings and intermediaries, and lastly on the requisites for application of the basic or the reduced regime. Chapter II deals with external reports, i.e. reports submitted directly to IVASS.

Title III contains rules for the publication of the regulation and its entry into force. As always, ANIA submitted the industry's proposals to IVASS. We are awaiting the issue of the regulation.

MONEY LAUNDERING AND TERRORIST FINANCING – RISK MITIGATION PROVISION

IVASS has posted on its website a draft provision on procedures for mitigating the risk of money laundering (and terrorist financing), to specify the size and organizational prerequisites according to which the addressees shall institute the anti-money-laundering and internal revision functions and designate the AML officer and the person responsible for suspicious transaction reports, with special reference to the branch offices of insurance undertakings with legal head offices in other EU members or countries included in the European Economic Space or other third countries, and other "branchless" undertakings established in Italy. The draft provision amends IVASS Regulation 44/2019, introducing therein the methodology for the self-assessment of money laundering risk. As usual, ANIA submitted the insurance industry's proposals to IVASS. We are awaiting the issue of the regulation.

IVASS MARKET LETTER ON POLICIES LINKED TO LOANS

On 17 March 2020 IVASS and the Bank of Italy issued a joint letter to the market on loans linked to insurance products, i.e. credit guarantee policies (life and/or non-life policies for loan reimbursement, payment protection insurance) and policies protecting an asset pledged against a loan (e.g. an explosion or fire insurance policy linked to a mortgage loan), while also referring to policies lacking any functional link to the loan (known as "unrelated policies").

The two supervisory authorities informed operators of areas that need special attention: the designation of a policy as compulsory or optional; the placement of policies lacking any functional link with the loan; controls on the distribution network and monitoring misselling; conflicts of interest and level of costs; proper handling of requests for early repayment (including partial repayment) of loans.

The authorities made a series of recommendations:

- product design and distribution agreements must be consistent with the guarantees offered and the services rendered to the customer during product placement;
- the insurance undertaking (as issuer/producer) and the bank/financial intermediary (as distributor/intermediary) shall institute adequate processes of information exchange to ensure the creation of products that are appropriate to customers' needs;
- financial intermediaries, banks and insurance undertakings shall have remuneration policies that avert the risk of aggressive conduct on the part of the sales network, in violation of the obligation to act in the best interest of the customer. In particular, sales practices must be such as to avoid the risk that customers already holding a policy may be induced to subscribe new insurance coverage proposed by the bank or intermediary and perceived as necessary to obtain the loan;
- banks and financial intermediaries shall check their own sales policies and modes of simultaneous placement of insurance policies linked to loans. Insurance companies, in turn, shall check the design and marketing of the insurance policies placed in linkage with a loan.

Banks, other financial intermediaries and insurance companies must accordingly institute and apply organizational and internal control procedures that guarantee constant assessment of the risks (including legal and reputational risk) stemming from the marketing of more than one policy linked to loans. The market letter envisages a set of operational instructions for the compliance and internal audit functions of the entities involved; each in its own area of competence, these bodies are called on to verify the compliance of the entity's actions with the applicable body of law and regulation, the suitability of internal processes and regulations, exposure to the risks (operational, legal, reputational) of legal action by customers, complaints and fines levied by the authorities (Bank of Italy, IVASS, Competition Authority), and correct marketing of linked products.

The findings of the checks are to be examined at joint meetings of each entity's corporate bodies responsible for management and for control by 31 December 2020 (originally the date was 30 September). Where significant shortcomings are found in the marketing of insurance products linked to loans, the report on the checks made and the minutes of the corporate bodies' meetings must be transmitted to IVASS, attaching the detailed plans for remedial action, including the implementation timetable for each intervention. The extension of the deadline was notified by a joint IVASS-Bank of Italy communication dated 8 June 2020.

The data published cover all insurance companies registered in Italy, branch offices of foreign companies registered in non-EU countries and branch offices of foreign companies that write reinsurance business only.

2019/2020 figures are provisional

Printed in December 2020

Prepress and press:

GANGEMI EDITORE SpA
INTERNATIONAL

PRINTED IN DECEMBER 2020
www.gangemieditore.it

ITALIAN INSURANCE 2019 - 2020

Ania
Associazione Nazionale
fra le Imprese Assicuratrici

Via di San Nicola da Tolentino 72
00187 Roma
T +39 06 326 881

Actuarial, Statistical and Database Analyses Department
Economic Studies and Research Department
relazioneannuale@ania.it www.ania.it