ITALIAN INSURANCE

2017 - 2018

Ania

Associazione Nazionale
fra le Imprese Assicuratrici

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THE RESULTS FOR THE YEAR

Premiums decline by 2.6%…

The premium income from the Italian and foreign portfolio, direct and indirect, of Italian insurance companies, gross of reinsurance cessions and retrocessions, declined by 2.6% overall (after falling by 8.1% in 2016). This was the second yearly decline after three years of expansion.

…falling 3.8% in life insurance but gaining 0.9% in non-life…

The overall decline is the resultant of the fall in life insurance income (down 3.8%, after dropping 10.6% in 2016) and a modest gain in the non-life sector, where premiums increased for the second year running (0.9%, up from 0.7%), after four years of contraction.

…overall technical account: life, +€3.4 billion, non-life +€3.1 billion…

In the life insurance classes the overall technical account result was positive by €3.4 billion (down from €3.7 billion in 2016), its ratio to premium income falling from 3.6% to 3.4%. For non-life insurance the result was positive by €3.1 billion (the same as in 2016), rising from 10.4% to 10.5% of premiums.

…ordinary and extraordinary business: +€7.8 billion…

In 2017, the result from the ordinary activity of the life and non-life sectors was €7.3 billion (down from €7.5 billion in 2016); extraordinary income remained positive at €0.5 billion, up from €0.2 billion in 2016. Overall, pre-tax profit for the year, calculated as the sum of ordinary and extraordinary income, thus amounted to €7.8 billion, in line with the previous year.

…net profit of €6 billion

After taxes of €1.8 billion, the overall result for the insurance industry was a profit of €6.0 billion in 2017: €2.4 billion in non-life and €3.5 billion in life insurance.

New special section of the Report on Solvency II

This year's report has a special section on the data derived from the reporting system of the new Solvency II accounting regime, which is marked by a different valuation of assets and liabilities (fair value accounting) and a different classification of balance-sheet items compared with insurers' statutory financial statements.

Balance-sheet liabilities increase by 3.5%, the corresponding assets by 4.3%…

Total balance-sheet liabilities as per Solvency II came to €805.9 billion at the end of 2017, up 3.5% from a year earlier. Technical provisions for life insurance (equal to €685.4 billion) increased by 4.1% while non-life provisions diminished by nearly 3% to €54.2 billion.

Total assets amounted to €921.4 billion (up 4.3%). Investment, equal to over €850 billion, increased by 5.1% over 2016.

The resulting excess of assets over liabilities thus came to €115.4 billion, compared with €104.7 billion at the end of 2016. The excess accordingly rose from 11.9% to 12.5% of balance-sheet assets.

Survey of insurance company investments

The Report has a section dealing with the investments of the insurance industry in bonds and equity, infrastructure, minibonds and private placements.

EXECUTIVE SUMMARY

The Solvency II capital ratio is 2.41 in 2017…

The Solvency Capital Ratio defined by Solvency II came to 2.41 for the entire insurance market in 2017, up from 2.21 in 2016, 2.32 in 2015 and 2.12 in 2014.

…1.79 for non-life insurers…

For companies doing only non-life business the Solvency II ratio rose from 1.61 to 1.79.

…2.33 in life insurance…

For those doing only life business the ratio rose from 2.10 to 2.33.

and 2.50 for mixed.

For insurers active in both life and non-life sectors, the ratio rose from 2.30 to 2.50.

Special sections of the Report are given over to: a comparison of the tax burden on insurance in Italy and Europe…

Again in 2017 Italy was among the European countries with the heaviest tax burden on premiums for motor liability, fire, general liability and goods in transit, confirming an established pattern.

…European comparison of insurers' economic performance…

The Report compares the economic results of insurance companies in the main European countries (France, Germany, Italy, United Kingdom, and Europe as an aggregate) from 2012 through 2016, based on the income statement data from the Fitch Connect database.

…and profitability of listed insurance undertakings

In the United Kingdom the ROE of the median insurance company was 14.9% in 2017, up from 13.5% in 2016; for German insurers the median ROE was unchanged at 12.7%, that of French companies was 7.0%, down from 8.4%. The median Italian insurer's ROE was 9.7%, up modestly from 9.2% in 2016.

THE FORECASTS FOR 2018

Premiums to increase 5.0% in 2018 to €137 billion…

The total premium income of the Italian insurance industry's direct policy portfolio (life and non-life combined) should come to €137 billion in 2018, up 5.0% for the year. Overall insurance business, that is, is expected to return to expansion after declining by 8.8% in 2016 and 2.4% in 2017.

The growth in 2018 will result both from the positive contribution of the non-life sector (+1.7%) and the strong performance of life insurance (+5.5%). In proportion to Italian GDP, total premium income will thus increase from 7.6% to 7.8%.

…motor and marine liability premiums will be stable, other non-life premium volume will increase by 2.9%…

Total direct premiums of Italian insurance companies in the non-life sector are expected to come to €33 billion in 2018, up 1.7% compared with 2017, consolidating last year's positive performance (+1.2%). This will result from the halt to the decline in motor liability premiums and the further growth (of 2.9%) in premium income in all the other non-life classes.

For motor liability, after six consecutive yearly declines (a total contraction of nearly 26% between 2011 and 2017, unadjusted for inflation) the technical margins, already very low in 2017 (unchanged from 2016), could narrow further in 2018. Despite the highly competitive market, the downtrend in average premiums that marked the six previous years should come to an end in 2018, while the volume of written premiums is expected to be the same as in 2017 at €13.2 billion. The portion of total non-life premiums accounted for by motor liability will come down further to 40.3%, compared with 42.3% in 2016 and 40.9% last year.

The expansion of business in the other non-life sectors is expected to continue, thanks not only to the general economic pickup but also to insurers' efforts to develop and market innovative, more attractive insurance products for households and firms. We estimate a further gain in written premiums of 2.9% this year to €19.7 billion, about one point less than the 3.7% increase recorded in 2017 (to €19.1 billion).

The sectors contributing most to the growth will be:

- sickness insurance, where premiums should increase for the third straight year, gaining 9.0%, nearly matching the growth of 9.6% in 2016 and 9.5% in 2017. The expansion will be driven mainly by corporate health plans covering the risks of medical expenses and surgery, marketed also by companies selling through bank and postal branches. Premium volume should exceed €2.8 billion for the year;
- fire insurance, with premiums equal to €2.5 billion and 2.0% growth in 2018. While the increase will be only marginally greater than last year's 1.0%, it is worth noting that the gain should be due at least in part to fire policies packaged together with coverage against natural catastrophes, as a consequence of tax benefits for the purchase of these policies instituted by the 2018 budget law.

Total non-life premium income is expected to hold unchanged in proportion to GDP at 1.9% in 2018.

…life premium volume will gain 5.5%…

In the life sector, we forecast a very sharp upturn to 5.5% growth in 2018 after two years of contraction (by 11.0% in 2016 and 3.6% in 2017). Life insurance premiums should come to over €104 billion for the year.

…thanks to a different product mix: moderate growth of 3.5% for variable yield policies and strong growth of 9.0% for Class III policies

The upturn should be assisted by greater dynamism in all life classes. In particular variable yield policy premium income (Class I) is expected to return to growth, albeit moderate, gaining 3.5% to €65 billion, following the plunge of 14.7% in 2017 and the more moderate decline of 5.4% in 2016. One factor in the growth will be the upturn in interest rates on Italian government securities, which should enable life insurers to offer policies with higher guaranteed yields. In addition, prevalently financial products (Class III, unit-linked policies) are predicted to expand again, gaining 9.0% to €34 billion, thanks in part to positive contributions from policies calling for investment in individual savings plans and from hybrid, multiclass policies.

The new positive trend in the market for life insurance policies is confirmed by an analysis of new individual life insurance policies, which through April 2018 came to €28.8 billion, up from €27.7 billion in the first four months of 2017 – a rise of 3.9%. The expansion of new business involved both variable-yield Class I life policies (with a gain of 3.1% to €19 billion) and Class III unit-linked policies (up 6.1% to nearly €10 billion in new premium income).

Total written life insurance premiums should rise from 5.7% to 5.9% of GDP in 2018.

EXECUTIVE SUMMARY

LIFE INSURANCE – THE DIRECT ITALIAN PORTFOLIO

Households' disposable income rises in nominal but decelerates in real terms…

The gross disposable income of Italian households increased by 1.7% in nominal terms in 2017, slightly better than in 2016 (1.5%). However, the step-up in inflation prevented this from producing a corresponding growth in purchasing power, which gained only 0.6% after the 1.3% gain recorded the previous year.

…the propensity to save falls significantly…

In 2017 consumer households' propensity to save, defined as gross saving (net of changes in pension fund reserves) over disposable income, diminished significantly compared to 2016, turning back below the 8% threshold (it was 8.5% in 2016) for the first time since 2012.

…and net financial saving declines

In 2017 the net flow of financial investment by Italian households was €20.4 billion, down from €25.1 billion in 2016. The growth of gross inflows into household portfolios (€41.4 billion, up from €37.2 billion in 2016) was insufficient to compensate for the increase in debt (which grew by €21.0 billion, compared with €12.1 billion in 2016).

The flow into investment funds, and to a lesser extent life insurance policies, accelerates

Again in 2017 Italian households continued to make further net disposals of fixed-income securities, especially bonds issued by Italian banks (-€42.5 billion, compared with -€47.2 billion in 2016). The disinvestment was offset, however, by increased investment in government securities which, although still very modest, amounted to +€2.6 billion, in contrast with -€8.7 billion in 2016. Even more markedly than the previous year, in 2017 households drained substantial resources from equities (-€41.3 billion, -€15.0 billion in 2016). A massive disinvestment also affected bank deposits other than sight deposits (-€13.4 billion, -€18.7 billion in 2016). The flow destined to mutual funds grew substantially (+€57.1 billion, +€12.3 billion in 2016), while investment in life policies continued to grow (+€25.4 billion), if more slowly than in 2016 (+€36.2 billion). The same trend was recorded by investment in other assets – trade credits, Bancoposta current accounts, currency, coins and other minor items (+€13.1 billion, +€16.2 billion in 2016) and in sight deposits (+€35.7 billion, +€62.7 billion in 2016).

The stock of financial assets rises to nearly €4.5 trillion

At the end of 2017 the stock of financial assets held by Italian households amounted to €4,407 billion. The largest share of Italian household financial wealth continues to be in liquid instruments, i.e. bank deposits (26.5%; 27.0% in 2016), followed by shares and other equities (24.1%, 23.3%) and insurance, pension funds and provisions for employee severance pay (22.6%, 22.2%) which include life insurance provisions (15.4%, 14.7%); the share invested in mutual funds amounted to 12.2% (11.2% in 2016).

Life premiums come to €98.6 billion…

Premiums from direct domestic business of the 48 insurance companies operating in the life sector totaled €98.6 billion in 2017, down 3.6% from a year earlier when they had fallen by 11.0%. Life premiums made up roughly three quarters of total life and non-life premiums, lower than the values observed in the previous three years.

…net cash flow to €27.5 billion…

Net cash flow, defined as the difference between premiums and incurred claims, was positive by €27.5 billion, down by 30.2% from 2016 and even more from the two previous years when it amounted to around €35 billion in the first nine months of 2015 and 2014.

…mathematical reserves expand by 6.5%…

Total technical provisions, at €653.4 billion, increased by 6.5% compared with 2016, producing average annual growth of 9.6% over the five years since 2013.

…incurred claims rise 13.1%…

Incurred claims, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled €71.1 billion (up 13.1% from 2016), essentially as a result of an increase in surrenders and disinvestments, which amounted to 62% of total disbursements.

…operating expenses decline by 2.0%…

Operating expenses – that is, administrative expenses relating to technical management plus costs of contract acquisition, premium collection and the organization and management of the distribution network – amounted to €3.9 billion (of which 75% for Classes I and V, 23% for Class III and 2% for other life classes) a decrease of 2.0% from the previous year.

…investment income amounts to €18.2 billion…

Investment income amounted to €18.2 billion in 2017, 9.4% and 13.7% higher than in 2016 and 2015 respectively but 11.8% lower than in 2014.

…the technical account result is positive at €2.9 billion…

The final result of the technical account was positive at €2.9 billion, down by 12.2% from 2016 but more than in the 2014-2015 two-year period when it was under €2.4 billion.

The result of reinsurance cessions and net indirect business was positive by €289 million (unchanged from 2016).

…and the overall technical account result is positive by €3.2 billion

Counting the reinsurance balance, the overall technical account result was positive by €3.2 billion, a decrease of 11.3% from 2016 that brought its ratio to premiums and to technical provisions down, respectively, from 3.5% to 3.2% and from 0.61% to 0.50%.

Return on segregated funds, 3.0%

The return on segregated funds was 3.0% in 2017. Over the past five years, the return has averaged 3.5%, compared with 1.8% for government securities, a 1.8% revaluation of severance pay, and inflation of 0.5%.

Supplementary pension fund membership nears 7.6 million or 30% of the labor force

Enrollments in supplementary pension plans continued the moderate growth observed over the past few years, with an increase of 6.6% over 2016. The total number of supplementary pension plan enrollees thus came to 7.6 million, or 29.3% of the labor force in Italy.

The Report describes the IVASS measure for modernization of insurance investment products and policyholder protection

After protracted discussion between ANIA and IVASS, on 14 February 2018 the insurance supervisor adopted Measure 68, establishing new rules to modernize insurance investment products while safeguarding policyholders. The main changes lie in the newly established "Fondo Utili" (gains fund), available only for new contracts, even when linked to existing segregated funds, and in the new provisions on the treatment of derivative instruments.

EXECUTIVE SUMMARY

Total individual saving plan premiums amount to nearly €13 billion; 87% for financial and 13% for insurance products

The total volume of premiums of financial and insurance individual saving plans (PIR) in 2017 came to €12.6 billion, far exceeding expectations. Of this fund-raising, 87% came from financial products and the remaining 13% from insurance products. Starting in the second half of the year insurance PIRs were added to the product lines of a significant number of insurers; the preferred contractual form was unit-linked funds (75% of premiums), while the remaining share was multi-class products.

An in-depth look at the ministerial guidelines for implementation of the PIR legislation

On 4 October 2017, the Department of Finance of the Ministry of Economy and Finance published its guidelines for the implementation of the legislation on long-term savings plans (PIRs) on its institutional website.

NON-LIFE INSURANCE – THE DIRECT ITALIAN PORTFOLIO

Non-life premiums come to €32.3 billion…

In 2017 non-life premium income amounted to €32.3 billion, up 1.2% from 2016. The sector's share of total premiums rose from 23.8% to 24.7%, owing in part to the decrease registered by life sector premiums.

…the combined ratio worsens slightly and the overall technical account result is positive at €3.0 billion

The combined ratio performed slightly worse last year, coming up to 91.2% from 90.3% in 2016: in addition to the slight increase in the expense ratio, in fact, there was also a deterioration in the loss ratio. The overall technical account result increased slightly to €3.0 billion.

The Report has sections on medical malpractice insurance…

This year's report examines insurance coverage for liability in healthcare. In 2017 the average ratio of claims to premiums for the entire class, for the various generations of claims, was practically always near or over 100% (in 2013 this ratio peaked at 127%). The highest loss ratios are those for the coverage of healthcare institutions rather than single practitioners.

…on fire insurance, focusing on the extension of this type of coverage to natural disasters…

The Report presents ANIA's statistics on fire insurance policies for dwellings, with a specific focus on the extension of this type of coverage to natural disasters. At the end of March 2018, the number of active fire policies was 9.1 million, up by 4.6% from the last survey of September 2016. The total value insured was €3,374 billion.

Taking account also of policies covering whole buildings and not only individual dwellings, 42.8% of Italian dwellings had fire insurance (up from 42.2% in 2016).

Of these, however, only 6.8% have an extension of coverage to natural disasters, up from 5.1% recorded in September 2016. However, looking only at policies subscribed in the first quarter of 2018, this percentage rises to over 10%. The observation period is of course very limited, but the tax incentives introduced by the budget law for 2018 would seem to have had a positive effect.

…and other special sections

The chapter on other non-life insurance classes also has special sections on:

- the diffusion of healthcare and non-motor, non-life policies among Italian households in 2016;
- trends in natural disasters in Italy, the events that occurred in 2017 and a preliminary estimate of the insurance market's present exposure;
- the provisions that impact on the insurance industry in the new law enacting "provisions on safety in treatment and the person cared for and in professional liability for healthcare practitioners" and its implementing decrees;
- the changes in nat-cat policies introduced by the budget law;
- the new rules on professional liability policies;
- the new rules on public tenders.

MOTOR LIABILITY INSURANCE

Written motor liability premiums decrease by 2.2%, accrued premiums by 3.2%…

In 2017 written motor insurance premiums registered a decrease of 2.2%, accrued premiums one of 3.2%. The cost of claims fell by 3.5%, resulting in a slight improvement in the combined ratio from 97.6% in 2016 to 97.1% last year. The positive contribution of the financial component in connection with returns on investment, which was up slightly on the year, and the particularly positive liquidation of excess claims reserves for previous years helped produce a positive overall technical balance, about the same as in 2016. The overall technical result for land vehicle insurance remained positive at €187 million.

…the number of vehicles insured increases slightly…

The number of vehicles insured increased by 0.4% in 2017 to 38.8 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 just 0.2%, remaining near 41 million.

…the average premium diminishes by 2.5% and the gap between Italian premiums and those in other European countries narrows to €78

The average premium contracted by 2.5% in 2017, less sharply than in the previous four years (4.6% in 2013, 7.0% in 2014, 6.7% in 2015 and 5.9% in 2016). Last year's reduction is also confirmed by IVASS's survey, which shows that the cost of passenger car insurance (obtained as the average for the four quarters) was 1.8% lower than in 2016. The survey shows that the average price of passenger car insurance fell from €567 in March 2012 to €417 in December 2017, or by 26.5%. Accordingly, the gap between Italian prices and those in the other main countries narrowed once again. The Boston Consulting Group study conducted 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 narrowed further in 2017 to €78.

The number of claims holds steady, claims frequency diminishes marginally (by 0.3 percent)…

The total number of indemnifiable claims incurred and reported was 2.2 million in 2017, about the same as in 2016. Claims frequency, defined as the ratio of the number of claims 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") dipped marginally from 5.65% in 2016 to 5.63% in 2017. Counting also the estimate of late claims (those incurred but not yet reported, IBNR), claims frequency was 6.16% (down from 6.20% in 2016).

…owing to cyclical factors…

To get an idea of the factors affected claims frequency, ANIA has compared quarterly data from 2008 through March 2018 on the average cost and consumption of vehicle fuel with that on claims frequency. In the years from 2009 to 2014, the average price of fuel either rose or held steady, which presumably curbed consumption and discouraged vehicle use, lowering claims frequency. In 2015, by contrast, the average price of fuel turned down significantly, reversing the effect on vehicle use and therefore also on traffic accidents. And in fact claims frequency rose during those years. The same trend, albeit more moderate, is observed in fuel consumption, which was slightly higher in 2015 and 2016 than in 2014 (by an average of 1%). Last year, fuel prices turned back up and were 7% higher than in 2016, and this trend continued in the first quarter of 2018.

…stability in number of claims is accompanied by a 2.2% decline in average cost…

The incurred claims cost for the accident year, defined as the sum of the total cost paid and the total cost reserved for all claims incurred, amounted to €10.8 billion, representing a decrease of 2.4% compared with 2016. Considering the number of claims (including the estimate of claims incurred but not reported), the average cost of claims was €4,498, down 2.2% from €4,597 in 2016. Net of IBNR claims and the intervention of the Road Accident Victims Fund and some residual items, the average cost was €4,319 in 2017, down from €4,374 in 2016.

…the cost of claims comes down…

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 €10.0 billion, compared with €10.4 billion in 2016. The difference with respect to incurred claims cost reflected the utilization of excess reserves for previous years (€707 million).

…the loss ratio improves marginally thanks to the sharper decline in total costs than in accrued premiums…

Owing to the larger decline in total costs (-3.5%) than in accrued premiums, the loss ratio improved slightly, from 76.1% in 2016 to 75.9% last year.

…operating expenses decline slightly in relation to premiums…

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 €2.8 billion (€2.9 billion in 2016). Given that the percentage decline in expenses was greater than that in premium income, the ratio between the two came down modestly from 21.4% to 21.2%. In particular, the incidence of other administration costs on income held steady at 5.5%, while that of commissions diminished from 11.2% to 11.0% and that of other acquisition costs came down from 4.7% to 4.6%.

The foregoing variations in the relevant components produced an offset between income and expenses, resulting in a positive technical balance of €207 million in

…and the overall technical account result remains positive

2017, compared to €196 million in 2016. With profits from investments amounting to €531 million, somewhat better than the €500 million earned in in 2016, the result of the technical account for direct business showed a profit of €738 million, up from €696 million. Taking the balance for reinsurance into account (negative by €37 million), the overall technical account result was positive by €702 million, up slightly from €680 million the previous year.

The Report studies car theft and examines ANIA's statistics on land vehicle insurance…

A section of the Report discusses the data (not yet definitive) released by the Ministry of the Interior on passenger car theft in Italy in 2017 and compares them with those for 2016 and 2015. ANIA's statistics on trends in technical indicators and the diffusion of fire and theft insurance for motor vehicles are presented.

…geographical analysis of the technical margin for motor liability insurance…

The Report gives the results of a geographical analysis, for the year 2017, of the technical profit margin for motor liability policy subscription. That is, we compared, for the main Italian cities, the premium actually paid by policyholders with the insurance companies' expenses for claims, administration and distribution, net of the financial profit margin.

…the incidence of the number and cost of personal injury claims on the total…

There is a lengthy analysis of the cost of personal injury in relation to overall motor liability costs: 63.9% of total damages paid, or a total of €6.9 billion in 2017. Of this, €2.2 billion was paid in compensation for permanent disability of between 1% and 9% and €4.7 billion for more serious injury. In 2017 the incidence of claims with at least one injury diminished slightly by comparison with 2016 to 17.2%. We analyzed the evolution of the various components of personal injury damages from 2009 to 2017, finding that the effect of Law 27/2012, which altered the requirements for indemnity for mild injuries, appears now to have been fully incorporated. The frequency of claims for severe injury and death has not changed.

…the number of possibly fraudulent claims and of uninsured vehicles…

The Report sets out the results of the IVASS report for 2016 and 2017 on claims with a presumed risk of fraud. The average share of claims exposed to risk of fraud in 2017 was 22.4% nationwide, down slightly from 23.5% in 2016, but with very substantial territorial variation. On the basis of the open data of the Motor Vehicles Bureau, which also holds the data of the Public Automobile Registry, after refining and cleaning the data ANIA has estimated the total number of uninsured vehicles on the roads at 2.8 million in 2017, or 6.3% of all Italian vehicles.

…calculation of the single compensation amounts for direct indemnity in 2018…

A section describes the procedure for calculating the single compensation amounts for payments between insurance companies. For areas with a coefficient of 1, the CARD-CID amount was €3,345 for motorcycles and scooters and €1,810 for other vehicles.

…IVASS Measure 71/2018 on dynamic risk certification and 72/2018…

Following the technical talks with ANIA and insurers that IVASS had requested, the supervisor issued Measure 71/2018 on the dynamic risk certificate, amending IVASS Regulation 9/2015 and Measure 35/2015, together with Measure 72/2018 laying down standards for determining and rules for changing universal conversion merit classes, referred to in Article 3 of the Regulation. Both form part of a series of interventions to improve risk certification.

EXECUTIVE SUMMARY

…ANIA's activity in Italy and internationally…

The Report covers ANIA's activity internationally as regards projects on cars and technology and national initiatives to foster the introduction of interconnected vehicles and automated driving in Italy through effective regulation.

…smart roads, automated and connected vehicles, the new forms of connected and shared mobility…

The Report summarizes some of the studies conducted by ANIA's Auto and CARD Department and Legal Department, which have looked further into the issues involved in smart roads, interconnected and automated vehicles and the new forms of connected and shared mobility. This work has served to highlight the great potential of mobility innovation for insurers but at the same time to point up problems and difficulties.

…Law 124/2017 on markets and competition…

There is an account of the changes to intermediaries' information disclosure obligations made by Law 124/2017 (the law on markets and competition), with the insertion of Article 132-*bis* into the Insurance Code.

The is a chapter on the work of the ANIA Foundation, the ANIA-Consumers Forum, and ANIA Servizi:

A chapter is dedicated to the work during the year of the ANIA Foundation, the ANIA-Consumers Forum, and ANIA Servizi. The many initiatives of these organizations included:

ANIA Foundation

The Foundation's mission was broadened in 2017 from road safety alone to the protection of Italian households and firms.

A long-standing, strategic instrument for road safety is the Foundation's "Adopt a highway" project, which reinforced prevention by stepped-up on-road controls on some national highways over a period of two months (from 15 March to 15 May). The additional checks resulted in a significant reduction in accidents, effective sensitization of drivers, and an improvement in the image of the insurance industry as contributor to information and the popularization of responsible conduct behind the wheel.

The ANIA Cares project of psychological support to the relatives of accident victims was carried forward in 2017. On 31 December the three-year period of testing was concluded, having attained multiple objectives. In view of the positive results, the Highway Police have made it obligatory to request the intervention of ANIA Cares in accidents involving fatalities or severe injury. They have instituted a procedure triggered by a processing card carried by every street patrol in the pilot cities. In 2016, ANIA Cares was expanded to include an additional unit, specializing in rehabilitation of the severely injured to regain motor capability.

ANIA-Consumers Forum…

In 2017 the ANIA-Consumers Forum continued to develop the program known as "Welfare scenarios", a series of studies intended to capitalize on the Forum's "Proposals for an equitable and sustainable welfare system" – a set of proposals to enhance the transparency, equity, efficiency and reliability of the Italian welfare system. Last year's presentation of the results of the initiatives was attended by public institutional figures and representatives from academia and the world of business and labor. It also attracted considerable interest on the part of the press and public opinion.

On the issue of insurance education, the Forum presented the fourth "Insurance made plain" guide, this one on home and household policies. The Forum also proceeded further with its "Applied Mathematics Prize" and "Me and risks" program for schools, to further education about insurance in schools and among Italian households. In just a few years these programs have involved over 110,000 students in all parts of the country.

ANIA conducts regular surveys of policyholder satisfaction with a view to in-depth inquiry into the relationship between customer and firm, tracking its evolution over time, and so enabling individual insurers to analyze their positioning and to benchmark against the market-wide average. The 2017 survey found high overall levels of policyholder satisfaction. The Forum's consumer observatory devoted a special focus, this time, to the generation of the millennials, so as to highlight tendencies and attitudes among this market segment, which will naturally become more and more central.

…and ANIA Servizi

ANIA Servizi S.r.l. was constituted in 2017; the new unit identified and offered to insurers, for voluntary participation, several new service activities in three main areas for application to business processes. The areas are "Data driven", "ANIA broker" and "Cyber security". The main activity so far, namely "Data driven" services, had as principal output a "Map Italy 1.0" and the acquisition of access for insurers to the Eurisc credit information system.

THE REGULATORY FRAMEWORK

…Report on latest developments in Brexit…

On 29 March 2017 the United Kingdom presented its formal request to exit from the European Union under Article 50 of the Treaty on European Union. The first two phases laid down for withdrawal, notification of intention to withdraw and definition of the Commission's negotiating mandate, have already been concluded; the third, negotiation of the agreement by the Commission, and the fourth, approval of the agreement between the parties, must be completed by 29 March 2019. Britain's exit will have effects on the private sector. The insurance industry has identified three particular problematic issues and called them to the attention of the authorities for solution.

…the European Commission's Fintech action plan…

On 8 March 2018 the European Commission presented a plan to make the most of the opportunities offered by new technology in the sphere of financial services (the FinTech Action Plan). The Plan is designed to enable the financial industry to exploit the rapid development of new technologies while at the same time making markets more secure and accessible for new market players.

…the Final Report of the High Level Expert Group and the Commission's action

On 31 January the High Level Expert Group issued its final report. The Group was formed by the Commission to draw up a road map for pan-European implementation in order to direct capital flows towards sustainable investments and set out the steps that financial institutions and supervisors should take to strengthen *plan for sustainable finance and the circular economy…*

the role of finance in creating an efficient economy that can also attain environmental and social objectives. Based on the HLEG recommendations, on 22 March in Brussels the Commission presented its Action Plan for Financing Sustainable Growth.

…the proposal for a pan-European pension product regulation…

On 29 June 2017 the Commission released its proposal for a regulation on pan-European personal pension products (PEPP). The aim is on the one hand to make available to pension providers the instruments for offering a voluntary personal pension product and on the other to give savers a broader range of choice and more competitive products.

…the fifth AML directive…

On 14 May 2018, the Council of the European Union adopted the fifth anti-money laundering directive. The Directive amends the fourth AML Directive 2015/849 and is part of the broader action plan, launched in the aftermath of the terrorist attacks of 2016 in Europe, to strengthen EU rules to prevent money laundering and terrorism financing.

…the Commission proposal for a regulation on ESAs…

The European Commission published the proposal for a Regulation on the review of the European Supervisory Authorities. The Commission also proposed changes to the European Systemic Risk Board (ESRB), which monitors the risks to financial stability (macro-prudential supervision). The new proposal aims at a more coordinated and integrated European surveillance, in particular with a view to developing a European capital market. The proposal focuses on issues pertaining to the tasks, power, governance and funding of the Authorities.

…second-level measures on personal data protection: implementation of the GDPR…

The Personal Data Protection Regulation on the protection of natural persons regarding the processing of personal data and the free circulation of data (GDPR) became effective on 25 May 2018. Working Party 29 on data protection has drafted and published a series of guidelines to provide operators with indications on how to implement the GDPR with regard to the various issues, some of which are absolutely unprecedented.

…IFRS 9: new IVASS measure amending Regulation 7/2007…

On 1 March 2018 IVASS opened a consultation on proposed amendments to ISVAP Regulation 7 of 13 July 2007 on the balance-sheet layouts of insurance and reinsurance companies subject to the international accounting standards. After the consultation, on 8 May IVASS released Measure 74 amending the Regulation.

…the draft IVASS regulation on outside auditing of the Solvency II financial condition report…

On 19 December 2017 IVASS opened a public consultation on a draft Regulation on outside auditing of the Solvency and Financial Condition Report called for under Solvency II.

…ANIA's initiative on Solvency II financial statements…

Last year ANIA studied all the solvency reports published in Italy plus those of a significant European sample (the 40 leading insurance groups, including 5 Italian), examining them in both quantitative and qualitative terms. The study found that the solvency ratio of Italian insurers was 217% as of 31 December 2016. On the average the ratio was higher for mixed companies (227%) than for those doing only life insurance business (206%) or non-life business (165%). The average Italian ratio was higher than the average for insurance companies in the United Kingdom (a solvency ratio of 151%), the Netherlands (177%) and Belgium (176%) and broadly in line with those for France and Spain.

…EIOPA's technical advice to the Commission on revision of the standard formula…

In the context of the first revision of Solvency II, to be effected by the end of 2018, EIOPA submitted its technical opinion on 27 relevant issues: seven in its first set of advice, published on 30 October 2017, and twenty in the second set, published 28 February 2018. As for the comprehensive review of Solvency II, scheduled to be completed by the end of 2020, further study and possible amendments are planned as regards the countercyclical measures applied to products carrying long-term guarantees and equity risk measures.

…the 2018 stress test in the Solvency II framework…

On 14 May 2018 EIOPA began a new stress test designed to assess the vulnerability of the insurance industry to three adverse scenarios: two involving a combination of market and insurance risks, the third natural catastrophe. Four of the 42 European insurance groups taking part were Italian: Assicurazioni Generali, Unipol Gruppo Finanziario, Intesa Sanpaolo Vita, and Poste Vita.

…the Court of Justice judgment on applicability of VAT exemption to services provided by consortiums among entities carrying on VAT-exempt activities or not subject…

On 21 September 2017, the Court of Justice of the European Union acted on the VAT exemption for services provided by consortiums formed among entities that carry on VAT-exempt activities. The judgment serves to determine the exact confines of the notion of "activities in the public interest" pursuant to Directive 2006/112/EC. In its judgments the Court denied the "public interest" nature of insurance and banking and consequently ruled that such services provided by consortiums to their members are ineligible for the VAT exemption.

…changes to the rules on VAT groups…

The rules governing VAT groups introduced by the budget law for 2017 (Law 232/2016) have now been supplemented by the 2018 budget law (Law 205/2017 of 27 December). Specifically, it adds to the text of Article 70-*quinquies* of Presidential Decree 633/1972 paragraphs 4-*bis* and 4-*sexies*, to implement in Italian law the judgment of the Court of Justice of the European Union on case C-7/(13 – *Skandia American Corporation* – handed down on 17 September 2014.

…tax reductions and other changes made by the budget law…

The 2018 budget law (Law 205/2017), Article 1.768 and 1.769, introduces two tax reductions long advocated by ANIA, designed to foster insurance coverage against the risk of damage to residential dwellings from natural disasters:

- exemption from the tax on insurance premiums referred to in Law 1261/1961;
- deductibility of 19% of premium costs from personal income tax, with no ceiling.

The 2018 budget law amends Law 1216/1961, Article 9.1-*bis*, instituting a new payment schedule and the progressive raising of the percentage of insurance premiums required as advance tax payment.

…the guidelines for simplification of insurance contracts drafted by the task force coordinated by ANIA…

In October 2016 IVASS asked insurers, brokers and consumers to engage in a dialogue and find possible points of agreement on the simplification of insurance contracts. ANIA acted as coordinator of a task force involving the various stakeholders. The task force drafted a joint final paper with guidelines on the structure and language of contracts. IVASS expressed its satisfaction with the results achieved by the organizations involved and noted that it is important that insurers adopt the guidelines. IVASS subsequently issued two letters to the market on this issue.

…implementation of the NIS Directive on the security of network and information systems…

On 16 May 2018 the Council of Ministers approved the legislative decree implementing Directive 2016/1148 on the security of network and information systems (the NIS Directive), which is the first comprehensive, systematic measure dealing with issues of cyber security, with the aim of increasing the resiliency of networks and systems and enhancing European cooperation in this field.

…and fair remuneration for lawyers

The notion of "fair remuneration" is governed by Law 247/2012, Article 13-*bis* on the legal profession. Applying initially to lawyers only, it has been extended, where compatible, to the services of other professionals referred to in Law 81/2017, Article 1 (the law for the protection of non-entrepreneurial self-employed workers, including members of professional orders).

1

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2017

Insurance companies' net profit for 2017 came to nearly €6 billion, in line with the results of the past five years. Consequently, the industry's ROE remained almost stable close to 10%. This positive result is chiefly attributable to the technical account which, despite being lower than the previous year, was just under €6.5 billion. In particular, the technical balance for life insurance was positive by €3.4 billion, although worse than 2016, while non-life insurance was broadly stable at €3.1 billion. In 2017 the number of Italian insurance companies operating in the domestic market diminished as a result of mergers and acquisitions. The number of branch offices of foreign companies operating in Italy remains stable.

OPERATING INSURANCE COMPANIES

Insurance companies operating in Italy numbered 213 at the end of 2017, compared with 215 a year earlier. In fact, while the number of companies with registered offices in Italy has gone down between 2016 and 2017 (from 109 to 100), the number of branch offices of foreign companies in Italy has gone up (from 106 to 113), most of which are EU companies (110). In addition, roughly 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 2017 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	2016	53	–	2	55	3	62	120
	2017	50	–	2	52	3	69	124
Life	2016	41			41	–	22	63
	2017	35			35	–	22	57
Professional reinsurers	2016	–	–	–	–	–	7	7
	2017	–	–	–	–	–	7	7
Multi branches	2016	11	1	1	13	–	12	25
	2017	11	1	1	13	–	12	25
TOTAL	**2016**	**105**	**1**	**3**	**109**	**3**	**103**	**215**
	2017	**96**	**1**	**3**	**100**	**3**	**110**	**213**

At the end of 2017, 57 insurance companies (63 in 2016) engaged exclusively in life business (of which 22 branch offices) and 124 (120 in 2016) exclusively in non-life business (of which 69 branch offices). A total of 25 (of which 12 branch offices) did business in both the life and non-life sectors, accounting for approximately 35% of total premium income. Seven undertakings, all of them branches of foreign companies, engaged only in reinsurance. At 31 December 2017 ANIA counted 132 member companies (of which 21 correspondent members).

The 100 insurers with registered offices in Italy comprised, by legal form, 96 limited share companies, three mutual companies and one cooperative society.

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2017

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 new Solvency II regime both in terms of fair value accounting and of balance-sheet item classification. The statutory financial statements of Italian companies, in fact, are not yet compliant with the IAS/IFRS accounting standards, also marked to market, in line with Solvency II requirements. The main data on the criteria established by the new regime are dealt with in the last part of this chapter.

INCOME STATEMENT

Income statement
Euro million

	2010	2011	2012	2013	2014	2015	2016	2017
Technical account of non-life and life classes (*)								
Written premiums	123,546	108,420	103,139	117,374	142,035	146,005	132,954	129,302
Changes in reserves (-)	32,825	3,106	9,631	29,520	60,006	53,343	49,039	38,951
Investment income	14,109	3,978	27,480	20,068	22,511	17,770	18,291	20,053
Other technical income	1,484	1,429	1,560	1,641	1,781	2,325	2,624	2,824
Incurred claims (-)	92,105	99,376	98,776	88,322	84,838	90,530	82,209	90,512
Operating expenses (-)	12,540	12,283	11,539	11,725	12,126	12,382	12,213	12,356
Other technical costs (-)	2,311	2,272	2,537	2,625	2,744	3,330	3,619	3,844
Balance	**-642**	**-3,210**	**9,696**	**6,891**	**6,613**	**6,516**	**6,789**	**6,515**
Technical account non-life (*)								
Written premiums	32,954	34,052	32,763	31,618	31,071	30,501	29,777	30,010
Changes in premium reserves (-)	496	462	-494	-623	-282	-173	190	447
Investment income	1,095	640	1,660	1,262	1,346	1,288	1,161	1,280
Other technical income	440	451	469	429	393	382	401	403
Incurred claims (-)	25,106	25,199	23,480	21,323	20,187	19,291	18,826	18,755
Operating expenses (-)	8,141	8,322	8,018	8,041	8,243	8,318	8,219	8,320
Other technical costs (-)	1,121	1,054	1,124	1,021	913	984	1,015	1,015
Balance	**-375**	**106**	**2,765**	**3,546**	**3,749**	**3,751**	**3,089**	**3,156**
Technical account life (*)								
Written premiums	90,592	74,368	70,376	85,756	110,963	115,504	103,177	99,291
Changes in technical provisions (-)	32,329	2,644	10,125	30,143	60,288	53,516	48,849	38,505
Investment income	13,014	3,338	25,820	18,806	21,166	16,482	17,130	18,774
Other technical income	1,044	978	1,091	1,212	1,388	1,943	2,223	2,421
Incurred claims (-)	66,999	74,177	75,296	66,999	64,651	71,239	63,383	71,757
Operating expenses (-)	4,399	3,961	3,521	3,684	3,884	4,064	3,994	4,036
Other technical costs (-)	1,190	1,218	1,413	1,604	1,831	2,346	2,604	2,829
Balance	**-267**	**-3,316**	**6,931**	**3,344**	**2,864**	**2,765**	**3,700**	**3,360**
Non-technical account (*)								
Other non-life income	201	-734	94	825	925	860	1,121	1,394
Other life income	839	265	1,626	1,444	1,917	1,821	1,824	1,775
Balance of other income and expenses	-1,763	-1,551	-1,922	-2,182	-2,064	-2,104	-2,251	-2,362
Balance of ordinary activities	**-1,365**	**-5,230**	**9,494**	**6,978**	**7,391**	**7,093**	**7,483**	**7,321**
Balance of extraordinary activities	**614**	**478**	**-28**	**1,314**	**961**	**1,010**	**223**	**459**
Taxes (-)	-48	-1,099	3,696	3,062	2,405	2,395	2,006	1,806
Result for the financial year	**-703**	**-3,653**	**5,770**	**5,231**	**5,947**	**5,709**	**5,700**	**5,974**
Profit/loss for the financial year, non-life sector	*-998*	*-1,016*	*641*	*2,125*	*2,448*	*1,956*	*2,114*	*2,439*
Profit/loss for the financial year, life sector	*295*	*-2,637*	*5,129*	*3,105*	*3,498*	*3,753*	*3,586*	*3,535*
Return on Equity	-1.4%	-7.1%	11.5%	9.7%	10.1%	9.6%	9.4%	9.9%
Return on Equity (non-life)	-4.6%	-4.7%	3.1%	9.7%	10.2%	7.9%	8.4%	9.7%
Return on Equity (life)	1.1%	-8.8%	17.3%	9.8%	10.1%	10.8%	10.2%	10.0%

(*) Net of cessions and back-cessions

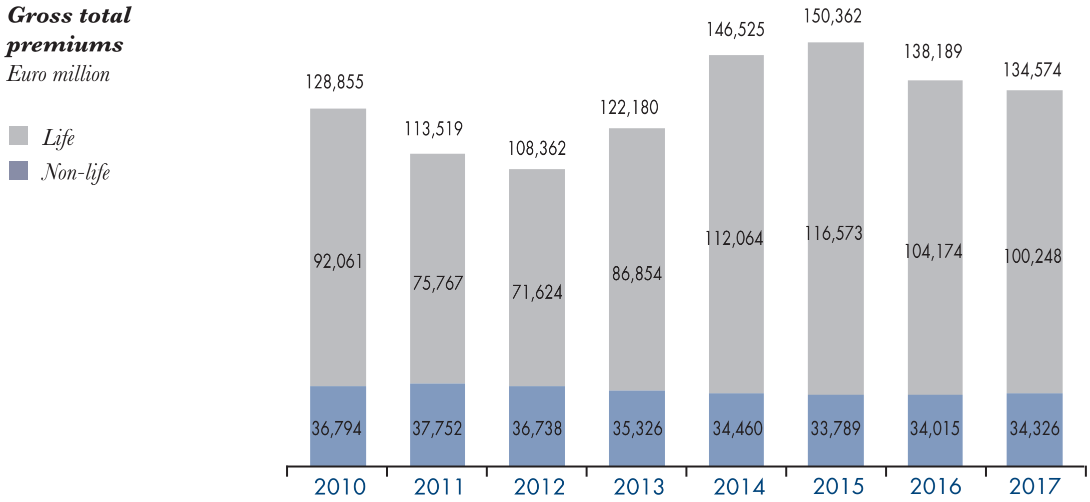
THE TECHNICAL ACCOUNT

Premiums

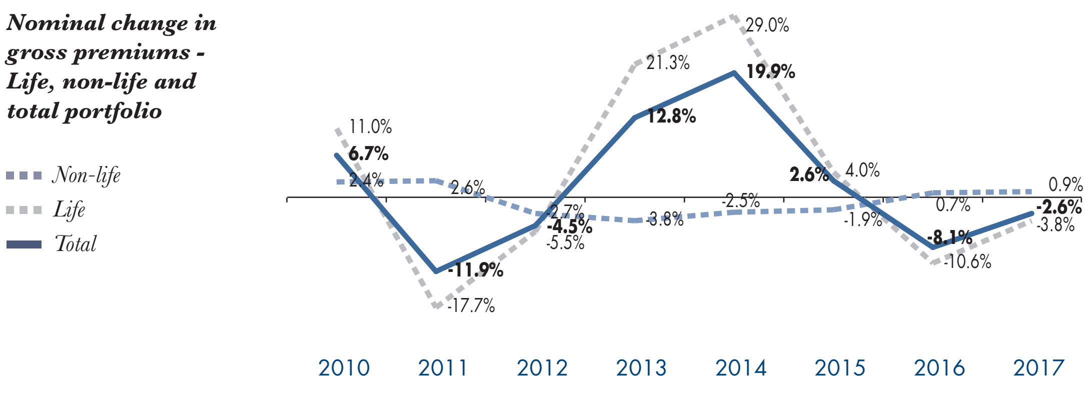
Total **premiums from domestic and foreign business**, direct and indirect, gross of reinsurance, collected by the companies having their registered office in Italy and by the Italian branches of non-EU companies totaled €134,574 million in 2017, of which €34,326 million from non-life policies and €100,248 million from life policies. The overall drop of 2.6% was the second registered after three years of substantial growth since 2012, in which premiums had increased by over €40 billion. The 2017 decrease was due to the life sector, in which premiums contracted by 3.8% (after a 10.6% fall in 2016), while non-life premiums went up by 0.9%, confirming the upturn in 2016, after four years of contraction.

As a result of these developments, life premiums' share of total premium income diminished from 75.4% to 74.5%.

Gross total premiums
Euro million



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



Total premiums, net of those ceded (€5,272 million or 3.9% of the total), amounted to €129,302 million: of which €30,010 million from non-life policies and €99,291 million from life policies.

Claims and benefits paid

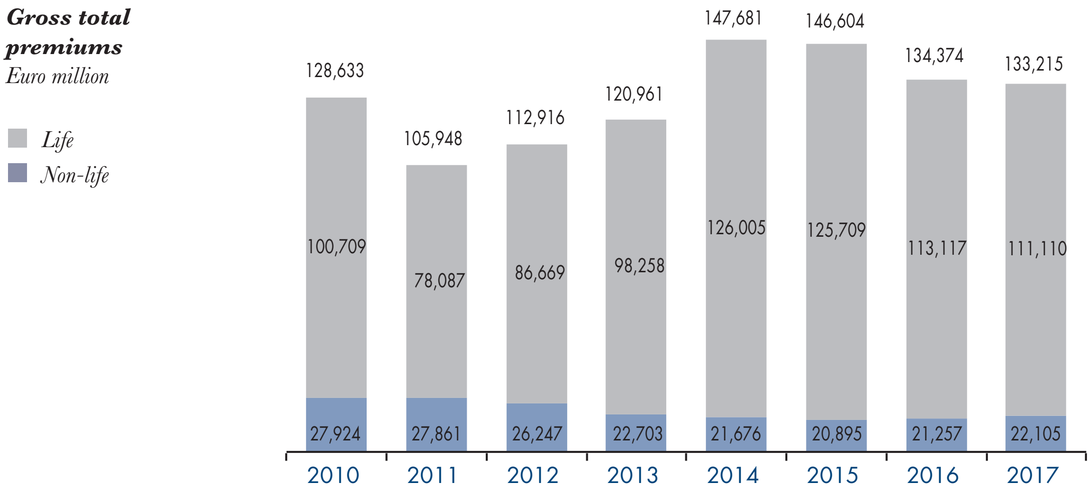
Benefits and claims paid to insured parties and other persons entitled, **gross of reinsurance**, are calculated as the sum of the following:

– cost of claims and change in 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 decreased by 0.9% in 2017 to total €133,215 million: €22,105 million in non-life classes (+4.0%) and €111,110 million in life classes (-1.8%).

The **share borne by reinsurance** was €3,751 million; as a consequence, net benefit and claims paid totaled €129,464 million (-1.4%): €19,202 million in non-life classes and €110,261 million in life classes.

Gross total premiums
Euro million



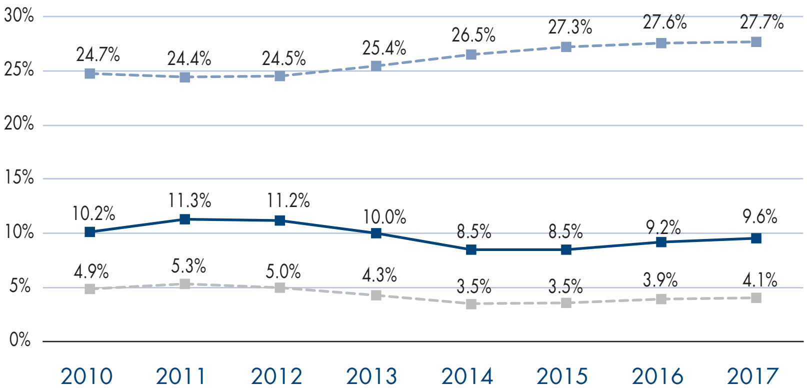
Operating expenses

Operating expenses relating to direct and indirect business, net of reinsurance cessions, which comprise contract acquisition, premium collection, distribution network organizational and operating costs and the administration expenses relating to technical management of insurance business, were €12,356 million, 1.2% more than in 2016. Given the decrease in premiums, the ratio of total operating expenses to written premiums increased from 9.2% to 9.6%.

The incidence of costs for individual life and non-life policies displayed different trends, reflecting the different variation of premiums in the two sectors (down for life premiums and essentially stable for non-life premiums). In particular, in 2017, operating expenses in non-life business amounted to €8,320 million (they were €8,219 million in 2016) with a ratio to premiums of 27.7% (up from 27.6% in 2016); operating expenses in non-life business amounted to €4,036 million (they were €3,994 million in 2016), with a ratio to premiums of 4.1% (up from 3.9% in 2016).

Operating expenses
Incidence on net written premiums (%)

Non-life
Life
Total



Technical account result

The **overall technical account result** (non-life plus life), net of reinsurance, was positive at €6,515 million, with a ratio to premiums of 5.0% on net direct and indirect premiums, in line with the previous year. For non-life business the technical account result was positive by €3.1 billion, unchanged from 2016, and its ratio to premiums rose to 10.5% from 10.4% a year earlier. In the life sector the result was positive by €3.4 billion (down from the €3.7 billion of 2016); the ratio to premiums decreased from 3.6% in 2016 to 3.4% in 2017.

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

	2010	2011	2012	2013	2014	2015	2016	2017
Non-life and life	-0.5%	-3.0%	9.4%	5.9%	4.7%	4.5%	5.1%	5.0%
Non-life	-1.1%	0.3%	8.4%	11.2%	12.1%	12.3%	10.4%	10.5%
Life	-0.3%	-4.5%	9.8%	3.9%	2.6%	2.4%	3.6%	3.4%

THE RESULT ON INVESTMENT ACTIVITY

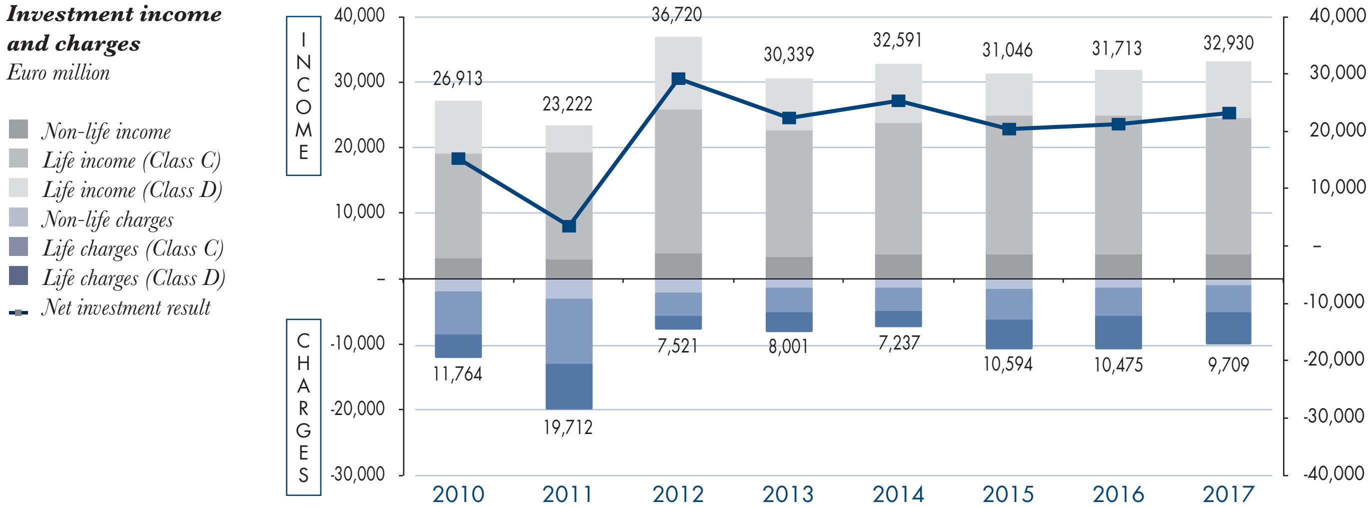
In 2017, **return on investment** amounted to €32,930 million (it was €31,713 million in 2016), up by 3.8%. In particular:

- non-life investment income increased by 0.9% to €3,846 million:
- Class C life investment income decreased by 1.7% to €20,838 million;
- Class D life investment income grew by over 20% to €8,246 million.

More in detail, as shown in the table below, the **ordinary gross investment income of life and non-life classes** was composed as follows:

- *income from securities, bonds and other investments*, amounting to €17,993 million (+0.5%): 54.6% 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 €8,246 million (+22.9%): 25.0% of the total;
- *revaluation gains and realized profits on investment*, amounting to €3,406 million (-14.3%): 10.3% of the total;
- *income from shares and investment fund units*, amounting to €3,104 million (+5.3% compared with 2016): 9.4% of the total;
- *income from land and buildings*, amounting to €182 million (-2.9%): 0.6% of the total;

Investment income and charges
Euro million



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

	2010	2011	2012	2013	2014	2015	2016	2017
Shares	6.4%	6.8%	4.5%	6.3%	8.6%	8.7%	9.3%	9.4%
Land and buildings	0.8%	1.0%	0.6%	0.7%	0.6%	0.7%	0.6%	0.6%
Securities, bonds and other inv.	48.8%	63.7%	43.2%	53.3%	53.0%	56.7%	56.4%	54.6%
Revaluations	15.3%	12.3%	22.3%	14.8%	11.5%	15.0%	12.5%	10.3%
Inv. benefiting policyholders	28.6%	16.2%	29.4%	24.9%	26.2%	18.9%	21.2%	25.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The **cost of investment** shrank from €10,475 million in 2016 to €9,709 million in 2017. In particular:

– in the non-life sector investment charges fell by more than 20% to €1,173 million, with the sector recording a net investment profit of €2,673 million, better than the previous year (€2,283 million);
– in the life sector (Class C), investment charges decreased by 3.7% to €4,157 million, with net investment profit still positive at €16,681 million, down slightly from €16,876 million in 2016;
– in the life sector (Class D), investment charges dropped by 5.4% to €4,379 million, producing net investment profit of €3,867 million (against €2,079 million in 2016).

The insurance industry's overall **net profit on investment was positive** at €23,221 million, compared with €21,237 million in 2016, of which €20,053 million (86%) came from the technical account (up from €18,291 in 2016) and €3,168 million (14%) from the non-technical account (up from €2,945 million in 2016).

Extraordinary income, gross of charges, amounted to €857 million, up from €591 million in 2016. The related charges came to €398 million (up from €368 million in 2016).

THE RESULT FOR THE FINANCIAL YEAR

In 2017, the **result from the ordinary activity** of the life and non-life sectors was €7,321 million (down from €7,483 million in 2016); **extraordinary income** (which is added to the ordinary activity) remained positive at €459 million, up from €223 million in 2016. Overall, pre-tax **profit for the year**, calculated as the sum of ordinary and extraordinary activities, thus amounted to €7,780 million, in line with the previous year.

After taxes totaling €1,806 million, the industry showed an **overall net profit of €5,974 million**: €2,439 million for the non-life sector and €3,535 million for the life sector.

Given an overall net profit of nearly €6 billion, the sector's return on equity came to 9.9% in 2017, slightly up from 9.4% in 2016; finally, the two sectors (life and non-life) recorded respective ROEs of 9.7% (8.4% in 2016) and 10.0% (10.2% in 2016).

THE ITALIAN INSURANCE MARKET: KEY FIGURES 2017

Profit-and-loss account by sector
Euro million

	2010	2011	2012	2013	2014	2015	2016	2017
Non-life								
Technical account result	-375	106	2,765	3,546	3,749	3,751	3,089	3,156
Net investment income	201	-734	94	825	925	860	1,122	1,393
Intermediate operating result	-174	-628	2,859	4,371	4,674	4,612	4,211	4,549
Other net income	-1,185	-948	-1,295	-1,354	-1,502	-1,469	-1,438	-1,474
Net extraordinary income	218	386	1	473	450	72	137	210
Income tax for year (-)	-143	-174	924	1,365	1,173	1,259	795	846
Profit/loss for the year	-998	-1,016	641	2,125	2,448	1,956	2,114	2,439
Life								
Technical account result	-266	-3,316	6,931	3,344	2,864	2,765	3,700	3,360
Net investment income	839	265	1.626	1,444	1,917	1,821	1,824	1,775
Intermediate operating result	573	-3,051	8,557	4,788	4,781	4,586	5,525	5,135
Other net income	-578	-603	-627	-828	-563	-636	-814	-891
Net extraordinary income	396	93	-29	841	511	939	86	250
Income tax for year (-)	96	-925	2,772	1,696	1,231	1,136	1,211	959
Profit/loss for the year	295	-2,637	5,129	3,105	3,498	3,753	3,586	3,535

In particular, the profit of the **non-life** sector for 2017 was €2,439 million, with a 15% improvement on the €2,114 million in 2016; 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 €4,549 million, up €300 million from 2016;
– a negative balance of €1,474 million on **other income less other charges**, virtually unchanged from 2016 (-€1,438);
– a positive balance of €210 million on other **net extraordinary income**, in line with 2016 (€137 million);
– **income taxes** increased by nearly €100 million to €846 million from €795 million a year earlier.

The profit of the **life** sector for 2017 amounted to €3,535 million, down by 1.4% from €3,586 million in 2016; 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 €5,135 million, €400 million less than in 2016 (€5,525);
– a negative balance of €891 million on **other income less other charges**, €80 million worse than in 2016;
– a positive balance of €250 million on **net extraordinary income**, up over €160 million from the €86 million of 2016;
– a volume of **income taxes** of €959 million, slightly decreased compared to the €1,211 million of 2016.

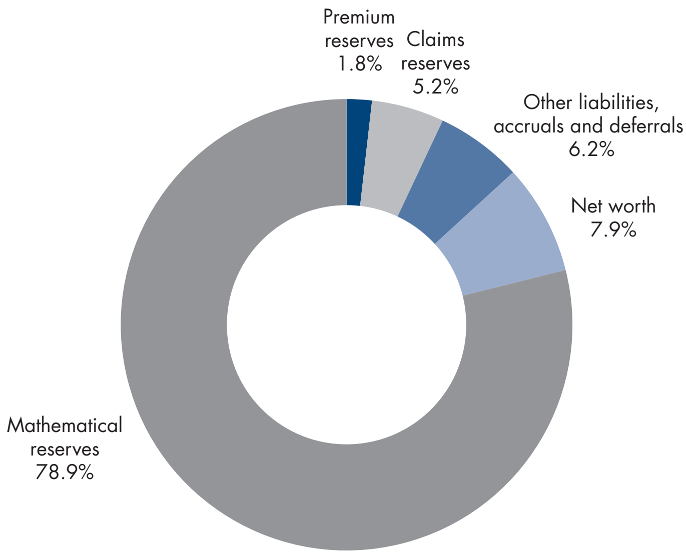
BALANCE SHEET – STATUTORY FINANCIAL STATEMENTS

Balance sheet
Euro million

	2010	2011	2012	2013	2014	2015	2016	2017
LIABILITIES	586,815	585,665	603,706	641,230	703,134	762,742	810,241	848,717
NET WORTH	50,260	48,252	54,299	63,906	64,403	66,223	66,361	66,836
TECHNICAL PROVISIONS	492,151	494,448	504,067	530,905	591,746	647,523	693,910	729,554
Non-life classes	*65,859*	*66,697*	*66,838*	*64,764*	*63,368*	*62,005*	*61,384*	*59,988*
Life classes	*426,292*	*427,751*	*437,229*	*466,141*	*528,378*	*585,518*	*632,525*	*669,566*
OTHER LIABILITIES	43,703	42,238	44,601	45,739	46,301	48,380	49,353	51,811
ACCRUALS AND DEFERRALS	701	728	739	680	684	616	617	518
ASSETS	586,815	585,665	603,706	641,230	703,134	762,742	810,241	848,717
AMOUNTS OWED BY SHAREHOLDERS	15	3	7	0	0	0	0	0
INTANGIBLE ASSETS	6,310	6,001	5,747	6,194	6,907	6,664	6,521	6,378
INVESTMENTS:	517,014	511,384	526,975	562,960	629,566	692,645	741,207	779,067
Land and building	*6,513*	*6,902*	*6,780*	*6,459*	*6,041*	*6,645*	*6,251*	*6,187*
Shares and other equity	*56,751*	*54,347*	*50,129*	*57,297*	*56,387*	*57,022*	*56,808*	*59,913*
Bonds and other fixed income securities	*306,898*	*316,029*	*335,627*	*363,826*	*410,269*	*437,571*	*464,578*	*473,549*
Investments benefiting policyholders and proceeds from management of pension funds	*112,144*	*98,911*	*97,521*	*96,814*	*108,771*	*128,252*	*139,521*	*154,315*
TECHNICAL PROVISIONS BORNE BY REINSURERS	18,737	17,546	17,768	16,533	15,109	14,104	13,734	13,646
AMOUNTS OWED BY DEBTORS	26,576	26,875	26,497	28,192	28,612	26,559	28,200	29,741
OTHER ASSETS	13,068	18,619	21,428	21,868	17,164	16,954	14,664	14,165
ACCRUALS AND DEFERRALS	5,093	5,238	5,284	5,483	5,777	5,814	5,914	5,720

Liabilities

Breakdown of liabilities (%) – 2017



Euro 848,718 million

Ania

Balance-sheet liabilities totaled €848,718 million, an increase of roughly 5% compared with 2016.

In particular:

- shareholders' equity grew by 0.7% to €66,836 million; it is equal to 7.9% of total liabilities;
- technical provisions, which represent the commitments undertaken vis-à-vis the insured, rose by 5.1% to €729,554 million; they made up 86% of the total. Life provisions, which accounted for 78.9% of the total, grew by 5.9%, while non-life provisions (claims and premiums) diminished by more than 2%;
- other liabilities, amounting to €51,811 million (6.1% of the total), were up 5% from a year earlier;
- accrued expenses and deferred income amounted to €518 million (0.1% of the total).

Assets

On the asset side, the main items composing the total of €848,717 million are investments, the reinsurance share of technical provisions, receivables, other asset items, accruals and deferrals, thus balancing out total liabilities.

In particular:

- *investments* totaled €779,067 million, an increase of 5.1% from a year earlier, and made up 90% of total assets. Investments amounted to €84,769 million (11% of the total) in the non-life sector and to €694,298 million (89% of the total) in the life sector.

In detail, total investments were distributed as follows:

- debt securities and other fixed-income securities: €473,549 million, up 2% (61% of the total);
- investments pertaining to Class D: €154,315 million, up 10.6% (19.8% of the total);
- shares of mutual funds and other investments: €85,103 million, up 14.9% (10.9% of the total);

- shares and other equity: €59,913 million, up 5.5% (7.7% of the total);
- land and buildings: €6,187 million, down 1% (0.8% of the total).

– the *technical provisions borne by reinsurers* came to €13,646 million, down 0.6% from a year earlier, and made up 1.6% of total assets;
– *receivables from debtors* totaled €29,741 million, up 5.5% (3.5% of the total);
– *claims on shareholders* (equal to zero), *intangible assets* (€6,378 million) and *other assets* (€14,165 million) amounted to €20,543 million, down 3.0% (2.4% of the total);
– *accrued income and prepaid expenses* were equal to €5,720 million, down 3.3% (0.7% of the total).

AN ANALYSIS OF RETURN ON EQUITY IN THE LIFE AND NON-LIFE SECTORS

The ROE is a synthetic index that allows an overall assessment of a company's economic performance. For a more careful interpretation of the variables coming into play in the final calculation of the company's profits and losses, the items involved in the company's production cycle must be analyzed separately. This is especially true for insurers, as their activity consists not only of insurance management (which consists specifically in the underwriting of policies and management of the risks insured) but also of a financial component (not purely insurance-related) that is an integral part of the company's business process.

The complementarity of the two core businesses, managed unitarily, allows for formulation of the ROE, perhaps more complex but with a greater detail of analysis, highlighting the impact that said factors have on the final result. In particular, the ROE can be calculated also with the following components:

$$ROE = \left\{\left[\underbrace{\left(\frac{IB}{nTP} + ROI\right)}_{\text{ORDINARY OPERATIONS}} \times \underbrace{(L)}_{\text{LEVERAGE}}\right] + \underbrace{\left(ROI + \frac{EO}{NW}\right)}_{\text{EXTRAORDINARY OPERATIONS}}\right\} \times \underbrace{(1 - T)}_{\text{TAXES}}$$

The formulation underlines the fact that an insurance company broadly depends on three main elements: ordinary operations, non-insurance business (or extraordinary operations) and tax-related items.

Ordinary operations: the profitability of ordinary operations is the sum of insurance business profitability (IB/nTP: result of insurance business/net technical provisions) and of the profitability of ordinary financial operations, namely the rate of return on the investment of assets (ROI: investment gains/total assets). The formula shows how the profitability of ordinary operations contributes to the return on equity based on the level achieved by financial-insurance "leverage" (L); this value is calculated as the ratio of net technical provisions to net worth (L=nTP/NW), in other words it is the ratio of third-party net equity (technical provisions) over the company's net equity (net worth). Given the very nature of the insurance business, which produces permanent and substantial debt exposure vis-à-vis policyholders, the leverage ratio is usually greater than 1. Finally, leverage has a multiplying effect that emphasizes (negatively or positively) the result of ordinary operations, regardless of their negative or positive outcome.

Extraordinary operations (EO/NW=extraordinary operations/net worth): it indicates the profitability of extraordinary operations.

Taxes (T): it is an indicator of taxation calculated as the ratio of taxes paid by the company to net profit.

These three components follow three separate logics in terms of their contribution to the final ROE, while also showing different dynamics for the life and non-life sectors; therefore, our analysis of the ROE has kept the two main classes of business separate.

Total life and non-life – The industry's overall result (life plus non-life) for the profitability of the insurance market (Table 1) in 2017 was 9.9%, in line with the past four years.

The return on assets (ROA) was positive in 2017 (3.1%), virtually unchanged from 2016 (3.0%) and 2015 (3.1%) but lower than that of the previous three years (5.5% in 2012, 4.0% in 2013 and 4.2% in 2014). The result for insurance business was negative (-2.3%), in line with the two previous years. The combined effect of these two elements, associated with growing results of extraordinary operations at 0.8% (up from 0.4% in 2016), contributed to a positive profitability ratio. The financial-insurance leverage ratio was 11.5 (it was 10.8 in 2016).

Table 1 – Breakdown of total ROE (life plus non-life)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
TOTAL (Life and Non-life)										
Return on investment (ROI)	-2.2%	6.2%	3.0%	0.7%	5.5%	4.0%	4.2%	3.1%	3.0%	3.1%
Profitability of insurance business (IB/nTP)	1.4%	-5.8%	-3.6%	-1.8%	-4.1%	-3.1%	-3.3%	-2.2%	-2.1%	-2.3%
Profitability of extraordinary operations (EO/NW)	1.8%	1.8%	1.2%	0.9%	-0.1%	2.5%	1.6%	1.7%	0.4%	0.8%
Financial-insurance leverage (L)	9.9	9.3	9.3	9.2	9.6	9.3	9.3	10.2	10.8	11.5
Indicator of taxation (T)	41.5%	25.3%	6.3%	23.1%	39.0%	36.9%	28.8%	29.6%	26.0%	23.2%
ROE	-4.8%	8.5%	-1.4%	-7.1%	11.5%	9.8%	10.2%	9.6%	9.4%	9.9%

Non-life sector – Table 2 shows the values of the different components of the ROE for overall non-life business for the past decade. The results presented refer to all Italian companies and branch offices of non-EU companies operating in Italy net of professional reinsurers.

Table 2 – Breakdown of ROE in non-life classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NON-LIFE										
Return on investment (ROI)	0.5%	4.1%	1.6%	-0.1%	2.2%	2.6%	2.8%	2.6%	2.8%	3.4%
Profitability of insurance business (IB/nTP)	-1.9%	-5.5%	-4.4%	-2.5%	-0.3%	1.6%	1.6%	1.7%	0.9%	0.8%
Profitability of extraordinary operations (EO/NW)	1.8%	0.2%	1.0%	1.8%	0.0%	2.2%	1.9%	0.3%	0.5%	0.8%
Financial-insurance lever (L)	3.3	3.0	2.8	2.8	2.9	2.7	2.4	2.3	2.2	2.2
Indicator of taxation (T)	59.7%	-62.4%	12.5%	14.6%	59.1%	39.1%	32.4%	39.2%	27.3%	25.7%
ROE	-0.9%	0.3%	-4.6%	-4.7%	3.1%	9.7%	10.2%	7.9%	8.4%	9.7%

The non-life ROE for 2017 was positive at 9.7%, higher than the 8.4% of 2016. This is partly attributable to the improvement on financial operations (which grew from 2.8% to 3.4%), despite the slightly worse results registered by insurance business, which came to 0.8% in 2017 from 0.9% a year earlier. Another key factor was an easing of the tax burden, which dropped from 27.3% to 25.7%.

Figure 1 shows the trend of ordinary operations as the "sum" of the performance of the two businesses: ordinary insurance and financial operations.

The result of ordinary operations (ROI plus insurance business), which has been positive since 2012, was 4.1% in 2017 (higher than the previous year). The two factors of the overall operating result had opposite effects on the final ratio: the increase in the ROI was only partly offset by the slight decrease in earnings from insurance business.

Figure 1
Financial and insurance business in the non-life sector

A = Return on investment (ROI)
B = Profitability of insurance business (BI/nTP)
A+B = Ordinary operations

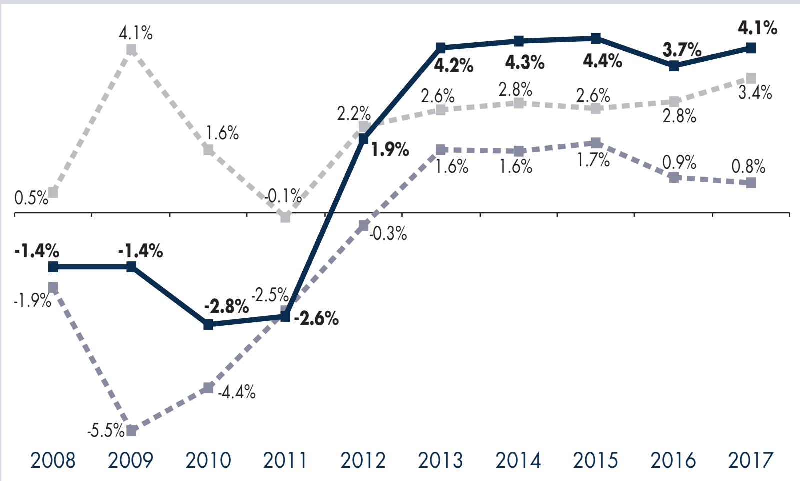
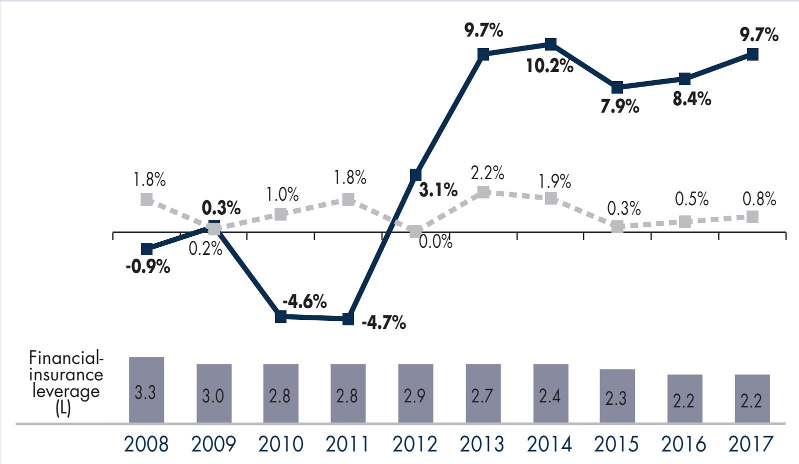


Figure 2 analyzes the other two fundamental components in the calculation of the profitability of the industry's insurance segment: financial-insurance leverage and extraordinary operations. Leverage, i.e. the ratio of net technical provisions to net worth, has diminished steadily over the past few years, from 3.3 in 2008 to 2.2 in the past two years.

Figure 2 Extraordinary Operations, Leverage and Return on equity (ROE) non-life sector

Profitability of extraordinary operations (EO/NW)
Return on Equity (ROE)



The result of extraordinary operations, which in 2013 and 2014 had contributed to the improvement in the sector's profitability, was 0.8% in 2017, in line with the previous year. Last year, ROE came to 9.7% (up from 8.4% in 2016).

Life sector – In 2017 life insurers registered profitability of 10%, in line with 2016.

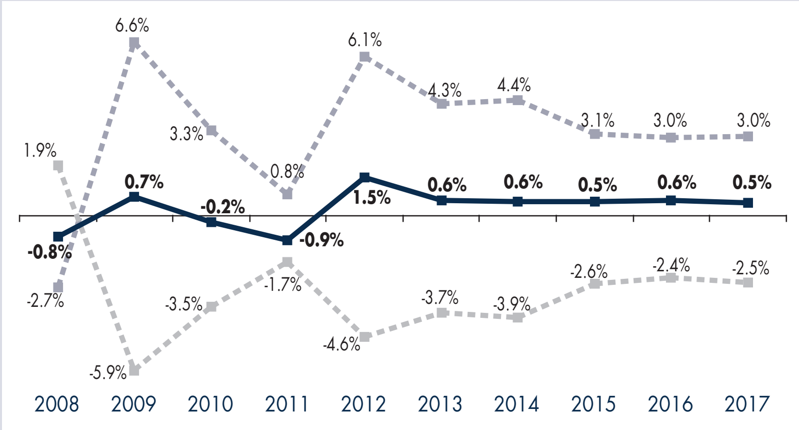
Figure 3 provides a more detailed analysis of the complementarity between ordinary financial operations (ROI) and insurance business (used to calculate the result of ordinary operations as a sum of the two components). The negative technical balance of the insurance business has always been more than offset (with the exception of 2008) by a positive ROI; this allowed ordinary operations to maintain moderately positive values between 0.5% and 1.5%. This was the case also in 2017.

Table 3 – Breakdown of ROE in life classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LIFE										
Return on investment (ROI)	-2.7%	6.6%	3.3%	0.8%	6.1%	4.3%	4.4%	3.1%	3.0%	3.0%
Profitability of insurance business (IB/nTP)	1.9%	-5.9%	-3.5%	-1.7%	-4.6%	-3.7%	-3.9%	-2.6%	-2.4%	-2.5%
Profitability of extraordinary operations (EO/NW)	1.8%	3.2%	1.4%	0.3%	-0.1%	2.7%	1.5%	2.7%	0.2%	0.7%
Financial-insurance leverage (L)	15.1	14.4	14.4	13.9	14.2	13.9	14.1	15.8	17.0	18.2
Indicator of taxation (T)	39.0%	26.0%	24.4%	26.0%	35.1%	35.3%	26.0%	23.2%	25.2%	21.3%
ROE	-7.8%	15.2%	1.1%	-8.8%	17.3%	9.8%	10.1%	10.8%	10.2%	10.0%

Figure 3
Financial and Insurance business in the life sector

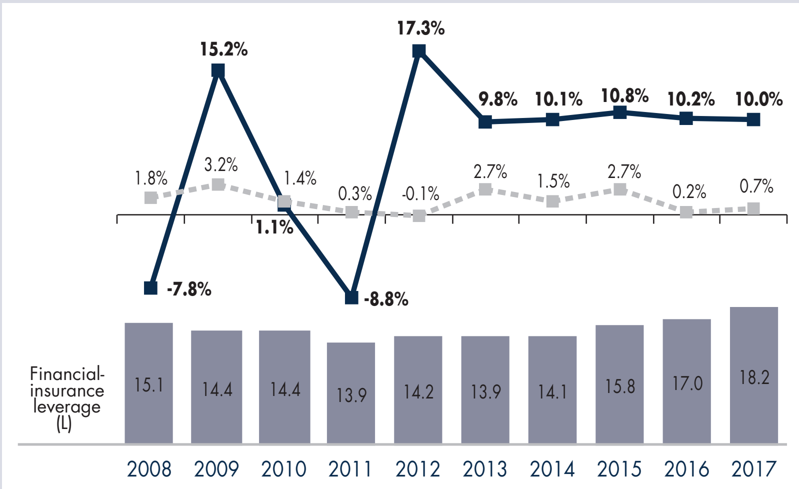
A= Return on investment (ROI)
B= Profitability of insurance business (BI/nTP)
A+B = Ordinary operations



The multiplying effect of financial-insurance leverage, which has grown steadily over the past five years from 13.9 in 2011 to 18.2 in 2017 (Figure 4), has offset the weaker profitability of extraordinary activities which amounted to 0.7% in the last year.

Figure 4
Extraordinary operations, leverage and ROE in the life sector

Profitability of extraordinary operations (EO/NW)
Return on Equity (ROE)



SOLVENCY II BALANCE SHEET

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

BALANCE SHEET – SOLVENCY II DATA

Solvency II – Balance sheet of Italian Companies
Euro million

	2015 (Day one)	2016	%	2017	%	Change % 17/16
Total assets	841,455	883,181	100.0%	921,350	100.0%	4.3%
Buildings, plant and equipment for own use	2,845	2,738	0.3%	2,091	0.2%	-23.7%
Investments (net of linked policies)	636,890	671,580	76.0%	698,213	75.8%	4.0%
Assets held in respect of linked policies	127,983	139,464	15.8%	154,315	16.7%	10.6%
Mortgages and loans	6,025	4,117	0.5%	5,588	0.6%	35.7%
Amounts recoverable from reinsurance	12,953	12,778	1.4%	10,621	1.2%	-16.9%
Deposits with ceding undertakings	9,127	9,032	1.0%	8,061	0.9%	-10.8%
Receivables in insurance and from intermediaries	6,935	8,316	0.9%	8,836	1.0%	6.2%
Receivables from reinsurance	1,183	1,329	0.2%	1,092	0.1%	-17.9%
Trade credits	10,122	10,662	1.2%	11,493	1.2%	7.8%
Cash and cash equivalents	14,422	10,209	1.2%	9,124	1.0%	-10.6%
Deferred tax assets	6,490	6,254	0.7%	4,424	0.5%	-29.3%
Own shares (directly owned)	37	52	0.0%	82	0.0%	57.5%
Other assets	6,442	6,649	0.8%	7,412	0.8%	11.5%
Total liabilities	733,715	778,450	100.0%	805,930	100.0%	3.5%
Non-life technical provisions	57,556	55,809	7.2%	54,165	6.7%	-2.9%
Life technical provisions (net of linked policies)	488,464	525,282	67.5%	537,910	66.7%	2.4%
Technical provisions for linked policies	122,652	133,438	17.1%	147,500	18.3%	10.5%
Deposits from reinsurers	6,825	6,906	0.9%	6,529	0.8%	-5.5%
Derivatives	989	1,275	0.2%	963	0.1%	-24.5%
Financial liabilities	12,630	11,786	1.5%	12,391	1.5%	5.1%
Payables in insurance and from intermediaries	3,525	3,648	0.5%	3,933	0.5%	7.8%
Payables from reinsurance	715	862	0.1%	831	0.1%	-3.6%
Trade payables	7,128	5,497	0.7%	5,751	0.7%	4.6%
Subordinated liabilities	16,512	17,062	2.2%	18,249	2.3%	7.0%
Other non-technical provisions	1,442	1,510	0.2%	1,387	0.2%	-8.1%
Deferred tax liabilities	12,186	10,135	1.3%	10,695	1.3%	5.5%
Other liabilities	3,090	5,240	0.7%	5,627	0.7%	7.4%
Excess assets over liabilities	107,740	104,731		115,420		10.2%
Excess over total assets (%)	*12.8%*	*11.9%*		*12.5%*		

Liabilities

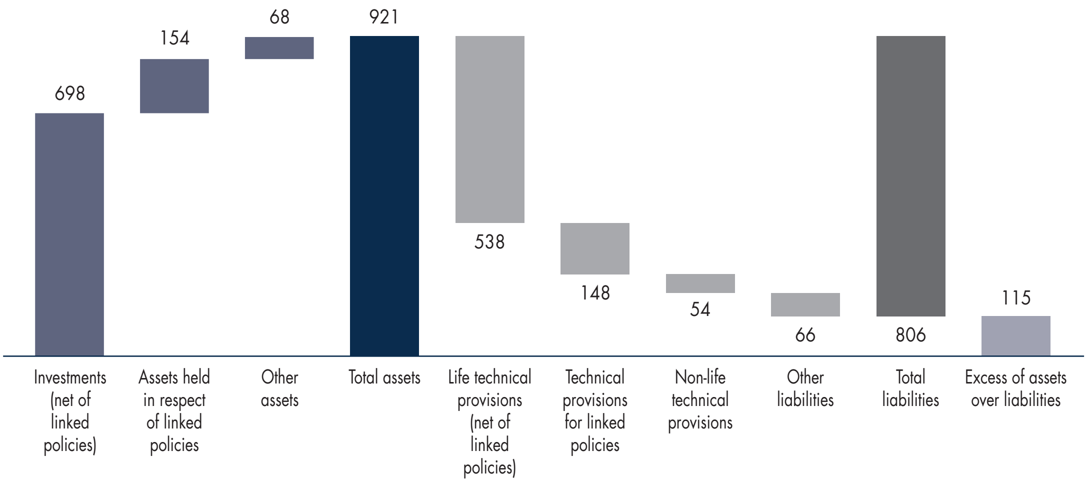
In 2017, balance-sheet liabilities totaled €805,930 million, an increase of 3.5% compared with 2016.

In particular:

– life insurance technical provisions (net of linked policies) increased by 2.4% to €537,910 million, 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% (nearly €4,000 million);

– technical provisions for linked policies, amounting to €147,500 million, increased by 10.5%, thus accounting for approximately 18% of total liabilities; the *risk margin* for these provisions was 0.5% (nearly €800 million);
– non-life insurance technical provisions were down by 3% at €54,165 million, accounting for 6.7% of total liabilities; the *risk margin was* 4.3% (nearly €2,300 million);
– subordinated liabilities grew by 7% to €18,249 million over the last year, accounting for 2.3% of total liabilities;
– other liability items in the balance sheet include financial liabilities (€12,391 million, 1.5% of the total, +5.1% compared with 2016) and deferred tax liabilities (€10,695 million, 1.3% of the total, +5.5% compared with 2016).

The balance sheets of Italian companies in 2017
Euro million



Assets

At the end of 2017, Italian insurers had assets of €921,350 million, roughly 4% more than a year earlier.

The consequent surplus of asset items over liability items was €115,420 million (it was €104,731 million in 2016). The incidence of the surplus on the balance-sheet assets went from 11.9% in 2016 to 12.5% in 2017.

More in detail:

– investments (net of linked policies) grew by 4.0% to €698,213 million over the last year, accounting for 75.8% of total assets;
– assets held in respect of linked policies grew by 10.6% to €154,315 million, accounting for 16.7% of total assets;
– other asset items in the balance sheet include trade credits (€11,493 million, 1.2% of the total, +7.8% compared with 2016) and amounts recoverable from reinsurance (€10,621 million, 1.2% of the total, –16.9% compared with 2016).

INVESTMENTS

As described in the foregoing, which highlights the different balance sheet assets, investments in the insurance industry were over €850 billion, with an increase of 5.1% compared with the previous year. Of these, nearly €700 billion (+4% on 2016) refer to insurance contracts net of linked policies, the remaining €150 billion (+11% on 2016) to linked policies in the life sector.

Type of investment
Euro million

	2015 (Day one)	2016	%	2017	%	Change % 17/16
Investments (net of assets in respect of linked contracts)	636,890	671,580	100.0%	698,213	100.0%	4.0%
Italian government securities	319,762	320,835	47.8%	315,051	45.1%	-1.6%
Bonds	105,916	133,113	19.8%	138,450	19.8%	4.0%
Shares of affiliated undertakings, including holdings	77,530	77,641	11.6%	87,940	12.6%	12.6%
UCITS	47,131	59,569	8.9%	73,659	10.5%	23.8%
Foreign government securities	41,330	39,237	5.8%	47,499	6.8%	20.6%
Structured securities	26,432	23,173	3.5%	15,099	2.2%	-34.7%
Listed equity instruments	8,636	7,600	1.1%	8,679	1.2%	14.2%
Unlisted equity instruments	1,966	2,328	0.3%	2,543	0.4%	9.5%
Buildings (other than for own use)	4,876	4,536	0.7%	5,341	0.8%	16.7%
Covered securities	2,108	2,145	0.3%	2,528	0.4%	18.1%
Deposits other than cash-equivalent	891	1,009	0.2%	991	0.1%	-1.5%
Derivatives	272	344	0.1%	432	0.1%	25.6%
Other investments	40	50	0.0%	0	0.0%	-100.0%
Assets held in respect of linked policies	127,983	139,464	100.0%	154,315	100.0%	10.6%
Investment funds	99,223	109,210	78.3%	128,219	83.1%	17.4%
Italian government securities	16,345	15,726	11.3%	11,079	7.2%	-29.6%
Foreign government securities	3,798	3,366	2.4%	3,173	2.1%	-5.7%
Cash and deposits	5,900	5,627	4.0%	5,611	3.6%	-0.3%
Equity	1,223	3,576	2.6%	4,242	2.7%	18.6%
Bonds	1,193	1,410	1.0%	1,537	1.0%	9.0%
Other investments	301	549	0.4%	455	0.3%	-17.1%
Total investments	764,873	811,044		852,528		5.1%

A more specific analysis of the nearly €700 billion of insurance-based investments (net of linked policies) at the end of 2017 shows that companies made the following investment choices:

- €315 billion in Italian government securities (45.1% of the total), roughly 1.5% less than in 2016;
- €138 billion in bonds (19.8% of the total) up by 4% compared with 2016;

– €88 billion in shares of affiliated undertakings (12.6% of the total), roughly 13% more than in 2016;
– €74 billion (10.5% of the total) in UCITS, approximately 24% more than in 2016;
– €47 billion (7% of the total) in foreign government securities, up by more than 20% from 2016;
– €15 billion in structured securities (2.2% of the total), down by nearly 35% compared with 2016;
– over €11 billion in equity, of which €8.7 billion (+14.2%) in listed instruments and €2.5 billion (+9.5%) in unlisted instruments.

With regard to the over €150 billion of assets held in respect of linked policies, the following lines of investment emerge:

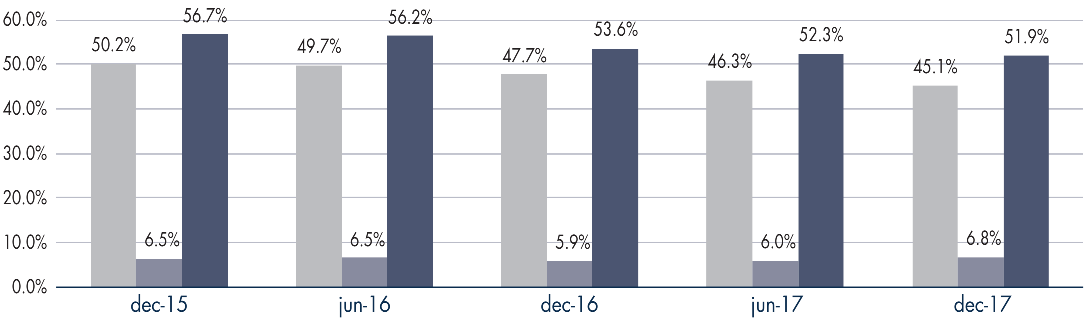
– nearly €130 billion (83% of the total) in investment funds, up by 17.4% from 2016; mostly equity (35%) and debt (30%) funds;
– €11 billion in Italian government securities (7.2% of the total), down by almost 30%;
– €5.6 billion in cash and deposits, steady compared with the previous year;
– over €4 billion in equity (2.7% of the total), up by 18.6%.

With regard to insurance-based investments, net of linked policy assets, the figure below shows the six-month trend of government securities from 2015 to 2017.

Government securities over total investments (%)

Italian
Foreign
Total

Net of assets in respect of linked contracts
Source: ANIA

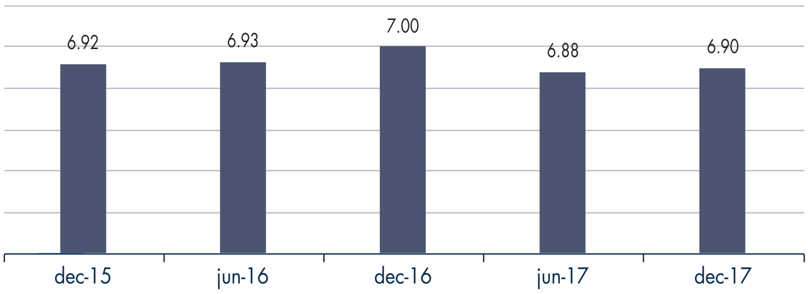


In the two years observed, from the end of 2015 to the end of 2017, while investments in government securities went up from €361.1 billion to €362.6 billion, their share over total investments decreased steadily from 56.7% in 2015 to 51.9% in 2017. In particular, over the past two years:

– Italian government securities went from €320 billion to €315 billion (-1.5%) and the incidence on total investments went from 50.2% to 45.1%;

– foreign government securities went from over €41 billion to €47.5 billion (+15%) and their incidence on total investments from 6.5% to 6.8%;

Average duration of government securities portfolio



Finally, an analysis of the duration, namely the average maturity of the insurance portfolio invested in government securities, shows that maturity is steady over time, with an average 7-year maturity over the past two years.

INVESTMENTS OF THE INSURANCE INDUSTRY IN BONDS AND SHARES

Bonds

At the end of 2017 insurance companies invested €170 billion (25.5% of the total) in direct and indirect private-sector bonds (net of assets in respect of linked policies); of these €138 billion were direct private-sector bonds (+4% on 2016) and €30 billion were debt funds (+16%).

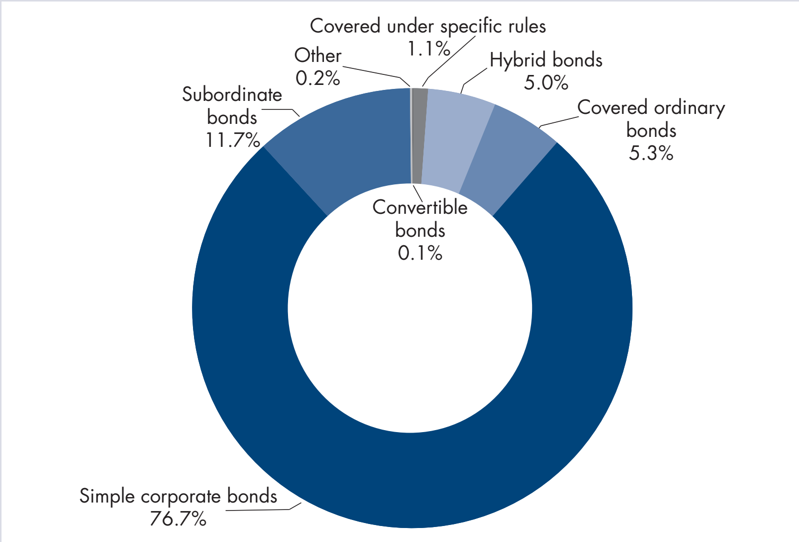
With regard to private-sector bonds specifically, more than three quarters were simple corporate bonds (+4 percentage points compared with December 2016), 12% were subordinated bonds (in line with 2016), just over 5% covered ordinary bonds (-1.7 points on 2016), 5% hybrid bonds (in line with 2016), and the remainder consisted in commercial paper and monetary market instruments. As for the issuing country, just under 30% were securities of Italian issuers (more or less the same as in 2016).

The average duration of the bonds in the portfolio was 5 years; 50% of which were CQS3 instruments (equivalent of BBB), 20% CQS2 (A), 7% and 8% CQS1 (AA) and CQS4 (BB) respectively; unrated bonds ([1]) (*see Investments in minibonds and private placements*) accounted for approximately 1% of the total.

([1]) For proper interpretation of the data, note that for 9% of assets there is no indication of the rating assigned.

With regard to the business sector of the issuers, 40% were from financial and insurance business, 17% from manufacturing industry, 11% from the energy sector (electricity, gas, heating), 9% from the information and communication industry.

Figure 1
Private-sector bonds
Data as of 31/12/2017



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 €100 billion (15% of the total, +10% compared with December 2016), of which 80% was in shares of affiliates and the rest in direct listed and unlisted shares, equity funds and private equity funds.

As for the sectors to which these resources were allocated, 86% went for financial and insurance-related business, 6% real estate, 3% manufacturing industry.

INVESTMENTS IN INFRASTRUCTURES

The insurance industry has welcomed the objectives of the Investment Plan for Europe launched in November 2014 by the European Commission and the creation of a single capital market, both intended to strengthen European infrastructures.

As of 31 December 2017, infrastructure investments in the balance sheets of insurance companies were still moderate at €7 billion, 1% of total investments, in line with 2016; of these, €3 billion were infrastructure investments with an Italian issuer.

The main forms of investment used by the insurers in this type of assets were: straight corporate bonds (41.0%), infrastructure investment funds (13.5%), hybrid corporate bonds (12.7%), ordinary shares (7.4%), central government bonds (6.0%) and debt funds (4.6%).

As for the allocation of resources, the main target sectors in 2017 were: energy (21.9%), financial and insurance business (21.5%), information and communication (10.5%), construction (9.4%), activity of extra-territorial organizations and bodies (9.1%), public administration and defense (6.9%), manufacturing (5.2%), transport and storage (4.6%).

Despite rather small investments in this sector, recent amendments to the Solvency II delegated regulation on the prudential treatment of this type of asset [2], would seem to have had positive effects. On the one hand, in fact, they have consolidated the interest of insurance companies in the asset class of infrastructure, and on the other they have helped to emphasize the companies' preference for infrastructure investments characterized by safer cash flows and contractual frameworks.

Since last year, insurance companies deciding to invest in the country's infrastructural development can, indeed, benefit from an ad hoc regulatory treatment and from facilitations in terms of capital requirements; such facilitations are conditional upon the qualifying infrastructure's fulfilling specific criteria. Reduced capital requirements in respect of traditional bonds/shares apply also to investments enjoying government guarantees or forming part of specific public finance initiatives even when not they do not meet the qualifying criteria for favorable treatment.

The amount of qualifying infrastructure investments is still minimal, but there has been a partial migration of companies towards investments allowing them to seize this opportunity (from €46 million at the end of 2016 to €400 million in December 2017), mainly achieved through the recourse to funds.

Against this backdrop, ANIA has worked to analyze and promote among its members an awareness of the need to investment in the real economy; it has decided to clarify the role of the insurance industry in supporting the country's infrastructural development by promoting a survey in this field in partnership with ASTRID, the Foundation for the Analysis, Study and Research on the Reform of Democratic Institutions and on innovation in public administration, with the collaboration of insurance and academic experts.

The purpose of the analysis, carried out in 2017, is to assess the potential contribution of insurance companies to this type of investment, also in light of the recent regulatory amendments. This work is built upon an in-depth examination of the regulatory framework on how different categories of infrastructure investments are treated under Solvency II; such examination was carried out by analyzing both the treatment of investments in the entities

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(2) The Delegated Regulation EU 2016/467, in force since April 2017, establishes the identification criteria for investing (in the form of bonds/loans and/or shareholdings) in entities responsible for infrastructure projects eligible for facilitations; the Delegated Regulation EU 2017/1542, in force since September 2017, extends facilitations to investments (in the form of bonds/loans and/or shareholdings) in infrastructure undertakings with some distinctions both in terms of qualifying criteria and capital requirements.

in charge of infrastructure projects and of investments in companies operating in the infrastructure sector.

Specifically, the survey analyzed all the new eligibility criteria to be fulfilled by potential infrastructure investments; in addition, all infrastructure investments available on the market (existing or potential) were reviewed to verify their compatibility with Solvency II-compliant investments.

The analysis showed that instituting investment policies including the funding or acquisition of infrastructure assets is still very complicated for insurance companies. In the present context, there are still some barriers, both technical and regulatory, including: i) lack of a strategic investment model to support the State; ii) specificity of the insurance business model, which usually precludes the assumption of high risks; iii) presence of often inadequate internal analysis structures; iv) poor interaction between Solvency II and projects under the Juncker Plan; v) strict eligibility criteria of the investment for facilitations.

The research concludes with the examination of two case studies: an equity investment in the mobility sector (rotation car park) and an investment in an infrastructure debt fund.

In 2018, ANIA has decided to promote a tangible initiative in this field with the creation of the "Infrastructure Investments" Work Group to analyze possible solutions for sector-specific investment initiatives, thus contributing to the relaunch of the Italian infrastructure systems and to the growth of Italy, while meeting the profitability and diversification needs of insurance portfolios.

INVESTMENT IN MINIBONDS AND PRIVATE PLACEMENTS

Minibonds

The Italian minibond ([3]) market is still small, especially in comparison with the US market. However, its development, which started in 2012 as a reaction to the difficulties provoked by the financial crisis and credit crunch, has shown steady growth. Between the launch of the new market segment dedicated to debt instruments for SMEs (March 2013) – known as ExtraMOT Pro – and 31 May 2018 the overall volume of listed issues amounted to €16 billion. On that date the number of issues was 205, with an outstanding volume of €11.5 billion, an average coupon of 4.59% and an average maturity of 6.55 years.

([3]) The term "minibonds" generally refers to debt securities (bonds and bills with a maturity of up to 36 months issued by listed or unlisted companies). More specifically, minibonds are issued by limited companies or cooperatives with operations (excluding banks and insurance undertakings) not exceeding €500 million, not listed on exchanges open to retail investors. Minibonds do not require the issuing of a rating in order to be placed; however, a significant number of companies use ratings to meet the investors' information needs.

A classification of the issues by issuer's business sector showed a predominance of energy materials, financial services and industry excluding construction. A wide variety of sectors are represented: trade, public services, financial and health services, IT, telecommunications, raw materials.

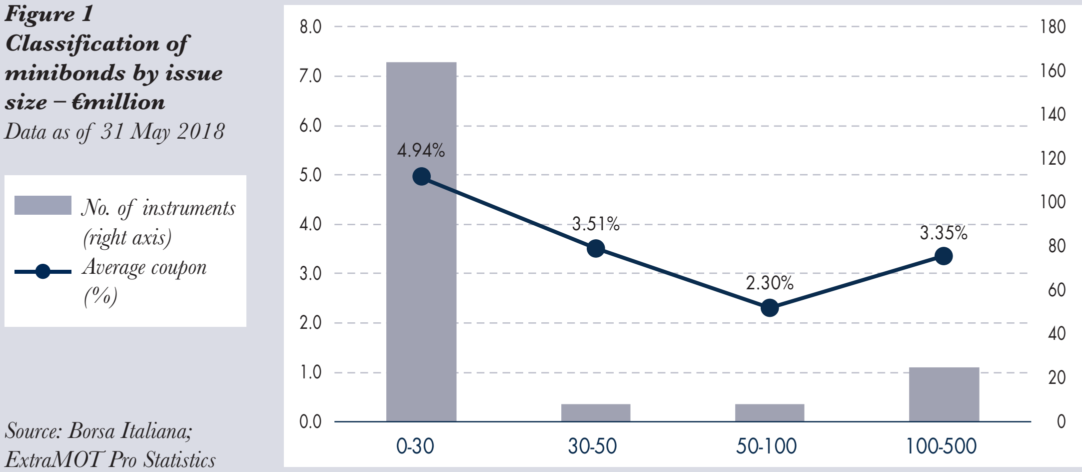
Table 1
Classification by issuer sector
Data as of 31 May 2018

	Outstanding (Euro million)	Number of issues	Average maturity	Average coupon (%)
Energy	4,180.50	26	8.43	3.42
Raw materials	331.00	11	5.86	5.30
Industry excl. constr.	2,391.49	62	5.39	4.92
Consumer goods	954.00	36	4.81	4.98
Health	31.44	4	5.46	5.46
Consumer services	819.20	15	5.41	5.24
Telecommunications	4.50	1	6.00	6.50
Public services	220.94	17	16.83	4.22
Finance	2.473.42	22	5.07	3.61
Technology	90.96	11	4.05	4.60
TOTAL	11,497.45	205	6.55	4.59
31/12/2017	10,515.71	201	6.51	4.59
31/12/2016	6,241.39	165	6.74	5.14
31/12/2015	5,350.21	126	6.27	5.47

Source: Borsa Italiana; ExtraMOT Pro Statistics

By issue size, 80% of issues (164) were smaller than €30 million, with an average coupon of 4.94%. The remaining part is divided fairly evenly between other size brackets, with an average coupon between 2.30% and 3.51%.

Figure 1
Classification of minibonds by issue size – €million
Data as of 31 May 2018



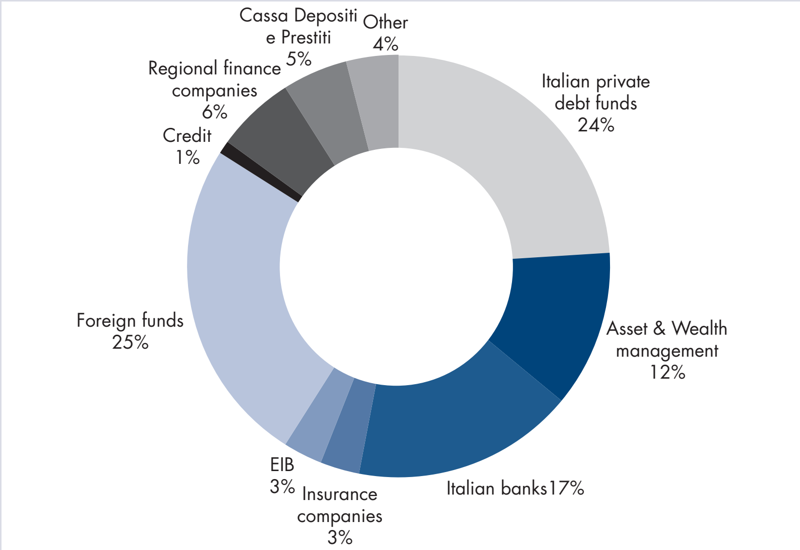
Source: Borsa Italiana; ExtraMOT Pro Statistics

The fourth "Italian Report on Minibonds" published by the Politecnico of Milan last February [4] shows that in 2017 the main underwriters were collective investment undertakings

(4) Politecnico of Milan, Mini-Bond Observatory. 4th Italian report on Mini-Bonds, February 2018.

(UCITS) with a share of 24%, followed by Italian banks (17%). Significantly lower was the contribution of insurance companies (3%).

Figure 2
Minibond investors in 2017 (issues under €50 million)



Source: Minibond Observatory, 4th Italian report on minibonds

Private Placements

The ANIA-ABI working group and the ANIA-ELITE partnership

Over the past few years, ANIA has launched several initiatives to increase the insurance system's investment capacity in alternative assets, including private placement ([5]). These include the ANIA-ABI working group, started at the end of 2015, and the signing of the ANIA-ELITE SpA partnership.

The industry's interest in this asset class lies not only in the attempt to diversify but also in its specific technical form, which allows financing of the real economy under the protection of a contract and disclosure requirements typical of bond instruments.

The ANIA-ABI working group – launched to study the development trends of the private placement market in depth and to highlight the needs, problems and specific requests of the insurance industry with a view to assessing their actual interest in this form of investment – was closed in October 2017. At the final meeting the insurance companies met with legal experts, who clarified the process for formalization of the management of private placement contracts, and with a leading auditing company, which illustrated the investment monitoring process and relevant documentation.

([5]) The term "private placement" normally refers to bonds placed through private offers presented to a small group of qualified investors; the contract does not have any obligation of transparency (the exchange of information is negotiated directly with the investor and communicated privately); private placements are medium to long-term (5-7 years), unsecured, and with a fixed interest rate.

In May 2017, ANIA signed a partnership with ELITE, a company of the London Stock Exchange group established to create a meeting point between the medium- long-term financing requirements of Italian SMEs and the specific investment needs of institutional investors. In particular, the partnership envisages the creation by Borsa Italiana of services and meeting opportunities specifically addressed to insurance companies, as well a commitment to provide the Association and its members with support and information materials on the ELITE Club Deal Platform and on the services provided.

In operational terms ELITE has identified a system solution – ELITE Basket Bond – based on the issuing of securities covered by bonds issued by ELITE companies with identical characteristics in terms of duration and rate but with a different amount and covenant. This solution requires: i) underwriting of bonds by a Special Purpose Vehicle (SPV); ii) issuing by the SPV of a single type of securities for an amount equal to the sum of the individual instruments underwritten; iii) the placement of securities with a set of institutional investors through the ELITE Club Deal platform.

Last December, the first system bonds (ELITE Basket Bond I) were issued, promoted by ELITE in partnership with Finint Bank. The operation involved 10 ELITE companies and ended with the placement of a bond of €122 million, with a 10-year maturity and underwritten by the European Investment Bank (EIB) and by Cassa Depositi e Prestiti (CDP), for 50% and 33% respectively. The bond also enjoys a credit enhancement of €18.3 million, equal to 15% of the total amount issued.

The development of a system like ELITE is compatible with the investment needs of insurance companies, more and more oriented towards financing the real economy, hence towards diversified, long-term and more profitable investment opportunities. In this perspective, on 11 April 2018, at the offices of Borsa Italiana, there was a presentation of the initiative reserved to insurance companies.

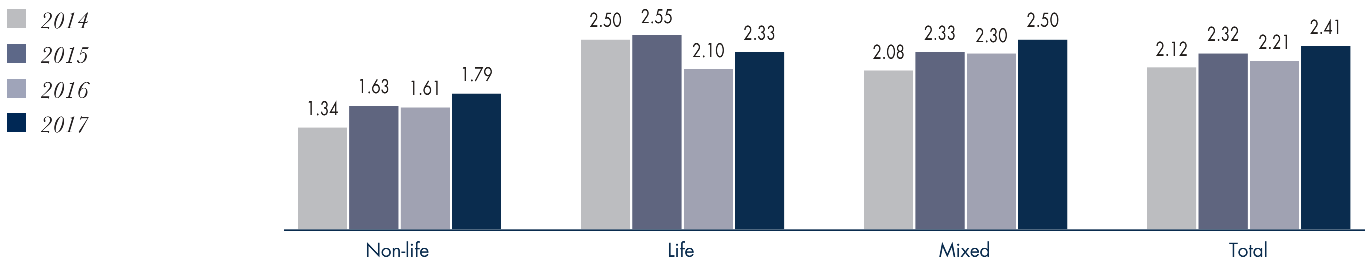
SOLVENCY OF THE ITALIAN INSURANCE MARKET

Solvency II Ratio

This indicator measures the extent to which the companies' own capital is adequate to face 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 2014-2017 by business sector. In 2017, the Solvency II ratio (for the sample analyzed) was 2.41, up from 2016 (2.21) and the two previous years (2.12 in 2014 and 2.32 in 2015). The analysis by business sector between 2016 and 2017 shows an increase of the indicator across all three types of companies examined. In particular, the Solvency II ratio went from 1.61 to 1.79 for non-life companies, from 2.10 to 2.33 for life companies and from 2.30 to 2.50 for mixed companies. The Solvency II ratio for the total market (2.41) is calculated as the industry's €128 billion of eligible own funds over the Solvency Capital Requirement of approximately €53 billion.

Figure 1 – Solvency II ratio*

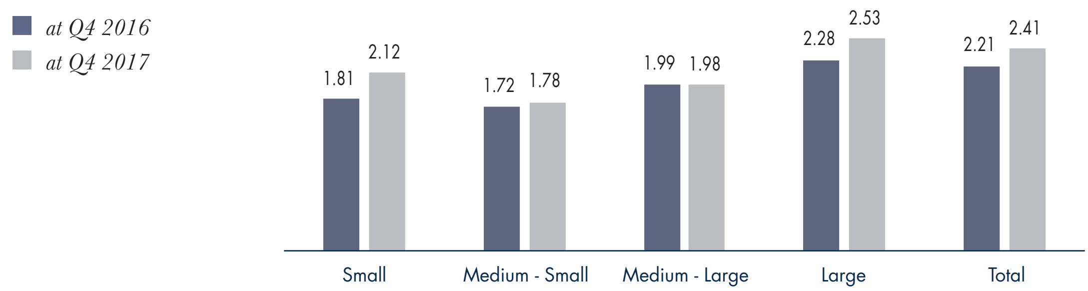


(*) 2014 and 2015 data refer to the preliminary phase and to Day-one. They are drawn from a sample survey carried out by ANIA; 2016 and 2017 refer to Q4 for a sample of companies constituting over 90% of the market, elaborated through the InfoQRT portal

The indicator was also analyzed according to firm size (Figure 2). The results (comparing the fourth quarter of 2016 with the same period in 2017) highlight a positive correlation between size (premium volume) and solvency index. In 2017, small companies with total premiums of less than €0.3 billion and large companies with premiums of more than €4.5 million recorded a further increase in the ratio from 1.81 to 2.12 and from 2.28 to 2.53 respectively.

Medium-small companies with premiums between €0.3 billion and €1 billion show an average ratio of under 1.8, in line with the previous year.

Figure 2 – Insurance sector's Solvency ratio by company size*



(*) Company size is calculated based on written premiums in the direct portfolio for 2016, with the following criteria: small: premiums< 0.3 bln; medium-small: 0.3 bln<=premiums<1.0 bln; mediuim-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.

A Key Performance Indicator (KPI) is based on this element, namely the excess of assets in relation to total assets. In particular, the two figures below provide an analysis of the ratio by sector and by company size (Figures 3 and 4). On average, in 2017 the indicator was 13%, with distribution differing according to business sector. While showing an uptrend across sectors, the excess amounts to more than 20% both for non-life and mixed companies, but for the life sector it is far lower at under 6%.

Figure 3
% excess assets over liabilities by company type

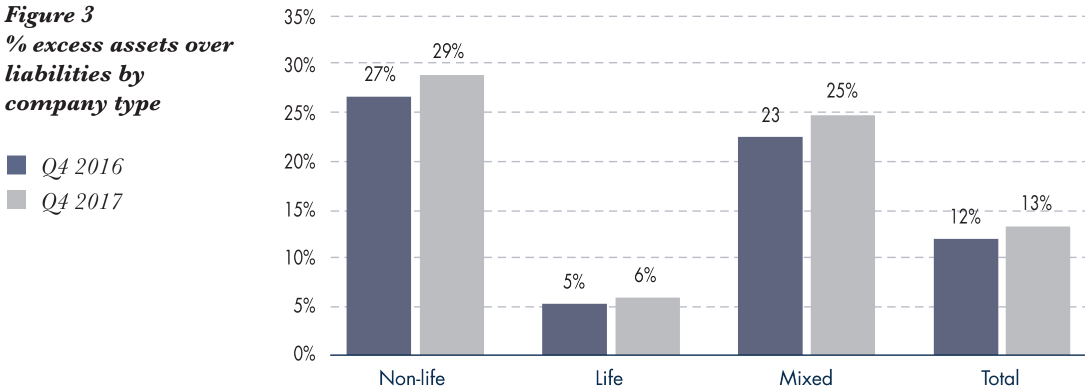
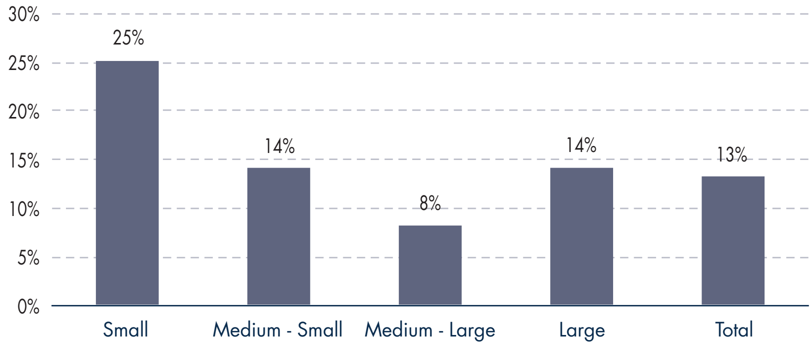


Figure 4
% excess assets over liabilities at Q4 2017



The distribution by company size also painted a varied picture: at the end of the fourth quarter of 2017 for small insurers (with less than €300 million in premiums) the excess was 25% of total assets, while for all other companies it was significantly lower at between 8% and 14%.

Own Funds

Own funds allocated to cover the capital requirement 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 2017, own funds amounted to €128 billion.

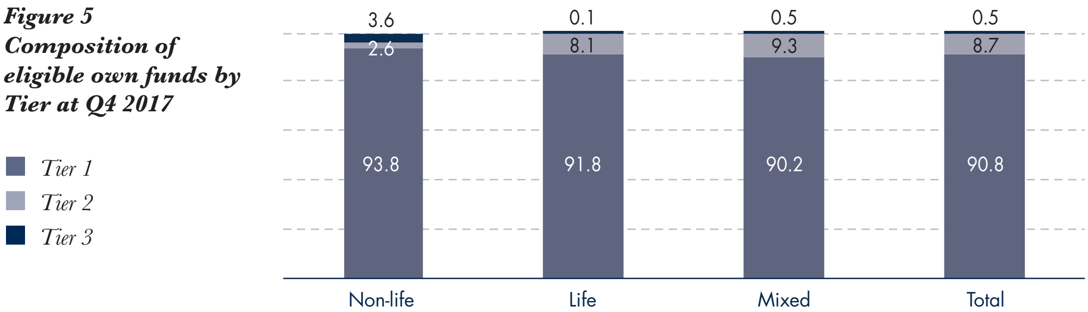
They are classified in three tiers defined on the basis of their quality, i.e. their ability to absorb losses over time. In particular, the characteristics considered for the classification in tiers include the level of subordination, the absence of incentives for redemption, the absence of mandatory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

Table 1 and Figure 5 show the percentage of eligible own funds distributed by tier and insurance sector. At the end of 2017 the incidence of Tier 1 own funds was nearly 91%; Tier 2 accounted for 8.7% and the remaining 0.5% 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 mostly present in mixed companies.

Table 1
Composition (%) of eligible funds by Tier at Q4 2017

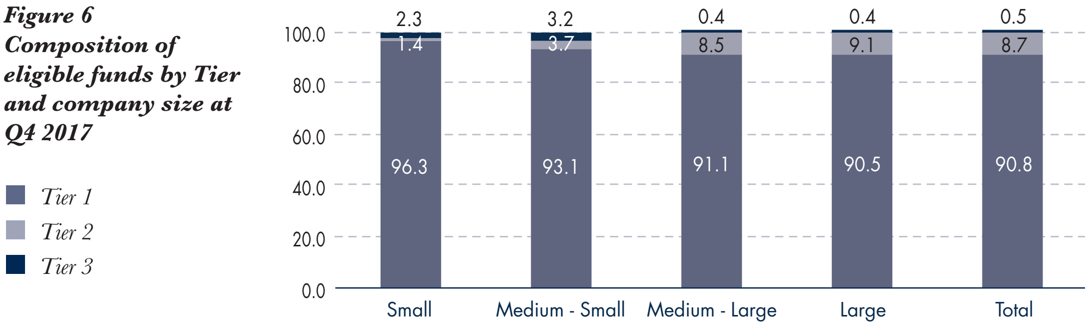
	T1 limited	T1 unlimited	Total Tier 1	Tier 1	Tier 2	Tier 3	Total
Non-life	0.4	99.6	100.0	93.8	2.6	3.6	100.0
Life	3.6	96.4	100.0	91.8	8.1	0.1	100.0
Mixed	5.9	94.1	100.0	90.2	9.3	0.5	100.0
TOTAL	5.0	95.0	100.0	90.8	8.7	0.5	100.0

Figure 5
Composition of eligible own funds by Tier at Q4 2017



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

Figure 6
Composition of eligible funds by Tier and company size at Q4 2017



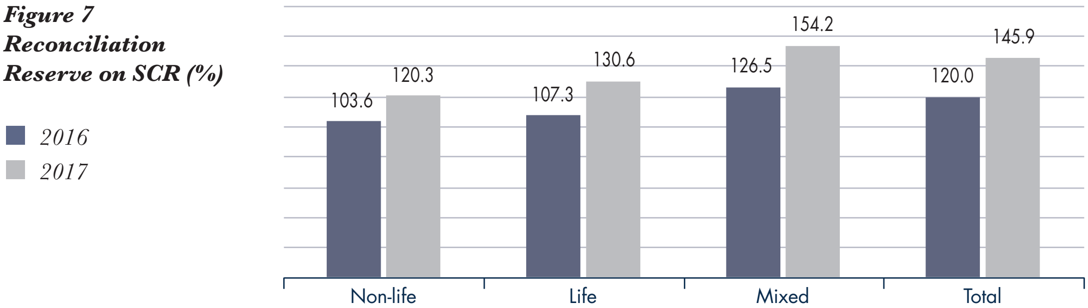
(9%), while Tier 3 is residual (1%). The other companies show a greater incidence of Tier 1 (nearly 95%) and a much smaller incidence of Tier 2.

The following figures analyze four KPIs by business sector; each KPI is broken down by insurance sector and company size.

Reconciliation Reserve over SCR

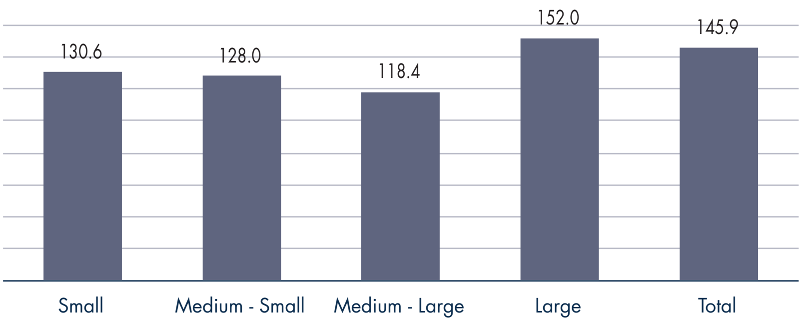
The reconciliation reserve is part of the basic own funds and equals the excess of assets over liabilities, minus own shares (directly and indirectly owned), expected dividends, distributions and charges and other elements of basic own funds; the indicator in Figure 7 measures the percentage incidence of the reconciliation reserve on the SCR. At the end of the fourth quarter, the indicator was 145.9%, up from the end of 2016 when it was 120.0%. In all sectors analyzed (non-life, life and mixed), the overall reconciliation reserve was higher than the SCR, with a resulting indicator still above 100%. In particular, at the end of 2017 the indicator for mixed companies was 154.2%, more than that registered for companies operating exclusively in the non-life (120.3%) and life sectors (130.6%).

Figure 7 Reconciliation Reserve on SCR (%)



The analysis carried out at the end of 2017, by company size, shows that large companies (with premiums higher than €4.5 billion) have an indicator of 152.0%, higher, on average, than that of the other insurance companies (Figure 8).

Figure 8 Reconciliation Reserve on SCR at Q4 2017 (%)



Reconciliation reserve over eligible own funds

Figure 9 shows that at the end of 2017 the incidence of the reconciliation reserve on total eligible funds amounted to 60.5% overall, the highest incidence being for non-life businesses (67.0%), followed by mixed companies (61.7%) and finally life businesses (56.1%). Similar results were registered at the end of 2016. The distribution of the indicator by company size was essentially homogeneous, with the exception of medium-small companies (those with premiums between €300 million and €1 billion), which registered a value of 71.9% at the end of 2017 (Figure 10).

Figure 9
Reconciliation reserve over eligible own funds (%)

2016
2017

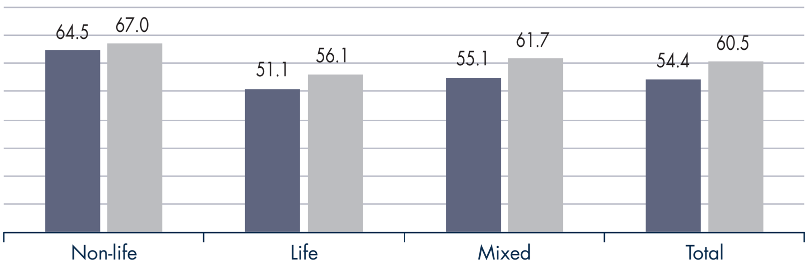
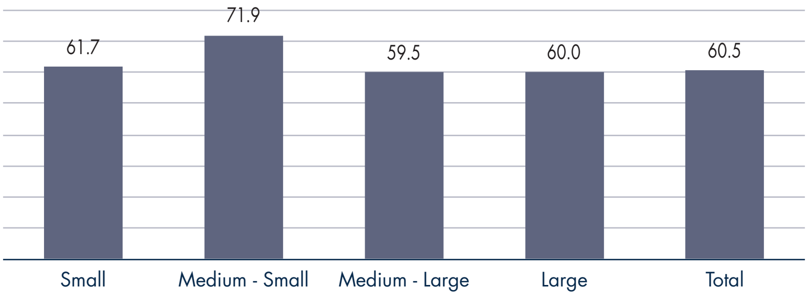


Figure 10
Reconciliation reserve over eligible own funds at Q4 2017 (%)



MCR/SCR

This indicator measures the ratio of the Minimum Capital Requirement (MCR) to the Solvency Capital Requirement (SCR). 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 2017 are very similar to those registered a year earlier, showing that, especially for companies operating exclusively in the life or non-life sector, the ratio is close to the upper ceiling; on the contrary, for mixed companies the value is 32.7%, essentially mid-way between the minimum and maximum (Figure 11). The analysis by size shows that for large companies the value of the indicator (34.4%) is lower than for other insurance companies (Figure 12).

Figure 11
MCR/SCR (%)

2016
2017

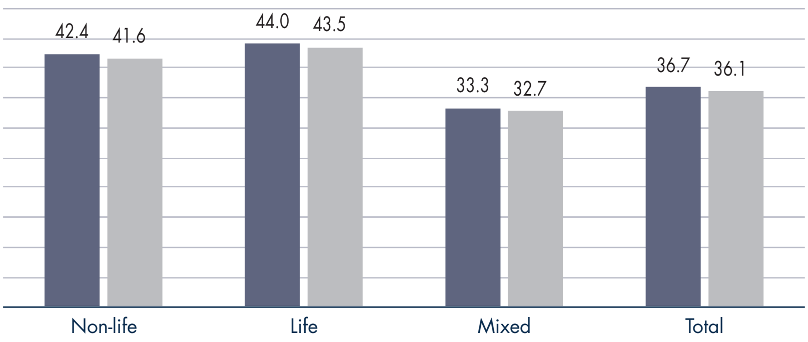
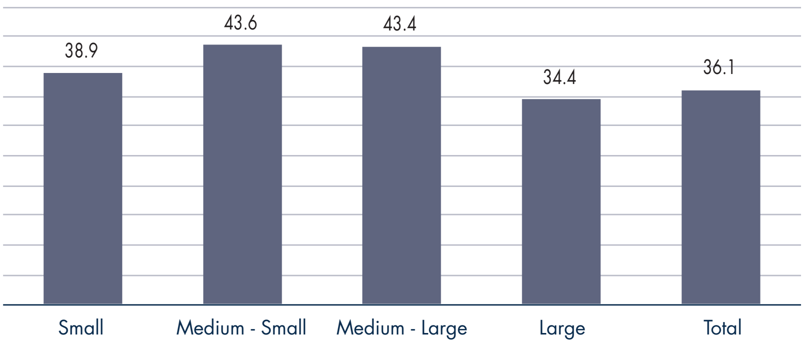


Figure 12
MCR/SCR at Q4 2017 (%)



EPIFP/Reconciliation reserve

The ratio of expected profits included in future premiums (EPIFP) to reconciliation reserves is much more diversified. This was approximately 13% at the end of 2017 on average. But the ratio was 3.0% for non-life businesses, 31.8% for life businesses and 6.5% for companies operating in both the life and non-life classes (Figure 13). The analysis by size highlights a positive correlation between company size and expected profits (Figure 14).

Figure 13
EPIFP/reconciliation reserve (%)

2016
2017

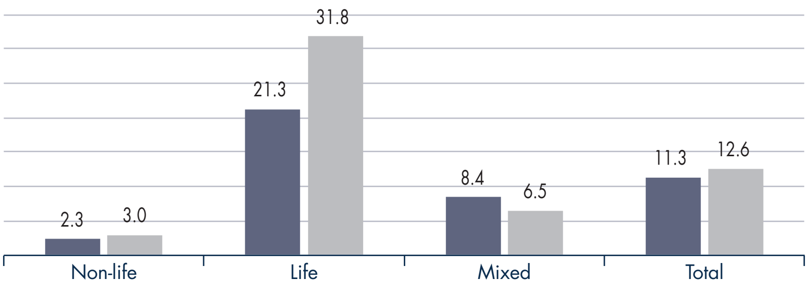
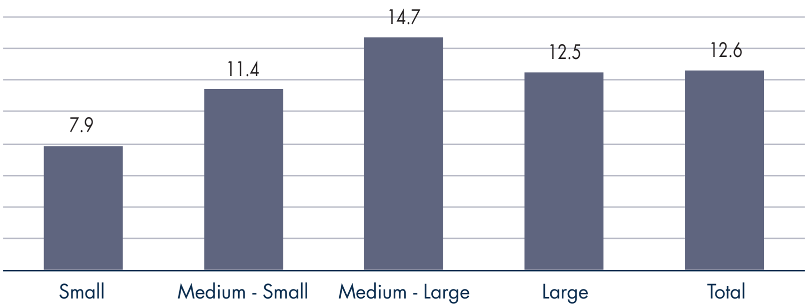


Figure 14
EPIFP/reconciliation reserve at Q4 2017 (%)



IMPACT OF TAXATION ON INSURANCE COMPANIES' FINANCIAL STATEMENTS

For many years now, a series of specific fiscal measures have been adopted, which have burdened insurance companies exclusively. In particular, the measures described in this chapter have consisted of "special" levies or of increases of the tax rates applied to taxpayers in general.

On a preliminary basis, in 2017 the industry paid a significant amount of direct taxes which. although progressively less than in past years (over €2 billion) amounted to €1.8 billion.

Dinect taxes

Tax period	Total taxes (Euro million)
2014	2,405
2015	2,395
2016	2,014
2017	1,806

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

IRAP surcharge

Since 2011 insurance companies are subject to IRAP with a surcharge of 2 percentage points over the tax rate applied to other industries (5.90% compared with 3.90%). The surcharge on insurance companies is also much higher than the special tax rate established for entities engaged in banking (5.90% compared with 4.65%).

In addition, under article 16(3) of Legislative Decree 446/1997, most Regions (including Emilia Romagna, Lazio, Liguria, 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.

The amount of IRAP taxes paid by insurance companies was nearly €350 million in 2017, in line with 2016 (€344 million) and somewhat less than the €384 million paid in 2015.

IRAP

Tax period	Estimated IRAP (Euro million)	of which, amount corresponding to tax surcharge (2%) on insurance companies (Euro million)	"Total" tax rate (%)	of which: "standard" nat'l govt. tax rate (%)	of which: reg. govt. surcharge (%)
2014	429	126	6.82%	5.90%	0.92%
2015	384	113	6.82%	5.90%	0.92%
2016	344	101	6.82%	5.90%	0.92%
2017	348	102	6.82%	5.90%	0.92%

Tax on life insurance mathematical provisions

Starting in 2003, insurance companies are subject to a tax on the stock of mathematical provisions against written life premiums.

This is an advance on the tax that will be due on the income produced by the policy when the benefit is paid at maturity or the partial or total disbursement 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.

This tax is, de facto, a non-interest-bearing compulsory loan from insurance companies to the Treasury, given that insurance companies will have to pay in advance the amounts due for taxes which would otherwise be paid later when the benefits are paid.

The tax rate has changed numerous times over the years (practically more than doubling it). More in detail the tax rate 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

Law 228/2012 (the so-called stability law, or budget law, for 2013) introduced an automatic cap mechanism in order to limit the taxes due when tax credits yet to be offset (or not yet transferred to another company of the group) exceed a certain percentage of the mathematical provisions (2.1% in 2017). Despite such corrective mechanisms, at the end of 2017 the industry's unused tax credit was more than €8 billion, showing a steady increase over the years. More specifically, this is a credit for no more than five years of taxes, since for tax credits older than five years there is a mechanism in place for offset against other taxes or social contributions (or also for their transfer 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 (Euro million)
2014	6,282	1,072
2015	6,940	658
2016	7,917	977
2017	8,274	357

2

THE ITALIAN INSURANCE INDUSTRY IN THE INTERNATIONAL SETTING

THE INTERNATIONAL SETTING

In 2017 world total premium income continued to grow, up to $4,892 billion, with real growth of 1.5% compared to 2.2% in 2016. The slowdown in growth reflects a standstill in the industry as a whole and is chiefly linked to a downtrend in life premium income in the main advanced markets.

More specifically, Asia's share of the world insurance market continued to increase, now accounting for 32.5%, thanks to last year's growth of 5.7% in the volume of premiums, essentially driven by the strong expansion of the Chinese market, which accounted for 11% of the volume of world premiums, exceeding Japan's share of 9%. With a premium income in line with 2016, North America accounted for 31% of total world premiums. Europe, accounting for just over 30% of the total, showed a mild decrease (-0.5%) compared with the premiums collected in 2016, as a result of stagnation in Western Europe. Premium income was virtually unchanged from 2016 also in Latin America and Africa, with market shares of 3% and 1% respectively. Oceania experienced a significant drop in the volume of premiums and in 2017 accounted for 2% of the total volume of world premiums.

In 2017, life premiums amounted to $2,657 billion, showing only a marginal growth in real terms (+0.5%; +1.4% in 2016).

Premium volume 2017
$ million

	LIFE	NON-LIFE	TOTAL	Share % Total
North America	598,392	898,242	1,496,634	30.6
Latin America	78,201	89,687	167,888	3.4
Europe	858,025	621,171	1,479,197	30.2
of which: West. Europe	*839,509*	*576,674*	*1,416,184*	*29.0*
of which: C&E Europe	*18,516*	*44,497*	*63,013*	*1.3*
Asia	1,043,690	546,998	1,590,688	32.5
of which: Japan	*307,232*	*114,818*	*422,050*	*8.6*
of which: China	*317,570*	*223,876*	*541,446*	*11.1*
Africa	44,899	21,792	66,691	1.4
Oceania	34,063	56,533	90,597	1.9
TOTAL	2,657,270	2,234,424	4,891,694	100

Source: Swiss Re - Sigma n. 3/2018

Real Growth 2017
(%)

	LIFE	NON-LIFE	TOTAL
North America	-3.5	2.5	0.0
Latin America	1.1	-0.9	0.1
Europe	-1.6	1.1	-0.5
of which: West. Europe	*-1.9*	*1.0*	*-0.7*
of which: C&E Europe	*12.2*	*3.3*	*5.8*
Asia	5.6	5.8	5.7
of which: Japan	*-6.1*	*0.0*	*-4.5*
of which: China	*21.1*	*10.2*	*16.4*
Africa	0.3	1.0	0.5
Oceania	-17.9	2.6	-6.2
TOTAL	0.5	2.8	1.5

Source: Swiss Re - Sigma n. 3/2018

The slowdown depended on the most advanced markets and in particular on decreasing volumes in North America (-3.5%) and Western Europe (-1.9%), where premium income in 2016 had remained stable compared with the previous year. The drop in premium income continued also in Japan (-6.1% compared with 2016), thus continuing to curb the growth of the overall Asian insurance market, which nevertheless recorded an increase in the volume of premiums by 5.6% thanks to the surge in China market (+21.1% compared with 2016). Other emerging markets gained only modestly on the previous year. More in detail, Latin America and Africa grew by 1.1% and 0.3% respectively.

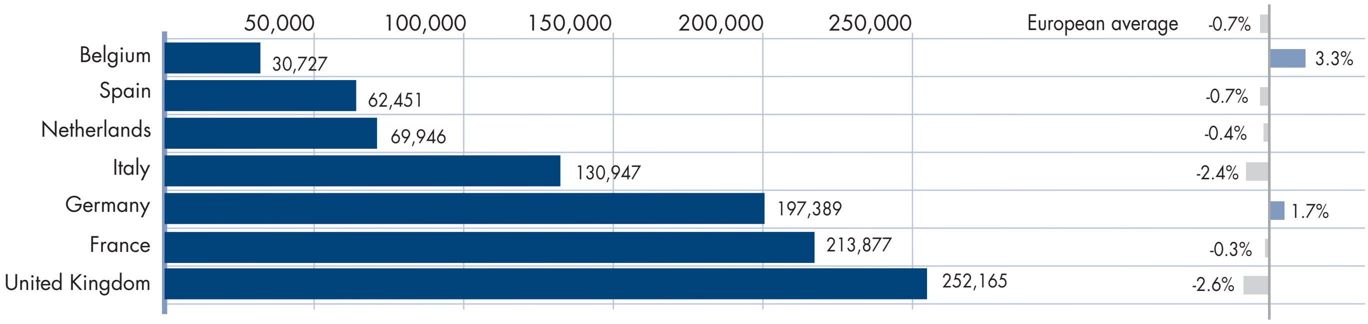
In 2017, non-life premiums amounted to $2,234 billion, up by 2.8% in real terms (+3.3% in 2016). Overall, non-life world premium income grew across the board with the exception of Latin America, which registered a small fall of -0.9%. Among the advanced markets, the expansion was led by North America (+2.5%) and to a lesser extent by Western Europe (+1.0%), while the Asian advanced countries remained stable. China drove the rapid growth registered in the emerging countries, with a 10.2% increase in non-life premium income compared with 2016. The volume of collected premiums grew also in Central and Eastern Europe (+3.3%) and Oceania (+2.6%), showing a positive trend in line with the change recorded in 2016.

Overall economic growth (with an increase in GDP) has contributed to the development of the industry as a whole. However, while both sectors grew more slowly than in 2016, the slowdown was chiefly the result of the drop in the volume of life premiums in the advanced markets. Despite attempts to adapt its products to increase profitability, life business has still not regained the levels of growth achieved before the crisis. In the non-life segment, instead, premiums have continued to grow, especially in the emerging markets driven by China. A boost is expected in the life sector, driven by the growing population and expanding middle class in the emerging countries which should support this development. After a series of catastrophic events in 2017 (major hurricanes in the Atlantic, the earthquakes in Mexico and the devastating wildfires in California), which were concentrated mainly in the second part of the year, the non-life sector, in light of the considerable losses in the nat-cat segment, is facing a significant increase in the price of these products. At the same time, the sector may benefit, especially in the most advanced markets, from demand for higher coverage that takes account of the evolution of risk related to continuous technological development (i.e. cyber risk, reputation risk or the whole series of risks termed “intangible”) and which will be met by an insurance market more and more oriented towards an Insurtech approach. In the emerging countries, on the contrary, with the exception of Africa, where political instability, high debt and severe unemployment will not favor short-term growth, initiatives promoting agricultural risk insurance and an increase in infrastructural investment will contribute to the sector’s growth. In China, thanks to the increasing use of Big Data and cloud computing systems, which have attracted new Insurtech start-ups in the market, the insurance industry is expected to be transformed.

THE IMPORTANCE OF INSURANCE IN THE MAIN EU MARKETS

In 2017, overall premium income in the main EU countries (Belgium, France, Germany, Italy, the Netherlands, the United Kingdom and Spain) was €958 billion, slightly down compared to 2016 (-0.7%). In detail, premium income increased only in Belgium (+3.3%) and Germany (+1.7%), while it fell in the UK (-2.6%), Italy (-2.4%), Spain (-0.7%) and marginally also in the Netherlands and France (-0.4% and -0.3% respectively).

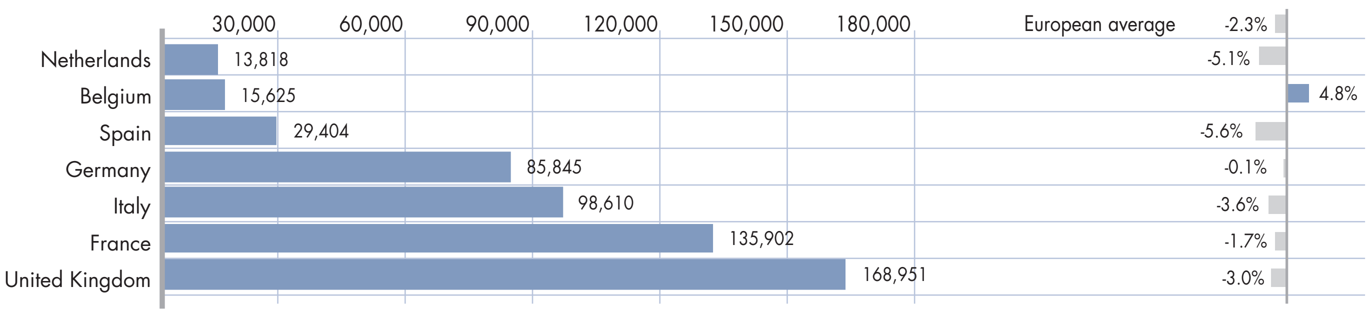
Direct premiums in the main EU countries in 2017 – Total *€ million* ***% change in direct premiums 2017/2016 – Total***



Source: Swiss Re - Sigma n. 3/2018

The volume of life premiums in the countries of the sample, amounting to €548 billion in 2017, dropped by 2.3%. In particular, all the countries examined showed a decrease with the exception of Belgium, whose volume of premiums in 2017 grew by 4.8% compared to 2016, and Germany which remained stable compared to the previous year. On the contrary, the rest of the EU markets showed a downtrend, especially Spain (-5.6%), the Netherlands (-5.1%), Italy (-3.6%), followed by the UK (-3.0%) and France (-1.7%).

Direct premiums in the main EU countries in 2017 – Life *€ million* ***% change in direct premiums 2017/2016 – Life***

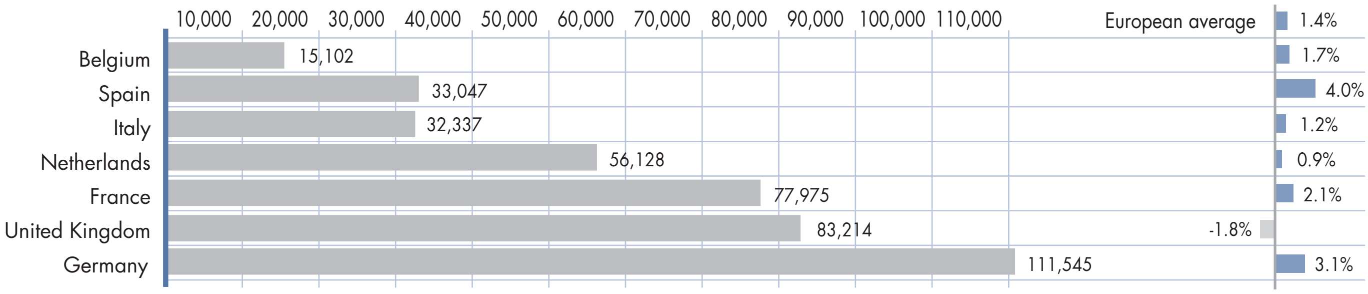


Fonte: Swiss Re - Sigma n. 3/2018

In the non-life sector, the volume of premiums increased across all the countries in the sample in 2017 (+1.4%) to €409 billion, with the exception of the UK (-1.8%). More in detail, the volume of premiums increased in Spain (+4.0%), Germany (+3.1%), France (+2.1%), Belgium (+1.7%), Italy (+1.2%) and finally in the Netherlands (+0.9%).

Direct premiums in the main EU countries in 2017 – Non-life
€ million

% change in direct premiums 2017/2016 – Non-life

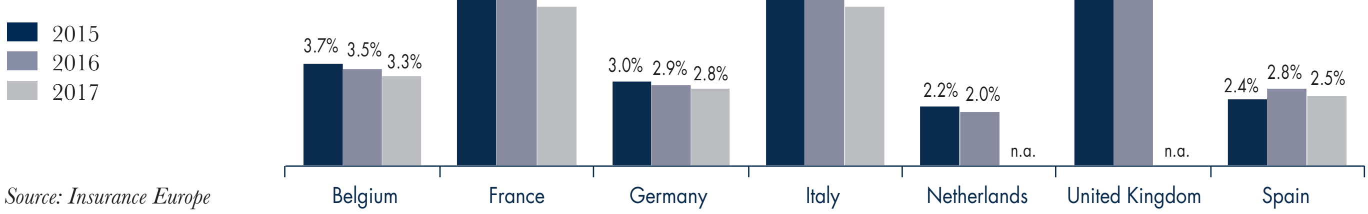


Source: Swiss Re - Sigma n. 3/2018

In the three years from 2015 through 2017 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 2017 provided by Insurance Europe are still provisional and, in some cases, they are estimates made by national insurance associations.

As for life classes, the indicator in 2017 diminished across the board. In particular, in Spain it went from 2.8% in 2016 to 2.5% in 2017 (in line with 2015), while all the other countries showed a steady downtrend. In detail, the ratio came to 3.3% in 2017 from 3.7% in 2015 in Belgium, to 5.7% from 6.2% in France, to 2.8% from 3.0% in Germany and to 5.7% from 7.0% in Italy, which showed the most significant drop. The indicator decreased also in the Netherlands and in the UK between 2015 and 2016 (the last two years available), from 2.2% to 2.0% and from 7.4% to 7.0% respectively (with the UK nevertheless showing the highest index among the countries analyzed).

Life premiums/GDP
(%)

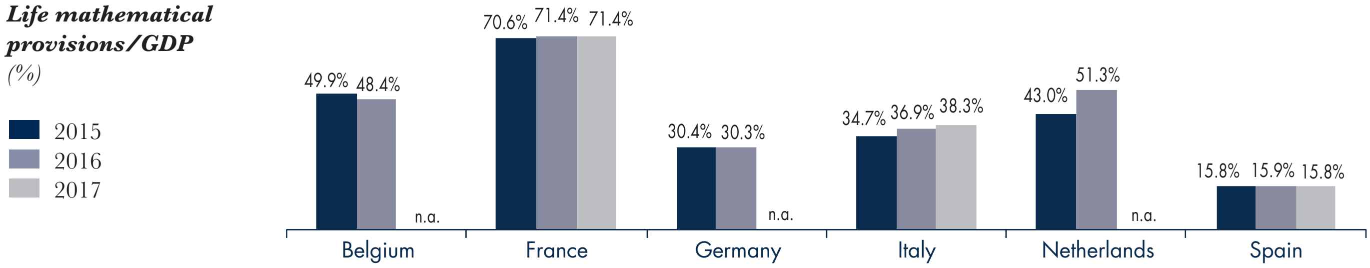


Source: Insurance Europe

As regards mathematical provisions, 2017 data for Belgium, Germany and the Netherlands are not yet available.

In Italy the ratio of mathematical provisions to GDP, indicative of the degree of maturity of the life insurance market, showed a steady increase in the three-year observation period from 34.7% in 2015 to 36.9% in 2016 and 38.3% in 2017. However, Italy's value is lower than in most of the other European countries, although twice that of Spain (15.8% in 2017) and higher than Germany (where it was 30.3% in 2016). The growth was steady also in the Netherlands (for 2015 and 2016, the only years available) where it came to 51.3% in 2016 from 43.0% a year earlier. In France the indicator remained stable at 71.4% in 2017, up from 70.6% in 2015, while in Belgium it diminished slightly from 49.9% in 2015 to 48.4% in 2016.

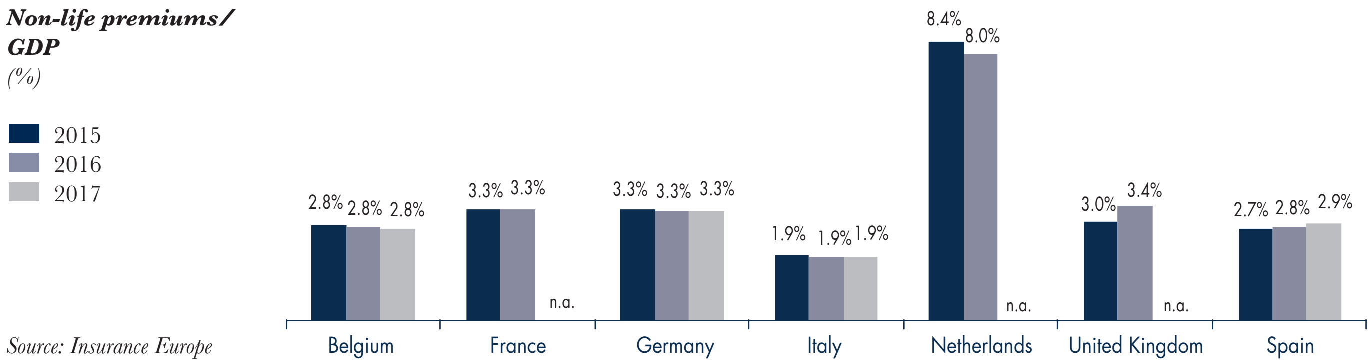
Life mathematical provisions/GDP
(%)



Source: Insurance Europe; for Belgium Assuralia and for Germany GDV "Statistical Yearbook 2017"

In the non-life sector, in 2017 Italy again had the lowest ratio of premiums to GDP, with a stable value of 1.9% for the three-year period. The index remained stable also in Belgium (2.8%), Germany (3.3%) and France (3.3% in 2015 and 2016), while it moved slightly up in the UK (from 3.0% in 2015 to 3.4% in 2016) and Spain (from 2.7% in 2015 to 2.9% in 2017). Conversely, the Netherlands' high non-life insurance penetration index – the highest in Europe at 8.0% in 2016, despite the slight decline compared to the previous year (and more than 6 percentage points above the Italian indicator) – reflects the positive effects in terms of premium collection of the privatization of the health system in 2006.

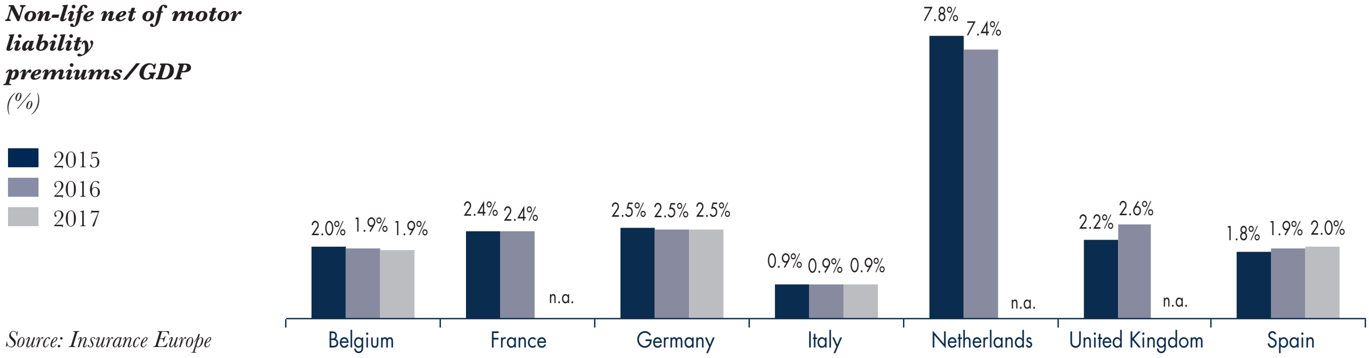
Non-life premiums/ GDP
(%)



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 2017 the ratio of these premiums to GDP was unchanged in Italy at 0.9%. In Belgium and Spain, the ratio was just over double Italy's. Also growing was the value of the index in the United Kingdom at 2.6% in 2016 (last year available). The indicator remained stable in Germany at 2.5% over the three-year observation period and in France at 2.4% over the two-year period available. In the Netherlands the value of the index registered a downturn (although referring only to 2015 and 2016) from 7.8% to 7.4%.

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



Source: Insurance Europe

THE TAXATION OF PREMIUMS IN THE EUROPEAN UNION

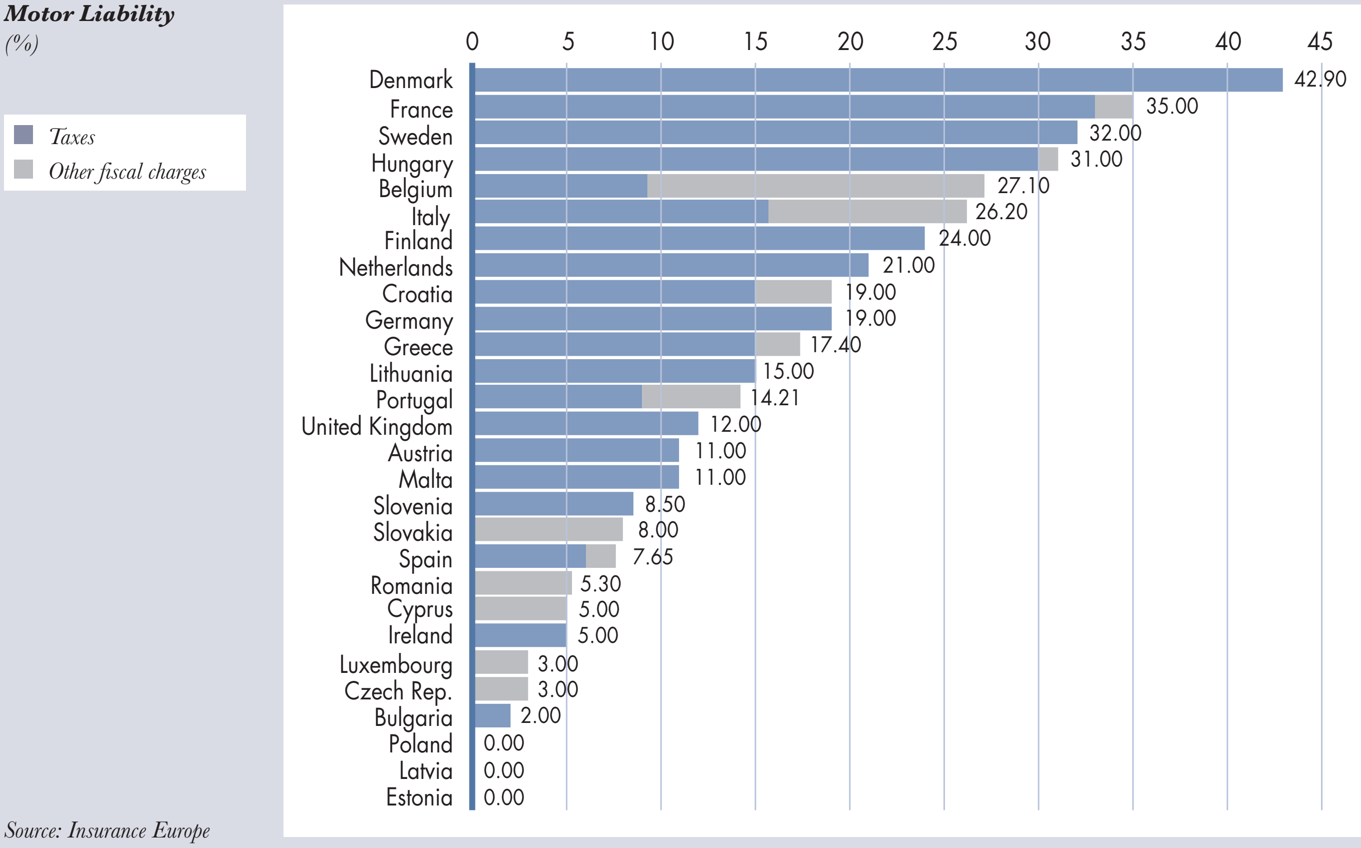
The year 2017 confirms an unchanged pattern of premium taxation in the EU countries, with Italy again distinguished for its significantly higher tax rate.

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

In the motor liability branch the tax burden on premiums in Italy is 15.7%. Adding parafiscal charges equal to 10.5% brings the overall rate on motor liability insurance to 26.2%. The 15.7% value is the actual tax 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 this tax revenue is allocated.

The latest data from the Fiscal Federalism Bureau of the Finance Department show that, in fact, only three Italian provinces kept the tax rate below the 12.5% basic rate in 2017; all the other provinces (in the non-autonomous regions), with a few isolated exceptions, have repeatedly increased the rate up to the ceiling of 16%.

Motor Liability
(%)



Source: Insurance Europe

The average tax rate on motor liability premiums in the EU was 19.8%. The tax burden in Italy was thus higher than the average and higher than in the UK (12%), Spain (7.65%) and Austria (11%). In the Netherlands the tax rate is confirmed to be slightly above average (21%), while in France the overall charge is unchanged at 35%.

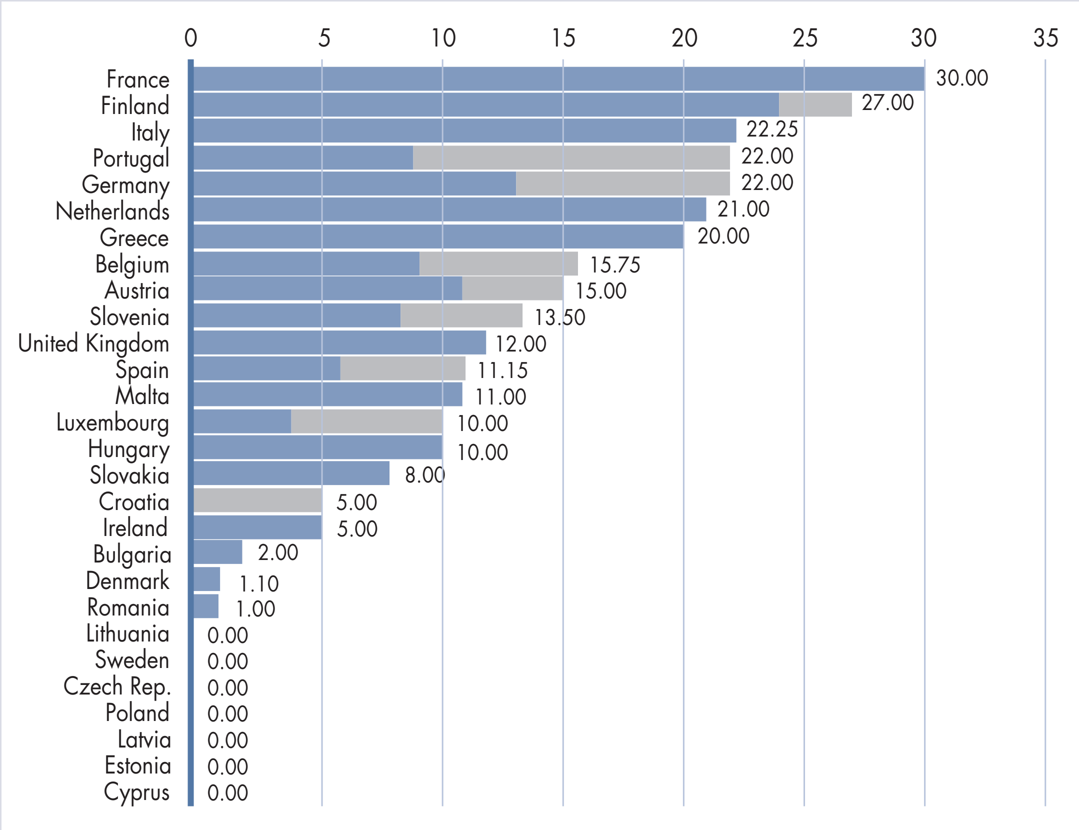
The tax on fire insurance premiums in Italy (22.25%) continues to be sharply higher than in Spain, the United Kingdom, and Austria (11.15%, 12% and 15% respectively); the highest tax rates are in France (30%) and Finland (27%).

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), with values significantly higher than in Germany (19%), the United Kingdom (12%), France (9%) and Spain (6.15%).

There were no changes 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 transported by land. The European countries with the highest tax rates are Finland (24%), Germany (19%) and Austria (11%). The United Kingdom has recently raised its rate to 12%. In France and most of the other countries such premiums are either exempt or taxed at a very low rate.

Fire
(%)

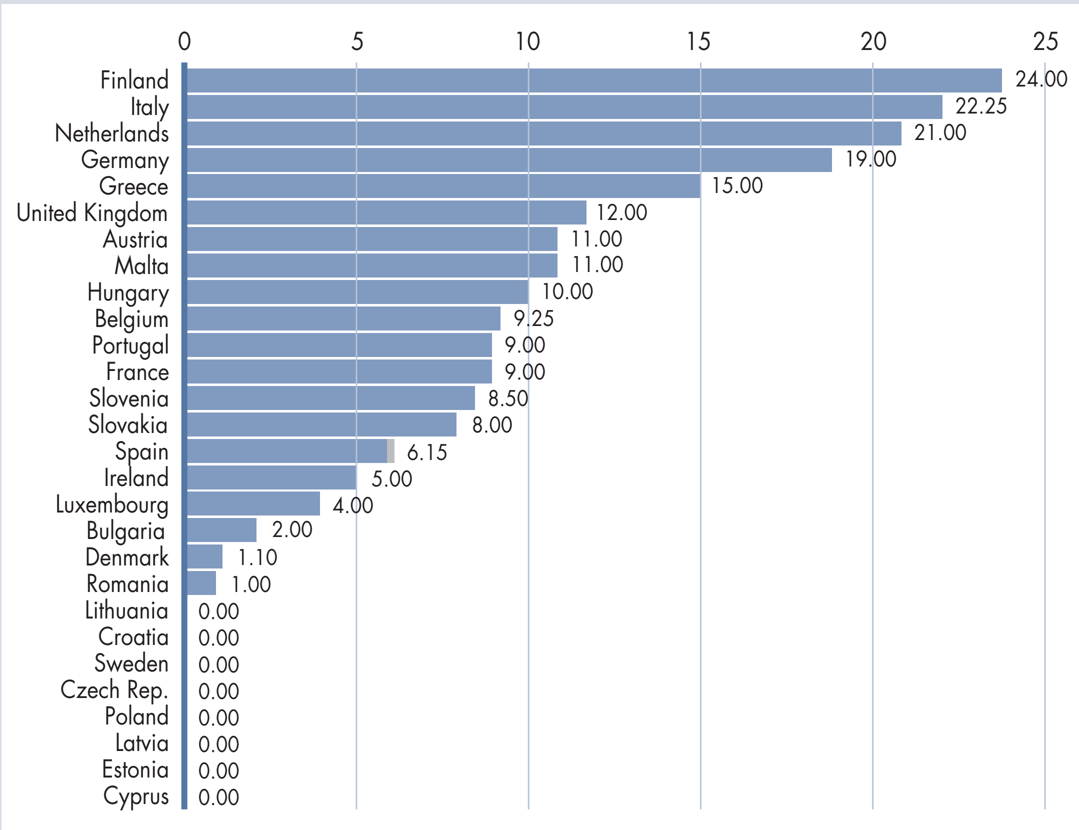
Taxes
Other fiscal charges



Source: Insurance Europe

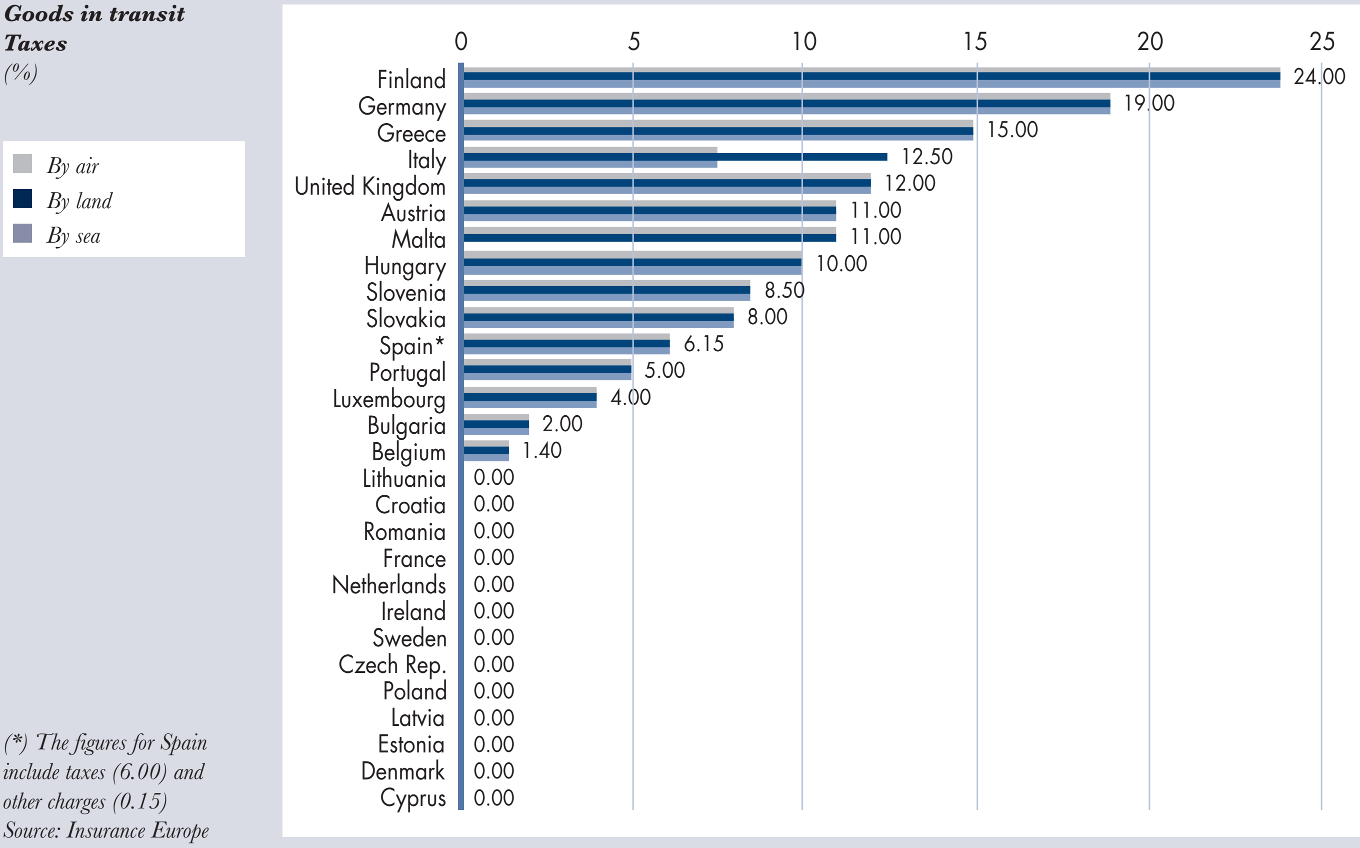
General liability
(%)

Taxes
Other fiscal charges



Source: Insurance Europe

Goods in transit Taxes
(%)



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

AN INTERNATIONAL OVERVIEW OF INSURANCE COMPANIES' INCOME STATEMENTS

The detailed data on the income statements and balance sheets of insurance companies in Europe reported in the Fitch Connect database allows a comparative analysis of the trends of some important indicators of profitability and portfolio management of the insurance industry in the main European countries (France, Germany, Italy and the United Kingdom), compared with the average value in a sample of nine European countries which comprises, in addition to those mentioned, Austria, Belgium, the Netherlands, Sweden and Switzerland ([1]). The database collects information on the statutory financial statements of a sample of companies compiled according to local GAAP accounting standards. The observation period goes from 2012 to 2016 (2017 data are not yet available).

Insurance companies operating in non-life business

In the observation period (2012-2016), the companies of the European sample surveyed by Fitch Ratings through the Fitch Connect platform and operating in non-life business numbered 884, of which 235 in Germany, 124 in the United Kingdom, 139 in France and 79 in Italy.

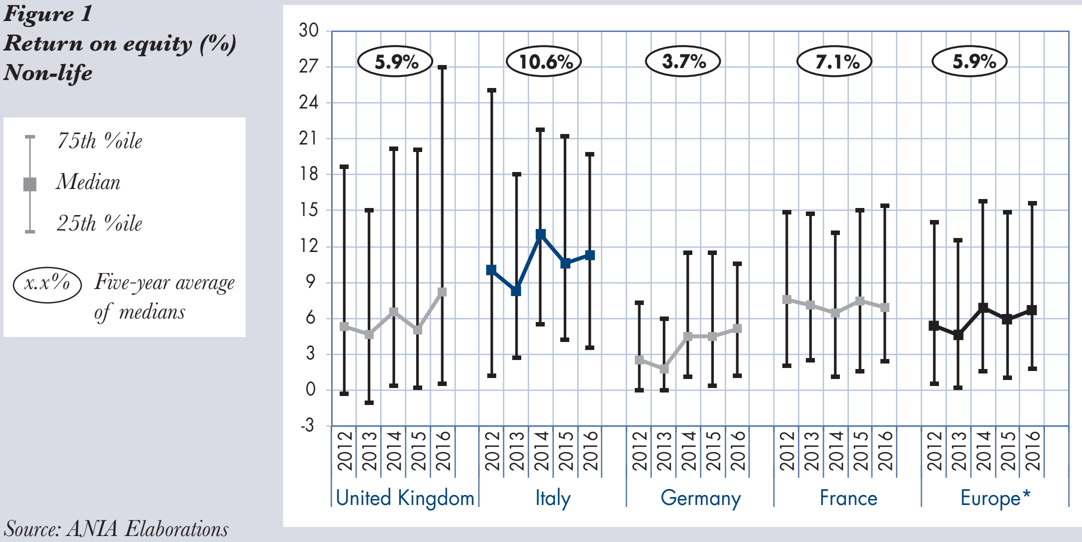
([1]) Spain was not included in the comparison since it adopts the IFRS international accounting standards for the financial statements of insurance companies.

The first indicator of companies' profitability to be considered is **return on equity (ROE)**, namely the ratio between net income and the average of shareholder's equity over the past two years (2).

The profitability of the median company for the European sample in 2016 turned up to 6.7% from 5.9% a year earlier but was still slightly lower than the 6.9% recorded in 2014 (Figure 1). The median Italian company index, after the minor drop registered the previous year (from 13.0% in 2014 to 10.6% in 2015), improved to 11.3%. The same trend was recorded in the United Kingdom and Germany. In detail: profitability of the median British company increased from 5.0% in 2015 to 8.2% in 2016, while that of German companies reached 5.1% from 4.5% in 2015. France is the only country among the four examined to show a downturn in the indicator, from 7.5% in 2015 to 6.9% in 2016. The five-year average shows an ROE for Italy of 10.6%, higher than the average of the European sample (5.9%) and than the values of the other large EU countries.

The data on dispersion of undertakings around the median value can be obtained by calculating the interquartile range, i.e. the difference between the values of the indicators for the companies at, respectively, the first and third quartile of the profitability distribution. In 2016, the dispersion in Italy was slightly less than a year earlier, at 16 percentage points instead of 17, and lower only than in the United Kingdom, where it topped 26 points. The other countries recorded lower values. In detail, dispersion was 14 percentage points for the overall European sample, 13 points for France and 9 for Germany.

Figure 1
Return on equity (%)
Non-life



Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

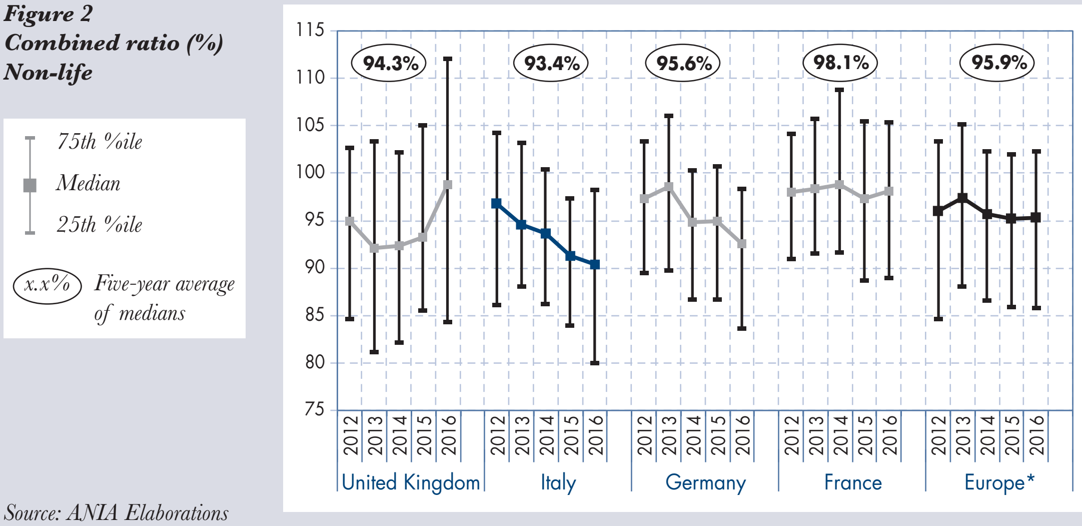
In 2016 the **combined ratio**, defined as the sum of the loss ratio and the expense ratio of the median company, recorded a European average of 95.3%, practically unchanged from

(2) The calculation of the indicator does not include listed companies; for details on the ROE of those companies see the paragraph "Profitability of Insurance Companies in Europe Listed in 2017".

2015, when it was 95.2% (Figure 2). The median British company indicator moved up from 93.2% in 2015 to 98.8% in 2016, the French from 97.3% to 98.2%. Italy instead moved the other way, with an improvement from 91.3% to 90.4%, the lowest in the past 5 years (the national average in the five-year observation period was lower than the European average by 2.5 percentage points). Also decreasing was the combined ratio of the median German company, from 95.0% in 2015 to 92.6% in 2016.

In 2016, the difference between the first and third quartile of the sample of companies was 28 percentage points in the United Kingdom, 18 in Italy, 17 in the European sample, 16 in France and 15 in Germany. With the exception of France, the dispersion of undertakings around the median has decreased in all the countries analyzed.

Figure 2
Combined ratio (%)
Non-life



Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

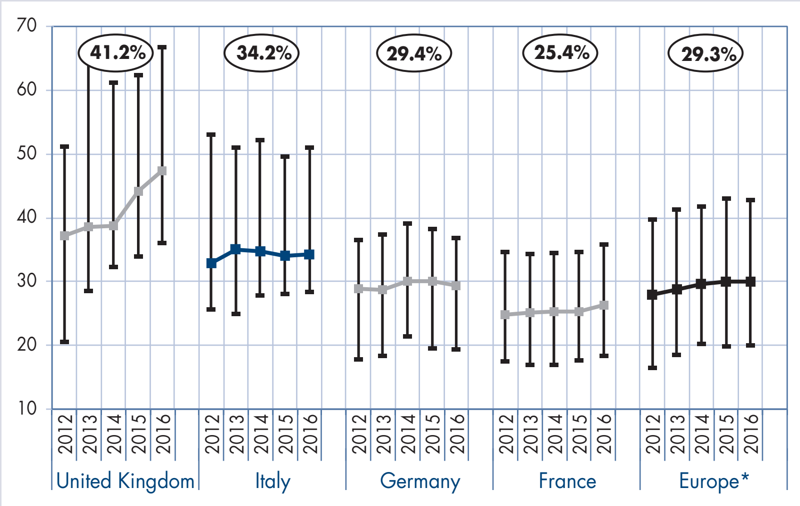
In the same year, at European level the **expense ratio** was essentially stable compared to 2015 at 30.0% (Figure 3). As for the individual countries, in 2016, after the improvement recorded the previous year, Italy's ratio was 34.3%, higher than in 2015 (34.0%). The expense ratio has worsened progressively over the years also for the median British company (up from 44.2% in 2015 to 47.4%) and French company (up one percentage point to 26.3%). Germany is the only country to show an improvement of the index in 2016 (from 30.0% in 2015 to 29.4%).

In 2016 the difference between the first and third quartiles of the sample of companies was greatest in the United Kingdom at 31 percentage points, followed by Italy at 23 points (the same as the European sample), and by Germany and France, both at 18 points.

The **net profit** in non-life insurance business **as a ratio to the volume of written premiums** showed a modest gain at European level, from 4.7% in 2015 to 5.0% in 2016 (Figure 4). With the exception of France, where the ratio dropped from 4.7% in 2015 to 4.0% in 2016, all the other countries analyzed registered an expansion. The ratio was 5.3% in Italy in 2016 (up from 5.1% in 2015), followed by Germany at 4.6% (3.7% in 2015) and the United Kingdom at 3.6% (2.9% in 2015). The five-year average was 5.1% in Italy, the highest among the major countries; the average value for the European sample was 4.5%.

Figure 3
Expense ratio (%)
Non-life

75th %ile
Median
25th %ile
x.x% Five-year average of medians

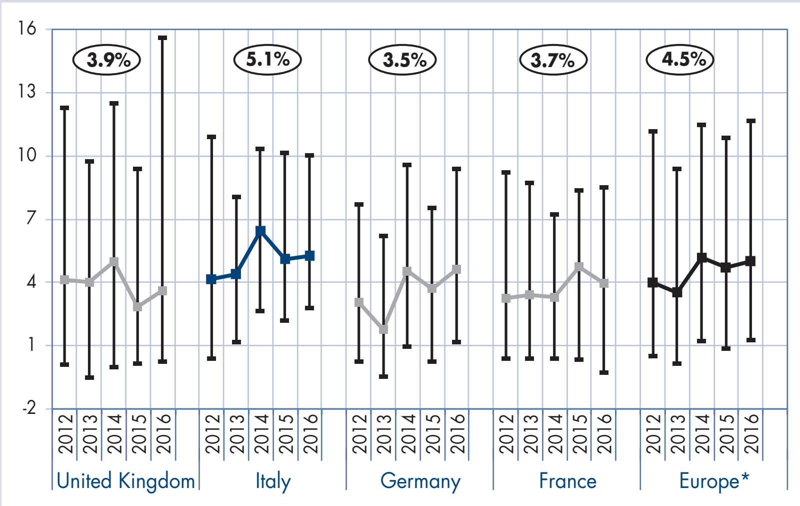


Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

Figure 4
Net profit/Premiums (%)
Non-life

75th %ile
Median
25th %ile
x.x% Five-year average of medians



Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

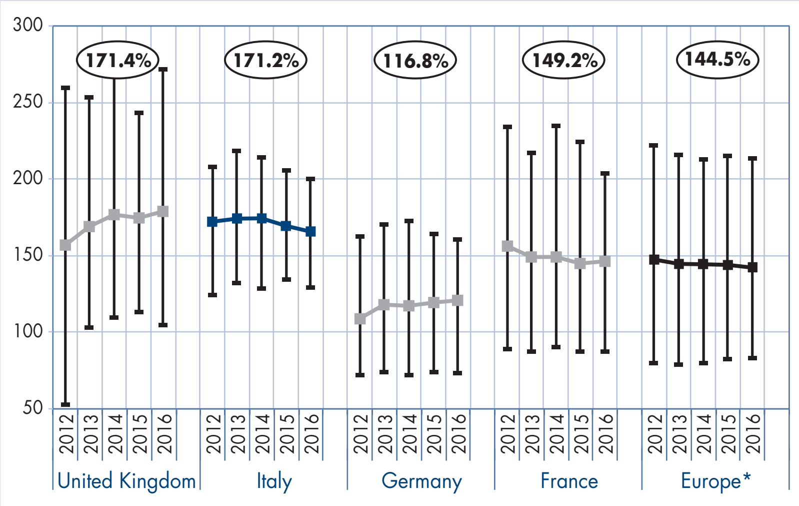
The interquartile range of companies was widest in the United Kingdom, at 15 percentage points, higher than the European sample (10 p.p.), and of all the other countries analyzed individually.

With respect to the previous year, in 2016 the **ratio of total technical provisions to the volume of written premiums** decreased at European level to 142.2% from 144.0% in 2015 (Figure 5); the same trend was observed in the median Italian company, where the ratio fell to 165.7% in 2016 from 169.5% a year earlier. The other countries showed increases: from 174.4% in 2015 to 179.2% in 2016 in the United Kingdom, from 144.6% to 146.1% in France and from 119.2% to 120.7% in Germany. In the five-year period of observation, Italy's average value (171.2%) was in line with the United Kingdom but much higher than the European sample (144.5%).

In 2016, the difference between the first and third quartiles of the distribution of companies was greatest in the UK at 167 percentage points, while Germany and Italy recorded dispersion lower than 100 points.

Figure 5
Technical provisions/ Premiums (%)
Non-life

75th %ile
Median
25th %ile
x.x% Five-year average of medians



Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

Insurance companies operating in life business

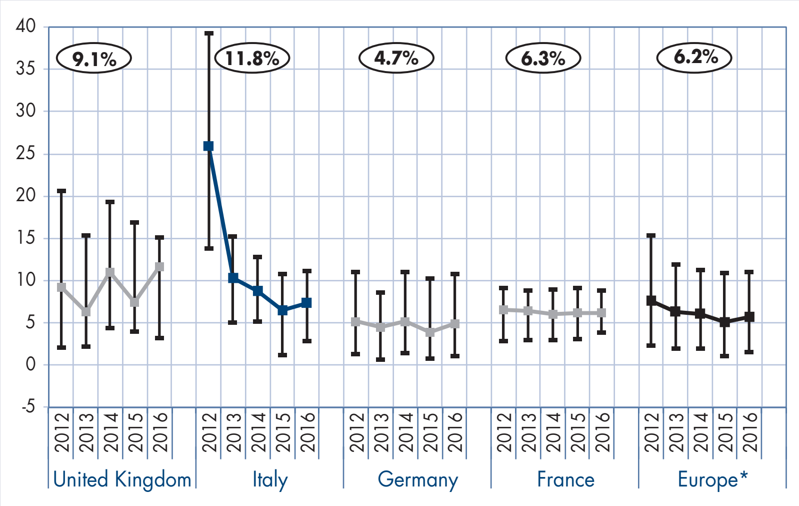
In the five-year period 2012-2016, the sample of European companies surveyed by Fitch Connect operating in life business numbered 608, of which 277 in Germany, 83 in France, 67 in Italy and 41 in the United Kingdom (the low representativeness of the British sample may compromise the analysis of the time trends for this country).

The **Return on Equity (ROE)** of the median Italian company recorded an increase to 7.3% in 2016 from 6.5% in 2015, with a five-year average of 11.8%, chiefly due to the strong recovery in profitability observed in 2012 (Figure 6). The 2016 indicator for Italy is in line with the European average, while the other countries analyzed – with the exception of France where ROE was stable at 6.2% – the trend was upwards. In detail: the ROE of the median British company went from 7.5% in 2015 to 11.6% in 2016, in Germany from 3.9% to 4.9% % and the European sample from 5.1% to 5.7%.

As for the dispersion of company profitability around the median, in 2016 the highest value was registered in the United Kingdom, with a difference between the first and third quartiles of the distribution equal to 12 percentage points, followed by Germany with 10 percentage points, then Italy and France with progressively more moderate values.

Figure 6
Return on equity (%)
Life

75th %ile
Median
25th %ile
x.x% Five-year average of medians



Source: ANIA Elaborations on Fitch Connect data

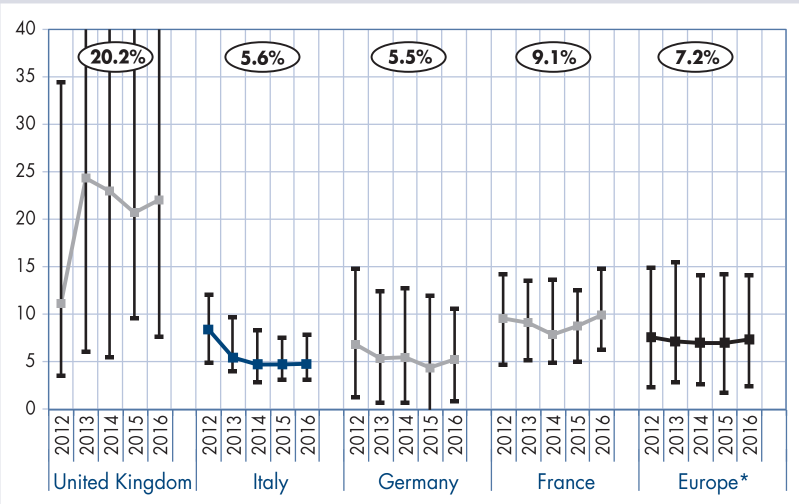
(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

In 2016 the **expense ratio** of the median life insurance company averaged 7.4% in Europe, higher than a year earlier (7.0%) (Figure 7). A similar trend was observed also in the single major countries. In detail, there was an increase in this indicator in the United Kingdom, where it reached 22.0% in 2016, in France (9.9%), in Germany (5.3%) and in Italy, where it came to 4.8%.

The interquartile range may vary noticeably between countries, also in view of the incidence of linked-type business, which generally shows a lower expense ratio than the other life classes. In 2016 the difference between the first and third quartiles of the distribution was 61 percentage points in the United Kingdom, 10 points in Germany (2 points less than the European sample), 8 in France and 5 in Italy.

Figure 7
Expense ratio (%)
Life

75th %ile
Median
25th %ile
x.x% Five-year average of medians



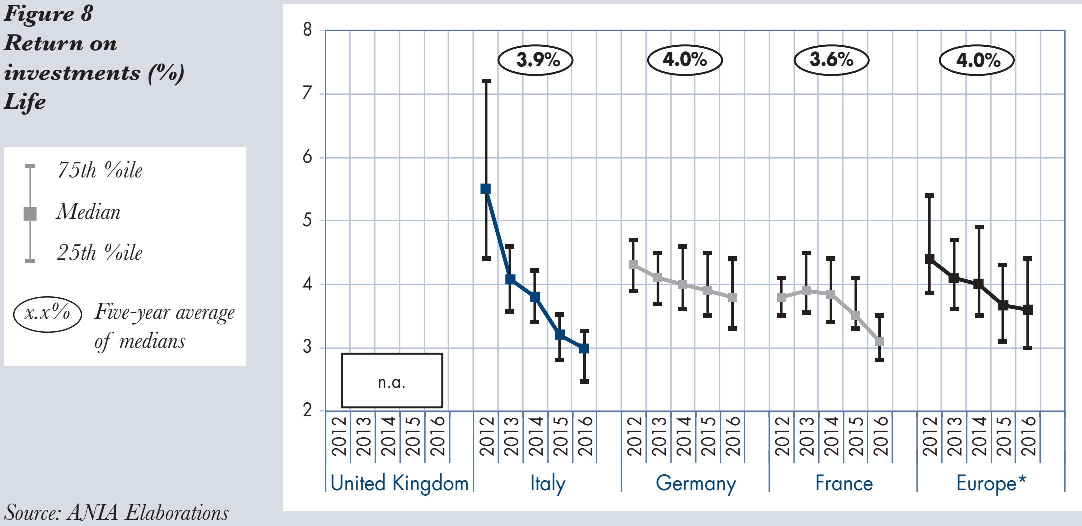
Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

The **return on investment** of the European sample (excluding the United Kingdom because of lack of data) slipped from 3.7% in 2015 to 3.6% in 2016 (Figure 8). The median French company showed a larger drop in the indicator, to 3.1% in 2016 from 3.5% in 2015, followed by Italy, which came down to 3.0% from 3.2%, and Germany which showed a marginal decrease from 3.9% to 3.8%. Examination of the average over the five-year period 2012-2016 shows a value for the European sample of 4.0%, in line with Germany and higher than the values of Italy (3.9%) and France (3.6%).

As for the interquartile range of companies, in 2016 there was a distance between the first and third quartile of the distribution of more than one percentage point in the European sample and in Germany, while for France and Italy the values were more modest.

Figure 8
Return on investments (%) Life



Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

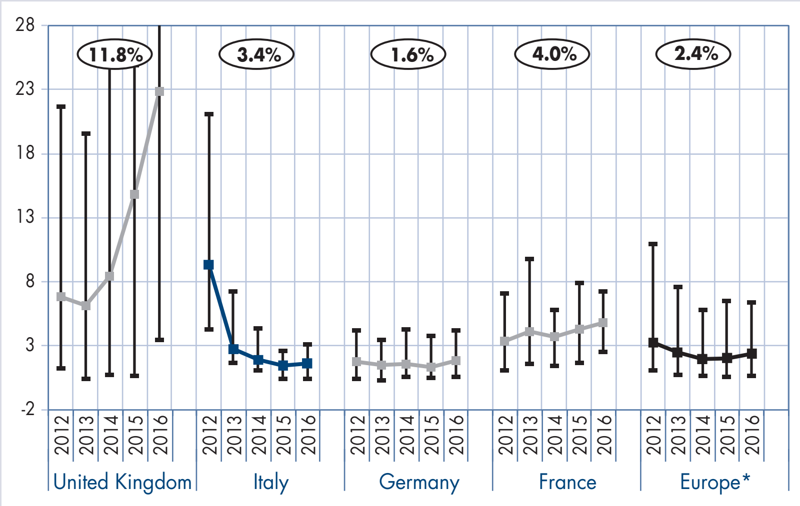
In 2016, the **net profit** in life insurance business as a ratio **to the volume of written premiums** was 2.4% at European level, up from the 2.0% in the two previous years (Figure 9). A similar trend was observed in the single countries analyzed; in particular the United Kingdom and France showed an increase in the indicator in 2016, from 14.8% to 22.9% and from 4.3% to 4.8% respectively, while Germany and Italy recorded more modest values at 1.8% and 1.6% respectively. In the five-year period of observation, the European average was 2.4%, higher only than the median German company (1.6%); the highest value was that of the United Kingdom (11.8%).

In 2016 the **ratio of technical provisions to written premiums** of the median company in the European sample rose to 9.4 from 8.9 in 2015 (Figure 10). This trend is observed in France and Italy, with respective values of 9.4 (8.1 in 2015) and 4.9 (4.4). The indicator was unchanged in Germany (10.2 in both 2015and 2016) and decreasing in the United Kingdom, from 4.4 in 2015 to 3.5 in 2016.

In 2016 the greatest difference between the first and third quartiles in the distribution of companies was recorded in Germany (15 percentage points), while Italy and the United Kingdom are the countries with the lowest dispersion (4 points).

Figure 9
Net profit/Premiums (%)
Life

75th %ile
Median
25th %ile
x.x% Five-year average of medians

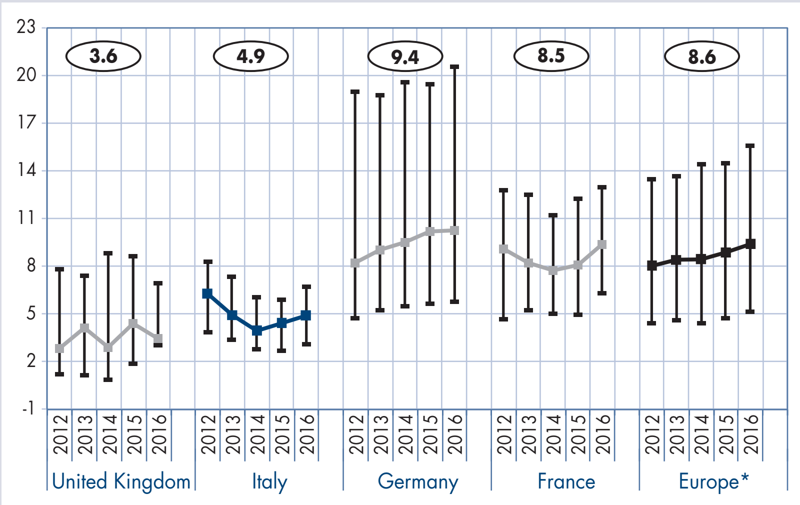


Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

Figure 10
Technical provisions/ Premiums
Life

75th %ile
Median
25th %ile
x.x% Five-year average of medians



Source: ANIA Elaborations on Fitch Connect data

(*) Sample of 9 countries: AT, BE, CH, DE, FR, IT, NL, SE, UK

THE PROFITABILITY OF LISTED EUROPEAN INSURANCE COMPANIES IN 2017

With regard to listed companies only, it is possible to compare the profitability of the insurance industry in European countries in 2017. It should be considered that the figures refer to consolidated financial statements – in other words inclusive of business from foreign subsidiaries – and that these financial statements are based on IAS accounting standards, which allow the recognition of some capital losses in net equity without showing up in the income statement.

In 2017 profitability (gauged by median ROE net of taxes and the dividends of preferred shareholders) of insurance companies listed in the main European countries differed from the previous year. In the United Kingdom the median ROE was nearly 15% (1.5 percentage points higher than in 2016); the median Italian company also registered an increase, albeit a smaller one, from 9.2% in 2016 to 9.7% in 2017, not enough to recoup the sharp decrease by comparison with 2015 (11.9%). In Germany, the profitability of the median company was unchanged (12.7%), while in France it contracted from 8.4% to 7.0%.

As for the distribution of the performance of individual companies, dispersion was greatest in the United Kingdom with an interquartile range of 46.5 percentage points, followed by Italy (11.9 points), France (6.7) and Germany (6.0).

Table 1
Return on Equity (%) of listed insurance companies (median) and interquartile range (percentage points)

Source: ANIA elaborations on Thomson Reuters data, Datastream

	2011	2012	2013	2014	2015	2016	2017 median	2017 dispersion (*)
France	9.9	9.7	9.2	8.7	10.4	8.4	7.0	6.7
Italy	4.9	6.2	12.4	9.8	11.9	9.2	9.7	11.9
United Kingdom	12.4	16.5	21.2	0.0	15.7	13.5	14.9	46.5
Germany	11.0	12.4	13.7	13.7	13.3	12.7	12.7	6.0

(*) Interquartile range IV-I

3

LIFE INSURANCE

LIFE INSURANCE

In 2017 life insurance premiums amounted to €98.6 billion, down by 3.6% compared to a year earlier, after three years in which the volume of premiums exceeded €100 billion. This was the result of a contraction in Class I policies, especially in the first half of the year, which was only partially offset by the increase in unit-linked policies observed throughout the year. The decrease in premiums was also concomitant with a moderate increase in benefits, thus generating, for the third consecutive year, a decline in net cash flow, which fell by nearly €12 billion in 2017. Mathematical reserves fell by 20.7%, while financial technical income grew by 9.4%. The combined effect of all these factors, outweighed by the downtrend in net premiums, produced an overall technical result of €3.2 billion, €400 million less than in 2016.

DOMESTIC BUSINESS

Premiums from direct domestic business of the 48 insurance companies operating in the life sector totaled €98,610 million in 2017, down 3.6% from a year earlier when they had fallen by 11.0%. Life premiums made up roughly 75% of total life and non-life premiums, lower than the values observed in the previous three years.

Life technical account
Euro million

	2010	2011	2012	2013	2014	2015	2016	2017
Gross written premiums	90,114	73,869	69,715	85,100	110,518	114,947	102,252	98,610
Incurred claims (-)	66,801	73,971	75,022	66,788	64,577	71,196	62,932	71,154
Changes in mathematical and technical provisions (-)	32,184	2,547	10,013	29,928	59,967	53,023	48,448	38,427
Balance of other technical items	-126	-177	-222	-325	-381	-378	-328	-369
Operating expenses (-)	4,300	3,832	3,367	3,538	3,812	3,974	3,842	3,918
- commissions	2,696	2,205	1,788	1,982	2,206	2,349	2,181	2,240
- other acquisition costs	675	709	681	683	686	701	686	671
- other administration costs	929	918	898	874	921	924	975	1,007
Investment income	12,617	3,019	25,382	18,409	20,588	15,976	16,611	18,166
Direct technical account result	-680	-3,639	6,473	2,929	2,369	2,352	3,313	2,908
Reinsurance results and other items	366	268	388	369	383	315	289	289
Overall technical account result	-314	-3,371	6,861	3,298	2,752	2,667	3,602	3,197
Net cash flow	23,313	-102	-5,306	18,312	45,941	43,751	39,320	27,456
Annual % change in premiums	11.1%	-18.0%	-5.5%	22.1%	29.9%	4.0%	-11.0%	-3.6%
Expense ratio	4.8%	5.2%	4.8%	4.2%	3.4%	3.5%	3.8%	4.0%
– Commissions/Gross written premiums	3.0%	3.0%	2.6%	2.3%	2.0%	2.0%	2.1%	2.3%
– Other acquisition costs/Gross written premiums	0.7%	1.0%	1.0%	0.8%	0.6%	0.6%	0.7%	0.7%
– Other administration costs/Gross written premiums	1.0%	1.2%	1.2%	1.0%	0.8%	0.8%	1.0%	1.0%
Investment income/Technical provisions	3.2%	0.7%	6.1%	4.2%	4.3%	3.0%	2.8%	2.9%
Technical account result/Gross written premiums	-0.8%	-4.9%	9.3%	3.4%	2.1%	2.0%	3.2%	2.9%
Overall technical account result/Gross written premiums	-0.3%	-4.6%	9.8%	3.9%	2.5%	2.3%	3.5%	3.2%
Overall technical account result/Technical provisions	-0.08%	-0.82%	1.64%	0.75%	0.57%	0.49%	0.61%	0.50%
Premiums to total life and non-life premiums ratio (%)	*71.7%*	*67.0%*	*66.3%*	*71.6%*	*77.1%*	*78.2%*	*76.2%*	*75.3%*

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

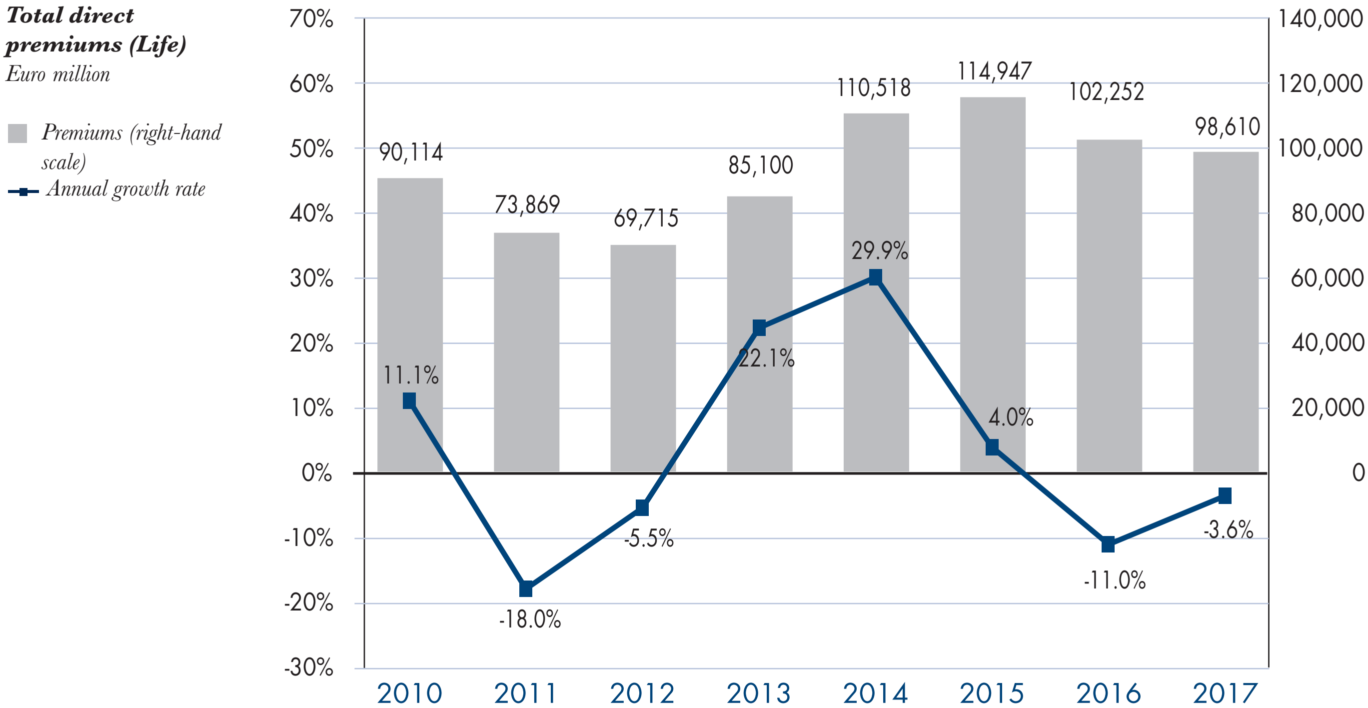
LIFE INSURANCE

The downturn in the life business, observed practically from the start of the year, was chiefly the fruit of a decline in premium income for traditional policies (Class I – human life and Class V – Capital redemption policies), partly mitigated by the surge in Class III policies (Investment funds or so called unit-linked policies). The growth of the latter results from the need, in a context of low interest rates on government securities, to look for forms of investment for clients that produce positive medium-term returns net of costs, accepting higher risk.

In 2017, the development of multi-class products was even more significant, with premiums invested partly in segregated funds and partly in unit-linked funds with diversified asset allocation. The incidence of these products on the total life market reached 27.6% in 2017 (it was 20% in the two-year period 2014-2015), with a volume of premiums amounting to €27 billion (+30.0% compared to 2016), equally distributed between Class I and Class III premiums (Class III products accounted for 45% of total premiums in the previous two years).

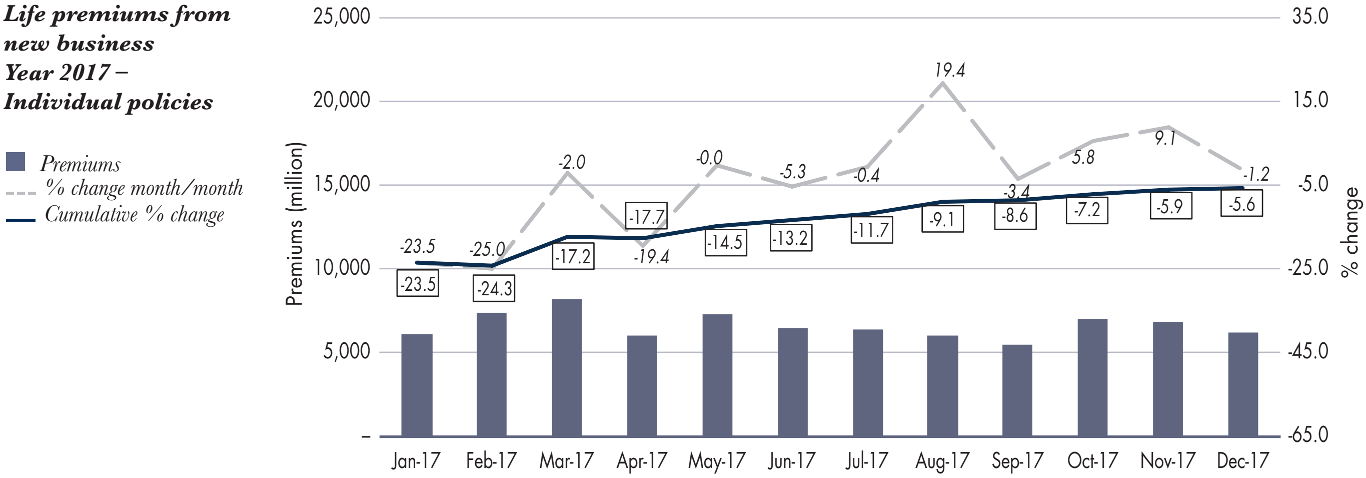
The introduction of long-term individual savings plans – *Piani Individuali di Risparmio a lungo termine (PIR)* (Budget Law for 2017 – Law 232 of 11 December 2016) mainly in the second half of 2017, with a view to increasing the financial savings of the Italian households in this economic context, allowed insurance companies to place a new product on the market benefiting from tax exemptions on the returns conditional upon certain types of investments in real economic activities. The preferred contractual form was unit-linked funds (75% of PIRs), while the remaining share was multi-class products, with a total volume of premiums amounting to €1.7 billion (1.7% of total life premiums in 2017).

Total direct premiums (Life)
Euro million



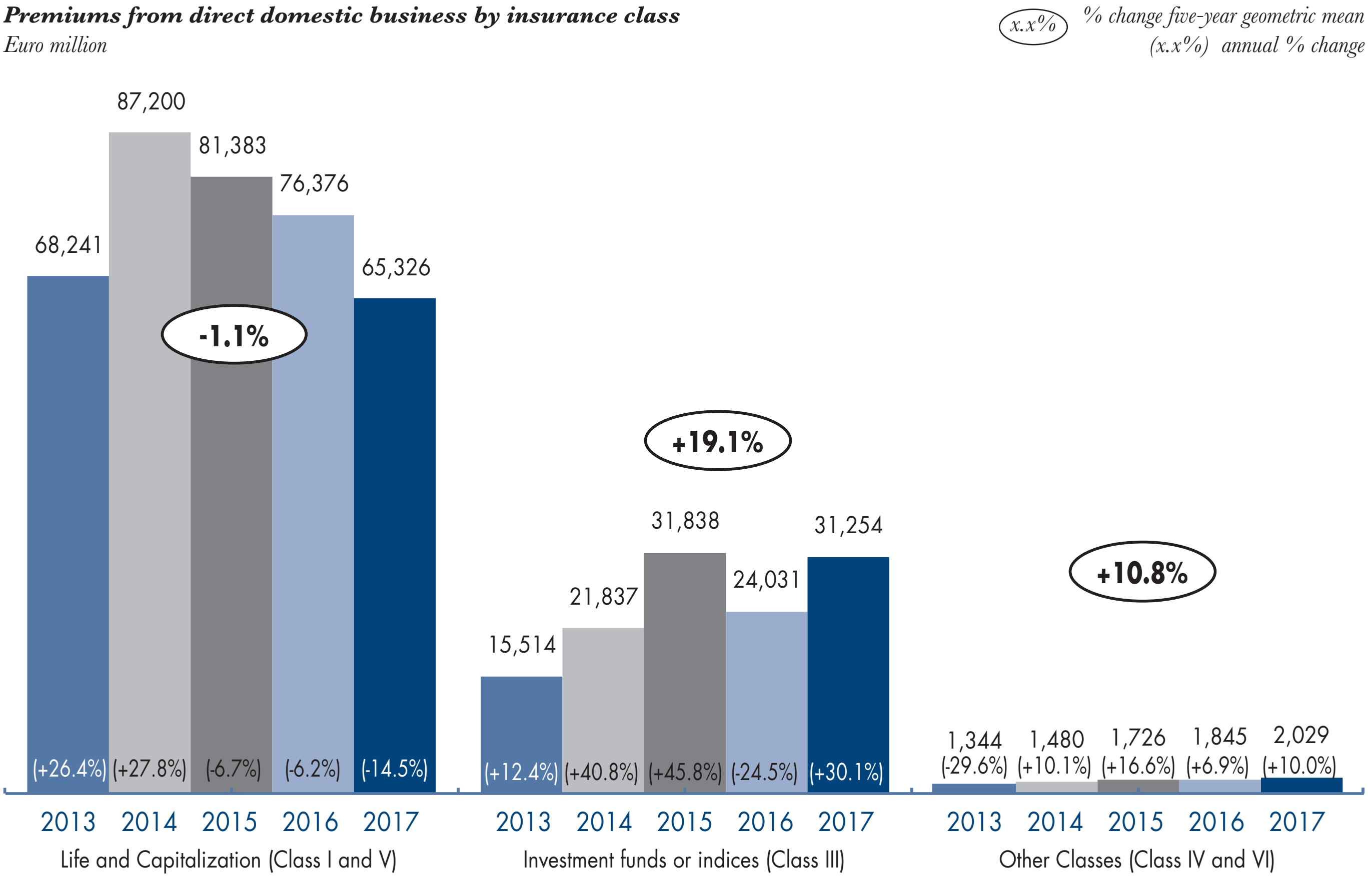
The contraction in written life premiums in 2017 is reflected also in the monthly pattern of new business (individual policies) issued by Italian and non-EU companies. In particular, Class I policies registered a fallback starting in the early part of the year, with a total drop at the end of first half of the year of 27%.

Life premiums from new business Year 2017 – Individual policies



The drop slowed down in the second part of the year, with an overall contraction for 2017 of 19%. The same trend was shown by Class V policies, although with significantly more moderate volumes: for 2017 as a whole, the decrease in premiums (which had started in mid-2015) was around 17% less than in 2016. Class III premiums, after showing negative change rates throughout 2016, turned up to record positive variations starting early in the next year, to produce an overall increase of 33%.

Premiums from direct domestic business by insurance class
Euro million



For 2017 as a whole, the total of new life business, including group policies, was around €82 billion, 5.2% less than in 2016. Among the distribution channels, the drop is chiefly attributable to the business done by bank and post office branches (-7.5% compared to 2016); business generated by agencies was essentially stable thanks to the increase registered in internal agencies, while that generated by qualified financial salesmen grew moderately by 1.2%.

Looking at the insurance classes separately, in 2017 Class I and V **written premiums** fell by 14.5% annually to €65,326 million, more than double the decline recorded in the previous two-year period and confirming the steady downturn started in 2015 (the average annual change over the past 5 years in these classes is -1.1%). It is worth noting that the decline in traditional policies depended chiefly on the 17% fall in business done by bank and post office branches, which accounted for 64% of these policies. Traditional policy premiums constituted 66% of the entire life portfolio, sharply downward from the 75% registered in 2016, of which 96% in Class I (down 14.7% on the year) and the remaining 4% in Class V (down 7.0%).

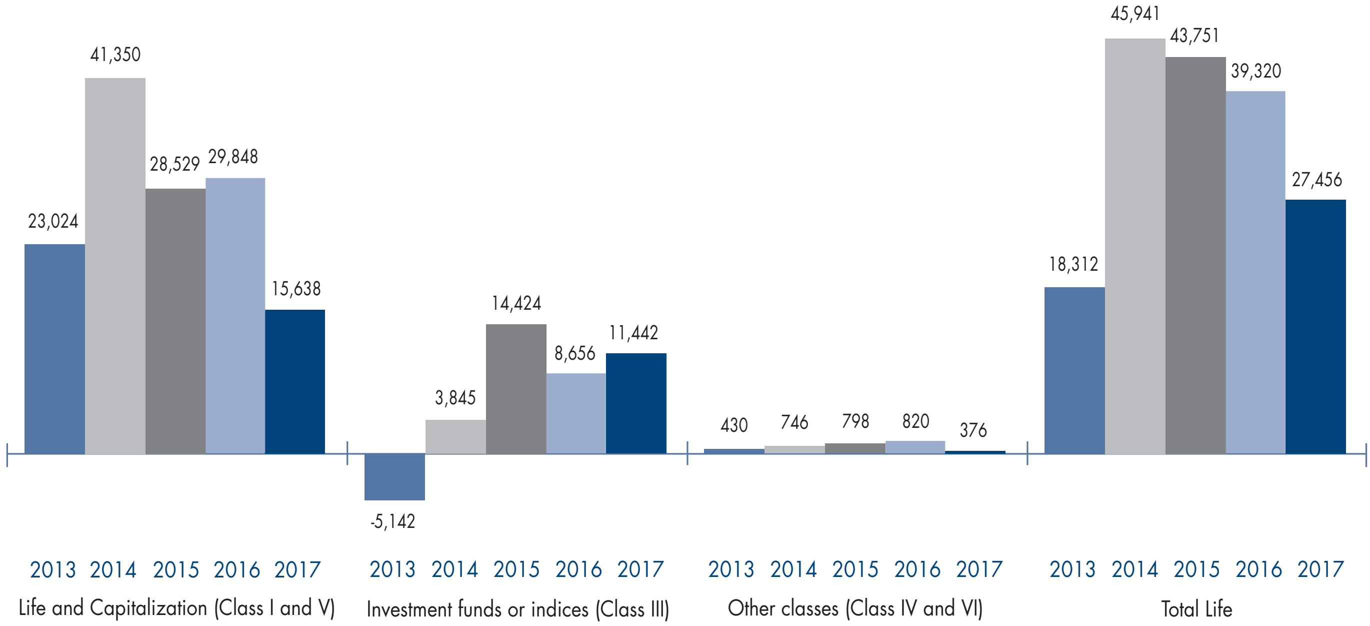
Class III policies showed a positive trend in 2017 with premiums amounting to €31,254 million, up significantly by 30.1% from the previous year when the annual change was negative at -24.5%. In 2017 these products accounted for 32% of the entire life portfolio, 8 percentage points more than the previous year. Over the past five years, the average annual increase was 19.1% compared with 14.9% over the previous five-year period. The expansion in 2017 was mainly the result of premiums marketed through bank and post office branches, which accounted for 57% of Class III premiums, thus registering a 36.0% increase in the volume of premiums compared to 2016. Almost the entire remaining share of linked policies (33%) was distributed via qualified financial salesmen, who registered a 15.2% rise in collected premiums.

By contrast, policies of other life classes (Classes IV and VI) continued to grow for the fourth consecutive year (+10.0%), with a steadily increasing volume of premiums amounting to €2,029 million, 2% of total life premium income. The annual average growth of the past five years was +10.8%, from -0.9% of the previous 2012-2016 five-year period. More specifically, of the total life premiums €90 million came from long-term care and protracted illness insurance policies (Class IV) with an increase of 13.2% compared to 2016 (thanks above all to sales through brokers and tied agents), while the remaining €1,940 million refer to pension funds (Class VI), 9.8% more than the previous year (thanks to direct sale and business brought in by bank branches).

Incurred claims, defined as the amounts paid plus the change in the amounts reserved in respect of claims net of recoveries, totaled €71,154 million (up 13.1% from 2016) as a result of an increase in redemptions and disinvestments which amounted to 62% of total disbursements.

Net cash flow, defined as the difference between premiums and incurred claims, was positive by €27,456 million, down by 30.2% from 2016 and even more from the

Net cash flow
Euro million



two previous years when it amounted to around €35 billion in the first nine months of 2015 and 2014.

In particular, net cash flow of Class I and V premiums amounted to €15,638 million, almost half the amount of 2016 and even lower than in 2014 when the net flow exceeded €40 billion. Thanks to the significant increase in premiums, the net cash flow for Class III premiums was positive at €11,442 million – 32.2% more than in 2016 but down from 2015 when it achieved the highest figure on record (€14,424 million). The volume of premiums of other life classes (IV and VI) is still moderate and net cash flow amounted to €376 million, down from €820 million a year earlier.

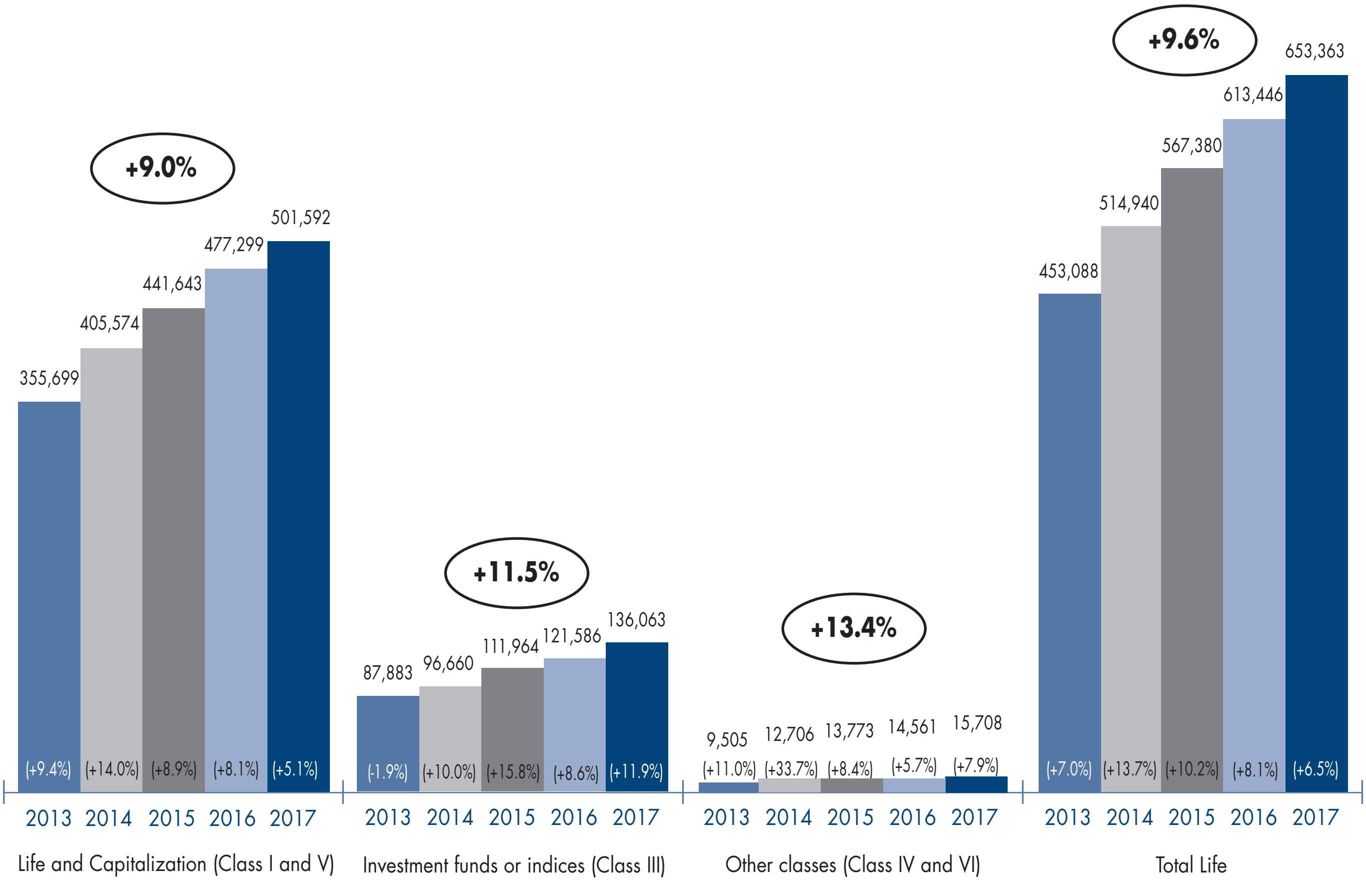
Mathematical provisions and other technical provisions was positive at €38,427 million in 2017, down by 20.7% in 2016 and 27.5% in 2015. **Total technical provisions**, amounting to €653,363 million, gained 6.5% from 2016, to produce average annual growth of 9.6% over the five-year period 2013-2017. More in detail, the amounts set aside in traditional classes amounted to €501,592 million (€474,553 million for Class I), up 5.1% compared to 2016. These reserves account for 77% of total life reserves and have registered an average growth of 9.0% over the past five years. Technical reserves pertaining to linked policies totaled €136,063 million (21% of total reserves), with an increase of 11.9% on 2015 and an average annual growth of 11.5% over five years. Reserves set aside in 2016 for the remaining classes (IV and VI) increased by 7.9% to €15,708 million compared to a year earlier and by 13.4% on average in the five-year period.

Operating expenses – that is, administrative expenses relating to technical management plus costs of contract acquisition, premium collection and the organization

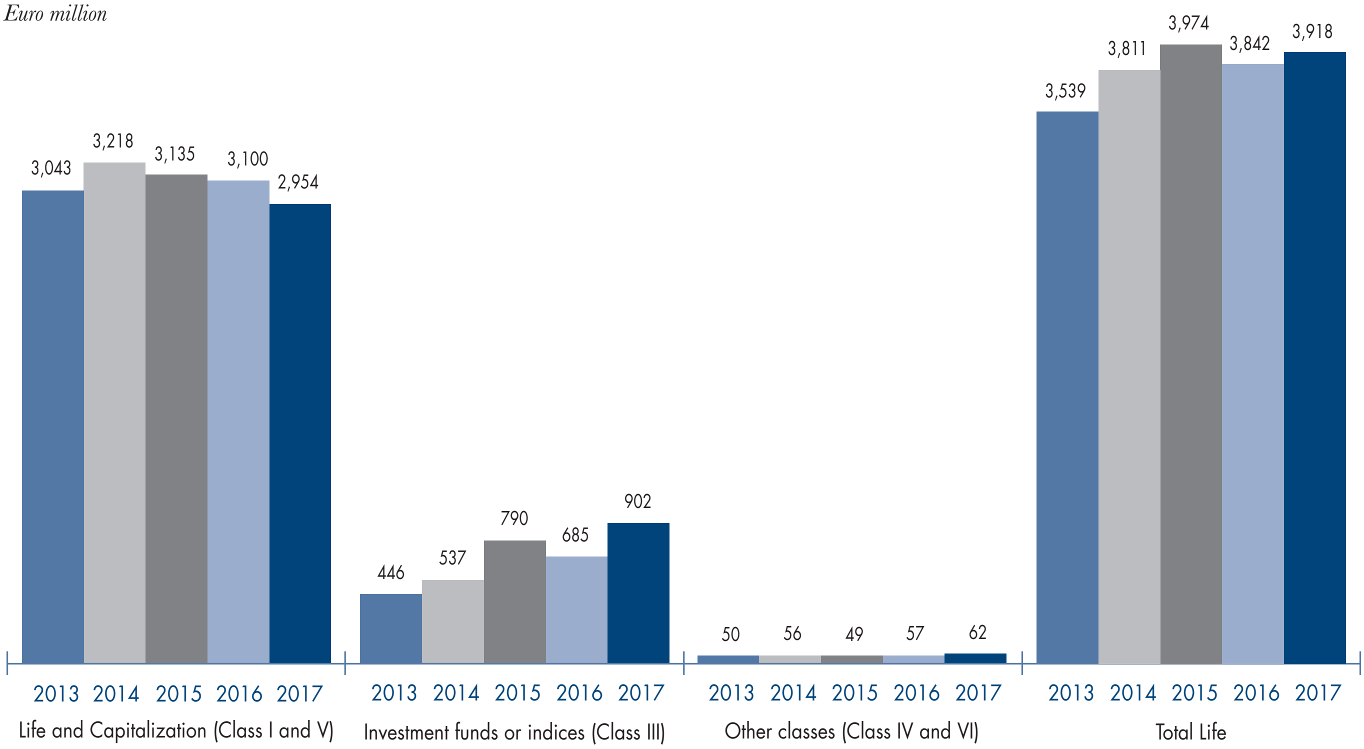
LIFE INSURANCE

Total technical provisions
Euro million

x.x% % change five-year geometric average
(x.x%) annual % change



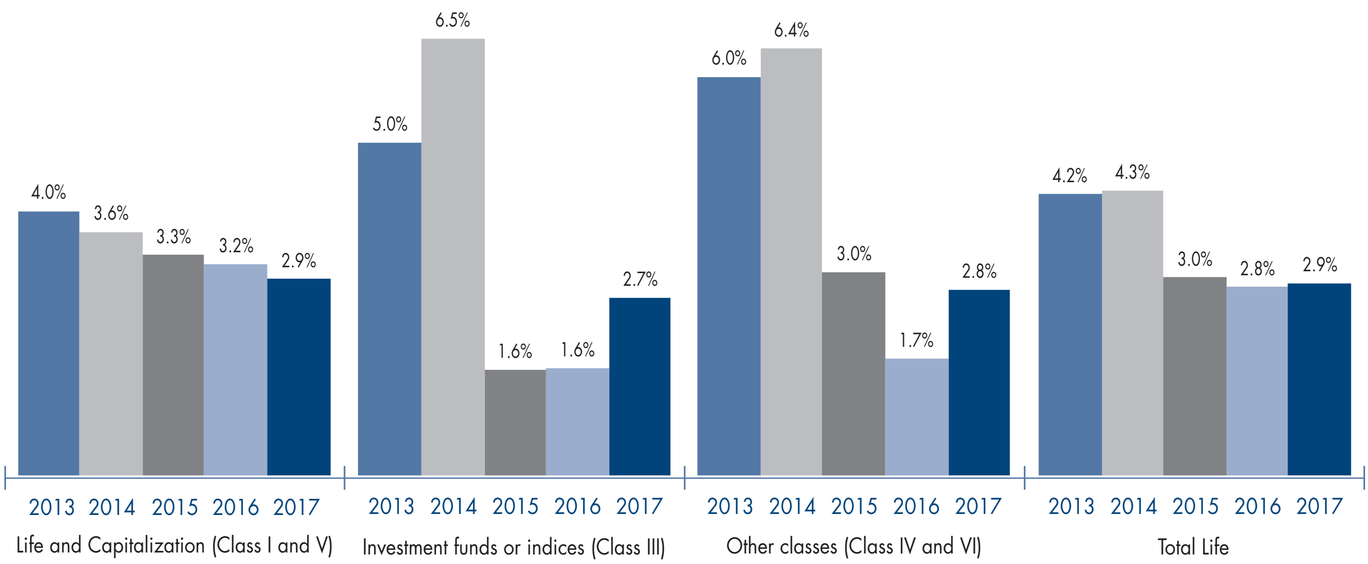
Operating expenses
Euro million



and management of the distribution network – amounted to €3,918 million (of which 75% for Classes I and V, 23% for Class III and 2% for other life classes) a decrease of 2.0% from the previous year.

Investment income amounted to €18,166 million in 2017, 9.4% and 13.7% higher than in 2016 and 2015 respectively but 11.8% lower than in 2014. As a ratio to mathematical reserves, investment income in the five-year observation period has come down steadily in traditional life business (Classes I and V) from 4.0% in 2013 to 2.9% in 2017, while for Class III policies it rose to 2.7% from 1.6% in 2015 and 2016; in the other life classes the ratio fluctuated from 3.0% in 2015 to 1.7% in 2016 and up again to 2.8% in 2017.

Profits from investments on mathematical provisions
(%)



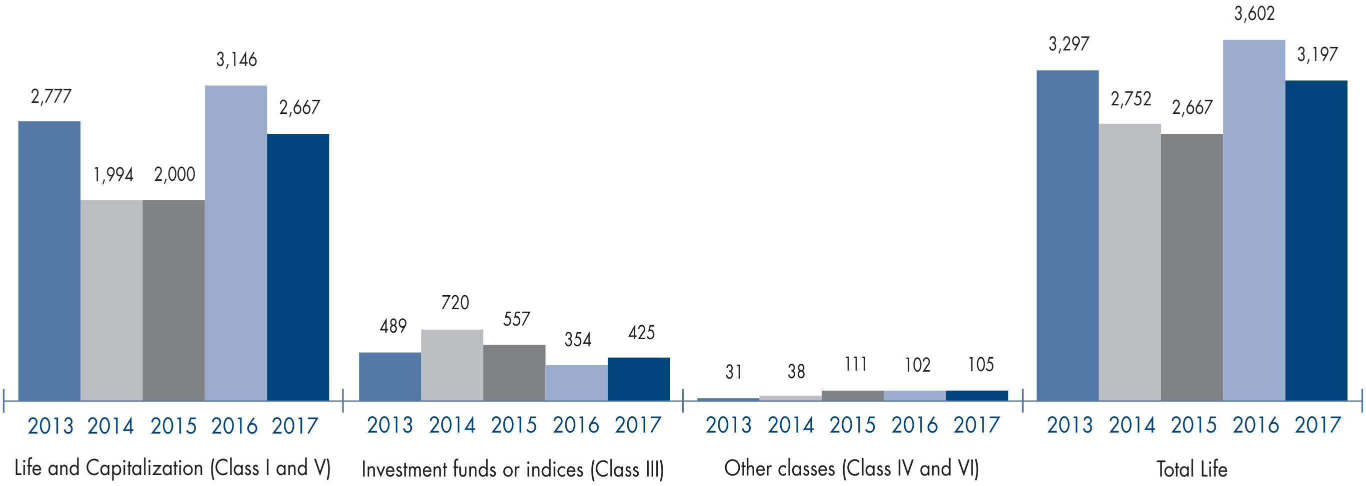
The final **result of the technical account** was positive at €2,908 million, down by 12.2% from 2016 but more than in the 2014-2015 two-year period where it was under €2,400 million.

The result of reinsurance cessions and net indirect business was positive by €289 million (unchanged from 2016).

Counting the reinsurance balance, the **overall technical account** result was positive by €3,197 million, a decrease of 11.3% from 2016 that brought its ratio to premiums and to technical provisions down, respectively from 3.5% to 3.2% and from 0.61% to 0.50%: in particular, there was a fall in the traditional branches (Classes I

LIFE INSURANCE

Overall technical balance
Euro million

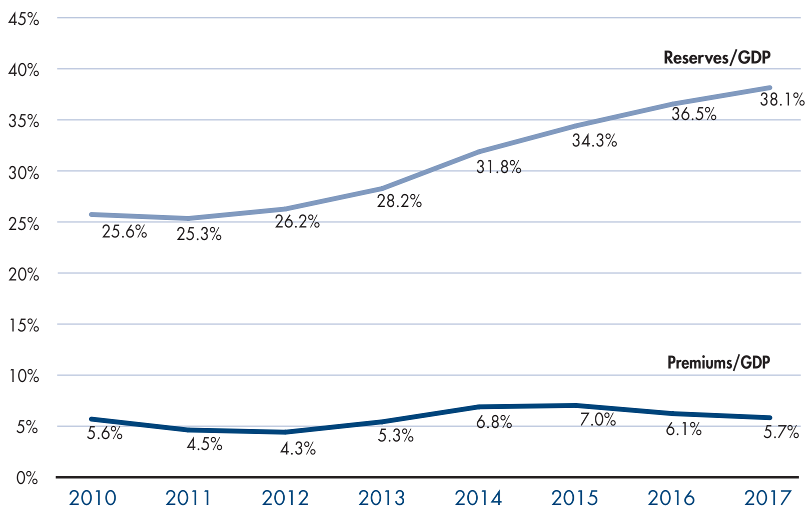


and V), from €3,146 million in 2016 to €2,667 in 2017, while the technical balance for Class III policies amounted to €425 million, 20% more than a year earlier, owing mainly to the increase in premiums. The balance for the remaining classes also grew slightly, to €105 million (it was €102 million in 2016).

LIFE INSURANCE AND GDP

The 6.5% growth of life insurance technical provisions in 2017 resulted in a rise in their ratio to GDP from 36.5% to 38.1%. By contrast, the ratio of life premiums to GDP decreased, from 6.1% in 2016 to 5.7% in 2017.

Premiums and reserves as a % of GDP



EVOLUTION OF THE SUPPLY OF LIFE PRODUCTS

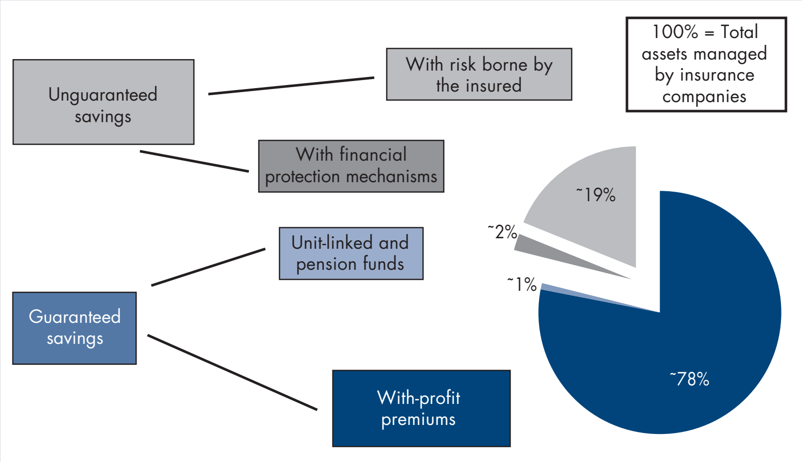
Estimate of the assets covering guaranteed yields

Using the insurance company data available and making a number of approximations and assumptions, we can estimate the share of life premiums whose end-of-contract value is guaranteed by the insurer ([1]).

For 2017 the share is estimated at 79% of total assets covering life provisions (Figure 1), slightly down from 80.0% in 2016. In particular, the share is almost entirely covered by investment in respect of profit-sharing policies, which account for 78% of total assets, while the guaranteed share in linked contracts (Class III) and pension funds (Class VI) accounts for the remaining 1%.

Approximately 2% of assets was invested in coverage of products explicitly or implicitly featuring financial protection mechanisms ("protected" unit-linked policies or index-linked products that provide for at least the premium to be repaid to the policyholder at the contract's maturity). The remaining 19% was invested in products in which the risk is borne entirely by the insured (mostly unit-linked policies and pension funds).

Figure 1
% composition of the guaranteed assets managed by insurance companies: estimates for 2017



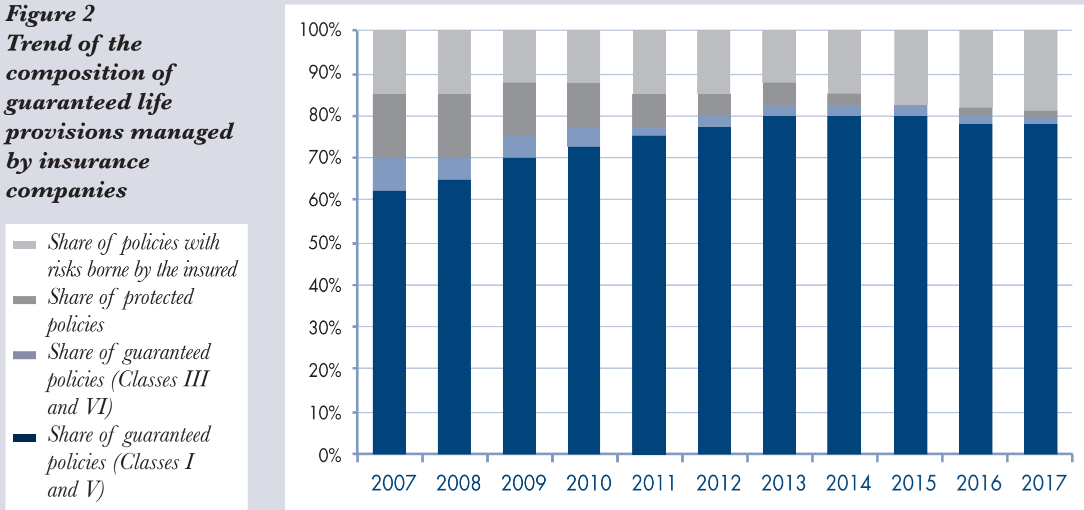
Source: Based on IVASS and COVIP data

Over the years, the share of guaranteed yields has grown (it was just above 60% in 2007) thanks to the increase in sales of Class I and Class V policies, while the shares of "protected" or guaranteed Class III and Class VI products have diminished (Figure 2), and the share of contracts in which the risks are borne entirely by the insured reached the highest value on record last year.

([1]) The share of guaranteed life premiums comprises the provisions held by insurance companies for:

- Class I and Class V profit-sharing products, including with-profit products;
- unit-linked products, invested in internal funds or UCITS classified as "guaranteed";
- index-linked products featuring the insurance company's guarantee;
- guaranteed sub-funds of pension funds (Class VI).

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



Source: Based on IVASS and COVIP data

Asset allocation corresponding to life products

Using industry statistics, balance-sheet data on assets covering reserves and some additional proxies and assumptions ([2]), we can also estimate the asset allocation of life products.

At the end of 2017 government securities made up about 55% of the assets covering the commitments deriving from life products (Table 1). Private-sector bonds were nearly 32%, while shares accounted for about 10% of the overall portfolio.

Table 1
Asset allocation of life products at the end of 2017

Macro-asset class	Asset allocation corresponding to life products			
	Total life market	Sub-total profit-sharing products	Sub-total Class III and VI	
			All Class III and VI products	of which *unit-linked*
Government securities	55.2%	64.6%	20.9%	18.3%
Bonds	31.8%	29.2%	40.6%	42.5%
Shares and other equity	10.0%	3.2%	34.2%	34.0%
Liquidity	1.7%	0.9%	4.3%	5.2%
Property and other	1.3%	2.1%	0.0%	0.0%
TOTAL	100.0%	100.0%	100.0%	100.0%

Source: Based on IVASS and COVIP data

For with-profit and profit-sharing products offering guaranteed minimum returns, the portion of government securities exceeded two-thirds, while that of corporate bonds was just under 30%. Shares accounted for a very low percentage.

([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.

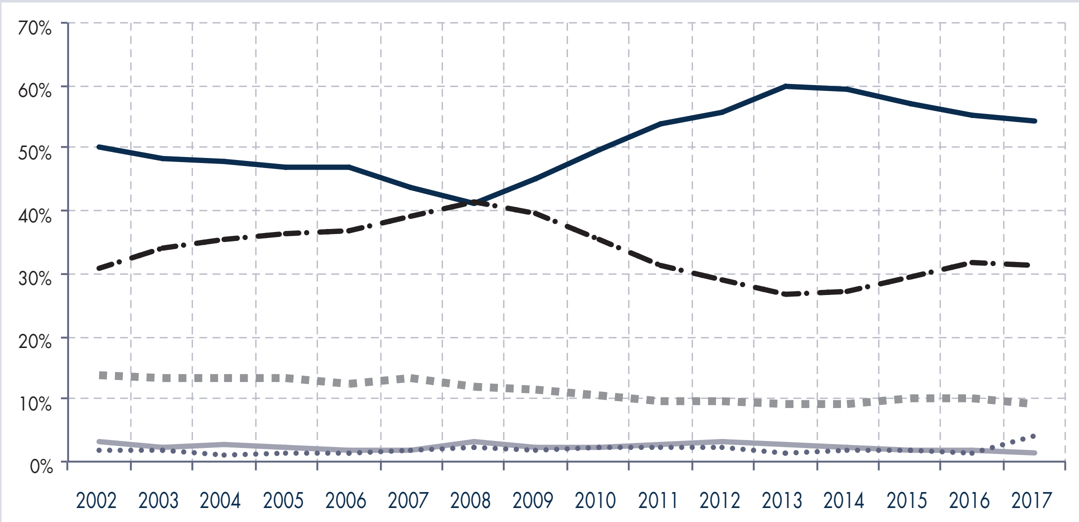
For Class III and Class VI products, where the results of the investment are typically linked to the performance of the financial markets, we find an evident search for a different combination of risk and return. In particular, private-sector bonds made up just over 40% of the total portfolio and investments in equities accounted for approximately one third.

Examining the evolution of the asset allocation corresponding to all life products since 2002 (Figure 3), we find a steady if modest decrease in recent years of the share invested in government securities against an uptrend in corporate bonds; the portions invested in these two macro-asset classes were about equal in 2008 before starting to diverge.

Over the same years there was a gradual fall in investment in equities (now down to 10%), while the percentage invested in liquid assets, real estate and other assets remained low and roughly unchanged.

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

Government securities
Bonds
Shares
Liquidity
Property and other

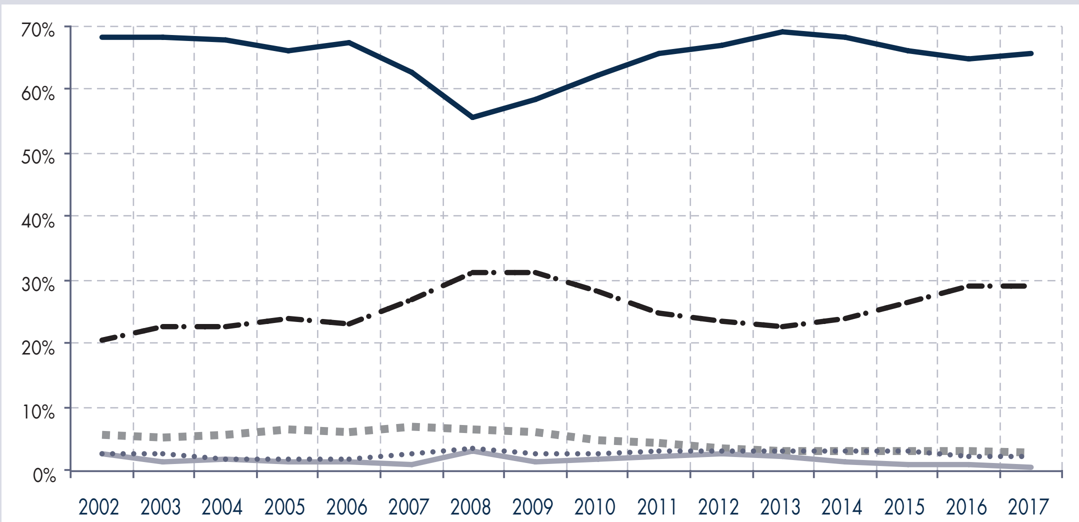


Source: Based on IVASS and COVIP data

Even restricting our discussion to profit-sharing life products with a return guaranteed by the company (Figure 4), the incidence of government securities in the composition of the

Figure 4
Evolution of asset allocation of profit-sharing life products
(%)

Government securities
Bonds
Shares
Liquidity
Property and other



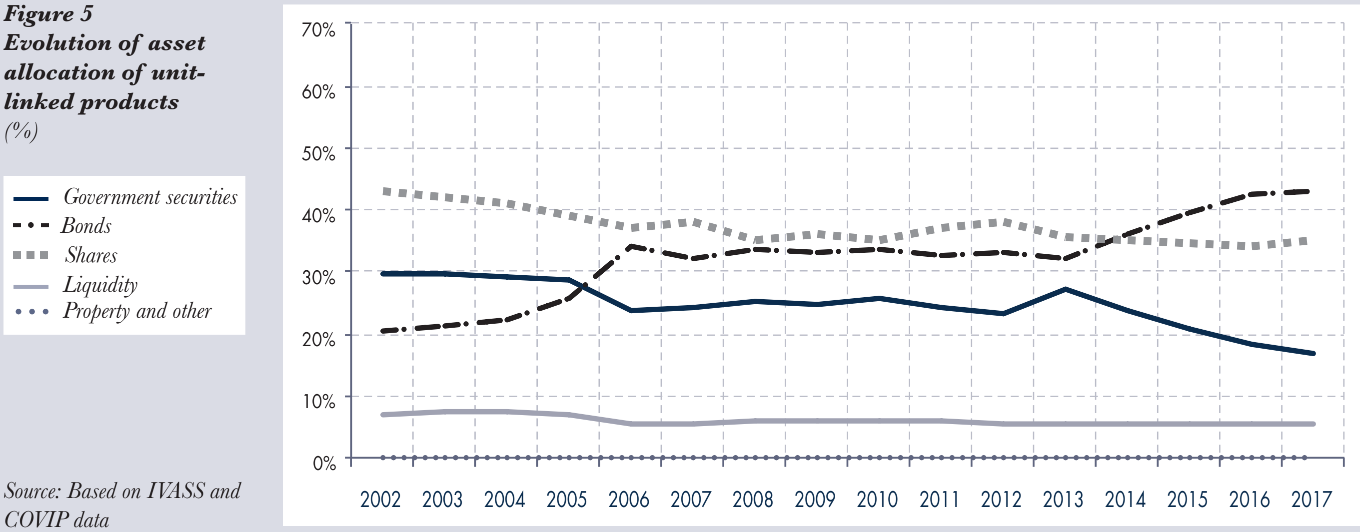
Source: Based on IVASS and COVIP data

financial portfolio has stabilized in the last year; public bonds thus still represent the preponderant investment product, while corporate bonds are unchanged at nearly 30%, The portion invested in equities is now stable around 3%, after the slight contraction recorded between 2008 and 2013.

At all events, it should be borne in mind that for this type of product the actual yield for the policyholder is not a direct mark-to-market function of the corresponding asset allocation, owing both to the contractual guarantees of minimum yield and to the specific method of determining the return (valuation of assets at historic cost and impact of capital gains/losses only if realized), which significantly reduce the volatility of the financial results.

Finally, among the assets corresponding to unit-linked policies, at the end of 2017 the largest class was corporate bonds; and the sum of these plus government securities makes fixed-income securities by far preponderant among total assets. Also in this case, over the past few years, the trend has been a shift from government to corporate bonds (Figure 5).

Figure 5
Evolution of asset allocation of unit-linked products
(%)



Source: Based on IVASS and COVIP data

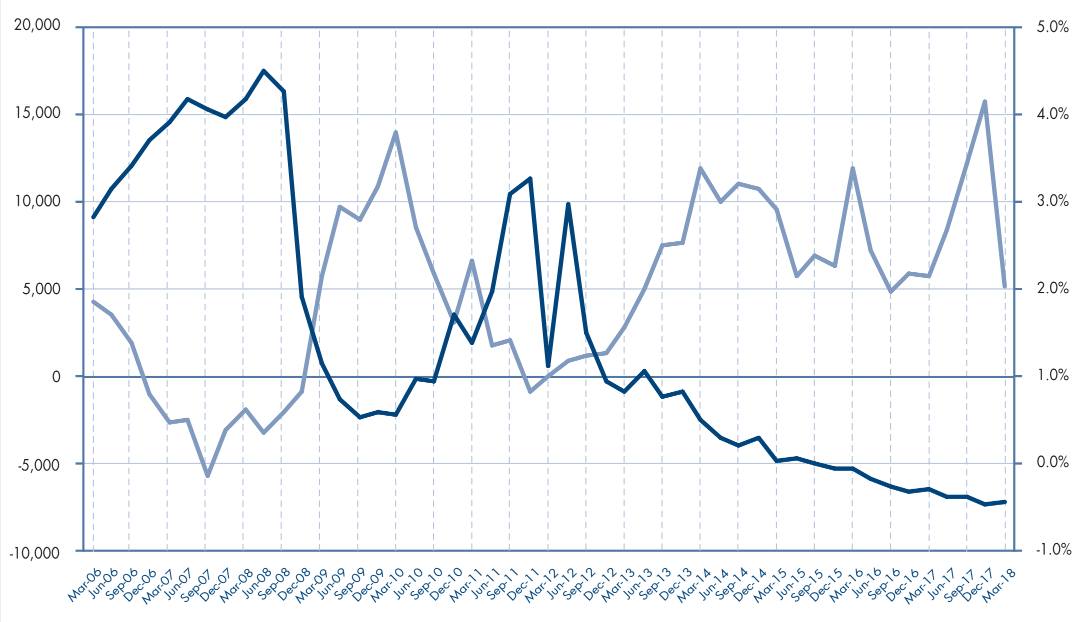
In particular, in 2017 shares made up over a third of total investments, whereas they had exceeded 40% in the early 2000s; the share of corporate bonds grew, further distancing it from the other asset classes.

The evolution of net premium income in the life sector

From 2006 to the first quarter of 2018, the quarterly performance of net life premium income – the difference between premiums paid by policyholders and amounts paid to policyholders for surrenders, policies maturing, claims and annuities – has fluctuated between positive and negative periods. The positive periods came in 2006, 2009-2010, and more recently since the beginning of 2012.

In particular, over this period the trend in profit-sharing policies – which account for the bulk of life products in Classes I and V – shows a clear negative correlation between net premium income and the nominal rates on Italian government securities (Figure 6).

Figure 6
Net premium income of traditional policies in each quarter and yield on Italian Treasury bills, 2006-Q1 2018

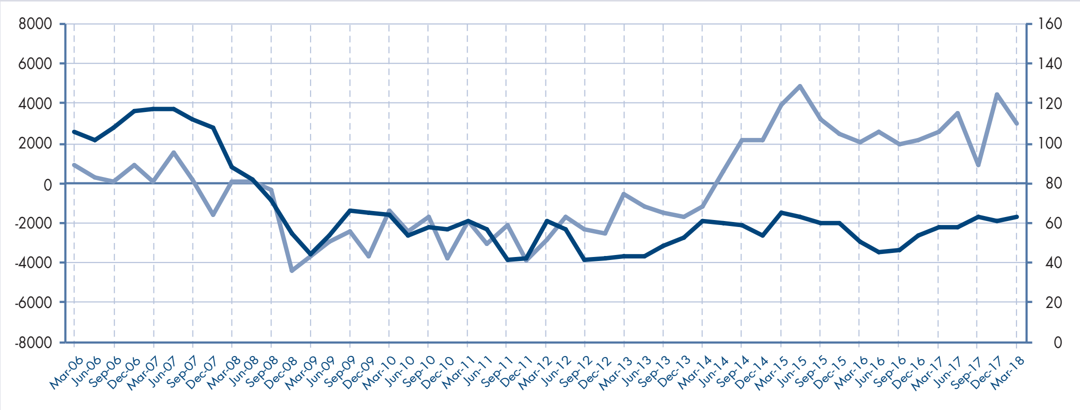


Fonte: ANIA e Thomson Reuters, Datastream

Partly because of the specific features of the separate asset portfolios to which these policies are normally linked, they become especially competitive when government securities yields are low, as is currently the case, also as a result of European monetary policy.

For linked policies – following the negative net premium income recorded starting in 2008, correlated with the performance of Italy's FTSE-MIB stock exchange index– the quarterly series of net premium income in the period examined has inverted the trend over the past few years, with positive net cash flows, considerably outstripping the concomitant recovery in the stock market (Figure 7).

Figure 7
Net premium income of linked policies in each quarter and index FTSE MIB, 2006-Q1 2018



Source: ANIA, Thomson Reuters, Datastream

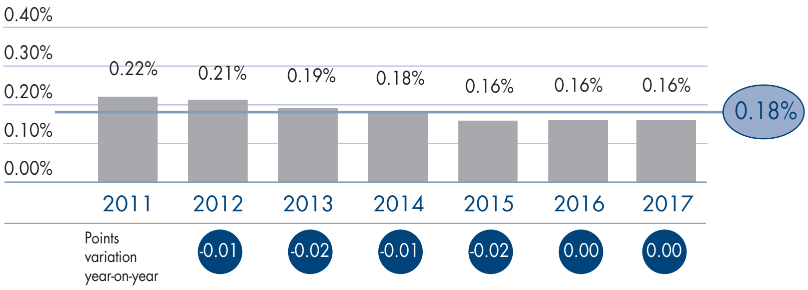
THE COMPOSITION OF LIFE INSURANCE EXPENSES

In the income statements, companies' expenditures are classified in two categories: general and administration expenditures and those for the distribution of insurance products, the latter divided into policy acquisition and collection costs.

General and administration costs

Taking account that the life insurance market in Italy is composed mainly of investment products, general and administration costs are calculated in relation to technical reserves, which serve as a proxy for the sums managed on behalf of the insured; this is the standard practice in the asset management industry. The trend in this ratio, as is illustrated in the diagram below, is downward, with a seven-year average between 2011 and 2017 of 18 basis points and 16 basis points last year (Figure 1).

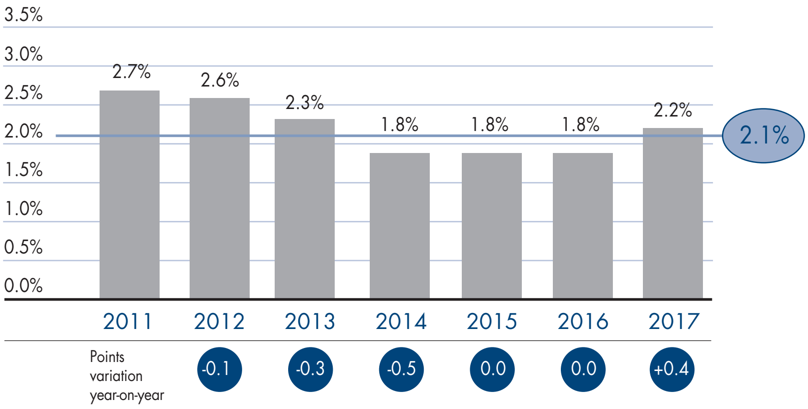
Figure 1
Overhead and administration costs/Technical provisions



Acquisition costs

These expenses make up most of the remuneration of the distribution channels for contract intermediation. Their incidence is calculated as the ratio to the Single Premium Equivalent (SPE). This standard measure is equal to the sum of single premiums and annual premiums multiplied by the average duration of contracts, here conventionally set at 10 years. It allows us to include subsequent as well as initial payments to take into account the differences in the composition and structure of costs between single and periodic premiums. The ratio was 2.2% in 2017, up from the last three years and higher than the average value of 2.1% (Figure 2).

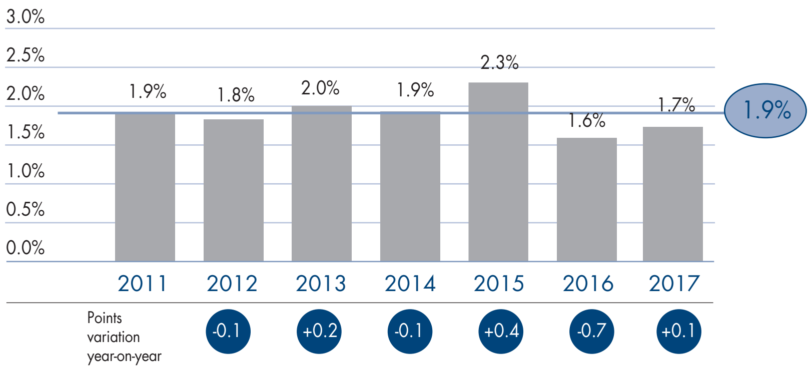
Figure 2
Acquisition costs/Single Premium Equivalent



Collection costs

Collection costs consist mainly in recurring commissions paid by insurance companies to dealers on the subsequent annual premium installments (excluding first year premiums) for policies with multi-year payment plans and are calculated only based on expenses for years other than the first year or, in other words, net of new business. Last year the value started to grow again, reaching 1.7%. The average value for the period of observation was 1.9% (Figure 3).

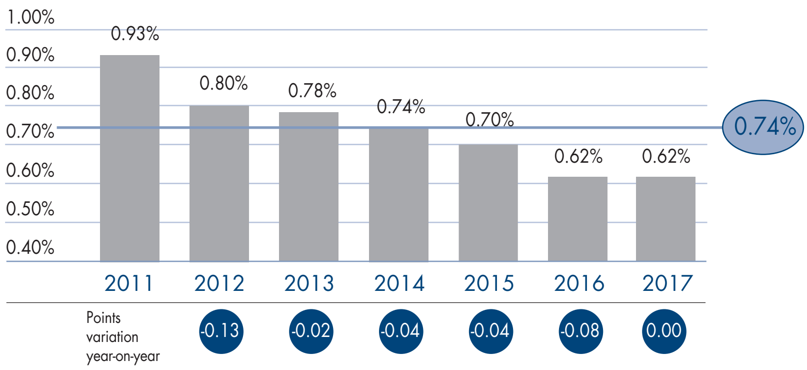
Figure 3
Collection costs/Renewal premiums (excluding first year premiums)



Total costs

Total costs (general and administration expenses plus acquisition and collection costs) in relation to technical reserves recorded a downward trend over the period of observation, to a minimum of 62 basis points in 2017. The average value for the period of observation was 74 basis points (Figure 4).

Figure 4
Total costs/Technical provisions



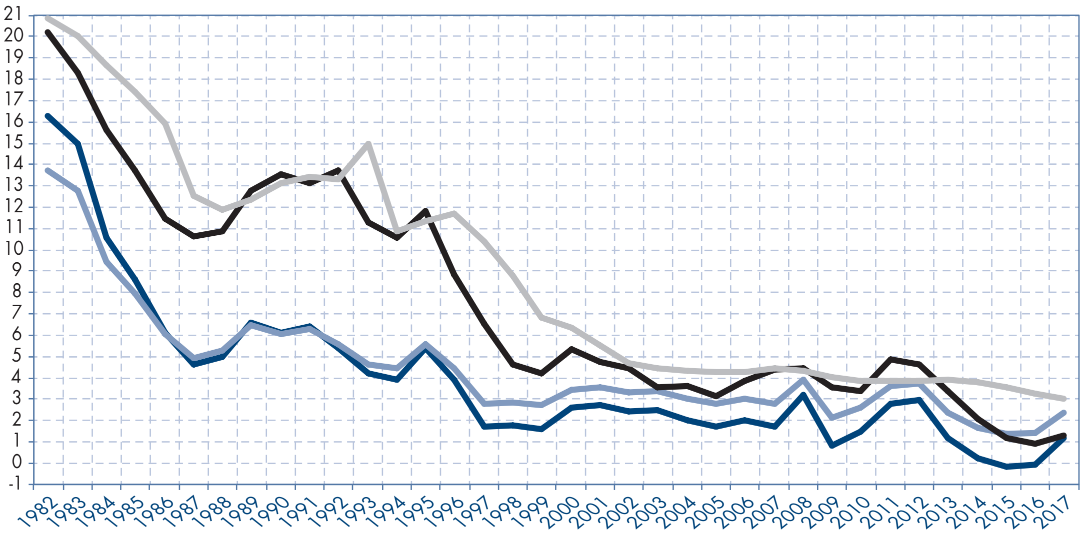
THE RETURN ON WITH-PROFIT POLICIES

The capital or annuities generated by with-profit policies increase as a function of the return of segregated funds, a special type of insurance fund with investments mainly in fixed income securities, entering assets at purchase or book value, a method also known as “at historic cost”. Once assigned to a segregated fund, an asset can exit the fund only by liquidation. The return achieved by the asset management scheme is determined as the ratio of the sum of coupons, dividends and capital gains or losses to the average amount of assets held in the period considered, generally one year. The return is distributed among the assets in a certain percentage or net of a fixed measure, without prejudice to the guaranteed minimum yield under the insurance contract.

In the past, the return on segregated funds was usually higher than the yield of government securities, the revaluation rate of severance pay entitlements, or the inflation rate (Figure 1). Over the past five years, in particular, the return was 3.5% (3.0% in 2017), compared with 1.8% for government securities, 1.8% revaluation for severance pay, and inflation of 0.5%.

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

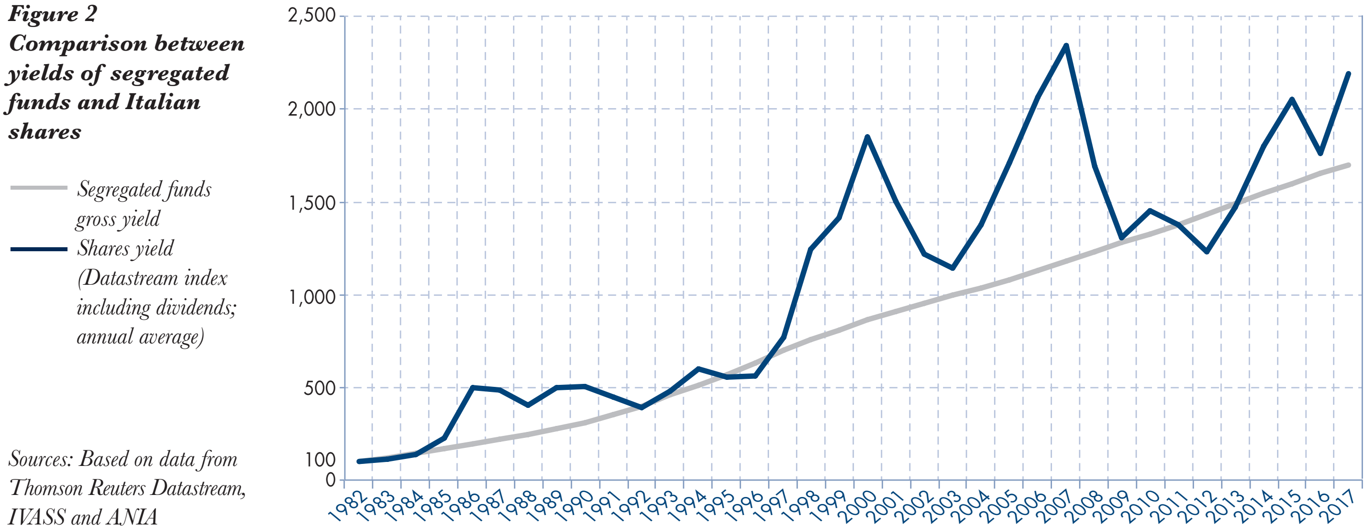
Inflation
Sev. Pay Yield
Gov’t Securities Yield (*)
Segregated Funds Yield



Sources: IVASS, and ISTAT, Bank of Italy and ANIA estimates
(*) Weighted average yield of a basket of government securities with residual maturity over one year

With an investment of 100 in 1982 in a segregated fund, at the end of last year, calculating all the gross returns obtained up to the present, the value of the investment would be 1,702 (Figure 2), with an average annual return of 8.4% – 4.9% in real terms – and an annualized volatility (standard deviation) of 5.5%. The same investment in Italian equities, assuming all dividends are reinvested, would have reached a value of 2,190 in the same time frame, with an average annual return just above 9.0% and an annualized volatility far higher than that of segregated funds and amounting to 28.7%.

Figure 2
Comparison between yields of segregated funds and Italian shares



Sources: Based on data from Thomson Reuters Datastream, IVASS and ANIA

The Sharpe ratio, which examines the return at standard deviation to measure the performance of an investment by adjusting it for its financial risk, was 1.55 for segregated funds and 0.32 for Italian shares in the period of observation, confirming the greater stability of the investment strategy in with-profit policies, even when taking account of the share of gross yield retained by the company.

LIFE INSURANCE AND ITALIAN HOUSEHOLDS' SAVINGS

In 2017 the nominal growth of the gross disposable income of Italian households was 1.7%, with a slight acceleration compared to 2016 (+1.5%). The pickup in inflation prevented this growth from translating into a corresponding increase in the purchasing power of households which, on the contrary, slowed down compared to the previous year (+0.6%, +1.3% in 2016) (Table 1).

Table 1
Formation, distribution and uses of consumer households' disposable income, annual % change
Raw data at current prices (except purchasing power)

	2014	2015	2016	2017
Compensation of employees	0.4	2.2	2.4	2.3
Other income	0.9	0.7	0.1	0.8
Gross disposable income	0.6	1.6	1.5	1.7
Purchasing power	**0.4**	**1.4**	**1.3**	**0.6**
Tax burden (*)	16.2	16.4	16.5	16.2
Saving rate (*)	9.1	8.5	8.5	7.8

(*) Percentage points
Source: Based on ISTAT data

The increase in disposable income is chiefly attributable to the change recorded by compensation of employees (+2.3%; +2.4% in 2016); other income, including self-employment and earnings of quasi-corporations, accelerated significantly from the standstill observed in 2016 (+0.8%, +0.1% in 2016). The erosion of disposable income due to taxes, defined as the ratio of taxes paid by consumer households over their gross disposable income, eased slightly last year, coming back down to its 2014 level (16.2%, 16.5% in 2016).

In 2017 the propensity to save of consumer households, defined as gross saving (net of changes in pension fund reserves) over disposable income, diminished significantly compared to 2016, turning back below the 8% threshold (it was 8.5% in 2016) for the first time since 2012.

Financial saving

In 2017 the net flow of financial investment by Italian households and non-profit institutions serving households (for brevity, simply "Households") was €20.4 billion, down from €25.1 billion in 2016. The growth of gross inflows into household portfolios (€41.4 billion, up from €37.2 billion in 2016) was insufficient to compensate for the increase in debt (which grew by €21.0 billion, compared with €12.1 billion in 2016) (Table 2).

Again in 2017 Italian households continued to make further net disposals of fixed-income securities, especially bonds issued by Italian banks (-€42.5 billion, compared with -€47.2 billion in 2016). The disinvestment was however offset by investments in government securities which, although still very modest, amounted to +€2.6 billion, in contrast with the -€8.7 billion in 2016. Even more markedly than last year, in 2017 households drained substantial resources from equities (-€41.3 billion, -€15.0 billion in 2016). A massive disinvestment also affected bank deposits other than sight deposits (-€13.4 billion, -€18.7 billion in 2016).

The flow destined to mutual funds (+€57.1 billion, +€12.3 billion in 2016) turned sharply back up, while the positive flow into life policies decelerated slightly (+€25.4 billion, +€36.2 billion in 2016). The same trend was recorded by investment in other assets – trade credits, Bancoposta current accounts, currency, coins and other minor items (+€13.1 billion, +€16.2 billion in 2016) and in sight deposits (+€35.7 billion, +€62.7 billion in 2016).

At the end of 2017 the stock of financial assets held by Italian households amounted to €4,407 billion. The largest share of Italian household financial wealth continues to be in liquid instruments, i.e. bank deposits (26.5%; 27.0% in 2016), followed by shares and other equities (24.1%, 23.3%) and insurance, pension funds and provisions for employee severance pay (22.6%, 22.2%) which include life insurance provisions (15.4%, 14.7%); the share invested in mutual funds amounted to 12.2% (11.2% in 2016).

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

INSTRUMENTS	YEAR-END STOCKS (millions of euro)	YEAR-END STOCKS/TOTAL ASSETS (%)		FLOWS (millions of euro)	
	2017	2016	2017	2016	2017
ASSETS ([2])					
Bank instruments ([3])	1,167,926	27.0	26.5	43,874	21,577
Italian	1,137,398	26.3	25.8	44,033	22,336
sight deposits	687,452	15.3	15.6	62,694	35,699
other deposits	449,946	10.9	10.2	-18,662	-13,363
Foreign	30,528	0.7	0.7	-159	-759
Bonds	304,947	8.6	6.9	-61,871	-41,774
Italian	220,705	6.5	5.0	-59,883	-38,456
of which: Government	122,171	3.1	2.8	-8,673	2,622
bank	88,600	3.2	2.0	-47,154	-42,448
Foreign	84,242	2.1	1.9	-1,988	-3,318
Investment fund units	537,059	11.2	12.2	12,295	57,047
Italian	261,246	5.7	5.9	-2,665	21,245
Foreign	275,813	5.5	6.3	14,960	350,802
Shares and other equity	1,062,409	23.3	24.1	-15,011	-41,276
Italian	991,050	21.7	22.5	-14,683	-41,743
Foreign	71,360	1.6	1.6	-328	467
Insurance, pension fund reserves and severance pay entitlements	996,174	22.2	22.6	41,626	32,733
of which: reserves of the life sector	677,669	14.7	15.4	36,173	25,349
Other assets ([4])	338,178	7.7	7.7	16,240	13,097
Total assets	**4,406,694**	**100**	**100**	**37,153**	**41,404**
LIABILITIES					
Short-term debt	51,273	5.9	5.5	-2,049	-751
of which: bank	49,094	5.8	5.3	-2,153	-1,845
Medium- and long-term debt	658,077	70.4	70.9	10,521	18,642
of which: bank	580,322	62.5	62.6	9,755	12,011
Other liabilities ([5])	218,372	23.6	23.5	3,611	3,081
Total liabilities	**927,722**	**100**	**100**	**12,083**	**20,972**
BALANCE	3,478,972			25,070	20,432

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

THE NEW IVASS REGULATION ON SEGREGATED FUNDS

After protracted discussion between ANIA and IVASS, on 14 February 2018 the insurance supervisor adopted Measure 68, establishing new rules to modernize insurance investment products while safeguarding policyholders. The new regulation takes account of the prolonged period of low interest rates, which squeeze profit margins on new investment, thus contributing to higher operating costs for traditional guaranteed products (segregated funds). The main changes lie in the newly established "Fondo Utili" (gains fund), available only for new contracts, even when linked to existing segregated funds, and in the new provisions on the treatment of derivative instruments.

Gains Fund

Companies can adopt methods to determine the average rate of return that recognize as provisions the net capital gains resulting from the sale of assets held in segregated funds, set aside in the Gains Fund; the Gains Fund is a mathematical reserve that fully contributes to the determination of the average rate of return in a maximum time of 8 years from the date in which the net capital gains were set aside. Therefore, contracts to which two separate sets of rules for the calculation of the average rate of return apply can coexist within the same segregated fund, if the contractual terms include the Gains Fund.

The regulatory intervention introduced amendments and supplements to the existing regulation so that the Gains Fund reserve could be recognized in the statutory financial statements, as a separate item within the mathematical provisions, and to extend the provisions on expected return-on-investment to contracts whose benefits are reassessed based on the specified return taking account of Gains Fund movements.

Clearly, the intention to use the Gains Fund must be specified in the resolution establishing a new segregated fund. The amounts set aside in the Gains Fund in a given year must be amortized within a maximum of 8 years from provisioning.

For existing segregated funds, the Gains Fund will hold only the share of the net capital gains produced during the period of observation that is proportional to the new contracts allowing the Gains Fund. The share is calculated as the ratio of the mathematical provisions of the contracts using the Gains Fund, inclusive of the Gains Fund, to the total mathematical provisions of all contracts associated with the segregated funds, inclusive of the Gains Fund, as shown by the General Ledger, at the latest available date.

If there is a Gains Fund, for existing contracts to which the Gains Fund does not apply, the existing method of calculation will remain; thus nothing changes for policyholders of policies linked to segregated funds, who must be informed of this.

The Information Notice to policyholders contained in the reserved access areas of the websites must be promptly updated with the amendments made to the segregated funds regulation.

Furthermore, insurers may calculate the Gains Fund share in accordance with the general principles of fair treatment of policyholders, the best interests of the insured, and the impact on the current and prospective return of the segregated funds, taking account of all commitments undertaken with regard to all contracts linked to the same segregated fund.

The establishment of the Gains Fund entails an updating of the General Ledger, of the summary statement and of the schedule of investments, as well as of the rule of the segregated funds.

New provisions on the treatment of derivative instruments

Measure 68 also introduced the possibility for insurance companies to take advantage of an accounting derogation to discontinue the recognition of gains and losses arising from the periodic auction of specific types of derivative instruments (e.g. futures), instead setting aside net proceeds as an adjustment of the financial result of each period of observation of the segregated funds until the date of closing of the transaction.

The derogation makes it possible to combine the use of derivative instruments on securities entered in segregated funds with the effects of the return of the asset management scheme, correlated with the duration of the strategy used rather than of the derivative, where the latter forms part of a documented strategy approved by the management body.

The exercise of the derogation option must be previously assessed by the management body, and its exercise must be accompanied by governance and consumer protection requirements, including formalization of the decision, drafting of the relevant accounting documents for each transaction, obligation to specify the transaction in the General Ledger of the segregated fund, and verification by an authorized auditor of the correctness of the calculation of the financial return and of the consequent average rate of return.

The derogation also imposes a different rule for the calculation of the average rate of return than the rule in place so far, with effect on all contracts linked to a segregated fund. As a result, besides establishing amendments to the current segregated fund rules, the general ledger and the prospectus, to be implemented after deliberation of the management body, insurance companies must prepare a specific communication, to be sent well in advance to all holders of existing contracts to inform them of the possibility to exercise, with no additional charge, the redemption option or the right of transfer to a different segregated fund established within the company, within 60 days of receipt of the communication. Policyholders exercising the redemption option will receive a payment from the insurer amounting to the mathematical provision set aside on the contract, calculated with the same technical basis adopted for the calculation of pure premiums, net of any commissions settled in advance and not yet recovered through the payment of the relevant premiums.

In case of transfer of the contract to another segregated fund, the company shall provide the policyholder with all the necessary elements to assess the features of the segregated fund to which the contract benefits are linked.

SUPPLEMENTARY PENSION PLANS: DEVELOPMENTS AND REGULATORY CHANGES

Enrollments, contributions and resources destined to benefits

Enrollments in supplementary pension plans continued the moderate growth observed over the past few years. At the end of 2017, enrollments came to 8.3 million, up by 6.6% from the previous year.

Taking account of enrollments to multiple retirement plans, which in 2017 amounted to 700,000, the actual number of supplementary pension plan enrollees is 7.6 million, or 29.3% of the labor force in Italy (Table 1). However, the number of enrolled persons who have stopped contributing has continued to rise, reaching nearly 2.1 million in 2017.

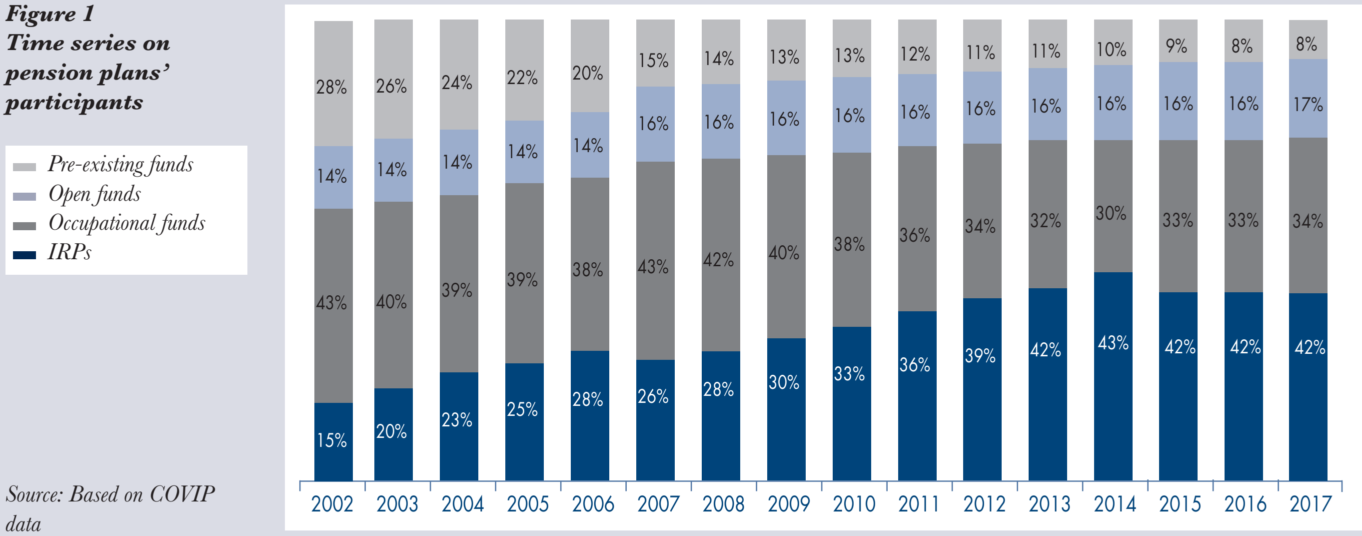
Table 1
Evolution of enrollments by pension plan

Pension plans	Number of participants 2016	2017	Change %
Occupational pension funds	2,596,819	2,804,633	8.0%
Open funds	1,258,986	1,374,205	9.2%
Individual retirement plans	3,292,770	3,494,520	6.1%
Pre-existing funds	653,352	643,341	-1.5%
Total	**7,785,961**	**8,298,969**	**6.6%**
of whom:			
private-sector employees (million)	7.1	7.6	7.0%
Labor force (million)	25.8	25.9	0.5%
Share of labor force	27.8%	29.3%	1.5%

Source: Based on COVIP data

Enrollments in contractual pension funds spiked, mainly as a result of the massive enrollment in occupational funds, decided on a collective basis. Open pension funds also recorded significant growth, higher than that of Individual Retirement Plans. IRPs, however, still accounted for the largest share of enrollments in absolute terms and confirmed their position as the leading type of pension fund by number of members (Figure 1); IRPs are also the category with the highest number of enrollees failing to make payments (1 million in 2017).

Figure 1
Time series on pension plans' participants



Source: Based on COVIP data

Total contributions paid to the different types of supplementary pension fund increased by 4.3% compared with 2016 (Table 2), to nearly €15 billion. In particular, the sharpest increase was observed for open pension funds and IRPs, which registered the largest gain also in absolute terms.

Table 2
Evolution of pension fund contributions
Euro million

Pension plans	Contributions 2016	Contributions 2017	Change %
Occupational pension funds and Fondinps	4,623	4,787	3.5%
Open funds	1,779	1,912	7.5%
Individual retirement plans	4,094	4,387	7.2%
Pre-existing funds	3,753	3,779	0.7%
Total	14,256	14,873	4.3%

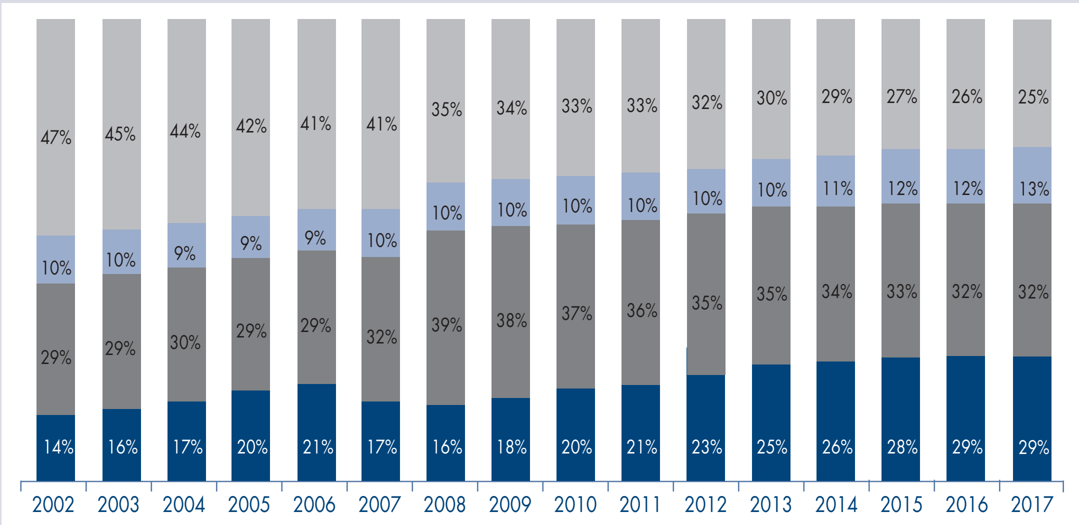
Source: Based on COVIP data

Contributions made to occupational pension plans grew more moderately, although they still account for the largest share of the market (Figure 2).

Contributions to IRPs have grown steadily in the period of observation, whereas those to open pension funds have been virtually stable, albeit rising somewhat in recent years in relative terms.

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

Pre-existing funds
Open funds
Occupational funds
IRPs



Source: Based on COVIP data

The average yield of pension funds, while differentiated by financial lines, was higher in 2017 than the revaluation rate of severance pay entitlements (1.7%). In particular, the average yield of the different types of occupational funds was 2.6%, compared to 3.3% for open funds, 2.2% for unit-linked funds and IRPs and 1.9% for IRP segregated funds.

The contributions paid and the average positive yields produced growth of 7.3% in resources destined to benefits, which exceeded €162 billion, or 9.5% of nominal GDP and 3.7% of financial assets held by Italian households (Table 3).

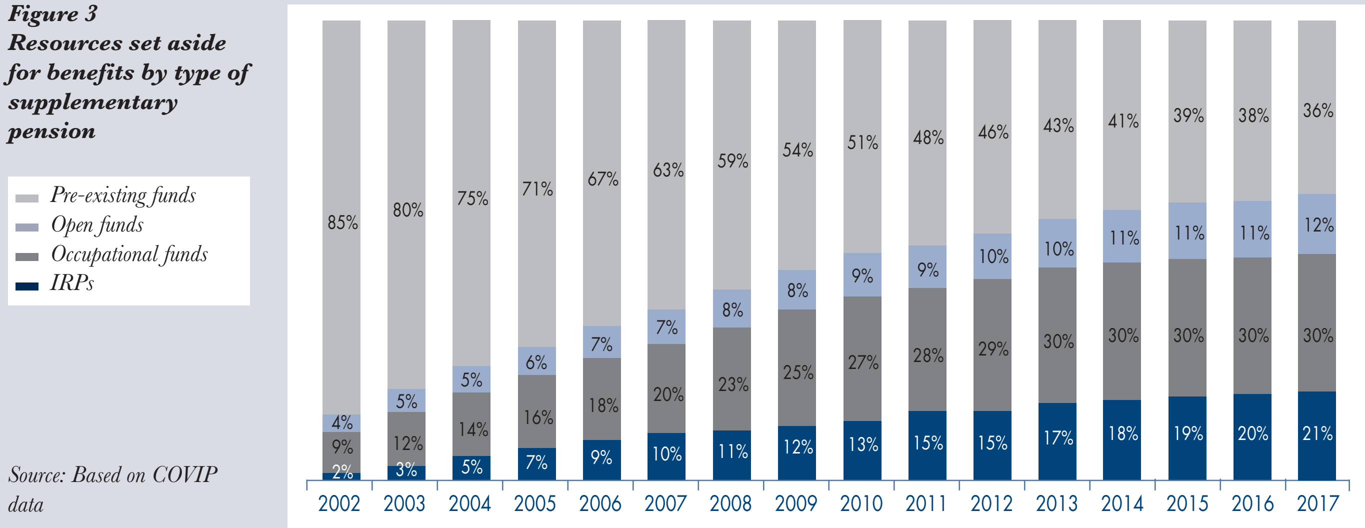
Table 3
Resources set aside for benefits by type of supplementary pension
Euro million

Pension plans	Resources managed 2016	Resources managed 2017	Change %
Occupational pension funds and Fondinps	45,931	49,456	7.7%
Open funds	17,092	19,145	12.0%
Individual retirement plans	30,642	34,622	13.0%
Pre-existing funds	57,538	58,996	2.5%
Total	151,278	162,299	7.3%
Share of GDP	9.2%	9.5%	0.3%
Share of households' financial savings	3.6%	3.7%	0.0%

Source: Based on COVIP, Ministry of the Economy and Finances and Banca d'Italia data

Pre-existing funds still account for the largest share of benefit provisions, although all other forms of supplementary pensions have steadily increased their own shares (Figure 3).

Figure 3
Resources set aside for benefits by type of supplementary pension



Source: Based on COVIP data

Main regulatory changes

In 2018 the pension supervisory authority COVIP clarified the changes to be made to by-laws, regulations, Information Note and periodic reporting to implement the amendments regarding the “early supplementary temporary annuity” introduced with the 2018 budget law. The changes introduced with the budget law include the expansion of the types of “qualifying” investments in which pension funds can invest to support economic growth, the abolition of FONDINPS (INPS complementary pension plan) and the extension to public employees enrolled in supplementary pension plans of the tax discipline of social and contract benefits.

Finally, with the recent publication of the Ministerial Decree of 22 March 2018, the Ministry of Labor and Social Policy, in cooperation with the Ministry of Economy and Finance, established the “Amendments to the ‘TFR 2 Module’ regarding the ‘Choice for the allocation of the employee severance pay’ annexed to the Ministerial Decree 30 January 2007 following the new regulatory provisions introduced with article 8(2) of Legislative Decree 252/2005”, introduced with Law 124/2017. Thanks to these changes, workers can now freely decide the amounts they want to contribute. Moreover, for employees enrolled in supplementary pension plans, the method and minimum amount of benefits to be contributed by the employer and the employee can be decided by collective bargaining, including company-level agreements. Such agreements can also establish the minimum percentage of accruing severance entitlements to invest in supplementary pension plans. Failing such indication, the entire amount is invested.

IVASS INITIATIVES ON DORMANT POLICIES

In 2017 and 2018 IVASS continued its analytical initiatives to detect policies at dormancy risk and reduce their number.

Following the 2017 survey, which reported 4 million policies at risk of becoming dormant, of which 3.9 million are term life policies, the supervisory authority has requested insurance companies to send data on these policies and 2.9 million additional contracts, for a total of over 6 million policyholders' tax IDs, in order to crosscheck with the tax register, based on data of the Revenue Agency, and detect any deaths among the persons holding these tax IDs.

The crosschecking of data, finished in April, revealed 153,000 deaths unknown to the insurers. IVASS urged the companies involved to verify which policies were actually dormant and immediately contact the beneficiaries of all other policies and pay the insured amounts. Companies were also asked to provide details to IVASS on the actions taken, and in particular their outcomes, by 11 June 2018.

In addition, IVASS circulated a letter to the market requesting insurers to set up action plans to be submitted to the institute and implemented by September of the current year to reduce the prospective risk of dormant policies. IVASS urged companies to intervene in spheres mainly concerning the verification of any deceased policyholders and identification of the beneficiaries.

In particular, with regard to verifying deaths, IVASS deems it necessary, for instance, that companies run regular checks on data internal to the company or group, or through information flows with the intermediaries. In addition, they should check the civil registries to update policyholders' addresses in case of failed delivery of correspondence or to retrieve the policyholder's death certificate.

As for the identification of the beneficiaries, IVASS considers it necessary for insurers to encourage the acquisition of the specific designation of the beneficiaries, with their personal information and contacts, as well as an indication of a third party, other than the beneficiary, as additional point of contact which the company may refer to in case of death.

THE VOLUNTARY PENSION ADVANCE ONE YEAR AFTER ITS INTRODUCTION

The main characteristics of the voluntary financial advance on pension

The 2017 budget law introduced the Pension Advance (APE) both as a welfare measure, for particularly disadvantaged categories of workers, and on a voluntary basis applicable to all workers on an individual basis, through agreements with the employer.

The voluntary APE consists in a loan paid through monthly installments by a credit institution for a minimum of 6 months and a maximum of 3 years and 7 months until retirement, when the applicant will start paying back the loan granted with withdrawals from the pension for the next twenty years. APE can thus serve as a tool for flexible retirement, but it is compatible with employment income.

This transaction requires mandatory insurance against the risk of predecease of the applicant to guarantee reimbursement of the residual debt to the credit institution. The loan and insurance coverage can be underwritten with credit institutions and with the insurance companies that have adhered to the bank and insurance framework agreements signed by the relevant business associations, the Minister of Finance and the Minister of Labor and Social Policy.

The APE can be requested only through the INPS web portal, most of the administrative operations related to it being handled by INPS. The framework agreements define the interest rate of the loan ([1]) and the size of the premium for predecease risk coverage, thus establishing pre-set and equal fees for all operators and applicants, regardless of any individual situation, either financial or health-related. The agreements also establish the terms and access procedures for credit institutions and insurance companies, the technical and security specifications for the information flows between INPS, granting institutions and insurance companies, the effects of the payment of direct pension provisions prior to the retirement age and the effects ensuing from the increase of the age requirement based on life expectancy.

The amount financed is made up of the APE installments issued, the insurance premiums, the access fee to the Guarantee Fund – which credit institutes can access in case the applicant fails to pay the installments or the insurance companies fail to reimburse their amount – and interest accrued during the grace period.

Starting at the time of regular retirement, the first three items (total amount of APE installments issued, insurance premium and Guarantee Fund access fee) are reimbursed with a fixed installment repayment plan, whereas the interest accrued during the grace period is reimbursed with equal installments throughout the repayment plan.

The loan is at a fixed rate and the interest rate applied to new credit agreements is recalculated every two months.

The mandatory insurance taken out consists in a single premium term life policy – the premium is paid in advance by the bank and included in the loan – to cover the value of any

([1]) During the amortization, the interest rate (TAN) is equal to the "Rendistato" rate with residual duration of 12 years 7 months to 20 years 6 months + (5-year bank CDS – 5-year Italia CDS) + 0.35%. Rendistato is an interest rate calculated monthly by the Bank of Italy as the average of fixed-coupon government securities of duration between 12 years 7 months and 20 years 6 months. Bank CDS is the average credit default swap rate in euros at 5 years for the 6 main banks in terms of total assets doing business in Italy, excluding the highest and lowest of these values. CDS Italy is the average credit default swap rate in euros at 5 years of the Republic of Italy. During the pre-amortization phase (grace period) the rate is TAN -0.10%.

residual debt associated with the transaction at any time. Therefore, the insured capital increases during the grace period against the advance progressively issued and decreases after regular retirement, when the early pension recipient starts to repay the 20-year loan. The insurance premium therefore depends on the duration of the pension advance and on the interest rate applied to the credit agreement.

APE applications are examined by the credit institution to check the applicant's financial situation for problems, whose presence may result in rejection. Once the bank has accepted the application, the insurance policy is deemed underwritten with the pre-established premium without assessing the health or any other conditions of the policyholder, and it covers any circumstance in which death occurs, without prejudice to the exceptions applicable by law.

The applicant gets an annual tax credit up to 50% of an amount equal to one twentieth of the interest and insurance premium related to the transaction.

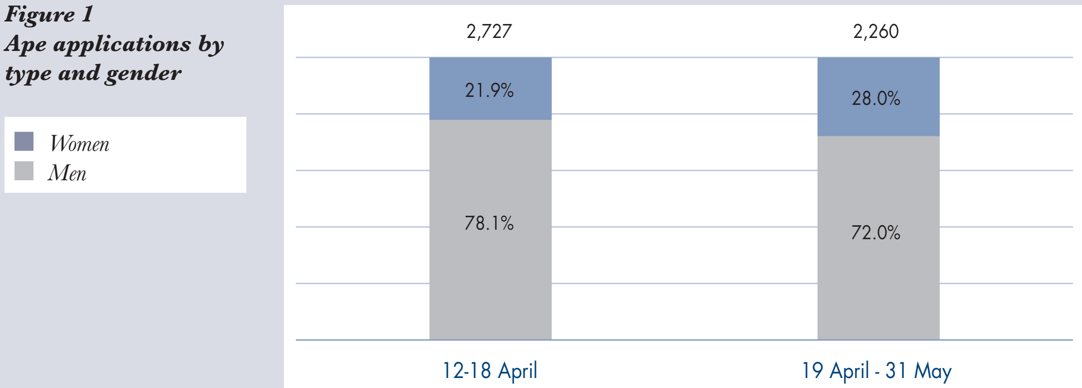
First data on APE applications

At the beginning of 2018, following a complex implementation phase and the Prime Minister's Decree 150 of 4 September 2017, which specified the procedures and terms of the transaction, the voluntary APE came into effect, and since 12 April workers have been able to request a certification of the requirements and subsequently apply for APE. More specifically, by the end of May 5,000 applications had been submitted, 50% of them by 18 April, the deadline for the payment to qualified applicants of arrear installments as from 1 May 2017 (the effective date of the transaction under the law).

It is worth pointing out that these data refer only to applications submitted to and examined by credit institutions, as no data is currently available on applications actually accepted.

APE applications were submitted mainly by men, who initially made up almost 80% of the applicants. The percentage decreased slightly over the following weeks, to just under 70% (Figure 1).

Figure 1
Ape applications by type and gender

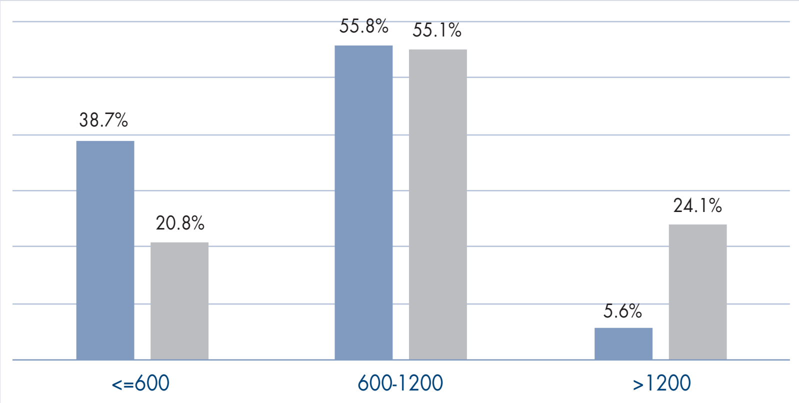


The average monthly amount of the APE requested is €920 (just above €1,000 for men and around €690 for women). Applications under €600 accounted for 25.1%. 80% of applications are for monthly installments of €1,200 or less. Fewer than 20% of applications were for larger amounts. Only 5% of all applications, which were submitted only by men, were for more than €2,400 per month.

The breakdown of applications by sex and monthly installment shows that over half of the applications (≃ 55%) submitted by both sexes were for amounts between €600 and €1,200; women made a higher percentage of applications for amounts under €600 (38.7% compared with 20.8%), whereas men made a greater number of applications for amounts over €1,200 (24.1% compared with 5.6% of women applicants) (Figure 2).

Figure 2
% Distribution of APE applications by size of monthly installment and gender
Amount class

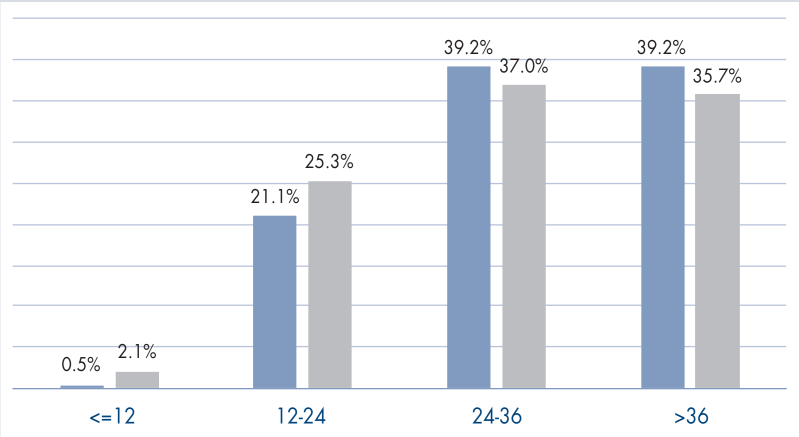
Women
Men



Finally, in terms of duration of APE applied for, more than one third of applications were for more than 36 months and over three quarters were for more than 24 months. The breakdown of applications by sex and duration shows little difference between men and women (Figure 3).

Figure 3
% Distribution of APE applications by grace period and gender
Grace period classes in months

Women
Men

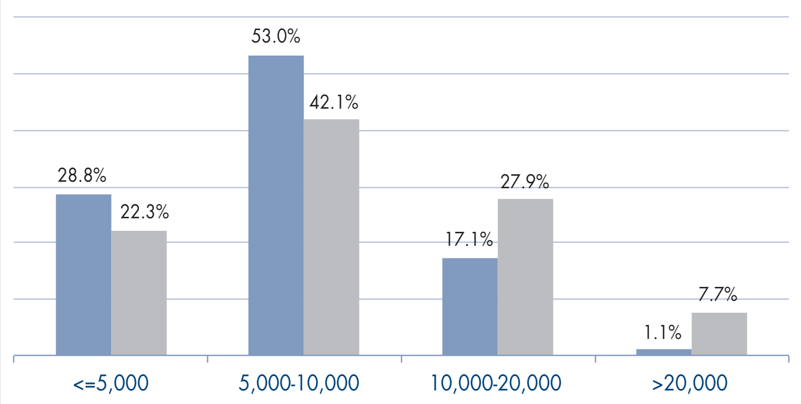


Based on the number of APE applications submitted by 31 May, term life policies are expected to be issued for a total of €46 million and an insured capital, calculated at the end of the issuing period, of approximately €200 million. This amount, as specified above, is an estimate and depends on the duration of the advance requested, the installment size and the interest rate of the loan. Moreover, the estimate does not take account of any APE applications rejected by the credit institution.

As for insurance premiums, the average amount is just over €9,200 (around €9,900 for men and a little more than €7,200 for women). In particular, nearly 65% of term life policies of male policyholders have premiums for less than €10,000, and the percentage exceeds 80% for female policyholders. The premium exceeds €20,000 for 7.7% of contracts underwritten by male APE applicants, but for only 1.1% of female applicants (Figure 4).

Figure 4
Insurance contracts by premium amount class and gender
Premium amount classes

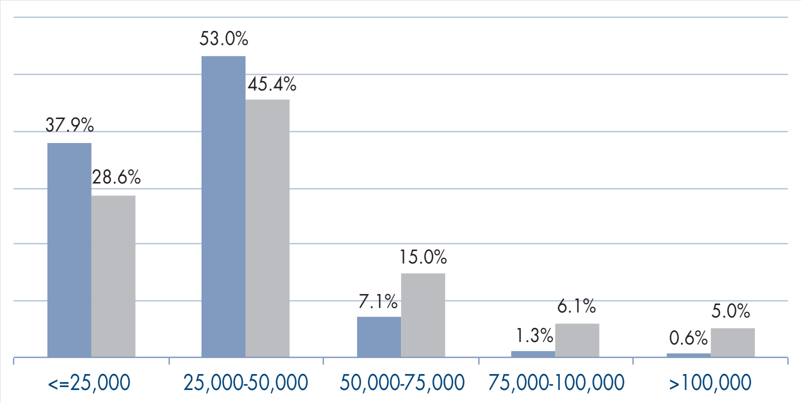
Women
Men



In terms of insured capital, the average amount is just under €47,000 (around €50,100 for men and €37,300 for women). More than 90% of insurance policies of female APE applicants have an insured capital of €50,000 or less, whereas for men the percentage is lower at 73% (Figure 5). Only 5% of term life policies to cover APE applications submitted by male policyholders have insured capital that exceeds €100,000.

Figure 5
Insurance contracts by insured capital and gender
Insured capital classes

Women
Men



THE DEVELOPMENT OF MULTI-CLASS LIFE PRODUCTS

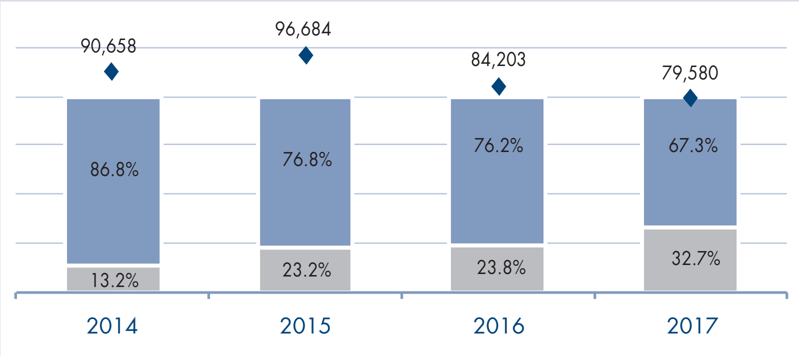
Multi-class products resulting from the combination of traditional insurance products with guaranteed minimum return (Class I) and multiple unit-linked investment options (Class III), are now offered by a large number of insurers.

Multi-class products in new life business

Multi-class products target mainly "retail" customers with individual policies. In 2017, roughly 810,000 new multi-class policies were subscribed, for a volume of premiums of €26.0 billion (they numbered 650,000 in 2016), or nearly 29.7% of the total new life business of €79.6 billion (Figure 1), 9 percentage points higher than in the previous two years and nearly 20 points higher than in 2014.

Figure 1
New life business broken down by multi-class premiums and other life insurance products, 2014-2017
Euro million

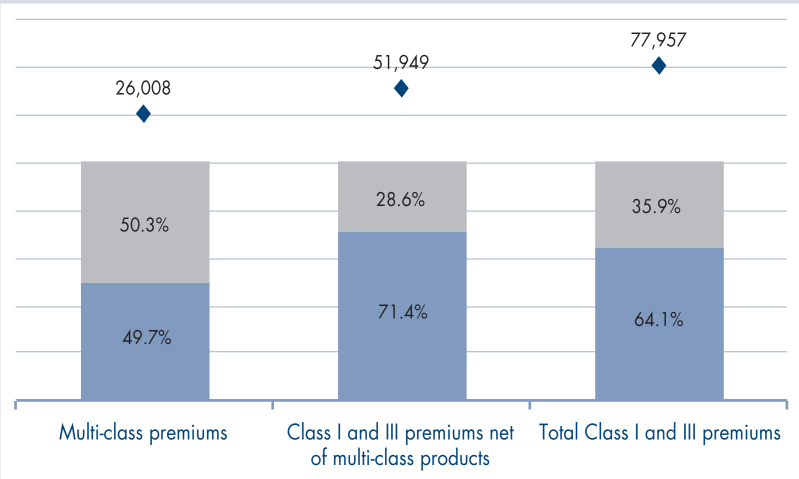
Multi-class premiums
Other life premiums
New life business (individual policies)



In particular, focusing on the composition of new life business by class, in 2017 multi-class products accounted for 50.3% of Class III premiums (Figure 2), higher than their shares in other Class I and Class III premiums, of which 28.6% were stand-alone unit-linked products (19.8% in 2016), thus confirming the growth of Class III products. The share of Class III premiums in overall new business of Classes I and III combined was 35.9%, up from 25.5% in 2016.

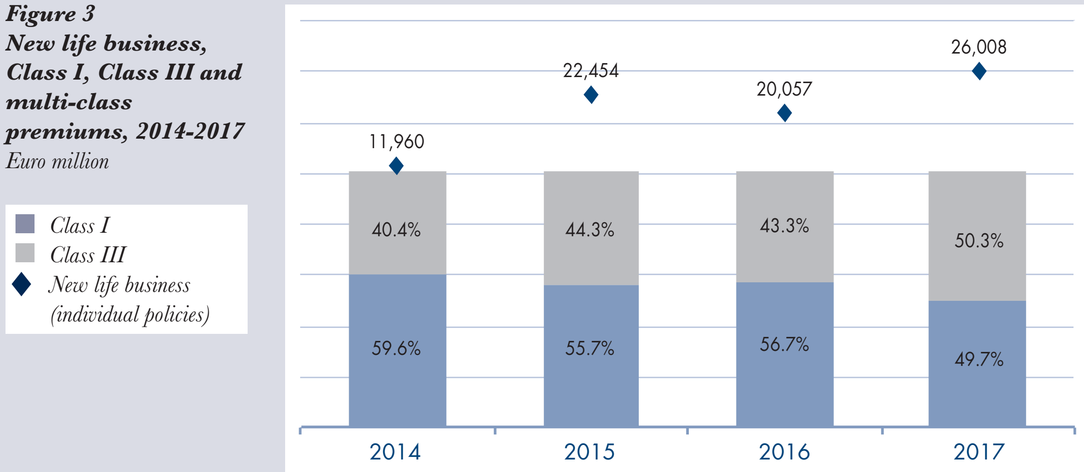
Figure 2
Composition (%) of new life business (Class I and Class III) in 2017 by type of product
Euro million

Class I
Class III
New life business (individual policies)



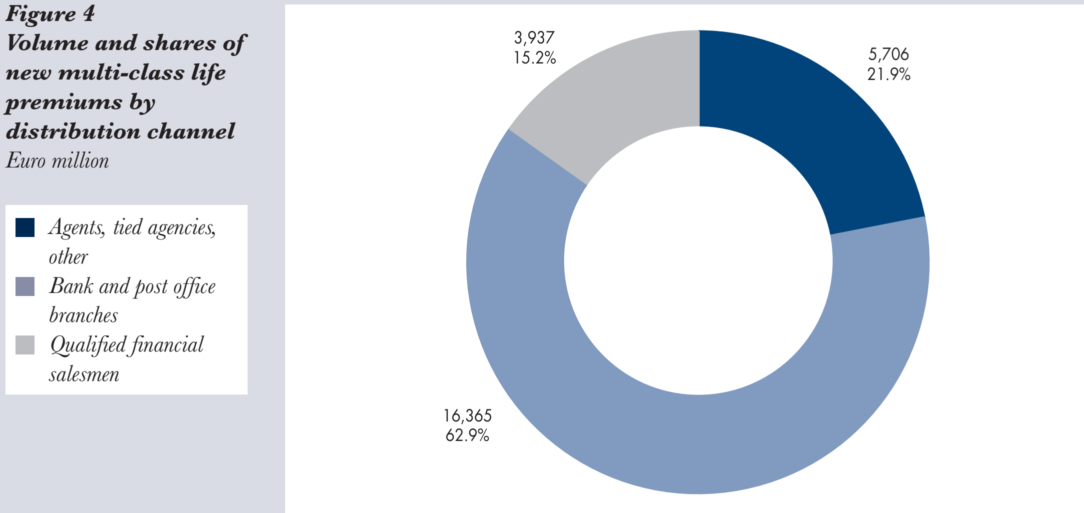
Limiting our analysis to multi-class products, in 2017 the share of new premiums going to Class III business (which was 50.3%) exceeded that of Class I products for the first time, showing a growth compared to the previous three-year period (Figure 3).

Figure 3
New life business, Class I, Class III and multi-class premiums, 2014-2017
Euro million



As for premiums written through the various distribution channels (Figure 4), bank and post office branches distributed €16.4 billion worth of multi-class products in 2017. This was up 18.0% on 2016 in volume but down in percentage terms, accounting for 62.9% of total premiums, with a steady decrease from the previous years (it was 72.4% in 2015 and 69.2% in 2016) and less than the share of total new life business sold through that channel (69.1%). Financial salesmen distributed 15.2% of new business, for a total of €3.9 billion, with a steady increase compared with previous years and unchanged as a share of overall new business (16.0%). Insurance agencies and other channels placed €5.7 billion worth of multi-class products, 21.9% of total premiums for this class of products.

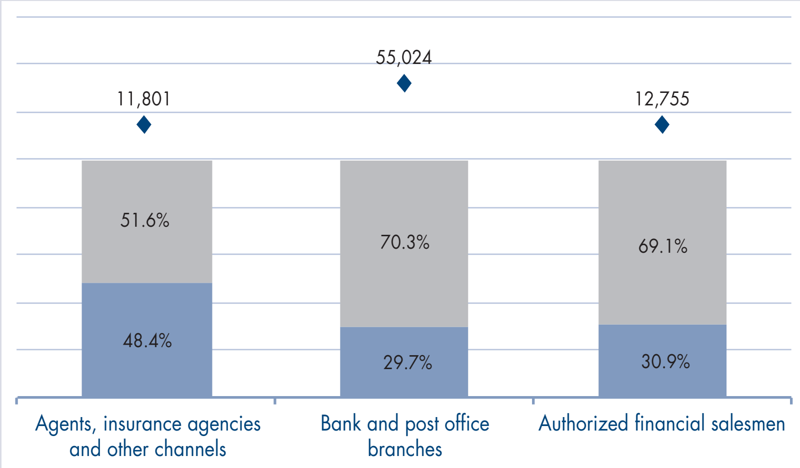
Figure 4
Volume and shares of new multi-class life premiums by distribution channel
Euro million



As regards the composition of total new life business according to distribution channel (Figure 5), 29.7% of the €55 billion in premiums distributed by bank and post office branches consisted in multi-class products (23.3% in 2016); these products accounted for 30.9% of financial salesmen's €12.8 billion worth of premiums, 10 percentage points more than in 2016, and for 48.4% of insurance agencies and other channels' €11.8 billion in premiums, compared with 29.3% a year earlier.

Figure 5
Composition of new life business between multi-class and other products, by distribution channel, % and € million

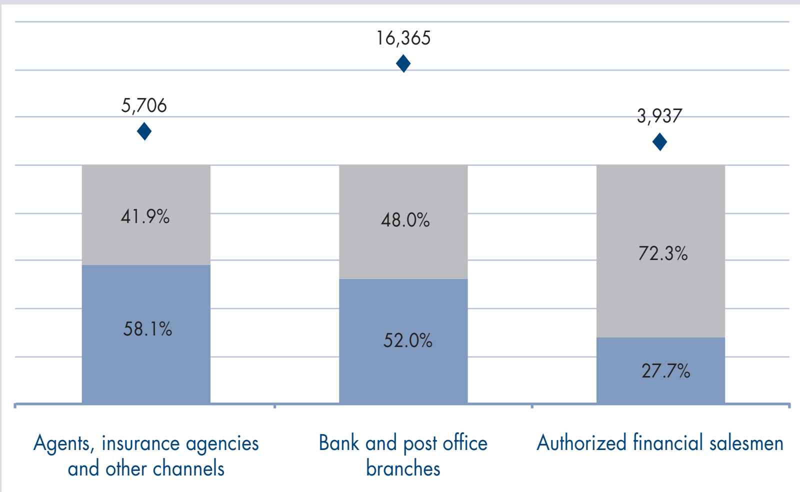
Multi-class
Other
New life business (individual policies)



Further, while for policies distributed by insurance agencies and other channels the share invested in Class I products was still larger than in Class III (58.1% and 41.9% respectively), the shares placed by bank and post office branches are virtually the same, while for policies distributed by financial salesmen the predominant share was Class III with 72.3% of the total (Figure 6).

Figure 6
New life business, multi-class, Class I and Class III premiums by distribution channel
Euro million

Class I
Class III
New life business (individual policies)

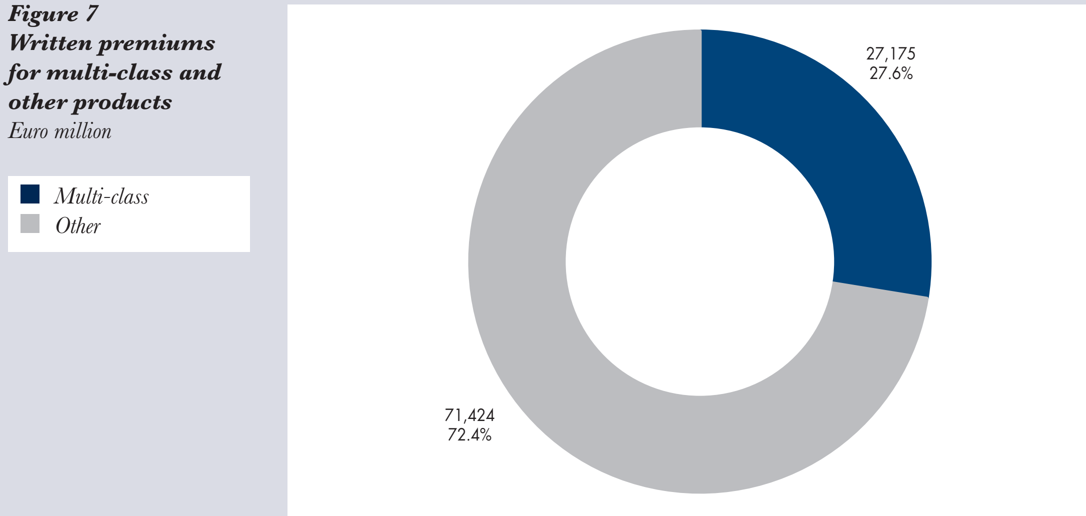


Cash flows and provisions

Shifting our focus from new business to written premiums, total premiums written for multi-class policies amounted to €27.2 billion in 2017, or 27.6% of all life business (it was 20.4% in 2016 and 20.0% in 2015) (Figure 7). Premiums of multi-class products increased by 30.0%

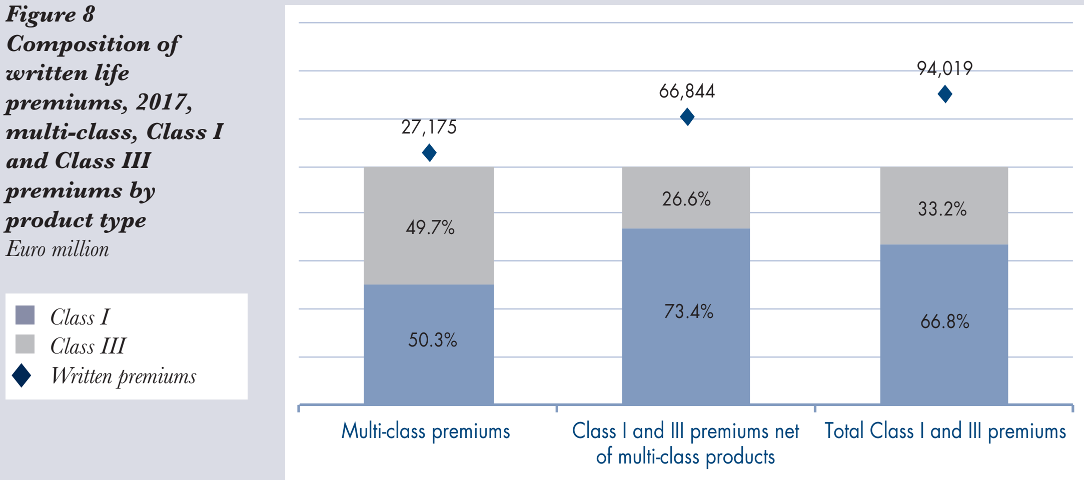
compared with 2016, mainly as a result of the growth recorded in Class III products (+45.4%).

Figure 7
Written premiums for multi-class and other products
Euro million



Also for written premiums, the Class III component of multi-class products, which accounted for 49.7% (up from 44.4% in 2016), was higher than that of "single-class" product premiums, for which the same component accounted for just above a quarter (Figure 8).

Figure 8
Composition of written life premiums, 2017, multi-class, Class I and Class III premiums by product type
Euro million



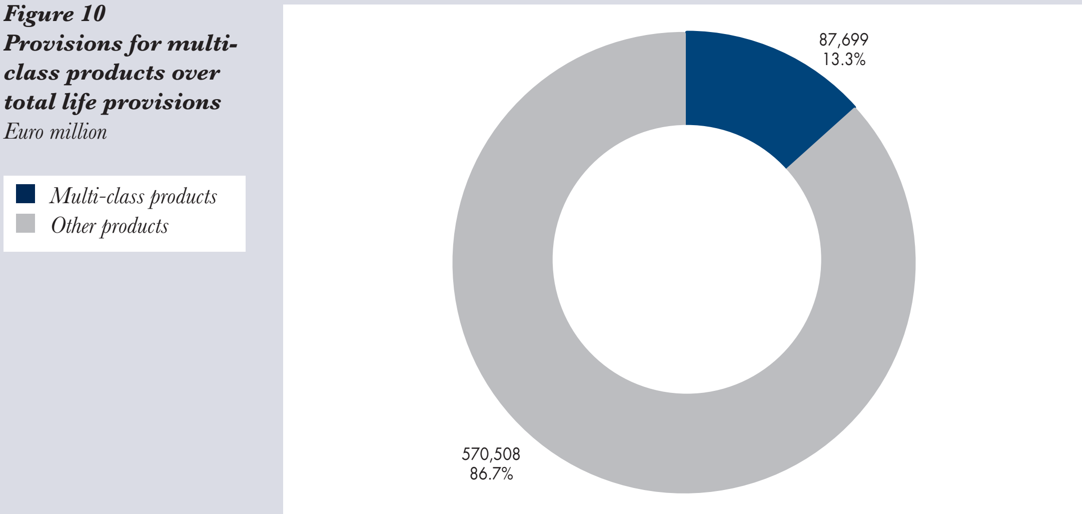
Total claim costs for multi-class policies amounted to €7.4 billion (+29.5% compared with 2016), 84% of which for surrenders and 14% for deaths and other events affecting human life covered by life policies. The balance between income (premiums) and expenditures (payments for surrenders, policies maturing, annuities and claims) was therefore substantially positive at €19.8 billion (+30.2% compared with 2016) (Figure 9).

Figure 9
Net premium income (premiums net of claims) for multi-class products
Euro million

In detail, the share invested in Class I products produced a positive cash flow of €9.5 billion, compared to €10.3 billion for Class III products. It is worth noting that the balance for the Class III component of multi-class policies accounted for 90% of the entire positive balance for Class III in 2017, whereas the share for Class I products was 57%.

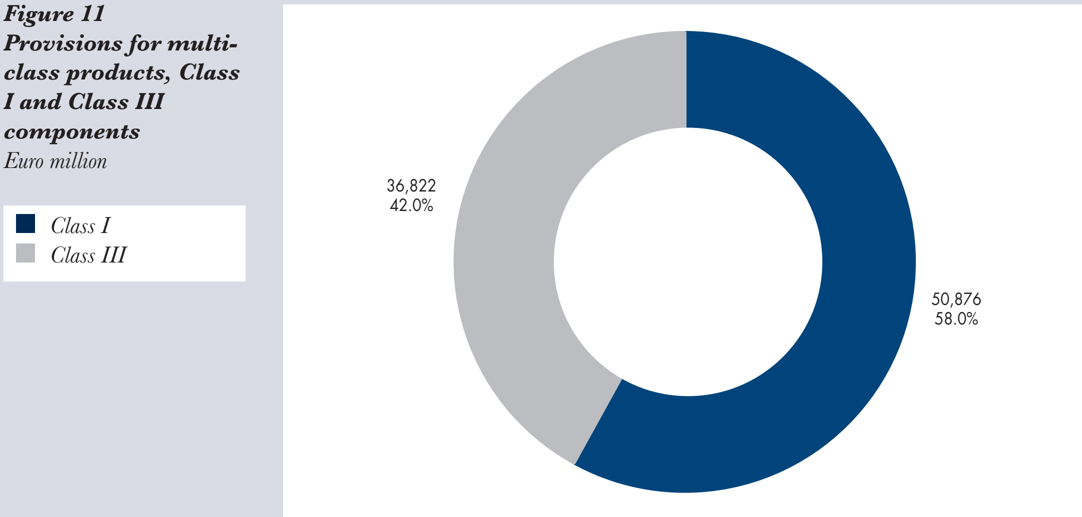
At the end of 2017, life technical provisions serving as cover for multi-class contracts amounted to €87.7 billion (+32.4% on 2016), or 13.3% of the overall life provisions in the Italian market (they were 10.7% in 2016) (Figure 10).

Figure 10
Provisions for multi-class products over total life provisions
Euro million



As for multi-class policy provisions, 58%, amounting to €50.9 billion, was in respect of the Class I component, the remaining share (up by 46.1% compared with 2016 provisions) was for Class III (Figure 11).

Figure 11
Provisions for multi-class products, Class I and Class III components
Euro million



Developments in 2018

The growing interest in multi-class products was confirmed also in the first quarter of 2018, when premiums collected for new life business generated in this class of products by Italian and non-EU insurers totaled €7.6 billion, +11.1% over the same period of 2017.

Nearly 97% of new business generated by multi-class policies in the first quarter of 2018 (€7.4 billion) was in "generic" multi-class products, the rest consisting in equal parts of multi-class IRPs and PIRs, which amounted to €109 million and €124 million respectively.

In the first quarter of 2018, the main distribution channel of multi-class products was still bank and post office branches, with €5.0 billion worth of new premiums, or 66.0% of the total, up by 18.5% over the year-earlier quarter. Insurance agencies and other channels sold €1.8 billion of new premiums (23.1% of the total), with an increase of 36.5%, whereas financial salesmen placed €827 million in new premiums (10.9% of the total), down by 31.6%.

As for the incidence of the Class I and III components in new business in "generic" multi-class products, the first quarter of 2018 confirmed the same composition as in 2017, with Class I being slightly predominant (52.2%) over Class III (47.8%).

Since the beginning of the year, the balance between income (premiums) and expenditures (payments for surrenders, policies maturing, annuities and claims) of multi-class products was €5.7 billion, equally distributed between Class I and III and up by 8.7% compared with the net flow recorded in the same period of 2017.

In these first three months of the year, the volume of written premiums reached €8.0 billion (+13.7% compared with 2017), of which €7.2 billion for single premiums and €860 million for periodic premiums (+13.6% compared with 2017). Overall expenditures amounted to €2.4 billion (+27.8% compared with 2017), almost completely attributable to surrenders and other reimbursements, accounting for 80.6% of the total, 26.6% more than in the first quarter of 2017.

Technical reserves for multi-class products at the end of the first quarter of 2018 amounted to nearly €100 billion, up by 30.0% from a year earlier, of which €59.1 billion, or 59.2%, was for Class I (+21.9%) and nearly €41 billion, or 40.8%, for the Class III component (+44.0%).

THE DEVELOPMENT OF PIRS

Law 232 of 11 December 2016 (the 2017 budget law) introduced tax benefits for natural persons holding long-term saving plans (PIRs), in order to channel the savings of Italian households, concentrated in liquid assets, to support the economy and in particular small and medium-sized enterprises, with a view among other things to establishing a source of funding for SMEs alternative to the banking channel.

The tax benefit consists in tax exemption of the property income and other financial income generated by the PIRs, excluding income for qualifying holdings, up to €30,000 per year and €150,000 overall, provided the investment is held for a minimum of five years and it is made in "qualifying" financial assets, specified by the law, for a share at least equal to the minimum thresholds set. More specifically, PIRs must be invested for at least 70% in financial assets issued by companies resident in Italy, of which 30%, or 21% of the original value, by companies not listed on the FTSE MIB or its equivalents in other markets.

With the new regulation, the asset management industry was able to expand its range of products, with an alternative to the traditional products offering a significant tax benefit in respect of the amounts invested in PIRs.

Funds raised by insurance PIRs

The legislation established that PIRs can be implemented through insurance contracts. After some months in which the industry's PIR offer remained limited to a few products, owing in part to doubts of interpretation on the implementation of the regulation, in the second half of 2017, following some clarifications made by the tax administration, PIRs entered the range of products of a significant number of insurance companies and, by the end of the year, there were over a score of insurance products sold, with a total of over ninety investment options. As was to be expected given the restrictions established by the law, the main form of contract was that of unit-linked products, which accounted for nearly three quarters of insurance PIRs, whereas multi-class products, resulting from the combination of unit-linked investment options (Class III) and traditional insurance products with guaranteed minimum return (Class I), covered the remaining quarter. The type of product offered on the market consists mainly of straight life assurance products, for two thirds of the total, and over half of them envisage multiple investment options.

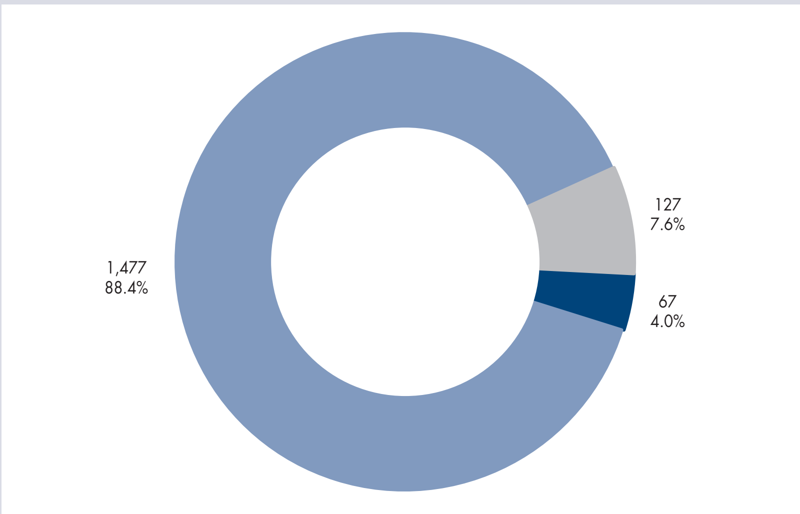
By definition PIRs target retail customers and take the form of individual policies underwritten by a natural person. New insurance contracts of this type numbered over 118,000 in 2017, amounting to €1.7 billion worth of new premiums, or 2.1% of the €79.6 billion of new life business generated by individual policies. Premiums are almost always paid as a single premium, for an average amount of €14,000.

A more detailed analysis of the type of insurance products sold in 2017 shows that over 75% of premiums were collected by unit-linked PIRs and the remaining 25% by multi-class PIRs, for which the Class I component accounts for 11% of premiums invested and Class III for the remaining 89%.

Looking at the premium volume of PIRs by distribution channel (Figure 1), bank and post office branches placed nearly €1.5 billion worth of premiums in 2017, accounting for 88.4% of total PIR premiums, with a significantly larger share than that distributed through the same channel for total life premiums (69.1%). Financial salesmen sold 7.6% of PIR products, compared with 16.0% of total life premiums. Insurance agencies and other channels distributed a share of insurance PIRs of 4.0%, lower than their total share of life insurance products (14.8%).

Figure 1
Volume and shares of PIR fund-raising by distribution channel
Euro million

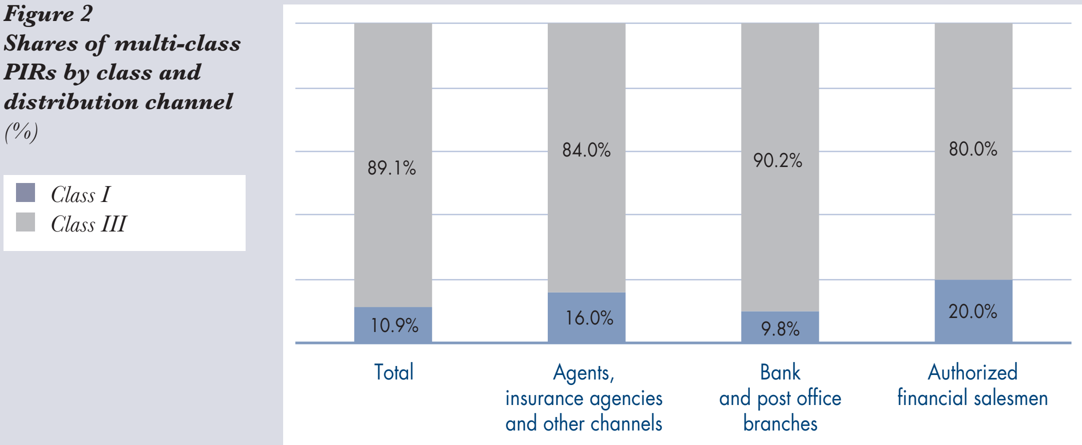
- *Agents, tied agencies, other*
- *Bank and post office branches*
- *Qualified financial salesmen*



Total PIR premiums = €1,671 million

Furthermore, while for multi-class PIR policies distributed by bank and post office branches the share invested in Class III products was above the average (the Class I component accounting for less than 10%), for policies distributed by financial salesmen and by insurance agencies and other channels the predominant share was Class I with 20% and 16% of the total respectively (Figure 2).

Figure 2
Shares of multi-class PIRs by class and distribution channel
(%)



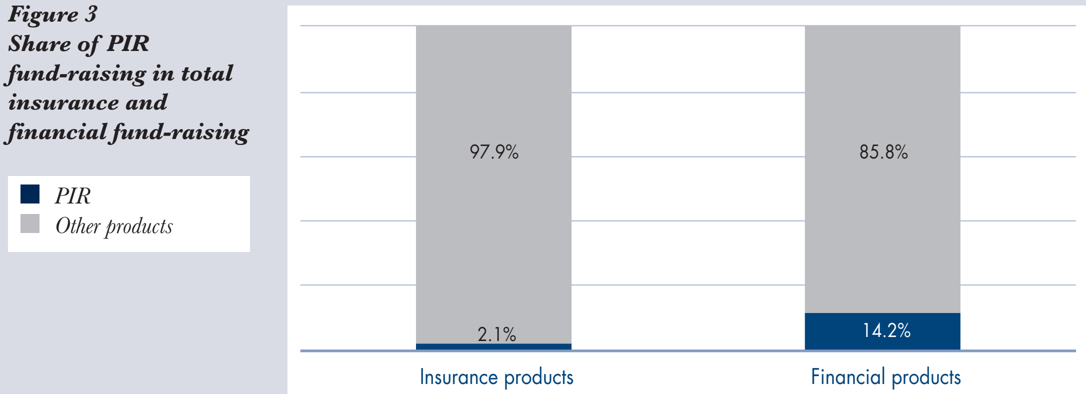
Looking at the cash flow, the balance between income (written premiums) and expenditures (payments for surrenders, policies maturing, annuities and claims) was practically equal to the premiums, given that these policies only recently began to be marketed, with a little more than €10 million in expenditures consisting mainly of surrenders. At the end of 2017, technical provisions serving as cover for PIR contracts amounted to €1.7 billion, or 0.25% of the overall life provisions. As for PIR policy provisions, 97.3%, amounting to €1.6 billion, was in respect of the Class III component, the remaining 2.7% (€45 million) was for Class I.

Market development of total PIRs in 2017

The total volume of financial and insurance PIR premiums in 2017 came to €12.6 billion, far exceeding expectations. Of this fund-raising, 87% came from financial products and the remaining 13% from insurance products, whereas the amounts collected through other types of PIR (such as administered assets) were negligible. The average amount invested in financial PIRs was €13,600, in line with the average amount of insurance PIRs.

The insurance PIRs' share of total life premiums was 2.1%, substantially lower than the share of financial PIRs in total financial fund-raising (14.2%) (Figure 3).

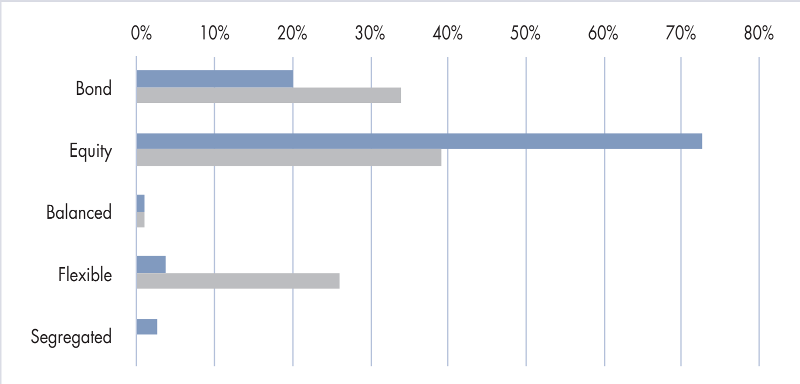
Figure 3
Share of PIR fund-raising in total insurance and financial fund-raising



Assuming the distribution of UCITS directly linked to insurance PIRs has the same composition by category as the internal funds established by the insurance company, 72% is estimated to be from balanced funds and 20% from equity funds. The remaining part of the assets managed through insurance PIRs was in flexible funds (approximately 4%) and bond funds (1% in unit-linked funds and 3% in segregated funds). For financial PIRs, instead, 39% of the funds raised was allocated to balanced funds, 34% to equity funds and the remaining 27% almost exclusively to flexible funds (26%) (Figure 4).

Figure 4 Composition of financial and insurance PIRs by asset category

Insurance funds
Investment funds



Since the bulk of insurance PIRs was issued in the second half of 2017, no data is yet available on the yield. An approximation of the trend of investments can be made based on the performance of the main stock indices for the "qualifying" investments which characterize them (FTSE Italia STAR, FTSE Italia Mid Cap, FTSE Italia Small Cap, FTSE AIM Italia), which can be compared with the general trend of the FTSE MIB and other benchmark stock indices of the European market (CAC40 and DAX30) in 2017.

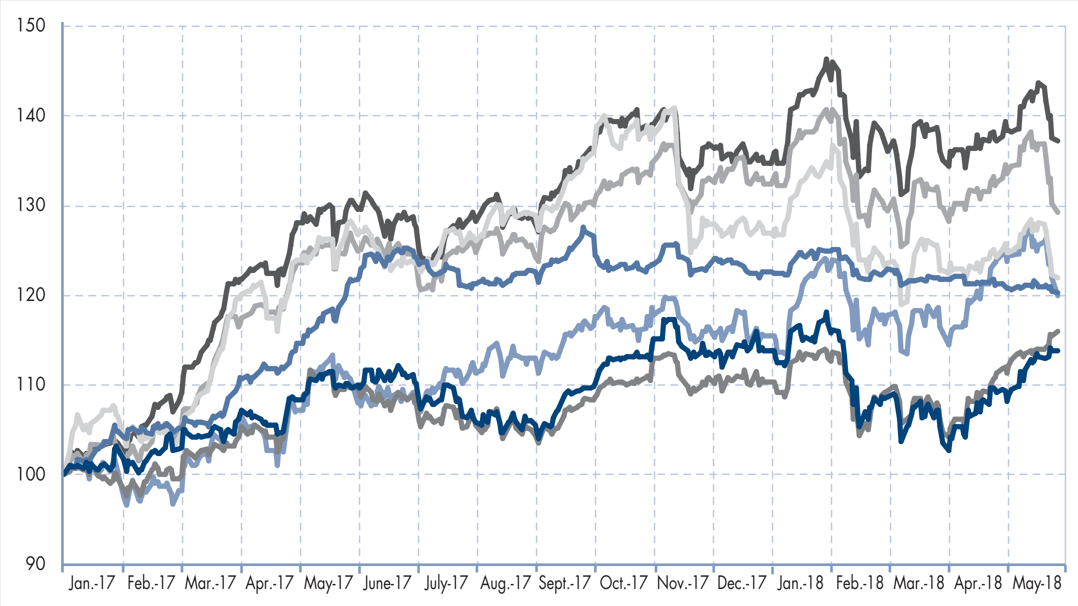
The best-performing index was that of the STAR segment, followed by Mid Cap. The FTSE MIB, despite a better performance than other European indices, showed the least growth compared with other Italian indices (Table 1). The AIM Italia market index would seem to be characterized by less vigorous performance, whereas the Small Cap index performed better despite the significant drop registered in the last two months of 2017 (Figure 5).

Table 1 Italian and European share indices in 2017 and early 2018

Index	Performance 2017	Performance 1/1/2018 - 22/05/2018
FTSE MIB	13.60%	5.70%
FTSE Italia STAR	34.70%	1.90%
FTSE Italia Mid Cap	32.30%	-2.30%
FTSE Italia Small Cap	26.80%	-3.8%
FTSE AIM Italia	22.40%	-1.7%
CAC 40	9.30%	6.1%
DAX 30	12.50%	1.2%

Figure 5
The main Italian and European stock market indices (*)

FTSE Mib
FTSE Italia Star
FTSE Italia Mid Cap
FTSE Italia Small Cap
FTSE Aim Italia
France Cac 40
DAX 30



(*) Price Index
Source: Based on Thomson Reuters Datastream data

The better performance compared with the general index and the overall good performance are probably attributable to the inflow of new investments collected through PIRs and allocated for the most part to the Italian market; it will be important to see whether this trend will continue in 2018.

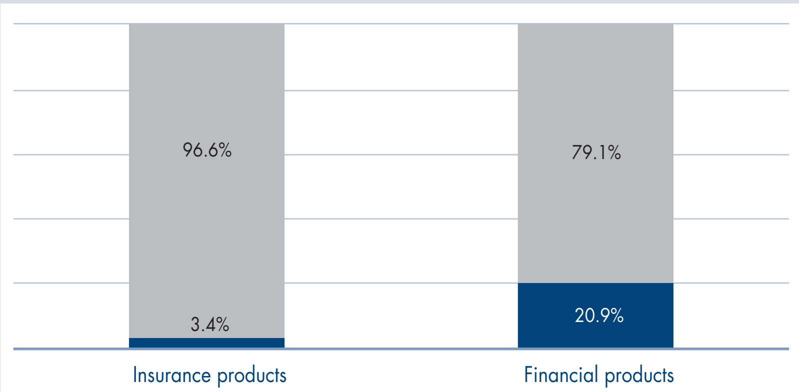
First results of the PIR market in 2018

In the first quarter of 2018, new fund-raising by financial and insurance PIRs amounted to €2.7 billion, thus confirming investors' interest in this product; 72% was collected through financial products and the remaining 28% through insurance products. The average amount invested in insurance PIRs was around €17,000, more than the average amount invested in 2017 (€14,000).

In 2018, the insurance PIRs' share of total life business grew slightly to 3.4% compared with 2017, while remaining still substantially lower than that of financial PIRs (20.9%) compared with the total fund-raising of the financial sector (Figure 6).

Figure 6
Share of PIRs in total insurance and financial fund-raising

PIR
Other products



As for insurance PIRs alone, in the first quarter of 2018 the main distribution channel was bank and post office branches, with a volume of new business of €688 million, or 90.3% of total premiums for this class of product. Insurance networks (insurance agencies and other channels) raised €32 million worth of new premiums (4.3% of the total), whereas financial salesmen accounted for €41 million (5.4% of the total).

Finally, a more detailed analysis of the type of insurance products sold in the first quarter of 2018 shows that over 84% of premiums were collected by unit-linked PIRs and the remaining 16% by multi-class PIRs,

INDIVIDUAL SAVINGS PLANS (PIRS): GUIDELINES OF THE MINISTRY OF ECONOMY AND FINANCE

The legislation on long-term savings plans (PIRs) – in force as of 1 January 2017 – works as a form of tax relief on the returns (property income and other financial income, excluding income for qualifying holdings) generated by investments made by natural persons (resident in Italy and not running a commercial undertaking) in certain predetermined types of financial asset identified as "qualifying" for the tax exemption by law; the products through which PIRs can be underwritten include life insurance and capital redemption contracts.

On 4 October 2017, the Department of Finance of the Ministry of Economy and Finance published the "guidelines" for the implementation of the legislation on long-term savings plans on its institutional website.

The document, whose release had been announced by the tax authorities and urged repeatedly by ANIA, was the first official action on the matter.

The guidelines of the Department of Finance have adopted almost entirely ANIA's interpretations, which the association had presented to the institutional stakeholders on several occasions and disseminated with circular letters to its member companies.

The main clarifications in the guidelines can be summarized as follows:

- the concentration cap on investments in financial assets issued by the same issuer (10% of the total investment in PIR) is in respect of the total investment, including the unrestricted proportion of PIR equity (which cannot exceed 30% of the total). As demanded by ANIA, a derogation has been introduced for PIRs created through policies in which the unrestricted share consisted of Class I segregated funds, as these are characterized by a guaranteed minimum yield or reimbursement of the amount invested and are therefore risk-free for the investors;
- in the case of insurance PIRs and, more in general, of plans in which yields are reinvested, the returns accumulated over time are excluded from the calculation of the cap on the maximum annual transfer amount of €30,000 and on the overall amount of €150,000 in PIRs: that is, the returns consolidated throughout the life of the policy are irrelevant when verifying the caps on amounts invested;

- for PIRs created as insurance contracts, the investment restrictions (i.e. requirement to invest at least 70% of the total amount in securities, either traded or not, of companies registered in Italy, and at least 21% in companies resident in Italy and not listed on the FTSE MIB or any other equivalent exchange), must be verified with regard to investments under the insurance contract, taking account of the assets. With regard to PIR policies, the situation of internal insurance funds is the same as that of PIR-compliant UCITS, expressly referred to in paragraph 104 of the 2017 budget law. The Department of Finance, confirming the points made by ANIA, has clarified that if the policy invests at least 70% of premiums paid in shares of PIR-compliant UCITS or in PIR-compliant internal funds, it will itself become a PIR.
- as for insurance PIRs, the Department of Finance of the Ministry of Economy and Finance, endorsing ANIA's interpretation, has specified that the minimum holding period must be understood as referring to the policy (forming the container into which investments in qualifying financial assets flow) and, more precisely, to the individual premiums, constituting the amounts that feed the PIR and not the individual financial instruments in which the company invests the premiums. If the minimum holding period is not complied with, the returns generated by the premiums for which the five-year restriction period has not yet expired will be taxed, applying ordinary taxation plus interest but without sanctions;
- lack of continuing compliance with the residence requirement for the natural person holding the PIR implies, per se, the extinguishment of the plan; however it does not necessarily entail recapturing the tax benefits granted over time (or, as in the case of policies with reinvested returns, accrued). If, in fact, the holder of the PIR moves abroad but continues to hold the policy until the end of the five-year maturity period for each premium, the yield accrued as of the date from which the holder is no longer resident in Italy will still be tax exempt;
- the death of the natural person holding the PIR (the policyholder in case of insurance PIRs), does not, in any case, give rise to a return to ordinary taxation of the returns (earned or accrued), regardless of whether the event occurs before or after the end of the five-year maturity period.

The Revenue Agency provided further clarifications on the implementation of the PIR guidelines with circular 3/E of 26 February 2018, basically confirming the interpretations suggested by ANIA and transposed in the guidelines of the Ministry of Economy and Finance.

With specific reference to the possibility for a minor to open a PIR, the Revenue Agency with its circular completed the interpretation outlined in the ministerial guidelines, specifying that a minor can be a PIR holder only if his/her revenue is not subject to the legal usufruct on the revenue by one or both parents or if, that being the case, neither beneficiary parent is holder of a PIR in his/her own name.

4

NON-LIFE INSURANCE

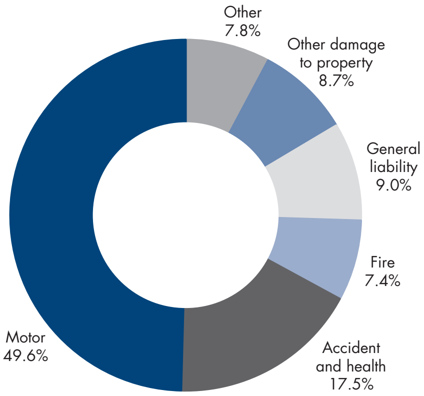
NON-LIFE INSURANCE

In 2017 non-life premium income amounted to €32.3 billion, up 1.2% from 2016, thus reversing the negative trend that started in 2012. The sector's share of total premiums rose from 23.8% to 24.7%, owing in part to the decrease registered by life sector premiums. The combined ratio performed slightly worse than in 2016, last year, coming up to 91.2% from 90.3%: in addition to the slight increase in the expense ratio, in fact, there was also a deterioration in the loss ratio. The overall technical account result increased slightly to €3.0 billion.

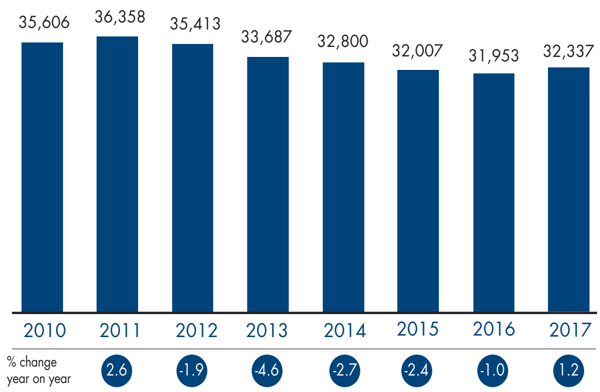
DOMESTIC BUSINESS

Premiums from direct domestic business for the 69 Italian and 3 non-EU insurance companies operating in non-life classes were equal to €32,337 million, up 1.2% in nominal terms compared with the previous year (calculated in homogeneous terms). This growth came because the 0.8% drop in motor insurance business was more than offset by the gain in other non-life premiums, which increased by over 3%. The non-life share of the industry's total premiums (non-life plus life) rose to 24.7% from 23.8% in 2016.

Breakdown of main non-life classes, 2017



Direct premiums and change on year (%)
Euro million



In homogeneous terms

Earned premiums for the year, i.e. written premiums net of the change in premium reserves and other balance items, came to €31,833 million, in line with 2016.

The **incurred claims cost for the 2017 accident year**, defined as the sum of the total settlement costs plus the amount reserved against all claims incurred during the accident year, amounted to €22,289 million, representing a 2.0% increase compared with a year earlier. Given that claims costs were virtually unchanged, the ratio of claims to premiums deteriorated compared with 2016 (70.0% in 2017 as against 68.6%).

NON-LIFE INSURANCE

Non-life technical account
Euro million

	2010	2011	2012	2013	2014	2015	2016	2017
Gross written premiums	35,606	36,358	35,413	33,687	32,800	32,007	31,954	32,337
Changes in premium reserves and other items (-)	524	522	-473	-754	-388	-176	104	505
Incurred claims (-):	26,601	26,462	25,793	22,400	21,201	20,080	20,008	20,241
– incurred claims cost for the current accident year (-)	26,255	25,328	24,813	22,891	22,301	21,691	21,842	22,289
– excess/shortfall for claims in previous years	-345	-1,134	-981	491	1,100	1,611	1,833	2,048
Balance of other technical items	-687	-591	-663	-605	-527	-599	-612	-610
Operating expenses (-)	8,696	8,761	8,504	8,433	8,599	8,647	8,767	8,918
– commissions	5,724	5,776	5,509	5,361	5,350	5,378	5,565	5,710
– other acquisition costs	1,374	1,356	1,422	1,478	1,629	1,617	1,489	1,476
– other administration costs	1,598	1,629	1,573	1,594	1,621	1,652	1,713	1,732
Direct technical balance	**-902**	**22**	**926**	**3,004**	**2,860**	**2,856**	**2,462**	**2,064**
Investment income	1,038	604	1,607	1,202	1,278	1,220	1,044	1,158
Direct technical account result	**137**	**626**	**2,533**	**4,205**	**4,138**	**4,077**	**3,507**	**3,222**
Reinsurance results	-577	-554	537	-772	-600	-495	-587	-252
Overall technical account result	**-441**	**72**	**3,070**	**3,434**	**3,538**	**3,581**	**2,920**	**2,970**
Annual % change in premiums	2.1%	2.6%	-1.9%	-4.6%	-2.7%	-2.4%	-1.0%	1.2%
Combined ratio	**100.2%**	**97.9%**	**95.9%**	**90.1%**	**90.1%**	**89.4%**	**90.3%**	**91.2%**
– Expense ratio	24.4%	24.1%	24.0%	25.0%	26.2%	27.0%	27.4%	27.6%
– Commissions/Gross written premiums	16.1%	15.9%	15.6%	15.9%	16.3%	16.8%	17.4%	17.7%
– Other acquisition costs/Gross written premiums	3.9%	3.7%	4.0%	4.4%	5.0%	5.1%	4.7%	4.6%
– Other administration costs/Gross written premiums	4.5%	4.5%	4.4%	4.7%	4.9%	5.2%	5.4%	5.4%
– Loss ratio:	75.8%	73.8%	71.9%	65.0%	63.9%	62.4%	62.8%	63.6%
– Loss ratio for the current accident year	74.8%	70.7%	69.1%	66.5%	67.2%	67.4%	68.6%	70.0%
– Excess/shortfall of claim reserves for previous years/ Earned premiums	-1.0%	-3.2%	-2.7%	1.4%	3.3%	5.0%	5.8%	6.4%
Technical balance/Earned premiums	**-2.6%**	**0.1%**	**2.6%**	**8.7%**	**8.6%**	**8.9%**	**7.7%**	**6.5%**
Technical account result/Earned premiums	**0.4%**	**1.7%**	**7.1%**	**12.2%**	**12.5%**	**12.7%**	**11.0%**	**10.1%**
Overall technical account result/Earned premiums	**-1.3%**	**0.2%**	**8.6%**	**10.0%**	**10.7%**	**11.1%**	**9.2%**	**9.3%**
Premiums to total life and non-life premiums ratio (%)	*28.3%*	*33.0%*	*33.7%*	*28.4%*	*22.9%*	*21.8%*	*23.8%*	*24.7%*

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

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 €20,241 million, 1.2% more than in 2016. This was attributable also to the significant release of provisions set aside in previous years. In fact, despite excess reserves having increased in 2017, the ratio of incurred claims costs to earned premiums worsened slightly compared with 2016, rising from 62.8% to 63.6%.

Operating expenses – that is, administrative expenses relating to technical management plus costs of contract acquisition, premium collection and the organization and management of the distribution network – amounted to €8,918 million in 2017, an increase of 1.7% from the previous year, with a slight rise in the incidence on direct premiums to 27.6% from 27.4% in 2016. The ratio of commission expenses to premiums rose (from 17.4% to 17.7%), while that of other administration expenses remained stable (5.4%) and the incidence of other acquisition costs instead came down slightly, from 4.7% in 2016 to 4.6% in 2017.

NON-LIFE INSURANCE

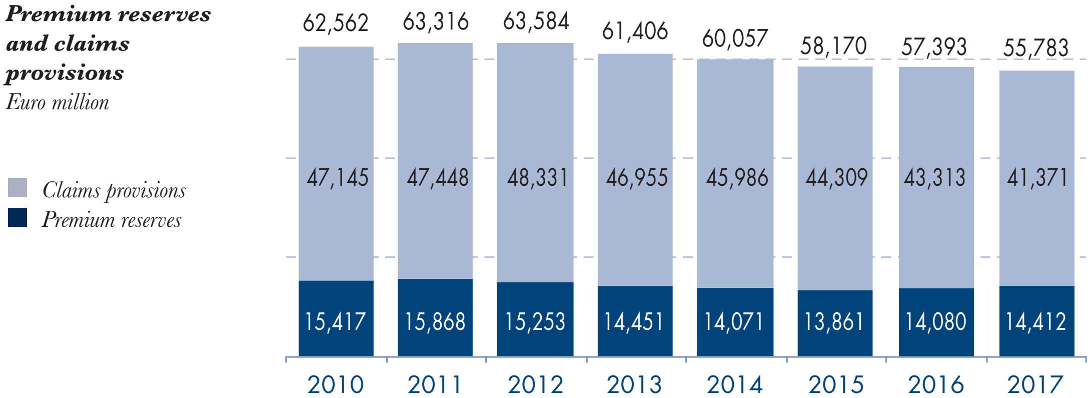
The **technical balance for direct business** was positive by €2,064 million, down from €2,462 million in 2016.

Counting investment income, which came to €1,158 million (it was €1,044 in 2016), the **direct technical account result** was positive by €3,222 million, against €3,507 million a year earlier. The ratio to premium income in 2017 came to 10.1% (11.0% in 2016).

The result of reinsurance cessions and net indirect business was negative by €252 million (-€587 million in 2016). This contributed to a positive **overall technical account result** of €2,970 million (€2,920 in 2016). The ratio to premium income came to 9.3% (9.2% in 2016).

Direct technical reserves, net of amounts to be recovered from policyholders and third parties, amounted to €55,783 million at the end of 2017, of which €14,412 million consisted of premium reserves and €41,371 million consisted of claims provisions for the current and previous accident years.

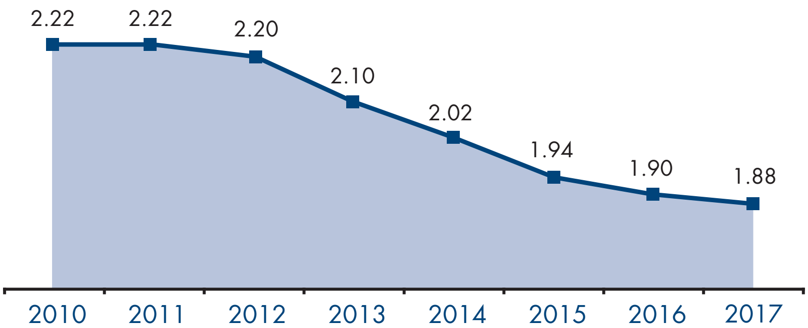
Premium reserves and claims provisions
Euro million



NON-LIFE INSURANCE AND GDP

The ratio of direct premiums to Italy's GDP remained broadly stable in 2017.

Non-life premiums/GDP (%)



5

MOTOR INSURANCE

MOTOR INSURANCE

In 2017 motor insurance premiums registered a decrease of 2.2%, while the cost of claims fell by 3.5%, resulting in a slight improvement in the combined ratio from 97.6% in 2016 to 97.1% last year. The positive contribution of the financial component in connection with returns on investment, which was up slightly on the year, and the particularly positive liquidation of excess claims reserves for previous years helped produce a positive overall technical balance, about the same as in 2016. The overall technical results for land vehicle insurance remained positive at €187 million.

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 43 companies operating in this class, totaled €13,234 million in 2017, down 2.2%. This followed a five-year series of substantial declines: down 5.6% in 2016, 6.5% in 2015 and in 2014, down 7% in 2013 and 1.2% in 2012. Over the last six years, that is, total premiums have come down by over 25%. Motor liability thus accounted for 40.9% of total premiums for non-life classes (42.3% in 2016, 49.6% in 2012). In addition, a significant share of premiums (4.5% of the total, amounting to almost €620 million) was collected by branch offices of foreign companies registered in EU countries operating under the freedom of establishment. The contraction in premium income for these insurers came to 2.1% in 2017, about the same as the decrease sustained by companies with registered offices in Italy. Overall, Italian, EU and non-EU insurers collected total premium income of €13,852 million in 2017, a decline of 2.2% on the year. 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 €13,250 million, down 3.2% with respect to 2016 for a homogeneous set of companies.

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 the current accident year, amounted to €10,760 million, representing a decrease of 2.4% compared with 2016. This is consistent with the slight reduction of 0.2% in the total number of claims (including the estimate of claims incurred but not reported) and the sharper decline of 2.6% in the average cost of claims.

MOTOR INSURANCE

Since the total cost of claims came down by 2.4% and accrued premiums by 3.2%, the ratio of claims cost to premium income in the 2017 accident year worsened by 0.7 percentage points, rising from 80.5% 81.2%.

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 €10,054 million, compared with €10,421 in 2016. The difference with respect to incurred claims cost reflected the utilization of excess reserves for previous years (€707 million). The excess of previous years' reserves came to 5.3% of accrued premium income. Owing to the decline in accrued premiums and the larger decline of 3.5% in total costs, the loss ratio improved slightly, from 76.1% in 2016 to 75.9% last year.

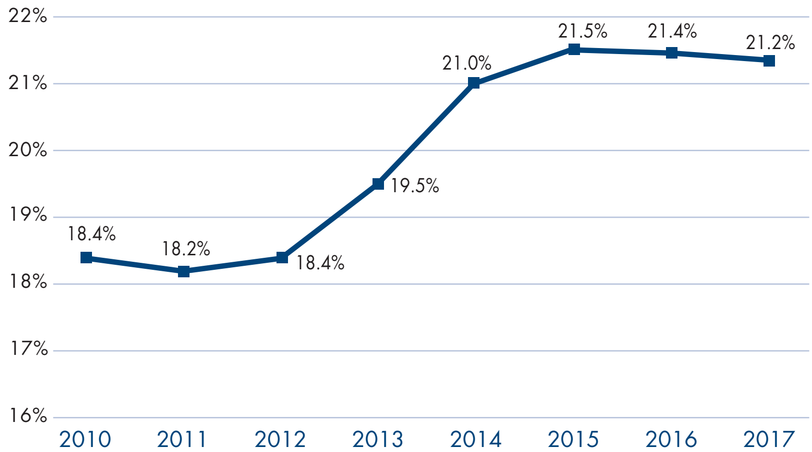
Motor and marine liability insurance
Euro million

	2010	2011	2012	2013	2014	2015	2016	2017
Gross written premiums	16,913	17,794	17,576	16,263	15,211	14,218	13,526	13,234
Changes in premium reserves and other items (-)	306	299	-121	-572	-347	-232	-164	-17
Incurred claims (-):	14,467	14,791	13,110	11,563	10,818	10,421	10,421	10,054
– incurred claims cost for the current accident year (-)	13,865	13,444	12,108	11,539	11,176	11,032	11,022	10,760
– excess/shortfall for claims in previous years	-602	-1,347	-1,002	-24	358	611	601	707
Balance of other technical items	-244	-203	-272	-248	-143	-127	-172	-185
Operating expenses (-)	3,116	3,236	3,233	3,167	3,187	3,060	2,900	2,805
– commissions	1,787	1,868	1,840	1,732	1,634	1,571	1,521	1,461
– other acquisition costs	585	595	638	690	789	731	631	614
– other administration costs	745	773	755	746	765	757	749	729
Direct technical balance	**-1,221**	**-735**	**1,084**	**1,857**	**1,410**	**842**	**196**	**207**
Investment income	496	272	799	613	654	600	500	531
Direct technical account result	**-725**	**-463**	**1,883**	**2,469**	**2,064**	**1,442**	**696**	**738**
Reinsurance results	-19	-19	1	-47	-1	10	-16	-37
Overall technical account result	**-744**	**-482**	**1,883**	**2,423**	**2,063**	**1,452**	**680**	**702**
Annual % changes in premiums	4.4%	5.2%	-1.2%	-7.0%	-6.5%	-6.5%	-5.6%	-2.2%
Combined ratio	**105.5%**	**102.7%**	**92.5%**	**88.2%**	**90.5%**	**93.6%**	**97.6%**	**97.1%**
– Expense ratio	18.4%	18.2%	18.4%	19.5%	21.0%	21.5%	21.4%	21.2%
– Commissions/Gross written premiums	10.6%	10.5%	10.5%	10.6%	10.7%	11.1%	11.2%	11.0%
– Other acquisition costs/Gross written premiums	3.5%	3.3%	3.6%	4.2%	5.2%	5.1%	4.7%	4.6%
– Other administration costs/Gross written premiums	4.4%	4.3%	4.3%	4.6%	5.0%	5.3%	5.5%	5.5%
– Loss ratio:	87.1%	84.5%	74.1%	68.7%	69.5%	72.1%	76.1%	75.9%
– Loss ratio for the current accident year	83.5%	76.8%	68.4%	68.5%	71.8%	76.3%	80.5%	81.2%
– Excess/shortfall of claims reserves for previous years/ Earned premiums	-3.6%	-7.7%	-5.7%	-0.1%	2.3%	4.2%	4.4%	5.3%
Technical balance/Earned premiums	**-7.4%**	**-4.2%**	**6.1%**	**11.0%**	**9.1%**	**5.8%**	**1.4%**	**1.6%**
Technical account result/Earned premiums	**-4.4%**	**-2.6%**	**10.6%**	**14.7%**	**13.3%**	**10.0%**	**5.1%**	**5.6%**
Overall technical account result/Earned premiums	**-4.5%**	**-2.8%**	**10.6%**	**14.4%**	**13.3%**	**10.1%**	**5.0%**	**5.3%**
Premiums over total non-life premiums (%)	*47.5%*	*48.9%*	*49.6%*	*48.3%*	*46.4%*	*44.4%*	*42.3%*	*40.9%*
Premiums of EU branches	**917**	**960**	**954**	**956**	**805**	**762**	**631**	**618**
Annual % changes in premiums	-5.8%	-1.5%	4.8%	-0.6%	-11.8%	-15.8%	-3.6%	-2.1%
Premiums of Italian, EU and non-EU insurers	**17,830**	**18,754**	**18,530**	**17,219**	**16,016**	**14,980**	**14,157**	**13,852**
Annual % changes in premiums	-3.4%	4.2%	5.2%	-1.2%	-7.3%	-7.0%	-5.5%	-2.2%

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

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 €2,805 million (€2,900 million in 2016). Given that the percentage decline in expenses was greater than that in premium income, the ratio between the two came down modestly from 21.4% to 21.2%. In particular, the incidence of other administration costs on income held steady at 5.5%, while that of commissions diminished from 11.2% to 11.0% and that of other acquisition costs came down from 4.7% to 4.6%.

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 includes the excess/shortfall of reserves set aside against claims incurred in previous accident years). The figure, ploting the combined ratio from 2010 to 2017, shows that:

1) The combined ratio for the accident generation of 2017 was 102.4%, representing a modest deterioration of 0.4 percentage points compared with the 2016 generation (102.0%) and nearly 16 points worse than in 2012, when the ratio stood at 86.8%, the best technical result on record.
2) For all the years from 2010 to 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 often a shortfall (sometimes quite substantial) of reserves against previous years' claims. Only in 2014, and more significantly in the years that followed, were excess reserves sufficient to push the combined ratio for the policy year below that for the current year.

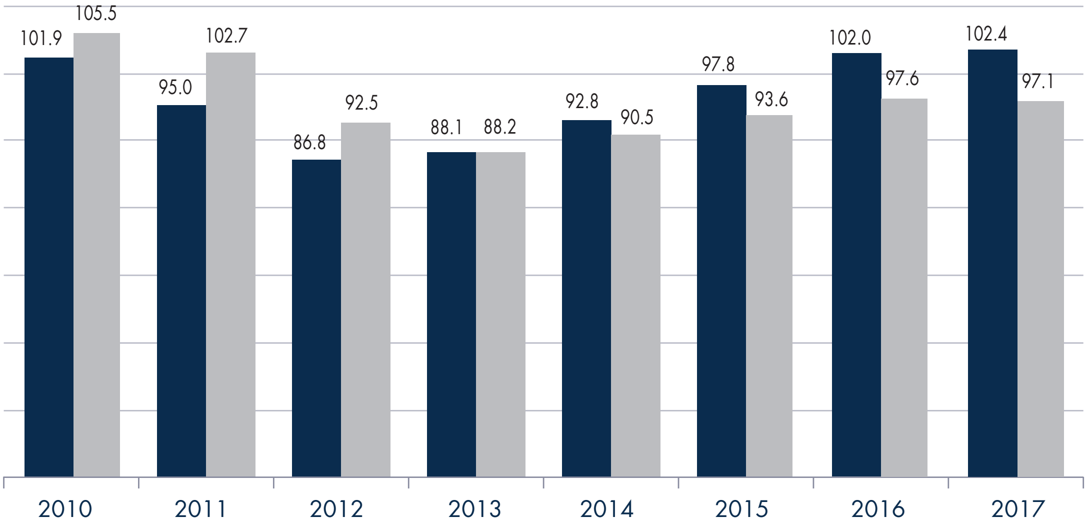
The foregoing variations in the relevant components produced an offset between income and expenses, resulting in a positive **technical balance** of €207 million in 2017, compared to €196 million in 2016.

MOTOR INSURANCE

With profits from investments amounting to €531 million, somewhat better than the €500 million earned in in 2016, the **result of the technical account for direct business** showed a profit of €738 million, up from €696 million.

Combined ratio (%)

Current year
Policy year

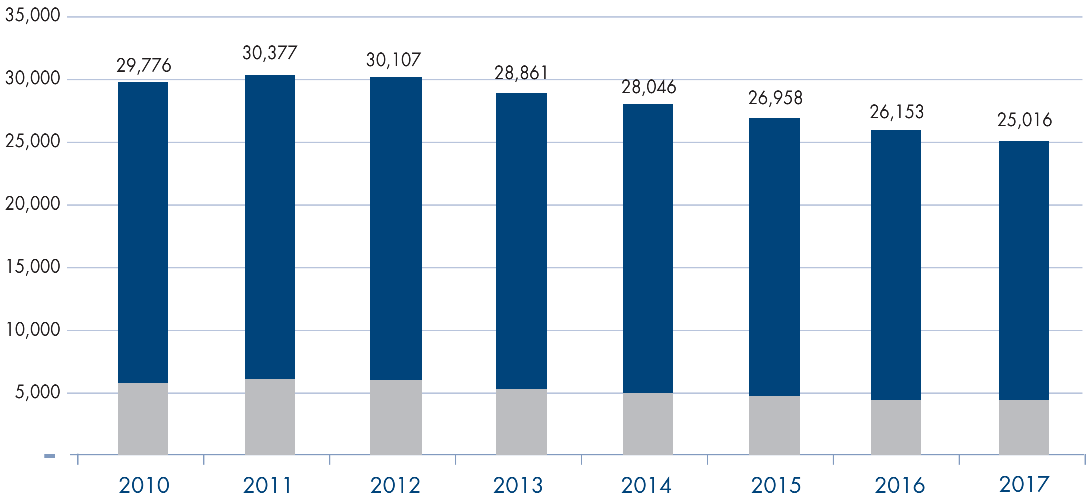


Taking the balance for reinsurance into account (negative by €37 million), the **overall technical account result** was positive by €702 million, up slightly from €680 million the previous year.

The **technical reserves** for direct business of the motor and marine liability sector, net of recoverable sums, amounted to €25,016 million in 2017, down by more than 4% compared with 2016. Among these reserves, the premium reserve was about €4,500 million, while the claims reserve for current and previous accident years was about €20,500 million.

Technical reserves, motor and marine liability classes
Euro million

Premium reserves
Claims reserves



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 47 insurance companies operating in this class amounted to €2,800 million in 2017, accounting for 8.7% of total non-life insurance premiums. This represented an increase in premiums of 6.3%, the third straight year of increase following gains of 2.9% in 2015 and 6.5% in 2016 after a seven-year contraction since 2008 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 by 5.5% in 2014, 15% in 2015, 18% in 2016 and 7% last year.

Earned premiums, i.e. total premiums net of the change in premium reserves and some other balance items, came to €2,682 million, up more than 5% over 2016.

Land vehicle insurance
Euro million

	2009	2010	2011	2012	2013	2014	2015	2016
Gross written premiums	2,950	2,891	2,648	2,413	2,387	2,455	2,634	2,800
Changes in premium reserves (-)	-17	-14	-72	-76	-13	54	87	118
Incurred claims (-):	1,857	1,812	1,630	1,654	1,459	1,396	1,463	1,625
– incurred claims cost for the current accident year (-)	1,891	1,884	1,701	1,695	1,512	1,463	1,515	1,670
– excess/shortfall for claims in previous years	34	72	71	41	53	67	53	46
Balance of other technical items	-34	-31	-28	-21	-10	-11	-14	-11
Operating expenses (-)	781	763	703	660	692	733	804	861
– commissions	530	521	477	447	460	492	547	596
– other acquisition costs	119	119	109	102	117	119	122	124
– other administration costs	131	123	117	111	115	121	134	141
Direct technical balance	**296**	**299**	**360**	**154**	**238**	**261**	**268**	**185**
Investment income	31	18	48	35	38	36	32	39
Direct technical account result	**327**	**317**	**408**	**189**	**276**	**298**	**300**	**224**
Reinsurance results	-20	-22	-18	1	-27	-36	-64	-36
Overall technical account result	**307**	**295**	**390**	**191**	**249**	**262**	**237**	**187**
Annual % changes in premiums	-1.3%	-2.0%	-8.4%	-8.6%	-1.1%	2.9%	6.5%	6.3%
Combined ratio	**89.0%**	**88.8%**	**86.4%**	**93.8%**	**89.8%**	**88.0%**	**87.9%**	**91.3%**
– Expense ratio	26.5%	26.4%	26.5%	27.4%	29.0%	29.8%	30.5%	30.7%
– Commissions/Gross written premiums	18.0%	18.0%	18.0%	18.5%	19.3%	20.0%	20.8%	21.3%
– Other acquisition costs/Gross written premiums	4.0%	4.1%	4.1%	4.2%	4.9%	4.9%	4.6%	4.4%
– Other administration costs/Gross written premiums	4.4%	4.3%	4.4%	4.6%	4.8%	4.9%	5.1%	5.0%
– Loss ratio:	62.6%	62.4%	59.9%	66.4%	60.8%	58.2%	57.4%	60.6%
– Loss ratio for the current accident year	63.7%	64.9%	62.5%	68.1%	63.0%	60.9%	59.5%	62.3%
– Excess/shortfall of claims reserves for previous years/ Earned premiums	1.2%	2.5%	2.6%	1.7%	2.2%	2.8%	2.1%	1.7%
Technical balance/Earned premiums	**10.0%**	**10.3%**	**13.2%**	**6.2%**	**9.9%**	**10.9%**	**10.5%**	**6.9%**
Technical account result/Earned premiums	**11.0%**	**10.9%**	**15.0%**	**7.6%**	**11.5%**	**12.4%**	**11.8%**	**8.3%**
Overall technical account result/Earned premiums	**10.4%**	**10.1%**	**14.3%**	**7.7%**	**10.4%**	**10.9%**	**9.3%**	**7.0%**
Premiums over total non-life premiums ratio (%)	*8.3%*	*8.0%*	*7.5%*	*7.2%*	*7.3%*	*7.7%*	*8.2%*	*8.7%*

Indexes and changes (%) are calculated on data in Euro thousands
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 €1,670 million, with growth of 10.2% compared with 2016. Given that this cost increased more than the volume of accrued premiums, the loss ratio for the year worsened from 59.5% to 62.3%.

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 €1,625 million, up 11.1% from €1,463 million in 2016. The loss ratio with respect to earned premiums thus deteriorated from 57.4% to 60.6%.

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 €861 million (€804 million in 2016). The ratio to premium income in 2017 was 30.7% (30.5% in 2016). In spite of the rise in premium income, the expense ratio reached its highest value since 1998, owing above all to distribution commissions, which came to 21.3% of income.

The **technical balance for direct business** was positive in 2017 by €185 million (€268 million in 2016).

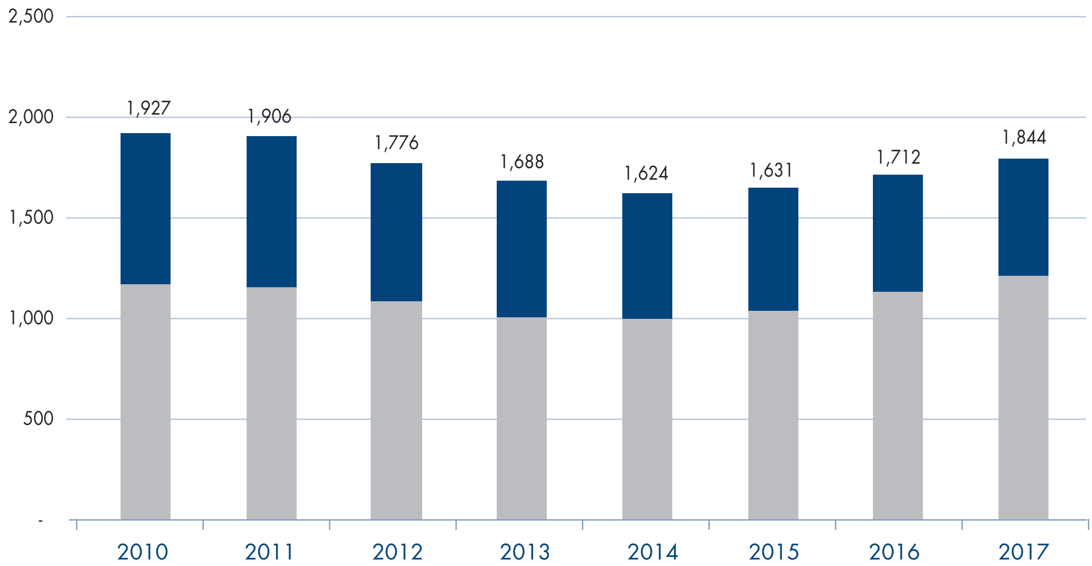
Including investment income, the **technical account result** was positive by €224 million (€300 million in 2016).

Taking the balance on reinsurance into account, the **overall technical account result** was also positive, by €187 million (€237 million in 2016). Its ratio to premiums declined from 9.3% to 7.0%.

Technical reserves for direct business, net of recoverable sums, amounted to €1,844 million in the land vehicles class in 2017, not greatly different from the previous two years. Among these reserves, claims reserves (for the current and previous accident years) amounted to some €600 million, while premium reserves came to over €1,200 million.

Land vehicle insurance technical reserves
Euro million

Premium reserves
Claims reserves



CAR THEFT IN ITALY

The Ministry of the Interior has released the data (not yet definitive) on thefts of passenger cars and SUVs in Italy in 2017. We have compared them with the data for 2015 and 2016 (Table 1).

Table 1 – Thefts of passenger cars in Italy, 2015-2017

Region	Car thefts**			Change %			% of cars regist.*	Car thefts per 1,000 registered		
	year 2017	year 2016	year 2015	2017/ 2016	2016/ 2015	2015/ 2014	2017	2017	2016	2015
PIEDMONT	4,870	5,627	5,209	-13.5%	8.0%	-7.6%	7.6%	1.66	1.95	1.83
VALLE D'AOSTA	31	37	30	-16.2%	23.3%	15.4%	0.4%	0.19	0.25	0.21
LOMBARDY	10,426	11,181	11,785	-6.8%	-5.1%	-9.9%	15.8%	1.71	1.86	1.99
LIGURIA	528	584	656	-9.6%	-11.0%	-13.6%	2.2%	0.63	0.70	0.79
FRIULI-VENEZIA GIULIA	294	342	308	-14.0%	11.0%	-18.3%	2.1%	0.37	0.44	0.40
TRENTINO-ALTO ADIGE	140	167	168	-16.2%	-0.6%	33.3%	2.7%	0.13	0.17	0.19
VENETO	1,186	1,608	1,542	-26.2%	4.3%	-18.7%	8.1%	0.38	0.53	0.51
EMILIA-ROMAGNA	2,113	2,332	2,630	-9.4%	-11.3%	-7.1%	7.4%	0.74	0.83	0.95
NORTH	*19,588*	*21,878*	*22,328*	*-10.5%*	*-2.0%*	*-9.7%*	*46.3%*	*1.10*	*1.25*	*1.30*
TUSCANY	1,357	1,681	1,684	-19.3%	-0.2%	-3.3%	6.5%	0.54	0.69	0.70
UMBRIA	324	319	414	1.6%	-22.9%	-2.4%	1.6%	0.51	0.51	0.67
MARCHE	702	689	763	1.9%	-9.7%	1.7%	2.6%	0.69	0.69	0.77
LAZIO	15,941	15,339	16,198	3.9%	-5.3%	-6.3%	9.8%	4.24	4.11	4.38
CENTER	*18,324*	*18,028*	*19,059*	*1.6%*	*-5.4%*	*-5.7%*	*20.5%*	*2.32*	*2.31*	*2.47*
ABRUZZO	1,507	1,339	1,649	12.5%	-18.8%	7.7%	2.3%	1.73	1.56	1.94
MOLISE	303	377	297	-19.6%	26.9%	1.0%	0.5%	1.44	1.82	1.45
CAMPANIA	17,969	20,975	21,745	-14.3%	-3.5%	4.8%	8.9%	5.23	6.19	6.50
CALABRIA	2,522	3,160	3,600	-20.2%	-12.2%	-9.1%	3.3%	2.00	2.55	2.94
PUGLIA	13,775	14,446	15,232	-4.6%	-5.2%	2.1%	6.0%	5.91	6.30	6.74
BASILICATA	301	372	386	-19.1%	-3.6%	19.9%	1.0%	0.81	1.02	1.07
SOUTH	*36,377*	*40,669*	*42,909*	*-10.6%*	*-5.2%*	*2.7%*	*22.0%*	*4.29*	*4.87*	*5.20*
SICILY	11,174	11,930	12,849	-6.3%	-7.2%	-15.0%	8.5%	3.43	3.72	4.05
SARDINIA	1,030	1,106	1,148	-6.9%	-3.7%	-19.7%	2.7%	0.99	1.08	1.13
ISLANDS	*12,204*	*13,036*	*13,997*	*-6.4%*	*-6.9%*	*-15.4%*	*11.2%*	*2.84*	*3.08*	*3.35*
TOTAL ITALY	86,493	93,611	98,293	-7.6%	-4.8%	-4.8%	100.0%	2.25	2.47	2.63

Sources: (*) Ministry Infrastructures and Transport / ACI – No. vehicles registered at 31 October 2017
(**) Ministry of Interior – The data for 2017 are subject to rectification

The number of vehicle thefts fell again last year, from 93,611 to 86,493, a decrease of 7.6%. Except for 2012, when thefts rose by a marginal 1.5%, auto theft has been decreasing steadily: since 2012 the reduction comes to nearly a quarter, or about 30,000 fewer vehicles stolen. This sharp downtrend has not been matched by diminishing recoveries of stolen vehicles by the law enforcement forces (Table 2): 43.2% of all stolen vehicles (42,481) were recovered in 2015; in 2016 there was a marginal reduction to 42.7% (some 40,000 vehicles) and a further decline to 39.2% last year (slightly under 34,000 recoveries).

Table 2
Stolen cars recovered by the law enforcement forces, 2015-2017

Region	Stolen vehicles recovered			% stolen vehicles recovered		
	2017	2016	2015	2017	2016	2015
PIEDMONT	2,289	2,873	2,887	47.0%	51.1%	55.4%
VALLE D'AOSTA	14	19	10	45.2%	51.4%	33.3%
LOMBARDY	4,199	4,988	5,455	40.3%	44.6%	46.3%
LIGURIA	439	456	546	83.1%	78.1%	83.2%
FRIULI-VENEZIA GIULIA	151	185	214	51.4%	54.1%	69.5%
TRENTINO-ALTO ADIGE	93	129	130	66.4%	77.2%	77.4%
VENETO	865	1,123	1,269	72.9%	69.8%	82.3%
EMILIA-ROMAGNA	1,717	1,944	2,298	81.3%	83.4%	87.4%
NORTH	*9,767*	*11,717*	*12,809*	*49.9%*	*53.6%*	*57.4%*
TUSCANY	1,057	1,254	1,323	77.9%	74.6%	78.6%
UMBRIA	254	256	313	78.4%	80.3%	75.6%
MARCHE	379	400	479	54.0%	58.1%	62.8%
LAZIO	4,463	4,835	4,731	28.0%	31.5%	29.2%
CENTER	*6,153*	*6,745*	*6,846*	*33.6%*	*37.4%*	*35.9%*
ABRUZZO	529	548	647	35.1%	40.9%	39.2%
MOLISE	55	68	74	18.2%	18.0%	24.9%
CAMPANIA	5,391	6,820	7,646	30.0%	32.5%	35.2%
CALABRIA	1,290	1,875	1,803	51.1%	59.3%	50.1%
PUGLIA	5,876	6,571	6,909	42.7%	45.5%	45.4%
BASILICATA	77	102	74	25.6%	27.4%	19.2%
SOUTH	*13,218*	*15,984*	*17,153*	*36.3%*	*39.3%*	*40.0%*
SICILY	4,234	4,909	5,122	37.9%	41.1%	39.9%
SARDINIA	548	612	551	53.2%	55.3%	48.0%
ISLANDS	*4,782*	*5,521*	*5,673*	*39.2%*	*42.4%*	*40.5%*
TOTAL ITALY	33,920	39,967	42,481	39.2%	42.7%	43.2%

Source: Ministry of Interior - The data for 2017 are subject to rectification

Using ACI's data on the provincial distribution of cars in circulation in 2017 as a base, we can make an approximate calculation of theft rates. Overall in 2017, 2.25 vehicles per thousand were stolen, down from 2.63 in 2015 and 2.47 in 2016.

In regional terms, whereas in 2015 the South had run counter to the national trend, with an increase of 2.7% in car theft, in 2016 and even more markedly in 2017 the territorial breakdown shows significant declines of 5.2% and 10.6% in that part of the country. Except for Abruzzo, where thefts rose by 12.5% in 2017, all the southern regions registered decreases. In particular, thefts were down most sharply in Calabria (20.2%), followed by Molise (19.6%), Basilicata (19.1%) and Campania (14.3%), while Puglia registered a more modest decrease (4.6%). Even so, in 2017 the regions with the highest theft rates in proportion to the number of cars on the roads were again Puglia at 5.91‰ and Campania at 5.23‰.

The only macro-region to register an increase in auto theft in 2017 was the Center, with an increase of 1.6%. Except for Tuscany, where thefts dropped by over 19% last year, all the central regions showed increases. The rise was largest in Lazio (up 3.9%), while the increases in Marche and Umbria were smaller than 2%. In the regions of central Italy the incidence of theft to cars on the road is less than 1.00‰, if we exclude Lazio, where it stood at 4.24‰ (up slightly from 4.11‰ in 2016 but lower than the 4.38‰ registered in 2015). The Center regions account for some 20.5% of passenger cars on the roads.

In the North the number of thefts diminished by 10.5%. By region, the sharpest fall was in Veneto, with a 26.2% decrease by comparison with 2016, followed by Trentino-Alto Adige and Valle d'Aosta (down 16.2%), Friuli-Venezia Giulia (14.0%), and Piedmont (13.5%). The other northern regions registered decreases of less than 10%. The North has nearly half of all Italy's passenger cars (46.3% in 2017) and also the lowest incidence of theft, averaging 1.10‰ and a strikingly low 0.13‰ in Trentino-Alto Adige.

The island regions registered a decline of 6.4% in auto theft, with substantial reductions both in Sicily (6.3%) and in Sardinia (6.9%) in 2017. Consequently the theft rate also improved, to 0.99‰ in Sardinia and 3.43‰ in Sicily.

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 fewer than 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 insured.

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

Since 2015 ANIA has been gathering 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 2017 and a homogeneous comparison with 2015 and 2016 for the most common type of coverage, namely fire and theft. The observation is for a sample of companies that account for over 90% of premium income in this class and refers only to private passenger cars (no fleet policies). The main technical trends are discussed below.

Diffusion of coverage. Based on our sample, we estimate that there were just over 8.8 million passenger car fire and theft policies in Italy in 2017, up from the level of the previous three years, when they numbered some 8.5 million. The increase is in line with the rise in new car sales, the main cause of purchases of this type of voluntary insurance coverage.

Nationwide, this works out to a coverage ratio of about 30% of 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: nearly half the cars (48%) in Lombardy, 38% in Piedmont, almost 36% in Lazio, and 30% in Liguria and Emilia Romagna. Very low diffusion of under 15% (less than half the national average) is registered mainly in the regions of the South: Campania, 14.7%; Puglia, 15.8%, Calabria and Basilicata, 16.6%, and Sicily, 16.7%.

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 (nearly 10 claims per 1,000 insured vehicles in 2017) than for fire (0.34 per 1,000, about the same as in previous years; see Tables 1 and 2).

This indicator too displays great geographical variability (Figure 1). The region with the greatest frequency of theft claims in 2017 was again Puglia, with close to 22 cars stolen for every thousand insured, down slightly from 24 in 2016 but still considerably higher than the 19 registered in 2015, followed by Campania (over 16, unchanged from 2016 but higher than in 2015), Lazio (14, down slightly from the previous two years) and Molise (over 10). By province, the greatest frequency was registered in Foggia (almost 30 auto theft claims for every thousand vehicles insured, down from 40 in 2016 but about the same as in 2015), Barletta-Andria-Trani (28, down from 29), Bari (26, up from 25), and Naples and Caserta (20, the same as in 2016).

Table 1
Technical indicators, auto theft insurance

	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Friuli-Venezia Giulia	1.6	1.5	1.5	2.93	3.24	2.84	25.8	34.9	28.7
Veneto	7.7	7.5	7.1	4.54	5.72	5.88	16.8	17.3	18.0
Trentino-Alto Adige	1.1	1.0	1.0	3.17	3.84	4.06	30.3	21.6	20.4
Emilia-Romagna	8.4	8.2	8.2	6.88	8.21	9.30	18.4	16.7	16.3
TOTAL NORTH-EAST	*18.8*	*18.3*	*17.8*	*5.37*	*6.53*	*7.10*	*18.4*	*17.7*	*17.3*
Piedmont	10.7	10.9	10.9	8.88	10.08	10.90	31.6	30.8	30.4
Lombardy	29.7	30.4	30.9	9.32	10.09	10.93	32.3	34.4	34.2
Liguria	2.5	2.6	2.7	6.71	6.93	9.71	18.9	17.8	24.5
Valle d'Aosta	0.2	0.2	0.2	3.47	4.16	3.87	29.5	31.5	61.3
TOTAL NORTH-WEST	*43.1*	*44.1*	*44.7*	*9.03*	*9.88*	*10.82*	*31.5*	*32.8*	*32.8*
Tuscany	4.6	4.5	4.3	6.16	7.04	7.36	19.9	18.0	21.7
Marche	1.7	1.6	1.5	6.02	6.76	6.73	29.2	22.8	25.6
Umbria	1.2	1.1	1.1	5.95	6.38	7.48	26.3	23.8	27.2
Lazio	12.5	12.7	12.9	13.92	14.89	15.18	58.1	53.7	55.9
TOTAL CENTER	*19.9*	*19.9*	*19.8*	*11.00*	*11.98*	*12.40*	*45.4*	*41.6*	*44.5*
Molise	0.5	0.4	0.4	10.40	11.99	11.85	50.1	56.0	59.3
Campania	3.9	3.7	3.5	16.31	16.65	14.90	51.0	47.3	50.3
Basilicata	0.6	0.6	0.5	8.40	7.12	8.78	63.4	54.3	62.0
Abruzzo	1.9	1.8	1.7	8.99	8.57	9.95	50.2	46.5	46.2
Calabria	1.8	1.8	1.8	9.04	10.79	10.17	38.9	35.7	36.0
Puglia	3.2	3.0	3.1	22.06	23.64	18.97	70.4	69.9	80.7
TOTAL SOUTH	*11.8*	*11.2*	*11.1*	*14.96*	*15.60*	*14.09*	*58.3*	*55.9*	*59.0*
Sardinia	1.7	1.7	1.8	4.14	5.35	6.67	34.3	31.6	32.4
Sicily	4.5	4.5	4.7	9.59	10.23	10.15	39.3	37.4	38.3
TOTAL ISLANDS	*6.3*	*6.3*	*6.4*	*8.07*	*8.87*	*9.20*	*38.5*	*36.5*	*37.0*
TOTAL ITALY	100.0	100.0	100.0	9.59	10.71	11.17	37.3	36.0	36.3

Figure 1 – Claims frequency for car theft and fire insurance – 2017

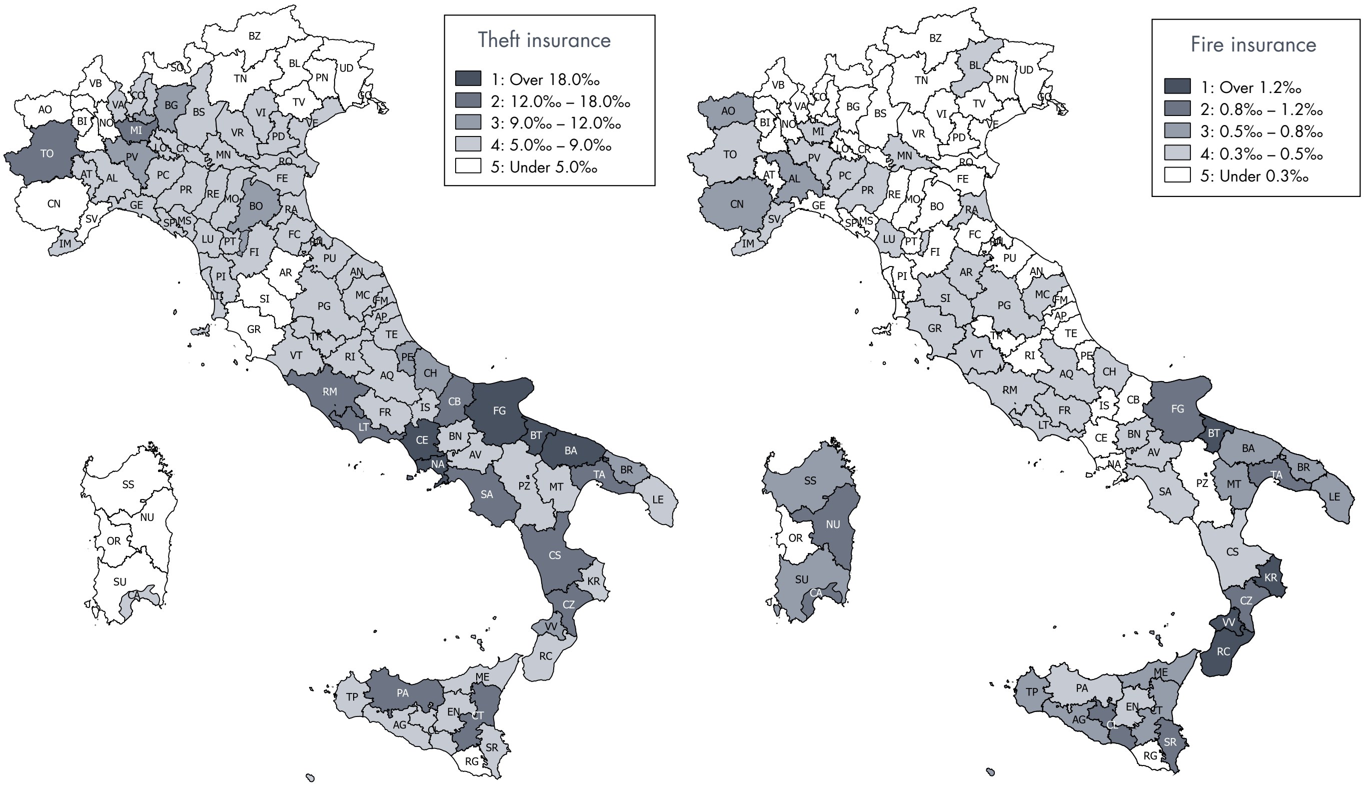


Table 2
Technical indicators, car fire insurance

	Composition of coverage (% of total)			Claims frequency (‰)			Average degree of damage (%)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Friuli-Venezia Giulia	1.8	1.8	1.8	0.15	0.18	0.11	61.9	66.1	22.4
Veneto	8.6	8.4	7.5	0.14	0.17	0.17	55.0	46.3	63.2
Trentino-Alto Adige	1.2	1.1	1.1	0.27	0.26	0.18	58.3	44.2	50.6
Emilia-Romagna	8.4	8.2	8.2	0.26	0.27	0.19	45.7	53.2	62.2
TOTAL NORTH-EAST	*20.0*	*19.5*	*18.6*	*0.20*	*0.22*	*0.17*	*50.6*	*51.2*	*59.9*
Piedmont	10.8	10.9	10.5	0.42	0.36	0.33	56.2	60.3	59.4
Lombardy	29.2	30.0	31.0	0.27	0.25	0.25	59.3	60.4	68.1
Liguria	2.5	2.6	2.8	0.28	0.24	0.24	55.2	41.9	70.9
Valle d'Aosta	0.2	0.2	0.2	0.56	0.00	0.27	82.9	0.0	125.4
TOTAL NORTH-WEST	*42.7*	*43.7*	*44.5*	*0.31*	*0.27*	*0.27*	*58.0*	*59.3*	*65.9*
Tuscany	4.6	4.5	4.4	0.22	0.25	0.20	76.1	50.5	56.1
Marche	1.7	1.6	1.5	0.23	0.24	0.25	42.1	47.6	62.7
Umbria	1.2	1.1	1.1	0.27	0.24	0.23	51.3	61.0	72.6
Lazio	11.9	12.2	12.8	0.46	0.41	0.45	67.8	67.9	79.1
TOTAL CENTER	*19.4*	*19.4*	*19.8*	*0.37*	*0.35*	*0.37*	*63.2*	*59.5*	*69.8*
Molise	0.5	0.4	0.4	0.19	0.32	0.21	37.5	79.8	61.4
Campania	3.8	3.6	3.4	0.29	0.28	0.30	72.1	71.3	68.3
Basilicata	0.6	0.6	0.5	0.36	0.30	0.54	98.8	71.6	81.4
Abruzzo	1.9	1.8	1.7	0.30	0.26	0.23	71.9	69.2	66.3
Calabria	1.7	1.6	1.7	0.83	0.74	0.89	77.2	80.1	105.0
Puglia	3.2	3.0	3.1	0.80	0.70	0.54	82.4	81.0	105.3
TOTAL SOUTH	*11.6*	*11.0*	*10.7*	*0.51*	*0.46*	*0.46*	*77.7*	*76.2*	*88.2*
Sardinia	1.8	1.7	1.7	0.74	0.84	0.97	95.8	68.0	80.8
Sicily	4.5	4.5	4.7	0.56	0.60	0.49	86.3	82.7	87.6
TOTAL ISLANDS	*6.2*	*6.2*	*6.4*	*0.61*	*0.67*	*0.62*	*89.6*	*77.6*	*85.6*
TOTAL ITALY	100.0	100.0	100.0	0.34	0.33	0.31	63.2	61.3	70.1

The most "virtuous" regions are nearly all found in the North-East: Friuli Venezia Giulia scored 2.9 thefts per thousand vehicles in 2017 (down from 3.24 in 2016), Trentino-Alto Adige just over 3, and Veneto 4.5 (down from 5.7). The provinces with the lowest rates are Oristano, Belluno, and the new province of Sud Sardegna, all with theft claims rates of under 2.5‰.

Fire insurance claims were particularly uncommon in Veneto and Friuli Venezia Giulia, while their frequency was above average in many regions of the South and Islands (Table 2 and Figure 1). Calabria and Puglia were the regions with the highest claims frequency (2.5 times the national average), followed by Sardinia (twice the national average) and Sicily. By province the highest risk levels for fire insurance claims were registered, again in 2017, in Nuoro in Sardinia, with 1.8‰, followed by Foggia at 1.2‰, and Caltanisetta, Sud Sardegna and Reggio Calabria at about 1.0‰.

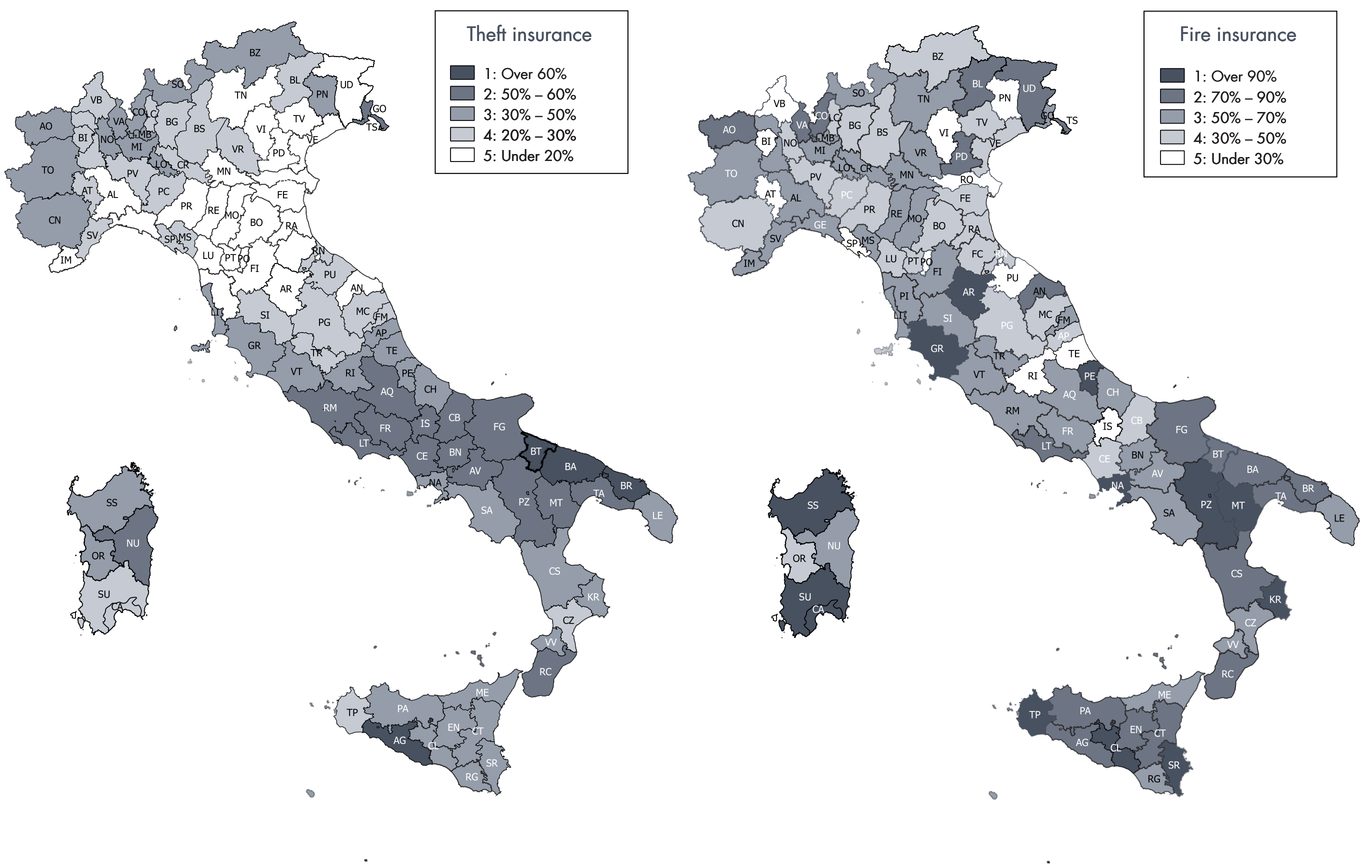
<u>Average degree of damage.</u> The other significant indicator in analyzing technical trends in fire and theft insurance is the average degree of damage, i.e. the percentage of the value of the good insured that is "lost". For given that in the case of both (partial) theft insurance and fire insurance 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) rose from just over €10,000 in 2016 to €11,000 last year. One factor in this increment was the increase in new car registrations (a positive balance of 580,000 between vehicle registrations and cancellations in 2017, more than 100,000 greater than in 2016).

For theft insurance, the degree of damage averaged 37.3% nationwide in 2017, 1 percentage point higher than the previous year, which means that partial auto theft is quite a significant phenomenon: the average incidence of damages in fact does not even come to two-fifths of the value insured. For fire insurance, the damage rate is considerably higher, rising from 61.3% to 63.2% in 2017. For fire claims, that is, a high percentage of the total vehicle value is lost.

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 (70.4%), and high also in Basilicata (over 63%), Campania (51%), Molise and Abruzzo (about 50%). Among the regions of the Center and North, a high degree of damage was recorded in Lazio (58.1%, representing an increase from 2015 and 2016). The provinces with the highest figures were Barletta-Andria-Trani (95% of the value of the insured vehicle), Bari (72%), Matera (68%), Taranto (64%), and Brindisi (63%).

Figure 2 – Average degree of damage, car theft and fire insurance – 2017



For fire insurance, the results are similar: degree of damage greater than 95% in Basilicata and Sardinia and above 80% in Sicily, Puglia and Val d'Aosta. Elsewhere, above-average values were registered in practically all the regions of the South (except Molise) and in Lazio (67.8%). More in detail, values of 100% were found in the provinces of Prato, Barletta-Andria-Trani, Trapani, Crotone, Sassari, Potenza, Grosseto, Sud Sardegna and Caltanisetta.

THE AVERAGE COST OF CLAIMS AND CLAIMS FREQUENCY

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 2017 but that will be reported in future years. By this count, the number of claims lodged with Italian or non-EU insurance companies totaled 2,187,575 in 2017, up from 2,185,062 in 2016.

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 dipped marginally from 5.65% in 2016 to 5.63% in 2017, a decrease of 0.3 percent; after five years of decline from 2010 to 2014, with an overall reduction of nearly 30 percent, the trend was reversed in 2015 and the increase continued in 2016 but appears to have ceased last year. The number of vehicles insured increased by 0.4% in 2017 to 38.8 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 just 0.2%, remaining near 41 million.

Table 1 – Average cost of claims and claims frequency in the motor and marine liability insurance sectors
(Euro)

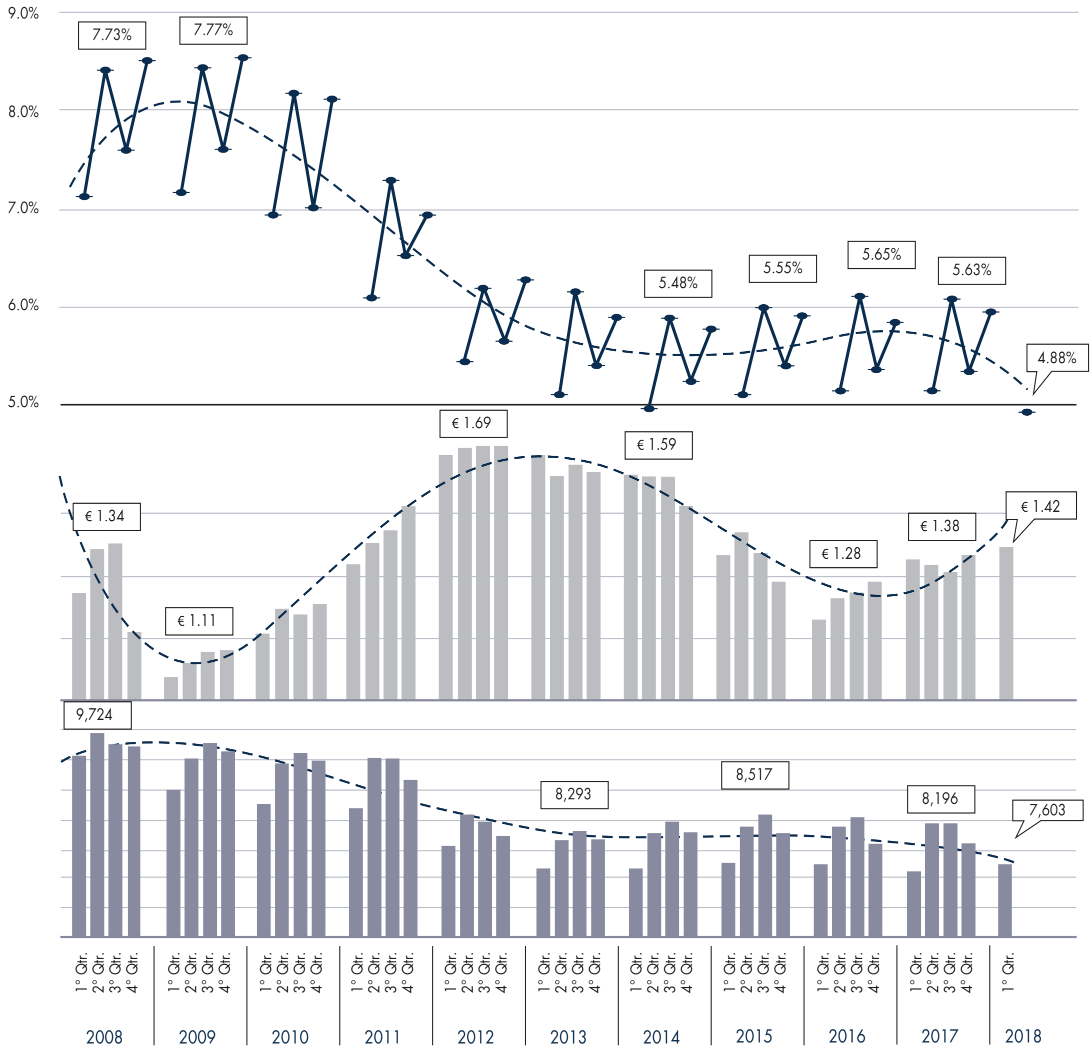
	PANEL A: Excludes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items								PANEL B: Includes claims IBNR, contribution to the Road Accident Victims Guarantee Fund and other residual items	
Year	Claims frequency %	Change %	Average claim cost - property damage	Change %	Average claim cost - personal injury	Change %	Average total claim cost**	Change %	Claims frequency %	Average claims 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 (*)	5.63%	-0.3%	1,920	0.4%	16,035	-0.6%	4,319	-1.3%	6.16%	4,498

(*) ANIA estimates based on advance information on 2017 financial statements
(**) Source: IVASS; for 2017 data from reporting forms

ANIA has compared quarterly data from 2008 through 2017 on the average cost and consumption of vehicle fuel (gasoline, diesel fuel, LPG) with that on claims frequency (Figure 1). Claims frequency declined from 7.73% in 2008 to 5.48% in 2014, a decrease of 2.3 percentage points or 30 percent. However, in 2015, after declining for five years, it turned marginally back upward (to 5.55%) and rose further to 5.65% in 2016, 3.1 percent higher than in 2014. In 2017, however, the indicator appears to have decreased a bit, by 0.3 percent. This trend is confirmed also by the early figures for a sample of insurance companies in the first quarter of 2018, with a further decline in claims frequency of around 4.0 percent compared with the year-earlier quarter.

Figure 1
Claims frequency, fuel consumption and fuel prices, 2008-2018

Claims frequency
Fuel price
Fuel consumption (thousand tons)



Over the same period (2008-2017), the trend in the consumption of motor vehicle fuel (gasoline, diesel fuel and LPG) paralleled that in claims frequency, while that in fuel prices moved inversely. In the years from 2009 to 2014, in fact, the average price of fuel either rose or held steady, which presumably curbed consumption and discouraged vehicle use, lowering claims frequency.

In 2015, by contrast, the average price of fuel turned down significantly, registering a low of €1.26 per liter in 2016, reversing the effect on vehicle use, which rose, and with it traffic accidents. And in fact claims frequency rose during those years. The same trend, albeit more moderate, is observed in fuel consumption, which was slightly higher in 2015 and 2016 than in 2014 (by an average of 1 percent). Last year, fuel prices turned back up to as much as €1.38, or 7 percent higher than in 2016, and this trend continued in the first quarter of 2018. And fuel consumption again contracted (down 1.8 percent), indicating more limited vehicle use and a concomitant reduction in accidents.

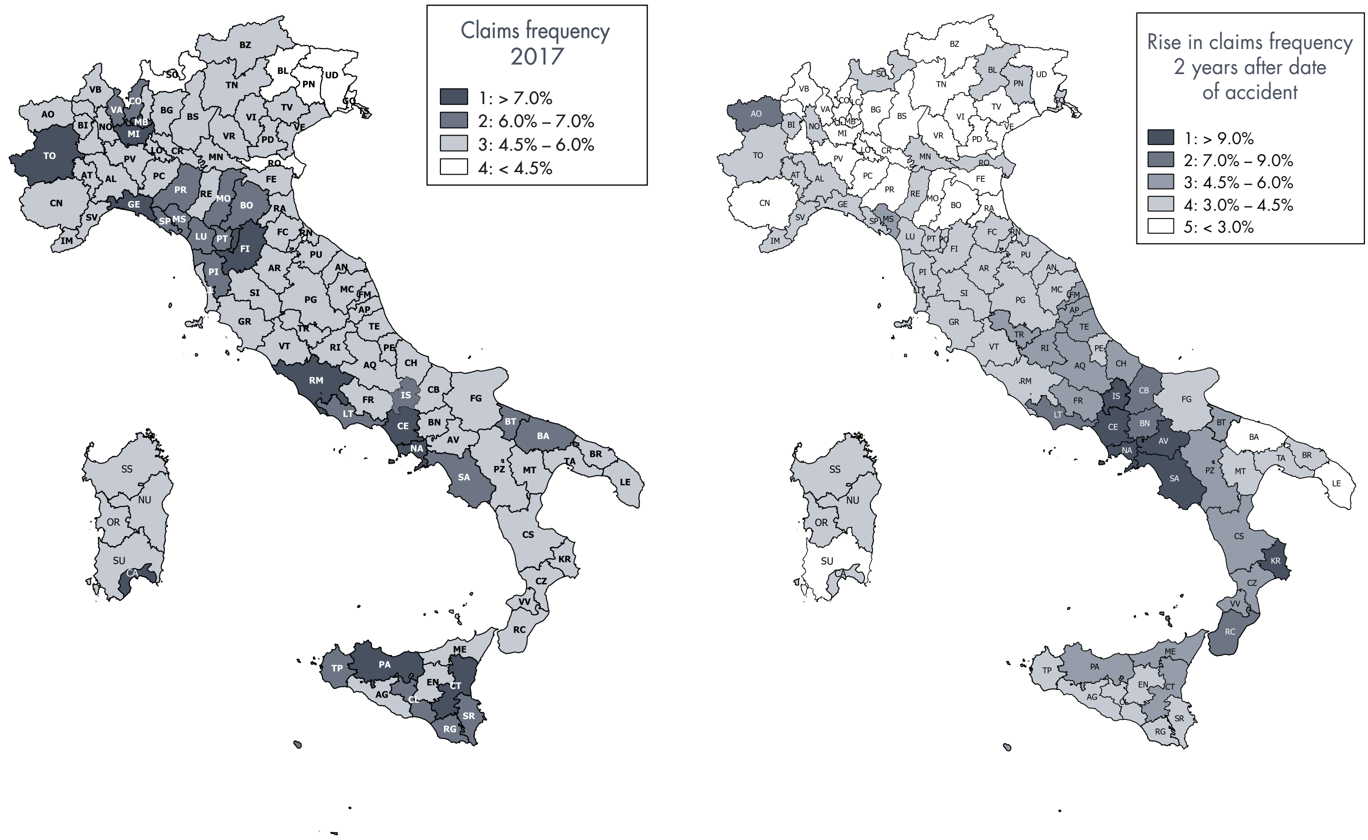
Average cost of claims (excluding IBNR, Table 1, Panel A). The average cost of claims shown in Panel A of Table 1 is derived by dividing the total cost of claims (paid and reserved) by their number. The indicator takes account both of payments made in final or partial settlement and of settlements that 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 2017 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 2017 was €4,319, down 1.3% from €4,374 in 2016. In detail, the average cost of claims involving only material damage was up slightly, by 0.4%, at €1,920, while that of claims involving personal injury (including the material damage component of mixed claims) declined by 0.6% from €16,132 to €16,035. The diminution that has occurred in the last two years may be explained, at least in part, by the sharp rise in the 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 came down slightly last year to an estimated 17.2%.

Number of claims and average cost (including IBNR, Table 1, Panel B). The total number of claims, including the IBNR estimate, came to 2,392,488 in 2017, a decrease of 0.2%, and claims frequency also eased, coming down 0.6 percent from 6.20% to 6.16%. 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 came down by 2.2% to €4,498.

The 0.2 percent decline in the number of claims (including late reports or IBNR claims) was thus accompanied by a 2.2 % diminution in their average cost, so the total cost of claims for the year (item 18 of Supervisory Form 17) fell by 2.4%.

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 2017 (11.00% and 9.00% respectively), with a frequency more than 50 percent higher than the national average, which as we have seen was 6.16%. Other provinces significantly

Figure 2 – Claims frequency by province, 2017, and late accident reports



above the national average were Genoa (8.70%), Rome (7.90%), Turin, Florence and Caserta (7.60%), and Milan and Cagliari (7.20%). Once again, the lowest claims frequencies were recorded in the North-Eastern provinces, with Rovigo recording the national low (4.00%). Claims frequency was especially low also in other provinces of the Veneto and Friuli Venezia Giulia regions. Lower-than-average levels were reported also in some provinces of the South, such as Cosenza, Potenza and Catanzaro (4.70%), and Reggio Calabria, Enna and Agrigento (4.80%).

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 4.7%. However, a closer inspection reveals that the percentage is well above 10% in some parts of the country, with extreme peaks of 18.5% in the province of Caserta and 23.9% 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 a quarter short of the actual figures, once all accidents have been reported to the insurance company. In most of the provinces of the Center and North and in Sardinia this indicator is at or well below the national average; in Lecco, Trieste, Monza and Milan, for instance, it is scarcely 2%.

TECHNICAL MARGIN FOR MOTOR LIABILITY INSURANCE, PROVINCE BY PROVINCE

We have used the data on claims frequency observed by ANIA quarterly and yearly to conduct a geographical analysis, for the year 2017, of the technical profit margin for policy subscription. That is, we compared, for the main Italian cities, the premium actually paid by policyholders with the insurance companies' expenses for claims, administration and distribution, net of the financial profit margin. The study covered the entire motor liability sector, i.e. considering all types of policy and vehicle. The table below reports the results for the provincial capitals and for Italy.

We began with claims frequency (column 1) for all insured vehicles, gross of estimated claims incurred but not reported in the year of the accident (IBNR). For some cities, IBNR weighs very heavily. In Naples, for instance, IBNR claims average 24% of those reported within the year of occurrence, in Reggio Calabria 9%, in Genoa, Florence and Rome 4%, but in Venice and Trieste less than 2%; the national average is 9%.

Column 2 shows the average cost of claims incurred in 2017, including both IBNR claims and the direct costs of claims settlement, plus such residual items as net amounts recovered and to be recovered and the balance on portfolio movements. The latter were apportioned among the provinces according to the weights of claims costs.

Multiplying claims frequency by average cost we get the "pure premium", the theoretical average cost insurers must sustain for policy coverage (column 3), to which we add administration and distribution costs. These latter costs, which amount to 21.2% of premiums collected, are apportioned among the provinces like the residual items, but according to the pure premium weights.

Column 4 gives the premiums actually paid by policyholders in 2017 for the entire motor liability sector, estimated on the basis both of ANIA's statistics and of the IVASS survey of effective motor liability prices (*Indagine sui prezzi effettivi della r.c. auto*, IPER), net of taxes and parafiscal charges. Account was taken of the variation in taxes between provinces: while they amount to 9% of the premium in Aosta and Trento, in most other cities they now come to 16%.

Comparing columns 3 and 4, we can calculate the estimated technical margin on policy subscription (column 5). Overall, in 2017 this margin was barely positive at 1.2% of premium payments (not counting financial income), marginally up from 0.7% in 2016 but far below the figures for 2015 (5.7%) and especially 2014 (14.5%). However, in some provinces the technical margin is negative, offset by the positive margins in others. The city with the worst performance in 2017 was Campobasso (–23.2% of premium payments, compared with just –1.5% in 2016), followed by Ancona (–21.4%, down further from –19.9%), and Palermo (-14%, from -8.7%). Large cities such as Rome, Naples and Turin also showed negative margins, averaging around –10% in 2017, compared with –8% in 2016. The cities with positive margins were Trento (+15.4%), L'Aquila (+6.9%), and Reggio Calabria (+2.2%).

Provincial analysis of the technical margin for motor liability - 2017 - All type of vehicle – *(Euro)*

REGIONAL CAPITAL CITIES	Claims frequency incl. IBNR	Average claims cost incl. IBNR and other residual items	Pure premium incl. IBNR and other residual items, including distribution and administration	Average premium paid net of taxes and parafiscal charges	Expected technical margin
	(1)	(2)	(3)	(4)	(5) = (4) / (3) - 1
ANCONA	5.7%	6,084	421	330	-21.4%
AOSTA	5.5%	3,327	221	254	15.1%
BARI	6.0%	5,070	371	351	-5.3%
BOLOGNA	6.2%	5,080	382	364	-4.8%
CAGLIARI	7.2%	3,637	319	332	4.1%
CAMPOBASSO	5.3%	4,945	319	245	-23.2%
FLORENCE	7.6%	4,366	400	408	2.0%
GENOA	8.7%	3,612	381	365	-4.2%
L'AQUILA	5.8%	3,864	272	290	6.9%
MILAN	7.2%	3,859	337	318	-5.7%
NAPLES	11.0%	4,116	551	496	-10.0%
PALERMO	7.0%	4,559	389	335	-14.0%
PERUGIA	5.8%	4,062	285	294	3.2%
POTENZA	4.7%	5,246	298	261	-12.4%
REGGIO-CALABRIA	4.8%	6,823	400	408	2.2%
ROME	7.9%	4,482	428	384	-10.4%
TURIN	7.6%	4,035	372	334	-10.3%
TRENTO	4.8%	4,092	238	275	15.4%
TRIESTE	4.7%	5,136	293	292	-0.5%
VENICE	4.8%	6,408	375	324	-13.6%
TOTAL ITALY	6.2%	4,498	336	340	1.2%

Memo: 2016: ***0.7%***
2015: ***5.7%***
2014: ***14.5%***

COMPENSATION FOR PERSONAL INJURY

The total damages paid (for both property damage and personal injury) for claims occurring in 2017 came to €10.8 billion ([1]). Of this, 63.9% (**€6.9 billion**) was in relation to **personal injury** (including the property-damage component of mixed claims).

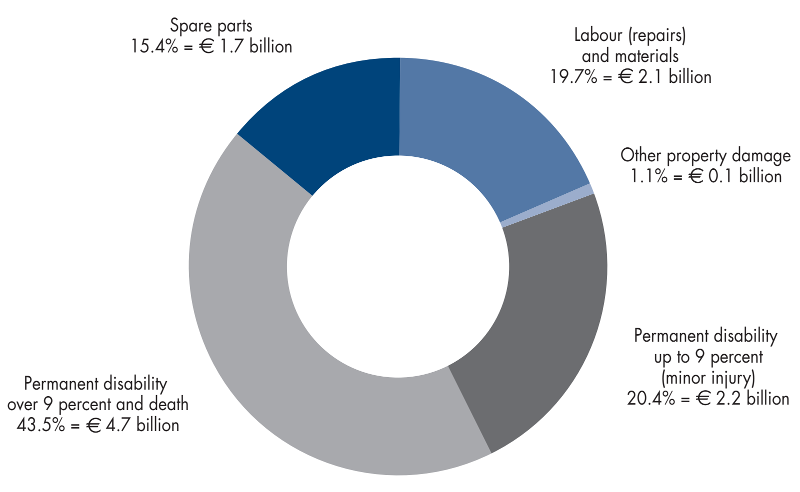
As regards personal injury compensation specifically, two facts stand out for 2017 (Figure 1):

– compensation for mild injury involving permanent disability of 1 to 9 percent amounted to €2.2 billion (20.4% of the total claims cost);
– serious injuries involving more than 9 percent permanent disability or death generated outlays of €4.7 billion (43.5% of total claims cost).

([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) of accidents occurring in 2017. The total cost of claims for the year, including excess or shortfall of reserves against claims from previous years, was €10.1 billion.

Figure 1
Distribution of total cost of liability compensation, 2017

Compensation for property damage (€3.9 billion, 36.1% of total claims cost)
Compensation for personal injury (€6.9 billion, 63.9% of total claims cost). Includes the property component of mixed claims



The percentage of all motor liability claims involving personal injury was 17.2% last year, slightly less than in 2016 (Table 1). After peaking in 2010 at 22.7%, this share had registered a first, modest downturn in 2011 and more significant declines in subsequent years, most notably 2013, although the rate of decrease has moderated to just 0.6% last year. The main factor in the improvement was the reduction in the number of minor injury claims, especially those involving less than 7 percent disability, as is explained below in greater detail.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total claims frequency	7.77%	7.36%	6.53%	5.87%	5.65%	5.48%	5.55%	5.65%	5.63%
% claims with only property damage	*78.2%*	*77.3%*	*77.6%*	*79.9%*	*81.0%*	*81.5%*	*82.3%*	*82.7%*	*83.0%*
Frequency of claims with only property damage	6.07%	5.70%	5.07%	4.69%	4.57%	4.47%	4.57%	4.67%	4.67%
% claims involving personal injury	*21.8%*	*22.7%*	*22.4%*	*20.1%*	*19.0%*	*18.5%*	*17.7%*	*17.3%*	*17.2%*
Frequency of claims involving personal injury	1.70%	1.67%	1.46%	1.18%	1.07%	1.01%	0.98%	0.98%	0.96%
Frequency of claims with up to 9 percent permanent disability	1.627%	1.602%	1.401%	1.121%	1.016%	0.963%	0.932%	0.927%	0.909%
of which:									
1% permanent disability	0.708%	0.689%	0.617%	0.506%	0.477%	0.428%	0.414%	0.410%	0.407%
2% permanent disability	0.563%	0.552%	0.469%	0.294%	0.243%	0.233%	0.222%	0.207%	0.205%
3% permanent disability	0.186%	0.190%	0.163%	0.137%	0.128%	0.116%	0.114%	0.121%	0.116%
4% permanent disability	0.077%	0.078%	0.069%	0.071%	0.065%	0.071%	0.065%	0.070%	0.066%
5% permanent disability	0.042%	0.040%	0.036%	0.043%	0.042%	0.041%	0.046%	0.049%	0.043%
6% permanent disability	0.021%	0.021%	0.019%	0.027%	0.025%	0.028%	0.027%	0.030%	0.028%
7% permanent disability	0.014%	0.013%	0.012%	0.019%	0.017%	0.019%	0.018%	0.019%	0.018%
8% permanent disability	0.010%	0.010%	0.010%	0.014%	0.012%	0.015%	0.016%	0.013%	0.015%
9% permanent disability	0.007%	0.007%	0.007%	0.010%	0.007%	0.011%	0.009%	0.008%	0.010%
Frequency of claims with over 9 percent permanent disability	0.070%	0.067%	0.062%	0.059%	0.057%	0.052%	0.051%	0.051%	0.051%

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

To analyze the trends of the different components of personal injury claims, we have examined their evolution over time, with an assessment of the impact on the overall price requirements of the motor liability sector.

Minor injury – permanent disability of 1-9 percent. The effect of Law 27/2012 (the "liberalization" decree) appears now to have been fully incorporated. The law introduced provisions against speculative claims for very mild injuries, principally "whiplash" injuries, changing the eligibility requirements for compensation. The sharpest reductions in mild injuries (calculated as claims for permanent injury of 1 to 9 percent as a percentage of total risks insured), in fact, came on the heels of the law's enactment. In 2012 and 2013 this indicator fell by 27 percent, from 1.401% in 2011 to 1.016% in 2013; over the same period, property damage claims fell by 10 percent. The decline continued over the next three years, albeit at a decreasing pace (by 5.3 percent in to 0.963%, 3.2 percent in 2015 to 0.932%, and by 0.5 percent in 2016 to 0.909%). Last year it declined again, faster than in 2016 but in line with the overall decline in claims frequency, which turned back down in 2017.

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 (Table 2).

Death and permanent disability of more than 9 percent. No comparable diminution was observed for more serious injuries (resulting in death or permanent disability of more than 9 percent), which are not subject to the new rules of Law 27/2012. From 2009 through 2016, claims frequency for these injuries diminished significantly (by 28 percent), but only at the same rate as overall claims (which were down 27 percent), and in any case much less sharply than claims for mild injuries (which decreased by 43 percent).

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total average claim cost	3,903	4,057	4,345	4,495	4,564	4,532	4,467	4,374	4,319
% of claims with only property damage	*34.5%*	*32.0%*	*31.7%*	*33.3%*	*33.2%*	*34.1%*	*35.1%*	*36.2%*	*36.1%*
Average cost of claims with only property damage	1,725	1,716	1,803	1,899	1,883	1,894	1,908	1,912	1,920
% incidence of personal injury claims (value)	*65.5%*	*68.0%*	*68.3%*	*66.7%*	*66.8%*	*65.92%*	*64.94%*	*63.81%*	*63.86%*
Average cost of claims with personal injury	11,694	12,052	13,155	14,804	15,986	16,150	16,389	16,132	16,035
of which:									
Average cost of claims with personal injury up to 9 pct. permanent disability	6,037	6,022	6,135	5,951	5,756	5,668	5,508	5,605	5,397
Average cost of claims with personal injury over 9 pct. permanent disability	155,487	166,750	179,891	191,379	198,045	210,061	216,797	209,325	207,110

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

In 2017, the frequency of the claims for serious injury was unchanged at 0.051%, as in 2015 and 2016.

Turning to the cost of these more serious injury claims of more than 9 percent disability (including damages for fatalities), the average claim cost rose constantly through 2015: from €155,000 in 2009 to over €215,000 in 2015 (Table 2). It then turned down modestly in 2016 and slid further in 2017, coming in at just over €207,000.

The geography of personal injury claims. The percentage of claims involving personal injury reached record highs in some Italian provinces in 2016, over 30%. Figure 2 and Table 3 show that in 2016 (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 17.3%; the highest provincial proportions are found in Puglia (31.8% in Brindisi, 31.4% in Foggia, 31.3% in Taranto, 30.5% in Barletta-Andria-Trani, 29.3% in Bari and 28.4% in Lecce), Calabria (33.5% in Crotone, 27.0% in Catanzaro, 26.9% in Reggio Calabria), and parts of Campania (28.1% in Salerno, 26.2% in Avellino).

Figure 2
Proportion of claims involving personal injury, by province, 2016

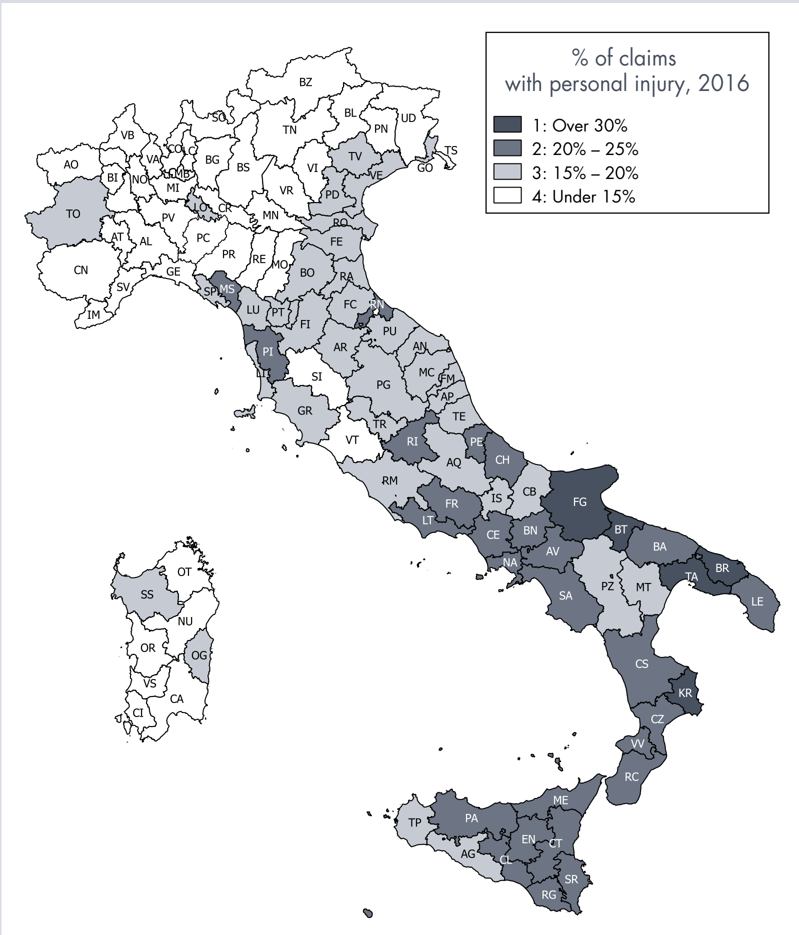


Table 3 – Incidence of claims with personal injury, by province, 2014-2016 (°) *(percent)*

Province	2016	2015	2014	Change 2016/2015
(1)	(2)	(3)	(4)	(5)
CROTONE	33.5%	34.7%	33.0%	-3.4%
BRINDISI	31.8%	31.8%	32.4%	0.0%
FOGGIA	31.4%	31.8%	31.4%	-1.3%
TARANTO	31.3%	33.7%	34.7%	-6.9%
BARLETTA-ANDRIA-TRANI	30.5%	30.0%	29.4%	1.9%
MESSINA	29.4%	28.3%	28.0%	3.9%
BARI	29.3%	30.4%	28.9%	-3.7%
LECCE	28.4%	29.4%	30.8%	-3.6%
SALERNO	28.1%	27.9%	27.6%	0.8%
CATANZARO	27.0%	27.5%	28.9%	-1.9%
REGGIO CALABRIA	26.9%	28.3%	27.6%	-4.8%
VIBO VALENTIA	26.6%	31.6%	30.7%	-15.7%
CATANIA	26.3%	26.7%	26.3%	-1.6%
AVELLINO	26.2%	26.8%	27.4%	-2.5%
LATINA	25.2%	26.5%	28.7%	-4.9%
BENEVENTO	24.7%	25.7%	21.9%	-3.9%
COSENZA	23.9%	23.3%	25.7%	2.5%
CASERTA	23.6%	23.7%	22.4%	-0.4%
MASSA-CARRARA	23.0%	23.9%	23.7%	-3.5%
CALTANISSETTA	22.2%	22.8%	23.5%	-2.3%
ENNA	22.2%	22.7%	22.4%	-2.2%
CHIETI	21.6%	22.5%	23.8%	-3.8%
FROSINONE	21.5%	22.1%	23.2%	-2.7%
SIRACUSA	21.5%	21.3%	21.5%	0.8%
NAPLES	21.5%	23.4%	19.2%	-8.3%
PESCARA	21.3%	23.9%	25.5%	-11.0%
PALERMO	21.0%	21.3%	21.8%	-1.7%
RIETI	20.8%	20.9%	19.2%	-0.3%
RAGUSA	20.7%	20.4%	21.2%	1.5%
PISA	20.3%	20.4%	20.9%	-0.6%
RIMINI	20.2%	22.5%	23.7%	-10.3%
ANCONA	19.9%	22.1%	23.0%	-9.7%
LUCCA	19.8%	20.7%	21.0%	-4.1%
TERAMO	19.5%	20.4%	22.5%	-4.5%
MACERATA	19.4%	20.7%	21.0%	-6.1%
AGRIGENTO	19.4%	20.4%	21.1%	-4.9%
VENICE	19.3%	19.8%	20.8%	-2.4%
PESARO-URBINO	19.1%	19.9%	20.5%	-4.0%
TRAPANI	19.0%	19.2%	20.9%	-0.9%
FERMO	19.0%	20.6%	21.3%	-7.9%
MATERA	19.0%	20.7%	21.0%	-8.3%
SASSARI	19.0%	19.3%	20.6%	-1.8%
ROME	19.0%	18.8%	17.9%	0.9%
ASCOLI PICENO	18.8%	18.9%	20.0%	-0.6%
PISTOIA	18.7%	18.3%	20.1%	2.1%
ISERNIA	18.6%	18.9%	16.9%	-1.6%
LA SPEZIA	17.9%	17.9%	19.4%	-0.1%
CAMPOBASSO	17.3%	17.0%	18.1%	1.7%
TERNI	17.3%	18.1%	19.5%	-4.8%
POTENZA	17.1%	17.8%	19.5%	-3.4%
RAVENNA	17.1%	17.7%	18.9%	-3.4%
FERRARA	17.1%	17.4%	15.5%	-1.9%
L'AQUILA	16.9%	15.9%	18.4%	6.6%
PADUA	16.8%	17.4%	17.1%	-3.5%
BOLOGNA	16.6%	16.7%	18.2%	-0.5%
PERUGIA	16.3%	17.4%	17.2%	-6.3%

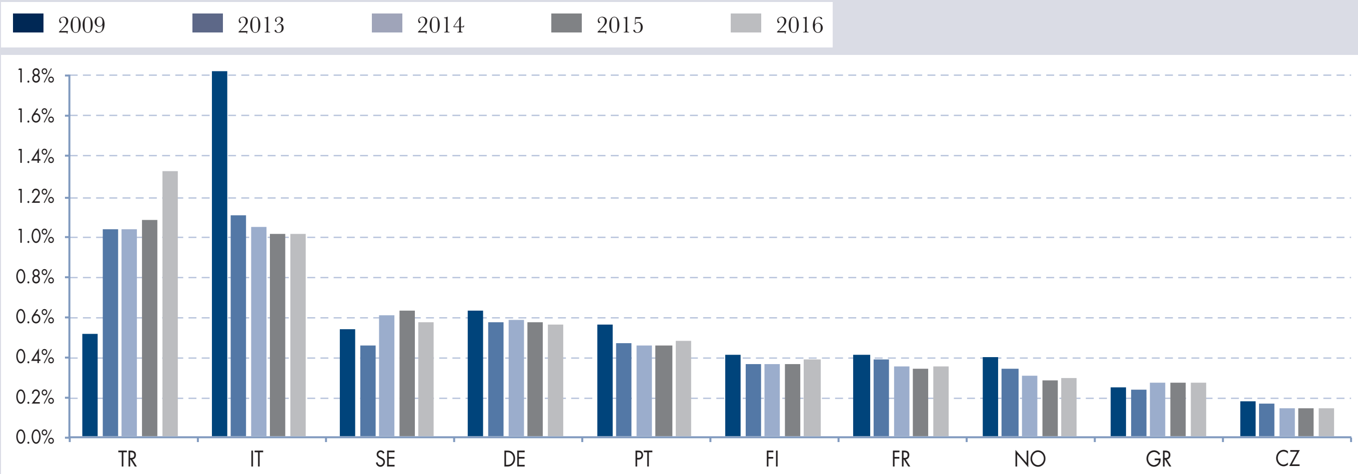
Province	2016	2015	2014	Change 2016/2015
(1)	(2)	(3)	(4)	(5)
LIVORNO	16.2%	16.4%	16.8%	-1.6%
ROVIGO	16.1%	16.9%	17.8%	-4.5%
FORLÌ-CESENA	16.1%	16.3%	17.7%	-1.2%
AREZZO	16.1%	16.9%	17.3%	-4.8%
TREVISO	15.9%	17.0%	16.9%	-6.5%
TURIN	15.8%	16.1%	15.5%	-2.0%
OGLIASTRA	15.7%	16.7%	14.2%	-5.7%
PRATO	15.6%	16.2%	15.7%	-3.8%
GORIZIA	15.6%	15.7%	16.4%	-0.5%
FLORENCE	15.2%	15.5%	15.5%	-1.9%
GROSSETO	15.0%	14.8%	14.2%	1.7%
LODI	15.0%	16.5%	16.5%	-9.2%
REGGIO EMILIA	14.9%	15.2%	15.4%	-2.0%
VERONA	14.5%	14.8%	15.8%	-1.9%
VARESE	14.5%	14.2%	16.1%	1.5%
MONZA-BRIANZA	14.2%	14.4%	15.3%	-1.6%
CREMONA	14.1%	14.6%	15.3%	-3.5%
PAVIA	14.0%	14.3%	15.7%	-1.9%
OLBIA-TEMPIO	13.9%	13.8%	14.1%	1.0%
VICENZA	13.8%	14.2%	14.4%	-2.6%
PIACENZA	13.8%	14.5%	15.6%	-5.1%
IMPERIA	13.8%	13.8%	15.2%	-0.5%
MILAN	13.7%	14.1%	14.7%	-2.3%
CAGLIARI	13.7%	13.5%	14.2%	1.0%
TRIESTE	13.6%	15.8%	15.4%	-13.7%
MODENA	13.6%	13.9%	15.2%	-2.1%
VITERBO	13.5%	12.9%	13.8%	4.7%
SIENA	13.4%	14.1%	14.0%	-4.8%
PARMA	13.4%	14.3%	15.2%	-6.5%
MANTUA	13.3%	13.1%	14.1%	1.8%
NOVARA	13.3%	13.1%	13.0%	1.2%
BERGAMO	13.2%	13.1%	13.7%	0.6%
SAVONA	13.0%	14.1%	14.0%	-8.3%
GENOA	13.0%	13.2%	12.9%	-2.0%
PORDENONE	12.9%	13.2%	13.8%	-2.2%
ORISTANO	12.7%	12.5%	13.1%	1.6%
COMO	12.7%	13.3%	13.8%	-4.5%
LECCO	12.7%	12.3%	13.4%	3.1%
UDINE	12.5%	13.0%	13.5%	-4.0%
CARBONIA-IGLESIAS	12.0%	13.3%	14.4%	-9.4%
SONDRIO	11.8%	11.5%	12.1%	3.0%
MEDIO CAMPIDANO	11.8%	13.6%	15.0%	-13.3%
VERCELLI	11.7%	12.1%	12.7%	-3.3%
CUNEO	11.4%	11.3%	12.1%	0.4%
ALESSANDRIA	11.4%	11.7%	12.5%	-2.9%
BRESCIA	11.3%	12.0%	12.3%	-5.6%
BELLUNO	10.9%	11.6%	10.3%	-6.3%
VERBANIA	10.8%	10.7%	11.3%	1.2%
NUORO	10.6%	11.4%	11.1%	-6.7%
ASTI	10.3%	11.2%	11.6%	-8.2%
AOSTA	10.2%	10.5%	10.8%	-3.2%
TRENTO	9.7%	10.1%	10.6%	-3.8%
BIELLA	9.3%	9.4%	10.4%	-1.2%
BOLZANO	9.2%	8.9%	9.9%	3.1%
TOTAL	17.8%	18.1%	18.2%	-1.7%

(°) The provincial incidence of personal injury claims is drawn from ANIA's annual statistics; this accounts for the slight difference in the total for 2016 (17.8%) from the IVASS data (17.3%), which lack the provincial breakdown

By European standards, as Insurance Europe's "European Motor Insurance Markets" report shows, despite the decline in the share of personal injury claims from 22% in 2009 to 17.6% in 2016, Italy continues to display one of the highest frequencies of bodily injury in Europe in proportion to the number of policyholders. Indeed, excluding Turkey it is the highest of all (Figure 3).

This frequency diminished in Italy, in line with the overall reduction in claims, from 1.8% in 2009 to just under 1% in 2016, but in the other countries it was much lower at under 0.6%, maintaining the substantial gap between Italy and the rest of Europe.

Figure 3 – Claims frequency involving bodily injury in Europe



Source: Insurance Europe

MOTOR INSURANCE FRAUD

Fraud statistics

Using IVASS's definitive data for 2016 and preliminary data for 2017, we can produce a breakdown by province and type of damage claimed of the percentage incidence of claims likely to involve the risk of fraud, those subjected to further investigation (specifying the number of cases in which no payment is made), and those in which the insurer has lodged a civil or criminal complaint. The data come from the compulsory antifraud reports that all enterprises authorized to do motor liability insurance business in Italy must submit yearly to IVASS (IVASS Regulation 44/2012).

Let us recall that for our purposes fraud risk is defined as the risk of economic loss due to customer misconduct vis-à-vis the insurer, often taking the form of simple falsehoods, either during the contractual procedure or in the claims handling process. In particular, claims exposed to the risk of fraud are those having at least one of the parameters of significance laid down by IVASS in measure 2827/2010 as requirements for consulting the "claims database" created for the express purpose of preventing and combating motor liability fraud.

Comparative analysis of the data for the last four years (2014-2017) can now gauge the extent of this type of crime and its impact on the insurance industry (Table 1).

Table 1 – Motor liability insurance fraud in by region, 2016-2017

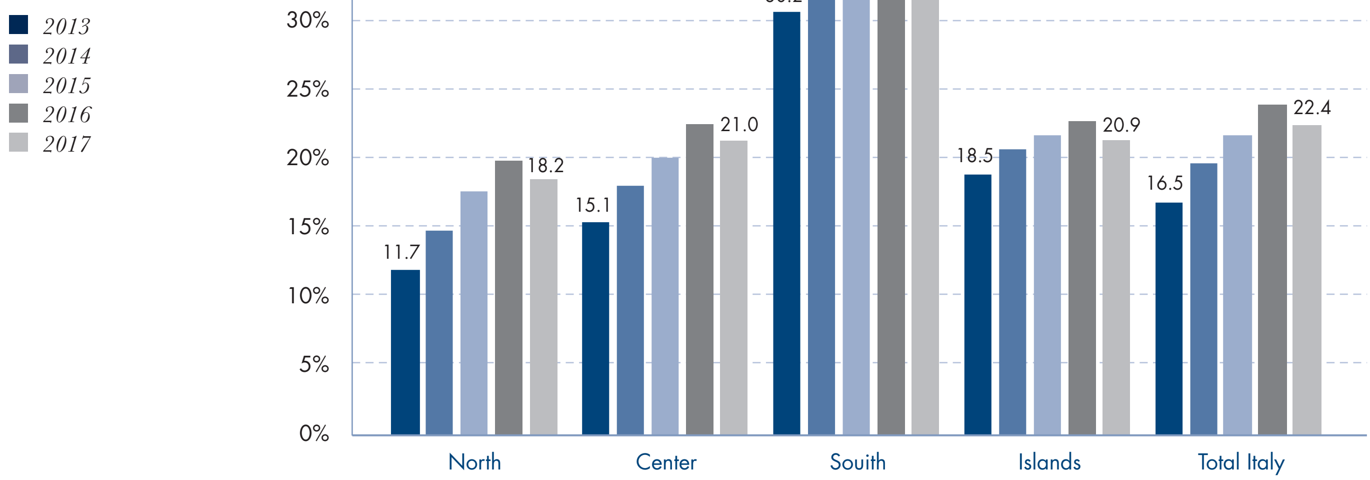
REGION	Number of claims (*)		Claims at fraud risk/total claims		Claims with further inquiry/total claims		of which: claims subject of further inquiry and concluded without settlement		of which: claims against which civil or penal complaints were lodged	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
EMILIA ROMAGNA	207,466	209,145	21.5%	19.4%	10.9%	10.1%	13.8%	12.4%	0.8%	1.0%
FRIULI-VENEZIA GIULIA	45,003	43,774	19.9%	17.2%	9.6%	7.7%	13.1%	14.1%	0.8%	0.8%
LIGURIA	93,575	91,472	24.1%	22.3%	10.4%	11.6%	14.0%	11.3%	1.5%	0.9%
LOMBARDY	490,221	486,514	18.4%	17.2%	7.5%	8.5%	14.9%	12.9%	1.1%	1.1%
PIEDMONT	224,846	224,929	20.7%	20.9%	8.6%	9.2%	14.3%	13.1%	1.5%	1.5%
TRENTINO ALTO ADIGE	66,502	62,000	17.2%	18.6%	5.0%	5.1%	10.2%	10.1%	0.5%	0.9%
VALLE D'AOSTA	7,759	6,751	15.9%	14.9%	7.0%	6.3%	24.8%	31.0%	1.8%	0.5%
VENETO	200,872	199,886	17.4%	14.7%	8.0%	7.2%	12.7%	12.6%	0.6%	0.6%
NORTH	1,336,244	1,324,471	19.5%	18.2%	8.4%	8.7%	14.0%	12.7%	1.0%	1.1%
LAZIO	370,805	383,343	22.7%	22.5%	11.4%	12.4%	16.7%	15.7%	1.1%	1.2%
MARCHE	67,600	68,652	21.4%	18.4%	11.1%	9.4%	11.5%	12.5%	0.6%	0.8%
TUSCANY	201,459	202,066	21.9%	19.5%	11.0%	10.1%	12.4%	12.6%	1.1%	1.1%
UMBRIA	42,268	42,303	20.6%	18.4%	10.1%	9.9%	13.2%	12.8%	0.9%	1.9%
CENTER	682,132	696,364	22.2%	21.0%	11.1%	11.3%	14.7%	14.4%	1.1%	1.2%
ABRUZZO	54,598	55,330	24.1%	21.6%	11.4%	11.0%	14.1%	15.4%	1.3%	1.0%
BASILICATA	18,994	18,862	24.9%	25.1%	13.4%	15.3%	16.2%	14.2%	2.1%	1.0%
CALABRIA	58,413	58,661	29.0%	28.0%	17.7%	18.0%	13.7%	15.8%	3.5%	2.6%
CAMPANIA	265,598	275,886	43.4%	44.0%	26.8%	29.5%	17.0%	15.8%	2.1%	1.8%
MOLISE	13,305	12,454	31.7%	33.2%	19.4%	22.5%	17.1%	15.1%	2.4%	2.5%
PUGLIA	138,479	138,792	28.8%	26.3%	17.6%	16.7%	13.5%	14.2%	0.8%	1.0%
SOUTH	549,387	559,985	35.4%	34.8%	21.4%	22.6%	15.8%	15.4%	1.9%	1.7%
SARDINIA	67,667	66,870	18.6%	16.6%	8.8%	8.3%	15.9%	14.8%	0.7%	0.9%
SICILY	208,953	210,193	23.7%	22.2%	13.2%	13.7%	15.2%	14.1%	0.9%	1.1%
ISLANDS	276,620	277,063	22.4%	20.9%	12.1%	12.4%	15.3%	14.2%	0.9%	1.0%
TOTAL ITALY	2,844,383	2,857,883	23.5%	22.4%	11.9%	12.4%	14.9%	14.2%	1.3%	1.3%
MEMO:	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
TOTAL ITALY	2,683,727	2,790,251	19.3%	21.4%	9.9%	10.7%	14.4%	14.5%	1.8%	2.1%

(*) Excludes claims involving liability of the vehicle and includes all class 10 claims (land vehicles) for which the insurer, during the year, has received an accident report or claim for damages pursuant to Articles 148 and 149 of Legislative Decree 209/2005. Claims are those reported by all insurance companies operating in the motor liability sector in Italy (Italian, EU, and non-EU)

The relevant claims are those lodged with insurance companies in 2017, which numbered 2,857,883, up 0.5% from 2,844,383 in 2016, 2.4% more than the nearly 2.8 million submitted in 2014, and 6.5% more than the 2.7 million registered in 2014. The largest rises in 2017 came in the Center (where they rose by 2.1%) and in the South (+1.9%), in particular in Lazio (+3.4%) and in Campania (+3.9%), while the North recorded a decrease of 0.9%.

To calculate composite indicators for comparison of the different geographical areas, the number of claims that insurers have identified as likely to be fraudulent and the number of those subjected to further investigation are given as percentages of total claims lodged during the year. The average share of claims exposed to risk of fraud in 2017 was 22.4% nationwide, down slightly from 23.5% in 2016, following rises from 19.3% in 2014 and 21.4% in 2015 (Figure 1). Last year's decline could be related to the steady spread of IT instruments (such as black boxes) that limit the possibility of fraud.

Figure 1
% of total claims exposed to risk of fraud



The lowest rate of fraud risk in 2017 was again registered in the North at 18.2%, down from 19.5% the previous year. However, the share of claims subjected to further investigation rose from 8.4% to 8.7%. Ultimately, 12.7% of the claims subjected to further investigation were closed without settlement (14.0% in 2016); in 1.1% of the cases, compared with 1.0% in 2016, the insurer lodged a civil or criminal complaint. The northern regions with the highest incidence of suspect claims were Liguria, at 22.3%, and Piedmont, at 20.9%. Those with the lowest incidence were Valle d'Aosta and Veneto, both below 15%. As to further investigations concluded without compensation – that is, cases of successful anti-fraud action by insurers – the highest rates were in Friuli-Venezia Giulia, Piedmont and Lombardy (13% or 14% of the cases investigated, ignoring Valle d'Aosta given its great volatility owing to the very small number of claims in that tiny region). The overall figure for the North was 12.7%. The region showing the highest percentage of civil and penal complaints was Piedmont at 1.5%, as in 2016, compared with the northern Italian average of 1.1%.

Fraud risk in central Italy was found in 21.0% of all claims in 2017, down from 22.2%. Insurers conducted more than the ordinary inquiry in respect of 11.3% of total claims (up from 11.1%), terminating 14.4% of these without compensation (down slightly from 14.7% in 2016) but lodging a civil or penal complaint in just 1.2% (1.1% in 2016). The highest incidence of suspect cases was in the Lazio region (22.5%), which was also the region where settlement without compensation was most common (15.7% of the suspect cases). The central regions with the lowest exposure to fraud risk were Umbria and Marche (18.4%), down from 20.6% and 21.4% respectively the previous year.

Once again, in 2017 the highest incidence of fraud risk was found in the South: nearly 35% of all claims were suspect, down very marginally from 35.4% in 2016. The claims subjected to additional inquiry came to 22.6% of the total, compared with 21.4% in 2016. Of these, 15.4% were terminated without compensation. Insurance companies lodged civil or penal complaints in respect of 1.7% of the claims (2% in 2016). The regions with higher-than-average percentages were Calabria, at 2.6%, Molise (2.5%) and Campania (1.8%); in all the other southern regions the complaint rate was around 1.0%.

In the island regions the incidence of claims with risk of fraud was lower than the national average at 20.9%. Sicily was near the average at 22.2%), while Sardinia was below it at 16.6%. In both regions the percentage of criminal or civil complaints rose (to about 1%) in 2017.

The extremely low number of civil and criminal complaints of alleged insurance fraud depends on a series of specific penal procedural problems:

- this offense is ordinarily punishable only via complaint by a party (entailing high legal costs, the risk of a counter-complaint, and little chance of actually recovering the amounts lost);
- the law precludes punishment for insignificant offenses; and in most cases of insurance fraud this clause applies, given the ordinarily small amount involved and the fact that the guilty parties are not generally habitual offenders;
- many public prosecutors' offices, clogged with the numerous complaints lodged by insurers, are unable to conclude the trials before the statute of limitations expires; 70% of first hearings in these cases come at least 3 years after they are requested. On the average, 4 years elapse between the initiation of penal action and the lower-court verdict; in this context, all the offender has to do is lodge an appeal to reach the statute of limitations, namely 6 years.

Let us recall, further, the problems inherent in civil justice, where a good portion of motor liability disputes are handled by justices of the peace, for whom the law does not establish a conflict of interest between this function and that of lawyer involved in traffic accident litigation.

ANIA's statistics for motor liability insurance claims in 2016 permit derivation of the provincial distribution of contested claims subject to litigation ([1]) and their incidence on the claims reserves at the end of the year. It is also possible to estimate that the average cost of these litigated claims is four times higher than the average set aside for other claims.

Figure 2
Proportion of claims litigated

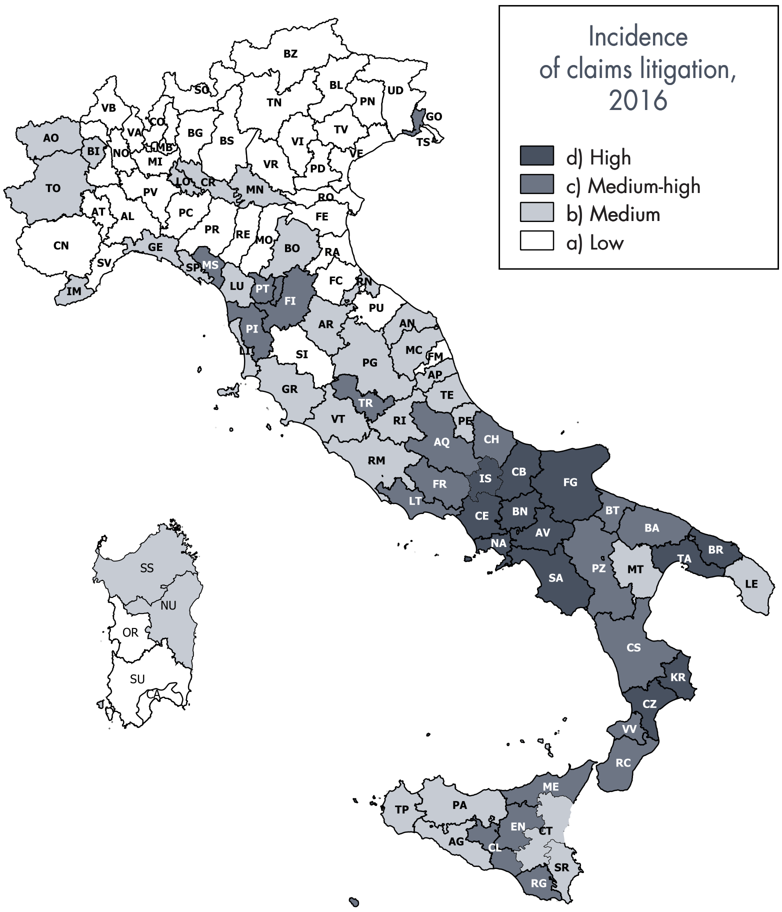


Figure 2 shows that the incidence of litigation of total claims is around average in the Center of Italy (a level that can be considered "normal"); it is lower in the North but higher in the South, with some provinces in the regions of Campania,

([1]) Litigated claims are defined as those subject to the specific annual observation by IVASS (Regulation 36 of 28 February 2017).

Molise, Puglia and Calabria showing incidences of 5 or even 10 times the national average.

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 possibly 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, 23.9% of claims are filed more than a year after the date of the accident, compared with a national average of "late" claims of 4.7%;
- the deadline of 5 days for ascertaining vehicle damage is too short, and in certain regions in particular is it virtually impossible to estimate the damage before repair work begins;
- the deadline 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 insured party.

Accordingly, ANIA has analyzed the vehicle damage claims for accidents that occurred and were settled in 2017 (and, for comparison, in 2016) 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 33 days, slightly more than in 2016), an average of 7 days elapses between the date of the accident and the date when it is reported to the insurer (Table 2).

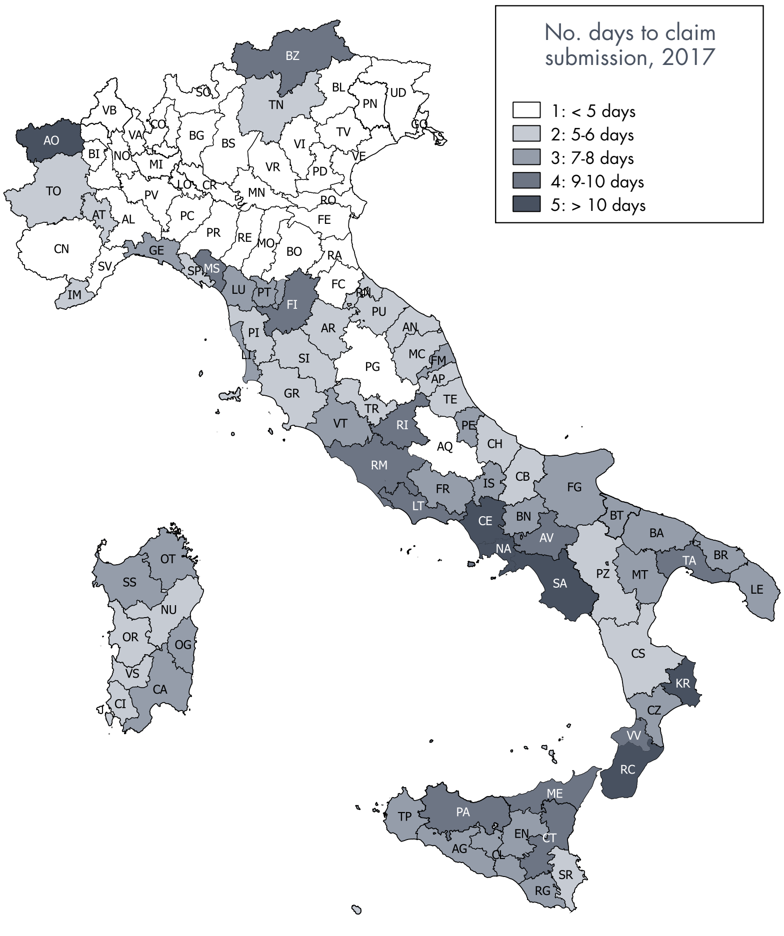
A regional breakdown, however, shows that the time period involved is lower than average in almost all the regions of the North, while in the Center and especially the South it is regularly higher, and more than twice the average in Campania.

In that region in 2017 an average of 14 days elapsed between accident and report (15 in 2016). And on the provincial level (Figure 3) we find an average of 18 days in Naples, 13 days in Caserta, 12 in Crotone, Salerno and Reggio Calabria, and 11 in Messina and Palermo. In the northern provinces of Gorizia, Venice, Lodi, Rovigo and Cremona the indicator is lower (below 4.7 days). Turning to the provinces of the major cities, we find values of 5.4 days in Bologna and Milan, 6.9 in Turin, and over 10 in Rome, Palermo and Florence.

Table 2
Time to accident report and time to settlement of CID claims (vehicle damage) signed by both parties (no. of days)

Area	Region	No. days between accident and report 2017	No. days between accident and report 2016	No. days between claim and settlement 2017	No. days between claim and settlement 2016
	Liguria	7.2	7.3	32.1	33.2
	Lombardy	5.3	5.3	33.1	31.3
	Piedmont	6.2	6.1	33.4	32.9
	Valle d'Aosta	13.4	11.2	36.4	33.9
North-West	*Total*	*5.8*	*5.7*	*33.1*	*31.9*
	Emilia Romagna	5.3	5.3	31.5	29.8
	Friuli-Venezia Giulia	5.0	4.8	31.7	30.0
	Trentino-Alto Adige	8.1	7.9	36.3	31.5
	Veneto	4.9	4.9	32.2	31.1
North-East	*Total*	*5.4*	*5.4*	*32.4*	*30.6*
	Lazio	9.7	9.8	38.5	37.3
	Marche	6.6	6.7	30.6	29.8
	Tuscany	8.3	8.4	37.6	36.5
	Umbria	5.8	5.7	28.1	26.8
Center	*Total*	*8.5*	*8.5*	*36.3*	*35.2*
	Abruzzo	6.7	6.6	27.7	26.9
	Basilicata	6.8	6.7	23.7	22.9
	Calabria	9.0	9.0	28.6	28.1
	Campania	13.9	14.6	34.7	35.2
	Molise	6.7	6.5	23.5	22.3
	Puglia	7.9	7.8	29.2	29.0
South	*Total*	*9.4*	*9.5*	*29.7*	*29.5*
	Sardinia	6.9	6.8	26.6	25.8
	Sicily	8.9	9.0	29.8	30.0
Islands	*Total*	*8.2*	*8.2*	*28.6*	*28.3*
	TOTAL ITALY	7.0	7.0	32.9	31.8

Figure 3
Lateness of CID claims (vehicle damage, signed by both parties)



Motor insurance fraud is also 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 estimated the total number of uninsured vehicles on the roads on the basis of the open 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 is enormous: it covers all registered vehicles, divided into 4-wheeled vehicles (cars etc.) and 2-wheeled vehicles (motorcycles and scooters) and broken down by region, province and municipality. The data used for the present analysis refer to vehicles registered as at 31 October 2017; the data items used for the study comprise, in particular:

- data 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 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 judicial depositories, which are numerous (over 300 in Italy's 110 provinces) but 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 "0 mileage" cars);
e) vehicles with temporary insurance (mostly motorcycles and scooters that purchase 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 are therefore in a condition to circulate) 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 "gap" 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 the PRA and 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 very high, in fact, and if this were not taken properly into consideration we would find a very high incidence of non-insurance.

On these assumptions, we estimate that in 2017 **2.8 million vehicles, 6.3% of the total in circulation**, lacked insurance coverage. This was down slightly from the estimate of 2.9 million and 6.7% in 2016. As in previous years, there is very significant geographical variation: against the national average of 6.3%, the proportion is over 10% in the South, about average in the Center, and much lower (4.1%) in the North (Table 3).

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 below the national rate of 6.3% of evasion of the requirement. In the Center, it is above all the Lazio region and the city of Rome whose rates are high, at 9.0% and 9.8% 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 Basilicata, Molise and Sardinia up to over twice the nationwide rate in Calabria and above all Campania; in Naples in particular, one of every six vehicles on the roads is uninsured, and in Reggio Calabria one in seven (Table 4).

Table 3 – Estimate of uninsured vehicles, 2017, by geographical area
(millions)

Area	Total insured vehicles	Estimate uninsured vehicles	*Memo: Est. uninsured vehicles*					Total vehicles on road	Percentage uninsured vehicles	*Memo: Percentage uninsured vehicles*				
	2017	2017	*2016*	*2015*	*2014*	*2013*	*2012*	2017	2017	*2016*	*2015*	*2014*	*2013*	*2012*
North	20.5	0.9	*0.9*	*1.1*	*1.4*	*1.2*	*1.0*	21.4	4.1%	*4.3%*	*5.2%*	*6.2%*	*5.3%*	*4.6%*
Center	9.5	0.6	*0.7*	*0.9*	*0.9*	*0.8*	*0.7*	10.1	6.3%	*6.6%*	*8.2%*	*8.5%*	*8.1%*	*6.4%*
South	11.1	1.2	*1.3*	*1.4*	*1.6*	*1.5*	*1.5*	12.3	10.1%	*10.7%*	*11.1%*	*13.5%*	*13.1%*	*11.9%*
TOTAL ITALY	41.1	2.8	*2.9*	*3.4*	*3.9*	*3.5*	*3.1*	43.9	6.3%	*6.7%*	*7.6%*	*8.7%*	*8.0%*	*7.0%*

Source: ANIA, based on Highway Police data

Table 4
Estimate of uninsured vehicles, 2017 – Regions and regional capitals
(millions)

Region/Capital	Total insured vehicles	Est. uninsured vehicles	Total vehicles on road	% uninsured vehicles
	2017	2017	2017	2017
Bologna	0.704	0.029	0.733	4.0%
Total EMILIA-ROMAGNA	3.411	0.139	3.551	3.9%
Trieste	0.164	0.005	0.169	3.1%
Total FRIULI-VENEZIA GIULIA	0.969	0.031	0.999	3.1%
Genoa	0.571	0.023	0.594	3.9%
Total LIGURIA	1.147	0.047	1.195	4.0%
Milan	1.901	0.135	2.036	6.6%
Total LOMBARDIA	6.953	0.344	7.297	4.7%
Turin	1.537	0.090	1.626	5.5%
Total PIEDMONT	3.304	0.163	3.467	4.7%
Trento	0.449	0.012	0.461	2.6%
Total TRENTINO ALTO ADIGE	0.882	0.023	0.904	2.5%
Aosta	0.115	0.008	0.123	6.5%
Total VALLE D'AOSTA	0.115	0.008	0.123	6.5%
Venice	0.546	0.017	0.563	3.0%
Total VENETO	3.768	0.122	3.890	3.1%
TOTAL NORTH ITALY	*20.549*	*0.876*	*21.425*	*4.1%*
Pescara	0.214	0.014	0.229	6.2%
Total ABRUZZO	0.969	0.061	1.029	5.9%
Rome	2.568	0.280	2.848	9.8%
Total LAZIO	3.730	0.368	4.098	9.0%
Ancona	0.355	0.013	0.368	3.7%
Total MARCHE	1.207	0.050	1.257	4.0%
Florence	0.716	0.031	0.747	4.2%
Total TUSCANY	2.845	0.126	2.971	4.2%
Perugia	0.560	0.027	0.587	4.6%
Total UMBRIA	0.746	0.036	0.782	4.5%
TOTAL CENTER ITALY	*9.496*	*0.640*	*10.137*	*6.3%*
Potenza	0.266	0.018	0.284	6.4%
Total BASILICATA	0.398	0.028	0.426	6.6%
Reggio Calabria	0.280	0.045	0.325	13.7%
Total CALABRIA	1.105	0.139	1.244	11.2%
Naples	1.243	0.255	1.497	17.0%
Total CAMPANIA	2.837	0.434	3.271	13.3%
Campobasso	0.169	0.011	0.181	6.2%
Total MOLISE	0.243	0.017	0.260	6.4%
Bari	0.740	0.055	0.794	6.9%
Total PUGLIA	2.371	0.193	2.564	7.5%
Cagliari	0.345	0.025	0.370	6.8%
Total SARDINIA	1.057	0.081	1.138	7.1%
Palermo	0.698	0.079	0.778	10.2%
Total SICILY	3.040	0.347	3.387	10.2%
TOTAL SOUTH ITALY	*11.052*	*1.238*	*12.290*	*10.1%*
TOTAL ITALY	41.097	2.755	43.852	6.3%

Source: ANIA, based on Highway Police data

ACTION AGAINST INSURANCE FRAUD AND EVASION

Operation "Mercurio Insurance"

Evasion of compulsory motor liability insurance coverage has a pathological impact on the system. Apart from lack of revenue for insurers, it causes extra outlays by the Road Accident

Victims Guarantee Fund, which has to cover the damages of accidents provoked by uninsured vehicles.

In the first week of July 2017, thanks to cooperation between ANIA and the Ministry of the Interior, Italy's first operation of on-road checks to intercept uninsured vehicles was launched. This operation was made possible by the so-called "dragnet" system of automated controls on license plates in circulation, observed by remote video cameras on over 200 police patrol cars, with on-line links to the Motor Vehicles Bureau's database of insurance coverage. The vehicles on which a non-insurance alert was out were stopped by road patrols for immediate charging with the infraction detected. Checks were also made on the license plates of parked vehicles.

ANIA decided to strengthen cooperation with law enforcement bodies in the fight against fraud through back office support to the road patrol cars, to clear up doubts in some cases of coverage not on file in the database or to ascertain the possible falsification of the insurance document produced by the vehicle's owner (the insurance certificate).

Operation "Mercurio Insurance" involved 4,000 police patrols, of which 250 were equipped with the "Mercurio" automated control system, and over 8,000 police officers engaged daily in 103 provinces. A total of 408,883 vehicles were checked; 2,419 were seized for lack of insurance coverage.

These controls also highlighted the impact of insurance evasion on public safety. In fact, 40 percent of the persons fined already had police records. Twelve arrests were ordered (including one ex-convict for mafia membership) and 45 criminal complaints without arrest were made out.

The provinces with the largest number of cases of insurance evasion were Naples (239 vehicles seized), Rome (120), Palermo (98), Cosenza (64), Reggio Calabria (62), Agrigento (58), Foggia (55), and Catania (49). The most "virtuous" (no seizures resulting from automatic controls) were Sondrio, Treviso, Vicenza, Asti, Cuneo, Rimini, Ravenna, Siena, Pesaro and Macerata.

Cooperation with public prosecutors

On 1 June 2017 ANIA signed a protocol with the Public Prosecutor of Naples for cooperation on insurance fraud. The initiative, joined by 19 insurance groups accounting for over 90 percent of the Italian motor liability portfolio, is designed to identify and discipline operational best practices for streamlining and speeding up communications and information exchange concerning episodes of penal relevance and accordingly making action against insurance fraud faster and more effective.

To this end the Public Prosecutor of Naples has formed a pool of assistant prosecutors specializing in insurance fraud to interface with insurers. Investigations and controls effected by the judiciary police will also be assigned to a special section of that force operating permanently on insurance fraud. The Public Prosecutor of Naples will also interface with IVASS for access to the latter's claim database and with ANIA to promote action for more effective implementation of the protocol.

On 20 December 2017 the initiative was extended to the Public Prosecutor's offices in the provinces of Catania, Caltagirone, Ragusa and Siracusa. Talks are currently under way with other prosecutor's offices interested in cooperation with the insurance industry that can simplify investigations and foster convergence of the activities of the insurance companies involved.

ANIA has made available to prosecutors and police forces engaged in investigations into insurance fraud an "Antifraud Service" that serves as a collector of relevant information from insurers with reference to the provision of information on behalf of the law enforcement and judicial authorities. The Service offers a dedicated toll-free telephone call center for law enforcement bodies (800-615960), active Monday-Friday from 8:30 to 17:30, to provide insurance-related information of a general nature and readings on the insurance cover of specific vehicles.

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 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 between 1994 (the year insurance prices were liberalized) and 2017. The results for the last five years (2013-17) can be summarized as follows:

- the average premium contracted in 2013, and even more sharply in 2014 and 2015 (the downtrend actually began in the fourth quarter of 2012), continuing to decline in 2016 as well. The four years thus registered an overall drop of 22.1% (4.6% in 2013, 7.0% in 2014, 6.7% in 2015 and 5.9% in 2016);
- in 2017 there was a further drop, a bit less sharp than in the previous four years at 2.5%.

([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.

Table 1 – Motor liability insurance premiums, 1994-2017

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	13,202	159.5	-2.2	129.2	0.4	123.5	-2.5	317.4	1.4	159.9	1.2

(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 a modest rise of 0.4% in the number of insured vehicle/years in 2017 to 38.8 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%
(3) The percentage change in premiums in 2010 and in 2013 is calculated in uniform terms

It is worth noting that as a result of the significant decreases registered in the course of five years (a total reduction of nearly 25%), in 2017 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

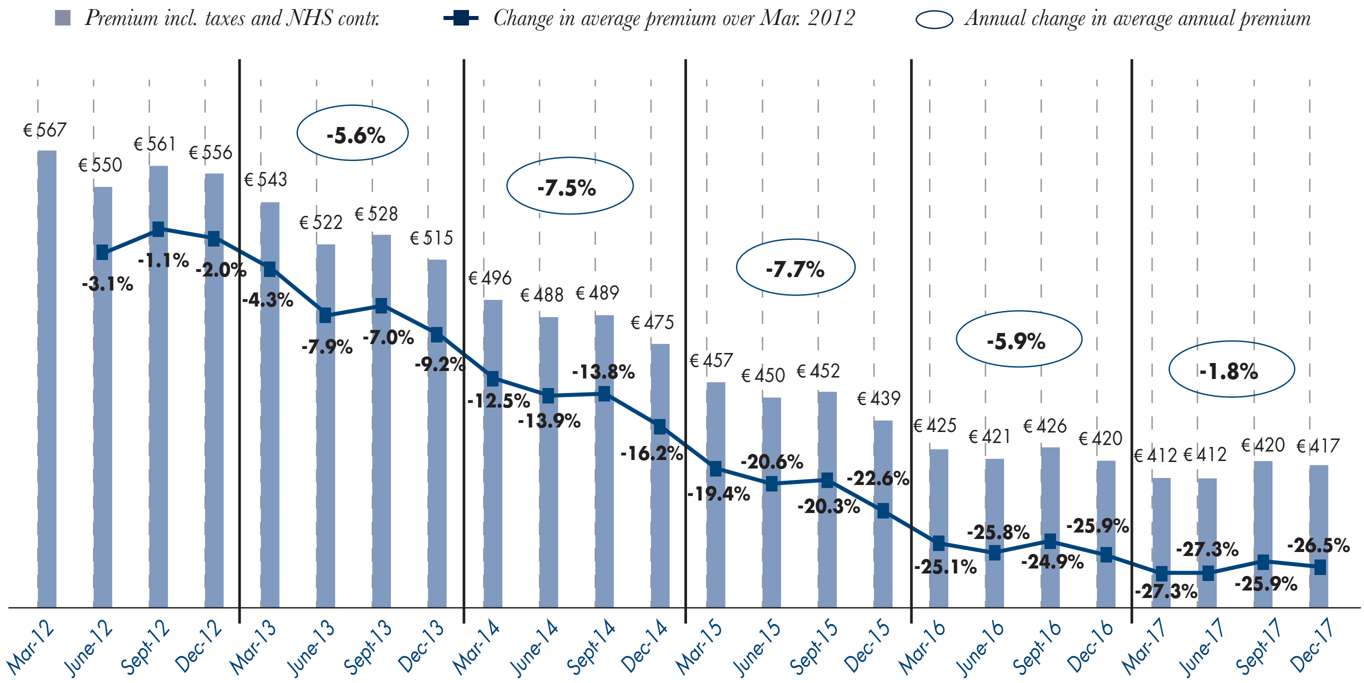
(2) IVASS began the statistical survey of actual motor liability insurance prices (Indagine sui Prezzi Effettivi R.C. Auto, IPER) in the fourth quarter of 2013. It gives quarterly data on the actual prices paid by policyholders (not list prices or tariffs) for a sample of 2 million annual policies on 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.

passenger cars only, confirms the extent of the five-year decline in prices as observed by ANIA.

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 price of passenger car insurance fell from €567 in March 2012 to €417 in December 2017, or by 26.5%, in line with the insurance price index shown in Table 1.

For 2017 alone, the IPER survey shows that the cost of passenger car insurance (obtained as the average for the four quarters) was 1.8% lower than in 2016, coming down from €423 to €415.

Figure 1 – Average price of passenger car insurance, 2012-2017



Sources: Dec. 2013-Dec. 2017, IVASS; other months, ANIA estimate based on IVASS data

The latest data available also to ANIA ([3]), for March 2018, indicate that the average price of motor liability insurance, net of taxes and NHS contributions, came down by a further **1.3%** to **€345** ([4]), or €92 less than the €437 recorded in March 2013 –

([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 amount on average to 26.2% of the pre-tax premium, the average post-tax cost for all vehicles in March 2018 came to €435. For private passenger cars alone, the figure was €440. This amount differs from that given by IVASS and is generally higher, in that the ANIA survey covers only policy renewals within companies' portfolios,

a fall of 21% in less than five years (Table 2). In detail, premiums on cars fell by 1.2% in the year to March 2018, while those on motorcycles and scooters turned back up, registering rises of 0.5% and 2.1% respectively.

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

Type of vehicle	Average premium (pre-tax) (euros)	% change over year-earlier month
March 2018 – All policies	345	-1.3
of which:		
Private passenger cars	349	-1.2
Private motorcyhcles	237	0.5
Private motor scooters	155	2.1

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 2017, namely Greece (-29.0%), Denmark (-7.7%) and Italy (-3.3%). In all the other countries, motor liability prices rose: modestly, by between 3% and 5%, in Norway, France, Belgium, Sweden and Luxembourg, and much more sharply in Ireland (37.7%), the United Kingdom (28.5%) and the Netherlands (26.1%).

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

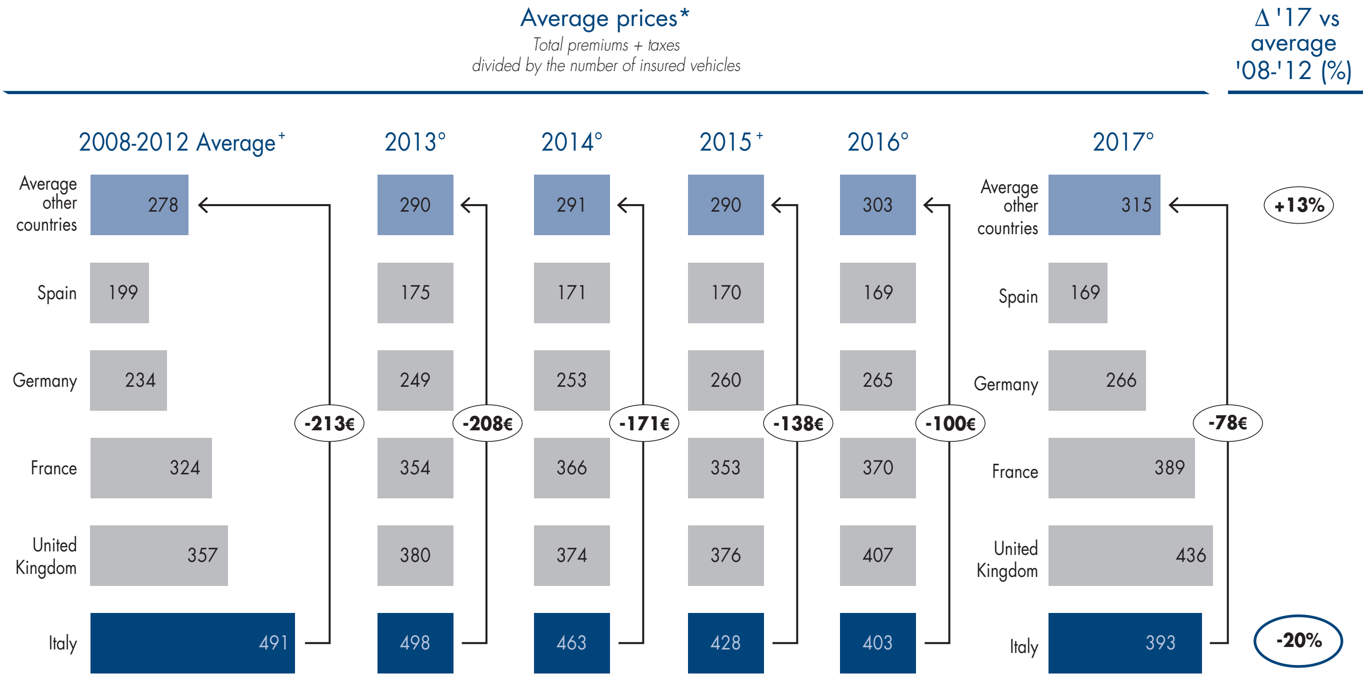
	AVERAGE FOR YEAR					TOTAL	12-MONTH CHANGE
	2013	2014	2015	2016	2017	2013-2017	May 2018-2017
Italy	-0.2%	-2.6%	-1.8%	-0.1%	1.4%	-3.3%	1.3%
Austria	2.5%	1.9%	1.7%	1.8%	2.0%	10.1%	2.0%
Belgium	1.2%	1.3%	0.5%	0.1%	-0.3%	2.9%	-1.0%
Denmark	-17.4%	12.3%	1.9%	-0.1%	-2.3%	-7.7%	1.3%
Finland	4.0%	3.9%	6.0%	2.7%	1.0%	18.8%	1.1%
France	-1.5%	-0.2%	1.7%	1.3%	1.4%	2.7%	2.7%
Germany	4.1%	1.7%	-1.6%	2.1%	0.3%	6.7%	-7.0%
Greece	-7.7%	-8.9%	-9.1%	-3.9%	-3.3%	-29.0%	-0.6%
Ireland	-7.5%	6.0%	19.6%	24.6%	-5.7%	37.7%	-7.7%
Luxembourg	0.8%	1.8%	0.1%	1.7%	0.0%	4.5%	0.8%
Norway	2.3%	1.1%	0.2%	-0.4%	-0.5%	2.6%	1.6%
Netherlands	12.1%	0.2%	3.4%	2.1%	6.2%	26.1%	6.3%
United Kingdom	-1.6%	2.1%	3.0%	11.9%	10.9%	28.5%	-2.5%
Spain	-0.3%	0.7%	1.8%	2.5%	2.6%	7.6%	1.5%
Sweden	0.4%	1.2%	1.9%	-0.1%	0.2%	3.7%	0.4%
EU 28	0.5%	0.5%	0.4%	2.7%	2.3%	6.6%	-1.0%

Source: Eurostat

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.

Accordingly, the gap between Italian prices and those in the other main countries narrowed once again. The Boston Consulting Group study conducted 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 2017 to €78 (Figure 2). And in fact premiums in the UK are now higher than in Italy, those in France on a par with ours.

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

The decline in premiums in Italy is the consequence of a series of factors:

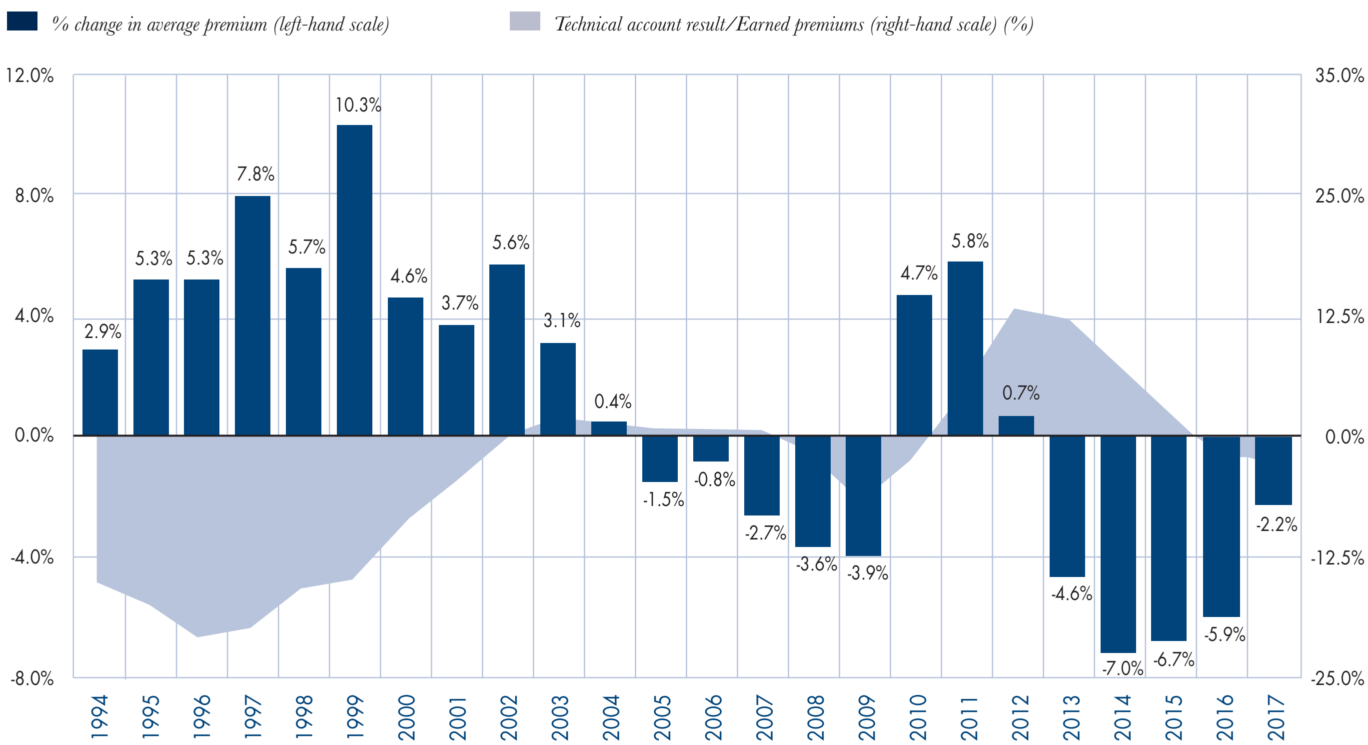
- the economic recession (which at least until 2015 curbed car use and thus reduced claim frequency);
- sharper competition between insurers, which has enabled consumers to switch to more economical coverage, as in the possibility of subscribing policies providing for mounting black boxes and offering, 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;

- the stiffening of standards for compensation for minor personal injury, which by decreasing insurers' cost component in connection with micro-injuries (permanent invalidity of under 3 percent) allowed substantial price cuts starting in 2013.

Policy premiums (or prices) are strictly correlated with insurers' profitability, as gauged by the combined ratio, i.e. 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 subscribed 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 (nearly 25% from 2013 through 2017).

Figure 3 – The insurance policy subscription cycle



The logic behind 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 prospective policyholders. 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.

DIRECT INDEMNITY

CALCULATION OF THE SINGLE COMPENSATION AMOUNTS FOR 2018

The rules for determining the average cost of claims (the single compensation amount for payments between insurance companies) remain unchanged for the 2018 financial year. The applicable legislation is Article 29 of Decree Law 1/2012, converted into Law 27 of 24 March 2012, and the implementing provisions in IVASS's Measure 18 of 5 August 2014.

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 2018, no deductible was deemed necessary).

The study to determine the single compensation amount was based on CONSAP's statistics, which refer to settlements of claims admitted to the clearing house between 1 February 2009 and 31 October 2017, 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 2017 for the macrosector of "motorcycles/scooters" both for damage to vehicles and property transported and for settlements for injury to drivers. For "vehicles other than motorcycles/scooters", the average cost of both types of damage was broadly unchanged.

Accordingly the reference values for 2018 were set on the basis of the average costs of definitive settlement of claims of all the claim generations available (2009-2017). The method adopted for calculating 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 2018) based on the inflation forecast of 1.7% set in the Italian government's 2017 Economic and Financial Document Update.

The base value for average cost of property damage is:

- €1,430 for "motorcycles/scooters"
- €1,605 for the broader class of "other vehicles".

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

- €4,826 for "motorcycles/scooters"
- €2,405 for the broader class of "other vehicles".

Determination of geographical adjustments

The CONSAP statistics on settlements of claims incurred from 1 January 2013 to 31 October 2017 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 the mean; 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).

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 provincial structure of Sardinia, combining the old data on the provinces of Medio-Campidano and Carbonia-Iglesia in the new province of Sud Sardegna (it was impossible to single out the data for the few municipalities of the former province of Cagliari that now form part of Sud Sardegna, but they can be considered negligible), and putting those of Olbia-Tempio (abolished) in Sassari, and those of Ogliastra (abolished) in Nuoro.

Table 1 – Determination of average cost of property damage claims by geographical "area"
(Euro)

	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 30/06/2018	1,430	1,430	1,430	1,605	1,605	1,605
Adjustment coefficient by area	*1.30*	*1.00*	*0.83*	*1.17*	*1.00*	*0.85*
Average cost of claims by macro-area	1,859	1,430	1,187	1,878	1,605	1,364

MEMO:

	2011	2012	2013	2014	2015	2016	2017	2018
Average cost of damage to vehicle and property transported (€) (*)	1,565	1,613	1,598	1,651	1,556	1,550	1,559	1,588
Change %	*3.0%*	*3.1%*	*-0.9%*	*3.3%*	*-5.8%*	*-0.4%*	*0.6%*	*1.9%*

(*) Average cost for all sectors

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 geographical "area"
(Euro)

	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	1,859	1,430	1,187	*99.05%*	1,878	1,605	1,364	*99.9%*
Average cost of personal injury to driver with permanent disability of less than 9%	4,826	4,826	4,826	*39.98%*	2,405	2,405	2,405	*8.7%*
Average cost of claims by macro-area	3,771	3,346	3,105		2,085	1,812	1,572	
SINGLE CARD-CID AMOUNT (*)	**3,770**	**3,345**	**3,104**		**2,082**	**1,810**	**1,570**	

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

THE NEW IT PLATFORM FOR DOCUMENT EXCHANGE

Italy's CARD Convention, under Article 13 of the Presidential Decree of 2006, allows insurers to set rules for determining organizational and economic relations for the management of direct indemnity. The Convention was substantially restructured last year to make the information processes in support of claims adjustment more efficient.

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. Under the new system, unlike the old one, the exchange of the accident-related documents needed to reconstruct liability and contest the occurrence of the event or the applicability of the direct indemnity procedure is on a timetable compatible with the legal deadline for the presentation of a settlement offer. This will help to prevent so-called "double settlement", i.e. payment by both insurers to their own policyholders deemed non-liable for the accident.

From 1 March 2017 to 28 February 2018, the CARD IT system received a total of 1,833,877 claims from insurers. Of these, 1,157,000 (63.1%) were presented with the amicable CAI form signed by both drivers. Of the claims presented in this way, just 2.3% resulted in a dispute between insurers, reconfirming that agreement between motorists on the dynamic of the accident is certainly the best way to prevent litigation and ensure rapid settlement of damage claims.

The remaining 36.9% of the reports (676,787 claims) were handled on the basis of unilateral requests for indemnity. Of these, 210,590 (31.1%) were handled by the new document exchange procedure, and in 143,259 cases, or 68.0% of the claims with document exchange, the liability for the accident was determined after viewing the evidence produced by the other insurer.

For 37,191 claims (5.5% of those handled via document exchange), liability was determined through the conciliation procedure laid down in the Convention.

In 10,955 cases (5.5% of all the unilateral claims), the determination of liability was on a presumed basis, owing to the lapsing of the deadline for producing documentary evidence under the Convention. Claims defined as "natural CARD" numbered 28,898.

THE SYSTEM OF INCENTIVES/PENALTIES

A true, overall assessment of insurance companies' performance with respect to the direct indemnity procedure requires consideration of a set of economic parameters:

1. the monthly balance of the Clearing House: the difference between the total single-amount payments to other insurers for the claims they handled and the payments received from them for claims handled on their account;

2. the difference between the real cost of the claims paid and the payments received: considering that the single amount is an average reference cost set a priori, it has to be determined whether each insurer has a positive or negative differential with respect to that value;
3. handling fees: reimbursement of the costs of settlement (15% of the single amount) to the company that handles a CARD claim on account of another insurer;
4. penalties under the Convention: fines levied by ANIA on CARD insurers for non-compliance with the rules of the Convention;
5. incentives/penalties: a corrective to the system of single-amount reimbursement, called for by the Antitrust Authority to make claims liquidation between CARD insurers more competitive.

The system of incentives/penalties mentioned in point 5 was introduced in 2014 (IVASS Measure 18 of 5 August 2014, followed by Measure 43 of 4 March 2016) as a corrective to the compensation model adopted for direct indemnity determined solely by the single settlement amount. The purpose was to provide a mechanism for measuring insurance companies' efficiency in claims settlement in order to foster competition among direct indemnity insurers so as to lower settlement costs through a system that rewards the more virtuous firms at the expense of the less efficient.

The system applies to indemnity for damage to property and personal injury to the driver of the insured vehicle of at most 9% permanent disability. It is based on a complex algorithm with three parameters of competitiveness:

1. a company's average claim cost compared with other companies;
2. a company's speed of settlement of claims in each generation (year) compared with other companies;
3. the cost trend, i.e. the company's average cost each year compared with the previous year.

In elaborating the parameters the distinction is made between two-wheeled and four-wheeled vehicles.

For parameter 1 (average claims cost) the calculation subdivides provinces into three homogeneous clusters. Parameters 1 and 2 are observed over three years, and in the course of the claim duration adjustment payments are made to rectify the results of the incentives/penalties of previous years.

The incentives/penalties are calculated annually by CONSAP (using software designed by ANIA) as a function of a set of parameters established by IVASS. The calculation of the incentives/penalties excludes companies whose premium income is below a threshold set yearly by IVASS. Very low and very high indemnity payments are also excluded from the calculation.

The Clearing House data for September 2017 were used to calculate the incentives/penalties for the 2016 accident year (year 0) and the adjustment payments for 2015 (year +1). This year parameter 3, the trend of the company's average claims cost, was applied for the first time.

IVASS monitors the effectiveness of this machinery attentively. In the future it could be further refined to make the calculation algorithms perform even better in attaining the legislative objectives of holding down claims costs and furthering anti-fraud action.

TECHNOLOGICAL INNOVATION IN MOTOR LIABILITY INSURANCE

IVASS MEASURES 71 AND 72/2018 ON "DYNAMIC" RISK CERTIFICATION AND UNIVERSAL CONVERSION MERIT CLASSES

On 16 April 2018 the insurance supervisor IVASS issued Measure 71/2018 on the dynamic risk certificate, amending IVASS Regulation 9/2015 and Measure 35/2015, together with Measure 72/2018 laying down standards for determining and rules for changing universal conversion merit classes, referred to in Article 3 of the Regulation.

The two measures were released following technical talks with ANIA and insurance company representatives, which IVASS had called for to enhance the anti-fraud effect of the risk certificates, which had been "digitized" by Regulation 9/2015, through the ATRC risk certificate database operated by ANIA under the supervision of IVASS. Insurers are required to report the "insurance history" of the vehicles covered to the database.

Measure 71 will permit better assessment of the claims history of the insured, because now in drawing up the risk certificate – and hence determining the policyholder's bonus/malus class – insurers will be able to learn of and factor in even accidents indemnified just before or even after the expiration of the policy (late claims). It will be possible to recoup the late claims data even when the policyholder changes insurer and/or vehicle.

IVASS's aim in this measure is to combat fraudulent and speculative conduct in the renewal of motor liability policies.

Recouping claims in this area is possible thanks to a new IT procedure for "dynamic" management, within the ATRC database, of all the information relevant to the risk certificate, obtaining the data on the late claim from the insurer that settled it and communicating it to the company that took over the vehicle so that it can be recorded in the risk certificate and possibly give rise to a downgrade of the motorist's merit class. This "dynamic certification" carries a new code, the Universal Risk Identification number (IUR), whereby claims or absence of claims by vehicle owners and other insured parties (e.g. lessees) can be tracked over time, even where in the meantime the owner has changed cars.

The second of these two measures also relates to improvement in the risk certification process. The certificate indicates the policyholder's merit class, removing any problems of interpretation created by the old system and introducing the possibility of maintaining the same class for some groups of policyholders not previously specified (for instance, drivers of vehicles owned by persons with disabilities, or persons inheriting vehicles).

The two measures were published in the *Gazzetta Ufficiale* (s.g. 100) on 2 May 2018.

Measure 71 went into effect on 3 May, the day after publication in the *Gazzetta*. In any event, insurers are required to comply with the new provisions according to the calendar set out below.

By 1 June 2018:

a) All motor liability policies, whether annual, temporary, or "fleet", must by identified by the IUR; otherwise, they cannot be recorded in ANIA's SITA database:
b) The risk certificates for contracts expiring on 1 August 2018 and afterward must carry the IUR code, otherwise they cannot be recorded in ANIA's ATRC database. And from that date, by the same procedures and by the same deadlines for delivery of the certificates (Regulation 9/2015, Article 7), the policyholder must be given specific information on the new provisions governing dynamic risk certification; this information must be supplied to policyholders together with the certificates produced in the 12 months after the entry into force of Measure 72.
c) For annual contracts, the new "dynamic" process becomes obligatory for recouping claims, for which the policyholder is liable, that are considered late – that is, settled after the bonus/malus observation period or after contract expiry, including when the insured party has changed insurance company. Insurers must transmit late claims with initial payment date subsequent to 31 May to the ATRC database via the new ATRD process. The IT system makes these claims data accessible to the insurance company itself or the successor company for entry into the table of previous claims for the end-year risk certification.

As of 1 January 2019:

d) The new dynamic risk certification becomes obligatory also for claims relating to temporary policies, data on which insurers shall transmit to the system, which will make them accessible to the first company stipulating an annual contract.
e) Finally, the progressive extension of the previous-claims observation period up to ten years becomes obligatory, adding a year annually up to the compulsory total of ten.

Measure 72 also went into effect on 3 May, the day after its publication in the *Gazzetta*. As previously, some derogations are provided for:

- Starting 1 June insurance companies must handle CU merit classes relating to new contracts with "deductible" or "fixed rate" pricing stipulated from that date on and risk certificates produced from then on but relating to contracts already in being and expiring by 1 August 2018.
- As of 1 January 2019, for annual policies succeeding one or more temporary policies, insurers must register also any previous claims relating to the temporary policies made accessible to the system and indicate them in the risk certificate with a view to assigning the CU merit class.

NATIONAL PROJECTS ON CARS AND TECHNOLOGY: TECHNICAL COMMITTEE ON "CONNECTED AND AUTOMATED DRIVING"; TRANSPORT MINISTRY DECREE OF 2 MARCH 2018 SMART ROADS AND AUTOMATIC VEHICLES

The World Road Association, known by the acronym AIPCR (Association Internationale Permanente des Congrès de la Route), is dedicated to improving highway engineering, road policy, and management of the highway network. Its statutory purpose is to foster advances in road management in every respect. It promotes the development of road networks and studies problems of road safety. It is the focal point for worldwide road technology interchange. This objective is pursued through dialogue and the diffusion of the results of studies in various countries and sectors on functioning and user safety, both as regards roads strictly speaking and as regards traffic circulation. The World Road Congress, held every four years, serves to examine and discuss the state of road technology and related problems in various countries around the world.

These were the themes of an international conference of Italian and foreign experts held on 12 February 2017 on connected, automated driving, entitled "Moving people and freight in the future"). The conference was divided into four working sessions:

- *smart roads*,
- *smart cars*,
- *smart safety*,
- *smart freight*.

On smart cars, thanks to the work of Alberto Broggi (University of Parma and Ambarella) for years now Italy has been engaged productively in planning self-driving cars.

On smart roads, the European Commission has adopted a common strategy for Cooperative-Intelligent Transport Systems that will permit, starting in 2019, vehicles on European roads to dialogue with one another and with the infrastructure. The presumption is that digital linkage will improve traffic efficiency and driving comfort, with benefits for cooperative, interconnected, automated driving, which is also expected to create jobs. The importance of the human factor in driving, which counts for 90% in causing accidents, will be reduced, and automated driving can be expected to decrease accidents.

In any case, the European strategy calls for a new EU regulatory framework on interconnected, automated, intelligent driving. To contribute to this regulation, both in Europe and in Italy, the Ministry for Infrastructure and Transport has formed a Technical Committee on Connected and Automated Driving, with the participation of the AIPCR and other stakeholders, including ANIA. The Committee's essential purpose is to foster the introduction of interconnected vehicles and automated driving in Italy, above all through effective regulation that takes account of legal aspects and safety conditions in the context of the circulation of automated vehicles on the roads.

The Committee has accordingly formed four working groups:

- *Automated vehicles*
- *Smart roads*
- *Cybersecurity and*
- *Regulation, headed by the Ministry's Directorate for Information and Statistical Systems and with the participation, among others, of ANIA.*

The four groups met for the first time in mid-February 2018 to discuss the state of the art, in Italy, of regulatory activity on these issues. For the present, the norms to develop and apply are those of the Decree of the Ministry of Infrastructure and Transport on smart roads and automated vehicles, dated 2 March 2018, which has provisions for converting highways and motorways into smart roads and testing dedicated "corridors" for automated vehicles. This "Smart Road" decree, which implements the 2018 budget law (Law 205/2017, Article 1.72), is intended to improve the Italian highway network by progressive digitization to permit dialogue with interconnected vehicles of the new generation; specific objectives are to permit the most advanced automated driving assistance, streamline traffic and reduce accidents.

The decree accordingly envisages the actions required for high-bit-rate data transmission (e.g. installation of optical fiber), coverage of the entire road network by services of routing to the data transfer network, the presence of Wi-Fi hotspots for linking drivers' devices at least in all motorway service and parking areas, a system of traffic and weather observation and immediate forecasting and an estimate/forecast for successive periods. Using the data collected, the system will offer content for advanced travel information services, allowing for possible re-routing.

For an initial period (up to 2025), these interventions will bear on the roads forming part of the Trans-European Network – Transport (TEN-T), and in any case on Italy's motorway network.

Subsequently (by 2030), additional services will be activated: for rerouting in cases of accidents and serious traffic blockage; actions will be taken on average speeds to avoid or resolve congestion; suggested routes and lanes; dynamic management of road access; and management of parking and refueling areas (for recharging of electrical vehicles in particular).

These services will be progressively extended to the entire Integrated National Transport System network (SNIT), as redesigned by the annex to the 2017 Economic and Financial Document entitled "Connettere l'Italia".

In the case of new road infrastructures or the upgrading or technological, structural or functional innovation of existing ones, all these actions must be immediately realized. The costs will be defrayed by the highway concessionary or operator.

The decree also provides that the Ministry may authorize on-road testing of automated vehicles. Specifically, the decree identifies the parties that may request such authorization (the makers of vehicles with automated driving technology, universities, public and private research institutes), the inquiry to be conducted, the authorization procedure and the controls to which the testing is subject. The purpose is to make sure that testing takes place in conditions of safety. For these tests, motor liability insurance with a higher minimum compensation ceiling than that laid down in current law is required.

FURTHER INQUIRY INTO ISSUES RELATING TO THE FUTURE DEVELOPMENT OF MOBILITY AND MOTOR INSURANCE

ANIA's Auto and CARD Department and Legal Department have looked further into the issues involved in smart roads, interconnected and automated vehicles and the new forms of connected and shared mobility. This work has served to highlight the great potential of mobility innovation for insurers but at the same time to point up problems and difficulties.

In the discussion paper entitled "Smart roads, connected and automated vehicles – Mobility and insurance in the near future: Motor liability or product liability?" ANIA depicts the state of advancement, in Italy and internationally, of smart roads and connected and automated vehicles. The paper offers thinking points on the structural, technical, ethical and road safety issues as well as regulatory questions relating to liability and insurance of the new forms of mobility. It inquires into the potential impact of innovation and new technology in reducing the cost of motor liability insurance and improving road safety through the development of connected motor insurance.

Our association's Auto and CARD Department and Sustainability and Self-Regulatory Code Unit have produced a review paper entitled "New forms of sustainable, shared mobility: Short overview of sharing mobility", with national and international comparison of the new forms of mobility, with its greater sensitivity to environmental issues and new modes of vehicle use. It examines the legal context of these new forms. The aim is to delineate and support regulatory measures that can encourage the development of insurance products for the new forms of mobility and connected road safety.

LEGISLATIVE, REGULATORY AND JUDICIAL DEVELOPMENTS

THE LAW FOR MARKETS AND COMPETITION: THE STATE OF IMPLEMENTATION OF MOTOR LIABILITY INSURANCE PROVISIONS

Italy's annual antitrust law, Law 124/2017, was enacted on 14 August 2017 and published in the *Gazzetta Ufficiale* on 29 August, going into effect on that date. This annual legislation comprises a number of major provisions on insurance, mostly involving the motor liability sector. The main provisions bearing on compulsory motor liability insurance are set forth below.

The damage tables for serious bodily injury

The law confirms the provision laid down in Article 138 of the Insurance Code for a single national table, applicable in all regions, for determining the damage due to serious bodily injury (permanent disability of 10 to 100 percent). Article 138, meanwhile, has been reformulated as regards a number of significant points.

First of all, the Competition Law refers to "standards for the assessment of non-pecuniary damages deemed consistent with juridical precedents of legitimacy" – which until now has been interpreted as a reference to the tables drawn up by the Court of Milan.

Apart from recalling jurisprudence on this matter, the law introduces some important new general principles and various detailed criteria, specifying that "the total amount of the compensation recognized pursuant to this article shall be exhaustive of the compensation for damage resulting from bodily injury" due to a traffic accident. This wording would appear to have adopted the orientation of the plenary Court of Cassation (in the "San Marino" ruling of 2008) on the all-inclusive nature of the concept of non-pecuniary damage due to bodily injury, which cannot be sub-divided into independent conceptual categories of damage save for merely descriptive purposes, when the court has to reconstruct and personalize in the specific case the impact of the damage to the physical and psychological health and dynamic capacity for relationships of the damaged party. This removes the possibility of any additional types of damage left to the judge's own evaluation.

As to the component of non-pecuniary damage in connection with moral damages from loss of physical integrity, the article adds:

a) the portion corresponding to bodily harm shall be increased by that of moral damages, progressively by percentage points;
b) the judge may further increase the compensation by up to 30 percent with an equitable, motivated appreciation of the condition of the damaged party in the case of harm to specific aspects of dynamic interpersonal relations that is documented and objectively ascertained.

A Presidential Decree implementing the new Article 138 of the Insurance Code was to be adopted by the term of 120 days from 29 August 2017 (date of the law's entry into force), via resolution of the Council of Ministers on a proposal from the Minister for Economic Development, in concert with the Minister of Health, the Minister of Labor and Social Policy, and the Minister of Justice. The table will apply to compensation for accidents occurring after the entry into effect of the Decree.

The provisions on the tables move towards equal treatment of damaged parties nationwide and towards certainty of the standards for compensation, although reference to the Milan tables, if confirmed, would prevent any action to lower the current levels of compensation, notoriously among the highest in Europe.

Incidentally, on 14 March 2018 the Milan Civil Justice Observatory published the **new tables of the Court of Milan on non-pecuniary damage** (2018 edition), updated with an increase reflecting the inflation rate. The tables also introduce new damage components, such as:

– Terminal damage
– Intermittent damage (delayed death)
– Damage from libel via press or other mass media
– Criteria to orient settlement pursuant to Article 96.3 of the Code of Civil Procedure.

With regard to motor liability insurance, the first two types of damage are of special relevance. The Observatory defines them as follows.

"Terminal damage" relates to the damage items that can be indemnified *iure proprio* to the victim of fatal injuries on condition that the death is not immediate but comes an appreciable time after the injury. In determining the tables for terminal damage, the Observatory considers various standards and principles:

- unity and inclusiveness: the definition of "all-inclusiveness" is such as to comprise every aspect of biological damage and pain and suffering in connection with the perception of one's imminent death, in order to avoid the danger of duplication of damage items;
- limited duration: the definition precludes the protraction of the damage for an extended period of time; that is, for this type of damage some interval must elapse between injury and death, relatively short but nevertheless appreciable, and such as to allow demonstration of psychological pain and suffering;
- consciousness: the victim's awareness of the approaching end of life is a requirement for compensation for pain and suffering;
- decreasing intensity and tabular method: the fundamental standard is the rule that damage tends to decrease with the passage of time. The Observatory accordingly proposes a tabular method that assigns to each day of suffering, up to a maximum of 100, a progressively – and conventionally – decreasing value that, on the 100^{th} day, comes to coincide with the evaluation of ordinary temporary biological damage.

Pre-death damages, or intermittent biological damage, is the damage suffered in the interval between the tort resulting in the permanent damage to the party's health and his death. For this damage item the Observatory indicates assessment according to age groups, tied to a given period of time and taking as parameter the average compensation paid each year corresponding to the percentage points of permanent disability, according to the monetary values laid down in the Milan Court tables.

For both these new types of damage – terminal and intermittent (pre-death suffering) – the proposal is for the personalization, up to a ceiling of 50%, in relation to the individual circumstances and the pain and suffering marking each single case.

Mild, permanent bodily injury: The principle of objective, instrumental ascertainment. Court of Cassation Sentence 1272/2018

The table values for biological damage due to mild ("micro-permanent") bodily injury have been in effect for some time now at national level, pursuant to Article 139 of the Insurance Code. The Competition Law harmonized the various provisions of the rules on biological damage from mild and severe bodily injury (Article 138 of the Insurance Code) in order to make compensation for both types inclusive of all the non-pecuniary damage suffered by the damaged party, amending Article 139.

Article 139.3, in fact, provides expressly, as regards harmonization, that "the total amount of the compensation recognized pursuant to this article shall be exhaustive of the compensation for damage resulting from bodily injury".

Another relevant aspect concerns the procedures for ascertaining the after-effects of "micro-permanent" injuries. The Competition Law amends Article 139.2, which confirms that compensation for permanent biological damage for mild injuries can be allowed only for those injuries susceptible to objective, instrumental clinical ascertainment", by adding that in some cases "visual ascertainment of injuries, such as scars, which can be observed objectively without clinical instruments" may be sufficient. This safeguards the general principle of the 2012 liberalization law designed to combat insurance fraud and speculative conduct but at the same allows avoidance of diagnostic expenses in cases where the injury (scars, hematoma, abrasions) can be objectively determined by visual inspection alone.

Sentence 1272 of the 3rd Section of the Court of Cassation, deposited on 19 January 2018, deals directly with the issue of interpretation of the literal text of Article 139, with reference to the requirements of compensation for mild injuries not documented by objective, clinical instrumental ascertainment. This ruling comes in addition to a previous one, Sentence 18773/2016.

The ruling reads: "In the matter of compensation of damage from so-called 'micro-permanent' injury, Article 139.2 of Legislative Decree 209 of 7 September 2005, as amended by Decree Law 1 of 24 January 2012, Article 32.3-*ter*, converted into Law 27 of 24 March 2012, should be read as meaning that the ascertainment of the existence of the temporary or permanent injury to physical/psychological well-being must follow rigorous, objective medical-legal standards; however, objective clinical, instrumental ascertainment cannot be held to be, in each and every case, the sole means of proof permitting recognition of said injury for purposes of compensation, unless what is involved is a pathology that is hard to verify solely on the basis of inspection by a medical examiner and that can be demonstrated only by use of clinical instruments."

This ruling could lend itself to facile exploitation where it reads that objective instrumental ascertainment cannot be deemed to be "the sole means of proof permitting recognition of … injury for purposes of compensation". At the same time, however, it should be noted that the ruling also calls for rigorous evaluation by the medical examiner of injuries in whose regard the inquiry is based "on the pure and simple report of pain, more or less severe, by the damaged party". The Court holds that "in such cases in all likelihood clinical, instrument-based ascertainment will be the decisive tool enabling the court-appointed expert … to provide the judge with a scientifically documented and legally unexceptionable conclusion".

Another passage in the ruling observes that "Parliament (in Law 27/2012) intended to enact a rule which, in view of the scope for circumventing rigorous demonstration of the effective existence of the injury, requires instead a definite proof. This is perfectly reasonable given the fact that requests for compensation for mild injuries, which is a matter of considerable importance for the insurance industry, are the most numerous. Hence, despite their modest content in financial terms, they impose substantial costs on the community".

Finally, the Court recalls previous Constitutional Court observations on the issue as follows: "For that matter, the Constitutional Court, in dealing with this matter, after Sentence 235/2014, took the occasion, in Order 242/2015, to clarify that the purport of the 2012 law is to prevent diagnostic ascertainment from lapsing into 'excessive scope for discretion, with the risk of extension to non-existent or exaggerated disabilities', in consideration among other things of the 'general, social interest of insured parties in having an acceptable, sustainable level of insurance premiums'. This confirms the economic need for balance between the premiums collected and the benefits that insurance companies have to disburse".

This same concept is reaffirmed in the latest Competition Law, which expressly subjects the compensation for "micro-permanent" injury referred to in Article 139 of the Insurance Code to objective, instrument-based evidence, save where such ascertainment is superfluous by the very nature of the injury.

Black boxes

1. IVASS Regulation 37/2018 on mandatory discounts and "bonus tariff"

On 27 March 2018 IVASS issued Regulation 37/2018, published in the *Gazzetta Ufficiale* s.g. 83, 10 April 2018, laying down standards and procedures for insurers' determination of the mandatory discounts referred to in Article 132-*ter*.2 and 132-*ter*.4 of the Insurance Code, introduced by the Competition Law. The discounts must be granted by insurance companies that intend to offer motor liability policies including the clauses specified in the Law, namely: prior inspection of the vehicle, installation of black boxes or other electronic devices for recording vehicle data, or alcohol lock devices, where the policyholder agrees to these clauses.

The regulation also dictates standards and application procedures for the extra discount, over and above the foregoing, that insurance companies must apply to policyholders that have not only installed a black box or other data recorder but also:

a) have had no accidents for which they are exclusively, principally, or equally (50%) liable in the last four years, according to the risk certificate;
b) are resident in the provinces identified as "high-accident" by IVASS.

In this implementing regulation, IVASS has concurred with a series of remarks by ANIA and insurers during the public consultation on the measure (IVASS document 5/2017). Especially significant is the acceptance of ANIA's proposal for the elimination of the provision, in setting motor liability tariffs on policies linked to black boxes or like devices, for a mandatory minimum discount equal to the average percentage reduction in "pure premiums" over the previous three years (where such a reduction actually occurred). This provision conflicted with the EU-established freedom to set conditions and prices for insurance. Instead, the measure institutes the more generic standard that the discount must be "in line with the average percentage reduction in pure premiums" over the past three years.

The regulation complies with ANIA's request that the reduction in the pure premium should be calculated consistently with the technical basis and actuarial method used in setting the tariff. Analogous criteria are also envisaged for determining the mandatory additional discount, the "bonus tariff".

The Regulation goes into effect 90 days after its publication on 10 April 2018, hence on 9 July.

However, it is self-evident that the provision for mandatory discounts on contracts requiring the mounting of black boxes cannot be fully implemented until it is clear precisely what is meant by the term black box or other vehicle data recording devices; that is, only after the publication of all the implementing decrees called for in the laws on the identification and interoperability of black boxes and other electronic devices (Law 124/2017 and Law 27/2012). This is apparent from the fact that in Regulation 37/2018, unlike the original text submitted to the consultation, IVASS elected to supplement the definition of black box to ensure that such devices and other electronic data recording devices comply with "the requirements referred to in the relevant implementing provisions and other relevant norms".

An annex to the Regulation lists the 29 "high-accident" provinces for setting the "bonus tariff". This list is unchanged from that given in consultation document 5/2017; in this regard, IVASS elected not to agree to the request made by insurance market participants and instead to retain the standard of provinces above the 75th percentile of the distribution as determined by IVASS. ANIA had observed that offering this bonus on 25 percent of the entire portfolio would be extremely onerous (all the costs relating to the black boxes are borne by the insurer) in terms of price, given that it would impact on a potentially very large number of policyholders, nearly a third of the total.

To avert this adverse impact and allow sound and prudent management, IVASS was asked to narrow the scope of application significantly, for instance by raising the threshold to the 85th percentile, which would have kept the number of policyholders to around 20 percent of the total and thus limited the effect in terms of recouping the income requirement against the mandatory discounts.

2. Legal validity of data from black boxes and like recording devices

The Competition Law introduces Article 145-*bis* into the Insurance Code, ascribing legal validity to the data recorded by black boxes and like electronic devices in order to combat insurance fraud and permit precise determination of liability in case of accident. Under the new article, the data from these devices shall constitute full proof, in civil law, of the facts and events to which they refer, unless the party against which the data are used can show that the device malfunctioned or was tampered with. The data are made accessible to the parties.

The article also confirms the provision for interoperability of the devices with a view to portability when the driver changes insurer. Sanctions are provided for non-compliance with the regulation governing the activity of insurance IT provider, instituting a sort of "objective responsibility", but in the area of sanctions. The measure reaffirms the ban on the utilization, by insurance company providers, of the data recorded by the electronic devices without the consent of the person involved – a prohibition already laid down, for that matter, in Italy's strict personal data protection law.

The article prohibits policyholders from disinstalling, tampering with, or otherwise rendering non-functional a device installed, on pain of losing the mandatory discount for black box contracts.

As regards the date of entry into force of the legal value of black boxes and other electronic vehicle data recording devices, for civil cases no implementing norm or specific calendar is envisaged, so that in theory the provision goes into effect along with the Competition Law itself. However, as for Regulation 37/2018 on mandatory discounts for black box contracts, the Competition Law and the earlier Law 27/2012 on liberalization provide for a variety of secondary legislative provisions for identification and interoperability of the black boxes and other data recorders. Accordingly, it is to be considered that the rule on the validity of these devices will be legally enforceable only after the implementing measures have been enacted.

Once the legislation is fully in effect, the data from black boxes will be fully probative in determining the dynamics of the accident. Thus no counter-evidence will be allowed unless it is demonstrated that the device malfunctioned or had been tampered with. Failing such demonstration, the data from the black box will carry decisive probative value in determining liability for the accident, with probative power superior to that of other, traditional probative elements, such as eyewitness accounts.

Further study is needed to determine whether the “fully probative” value of the black box is superior even to an accident report form signed by both drivers or by the account of the accident compiled by a law enforcement authority. On these matters, let us recall the CARD convention rules, which set a sort of hierarchical scale of the probative elements that insurance companies may acquire to reconstruct the dynamic of an accident, or even to verify its actual occurrence.

The law requires that the black box data be “accessible to the parties”. In this regard it has been suggested to use the ANIA format crash report, which gives a clear and readily interpreted reconstruction of the dynamic of the accident.

Information requirements for intermediaries – the “basic” motor liability contract and the IVASS estimate application “TuoPreventivatore 2.0”

Law 124/2017, the Competition Law, introduces Article 132-*bis* into the Insurance Code, laying down information requirements on insurance intermediaries (Article 1.6). The paragraph determines that prior to subscribing a motor liability contract, intermediaries must inform the consumer in correct, transparent and exhaustive fashion about the premiums offered by all the insurance companies on whose behalf they act in reference to the “base contract” as defined by Article 22 of Law 221/2012 of 17 December 2012.

Intermediaries must provide estimates for the “base contract” for passenger cars and motorcycles and scooters, with no requirement for a paper-based copy, through a special IT model operated by the new system designated “TuoPreventivatore 2.0”, which will be installed by IVASS and will operate in online mode. The estimates of the “base contract” premium must also be made available via this electronic model on the website of every insurance company.

“TuoPreventivatore 2.0” and the individual company websites must make possible the online elaboration of the basic motor liability contract also by individual customers/consumers interested in this type of policy.

The new rule overcomes the problems with the previous obligation on intermediaries to give the prospective policyholder three motor liability estimates from three different insurers. This provision was introduced by the liberalization law (Law 27/2012, Article 34.1 and 34.2) but never implemented, owing to the problems that insurance companies and intermediaries pointed out during the public consultation on the measure proposed by IVASS, which then elected to put it on stand-by.

It is up to IVASS to adopt implementing measures for the current “TuoPreventivatore” estimate procedure. It must also define the procedures for stipulating the “base contract” – as a function of the estimate selected and on terms no worse than that (given equal information supplied) – either at an agency of the company’s or through a link to the company’s website where the company uses this direct sales channel.

The key element in perfecting the new “TuoPreventivator 2.0” procedure is the preliminary definition of the “base contract” for which the premium estimates are to be formulated. Law 221/2012 laid down that the “base contract” would be defined by a decree of the Minister for Economic Development after consulting IVASS, ANIA, and organizations of insurance intermediaries and consumers. The implementing regulation for the “base contract” was in fact drafted by the Ministry in February 2013, but the procedure for the decree's publication was suspended pending the determination of whether it was compulsory or optional for insurance companies to offer motor liability contracts linked to black boxes.

Following the passage of Law 124/2017 on 4 August 2017, the Ministry updated the decree implementing the "base contract" and also the contract itself, according to the new provisions of the Competition Law. The new draft decree was submitted for consultation to IVASS, ANIA, and organizations of insurance intermediaries and consumers in February 2018. The main differences from the previous draft decree were the elimination, in accordance with ANIA's objections, of some additional conditions and of the section that included in the "base contract" accessory terms other than motor liability.

Pending the issue of the ministerial regulation, IVASS has specified two sections of the "base contract" schema that "TuoPreventivatore 2.0" should handle:

- obligatory terms of motor liability policies (object, minimum compensation ceilings, no restriction on drivers, bonus-malus) that must be offered by all insurers;
- additional motor liability conditions (augmented minimum ceilings, expert-driver or single driver restriction, link to black box installation) that companies are free to add or not.

For the time being the new procedure does not handle optional, accessory conditions of coverage (collision, fire and theft, comprehensive or kasko insurance). These clauses are not envisaged by the primary legislation on the "base contract," which refers solely to motor liability policies.

IVASS's new system for estimates will be modular, operating via a cloud platform. In fact, the supervisory authority's experts are convinced that this technology can manage the transition of base contracts to the new online consultation procedure of "TuoPreventivatore 2.0" in real time, in more satisfactory and scalable fashion, both for brokers and agents (mandatory) and for consumers (optional, of course). As to capacity, IVASS has estimated that it must be able to handle an average of 6,000 estimates an hour and a total of around 51 million a year.

Naturally, the hourly peaks in provision of estimates and consultation might have to be significantly higher. Operating the new IT link procedures and adapting systems to support peak loads will therefore require investment and dedicated resources. The impact will be substantial both on insurance companies and on ANIA, which will make available to "TuoPreventivatore 2.0" its database of risk certificates, coverage and other information necessary for obtaining estimates more rapidly by entering the vehicle license plate into the IVASS system.

As to the operational calendar, construction of the portal began in May 2018, and IVASS has scheduled trial and release of "TuoPreventivatore 2.0" for the start of 2019.

New procedures for identifying witnesses of accidents with only property damage

The identity of witnesses to accidents involving only property damage must be provided at the opening of the claim. They must be named in the report of accident and the request for compensation – or at least in the first formal act by the damaged party vis-à-vis the insurer – on pain of non-admissibility of the testimony in court.

Otherwise, the insurance company must ask the policyholder to identify the witnesses, advising him of the legal consequences of failure to respond to such request. The court can advise the public prosecutor's office of the recurrence of the same witness in more than three accidents in the past five years recorded in the IVASS claims database.

The entry into force of these provisions on witnesses does not require implementing measures, nor is there any specific term for it. They accordingly go into effect as of 29 August 2018.

The new rule would appear to require the insurance company to take steps to submit a request to the insured party to designate any witnesses for his case. The policyholder has 60 days to respond to his insurer's request.

Although in the abstract the new rules are intended to provide for rapid identification of accident witnesses, in practice they are easily circumvented and also lend themselves to interpretations that threaten to have organizational and economic effects on the settlement process.

First of all, the insurer's request to identify witnesses should not be an obligation in all cases but a requirement only in certain types of claim. For it is self-evident that in the case of an accident report form signed by both drivers or an official report by law enforcement authorities the request to identify witnesses may be perfectly useless.

Second, the deadline for carrying out this obligation (60 days for the company and another 60 for the policyholder) is completely incompatible with the deadline for formulating a settlement offer. The new rule is totally out of line with the CARD convention, which sets a term of 20 days for acquiring evidence for determining liability for the accident on pain of its ineligibility for purposes of obtaining reimbursement of the single claim amount. In these cases, where the insurer has acted to request that the policyholder provide an eyewitness statement the latter could object that he has 60 days to respond to the insurer's request.

On 20 October 2017 ANIA submitted a specific question to IVASS, asking whether it is possible, pending the policyholder's response to the request for an eyewitness account, to suspend the term for formulating the settlement offer.

Use of the IVASS integrated antifraud database in policy stipulation

Article 132 of the Insurance Code on the obligation to stipulate a contract has been amended. The article requires insurers to establish in advance the policy terms and prices, including any risk deriving from circulation. With the amendment, preliminary verification of the correctness of the data from the risk certificate, the identity of the policyholder and the vehicle owner (if not the same person), as required by the article, can now be effected also by consulting sector databases and the integrated antifraud database (AIA) kept by IVASS.

The Competition Law also amends Article 21 of Law 221/2012, which instituted the AIA, by extending access to the database also in policy stipulation, rather than only for claims verification, albeit solely for checking the truthfulness of the information supplied by the prospective policyholder. If this check confirms the correctness of the data supplied, the insurer is required to furnish the estimate and accept the prospective policyholder's proposals; otherwise it must recalculate the premium and send a new estimate to the potential policyholder.

As no other term is specified, the rule is in force as of 29 August 2017, to the extent that sector databases can be accessed for pre-contractual checks, under the primary and secondary legislation governing access and privacy.

ANIA has asked for technical talks with IVASS to lay down the procedures of access to AIA necessary to check prospective policyholders' statements. Further IVASS, after concluding Phase 1 in implementation of the AIA (relative to the settlement of motor liability claims) will proceed, in Phase 2, to analyze the procedures for utilization of the integrated antifraud database, specifying the regulatory changes required.

6

OTHER NON-LIFE INSURANCE CLASSES

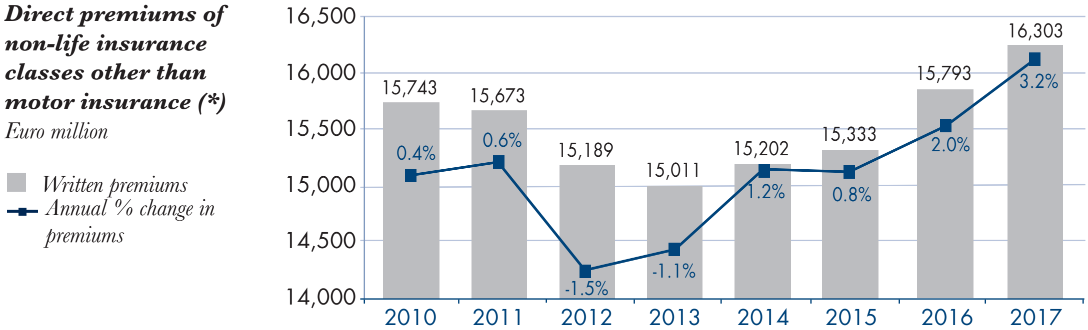
OTHER NON-LIFE INSURANCE CLASSES

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 3.2% in 2017. The combined ratio for 2017 nevertheless worsened by 2 percentage points, rising to 86.1% by reason of increased claims costs.

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 €16,303 million in 2017, up 3.2% from the previous year for a homogeneous group of insurers. Written premiums registered an above-average growth for policies on assistance (+5.9%), legal expenses (+6.3%, owing in part to legislative developments involving the crime of vehicular homicide, which spurred this type of coverage as an adjunct to compulsory liability insurance), sickness (+9.5%, with a contribution from the marketing of innovative products in connection with new technologies and distributed through banks), and miscellaneous financial loss (+14.2%). Classes registering decreases were aircraft liability (-28.5%), aircraft (-24.7%), credit (-2.6%), water craft (-2.1%), suretyship (-1.3%) and railway rolling stock (-0.2%). Non-motor insurance premiums' share of total non-life premiums increased from 49.4% in 2016 to 50.4% in 2017.

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



(*) All non-life branches except land vehicles, motor liability, and marine liability

Earned premiums for the year, i.e. written premiums net of the change in premium reserves and other balance items, came to €15,900 million, up 1.8% compared with 2016.

The incurred claims cost for the 2017 accident year, defined as the sum of the total settlement costs plus the amount reserved against all claims incurred during the accident year, amounted to €9,858 million, representing an increase compared with 2016. As this item of cost was compounded by a smaller gain in premiums, the loss ratio to earned premiums worsened slightly (from 59.6% in 2016 to 62.0% last year).

OTHER NON-LIFE INSURANCE CLASSES

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 €8,563 million, representing an increase over 2016. And although there was an increased release of reserves set aside for previous years' claims, this was not enough to offset the increase in the cost of incurred claims.

It is worth noting that the release of reserves against claims incurred prior to 2017 came to €1,295 million, or more than 8% of written premiums for the year. The loss ratio to earned premiums worsened from 52.0% to 53.9%. The business segments most responsible for the deterioration of the loss ratio and with relatively larger shares of premiums were sickness insurance, whose loss ratio rose from 66.9% to 67.5%, fire, where the ratio jumped from 60.1% to 70.2%, and other property damage (from 62.8% to 72.6%). The deterioration in property classes (fire and other property damage) was due in part to an increase in claims in connection with bad weather, which is more and more common given climate change, and also to claims in connection with earthquake damage in central Italy in late 2016 and early 2017. The only non-life classes in which the loss ratio improved and having a relatively large share of premiums were accidents (from 39.9% to 39.2%) and general third-party liability (from 48.2% to 42.3%).

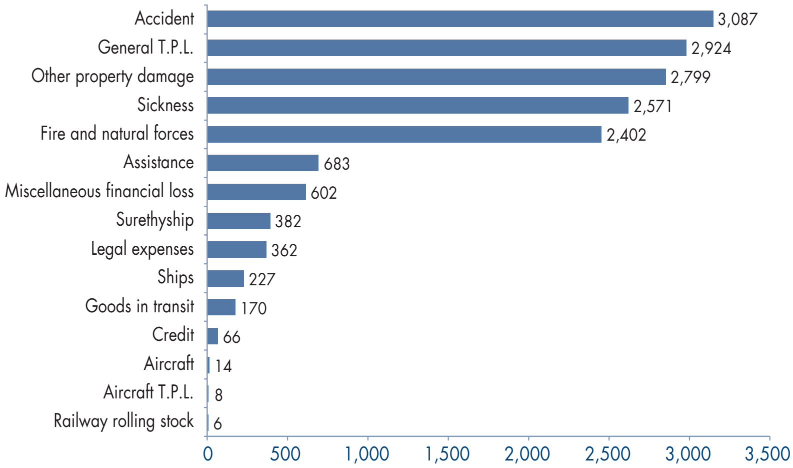
Non-life insurance classes other than motor insurance (excluding land vehicles insurance and motor and maritime liability)
Euro million

	2010	2011	2012	2013	2014	2015	2016	2017
Gross written premiums	15,743	15,673	15,189	15,011	15,202	15,333	15,794	16,303
Changes in premium reserves (-)	235	237	-280	-105	-28	1	181	403
Incurred claims (-):	10,276	9,859	11,054	9,183	8,924	8,263	8,124	8,563
– incurred claims cost for the current accident year (-)	10,499	10,000	11,004	9,657	9,613	9,196	9,304	9,858
– excess/shortfall of reserves for those claims incurred in previous accident years	223	141	-50	474	689	933	1,179	1,295
Balance of other technical items	-408	-357	-363	-335	-375	-462	-426	-413
Operating expenses (-)	4,799	4,762	4,568	4,605	4,720	4,854	5,063	5,252
– commissions	3,407	3,387	3,192	3,182	3,256	3,315	3,497	3,653
– other acquisition costs	670	642	675	686	723	767	736	738
– other administration costs	722	733	701	737	741	773	830	862
Direct technical balance	**24**	**458**	**-517**	**993**	**1,211**	**1,753**	**1,999**	**1,672**
Investment income	510	314	760	554	587	584	512	588
Direct technical account result	**534**	**772**	**243**	**1,546**	**1,798**	**2,337**	**2,511**	**2,259**
Reinsurance results	-539	-513	554	-726	-572	-469	-507	-179
Overall technical account result	**-5**	**259**	**796**	**820**	**1,226**	**1,868**	**2,003**	**2,080**
Annual % changes in premiums	0.4%	0.6%	-1.5%	-1.1%	1.2%	0.8%	2.0%	3.2%
Combined ratio	**96.7%**	**94.2%**	**101.5%**	**91.4%**	**89.6%**	**85.6%**	**84.1%**	**86.1%**
– Expense ratio	30.5%	30.4%	30.1%	30.7%	31.0%	31.7%	32.1%	32.2%
– Commissions/Gross written premiums	21.6%	21.6%	21.0%	21.2%	21.4%	21.6%	22.1%	22.4%
– Other acquisition costs/Gross written premiums	4.3%	4.1%	4.4%	4.6%	4.8%	5.0%	4.7%	4.5%
– Other administration costs/Gross written premiums	4.6%	4.7%	4.6%	4.9%	4.9%	5.0%	5.3%	5.3%
– Loss ratio:	66.3%	63.9%	71.5%	60.7%	58.6%	53.9%	52.0%	53.9%
– Loss ratio for the current accident year	67.7%	64.8%	71.1%	63.9%	63.1%	60.0%	59.6%	62.0%
– Excess/shortfall of reserves for previous years claims/ Earned premiums	1.4%	0.9%	-0.3%	3.1%	4.5%	6.1%	7.6%	8.1%
Technical balance/Earned premiums	**0.2%**	**3.0%**	**-3.3%**	**6.6%**	**8.0%**	**11.4%**	**12.8%**	**10.5%**
Technical account result/Earned premiums	**3.4%**	**5.0%**	**1.6%**	**10.2%**	**11.8%**	**15.2%**	**16.1%**	**14.2%**
Overall technical account result/Earned premiums	**0.0%**	**1.7%**	**5.1%**	**5.4%**	**8.0%**	**12.2%**	**12.8%**	**13.1%**
Ratio of premiums to total non-life premiums (%)	*44.2%*	*43.1%*	*42.9%*	*44.6%*	*46.3%*	*47.9%*	*49.4%*	*50.4%*

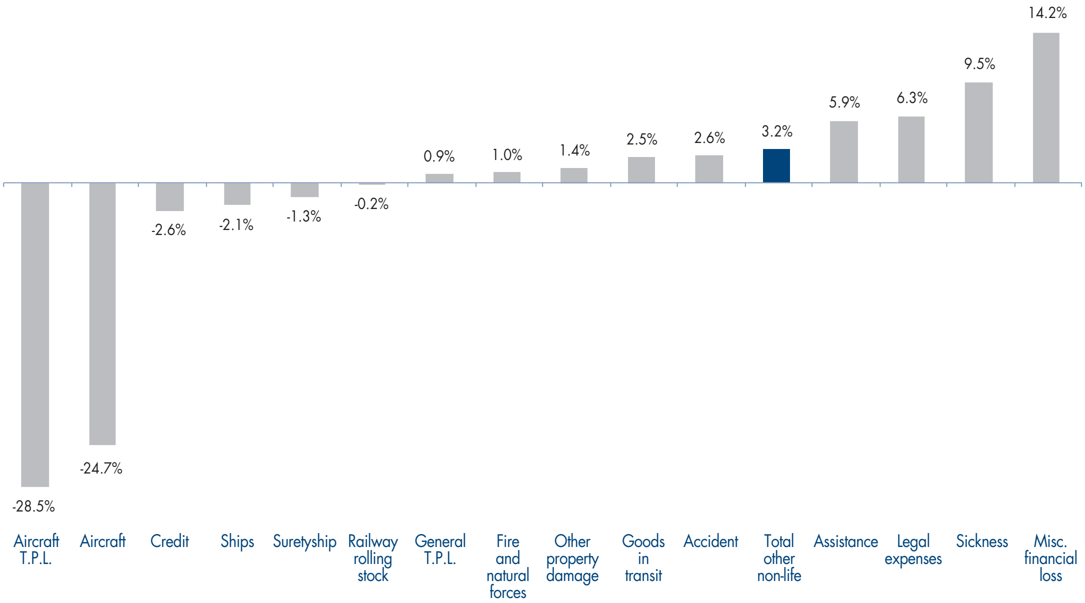
Indexes and changes (%) are calculated on data in € thousand
Change calculated in homogeneous terms

OTHER NON-LIFE INSURANCE CLASSES

Direct premiums by insurance class – 2017
Euro million



Growth rate of direct premiums by insurance class – 2017 (*)
Average 2017: 3.2%

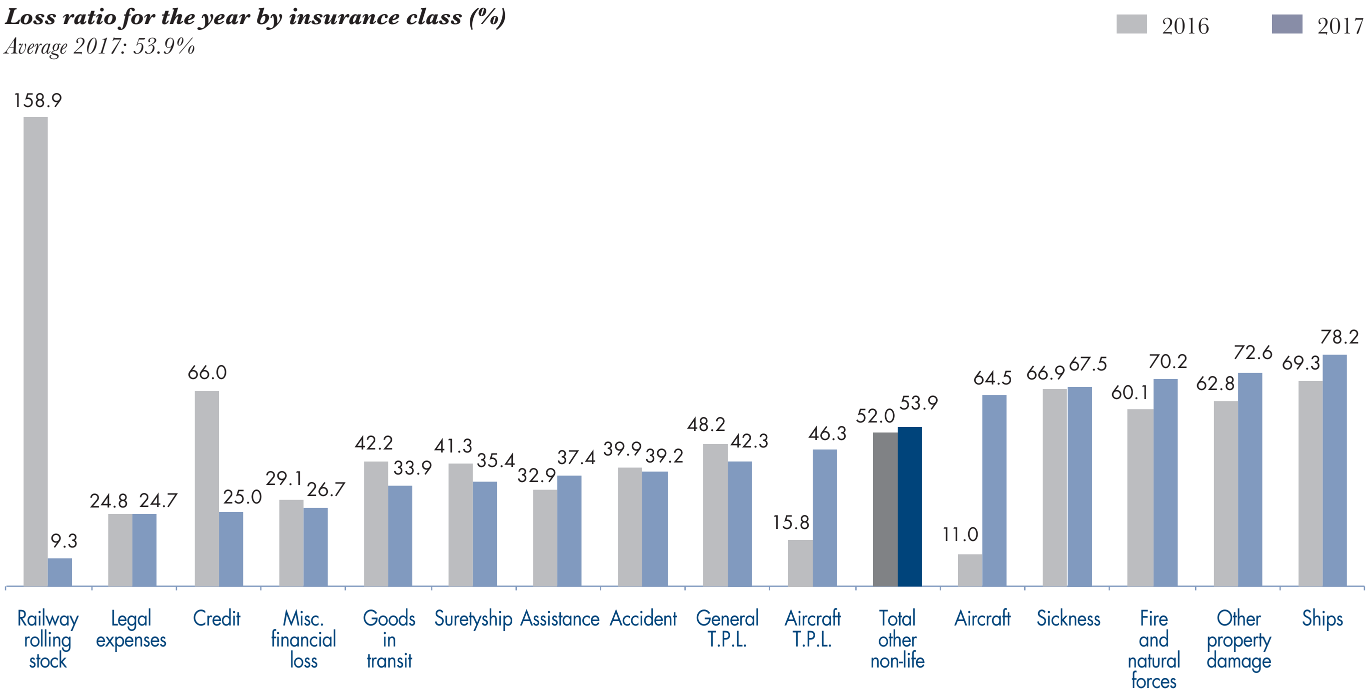


(*) Change calculated in homogeneous terms

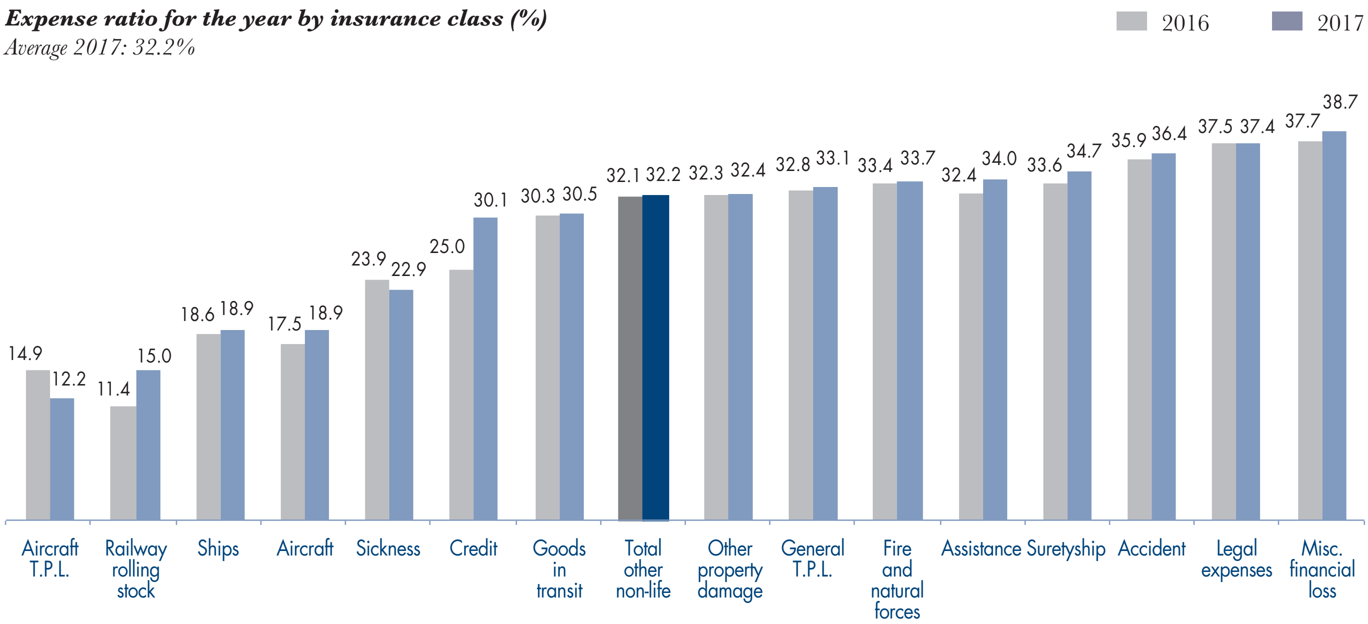
Operating expenses amounted to €5,252 million (€5,063 million in 2016) and include administration expenses relating to the technical management of insurance business, acquisition costs and costs relating to the organization and management of the distribution network. The ratio of expenses to premiums was 32.2%, up slightly from 32.1% in 2016. In particular, the ratio of agent commissions to premiums edged up from 22.1% to 22.4%, whereas that of other administration expenses came down to 4.5% from 4.7% and that of other acquisition costs remained stable at 5.3%. The business segments with the highest indicators were miscellaneous financial loss (38.7%), legal expenses (37.4%), accidents (36.4%) and suretyship (34.7%). More moderate ratios, under 20%, were recorded for aircraft and ships (18.9%), railway rolling stock (15.0%) and aircraft liability (12.2%).

OTHER NON-LIFE INSURANCE CLASSES

Loss ratio for the year by insurance class (%)
Average 2017: 53.9%

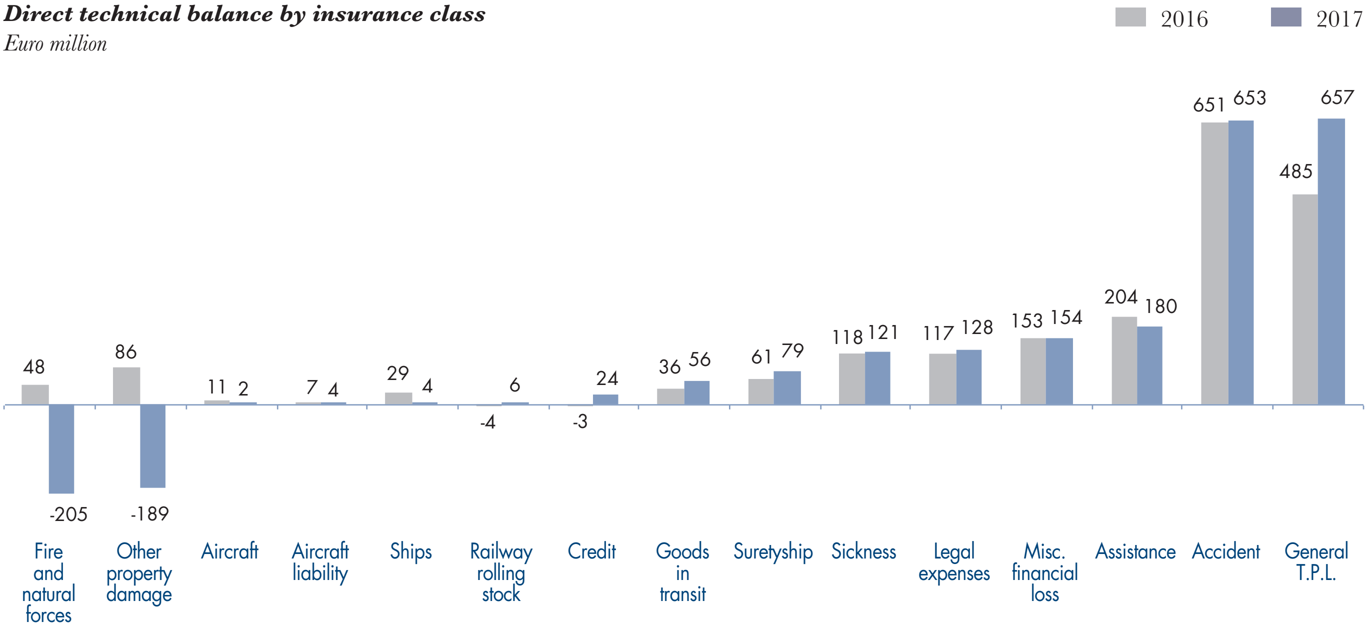


Expense ratio for the year by insurance class (%)
Average 2017: 32.2%



The technical balance for direct business was positive by €1,672 million, down from €1,999 million in 2016. The deterioration was due to the higher incurred claims costs described above. More specifically, positive balances, exceeding €100 million, were scored by insurance for sickness (€121 million, it was €118 million in 2016), legal expenses (€128 million, €117 million in 2016), miscellaneous financial loss (€154 million compared with €153 million in 2016), assistance (€180 million, down from €204 million in 2016), accident insurance (€653 million compared with €651 million in 2016) and general third-party liability (€657 million compared with €485 million in 2016). The balance was negative for fire insurance (-€205 million) and other property damage (-€189 million).

Direct technical balance by insurance class
Euro million



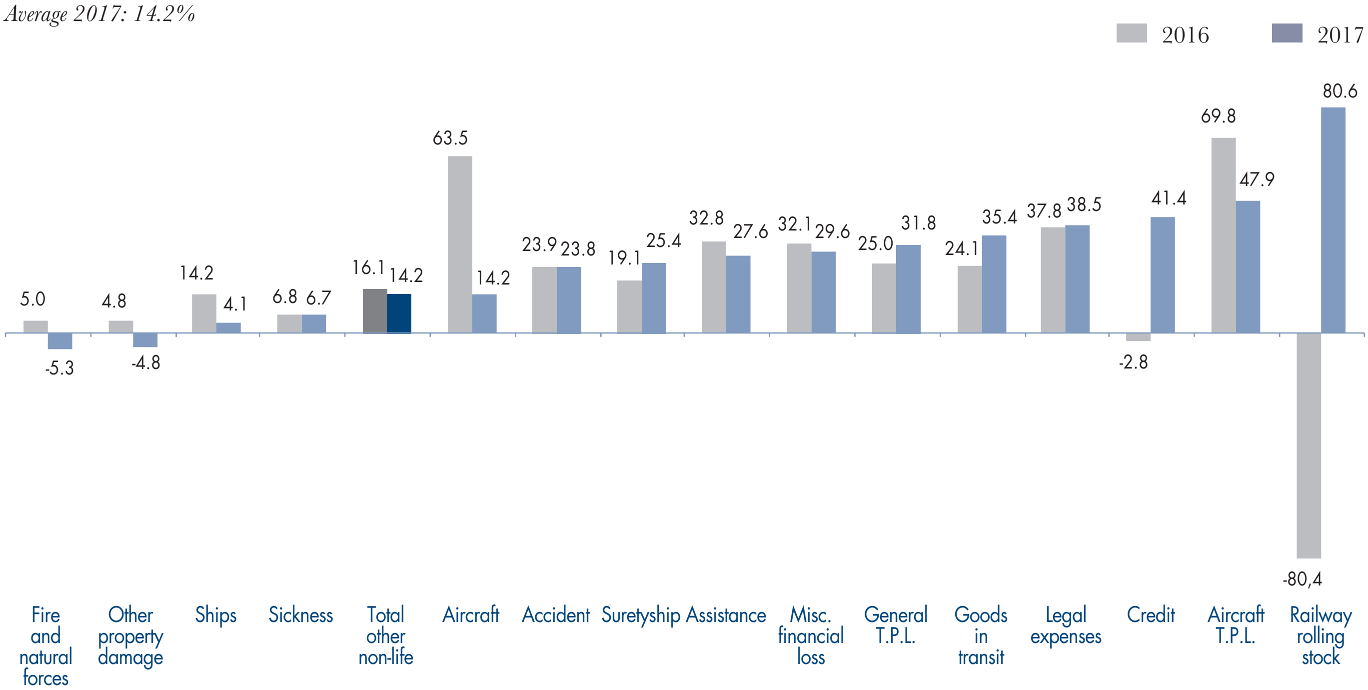
With investment profits totaling €588 million (€512 million in 2016), the direct technical account result was positive by €2,259 million (€2,511 million in 2016), and the ratio to accrued premiums fell from 16.1% to 14.2%. In detail, the ratio was below average and negative for the following classes: fire (-5.3%) and other property damage (-4.8%), whereas accident and general third-party liability insurance scored particularly well at +23.8% and +31.8% respectively.

Counting also the balance for reinsurance (negative by €179 million), the overall technical account result was positive by €2,080 million (€2,003 million in 2016), equal to 13.1% of premiums (12.8% in 2016).

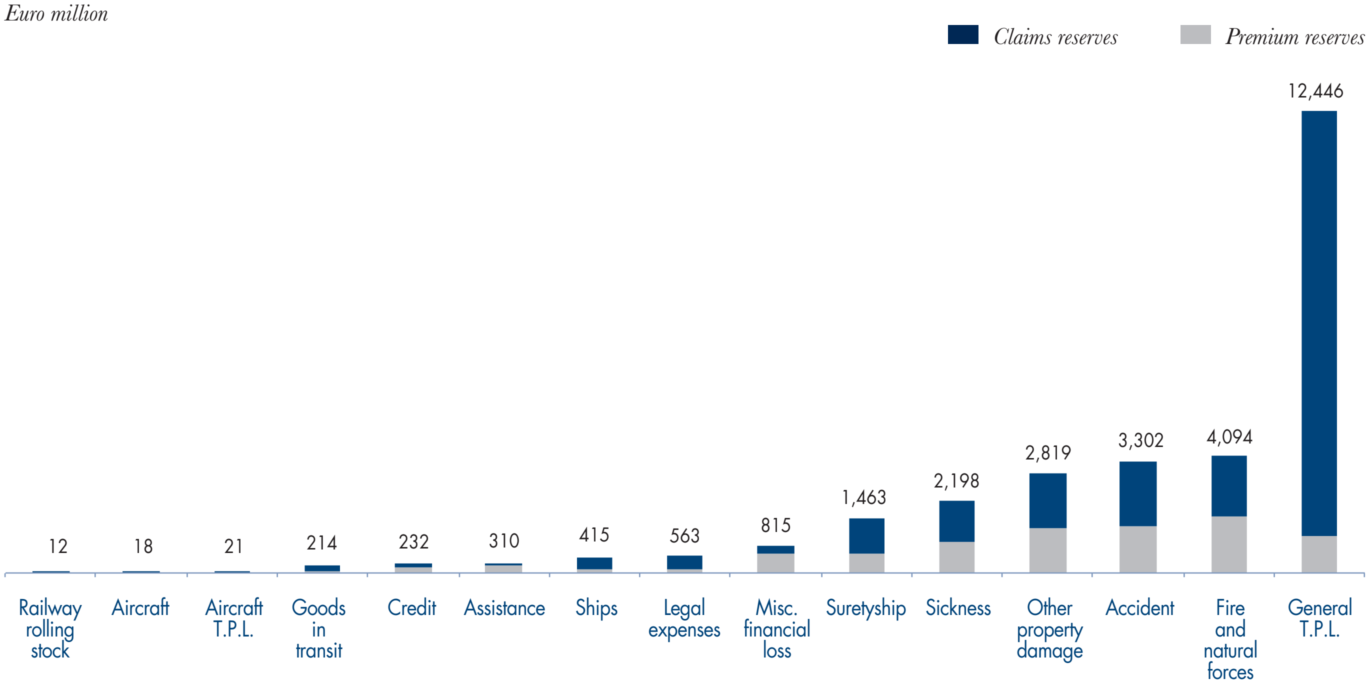
The direct technical reserves of non-life insurance classes other than motor insurance, net of sums to be recovered from policyholders and third parties, amounted to €28,923 million in 2017; premium reserves totaled €8,602 million and claims reserves €20,321 million. General liability was the business segment with the highest technical provisions (€12,446 million counting claims and premium reserves for 2017); total provisions top €3 billion for accident (€3,302 million) and fire insurance (€4,094 million).

OTHER NON-LIFE INSURANCE CLASSES

Incidence of overall technical account result on earned premiums by insurance class (%)
Average 2017: 14.2%



Technical reserves for non-life insurance classes other than motor insurance – 2017
Euro million



PROFILES OF ITALIAN HOUSEHOLDS WITH HEALTHCARE AND DAMAGE INSURANCE POLICIES (OTHER THAN MOTOR LIABILITY)

The Bank of Italy has recently published the information gathered in its 2016 survey on the budgets of Italian households. The survey, conducted biennially on a representative sample of Italian households, gathers a range of information on the demographic and socio-economic profiles of the individuals.

One section of the 2016 questionnaire focused on insurance policies held by the households. The questions asked about any healthcare policies held, either accident or sickness insurance, and about any other non-life insurance, motor insurance other than third-party liability, house insurance and general third-party liability insurance (Figure 1).

Figure 1 – The Bank of Italy questionnaire

Healthcare (accident and sickness) insurance
F33. In 2016 did you or a member of your household have a private healthcare insurance policy (for accident or sickness)? **ASS4**
– Yes 1
– No .... 2 ➔ ***Dom. F37***
F34. In 2016 how many healthcare policies did your household have? |……| **NASS4**

Damage insurance (other than motor liability)			
F37. In 2016 did you or a member of your household pay for insurance against damage, theft, fire, hail, third-party liability, or other (excluding compulsory motor insurance)? **ASS3** – Yes .... 1 – No 2			
NASS31..NASS33 **F38.** And how many policies (excluding motor liability) did you have for	…Transport vehicles? |……|	…Land and houses? |……|	…Persons? |……|
F39. How much did your household spend, overall, for insurance in 2016 (excluding motor liability)? **ASS3S**	€ |….|….| |….|….|….|		
F40. How did you purchase the policy? **ASS3H1... 3**			
– Internet	1	1	1
– Telephone direct contact	2	2	2
– Traditional contact (agency, broker, etc.)	3	3	3
– Other	4	4	4

Source: Bank of Italy

It should be specified that the information gathered by the survey was extracted from the answers of the households interviewed, therefore their accounting correctness cannot always be verified. In fact, discrepancies with respect to the aggregated accounting data reported by the insurers are not infrequent. This does not reduce the value of the survey, which lies mostly in the possibility of connecting the households' economic choices – in this case the decision to buy insurance – with their demographic and socio-economic profiles.

Healthcare insurance

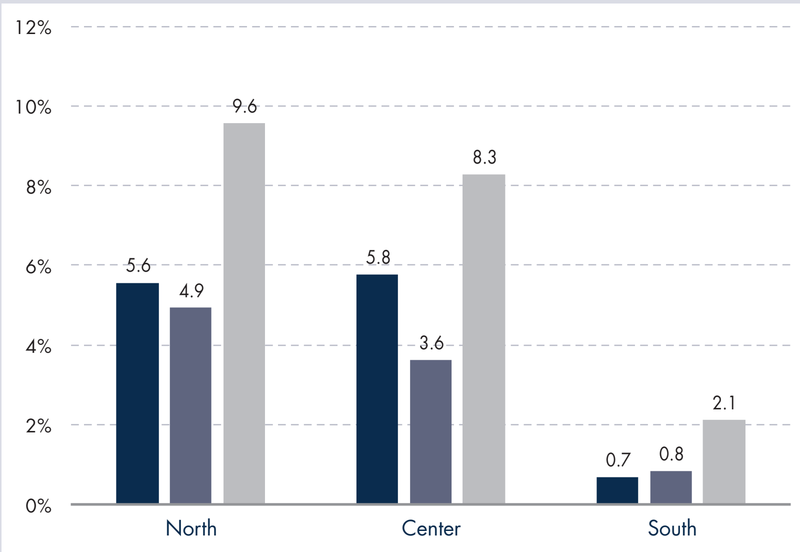
In 2016, the percentage of households holding at least one healthcare policy was 6.9%, significantly higher than in 2014 (3.3%) and 2012 (4.0%); in absolute terms, 1.7 million households were insured (0.8 and 1.0 in 2014 and 2012 respectively).

Among insured households, the average number of policies, weighted by representativeness of the sample, was 1.4 (it was 1.06 and 1.1 in 2014 and 2012).

Most households with at least one healthcare insurance policy live in the North (9.6%; 4.9% and 5.6% in the two previous surveys), followed by households residing in the Center (8.3%; 3.6% and 5.8%) and in the South (2.1%; 0.8% and 0.7%) (Figure 2).

Figure 2
Healthcare insurance coverage by region

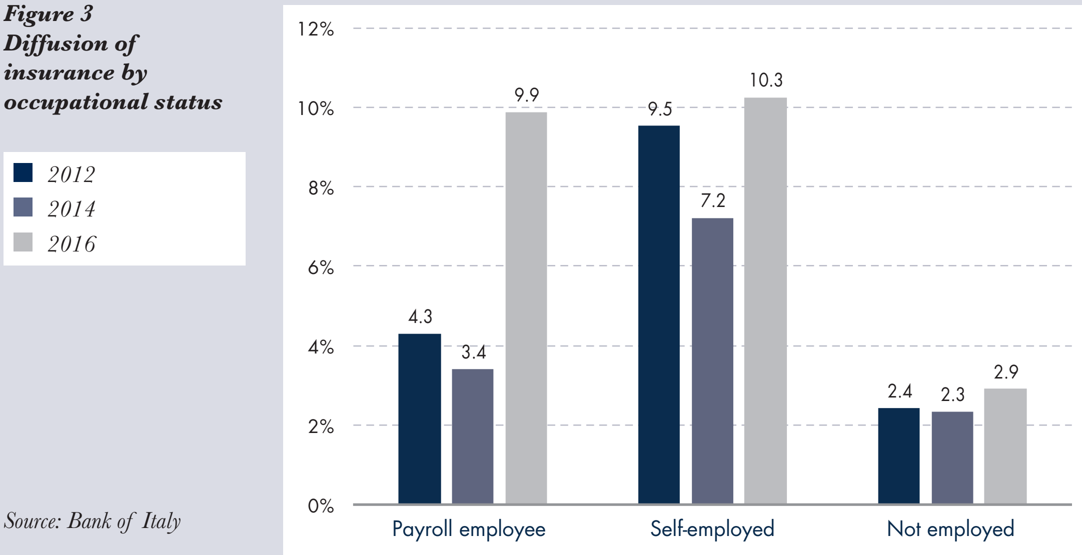
2012
2014
2016



Source: Bank of Italy

The diffusion of healthcare insurance varies significantly depending on the occupational status of the head of the household, defined as the breadwinner. Self-employed workers, in fact, tend to rely more on healthcare insurance. This is confirmed also by the latest survey, although the gap with respect to payroll workers has narrowed noticeably. In 2016, 10.3% of self-employed workers had policies (compared with 7.2% in 2014 and 9.5% in 2012), compared with nearly 10% for payroll workers (3.4% and 4.3% in 2014 and 2012 respectively). The percentage was significantly lower among household heads not in employment (2.9%, up from 2.3% and 2.4%) (Figure 3).

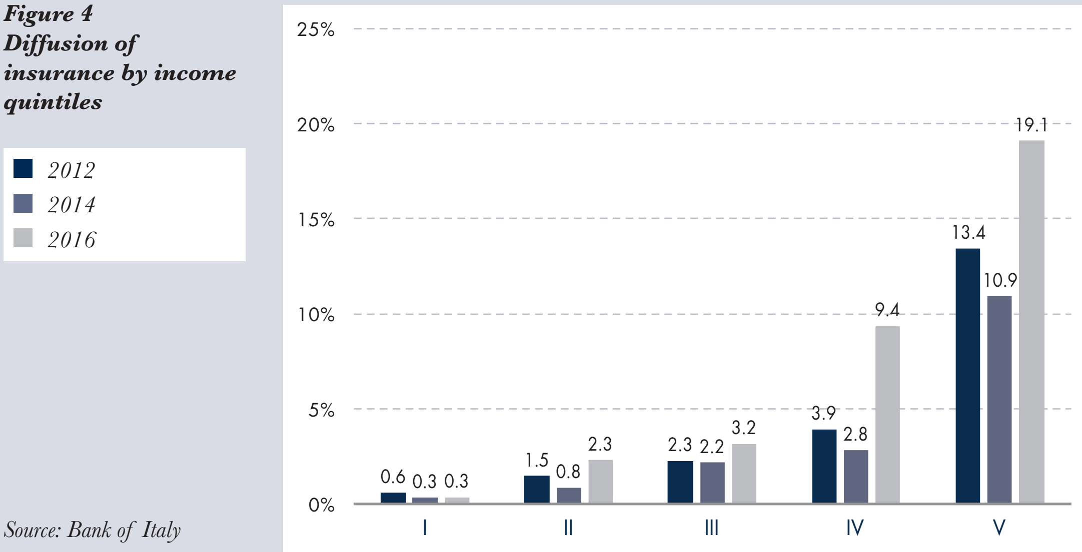
Figure 3
Diffusion of insurance by occupational status



Source: Bank of Italy

Also in 2016, the presence of healthcare policies was positively correlated with the household income, and more strongly in 2016 than in earlier surveys: the percentage of households insured in the top income quintile was 19 percentage points higher than in the bottom quintile (11 points in 2014 and 13 in 2012) (Figure 4).

Figure 4
Diffusion of insurance by income quintiles



Source: Bank of Italy

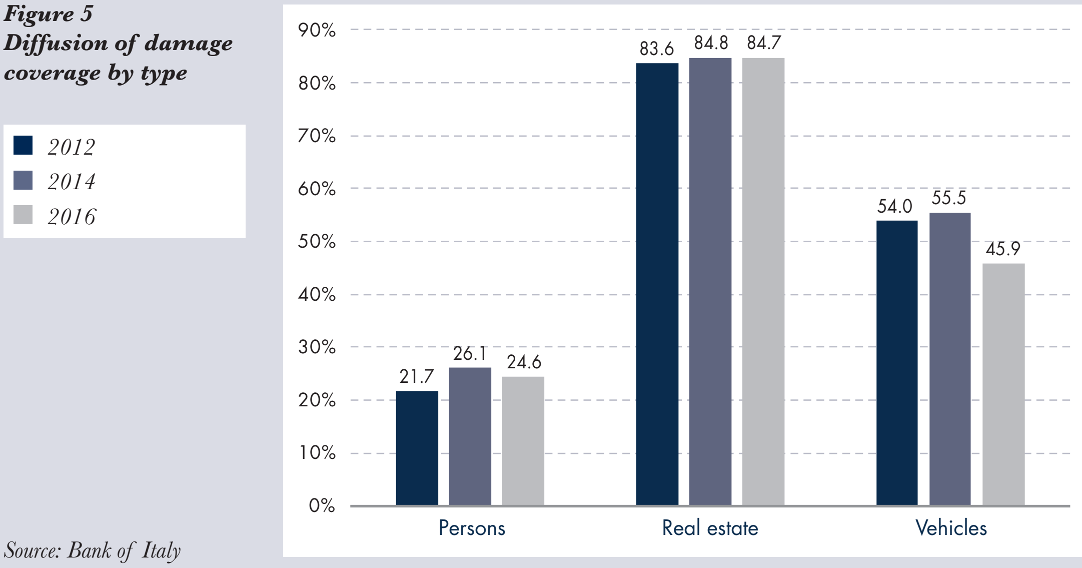
Non-life damage insurance

According to the survey, the percentage of households with at least one non-life insurance policy other than motor liability in 2016 was 16% (compared with 20% and 22% in 2014 and 2012 respectively). With regard to the types of coverage, the diffusion of general third-party liability, real estate and non-liability motor insurance was 3.8%, 13.2%, and 7.1% respectively (they were 5.3%, 17.1% and 11.2% in 2014). More specifically, with regard to land and buildings coverage, the data is in line with the segment's statistics, which exclude policies covering apartment buildings (condominiums or coops) and policies with a third-party beneficiary (such as in the case of policies linked to mortgage loans), as it can be presumed that these are not taken into account by the households in their answers. Net of these considerations, the diffusion of damage policies recorded by ANIA's statistics would be approximately 17% (40% if we include all policies covering real estate).

Conversely the contraction recorded between 2014 and 2016 is harder to explain, if not with the fact that the wording of the survey question changed considerably.

Among the households insured, the most frequently reported type of coverage is homeowner's insurance (84.7%, compared with 84.8% in 2014) (Figure 5). Motor insurance was purchased by 45.9% (55.5% in 2014) of insured households, followed by general third-party liability (24.6%, compared with 26.1% in the previous survey).

Figure 5
Diffusion of damage coverage by type

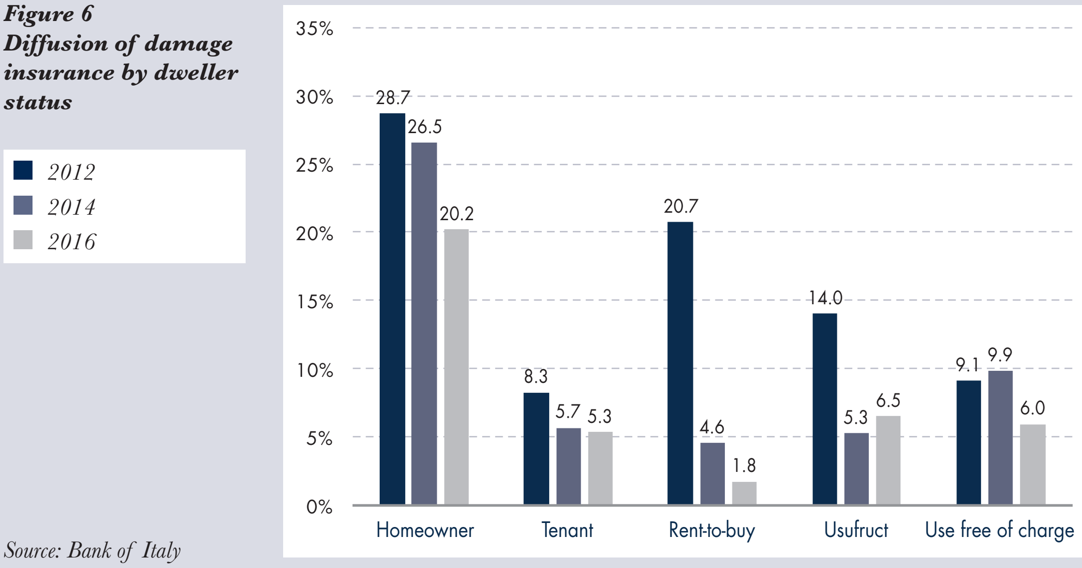


Source: Bank of Italy

The predominance of real estate insurance coverage mirrors the strong correlation between non-life insurance and the tenure status of the main residence (Figure 6). In fact, 20% of homeowner households have one or more non-life policies, compared with a mere 5% of tenant households. The percentage among households with other living situations, although variable, has little impact on the aggregate data.

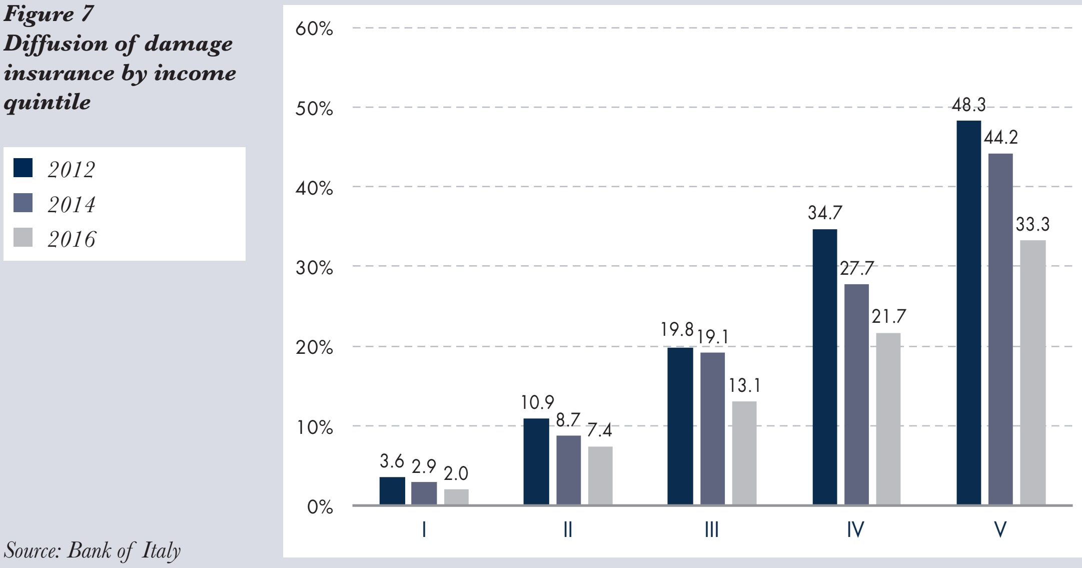
Similarly to healthcare insurance, also in 2016 the volume of non-life policies distributed was strongly linked to the household income class (Figure 7). However, the gap between high-income and low-income households shrank in 2016 compared with previous surveys: the percentage of households with insurance in the top income quintile is 30 percentage points higher than in the bottom quintile, down from 40 points recorded in the two previous surveys.

Figure 6
Diffusion of damage insurance by dweller status



Source: Bank of Italy

Figure 7
Diffusion of damage insurance by income quintile



Source: Bank of Italy

TYPES OF ACCIDENT AND SICKNESS INSURANCE

ANIA can produce an estimate of the breakdown of premiums between individual and group policies for accident and sickness insurance based on half-yearly statistics on the two classes, as well as a breakdown by type of insurance coverage offered.

Accident insurance

In 2017, written premiums (individual and group) for accident insurance sold by Italian companies and EU and non-EU foreign branches operating in Italy amounted to €3.5 billion, 2.7% more than the previous year (Table 1). New business was estimated at 18% of total premiums, the same as in 2016, amounting to €636 million (+2.0% compared with the previous year).

The increase in written premiums is mainly attributable to permanent total or partial disability insurance, which accounted for 37% of premiums distributed, or 1.3 billion (3.4% more than in 2016). The same positive trend was registered by driver's injury [1] and temporary disability insurance: premiums showed an annual increase of 4.1% (€766 million, 22% of the total) for the former and 1.8% (€298 million, 8% of the total) for the latter. The volume of premiums for death insurance was essentially stable (-0.7% compared with 2016), totaling €575 million, or 16% of the whole portfolio.

Table 1 – Composition of premiums for accident insurance, %
Amounts in € millions

Type of coverage	Written premiums					Of which: new business					% New business written prem.	
	2016		2017			2016		2017				
	Premiums	Share	Premiums	Share	Annual change	Premiums	Share	Premiums	Share	Annual change	2016	2017
ACCIDENT												
Death	579,040	17%	574,892	16%	-0.7%	92,718	15%	92,296	15%	-0.5%	16%	16%
Permanent disability	1,243,642	36%	1,285,532	37%	3.4%	206,821	33%	218,327	34%	5.6%	17%	17%
Temporary disability	292,543	9%	297,747	8%	1.8%	75,481	12%	68,419	11%	-9.4%	26%	23%
Driver injury	735,383	21%	765,653	22%	4.1%	148,734	24%	164,371	26%	10.5%	20%	21%
Other (*)	572,011	17%	590,645	17%	3.3%	99,956	16%	92,570	15%	-7.4%	17%	16%
Total	3,422,619	100%	3,514,470	100%	2.7%	623,710	100%	635,982	100%	2.0%	18%	18%

(*) Coverage for hospitalization indemnity allowance, costs of care and rehabilitation, plus other coverage not specified or that the insurer cannot distinguish
Source: ANIA

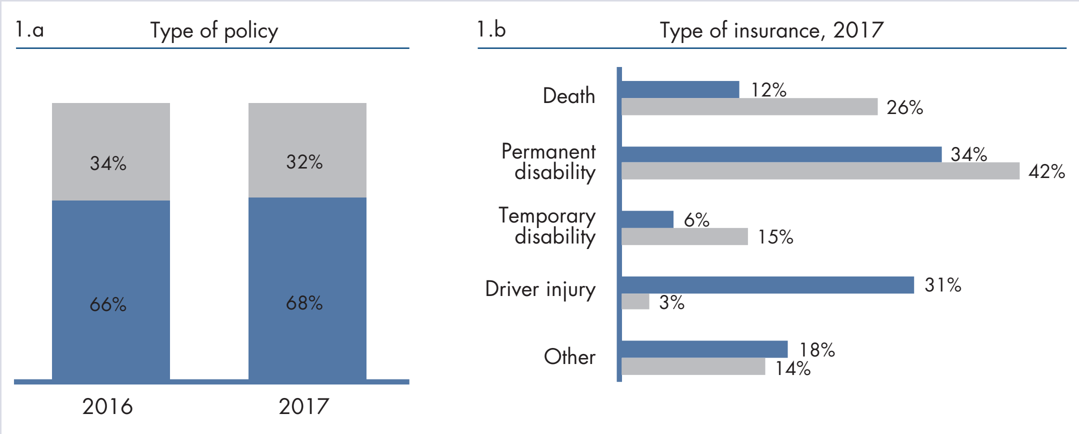
Taking account of written premiums only, in 2017 accident premiums for individual policies accounted for 68% of total premiums for the class, two percentage points more than the previous year (Figure 1a); consequently, group policies accounted for slightly above 30% of written premiums.

Looking at the distribution of premiums by main insurance guarantees, there are some differences between individual and group policies (Figure 1b). While over 30% of written premiums of individual policies are for driver's injury insurance, for group policies this guarantee is of minor importance (3%); coverage against other risks is more common.

[1] Compensation to the liable driver for an accident that has caused his/her death, permanent or temporary disability.

Figure 1
Distribution of accident insurance between individual and group policies

Individual policies
Group policies



With regard to ***individual policies*** (coverage for one person or one household), written premiums in 2017 are estimated to have totaled €2.4 billion, 4.8% more than in 2016. Around two thirds of premiums are for insurance guarantees against driver's permanent (total or partial) disability and injury. In detail, coverage against permanent disability in 2017 accounted for 34% of premiums (the same as in 2016), the highest share of all guarantees, whereas driver's injury was 31% of total premiums, also unchanged from 2016. The share of death insurance premiums was 12%, followed by temporary disability insurance at 6%. The remaining share of written premiums (18%) is for "other risks" (which include hospitalization indemnities, reimbursement of injury-related treatment and rehabilitation expenditures, plus additional guarantees other than those specified or which companies do not distinguish).

As for ***group policies*** (covering a number of individuals, in which the policyholder underwrites the insurance in the name and on behalf of others), the volume of premiums for 2017 amounted to €1.1 billion, slightly less than a year earlier (-1.5%). More specifically, 42% of written premiums cover permanent disability risk (thus confirming this as the main guarantee, as for individual policies), stable compared with 2016. The second best-selling guarantee, in terms of volume of premiums, is death insurance, with a market share of 26%, 14 percentage points more than for individual policies. The volume of premiums of temporary disability insurance in 2017 remained unchanged at 15% of total premiums, like the share of group policies covering driver's injury, at 3%. Premiums covering "other risks" accounted for 14% of total premiums.

Sickness insurance

Written premiums (individual and group policies) for sickness insurance amounted to €2.7 billion in 2017, of which €565 million were new business (21% of the total), registering an increase of 9.4% compared with a year earlier (while new business grew by 31.0%) (Table 2). Reimbursements of healthcare expenses [2] account for over three quarters (77%) of total premiums, or €2.1 billion, up by 10.4% from 2016. Permanent disability premiums also showed an uptrend, with nearly €300 million (11% of total premiums and +10.4% com-

[2] Covers policyholder's expenses pre- and post-hospitalization for sickness or maternity and surgery.

pared with 2016). Premiums for daily income (3) allowance coverage totaled €154 million, or 6% of the total (+8.4%). Written premiums for long-term care insurance (4) showed a positive trend, albeit for a quite modest amount totaling just €31 million (1% of total premiums), having risen by 11.7% compared with 2016.

Table 2 – Composition of premiums for sickness insurance, %
Amounts in € millions

Type of coverage	Written premiums					Of which: new business					% New business written prem.	
	2016		2017			2016		2017				
	Premiums	Share	Premiums	Share	Annual change	Premiums	Share	Premiums	Share	Annual change	2016	2017
SICKNESS												
Medical expenses	1,877,316	76%	2,072,239	77%	10.4%	178,723	41%	298,674	53%	67.1%	10%	14%
Permanent disability	270,834	11%	299,084	11%	10.4%	170,021	39%	176,791	31%	4.0%	63%	59%
Daily allowance	168,383	7%	154,257	6%	-8.4%	18,107	4%	23,342	4%	28.9%	11%	15%
Long-term care	27,513	1%	30,741	1%	11.7%	2,930	1%	4,354	1%	48.6%	11%	14%
Other (*)	126,691	5%	147,698	5%	16.6%	61,310	14%	61,478	11%	0.3%	48%	42%
Total	2,470,736	100%	2,704,019	100%	9.4%	431,090	100%	564,640	100%	31.0%	17%	21%

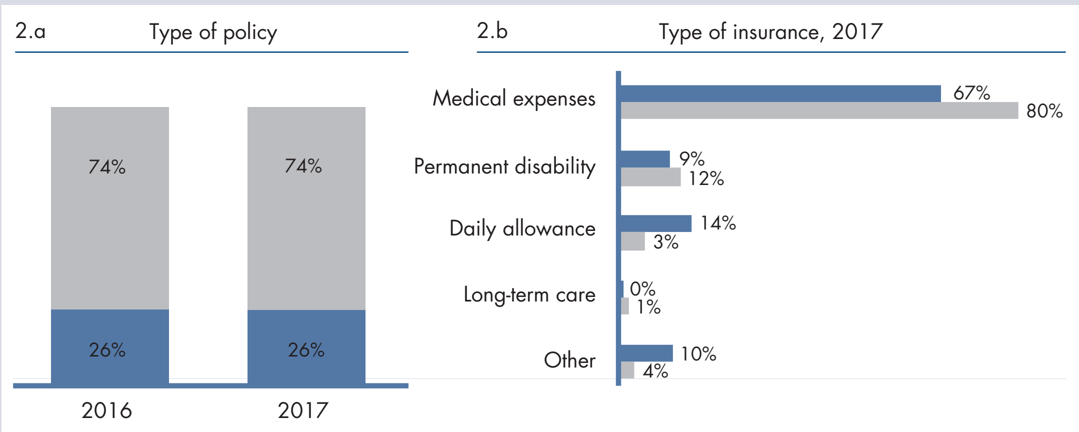
(*) The portion of premiums for coverage not specified (such as temporary disability, found in some company policies) or that the insurer cannot distinguish for lack of information
Source: ANIA

Taking account of written premiums only, group policies accounted for a major share of sickness insurance, accounting for 74% of total premiums in 2017 (Figure 2a), unchanged from the previous year, whereas individual policies accounted for 26%.

Looking at sickness insurance broken down by the main type of coverage offered on the market, there is a less marked difference between individual and group policies than in accident insurance (Figure 2b), with medical expense reimbursements accounting for the lion's share.

Figure 2
Distribution of sickness insurance between individual and group policies

Individual policies
Group policies



(3) A daily allowance in case of hospitalization due to illness.
(4) Indemnity or assistance in an institution consequent to the request for long-term care owing to loss of self-sufficiency, i.e. inability to perform certain fundamental, elementary activities.

The volume of written premiums of ***individual policies*** in 2017 amounted to €711 million, up by 11.6% compared with the previous year. More in detail, reimbursement of medical expenses was again the leading type (67% of total individual premiums, down from 68%), while daily allowance guarantees accounted for 14%, one percentage point more than in 2016. Coverage against permanent disability in sickness insurance, unlike accident insurance, has a lower incidence at 9% of the total, whereas long-term care insurance, which is more frequently part of life policies, was again negligible. The "other risks" category, which includes premiums covering risk insurance other than those specified above (such as temporary disability in the policies of some companies) or which cannot be allocated otherwise for lack of information, accounted for 10% of premiums.

The volume of premiums of ***group policies*** in 2017 was €2.0 billion, with an increase of 8.7% compared with the previous year. For this type of policy, the incidence of reimbursement of medical expenditures on total premiums was even greater than that of individual policies. This is chiefly attributable to private healthcare funds or corporate health insurance benefit plans for employees); more specifically, this type of guarantee accounts for 80% of total premiums of group policies, one percentage point more than the incidence estimated in 2016. The second-leading category under group policies is permanent disability, which accounted for 12% of total premiums in 2017, up from 11% in 2016. The daily allowance guarantee accounted for 3% of total premiums, down by two percentage points from 2016, whereas long-term care insurance was rare, albeit not negligible as in individual policies, with a market share of 1%. "Other risks" were less important in group than in individual policies, accounting for 4% of written premiums.

NATURAL DISASTERS: CATASTROPHIC EVENTS IN 2017 IN THE WORLD AND AN INITIAL ESTIMATE OF THE INSURANCE MARKET'S CURRENT EXPOSURE

Worldwide, the number of natural disasters came to 183 last year, showing a downward tendency compared to the three previous years. Although the number of catastrophic events was lower, 2017 was a record year in terms of damage, which came to €275 billion, nearly twice that registered in 2016 (€150 billion) or the average over the past 50 years.

The damage was mainly due to hurricanes, storms, forest fires and floods which struck in North America, the Caribbean and Europe. Insurance companies covered €115 billion, or 40% of the total damage. The amount of claims following natural disasters too has reached a record high worldwide, against an average of €42 billion over the past ten years.

The events with the greatest impact in terms of insurance were hurricanes Harvey, Irma and Maria in the Caribbean and in the US, which caused €77 billion worth of damage, or 0.5% of the US GDP.

In 2017, Italy suffered several weather events and hydrogeological disasters: extremely cold weather across the country in January, heavy rainfall in June and floods in Livorno and

Emilia Romagna in September and December respectively. Another catastrophic event was the avalanche in Rigopiano, in the province of Pescara, as a result of the seismic swarm that struck on 18 January 2017 causing €15 million worth of damage (of which €5 million insured). Overall, the industry is estimated to have covered €385 million for all the catastrophic events in Italy in 2017. This relatively small amount reflects the still modest diffusion of natural disaster insurance, despite the twenty-year average of €3 billion worth of damage.

According to the PERILS survey on risk exposure to catastrophic events in Italy for 2018 (which sees the participation of 74% of the market in terms of the volume of fire premiums), overall exposure of the insurance market to such risks is:

- for business – buildings, goods and incidental damages – around €650 billion in respect of earthquakes (+8% compared with 2017) and €700 billion in respect of floods (+11% from 2017), net of the contractual restrictions set by the insurance policies. Summing both risk exposures (earthquake plus flood), the regions that contributed the most to the increase in exposure for businesses in 2017 are Piedmont, Puglia and Campania. Insured risks for businesses amounted to 400,000 against earthquakes and 340,000 against floods, many of which are presumably also insured against earthquakes;
- for homeowners – buildings, goods and incidental damages with regard to dwellings – around €130 billion in respect of earthquakes (+14% compared with 2017) and €67 billion in respect of floods (-16% from 2017), net of the contractual restrictions set by the insurance policies. In particular, the regions that contributed the most to the increase in exposure for earthquakes in 2018 are Lombardy and Emilia Romagna, the same regions that registered a contraction in flood insurance. Insured risks for dwellings amounted to 388,000 against earthquakes and 119,000 against floods, many of which in this case too are assumed to include earthquake insurance as well.

Geographically, total insurance exposure to natural disaster risk (businesses and homeowners) for 2017 is concentrated mostly in the North of Italy, nearly 70% of the total, followed by the Center with around 20%.

The absolute levels of insurance coverage are unchanged. However, some detail estimates and changes observed (e.g. in the distinction between business and residential risks) may be due in part to an enhanced classification of data as a consequence of more attentive risk management. These data, however, are subject to variations and their trend will need to be monitored over the next months. Moreover, although the scope of the survey differs from that of ANIA's own statistics (see the paragraph "The diffusion of fire insurance with extension to natural disasters; results of the GFK survey") – since, for instance, in PERILS residential risks also includes damage to property and indirect damage, while also taking into account the contractual restrictions (such as deductible clauses, overdrafts and coverage ceilings) – total exposure (insured amounts) and insured risks (number of policies) are substantially in line with the data collected by ANIA.

Looking at flooding risk alone, on 28 February 2018 the European Insurance and Occupational Pensions Authority (EIOPA) issued its second set of advice to the European Commission on specific items in Solvency II Delegated Regulation recommending a recalibration of flood risk scenarios in Italy. More specifically, based on the outputs of the various models examined, EIOPA suggests a 50 percent increase in the factor applied to the flood risk sub-module used to calculate the Solvency Capital Requirement (SCR) from 0.10% to 0.15%.

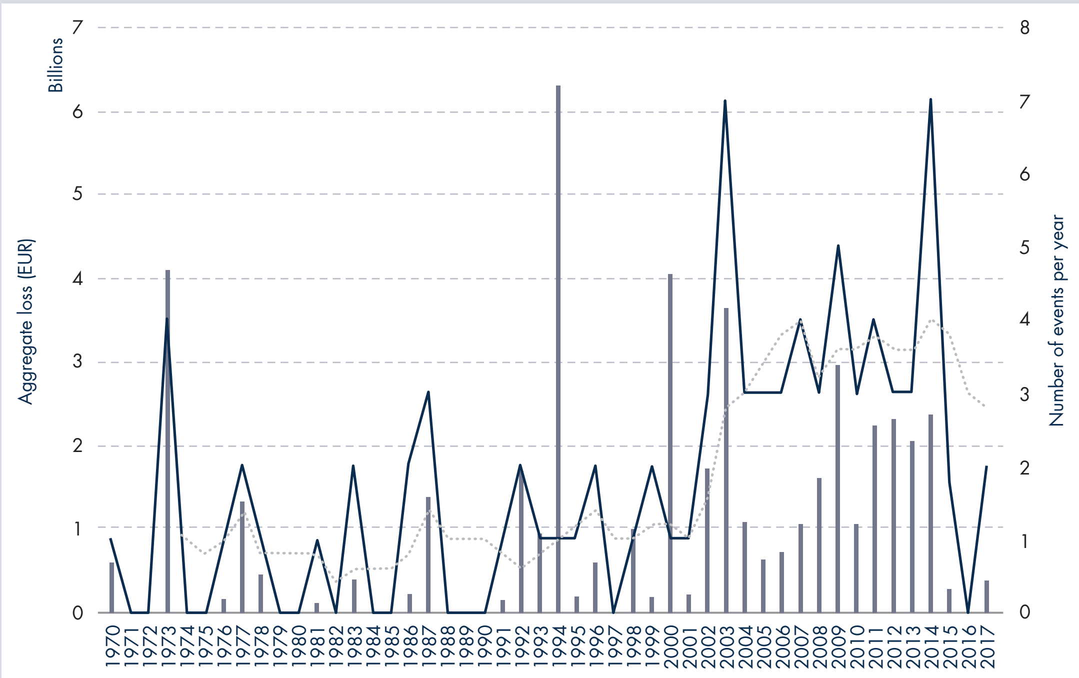
ANIA carried out a specific analysis to verify the need for EIOPA's suggested increase, taking as reference a number of models implemented by insurance and reinsurance companies to manage flood risk. The analysis focused on the models that are most commonly used by companies and whose annual maximum damage for total exposure to flood risk of Italian insurers is – with a probability of 99.5% – between 0.10% and 0.15%.

The evidence produced by the models examined suggests that EIOPA adopted the assumptions of the more prudent models, rather than taking the average value, which also factors in models where the probable annual maximum damage does not exceed 0.10%.

Besides the results based on the models observed, the historical data would seem to suggest no immediate need to raise the SCR factor for flood risk coverage to 0.15%.

In fact, Swiss Re data (Figure 1) show that, following the increase in both the frequency and damage of flooding between 2002 and 2014 on average compared with the previous thirty years, 1970-2000 (excluding events caused by heavy rainfall), a reversal of trend has been registered since 2015, with values recorded having decreased to levels prior to the recorded peaks. At the moment, EIOPA's recommendation seems excessive in light of the time series data and the results of the prediction models used by the market for this category of damage. For the time being, given the low exposure to flood risk, the impact on capital requirements should remain moderate, given the low exposure to flood risk, although it could surely raise some concern, should the companies have to expand their insured risks portfolio.

Figure 1
Economic damage and frequency of floods in Italy, 1970-2017 (at 2017 prices)



Source: Swiss Re Institute, Sigma Database

THE CHANGES INTRODUCED BY THE 2018 BUDGET LAW ON NAT-CAT POLICIES

The 2018 Budget Law (paragraphs 768-770) introduced some important changes regarding tax incentives on homeowners insurance against natural disasters. In particular, since 1 January 2018, these policies have benefited from an IRPEF deduction of 19% of the premiums (with no ceiling), as well as from an exemption from the tax imposed with Law 1261/1961, which amounted to 22.25%.

ANIA, which for years has been calling for voluntary homeowners insurance against natural disasters, including in legislative lobbying, welcomes the newly introduced tax incentives.

The measure may be a first step towards countering the reluctance of Italian citizens to insure their homes against the risk of catastrophic events: indeed, while at the end of 2016 only 2% of the Italian housing stock was insured against earthquakes and floods, in March 2018 (in only 3 months) the percentage already showed growth (2.5%), most likely thanks to the new incentives in the Budget Law (see "The diffusion of fire insurance with extension to natural disasters; results of the GFK survey).

The law does not define in detail the scope of the measure, which is why ANIA, pending clarifications from the Revenue Agency, issued some interpretative notes for the market, the following being the most important:

- tax incentives apply to all new contracts and policy renewals as of 1 January 2018;
- when natural disaster coverage is offered as part of a multi-risk policy (the typical home or apartment building building policy), the incentives apply only to the premium component related to natural disasters;
- the tax benefit goes to all insurance coverage against all natural disasters, in other words "events capable of causing damages to a community (property and people) in a particular area, in a given period of time", according to the Civil Protection Department's definition of "natural disaster risk".

While such incentives are an important step towards promoting insurance against this category of risks, they do not solve the problems related to the current management of natural disasters in Italy, which can only be overcome with a shift in the overall strategy and, as recommended repeatedly by ANIA, by establishing a regulated public-private system for preemptive, structured management of natural disaster risk.

THE DIFFUSION OF FIRE INSURANCE WITH EXTENSION TO NATURAL DISASTERS; RESULTS OF THE GFK SURVEY

ANIA's statistical survey on the diffusion of fire insurance with extension to natural disasters

With a view to assessing the impact of the 2018 Budget Law's tax incentives for individuals subscribing insurance policies against natural disasters for dwellings, ANIA carried out a new statistical study to quantify the number of policies and exposure (in terms of value insured) of Italian dwellings insured against fire, with a special focus on insurance extension to natural disasters and how it changed from the previous edition of the survey (30 September 2016).

The survey saw the participation of a large sample of companies (representing 90% of all fire policy premiums). Based on these data, ANIA elaborated an estimate of the exposure for the whole market. Following is an account of the results for the main factors characterizing the fire insurance policies examined by the survey.

Type of policy. At the end of March 2018, the number of active policies (for the whole market) was 9.1 million, up by 4.6% from the last survey of September 2016. The total value insured was €3,374.4 billion, broadly stable compared with 2016 ([1]) (Table 1). Of these, over 55% are multi-risk policies ([2]) (52% in 2016), 31% individual fire policies (single risk), less than 13% building policies, and just 0.7% (up from 0.5%) are policies covering only earthquake risk and not fire. By contrast, the percentage distribution of the amounts insured shows that over half of the assets insured refer to comprehensive building policies (these evidently being the most significant in terms of value), 33% to multi-risk policies and over 16% to individual fire policies (single risk).

Table 1 – Type of policy

Type of policy	March 2018		September 2016		March 2018		September 2016		% change 2018/2016	
	No. policies	% share	No. policies	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	No. policies	Value insured
Multirisk	4,996,969	55.0%	4,523,165	52.1%	1,107,530	32.8%	1,004,100	30.0%	10.5%	10.3%
Fire (single risk)	2,839,114	31.2%	2,792,230	32.1%	546,912	16.2%	560,900	16.8%	1.7%	-2.5%
Comp. building	1,143,081	12.6%	1,289,552	14.8%	1,691,073	50.1%	1,758,746	52.6%	-11.4%	-3.8%
Only earthquake	62,566	0.7%	39,480	0.5%	22,512	0.7%	13,916	0.4%	58.5%	61.8%
Uncoded	50,655	0.6%	44,963	0.5%	6,391	0.2%	5,915	0.2%	12.7%	8.0%
TOTAL	9,092,385	100.0%	8,689,391	100.0%	3,374,417	100.0%	3,343,576	100.0%	4.6%	0.9%

Risk sector. Table 2 shows that 84.2% of fire insurance policies are for dwellings (82.5% in September 2016), 13.8% for industrial buildings ([3]) (down from the last survey) and only 2.0% for ancillary commercial units, i.e. those units used for business activities and located on the ground floor of mainly residential buildings. Clearly, in terms of amounts insured the percentage distribution varies greatly, as buildings, having a greater value than individual

([1]) The data for 2016 have been revised in keeping with rectifications notified by some insurers.
([2]) Multirisk policies are those covering diverse types of risk, such us theft, fire and liability. The data for these statistics, in any event, relate only to fire coverage.
([3]) ISTAT defines "building" as "a roofed construction, isolated by streets or open spaces or separated from other constructions by bearing walls running uninterrupted from foundation to roof, with one or more free entryways on the street and possibly one or more independent stairways.

dwellings, account for over half the total amount insured (51.2%); another 46% is for dwellings, only 2.4% for ancillary commercial units.

Table 2 – Risk sector

Risk sector	March 2018		September 2016		March 2018		September 2016		% change 2018/2016	
	No. policies	% share	No. policies	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	No. policies	Value insured
Dwelling	7,652,344	84.2%	7,170,029	82.5%	1,564,694	46.4%	1,524,473	45.6%	6.7%	2.6%
Building	1,253,848	13.8%	1,360,218	15.7%	1,729,231	51.2%	1,751,084	52.4%	-7.8%	-1.2%
Ancillary commercial unit	186,192	2.0%	159,144	1.8%	80,492	2.4%	68,019	2.0%	17.0%	18.3%
TOTAL	9,092,385	100.0%	8,689,391	100.0%	3,374,417	100.0%	3,343,576	100.0%	4.6%	0.9%

Note that since there are 1.253 million policies covering whole buildings, and the average number of apartments per building can be calculated at 4.4 ([4]), based on ISTAT data, the total number of dwellings insured for the entire market may be estimated at roughly 13.3 million [7.652 mln (dwellings) + 1.253 mln (buildings) x 4.4 + 0.183 mln (ancillary units)]. Of the dwellings found by ISTAT in the 2011 census (31.2 million), then, 42.8% have fire insurance (up from 42.2% in 2016 – see footnote 3).

Policy extension to natural disasters. Italy is characterized by an approach to the management of damage caused by natural disasters which traditionally relies on ex-post intervention by the central government. This approach to damage management, implemented repeatedly over time, has legitimated the belief that there is a last-resort guarantor in charge of reconstruction. This is why insurance coverage against natural disasters is so rare: 93.2% of fire policies have no such coverage extension (Table 3).

Table 3 – Extension of fire insurance to natural disasters

Policy extension	March 2018		September 2016		March 2018		September 2016		% change 2018/2016	
	No. policies	% share	No. policies	% share	Value insured (euro mln)	% share	Value insured (euro mln)	% share	No. policies	Value insured
None	8,469,908	93.2%	8,249,693	94.9%	3,194,456	94.7%	3,205,633	95.9%	2.7%	-0.3%
Earthquake only	289,400	3.2%	190,225	2.2%	102,892	3.0%	74,659	2.2%	52.1%	37.8%
Flood only	220,147	2.4%	186,787	2.1%	44,458	1.3%	39,341	1.2%	17.9%	13.0%
Earthquake and flood	112,930	1.2%	62,686	0.7%	32,612	1.0%	23,942	0.7%	80.2%	36.2%
TOTAL	9,092,385	100.0%	8,689,391	100.0%	3,374,417	100.0%	3,343,576	100.0%	4.6%	0.9%

([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 (4.4) is higher than that indicated by ISTAT.

To promote nat-cat policies (earthquake and floods), Law 205 of 27 December 2017 established, from the year 2018, tax incentives for anyone subscribing this type of homeowner insurance. The results of the survey (regarding all active policies as at 31 March 2018) show that 6.8% of policies have an extension of coverage to natural disasters, up from 5.1% recorded in September 2016. However, looking only at policies subscribed in the first quarter of 2018, this percentage rises to over 10%. The observation period is of course very limited, but the tax incentives would seem to have had a positive effect.

We cannot, however, disregard the fact that as of 31 March 2018 there were over 620,000 policies with extension to natural disasters on the market, a number obtained from the sum of individual earthquake policies (289,000), individual flood policies (220,000) and multi-risk earthquake and flood policies (113,000). In just eighteen months since the September 2016 survey, the number of policies with an extension to natural disasters has increased by 43%.

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 2018 is estimated at roughly 766,000. In relation to the total number of dwellings surveyed by ISTAT(31.2 million), insurance diffusion would appear to be still very moderate at 2.5%.

Comparing this with the estimate for 2009 (when dwellings insured against natural disasters numbered scarcely 35,000) shows a twenty-fold increase in insurance coverage, signifying that the Italian market is growingly sensitive to this type of insurance. As a matter of fact, since 2009 there have been 40 floods and several severe earthquakes (L'Aquila in 2009, Emilia Romagna in 2012 and central Italy between August 2016 and January 2017), which has evidently helped to increase awareness of the need to protect real estate property.

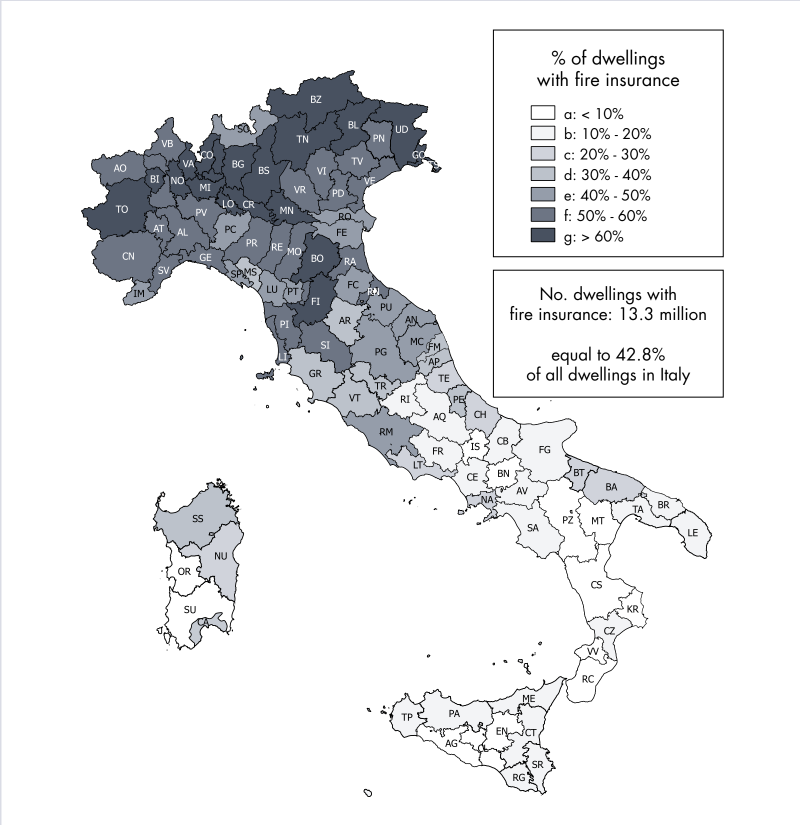
Given the data available, we have estimated, at national level, that:

- the amounts insured exceed **€100 billion for individual earthquake policies**, whereas they reach roughly **€45 billion for individual flood policies, plus an additional €33 billion for policies covering both risks**. Overall, total exposure amounts to €180 billion (it was under €150 billion in September 2016);
- the average premium (**net of taxes** ([5])) **for the 9.1 million fire policies surveyed is €166**. Given that these policies provide insurance for 13.3 million dwellings (with an average floor area of 130 m^2), the average premium per dwelling unit comes to €105. As for the guarantee extension to natural disasters, the average premium (net of taxes) for the over 620,000 policies insuring against earthquake or flood or both is €110. As these policies provide insurance for 766,000 dwellings (with an average floor area of 110 m^2), the per dwelling premium comes to €90.

Percentage of all dwellings covered by fire insurance. Analyzing the incidence by province of insured over total dwellings (42.8% at national level – see above), we find that almost everywhere in the North of Italy more than one of every two dwellings has fire insurance, whereas in the South in most cases the proportion does not exceed 20% (Figure 1). In Biella, Milan and Trieste, nearly 80% of dwellings are insured, 73% in Varese, 69% in Bolzano and Brescia, compared with only 8% in Oristano, Isernia, Sud Sardinia, Benevento and Potenza and less than 7% in Agrigento, Crotone and Enna.

([5]) Currently 22.5% of the premium.

Figure 1
% of dwellings with fire insurance



Percentage of all dwellings covered by natural disaster insurance. Also significant, is the provincial breakdown of the incidence of dwellings insured against natural disasters (2.5% at national level), which exceeds 6% only in Alessandria, Milan, Mantua, Varese and Trento (Figure 2); generally, across the North, the incidence is between 3% and 5%. In Emilia-Romagna, the province with the highest incidence is Reggio Emilia (over 5%), followed by Ferrara and Modena (nearly 4.5%). In central Italy, the provinces with the greatest incidence are Prato and Florence at just under 4%, whereas in most southern cities the percentage of insured dwellings does not reach 1%.

A more detailed analysis of insurance penetration of nat-cat policies shows that 428,000 ([6]) dwellings (of the 31.2 million dwellings surveyed by ISTAT) are insured against earthquake (1.7%) and slightly fewer insured against flood risk (1.3%). Focusing on the 428,000 earthquake policies, the data suggests that the propensity to buy insurance is irrespective of the risk of that event. In fact, analyzing the distribution of these policies across the various seismic zones ([7]) in Italy (Figure 3) we find that, compared with an average national incidence

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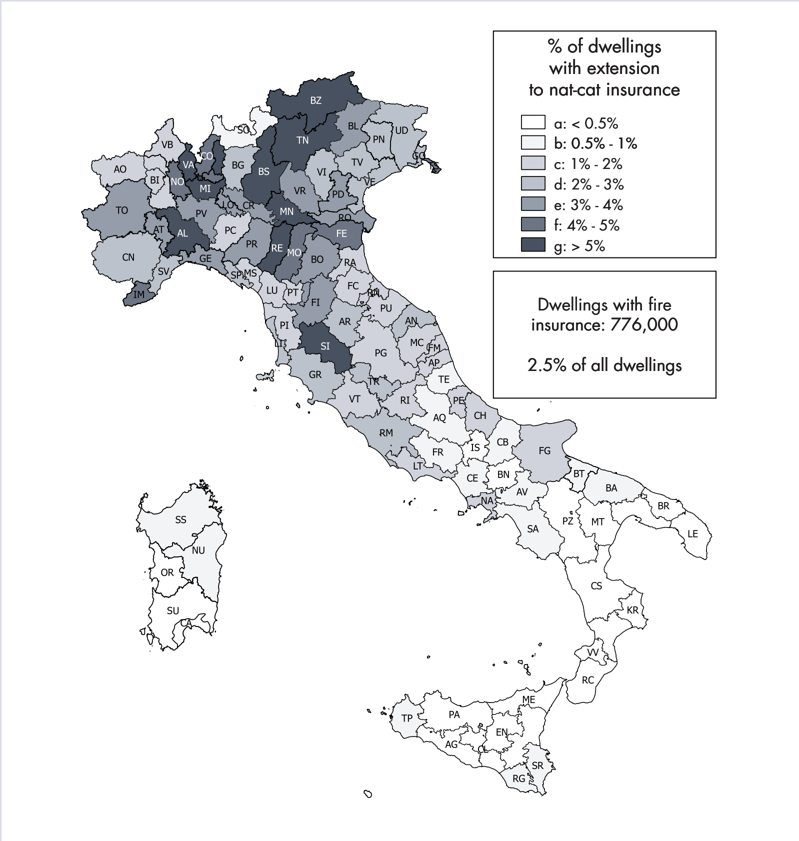
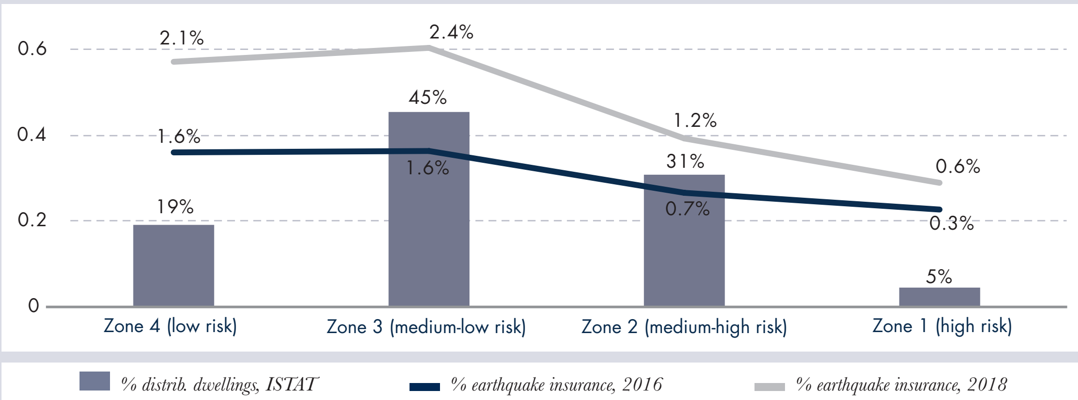
([6]) The number of dwellings insured against lach risk (478,000 for earthquake and 421,000 for flood) is calculated counting both those insured against earthquake or flood risk only and those insured for both risks. Thus of the 776,000 dwellings with nat-cat insurance, 123,000 are covered for both earthquake and flood.
([7]) ANIA has reworked the Civil Protection Department's classification of sismic hazard, regrouping the classes into four zones: **Zone 1 (high risk)**, classes 1, 1-2A; **Zone 2 (Medium-high risk)**, classes 2, 2A, 2A-2B, 2B; **Zone 3 (Medium-low risk)**, classes 2A-3A-3B, 3, 3s, 3A, 3A-3B, 3B, 3-4; **Zone 4 (Low risk)**, class 4.

Figura 2
% of dwellings with nat-cat insurance



of 1.7%, the incidence of earthquake insurance in Zone 1 and Zone 2 (medium to high seismic hazard), is very low at 0.6% and 1.2% respectively. Conversely, the incidence is above-average in the lower-risk areas of Zone 3 and Zone 4 (2.4% and 2.1% respectively).

Figure 3
Earthquake insurance penetration by seismic risk zone



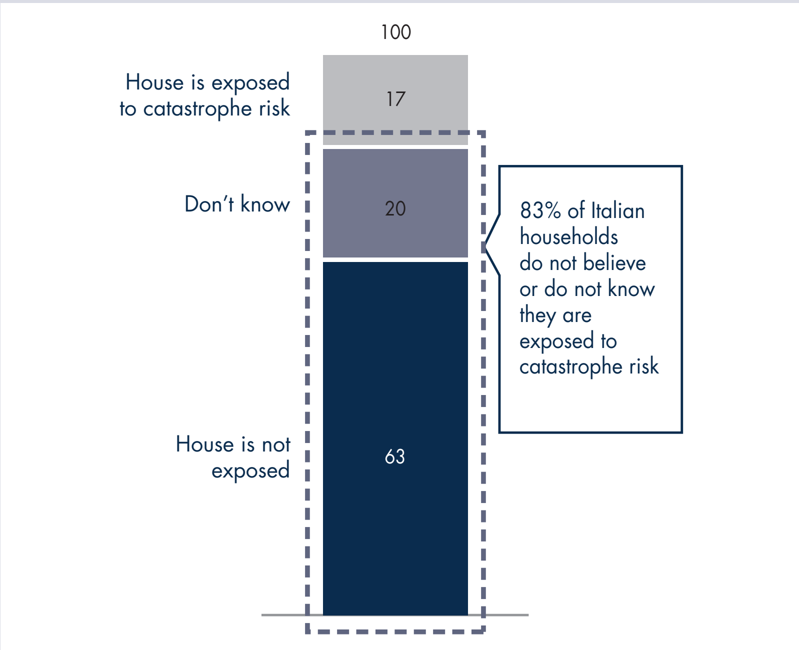
The data reported in Figure 3, taking into account flood risk as well, offers interesting if also worrying information. The percentage distribution of dwellings (as surveyed by ISTAT) shows a heavy concentration in high-risk zones. In particular, with regard to seismic risk, over 35% of all Italian dwellings are in the most hazardous areas (Zones 1 and 2); and when flood risk too is added, the percentage rises to nearly 55%. Moreover, ANIA's calculations indicate that 78% of dwellings are exposed to at least one of the two risks, highlighting the extreme vulnerability of the Italian territory.

Findings of the GFK survey

Given Italy's high hazardousness and the heavy concentration of dwellings in the areas with the highest risk of catastrophic events, in 2017 ANIA commissioned GFK to conduct a survey of Italian households' openness and willingness to purchasing a homeowner's policy covering such damages. The results show a growing interest in insurance cover against these risks, although this decision comes at the end of a process that is not always linear and which sometimes unveils misperceptions on the part of individuals.

For instance, the answers to the questionnaire suggest that Italians are convinced their homes are insured against catastrophic risks, in a higher percentage than is actually the case. The lack of awareness is explained partly by the fact that insurance contracts are often subscribed by the condominium administrators (the so-called comprehensive building policies) and the individual apartment owners are not aware of the specific terms. Also incorrect is the perception of danger: only 17% believe their house is exposed to earthquake risk (Figure 4), a significantly lower percentage than the actual 35% resulting from ANIA's survey.

Figure 4 Italian households' perception of exposure to catastrophe risk (% of respondents, GFK Eurisko survey)



A third common belief (nearly one of every two households, 46%) is that the government has some sort of obligation to intervene, totally or partially, to reimburse property damage after a natural disaster; the percentage rises to 54% for those who believe they live in a high-risk area (Figure 5).

At the same time, almost half of the respondents (46%) stated they would be in favor of buying insurance against natural disasters, a portion rising to 76% where the following conditions are met: 1) guarantee of certain and immediate compensation corresponding to the reconstruction value of the house; 2) affordable premium; 3) damage assessment done by a trusted appraiser (Figure 6). Thus, raising awareness of the risks and efficacy of insurance policies would seem to be the right way to encourage Italian households to insure their house against catastrophic risks.

Figure 5
Italian households' perception of role of government in covering damage to homes in natural disaster (% of respondents, GFK Eurisko survey)

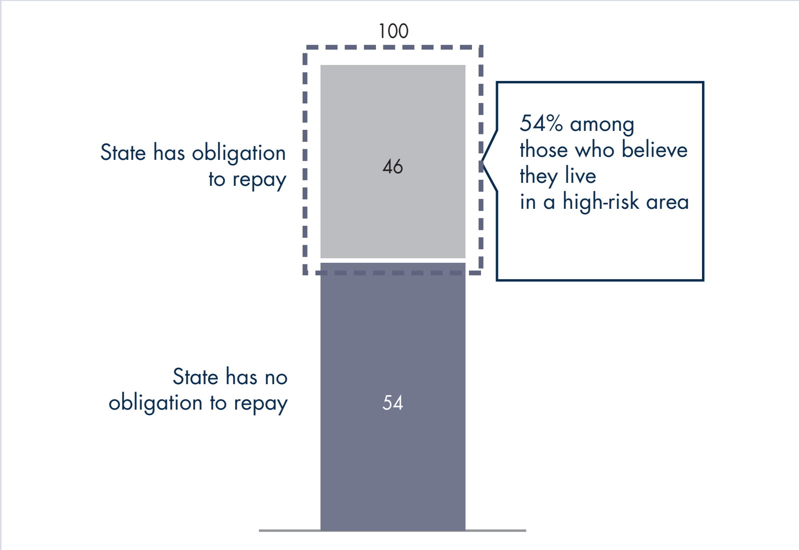
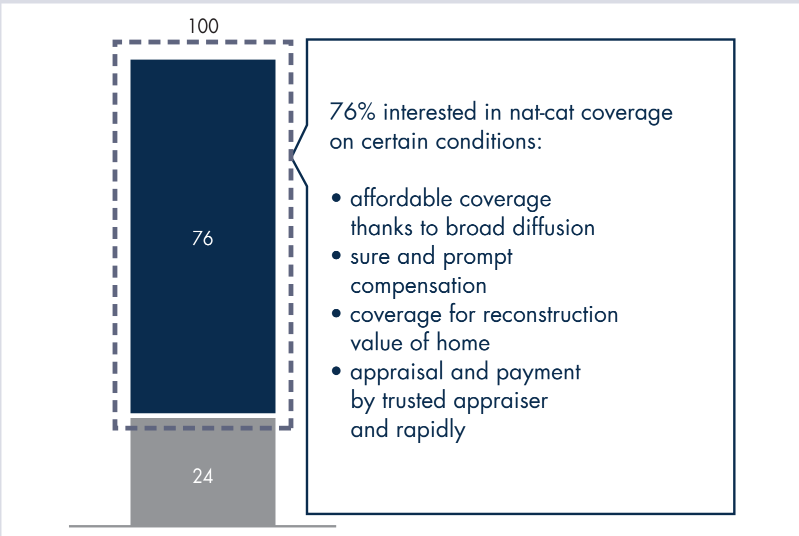


Figure 6
Italian households' propensity to subscribe nat-cat policy, on certain conditions (% of respondents, GFK Eurisko survey)



MEDICAL THIRD-PARTY LIABILITY

The Gelli Law

The Gelli Law (Law 24/2017) entered into force in March 2017. The act implements a radical reform of medical malpractice liability and introduces compulsory insurance both for individual practitioners and public and private healthcare facilities.

In order for the law to become effective, two implementation decrees must be issued, one by the Ministry for Economic Development to establish the minimum policy requirements for practitioners and institutions, the other by the Ministry of Health to regulate the guarantee fund established with Art. 14 of the law and which can be accessed only in three cases expressly specified, namely: 1) when damages exceed the ceiling of the policy; 2) when the insurance company is insolvent at the time of the claim; 3) when the healthcare institution or individual practitioner does not have insurance coverage.

Furthermore, Law 3/2018 – "Enabling act to the Government for matters regarding clinical drug tests as well for provisions for the reform of health professions and healthcare diligence of the Ministry of Health"– published in the *Gazzetta Ufficiale* in January 2018 charged the fund with the task of facilitating insurance coverage of medical practitioners/sole practitioners.

The decrees have not been issued yet, so neither compulsory insurance nor the guarantee fund is currently active.

Over the past year, ANIA has collaborated in several technical committees, both institutional and cross-sector, to present the observations and proposals of the insurance industry on the contents of the provisions.

The Milan Tables

Another long-awaited provision is the Presidential Decree implementing Article 138 of the Insurance Code (non-material damage for serious injuries) as reformulated by the law on competition approved in August 2017. Given the express mention in Article 7 of the Gelli Law, Article 138 applies not only to motor liability but also to medical third-party liability and, in the amended formulation, provides for the publication of a single national table for non-material damage quantification in case of severe injury (ranging from 10% to 100% permanent disability) which shall take into account also the criteria already used in case-law precedents, hence by the tables of the Court of Milan.

On 14 March 2018 the tables, which given the legislative void currently serve as supplementary tool, were updated by the Observatory on Civil Justice of Milan. The new tables corrected those of 2014 to revalue damages and indicate the guidelines for the settlement of a series of damages related to the first table and which the Observatory itself deemed unsuitable for determining compensation.

In particular, the new non-economic damage items with the greatest impact on medical third-party liability are:

– predecease damage, when the victim of an offense dies for circumstances other than the debilitating injury suffered and unrelated to the lesions to the psychological and physical integrity caused by the offense. If the death due to other and independent cause occurs before the victim has received the settlement, then the heirs are entitled to compensation for the biological damage (pain and suffering) suffered by the deceased, but reduced according to the time between the injury and death. The settlement of the non-economic damage is not calculated according to residual life expectancy but the number of years actually lived, so as to compensate for the actual injury for the exact period during which the injured person lived.
– terminal damage, suffered by the victim of fatal injuries payable *iure proprio* provided that the death is not immediate but occurs after a significant period of time after the injuries.

Claims made clause

In November 2017, the legitimacy of the "claims made" clause was submitted, once again, to the Court of Cassation (third civil section, combined sections).

The issue had already been dealt with by the combined sections of the Court of Cassation in sentence no. 9140/2016. On that occasion, the Court specified that, while the clause was generally not unconscionable, it may be declared null and void under certain conditions for lack of merit.

Subsequently, in sentence no. 10506 of 28 April 2017 of the third civil section of the Court of Cassation, the court revisited the issue and tried to provide the interpreter with useful criteria to determine when a claims made clause could, in fact, be considered unworthy. In particular, in the following cases:

1. when attempting to attribute an unfair and disproportionate advantage to one of the parties without any reciprocity for the other party;
2. when either party is in a state of undetermined subjection to the other party;
3. when either party forces the other to adopt forms of behavior in contrast with the higher moral duties of solidarity imposed by the Constitution.

However, this reasoning led the Court to consider claims made clauses not providing for overextension as null and void, thus deeming claims made after the expiry of the policies as covered.

In this order, the legitimacy of the claims made clause is presented before the Court of Cassation in a new guise.

What is questioned is mainly the fact that a request for compensation, and not an actual event, may represent a claim.

In the course of a highly complex argument, the lower court explained its negative answer saying any definition of claim other than that of "adverse event" would be improper.

In conclusion, the questions submitted to the Court of Cassation by the lower court are the following:

1) whether in non-life insurance the parties are allowed to elevate to the status of claims facts other than those envisaged by Art. 1882 and Art. 1917 of the Italian civil code (in case of third-party liability);
2) whether in third-party liability insurance, under Art. 1322 of the Italian civil code, clauses establishing entitlement and extent of maximum amounts payable not under the contractual terms applicable at the time the insured caused the damage but those in force at the time the claim was made must always be deemed illegitimate.

The Court has yet to rule on these questions.

MEDICAL MALPRACTICE INSURANCE

Medical malpractice insurance is the backbone of any developed country to ensure an effectively functioning healthcare system. A pervasive system of insurance coverage should ensure greater serenity to the practitioner (or the healthcare institution) and strengthen the relation of trust between doctor and patient; the uncertainties surrounding healthcare activity should decrease and professionals should work more serenely, in a less stressful environment, thus reducing the practice of "defensive" medicine.

In order to provide a correct and comprehensive picture of the technical trends of insurance coverage for medical malpractice policies, ANIA has relied, for the past two years now, on the results of a survey based on data provided by insurance companies to the supervisory authority and to ANIA ([1]).

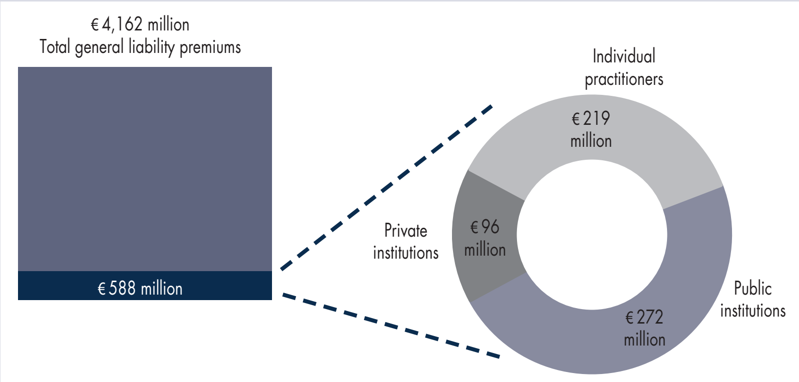
The data reported below refer to all insurance companies (100% of the market), including foreign branches, operating in Italy in this sector and take into account all claims lodged with insurance companies between 2010 and 2017. It should be specified that the data for 2017 (and all claims developments to that date) are to be considered temporary and subject to possible changes during specific controls and comparison with the results that will be published by IVASS.

Volume of premiums

Direct Italian medical liability insurance business was €587.6 million in 2017, 46.3% of it accounted for by policies subscribed by public institutions, 16.4% by private facilities and the remaining 37.3% by individual practitioners. Medical malpractice insurance falls within the class of general liability insurance (which in 2017 amounted to €4.2 billion for Italian and foreign companies) of which it accounts for 14.1% (Figure 1). Given that general liability comprises a wide range of different guarantees, the incidence of medical malpractice is therefore significant.

Figure 1
Malpractice premiums over total T.P.L. premiums, 2017

Medical malpractice



([1]) The sectors analyzed are:

- healthcare institutions: analysis of policies covering institutional liability, differentiated between public and private institutions. This type of policy is subscribed to protect the institution against damage to third parties, obviously including patients, damage due to healthcare actions performed by the institution or personnel, either employees or collaborators. The coverage generally extends to damage caused by the condition of the clinic, such as misuse of equipment, the employer's liability to workers. Up to the ceiling for healthcare activity, also included are structures such as nursing homes, medical labs, diagnostic centers and universities.
- liability of healthcare personnel: the survey covers policies for professional liability of all those working in healthcare (e.g. nurses, paramedical personnel) as well as, obviously, medical professionals, for damage for which the insured party has been ruled wholly or partially liable.

Table 1 – Distribution of malpractice premiums by institution and practitioner, 2010-2017 (*)
(amounts in thousands of euros)

Year of claim	Public institution	Annual % change	% of total	Private institution	Annual % change	% of total	Practitioners	Annual % change	% of total	Total malpractice	Annual % change	% of total
2010	514,398		70%	79,503		11%	140,506		19%	734,408		100%
2011	459,200	-10.7%	63%	103,852	30.6%	14%	169,667	20.8%	23%	732,720	-0.2%	100%
2012	423,828	-7.7%	60%	99,584	-4.1%	14%	184,115	8.5%	26%	707,527	-3.4%	100%
2013	341,847	-19.3%	56%	89,115	-10.5%	14%	184,886	0.4%	30%	615,848	-13.0%	100%
2014	302,931	-11.4%	52%	80,078	-10.1%	14%	196,023	6.0%	34%	579,032	-6.0%	100%
2015	268,372	-11.4%	45%	84,575	5.6%	14%	240,157	22.5%	40%	593,104	2.4%	100%
2016	283,939	5.8%	48%	93,145	10.1%	16%	215,232	-10.4%	36%	592,316	-0.1%	100%
2017	271,958	-4.2%	46%	96,404	3.5%	16%	219,292	1.9%	37%	587,655	-0.8%	100%
Change 2010-2017		-47.1%			21.3%			56.1%			-20.0%	
Average annual change		-8.7%			2.8%			6.6%			-3.1%	

(*) Premium volume for total of insurers doing this business; the technical indicators reported in the tables that follow are from a slightly reduced sample of insurers that supplied data both on premiums and on claims

Premiums are broadly unchanged from 2016 for the entire sector, but the trends of each category of policyholders analyzed were different (Table 1). In fact, in 2017 the volume of premiums of public healthcare institutions was 4.2% lower than in 2016 at €272.0 million, while that of private institutions increased for the third consecutive year (+3.5%) to just above €96 million, as did premiums of individual policies which amounted to €219 million (+1.9%).

Number and average cost of claims

The first technical element to consider in order to assess the riskiness of a particular segment is the number of claims received by insurance companies every year. For all medical malpractice insurance, the number of claims made in 2017 was 18,350, of which 5,800 for policies taken out by public healthcare institutions and over 3,200 by private institutions, plus approximately 9,400 from individual practitioners (Table 2).

Table 2
Number of claims

Year of claim	Public institution	Annual % change	Private institution	Annual % change	Practitioners	Annual % change	Total malpractice	Annual % change
2010	15,828		5,739		8,476		30,042	
2011	14,032	-11.3%	5,141	-10.4%	9,688	14.3%	28,861	-3.9%
2012	13,117	-6.5%	4,895	-4.8%	10,659	10.0%	28,671	-0.7%
2013	10,881	-17.0%	3,876	-20.8%	11,454	7.5%	26,211	-8.6%
2014	8,591	-21.0%	3,507	-9.5%	11,087	-3.2%	23,185	-11.5%
2015	7,257	-15.5%	3,284	-6.4%	10,586	-4.5%	21,127	-8.9%
2016	5,949	-18.0%	3,082	-6.2%	8,587	-18.9%	17,618	-16.6%
2017	5,755	-3.3%	3,230	4.8%	9,361	9.0%	18,346	4.1%
Change 2010-2017		-63.6%		-43.7%		10.4%		-38.9%
Average annual change		-13.5%		-7.9%		1.4%		-6.8%

The total number of claims for overall medical malpractice insurance returned to growth in 2017 (+4.1% compared with 2016), after it had decreased for six years; however, claims filed by public healthcare institutions diminished by 3.3%, whereas those from private facilities and individual practitioners grew by 4.8% and 9.0% respectively.

Over the last seven years the number of claims received for the whole medical malpractice business receded by 40% from some 30,000 in 2010 to 18,346 in 2017. This positive trend is mainly attributable to public healthcare facilities leaving the insurance coverage system (in certain regions) in favor of self-reliant risk retention solutions, bringing down the number of claims by 64% between 2010 and 2017. Over the same period, claims made by private institutions also diminished (-44%), while those received from individual practitioners fluctuated, recording an increase in 2010-2013, followed by a steady decrease until 2016 and a renewed increase to 9,361 claims in 2017, or 10.4% more than in 2010.

Number of no-payment claims

The medical malpractice insurance business is characterized by a high number of claims made and which, after examining the liability of the professional or of the healthcare institution at trial, do not result in any compensation actually being paid, as in many cases the damage was not due negligence. More specifically, there has been an increase over time in the number of criminal and civil proceedings to hold the practitioner or institution liable for events which, instead, cannot be attributed to an error by the physician or mismanagement by the clinic. This process, which has affected all developed countries in general, started in the mid-20th century in the United States.

Table 3 shows the situation as at 31 December 2017 of medical malpractice claims that insurers closed without compensation (no-payment claims), according to their year of registration. It is useful to look at the incidence of no-payment claims on the number of total claims received, rather than at the absolute number of no-payment claims.

Table 3
Number of no-payment claims to 31 December 2017

Year of claim	Public institution		Private institution		Healthcare personnel		Total malpractice claims	
	No. no-payment claims	% no-payment claims	No. no-payment claims	% no-payment claims	No. no-payment claims	% no-payment claims	No. no-payment claims	% no-payment claims
2010	7,161	45%	3,451	60%	4,658	55%	15,270	51%
2011	6,956	50%	3,293	64%	5,828	60%	16,077	56%
2012	7,306	56%	2,990	61%	6,696	63%	16,992	59%
2013	5,756	53%	2,312	60%	7,122	62%	15,190	58%
2014	4,745	55%	2,056	59%	6,205	56%	13,006	56%
2015	3,900	54%	1,647	50%	5,223	49%	10,770	51%
2016	2,782	47%	1,354	44%	2,153	25%	6,289	36%
2017	1,794	31%	1,031	32%	1,302	14%	4,127	22%

Looking at the oldest claims (registered between 2010 and 2013), we see that on average at the end of 2017 more than half of all malpractice claims were closed without payment of any compensation.

Interestingly, no-payment claims show a similar trend both for public and private healthcare institutions, although the latter recorded a higher incidence of no-payment claims for the older generations. This could be due to the fact that for healthcare institutions (especially private) the phenomenon of duplication of malpractice complaints is more frequent, given that often immediately after the occurrence of the event a claim is made both individually by the personnel involved in the individual case (both medical and non-medical) and by the institution; many of these claims then lapse when the insurance company can treat them as a single claim. The quicker inquiry into claims made by multiple parties for the same incident presumably helps close no-payment claims more quickly for institutions rather than for individual practitioners.

Incidence of claims and amounts settled and reserved over total claims by year of registration.

The percentages of claims settled (whether by number or by amount) are relatively low for the more recent generations of claims, because both the effective liability of the insured and the value of the damage are generally quite uncertain (Table 4). The older the generation of claims, the higher the percentages: 8 years after reporting, nearly 23% of claims, for the whole class, remain unsettled, accounting for 32.2% of the amount reserved for that claim generation. Of the three types of policies analyzed, individual practitioners account for the highest incidence of claims to be settled (by amount) for the "oldest" year of registration (2010); in fact, 8 years after the reports, 44% of claims are still unsettled compared with 30% for public and private institutions. The gap is narrower if we look at the number of claims.

Table 4
Malpractice claims settled/reserved to 31/12/2017, % of total

Year of claim	Public institution		Private institution		Healthcare personnel		Total malpractice claims	
	No. claims settled %	No. claims reserved %	No. claims settled %	No. claims reserved %	No. claims settled %	No. claims reserved %	No. claims settled %	No. claims reserved %
2010	*77.9%*	*22.1%*	*75.5%*	*24.5%*	*75.5%*	*24.5%*	*76.9%*	*23.1%*
2011	*74.5%*	*25.5%*	*68.2%*	*31.8%*	*70.5%*	*29.5%*	*72.4%*	*27.6%*
2012	*74.5%*	*25.5%*	*57.5%*	*42.5%*	*62.7%*	*37.3%*	*67.7%*	*32.3%*
2013	*68.0%*	*32.0%*	*53.7%*	*46.3%*	*48.2%*	*51.8%*	*58.2%*	*41.8%*
2014	*51.1%*	*48.9%*	*46.9%*	*53.1%*	*42.9%*	*57.1%*	*46.6%*	*53.4%*
2015	*34.4%*	*65.6%*	*36.2%*	*63.8%*	*31.2%*	*68.8%*	*33.0%*	*67.0%*
2016	*15.1%*	*84.9%*	*27.1%*	*72.9%*	*13.7%*	*86.3%*	*16.2%*	*83.8%*
2017	4.1%	95.9%	9.9%	90.1%	4.4%	95.6%	5.2%	94.8%

Year of claim	Public institution		Private institution		Healthcare personnel		Total malpractice claims	
	Amounts paid %	Amounts reserved %	Amounts paid %	Amounts reserved %	Amounts paid %	Amounts reserved %	Amounts paid %	Amounts reserved %
2010	*69.8%*	*30.2%*	*69.5%*	*30.5%*	*56.2%*	*43.8%*	*67.8%*	*32.2%*
2011	*58.2%*	*41.8%*	*57.8%*	*42.2%*	*51.0%*	*49.0%*	*56.7%*	*43.3%*
2012	*62.5%*	*37.5%*	*52.2%*	*47.8%*	*44.9%*	*55.1%*	*57.0%*	*43.0%*
2013	*54.1%*	*45.9%*	*35.0%*	*65.0%*	*32.0%*	*68.0%*	*45.3%*	*54.7%*
2014	*34.7%*	*65.3%*	*28.6%*	*71.4%*	*22.2%*	*77.8%*	*30.6%*	*69.4%*
2015	*21.7%*	*78.3%*	*18.2%*	*81.8%*	*15.4%*	*84.6%*	*19.6%*	*80.4%*
2016	*8.2%*	*91.8%*	*10.8%*	*89.2%*	*9.5%*	*90.5%*	*8.9%*	*91.1%*
2017	1.2%	98.8%	1.8%	98.2%	2.8%	97.2%	1.7%	98.3%

Evolution of the average claim cost

Table 5 reports the average cost of claims (paid and reserved) for the three types of policies by year of registration, showing that the average claim cost tends to increase as the percentage settled rises and the data are consolidated.

At first, in fact, insurers often underestimate the cost of claims, because the evaluation of physical impairment is complex and adequate information is commonly not available immediately after the occurrence of the event. This is compounded by uncertainty in evaluating damages owing to frequent changes in court rulings in this field. For instance, for claims made against public healthcare institutions in 2010, insurance companies registered an average claim cost of €37,000. Three years later, the cost had risen by 60% to over €60,000, and continued to grow further to €68,000 at the end of 2017, producing what can be presumed to be the "ultimate" average claim cost for that generation of claims.

Table 5 – Average cost of claims, 2010-2017
In euros

Sector	Year of claim	No. years after claim							
		1	2	3	4	5	6	7	8
Public institutions	2010	37,468	46,887	54,432	60,022	64,163	64,715	65,950	68,010
	2011	49,322	57,953	62,083	64,580	65,053	64,877	64,730	
	2012	53,371	69,389	75,058	71,704	73,839	65,289		
	2013	55,907	65,875	69,020	72,628	72,141			
	2014	61,785	74,662	85,450	93,437				
	2015	70,338	99,455	111,717					
	2016	87,120	109,661						
	2017	81,688							
Private institutions	2010	23,218	36,458	46,300	49,416	50,985	52,552	54,021	54,878
	2011	33,145	41,592	54,734	58,274	62,130	62,321	61,030	
	2012	38,980	49,468	58,839	62,971	66,205	64,443		
	2013	40,445	55,760	61,529	59,679	60,380			
	2014	39,531	49,497	59,675	65,603				
	2015	33,819	57,301	52,986					
	2016	40,935	44,640						
	2017	45,454							
Healthcare practitioners	2010	21,121	21,137	25,342	30,309	30,902	29,680	29,884	30,329
	2011	20,445	21,387	29,801	30,642	32,872	34,030	35,719	
	2012	19,082	21,078	24,965	31,104	33,516	32,592		
	2013	24,133	25,869	34,837	40,881	39,556			
	2014	21,408	24,286	28,485	31,045				
	2015	21,906	19,976	30,420					
	2016	19,204	22,446						
	2017	18,045							
TOTAL MALPRACTICE	2010	30,801	37,980	45,237	50,541	53,581	53,329	54,406	55,903
	2011	36,457	42,309	50,146	52,574	54,327	54,746	55,258	
	2012	36,502	45,631	52,230	55,374	58,133	53,755		
	2013	39,124	45,801	53,702	58,109	57,636			
	2014	36,825	45,387	54,296	59,545				
	2015	38,817	47,907	60,337					
	2016	41,794	50,211						
	2017	40,013							

Private healthcare facilities registered a similar, and in some years more marked, trend, as did individual practitioners, although to a lesser extent. The average claim cost 8 years after registration for claims made in 2010 was lower (around €55,000) for private healthcare institutions and more than halved (€30,000) for individual practitioners.

Loss ratios

The high settlement costs (rising over time) have produced extremely negative results for the sector's technical account, hence high loss ratios. As with other business segments, for a correct assessment of the performance of medical liability insurance we must also examine the loss ratio (claims in relation to premiums) for the entire medical liability branch.

Table 6 gives medical malpractice insurance loss ratios for the whole sector and separately for healthcare institutions and individual practitioners, for the various claims generations.

Table 6 – Malpractice loss ratio, 210-2017

Sector	Year of claim	No. years after claim							
		1	2	3	4	5	6	7	8
Public institutions	2010	113.5%	120.8%	119.5%	115.6%	116.0%	115.2%	114.9%	118.3%
	2011	124.3%	129.3%	119.4%	112.0%	108.6%	105.6%	103.4%	
	2012	117.2%	129.3%	118.1%	108.3%	107.8%	93.4%		
	2013	131.2%	130.4%	119.8%	115.7%	110.2%			
	2014	121.1%	134.3%	125.3%	118.6%				
	2015	123.8%	146.8%	139.7%					
	2016	111.4%	122.3%						
	2017	119.0%							
Private institutions	2010	130.0%	158.5%	168.1%	160.8%	153.1%	153.1%	157.5%	161.0%
	2011	125.1%	132.4%	130.2%	122.7%	123.6%	121.1%	108.0%	
	2012	137.2%	142.5%	140.0%	136.8%	136.1%	116.7%		
	2013	127.5%	146.4%	142.1%	125.2%	107.2%			
	2014	128.3%	131.9%	138.2%	118.9%				
	2015	94.6%	123.6%	102.6%					
	2016	92.1%	82.8%						
	2017	103.7%							
Healthcare practitioners	2010	99.2%	92.7%	89.4%	89.5%	82.3%	84.4%	82.0%	82.4%
	2011	96.5%	89.7%	94.9%	83.8%	83.6%	82.9%	81.3%	
	2012	93.3%	87.7%	78.9%	79.4%	79.3%	70.2%		
	2013	117.8%	108.9%	104.1%	102.9%	92.7%			
	2014	110.0%	98.8%	83.5%	77.3%				
	2015	74.0%	65.9%	67.9%					
	2016	64.3%	67.1%						
	2017	66.3%							
TOTAL MALPRACTICE	**2010**	**112.4%**	**119.2%**	**118.7%**	**115.2%**	**113.1%**	**113.1%**	**112.8%**	**115.6%**
	2011	**117.7%**	**120.1%**	**115.0%**	**106.6%**	**104.6%**	**102.2%**	**98.7%**	
	2012	**113.4%**	**119.7%**	**110.4%**	**104.2%**	**103.8%**	**90.2%**		
	2013	**126.6%**	**126.0%**	**118.1%**	**113.1%**	**104.4%**			
	2014	**118.3%**	**122.0%**	**112.9%**	**104.7%**				
	2015	**99.5%**	**110.7%**	**105.4%**					
	2016	**91.2%**	**96.0%**						
	2017	**96.8%**							

At 31 December 2017, the average loss ratio for all generations was practically 100% or higher.

However, observing the three technical indicators separately, public and private institutional coverage shows higher ratios and has a greater impact on the overall industry trend. For the 2010 to 2012 claims generations, private institutions recorded the worst technical results. In more recent years (2013 to 2017), public healthcare institutions registered the highest loss ratio, between 110% and 140% on average; moreover, given their greater impact (in terms of number of claims and premiums), their loss ratio tends to shape the trend of the entire class. For individual practitioners' policies, on the contrary, the loss ratio has shown some improvement starting with the 2014 generation, with values under 100%, although the loss ratio for 2017 has begun to grow again. Nonetheless, less than 30% of claims of this generation have been settled, so it may be too early to quantify the actual loss ratio.

NEW RULES ON OVEREXTENSION FOR PROFESSIONAL LIABILITY INSURANCE POLICIES

Law 124 of 4 August 2017, also known as the "Annual market and competition law" was published in the *Gazzetta Ufficiale* on 14 August 2017. Among the provisions concerning the insurance industry, Article 1, paragraph 26 is noteworthy, as it introduces an overextension rule for professional liability policies.

The provision amends Article 3, paragraph 5, letter (e) (Abrogation of undue restrictions on access to and exercise of professions and economic activities) of Decree Law 138/2011 (Additional urgent measures for financial stabilization and development), ratified with amendments as Law 148/2011, which had introduced compulsory insurance for all professionals for risks related to the exercise of their professional activity, and requiring professionals themselves to disclose the details of the insurance policy to the client when accepting the assignment.

The provision in force was thus supplemented: "in any case, without prejudice to the contractual freedom of the parties, the general terms of insurance policies... require the offer of an overextension period for insurance coverage for claims made for the first time within the ten subsequent years but referring to events that occurred during the policy period and which gave rise to liability." The provision applies with immediate effect also to policies active at the date of entry into force of the law, expressly establishing that "... upon request of the policyholder and without prejudice to contractual freedom, insurance companies shall propose a renegotiation of the contract to the applicant according to the new premium terms."

At first glance, the safeguard clause in the opening phrase of the provision "without prejudice to the contractual freedom of the parties" would seem to exclude the existence of a generalized obligation for insurance companies to add the overextension period to the coverage offered. The most likely assumption, in line with the explanatory memoranda to the Decree Law, is that such overextension should be "offered" to the insured when, after examining their situation at the time of the signing or renewal, there is a tangible risk that without such an extension the policyholder may be exposed to the risk of a coverage void because of the claims-made mechanism for professional liability policies.

It is no accident that, in order to avoid this, overextension is already compulsory for some professional categories (medical practitioners, lawyers and notaries) under sector-specific regulations (laws or implementing ministerial decrees), albeit only in case of termination of the professional activity, which represents the event in which the "coverage void" described above is most likely to occur.

Evidently, for professions where overextension is already regulated, the need arises also to understand which regulation actually applies, i.e. either the rules set forth by the "competition law" or the "special" rules contained in the sector-specific regulations. In this regard, pending clarifications, a possible interpretation is to order the sources of law hierarchically rather than chronologically. Therefore, at least for notaries and lawyers (for whom the compulsory overextension clause is not required by primary legislation but only by the ministerial implementing decree) the reference regulation would be paragraph 26 of the Competition Law. Differently, for medical practitioners overextension is directly regulated by primary legislation, Law 24/2017, so the conflict of law cannot be solved by the hierarchical criterion but rather by a criterion of specialty. Therefore, in this case the applicable overextension clause would be that set out by Article 11 of Law 24/2017, to the extent that this law is considered *lex specialis*, superseding the same provision set out by the Competition Law.

In any case, the unequivocal purpose of this legislation is to institute the most suitable solutions for continuing coverage for the professional, possibly also by including the overextension clause among the options in the information packet. The actual recourse to the clause by the individual policyholders will depend on case-by-case assessment, taking into account the specific situation of the policyholder and verification by the intermediary, who takes on a particularly important role in determining the adequacy of the clause, which could clearly be unnecessary for a full-time working professional who simply wants to renew the policy without interruptions. With regard to existing policies, for which the law establishes that "upon request of the policyholder and without prejudice to contractual freedom, insurance companies shall propose a renegotiation of the contract to the applicant according to the new premium terms", we believe the purpose mentioned above should be recalled and may be achieved through accurate analysis of the situation of the existing contract to assess the best insurance solution, possibly by implementing the policy comprising the overextension clause.

NEW RULES FOR PUBLIC PROCUREMENT CONTRACTS

Decree 31/2018 of the Ministry for Economic Development containing the "Rules for the adoption of the standard contracts for surety bonds set out by articles 35, 93, 103(9) and 104(9) of Legislative Decree no. 50 of 18 April 2016," was published on 10 April 2018 in the *Gazzetta Ufficiale*.

Although the decree only regulates surety bonds, it also abrogates (Art. 3) Ministerial Decree 123 of 12 March 2004 of the Ministry for Productive Activities, which regulated standard contracts for surety bonds as well as those for insurance coverage referred to in articles 17 and 30 of Law 109/1994, the so-called Merloni law.

In this regard, the Ministry for Economic Development – in accordance with the indications expressed by the Council of State in its favorable opinion on the regulation – apparently intends soon to issue a measure reorganizing public procurement contracts, including both surety bonds and insurance coverage contracts.

The Regulation comprises an Annex A, which specifies the reference legislation, the definitions and standard contracts for the six types of bond cited (for the provisional deposit; for the definitive deposit; for the advance; for the final instalment; for contract resolution; for performance) and an Annex B with the relevant technical sheets.

Looking at the content, Article 1, entitled "Purpose and scope", expressly establishes that such surety bonds may be issued "also jointly by multiple guarantors." In light of this, for each of the surety types referred to above, in addition to the "classic" standard contract used in case of single guarantor, very similar to the pre-existing contract, an additional standard contract was added for surety bonds issued by more than one guarantor.

Under Article 1(2), the guarantors shall be free to choose whether to issue the bond with "*separate acts for each guarantor and its share*" or *"with a single act listing all the guarantors and their respective shares"*.

Article 1(2) also specifies that *"the repartition of the shares pertains to the internal relations among the guarantors, without prejudice to their joint and several liability towards the contracting body or the awarding authority."*

This specification was added following some indications of the Council of State, which judged it necessary after the reintroduction of the joint and several liability clause, initially eliminated by the tenders decree and reintroduced in 2017 with the corrective decree (Legislative Decree 56/2017).

The standard contracts envisaged by the decree apply solely and exclusively to the ordinary sectors; however, Art. 2(6) expressly envisages also the possibility of applying them to special sectors and in concessions when "the tender documents envisage the types of surety bond referred to in the standard contracts and specifically cite the present decree."

Finally, Art. 2 defines the temporal scope of application of the Decree, which will apply only to procedures and contracts with calls for tender and notices published after its entry into force – scheduled for 25 April 2018. As for contracts without the publication of calls for tender or notices, the new rules will apply when the calls for tender have not yet been sent.

7

HUMAN RESOURCES AND LABOR

STAFF AND LABOR COSTS

Personnel make-up and costs: the statistics

At the end of 2017 the Italian insurance industry's managerial and non-managerial staff numbered 46,558, down 0.6% from a year earlier, when total staff came to 46,850. The contraction was due in part to major corporate restructuring and reorganization.

ANIA produced this estimate for the entire industry, which includes some 3,500 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 (37,747 employees), dealers and organization staff (5,156), contact center staff (2,346) ([1]), and managers (1,309).

Administrative staff shrank by 162 (-0.4%) in 2017, while contact center diminished more sharply, by 2.4%, as did dealers and organization staff, by 1.8%. Managerial staff, instead, increased by 24 (+1.9%).

For the entire industry, the number of men employed slipped by 0.8% and that of women by 0.5%. At the end of the year female personnel accounted for 46.7% of the total, essentially the same as a year earlier. About 46% of all insurance employees are now university graduates; another 50% have upper secondary school diplomas; these figures too are about the same as in 2016.

The total cost of staff (including administration staff, managers and contact center personnel but not dealers and their organization staff) amounted to €3,857 million in 2017, 0.6% more than the previous year. The increase due to the raises for non-managerial employees under the new collective bargaining agreement was partly offset by the decline in their numbers and by lesser costs sustained by insurers for early retirement incentives. The per capita cost for these employees came to €92,930, up 0.8% compared with 2016 ([2]).

However, the total cost for dealers and related staff, at €285 million, came down by 0.6% during the year, owing above all to the decline in commissions, which decreased by 4%; per capita costs were broadly unchanged at €54,767 in 2017.

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 0.6% in 2017 to €4,142 million, while per capita costs rose 0.8% to €88,675.

([1]) Contact center staff is subdivided into contact center operations employees (formerly called "call center, first section") numbering 1,456, and contact center sales employees (formerly called "call center, second section") numbering 890.
([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
2007 (**)	*41,121*	*5,157*	*46,278*
2008	41,479	5,352	46,831
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

Total staff costs
Euro million

Year	Administrative (*)	Dealers	Total
2007 (**)	*2,972*	*277*	*3,249*
2008	3,118	273	3,390
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

Change in total staff costs
(%)

Year	Administrative (*)	Dealers	Total
2008	4.9%	-1.6%	4.3%
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%

Change in per capita staff costs
(%)

Year	Administrative (*)	Dealers	Total
2008	4.6%	-3.8%	3.8%
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%

(*) Administration, call center and managerial staff
(**) In 2007 for the first time the total included employees of subsidiaries of insurance companies and dealers who due to a major corporate restructuring were now included in ANIA's statistics

LABOR REGULATION AND THE INDUSTRY SOLIDARITY FUND

The 2018 Budget Law – Provisions concerning labor

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. Most of these measures were directed to the implementation of the "Jobs Act" and to fostering permanent employment, especially for young people. Some of the provisions of the 2018 budget law issued at the end of 2017 correspond to this aim, with substantial social security contribution relief for the hiring of workers to permanent contracts starting in 2018 (with structural incentives for youth employment and subsidies for hirings to permanent jobs in the South), as well as pension measures to facilitate early retirement for workers close to meeting the pension eligibility requirements.

The structural incentives for youth employment under the budget law include a provision that private sector employers who take on new employees on open-ended contracts are entitled to social security contribution relief of 50% for up to 36 months and €3,000 a year per worker. The tax relief goes only to firms hiring persons who, at the time of the first subsidized hiring, are younger than 35 and have not previously held a permanent position with that firm or another.

Starting 1 January 2019, this subsidy is restricted to persons younger than 30 at the time of the first subsidized hiring.

To facilitate early retirement by workers who are close to meeting the pension eligibility requirements, the budget law extends from 4 to 7 years (only for 2018-2020) the maximum duration of the instrument introduced by the "Fornero" Law to encourage early retirements in firms with at least 15 employees with a benefit equal to the amount of the "theoretical" pension entitlement until the employee meets the minimum requirements for the old age or early retirement pension.

The Intersectoral Solidarity Fund for income support, jobs, occupational reconversion and requalification for employees in insurance and social assistance (ANIA/AISA Fund)

ANIA's Industrial Relations Department cooperated with the Ministry for Labor and Social Policy and the Directorate General of INPS (the social security administration) to clarify the scope of the interministerial decree instituting the ANIA/AISA Intersectoral Solidarity Fund. The Ministry confirmed – issuing a specific opinion, in line with ANIA's earlier observations – that ANIA itself is among the entities to which the specific provisions of the Solidary Fund apply, with the consequent reduction of contribution rates. On the basis of the Ministerial opinion, ANIA applied for admission to the ANIA/AISA Intersectoral Fund. The application was approved by the Fund's Management Committee in resolutions dated 6 July and 5 October 2017.

This outcome is important. It accords to ANIA, like all insurance companies and mutual societies, an unemployment benefit that can be granted (where the requirements are met) to all non-managerial employees, paying in the same contribution as insurance undertakings themselves, which, it may be recalled, is at a lower rate than that charged to companies that do not have a sectoral solidarity fund and thus are within the scope of the wage supplementation fund (formerly known as the "Residual" fund).

As to the Fund's activity, again in 2017 some insurance companies and groups involved in major corporate reorganizations and restructurings with an impact on jobs had recourse – following special agreements with the trade unions – to the "extraordinary" benefits of the ANIA/AISA Intersectoral Solidarity Fund, resolving delicate operational situations in non-traumatic fashion.

The Fund's Management Committee dealt principally, during the year, with monitoring and management of the operations preliminary to accessing the benefits, actually carried out by INPS. ANIA itself performed a series of activities serving the companies involved in discharging their obligations.

Some agreements with trade unions involved the procedures for accessing the "ordinary" benefits of the Fund, i.e. income support in cases of corporate restructuring that entail loss of jobs or short hours, as well as the funding of training for occupational reconversion and requalification.

COLLECTIVE BARGAINING, INDUSTRY-WIDE AND COMPANY-LEVEL

Renewal of the insurance industry contract for non-managerial insurance personnel and coordinated text of the contract

The collective bargaining agreement for non-managerial personnel signed on 22 February 2017 made significant changes to work rules for greater flexibility in organization and the management of work, especially as regards working hours, the job descriptions and contracts of functionaries, and the activity of contact centers.

On 3 July agreement was reached with the unions on certain contractual matters that the parties had agreed to examine subsequent to the signature of the industry-wide collective bargaining agreement. These involved:

- new provisions governing the types of "flexible" contracts most commonly used in the industry (fixed-term, apprenticeship, temporary employment);
- new limits and ceilings on the amounts of reimbursements for health care assistance to insurance functionaries;
- a joint statement of the obligations upon workers to attest to sickness (and deadlines for discharging them).

As to flexible contract types in particular, the new agreement remands the matter in general and virtually in its entirety to collective bargaining, as provided in the Jobs Act.

In the light of the agreement – which concludes the discussion and negotiations for the renewal of the national contract – the parties met later to complete, on 15 December 2017, the drafting of the coordinated text of the industry-wide collective bargaining agreement and its annexes. The text includes two declarations on teleworking and "smart working" – the latter is particularly topical, practical for insurance companies, which have begun to use it on an experimental basis.

In the area of trade union relations proper, the parties had occasion in the course of the talks and at some trade union congresses to deal with the issue of connections between the insurance industry and the financial industry in general and the possibility of a "single collective bargaining agreement" for the workers of the companies involved. In this regard, the secretariats of the national trade unions and the insurance companies reaffirmed, first of all, the solidity of industrial relations in our industry and the ability of management and labor to reach even powerfully innovative agreements, reconciling their respective needs in competent and balanced fashion.

Given these observations, and considering the specific characteristics that still mark the two industries in regulatory, economic and management terms, the parties asserted their belief that at present the conditions for such a single contract do not subsist.

Regulation to implement the agreement on job support for the staff of undertakings subjected to compulsory administrative liquidation

The regulation, which is an integral part of the collective bargaining agreement of 22 February 2017, commits insurance companies (regardless of branch) to reserve – through fixed-term contracts – 3% of their hiring to non-managerial employees terminated by insurance companies placed in compulsory administrative liquidation from 22 February 2017 onwards and also to the staff already terminated, at that date, of the Progress, Faro and Novit insurance companies.

On this basis, and given that implementation of the accord necessitates the official acquisition of a series of data by the insurers, IVASS and the receivers or liquidators, the parties to the contract agreed, in an agreement signed 14 March 2018, that the regulation and the resulting hiring obligations on insurance companies shall apply starting 1 October 2018.

Collective bargaining agreement for non-managerial personnel in assistance insurance

The main insurers engaging in the social assistance branch, which have some 2,000 employees, belong to ANIA, but they have traditionally been covered by a separate bargaining agreement concluded by their own association, AISA. In 2017 some of these companies submitted to ANIA's council a request to stipulate, within ANIA, a special bargaining agreement for employees of insurance companies in the assistance branch. The request was made in part in view of ANIA's instruments and experience in trade union relations and collective bargaining and in part because of the fact – not a secondary one – that the trade unions are the same in both sectors.

On the assumption that any such new contract must continue to reflect the specifics of these companies' activity (hence ensuring the necessary operational, organizational and management flexibility and compatibility in terms of economic and wage provisions), ANIA announced that it favored the initiative, which among other things enables our association to extend its range of activity and deal directly with the trade union and contractual affairs relating to the employment relationships of employees in these member companies.

Accordingly, ANIA's negotiating delegation was assigned to conduct, together with companies active in assistance insurance, to study the matter and initiate, together with the national secretariats of the trade unions, all useful contacts. At the end of the first month of meetings, on 17 April 2018 the parties, with the participation also of some representatives of the insurance companies involved, signed an industry-wide collective bargaining agreement for the employees of the companies. The contract lapses, like that of the non-managerial employees of insurance companies in general, on 31 December 2019.

For all the matters covered this contract supplants the collective labor agreement formerly applied by the companies engaging in assistance insurance. In terms of rules and procedures, it institutes new procedures for the renewal of the industry-wide bargaining agreement and supplementary company-level agreements. It makes changes to the supplementary pension fund and health care plan; it institutes a new contractual framework for fixed-term employment (in line with the Jobs Act); and it introduces new provisions governing grievance procedures, which from now on can be settled, for these companies too, through ANIA.

As to economic clauses, the salary increases are smaller than those of the new insurance agreement signed by ANIA on 22 February 2017, reflecting the specific economic constraints of the assistance segment. Specifically, and even considering that the AISA contract had lapsed in September 2014, the new agreement calls for a total increment of €80 a month, gross, to be phased in in 4 tranches, from 1 January 2017 through 1 July 2020.

This agreement is to be followed by a transition document drafted by the parties specifying all the normative provisions to be applied.

Collective bargaining agreement for managerial personnel of insurance companies

On 30 November 2017 the employers association notified the sole signatory trade union, FIDIA, of the formal repudiation of the industry-wide collective bargaining agreement for the managerial personnel of insurance companies, scheduled to expire at 30 June 2018.

Subsequently, on the basis of emerging necessities, ANIA's standing industrial relations committee and negotiating delegation began a study of the issues that should be re-examined in the course of the upcoming contract renewal. In the light of this study and the indications set forth by ANIA's directive bodies, the Association contacted the trade union and, in May, initiated the contract talks.

Agreements with trade unions on corporate reorganization and restructuring

In the course of 2017 ANIA engaged in an especially important activity of support to insurance companies in relation to a series of corporate reorganizations and restructurings. Chiefly, the Association assisted insurers in carrying out the procedures of negotiation with the trade unions laid down in the industry-wide bargaining agreement.

In a good many cases, as noted earlier, the talks resulted in agreement with the trade unions preliminary to recourse to the benefits of the ANIA/AISA Solidarity Fund.

THE SOCIAL DIALOGUE

The Insurance Sectoral Social Dialogue Committee

Last year the social partners at European level, in implementing the "Joint Declaration on the social effects of digitalization in the insurance market and its effects on employment relationships" issued on October 2016, the social partners further developed their examination of the issue through studies and reports by member state insurance undertakings. The work focused mainly on new occupations emerging within the insurance market.

In this context, the Italian social partners reported on corporate best practices in the area of reconciliation of work with personal and family life, such as smart working and flexi-time.

TRAINING – JOINT INTERINDUSTRY FUNDS

Banking and insurance fund (FBA)

The Fondo Banche Assicurazione (the joint banking and insurance fund) continued its training activities in 2017 with the publication of four separate notices of available funding for company, sector, local and individual training plans for smaller companies.

The table below summarizes the funding approved by FBA for insurers.

Funding approved by Fondo Banche Assicurazioni for insurers, notices issued in 2017

Notice	No. applicants	Endowment	FBA grants	No. workers involved	Type of plan
Notice 1/2017 (in course of execution)	23	€ 40,000,000	€ 6,286,800.00	32,281	General
Notice 2/2017 (open)	19 (1)	€ 7,000,000	€ 510,617.91 (1)	Data not yet available (2)	Individual plans
Notice 3/2017 (in course of execution)	36	€ 10,700,000	€ 4,264,545.00	15,621	General
Notice 4/2017 (open)	2 (1)	€ 5,000,000	€ 104,400.00 (1)	8 (1)	Individual advanced training

Source: FBA – Area Valutazione e Monitoraggio Piani – data at 26 March 2018

(1) Applications submitted through 26 March 2018. The amount could increase before the notice is concluded
(2) The data on FBA funding will be available once the insurance companies complete their financial reports on the individual plans

Joint fund for continuing training of managers (Fondir)

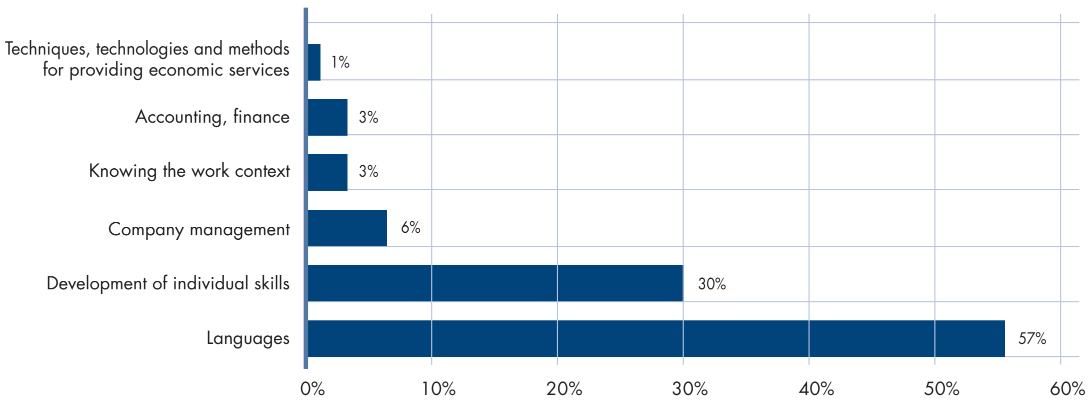
Fondir, the fund for continuing training of managers, also acted in 2017 to enhance managers' skills, funding individual and company training programs.

The amount allocated to the insurance industry for 2017 was nearly €600,000 to finance company and individual training plans. Applications were received and granted for over €160,000. Last year the program involved 19 insurance companies, with 8 company and 18 individual plans.

The amount allocated for the 2017 notice for the insurance industry was almost €550,000 to fund training activities posted on the Fondir site "bulletin board". Applications for over €50,000 were received.

Of the company and individual plans, 89% consisted in classroom instruction, 5.5% synchronous e-learning, 2.5% non-synchronous e-learning, and 3% other methods.

Company and individual training plans in insurance: the topics



Source: Based on Fondir data at 29 March 2018

With respect to the Fondir Bulletin Board (Bacheca Fondir), the various types of plans selected are given below.

2017 Notice Fondir Bulletin Board – Insurance industry

One-to-one	Seminar, workshop, conference	Advanced, master's
40% of the plans submitted	40% of the plans submitted	20% of the plans submitted

Source: Based on Fondir data at 29 March 2018

EUROPEAN QUALIFICATIONS FRAMEWORK (EQF)

Publication of the certification manual of insurance qualifications

In May 2017 ANIA, together with FBA, published the certification manual of insurance qualifications, drafted according to the standards of the European Qualifications Framework (EQF) and the ministerial decree of 30 June 2015. The manual, which brings together in a single volume all the qualifications described in the repertory of insurance industry qualifications, is the fruit of a lengthy and complicated process that got under way in mid-2013 and ended in the spring of 2017. It saw the direct involvement of ANIA and FBA experts plus insurance company and trade union representatives.

As the name implies, the European Qualifications Framework is a common European instrument to facilitate reading and comparison of the diverse qualifications to be found today in the various EU countries. For implementation, Community legislation called for each member state to draw up a National Repertory of qualifications for recognizability and integration of national systems, with a view to creating a European area of apprenticeship and exchange of skills.

To draft the insurance repertory, first the qualifications to be found within the industry had to be mapped, to create a set of typical qualifications as a uniform, shared basis for the repertory. This process, after careful rationalization of the survey findings, resulted in a manual containing:

– 58 qualifications covering the entire insurance industry, mapped according to five criteria: 1) the purpose of the role; 2) the main duties/activities; 3) profile of knowledge and skills; 4) degree of independence at work; and 5) EQF grade (from a low of 1 to a high of 8).
  The profiles were then subdivided into two sections: in one, those characterized by strongly typical insurance work, which for this reason are strictly correlated with the National Qualification Repertory; in the second, those that are mapped but shared with other economic sectors and as such not correlated with the Repertory;

- the Library of knowledge related to each qualification, where knowledge is represented in a conventional taxonomy; in particular, for each type of knowledge there is a concise description highlighting the main content that characterizes it;
- the Library of skills, which, by a procedure analogous to that for knowledge, collects the specific behaviors that facilitate the performance of the activities on a scale from 1 (poor/inadequate ability to accomplish) to 5 (high ability);
- the six process sequences that typify the insurance industry (product conception and design; distribution; adoption of tailor-made products; adoption of standardized products; management; claims settlement/benefit payments), in turn subdivided into activity areas for each process, with NACE codes, CP-2011 and ISCOP-08 for the single areas.

The manual, presented to insurance companies at a workshop on 27 June 2017, also offered the occasion to review the state of vocational training in Italy in general and in the Italian insurance industry in particular, and its future prospects in the light of labor market dynamics and national and EU regulatory tendencies.

Methodologically, it was emphasized in many quarters that the certification manual of insurance qualifications is a major point of reference from which insurers can get ideas for more efficient human resource management, combining organizational and business needs with worker protection.

8

INSURANCE DISTRIBUTION

The share of life premiums written through bank and post office branches and agents decreased slightly in 2017, while the shares accounted for by financial salesmen and direct marketing increased.
In the non-life sector, agents continued to be the main form of insurance distribution, although their share declined again, to the benefit of bank and post office branches. 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 2017 life premiums dipped for the second consecutive year (-3.6%), although more moderately than in 2016 (-11.0%). More specifically, premium income produced by bank and post office branches and by agents continued to decline, while all other channels scored an expansion (Table 1).

In particular, the volume of written premiums at bank and post office branches fell by 6.0% (-11.8% in 2016), significantly sharper than the market's overall decline of 3.6%, explaining why their market share came down to 61.3% from 62.9% recorded in 2016. Over five years, however, premium income still grew by 4.6%, with bank and post office branches remaining the market leader.

After the drastic decline in the life business of financial salesmen in 2016 (-22.0%), their volume of life premiums gained 3.4% in 2017, thus climbing back in terms of market share (from 14.0% to 15.0%) and becoming again the second-leading channel for the marketing of life policies.

Table 1 – Breakdown of distribution channels for the 2013-2017 observation period – Life classes

CHANNEL	Gross written premiums (Euro million)					Market share (%)					Average	Annual change (%)					Average change (%)
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	(2013-2017)	2013	2014	2015	2016	2017	(2013-2017)
Bank branches (1)	50,469	68,997	72,929	64,291	60,424	59.3	62.4	63.4	62.9	61.3	***61.9***	49.3	36.7	5.7	-11.8	-6.0	***4.6***
Financial salesmen	14,008	18,066	18,306	14,275	14,759	16.5	16.3	15.9	14.0	15.0	***15.5***	-13.9	29.0	1.3	-22.0	3.4	***1.3***
Agents	12,274	14,121	14,684	14,668	13,699	14.4	12.8	12.8	14.3	13.9	***13.6***	7.8	15.0	4.0	-0.1	-6.6	***2.8***
Direct sales	7,552	8,709	8,434	8,358	8,789	8.9	7.9	7.3	8.2	8.9	***8.2***	1.3	15.3	-3.2	-0.9	5.2	***3.9***
Brokers	797	626	594	659	939	0.9	0.6	0.5	0.6	1.0	***0.7***	0.8	-21.5	-5.1	10.9	42.4	***4.2***
TOTAL	85,100	110,518	114,947	102,252	98,610	100.0	100.0	100.0	100.0	100.0	***100.0***	22.1	29.9	4.0	-11.0	-3.6	***3.8***

(1) Data for this channel includes premiums distributed by post office branches

Written premiums sold through insurance agents dropped more than the market average (-6.6%), with a negative impact on their percentage weight, which went from 14.3% in 2016 to 13.9% in 2017.

Direct sales, which include not only the Internet and telephone channels but also policies marketed through tied agencies, increased by 5.2%, thus contributing to the expansion of their market share from 8.2% to 8.9%.

With a very marginal premium income, which still came short of a billion euros in 2017, brokers gained 42.4% but still intermediated just 1% of premiums of the whole life business.

By type of product (Tables 2 and 3), Class I products (traditional life insurance policies) declined by 14.7% in 2017, as business done by all the main channels declined: bank and post offices (-16.6%), financial salesmen (-17.0%) and agents (-15.0%), whose market shares thus diminished respectively from 67.4% to 65.9%, from 7.2% to 7.0% and from 16.2% to 16.1%. The drop was less sharp for premiums produced by direct sales (-1.3%), so this market share increased from 8.6% in 2016 to 10.0% in 2017.

Class III (unit and index linked policies), instead, recorded a significant increase (+30.1%), thanks to a positive boost across all sales channels. In particular, the premium income through banks and post offices gained 36.0%, increasing their market share from 54.4% to 56.9%, while agents gained 45.0%, and brought their share from 7.3% to 8.1%.

As for capital redemption policies (Class V), there was a 7.0% contraction resulting from the sharp drop in premiums generated by banks and post offices (-41.0%) which due to this plunge saw their market share drop to 22.6% from 35.5% and lost their leading position to direct sales, which instead gained 9.7%, expanding their market share from 34.7% to 40.9%. The volume of premiums written by all the other channels also increased. In particular, financial salesmen (with a market share of just over 1%) grew by 65.0%, followed by brokers (+28.9%) whose market share went from 5.6% to 7.8%, and agents, whose business expanded by 8.9%, pushing their market share up from 23.5% to 27.5%.

Class VI products (pension funds) registered premium growth of 9.8%, with positive performance in all channels. The predominant channel continues to be direct sales, accounting for over 40% of total premiums and gaining 9.7% in 2017, whereas the growth of bank and post office branches slowed down, decreasing their market share marginally from 33.6% to 33.2%.

As for individual retirement plans, premiums/contributions generated grew by 7.3% for the total market, as a result of the performance of all channels. In particular, agents continue to be the main distribution channel, although they grew less than the class average (+5.3%), thus bringing their market share to 36.1% from 36.7% in 2016. The importance of bank and postal marketing is unchanged at 30.5%, with growth of 6.9%, in line with that of the total market, while direct sales increased slightly from 14.2% to 14.9%, outpacing the average for this class (+12.5%).

Table 2
Breakdown of life market by class and distribution channel (%)

Class	Agents	Brokers	Bank branches ([1])	Financial salesmen	Direct sales	Total
YEAR 2017						
I - Life	16.1	1.0	65.9	7.0	10.0	100.0
III - Investment funds	8.1	0.1	56.9	32.6	2.2	100.0
IV - Sickness	28.7	43.0	22.6	0.0	5.7	100.0
V - Capitalization	27.5	7.8	22.6	1.3	40.9	100.0
VI - Pension funds	16.7	1.6	33.2	7.8	40.7	100.0
Individual retirement policies ([2])	36.1	0.3	30.5	18.3	14.9	100.0
TOTAL LIFE	13.9	1.0	61.3	15.0	8.9	100.0
YEAR 2016						
I - Life	16.2	0.6	67.4	7.2	8.6	100.0
III - Investment funds	7.3	0.0	54.4	36.8	1.4	100.0
IV - Sickness	26.0	31.8	24.3	0.2	17.7	100.0
V - Capitalization	23.5	5.6	35.5	0.7	34.7	100.0
VI - Pension funds	17.3	1.2	33.6	7.1	40.8	100.0
Individual retirement policies ([2])	36.7	0.1	30.6	18.3	14.2	100.0
TOTAL LIFE	14.3	0.6	62.9	14.0	8.2	100.0

Table 3
Change (%) in life premium volume by class and distribution channel 2017/2016

Class	Agents	Brokers	Bank branches ([1])	Financial salesmen	Direct sales	Total
I - Life	-15.4	44.1	-16.6	-17.0	-1.3	-14.7
III - Investment funds	45.0	284.3	36.0	15.2	105.3	30.1
IV - Sickness	24.2	52.3	4.9	-93.7	-63.6	13.2
V - Capitalization	8.9	28.9	-41.0	65.0	9.7	-7.0
VI - Pension funds	6.0	38.6	8.7	20.1	9.7	9.8
Individual retirement policies ([2])	5.3	112.6	6.9	6.9	12.5	7.3
TOTAL LIFE	-6.6	42.4	-6.0	3.4	5.2	-3.6

([1]) Data for this channel includes premiums distributed 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)

NON-LIFE INSURANCE

After a five-year negative trend, total non-life premiums started to grow again (+1.2%).

This was despite the performance of the agency network which, having traditionally been the main distribution channel for the collection of premiums in the non-life sector, remained unchanged from 2016 (Table 4). As a consequence, agents' market share slipped from 77.1% to 76.3%, compared with a five-year average of 78.3%.

By contrast brokers, the second-leading channel for the non-life sector, scored a gain of 3.0% in business volume, higher than the sector average, and recorded a slight increase in their market share from 9.2% to 9.3%.

Furthermore, this share is underestimated, insofar as a significant portion of the premium income they generate (around 21.7% 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 €10.0 billion (€3.0 billion in the official statistics) or to 31.1% of all non-life premiums (9.3% in the official statistics). As a consequence, the share effectively accounted for by agents should be corrected downwards to €17.6 billion (and not €24.7 billion, as in the official statistics) and their market share from 76.3% to 54.6%. For motor liability insurance, brokers' share in 2017 would thus come to 9.1% against 4.7% in the insurance company figures, while agents' share would come down from 83.8% to 79.4%. But this anomaly is significant mainly in the other non-life classes, where brokers' share should be adjusted from 13.9% in the official statistics to 52.6%, while that of agents would be reduced from 68.9% to 30.2%.

Table 4 – Breakdown of distribution channels for the 2013-2017 observation period – Non-life classes

CHANNEL	Gross written premiums (Euro million)					Market share (%)					Average	Annual change (%)					Average change (%)
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	(2013-2017)	2013 (4)	2014 (4)	2015	2016 (4)	2017	(2013-2017)
Agents	27,120	26,004	25,147	24,633	24,669	80.5	79.3	78.6	77.1	76.3	***78.3***	-5.4	-4.2	-3.3	-2.7	0.1	**-2.3**
Brokers (1)	2,648	2,867	2,694	2,927	3,017	7.9	8.7	8.4	9.2	9.3	***8.7***	-1.6	8.2	-6.0	4.5	3.0	**3.3**
Direct sales	2,663	2,596	2,593	2,570	2,577	7.9 (3)	7.9	8.1	8.0	8.0	***8.0***	-3.3	-2.6	-0.1	-0.9	0.3	**-0.8**
of which: Internet																	
and telephone sales	1,603	1,586	1,504	1,407	1,397	4.8 (3)	4.8	4.7	4.4	4.3	***4.6***	2.3	-1.1	-5.2	-6.5	-0.7	**-3.4**
Bank branches (2)	1,202	1,269	1,497	1,756	1,983	3.6	3.9	4.7	5.5	6.1	***4.8***	7.1	5.5	18.0	17.3	12.9	**13.3**
Financial salesmen	53	64	76	65	92	0.2	0.2	0.2	0.2	0.3	***0.2***	8.5	21.5	18.3	-14.0	39.9	**14.7**
TOTAL	33,687	32,800	32,007	31,954	32,337	100.0	100.0	100.0	100.0	100.0	***100.0***	-4.6	-2.7	-2.4	-1.0	1.2	**-1.0**

(1) Brokers' contribution over the years does not include the share of premiums generated through this channel with presentations at the agency and not directly at the company (estimated at 21.7 percent in 2017)
(2) Data for this channel includes premiums distributed by post office branches
(3) The data is not comparable with the time series because of the exclusion from direct Italian insurance business in 2013 of the portfolio of a national company which was transferred to the Italian operating branch of a European company. Including data from this company, the market share for direct sales would be 8.2%, of which 5.1% through the Internet and telephone sales
(4) Changes (%) are calculated on a homogeneous basis in terms of companies covered

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 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 €12.9 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 2007 on, adjusted as above. Note that in these eleven years the share of total non-life insurance accounted for by brokers gained over 5 percentage points, from 25.8% to 31.1%, whereas in the official statistics the gain was less than 2 points. After widening constantly to nearly 26 percentage points, the gap between the figures derived from the insurance companies and those estimated by ANIA on AIBA data has thus narrowed to less than 22 percentage points in 2017.

Table 5 – Estimated market shares 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 (%)
2007	2.4	7.5	90.4	85.3	14.0	50.2	76.2	40.0	7.4	25.8	84.3	65.9
2008	2.6	8.3	90.1	84.4	13.9	51.7	75.9	38.1	7.6	27.5	83.8	63.9
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

Direct sales (which in addition to telephone and Internet sales include premiums generated at the insurance company head offices) was virtually unchanged in 2017, as was the market share, which remained at 8.0%, in line with the five-year average. By contrast, Internet and telephone sales alone continued their steady decline from 4.8% in 2013 and 2014 to 4.3% in 2017 (-0.7%).

The marketing of non-life policies through bank and post office branches increased much more sharply than the overall market, with premiums rising by 12.9%, bringing their five-year average to 13.3%; the growth in their market share thus continued, rising from 3.6% in 2013 to 6.1% in 2017.

Financial salesmen continue to have an extremely marginal market share (0.3% in 2017).

As for motor insurance (motor third party liability and land vehicles) agents are still the main sales channel, accounting for 84% of the entire market. Nevertheless, their market share shrank, as their premium volume decreased by 1.3% compared with 0.8% for overall motor insurance business (Tables 6 and 7).

The second-leading channel for motor insurance business continues to be Internet and telephone sales, whose share is stable at 7.5%, thanks to the combined effect of a drop in telephone sales (-23.3%) and an increase in Internet sales (+8.0%). Next come brokers who, with a gain of 3.7% in premium volume, increased their market share from 4.5% to 4.7%. Bank and post office branches expanded their motor insurance business by 3.2%, confirming their market share at 2.8%.

Table 6
Breakdown (%) of non-life market by class and distribution channel

Class	Agents	Brokers (1)	Bank branches (2)	Financial salesmen/ Inv't firms	Subsidiary agencies	OTHER DIRECT SALES Telephone	OTHER DIRECT SALES Internet	Total
YEAR 2017								
Motor liability	85.8	3.1	2.6	0.2	0.4	1.8	6.1	100.0
Land vehicle insurance	74.1	12.3	3.7	0.1	4.0	1.4	4.4	100.0
Total motor	83.8	4.7	2.8	0.1	1.1	1.7	5.8	100.0
Health and accident	58.8	13.5	12.3	0.9	13.0	0.6	0.8	100.0
Transport (3)	31.1	62.7	0.3	0.0	5.8	0.1	0.1	100.0
Property (4)	74.1	12.0	10.1	0.2	2.0	0.5	1.0	100.0
General Liability	82.1	10.6	4.2	0.1	2.8	0.1	0.1	100.0
Credit and suretyship	71.6	17.5	4.6	0.0	6.3	0.0	0.0	100.0
Total non-motor	68.9	13.9	9.4	0.4	6.2	0.5	0.7	100.0
TOTAL NON-LIFE	76.3	9.3	6.1	0.3	3.6	1.1	3.2	100.0
YEAR 2016								
Motor liability	85.9	3.1	2.6	0.0	0.6	2.2	5.5	100.0
Land vehicle insurance	75.7	11.8	2.8	0.0	3.2	2.1	4.4	100.0
Total motor	84.2	4.5	2.7	0.0	1.0	2.2	5.3	100.0
Health and accident	60.7	13.0	11.1	0.9	12.8	0.7	0.8	100.0
Transport (3)	29.0	66.6	0.2	0.0	4.0	0.1	0.1	100.0
Property (4)	74.7	12.4	9.0	0.2	2.3	0.6	0.9	100.0
General Liability	82.0	10.2	3.8	0.1	3.6	0.1	0.1	100.0
Credit and suretyship	70.4	17.3	5.2	0.0	7.1	0.0	0.0	100.0
Total non-motor	69.8	13.9	8.4	0.4	6.3	0.5	0.7	100.0
TOTAL NON-LIFE	77.1	9.2	5.5	0.2	3.6	1.4	3.0	100.0

(1) Brokers' share over the years does not include the portion of income they generate that is presented to the insurance companies not directly by the brokers but via agencies (estimated at 21.7% in 2017)
(2) Data for this channel includes premiums distributed by post office branches
(3) Railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability
(4) The Property class includes: fire and natural forces, other damage to property, miscellaneous financial losses, legal expenses and assistance

Table 7
Change (%) in non-life premium volume by class and distribution channel 2017/2016

Class	Agents	Brokers (2)	Bank branches (3)	Financial salesmen/ Inv't firms	Subsidiary agencies	OTHER DIRECT SALES Telephone	OTHER DIRECT SALES Internet	Total
YEAR 2017/2016 (1)								
Motor liability	-2.2	-1.9	-3.8	(...)	-29.1	-22.7	8.4	-2.2
Land vehicle insurance	4.1	11.3	36.6	(...)	32.6	-26.7	5.8	6.3
Total motor	-1.3	3.7	3.2	(...)	1.8	-23.3	8.0	-0.8
Health and accident	2.4	10.3	17.5	3.4	7.2	-8.1	3.3	5.6
Transport (4)	5.1	-7.7	11.0	-0.0	41.1	0.8	-1.1	-2.0
Property (5)	2.1	0.2	16.6	11.6	-9.4	-6.2	12.9	3.0
General Liability	1.0	4.5	11.5	3.1	-23.2	1.0	0.6	0.9
Credit and suretyship	0.2	-0.1	-13.2	(...)	-12.8	(...)	(...)	-1.5
Total non-motor	1.9	2.8	16.1	4.8	1.4	-6.8	8.5	3.2
TOTAL NON-LIFE	0.1	3.0	12.9	39.9	1.4	-20.3	8.1	1.2

(1) Changes (%) are calculated on a homogeneous basis in terms of companies covered
(2) Brokers' share over the years does not include the portion of income they generate that is presented to the insurance companies not directly by the brokers but via agencies (around 21.7% in 2017)
(3) Data for this channel includes premiums distributed by post office branches
(4) The class of transport insurance includes: railway rolling stock, aircraft, ships, goods in transit, and aircraft and marine third party liability
(5) The Property class comprises: fire and natural forces, other damage to property, miscellaneous financial losses, legal expenses and assistance

LEGISLATIVE DECREE TRANSPOSING EU DIRECTIVE 2016/97 (IDD)

Legislative Decree no. 68 of 21 May 2018 transposing Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (the Insurance Distribution Directive, IDD) was published in the *Gazzetta Ufficiale* issue 138 of 16 June 2018. The Decree entered into force on 1 July 2018 and will become effective, in its substantial parts (Articles 1 and 2) on 1 October 2018, in compliance with the provisions of Directive (EU) 2018/411 of the European Parliament and the Council amending Directive (EU) 2016/97 with regard to the date of entry into force of the transposition measures at national level.

The text of the Decree is composed of 5 articles:

- art. 1, comprising 67 paragraphs, is drafted as a novation of the entire Italian Code of Private Insurance (*Codice delle assicurazioni private - CAP*), with special reference to the dispositions regarding Title IX on insurance distribution;
- art. 2, comprising the amendments to be made to the Consolidated Law on Finance (*Testo Unico della Finanza - TUF*) and those relating to the mediation for the settlement of civil and trade disputes;
- art. 3, pertaining to the transitional provisions on requirements regarding the Register of Intermediaries;
- art. 4 pertaining to the transitional and final provisions;
- art. 5, on the new rules on client profiling.

As is clear from the explanatory report on the implementing decree, “this legislative provision implements the delegation criteria provided for by European Delegation Law 2016 (Law 163 of 25 October 2017 entering into force on 21.11.2017), on the out-of-court settlement of disputes, on the registration body of insurance and reinsurance intermediaries, on the coordination of the regulatory provisions regarding packaged retail investment and insurance-based products and changes to the sanction system of undertakings and distributors.”

With special reference to the subjective scope of application of the new provisions, the revision of the Insurance Code, in line with the European provisions, aims to incorporate the inclusion of companies carrying out direct distribution.

Therefore, the new legislative framework establishes experience and integrity requirements that apply also to the managers in charge of the company’s distribution business and to its employees directly involved in distribution; the legislation introduces references to governance requirements for the companies to ensure compliance with these requirements (adoption, implementation and review of internal policies and procedures, designation of a department responsible for the implementation of such policies and, where necessary, communication to IVASS of the name of the officer in charge of the department).

With regard to entry in the Register of insurance and reinsurance intermediaries, the current system implemented by the CAP was maintained, extending compulsory registration also to non-exempt accessory market participants, who sell insurance products on an ancillary basis. The latter are persons whose main activity is not insurance distribution, which is limited to products ancillary to the main services or products offered. The national rules thus provide for coverage of the accessory by the rules of conduct, compulsory registration for other intermediaries to a specific section of the Single Registry of Intermediaries (*Registro Unico degli*

Intermediari), and graduation of the requirements for those subjects according to the activity exercised and the products distributed. When collaborating with insurers, these subjects are accorded the Community passport for the conduct of distribution business under the freedom to provide services or right of establishment in other Member States.

In accordance with the Directive, the transposing act identifies the ancillary activity excluded from the scope of application of the new distribution rules, establishing, in this case, that the annual premium of the insurance coverage cannot exceed a certain amount – slightly higher than the previous amount – and may now also be calculated on a *pro rata* basis for a period shorter than a year (3 months). It being understood that, in case of distribution through exempt ancillary distributors, the market participant – insurance company or main intermediary applying it – is responsible for ensuring compliance with the specific requirements regarding the pre-contractual information documents and transparency.

In compliance with European Delegation Law 2016, the national legislation enforces the creation of a dedicated body for the registration of intermediaries under the supervision of IVASS.

With regard to the rules of conduct and pre-contractual information documents, the implementation decree confirms the European provisions.

In particular, on the matter of conflicts of interest, the distributor shall maintain and operate effective organizational and administrative arrangements designed to prevent such conflicts of interest from adversely affecting the interests of its customers. Where the organizational or administrative arrangements made are not sufficient to ensure that risks of damage to customer interests will be prevented, the distributor shall disclose to the customer the general nature or sources of the conflicts of interest.

As for transparency on remuneration, the decree confirms the importance of disclosing to the customer the remuneration received in relation to the work done by the intermediary or the employee of the insurance company. In particular, the law states that the customer must be informed of the nature of the remuneration received and, in the case of intermediaries being paid directly by the customers, the information extends to the amount of the fee.

With regard to the pre-contractual documentation, compulsory drafting and delivery is introduced for:

- standardized pre-contractual documents, already required in the IDD (Pre-contractual Information Document);
- an Additional Pre-contractual Information Document on information exceeding, for subject or length, the "closed" format of the *Insurance Product Information Document* (IPID).

The obligation upon the insurer to draft and on the distributor to deliver the IPID applies also to non-IBIPs life products, whereas for the definition of the standard format and drafting procedures of the document for insurance contracts with multi-risk guarantees (such as PPIs), reference is made to the regulatory power of IVASS.

To increase consumer protection, the implementing decree, in accordance with the directive, lays down additional rules on conflicts of interest, inducements, assessment of the suitability and appropriateness of the product, similar to the provisions in the MiFID II Directive, limited to Insurance Based Investment Products (IBIPs). In this context, the supervisory body for the distribution of insurance-based investment products is IVASS, with regard to the placement of IBIPs by insurance companies or agents and brokers, without prejudice to the concurrent competence of CONSOB on the placement of such products by banks, investment firms, post offices and financial salesmen.

Furthermore, an IVASS regulation is to be adopted, after consultation with CONSOB, to harmonize the rules applicable to sales of IBIPs regardless of the distribution channel, and make sure IVASS and CONSOB agree on how to exercise the supervisory power according to their respective competences, so as to reduce the burden placed on the supervised entities. In particular, a Memorandum of Understanding will be adopted, to provide more guarantees to the consumer in the spirit of operational coordination between the two authorities.

As for Product Oversight Governance (POG), this is already subject to extensive and detailed regulation in the Commission Delegated Regulation no. 2017/2358, which is directly applicable and integrates the rules of the CAP transposing the IDD.

Therefore, the changes to the Italian Insurance Code are limited to the transposition of the primary provisions in the IDD, referring to the directly applicable EU provisions and to IVASS regulatory power for further detailed specifications.

In order to implement the provisions of the IDD and the Delegation Law on out-of-court dispute settlement, the CAP will be supplemented to include IVASS among the competent authorities on Alternative Dispute Resolution (ADR).

With regard to the sanction system, the new implementation provisions establish: direct enforceability also for natural persons (corporate executives and other subjects in the company organization); higher mandatory minimum and maximum limits on sanctions, in strict compliance with the delegated legislation, and new criteria for graduating the severity of the sanctions; non-pecuniary measures (for example, temporary ban on the exercise of management functions in companies, applicable as an ancillary measure to the pecuniary sanction against natural persons for particularly serious breaches).

IMPLEMENTATION ANALYSIS ON PRODUCT OVERSIGHT AND GOVERNANCE (POG)

An implementation analysis of Product Oversight and Governance (POG) was conducted for more in depth knowledge of the new POG rules introduced by Directive 2016/97/EU (IDD) on insurance distribution, which insurers are required to draft in order to design and market insurance products suitable for the needs of consumers.

The aim of the study is to help companies in the complex and imminent implementation of the new EU provisions on POG set forth by the directive and by the Delegated Regulation of the European Commission no. 2017/2358 and, previously, by the indications published by IVASS in its letter to the market of 4 September 2017.

The POG process involves all the phases of the life cycle of the insurance product, therefore the analysis examines the product as a whole: from its design and placement on the market through the distribution channels chosen by the company, to the monitoring and oversight of activities carried out by the manufacturer and distributor, to the possible revision of the distribution strategy adopted, where POG rules reveal a lowering of the degree of satisfaction of customers' needs and expectations.

In its premises, the document has a section on the evolution of the regulations on the subject both at EU and national level, enriched by a comparison with the rules adopted for the financial industry.

The POG process is represented as circular, a series of phases. It starts with the identification of a reference target market, represented by a group of customers who share common characteristics on a theoretical and generalized level and to whom the manufacturer offers the products that meet their needs and expectations. At the same time a negative target market is identified, that is the categories of customers to whom the products may not be distributed.

After the identification of a target client base, and before the product is marketed, product testing takes place, which consists in the factual verification that the product meets the specifications and objectives of the identified target market. The tests are always qualitative and sometimes quantitative and are characterized by scenario analyses specifically designed for insurance-based investment products.

Should the outcome of the test show that the product does not meet the needs, objectives and characteristics of the target customers, the product may not be marketed.

It is important to stress that both the identification of a target market and product testing are elaborated for macro-categories of insurance products: motor, non-life other than motor, life, and insurance-based investment products.

After design and testing, the manufacturer selects the most appropriate distribution channels to place the product with the target customers. The choice should take especially into account the knowledge, experience and skills necessary to the distributor to understand the characteristics of the product and be able to present it in the best way to the customers.

To optimize this phase, the manufacturer will need to provide the distributor with the necessary information to:

- understand the insurance products intended for distribution, their main elements and characteristics (risks and costs);
- comprehend the designated target market and identify any customers for whom the product is not compatible with their characteristics, needs and objectives;
- identify any circumstances that could potentially create a conflict of interests detrimental to the customers;
- become familiar with the distribution strategy for that specific product.

After identifying the most suitable distribution channel(s), the product can finally be distributed.

The POG process also includes an after-sale monitoring phase. In this context, the manufacturer is required to check:

- that the distributor markets the product correctly;
- that the product fully corresponds to the needs of the target customers.

The distributor plays an important role in this phase, because it must provide the manufacturer with information on the sales made and on any circumstances which may show that the insurance product placed on the target market is no longer compatible with the interests, objectives and characteristics of the target customers.

The manufacturer, through controls and using the information received from the distributor, may verify on a regular basis that the product was placed correctly and whether it is consistent with the interests of the customers. Where, however, the controls reveal situations that may be detrimental for the customers, the manufacturer must adopt proper corrective actions, such as: modify the product approval process, the reference target market, or the product itself, including the possibility of offering a completely new product to the customers, or decide to stop selling it. Furthermore, if the controls show that the distributor placed the product incorrectly, the manufacturer may intervene, as a measure of last resort, by rescinding the distribution contract.

The implementation analysis on the POG ends with a gap analysis, as required by IVASS in its market letter of September 2017, which provides useful information to start the adaptation of the POG provisions with a view to transposing the EU regulation. This will allow operators to assess the measures to be planned and adopted in the different phases of the process against the final objectives, so as to achieve full compliance with the transposed provisions of the EU regulations, always bearing in mind the final objective of safeguarding the interests of the policyholders.

DISTRIBUTION OBSERVATORY

Cultural Change

Over the past few years, insurance intermediaries have operated in a constantly changing market, in which innovation and liberalizations have altered the competitive landscape. In particular, the new regulations, digitization and the advent of new technologies, combined with the change in consumer behavior, pose new challenges and contribute to a redefinition of the market balance in insurance distribution.

The strategic plan recently approved by ANIA emphasizes the importance of the distribution channels as strategic assets for the companies. This is why, also with a view to enhanced consumer protection, ANIA decided to support the distribution channels in this process of cultural, regulatory and technological change, to improve professionalism to the benefit of the service offered to the customer.

The leading priority of the new directives on the distribution of financial and insurance products is a consumer-centered vision of the market in which the consumer is the main entity to safeguard.

It is essential that the main distribution players, starting immediately, can anticipate the needs of the customer, understanding and consequently designing solutions that cater to their needs. At the same time, insurance companies need to understand the needs of the dealers, as well as the resources, support tools and actions to be carried out to support companies in the long run.

For these reasons ANIA sponsored the creation of a Distribution Observatory, with the participation of the trade associations of the insurance, banking and financial industries (ABI, ACB, AIBA, AIPB, ANAPA, ANASF, ASSILEA, ASSOFIN, ASSOGESTIONI, ASSORETI, ASSOSIM, FEBAF, SNA and UEA), to serve as reference for the distribution networks of insurance and financial products, be aware of the networks' state of health, needs and expectations, and examine future scenarios together.

The Observatory represents an occasion for encounter and cooperation within the insurance and financial consultancy community that will allow the industry to properly prepare for the transposition of the new rules and monitor them during implementation.

THE MIFID 2014/65/EU DIRECTIVE AND THE NEW CONSOB REGULATION ON INTERMEDIARIES

On 3 January 2018 the new MiFID II Directive (Markets in Financial Instruments Directive 2014/65/EU) went into effect. Together with the delegated regulation on Markets in Financial Instruments (MiFIR), it supplants the legal framework set out in the previous MiFID I directive in 2004.

The new Directive harmonizes supervisory rules and practices at European level with the objective of developing a single market in financial services guaranteeing transparency and investor protection. To this end the Directive revises and amplifies MiFID I in the area of investment services, protection of retail investors, inducements, the definition of independent advisory services, the appropriateness of financial products addressed to investors, more transparent disclosure, including of costs, and the professional requirements upon intermediaries.

The transposition of the European measures into Italian law required first the enactment of Legislative Decree 129 of 3 August 2017, which amends and supplements Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, and more recently CONSOB Resolution 20307 of 15 February 2018, instituting the new Regulation on intermediaries, abrogating CONSOB Regulation 16190 of 29 October 2007.

The new Regulation, in force as of the day following its publication in the *Gazzetta Ufficiale* (20 February 2018), was drafted in accordance with the conclusions of the public consultation with stakeholders in the second quarter of 2017, to which ANIA contributed a document of its own.

In particular, the Regulation institutes:

- provisions for investor protection, including the ability and competence of intermediaries' personnel assigned to provide information or advice to customers;
- the new rules governing financial advisors, new supervisory and sanctioning powers of the supervisory authority responsible for the single register of financial advisors;
- the procedures for authorization of investment firms, entry into Italy of EU and non-EU investment firms, and the rules applicable to their managers deriving from MiFID II.

The Regulation reaffirms the application of the rules of conduct laid down in European law, including those on POG, designed for investor protection from the product design phase on and addressed distinctly to manufacturers and distributors, each with its own role and competence.

The part of the new regulation that bears directly on the insurance industry is Book IX on "Creation, marketing and consultation on financial products issued by insurance undertakings". Pursuant to Article 25-*ter*.2 of the Consolidated Law on Finance, this part identifies the rules that apply to insurance companies and persons authorized for insurance intermediation in the creation, marketing and consultation on Class III and Class V financial products.

In particular, Article 132 extends to the distribution of Class III and V products some MiFID II-derived measures concerning adequacy and appropriateness, inducements, accounting, product governance, internal procedures, promotion and distance marketing of products.

The regulatory framework is still being finalized, with the imminent entry into effect of the legislative decree transposing the IDD, which modifies the division of competences between IVASS and CONSOB as regards the placement of insurance investment products.

In fact, the decree lays down that supervisory powers on the distribution of Class III and V investment products – and now Class I products as well – placed directly by insurance companies through agents, brokers and their collaborators shall be exercised by IVASS.

CONSOB, instead, will regulate the placement of these same products by banks, investment firms, post office branches and financial intermediaries, after consulting IVASS and applying the rules of the Private Insurance Code as amended by the legislative decree transposing the IDD.

In order to assure uniform rules on the placement of investment products, IVASS shall coordinate the contents of the implementing regulations mandated in the transposition decree with CONSOB. This operational coordination between the two authorities will be governed by a memorandum of understanding to ensure that the rules applied are such as to favor greater consumer protection.

DEVELOPMENTS IN BANCASSURANCE

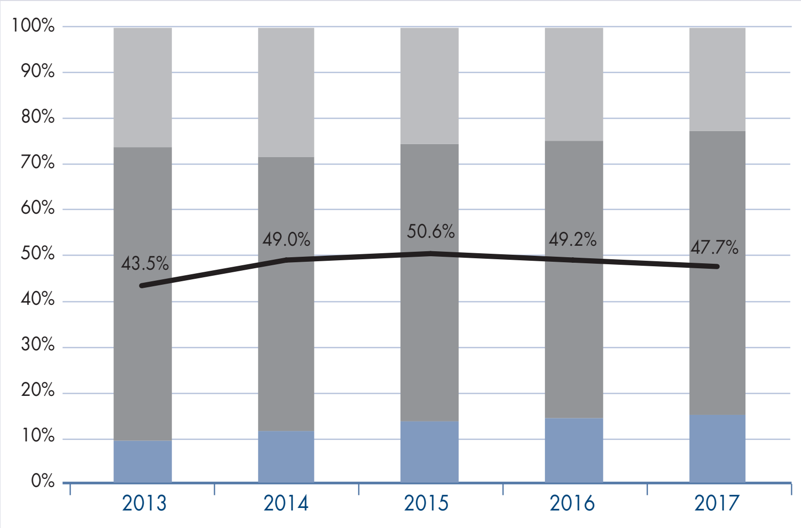
Bancassurance, which has developed in Europe since 1980, is now – in Italy as in a good many European countries – the prime system of distribution for life insurance products and has good prospects of growth in non-life insurance as well, though it is still at a low level in our country. In countries like France, Spain and Italy, where insurance penetration in asset management was relatively limited when the bancassurance model – i.e. insurance sales through banks and the post office – began to gain a footing, it has expanded rapidly and is now definitely predominant. In other major European countries, such as Germany and the UK, bancassurance has grown more moderately compared with other distribution channels.

The market comprises several models of bancassurance, differing in such features as the duration of distribution agreements, the shareholding relations between the partners, the modes of remuneration of the distribution network, the insurance products marketed, exclusiveness of the partnership, collaboration in product design, and the identification of the target market. Thus there is no immediate reduction of the different partnerships found to a single, homogeneous class. Nevertheless, with some approximation, the agreements now in place can be divided into three main types:

- ***joint venture***: a company owned jointly by an insurance company and a bank, in which either one may hold the controlling interest. In theory, joint ventures between an insurer and various banking partners are possible, just as a single banking group could have joint ventures with more than one insurance partner. In a joint venture, the insurance company acts essentially as a source of capital for the subsidiary and a provider of technical-operational insurance services.
- ***captive***: total or partial control by the bank, for which the insurer is the "manufacturer" of the products for distribution and one of the group's business units. This model is thus characterized by close integration between producer and distributor and may involve transfer pricing between the different units within the group.
- **other distribution agreement**: For our purposes, this means any other type of commercial accord between a bank and an insurance company, valid for a certain number of years and on certain conditions, whereby the insurer makes available to the bank or banks one or more insurance products for distribution. The accord may also provide for cooperation on such matters as remuneration of the distribution network and does not necessarily have to be exclusive or to set premium income targets, possibly envisaging the bank's participation in the insurance company's equity.

Figure 1 Share of bancassurance in total life and non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Bancassurance share



As Figure 1 shows, in Italy the leading type of arrangement, in terms of premium income (for life and non-life classes combined), at least in recent years, is the captive model, adopted by some of the leading bank and postal players. In 2017 total life and non-life premiums marketed via banks and the post office amounted to €62.4 billion, nearly half of total premium income, broadly maintaining this share at its recent level.

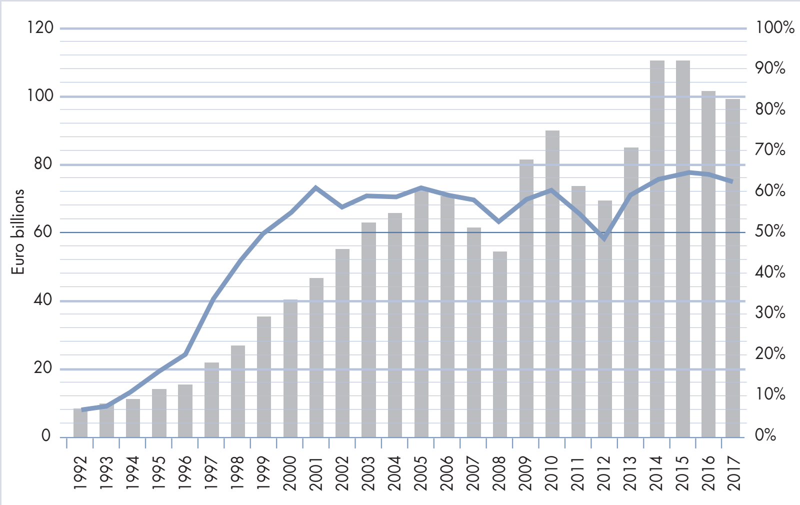
The life sector

The share of premium income collected through banks and the post office began to be significant in Italy towards the end of the last century, rising from around 10% in the early

1990s to over 50% after the turn of the century and 60% in recent years (Figure 2). The growth of insurance policies as instruments for household saving, then, can be ascribed to the development of bancassurance, even though premium volume through the other channels also expanded significantly.

Figure 2
Life premiums (€ bln, left-hand scale) and share of bancassurance (%, right-hand scale)

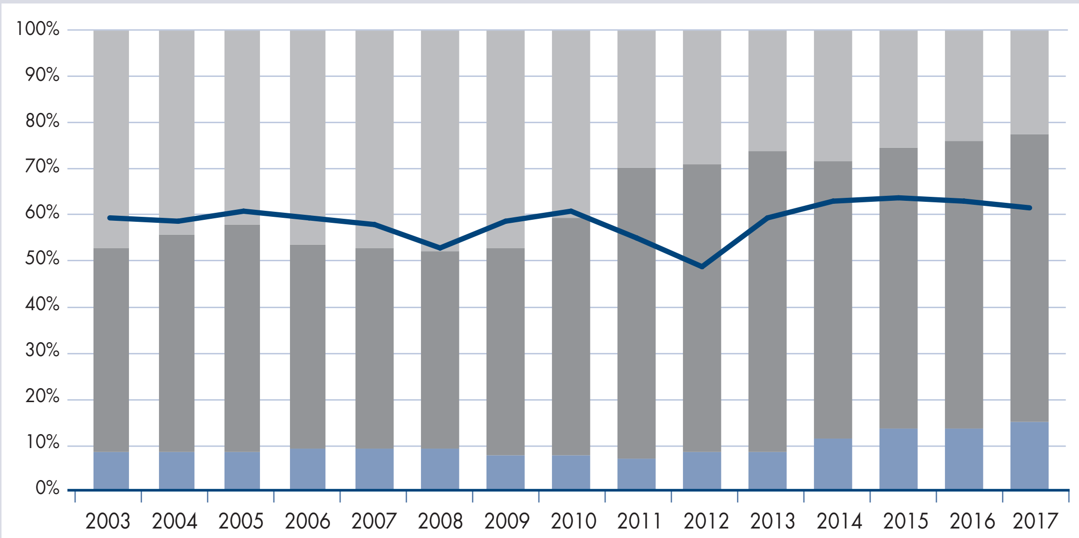
Life insurance premiums
Bancassurance share



For the last 15 years only (Figure 3), we can see that in 2003 45% of premiums earned through banks and postal branches came from the captive model. This share grew gradually over time, with some dips, to 61.0% in 2015, or €45 billion out of a total of €73 billion. In 2017 the percentage share of the captive model rose further to 63.0%, or €38 billion out of €60 billion.

Figure 3
Share of life premiums earned via bancassurance (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Bancassurance share



The joint venture arrangement, which until a few years back rivaled the captive model in terms of share of life premium income, has seen a decline in incidence since 2010-2011. In 2017 this type of arrangement accounted for about a fifth of bank and postal premium income, with a volume of almost €14 billion.

Forms of distribution arrangement other than captive and joint venture, though quite significant in number, have always accounted for a limited market share, fluctuating over the years around 10%. The high mark came in 2017 at 14.5% of total bank and post office premiums at nearly €9 billion.

Examining the same time series for Class I and Class V premiums, consisting essentially in insurance saving policies with profit sharing in segregated funds and guaranteed yield, the division of premium income by type of arrangement shows an even more marked prevalence of captive enterprises, whose share of total bancassurance premiums rose from around half in the first decade of the century to over two thirds in 2017 at nearly €30 billion (Figure 4).

Repeating this analysis for Class III (Figure 5), we find instead that – save for the exceptional years of financial market crisis, which drove investors away from financial products in general, including insurance products – policy premiums earned by joint ventures accounted for the greater part, although their share was reduced to 45% in 2017 at €8 billion.

Figure 4
Share of Class I and Class V in total bancassurance life premiums (line), by type of distribution arrangement (bar graph)

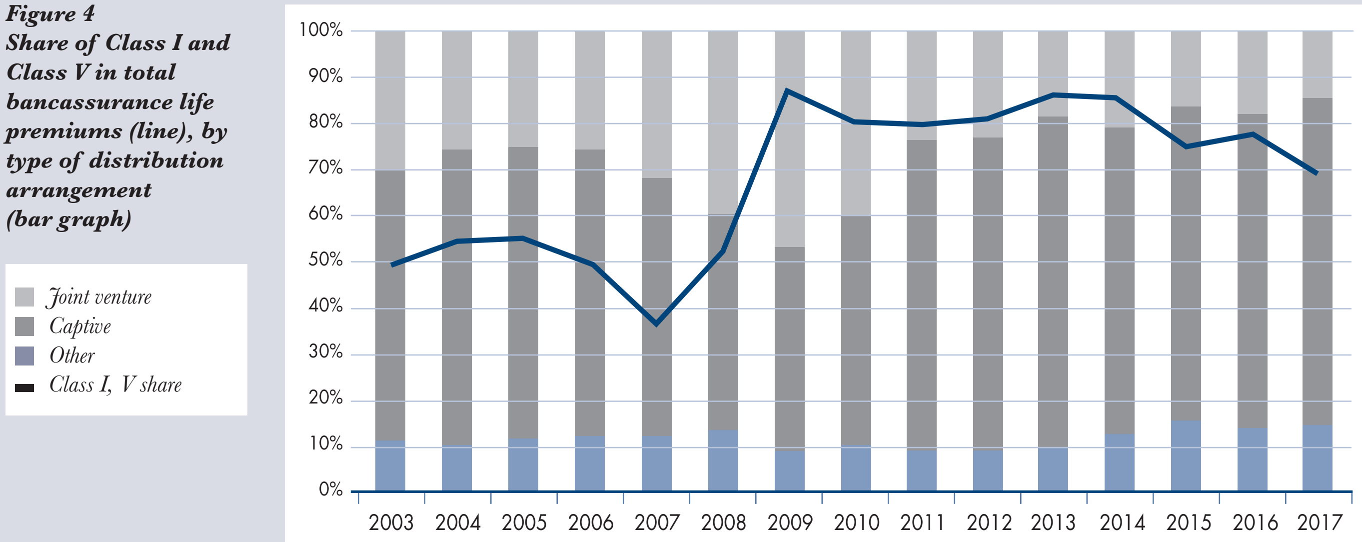
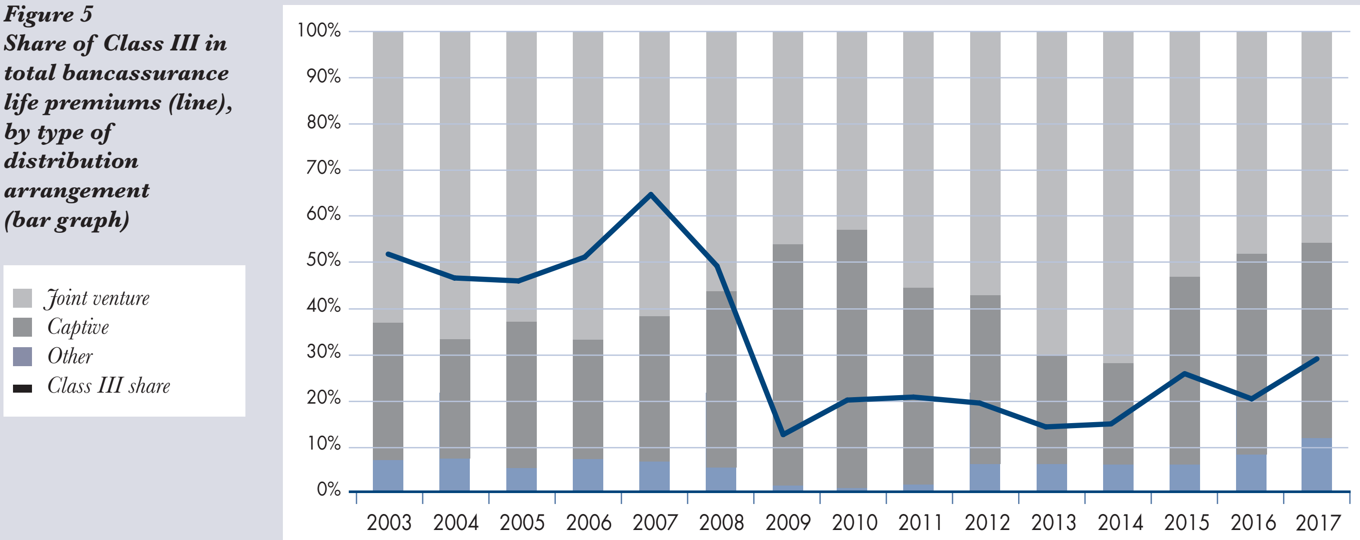


Figure 5
Share of Class III in total bancassurance life premiums (line), by type of distribution arrangement (bar graph)

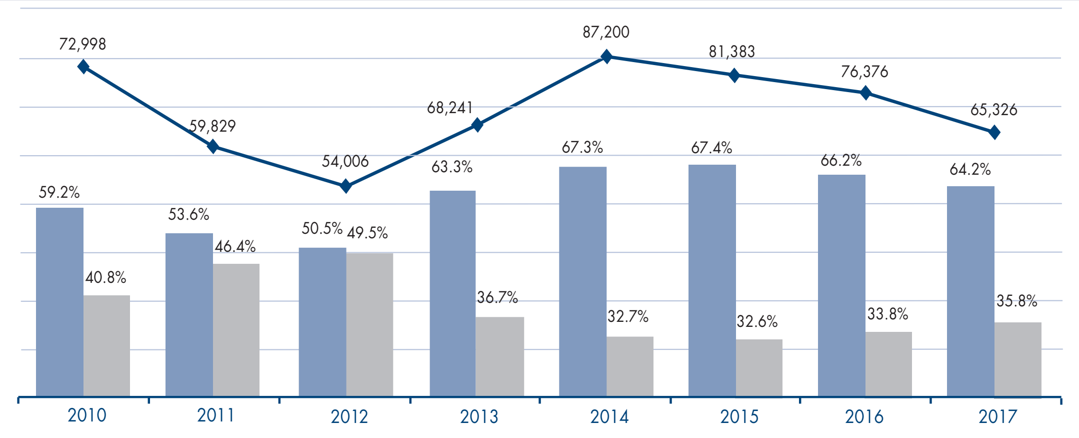


Recent trends in life bancassurance

Restricting the analysis of the development of life bancassurance to the more recent years, since 2010, confirms its predominance over the other channels for distribution of traditional insurance products (Class I and V), intermediating almost two thirds of the total premium income for these products (Figure 6).

Figure 6
Growth of Class I and Class V premiums, subdivided into bancassurance and other distribution channels
Amounts in Euro million

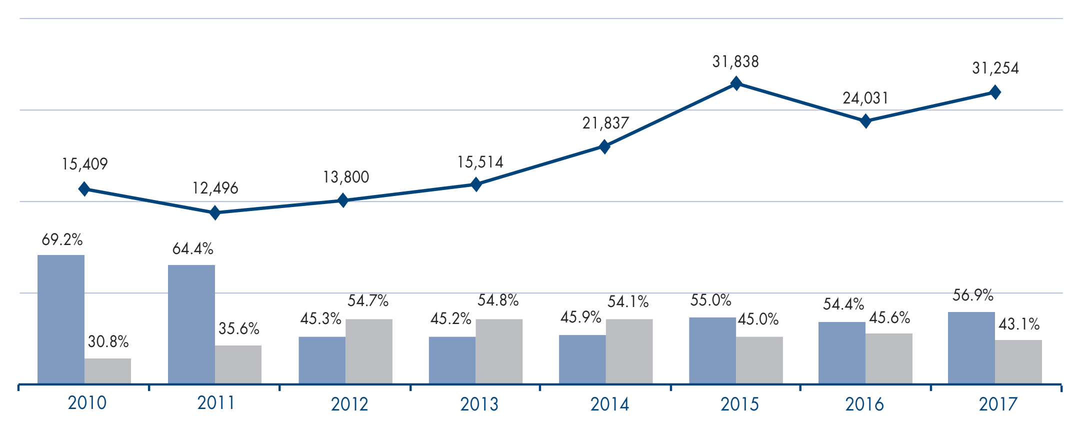
Bancassurance
Other
Class I and V premium income



As for Class III, in which total premiums have tended upwards, the share intermediated through bank and postal branches is a bit lower than for the traditional insurance products, at just under 60% in 2017. This percentage has held broadly stable in recent years (since 2012), varying marginally between 55% and 57% (Figure 7).

Figure 7
Growth of Class III premiums, subdivided into bancassurance and other distribution channels
Amounts in Euro million

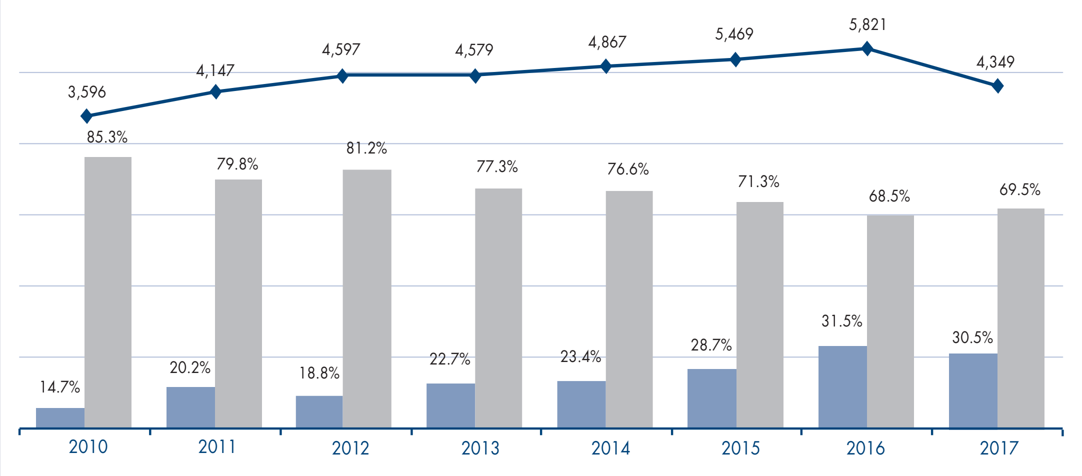
Bancassurance
Other
Class III premium income



For retirement products alone (individual retirement savings plans and open pension funds), which make up a limited portion of total life premiums, the incidence of bancassurance, while gradually increasing, remains far below that of other channels, which accounted for practically 70% of the total in 2017 (Figure 8).

Figure 8
Growth of retirement product premiums, sub-divided into bancassurance and other distribution channels
Amounts in Euro million

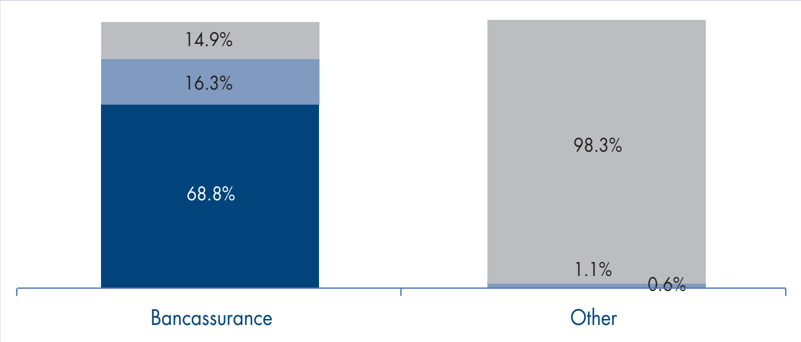
Bancassurance
Other
Individual ret't and pension fund premium income



For 2017 alone, an examination of life insurance market concentration (for undertakings classified according to bancassurance premiums only) shows the top five undertakings with 68.8% of total premium income, the next five with 16.3%, and all the others with 14.9% (Figure 9). Taking the premium shares of these same groups of undertakings via the other channels results in respective shares of 0.6%, 1.1%, and 98.3%. That is, it is clear that the leading insurers in terms of bancassurance premium income rely practically exclusively on that channel.

Figure 9
2017 market shares, life premiums earned via bancassurance and other channels

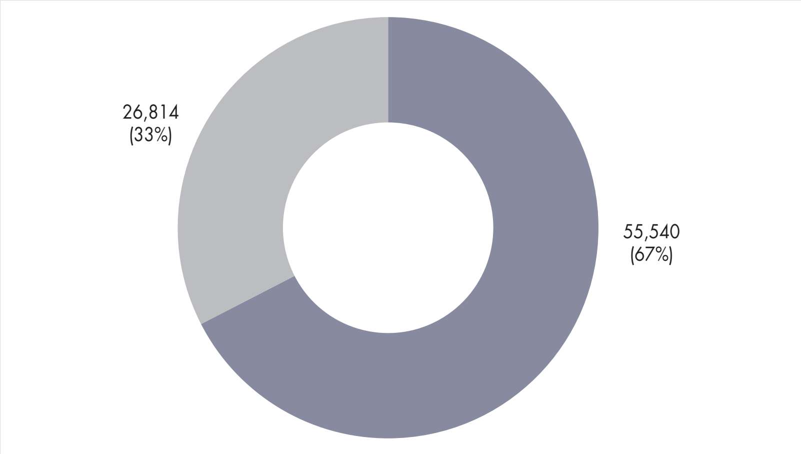
Top 5 undertakings
6th-10th
Other



Looking at new business in 2017 (Figures 10-12), bancassurance accounted for €55.5 billion out of the €82.4 billion in new premium income in life insurance (individual and group policies), or 67% (Figure 10).

Figure 10
New life business, 2017, individual and group policies, sub-divided into bancassurance and other channels
Amounts in Euro million

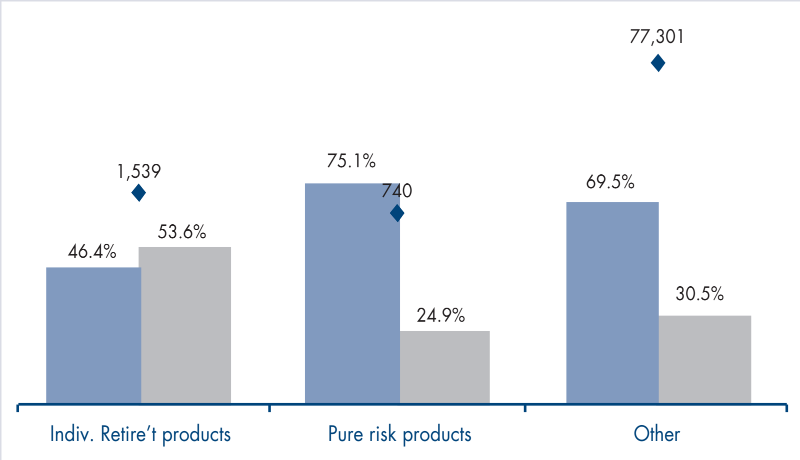
Bancassurance
Other



This predominance characterizes both insurance investment products and pure risk products, while, as noted above, in the distribution of individual retirement products the share of bancassurance is smaller than that of the other channels (Figure 11, where amounts are given on a log scale).

Figure 11
New life business, 2017, individual policies, sub-divided into pure risk, retirement and other products and between bancassurance and other channels
Amounts in Euro million

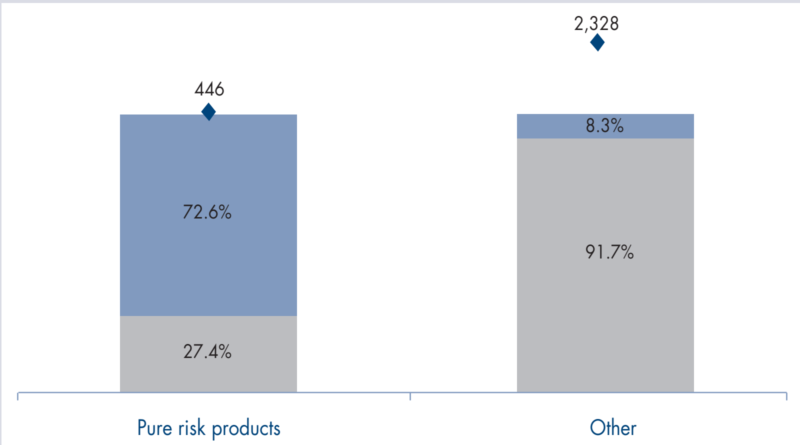
Bancassurance
Other
Premium income



As to group policies, by contrast, bancassurance accounts for a much smaller share for all products other than pure risk policies, with an incidence of just 8% of the total (Figure 12).

Figure 12
New life business, 2017, group policies, sub-divided into pure risk, retirement and other products and between bancassurance and other channels
Amounts in Euro million

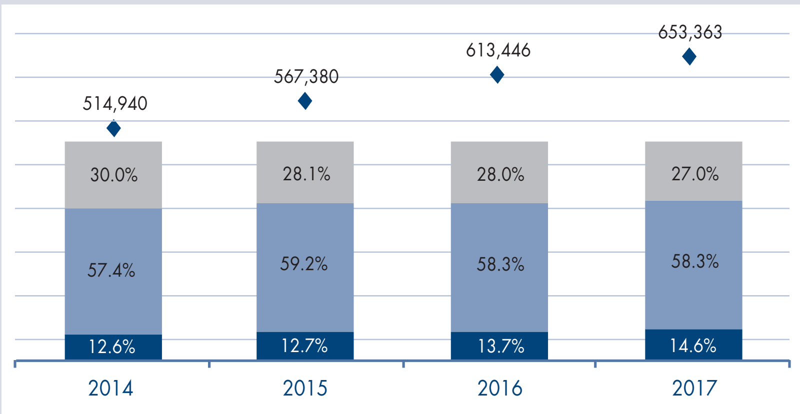
Bancassurance
Other
Total



Turning to provisions, the share in respect of policies marketed through bank and postal branches is clearly predominant at 58%, over €380 billion of total life provisions of €653 billion (Figure 13).

Figure 13
Policy provisions, sub-divided by distribution channel
Amounts in Euro million

Financial salesmen
Bancassurance
Other
Total life provisions



Provisions for policies marketed by financial salesmen accounted for 15% of the total and the other channels, principally agency networks, for 27%.

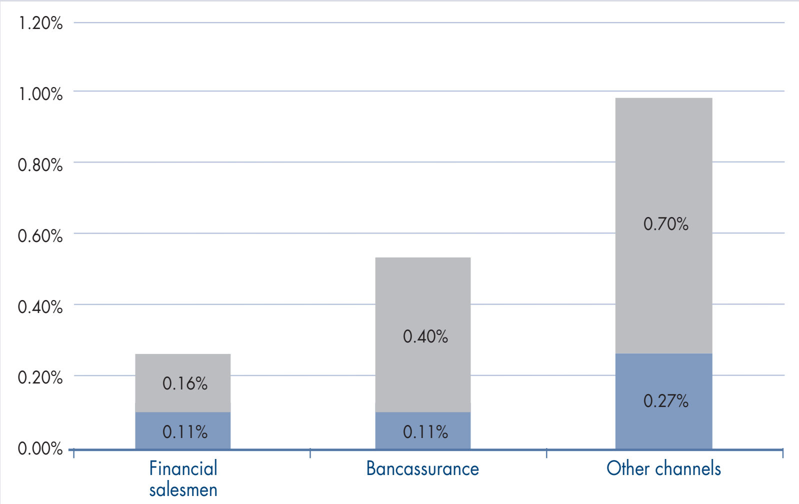
Taking the ratio of administration costs sustained in 2017 to provisions as an indicator of operating costs with respect to a proxy for assets under management (as in the asset management industry), it is evident that it varies widely according to distribution channel. The ratio is lowest for bancassurance, intermediate for financial salesmen, and highest for the traditional channels (brokers and agents), which account for virtually all of the "other" channels (Figure 14).

Here, however, it is worth noting that these are accounting data, which may be affected by differences in distribution structures, organizational policies, the type and volume of products marketed, investment policies and accounting policies for representing these items in the various insurers' books.

The ratio of distribution expenses to provisions is lowest for financial salesmen and bancassurance, highest for the other – mainly traditional – channels.

Figure 14
Administration and distribution expenses over provisions, by distribution channel, 2017

Administration expenses/provisions
Distribution expenses/provisions



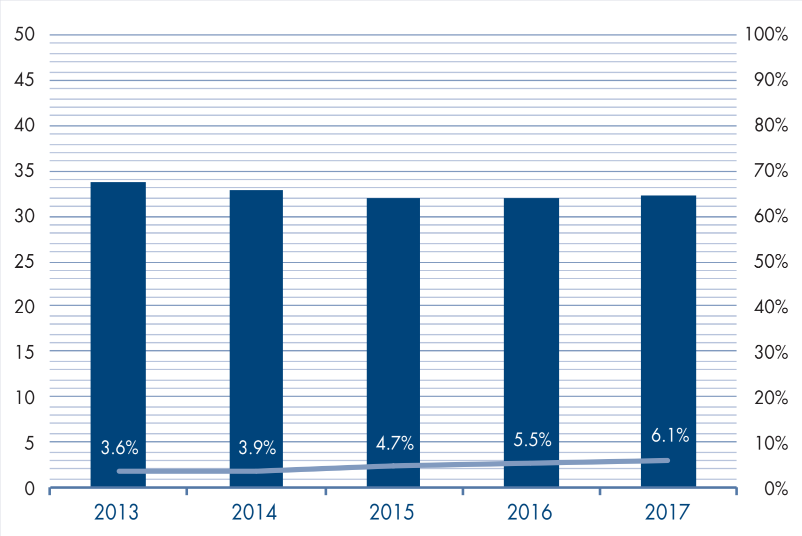
Taking the total of administration plus distribution costs, the lowest ratio to policy provisions in 2017 was registered by financial salesmen; it was somewhat higher for bancassurance and highest, by a wide margin, for the "other" channels.

The non-life sector

In non-life insurance, bancassurance distribution began later and grew more slowly than in the life sector and is still less important, relatively, than the other channels (agents, brokers, direct sales, financial salesmen). Even so, the share of premium income earned through bank and postal branches rose from 3.6% in 2013 to 6.1% in 2017 (Figure 15), or a gain of 65%. In absolute amount, premiums collected via bancassurance came to nearly €2 billion out of €32.3 billion.

Figure 15
Non-life premiums (€ bln, left-hand scale) and share of bancassurance (%, right-hand scale)

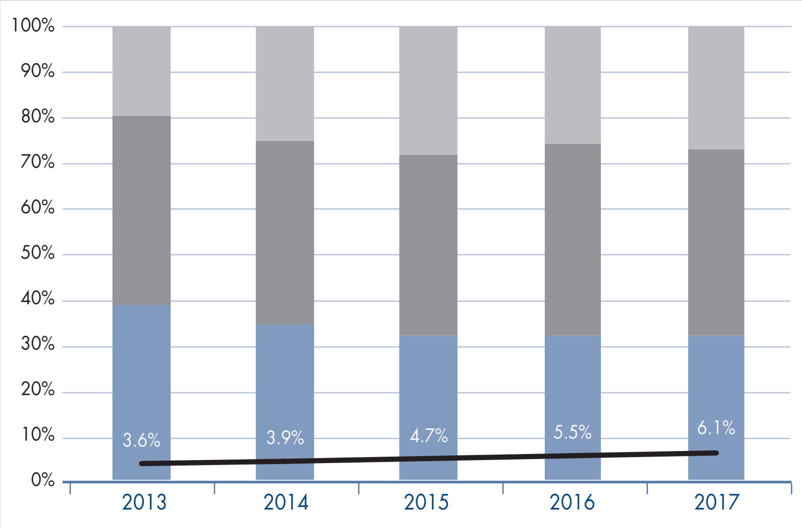
Non-life insurance premiums
Bancassurance share



Among the various models of bancassurance distribution, the captive arrangement is dominant in Italy (Figure 16). From 2013 through 2017 it has accounted for between 40% and 42% of total bancassurance non-life premium income. In 2017 the captive model accounted for 41% (€809 million). Over the five years, the share of joint ventures rose from 20% to 27% (to €543 million in 2017), at the expense of "other" distribution arrangements, which fell from 39% in 2013 to 32% (€632 million) in 2017.

Figure 16
Share of bancassurance in total non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Bancassurance share

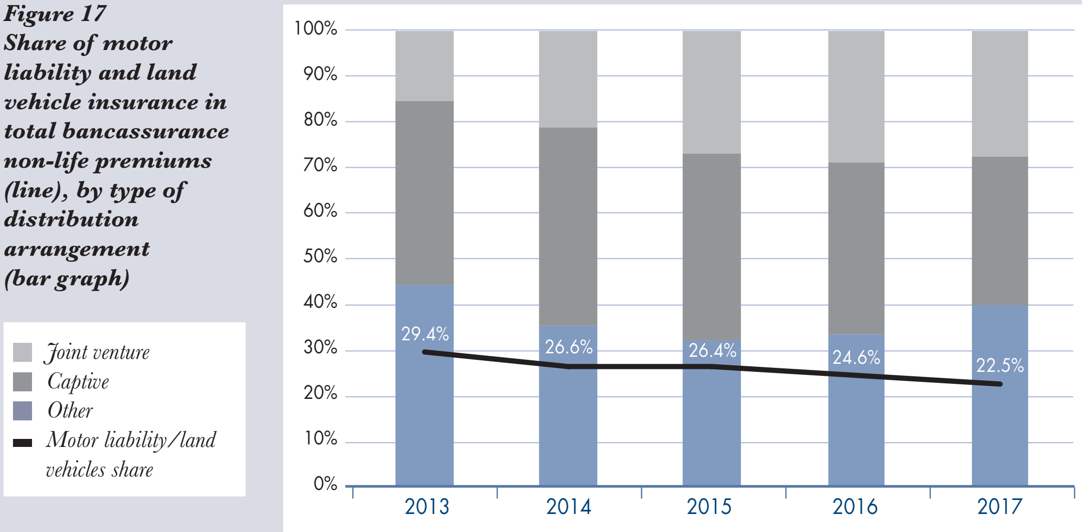


The charts below show trends in non-life premium collection via the bancassurance channel over the past five years, by insurance class and type of distribution arrangement. Transport insurance is not given, as no premiums in this class were distributed via bank and postal branches.

For motor liability and land vehicle insurance, there is a modest prevalence of arrangements other than joint ventures and captive distribution, with a share of premium income of 39.6%

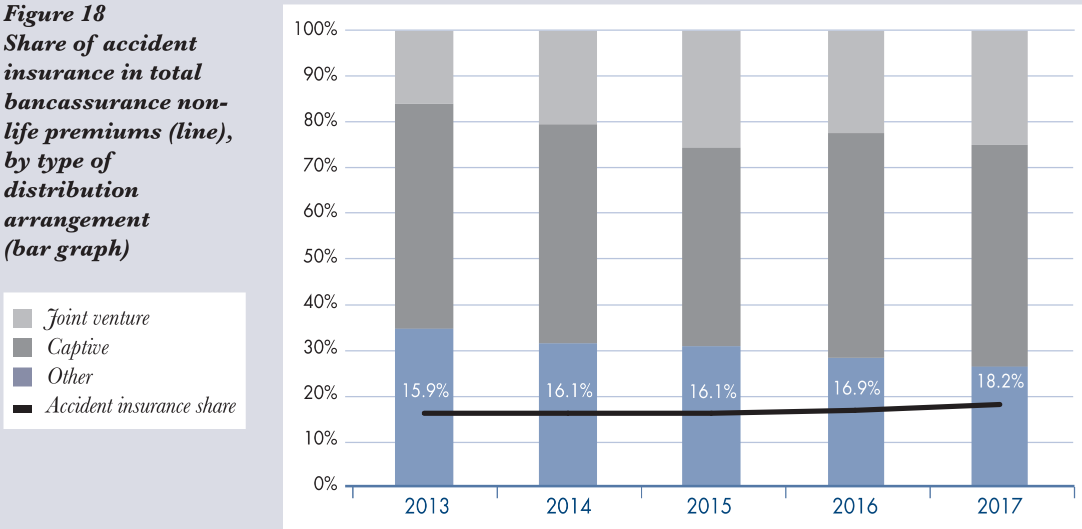
in 2017 (Figure 17). However, the share of joint ventures has risen from 16% to 28% of total bancassurance premiums. The share of this class in total bancassurance non-life premiums has diminished from 29.4% in 2013 to 22.5% in 2017, or €337 million.

Figure 17
Share of motor liability and land vehicle insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)



For accident insurance, by contrast, captive distribution is preponderant, accounting for about half of total non-life premiums collected via bancassurance (€176 million). The share of this class in total bancassurance premiums increased slightly over the period, from 16% to 18% (Figure 18).

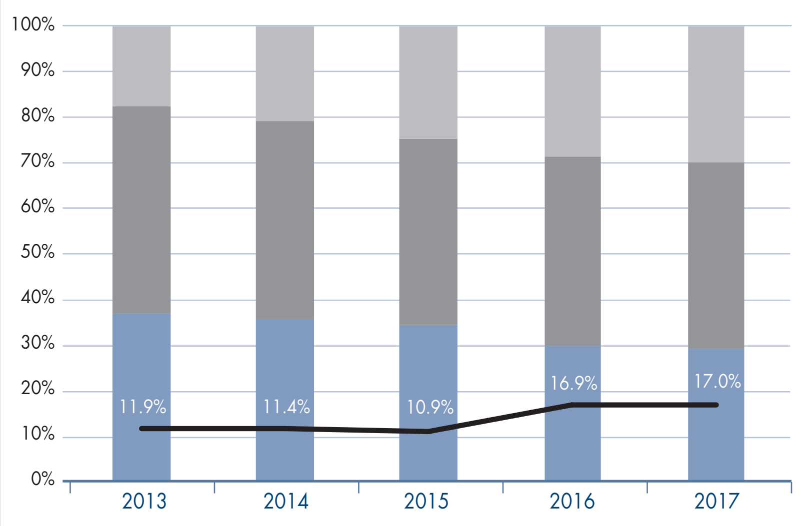
Figure 18
Share of accident insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)



In the sickness class (Figure 19), as for accident policies, the most common arrangement is the captive model, accounting for 41% of bancassurance premiums in 2017. However, between 2013 and 2017 this model's share was reduced in favor of joint ventures, which increased their portion of the total from 18% to 30%. In addition, sickness insurance has come to account for a significantly larger share of total non-life premiums collected via bancassurance, rising from 11% in 2015 to 17% in 2017.

Figure 19
Share of sickness insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

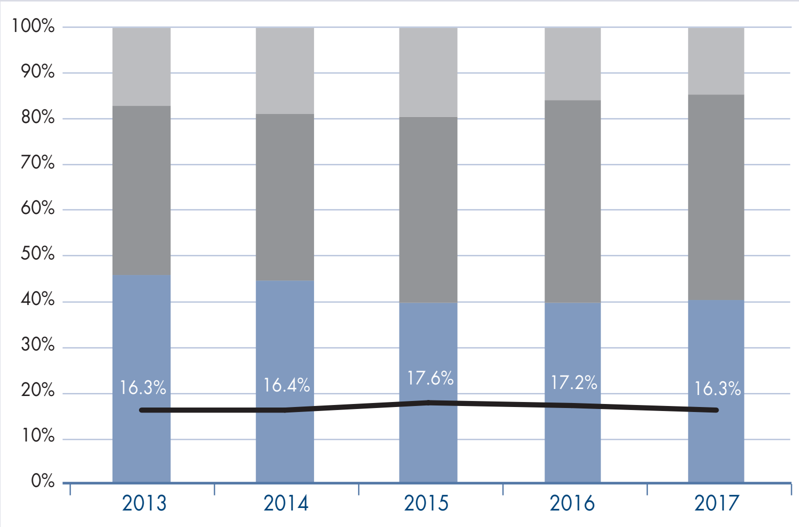
Joint venture
Captive
Other
Sickness insurance share



In the class of fire and other property insurance too, the most common bancassurance arrangement is the captive model, accounting for 45% of premiums in 2017, followed closely by other arrangements at 41% (Figure 20). In 2017 captive premiums amounted to €144 million. The share of these classes in total non-life premiums collected via bancassurance has remained broadly stable, varying only between 16% and 18% in the years from 2013 to 2017.

Figure 20
Share of fire and other property insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

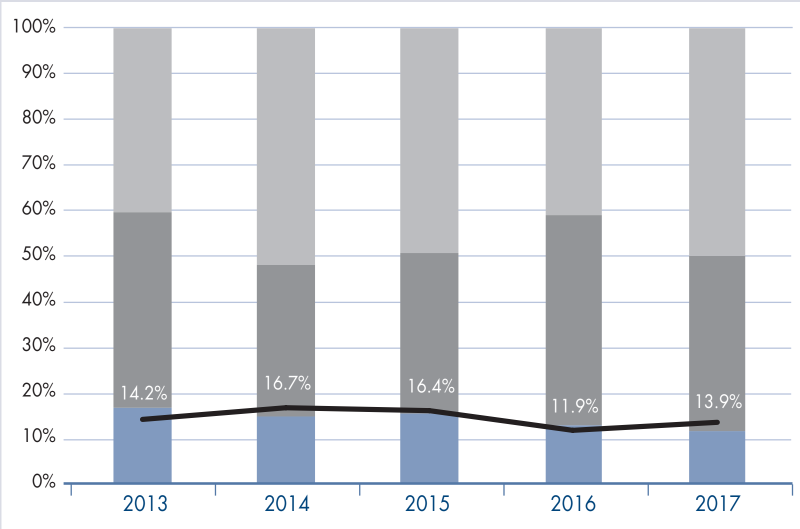
Joint venture
Captive
Other
Fire/other property share



Miscellaneous financial loss (Figure 21) is the only class in which joint ventures are the most prevalent form of bancassurance. In 2017 they accounted for 50% of the premiums earned through bank and postal branches, or €139 million. The share of this class in total non-life premiums collected via bancassurance has remained broadly stable at around 15% in the years from 2013 to 2017.

Figure 21
Share of financial loss in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

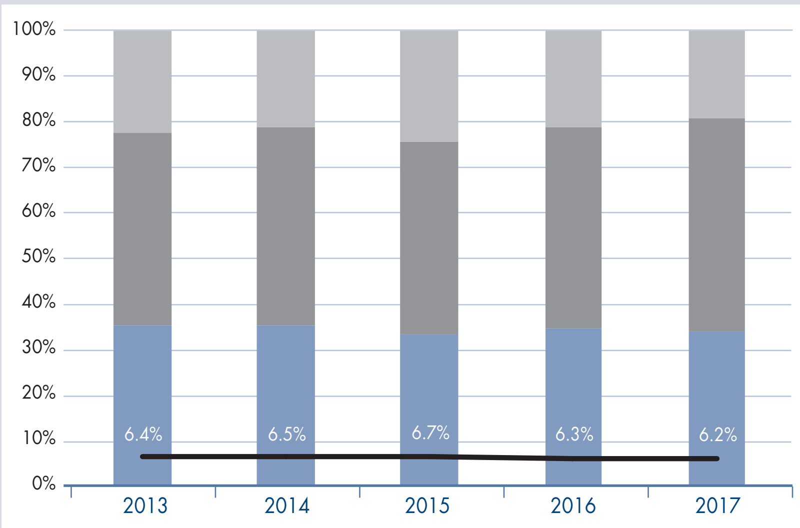
Joint venture
Captive
Other
Financial loss share



General third-party liability insurance (Figure 22) is dominated by the captive model (47% of non-life bancassurance premiums, or €57 million, in 2017). Since 2013 there has been no significant change in the relative shares of the various types of distribution arrangement, nor any major variation in this class's share of total non-life bancassurance premium income, which has held at around 6%.

Figure 22
Share of general liability insurance in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
General liability share

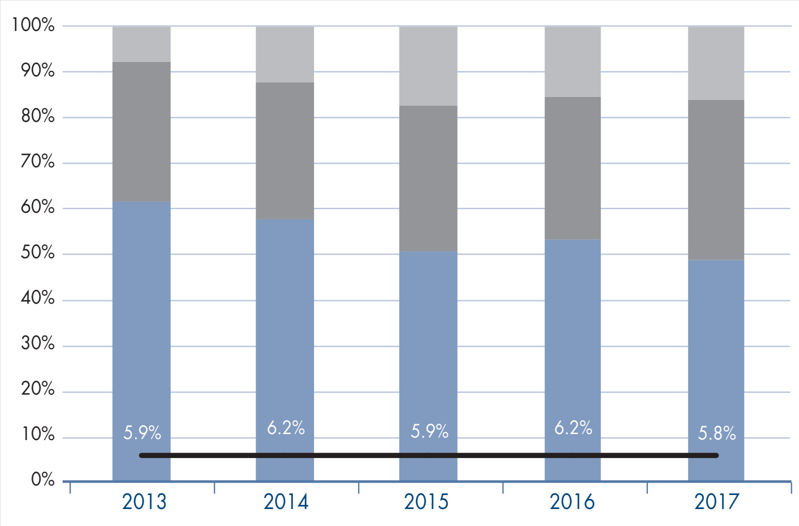


Finally, Figure 23 shows all the other non-life classes together, which account for only a marginal share of bancassurance premiums (5.8%). In these classes – credit, suretyship, assistance, legal expenses – the captive and joint venture models are prevalent, at 48% in 2017.

Figure 23
Share of other classes* in total bancassurance non-life premiums (line), by type of distribution arrangement (bar graph)

Joint venture
Captive
Other
Other classes' share

(*) Credit, suretyship, legal expenses, assistance



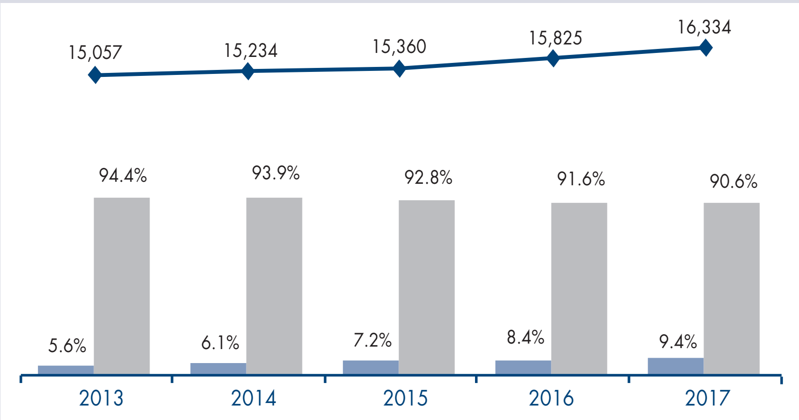
In what follows we provide a graphic representation of the development of bancassurance with respect to other distribution channels over the past five years, broken down into insurance classes as above.

Non-motor non-life insurance (i.e. all non-life classes save motor liability and land vehicles) accounted for 9.4% of bancassurance premiums in 2017. Small as this is by comparison with life insurance, in absolute terms the amount grew by 8.5% between 2013 and 2017 to some €16 billion (Figure 24).

Figure 24
Non-motor* non-life premiums, 2013-2017, sub-divided between bancassurance and other channels

Bancassurance
Other
Non-motor premium income

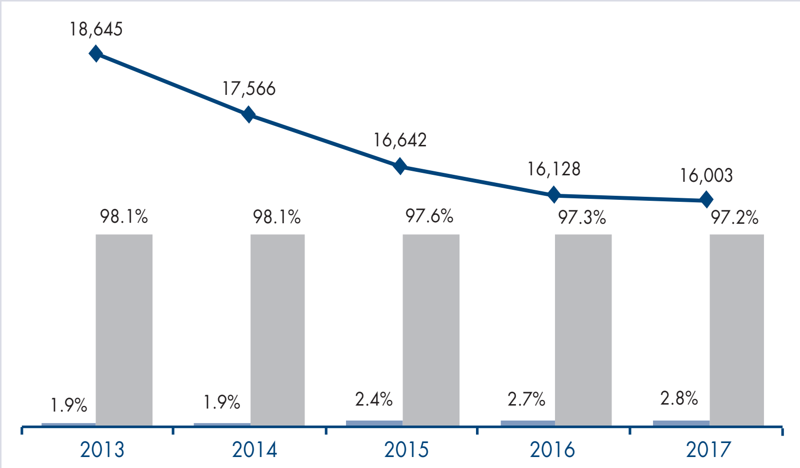
(*) Total non-life excluding motor liability and land vehicles classes



Motor liability and land vehicle insurance (Figure 25) are still marginal in bancassurance intermediation, despite some growth since 2013. In 2017 their share of premiums came to 2.8%.

Figure 25
Motor insurance premiums, 2013-2017, sub-divided between bancassurance and other channels

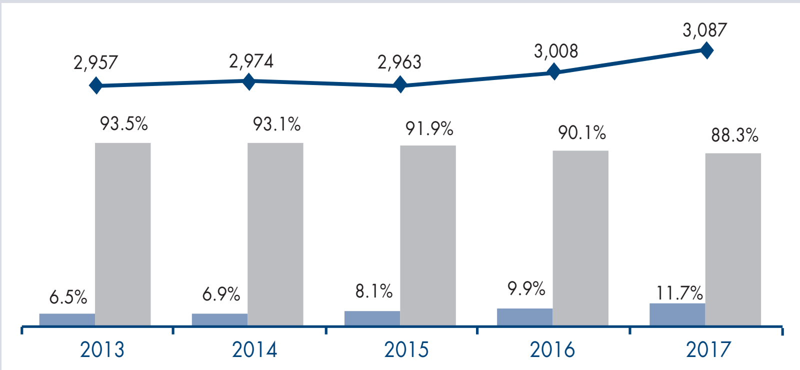
Bancassurance
Other
Motor premium income



In the accident and sickness insurance classes bancassurance is more important, at 11.7% and 13.1% of premium income, respectively, in 2017 (Figures 26 and 27).

Figure 26
Accident insurance premiums, 2013-2017, sub-divided between bancassurance and other channels

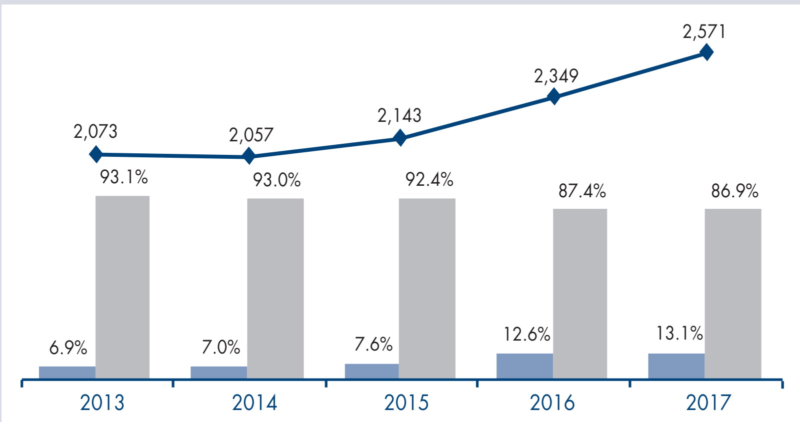
Bancassurance
Other
Accident premium income



In sickness insurance, in fact, the overall growth in premiums in the last two years has been due mainly to the increase in business intermediated through bank and post office branches.

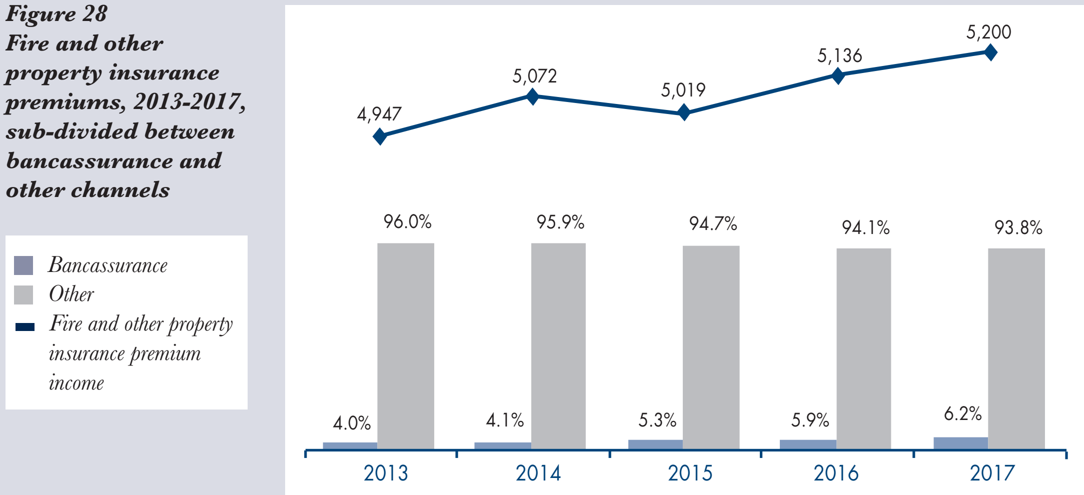
Figure 27
Sickness insurance premiums, 2013-2017, sub-divided between bancassurance and other channels

Bancassurance
Other
Sickness premium income



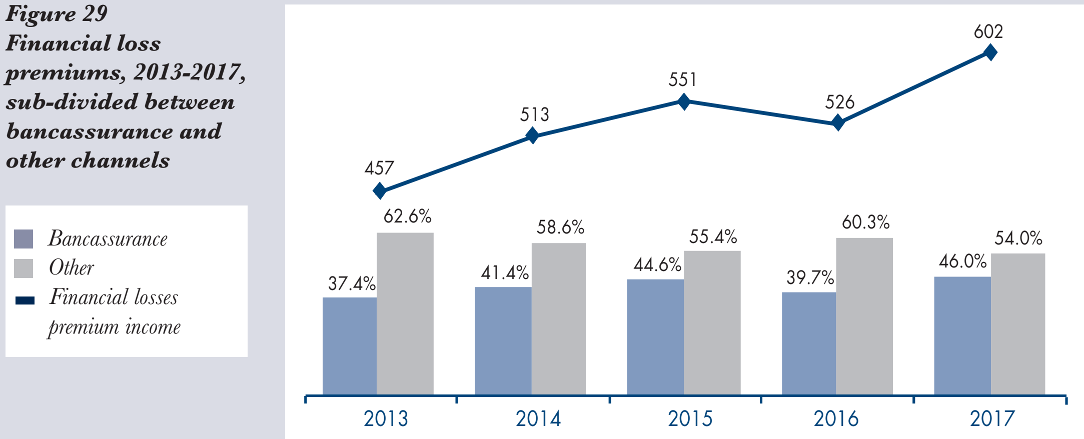
Fire and other property damage policies also saw a modest increase in the bancassurance share, which rose from 4.0% in 2013 to 6.2% in 2017 (Figure 28).

Figure 28
Fire and other property insurance premiums, 2013-2017, sub-divided between bancassurance and other channels



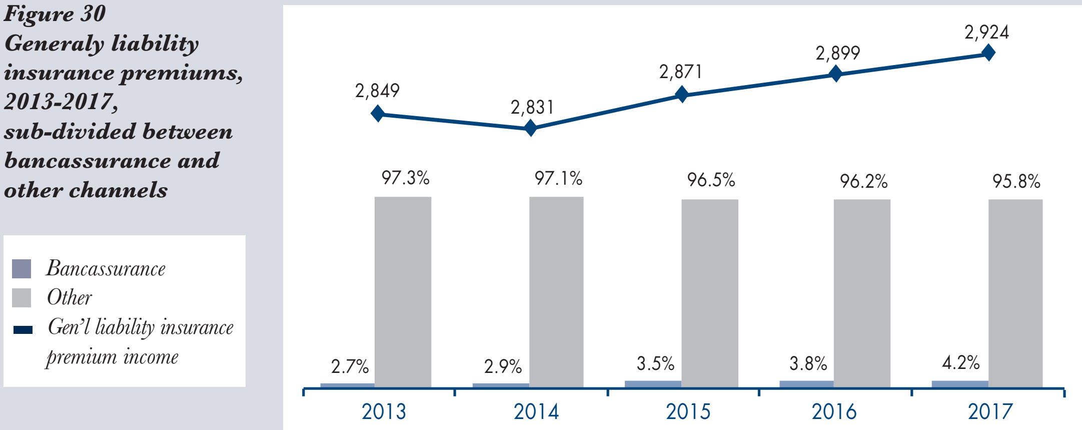
Insurance for miscellaneous financial losses registered the largest share of bancassurance intermediation of all classes, owing to the fact that these policies are often ancillary to mortgage loans and consumer credit (Figure 29).

Figure 29
Financial loss premiums, 2013-2017, sub-divided between bancassurance and other channels



The trend in general third-party liability insurance (Figure 30) followed more or less the same pattern in the five years – a gradual increase, albeit starting from a very low level, to record its highest percentage in 2017 (4.2%).

Figure 30
Generaly liability insurance premiums, 2013-2017, sub-divided between bancassurance and other channels

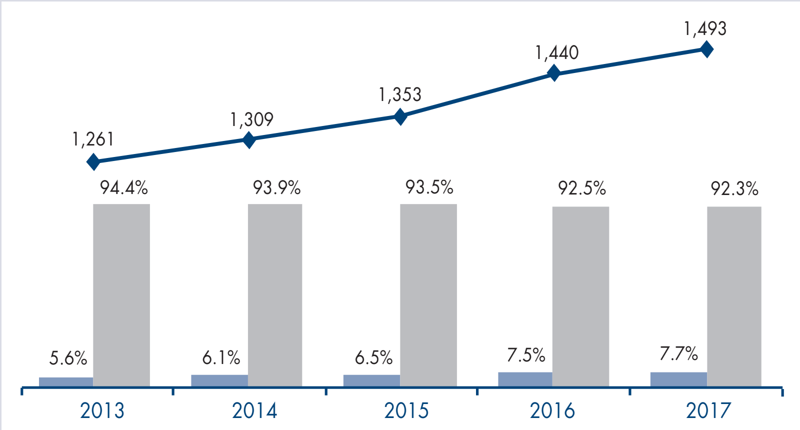


The same pattern also applies to the remaining non-life insurance classes – credit, suretyship, legal expenses, assistance – whose share rose from 5.6% in 2013 to 7.7% in 2017 (Figure 31).

Figure 31
Other non-life premiums*, 2013-2017, sub-divided between bancassurance and other channels

Bancassurance
Other
Other premium income

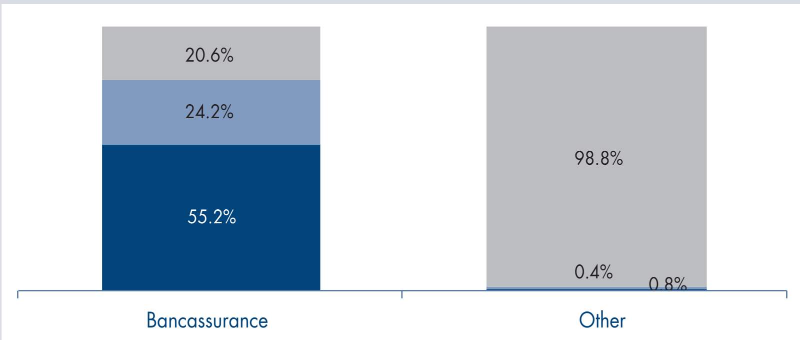
(*) Credit, suretyship, legal expenses, assistance



For 2017 alone, an examination of non-life insurance market concentration (for undertakings classified according to bancassurance premiums only) shows the top five undertakings with 55.2% of total premium income, the next five with 24.2%, and all the others with 20.6% (Figure 32). Taking the premium shares of these same groups of undertakings via the other channels results in respective shares of 0.8%, 0.4%, and 98.8%. That is, it is clear that the leading insurers in terms of bancassurance premium income rely practically exclusively on that channel.

Figure 32
2017 market shares by non-life premiums earned via bancassurance and other channels

Top 5 undertakings
6th-10th
Other



9

THE ANIA FOUNDATION, THE ANIA-CONSUMERS FORUM AND ANIA SERVICES

THE ANIA FOUNDATION

NEW MISSION, NEW OBJECTIVES, NEW SUCCESSES

Last year, for the first time since its formation in 2004, the ANIA Foundation worked not only on its original mission of road safety but extended its operations to all the segments of the insurance industry that, in line with the indications of insurers themselves, have worked to diminish the number and reduce the gravity of accidents on the Italian road network. ANIA Foundation worked together with the public sector, subscribing a series of agreements with central and local government units and also inventing, creating and funding training and informational activities that have contributed significantly to the diffusion of a new culture of observance of the rules of the road. This project-oriented activity made the ANIA Foundation an authoritative actor in the field of road safety also at international level, as is evidenced by cooperation with European bodies like the European Transport Safety Council.

The Foundation's mission was broadened in 2017 from road safety alone to the protection of Italian households and firms. In a society characterized by risk and uncertainty, the insurance industry represents one of the best responses to people's demand for security and stability – for a better welfare system, for a secure old age, prevention of adverse events.

The Foundation revamped its project design activities and developed a new approach to communication, reaffirming its status as a laboratory for testing innovative, strategic actions for contributing in practice to accident prevention and the protection of young people, families and the elderly, while at the same time helping to diffuse a fuller awareness of insurance in Italy.

Road safety: a beaten trail

Action for road safety, the Foundation's mission throughout the 13 years since its creation in 2004, remains central to its strategy. Our achievements over the years, thanks above all to innovative projects that have often served as models for others, have made the ANIA Foundation one of the most authoritative actors in the field of road safety, both in Italy and internationally. This status has made for the Foundation's participation in the main governmental task forces, involved concretely and directly in the national strategy to attain the target, set by the UN in 2010, of halving traffic fatalities by 2020.

Road accidents in Italy and Europe

ISTAT data on road accidents in Italy show that they numbered 175,791 in 2016, resulting in 3,283 fatalities and 249,175 injuries. By comparison with 2015, the number of deaths was down by 4.2%, but for the first time since 2001 the numbers of accidents and injuries both increased, by 0.7% and 0.9% The number of severe injuries, in particular, increased. According to hospital discharge records, there were over 17,000 in 2016 compared with 16,000 in 2015, up 9% (Table 1). On average, every day in the year saw 480 accidents, with 9 deaths and 680 injuries.

Table 1
Fatalities and injuries caused by road accidents in Italy, 2004-2016

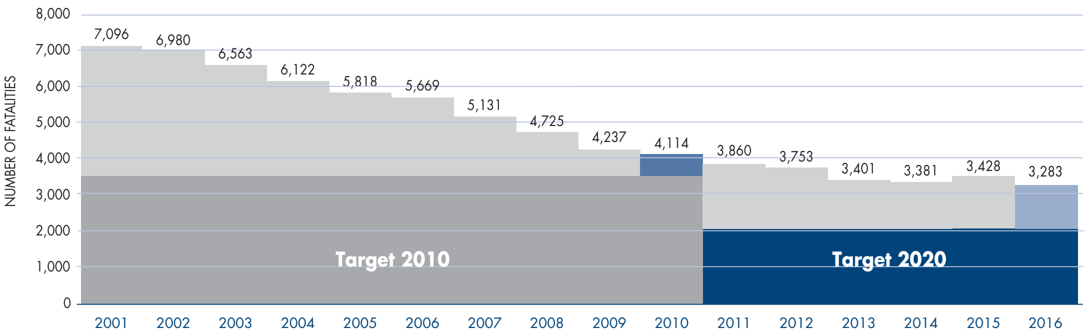
Year	Fatalities		Injuries	
	Number	12-month change (%)	Number	12-month change (%)
2001	7,096	0.50	373,286	3.7
2002	6,980	-1.63	378,492	1.4
2003	6,563	-5.97	356,475	-5.8
2004	6,122	-6.72	343,179	-3.7
2005	5,818	-4.97	334,858	-2.4
2006	5,669	-2.56	332,955	-0.6
2007	5,131	-9.49	325,850	-2.1
2008	4,725	-7.91	310,745	-4.6
2009	4,237	-10.33	307,258	-1.1
2010	4,114	-2.90	304,720	-0.8
2011	3,860	-6.17	292,019	-4.2
2012	3,753	-2.77	266,864	-8.6
2013	3,401	-9.38	258,093	-3.3
2014	3,381	-0.59	251,147	-2.7
2015	3,428	1.39	246,920	-1.7
2016	3,283	-4.23	249,175	0.9

Source: ACI, ISTAT

The table shows that after the increase registered in 2015 the number of traffic deaths turned back down in 2016. At the same time, however, the number of accidents causing injuries increased for the first time, by 0.9%.

Since 2011, the base year for the new objective of halving traffic fatalities by 2020, the reduction has been no more than 15%, too little for Italy to achieve the target in the four years remaining (Figure 1).

Figure 1
Italian traffic fatalities, 2001-2016



Source: ANIA Foundation, based on Istat data

The Italian trend in traffic fatalities is part of a general pattern throughout the EU28, where there were 25,720 deaths in 2016, a decrease of scarcely 1.8%, bringing the overall decrease since 2011 to 16.2% (Table 2).

The traffic fatality rate – the number of deaths in proportion to population, a standard measure making for more significant comparisons within the EU – ranks Italy 14th of the 28 EU member states, with 54.2 deaths per million inhabitants, which is higher than the EU average of 50.6 and also higher than the figures for the large EU countries with which Italy is generally compared:

- France: 53.5 deaths per million inhabitants;
- Spain: 39.5 per million;
- Germany: 39.1 per million;
- UK: 28.7 per million.

Table 2
Traffic deaths in EU28 countries

COUNTRY	Number			Change (%)		Deaths per million inhabitants	Rank (1st = country with highest rate, 28th = lowest rate)
	2011	2015	2016	2016/2015	2016/2011	2016	2016
Austria	523	479	432	-9.8	-17.4	49.7	19°
Belgium	862	732	640	-12.6	-25.8	56.8	12°
Bulgaria	657	708	708	0	7.8	99	1°
Cyprus	71	57	46	-19.3	-35.2	54.2	15°
Croatia	418	348	307	-11.8	-26.6	73.3	6°
Czech Republic	772	737	611	-17.1	-20.9	57.9	10°
Denmark	220	178	211	18.5	-4.1	37	25°
Estonia	101	67	71	6	-29.7	54	16°
Finland	292	270	250	-7.4	-14.4	45.6	20°
France	3,963	3,461	3,469	0.2	-12.5	53.5	17°
Germany	4,009	3,459	3,214	-7.1	-19.8	39.1	24°
Greece	1,141	793	807	1.8	-29.3	74.8	5°
Hungary	638	644	597	-7.3	-6.4	60.7	9°
Ireland	186	162	188	16	1.1	39.5	22°
Italy	**3,860**	**3,428**	**3,283**	**-4.2**	**-14.9**	**54.2**	**14°**
Latvia	179	188	158	-16	-11.7	80.2	3°
Lithuania	296	242	188	-22.3	-36.5	65.1	7°
Luxembourg	33	36	32	-11.1	-3	55.5	13°
Malta	16	11	22	100	37.5	50.6	18°
Netherlands	546	620	629	1.5	15.2	37	26°
Poland	4,189	2,938	3,026	3	-27.8	78.7	4°
Portugal	891	593	565	-4.7	-36.6	57.4	11°
Romania	2,018	1,893	1,913	1.1	-5.2	96.8	2°
Slovakia	328	274	242	-11.7	-26.2	44.6	21°
Slovenia	141	120	130	8.3	-7.8	63	8°
Spain	2,060	1,688	1,833	8.6	-11	39.5	23°
Sweden	319	259	270	4.2	-15.4	27.4	28°
United Kingdom	1,960	1,804	1,878	4.1	-4.2	28.7	27°
UE 28	30,700	26,190	25,720	-1.8	-16.2	50.6	

Source: Community Road Accident Data Base (CARE)

The situation just described shows the urgent need for structural measures at European level to reduce traffic accidents through targeted, integrated programs.

THE NUMBER OF ROAD ACCIDENTS WITH PERSONAL INJURY: DATA SOURCES AND METHODOLOGICAL ISSUES

ISTAT's annual statistics on road accidents, deaths and injuries are obtained by collecting data on accidents throughout Italy. They only cover accidents in which the police intervene and which cause injury or death. The data come from forms filled out by the police forces – Highway Police, Carabinieri, Provincial Police, Municipal Police – that intervened at the scene of the accident. In particular, ISTAT collects data on all accidents that occur on roads or in squares open to traffic in which stationary or moving vehicles (or animals) are involved and which give rise to death or personal injury. The data therefore exclude accidents that cause only property damage, those in which police intervention is not required, those that take place outside public traffic areas, i.e. courtyards, service stations, garages and carparks, tramways and railways, and those in which no vehicle (or animal) is involved.

Another dataset for measuring the accident rate on Italian roads, used especially to assess developments during the year, comes from the Highway Police. As Table 3 shows, however, the number of deaths and injuries in this dataset is lower than that reported by ISTAT, because the Highway Police force is only one of those contributing to the national data collected by ISTAT. In addition, the Highway Police data only refer to accidents on motorways and state, provincial and municipal highways; accidents that take place on city streets are excluded.

According to the Highway Police data, the decline in the number of fatalities continued in 2016, and at a rate of 7.6%, nearly twice as fast as indicated by the ISTAT data. In any case, the ISTAT statistics on road accidents (and, *a forteriori*, the merely partial data collected by the Highway Police) cannot be taken as representing the totality of accidents on Italian roads. In particular, the number of accidents recorded by ISTAT (175,791 in 2016) represented not even 7% of the 2,582,640 accidents for which insured parties filed claims with insurers.

Table 3
Fatalities and injuries caused by road accidents in Italy, 2001-2016

	PANEL A: HIGHWAY POLICE				PANEL B	
	Deaths		Injuries		ISTAT Data	
Year	Number	12-month change (%)	Number	12-month change (%)	Deaths	Injuries
2001	2,309	n.a.	74,169	n.a.	7,096	373,286
2002	2,520	9.1	84,217	13.5	6,980	378,492
2003	2,187	-13.1	72,342	-14.1	6,563	356,475
2004	1,891	-13.5	66,777	-7.7	6,122	343,179
2005	1,860	-1.6	64,997	-2.7	5,818	334,858
2006	1,889	1.6	66,057	1.6	5,669	332,955
2007	1,682	-10.9	63,763	-3.5	5,131	325,850
2008	1,507	-10.4	57,656	-9.6	4,725	310,745
2009	1,295	-14.1	53,756	-6.8	4,237	307,258
2010	1,213	-6.3	51,163	-4.8	4,090	302,735
2011	1,109	-8.6	47,618	-6.9	3,860	292,019
2012	1,018	-8.2	41,645	-12.5	3,753	266,864
2013	902	-11.4	39,896	-4.2	3,401	258,093
2014	857	-5.5	38,188	-4.3	3,381	251,547
2015	841	-1.9	37,632	-1.5	3,428	246,920
2016	777	-7.6	36,791	-2.2	3,283	249,175

Source: Highway Police, ISTAT

Examining the insurance data in detail, most of the nearly 2.6 million motor liability claims filed in 2016 were for accidents involving damage to vehicles or property, but a significant portion (about 447,000, or 17.3%) also involved personal injury, from minor to severe. Italy is among the European countries with the highest percentage of claims for personal injury, at about twice the EU average.

It is worth noting that some 560,000 persons received compensation for the 447,000 personal injury claims filed with insurance companies in 2016, as some accidents resulted in injury to more than one person. With the inception of the direct indemnity system in 2007, insurance companies' databases were reorganized, so we now also have data on non-liable drivers and passengers who sustain injuries. This allows us to make a more precise estimate of the average number of persons involved in a claim: 1.25 in 2016, very slightly less than in 2015.

It should also be borne in mind that the number of injuries and deaths in the insurance companies' statistics do not include persons who were involved in accidents but not entitled to indemnification, such as liable drivers and those hurt in one-vehicle accidents; nor does it reflect compensation payments by the Road Accident Victims Guarantee Fund for accidents caused by uninsured or unidentified vehicles. The difference between the insurance statistics and the ISTAT data thus stems mainly from the fact that the latter do not include accidents with no police intervention, which give rise to the overwhelming majority of claims. Most of the personal injuries for which the insurance sector pays compensation are minor and are caused for the most part by accidents on city streets, in urban centers, for which the police are called in only very rarely. To quantify the phenomenon, consider that of the 447,000 motor vehicle personal injury claims recorded by insurance companies in 2016, some 424,000 (95%) involved temporary or permanent disability of less than 9 percentage points. And of the latter, 282,000 (67%) were for a permanent disability of just 1 or 2 percentage points, corresponding to those generally recognized for so-called whiplash. Considering the average number of persons injured in a road accident, these claims correspond to more than 350,000 persons injured, which may help explain the wide gap between the two sources.

Table 4 – Deaths and injuries in road accidents in Italy, 2000-2016 - Insurance data (*)

Generation of event	Number of claims paid and reserved (**)	% of claims with personal injury	Number of claims with personal injury	% change on previous year	Average number of persons injured per accident	Total number of deaths and persons sustaining personal injury – ANIA
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2001	4,066,529	18.4%	746,313	-6.9	n.a.	n.a.
2002	3,836,135	17.9%	687,052	-7.9	n.a.	n.a.
2003	3,708,020	18.2%	675,955	-1.6	n.a.	n.a.
2004	3,673,744	19.8%	728,413	7.8	n.a.	n.a.
2005	3,654,072	21.0%	765,953	5.2	n.a.	n.a.
2006	3,661,945	21.0%	768,336	0.3	n.a.	n.a.
2007	3,685,452	21.0%	772,305	0.5	1.25	965,381
2008	3,716,084	21.3%	791,047	2.4	1.30	1,028,362
2009	3,741,283	21.8%	817,467	3.3	1.34	1,092,086
2010	3,535,512	23.1%	816,703	-0.1	1.33	1,088,666
2011	3,109,657	22.4%	696,354	-14.7	1.34	934,027
2012	2,675,840	20.1%	537,743	-22.8	1.31	705,643
2013	2,512,259	19,0%	477,329	-11.2	1,28	610,981
2014	2,455,104	18.5%	454,194	-4.8	1.28	581,449
2015	2,516,869	17.7%	445,486	-1.9	1.26	561,312
2016	2,582,640	17.3%	447,055	0.4	1.25	559,266

(*) Estimate for all insurance companies (domestic companies and representatives of foreign companies) doing business in Italy
(**) Includes the estimate of claims I.B.N.R.
Source: ANIA

LINES OF ACTION

The initiatives of the ANIA Foundation to improve road safety have followed three lines of action: reducing the number and severity of traffic accidents can be summed up in three key concepts:

- prevention;
- new technology;
- communication.

The Foundation's main activities are described below, with the scenarios relating to the individual projects.

Prevention

The concept of "prevention" refers to action to keep undesired or harmful events from happening. In practice, this is one of the core activities of insurers, who calculate risks for the purpose of protecting people and their property.

Accident prevention demands a multisector approach, the involvement of a wide range of instruments and a marked capacity to detect problem areas. Over the years the Foundation has focused on the concept of road safety, intervening on the main factors of road and highway risk: the human factor, the vehicle, and the infrastructures.

Infrastructure represents a major factor in the Foundation's strategy, including the actual realization of some small structures, such as the agreement with the city of Ferrara, in the region of Emilia Romagna, which led to the creation of a bicycle path. The path is limited in length but of strategic importance: it links various pre-existing paths that all terminated near a dangerous crossroads, with cyclists switching over to ordinary streets and thus no longer protected. Ferrara is one of Italy's leading cities in terms of cycle-based mobility, with 170 kilometers of bike paths, or 20 meters for every thousand inhabitants, one of the highest ratios in Italy.

The Foundation's bike path project was due to an increase in deaths of cyclists in the province of Ferrara. In 2016 the number of fatalities involving this particularly vulnerable group of road users quintupled, and the number of cyclists injured also increased (by 6%).

In 2017 the Foundation continued with major projects directed above all to reinforcing the culture of the rules of the road and improving the conduct of drivers.

A long-standing, strategic instrument here is the Foundation's "Adopt a highway" project, which continues to produce outstanding results. The project reinforces prevention by stepped-up on-road controls and sensitization of drivers to the Highway Code rules that are most widely disregarded. The project is carried out in cooperation with the Carabinieri and Highway Police. In 2017 controls were reinforced on some national highways ([1]) over a period of two months (from 15 March to 15 May), focusing in particular on deterring driving under the influence of alcohol and the improper transportation of children. The patrols were equipped with single-use alcohol testers and given informational brochures to distribute to the persons subject to the checks; the brochures highlight the consequences of irresponsible conduct behind the wheel.

In the course of the initiative the law enforcement patrols checked a total of 33,122 vehicles and identified 43,767 persons; 6,811 drivers were tested for alcohol, of whom 388 tested positive and were sanctioned. In addition, 41 drivers were found to be under influence of drugs.

During the two months of the project, these highways registered 98 accidents involving 167 vehicles, with 96 injuries and no fatalities. The checks resulted in the suspension of 545 drivers' licenses, with penalties amounting to a total of 7,771 points, the seizure of 187 vehicles, and the revocation of 172 registration certificates. The benefits of this joint action consisted in:

- a significant reduction in accidents on the highways selected;
- effective sensitization;
- positive impact on the image of the insurance industry thanks to its contribution to fostering responsible conduct by drivers, to the special advantage of the most vulnerable highway and traffic "users", namely children and young people generally.

An effective means of prevention is to let young people listen to people who have had relevant personal experiences. This is the focus of a Foundation project in cooperation with Comunità di San Patrignano, a drug rehabilitation center. ANIA participates in the Community's "We free days" with driving simulators (250 test drives at the latest edition) and support for theatrical road shows (the performances in 2017 were attended by 10,000 students in six different cities), dealing with the issue of highway risk when you drive under the influence of drugs.

One of the most effective instruments of accident prevention is learning to react properly to suddenly arising risks. Accordingly the Foundation promotes attendance at safe driving courses. From 2007 through 2017 the ANIA Foundation conducted nearly 9,000 courses, free of charge, for new drivers aged 18-26.

The results in terms of accident reduction are highly encouraging. The data on the courses given in 2016 ([2]) show that just 3.8% of the 800 young people contacted by phone reported having had an accident after completing the safe driving course; 46.3% said they felt more responsible at the wheel, and 62.7% felt they were more reactive to sudden dangers. Overall, 90.8% of the participants judged that the project was excellent and fully comprehensive.

To continue with safety training at schools, the Foundation has designed a "TuTour", an itinerant project in many schools around the country. Thanks to the participation

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([1]) Via Emilia, SS9; Via Adriatica, SS16; Via Jonica, SS106; and Via Carlo Felice, SS131.
([2]) The data refer to the courses conducted in 2016, but evaluated one year after their conclusion, i.e. in December 2017.

of professional instructors and the use of driving simulators, students are involved in theoretical and practical training activity. The ten days of the TuTour project gave training and instruction to 1,500 fourth- and fifth-year high school students.

Prevention, then, is fundamental in addressing the problem of traffic accidents. But the concept of prevention is equally essential to providing all-round protection and security, in every area of life. Fostering every type of behavior that can safeguard people and their basic interests is essential, to avoid having to cope with the serious contingencies that can arise if you behave irresponsibly, to the detriment of your health or your wealth.

Drawing on our experience with road safety, in seeking to meet Italians' requests for protection and welfare the ANIA Foundation has developed a major project to foster a culture of prevention in the area of health. To respond to the necessities of citizens, the Foundation has created a "Street Health Tour", conducting over 6,400 health check-ups ([3]), free of charge, to serve people who have not been able, in the course of the year, to access the public health system and to sensitize them to the need for supplementary private health care.

Recent data suggest that the situation in this regard is critical. It is estimated that in 2017 three of every four Italians had to defray some "out-of-pocket" health expenditure for medical services and treatment, for a total outlay of nearly €40 billion. Of this, just €5.8 billion (14.5%) was "intermediated" via supplementary health care provisions. That is, citizens were left to defray health care costs, where they were able, out of their own income or savings ([4]).

In this regard, for ANIA Foundation the Human Foundation ([5]) has developed a project for monitoring and valuing the projects carried out in 2017, determining the "value generated" in terms of the overall cost-benefit ratio. For each project, the Foundation investment and the resulting social and economic benefits are tallied; the outcomes are analyzed using specific indicators.

For the Street Health Tour, for instance, the study found economic savings of €500,000 for the National Health System, €800,000 for citizens, and €80,000 for insurance companies. It estimates that every euro spent on this initiative by the insurance industry produced a value of 5 euros for the community.

In addition, the check-ups revealed important information on Italians' state of health:

- 35% have high blood pressure (and of these, 6% have very severe hypertension);
- 60% have some thyroid problems (and of these, 40% were unaware that they had any thyroid pathology);
- 6% had test scores indicating an already advanced neuropsychological condition;
- 33% had hearing problems;

([3]) A truck is equipped to carry out checks of eyesight, hearing, reflexes, lung carbon monoxide, heart functions, thyroid and nutrition.
([4]) 8th RBM – Censis Report, *Rapporto RBM-Censis sulla sanità pubblica, privata e intermediata* (2018).
([5]) Human Foundation for ANIA Foundation: *Il valore dei progetti del 2017* (The value of projects in 2017).

- 38% had poor eyesight and had not taken corrective measures;
- 74% had slow, inadequate reflexes, lack of rapidity;
- 11% showed excessively high levels of lung carbon monoxide, the direct consequence of heavy smoking and/or living in a highly polluted area.

Interestingly, many of those who visited the Foundation truck said they wanted to have all the tests available performed, even though this took more than an hour. This shows that people ordinarily have only the most common medical checks performed because they lack the economic resources for full check-ups.

The Street Health Tour visited 19 Italian cities, transmitting the sense that the insurance industry is close to people, offering not only free health check-ups but also fostering healthy lifestyles through leaflets designed especially by the Foundation. The leaflets, which can be downloaded in the information leaflet section of the Foundation website ([6]), are a new means for Foundation communication and should foster, in clear and simple fashion, proper lifestyles as a form of prevention of health problems.

The Foundation's new mission, as we can see, consists in supporting and assisting people to understand the possible present and future risks and to help them manage their resources properly.

Another area on which the Foundation is now focusing is problems relating to longevity. As we know, the Italian population has one of the world's highest proportions of old people, and it is projected that there will be 2 million more in 2025 than today. The steady lengthening of life expectancy requires serious consideration of ways to ensure not only that people live as long as possible but that they do so in good health. Although the demographic structure of Italy is known, the country does not appear to be sufficiently endowed with policies for aging/longevity. For instance, there is a lack of new models of long-term care diverging from the old, hospital-centered system, and of organization for the general promotion of health in old age. Such policies would produce substantial benefits in terms of public spending as well as in the creation of new services.

Improving quality of life, making the elderly as autonomous as possible, extending the scope of self-sufficiency, limiting the use of drugs, simplifying living conditions and, finally, curbing national health spending: all these are issues that the ANIA Foundation intends to take up.

One direct consequence of this scenario is certainly the increase (at least in absolute terms) of the number of old people who will require long-term care. The proportion of the population consisting of non-self-sufficient old people will increase from 4% to 6% (or by 53 percent), generating enormous financial, organizational and social problems. Note that according to statistical studies the health care consumption of a 70-year-old is twice that of a 40-year-old; that of a 90-year-old is three times as great ([7]).

([6]) http://www.fondazioneania.it/it/cosafacciamo/attivita/progetti/la_sicurezza_stradale_e_personale/Opuscoli_informativi.html.

([7]) M. Ferrera and F. Maiono, *Il secondo welfare in Italia: sfide e prospettive*, 2011.

The Foundation has accordingly begun to play an active role in the prevention of neuro-cognitive disorders, which are those with the most severe impact on the elderly. The plans call for an increase in information and the promotion of good practices to shorten the lag before intervention and diminish the cost of care. This has resulted in Project Kant, in collaboration with Fondazione Santa Lucia, to perfect a method for early diagnosis and treatment of neuro-cognitive degeneration, in particular Alzeiheimer's Disease.

The project will have three stages:

- sensitization, fostered by events in which ANIA Foundation will participate with diagnostic tests to assess degree of cognitive deterioration;
- prevention, with the development of a protocol for psychological education and a new cognitive training protocol;
- treatment, with therapies for cognitive stimulus on early-stage Alzheimer's patients.

Preliminary data from two of the planned events organized by the Foundation ([8]) indicate that 15% of the 290 persons examined were borderline, with scores below the minimum. Considering the relative youthfulness and high education of the sample compared with the general Italian population and the extemporaneous screening outside the hospital environment, this shows a high rate of sub-par results. This indicates that the perception of cognitive pathology is severely underestimated. Twelve of those tested (4%) had scores indicating an already advanced pathology.

The Foundation's aim will be to improve people's knowledge for aging well and for early intervention upon observation of changes in one's cognitive functions.

Another model of prevention, one of special importance to the insurance industry, relates to natural disasters, which threaten property as well as life. Italy is one of the countries most exposed to natural disaster: 35% of dwellings are located in earthquake-prone areas. In the last ten years there have been three particularly violent quakes, causing 635 deaths and doing over €20 billion worth of damage. This has sharpened attention to the issue of natural disasters. The insurance industry has demonstrated considerable sensitivity to the matter and has helped to support a project developed by the National Research Council, in cooperation with the National Institute of Geophysics and Volcanology and the Institute of Environmental Geology and Geo-engineering, to create seismic precursors.

The objective is to determine how and whether earthquakes can be predicted and to create hydro-geological stations to monitor underground waters in the Apennines, to see whether there are other recurrent natural events in pre-earthquake periods.

This is an original study, the fruit of research already under way on the waters in some springs in the area of Sulmona. Researchers have performed detailed geochemical analysis of monthly samples of water, finding that in the days preceding the earthquake of 24 August 2016 in Amatrice the concentration of certain chemical elements was altered. Accordingly, it was decided to proceed with the study in other

([8]) ANIA Foundation events in 2017: Rimini Meeting and *Inverno Incantato*.

Apennine areas, so as to use these possible seismic precursors to develop an early warning system that can be integrated into present seismological networks.

The Foundation has also produced a leaflet on how to recognize, manage and cope with possible crisis situations, such as those provoked by natural disasters in general and earthquakes in particular. The strongest guarantee for safety is learning to manage risk. The Foundation's leaflet is a means for providing information in simple form to people whose level of attention to this delicate issue has been heightened by the series of recent quakes.

New technologies

Technological innovation can be defined as deliberate action on the part of enterprises and institutions to introduce new products and services, or new methods for producing, distributing and using them. Innovation may be characterized by differing degrees of novelty. It may involve the improvement of an existing product, process or service; and it may consist in an improvement in quality, performance or adaptability, or in a reduction in costs.

Today, innovation is essential in every industry, including insurance. The concomitance of political, economic, social and technological factors creates a set of opportunities but also poses major challenges for insurance companies.

ANIA Foundation has invested heavily in the development of new initiatives for testing new technologies, involving the millennial generation, whom the entire insurance industry must address in order to continue and complete the process of modernization. In line with this philosophy, in 2017 the Foundation organized its first "hackathon" – a marathon of ideas involving creative young people with expertise in new technologies: for 24 hours, non-stop, they competed in the development of innovative ideas on topics proposed by a hypothetical prospective client. Last year's first edition of the hackathon was on the theme of "Protection and safety"; more than seventy young people (aged 16-30) confronted three different issues: two focused on road safety, the third on protection and prevention from a strictly insurance perspective. The main objective was to create instruments such as apps or develop technological ideas on safety addressed first of all to young people. This was designed as a way to emphasize that the insurance industry is attentive to the needs of future generations and capable of adapting to the evolution of society and models of communication. During the hackathon there was constant dialogue between the contestants and the representatives of insurance companies, who served as jury members.

The event represented a significant opportunity for an encounter between young people and the world of enterprise. Many of the participants were judged to be brilliant, demonstrating the potential for a role within the insurance industry; and in fact some companies contacted contestants for interviews with a view to possible employment.

The Foundation, then, is not engaged solely in the effort to develop new products and models to the advantage of the insurance industry but also serves to facilitate employment in a moment when the jobless rate is critical, especially for young people. And even though the youth unemployment rate has declined in recent years to 31.5%, Italy is still the third-highest in the EU in this critical indicator, behind only Greece (43.7%) and Spain (36%) ([9]).

In the narrower field of road safety, innovation and safety are increasingly inseparable in accident prevention. Just think of the technology now mounted in cars, from power braking and ABS to speed control and pre-collision sensors, to name just the best known. This set of devices includes black boxes, which the ANIA Foundation has tested over the years, above all for professional drivers (trucks, buses, taxis), to monitor conduct behind the wheel, inquire into the causes of accidents (especially distraction and the use of cell phones) and counter fraud involving the faking of accidents.

In 2016 the black boxes were tested for the first time also on motorcycles and scooters. Two-wheeled vehicles, in fact, represent a critical segment in relation to road safety, by reason of the high vulnerability of these drivers and also inadequate training, especially for the youngest.

According to ISTAT, in 2016 there were some 25,000 accidents involving two-wheeled vehicles, with 773 fatalities, a decrease of 12% compared with 2015. A more specific breakdown shows a decrease of 15% for motorcycles but an increase of 10% for scooters; that is, the accidents involving these less powerful vehicles, driven above all by younger people, produced more deaths.

Italy, in fact, leads the European Union in number of deaths of drivers of motorcycles and scooters, with 773, as we have seen. Next come Germany with 734, France with 604 and in fourth place Spain, with 397, scarcely half the number registered in Italy. In 2016 the Foundation launched trials of technology that serves to discover the errors made by motorcycle and scooter drivers and the most common dynamics of accidents. These data should serve to determine what information is most important to convey to these users in order to mitigate potential risk.

The trial involved mounting 500 black boxes (250 with and 250 without videocamera) to record both the participating motorcyclists' driving style and the most common errors, as well as any accidents had and/or caused. The data from the systems with no videocamera indicate that in 2017 the vehicles so monitored were driven for a total of 2.2 million kilometers: 58.2% on city streets, 28.3% on extra-urban highways, 13.3% on motorways; 90% during daytime and just 10% at night. Of 235 alarms transmitted to headquarters, just 7 related to an accident.

The data signal the problem of speeding, which is quite common. The percentage of the distance covered at more than 10 km/h above the speed limit was 8.7% on city streets, 27.8% on extra-urban highways, and 17% on motorways. These data confirm a notorious defect of Italian motorists in general. In 2016 law enforcement officers ticketed over 2.7 million drivers for speeding, 14% of all fines levied.

([9]) Eurostat data as of January 2018.

The ANIA Foundation also tested black boxes with videocameras. In 2017 these vehicles covered a total of 342,000 kilometers, mostly in daytime and on city streets. The distance covered was 24% lower during the winter than in 2016, probably owing to worse weather conditions.

In the course of 2017 six accidents were recorded. The main causes were:

- high speed, with loss of control of the vehicle;
- dangerous overtaking, causing accidents involving other vehicles as well;
- failure to maintain safety distance;
- distraction.

The video footage of near-accidents that were avoided (some 1,250 videos triggered by sharp acceleration or deceleration) indicates the following dynamics:

- 40% of these near-accidents are caused directly by the motorcycle driver;
- 15% involve the responsibility of the other driver;
- 10% do not involve any other vehicle;
- 5% occur at night;
- 20% happen on wet or very wet roads;
- 10% happen on dry roads.

While average speed in cities is under the speed limit, owing to heavy traffic and stoplights, the main danger is acceleration on open roadways. The overall average speed is 30.1 km/h in cities, but between 80 and 90 km/h on extra-urban roads.

Weather strongly affects the probability of accident. In the rain or with a wet road surface, tire adhesion is critical; risk increases, and sudden braking can cause slipping, often involving other vehicles. It is no coincidence, then, that fully 20% of the risk situations monitored came with wet road surface. The danger is heightened when rain is compounded by dark.

The Foundation has also developed programs addressed to professional drivers, the transport sectors where the great distances covered daily result in high accident frequency. Taxi drivers in particular are an important category at risk. The insurance data for these vehicles show much higher than average accident frequency (33.06% as against an overall average of 5.65%). Accordingly, together with Unione Tassisti Italiani the Foundation has produced a cooperation agreement for a “risk management” project, repeating the model already developed for public transit and for freight transport. A total of 600 videocameras were installed on taxis with a view to limiting the number of accidents, and checking to see whether the taxis with the cameras have fewer accidents. Taxi fleets in three cities were selected: 200 in Milan, 200 in Rome, 200 in Naples.

In Naples the program got under way in 2017 with the signature of the cooperation agreement by the Foundation, the city government and taxi driver associations. In December the cameras began to be mounted on 200 cabs, selected among those most at risk.

In Milan, the program got under way in 2014 and was concluded in December 2017 after the planned three-year test period. The cabs monitored covered a distance of 11 million kilometers over the period, with 81 accidents, 45 of them in 2017 alone (of which 58% caused by other drivers, 42% by the cab driver); the great majority (94%) came during daytime. Accidents occurred mainly in urban areas and at low speed (79%); 19% came at speeds greater than 50 km/h and 2% with the vehicle not in motion. The number of accidents due to excessive speed diminished in the course of the program, a sign of greater responsibility on the part of drivers. As to the dynamics of the accidents, 33% were rear-end collisions, 29% side impact collisions, 18% loss of control with vehicle going off-roadway, 12% failure to yield right of way, and 5% hitting pedestrians or cyclists.

In Rome the program began in 2015, so the data cover a period of two years. The 200 cabs monitored covered 18 million kilometers, with 116 accidents, 45 in 2017 (of which 67% caused by other vehicles and 33% by the cabs); 91% came during daytime. Here too most accidents came in urban areas, and there was a decrease in the number of accidents caused by speeding, from 56 in 2016 to 24 in 2017. As to the dynamics: 41% were rear-end collisions, 25% loss of control with vehicle going off-roadway, 18% side impact collisions, 8% hitting pedestrians or cyclists, 7% due to failure to yield right of way.

The monitoring systems have two videocameras. The second serves as protection for the driver in the case of on-board attack. This is a deterrent to robbery and helps law enforcement bodies in identifying the criminals. Through the end of 2017 four incidents were recorded – two armed robberies and two thefts of property on board.

The motor liability sector has served as an insurance laboratory for understanding the true preventive potential of new technology. The model used in motor liability can be transferred to other sectors, such as health, aging, and long-term care. Just think of the proliferation of devices now available to monitor one's own health and wellbeing, or the numerous home automation applications.

And that is not all. The new technologies can be of assistance in assessing the adequacy of the places where we live and work and speed up the assessment of damages due to disasters and consequently also the restoration of conditions of safety.

Technology and innovation are the future of insurance products; service platforms and devices for profiling customers and providing tools for prevention, engaging with and indeed anticipating the new forms of dialogue and communication of the millennials, is no vague challenge for the future but a model for immediate realization.

The ANIA Foundation will be the locus of experimentation, the place for grasping and measuring how and when to innovate. We have called on Italy's centers of excellence in such fields as technological innovation, scientific research and experimentation with the most innovative devices, signing memorandums of understanding with the Campus Biomedico and the pediatric hospital Bambino Gesù in Rome.

Communication, the insurance industry's image

Again in 2017 the Foundation took part in the Rimini Meeting, with a stand offering various activities of sensitization and training for safety and prevention. The space was divided into three "thematic corners" to attract all the various kinds of visitors. There were three specific areas:

- prevention and health: free check-ups of eyesight, hearing, reflexes, lung carbon monoxide, a heart unit, and screening for neuro-cognitive diseases;
- road safety: static driving simulators, a dynamic driving simulator and a carpet for the simulation of drunk driving;
- retirement saving: an expert used special software to help visitors calculate their future pensions.

As to traffic risk, it is worth emphasizing that where prevention fails and accidents occur, given the serious consequences that they produce, they can also have a traumatic emotional impact on direct victims and their relatives. The physical harm caused by accidents is often accompanied by psychological consequences with significant permanent effects on the quality of life of the victims and their families.

Aware of this dramatic problem, the ANIA Foundation, in collaboration with the Psychology Faculty of the University of Rome La Sapienza and the Highway Police, has developed the "ANIA Cares" project. This three-year project, the only one of its kind anywhere, is designed to provide psychological support to the persons directly or indirectly involved in serious traffic accidents, reducing what is known as "secondary victimization," i.e. the sense of indifference and abandonment.

The third year concluded on 31 December 2017 with the successful attainment of the project objectives:

- finalization of the scientific model for intervention;
- training of 100 psychologists according to the new model;
- training of Highway Police officers assigned to intervene at the scene of the accident and break the news to family members;
- activation of a toll-free number (800-893510) in the pilot areas (Rome, Milan, Florence and Campobasso);
- local press conferences to present the project;
- production of didactic/informational materials (manuals, folders);
- cooperation with hospitals: Niguarda (Milan), Careggi (Florence), Gemelli (Rome), Cardarelli (Campobasso);
- direct intervention of emergency psychological assistance to accident victims and relatives.

By the end of 2017 emergency psychological assistance had been provided in **75** cases; the largest number were in Rome (48, or 64% of the total), followed by 14 in Florence and 13 in Milan.

To gauge the effectiveness of the project, the Psychology Faculty of the University of Rome La Sapienza has developed evaluation forms for the persons treated. For an initial evaluation of the psychological support and therapy, the situation is assessed both before and after the intervention. The initial results point to the success of the project and the efficacy of the model. The intervention of the psychologists was rated as very valuable by the accident victims themselves, physicians, and municipal and highway police officers.

The emotional aspects of accidents are handled better through the psychological care. Clinical assessments show a decrease in resentment and anger and the facilitation of the beginnings of learning to cope. In view of these positive results, the Highway Police have made it obligatory to request the intervention of ANIA Cares in accidents involving fatalities or severe injury. They have instituted a procedure triggered by a "processing card" carried by every street patrol in the pilot cities.

Also in 2016, ANIA Cares was expanded to include an additional unit, specializing in rehabilitation of the severely injured to regain motor capability. In cooperation with Fondazione Universitaria Foro Italico, the ANIA Foundation has made available three Re-Walk Robotics "exoskeletons" to develop, at the university institute, a three-year rehabilitation course for a sample of 50 victims aged 18 to 35 who have lost the use of their lower limbs due to accident.

The objectives are:

- to test the effectiveness of the new technology for mobility rehabilitation;
- to publicize the opportunities offered by these systems for the rehabilitation of the severely injured;
- to support the seriously disabled in regaining the ability to carry out a series of typical actions and improve the quality of daily life;
- to improve the process of acceptance by family members;
- to improve the quality of life of those who have lost the ability to walk;
- to help overcome the lack of relationship between victim and insurance company.

The patients with spinal lesions who followed the various experimental protocols numbered 25, of whom 9 quit training after just a few weeks. The other 16 are continuing, however, allowing for closer study of the results. The analysis is focused on determining the implications of the exoskeleton for paraplegics' self-representation of their body. The idea is to see whether the brain can learn to treat a major prosthesis (like an exoskeleton) as a part of the body.

The general results of psychological intervention on patients using the walking robotics exoskeletons are highly satisfactory:

- a general improvement in patients' quality of life;
- a general improvement in patients' communication with others;
- improvement in sleep and the quality of rest.

The study, one of the most extensive currently under way anywhere in the world in terms of number of cases, will continue in 2018 and 2019 to gather a substantial collection of data.

THE ANIA-CONSUMERS FORUM

The ANIA-Consumers Forum is a foundation constituted by ANIA, with representatives of insurance companies and consumer organizations and independent members. The Forum's decision-making body includes representatives of nine national consumer organizations: Adiconsum, Adoc, Cittadinanzattiva, Codacons, Federconsumatori, Lega Consumatori, Movimento Consumatori, Movimento Difesa del Cittadino and Unione Nazionale Consumatori.

Within the Forum, insurers and consumers meet to talk about major issues relevant to the insurance industry and to society generally, organizing a series of activities, studies and projects focusing on three specific areas of interest. First is welfare, with inquiry into the current situation and future prospects for the welfare state, with the aim of sensitizing public opinion to the presumable effect on Italian households and devising joint proposals to present to governmental institutions. Second is insurance education and training, with an effort to foster greater awareness and information on risk management, retirement planning, and the defense of one's wellbeing. The third operational area is issues involved in the economics of relations between consumers and insurance companies and the realization of the activities envisaged in agreements between ANIA and the consumer organizations.

THE WELFARE SYSTEM

The Forum continued its discussion of Italy's present welfare model, the new organization that is taking shape and the social role of insurance companies within this changing scenario. This is the framework within which the Forum has undertaken a series of initiatives of research and analysis, in cooperation with major research centers and academic institutions.

In the course of 2017, in addition, together with Censis and consumer organizations the Forum undertook a series of projects of study and communication on the "Welfare scenarios" program to realize and exploit the Forum's joint proposals on the theme of welfare.

Finally, the Forum also took part in drafting the "Third Report on Second Welfare in Italy", forming part of the "Second Welfare Path" project, created at the initiative of the Luigi Einaudi Research Center in Turin and bringing together businesses, foundations, trade unions and local government bodies.

The "welfare scenarios" program

In 2017 the Forum continued to develop the program known as "Welfare scenarios", a series of studies on pensions, health care, problems of aging and the need for assistance carried out by Censis and the consumer associations belonging to the Forum. The program's purpose is to make use of the Forum's "Proposals for an equitable and sustainable welfare system" – a set of eight proposals endorsed by insurers and consumer groups to enhance the transparency, equity, efficiency and reliability of the Italian welfare system and sensitize public opinion to the consequences of demographic trends, such as the risk of losing self-sufficiency for the most elderly, who are more and more numerous within the demographic structure (the paper can be downloaded at http://forumaniaconsumatori.it/images/pdf/ott2017proposte forum welfare.pdf).

Last year's presentation of the results of the initiatives was attended naturally by representatives of ANIA and the Forum but also by public institutional figures and representatives from academia and the world of business and labor. It also attracted considerable interest on the part of the press and public opinion.

THE CENSIS REPORT – THE SIGNIFICANT DATA

Censis has produced a report on a survey focusing on the welfare system. Like previous surveys commissioned by the Forum, the report examines the evolution of social protection in Italy and future prospects. It focuses on the future of the welfare system in Italian society in the light of the current economic situation and trends. The report offers interesting points for reflection.

First, the present climate is marked by a slow economic recovery and a widespread sense of insecurity, leading Italians to accumulate liquid assets. In fact, 35.6% of the population said they kept cash on hand to cope with emergencies and for protection against the uncertainties of the future. There are signs of slow recovery after the depths of the recession, but over 3.8 million households still report that they have trouble making ends meet.

The survey also points up some evident shortcomings of the public welfare system: according to 52.6% of respondents, the public system guarantees only basic benefits, and the rest has to be purchased out of pocket. What is worse, according to 28% it does not provide even the essentials; only 19.4% consider that the public system offers all the coverage they need.

The perception of an erosion of State coverage produces a severe sense of insecurity; 37.6% of respondents say they are afraid of getting sick, 34.2% fear losing their jobs with the consequent income difficulties, 29.1% worry about risks relating to the home (explosions, fire, vandalism, theft), and 29% are concerned over the risk of non-self-sufficiency (these data are all in line with previous years' surveys).

Italians are pessimistic about their pension situation as well. They hope to retire, on average, at 62 but assume more realistically that they will not receive pension benefits before age 69. The generation of millennials, in particular, show the widest gap between desired and expected age at retirement (60.2 and 71.8, respectively).

In order to make up for the shortcomings of the public welfare system, last year Italians spent over €60 billion out of pocket for health care, care of the non-self-sufficient, and education – often in the "informal" economy. So it comes as no surprise that 73% of Italians report that welfare spending weighs heavily or fairly heavily on the household budget.

Finally, as to the diffusion of insurance, the report finds that 64.6% of Italians have at least one policy in addition to compulsory motor liability. Further, 49.1% intend to purchase an insurance policy as an instrument of welfare protection; the highest proportions here are among the millennials, university graduates, residents in the South and the island regions, and couples with children.

THE LOCAL FOCUS

One part of the Censis survey commissioned by the ANIA Consumers Forum focuses on the welfare system and society in particular territorial areas. Three regions were chosen for this special analysis: Lombardy in the North, Tuscany in the Center, and Puglia in the South. Italy has traditionally been characterized by territorial disparities, which have intensified over the years, leading eventually to the regionalization of the welfare system – the evident outcome of the period of devolution that preceded the present phase.

The results of these regional surveys – presented in Milan, Florence and Bari in the course of 2017 – demonstrate the absence of a single, ideal model of welfare but instead a whole series of welfare systems at regional and local level, which seek to adapt to the concrete evolution of social needs and their determinants. The observation of current phenomena and the processes under way at the local level can generate hypotheses and possible solutions for a new type of sustainability of the national welfare system starting at local level.

"SEVERAL PILLARS, A SINGLE SYSTEM"

The series of volumes on "Welfare Scenarios", published by the ANIA-Consumers Forum in collaboration with the publisher Franco Angeli, lengthened in 2017 with the release of a new volume entitled "Several pillars, a single system," reporting the latest welfare survey conducted by Censis for the Forum, together with "Proposals for an equitable and sustainable welfare system" endorsed jointly by insurance companies and consumer organizations.

The previous volumes in the series reported the findings of three earlier surveys by Censis, namely "New needs and the desire for a future", "New protection beyond the crisis" and "Towards a sustainable social state".

INSURANCE EDUCATION

One of the Forum's official purposes is to undertake campaigns of information and education on insurance issues to enable consumers to make informed choices. The consumer and insurance representatives who make up the Forum see it as absolutely essential that citizens have the necessary knowledge before making important financial decisions for themselves and their families. Some basic knowledge is required, for instance, to plan for the costs of children's studies, for rational management of credit, for getting adequate insurance coverage, and for properly preparing one's retirement.

In pursuit of the objective of education on these issues for young people and adults alike, the ANIA-Consumers Forum is engaged in continuous training and instruction in insurance matters for staff and technical personnel of the consumer organizations. It produces a series of guides entitled *L'Assicurazione in chiaro* ("Insurance made plain") and sponsors initiatives like the "Applied mathematics prize" and the educational project *Io e i rischi* ("Me and risks"), a course on risk awareness, prevention and mutuality for Italian students and households.

In developing these actions, the Forum has always adopted an inclusive policy and can thus count not only on consumer organizations but also on the authoritative contributions of associations of teachers, universities, and cultural foundations. In 2017 the Forum's long-standing partners were joined by two major players from the insurance distribution network: the agents' organization *Sindacato Nationale Agenti* and the brokers' association *Associazione Italiana Brokers di Assicurazione e Riassicurazione* (AIBA) both signed agreements to capitalize on the Foundation's activities regarding training and insurance education.

"Me and risks": Insurance at school

The Forum has developed a multi-year educational program called "Me and risks" that is intended to heighten young people's awareness of risk and spread a culture of risk prevention and management over one's life span. The program is undertaken in cooperation with the Association of European Economics Education (AEEE Italia) and with the scientific consultancy of Università Cattolica del Sacro Cuore and Università Bocconi in Milan and is sponsored by the national institute for education documentation, innovation and research.

"Me and risks" is mentioned in the report *L'educazione finanziaria in Italia: oggi e domani. Il primo censimento Nazionale delle iniziative promosse sul territory* (Financial education in Italy: today and tomorrow. First national census of local initiatives) presented at the Bank of Italy in 2017. The report describes the main programs of financial, insurance and retirement education in Italy. In addition, through "Me and risks," the Forum participates – together with the Bank of Italy, ANASF, and ABI, the banking association – in the discussions on financial education organized by the Lombardy regional school office. “Me and risks” has also gained international attention; the program has been cited by Insurance Europe as among the best practices of financial education instituted by European insurers.

In practical terms, the program is a course for middle and high school students. It proceeds through classroom lessons given by the students’ regular teachers, who are supplied with a didactic kit of educational/game materials. The instruction modules for middle school focus on the concepts of risk, prevention and mutuality, while those for high schools deal with risk management over the life cycle, retirement saving, planning of the future and insurance.

The program also involves competitions for the classes and students taking part; conferences for high school students; theatricals for young students presenting the same themes as the instructional materials (risk, prevention, mutuality); and material addressed to families with children.

In its relatively brief span of activity the program has involved over 110,000 students from schools in all parts of Italy.

Applied mathematics prize

The “Grand Prix for Applied Mathematics” is an initiative connected with the “Me and risk” program for high schools. The competition was developed by the ANIA-Consumers Forum together with the Banking, Financial and Insurance Sciences Faculty (specifically, the degree course in statistics and actuarial science) of the Università Cattolica del Sacro Cuore in Milan, with the sponsorship of the Lombardy Region and the National Council of Actuaries.

The “Grand Prix,” a competition restricted to students in the last two years of high school, is designed to enable contestants to put their logical and mathematical knowledge to use in various practical life situations. The tests consist in problems to be solved by applying intuitive mathematical models to real life situations.

The Forum, through the competition, intends to capitalize on students’ mathematical abilities and spark their interest in the more practical, concrete aspects of the discipline, as well as to sensitize them to the possible career opportunities for those who opt for a university course in statistics and actuarial science.

The “Grand Prix” has been increasingly successful. Last year it saw the participation of over 9,000 students (up 18% compared with the 2016-17 school year), from 142 high schools in 18 regions. The winners and their teachers won tablets and other multimedia devices. The prizes were presented simultaneously on 24 March 2018 in the Università Cattolica's premises in Rome and Milan, in the presence of representatives of the academic and insurance communities.

COMMITTEE FOR FINANCIAL EDUCATION

The "Committee for the planning and coordination of the activities of financial education" is charged with promoting and coordinating initiatives to heighten citizens' knowledge and competence in financial, insurance and retirement matters and improve everyone's capacity to make choices consistent with their objectives and conditions.

The Committee was instituted in 2017 by a decree of the Minister for Economy and Finance in concert with the Minister for Education, Universities and Research and the Minister for Economic Development, implementing Law 15/2017, which enacts "urgent measures for the protection of saving in the credit sector"; Article 24-*bis* provides for a set of "General provisions on financial, insurance and retirement education".

The Committee is composed of eleven members and chaired by a director, Professor Anna Maria Lusardi, meeting the requirement for demonstrated competence and experience in this field. The other members were designated by the ministries for economy and finance, for education, universities and research, for economic development, for labor and social policies, and by the Bank of Italy, CONSOB, IVASS, the pension supervisor COVIP, the National Council of Consumers and Users, and the supervisor keeping the single register of financial advisers (OCF).

The main initiative undertaken so far by the Committee has been the drafting of a "National strategy for financial education", submitted in 2018 to a public consultation, in which ANIA offered its own ideas.

Further, on 16 April 2018 a new portal for financial, insurance and retirement education (http://www.quellocheconta.gov.it/it/) was presented. The portal is intended as an authoritative source of information on financial matters, an opportunity for citizens to increase their knowledge in this field.

Finally, through the Bank of Italy a survey of financial, insurance and retirement education initiatives in Italy was carried out. The report mentions the "Me and risks" program of insurance education and the "Insurance made plain" series of guides of the ANIA-Consumers Forum.

The "Insurance made plain" guides

The ANIA-Consumers Forum publishes the "Insurance made plain" series of guides, which explain the insurance issues of greatest interest to consumers in simple language for a mass readership. The fourth volume in the series, presented in September 2017, is "Home and household insurance", providing a clear and exhaustive account of these policies. Readers are given all possible useful information.

The guide sets out the characteristics of household insurance coverage, specifying the types of insurance offered (e.g. fire, theft, liability). The guide also deals with innovative, topical issues such as the impact of new technologies, home and household insurance products, and coverage against catastrophic risk.

The previous "Insurance made plain" publications covered motor liability insurance, with an updated second edition in May 2017, insurance distribution, and life insurance. All the guides are also available in digital format on the websites of the ANIA-Consumers Forum (www.forumaniaconsumatori.it) and of the educational program "Me and risk" (www.ioeirischi.it). In addition, they are available to the public also on the websites of the participating consumer organizations and insurance undertakings. In 2018 the Forum will publish a new guide, on health care insurance, plus an updated edition of the guide on insurance distribution.

CUSTOMER SATISFACTION IN THE INSURANCE MARKET

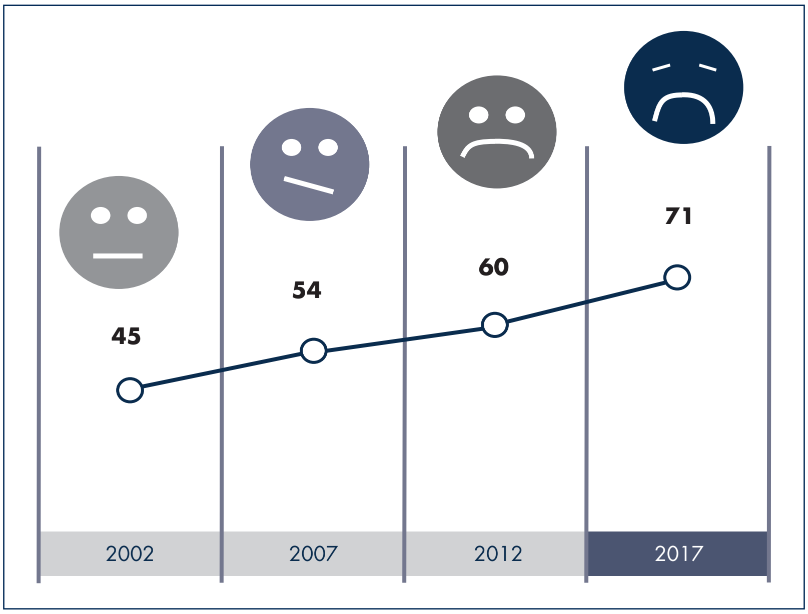
ANIA conducts regular surveys of policyholder satisfaction. The aim is in-depth inquiry into the fundamental relationship between customer and firm, to track its evolution over time, and so enable individual insurers to analyze their positioning and to benchmark against the market-wide average.

ANIA's Observatory on customer satisfaction in the Italian insurance market combines measurement of policyholders' satisfaction with monitoring of the social climate and attitudes found within this market. It tracks such indicators as values and sensitivity towards risk management, retirement saving, prevention, protection of the well-being of oneself and family, as well as the significance, value and role that people ascribe to the insurance profession and its players and to the practice of insuring oneself. In addition, it looks into the impact of digitization on Italian households. Consumers' views are collected and analyzed by the GFK research institute. This work is then supplemented by further inquiry – conducted by the Baffi Carefin Centre (Centre for Applied Research on International Markets, Banking, Finance and Regulation) of Bocconi University – into the structural factors that influence customer relations on the supply side.

The results

By comparison with the last survey, in 2015, the 2017 poll was taken in a social context marked by greater popular awareness of the deepening lacunae in the protection offered by the Italian welfare state, which translates into broad worry over the future.

Percent of population aged 14+ worried over future



Source: GfK Sinottica TSSP

A second key social factor is accelerating digitization, involving all age groups.

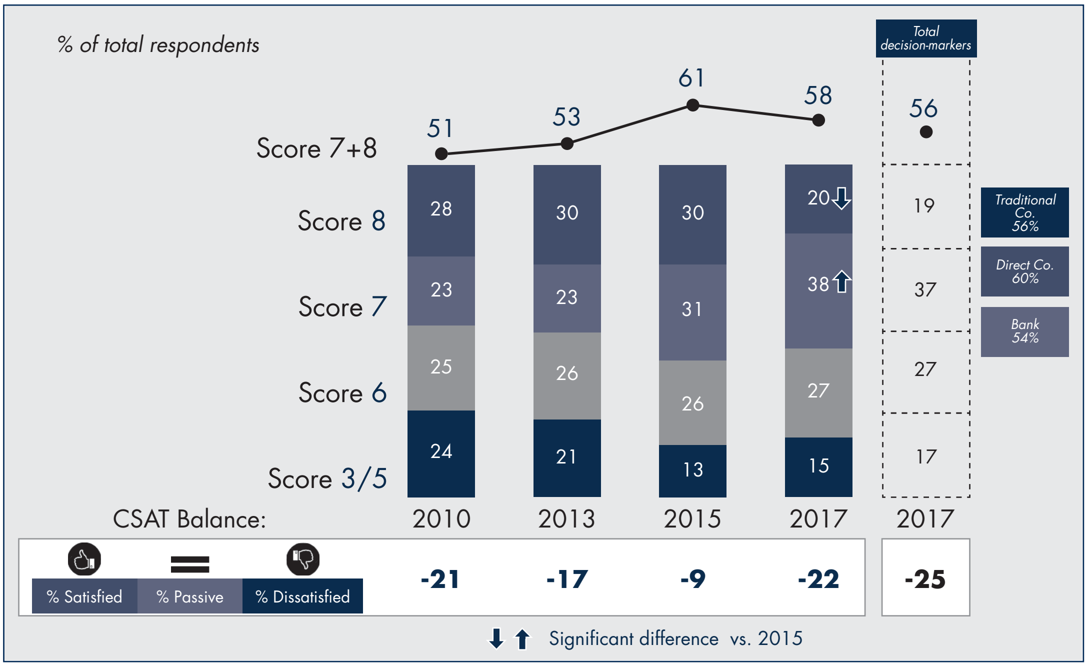
Use of internet, by generation – 2017

Use internet (at least 2-3 times/week)		vs 2005
55+	37%	+700%
55-69	51%	+470%
35-54	79%	+240%
14-34	83%	+130%

Source: GfK Sinottica TSSP

As to customer satisfaction specifically, the new survey finds some subsidence in customers' relationships with their main insurance provider. System-wide, in any case, customer satisfaction remains quite high: the portion of customers assigning a positive value (a score of 6 to 8) was 83% among those making decisions (85% among household heads, compared with 87% in 2015). Decision-makers who declared themselves fully satisfied (scores of 7 or 8) slipped a bit: 56% (58% among household heads, against 61% in 2015). The rating of excellence contracted significantly, however: just 20% of household heads rated their satisfaction at 8, down sharply from 30% in 2015, while ratings of more moderate satisfaction increased.

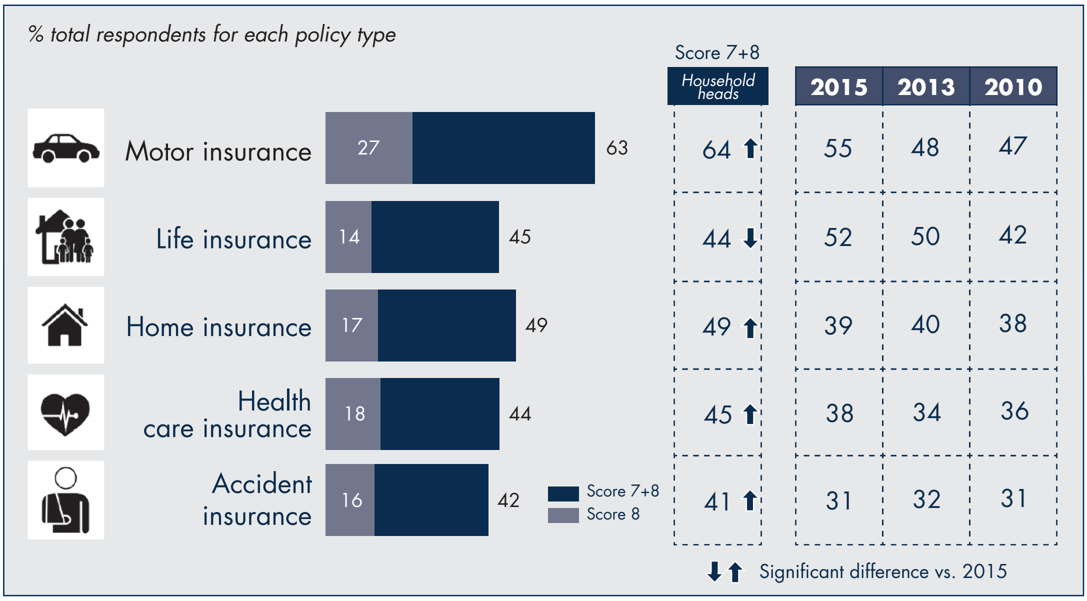
Overall customer satisfaction with main insurer: 2013-2017



Source: GfK Sinottica TSSP

By type of insurance policy, customer satisfaction remained positive for all types and rose significantly for all except life policies, which registered a worsening after steady improvement over the past three surveys.

Overall satisfaction by insurance product, 2010-2017



Source: GfK Sinottica TSSP

Millennials: expectations and concerns

The Observatory devoted a special focus, this time, to the generation of the millennials, so as to highlight tendencies and attitudes among this market segment, which will naturally become more and more central.

For Italian millennials, a perfect synonym for “future” is “unpredictability”, which produces a sense of uncertainty and insecurity, although not an attitude of mere passive resignation. In this context there are nevertheless some solid points of reference: first of all the family of origin, which constitutes this generation’s “personal welfare system”, the moral (and often financial) backer of their plans and projects. For those who have already formed their own family, this becomes the most important project and point of reference, around which all other projects revolve and in relation to which the latter acquire meaning.

A second vital, fundamental component for this market segment is the dwelling. Home ownership is a decisive factor in producing a sense of stability in the present. It is a goal for those who have not yet attained it, a project that they intend sooner or later to realize. For millennials too, then – confirming Italians’ general desire to own their own homes – home purchase is a priority. Other important issues are work, social relations and the quality of life, spheres in which they pursue their self-realization and growth towards maturity.

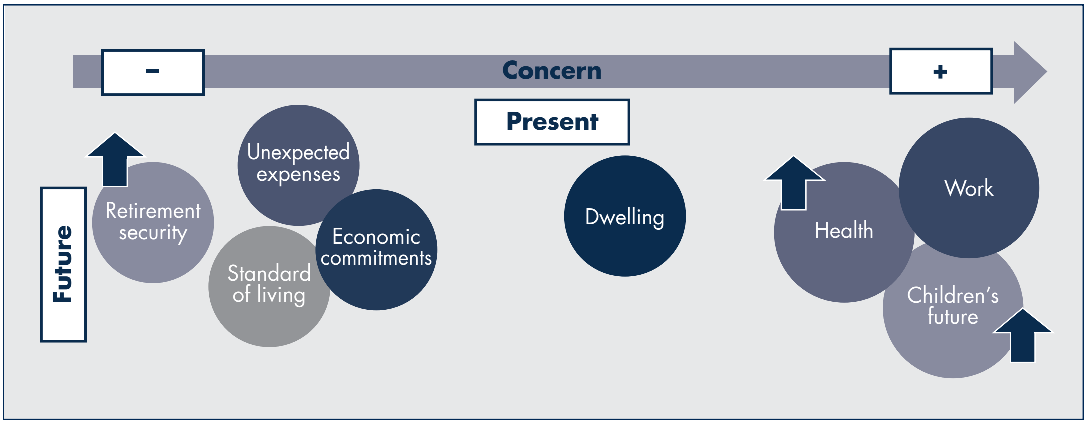
As to modern digital technology, this is seen as a source of opportunity, something that has changed the conduct of daily life, making it simpler and more efficient – a support that further facilitates the quality of life. These are aspects that in the future will come to be seen as structural, an accomplished fact, but that for the moment are still underscored as a positive feature of today’s world.

In this context, against these solid points of reference, however, there are also areas of concern for the future. First of all is work. People sense the progressive erosion of the traditional protections for working people, the loss of job security, and an uncertain global economic cycle. A second focus of concern is health, invaluable for the millennials themselves and a problem area for their parents. Although in this age group people tend to take good health for granted, they remain aware that illness or serious accident could result in severe deterioration of the quality of life and the loss of the capacity to discharge one’s obligations at work and in family life.

In any case, the main concern for the millennials is the state of health of their parents as they age. Imagining themselves in the role of care giver, in fact, is the source of considerable anxiety, given the possible repercussions on the ability to meet one’s own personal and professional commitments, which would be compounded by those necessary to assist one’s parents.

The third area of anxiety is family. Here, future uncertainty is linked strictly to children: can we give them the kind of support in building their own lives that our parents gave us? Interestingly, the millennials who are not yet parents themselves express this same concern over the future of the children they might have.

The concerns of the millennials

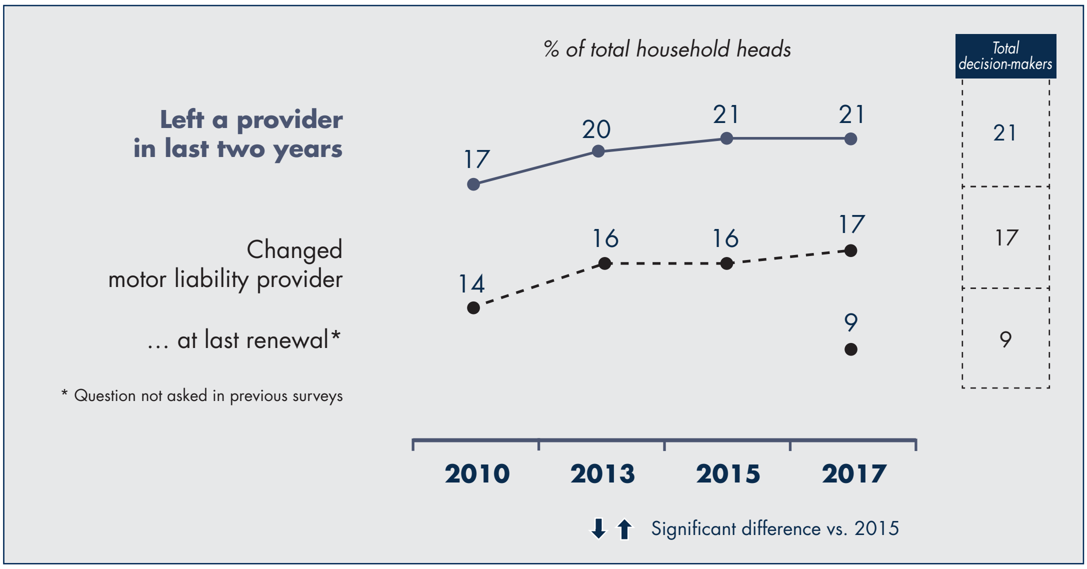


Source: GfK Sinottica TSSP

A dynamic insurance market and the tendency for trade-off

The recent editions of the survey have found a high degree of dynamism in the Italian insurance market, with a large proportion of policyholders reporting having changed insurance company in the last two years.

Insurance market dynamism – the last two years



Source: GfK Sinottica TSSP

The latest survey confirms this dynamism, with a stable group of 21% of policyholders, regardless of target, who have switched insurer in the past two years. Most of the switching involves motor liability policies (17%, up from 16% in 2015). Just over half the policyholders who have switched insurer have done so on the occasion of the latest policy renewal.

ANIA SERVICES

SERVICES TO INSURERS IN 2017

ANIA Servizi S.r.l. was constituted in 2017 as a firm for promotion, research and study of the insurance business, through the design and conduct of studies, research and surveys and the publication of the findings through events and seminars.

ANIA Servizi supports ANIA – the sole shareholder – in planning and realizing services in support of insurance undertakings' operations. In this context, the mission is to provide insurers with new services that can be a strategic engine for market development, promoting change and innovation. In the course of 2017 ANIA Servizi identified and offered insurers, for voluntary participation, several new service activities in three main areas for application to business processes.

1) Data-driven services

The output of the main area, namely Data-driven services, consists in two specific services:

A) Map Italy 1.0

This service was instituted as a support for insurance companies in enhancing their capacity to detect and analyze the risks of natural catastrophe in Italy. It involves the design of a model for the most realistic representation possible of the various types of natural disaster and the related risks.

"Map Italy" employs big and open institutional data. Correlated by algorithms certified by scientific research institutions, these data serve insurance firms in taking on risks and settling claims.

Following initial dialogue with insurers, the first risks to be mapped were flood and hydrogeological risks, defined and validated with the assistance of the Milan branch of the National Research Council (CNR). The geographical data system, with web technology, can be used both on PC and on mobile devices. The IT component is ArcGIS for Server Standard Workgroup, which was used to realize ANIA Servizi's Geo Portal. The portal allows access to the databases produced, either by interrogating the maps directly or by entering a street address or geographical coordinates.

These components can apply sophisticated models for the management and analysis of relationships and trends in geographical data. They highlight things that are often not readily deduced from a database, a spreadsheet or a statistical tool.

To assess flood and hydrogeological risk, a series of sources of data were considered: events due to landslide, the areas covered by hydrogeological plans, the digital model of elevation for measuring high waters, the floods directive, regional maps of landslides, regional maps of minor rivers and streams, and large numbers of basic maps for multicriterion analysis.

The service is modular and is in constant development. In time it will provide for the analysis of additional types of risk (seismic risk, or agricultural risks), depending on the necessities that emerge within the insurance market.

B) Access to the Eurisc credit information system

To give insurance companies access to external databases and thus enhance the effectiveness and efficiency of insurance business, ANIA Servizi has entered into a partnership with CRIF S.p.A., which has the data produced by the Eurisc credit information system (Sistema di Informazioni Creditizie, SIC).

ANIA Servizi acts as "service center" for companies with access to Eurisc data, retrieving the data electronically through its own network and making them available to insurance undertakings. The fees for inquiry are agreed in advance to assure the best price available in the market.

The Eurisc credit information system gathers positive and negative credit data on applications for loans and credit relations with creditor firms throughout Italy. It covers 100% of all credit products marketed in Italy (mortgage loans, credit cards, overdrafts, loans, revolving credit, small business loans, leasing).

The benefits of CRIF's service for insurance companies consist mainly in the possibilities of enriching their own customer files with outside data to support their core business activity; valuing the correlation between credit risk and insurance risk by traditional and innovative statistical methodologies; and using credit variables also for the prevention and pursuit of insurance fraud and for actuarial analysis.

2) ANIA Broker service

A second area of activity for ANIA Servizi embraces tools for enhancing efficiency. This is the origin of the ANIA Broker service. ANIA Broker is a platform for data exchange between insurance companies and brokers to simplify daily administration, saving time and resources. The database can store all types of document, facilitating exchange of receipts and account statements, all with no need to modify the data systems that the companies are already using.

ANIA Broker allows rapid, timely data exchange in real time thanks to automatic data entry and reception, shortening time and reducing costs, decreasing the employment of human resources in activities with little value added and facilitating paperless operations. It eliminates the misalignment between companies and brokers; it favors monitoring and control of document flows; and, finally, it keeps its own trace record of data transmission, with no need to create one ad hoc for link to the platform.

3) Cyber security

The third area of ANIA Servizi's operations is cyber security, with three specific services.

A) Domain monitoring

Online monitoring of the domains signaled by the customer (in our case, an insurance company). The objective is to prevent possible fraud or other harmful actions to the detriment of the customer. The particular focus is limiting cases of spear phishing exploiting fake brands and domains of the monitored insurers.

The service conducts semantic analysis of the domains supplied by the participating insurers: associating keywords with the domain, interrogating all providers of domain registration, intercepting and analyzing suspect domains and, lastly, alerting the insurance companies promptly of the findings.

The service provides a quarterly report on the analyses and results.

B) User education

The user education service is directed to evaluating the awareness of cyber risk on the part of owners of the email addresses forming part of the undertaking's organization and assessing the robustness of its email protection (antispam filters, firewalling rules). The service involves the transmission of a certain number of messages with suspect content to an uninformed target within the undertaking, previously selected together with the client.

C) Protection of websites against DDoS attacks

ZENEDGE is a web security platform to safeguard against Distributed Denial of Service (DDoS) attacks. The service is cloud-based and is provided around-the-clock through its security operation center. The security shield protects websites from DDoS attacks, ensuring continuity of the applications exposed to the web.

When the service is activated, all traffic is routed through the network, where it is checked and shorn of ill-intentioned vehicles and traffic before reaching the infrastructure of the originating server. Traffic is directed to the nearest POP by a simple change of DNS or the assignment of individual virtual IPs for the protection of non-web protocols.

The security operation center continuously analyzes new threats throughout the entire worldwide web. When it detects a new threat, the center immediately creates a new security rule and transmits it to all the platforms located in the Internet worldwide.

10

THE SINGLE EUROPEAN MARKET AND THE INTERNATIONALIZATION OF THE INSURANCE INDUSTRY

BREXIT: THE LATEST DEVELOPMENTS

On 29 March 2017 the United Kingdom presented its formal request to exit from the European Union under Article 50 of the Treaty on European Union.

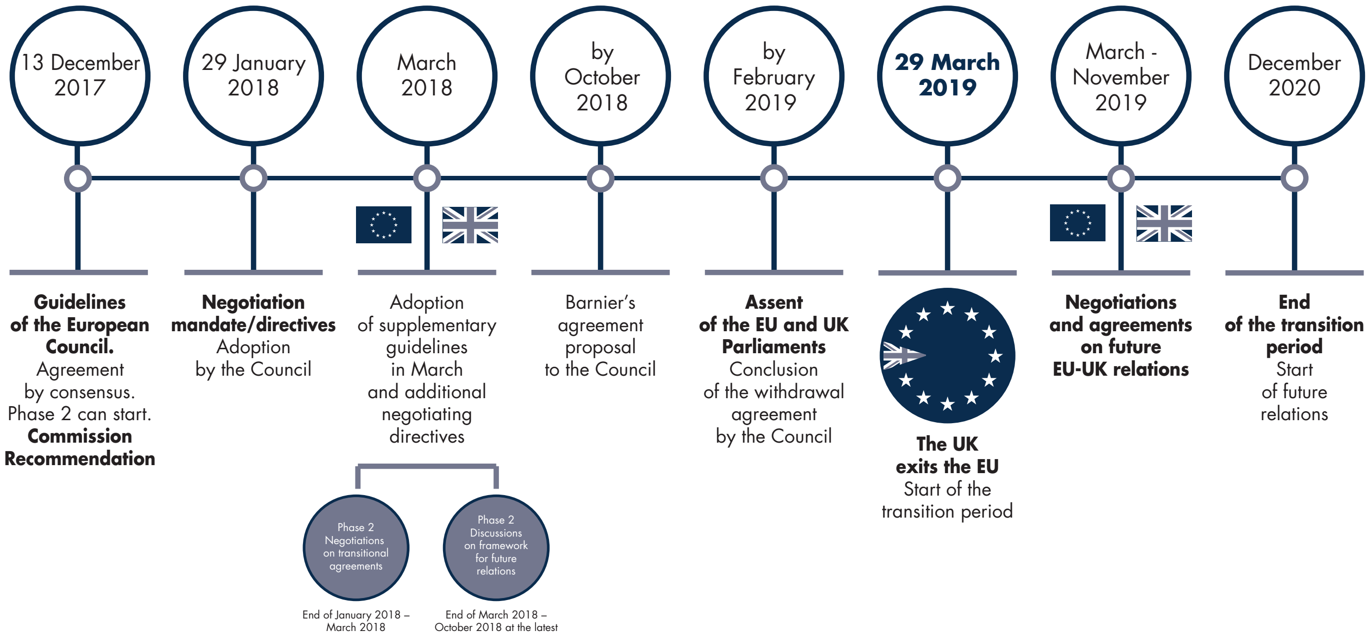
Article 50 provides for four phases: first, notification of the intention to withdraw from the Union; second, the definition of the Commission's mandate to negotiate the withdrawal according to the guidelines laid down by the Council; third, negotiation of the agreement by the Commission; and fourth, approval of the agreement between the parties. The first two phases have already been concluded; the third and fourth must be completed by 29 March 2019.

These talks are flanked by separate talks on the possible institution of a transitional period and the definition of future commercial relations between the UK and the EU. On the first point, although the issues of dispute settlement and the British-Irish border remain to be resolved, an agreement is taking shape for a transitional period lasting until 31 December 2020 during which Britain, though not taking part in EU decisions, must nevertheless comply with EU rules, while continuing to enjoy all the advantages of the single market and customs union. As to future rules governing the economic relations between the EU and the UK, a likely point of reference following the "divorce" is the free trade agreement between the European Union and Canada (CETA), possibly strengthened by annexes making relations closer, such as better access to the single market for goods and services through close cooperation on the regulatory front.

The exit of Britain obviously constitutes a problem not only for European and national authorities – for instance, preparing for the impact of Brexit with contingency plans, the authorization of new entities for the reallocation process, the extension of establishments already present within the EU; or the conversion of branches of British companies in the EU into the branches of a non-EU country – but also for the private sector. Considering the great uncertainty surrounding the matter, in particular as regards the content of a possible withdrawal agreement, insurance and reinsurance undertakings, policyholders and other interested parties must consider the legal repercussions of the United Kingdom's becoming a non-EU state.

The insurance industry has identified three issues in particular and called them to the attention of the authorities urging them to find a solution: (i) continuity of contracts, (ii) cross-border data transfer and (iii) transitional measures. As to point (i), theoretically the contracts stipulated between British and European firms under freedom of establishment or the freedom to provide services in EU member states would no longer be valid once the authorization to do business lapsed (e.g. payment of claims and premiums). This requires a solution to safeguard the rights of the contracting parties (e.g. portfolio transfer, a grandfathering clause). As to point (ii), the request is to maintain free data flow by a decision ratifying adequacy in view of the general data protection regulation, with an interim solution permitting data transfer pending the decision. As to point (iii), the industry reiterated its position that a transitional agreement is crucial to the continuity of operations pending an agreement providing certainty on the future relations between UK and EU.

Figure 1 – Brexit Process



THE COMMISSIONS' FINTECH ACTION PLAN

On 8 March 2018 the European Commission presented a plan for capitalizing on the opportunities offered by new technology in the sphere of financial services (the FinTech Action Plan). This forms part of the Commission's broader effort to forge a Capital Markets Union (CMU), i.e. a true single market for consumer financial services and a single digital market.

The Plan is designed to enable the financial industry to exploit the rapid development of new technologies (such as blockchain, artificial intelligence and cloud) while at the same time making markets more secure and accessible for new market players. The Commission proposes a pan-European logo for the platforms so that a platform licensed in one member state can operate throughout the EU.

The Plan envisages 23 initiatives that should:

– foster more coordinated approaches to FinTech standards;
– call on European Supervisory Authorities (ESAs) to study and identify best practices of "FinTech facilitators," i.e. devices that assist companies to determine whether a given business model is or is not compliant with the legislation;

- form a group of experts to assess whether there are unjustified regulatory obstacles to financial innovation;
- call on stakeholders to develop self-regulatory codes to facilitate switching between cloud service providers and standard contractual clauses for cloud outsourcing by financial institutions;
- consult publicly on further digitization of regulated information about companies listed on EU regulated markets, including the possible use of innovative technologies for interlinking of national databases;
- organize an EU FinTech Laboratory where national and European authorities can engage in a dialogue with technology service providers;
- hold symposia to facilitate the sharing of information on cybersecurity and call on the ESAs to identify best practices in the area of ICT security.

In February the Commission also created the EU Blockchain Observatory and Forum to report in 2018 on the challenges and opportunities of cryptocurrencies and is working out a global strategy on blockchain and distributed ledger technologies for all economic sectors.

Together with the FinTech Action Plan the Commission has presented a proposal for a regulation on crowdfunding to institute an appropriate, proportionate regulatory framework enabling crowdfunding platforms to operate cross-border thanks to a single passport.

FINAL REPORT OF THE HIGH LEVEL EXPERT GROUP AND ACTION PLAN ON SUSTAINABLE FINANCE AND THE CIRCULAR ECONOMY

On 31 January 2018 the High level expert group issued its final report. The Group was formed by the European Commission to draw up a road map for pan-European implementation (but also serving as a possible model for any other interested countries) in order to direct capital flows towards sustainable investments and set out the steps that financial institutions and supervisors should take to strengthen the role of finance in creating an efficient economy that can also attain environmental and social objectives. The Report sets forth a series of recommendations to integrate environmental, social and governance standards (ESG) into investment decisions and to sensitize financial institutions to these issues. The priority actions proposed include: establishing an EU sustainability taxonomy for investment products and services; defining areas where investments are needed most; clarifying investor duties to bring greater focus on ESG factors into investment decisions; upgrading disclosures to make sustainability opportunities and risks transparent; enabling retail investors to invest in sustainable finance opportunities; developing official European sustainability standards for some financial assets, starting with green bonds; and integrating sustainability firmly in the governance of financial institutions as well as in financial supervision.

Based on the HLEG recommendations, on 22 March 2018 in Brussels the Commission presented its Action Plan for Financing Sustainable Growth as part of the broader path towards the Capital Markets Union. The first aim is to create a common sustainable finance taxonomy, to define the concept of "sustainability" and identify the areas in which sustainable investments can count most. The second is to institute an EU label for green financial products based on the taxonomy, so as to identify investments that comply with environmental standards. The Commission further proposes to include as part of the "fiduciary duties" of asset managers and institutional investors to act in the best interest of customers the obligation to take account of sustainability factors in the investment process and to strengthen disclosure requirements. The Plan calls for amendments to the MiFID II and IDD directives, to require insurance and investment undertakings to offer advice to customers on product choices on the basis of their preferences in the sphere of sustainability. A further proposal is to include sustainability among the prudential requirements for banks and insurance companies: the Commission intends to examine the possibility of recalibrating the capital requirements in respect of sustainable investment by a "green supporting factor". As to corporate information, it proposes to review the guidelines on non-financial information for closer alignment with the Financial Stability Board's recommendations on climate change; the Commission intends to take a hard line against short-term investment strategies, weighing "the possible need to require corporate boards to develop and disclose a sustainability strategy, including appropriate due diligence throughout the supply chain, and measurable sustainability targets." Finally, the Commission has asked European supervisory authorities to collect information on undue short-termism in capital markets, including (i) portfolio turnover and equity holding periods by asset managers; and (ii) whether there are any practices in capital markets that generate undue short-term pressure in the real economy.

PROPOSAL FOR A REGULATION ON THE PAN-EUROPEAN PENSION PRODUCT (PEPP)

On 29 June 2017 the Commission released its proposal for a regulation on pan-European personal pension products (PEPP). The aim is on the one hand to make available to pension providers the instruments for offering a voluntary personal pension product and on the other to give savers a broader range of choice and more competitive products.

The Commission's aim is to design PEPPs that have the same standard elements everywhere within the European Union and that can be offered by banks, insurers, corporate or occupational pension funds, investment firms and asset managers. The products are supplementary to state, company and occupational pension plans and national personal pension regimes, but they neither replace nor harmonize the national regimes.

By this proposal the Commission intends: (i) to facilitate intra-Union mobility of workers, who today cannot transfer the capital accrued in a pension plan from the country of origin to that of destination; in this sense, that is, the product must be accessible at European level and must provide for various "national" sections to enable workers moving from one member state to another to retain the positions accrued in the various countries; (ii) to foster economies of scale for the pension funds dedicated to these products, extending over several countries; (iii) to help channel investments to the real economy; (iv) to facilitate distribution, fostering direct sales and the provision of all documents and information in electronic format.

The text of the proposal establishes that: (i) PEPPs should be authorized by the European Insurance and Occupational Pensions Authority (EIOPA) but supervised by national supervisors; (ii) pre-contractual information is introduced using a specific information document (PEPP KID); (iii) a default option should allow the PEPP saver to recoup the invested capital with reduced or non-existing verification and adequacy requirements, and a limited number of alternative options (maximum four) chosen by the client; (iv) every five years the savers should have the right to change provider, both at national and international level, at a limited cost; (v) there shall be several options for payments at the end of the life of the product, including annuities, and the possibility to include the coverage of biometric risks.

Together with the proposal for a Regulation, the Commission presented a Recommendation, asking Member States, in order to ensure the success of PEPPs, to grant this product the same tax treatment applied to existing similar national products.

The proposal for a Regulation is being discussed in the European Parliament and Council under the co-decision procedure. Once adopted, the regulation will come into force 20 days after the publication in the Official Journal of the European Union and will become directly applicable in the Member States two years after its adoption.

In this context, ANIA, also through European Insurance Europe federation, has highlighted the need for PEPPs to be a long-term product with the characteristics of a pension product during both asset accumulation and decumulation, to be a safe product, for portability to allow providers, whether big or small, to sell the product and for the pre-contractual information requirements to be adapted to the specific nature of the product. Finally, the insurance industry has underlined the fact that the provision, by establishing that each financial operator follow sector-specific legislation with regard to the prudential regime, threatens to create different levels of protection among consumers.

FIFTH AMLD

On 14 May 2018, the Council of the European Union adopted the fifth anti-money laundering directive. In December 2017, the Council and the European Parliament reached an agreement which was approved by the EP on 19 April. The new Directive was published in the Official Journal of the European Union on June 19th and scheduled to come into force on 9 July 2018; the Member States will have 18 months to transpose it into their national legislation.

The Directive strengthens EU rules to prevent money laundering and terrorism financing, establishing provisions to limit criminal finance without obstructing or preventing the normal functioning of payment systems. The Directive amended the fourth directive 2015/849 – already transposed into Italian law by Legislative Decree 90/2017 – and is part of an Action Plan launched in the aftermath of the terrorist attacks of 2016 in Europe.

The main changes from the previous legislation concern:

– extending the possibility of access to information on beneficial ownership, improving transparency on the real owners of companies and trusts;
– risks associated with the use of prepaid cards and virtual currencies;
– cooperation between EU Financial Intelligence Units (the UIF, in Italy);
– improving checks on transactions involving high-risk third countries.

PROPOSAL FOR THE REVIEW OF ESAs

On 20 September 2017 the European Commission published the proposal for a Regulation on the review of the European Supervisory Authorities (ESAs), more specifically the European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA). The Commission also proposed amendments to the European Systemic Risk Board (ESRB), which monitors the risks to financial stability (macro-prudential supervision).

The new proposal aims at more coordinated and integrated European surveillance, in particular with a view to developing a European capital market. The proposal focuses on issues pertaining to the tasks, power, governance and funding of the Authorities.

Supervisory architecture, tasks and powers of individual ESAs

The proposal did not revolutionize the European supervisory architecture. It maintained the current structure of the Supervisory Authorities, with each independent Authority responsible for both prudential oversight and surveillance on the fair and transparent conduct of business. The twin peaks model, or dual model, attributing prudential oversight and transparency supervision to different authorities, was abandoned owing to significant criticism received from a number of quarters.

The proposal for a Regulation envisages strengthening the powers and tasks of the ESAs individually:

- ESMA: the most interesting proposals would give the ESMA direct control powers over specific capital market sectors, thus representing a first step towards the institutionalization of a single supervisory authority for capital markets. Under these proposals, the ESMA would oversee the most important indexes; it should approve all stock exchange prospectuses from non-EU companies and some EU companies; it would authorize some particular investment funds with the European brand (EuVECA, EuSEF, ELTIF); it would coordinate investigations regarding market abuse, especially in cases with cross-border implications.
- EIOPA: would take on coordination powers on the authorizations of internal models used by insurance companies to calculate solvency capital requirements, to avoid any differences in treatment among different parties, especially in case of large cross-border groups.

  Furthermore, it should publish and implement, every three years, a Strategic Supervisory Plan, which would apply also to national Authorities; it would be able to gather information directly from the industry, with the possibility, through a detailed procedure, to impose fines; it would be able to perform stress tests and, if deemed necessary, publish the results for individual participating financial institutions; it would have greater powers to promote the convergence of delegation, outsourcing and risk transfer activities in third-countries. The surveillance over these activities is justified by the fact that these authorizations are sometimes put in place to benefit from the EU passport while, in fact, the activities are conducted outside the European Union.

Governance

The proposals aim to encourage quick decision-making regardless of the national interests of the Member States, introducing a new Executive Board with independent and permanent members, similar to that of the ECB (made up of a Chairman and three permanent members for EBA and EIOPA and five for ESMA). In addition to preparing the meetings of the Council of Supervisory Authorities, the new body would also have direct decision-making powers on several issues.

Funding

The current funding system – 60% borne by national supervisory authorities (NSAs) and 40% by the EU budget – would be changed, maintaining a contribution from the EU budget which may not exceed 40%, and a contribution by the insurance industry, which would be collected by the NSAs. The contribution method and criteria would be established with subsequent delegated acts.

Finally, during the performance of their tasks, the three ESAs should take into consideration technological innovation, innovative and sustainable business models and the integration of environmental, social and governance issues, promoting sustainable finance and innovation in a context of financial stability.

The proposal for a Regulation is being discussed in the European Parliament and Council under the co-decision procedure. Once adopted, the regulation will come into force 20 days after publication in the Official Journal of the European Union and will become directly applicable in the Member States two years after its adoption.

In this context, while welcoming the choice of a three-pillar supervisory architecture, ANIA has expressed its reservations on some of the proposals regarding: (i) governance, which should be characterized by the introduction of a proper system of checks and balances; (ii) new tasks, as, before assigning new powers, it would be advisable to use the existing tools; and (iii) funding, given that there is no evidence of the need to change the current system.

THE GDPR AND THE "WORKING PARTY 29" GUIDELINES

The Personal Data Protection Regulation of the European Parliament and Council of 27 April 2016, on the protection of natural persons regarding the processing of personal data and the free circulation of data (GDPR), came into force in 2016 and became effective on 25 May 2018. The Regulation provides a reference framework in terms of data protection compliance in Europe, updated and currently based on the principle of accountability of all parties involved in the processing of personal data, with special reference to the Data Controller and external Data Processors.

Working Party 29, established under Art. 29 of Directive 95/46/EC (which will shortly become the European Data Protection Supervisor) drafted and published, after the necessary consultation with all the stakeholders (which saw also the participation of ANIA through Insurance Europe), a series of guidelines to provide operators with indications on how to implement the GDPR with regard to the following issues, some of which are absolutely new: consent to the processing of personal data; transparency on how the data is processed; profiling and automated decisions which potentially have a significant impact on the rights and freedoms of the individuals; notification to the Supervisory Authority and communication to the data subject of breaches and losses of personal data; sanctions; the chief supervisory authority in case of cross-border data processing; the new figure of the Data Protection Officer (DPO), whose task is to facilitate compliance with the provisions of the GDPR by Data Controllers and Data Processors; data portability to allow the data subjects to receive the personal data provided to the Data Controller in a structured, commonly used and machine-readable format and transmit them to another Data Controller to enhance the data subjects' control over their data; impact assessment aimed at identifying the risks posed by data processing to individuals' rights and freedoms, so as to determine the proper measures for addressing and managing such risk.

Conversely, the guidelines on the special cases are still pending. These guidelines regard the transfer of data abroad and the accreditation of certification bodies which, as accredited third-party bodies, may identify the necessary procedures to improve the implementation of the GDPR with special regard to the relations between companies.

INSURANCE DISTRIBUTION DIRECTIVE (IDD): LATEST DEVELOPMENTS

The Insurance Distribution Directive (IDD) 2016/97/EU was published in the Official Journal of the European Union on 2 February 2016, setting the deadline for transposition into the national legislation at 23 February 2018. Given that the Commission adopted the two proposals of Delegated Regulations integrating the Directive only on 21 September 2017, an extension of the deadline became necessary to give more time to legislators, insurance companies and distributors to prepare the correct implementation of the Directive and make the technical and organizational changes required to comply with the delegated regulations.

In light of this need, a "quick fix" directive was published on 19 March 2018 deferring the deadline for the transposition of the Directive to 1 July 2018 and for its implementation to 1 October. Furthermore, to avoid a *vacuum legis*, the directive applies retroactively from 23 February 2018.

The two delegated regulations on Product Oversight Governance (POG) (Delegated Regulation 6218/2017) and on information requirements and conduct of business rules applicable to the distribution of insurance-based investment products (delegated regulation 6229/2017) provided for under the Directive were published in the Official Journal of the European Union on 20 December 2017. The date of application of these regulations was then changed with further regulations, published on 6 April 2018, to align it with the new date of application of the Directive (1 October 2018).

The POG regulation concerns the implementation of measures and procedures regarding the different phases of product design, monitoring and revision of the product to be distributed, as well as the corrective actions to be adopted in case of harm caused to customers.

A fundamental element in the process is the identification of a target market for each insurance product. Moreover, the manufacturer is required to perform a test for each product before marketing it to assess whether it meets the needs of the target customers for its entire life cycle. The regulation establishes the requirement for monitoring and revision. Monitoring shall be carried out on a regular basis to verify that the insurance product was placed correctly on the target market and whether it is compatible with the objectives and characteristics of the target customers identified during the design phase; revision, also to be carried out on a regular basis, shall be performed taking into account a series of factors, such as: type, complexity and contract period of a product; distribution channels used to place the product and any external factors that may make the intervention of the manufacturer necessary (regulatory changes, technological developments or any changes in the target market).

Finally, the regulation establishes the POG requirements to be applied to the distributor, who shall put in place appropriate mechanisms allowing him to obtain from the manufacturer all the information mentioned above, necessary to distribute the product correctly and consistent with the best interests of the customer.

The regulation on insurance investment products defines the criteria for the implementation of the rules governing conflicts of interest, inducements and suitability and appropriateness assessment.

With regard to conflicts of interest, the provisions of the IDD are strictly linked to those of MiFID II. Consequently, the criteria established are virtually identical to the rules on conflicts of interest contained in the MiFID II delegated regulation, identifying minimum criteria for those situations where the insurance intermediary or insurance undertaking is likely to make a financial gain or avoid a financial loss to the detriment of the customer, and establishing the measures and procedures to be adopted in order to ensure an adequate level of consumer protection in the management of any conflicts of interest.

As for inducements, the Regulation provides a list of criteria including the value of the inducement paid or received in relation to the value of the product; whether an inducement may encourage the intermediary to provide or recommend a specific product when a different product exists which would have better met the customer's needs; whether the inducement is entirely or mainly paid upon conclusion of the contract; the existence of any variable threshold which is unlocked by attaining a sales target based on volume or value of sales. These criteria were introduced to assess whether the inducements paid or received by an intermediary or undertaking increase the risk of a detrimental impact on the quality of the service provided through an overall assessment requiring insurance intermediaries and undertakings to "take into consideration all relevant factors which may increase or decrease the risk of detrimental impact on the quality of the service provided to the customer."

With reference to the assessment of sale procedures, the main difference between product suitability and appropriateness is essentially whether or not advisory services are provided when selling an insurance-based investment product. The text of the directive establishes the standards and requirements to be fulfilled to obtain the required information for each assessment, without prejudice to the obligation for insurance intermediaries and undertakings to identify, before the conclusion of any contract, the requests and needs of a given customer based on the information provided by the customer himself. Finally, the regulation sets cumulative criteria to assess non-complex insurance-based investment products.

INTERNATIONAL FINANCIAL REGULATION AND THE CREATION OF A GLOBAL INSURANCE CAPITAL STANDARD

The definition of a global Insurance Capital Standard - ICS

Over the past few months, the International Association of Insurance Supervisors (IAIS) has continued its activity aimed at defining a capital standard for insurance groups operating at global level. In November of last year, on the occasion of its 2017 annual meeting, the IAIS announced the work plan to complete the definition of an Insurance Capital Standard – ICS version 2.0 – by 2019.

The process of elaboration of the ICS, which started several years ago with a series of field tests, produced a provisional standard in 2017 (ICS 1.0), based on two criteria for the valuation of balance-sheet items and on a harmonized method for the calculation of capital requirements. The next scheduled version (ICS 2.0) aims to reduce the differences among the criteria for the valuation of balance-sheet items and will allow the use of methods other than the standard method for the calculation of capital requirements (internal and external models, total or partial, and possibly variations from the standard approach).

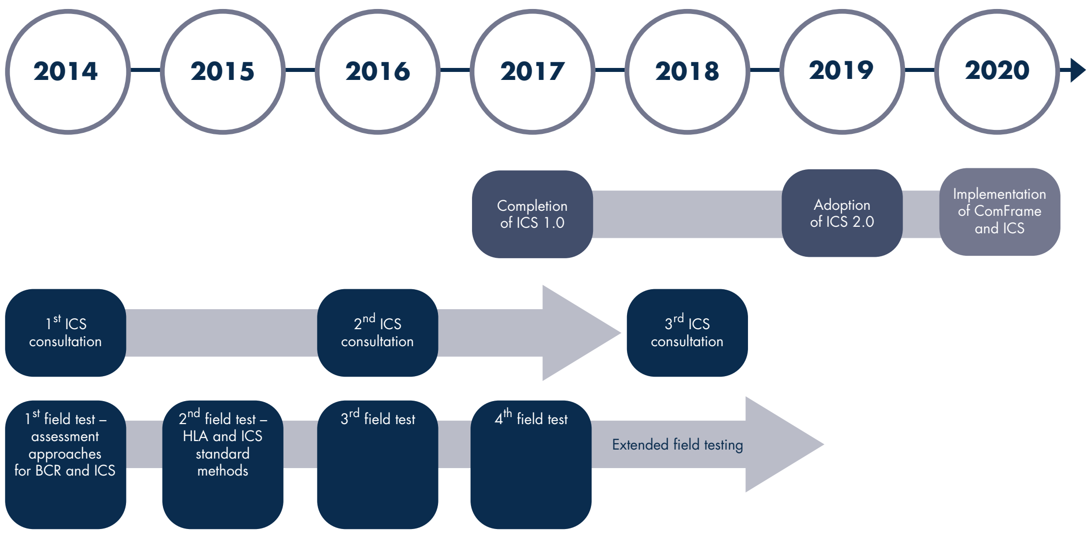
According to the agreed work program, Standard 2.0 will be developed in two phases:

- in the first phase, referred to as the "monitoring period", ICS Version 2.0 will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges. ICS will not be used as a principal component of risk (PCR) in this phase (i.e. the ICS results will not be used as a basis for triggering supervisory action). The monitoring period will last for five years (starting in 2019, with the conclusion of field testing);
- the second phase will be the implementation of the ICS as a group-wide PCR.

The implementation of ICS Version 2.0 will envisage the following fundamental components:

- mandatory confidential reporting by all internationally active insurance groups (IAIGs) of a reference ICS based on market-adjusted valuation (MAV), the standard method for calculating capital requirements and convergent criteria for qualifying capital resources. The reference ICS will provide a basis for comparison across IAIGs and could include a limited number of national discretions;
- additional reporting, at the option of the group-wide supervisor, of ICS based on GAAP Plus valuation and/or an internal model-based capital requirement calculation.

Figure 1
ICS Developments



11

CONDUCT OF INSURANCE BUSINESS

SOLVENCY II

Solvency II Review

The regulatory framework under the Solvency II Directive calls for a series of regular reviews of the system's operation. The first review, covering the standard formula for calculating the solvency capital requirement (SCR) is to be carried out by December 2018. The second, broader review, on long term guarantee measures, is scheduled for December 2020.

In the course of 2017 EIOPA began its review of the methods, assumptions and parameters for calculating SCR under the standard formula.

The European Commission has set three priorities for the 2018 review: proportionality, consistency with other financial legislation and regulations, and the elimination of unjustified constraints on financing. In response to these priorities, set forth in two calls for advice (18 July 2016 and 21 February 2017), EIOPA submitted its technical opinion on 27 relevant issues: seven in its first set of advice, published on 30 October 2017, and twenty in the second set, published 28 February 2018.

Twelve issues were therefore re-examined by EIOPA in order to favor proportional, simplified application of the requirements. In particular, EIOPA proposed a series of simplifications in the calculation of the capital requirement against early redemption risk, mortality risk, catastrophe risk, market concentration risk, exchange rate risk at group level, and counterparty default risk. Calculating simplifications were also proposed for spread risk and market concentration risk, with a view to reducing recourse to outside credit ratings. Additional suggestions for simplification relate to the look-through method, the treatment of guarantees, exposures guaranteed by third parties and exposures to regional and local governments, undertaking-specific parameters, and risk mitigation techniques.

With a view to eliminating technical inconsistencies in the regulations, EIOPA analyzed a set of proposed modifications bearing on the following matters: the look-through method for holdings in investment firms, the look-through method at group level, the recalibration of the standard parameters of pricing and reservation risk, the recalibration of mortality and longevity risks, interest rate risk, the treatment of exposures to central counterparties, the loss absorbing capacity of deferred taxes, the risk margin, and the classification of restricted tier 1 own funds and capital instruments.

Lastly, in order to eliminate possible obstacles to the growth of long-term investment, EIOPA examined and reviewed the prudential treatment of unrated debt instruments, unlisted shares and strategic investments.

ANIA took an active part in the review, describing the specificities of the Italian market, including in the discussions of these issues at Insurance Europe.

As for the comprehensive review of Solvency II, scheduled to be completed by the end of 2020, further study and possible amendments are planned as regards the countercyclical measures applied to products carrying long-term guarantees (LTGs) ([1]) and equity risk measures ([2]).

The European Commission will consider possible amendments to the regulations, taking into account the technical advice that EIOPA will provide, based among other things on its annual reports on the LTG and equity risk measures.

Hopefully, the review and revision will strengthen the measures envisaged by the Directive to mitigate the potentially quite severe fluctuations in the solvency index induced by the valuation of balance-sheet items at market prices, notwithstanding the tendency of insurance companies to hold assets to maturity.

At the Italian national level, the volatility adjustment (VA) is especially important. The VA is a corrective to the discount rate used in valuing technical provisions. When the spread on the return on a company's assets surpasses a set threshold, called the early warning level, the rate used to determine current value of the provisions goes up in order to partially offset the impact on available capital ([3]). The adjustment consists of a component determined for each currency and, in certain circumstances, an additional "national" component.

However, the formula for the VA does not fully reflect the fluctuations in the spread at national level and produces a competitive disadvantage for Italy vis-à-vis other European countries. To produce quantitative evidence of this, ANIA has begun a series of specific works directed to analysis of the problems that derive from the present formula and examination of possible changes to it in order to construct an effective adjustment mechanism.

Pending a call for evidence by the Commission on the review to be conducted by the end of 2020, ANIA is proceeding with its studies of the main problems in order to contribute to the revision of the Directive.

ANIA's initiatives regarding the Solvency II financial reports

The new Solvency II supervisory regime introduced the requirement for a Solvency and Financial Condition Report (SFCR), based on data as at 31 December 2016. The report contains a mass of information on techniques of subscription, risk man-

([1]) The measures relating to LTGs consist in (i) a volatility adjustment, (ii) a matching adjustment, (iii) transitory measures on risk-free interest rates and technical provisions, and (iv) the procedure for extrapolating risk-free interest rates.
([2]) The measures relating to equity risk consist in (i) a mechanism of symmetrical adjustment for the equity risk charge and (ii) a duration-based sub-module of equity risk.
([3]) The adjustment is based on a differential quota between the interest rate obtained by the assets included in a specific asset portfolio and the rates of the relevant maturity structure of risk-free interest rates, net of the quota ascribable to a realistic estimate of expected losses, unexpected credit risk and other asset-related risks.

agement, capital management, the organization of undertakings and corporate governance.

The reports were published between May and July 2017, following guidelines issued by EIOPA. As these were the very first SFCRs, each company developed its own model as far as breadth and depth of information were concerned. This fact, together with the language differences between different European countries, makes comparison difficult. ANIA has analyzed all the SFCRs published in Italy plus a significant sample composed of the leading 40 European insurance groups (5 of them Italian) in quantitative and qualitative terms.

The study found that the solvency ratio of Italian insurers, i.e. the ratio of eligible own funds to the SCR, was 217% as of 31 December 2016. On the average the ratio was higher for mixed companies (227%) than for those doing only life insurance business (206%) or non-life business (165%). This was higher than the average for insurance companies in Britain (a solvency ratio of 151%), the Netherlands (177%) and Belgium (176%) and broadly in line with those for France and Spain. Germany ranks first among the major countries with a solvency ratio of 323% (a figure attained using the transitional measures on interest rates and technical provisions envisaged by the regulations but not applied in Italy).

Comparing Italian insurance companies with the European competitors, it emerges that on the whole the former are more transparent in terms of risk profiles, company organization and corporate governance.

Looking at the Italian market in more detail, the study shows that market risk absorbed an average of 76% of the basic SCR, compared with 29% for technical risks properly so called. There is significant risk diversification, which reduces the final requirement by 20%. Among the adjustments that contribute to lowering the capital requirement, considerable importance attaches to deferred taxes (which lower the basic SCR by 12%) and technical provisions (-13%), thanks essentially to the lesser weight of these two components in conditions of financial market stress.

Together with the Solvency II accounts, last year also saw the debut of the countercyclical measures adopted by regulators to prevent extreme market volatility from having undesired effects on capital ratios, forcing insurers to increase their capital buffers, thereby further aggravating the more problematic situations. The SFCRs examined indicate that no company has used the matching adjustment. Some two thirds of the market did use the volatility adjustment, which had a stronger impact on life companies in reducing the capital requirement (-19%); for mixed insurers the VA contribution was more modest (-5%), and smaller still for non-life companies (-2%).

ANIA's analysis illuminates, in general, the main choices of Italian insurers and the main international groups as regards corporate governance.

Further study was conducted on several themes in the early months of 2018, extending the perimeter of the analysis by comparison with the reports as of the end of 2016 to additional specific areas, including application of the proportionality principle, the own risk and solvency assessment (ORSA), sensitivity analyses and operational risk.

In May ANIA began further study of the new SFCRs for data as of 31 December 2017. The Association conducted a preliminary analysis of the evolution of the solvency ratio market-wide and its components (eligible own funds and solvency capital requirement) and the SCR for single risk modules, highlighting the insurers that used the standard formula or internal models (complete or partial) to calculate the requirement.

Draft regulation on corporate governance: general considerations

In July 2017 IVASS opened a consultation on its draft regulation on corporate governance for solo insurance companies and groups, transposing among other things EIOPA's guidelines on this matter pursuant to the Solvency II directive amending Regulation 20/2008 on internal controls, risk management, compliance and outsourcing of insurance activities. The consultation concluded in October, and the publication of the new Regulation, which will abrogate Regulations 20/2008 and 39/2011 and ISVAP circular 574/D of 23 December 2005 on reinsurance liabilities, is pending.

The new Regulation is structured into several main areas, including: the system of corporate governance, and in particular the role of corporate bodies, organizational adequacy, the system of internal controls, risk management, and the qualifications of corporate managers and persons performing key functions; the rules on reinsurance and other risk mitigation techniques; the management of corporate capital; the key governance functions, namely risk management, compliance, and internal review, plus the actuarial function; the rules on managerial compensation, designed to strengthen the consistency of pay policies with longer-term objectives and with the primary aim of consumer protection, with the provision for the transmission to IVASS of quantitative data on the compensation of corporate officers and persons performing key functions; the rules on outsourcing, in particular of essential or important activities and key functions; and group corporate governance.

In the course of the consultation ANIA presented its comments. Among other things, they bore on the eligibility requirements for members of the board of directors, the requirement that the chairman not be a managing director; outsourcing within groups and the centralization of key functions and essential or important functions and activities; key group functions; committees at group level and the role of corporate bodies; the role of key functions within the framework of the corporate governance system; and the calendar for insurers' compliance with the new rules.

Draft regulation on corporate governance: focus on proportionality

On 19 July 2017 IVASS opened a public consultation on the draft Regulation comprising rules on corporate governance of insurance companies and groups, transposing EIOPA's guidelines pursuant to the Solvency II directive amending Regulation

20/2008 on internal controls, risk management, compliance and the outsourcing of insurance activities.

The draft Regulation contains measures on the corporate governance of solo insurance companies and groups and some measures applying the principle of proportionality, in response to repeated requests lodged by the market. Through a specific working group launched in October 2015 with the collaboration of a consulting company, ANIA drafted a position paper, later discussed with the supervisory authority and with other European insurance associations. The paper set forth ANIA's proposed methodological approach and offered a series of concrete proposals for applying the proportionality principle.

Even though the Solvency II framework requires application to be "proportionate to the nature, scale and complexity of the risks inherent in the business" conducted, the European and Italian framework does not classify undertakings according to "profiles of proportionality", which makes the interpretation of single provisions less than clear and concrete in this regard.

In its own draft regulation, IVASS reaffirms the requirement that the supervised insurer define the model of corporate governance most suitable to ensure sound and prudent management and repeats its own commitment to assessing the adequacy of corporate governance to manage the effective risk of the company or group.

The draft regulation also sets several parameters that should allow a solo company or group to assess its own risk profile and on this basis guarantee proportionate application of the Regulation. It also specifies IVASS's expectations concerning corporate governance arrangements, i.e. requirements that vary in severity depending on the overall risk profile.

Specifically, the proposed provisions would institute a system of corporate governance marked by stronger safeguards for sound and prudent management at companies/groups having certain characteristics, such as: use of an internal model or undertaking-specific parameters to calculate the SCR; the use of derivatives or illiquid assets in asset management; joint conduct of life and non-life insurance business; marketing of complex products or products with high underwriting risk or volatility.

Other characteristics, by contrast, are considered to be indicative of lower risk, permitting "simplified" organizational arrangements: non-complex asset management strategies; restriction to a single branch and to non-complex business lines; activity restricted to the national territory; and the distribution of standard products.

The Italian insurance supervisor is also weighing additional simplifications in the procedure for determining an insurer's risk profile, consisting in more detailed qualitative standards and/or one or more quantitative thresholds.

The consultation concluded on 17 October, and the issue of the new Regulation by IVASS is pending.

IVASS consultation on new provisions on outside review of SFCR

On 19 December 2017 IVASS opened a public consultation on a draft Regulation on outside review of the Solvency and Financial Condition Report called for under Solvency II. The draft forms part of a series of actions by IVASS in this area: its market letter of 7 December 2016 required the opinion of an outside auditor on the balance-sheet statement and own funds, as well as internal checks on data and the processes for quantifying the capital requirement.

As formulated, the new provisions, which will be applied within the draft regulation starting with the 2018 financial year, would significantly broaden the scope of the outside review, to include the solvency requirements (SCR and MCR) regardless of the calculation method (standard formula or internal model). As for 2017, therefore, the provisions of the market letter stand confirmed.

The consultation phase was completed on 19 February. ANIA took part, and given that IVASS asked for an account of the advantages and drawbacks of the various options set out in the draft regulation, among the most problematic issues we underscored the high cost of explicit verification of the SCR, which in the industry's view is implicit in ordinary corporate procedures and indeed should produce greater awareness of risk exposures and, in the case of internal models, actually a part of the supervisory procedure for authorization.

EIOPA stress test 2018

On 14 May 2018 EIOPA began a new stress test designed to assess the vulnerability of the insurance industry to selected adverse scenarios. Four of the 42 European insurance groups taking part were Italian: Assicurazioni Generali, Unipol Gruppo Finanziario, Intesa Sanpaolo Vita, and Poste Vita. Two scenarios combining market risks and insurance risks were specified:

- Yield Curve Up (market + lapse and provisions deficiency) – a rise in yields together with an increase in life policy redemptions and an increase in settlement cost for non-life damages owing to higher inflation);
- Yield Curve Down (market + longevity) – a protracted period of low interest rates together with an increase in longevity risk on life policies.

As for natural catastrophe risk, the "nat-cat" scenario envisages a series of simultaneous natural disasters in Europe (three storms, two floods and two earthquakes). A qualitative questionnaire will also seek to assess the potential implications of cyber risk.

The test, run as of 31 December 2017, also provides for the recalculation of post-stress SCRs, allowing two approaches: the "bottom-up" revaluation of single positions consequent to group consolidation and the "top down" utilization of a proxy model at group level.

The stress test allows for voluntary disclosure, by the individual group, of the impact of the stress scenarios on the consolidated excess of assets over liabilities. The exercise was scheduled for termination as of 16 August 2018, and EIOPA's report on the results will be released in January 2019.

SOLO AND CONSOLIDATED ACCOUNTS

IFRS 9: the new IVASS measure amending Regulation 7/2007

As we know, on 22 November 2016 the European Commission published its endorsement of IFRS 9 on financial instruments (EU Regulation 2016/2067). This international accounting standard went into effect in the European Union as of 1 January 2018. As a result of the adoption of amendments to IFRS 4 (EU Regulation 2017/1988), insurance undertakings could:

- apply IFRS starting 1 January 2018;
- take a temporary exemption from IFRS 9 and thus apply IAS 39 until 1 January 2021, at which time, under the provisions of the IASB, the new IFRS 17 standard should go into effect;
- take the overlay approach, applying IFRS 9 with some correctives;
- for financial conglomerates subject to Directive 2002/87/EC of the European Parliament and the Council, apply IFRS 9 but with the possibility of applying IAS 39 for insurance business only.

Given these options, on 1 March 2018 IVASS opened a consultation on proposed amendments to ISVAP Regulation 7 of 13 July 2007 on the balance-sheet layouts of insurance and reinsurance companies subject to the international accounting standards. After the consultation, on 8 May IVASS released Measure 74 amending ISVAP Regulation 7/2007. The new Measure applies to the half-yearly solo and consolidated reports at 30 June 2018 and to the solo and consolidated financial statements and accounts for 2018.

IFRS 17

On 18 May 2017 the International Accounting Standards Board issued its new accounting standard on insurance contracts, IFRS 17, scheduled for entry into force on 1 January 2021, replacing the "interim" IFRS 4 standard that enabled insurers to keep on applying local accounting standards. Insurance companies have the option of adopting IFRS 17 in advance of that date with simultaneous application of IFRS 9 (financial instruments) and IFRS 15 (revenue from contracts).

If transposed in the European Union, the new standard would represent the most significant change in the accounting requirements for insurance companies in the last twenty years. It will mean radical alterations in the methodology for valuing insurance contracts, in the main accounting items in the balance sheet and the income statement, and more generally in the way of accounting for corporate operations.

Following the issue of IFRS 17, the European Commission asked the European Financial Reporting Advisory Group for advice on the standard and an impact assessment (both a cost-benefit analysis and an analysis of the broader economic effects). In order to prepare its endorsement advice, EFRAG carried out a detailed and a simplified case study on the effects, modeling the effects of the IFRS 17 requirements. The study, with both qualitative and quantitative impact assessment, was based on a limited number of portfolios.

To give stakeholders a chance to comment on the draft endorsement advice, which will presumably be published in September 2018, EFRAG also released three background briefing papers on the IFRS 17 provisions regarding level of aggregation of insurance contracts, the recognition of the Contractual Service Margin (CSM) and the transitional provisions.

The IASB too, recognizing the major impact of IFRS 17 and the substantial effort demanded for application, in September 2017 formed a Transition Resource Group (TRG) at world level, made up of representatives of insurance undertakings and auditors, to analyze application issues. The Commission has asked EFRAG to release its advice by the end of the year, taking account of the case studies, the consultations, and the work of the TRG. On the basis of the EFRAG advice, an Accounting Regulatory Committee will be assigned to weigh the adoption of the standard and, if it is endorsed, the matter will go before the European Parliament and the Council.

The European insurance industry is studying a series of problematic issues, such as the degree of granularity required and, in particular, the division of portfolios into annual cohorts, the recognition of the CSM based on coverage units, and the transitional measures. In the course of these months ANIA, in coordination with the European insurance industry as a whole, has pointed out the main problems in all the relevant forums.

THE CONSOB IMPLEMENTING REGULATION FOR LEGISLATIVE DECREE 254/2016 TRANSPOSING DIRECTIVE 2014/95/EU ON DISCLOSURE OF NON-FINANCIAL INFORMATION

By Resolution 20267 of 18 January 2018, the Italian Companies and Stock Exchange Commission, CONSOB, issued its Regulation on the disclosure of non-financial information pursuant to Article 9 of Legislative Decree 254/2016 transposing into Italian law Directive 2014/95 of the European Parliament and the Council on disclosure of non-financial information (DNF). The undertakings subject to the DNF requirement are large public-interest entities with: i) an average number of employees of at least 500 during the previous financial year and ii) in their latest financial statement, balance-sheet assets of €20 million or more or net revenue from sales and services of at least €40 million.

The Legislative Decree provides that other undertakings may also issue a DNF statement on a voluntary basis, for enhanced transparency on the impact of their policies. The DNF statement must cover at least: i) the main risk exposures assumed or arising in connection with social and environmental issues and deriving from the undertaking's activities or its products and services; ii) the organizational and management model; iii) policies in place for the management of the impact of business activity on the non-financial areas mentioned and the results attained. The information selected must be "material" to an understanding of the undertaking's development and performance and the impact of its activity.

In drafting the DNF statement, insurers may follow the international, European or national guidelines that they deem appropriate. However, they may also adopt an independent method of their own, in this case providing a "clear, detailed description of it and of the reasons for its adoption". The DNF may either be an integral part of the insurer's report on operations or a self-contained report. The responsibility for ensuring that the report is drafted and published in compliance with the decree rests with the Board of Directors, while the Board of Auditors must monitor compliance with the decree and report on this to the shareholders' meeting.

For listed corporations and the issuers of financial instruments marketed to the public, the DNF obligation is discharged by the transmission of the relevant information to the System for Diffusion of Regulatory Information regarding regulated companies. For unlisted companies, including those making the statement on a voluntary basis, there is the additional requirement of posting the DNF on the undertaking's website as well as its direct transmission to CONSOB within fifteen days of its deposit with the register of undertakings.

Checking compliance with the DNF rules is the responsibility of the auditing firm assigned to audit the undertaking's accounts or another firm authorized to perform legal auditing. The auditor must verify the drafting of the DNF and attest to it either in the form of "limited assurance" (whereby the auditor declares that no elements inconsistent with the accounting standards adopted have emerged) or of "reasonable assurance" (whereby the auditor issues a declaration of compliance of the DNF with the accounting standard chosen as regards the accounting standards, methods and procedures envisaged by the model). CONSOB will check a sample of DNF statements using a risk-based model by random selection and rotation of a number of companies determined each year.

CLIMATE CHANGE AND RELEVANT INFORMATION FOR STAKEHOLDERS – IMPLEMENTATION OF THE RECOMMENDATIONS OF THE FSB TASK FORCE AND THE ITALIAN OBSERVATORY FOR SUSTAINABLE FINANCE

Following the December 2015 Paris conference on climate, the Financial Stability Board formed an international task force to draft recommendations for greater transparency of information on the environmental impact of economic activity and production.

According to the principles laid down by the task force, stakeholders must be provided with a set of relevant information. In particular:

- firms must disclose specific information on the potential impact of climate-related risks and opportunities, business and investment strategies, financial reporting and cash flow;
- the information must be detailed and complete and must give a complete overview of the impact on climate change, the nature and extent of changes, on corporate governance, strategy and risk management processes;
- the information must be clear, proportionate, relevant, comprehensible and sufficiently detailed;
- the disclosure must be consistent and in line with the changes that take place over time so as to enable stakeholders to understand the developing impact on the undertaking's activity;
- the information must be set out in formats, language and metrics consistent with the reference period in order to allow comparison among different time periods;
- the disclosure must be comparable within the relevant sector, industry or portfolio as regards strategy, activity, risks and performance of different firms;
- the disclosure to stakeholders must be reliable, verifiable and objective and must refer to high quality data;
- lastly, the disclosure must be prompt and updated at least yearly, using suitable media of communication.

Following up on the proposals set out in a report presented last year at the Bank of Italy on the role of finance in climate change sponsored by UNEP-FI and the Italian Ministry for Environment (in which ANIA participated as coordinator of the chapter on insurance), on 12 April 2018 the formation of a green finance center for Italy was announced in Milan at the conference "Harnessing Financial Centres for Sustainable Development". This represented the inaugural meeting of the international network of green financial centers to speed up the development of green, sustainable finance. The event offered the occasion for emphasizing the strategic importance of "networking" to activate and stimulate the integration of the factors of sustainability among financial operators, adopting a common language on sustainable and responsible investment (SRI) through a uniform SRI taxonomy at EU level.

DEVELOPMENTS REGARDING VALUE ADDED TAX

Judgment of the EU Court of Justice on insurance consortiums

On 21 September 2017, with its judgments in cases C-326/15 and C-605/15 (not involving Italian taxpayers), the Court of Justice of the European Union acted on the VAT exemption for services provided by consortiums ("independent groups of persons") formed among entities that carry on VAT-exempt activities. The judgment serves to determine the exact confines of the notion of "activities in the public interest", which alone are exempt pursuant to the VAT directive (Directive 2006/112/EC), Article 132.1(f).

In these judgments the Court ruled that insurance and banking were not activities "in the public interest" and that consequently such services provided by consortiums to their members are ineligible for the VAT exemption. The principle established by the judgments could affect Italian law. Specifically, it could impact on the exemption in place, since 2008, for consortium services to members with nil pro-rata deductibility or in any case no greater than 10% in the three previous years, pursuant to Presidential Decree 633/1972, Article 10.2.

It is worth noting that the legal principle laid down in these judgments applies exclusively to the future, in that they expressly deny applicability to previous tax years. Following the interpretation issued by the Court, ANIA promptly contacted the Italian tax authorities to discuss the likely consequences for insurance operators of the possible abrogation of the VAT exemption for consortiums under Presidential Decree 633/1972, Article 10.2.

A similar demarche was undertaken through Insurance Europe, which acted to sensitize the Community institutions on this issue, as part of the broader plan for revision of the VAT directive.

Changes to the rules on cross-border transactions within VAT Groups

The rules governing VAT groups introduced by the budget law for 2017 (Law 232/2016) has now been supplemented by the 2018 budget law (Law 205/2017 of 27 December 2017). Specifically, it adds to the text of Article 70-*quinquies* of Presidential Decree 633/1972 paragraphs 4-*bis* and 4-*sexies*, to implement in Italian law the judgment of the Court of Justice of the European Union on case C-7/13 – *Skandia American Corporation* – handed down on 17 September 2014. Prior to this judgment there had never been any doubt concerning the immateriality, for purposes of VAT, of transactions between a parent company and its permanent establishment or establishments abroad.

In its judgment on the *FCE Bank* case (C-210/04) of 23 March 2006, the Court of Justice had in fact recognized that these transactions were merely internal, effected within the framework of a single subject. On that occasion, the Court held that a permanent establishment is merely an entity internal to the parent company, so that any services exchanged between them are outside the scope of VAT, insofar as they are effected internally to the same taxpayer.

The *Skandia* judgment – referring to the special case of cross-border transactions between a parent company and one of its permanent establishments, in the case in which at least one of the two has adhered to the VAT Group regime in its country of establishment – finds for the VAT materiality of the services rendered by a parent company to its subsidiary establishment. In this particular case, the parent company was resident in the US and provided services to a permanent subsidiary established in Sweden and participating in a VAT group in that country.

The Court held that the subsidiary's participation in a VAT group made it, de facto, a taxpayer distinct from the parent company, and that as a consequence the services received by it were within the scope of value added tax.

The legal principle laid down by the *Skandia* judgment touched off a protracted debate within the Community concerning its precise perimeter of application. Not until more than two years after the publication of the judgment did the VAT Committee – in its final determination of 6 December 2016, TAXUD c. 1 (2016)7465801 – recognize the subjection to VAT of cross-border transactions between a parent company and its permanent establishment (as well as between permanent establishments in different member states) where one of the two belongs to a VAT group in the member state where it is established.

Subsequent to the *Skandia* judgment, moreover, the Italian tax authorities undertook a series of initiatives, repeatedly contesting the failure to subject such cross-border transactions to value added tax. With a view to curbing the potential proliferation of tax audits in this regard, ANIA developed a proposal for the formal execution, exclusively *pro futuro*, of the *Skandia* judgment in the Italian legal system. Our proposal was a success and forms part of Article 984.1 of the 2018 budget law, amending Article 70-*quinquies* of Presidential Decree 633/1972 to provide that as from 1 January 2018 the materiality for VAT purposes of transactions (sales of goods and/or provision of services) between a foreign parent company and its permanent establishment in Italy (or viceversa), where one or both are members of VAT groups in their country of residence.

THE 2018 BUDGET LAW

Tax benefits for natural catastrophe policies

The 2018 budget law (Law 205/2017), Article 1.768 and 1.769, introduces two tax reductions long advocated by ANIA, designed to foster insurance coverage against the risk of damage to residential dwellings from natural disasters.

In particular, the law institutes:

– exemption from the tax on insurance premiums referred to in Law 1261/1961;
– deductibility of 19% of premium costs from personal income tax, with no ceiling.

These tax reductions refer to policies on natural disaster damage analogous to those subject to the measures of the Prime Minister, whereby on various occasions over the years the state of natural disaster has been declared for the areas affected.

The tax benefit refers, reasonably, to policies covering all geological or hydro-meterological events of a "catastrophic" nature, i.e. such as to cause "… damages to a community of subjects (property or persons) within a specific area, in a definite period of time", in conformity with the definition of "natural phenomenon risk" adopted on the website of the Civil Protection Department.

The raising of the advance on the tax on insurance premiums

The 2018 budget law amends Law 1216/1961, Article 9.1-*bis*, instituting a new payment schedule and the progressive raising of the percentage of insurance premiums required as advance tax payment. The budget law, paragraphs 991 and 992 of Article 1 (the sole article) provide respectively that:

- as of 2018 the payment on account must be made by 16 November each year;
- the percentage of the advance payment (until 2017, 40%) shall be raised to 58% in 2018, 59% in 2019 and 74% from 2020 onwards.

It is worth underscoring that the deferral from 16 May to 16 November of the deadline for the account payment was the outcome of a series of meetings between ANIA and the relevant offices of the Ministry for Economy and Finance intended to limit, as far as possible, the increase in the financial burden for insurance companies of the higher advance payment.

In any event, the payment of the account will continue to be imputed to the monthly tax payments starting in February.

IVASS CONSULTATION PAPER 4/2018 – DRAFT REGULATION ON MONEY LAUNDERING AND THE FINANCING OF TERRORISM

On 22 May 2018 IVASS opened a public consultation on its draft regulation implementing Legislative Decree 231/2007 as amended by Legislative Decree 90/2017, in turn implementing Directive (EU) 2015/849 on organization, procedures, internal controls and customer due diligence.

The draft takes account of the joint orientations of the relevant European supervisory authorities (EBA, ESMA and EIOPA) on simplified and reinforced customer due diligence and the factors to take into account in assessing the risk of money laundering and terrorist financing in connection with standing accounts and occasional transactions.

The report presenting the draft notes that the rules are intended to strengthen antilaundering safeguards by broadening the scope for the risk-based approach and asking insurance companies and brokers to play an active part in detecting and assessing the risks of money laundering and terrorist financing to which they are concretely exposed and in the choice of the best countermeasures.

IVASS took the opportunity to restructure the previous regulatory norms in consistent fashion, integrating in a single regulation the rules laid down in Regulation 41/2012 and Regulation 5/2014, which were abrogated outright.

The draft regulation sets the general requirements, laying down the premises for detailed regulation, by means of separate, future regulations, of the following matters:

- the standards for periodic self-valuation and the qualitative and quantitative data to notify to IVASS so as to permit assessment of the particular risk characterizing each undertaking (including secondary establishments of undertakings in the European Economic Area and outside the EU);
- the size and organizational requirements for undertakings and secondary establishments that, under the principles of proportionality and the risk-based approach, may institute less complex AML safeguards, controls and procedures;
- the size and organizational requirements for insurance brokers (including secondary establishments of entities within the EEA that are exposed to the greatest laundering risk, which will be required to institute safeguards, controls and procedures – not heretofore envisaged – to assess and manage the risks of money laundering and terrorist financing.

Consistent with the rules laid down in the primary legislation, the regulation applies not only to the secondary establishments in Italy of insurance undertakings and brokers with registered offices in another EEA country and those of undertakings with registered offices in a third country, but also to undertakings and brokers with registered office in another EEA country, which the regulations define as obligated persons "established without a branch in the territory of the Italian Republic" (under the freedom to provide services).

The draft regulation contains five Chapters:

- the first chapter contains the general provisions (legal basis, definitions, scope, principle of proportionality, risk-based approach;
- the second chapter contains the provisions on the internal control system and the role of corporate bodies (Section I: objectives of the corporate governance and internal control systems, the culture of internal controls, the flow of information; Section II: board of directors, top management, board of auditors; Section III: the anti-money-laundering function, its tasks and the managers responsible, outsourcing, relations with other functions, the suspicious transaction report officer, the internal audit function, safeguards on direct distribution (agents, direct producers, banks, investment firms, post office branches, financial intermediaries) and brokers, personnel training and the direct distribution network; Section IV: provisions relating to groups; Section V: provisions relating to intermediaries);
- the third chapter lays down the rules on customer due diligence (Section I: the risk-based approach, risk assessment, customer profiling; Section II: due diligence requirements, with special reference to general principles, the content of the obligations, identification of customers, beneficiaries, and executors, identification of the beneficial owner, verification of the identity of said persons, acquisition of information on the scope and nature of the account or occasional transaction, constant control in the course of the relationship, remote transactions, document retention requirements, and obligation of abstention; Section III: simplified due diligence; Section IV: reinforced due diligence requirements, with special regard to customers or beneficiaries resident in high-risk non-EU countries and politically

exposed persons; Section V: execution by third parties; Section VI: obligations of insurance intermediaries);
– the fourth chapter governs two especially important matters: contracts on behalf of other parties and compliance with the obligation to pay premiums;
– the fifth chapter lays down the final provisions, in particular abrogations and entry into force.

The new provisions will go into effect as of 1 January 2019. Observations, proposals and comments had to be sent to IVASS by 21 June 2018, and ANIA transmitted, on time, documents setting out in reasoned, comprehensive fashion the contributions of the member insurers. The market now awaits the definitive version of the regulation.

BLOCKCHAIN AND SMART CONTRACTS

In 2018, at the initiative of ANIA in cooperation with Reply and CeTIF-Università Cattolica and the participation of the IVASS Scientific Committee, initial experimentation for the institution of an insurance process using blockchain technology got under way. The experiment will serve as a concrete, practical test of the potential of blockchain technology by applying it to a first case of interest to the insurance industry.

The objective is to extend on a system-wide basis the possible benefits that may emerge in the test, and hopefully to facilitate the operations of all insurance companies. In addition, the ambition is to proceed with the same approach on other processes so as to make blockchain technology practical and effective, not only to improve insurance company operations but also to transfer the benefits to the entire market.

The Insurance Blockchain Sandbox (IBS) is a controlled production environment dedicated to experimentation of blockchain technology for insurance processes. Its objectives are:

- to study blockchain by an interdisciplinary, academic, prototype approach;
- to test new methods to evaluate, in operational terms, the potential of blockchain technology in a controlled environment;
- to share best practices with the insurance market;
- to analyze the impact on existing processes in terms of business, operations, and compliance;
- to present the results to the authorities and discuss possible regulatory and normative implications.

The use cases tested in the Sandbox serve to develop a “disruptive” innovation not now present in the market or else to propose new elements in terms of product and/or service differentiation. The innovation should foster direct and indirect benefits for consumers. Direct benefits, for example, include greater transparency and policyholder protection, easier utilization, speed and reliability in enjoyment of products and services; indirect benefits include heightened market competition and greater operational efficiency.

The project selected for experimentation is Alternative Dispute Resolution (ADR), a service designed to settle disputes between customers and motor liability insurers before they reach the litigation phase. The idea is to test the efficiency and effectiveness of innovative ADR processes, to determine whether the introduction of a platform can be useful to negotiations assisted by one or more lawyers, as referred to in Legislative Decree 132/2014.

ADR provides a rapid, simple, out-of-court procedure for the settlement of disputes. The benefits are quick, effective conflict resolution and the reduction of the judicial caseload, given that it is an out-of-court alternative. It also serves to keep consumers – potentially discouraged by the high cost and long duration of legal proceedings – from waiving their rights and protection.

The specific ADR system now being tested is assisted negotiation, namely the obligation upon the parties in a case of damage owing to the circulation of vehicles or watercraft to attempt this alternative, which is in fact made a prior condition for any subsequent recourse to litigation. It is important to observe that this procedure constitutes assisted negotiation for all legal purposes and that the final documentation, generated automatically and signed digitally, can be produced as evidence in court.

Assisted negotiation is a legal procedure for alternative dispute resolution, consisting in an agreement whereby the parties pledge to settle the dispute amicably with the assistance of legal counsel.

The IT platform designed for the test calls for a "blind auction" between the insured party (through his legal representative) and the insurance company, designed to produce an agreement on the economic value of the incident.

The blind auction procedure consists is a series of steps:

- the parties enter their offers in the platform, but they are not observed by the other party;
- there is a predetermined number of rounds of bidding;
- agreement is reached if the two offers coincide or differ by an amount falling within a preset range;
- in the case of agreement, the mediation is concluded automatically, an agreement to this effect having already been signed digitally by the parties;
- in the case of failure to agree, the declaration of failure to reach agreement is issued automatically.

The blind auction phase is governed by parameters defined especially for the test. They are known and accepted by the insurer and the customer/legal counsel and guaranteed by the Blockchain infrastructure.

Eight insurance undertakings took part in the first test. The experiment is conducted under a Scientific Committee, consisting of representatives of IVASS, CeTIF, Reply and ANIA, which:

- approves the admission of each use case;
- makes and guides strategic choices on expected output;

- suggests possible issues and provides thinking points;
- gives its opinion on the protection measures adopted by the stakeholders involved;
- notes the results presented by the Lab Committee and decides any corrective measures in terms of schedule and scope.

Operations are conducted by a Lab Committee, a working group composed of representatives of the insurance companies and the promoters of the experiment, coordinated by ANIA. In view of the peculiarity of the use case selected, the Lab Committee has invited the participation of various corporate managers, including the business, innovation/IT, and compliance/legal officers.

The distinctive feature of the test, naturally, is the use of the highly effective blockchain technology, which guarantees:

- security, as the data are encrypted and recorded permanently and inalterably in a ledger;
- interoperability, given that blockchain protocols facilitate the sharing of communication standards and security among different players;
- an automatic process.

The ADR platform uses Blockchain Hyperledger Fabric Permissioned technology, with these characteristics:

- it uses the open source Hyperledger program promoted by the Linux Foundation;
- it allows the support of such IT protocols as smart contracts;
- it permits the management of privacy and confidentiality.

By reason of the assisted negotiation agreement between the parties, as soon as the agreed conditions are observed, with no need for independent verification or manual procedures, a smart contract is issued either guaranteeing the consumer of the achievement of the economic agreement reached or else sanctioning the testing of the mediation procedure with the issue of the statement of failure to reach agreement between the parties.

The conclusion of the experimentation will be followed by an outcome analysis report on the results in terms of process, technology, and regulations.

GUIDELINES FOR CLEAR AND SIMPLE CONTRACTS

In October 2016 IVASS asked insurers, brokers and consumers to engage in a dialogue and find possible points of agreement on the simplification of insurance contracts. The idea was to heighten consumers' awareness of the contents of the policies subscribed and the coverage that they would actually be entitled to. In response, ANIA acted as coordinator of a task force involving the other stakeholders invited by IVASS. The task force drafted a joint final paper with guidelines on the structure and language of contracts, but not affecting the content of the clauses, an area that comes under the individual firm's freedom to contract and constitutes an asset for spurring competition.

On 6 February 2018 the final paper was presented at the IVASS headquarters, in a meeting attended by representatives of the antitrust authority (the Competition and Markets Authority, AGCM), consumer and insurance intermediary associations, and of ANIA, giving an account of the joint document drafted by the plenary task force.

IVASS expressed its satisfaction both with the working method adopted and with the product, which is such as to effectively enhance consumer protection. It called for ANIA to adopt the guidelines while at the same time announcing a letter to the market and the monitoring of effective application of the guidelines by insurance companies.

For its part, ANIA has resolved to adopt the guidelines, at the same time calling on insurers, whether or not ANIA members, to do the same and to phase in their implementation as rapidly as possible, taking account of the need to draft or revise their contracts for insurance products.

As announced, IVASS issued a market letter on the issue, addressed to Italian insurers and the branches of non-EU insurance undertakings, with a copy to the antitrust authority, AGCM. Following a brief account of the steps that led to the production of the guidelines, the letter expresses the supervisor's appreciation of the results achieved by the participating associations and its view of the importance of insurers' adopting the guidelines and phasing them in as rapidly as possible. Specifically, insurance companies are called on to draft and revise contracts "on a calendar that reflects standards of proportionality and significance" and is such as to ensure application of the guidelines to newly marketed products as of 1 January 2019 and completion of the revision on contracts for products already being marketed by the end of that year. This calendar appears to be appropriate given the scale of the review and revision activity and the other major commitments bearing on the insurance industry, such as implementation of the transposed the Insurance Distribution Directive.

The contracts revised in accordance with the guidelines must be so designated on the cover, and insurance companies must notify IVASS of the products so revised. The notification is to be made every three months starting 1 January 2019 until all contracts have been revised. Any revision effected prior to 1 January 2019 must also be notified. Lastly, IVASS reminded insurers of the importance, in insurance contracts covering damages other than motor liability, of indicating a term within which the company undertakes to pay the compensation due, in proportion to the nature of the risk and the complexity of the inquiries needed for settlement. In this regard, at its own initiative ANIA has annexed a special *addendum* to the guidelines posted on the website.

IVASS has also issued another market letter, this one addressed to EU insurance undertakings doing business in Italy under the freedom of establishment or freedom to provide services and calling on them to conform to the guidelines. Specifically, IVASS stressed the need, for the protection of Italian insurance consumers, for EU firms too to implement the guidelines on the same schedule and by the same procedures as those for Italian insurers laid down in the previous market letter, including the quarterly notification requirement. In drafting this letter, IVASS evidently took account of its supervisory responsibilities with respect to EU undertakings, with specific reference to adequate protection for policyholders and insurance beneficiaries, as well as transparency and correctness vis-à-vis customers.

REGULATION (EU) 2016/679 ON THE PROTECTION OF NATURAL PERSONS WITH REGARD TO THE PROCESSING OF PERSONAL DATA AND ON THE FREE MOVEMENT OF SUCH DATA (GDPR) AND THE DRAFT LEGISLATIVE DECREE ADAPTING ITALIAN LAW

The Regulation of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, known as the "General Data Protection Regulation" (GDPR), in force since 2016, became effective as of 25 May 2018.

While the GDPR is immediately applicable in its entirety in all national legal systems, there was nevertheless a need for an act adapting Italian law to the new Community framework. Accordingly, Italy's EU transposition enabling act for 2017 (Law 163/2017) laid down a series of criteria for the issue of the relevant legislative decree: a) express abrogation of the provisions of the Data Treatment Code that are incompatible with the GDPR; b) amendment of the code only as far as necessary to apply the provisions of the Regulation that are not directly applicable; c) coordination of existing provisions on data protection with those of the GDPR; d) where appropriate, provision for recourse to specific implementing and supplementary measures adopted by the data protection authority within the framework and for the purposes of the GDPR; and e) as part of the changes to the Code, adaptation of the Italian system of penal and administrative sanctions to the GDPR.

As a consequence a technical committee produced a draft legislative decree, which was then approved on a preliminary basis by the Council of Ministers. The draft, on which the Data Protection Authority has delivered its opinion, was then transmitted to the Senate and the Chamber of Deputies for their opinions, which have also been delivered, containing a good many conditions and observations. The draft still has to return to the Council of Ministers for definitive approval.

The delegated legislation ensures continuity with existing rules by expressly conserving the provisions of the Authority, which must however be examined for compatibility with the GDPR and with the eventual legislative decree. This provision is relevant, in particular, to the Authority's 2007 measure on the "insurance chain" and to the many measures relating to insurer's access to medical-legal expert assessments.

General authorizations will be re-examined by the Authority within a period laid down in the legislative decree.

As for current codes of conduct (for instance, the code on credit information systems or that on commercial information), it is provided that for their maintenance they must be converted into codes of conduct pursuant to Article 40 of the GDPR and by the procedure laid down in the Regulation. Within six months from the date of entry into force of the legislative decree, that is, associations and other entities representing relevant stakeholders must submit them for the Authority's approval, and the procedure must be concluded within six months of its initiation.

More in detail:

- for "special" categories of personal data (formerly designated "sensitive"), the adaptation decree provides that the treatment of genetic, biometric and health data shall comply with the protections laid down by the Authority, following a public consultation, hypothesizing the possible acquisition of consent for genetic data only;
- the rights of the data subject specified in Articles 15-22 of the Regulation cannot be exercised by said subject or the controller of the data where this could produce effective and concrete harm to the owner or controller (this principle covering, as at present, also defensive investigations and the exercise of rights in court and extending expressly also to the anti-money-laundering legislation);
- the provision on the treatment of the data of deceased persons, not otherwise mentioned in the GDPR, has been retained;
- new crimes are instituted: illicit communication and diffusion of the personal data of a large number of data subjects; and the fraudulent acquisition of personal data.

All data controllers, once the legislative framework has been defined, must comply with the GDPR, the Personal Data Code as extensively amended by the legislative decree for adaptation, and the transitional and final provisions of said decree.

THE EUROPEAN NIS DIRECTIVE ON DATA PROTECTION – DRAFT IMPLEMENTING DECREE

On 16 May 2018 the Council of Ministers approved the legislative decree implementing Directive (EU) 2016/1148 on the security of network and information systems (the NIS Directive), which is the first comprehensive, systematic measure dealing with issues of cyber security, with the aim of increasing the resiliency of networks and systems and enhancing European cooperation in this field.

The decree has three main stated objectives: to promote among the main economic agents, and in particular those providing essential services (energy, transport, health, finance, but not insurance) and the providers of digital services (search engines, cloud services, e-commerce platforms) a culture of risk management and reporting of incidents; to improve Italian cyber security capabilities; and to strengthen cooperation nationally and within the EU.

To ensure the continuity of essential services (and digital services), the decree envisages adoption of technical and organizational measures to mitigate the risk and soften the impact of IT incidents and of a requirement to report any incidents with significant impact on the provision of such services. In parallel, the text designates the authorities competent for NIS matters – namely the ministries for economic development, transport and infrastructure, economy and finance, health, and environment – and their duties, to be carried out in cooperation with their counterparts in other EU member states; it also designates the national Computer Security Incident Response Team, which will cooperate with CSIRTs in other European countries as well.

It is worth underscoring that for this purpose insurance companies are not deemed to be providers of essential services, so they are not among the entities subject to the new data protection regime. However, the new rules are of considerable importance for their ability to correctly price cyber risk. In fact, the requirement upon the providers of essential and digital services to notify incidents with significant impact on service continuity could result in the creation of a significant database for improving the understanding and pricing of the risk, which the insurance industry will hopefully be able to access, at least in aggregate form.

FAIR REMUNERATION OF LAWYERS AND OTHER PROFESSIONALS

The notion of "fair remuneration" is governed by Law 247/2012, Article 13-*bis* on the legal profession (inserted by Article 19-*quaterdecies* of Decree Law 148/2017, converted with amendments as Law 172/2017 and further amended by the 2018 budget law, Law 205/2017, Article 1.487). Applying initially to lawyers, it has been extended, where compatible, to the services of other professionals referred to in Law 81/2017, Article 1 (the law for the protection of non-entrepreneurial self-employed workers, including members of professional orders).

The law provides that in conventions prepared unilaterally by clients specifically identified on the basis of size (insurance companies, banks and large businesses, i.e. those that cannot be classed as micro-firms or SMEs, and general government entities), the remuneration of lawyers must be set in conformity with the parameters laid down by the regulation of the Minister of Justice for lawyers, while for other professionals the law provides for the issue of successive ministerial decrees. The conventions are presumed to have been prepared unilaterally save where the existence of specific negotiations is demonstrated.

Law 247/2012, Article 13-*bis*, proclaims null and void all clauses in contracts between professional and client that provide for an unfair remuneration, as well as a series of other clauses listed. In order to be fair, the remuneration agreed must not only be proportionate to the quantity and quality of the work performed and to the content and characteristics of the legal services provided but must also be in conformity, as noted, with the parameters laid down in the regulation referred to in the decree of the Minister of Justice adopted pursuant to Article 13.6 of Law 247/2012.

With specific reference to vexatious clauses, it is established that they include not only remuneration that is "not fair" (not commensurate with the work performed and not in line with the parameters) but also all the clauses specifically listed in Article 13-*bis*, paragraphs 5 and 6, of the Law. In particular, as regards remuneration, unfairness (hence vexatiousness) is to be ascertained case by case in court, whereas as regards the clauses specified in the law, these are deemed vexatious by law, unless specific negotiations and approval are demonstrated (such clauses comprise unilateral modification of the contract by the client; advance of the costs of litigation by the lawyer; and waiver of reimbursement of expenses relating directly to the performance of the professional services subject to the convention).

The Law provides that clauses defined as vexatious shall be null and void, while also specifying that the rest of the convention remains valid. The institution of nullity shall be for the advantage of the professional alone, and it may be determined *ex officio* by a judge.

COURT OF CASSATION ORDINANCE 10333/2018 ON CLASS III INSURANCE POLICIES

This judgment was handed down in a highly particular case, dating back to the end of 2006, in which the insurance contract (a Class III life policy) was intermediated through a brokerage firm and subscribed by a trust company for just two of its clients. The Milan Appeals Court, in January 2016, had ordered the resolution of the insurance contract for non-performance, condemning the insurance company to reimburse about €3 million of principal (plus interest) plus €11,000 in back commissions (plus interest). The insurer accordingly appealed to the Court of Cassation.

First of all in its ruling the Court of Cassation summarized the Appeals Court's reconstruction of the case, which had premised that "failing the guarantee of restitution of the capital at maturity and therefore the insurance nature of the product," the product must be treated as a financial investment, with the consequent application of the Consolidated Law on Finance and the implementing regulation of CONSOB.

The Appeals Court itself observed that the letter confirming the investment referred to "a single investment" in Lehman Brothers securities, while the policy proposal envisaged investment "in a basket comprising investment fund units and shares, plus bonds and liquid instruments accounting for at least 75% of the total". The Court further observed that the investment was inappropriate with respect to the "low risk" profile declared in the policy proposal by the contracting trust company. Finally, it observed that the amount of about €11,000 was not justified by any fund management activity on the part of the insurance company and that in any case the latter had already been remunerated in other ways.

In its appeal the insurer adduced a series of defensive arguments or motivations:

a) first, the insurance relationship existed between the insurer and the trust company, which as such is a qualified financial operator, not a retail investor;

b) second, asking for information on the investment experience of the contracting party (the trust company) was irrelevant;
c) third, the investment complied with the requirement of keeping at least 75% of the investment in bonds (indeed, it was a 100% bond product);
d) fourth, the risk that effectively materialized (the default of Lehman Brothers) had been indicated as one of the "financial risks borne by the contracting party" (in other words, the use of the expression "guaranteed capital" did not do away with the risk of the bond issuer's insolvency), and in any case the so-called right to rethink was never exercised, and for about two years no objection was lodged;
e) fifth, at the time of issue the Lehman Brothers bonds were top-rated;
f) sixth, the contract provided for a charge for financial administration and management, and no other commission had been paid.

The Court of Cassation, in its ruling, found:

a) the first and second arguments are unfounded and inadmissible. In fact, according to the Appeals Court, "failing the guarantee of restitution of the capital at maturity and therefore the insurance nature of the product," the product must be treated as a financial investment, with the consequent application of the Consolidated Law on Finance and the implementing regulation of CONSOB. In this case the customers were the two insured parties, not the trust company, as is consistent with the CONSOB communications of November 1998 and March 2006. The insurance company contests this conclusion on the merits, but it cannot do so before the Court of Cassation, which judges only matters of legitimacy;
b) the third, fourth and fifth arguments are also inadmissible, in that for these as well the appellant insurer cites no illegitimacy of motivation but merely contests the Appeals Court's finding on the merits;
c) the sixth argument is also inadmissible, in that it "lacks decisiveness".

In commenting on the ruling, as a preliminary it is worth recalling that every court ruling is a fact unto itself, in that it is bound to the specific case. This case is highly specific, as it involves four distinct subjects: the insurer, the brokerage firm, the trust company, and the insured parties. In substance, the ruling rejects the appeal owing to the acknowledged inadmissibility of the arguments presented against the Appeals Court ruling. There is no indication that a life insurance policy not guaranteeing the restitution of the capital may not be considered to be of an insurance nature. In its ruling, in other words, the Court of Cassation says nothing on the merits about the type of insurance contract under which the contested policy should be classed.

From the European directive of 1979 to the Solvency II Directive now in force, and in the corresponding Italian transposition legislation (the Private Insurance Code), unit and index-linked policies are expressly included as life insurance products (in Class III, to be precise). They are naturally characterized by the lack of a guarantee of restitution of capital (and yields), without prejudice to the possible inclusion of a clause to this effect (as is the case with some policies). These contracts are also characterized by demographic coverage: the directive and the Code, in fact, define Class III insurance policies as contracts as per Class I, whose benefits are directly related to the value of UCITS units or internal funds, or other indices or values. The fact that from a certain time onwards these contracts are subject to the Consolidated Law on Finance (and to CONSOB's supervision) in terms of the rules on pre-contractual information and rules of conduct in placement in no way invalidates their nature as insurance contracts, always subject in any event to the supervision of IVASS in terms of structure and prudential rules. Recently, this approach was confirmed both in the PRIIPS regulation on packaged retail investment and insurance products and in the IDD directive, which provides expressly that the rules on insurance distribution apply to all insurance products, including those with financial content. At the time the policy in question was marketed (at the end of 2006) the provisions of the then supervisor ISVAP were already in effect (circular 551 on transparency in life insurance contracts), as regards both pre-contractual information and rules of conduct (in particular, the assessment of appropriateness). The new measures on financial-insurance products – those laid down by Law 262/2005 on the protection of savings and then by Legislative Decree 303/2006 of 23 December 2006 – were not yet in effect, as their entry into force was remanded to an implementing regulation by CONSOB, which was not issued until 2007 (see CONSOB's communication of April 2006). In extremely concise terms, Italy has long had (since 2007) a system of supervision over the transparency and correctness of the marketing of insurance products with financial content in keeping with the Consolidated Law on Finance, but these products retain their insurance nature. As noted above, in no case is this nature invalidated by the lack of a guarantee to reimburse the insured party's capital; indeed, this lack specifically characterizes Class III life insurance policies.

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FORECASTS FOR 2018

THE ITALIAN ECONOMY IN 2018-19

The cyclical buoyancy of the economy in 2017 should continue over the next two years, with about the same pace of growth. The main Italian and international analysts – the Italy Ministry for the Economy, in its Economic and Financial Document (EFD), the European Commission, and the IMF – all concur on the continuation of Italian economic growth at +1.5% in 2018, but predict a range of more moderate gains in 2019: +1.4% according to the EFD, +1.2% for the Commission, +1.1% for the IMF. The average prediction of the sample of analysts surveyed by Consensus Economics shows growth of 1.4% in 2018 and 1.2% in 2019 (Table 1).

Aggregate growth is expected to be powered by the continued expansion of private domestic demand. Private sector consumption should hold at slightly below the GDP growth rate: +1.4% and +1.0% according to the EFD, +1.2% and +1.2% for the Commission, +1.3% and +1.1% for the IMF. Investment growth should be more robust, especially in 2018 (EFD: +4.1%, +2.8% in 2019; Commission: +4.8% and +2.4%; IMF: +3.7% and +4.0%).

Except for the Ministry, which projects a significantly sharper increase in public spending in 2018 than the other institutions, public expenditure is expected to be barely more than stationary in the next two years (+0.5% and +0.1%; +0.1% and +0.2%; +0.3% and +0.3%).

The projections for raw materials prices, essentially unchanged at their 2017 levels, have led most forecasters to estimate consumer price inflation generally unchanged at about its 2017 rate, with the significant exception of the EFD, which predicts inflation of more than 2% in 2019.

The improvement in the labor market that began in 2017 is expected to continue, with the unemployment rate falling below 11% in the course of the two years.

The balance of trade is expected to continue to make a positive contribution to growth, with exports expanding faster than imports, which are nevertheless expected to grow.

Table 1
Forecasts for the Italian economy, 2018-2019
(% changes)

	Ministry for Economy		European Commission		IMF	
	2018	2019	2018	2019	2018	2019
GDP at market prices	1.5	1.4	1.5	1.2	1.5	1.1
Private consumption	1.4	1.0	1.2	1.2	1.3	1.1
Gen'l gov't consumption	0.5	0.1	0.1	0.2	0.3	0.3
Public deficit/GDP	-1.6	-0.8	-1.7	-1.7	-1.6	-0.9
Investment	4.1	2.8	4.8	2.4	3.7	4.0
Exports	5.2	4.2	4.5	4.2	5.4	5.6
Imports	5.4	4.0	4.9	4.5	5.3	6.2
Unemployment	10.7	10.2	10.8	10.6	10.8	10.6
Harmonized index consumer prices	1.1	2.2	1.2	1.4	1.1	1.3

Sources: Economic and Financial Document (April 2018); International Monetary Fund (April 2018); European Commission (May 2018)

FORECASTS FOR 2018

THE ITALIAN INSURANCE INDUSTRY IN 2018

The total premium income of the Italian insurance industry's direct policy portfolio (**life and non-life combined**) should come to €137 billion in 2018, up 5.0% for the year. Overall insurance business, that is, is expected to return to expansion after declining by 8.8% in 2016 and 2.4% in 2017. The growth in 2018 will result both from the positive contribution of the non-life sector (+1.7%) and the strong performance of life insurance (+5.5%).

In proportion to Italian GDP, total premium income will thus increase from 7.6% to 7.8%.

Total direct premiums of Italian insurance companies in the **non-life** sector are expected to come to €33 billion, up 1.7% compared with 2017, consolidating last year's positive performance (+1.2%). This will result from the halt to the decline in motor liability premiums and the further growth (of 2.9%) in premium income in all the other non-life classes.

Table 2
Forecast insurance premiums in Italy
Euro million

CLASS	PREMIUMS 2017	PREMIUMS 2018	CHANGE 2018-2017	Memo: CHANGE 2017-2016	Memo: CHANGE 2016-2015
Motor and marine liability	13,234	13,234	0.0%	-2.2%	-5.6%
Accident	3,087	3,134	1.5%	2.6%	1.0%
General third party liability	2,924	2,968	1.5%	0.9%	-0.2%
Other property	2,799	2,841	1.5%	1.4%	0.5%
Land vehicles	2,800	2,884	3.0%	6.3%	6.5%
Fire and natural forces	2,402	2,450	2.0%	1.0%	0.8%
Sickness	2,571	2,803	9.0%	9.5%	9.6%
Other non-life	2,520	2,577	2.2%	5.0%	1.8%
TOTAL NON-LIFE (net of motor liability)	19,103	19,656	2.9%	3.7%	2.6%
TOTAL NON-LIFE	**32,337**	**32,890**	**1.7%**	**1.2%**	**-1.0%**
As a % of GDP	*1.9%*	*1.9%*			
Class I Life	62,777	64,974	3.5%	-14.7%	-5.4%
Class III Investment Funds	31,254	34,067	9.0%	30.1%	-24.5%
Other Life	4,579	5,037	10.0%	-0.2%	-12.4%
TOTAL LIFE	**98,610**	**104,078**	**5.5%**	**-3.6%**	**-11.0%**
As a % of GDP	*5.7%*	*5.9%*			
TOTAL	**130,947**	**136,967**	**5.0%**	**-2.4%**	**-8.8%**
As a % of GDP	*7.6%*	*7.8%*			

Changes (%) were calculated in homogeneous terms

For motor liability, after six consecutive yearly declines (a total contraction of nearly 26% between 2011 and 2017, unadjusted for inflation) the technical margins, already very low in 2017 (unchanged from 2016), could narrow further in 2018. Despite the highly competitive market, the downtrend in average premiums that marked the six previous years should come to an end this year, while the volume of written premiums is expected to be the same as in 2017 at €13.2 billion. The portion of total non-life premiums accounted for by motor liability will come down further to 40.3%, compared with 42.3% in 2016 and 40.9% last year.

The expansion of business in the other non-life sectors is expected to continue, thanks not only to the general economic pickup but also to insurers' efforts to develop and market innovative, more attractive insurance products for households and firms. We estimate a further gain in written premiums of +2.9% this year to nearly €19.7 billion, after the +3.7% increase recorded in 2017 (to €19.1 billion).

The slowdown in premium growth is expected to depend on slower growth above all in land vehicle insurance (fire/theft and collision), which owing to the smaller increase in new vehicle registrations (1.0% in the first five months, compared with 8.3% in the same period of 2017) is expected to record premium growth for the year of 3.0%, less than half last year's 6.3%, to a total volume of nearly €2.9 billion.

Premium growth is also forecast in particular for:

- sickness insurance, where premiums should increase for the third straight year, gaining 9.0%, nearly matching the growth of 9.6% in 2016 and 9.5% in 2017. The expansion will be driven mainly by corporate health plans covering the risks of medical expenses and surgery, marketed also by companies selling through bank and postal branches. Premium volume should exceed €2.8 billion for the year;
- fire insurance, with premiums equal to €2.5 billion and 2.0% growth in 2018. While the increase will be only marginally greater than last year's 1.0%, it is worth noting that the gain should be due at least in part to fire policies packaged with coverage against natural catastrophes, as a consequence of tax benefits for the purchase of these policies instituted by the 2018 budget law.

Total non-life premium income is expected to hold unchanged in proportion to GDP at 1.9% in 2018.

In the **life sector**, we forecast a very sharp upturn to 5.5% growth after two years of contraction (by 11.0% in 2016 and 3.6% in 2017). Life insurance premiums should come to over €104 billion for the year.

All life classes are forecast to be more dynamic. In particular:

- variable yield policy premium income (Class I) is expected to return to growth, albeit moderate, gaining 3.5% to €65 billion, following the plunge of 14.7% last year and the more moderate decline of 5.4% in 2016. One factor in the growth will be the upturn in interest rates on Italian government securities, which should enable insurance companies to offer policies with higher guaranteed yields;
- prevalently financial products (Class III, unit-linked policies) are predicted to expand again, gaining 9% to €34 billion, thanks in part to positive contributions from policies calling for investment in individual savings plans and from hybrid, multiclass policies.

The positive trend in the market for life insurance policies is confirmed by an analysis of new individual life insurance policies, which through April 2018 came to €28.8 billion, up from €27.7 billion in the first four months of 2017 (+3.9%). The expansion appears to have involved both variable-yield Class I life policies (with a gain of 3.1% to €19 billion) and Class III unit-linked policies (up 6.1% to nearly €10 billion in new premium income).

Total written life insurance premiums should rise from 5.7% to 5.9% of GDP in 2018.

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.

2017/2018 figures are provisional

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